

MEMORANDUM FOR:       BRENDA KYLE  
                                  Acting Chief Financial Officer

FROM:                     JOHN J. GETEK  
                                  Assistant Inspector General  
                                  for Audit

SUBJECT:                 Implementation of DOL's  
                                  Managerial Cost Accounting Process  
                                  Final Letter Report No. 22-01-012-13-001

This letter report evaluates the Implementation of DOL's Managerial Cost Accounting (MCA) Process. Our specific objective was to evaluate the Department's planned Cost Accounting System (CAS) and related processes for compliance with applicable laws and regulations including the Chief Financial Officers (CFO) Act of 1990, the Government Performance and Results Act (GPRA) of 1993, the Government Management Reform (GMRA) Act of 1994, and the Federal Financial Management Improvement Act (FFMIA). We conducted our review between November 2000 and January 2001 in accordance with generally accepted government auditing standards.

This review included an assessment of the Department's plans to implement MCA at the agency level and a review of ongoing cost accounting pilot studies being conducted by OCFO and its contractor, PricewaterhouseCoopers (PwC). In addition to the laws cited above, criteria for our evaluations were obtained from the following regulations and non-authoritative guidance applicable to MCA implementation:

- Statement of Federal Financial Accounting Standards Number 4 (SFFAS No. 4), *Managerial Cost Accounting Concepts and Standards for the Federal Government*;
- The *Managerial Cost Accounting Implementation Guide*, developed jointly by the CFO Council and the Joint Financial Management Improvement Program (JFMIP);
- The JFMIP publication *System Requirements for Managerial Cost Accounting*; and
- OMB Circular A-127, *Financial Management Systems*.

Procedures employed to gather information for the evaluations included:

- interviews with OCFO and PwC members of the MCA implementation team;
- review of work products produced by PwC under its contract with OCFO;

- review of internal and external reports produced by the Department pertaining to performance measurement and managerial decision making; and
- observation of meetings between the MCA implementation team and various customer agency personnel.

OCFO is charged with the difficult task of acting as a catalyst to ignite program manager interest in MCA so that it will ultimately become an integral component of managerial decision making and performance reporting. This task requires patience and special management techniques specifically suited to the DOL environment.

Overall, we conclude that OCFO has done a commendable job with its MCA implementation efforts to date. Specifically, our evaluation revealed that OCFO has:

- created the Cost Analysis and Management Division to act as a central point for implementation efforts;
- adequately defined the issues impacting full compliance with laws and regulations;
- made an accurate assessment of the strengths and weaknesses of the Department's managerial cost accounting information system;
- instructed agencies to consider how frequently cost information will need to be reported in order to comply with the requirement for reporting on a regular basis;
- worked effectively with those agencies that have expressed an interest in MCA; and
- developed an effective high-level implementation plan identifying major tasks and actions needed to accomplish them.

MCA implementation is an evolving project that will require revisions to plans and procedures as additional agencies and components come on board. To date, OCFO efforts have been largely related to marketing and promoting awareness of the benefits of MCA. While some agencies have completed pilot projects others, most notably ETA and ESA, have not made any real progress toward MCA implementation. At this stage, the need for effective MCA project management is even more crucial. We have noted the following items that we believe warrant OCFO attention to continue the progress made in achieving MCA implementation throughout the Department.

### **Prepare a Detailed MCA Implementation Plan**

OCFO/PwC have developed a *Managerial Cost Accounting Implementation Rollout Plan* which is strategically focused rather than a step-by-step plan. OCFO/PwC envision the development of detailed steps at each phase of the implementation to address practical and technical issues related to specific actions outlined in the plan. In the initial stage of MCA implementation, the plan has been a good general reference and considers the major implementation guidance provided by the CFO Council and JFMIP. However, as OCFO has progressed in its implementation efforts, the need for a detailed plan has grown. As discussed in Part 2, Chapter 2 of the *Managerial Cost Accounting Implementation*

*Guide*, a strategy involves definition of how objectives are to be accomplished and are needed to support the objectives. The guide suggests that the strategy be documented in a plan, which is a living document that constantly changes as the project progresses. The implementation plan should support the management and direction of time, material, personnel and cost to meet established objectives in time, dollars and technical results.

We recommend that the Acting Chief Financial Officer update the existing MCA plan by providing detailed steps for each objective, preparing time lines and including plans for personnel and other resources needed.

### **CFO=s Response:**

While this office concurs with your recommendation, we are still in the pilot project formulation phase with several agencies. When agencies move from the pilot phase to agency-wide implementation, OCFO will assist them in developing detailed plans that establish a definitive business case, objective, resource requirements, and timetable.

### **OIG=s Conclusion:**

This recommendation is *unresolved*. OCFO=s response indicates that our recommendation was directed at developing agency specific implementation detail in advance. Our recommendation actually relates to agency-wide implementation project management and more specifically the OCFO Managerial Cost Accounting Implementation Rollout Plan (the Plan) issued by OCFO/PwC in August 2000. The plan provides time frames for specific activities that generally should be conducted within 180 days of the beginning of the implementation effort. At the date of the CFO=s response, approximately 200 days have passed since the plan was issued. We recommend that OCFO use the knowledge and experience gained during those 200 days to refine the plan and increase the value of its guidance in the future. At a minimum, OCFO should review the estimated time frames in the original plan, determine if the planned actions have occurred, and evaluate the effects of actions taken to date to meet the goal of Department-wide MCA implementation by the end of fiscal year 2002. If the time frames have been met, then new major tasks should replace those stated in the original plan.

### **Provide Detailed Documentation of the Pilot Cost Accounting Models**

The laws, regulations and implementation guidance covering MCA stress the importance of documentation for MCA systems. For example, SFFAS No. 4, paragraph 71 states:

All managerial cost accounting activities, processes and procedures should be documented by a manual, handbook or guidebook and should serve as a guide to users. This reference should outline the applicable activities, provide instructions for procedures and practices to be followed, list the cost accounts and subsidiary accounts related to the standard general ledger and contain

examples of forms and other documents used.@

We recommend that OCFO prepare this documentation for the completed pilot projects to assist in ultimately transferring ownership to the agencies and as a model for the documentation that will be required upon Department-wide implementation of MCA.

**CFO=s Response:**

This office concurs with your recommendation to prepare documentation for completed models. However more detailed documentation, such as owners= manuals, must be agency specific and match the activity involved in the pilots since each business case is different. In addition, an agency has the potential to develop different applications within a program or within the agency as a whole. As agencies move from the pilot phase to full implementation, OCFO will assist agencies in documenting specific managerial cost accounting techniques, instructions for the techniques, source documents, and financial data used. This process however will not result in a single model.

**OIG=s Conclusion:**

Based on the planned corrective actions described above, this recommendation is **resolved** and **open** pending the development of detailed documentation of the Pilot Cost Accounting Models.

**Develop a Definitive MCA Implementation Timetable for Each Agency**

To date, all agencies the OCFO has contacted have agreed to work toward the implementation of managerial cost accounting systems. Although some agencies have completed pilot projects, the Department=s two largest agencies, ETA and ESA, have just started preliminary discussions with the OCFO to initiate pilot projects. In the initial phases of managerial cost accounting implementation efforts, OCFO was wise in not acting too aggressively and allowing agencies time to prepare internally for the proper implementation approach. SFFAS No 4 as amended by SFFAS No 9 required the implementation of MCA for all Federal agencies for fiscal periods beginning after September 30, 1997. However, OCFO=s implementation program has now been active for over one year and several agencies still do not have any solid plans for developing an effective managerial cost accounting system in order to meet the Department=s FY 2001 implementation goal. Considering the amount of time that the implementation progress has consumed to date, in order for the Department to reach its FY 2001 implementation goal of having compliant and effective managerial cost accounting systems in place, it is critical that OCFO determine and schedule definitive approaches for each agency within the Department.

We recommend that OCFO prepare a definitive timetable and plan to be developed for placing the systems into production within each agency.

**CFO=s Response:**

This office concurs with your recommendation. As full implementation begins, OCFO will work with the agencies to develop timetables for completing identified business cases, applying MCA techniques, model building, and evaluation.

**OIG=s Conclusion**

Based on the planned corrective actions described above, this recommendation is resolved and open pending the development of a definitive MCA implementation timetable for each agency.

Management's comments have been included both in their entirety after each recommendation and as an attachment. Please provide for the unresolved recommendation, presented in the final report, a corrective action plan as described in DLMS 8, Chapter 500, within 60 days. Please notify us when corrective action has been completed and we will review and verify the adequacy of the corrective actions taken. If you have any questions, please contact Mike McFadden on 693-5144.