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UNITED STATES GENERAL ACCOUNTING OFFICE
REGIONAL OFFICE
ROOM 7068, FEDERAL BUILDING
300 NORTH LOS ANGELES STREET
LOS ANGELES, CALIFORNIA 90012

July 8, 1975

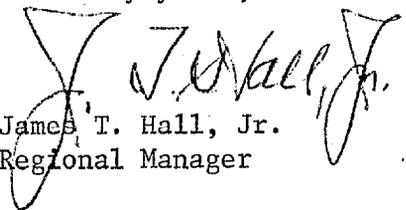
Vice Admiral D. L. Custis, Chief
Bureau of Medicine and Surgery
Potomac Annex
23rd and E Streets, N.W.
Washington, D.C. 20372

Dear Admiral Custis:

We have completed a survey of the cost accounting system in use at the Naval Regional Medical Center, San Diego. The purpose of our survey was to determine if the cost accounting system at the center provided sufficient information to effectively and efficiently manage available resources. To keep you apprised of the results of our work, we have enclosed a copy of our letter report to the Commanding Officer of the hospital.

If you have any questions concerning the letter report or on any aspect of our survey, we would be pleased to provide you with additional information.

Sincerely yours,


James T. Hall, Jr.
Regional Manager

Enclosure

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Captain A. E. Kollios, Director
Navy Area Audit Service
1220 Pacific Highway
San Diego, California 92132

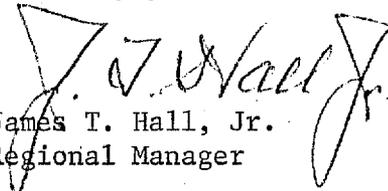
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Dear Captain Kollios:

We have completed a survey of the cost accounting system in use at the Naval Regional Medical Center, San Diego. The purpose of our survey was to determine if the cost accounting system at the center provided sufficient information to effectively and efficiently manage available resources. To keep you apprised of the results of our work, we have enclosed a copy of our letter report to the Commanding Officer of the hospital.

If you have any questions concerning the letter report or on any aspect of our survey, we would be pleased to provide you with additional information.

Sincerely yours,


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July 8, 1975

Rear Admiral W. P. Arentzen
Commanding Officer
Naval Regional Medical Center
San Diego, California 92134

Dear Admiral Arentzen:

We have completed a survey of the cost accounting system in use at the Naval Regional Medical Center, San Diego. The purpose of our survey was to determine if the cost accounting system at the Center provided sufficient information to effectively and efficiently manage available resources. We selected the San Diego facility for review because it is one of the major medical activities in the Navy, with incurred expenses of about \$50 million in fiscal year 1974.

We found that neither the Bureau of Medicine and Surgery (BUMED) accounting system as implemented at the Center nor locally devised information systems provided sufficient information to meet the objectives for managing resources by operating activities as outlined by the Department of Defense and the Department of the Navy.

We observed that

--the BUMED prescribed accounting system did not meet the needs of Center managers because cost information was summarized by categories that did not relate to the Center's management structure and the Center did not modify the system to suit its needs, and

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--although a locally devised accounting system provided for control over obligations, it did not provide for control over total expenses incurred by each manager.

As a result, we believe that management of individual Center operations may have been impaired since adequate cost information was not made available to the managers for purposes of planning resource needs, relating total expenses to output, and investigating cost variances.

NEED FOR A RESPONSIVE
COST ACCOUNTING SYSTEM

DOD Directive 7000.1 as well as the Department of Navy Handbook concerning financial management of resources (NAVSO P-3006 and NAVSO P-3006-1) recognize the need for a cost accounting system that is responsive to managers at all levels. According to those references, the cost accounting system must provide information to identify costs to individual managers so operational efficiency can be determined and evaluated.

The BUMED accounting system was developed as a uniform system for medical activities to effectively use available resources and was designed to provide the means of integrating accounting and reporting with programming and budgeting. The system generates information pertaining to resource availability, liabilities incurred, revenues earned, and total accrued expenses. The information is intended for use in planning, organizing, directing, and controlling operations by higher authority and local management.

Center officials told us that due to the method of accumulating cost information, the accounting data generated by the BUMED system served no useful purpose at the Center level and that reports generated by the system were not therefore, distributed to departmental managers, other than the Comptroller.

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We believe that one of the main reasons for the reports serving no useful purpose to Center managers is that under the BUMED system costs for the most part are accumulated and reported to higher levels by cost centers which are not identifiable to the operations each center manager is responsible for. This situation resulted in accounting summaries and classifications incompatible with management responsibilities at the center. For example, costs of numerous clinics and organizational entities run by individual managers were accumulated by the BUMED system in two or more cost centers while costs attributable to several managers were accumulated in a single cost center.

The BUMED accounting systems manual provides that for local management purposes the data generated by the system must be structured to meet management needs. The Center, however, did not modify the system to suit its needs.

Locally devised system
needs improvement

Because the BUMED system was not used to meet the needs of managers of individual Center operations, local reporting and information systems were devised.

The Operating Target Data System developed at the Center provides a limited amount of cost information to Center managers relating to what is considered controllable costs (for example, supply costs). Significant elements of expense such as the cost of civilian and military personnel are not accumulated or reported to responsible Center managers. These elements constitute most of the costs incurred by Center managers. The primary purpose of the local reporting system was to provide managers with a status report comparing commitments to budgeted amounts for a limited number of expense items and the report was used to help assure that obligational authority was not exceeded. The system therefore emphasized control over obligations and not total expenses incurred by each responsible manager. Thus, the system did not provide sufficient financial information for meaningful analyses of individual manager's performance.

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This situation apparently has existed for over 6 years. In a report dated November 19, 1968, we told the Secretary of Defense that Center management tended to rely on controlling obligations and expenditures against fund authorizations rather than using cost information for managing operations. Therefore, the emphasis at that time was also on the control of funds rather than on the measurement of performance in terms of resources consumed.

We noted that the quarterly report prepared by the Comptroller Division, called the Commanding Officer's Fact Book, provided unit cost data and workload statistics but was not used for analyses purposes even though significant variances in unit costs were shown from one period to another. For example, unit costs for laboratory procedures increased from \$.21 in fiscal year 1972 to \$.48 in fiscal year 1973 and no investigation of the variance was made. Hospital officials told us the report was primarily used as background information for visitors rather than as a tool for evaluating performance.

Preparation of the type of information contained in the Fact Book is a step in the right direction in terms of providing for evaluation of manager's performance, but we noted that use of the quarterly data would be limited due to inaccuracies and inconsistency in methods of data accumulation. More complete and accurate information of the type contained in the Fact Book would provide information for local use in planning, evaluating, and comparing individual managers performance.

CONCLUSION

Neither the BUMED system nor the Center's locally devised system provided adequate cost information to the Center's managers. The Center's locally devised system emphasized control over obligations and not total expenses incurred by each responsible manager. The BUMED system generates information that would be useful to individual Center managers if the data were accumulated in accordance with the Center's management structure.

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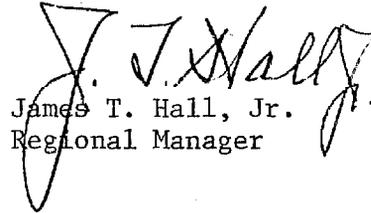
RECOMMENDATIONS

We are therefore recommending that you modify the method of data accumulation in the BUMED accounting system to accommodate the cost information needs of managers at the Center, and that management emphasis be placed on total operating resources consumed by each responsible manager as well as control over obligations.

We are transmitting information copies of this report to the Office of the Surgeon General and the Navy Area Audit Office, San Diego, to keep them apprised of our work at the San Diego hospital facility.

We wish to thank you for the courtesies and cooperation extended to our staff during the survey. We will appreciate receiving your comments on the matters discussed in this letter and on our recommendations for corrective action.

Sincerely yours,



James T. Hall, Jr.
Regional Manager