

NATIONAL RECONNAISSANCE OFFICE

Cost Accounting in the Federal Government  
*“One Size Does Not Fit All”*

Federal Accounting Standards Advisory Board  
Managerial Cost Accounting Forum  
Sandy Van Booven  
Director, Finance



VIGILANCE FROM ABOVE



# NRO Background

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- ✦ NRO is a joint Department of Defense (DoD) and Intelligence Community organization
- ✦ Executes the National Reconnaissance Program—mission is to provide *Innovative Overhead Intelligence Systems for National Security*
- ✦ NRO headquarters is in Chantilly, VA with operations located in the USA and internationally
- ✦ Has submitted audited financial statements since 2000; accomplished a clean audit opinion in FY2009 and 2010; the first in the Intelligence Community to do so



# Agenda

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- ✦ This briefing focuses on several key concepts for federal agencies to consider in adopting Managerial Cost Accounting (MCA) (“**data**”, “**relevance**”, “**full cost**”, “**accounting treatment**”)
  - Overview of NRO Cost Accumulation Framework (**data**)
  - Federal agencies have differing cost data needs (**relevance, full cost, accounting treatment**)
  - Challenges of MCA implementation to large, innovative acquisition programs (**relevance, full cost, accounting treatment**)
  - How the accounting rules pose challenges to MCA decisions (**full cost, accounting treatment**)



# MCA Key Concepts

- ✦ High level concepts for MCA
  - Must start with a sound cost accumulation framework (good **data**)
  - Determine what cost information (asset, activity or program) is **relevant** to management decisions
    - ✦ Means a sound analysis of the business model/practices
    - ✦ Define the “**full cost**” that makes up the asset, activity, or program
      - Justify cost/benefit of accumulating and tracking the full cost of your asset, activity, or program
  - Determine how you will **account** for this cost information in the financial reports



# NRO Cost Accumulation Framework

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- ✦ Ongoing senior management endorsement
- ✦ Established Chief Financial Officer and Director, Finance that are CPAs
- ✦ Reliable accounting, contracts and property accounting systems
- ✦ Standardized processes
  - ✦ Work Breakdown Structure (WBS)
  - ✦ Cost Accumulation Policy (CAP)
  - ✦ Cost Accounting Disclosure Statement (Policy)
  - ✦ Required training for all finance and contracting officers
- ✦ Contract structure
  - ✦ To accumulate costs as needed
  - ✦ Bin costs at the highest feasible level



# NRO Cost Accumulation Framework

- ✦ Established strong monitoring controls in Finance
  - ✦ Internal Controls team
  - ✦ Property accounting team
  - ✦ Construction in progress (program execution) team
  - ✦ A-123 review/test team
  - ✦ Finance prominent member Senior Assessment Team
- ✦ Finance (program/funds control) officers embedded in programs
- ✦ Finance established a small group of subject matter experts (project accountants) to bridge the gap between financial accounting and budgetary management
  - ✦ Assists programs in designing funding strategies and contract structure to minimize impact to programs and contract administration
  - ✦ Participates in the design of financial related enterprise processes



# NRO Cost Accumulation Framework

## NRO Property Accounting Model

### Abbreviation Key

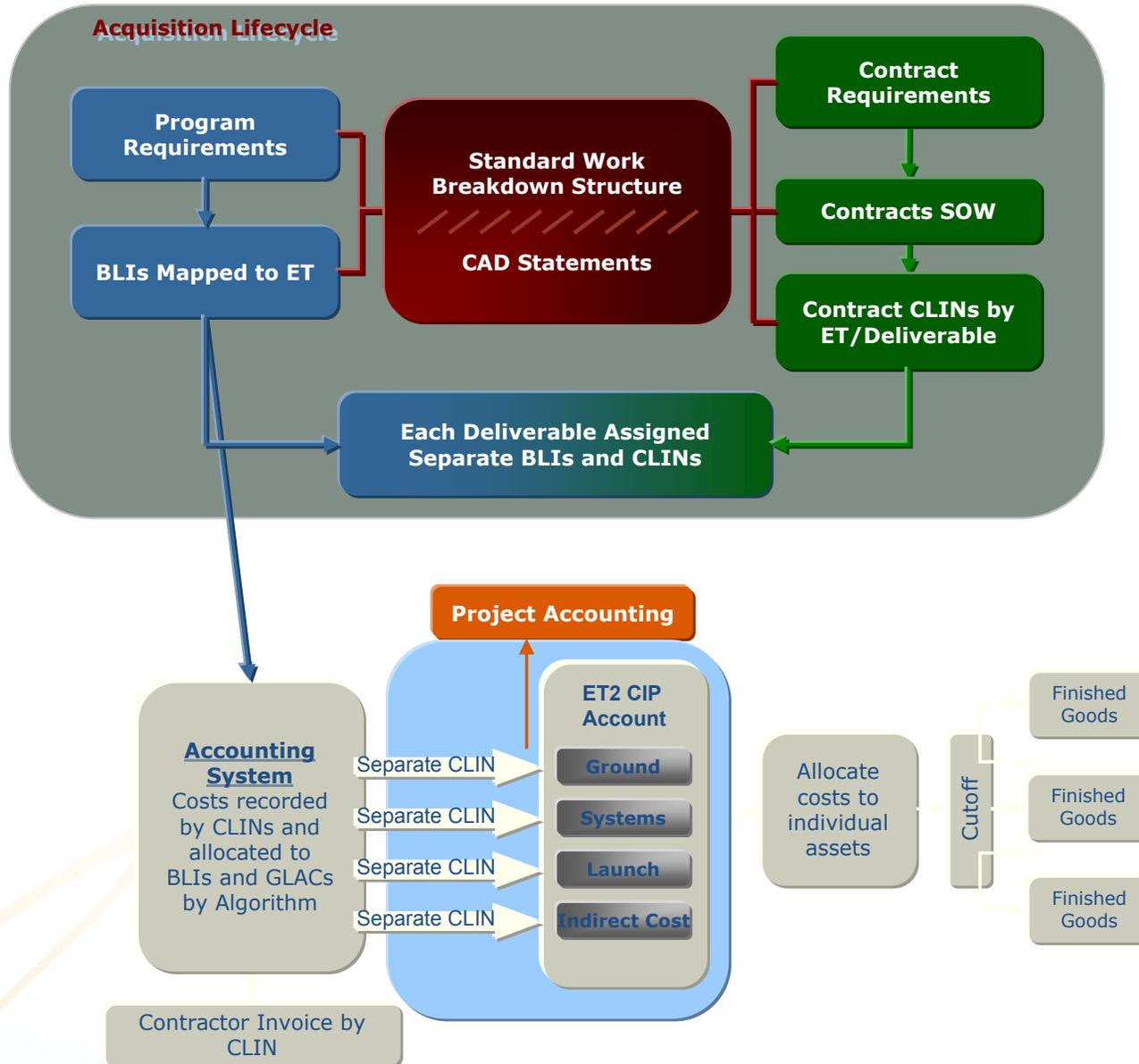
- BLI**—Budget Line Item
- CAD**—Cost Accounting Disclosure
- CIP**—Construction In-Progress
- CLIN**—Contract Line Item Number
- ET**—Expense Type
- GLAC**—General Ledger Account
- SOW**—Statement of Work

### Items of Note

1. Costs should be properly allocated to individual assets and booked to correct CIP account
2. Ensure cost allocation is timely to reduce cutoff risk associated with moving assets to finished goods
3. Indirect costs should be accumulated and allocated (in accordance with FASAB 4 and 6)

### Color Key

- = Finance Tasks
- = Office of Contracts Tasks
- = Acquisition Lifecycle
- = Accounting System Process
- = Project Accounting
- = Process Example
- = Principle Frameworks





# Federal Agencies Differ in Need for MCA

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- ✦ Each agency will refine its MCA practices
  - SFFAS 4: Managerial costing should be used as basis of accounting, recognition, and measurement *appropriate for the intended purpose*
  - GAO-07-679 says “ For MCA to be successful, it must be tailored to the needs of the organization; a tool managers can use to make everyday decisions”
  - AGA Corporate Partner Research Series Report No. 22 says “SFFAS 4 allows for some flexibility in setting up a MCA system...*one size does not fit all.*”



## Federal Agencies Differ in Need for MCA

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MCA provides beneficial information to pricing “widgets”

✦ The more a federal agency resembles the commercial sector (MCA to set fees and/or recover costs), the easier it is to identify the benefits of MCA

- General Services Agency—leased building space for cost recovery
- Nuclear Regulatory Commission—collection of license fees to recover 90 percent of budget
- Social Security Administration—uses MCA to estimate service delivery, allocate administrative costs between Social Security and Medicare



## Federal Agencies Differ in Need for MCA

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- ✦ *Beyond the widgets*—how can MCA benefit agencies that do not resemble the commercial sector? What about agencies:
  - ✦ Whose work environment is to innovate new technology for large assets (a high degree of research and development)
    - Assets are not homogeneous
  - ✦ Whose assets are designed for a given capability to meet an intangible goal, not for cost recovery or fee reimbursement, e.g.,
    - NRO innovative overhead intelligence systems
    - NASA data collection satellites—contact ET
    - DoD national security weapon systems/equipment



# Challenges to Implementing MCA

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- ✦ In a large, high technology, acquisition environment
  - Programs are held to key performance metrics that are based on expenditures, not cost
  - Difficult to define “full cost”
    - ✦ Outputs contribute to intangible outcomes
    - ✦ Outputs are not homogenous
    - ✦ Outputs are not cost reimbursable
    - ✦ GAO-10-695 “Actions Needed to Improve the Financial Management of Military Equipment”
  - Establish common cost definitions across programs
    - ✦ For example, “information technology”, “research and development”, “operations”



# How the Accounting Rules Pose Challenges to MCA Decisions

Financial Accounting	Managerial Accounting
Historical perspective	Future looking
Informs external stakeholders	Informs internal stakeholders
Required by law	Best practice

- Must mix and match numerous rules, for example,
  - † SFFAS 4, requires full cost in the financial reports
  - † SFFAS 6, accounting for property
  - † SFFAS 8, supplementary reporting, R&D and others
  - † SFFAS 23, defense property
- AND, apply them to your unique business
- AND, be auditable



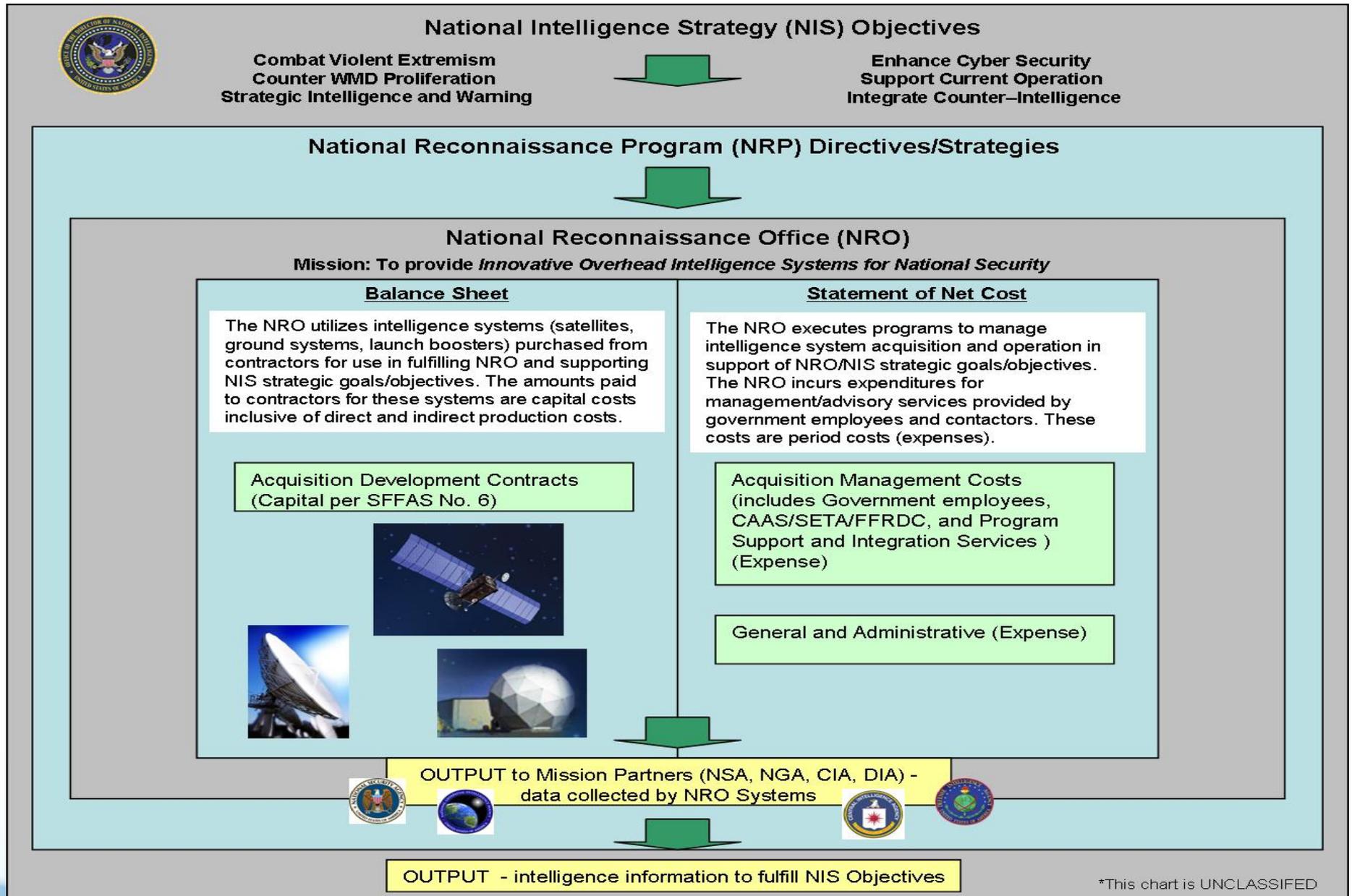
# How the Accounting Rules Pose Challenges to MCA Decisions

<b>Financial Accounting</b>	<b>Managerial Accounting</b>
Historical perspective	Future looking
Informs external stakeholders	Informs internal stakeholders
Required by law	Best practice

- Management must blend these two applications to achieve a desired level of precision
  - ✦ For financial accounting, the critical decisions are capital vs expense and materiality
  - ✦ For MCA, the focus is relevance and cost/benefit



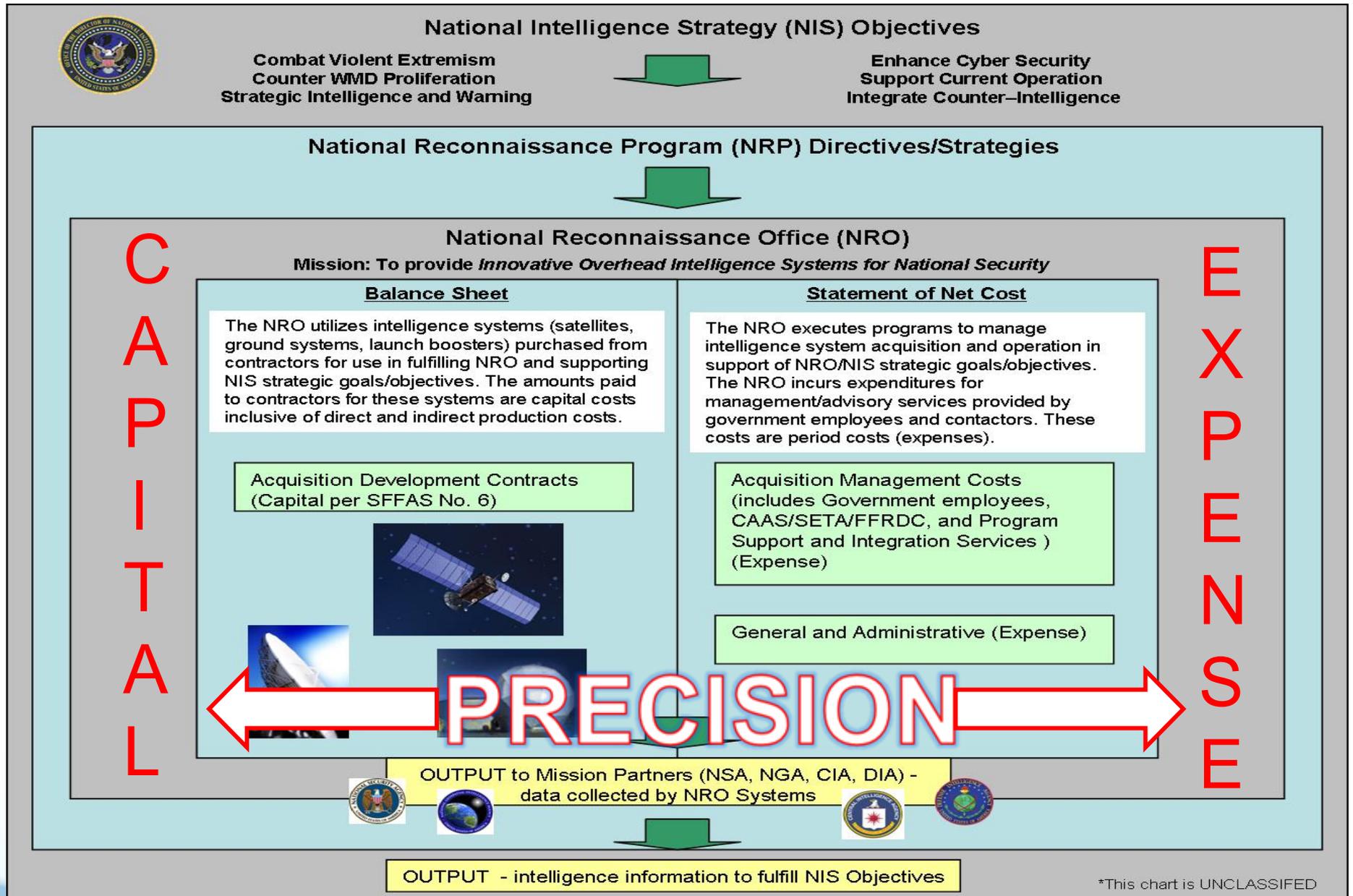
# The NRO Business Model



\*This chart is UNCLASSIFIED



# The NRO Business Model



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