



Department of Veterans Affairs

Financial Policy

Volume XIII

Cost Accounting

Chapter 3

Managerial Cost Accounting

Approved:

Jon J. Rychalski
Assistant Secretary for Management
and Chief Financial Officer

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0301 Overview

This chapter establishes the Department of Veterans Affairs (VA) financial policies for managerial cost accounting, which is a fundamental part of VA's overall financial management activities and should be integrated with the financial system for expenses, workload, utilization, performance measurement, and reporting.

The Chief Financial Officers (CFO) Act of 1990 requires the agency CFO to provide for the development and reporting of cost information and for the periodic measurement of performance. The Federal Financial Management Improvement Act of 1996 (FFMIA) requires, among other things, that CFO Act agencies' systems comply substantially with federal accounting standards and federal financial management systems requirements. In addition, the 2010 Government Performance and Results Modernization Act requires each agency to establish performance indicators for each program and to measure or assess relevant program outputs, service levels, and outcomes as a basis for comparing actual results with established goals, as such, cost accounting information must be accumulated and reported on a consistent and regular basis.

VA implemented a managerial cost accounting system to:

- Perform cost accounting and implement cost accounting procedures;
- Identify cost products and services;
- Capture the full cost of products and services, including national and Veterans Integrated Service Network (VISN) overhead; and
- Include inter-agency costs as part of full costs and select and consistently use an acceptable costing methodology.

Significant requirements discussed in this chapter include:

- VA's Managerial Cost Accounting System adherence to federal cost accounting requirements;
- VA's use of managerial cost accounting information to make business decisions;
- The transmission of Administration cost and workload data to the Managerial Cost Accounting Office (MCAO); and
- The use of the MCAO for reporting, analysis, budgeting, and modeling purposes.

0302 Revisions

Section	Revision	Office	Reason for Change	Effective Date
030503	Added VHA VISN and Medical Center requirements for MCA data	OFP (047G)	Inclusion of requirements from VHA Directive 1750 allowing for the rescission of the Directive	December 2019
030506	Added requirements for the MCA Office in the oversight of VHA MCA data	OFP (047G)	VHA Directive 1750 rescission	December 2019
Various	Reformatted to new policy format and completed 5-year review	OFP (047G)	Reorganized chapter layout	February 2019
Overall	Replaced reference of Decision Support System with Managerial Cost Accounting System	OFP (047G)	Name change	February 2019
0307 Rescissions	Rescinded Vol XIII, Chapter 5, because OMB no longer requires certification that VA is using a cost accounting system	OFP (047G)	Rescission of OMB A-127	February 2019
Appendix A	Previous Appendix C was renumbered to A; information from other Appendices integrated into the policy section.	OFP (047G)	Improve readability	February 2019
Appendix C	Added appendix for Veterans Health Administration (VHA) Standardization of Stop Codes	VHA	VHA Directive 1731 was reissued	April 2018

0303 Definitions

Direct Cost – Costs directly attributable to a specific product. VHA examples include labor by caregivers, i.e. MDs, Nurses, Social Workers, and supplies and services consumed by patients. Veterans Benefit Administration (VBA) examples include staff processing claims, and National Cemetery Administration (NCA) examples include employees maintaining the cemetery grounds. Direct costs include contracted services.

Fixed Cost – Costs that do not vary in direct proportion to the volume of activity. The

word “fixed” does not mean that the costs do not fluctuate, but rather that they do not fluctuate in direct response to workload changes. Examples include depreciation of equipment and salaries of management positions.

Full Cost – Includes both direct and applicable indirect costs. MCA captures products at the full cost, which is cost recorded at the station, combined with overheads, such as headquarters and the Office of Information and Technology (OI&T).

Indirect Cost – The costs that are not directly attributable to a specific product. These costs are allocated to direct departments through the indirect cost allocation process. Examples include utilities, maintenance, and overhead costs. All indirect costs are classified as fixed.

Managerial Cost Accounting (MCA) System – The Decision Support System (DSS) is the IT-based Managerial Cost Accounting system for the VA. It processes cost and workload data from various agency feeder systems to produce reliable cost per product data.

Non-Production Cost – An Exempt cost that does not have a corresponding workload capture.

Non-Workload Cost – A cost that does not have associated intermediate products or patient encounters. In the MCA System, it is sometimes referred to as Exempt cost. (Contrast with Operational Cost).

Operational Cost – A direct or indirect cost that can be obviously or physically traced to the product or service. Costs are operational when there is workload capture. For example, clinical care delivered in a VA facility. In the MCA System, it is sometimes referred to as Non-exempt cost. (Contrast with Non-Workload Cost)

Overhead – Costs that cannot be directly linked to a particular product, service, or facility, but are incurred during the course of normal operations and are allocated to the facility or administration. For example, overhead includes costs allocated for headquarters, OI&T, VISN, National Programs, and VHA’s Chief Business Office to individual facilities for inclusion in product cost.

Stop Codes (also known as VHA Clinic Stops) – Codes used by VHA staff to correctly identify and capture clinical workload prior to its entry into the cost accounting process.

Variable Cost – TA cost that varies directly and proportionately with fluctuations in workload. Variable direct cost is the variable supply cost plus the variable labor cost.

0304 Roles and Responsibilities

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, and providing MCA data to the Managerial Cost Accounting Office.

The Managerial Cost Accounting Office (MCAO) is a component of the VHA Office of Finance. MCAO serves as the designated program office for MCA and the business sponsor for DSS, the proprietary managerial cost accounting system for VA. This organization also works closely with the DSS system owner, OI&T, to coordinate system operations, upgrades, and maintenance. The MCAO provides training, guidance, and assistance in the processing of cost accounting data and the production of related reports for the Administrations and staff offices. MCAO is responsible for the establishment and oversight of the VHA National Stop Code Council.

0305 Policies

030501 General Policies

- A. VA will comply with Managerial Cost Accounting standards specified in Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Standards and Concepts*, SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, and as required by GAO.
- B. VA will maintain a financial management cost accounting system in accordance with Federal Financial Management System Requirements (FFMSR-8), *System Requirements for Managerial Cost Accounting*.
- C. VA will use a costing methodology that meets its internal goals and allows for cost information to be compared from one period to another on a consistent basis.

030502 Managerial Cost Accounting System

- A. VA's cost accounting system will be used to support the:
 - Calculation of cost data for producing products and services (outputs);
 - Categorization of costs as non-production, direct, indirect, overhead, fixed, or variable;
 - Collection of workload data (for products and services provided);
 - Allocation of costs to products and services;
 - The development of relevant, detailed cost information;
 - Identification of alternatives to reduce cost and enhance efficiency; and

- Preparation of performance reports, comparing budgeted amounts to actual results.
- B. VA will reconcile cost information in VA's managerial cost accounting system with the data provided by source systems (e.g., expenses will be reconciled to VA's accounting system).
- C. VA will update its indirect and overhead cost allocation methodologies in the cost accounting system at the beginning of each fiscal year or when there is a feeder system change. Modifications to the cost allocation method must be approved by the applicable Administration CFO.

030503 VA Administration Cost Accounting Requirements

- A. VA Administrations will identify the distinct workload activities (i.e., outputs, products, or services) they provide. For example:
- Veterans Benefits Administration (VBA) - Eligibility determinations, claims processing, or responding to customer inquiries;
 - Veterans Health Administration (VHA) - Laboratory tests, medical ward bed days, counseling sessions, or magnetic resonance imaging procedures; and
 - National Cemetery Administration (NCA) - Casketed burials, burial flags, headstones, markers, and medallions.
- B. At the beginning of each fiscal year, Administrations review and concur on the methodology for allocating equipment, indirect, and overhead costs promulgated by the MCAO Office.
- C. The Administrations will review cost information monthly to ensure:
- Labor costs (salaries, benefits, wages, and service contracts) are accurate;
 - Labor costs are properly mapped to functional work areas;
 - Property, plant, and equipment (PP&E) cost and expenditures are fully charged in accordance with VA policy; and
 - Supplies, services, training, and travel expenditures are assigned directly to the product or service area for which they are utilized. All other supply and service costs are allocated based on a recognized full cost accounting allocation methodology.
- D. In October of each fiscal year, the VISN Director and VISN CFO will jointly certify to the VHA CFO and Under Secretary for Health that the VISN uses MCA information to support:
- Budget formulation, allocation, and execution,
 - Establishing prices for sharing, and

- Reporting the cost to collect revenue.

E. Medical Facility Directors will:

- Provide an annual certification of their MCA records to the VHA CFO, through their respective VISN CFO and VISN Director, in accordance with published instructions from VHA CFO, in January of each year;
- Ensure that MCA financial data is processed no more than 10 working days after the end of the month and clinical data no more than 20 working days after the end of the month, so VHA can meet cost reporting requirements of external bodies such as Congress, GAO, and the Office of Management and Budget; and
- Provide dedicated MCA facility team staffing and other resources required to support the recordation of MCA information.

F. There are certain costs that will be exempt from MCA.

1. Non-production costs are not included in the full cost of a product, but are considered part of the full cost in MCA. Below are non-production cost examples:
 - Environmental liabilities, such as hazardous waste clean-up costs;
 - Heritage asset costs;
 - Actuarial costs for Federal Employees' Compensation Act (FECA);
 - Costs for Judgment Fund contingency; and
 - Actuarial costs for compensation and burial benefits.
2. Non-workload costs are costs that are not allocated to products. There is no standardized, timely workload capture for these items. The following are examples of VA non-workload costs that will be excluded from the cost of products and allocated at the business line-level.
 - Costs for patient care provided by community providers for VHA
 - Costs for Vet Centers

030504 Labor Cost Considerations

- A. Administration field offices will ensure employee hours and salary are correctly mapped into the functional cost centers, known as Account Level Budgeter (ALB) cost centers, where they perform their duties.
1. Service Chiefs and organizational leaders will periodically review labor mapping for accuracy and completeness. Managerial Cost Accounting Field Staff will adjust labor mapping, as necessary, per current staff assignments.
 2. Managerial Cost Accounting labor mapping for all full and part-time physicians

and dentists employed by VHA will be conducted at the granular level of each individual staff member. To facilitate the conduct of productivity and other important analyses, individual physician and dentist labor mapping will be reviewed to ensure that it is accurate and current within 3 working days after the close of the calendar month.

3. The accuracy of labor costing in VA's accounting system depends on correct cost center selection by Human Resources (HR). Each facility (budget or accounting staff) will review the salary cost data each pay period and promptly address cost center corrections with HR as needed.

B. Managerial Cost Accounting Field Staff or the Managerial Cost Accounting Program Office will perform labor mapping for VHA, VBA, and NCA.

C. Labor costs include:

- Gross salaries and/or wages earned in performance of the function(s) for which the person was hired (including all of the various premium pay items and benefits costs, such as health insurance, and retirement).
- Wages paid through contractual agreements for persons employed by the entity to perform functions, which are essential to or contribute to the delivery of a product or service, are charged as labor costs. (For example, VA Medical Center (VAMC) personnel engaged in direct patient contact, such as residents or other medical personnel who provide patient services through contracts, sharing agreements or any other arrangement.) [Note: Wages paid through contracts for support services, such as construction, heating and air conditioning equipment, maintenance, or waste management are not classified as labor. These costs are included in appropriate service or entity costs, such as "building," "engineering service," or "environmental service" costs.]

D. It is essential that VHA staff correctly use Stop Codes to identify and capture clinical workload prior to its entry into the cost accounting process. See Appendix A for information on VHA Stop Codes.

030505 Property, Plant, and Equipment Cost Considerations

A. Equipment

1. All equipment will be fully charged and depreciated in accordance with VA Financial Policy [Volume V, Chapter 9, - General Property, Plant and Equipment](#). Depreciation costs for capitalized equipment are used in MCA.
2. All distinct and identifiable maintenance costs will be charged against the equipment which benefits from the maintenance. Labor specifically acquired on a limited time or basis for maintenance of specific pieces of equipment, as in

"service calls" made by non-VA employees, will be charged directly to the equipment which benefits from the maintenance. Maintenance costs will be calculated by fiscal year (prorated, if necessary) and added to the cost of the equipment for the fiscal year.

3. Supplies purchased for equipment without which the equipment cannot fulfill the function(s) for which it was purchased will be added to the cost of the equipment on a fiscal year basis.
4. All costs associated with a piece of equipment will be allocated/assigned to the product or service which utilizes the equipment in the delivery of the product or service. The product or service may change over the life of the equipment.
5. If a piece of equipment is used in the delivery of more than one product or service, the costs are fairly and accurately allocated/assigned to each product or service which utilizes the equipment.
6. The methodology for allocating/assigning all costs associated with a piece of equipment will be determined by current financial management policies, directives, and/or handbooks.
7. Once a piece of equipment has been fully depreciated, it can no longer be shown as an expense to the organization. However, any ongoing or recurring costs associated with the equipment, such as maintenance and supplies needed to operate the equipment, will continue to be expensed and shown as a cost for as long as the equipment is in use.
8. Equipment will not be depreciated until it is placed in service. If a newly acquired piece of equipment remains idle or warehoused or for any other reason is not put directly into use, the equipment will not be depreciated until such time as it is utilized.
9. If a piece of equipment is transferred to another VA station within the Administration which purchased the equipment and the equipment has not been fully depreciated, the remaining balance will be assigned to the appropriate area within the new VA station.

B. Building Valuation, Capitalization, and Depreciation.

1. All buildings (structures which are permanently affixed to the land) owned by VA will be priced at acquisition or construction value and depreciated in accordance with current financial management policies and guidelines.
2. Building capitalization and depreciation costs will be shown as its own category of cost and allocated to all departments, services, and Administrations.

- a. In the event one entity includes more than one building (e.g., a campus-style VA medical center), each building's depreciation expense will be calculated and reported separately.
 - b. A building's depreciated expense will be allocated based on square footage to the Administrations occupying the building.
3. All utility costs will be fully allocated. In cases of extraordinary utility costs incurred in the production of a discrete number of products or services, those costs will be allocated to those products or services. However, in the majority of cases, utilities are allocated based on an appropriate allocation methodology (e.g., square footage or FTE).

030506 Managerial Cost Accounting Office

MCAO will operate and maintain VA's managerial cost accounting system and provide training, guidance, and assistance to the Administrations and staff offices to include:

- Processing cost accounting data and produce informational reports;
- Establishing and providing oversight of the VHA National Stop Code Council;
- Appointing membership to the VHA National Stop Code Council, ensuring a mix of VHA staff from the field as well as VACO;
- Chairing the National Stop Council;
- Preparing all recurring and ad hoc reports required for senior VHA leadership to satisfy internal and external queries for MCA data and information;
- Populating and maintaining the MCA Reports web site as a means of disseminating MCA data to all levels of VHA;
- Assisting the VISNs and VA medical facilities with ongoing training;
- Annually providing detailed instructions for VA medical facility certification of DSS records;
- Reconciling data from the VA's core accounting systems to the Managerial Cost Accounting system to ensure accuracy;
- Developing an annual audit plan;
- Conducting audits, to ensure that sites are compliant with published national MCAO standardization lists; and
- Performing monthly data integrity audits, to identify unusual cost or workload trends, and individual product outliers, (e.g. identification of high and or low outliers on inpatient or outpatient encounters).

0306 Authorities and References

[38 U.S.C. § 8153\(b\), Sharing of Health Care Resources](#)

[Chief Financial Officers \(CFO\) Act of 1990](#)

[Federal Accounting Standards Advisory Board \(FASAB\), Statement of Federal Financial Accounting Standards \(SFFAS\) No. 4, Managerial Cost Accounting Standards and Concepts](#)

[FASAB, SFFAS No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting](#)

[Federal Financial Management Improvement Act \(FFMIA\) of 1996](#)

[FFMSR No. 8, Systems Requirements for Managerial Cost Accounting](#)

[Government Performance Results Act of 1993](#)

[Government Performance Results Modernization Act of 2010](#)

[OMB Circular A-130, Managing Information as a Strategic Resource](#)

[OMB Circular A-136, Revised, Financial Reporting Requirements](#)

[VHA Directive 1750, March 24, 2015, VHA Managerial Cost Accounting System](#)

[VHA Handbook 1750.01, April 1, 2015, VHA Product Departments and Clinical Production Units](#)

[VA Directive 1663, Health Care Resources Contracting – BUYING](#)

0307 Rescissions

Volume XIII, Chapter 3 - Managerial Cost Accounting, dated February 2019.

0308 Questions

Questions concerning these financial policies and procedures should be directed to the following points of contact:

VHA	VHA 10A3A Accounting Policy (Outlook)
VBA	VAVBAWAS/CO/OPERATIONS (Outlook)
NCA	NCA Financial Policy Group (Outlook)
All Others	OFF Accounting Policy (Outlook)

Appendix A: VHA Standardization of Stop Codes

- A. VHA collects clinical workload data that supports the provision of patient care, resource allocation, performance measurement, quality management, and third-party collections. Stop Codes (also known as VHA Clinic Stops or Managerial Cost Accounting (MCA) Stop Codes) are used to identify workload for all outpatient encounters, inpatient appointments in outpatient clinics and inpatient professional services. Stop Codes assist VA medical facilities in defining patient workload and serve as a stable identification method that can be used to compare costs between facilities. They are the single and critical designation by which VHA defines outpatient clinical work units for costing purposes.
- B. Stop Codes indicate the primary clinical work group that is responsible for providing the specific set of clinic products; they also serve as guides for selecting outpatient department structures. Many VHA national database users actively use Stop Codes for workload searches to indicate the general type of work, as well as, the type of production unit creating this work.
- C. The National Stop Council will:
- Update the national list, at least annually, by reviewing the list for inconsistent Stop Codes, Stop Codes with limited utilization, restriction types that need to change, and definitions that require enhancements;
 - Ensure that Stop Codes supporting VA program mandates remain on the national list;
 - Work collaboratively with relevant clinical program office(s) to develop Stop Codes/definitions and to support VHA program initiatives;
 - Serve as a resource to answer Stop Code questions from the field; and
 - Ensure that all Stop Code changes are posted on the Stop Code web page.

At a minimum and in conjunction with their clinical programs, VHA MCA Site Teams will conduct an annual review of all active clinic profiles to verify that Stop Code associations for their Medical Center are correct. Decisions on clinic coding must be based on the principles of correct workload identification.