



Highlights of [GAO-05-1031T](#), a report to Subcommittee on Government Management, Finance, and Accountability, Committee on Government Reform, House of Representatives

Why GAO Did This Study

In the past 15 years, a number of laws, accounting standards, system requirements, and related guidance have emphasized the need for cost information in the federal government, establishing requirements and accounting standards for managerial cost accounting (MCA) information. Among them was the Federal Financial Management Improvement Act of 1996 (FFMIA), which required Chief Financial Officers Act agencies' systems to comply substantially with federal financial management systems requirements and federal accounting standards, including managerial cost accounting standards.

In light of these requirements, the Chairman asked GAO to determine how federal agencies generate MCA information and how government managers use that information to support their decision making and provide accountability. GAO briefed subcommittee staff on its work at the Departments of Labor (DOL) and Veterans Affairs (VA) on July 15 and issued a report on its findings that included recommendations on September 2, 2005 ([GAO-05-1013R](#)).

www.gao.gov/cgi-bin/getrpt?GAO-05-1031T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Robert Martin at (202) 512-6131 or martinr@gao.gov.

MANAGERIAL COST ACCOUNTING PRACTICES AT DEPARTMENTS OF LABOR AND VETERANS AFFAIRS

Departments of Labor and Veterans Affairs

What GAO Found

The principal purpose of managerial cost accounting (MCA) is to determine the cost of achieving performance goals, delivering programs, and pursuing other activities. This allows the organization to assess whether the cost is reasonable or to establish a baseline for comparison with what it costs others to do similar work. Although the factors analyzed depend on the operations and needs of the organization, reliable financial and nonfinancial data are critical. Without reliable data, the analysis can be distorted. Strong leadership that provides a structure for good controls and assessments of system operations helps set the conditions for data reliability. GAO found that DOL and VA had different approaches to implementing MCA systems and that both had some control weaknesses with respect to the quality of certain of the data they used and documenting policy and procedures.

DOL, under the direction of its Chief Financial Officer, implemented a departmentwide MCA system upon which 15 of its 18 component agencies built MCA models tailored to meet their respective needs. Component agencies continue to refine their models, and DOL is updating its policies and procedures to reflect the new system and processes. A formal post-implementation review of the system is not planned, however. While DOL has various controls in place over financial data, GAO found that controls over nonfinancial data need further attention to ensure reliability. DOL officials are taking additional steps to address these issues.

VA adopted a different approach and does not have a departmentwide system. Instead, it has delegated this responsibility to the individual components. Of the two largest components, only the Veterans Health Administration (VHA) had an operating MCA system. The Veterans Benefits Administration had discontinued use of its MCA system in 2003 because of system credibility and personnel issues. GAO found that the VHA system uses data from nearly 50 feeder systems. Other auditors have raised data reliability concerns with respect to certain of these systems. Raising concerns about data reliability in one of the VHA systems, the VA Office of Inspector General stated that this might be a systemic problem. In addition, GAO found that VHA was unable to produce documentation of the system readily, which could inhibit efforts to determine whether costs are properly assigned. With no MCA system overall at VA, it uses manual cost-finding techniques for external reporting. VA's independent financial statement auditor found control weaknesses in this manual process, and VA officials stated that documentation of compilation procedures for its Statement of Net Costs was not current.