



G A O

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United States Government Accountability Office
Washington, DC 20548

May 24, 2007

The Honorable Brian Bilbray
Ranking Minority Member
Subcommittee on Government Management, Organization, and Procurement
Committee on Oversight and Government Reform
House of Representatives

The Honorable Todd Russell Platts
House of Representatives

Subject: *Managerial Cost Accounting Practices at the Department of the Interior*

Authoritative bodies have promulgated laws, accounting standards, information system requirements, and related guidance emphasizing the need for accurate and reliable cost information in the federal government. For example, the Chief Financial Officers (CFO) Act of 1990¹ contains several provisions related to managerial cost accounting (MCA), one of which provides that an agency's CFO should develop and maintain an integrated accounting and financial management system that provides for the development and reporting of cost information. Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, and the Joint Financial Management Improvement Program's (JFMIP) *Framework for Federal Financial Management Systems*² established accounting standards and system requirements for MCA information at federal agencies. In addition, the Federal Financial Management Improvement Act of 1996³ required, among other things, that CFO Act agencies' systems comply substantially with federal accounting standards and federal financial management systems requirements.

In light of the provision related to MCA information in federal agencies, we were asked to review the status of MCA in 10 of the largest civilian agencies. Our objectives were to determine how (1) federal agencies generate MCA information and

¹Pub. L. No. 101-576, 104 Stat. 2838 (Nov. 15, 1990).

²In 2005, JFMIP's responsibilities for financial management and policy oversight were realigned to the Office of Management and Budget, the Office of Personnel Management, and the Chief Financial Officers Council.

³Pub. L. No. 104-208, div. A., § 101 (f), title VIII, 110 Stat. 3009, 3009-389 (Sept. 30, 1996).

(2) agency managers use cost information to support managerial decision making and accountability.

This report on the Department of the Interior (Interior) is our fifth in a series of reports concerning the status of MCA activities at large government agencies.⁴ In addition to reviewing the department-level systems, we selected three component bureaus with larger obligations and earned revenue as well as a working capital fund with cost recovery activities. These were the Bureau of Land Management (BLM), the Bureau of Reclamation (BOR), the Minerals Management Service (MMS), and the National Business Center (NBC) of the Departmental Working Capital Fund (WCF).

Results in Brief

Interior and the four bureau-level components we reviewed each have systems for generating MCA information. The driving force for implementing MCA at Interior was strong management commitment. However, there is no single or integrated information system from which MCA data are generated. Additionally, there are multiple, independent systems at the department and bureaus from which financial and nonfinancial data are obtained for MCA. Controls over nonfinancial data quality for these systems are generally limited to bureau-level reviews for reasonableness. Those bureau-level controls may not be adequate to help ensure the accuracy, and therefore the usefulness, of MCA data. Further, Interior does not allocate cost elements consistently between bureaus. For example, BOR uses the number of facilities to determine the cost of building maintenance whereas the department uses a square footage calculation. In addition, Interior does not have written procedures for monitoring the quality and accuracy of the data in its MCA system or a consistent methodology for pricing services at one of its components. In this regard, recognizing the need to help control risks resulting from multiple financial systems as well as a need for better functionality, Interior management is in early stages of implementing an integrated financial system, Financial Business Management System (FBMS), including developing a MCA module, for the department and each of its bureaus.

Information from its various systems is routinely used by management at Interior and its bureaus for managerial decision making. At the department level, Interior uses cost information to highlight costs of department-wide activities, support recommendations for such things as changes to work processes, and to prepare budgets and performance targets. The bureaus we reviewed used MCA, among other things, to review and evaluate work processes, set prices and fees, identify workload trends, reallocate resources, and track performance indicators.

⁴GAO, *Managerial Cost Accounting Practices: Leadership and Internal Controls Are Key to Successful Implementation*, GAO-05-1013R (Washington, D.C.: Sept. 2, 2005); *Managerial Cost Accounting Practices: Departments of Labor and Veterans Affairs*, GAO-05-1031T (Washington, D.C.: Sept. 21, 2005); *Managerial Cost Accounting Practices: Departments of Education, Transportation, and the Treasury*, GAO-06-301R (Washington, D.C.: Dec. 19, 2005); *Managerial Cost Accounting Practices: Department of Health and Human Services and Social Security Administration*, GAO-06-599R (Washington, D.C.: Apr. 18, 2006); and *Managerial Cost Accounting Practices: Departments of Agriculture and Housing and Urban Development*, GAO-06-1002R (Washington, D.C.: Sept. 21, 2006).

In its comments on a draft of this report, Interior concurred with six of our eight recommendations. It stated it had already taken actions to address the remaining two recommendations and is working diligently to address the weaknesses cited in the report.

Background

The CFO Act of 1990 was the beginning of a series of management reform laws to improve federal financial management and set the stage for other key reforms that followed. Among other things, the CFO Act established a leadership structure for financial management, required audited financial statements, and strengthened accountability reporting. It contains several provisions related to MCA, one of which states that an agency's CFO should develop and maintain an integrated accounting and financial management system that provides for the development of cost information and systematic performance measurement. The goal of the CFO Act is to greatly enhance the ability of managers to do their jobs by providing the full range of financial information needed for day-to-day management.

There are many potential applications for cost information in the federal government. This information can be used by federal executives for budgeting and cost control, performance measurement, determining reimbursements and setting fees and prices, program evaluations, and decisions that involve economic choices, such as whether to do a project in-house or contract it out.⁵ The Congress can also use MCA information to determine how to fund programs and monitor agency performance, as well as to analyze the merits of proposals advocated by different parties. The public, in turn, can benefit from greater transparency about program performance and ready access to information on how its tax dollars are spent.

Managerial Cost Accounting Provisions

The policies and standards prescribed for executive agencies to follow in developing, operating, evaluating, and reporting on financial management systems are included in Office of Management and Budget Circular No. A-127, *Financial Management Systems*. The components of an integrated financial management system are the core financial system,⁶ an MCA system, and certain administrative and programmatic systems. Administrative systems are those that are common to all federal agency operations,⁷ and programmatic systems are those needed to fulfill an agency's mission.

⁵See Statement of Federal Financial Accounting Standards No. 4: *Managerial Cost Accounting Concepts and Standards for the Federal Government*.

⁶Core financial systems, as defined by the Office of Federal Financial Management, include managing general ledger, funding, payments, receivables, and certain basic cost functions.

⁷Examples of administrative systems include budget, acquisition, travel, property, and human resources and payroll.

SFFAS No. 4, which became effective in fiscal year 1998, sets forth the fundamental elements for MCA in government agencies.⁸ The five standards in SFFAS No. 4 require government agencies to (1) accumulate and report the costs of activities on a regular basis for management information purposes; (2) establish responsibility segments, and measure and report the costs of each segment's outputs and calculate the unit cost of each output; (3) determine and report the full costs of government goods and services, including direct⁹ and indirect¹⁰ costs; (4) recognize the costs of goods and services provided by other federal entities; and (5) use and consistently follow costing methodologies or cost finding techniques most appropriate to the segment's operating environment to accumulate and assign costs to outputs. SFFAS No. 4 states that MCA should be a fundamental part of the financial management system and, to the extent practical, should be integrated with other parts of the system.

MCA entails answering a very simple question. How much does it cost to do something, be it an extensive overall program effort or the incremental and iterative efforts associated with a project activity? As such, it involves accumulating and analyzing both financial and non-financial data¹¹ to determine the costs of achieving performance goals, delivering programs, and pursuing other activities. The principal purpose is to consider how much it costs to do whatever is being measured, thus allowing management to analyze whether that cost seems reasonable, or to establish a baseline for comparison with others that do similar work. The factors analyzed and the level of detail depend on the operations and needs of the organization. Reliable financial and nonfinancial data are cornerstones of this assessment, because if the data are wrong, the resulting analysis can give a distorted view of how well the organization is doing, thereby affecting any decision making.

Interior Operations

Interior's mission is to protect and manage the nation's natural resources and cultural heritage; provide scientific and other information about those resources; and honor its trust responsibilities or special commitments to American Indians, Alaska Natives, and affiliated island communities. For fiscal year 2006 Interior reported gross and net outlays of approximately \$20.7 billion and \$8.6 billion, respectively. Interior had approximately 73,000 employees, including 69,000 full-time equivalents (FTEs) and 200,000 volunteers (4,600 FTEs). Interior has eight bureaus organized in distinct mission areas, in addition to departmental offices that support key Interior

⁸In March 1997, the Federal Accounting Standards Advisory Board delayed SFFAS No. 4's implementation from fiscal year 1997 to fiscal year 1998.

⁹Direct costs are costs that can be specifically identified with an output, including salaries and benefits for employees working directly on the output, materials, supplies, and costs for facilities and equipment used exclusively to produce the output.

¹⁰Indirect costs are costs that cannot be specifically identified with an output and may include costs for general administration, research and technical support, and operations and maintenance for building and equipment.

¹¹Non-financial data measure the occurrences of activities and can include such things as hours worked, units produced, grants managed, inspections conducted, or people trained.

operations and help carry out Interior's mission. It also has four working capital funds and a franchise fund.

BLM's mission is to sustain the health, diversity, and productivity of the public lands for the use and enjoyment of present and future generations. For fiscal year 2005, BLM reported gross and net outlays of approximately \$2.6 billion and \$.9 billion, respectively, and had approximately 13,500 FTEs.

BOR's mission is to manage, develop, and protect water and related resources in an environmentally and economically sound manner in the interest of the American public. For fiscal year 2005, BOR reported gross outlays and net receipts of approximately \$1.75 billion and \$1 billion, respectively, and had approximately 5,900 FTEs.

MMS's mission is to manage the ocean energy and mineral resources on the Outer Continental Shelf and federal and Indian mineral revenues to enhance public and trust benefit, promote responsible use and realize fair value. MMS also collects, accounts for, and disburses more than \$8 billion per year in revenues from mineral leases on federal and Indian lands. For fiscal year 2005, MMS reported gross outlays and net receipts of approximately \$3.5 billion and \$.2 billion, respectively, and had approximately 1,700 FTEs.

The WCF was established to provide common administrative services to Interior bureaus and other federal agencies on a reimbursable basis. In fiscal year 2006, the WCF reported gross and net outlays of approximately \$1.5 billion and \$.2 billion, respectively. NBC had approximately 1,100 FTEs and is the largest activity center in the department's WCF, comprising more than 85 percent of the department's WCF activities. In fiscal year 2006, Interior's franchise fund, also known as GovWorks, had a budgetary authority of \$1.2 billion and was merged with NBC.

Interior Generates MCA Information through Systems at the Agency and Component Levels

Each bureau we reviewed has its own stand-alone MCA system, which feeds information to Interior's department-wide MCA system. Additionally, there are multiple, independent systems at the department and bureaus from which financial and nonfinancial data are obtained for MCA. Controls over nonfinancial data quality for these multiple systems are generally limited to bureau-level reviews for reasonableness. Those bureau-level controls may not be adequate to help ensure the accuracy, and therefore the usefulness, of MCA data. In addition, Interior does not have written procedures for monitoring the quality and accuracy of its activity-based cost management data. Recognizing the need to help control increased risk resulting from multiple financial systems as well as to increase functionality, Interior management is in early stages of implementing an integrated financial system, including an MCA module, for the department and each of its bureaus.

Interior Has a Department-Level MCA System in Place

Interior has a department-wide MCA system, called ABC/M, which provides information about the cost of work activities. Financial data are extracted daily from the bureaus' stand-alone general ledger systems, and nonfinancial data are obtained from other bureau source systems. Interior has adopted an activity-based costing (ABC) approach to departmental MCA. ABC is intended to measure the cost of activities, such as issuing permits, maintaining trails, and performing site inspections.

ABC/M includes approximately 300 work activities that align with the department's four strategic mission objectives. Nonfinancial data such as hours, miles, or acres are obtained from various bureau source systems (entered manually or extracted from bureau systems). For financial data the bureaus use either Federal Financial System (FFS) or Advanced Budget/Accounting Control and Information System (general ledger systems). Interior and its component bureaus use non-integrated FFS, with the exception of MMS and Office of Surface Mining, which migrated to FBMS in mid-November 2006.

Interior's Bureaus Have Developed Systems and Processes to Generate MCA Data

Interior leadership, including the Secretary, took an active role in promoting MCA implementation and use at its bureaus. Interior actions included directing the bureaus to take the lead developing MCA; establishing a department-level steering committee to provide overall guidance; facilitating issue coordination across the department; enlisting additional bureau-level input through several groups, including the Performance Management Council and the FBMS Steering Committee; creating a team to oversee bureau efforts toward implementing the departmentwide ABC vision; and issuing department-wide policy and procedural guidance to ensure that bureau cost data are in line with Interior strategic goals. The four Interior components we reviewed all had their own stand-alone MCA systems.

BLM

BLM developed its ABC system in 1999, 2 years prior to the departmentwide directive. The bureau established an ABC core team to assist in the development of a model. Once the model was developed, the team assisted in the implementation of ABC throughout the bureau. Financial data are extracted from BLM's general ledger and nonfinancial data are added to the bureau's MCA system from a BLM-specific system called the Performance Management System.

Personnel costs are accumulated as a product of time charged to activities in BLM's time and attendance system (QuickTime). Direct costs, including annual leave plus indirect costs (generally allocated proportionally to personnel costs) are accumulated for each program activity. BLM officials stated that they reconcile ABC/M data to the Statement of Net Costs (SNC) on a quarterly and annual basis. BLM received an unqualified (clean) audit opinion for fiscal year 2005, but the auditors identified weaknesses in internal controls, which could result in inaccurate cost data

throughout the year. BLM has a cost policy that contains directives, instructions, and internal budget processes; however, it does not have a written policy on verification and validation of its performance data.

BOR

BOR principally uses an asset and maintenance management system known as MAXIMO to identify costs, as its authorization and funding sources are generally tied to specific projects. MAXIMO is not a cost accounting system, but it does have the capability to track labor and material costs throughout the life of an asset or project. MAXIMO interfaces with both the general ledger (FFS) and the time and attendance system (TAAS). BOR electronically transmits selected budgetary information from FFS to the department's ABC/M system. Financial data are extracted from BOR's general ledger, FFS, and nonfinancial data are added to the bureau's MCA systems from a BOR-specific system. Personnel costs are accumulated as a product of time charged to activities in BOR's TAAS. All formal cost accounting is accomplished through FFS, which provides valid cost accounts for charging work that is planned and scheduled through MAXIMO. MAXIMO is used to track material costs and approximate labor costs at a work order level. It uses cost accounts that are previously coded as reimbursable or nonreimbursable in FFS.

According to BOR officials, they crosswalk bureau costs from their general ledger to the departmental ABC/M system for departmental cost accumulation, but do not reconcile BOR's SNC prepared from general ledger data to ABC/M data because of the lack of necessary proprietary accounting data.¹² BOR received a clean audit opinion for fiscal year 2005, but did have one reportable condition concerning financial reporting. BOR officials also told us that the project authorization and funding structure can make it difficult to roll BOR activities and outputs into the four Interior strategic goals.

Additionally, BOR identified maintenance work activity output measures related to recreational sites that are inconsistent with Interior output measures. The department's policy is to use square footage as a unit measure, whereas BOR uses the number of facilities. A BOR official stated this was because of a lack of square footage data on its facilities. A department official told us that BOR will determine and provide the square footage of the recreation facilities for which it is responsible so the department can accurately accumulate and analyze the full costs for this activity.

¹²Proprietary accounting data records financial transactions, whereas the cost accounting system contains budgetary accounting data that are used to facilitate compliance with fiscal laws and reflects estimated costs and financial condition.

MMS

MMS implemented an ABC/M system based on an OROS (SAS) platform, and began coding employee time and activity records to work elements in 2003. The ABC/M system accumulates financial information from its general ledger, FBMS and nonfinancial information in its Performance Data Gathering and Reporting System. MMS does not reconcile its SNC to its ABC/M data because of a lack of proprietary accounting data.

NBC/WCF

Officials at NBC have a manual process to identify costs. The WCF does not have written policies and procedures regarding recovery of costs by products lines to prevent over- and undercharging customers. NBC officials also told us that they currently do not uniformly apply costs across NBC's directorates. Recognizing the need for better information on which to base pricing and other managerial decisions, officials at NBC told us that they are developing a new activity-based cost system that is expected to become operational in fiscal year 2007.

Nonfinancial Data Must Be Extracted from Multiple Department-Level and Component Systems

While Interior has done much to develop MCA information, officials acknowledged that the integrity of the ABC/M system data depends on the effectiveness of the internal controls of the bureaus' systems that provide data used in the departmental ABC/M. Weaknesses in internal controls can result in inaccurate cost data throughout the year, which may impede the department's ability to make well-informed decisions based on accurate data. Further, Interior officials told us that it currently does not reconcile the SNC and ABC/M data at the corporate level because of differences between financial accounting data of the general ledger and budgetary data of the cost systems. Such reconciliations provide assurance that data from different sources are accurate and complete. According to Interior's fiscal year 2006 performance and accountability report (PAR), Interior is beginning to validate costs reported in the SNC by implementing a reconciliation process.

Although Interior has received an unqualified audit opinion on its financial statements since 1997, it reported in its fiscal year 2006 PAR that internal control weaknesses continue to hinder its financial management systems. Additionally, Interior reported that it confronts challenges as it operates costly and duplicative financial and business management systems. Controls over nonfinancial data are generally limited to bureau-level review for reasonableness. Interior acknowledged the need for independent department-level validation and verification of nonfinancial ABC/M data. Further, Interior does not have written procedures for monitoring the quality and accuracy of its ABC/M data. Interior officials told us that not all bureaus have written procedures for performance data validation and verification. The department plans to follow up to ensure that all bureaus implement data validation and verification standards and procedures in 2007.

Interior is in the process of implementing a new department-wide integrated financial management system, FBMS, in part because Interior leadership has recognized that its current environment of nonintegrated systems increases its risk and does not provide all needed MCA information. While Interior's current system provides only budgetary data, Interior officials stated that FBMS plans include provisions for both budgetary and proprietary accounting data. Interior officials stated that they plan to include an integrated ABC/M system in FBMS. Although a working model for ABC/M is being developed, an Interior official told us at the time of our review that the user requirements for the model have not yet been fully developed. A department official further stated that once the requirements for FBMS's ABC/M system are developed, and depending on the availability of funding and other scheduling considerations, the working model could be implemented approximately 18 months after the requirements are finalized. The current FBMS implementation plan for the general ledger module calls for a phased implementation with seven successful deployments beginning in April 2006 and ending in fiscal year 2011.

Interior and Its Bureaus Use MCA to Support a Variety of Managerial Decisions

At the department level, Interior uses cost information to provide visibility on the costs of activities. For example, a graphical report to senior Interior executives called the Executive Dashboard provides department leadership with access to some department-level program cost information. MCA is also used for a number of purposes, including supporting recommendations to change work processes to improve efficiencies and generate cost savings, supporting decisions on redirecting or reallocating resources, and preparing budgets and performance targets. Interior officials reported that MCA is used to provide visibility on the costs of activities and initiatives of interest to departmental leadership, and one of its emerging capabilities is the use of marginal cost models to identify and understand the extent to which activities consume costs.

BLM officials use information from the Cost Management System for a number of purposes, including projecting future resource needs based on estimated workloads. Additionally, the BLM MCA system provides cost information by organizational code, unit cost, and the number of work outputs. It enables BLM to review and evaluate work processes across the bureau to find ways to improve effectiveness, to reallocate resources, set fees and prices, and monitor progress in achieving performance goals.

BOR officials use MCA for a number of purposes including identifying activities and outputs that could be useful in budget decision making. For example, BOR reported in its fiscal year 2007 budget justification that ABC/M data are refined and analyzed to support its efforts to produce cost information to enhance budget decision making. BOR also uses MCA data to review routine MCA reports on an ongoing basis to identify budgetary shortages and surpluses associated with projects, to identify and examine bureau workload trends, and to assist in the reallocation of resources.

MMS officials reported that they use ABC/M for a number of purposes including reporting management results, preparing cost recovery calculation, and tracking and accessing key performance indicators. However, MMS official also stated that it is difficult to find the right level of detail to capture information to meet Interior, bureau, and program needs, and there is a need for more timely access to ABC/M and performance information for decision making.

Officials at NBC use a manual process incorporating prior year financial information to determine prices charged to their customers. However, NBC does not have written policies and procedures regarding recovery of costs by product lines to prevent over- and under-charging of customers. Additionally, financial analysis conducted to determine whether reserves were established within authorized limits, was not documented.

Conclusion

Interior's strong leadership has promoted the benefits of MCA and facilitated strong cross-bureau collaboration. However, it continues to confront challenges as it moves toward replacing its multiple, nonintegrated systems with one that includes a cost accounting module to serve the department and all its bureaus. Developing and implementing a system to verify and validate nonfinancial data at the department level would strengthen Interior's internal controls, both with the current and planned systems. Although some of the bureaus have written policies and procedures for performance data validation and verification, having these policies and procedures at the department level would enhance Interior's ability to monitor the quality and accuracy of its nonfinancial data. In addition, attention to ongoing MCA system implementation monitoring will help ensure that functions of the new system will meet user needs. Finally, establishing clear cost accounting methodologies will help ensure that data used and provided by the system are reliable, timely, and useful in making day-to-day decisions.

Recommendations for Executive Action

We are making eight recommendations to the Secretary of the Interior.

To promote the implementation and use of reliable MCA methodologies to support more informed managerial decision making in Interior and its bureaus and department offices, we recommend that the Secretary direct department officials to:

- Perform an assessment of the internal controls related to nonfinancial data, including key indicators used for executive decision making, such as the Executive Dashboard and determine whether the current internal controls are adequate and meet the department's published guidance.
- Monitor bureau's development and implementation of written procedures for performance data validation and verification at all bureaus.
- Continue to monitor the FBMS implementation plan to determine that MCA functionalities that meet user requirements are included.

To promote the implementation and use of reliable MCA methodologies to support more informed managerial decision making in BOR, we recommend that the Secretary direct BOR officials to:

- Identify and address any inconsistent work output measures between the bureau and departmental systems that are essential to Interior management to help form the basis for consistent cost measurement.

To promote the effective use of proper cost accounting methodologies to support pricing and other managerial decision making at NBC, we recommend that the Secretary of the Interior direct appropriate NBC officials to:

- Monitor compliance to existing policies in relation to the application of direct costs, including annual leave and holidays.
- Document all policies and procedures to help ensure the recovery of costs by product lines to help prevent over and under charging of customers.
- Complete determination of methodology, and implement a consistent methodology for pricing of services at NBC.
- Document policies and procedures for establishing reserves.

Agency Comments and Our Evaluation

In a letter from the Assistant Secretary of Policy, Management, and Budget, Interior stated that the draft report provides an accurate representation of its MCA implementation efforts and status. Interior fully concurred with six out of the eight recommendations and that it will work to address the weaknesses cited in the draft report, particularly in the areas of process documentation, data validation and verification, reconciliation of MCA, financial reporting, and unit costing.

Interior did not agree with two of our recommendations because it believed it had already taken action to address these recommendations. The recommendations address performing an assessment of the internal controls related to nonfinancial data, including key indicators used for executive decision making, and having the department develop written procedures for performance data validation and verification at all bureaus.

Interior stated that it conducted the assessment of internal controls related to nonfinancial data in 2006, and that it provided guidance to its bureaus on developing data validation and verification standards. We revised our recommendation to acknowledge Interior's published guidance to its bureaus. However, not all bureaus had written policies on data validation and verification at the time of our review. Accordingly, we continue to believe our recommendations for assessing internal controls over nonfinancial data and the need for departmental-level management to monitor bureaus' progress with policy direction have not yet been fully addressed. Interior also stated that it intends to follow up with the bureaus in 2007 to ensure that

they have either implemented or are taking action to implement our recommendation for Interior's bureaus to establish written data validation and verification standards and procedures for nonfinancial data. We agree that this follow-up is necessary and revised our recommendation to require department officials to monitor the bureaus' development and implementation of written procedures for performance data validation and verification. Interior's written comments are reprinted in enclosure I.

Scope and Methodology

Our methodology was consistent with the one employed in our prior reviews of MCA practices.¹³ To obtain an understanding of how MCA systems at Interior generate cost information, we reviewed documentation and interviewed officials at Interior headquarters and at selected bureaus and department offices on the status of MCA system implementation, departmental guidance and leadership's commitment to the implementation of cost management practices entity-wide, departmental internal controls to help ensure the reliability of financial and nonfinancial information used in MCA, and any obstacles raised by Interior to implementing managerial costing. Using the *Standards for Internal Control in the Federal Government*¹⁴ as a guide, we identified internal controls over the reliability of financial and nonfinancial information used in MCA. To determine how managers use cost information to support decision making and provide accountability for government resources, we obtained an understanding of how Interior uses cost accounting data for budgeting, costing services or products, preparing the SNC, managing contractors' reimbursable costs, and other managerial uses through a review of documentation provided by the agencies and interviews of agency officials. We selected for review Interior's larger components in terms of their obligations and earned revenue, and those with cost recovery activities, such as working capital funds.

During our review, we visited Interior headquarters in Washington, D.C. We visited three component bureaus—BLM, BOR, MMS, and the WCF in Washington, D.C. We also visited BOR and MMS offices at the Denver Federal Center and held teleconferences with bureau policy and program development officials in Washington, D.C. and at the Denver Federal Center.

When possible, we corroborated information obtained in interviews with agency documents such as policies, procedures, system descriptions, and flowcharts. We also reviewed prior Office of Inspector General, independent public accountant, and GAO reports regarding Interior's MCA activities, systems, and data. We requested comments on a draft of our letter from the Secretary of the Interior or his designee. We received written comment from the Assistant Secretary on January 22, 2007. We considered and incorporated Interior's comments as appropriate. We performed this work from July 2006 through November 2006 in accordance with generally accepted government auditing standards.

¹³GAO-05-1013R, p. 12; GAO-06-301R, p. 7; GAO-06-599R, p. 5; GAO-06-1002R, p. 7.

¹⁴GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

We are sending copies of this report to the Secretary of the Interior, the Director of the Office of Management and Budget, and other interested parties. Should you or your staff have any questions on the matters discussed in this report, please contact me at (202) 512-6131 or martinr@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in enclosure II.

A handwritten signature in black ink that reads "Robert E. Martin". The signature is written in a cursive style with a large initial "R".

Robert E. Martin
Director, Financial Management and Assurance

Enclosures - 2

Comments from the Department of the Interior



United States Department of the Interior

OFFICE OF THE ASSISTANT SECRETARY
POLICY, MANAGEMENT AND BUDGET
Washington, DC 20240



JAN 22 2007

Mr. Robert E. Martin
Director, Financial Management and Assurance
Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Martin:

Thank you for allowing the Department of the Interior to review and comment on the Government Accountability Office's (GAO) draft report (GAO Job 197013) on our Managerial Cost Accounting (MCA) practices. MCA, or Activity Based Cost Management (ABC/M) at the Department of the Interior, has been a departmental priority since 2003. We have worked very hard to ensure that our managers have accurate, up to date information on the cost of their programs and how well their programs perform. Departmental and bureau leadership have taken active roles in guiding ABC/M implementation, and in developing and promoting the benefits and uses of managerial cost accounting information, a finding that we are gratified to see highlighted in the GAO draft report.

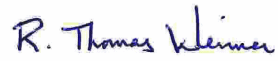
Overall, we believe that your draft report provides an accurate representation of our MCA implementation efforts and status. We concur with most of your recommendations and will work diligently to address the weaknesses cited in the draft report, particularly in the areas of process documentation, data validation and verification, reconciliation of MCA and financial reporting, and unit costing.

There are two recommendations with which we do not concur because the suggested actions have already occurred. These recommendations address performing an assessment of the internal controls related to nonfinancial data, including key indicators used for executive decision making, and having the Department develop written procedures for performance data validation and verification at all bureaus. The assessment of internal controls related to nonfinancial data was conducted in 2006. This assessment included providing to each bureau recommendations on developing bureau data validation and verification standards that would address the Departmental data validation and verification standards published in 2003, and republished in 2005. These standards also addressed developing written procedures for performance data validation and verification. We intend to follow up with the bureaus in 2007 to ensure that they have either implemented or are taking action to implement data validation and verification standards and procedures for nonfinancial data. We have also attached our technical response to clarify some statements in your draft report.

Enclosure I

The Department appreciates the opportunity to participate in GAO's review of Federal government managerial cost accounting practices.

Sincerely,



R. Thomas Weimer
Assistant Secretary

Attachment

Enclosure II

GAO Contact and Staff Acknowledgments

GAO Contact

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Acknowledgments

In addition to the contact named above, key contributors to this assignment were Paul Kinney, Assistant Director; Lisa Brownson; Debra Cottrell; Lisa Crye; Dan Egan; Tiffany Epperson; Thomas Hackney; Jeff Isaacs; Diane Morris; Glenn Slocum; and Jack Warner.

(197013)

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