

VA Financial Policies and Procedures  
Cost Accounting Compliance

**CHAPTER 5**

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## 0501 OVERVIEW

This chapter establishes the Department of Veterans Affairs (VA) financial policies and procedures for compliance with cost accounting. Managerial cost accounting should be a fundamental part of a Federal agency's financial management system and, to the extent practicable, be integrated with other parts of the system. Managerial costing uses a basis of accounting, recognition and measurement that is appropriate for the intended purpose. The management cost function of the financial management system encompasses the capability to accumulate, recognize and distribute the cost of an agency's activities in the financial system for management information purposes. Cost information developed for different purposes should be drawn from a common data source and output reports should be reconcilable to each other.

VA's primary managerial cost accounting system is the Decision Support System (DSS). The DSS production database software contains a set of modules for reporting, analysis, budgeting and modeling and is used to produce a variety of reports. DSS has been certified as meeting all mandatory requirements specified by the U.S. Government Accountability Office (GAO) in the Joint Financial Improvement Program (JFMIP) (now called the Financial Systems Integration Office (FSIO), Managerial Cost Accounting System Requirements.

050101 AUTHORITY FOR COST ACCOUNTING COMPLIANCE. VA will adhere to the general policies for Federal financial management systems set forth in Office of Management and Budget (OMB) Circular A-127, *Financial Management Systems*. VA is required to establish and maintain a single integrated financial management system, the requirements of which are contained in Federal Financial Management System Requirements (FFMSR-8), *System Requirements for Managerial Cost Accounting*. These requirements provide the guidelines to support managerial cost accounting in a Federal agency. Managerial cost accounting concepts and standards for the Federal Government are prescribed in the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, promulgated by the Financial Accounting Standards Advisory Board (FASAB).

050102 ACTIONS FOR COST ACCOUNTING COMPLIANCE. VA uses the Decision Support System (DSS) to meet the Department's cost accounting reporting requirements for managerial cost accounting. The DSS system provides VA's Administrations (Veterans Health Administration (VHA), Veterans Benefits Administration (VBA) and the National Cemetery Administration (NCA)) and the Office of Information and Technology (OI&T) with the basic cost accounting capabilities to provide management with comparable cost data for use in making decisions, managing workload and controlling costs.

For further information on cost accounting and recovery of full cost, see Volume XIII, Chapter 3, *Cost Accounting* and Volume XIII, Chapter 4, *Charges and Full Cost Recovery*.

**0502 POLICIES**

050201 AUTHORITY FOR COST ACCOUNTING COMPLIANCE.

A. VA will adhere to the guidelines established in OMB Circular A-127 and SFFAS No. 4 for managerial cost accounting.

B. VA will adhere to the guidelines established in FFMSR No. 8 to comply with the requirements for an effective managerial cost accounting system.

050202 ACTIONS FOR COST ACCOUNTING COMPLIANCE.

A. VA Administrations will produce product unit costing and outputs as needed for use in evaluating the effectiveness of program performance.

B. VA Administrations will comply with OMB, FFMSR and SFFAS standards for managerial cost accounting.

C. VA Administrations will certify to the Department CFO on an annual basis by October 31, that cost accounting procedures comply with managerial cost accounting requirements. If applicable, each Administration will disclose where it does not comply with managerial cost accounting standards.

**0503 AUTHORITY AND REFERENCES**

050301 Chief Financial Officer Act of 1990

050302 38 U.S.C. 8153(b), Sharing of health care resources

050303 Federal Accounting Standards Advisory Board (FASAB), Statement of Federal Financial Accounting Standards (SFFAS) No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government

050304 OMB Circular A-127 Financial Management Systems

050305 OMB Circular A-136, Financial Reporting Requirements

050306 Financial Systems Integration Office (FSIO), Core Financial Systems Requirements, Second Exposure Draft, Released February 22, 2010

050307 FFMSR No. 8, Systems Requirements for Managerial Cost Accounting

050308 VA Directive 1663, Health Care Resources Contracting – BUYING

050309 VHA Directive 2006-020, VHA Managerial Cost Accounting System

## **0504 ROLES AND RESPONSIBILITIES**

050401 The Assistant Secretary for Management/Chief Financial Officer (CFO) oversees all financial management activities relating to the Department's programs and operations, as required by the Chief Financial Officers Act of 1990 and 38 U.S.C. 309. Specific responsibilities include the direction, management and provision of policy guidance and oversight of VA's financial management personnel, activities and operations. The CFO establishes financial policy, systems and operating procedures for all VA financial entities and provides guidance on all aspects of financial management.

050402 Under Secretaries, Assistant Secretaries, Chief Financial Officers, Fiscal Officers, Chief Accountants and other key officials are responsible for ensuring compliance with the policies and procedures set forth in this chapter.

050403 The Decision Support Office (DSO) within the VHA Office of Finance maintains the Decision Support System (DSS). DSO is responsible for serving as the DSS Program Office with responsibility for operation and maintenance of DSS; preparing recurring and ad hoc reports required for senior VA leadership to satisfy internal and external queries for managerial cost accounting data and information; populating and maintaining the DSS Reports Web site as a means of disseminating managerial cost accounting data and information reports to all levels of VA; and assisting VA facilities with ongoing training that allows them to process data within the established guidelines.

050404 The Office of Acquisition, Logistics and Construction (OALC) includes a random review of health care contracts in their routine business audits to determine that all requirements of VA Directive 1663 have been followed and OALC provides an annual review of the deviations and justifications.

## **0505 PROCEDURES**

### **050501 AUTHORITY FOR COST ACCOUNTING COMPLIANCE.**

A. OMB Circular A-127 and SFFAS No. 4 provide guidelines for a certain level of cost accounting system requirements and for a basic amount of cost accounting information to accomplish the many objectives associated in planning, decision making and financial reporting. FFMSR-8 provides the minimal level of information needed by the managerial cost accounting system.

B. FFMSR-8 outlines a summary information classification structure that consists of three separate, but related, information classification structures: (1) financial, (2) operations and (3) program. The managerial cost accounting system shares this summary information classification structure with other financial management systems, as follows.

- **Financial Information Classification Structure.** This structure captures accounting information, including costs, revenues and units of input, such as labor, supplies, etc.
- **Operations Information Classification Structure.** This structure measures the efficiency of an operation and associates costs to outputs. The operations unit is the organization unit and/or program contained in the financial information classification structure for which the costs of outputs are needed.
- **Program Information Classification Structure.** This structure measures program effectiveness and associates costs to outcomes where feasible. The program unit should correspond with the program in the financial information classification structure.

#### **050502 ACTIONS FOR COST ACCOUNTING COMPLIANCE.**

A. Recognizing the importance of managerial cost accounting and its application to the Department's business processes, VA will ensure that its Administrations certify compliance with the requirements of the SFFAS No. 4. The standards outlined in SFFAS No. 4 require Federal agencies to use managerial cost accounting in their decision-making processes.

B. The Administrations' certifications for managerial cost accounting must attest to compliance with FFMSR-1, FFMSR-8, A-127 and A-136 and FFMIA.

C. Each Administration will certify to the Department CFO, on an annual basis by October 31, that its cost accounting procedures comply with managerial cost accounting requirements (see Appendix A). When non-compliant, this fact must be fully disclosed. Both the Administration's Under Secretary and its CFO will sign the Annual Managerial Cost Accounting Certification.

#### **0506 DEFINITIONS**

**050601 Administration.** One of the three VA Administrations: Veterans Health Administration (VHA), Veterans Benefits Administration (VBA) and National Cemetery Administration (NCA).

**050602 Cost.** An amount or value expended for goods or services produced or received, as distinguished from amounts obligated for the purchase of goods or services.

**050603 Decision Support System (DSS).** VA's managerial cost accounting system, DSS is a derived database built from standard VA data sources. It provides a mechanism for integrating expenses, workload and utilization. The information contained in DSS supports process and performance improvement by measuring quality, outcomes and financial impact.

050604 Financial System. Synonymous with core financial system; an information system that may perform all financial functions, including general ledger management, funds management, payment management, receivable management and cost management. The core financial system is the system of record that maintains all transactions resulting from financial events. It may be integrated through a common database or interfaced electronically to meet defined data and processing requirements. The core financial system is specifically used for collecting, processing, maintaining, transmitting and reporting data regarding financial events. Other uses include supporting financial planning, budgeting activities and preparing financial statements. Any data transfers to the core financial system must be: traceable to the transaction source; posted to the core financial system in accordance with applicable guidance from the FASAB; and in the data format of the core financial system.

050605 Full Cost. The full cost of an output produced by a responsibility segment is the sum of (1) the costs of resources consumed by the segment that directly or indirectly contributes to the output and (2) the costs of identifiable supporting services provided by other responsibility segments within the reporting entity and by other reporting entities.

050606 Health Care Resources. Includes hospital and ambulatory care, mental health services, medical and surgical services, examinations, treatment, rehabilitative services, dental services and appliances, preventive health care, prosthetics and other health care services and supplies. The term also includes any health care support and administrative resources, as well as medical equipment or space. Health care support and administrative resources include those services, apart from direct patient care, determined necessary for the operation of VA facilities. Whereas health care support resources serve medically related purposes (e.g., biomedical equipment repair, patient transport), administrative resources include services not unique to the provision of medical care, but deemed necessary to support such care (e.g., security guard services, grounds maintenance).

050607 Responsibility Segment. A significant organizational, operational, functional or process component which has the following characteristics: (a) the responsibility segment manager reports to the entity's top management; (b) it is responsible for carrying out a mission, performing a line of activities or services or producing one or a group of products; and (c) for financial reporting and cost management purposes, its resources and results of operations can be clearly distinguished, physically and operationally, from those of other segments of the entity.

**0507 RESCISSIONS**

050701 OF Bulletin 06GC2.09, Annual Managerial Cost Accounting Certification

050702 OF Bulletin 01GC2.02, Reasonable Charge Self-Certification: Compliance with the Chief Financial Officers Act of 1990 and OMB Circular A-25 for VHA Stations

050703 OF Bulletin 01GC2.03, Self Certification: Compliance with SFFAS No. 4 and No. 7 for VHA Stations

050704 OF Bulletin 01GC2.04, Self-Certification of Compliance: Enhanced Health Care

**0508 QUESTIONS**

Questions concerning these financial policies and procedures should be directed as shown below:

VHA	VHA Accounting Policy (Outlook)
VBA	VAVBAWAS/CO/FINREP (Outlook)
All Others	OFP Accounting Policy (Outlook)

**APPENDIX A**

**ANNUAL MANAGERIAL COST ACCOUNTING CERTIFICATION**

I certify that [Insert the administration] is in compliance with all Federal Managerial Cost Accounting Requirements, except as detailed below.

\_\_\_\_\_  
Signed by the Administration Under Secretary

\_\_\_\_\_  
Date

\_\_\_\_\_  
Signed by the Administration CFO

\_\_\_\_\_  
Date