



August 11, 2010

Memorandum

To: Members of the Board

From: *J. E. Ranagan*
Julia E. Ranagan, Assistant Director

Through: *Wendy M. Payne*
Wendy M. Payne, Executive Director

Subject: Reporting Model: Managerial Cost Accounting – **Tab E**¹

OBJECTIVE

The purpose of this memo is to update the board on the status of the managerial cost accounting project. This memo will not be discussed at the meeting unless a member requests that it be.

BRIEFING MATERIAL

The following document is attached to this transmittal memorandum:

- Attachment 1** – Draft outline of best practices guide

BACKGROUND

At the June 23, 2010, meeting, staff provided a brief overview of the FASAB forum on “Managerial Cost Accounting: Requirements, Uses, and Best Practices” that was held Tuesday, June 15, 2010, in the GAO Auditorium.

The board then discussed the results of the detailed cost accounting surveys and the future direction of the project. As a result of the board’s deliberations, staff was directed to contact OMB to inquire about partnering with OMB and/or the CFO Council to promote managerial cost accounting within the federal government. Members indicated that having OMB and/or CFO Council support and leadership for the development and distribution of a best practices guide would be essential to its success. The board did not want to continue to allocate staff resources to the project unless staff was working in a joint effort with OMB and/or the CFO Council.

¹ The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

STATUS OF EFFORTS

To facilitate discussions with OMB, staff provided OMB with a draft outline of a best practices guide on using, developing, and reporting cost information (see Attachment 1). Staff sought input from a few Deputy CFOs during development of the outline regarding areas where we could contribute most effectively (provide the most value).

Staff attempted to meet with OMB to discuss the potential for collaboration prior to the distribution of the meeting binders but was unable to meet due to conflicting work and vacation schedules. In lieu of the meeting, staff provided the draft outline to OMB for consideration. On Tuesday, August 10th, Regina Kearney phoned Ms. Payne and informed her that OMB did not wish to pursue the best practices guide. She indicated that OMB would work with the CFO Council in the future to develop any desired tools and/or guides.

NEXT STEPS

The cost accounting project will be closed. However, since the forum on cost accounting was considered extremely useful by participants, we plan to hold another educational session on managerial cost accounting in January or February 2011. Staff resources will be devoted to other active projects as assigned (Natural Resources Other than Oil and Gas and Financial Accounting Standards Board (FASB) Reporting by Federal Entities).

If you require additional information or wish to discuss this material further, please contact me by telephone at 202.512.7377 or by e-mail at ranagani@fasab.gov.

Attachment

Tab E, Attachment 1

Draft Outline of Best Practices Guide

Managerial Cost Accounting
Best Practices in Using, Developing, and Reporting Cost Information
Draft Outline

1) Best Practices in External Reporting

This is placed first because it may be helpful to consider what level of detail is desired on the Statement of Net Cost sooner rather than later. Generally, cost systems should be tailored to internal managerial needs and external reporting needs should establish a minimum requirement. However, within the federal government a consistent minimum requirement may be useful – particularly so if it is tied to central agency priorities. Ultimately, definitions may be needed to ensure comparability in external reporting. If this is not a priority, we might integrate this in section 2 of the outline.

- a) Display on Statement of Net Cost
 - (1) Dis-aggregation of net cost
 - (i) Methods
 - (ii) Level of detail
 - (2) Illustrations of Definitions & Discussion of options
 - (i) Responsibility segments (i.e., “programs”)
 - (ii) Cost objects
 - (iii) Administrative costs
 - (iv) Program costs
 - (v) Other (e.g., transfer payments)
- b) Note Disclosures
 - (1) Additional cost detail presented
 - (2) Explanations of full cost vs. budget
- c) RSI
 - (1) Management’s Discussion and Analysis
 - (i) Linkage or Alignment to Statement of Net Cost
 - (ii) Terminology used to refer to financial information (e.g., costs vs outlays vs obligations)
 - (iii) Discussion of trends (examples of robust and candid discussions)
 - (2) Other

Comment: Since current practice may not represent “best” practices, we may consider user perspectives regarding comparability and greater dis-aggregation

2) Best Practices in Using, Developing, and Reporting Cost Information

- a) Framework for Developing MCA (This would give context to each of the best practice areas that follow and might influence the sequence and scope)
- b) Best Practices in Using Cost Information
 - (1) Budgeting and cost control

- (2) Performance measurement
 - (3) Determining reimbursements and setting fees and prices
 - (4) Program evaluations
 - (5) Economic choice decisions
 - (6) Other
- c) Best Practices in Developing Cost Information
- (1) Appoint champion
 - (2) Identify Needs
 - (3) Build consensus on goals
 - (4) Develop requirements
 - (5) Communicate
 - (6) Train and educate
- d) Best Practices in Project Implementation
- (1) Teams or committees
 - (2) Pilot tests
 - (3) Communication
 - (4) Pre-implementation period
 - (5) Auditor involvement
 - (6) Agency culture and management attitudes
 - (7) Training and education
- e) Best Practices in Collecting Cost Data
- (1) Labor distribution data
 - (i) Systems
 - (ii) Studies
 - (iii) Other (e.g., surveys)
 - (2) Other Financial and Non-financial data
 - (i) Definitions
 - (ii) Data sources
 - (iii) Quality
 - (iv) Education
 - (3) Internal controls over data sources
- f) Best Practices in Internal Reporting
- (1) Intranet
 - (2) Dashboards
 - (3) Scorecards
 - (4) Other (e.g., reports on demand)
- 3) **Resources for Government Entities** – review and adapt (with permission) selected existing resources for use in the government sector as needed
- a) CAM-I (Consortium of Advanced Management International)
- (1) Closed Loop (to assist in using cost information in budgeting)

- (2) Target Costing
- (3) Process Based Management

- b) International Federation of Accountants - Maturity model (provides a framework for assessing the maturity of costing efforts as well as setting the desired level of maturity for the organization (e.g., a cost/beneficial level)

- c) Resource Consumption Accounting

- d) Lean Accounting