

Cost Accounting – It is time to know how health money is spent

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TITLE

Cost Accounting – It’s time to know how health money is spent!

EXECUTIVE SUMMARY

The Ministry of Health (MoH) system of recording health expenditure is at a facility level (hospitals; known as cost centres in FMIS) or public health programme level in accordance with the general Government budget structure set by Ministry of Finance (MoF). This system of expenditure recording does not capture service costs (at a facility level) or activity costs (for public health programme). This brief recommends incorporating cost center accounting to identify the costs incurred at the service and activity level, for better management of financial resources and its reporting.

STATEMENT OF PROBLEM

The Health Ministry’s expenditure is recorded at facility level for some health facilities, and at a programme level for public health programs. Expenditure is not recorded at a service level in health facilities or at programme activity level. This brief looks at some options and recommendations to address this.

BACKGROUND

The MoH currently uses the Financial Management Information System (FMIS¹) adopted by the Fiji Government in tracking and recording health expenditure.

Prior to FMIS the MoH had its own financial management system which was known as EPICOR. EPICOR was designed to capture costs at Health facility service level and programme activity level. In the chart of accounts (allocations or GL codes) designed in EPICOR, a department or section within a facility was known as a cost centre and had a unique three character numerical digit. This enabled tracking of expenditure at the cost centre level. For example if a transaction was related to the catering section (kitchen services) then the transaction was debited to the cost centre kitchen in a particular facility.

Currently what’s happening?

In the FMIS system chart of accounts, facilities are set up as cost centres. A cost centre is identified by the 7th to 11th digit (highlighted as below) within the 17 digit chart of accounts combination.

The FMIS 17 digit GL code combination

X- Type of Fund	XX- Hea d	XXX- Programm e & Activity	XXXX X- Cost Centre	XX- Standard Expenditur e Group (SEG)	XX- Associate d Item	XX- Sub Item s

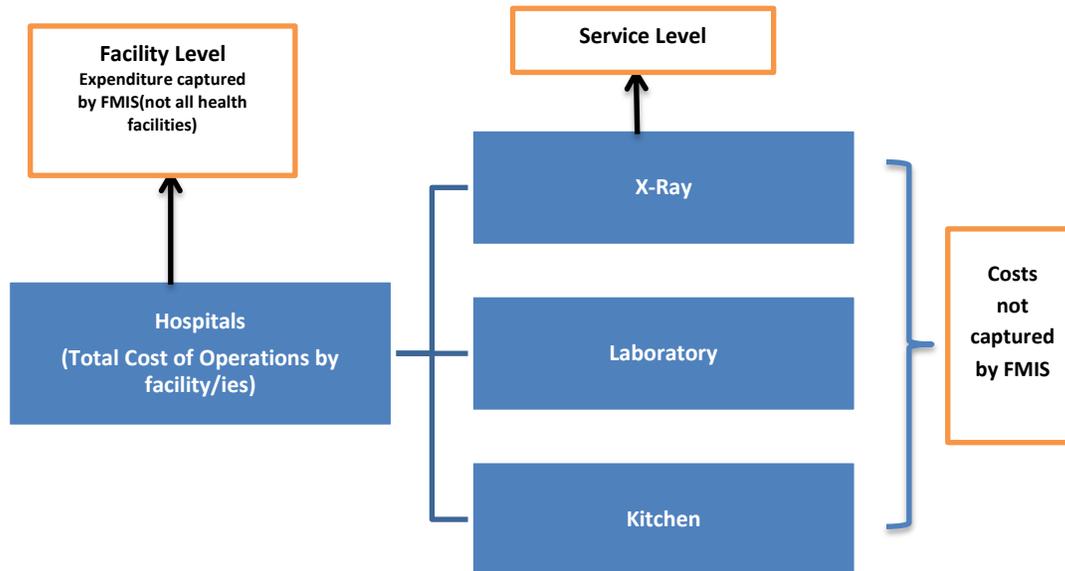
Note: The combination of SEG, Associated Item & Sub Items is also known as **Natural Accounts**

Cost Centres set in the FMIS system for MoH are mostly for the divisional offices, hospitals, sub-divisional hospitals and a few health centres and nursing stations. Every year a budget loading (expenditure forecast) process takes place in FMIS. During this process the MoH is required to provide a plan as to how the budget will be utilized by the facilities and health programmes.

¹ The FMIS is a centralized Accounting system by Ministry of Finance (MoF) and implemented in WOG in the year 2005 and rolled out to all Ministries and Departments except for Ministry of Health in 2011.

The budget when loaded into the FMIS system by MoF becomes the approved financial plan for the costs centres of MoH. This is also known as segregation of health budget to cost centre level. Thus when expenditures are incurred during the year the costs from FMIS are captured at a facility level. These costs however, cannot be further disaggregated into the services provided at these facilities. Figure 1 below illustrates this.

Figure 1: Expenditure at a hospital or sub divisional hospital (facility level)



Problem 1: The budget of the Ministry only captures costs at the facility level (not all facilities) but not at the service level.

For example the current system is able to report expenditure at facility level e.g. CWM Hospital. However, we are not able to report expenditure incurred by various service depts. e.g. radiology or laboratory departments within CWM Hospital.

Department managers do not know how much expenditure is incurred by their departments nor are they able to accurately budget and plan.

Problem 2: The current FMIS system is not able to report activity expenditure within public health programmes.

For example the funding for a public health programme is normally requested based on the strategic plan. The program manager normally authorizes for utilization of funds based on the allocated budget. However, when these transactions get recorded in the FMIS system they are recorded as general expenses. Description of transaction in the FMIS is insufficient to categorize expenditure of Public Health Programs by functional activities. Programme managers find it difficult to track expenses at the functional activity level.

Why these problems?

The first reason is that the FMIS system has a “Fund Control Module (FCM)” in place which does not allow a user to incur transactions i) beyond the allocated budget and ii) on a GL code/allocation which has a zero budget. The second reason is that the FMIS system is not capable of increasing any additional fields in the cost centre segment identified by the 7th to 11th digit to meet the requirements of MoH to capture costs at both service level and programme’s activity level.

POLICY OPTIONS

This brief discussed the issue regarding the limitation of the current financial management reporting system to categorize expenditure by health facility services and program activities. Three policy options are presented.

Policy Option 1: - Maintain the current expenditure reporting system with no change

The first option is to maintain health expenditure reporting as it is currently. However as alluded to earlier such a system will limit the ability of the MoH to track health expenditure at both the facility service level and programme activity level. This means that MoH will not be able to ascertain which services and activities are driving health expenditure. There would be no added costs or resources required to adopt policy option 1 since the current expenditure reporting system is maintained with no change. **This policy option is not recommended.**

Policy option 2: - Replace FMIS with a system that does Cost Accounting at the service level and programme activity level

The second option is to replace the FMIS system with a system that can track health expenditure at the service level and activity level. While it would be desirable to have such a system, this option will find difficulty in getting approved since the Governments mandate is to standardize expenditure reporting systems across the whole of Government. Furthermore the MoH has just only completed the transition from EPICOR to the FMIS system and this has taken a lot of effort and time. An entirely new system means added costs in terms of purchasing the system and training of staff, etc. **This policy option is not recommended.**

Policy option 3: - Get FMIS to do Cost Centre accounting (Recommended option)

The third and recommended option is to explore the possibility of getting FMIS to track health expenditure at the service and activity level for facilities and health programs. This option would be agreeable to Government as well as require less resources than policy option 2 since it will involve a reorganization of the current GL codes in FMIS, and training of staff. **This option is recommended due to its feasibility and cost implications.**

REFERENCES

Chart of Accounts – Part 1 Account Number Structure for Ministry of Health
Fiji National Health Accounts Report 2007 to 2012, in SHA 2011 (forthcoming)