



United States Government Accountability Office  
Washington, D.C. 20548

September 2, 2005

The Honorable Todd R. Platts  
Chairman  
Subcommittee on Government  
Management, Finance, and  
Accountability  
Committee on Government Reform  
House of Representatives

*Managerial Cost Accounting Practices: Leadership and Internal Controls  
Are Key to Successful Implementation*

Dear Mr. Chairman:

Authoritative bodies have promulgated laws, accounting standards, information system requirements, and related guidance to emphasize the need for cost information and cost management in the federal government. In particular, the (1) Chief Financial Officers (CFO) Act of 1990,<sup>1</sup> (2) Statement of Federal Accounting Standards No. 4: *Managerial Cost Accounting Concepts and Standards for the Federal Government*, and (3) Joint Financial Management Improvement Program's (JFMIP) *Framework for Federal Financial Management Systems*<sup>2</sup> established requirements and accounting standards for managerial cost accounting (MCA) information at federal agencies. The Federal Financial Management Improvement Act of 1996 (FFMIA)<sup>3</sup> built on this foundation and required, among other things, CFO Act agencies' systems to comply substantially with federal accounting standards and federal financial management systems requirements.

MCA involves the accumulation and analysis of financial and nonfinancial data, resulting in the allocation of costs to organizational pursuits such as performance goals, programs, activities, and outputs. The data analyzed depend on the operations and needs of the organization. Nonfinancial data

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

<sup>2</sup>In 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 Officer's Council.

<sup>3</sup>Pub. L. 104-208, div. A., § 101(f), title VIII, 110 Stat. 3009, 3009-389 (Sept. 30, 1996).

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measure the occurrences of activities and can include, for example, the number of hours worked, units produced, grants managed, inspections conducted, people trained, or time needed to perform certain functions.

In light of the requirements for federal agencies to prepare MCA information and your interest in financial management and accountability, you asked us to determine the extent to which federal agencies develop cost information and use it for managerial decision making. The objectives of our review were to determine how federal agencies generate managerial cost accounting information as well as how governmental managers use cost information to support managerial decision making and provide accountability. We provided the results of our study of the Department of Labor (DOL) and the Department of Veterans Affairs (VA) to your office in the form of a briefing on July 15, 2005. This report summarizes that briefing and adds comments from VA that we had not received in time to incorporate in our briefing slides. Copies of those slides are presented as enclosure I.

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## Summary of Results

DOL and VA have different strategies to implement MCA information systems. DOL implemented a departmentwide MCA system upon which 15 of its 18 component agencies have built MCA models tailored to their respective needs. At VA, responsibility for MCA implementation rested with individual component agencies. When we conducted our review, an MCA system was in operation at one of VA's two largest agency components. DOL and VA officials cited several existing and planned uses of MCA information by component agencies including budgeting, resource allocation, financial reporting, and other managerial decision-making purposes.

At both agencies, we noted that MCA-related controls needed strengthening. Certain control weaknesses, such as not validating nonfinancial data and not documenting policy and MCA procedures, could limit the reliability of data used by management to analyze costs and to make decisions. We made recommendations to DOL and VA to address these weaknesses. Both agencies provided written comments on our briefing. DOL generally agreed with our report and recommendations. VA, however, generally did not agree with our overall conclusions and recommendations. After considering VA's comments, we continue to believe our conclusions and recommendations regarding VA are well-founded and our responses are provided. We have incorporated the comments from both agencies as appropriate. A more detailed discussion

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of our findings, conclusions, and recommendations for each agency follows.

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## Department of Labor

DOL's mission is to foster and promote the welfare of job seekers, wage earners, and retirees of the United States. For fiscal year 2005, DOL has a budget of approximately \$51 billion. It employs nearly 17,000 people at 10 mission agencies and 8 support agencies.

DOL's early MCA pilot efforts in 1999 were unsuccessful. Its current efforts were spurred, in part, by Office of Inspector General (OIG) findings reported as part of its opinion on the department's 2002 and 2003 financial statements that DOL's accounting system was not in substantial compliance with FFMIA because it did not meet MCA requirements. OIG recommended that DOL develop an implementation plan for a comprehensive departmentwide MCA system. DOL disagreed with the OIG's conclusions that its accounting system was not in substantial compliance with FFMIA but did agree to focus more attention on MCA. DOL's Office of the Chief Financial Officer (OCFO) was assigned responsibility for MCA development. In its 2004 Financial Data Integration Improvement Plan, DOL identified MCA as a way to address its most pressing management challenges.

DOL's new MCA system, Cost Accounting Manager (CAM), which became operational during 2004, uses commercial software designed to collect and analyze agency financial, workload, and labor distribution data. CAM has the capability to provide management with information and reports concerning the costs (including substantially all direct and indirect costs) of performance goals, activities, and outputs. According to DOL officials, CAM has the capability to provide integrated performance and financial information, trend analysis, benchmarking data, and "what if" analysis. Component-specific CAM models were developed by agency and OCFO personnel. Models are in place at all 10 mission agencies and 5 of the 8 support agencies.<sup>4</sup>

The CAM system became operational in September 2004. Labor's component agencies continue to refine the models to meet their needs as they learn about system capabilities while considering additional

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<sup>4</sup>The three agencies without MCA models represent approximately 0.1 percent of the department's budget.

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applications for CAM. In the meantime, DOL's MCA policy and procedures are being updated to reflect newly developed systems and processes. DOL officials told us that component-specific cost model reference manuals would be disseminated by the end of fiscal year 2005. The manuals are to combine, in one resource, descriptions of the CAM methodology, cost model assumptions, output catalogues, and activity dictionaries already provided for the agencies in various other forms.

Planned systemwide refinements include (1) automating the data extraction and import process, (2) integrating budget and performance data, and (3) adding programs, activities, and outputs not included in baseline models. Though DOL's department-level MCA staff discusses and evaluates MCA activities in ongoing forums with component staffs, DOL's plans did not include a post-implementation review (PIR) of the new CAM system. A formal PIR would document the evaluation of differences between estimated and actual costs and benefits of the CAM system and document lessons learned and control process improvements identified to assist in planning and implementing future projects.

DOL's CAM obtains financial information from its core accounting system, while nonfinancial information, such as labor distribution and performance data, is obtained from other sources. Various controls over financial data are in place. These include (1) annual audits of financial statements, which are prepared from the same core accounting system data that is used by CAM and which have had unqualified opinions from 1997 through 2004; (2) reconciliations of the CAM to the general ledger system; and (3) quarterly attestations by component agencies' senior officials concerning the adequacy of internal controls, the accuracy of transaction recording, and regulatory compliance as they relate to the quarterly financial closing and reporting practices.

According to DOL, the process of building and updating the MCA models includes the review of nonfinancial data, such as labor distribution and performance data, by supervisors, line managers, senior managers, and program administrators. However, DOL acknowledges that controls over nonfinancial labor distribution and performance data need further attention. In its fiscal year 2004 performance plan, DOL identified the validation of such data as one of its challenges. Nonfinancial data is equally important as financial data in determining reliable managerial cost information because it provides the basis for allocating costs to various programs, activities, or outputs. Unreliable nonfinancial data will result in unreliable cost allocations. At DOL's largest component agency, the

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Employment and Training Administration, the OIG noted high error rates in grantee-reported performance data. In 2004, the OIG also raised concerns about DOL using those data for decision making. DOL officials responded that they were implementing additional data validation systems to address these issues. Currently, the OIG is assessing how it will audit CAM data in the future.

DOL's component agencies are focusing on further refining their respective models to help manage programs and resources more effectively. Even though CAM was implemented only recently, DOL agencies identified many uses for CAM data. For example, DOL officials said they have begun to use CAM data to identify and analyze (1) program costs across regions; (2) comparative costs of grant management activities by type of grant; (3) full administrative costs related to the development of policies, regulations, and legislative proposals; (4) unit costs of training and employment programs; and (5) budget justifications and resource allocations.

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## Department of Veterans Affairs

VA's mission is to administer laws that provide health care, financial assistance, burial benefits, and other services for veterans, their dependents, and their beneficiaries. For fiscal year 2005, VA's total budget authorization is about \$67 billion. Its two largest component agencies, in terms of budget and staff size, are the Veterans Health Administration (VHA) and the Veterans Benefits Administration (VBA). Its third and smallest agency is the National Cemetery Administration (NCA). With over 193,000 employees, VHA is VA's largest component. VHA provides a broad spectrum of medical, surgical, and rehabilitative care to veterans. VBA has about 13,000 employees who process claims for VA benefits. NCA employs about 1,500 people and provides direction and oversight for 120 cemeteries.

By design and policy, VA does not have an entitywide MCA model. According to department officials, each of the VA agencies has independently built a cost accounting system for identifying, accumulating, and assigning the costs of its outputs, though VBA discontinued use of its system in 2003. Officials told us that VA's financial management priority has been the removal of a material weakness that was identified by independent auditors and related to the lack of an integrated financial management system at the department. VA also stated that having a fully operational MCA model at each component is important to VA's decision making.

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VA has published cost accounting policy and guidance that delegate implementation responsibility to component agencies. The VA officials we interviewed, however, could not identify examples of proactive department-level leadership to ensure implementation of MCA at component agencies. In the absence of effective department-level leadership, the extent of current MCA implementation and use varied at VHA and VBA.

VHA uses the Decision Support System (DSS) for MCA. According to VHA officials, DSS models significant VHA cost flows and activities. DSS facilitates cost and workload analyses of VHA's locations, programs, activities, and individual patients. It obtains data from 49 feeder sources, including the VA's Financial Management System general ledger and VHA's Veteran's Health Information Systems and Technology Architecture (VistA).<sup>5</sup> DSS includes direct and indirect costs for VA hospitals and supporting organizations.

DSS was used to generate cost information to support internal budgeting; resource allocation; performance measurement; fee reviews; and cost findings for programs, activities, and outputs. For example, officials told us that a chief pharmacist's request for additional funds for high-cost providers and drugs used at a VA hospital was supported by a DSS analysis of the local pharmacy costs for that location.

DSS is also used to compare the costs among the hospitals to determine where services can be provided at the lowest cost. In one case, this kind of DSS information analysis was used in the decision-making process to consolidate inpatient psychiatric services. DSS is also used to determine the costs of services provided for individual customers, as DSS records allow information to be tracked for individual patients. VHA officials informed us that the extent and nature of DSS's use for management decision making varied from one medical facility to the next because of different levels of training among medical facility staff.

The completeness and accuracy of the data in DSS depend on the quality of data from the feeder systems. Financial information included in DSS is subject to controls that help ensure data reliability. VA officials told us that they periodically reconcile DSS to the general ledger system and provided an example of such a reconciliation. Audits of VA's annual financial

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<sup>5</sup> VistA is VHA's nonfinancial workload information system for hospitals.

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statements, which are based on the same financial information that feeds DSS, have resulted in unqualified opinions for fiscal years 1999 through 2004.

However, both the independent auditor and the OIG have raised concerns about the quality of data from DSS nonfinancial feeder systems, such as VistA. In their fiscal year 2004 management letter, the independent auditors noted an increasing shortage of information technology (IT) staff supporting VistA applications and related network infrastructures at the medical centers. The independent auditor concluded that “[t]his loss of human capital and knowledge in the IT organizational structure places VA’s information and its processing capabilities at risk.”

In August 2004, the OIG reported that most of the legacy systems, such as VistA, at VA’s Bay Pines Medical Center contained inaccurate data. The OIG further stated that this might be a systemic problem throughout VHA. According to that report, VHA officials concurred with the OIG and agreed to take corrective action.

Since DSS has 49 feeder sources, including VistA, the independent auditor and OIG findings raise concerns about the quality of nonfinancial data in DSS. Inaccurate nonfinancial data could skew cost calculations and any resulting managerial decisions.

The VHA Decision Support Office was unable to readily produce documentation of the mechanism used to assign indirect costs to cost objects in DSS. The lack of readily available system documentation could inhibit efforts to determine whether such costs are properly assigned and precludes an opportunity to provide guidance for employees using the system, especially new employees.

At VBA, use of its Activity Based Costing (ABC) system was discontinued in March 2003 because of the loss of key personnel and the lack of credibility among some managers concerning the indirect cost distribution methodology, a central part of ABC systems. At the time of our review, VBA was not funding or promoting MCA. During our review, we suggested that VA implement an appropriate MCA approach at VBA. Subsequently, VBA’s CFO stated that VBA would seek funding in its 2007 budget request to develop cost accounting capabilities to support measurement goals.

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Concerning NCA, VA officials, advised us that NCA uses ABC. However, because of NCA's relatively small size (less than 1 percent of VA's 2005 budget authority), we did not review its MCA processes.

With no MCA system at the department level, VA used manual cost-finding techniques to accumulate cost information used for department-level external financial reporting and budgeting. While manual cost finding techniques are useful and appropriate in certain situations, they also have drawbacks such as the time and effort required to prepare results and to readjust results for appropriate changes, with the accompanying inherent risk of errors. Accordingly, they are not recommended as a surrogate for an automated cost accounting system when one is warranted. VA's independent financial statement auditor reported control weaknesses in the agency's manual process to prepare its annual Statement of Net Costs for fiscal year 2004. VA uses Excel spreadsheets to prepare its Statement of Net Costs. A consequence of using this process is that end-of-year auditor adjustments and edits can cause the roll-up process to be reperformed and thus be burdensome, time-consuming, and error prone. Also, VA officials told us that the documentation of its Statement of Net Cost compilation procedures, needed to help ensure the process is completed as designed, was not current. The Office of Management and Budget (OMB) requirement to prepare the Statement of Net Cost by responsibility segment can be satisfied by, and is an effective use of, a reliable, agencywide cost accounting system.

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## Conclusions

Leadership and strong internal controls are necessary for the successful implementation and operation of MCA. We found that DOL's recent efforts to implement CAM were significantly boosted by its departmental leadership. At the same time, maximizing CAM's contribution to improved management will require continuing improvements to system data reliability, system documentation, and assessments of system effectiveness.

At VA, implementation and continuation of MCA practices were largely abandoned at its VBA component. Also, while the DSS system is in place at VHA, documentation of system processes and controls and other auditors' concerns about the quality of nonfinancial data require attention in order to enhance the reliability of information for managerial decision making. Having a MCA system in place at all of VA's significant component agencies could facilitate the automation and integration of the agency's Statement of



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Net Cost preparation process with its other financial management systems, which would reduce the risk of errors and improve efficiency.

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## Recommendations for Executive Action

We are making recommendations to the Secretaries of the Departments of Labor and Veterans Affairs.

In order for DOL to develop MCA information sufficiently reliable for ongoing managerial decision-making, leveraging the substantial efforts already undertaken by the agency, we recommend that the Secretary of Labor direct the Chief Financial Officer of the Department of Labor to:

- Continue steps to verify the accuracy of nonfinancial data used for MCA and assess related internal controls over nonfinancial data quality to help ensure data reliability.
- Complete the planned update of MCA policies and procedures to ensure that department-level guidance is comprehensive and current.
- Complete the compilation and dissemination of component-specific CAM reference materials so that the documentation is in a consolidated resource that is readily available to system users, managers, and auditors.

We also recommend that the Secretary of Labor direct appropriate personnel to perform and document a post-implementation review of CAM to evaluate whether managerial cost information meets organizational objectives and users' needs. This review should also determine and document the extent to which managers use CAM-generated data in managing day-to-day operations.

To help ensure that VA components implement and use reliable MCA methodologies, we recommend that the Secretary of Veterans Affairs direct appropriate department-level officials to exercise more effective leadership and oversight in order to:

- Develop, implement, and operate an appropriate MCA system at VBA to improve managerial decision-making.
- Periodically validate the nonfinancial data used by VHA's DSS team for MCA and assess related internal controls.

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- Document the DSS processes and controls for assigning indirect costs to cost objects to help ensure that costs are properly assigned.
  - Provide adequate numbers of properly trained staff at field locations to administer DSS to maximize system availability and utilization.

In an effort to reduce the risks of errors and delays inherent with manual processes, we also recommend that the Secretary of Veterans Affairs direct appropriate VA officials to:

- Further automate the Statement of Net Cost preparation process.
- Update the Statement of Net Cost compilation procedure documentation.

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## Agency Comments and Our Evaluation

DOL generally agreed with our findings and recommendations and provided technical comments. In contrast, VA did not agree with our overall conclusions and four of our recommendations and provided their rationale for their positions as well as technical comments. We considered and have incorporated both agencies' comments, as appropriate.

Although DOL agreed with the thrust of our recommendation to perform a PIR on its CAM system, it claimed to have already fulfilled the intent of a PIR by performing various separate evaluative activities in ongoing forums. While discussions among CAM users and the department-level CAM team can provide insight about CAM use and its benefits, a PIR has a formal structure that includes documenting the validation of the estimated benefits and costs of information systems and the lessons learned to provide effective management practices for broader use. We believe that a comprehensive PIR undertaken in accordance with OMB Circular No. A-130, *Management of Federal Information Resources*, documents the activities performed and their results in a report that would be available for the benefit of current and future stakeholders. We modified the language regarding the form and documentation required for a PIR to be more explicit but made no change to our recommendation.

VA disagreed with our recommendation that it exercise more effective departmental leadership to help ensure the implementation of appropriate MCA methodologies at VA components. VA stated that, by design and policy, it had not implemented a department-level cost accounting system because of "broad differences in size, mission, and need" of its constituent

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agencies. It said that its MCA system was not meant to be the sole source in making management decisions but, rather, was to be “used in conjunction with other factors in determining how resources are utilized.”

We agree that entities should design their systems to meet their mission and operation needs. Our concern is that departmental leadership has not effectively encouraged VBA to implement an appropriate alternative system since VBA discontinued using its ABC system. A more proactive department-level effort is needed to promote effective MCA at VA's constituent agencies to improve informed managerial decision making and accountability. Presently, VBA, which provides a broad spectrum of non-medical services and benefits to veterans and their families, does not utilize a MCA system to support decision-making.

VA also disagreed with our recommendation that it periodically validate the nonfinancial data used for MCA and periodically assess the related internal controls over nonfinancial data quality. VA stated that it had established a standardized and comprehensive audit guide identifying the audits that should be done to address data reliability. While providing guidance is of significant importance, solely establishing comprehensive audit guides does not ensure that the guides are followed or that the procedures are completed. The department should obtain assurance that the audits are conducted and that the data extracts are reconciled to feeder systems. Further, to establish MCA data reliability, the department should have ongoing procedures in place that test and establish the reliability of the data in the nonfinancial feeder systems.

VA disagreed with our recommendation that it document the DSS processes and controls for assigning indirect costs to cost objects. VA said that it documents processes and controls for assigning direct and indirect costs to cost objects and that its guidance for assigning direct and indirect costs is updated yearly. This is not what we found when we visited officials with the VHA Decision Support Office. During our audit, VA officials were unable to produce documentation of its processes used to assign costs to cost objects.

VA also disagreed with our recommendation that it take steps to ensure that enough IT staff are onboard in field locations to administer DSS. Their response was that such an approach was unnecessary, since very few, if any, IT staff are involved in the hands-on operation of DSS. They believe that providing written and on-the-job technical training for its financial and clinical personnel on the technical portions of DSS is sufficient. However,

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the lack of IT staff with appropriate skills increases the risk that information systems and processing capabilities will fail or will be unreliable. We believe it is essential that sufficient well-trained IT staff be available for the administration and maintenance of all systems from which financial and nonfinancial data are derived for use in DSS throughout VHA.

Lastly, VA agreed with our recommendation that it further automate its Statement of Net Cost preparation process and update its compilation procedure documentation. VA said that it would continue to look at and implement, where appropriate, mechanisms to streamline these processes. To this end VA indicated that it had an initiative under way to automate the preparation of its consolidated financial statements. This is also to include the establishment of a financial data warehouse. We applaud these efforts. If successfully implemented and linked to the financial reporting compilation processes, the financial data warehouse and automated compilation procedures should reduce the time, burden, and risk of errors inherent in VA's current compilation efforts.

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## Scope and Methodology

To enhance our understanding of how MCA systems at DOL and VA generate cost information, we interviewed officials and reviewed documentation on the status of MCA system implementation and the related obstacles to managerial costing. We also examined departmental guidance and looked for evidence of the DOL and VA leadership and commitment to the implementation of entitywide cost management practices. Using the *Standards for Internal Control in the Federal Government*<sup>6</sup> as a guide, we examined DOL and VA internal controls over the reliability of financial and nonfinancial information used in MCA. To determine how DOL and VA managers use cost information to support managerial decision making and provide accountability, we obtained an understanding of how DOL and VA use cost accounting data for budgeting, costing services or products, preparation of the Statement of Net Cost, and other managerial uses through interviews of agency officials and a review of documentation provided by the departments.

During our review, we visited DOL and VA headquarters in Washington, D.C. We interviewed officials about their MCA activities at the departmental level, at selected DOL component agencies, and at VA's two

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<sup>6</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

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largest component agencies — VHA and VBA. When possible, we corroborated information obtained in interviews with agency documents such as policies, procedures, system descriptions, and flowcharts. We also reviewed prior OIG and GAO reports regarding MCA activities, systems, and data. We requested comments on a draft of our briefing presentation from the Secretaries of Labor and Veteran's Affairs or their designees. We received written comments from the Chief Financial Officer of the Department of Labor and the Deputy Secretary of Veterans Affairs and incorporated their comments as appropriate. Their comments are reprinted as enclosures II and III, respectively. We performed this work in accordance with U. S. generally accepted government auditing standards from March through June 2005.

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We are sending this report to the Secretaries of Labor and Veterans Affairs; Director, OMB; and other interested parties. Should you or your staff have any questions on the matters discussed in this correspondence, please contact me on (202) 512-6131 or by e-mail at [MartinR@gao.gov](mailto:MartinR@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs can be found on the last page of this report. Key contributors to this assignment were Jack Warner, Paul Begnaud, Lisa Crye, Dan Egan, Barbara House, Jerrica Kahle, Paul Kinney, Lisa Knight, Miguel Lujan, James Moses, Lori Ryza, Glenn Slocum, and Bill Wright.

Sincerely yours,



Robert E. Martin  
Director, Financial Management and Assurance

Enclosures - 3

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# Enclosure 1



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## **Managerial Cost Accounting Practices**

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**Department of Labor**  
**Department of Veterans Affairs**

Leadership and Internal Controls Are Key to Successful Implementation

Briefing to the Subcommittee on Government Management,  
Finance, and Accountability, Committee on Government  
Reform, House of Representatives

July 15, 2005



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## Introduction and Objectives

- Authoritative bodies have promulgated laws, accounting standards, system requirements, and related guidance to emphasize the need for cost information and cost management in the federal government:
  - Congress
  - Federal Accounting Standards Advisory Board (FASAB)
  - Joint Financial Management Improvement Program (JFMIP)
  - Office of Management and Budget (OMB)
- In light of these requirements, you asked us to determine the extent to which federal agencies develop cost information and use it for managerial decision making.





## Introduction and Objectives

- The objectives of our review were to determine how
  - federal agencies generate managerial cost accounting (MCA) information and
  - government managers use cost information to support managerial decision making and provide accountability.
- This briefing covers the results of our review at the Department of Labor (DOL) and the Department of Veterans Affairs (VA).
- This is the first in a series of briefings concerning the status of MCA activities at large government agencies.



## Scope and Methodology

- To determine how MCA systems at DOL and VA generate cost information, we interviewed officials and obtained documentation on
  - the status of MCA system implementation;
  - departmental guidance, leadership, and commitment to the implementation of cost management practices entitywide;
  - departmental internal controls ensuring the reliability of financial and nonfinancial information used in MCA; and
  - obstacles to managerial costing.



## Scope and Methodology

- To determine how DOL and VA managers use cost information to support managerial decision making and provide accountability, we interviewed officials and obtained documentation on
  - the use of cost accounting data for budgeting and costing services or products,
  - preparing the Statement of Net Cost, and
  - any other uses.



## Scope and Methodology

- During our review, we visited DOL and VA headquarters in Washington, D.C., and interviewed officials about their MCA activities at the department level, at selected DOL component agencies, and at VA's two largest components.
- 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 (OIG) and GAO reports regarding MCA activities, systems, and data.
- We performed this work from March through June 2005 in accordance with U.S. generally accepted government auditing standards.



## Results in Brief

- DOL and VA adopted different strategies to implement MCA.
- DOL implemented a departmentwide MCA system upon which 15 of 18 component agencies have built MCA models tailored to their respective needs.
- At VA, responsibility for MCA implementation rested with individual component agencies, and at the time of our review an MCA system was in operation at one of VA's two largest agency components.



## Results in Brief

- DOL and VA officials cited existing and planned uses of MCA information by component agencies for budgeting, resource allocation, financial reporting, and other managerial decision-making purposes.
- MCA-related internal controls need strengthening at both DOL and VA. Certain control weaknesses, such as not validating nonfinancial data and documenting policy and procedures, could limit the reliability of data used by management to analyze costs and make decisions.
- We received and incorporated comments from DOL, as appropriate. We did not receive comments from VA in time to evaluate and present them in this briefing. We made recommendations to both agencies to address our findings.



## Background

- The Chief Financial Officers (CFO) Act of 1990, Statement of Federal Financial Accounting Standards No. 4: *Managerial Cost Accounting Concepts and Standards for the Federal Government*, and JFMIP's *Framework for Federal Financial Management Systems* establish requirements and accounting standards for managerial cost accounting information at federal agencies.<sup>1</sup>
- The Federal Financial Management Improvement Act of 1996 (FFMIA) builds on the foundation provided by the CFO Act and requires CFO Act agencies' systems to comply substantially with federal accounting standards and federal financial management systems requirements.

<sup>1</sup> In 2005, JFMIP's responsibilities for financial management and oversight were transferred to OMB, OPM, and the Chief Financial Officer's Council.



## Background

- MCA is the accumulation and analysis of financial and nonfinancial data resulting in the allocation of costs to units of activity, outputs, or programs.
- Nonfinancial data measure the occurrences of activities and outputs to which costs are assigned.
- Nonfinancial data could include, for example, information on the number of hours worked; units produced; grants managed; inspections conducted; people trained; or time needed to perform certain functions – depending on the program, agency, or both.





## Department of Labor Background

- DOL's mission is to foster and promote the welfare of job seekers, wage earners, and retirees of the United States.
- For FY 2005, DOL has a budget of approximately \$57 billion and employs approximately 15,000 people.
- DOL consists of 10 mission agencies and 8 support agencies.



## Department of Labor MCA Systems in Place

- Early MCA pilot efforts in 1999 were unsuccessful. DOL's current efforts were spurred, in part, by 2002 and 2003 OIG findings that DOL's accounting system was not in substantial compliance with FFMIA due to not meeting managerial cost accounting requirements. OIG recommended that DOL develop a comprehensive departmentwide managerial cost accounting system implementation plan.
- DOL disagreed and the Secretary attested that the systems were fully compliant. DOL did agree to focus more attention on MCA.
- DOL's Office of the Chief Financial Officer (OCFO) was assigned responsibility for MCA development.
- In its 2004 Financial Data Integration Improvement Plan, DOL identified managerial cost accounting as a way to address its most pressing management challenges.



## Department of Labor MCA Systems in Place

- According to DOL officials, their new MCA system, Cost Analysis Manager (CAM), has the capability to identify, accumulate, and assign costs (including substantially all direct and indirect costs) to outputs.
- Component-specific CAM models were developed by agency and OCFO personnel. Models are in place at all 10 mission agencies and 5 of the 8 support agencies.<sup>2</sup>
- DOL officials told us that they had invested approximately \$2.6 million to date in CAM.
- The Secretary of Labor discussed CAM in meetings with agency heads, according to DOL officials.

<sup>2</sup> According to DOL, the three agencies without MCA models represent approximately 0.1 percent of the department's budget.



## Department of Labor MCA Systems in Place

- CAM uses commercial software designed to collect financial, agency workload, and labor distribution data and to analyze the data.
- According to DOL officials, CAM has the capability to provide management with
  - information/reports concerning the costs of performance goals, activities, and outputs and
  - integrated performance and financial information, trend analysis, benchmarking data, and “what if” analysis.



**Department of Labor  
MCA Systems in Place**

- DOL declared the CAM system operational in September 2004.
- Components continue to refine the models to meet their needs as they learn about system capabilities and consider additional applications for CAM.
  - DOL's MCA policy and procedures are being updated to reflect newly developed systems and processes.
  - DOL officials told us that component-specific cost model reference manuals would be disseminated by the end of fiscal year 2005. The manuals will combine, in one resource, descriptions of the CAM methodology, cost model assumptions, output catalogs and activity dictionaries already provided for the agencies in various other forms.



## Department of Labor MCA Systems in Place

- Planned systemwide refinements include
  - automating the data extraction/import process,
  - integrating budget and performance data, and
  - adding programs and outputs not included in baseline models.
  
- DOL's action plans did not include post-implementation review (PIR) of the new CAM system. A formal PIR would document
  - evaluation of differences between estimated and actual costs and benefits and
  - opportunities for management to extract "lessons learned" and improve control processes.



## Department of Labor MCA Systems in Place

- CAM incorporates financial information from DOL's core accounting system. Nonfinancial information, such as labor distribution and workloads, is obtained from other sources.
- Various controls over financial data are in place.
  - Annual audits of financial statements have resulted in unqualified opinions from 1997 through 2004.
  - DOL officials provided an example of a reconciliation of CAM to the general ledger system.
  - Senior component officials attest in writing to the adequacy of internal controls, accuracy of transaction recording, and regulatory compliance on a quarterly basis.



## Department of Labor MCA Systems in Place

- According to DOL, in the process of building and updating the MCA models, nonfinancial data such as labor distribution and performance data are reviewed by supervisors, line managers, senior managers, and program administrators.
- Controls over nonfinancial workload and performance data, however, need further attention.
  - In its fiscal year 2004 Performance Plan, DOL identified validation of data as one of its challenges.
  - At DOL's largest component agency, the OIG noted high error rates in grantee-reported performance data, and raised concerns about DOL using those data for decision making.
  - DOL officials said they are implementing additional data validation systems to address these issues.
- The OIG is assessing how it will audit CAM data in the future.





## Department of Labor Uses of MCA Information

- Components are focusing on further refining their respective models to help manage programs and resources more effectively.
- Even though CAM was only recently implemented, DOL components identified many uses for CAM data, the results of which are expected to lead to more sound managerial decisions. For example, DOL officials said they have begun to use CAM data to identify and analyze
  - program costs across regions;
  - comparative costs of grant management activities, by type of grant;
  - full administrative costs related to the development of policies, regulations, and legislative proposals;
  - unit costs of training and employment programs; and
  - budget justifications and resource allocations.



## Department of Veterans Affairs Background

- VA's mission is to administer laws that provide health care, financial assistance, burial benefits, and other services to veterans, their dependents, and their beneficiaries.
- In fiscal year 2004, VA had total outlays of \$65 billion. Its two largest component agencies, in terms of budget and staff size, are the Veterans Health Administration (VHA) and the Veterans Benefits Administration (VBA). Its third and smallest agency is the National Cemetery Administration (NCA).
- VHA has over 193,000 employees and is the largest VA component agency. VHA health care facilities provide a broad spectrum of medical, surgical, and rehabilitative care. VBA has about 13,000 employees who receive and process claims for VA benefits. NCA provides direction and oversight for 120 cemeteries.



## Department of Veterans Affairs MCA Systems in Place

- By design and policy, VA does not have an entitywide MCA model. Each administration has built a cost accounting system for identifying, accumulating, and assigning the costs of its outputs. However, VBA had stopped using its Activity Based Costing system in March 2003.
- According to department officials, VA's financial management priority has been the removal of a material weakness that was identified by independent auditors and related to the lack of an integrated financial management system at the department.
- VA stated that having a fully operational MCA model at each component was important to VA decision making.



## Department of Veterans Affairs MCA Systems in Place

- VA has published cost accounting policy and guidance that delegate implementation responsibility to component agencies.
- VA officials we interviewed, however, could not identify examples of proactive department-level leadership or coordination to implement MCA at all components or to foster an organizational culture conducive to MCA.
- In the absence of effective department-level leadership, the extent of current MCA implementation and use varied at VHA and VBA.



## Department of Veterans Affairs MCA Systems in Place

- VHA uses the Decision Support System (DSS) for MCA.
- According to VHA officials, DSS is intended to be a comprehensive model of significant VHA cost flows and activities, as follows:
  - enables cost and workload analyses of locations, programs, activities, and individual patients;
  - gets data from 49 feeder sources, including VA's Financial Management System (FMS) general ledger and VHA's Veteran's Health Information Systems and Technology Architecture (VistA); and
  - includes direct and indirect costs for VA hospitals and supporting organizations.



## Department of Veterans Affairs MCA Systems in Place

- In March 2003, VBA discontinued its use of its Activity Based Costing (ABC) system due to loss of key personnel and the indirect cost distribution methodology's lack of credibility with some managers.
- VBA was not funding or promoting MCA at the time of our review.
- During our review, we suggested that VA implement an appropriate MCA approach at VBA.
  - Subsequently, VBA's CFO stated that VBA would seek funding in its 2007 budget request to develop cost accounting capabilities to support performance measurement goals.
- According to VA officials, NCA uses ABC. Because of NCA's relatively small size, we did not review its MCA processes.



## Department of Veterans Affairs MCA Systems in Place

- The independent auditor reported control weaknesses in VA's manual process to prepare its annual Statement of Net Costs (SNC). VA uses Excel spreadsheets to prepare the SNC.
  - End-of-year auditor adjustments and edits can cause the roll-up process to be reperformed and thus be burdensome, time-consuming, and error-prone.
  - VA officials told us the documentation of its SNC compilation procedures was not current.
- The VHA Decision Support Office was unable to readily produce documentation of the mechanisms used to assign indirect costs to cost objects in DSS. Lack of readily available system documentation could inhibit efforts to determine whether such costs are properly assigned.



## Department of Veterans Affairs MCA Systems in Place

- Financial information included in DSS is subject to controls that help ensure data reliability.
  - VA officials told us that they periodically reconcile DSS to the general ledger system, and they provided an example of a reconciliation.
  - Annual audits of financial statements have resulted in unqualified opinions for fiscal years 1999 through 2004.





## Department of Veterans Affairs MCA Systems in Place

- Both the independent auditor and OIG raised concerns about the quality of data from DSS nonfinancial feeder systems, such as VistA.
  - In their fiscal year 2004 management letter, the independent auditors noted an increasing shortage of information technology (IT) staff supporting VistA applications and related network infrastructures at the medical centers and concluded that “This loss of human capital and knowledge in the IT organizational structure places VA’s information and its processing capabilities at risk.”



## Department of Veterans Affairs MCA Systems in Place

- In August 2004, the OIG found that most of the legacy systems at Bay Pines Medical Center contained inaccurate data. The OIG further stated that this may be a systemic problem throughout VHA.
- According to the report, VHA officials concurred with the OIG's recommendation and agreed to take corrective actions.
- Since DSS has 49 feeder sources, including VistA, the above findings from the OIG and the independent auditor raise concerns about the quality of nonfinancial data in DSS.
- Inaccurate nonfinancial data could skew cost calculations and any resulting managerial decisions.



## Department of Veterans Affairs Uses of MCA Information

- With no MCA system at the department level, VA used manual cost-finding techniques for external financial reporting, and budgeting.
- Using DSS, VHA generated information to support internal budgeting; resource allocation; performance measurement; fee reviews; and cost finding for programs, activities, and outputs. For example, VA officials told us:
  - A chief pharmacist's request for additional funds at a VA hospital was supported by a DSS analysis of the local pharmacy's costs, showing that high-cost providers and drugs had to be used at that location.



## Department of Veterans Affairs Uses of MCA Information

- DSS is used to compare the costs among hospitals to determine where services can be provided at the lowest cost. In one case, DSS information was used in the decision process to consolidate inpatient psychiatric services.
- DSS is used to determine the costs of services provided to individual customers. DSS records allow information to be tracked for individual patients.
- Officials informed us that the extent and nature of DSS use for management decision making varied from one medical facility to the next because of different levels of training among medical facility staff.



## Conclusions

- Leadership and strong internal controls are necessary for successful implementation and operation of MCA.
- Although DOL's recent efforts to implement CAM were significantly boosted by its departmental leadership, maximizing CAM's contribution to improved management will require continuing improvements to system data reliability, system documentation, and assessments of system effectiveness.



## Conclusions

- VA's department level leadership has been ineffective concerning the implementation and continuation of MCA practices at VBA. While the DSS system is in place at VHA, documentation of system processes and controls and other auditors' concerns about the quality of nonfinancial data require attention in order to enhance the reliability of information for managerial decision-making. Lack of a MCA system at all components departmentwide could inhibit integration of VA's SNC preparation process with its other financial management systems, a process which could reduce the risk of error.



## Recommendations for Executive Action

### Recommendations to the Secretary of Labor

1. In response to the OIG's reported concerns about error rates in certain nonfinancial data and DOL's assessment of data validation as one of its 2004 challenges, DOL should continue steps to verify the accuracy of nonfinancial data used for MCA and assess related internal controls over nonfinancial data quality to help ensure data reliability.
2. DOL should complete the update of MCA policies and procedures to ensure department level guidance is comprehensive and current.



## Recommendations for Executive Action

3. DOL should complete the compilation and dissemination of component-specific CAM reference manuals so the documentation is in a consolidated resource that is readily available to system users, managers, and auditors.
  
4. DOL should perform and document a post-implementation review of CAM to evaluate whether managerial cost information meets organizational objectives and users' needs. This review should also determine the extent to which managers use CAM-generated data in managing day-to-day operations.





## Recommendations for Executive Action

### Recommendations to the Secretary of Veterans Affairs

1. VA should exercise more effective department-level leadership to help ensure the implementation and continued use of appropriate MCA methodologies at VBA.
2. To enhance the reliability of data, VA should periodically validate the nonfinancial data used for MCA and assess related internal controls.
3. To help ensure that costs are being properly assigned, VHA should document the DSS processes and controls for assigning indirect costs to cost objects.



## Recommendations for Executive Action

4. In order to help maximize the utilization of DSS, VHA should take steps to ensure that there are adequate numbers of properly trained staff at field locations to administer DSS.
  
5. To reduce the risks of errors and delays from manual efforts, VA should further automate the SNC preparation process and update SNC compilation procedure documentation.



## Agency Comments and Our Evaluation

- We received written comments from DOL on a draft of this briefing. DOL generally agreed with our findings, providing a number of technical and substantive comments that we have considered and incorporated, as appropriate.
  - DOL commented that its agencies have already built models on its departmentwide MCA system. We clarified our briefing to more fully recognize the implementation progress DOL has made.
  - DOL highlighted that the three agencies without MCA models represent approximately 0.1 percent of the department's total budget. To better indicate the relative significance of DOL components that have no MCA model, we added that information in a footnote.



## Agency Comments and Our Evaluation

- DOL agreed with our recommendation about verifying nonfinancial data and assessing related controls. DOL also stated that it recognizes the importance of data quality and that it will continue to implement additional procedures as necessary, while describing some of the steps it is taking to improve nonfinancial data reliability. We clarified our briefing and our recommendation by recognizing DOL's ongoing efforts to improve those data.
- Agreeing with our recommendation on distributing component-specific cost model reference manuals, DOL also commented that the agencies have already received, in various forms, information to be included in the manuals. We clarified our briefing by acknowledging the information DOL previously provided to agencies. We also described the breadth of the information included in these manuals and incorporated in our recommendation, the importance of providing that information in a consolidated resource.



## Agency Comments and Our Evaluation

- Although DOL agreed with the thrust of our recommendation to perform a PIR of its CAM system, it claimed to have already fulfilled the intent of a PIR by performing various separate evaluative activities in ongoing forums. However, a PIR has a formal structure that includes documenting the validation of estimated benefits and costs of information systems and the lessons learned to provide effective management practices for broader use. We believe that a comprehensive PIR undertaken in accordance with OMB Circular No. A-130 documents the activities performed and their results in a report that would be available for the benefit of current and future stakeholders. We clarified our briefing regarding the form and documentation required for a PIR but made no change to our recommendation.

# Enclosure 2

U.S. Department of Labor

Office of the Chief Financial Officer  
Washington, D.C. 20210



JUL - 8 2005

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

Dear Mr. Martin:

Thank you for affording the Department of Labor the opportunity to review and comment on the Government Accountability Office's (GAO) draft report, *Managerial Cost Accounting Practices: Leadership and Internal Controls Are Key to Successful Implementation*. This letter provides the Department's substantive comments to the report. Any technical comments will be forwarded electronically, under separate cover, directly to you and your staff.

We thank you for acknowledging Secretary Elaine L. Chao's and other Department officials' leadership on the Managerial Cost Accounting (MCA) initiative called Cost Analysis Manager, or CAM. We agree with GAO's conclusion that "leadership and strong internal controls are necessary for successful implementation and operation of MCA." We believe that the report provides a good overview of the Department's MCA efforts and status. However, we would like to provide clarification on several of the comments and recommendations GAO outlined in the report.

The report describes the Department's MCA system as a department-wide system "upon which the agencies are building MCA models tailored to their respective needs." The Department's MCA system is more accurately described as a department-wide system upon which agencies *have already built* MCA models. These include MCA models for FY 2003 and FY 2004. Some agencies have also completed quarterly updates for FY 2005. GAO notes that "models are in place at all mission agencies and 5 of the 8 support offices." It is important to note that the three agencies without MCA models represent approximately 0.1% of the Department's total budget.

The GAO report states that "certain control weaknesses, such as not validating nonfinancial data and documenting policy and procedures, may limit the reliability of data used by management to analyze costs and make decisions" and that "DOL lacks assurance that the non-financial data in CAM for all components is reliable, which in turn affects reliability of CAM's cost information." To support this assertion, GAO notes that "At DOL's largest agency, the OIG noted high error rates in grantee-reported performance data." Nonfinancial data has two major components, labor distribution data and performance data, such as output units like the number of participants

trained or audits completed. We recognize the importance of data quality and are aware of the issues raised by the OIG relating specifically to performance data and have taken steps to verify this data to the extent possible. As we have discussed with the GAO audit staff, in the process of building and updating the MCA models, labor distribution data and performance data is reviewed at several levels within each agency, starting with the line managers, their supervisors, senior managers, and program administrators. In addition, the Department has been implementing additional performance data validation systems at its largest agency. We will continue to address this issue and implement additional procedures as necessary and as may be recommended by the OIG.

The GAO report properly states that "DOL's MCA policy and procedures are being updated to reflect newly developed systems and processes" and "that component-specific cost model reference manuals would be disseminated by the end of fiscal year 2005." The Department's cost accounting policies and procedures are outlined in the Department of Labor Manual Series (DLMS). Due to the changes required by the implementation of the MCA system, the chapter that outlines the Department's MCA policy is in the process of being revised and will be disseminated before the end of FY 2005, as originally planned. Regarding the reference manuals, it is important to note that agency personnel have been trained on the MCA system and have been provided with training manuals that outline its procedures as well as information covering their agency's models. The only pending documentation that remains to be disseminated is the agency specific reference manuals, which will be distributed at the end of FY 2005. However, these reference manuals are a compilation of data that the agencies have already received in various forms. These reference manuals are in no way hindering the use of or any additional enhancements to the Department's MCA system.

DOL does not agree with GAO's comment that the Department did not include a post implementation review of the MCA system that would include "an evaluation of differences between estimated and actual costs and benefits and opportunities for management to extract 'lessons learned' and improve control processes." Although a specific report outlining a post implementation review of its MCA system was not generated, there are ongoing multiple forums that provide management with the opportunity to extract "lessons learned," improve processes, and evaluate the Department's efforts in this initiative. The ongoing communications at all levels throughout the Department have been the key to the success of this initiative. These forums were discussed with the GAO staff during the meetings with Department officials.

- The Office of the Chief Financial Officer (OCFO) hosts periodic user group meetings. User groups consist of each agency's dedicated staff assigned to work on the development and implementation of the Department's MCA system. User groups include program and finance managers responsible for the development of their agency's cost model. During the user group meetings agency personnel discuss and present to other system users "lessons learned" and ways in which they are using the MCA data in their agencies. The OCFO also provides an update on the progress, status, any outstanding issues, and next steps for the project. There were nine user group meetings held during the last 18 months.

- From May 2004 through January 2005, each agency's system users along with OCFO representatives provided an executive briefing to the Agency Head in which the agency's cost model was presented and discussed.
- There are various ad-hoc meetings between OCFO representatives and each agency's system users in which the cost models are reviewed, analyzed, and changed, if needed. The MCA initiative is also discussed with top agency officials during the quarterly certification process.
- In December 2004, a *CAM Initiative Questionnaire* was distributed to all agencies. The questionnaire asked system users to evaluate the Department's MCA initiative. System users requested additional training in their questionnaire responses. The OCFO has responded with agency specific ad-hoc training and has expanded the training classes to include regional agency personnel. The Department will continue to provide training as needed.

Our comments on GAO's three recommendations are as follows:

As discussed above, to ensure data reliability, management has been reviewing each agency's non-financial data each time the agency's cost model is updated. We agree with the recommendation that this validation is needed and will continue our efforts to verify the accuracy of non-financial data and assess its related controls. As previously mentioned, the Department is implementing additional data validation systems. We will continue to address this issue and implement additional procedures as necessary and as may be recommended by the OIG.

The Department will complete the updating and dissemination of MCA documentation by the end of FY 2005, as we had originally planned. As previously mentioned, agency specific reference manuals will be a compilation of training materials and other MCA system related information, which have already been disseminated to the agencies. As such, it is not having a negative impact on the ability to use the system.

As to the third recommendation to "evaluate whether managerial cost information meets organizational objectives and user needs," we believe that we have already done this throughout the process as previously discussed. We agree with the thrust of the recommendation that this needs to be a continuous process. The Department will continue its evaluation through user group meetings and executive briefings as well as continue to improve its MCA system to meet the demands and needs of its users. Specific emphasis will be placed on ensuring that agency personnel use the Department's MCA system in managing day to day operations to the extent possible.

Again, thank you for the opportunity to submit comments on the report.

Sincerely,

  
Samuel T. Mok  
Chief Financial Officer



# Enclosure 3



THE DEPUTY SECRETARY OF VETERANS AFFAIRS  
WASHINGTON

July 13, 2005

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

Dear Mr. Martin:

The Department of Veterans Affairs (VA) has reviewed the Government Accountability Office's (GAO) draft report, ***Managerial Cost Accounting Practices: Leadership and Internal Controls Are Key to Successful Implementation*** (GAO Job 197004). The Department does not agree with GAO's overall conclusions and recommendations. The enclosure discusses this in more detail and provides technical comments to the report.

VA appreciates the opportunity to comment on your draft report.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Gordon H. Mansfield".

Gordon H. Mansfield

Enclosure

Enclosure

THE DEPARTMENT OF VETERANS AFFAIRS (VA) COMMENTS  
TO GOVERNMENT ACCOUNTABILITY OFFICE (GAO)  
DRAFT REPORT

***Managerial Cost Accounting Practices: Leadership  
and Internal Controls Are Key to  
Successful Implementation***  
(GAO 05-NNN)

- **VA should exercise more effective department-level leadership to help ensure the implementation of appropriate MCA methodologies at VBA and other components.**

Do Not Concur – The Department of Veterans Affairs (VA) does not agree with GAO's recommendation. VA has been involved in Managerial Cost Accounting (MCA) since it was first considered by the Federal Accounting Standards Advisory Board. VA worked on the development and implementation of Statement of Federal Financial Accounting Standards (SFFAS) #4. Subsequent to its adoption, VA formed, staffed and chaired the Federal workgroup that developed the "Managerial Cost Accounting Implementation Guide" that was adopted by the Federal CFO Council. VA was one of the first departments to publish a comprehensive MCA policy that met the requirements of SFFAS #4 and required MCA implementation in all its major components. To re-energize its commitment to MCA and other federal financial requirements, in FY 2004, VA leadership established a Finance and Logistics Council to address among other issues the implementation and use of cost accounting in VA's decision-making processes. This council is chaired by the Department CFO and all VA Administration CFOs are members.

In addition, in FY 2004, VA added the ability to distribute labor costs to enhance the proper alignment of employees' time worked and associated salary and benefit costs with the correct appropriations, cost centers, and fund control points. Since salary and benefit costs represent the majority of VA's operating expenses, being able to better distribute VA's labor costs will provide management with important data to use in cost analyses, budget preparation and operations evaluations, particularly within VA's ten business lines. VA will continue its full support and commitment to MCA and to all other federal financial requirements.

By design and policy, VA does not have a Department-level cost accounting system. Due to the broad differences in size, mission and need, the three VA Administrations (Veterans Health Administration (VHA), Veterans Benefits Administration (VBA) and National Cemetery Administration (NCA)) were

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directed to establish independent cost accounting systems to meet the specialized requirements of their individual organizations. VHA uses the Decision Support System (DSS), while VBA and NCA use Activity Based Costing. MCA is not the sole source for making management decisions, but is used in conjunction with other factors in determining how resources are utilized. VHA and NCA continue to use their MCA systems while VBA used theirs through early FY 2004. The Department does, however, prepare a unified Statement of Net Costs (SNC). The SNC is audited and is a component of VA's Annual Consolidated Financial Statements.

VA does agree that leadership and strong internal controls are necessary for successful implementation and operation of MCA. The Department anticipates implementing an annual certification process that will require VHA, VBA and NCA to state that they are meeting all the Federal requirements. These statements will be presented to VA's Finance and Logistics Council for review and approval.

- **To enhance the reliability of data, VA should periodically validate the nonfinancial data used for MCA and should assess related internal controls over nonfinancial data quality.**

Do Not Concur – The Decision Support Office (DSO) provides, to all Veterans Affairs Medical Centers (VAMC) and Networks, a standardized and comprehensive audit guide (with worksheets). This document identifies the audits to be conducted with a goal of ensuring that the data is complete and accurate in terms of the quantity of product (workload) and total dollars and hours (financial) captured in the system. This guide is attached to this response. Included in the processes described are monthly audits of DSS extracts back to VISTA feeder systems. The DSO has two FTEE, who are exclusively dedicated to assisting the Site Teams in the proper conduct of the mandatory audit process.

- **To help ensure that costs are being properly assigned, VHA should document the DSS processes and controls for assigning direct and indirect costs to cost objects.**

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Do Not Concur - VHA does document processes and controls for assigning direct and indirect costs to cost object. Each year the DSO issues an Annual Fiscal Year Conversion document (a detailed set of processes for assigning direct and indirect costs) to the DSS Teams at every VAMC. Refresher training is provided, telephonically, through a series of bi-weekly Teaching Calls that the DSO provides to those same site teams.

- **In order to help maximize the utilization of DSS, VHA should take steps to ensure that there are adequate numbers of properly trained IT staff at field locations to administer DSS.**

Do Not Concur – Because their primary function is the capture and reporting of MCA data, DSS Site Teams are composed of professionals with financial and clinical backgrounds. Once assigned, these personnel complete written and on-the-job training on the technical portion of the DSS. Currently, DSO is sponsoring a workgroup that will provide staffing criteria to include recommended professional background, training and required staffing level for all VAMCs. Very few, if any, field Information Technology (IT) staff are involved in the hands-on operation of the DSS.

- **To reduce the risks of errors and delays from manual efforts, VA should further automate the SNC preparation process and update SNC compilation procedures.**

Concur - VA will continue to look at and implement, where appropriate, mechanisms to streamline and automate the SNC process. In fact, VA has an initiative already underway to automate the preparation of consolidated financial statements, which includes the SNC, as well as the establishment of a financial data warehouse. While there have been errors and delays as a result of problems with the current systems (both manual and automated) that provide the data for the SNC process, it is not with the SNC process itself.

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THE DEPARTMENT OF VETERANS AFFAIRS (VA) COMMENTS  
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While VA currently does not have a central repository for its accounting data, VA does consolidate costs for the three Administrations and staff offices in the SNC along ten lines of business. End-of-year auditor adjustments are a normal function in preparing the Departments' Consolidated Financial Statements. They are not unique to the preparation of the SNC. VA uses a network of Excel spreadsheets in preparing the SNC, which allows adjustments to flow through all the appropriate lines of business. VA is implementing a data warehouse to store its accounting data. This will assist in further automating the preparation of all VA's financial statements.

Technical Comments

Slide #8: 1<sup>st</sup> Bullet: MCA systems are established in all of VA's major components (VHA, VBA and NCA). VHA and NCA continue to use their MCA systems while VBA used its system through early FY 2004.

Slide #12, 1<sup>st</sup> Bullet: This bullet implies that no functionality exists, which is not accurate. Each Administration currently has its own capability to identify, accumulate and assign the costs of its outputs.

Slide #12, 2<sup>nd</sup> Bullet: While eliminating the audit material weakness related to the lack of an integrated financial management system is a top VA priority, having an MCA system/model fully operational and compliant within its components is similarly important to ensure VA makes sound decisions based on valid costs. This bullet appears to imply that VA does not view MCA as a priority. VA has and will continue to stress and use MCA in its decision-making process.

Slide #13, 1<sup>st</sup> Bullet: VA has been involved in MCA since it was first considered by the Federal Accounting Standards Advisory Board. VA has worked on the development and implementation of Statement of Federal Financial Accounting Standards (SFFAS) #4. VA formed, staffed and chaired the workgroup that developed the "Cost Accounting Implementation Guide", which was adopted by the Federal CFO Council. VA was one of the first departments to publish a

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comprehensive MCA policy that met the requirements of the SFFAS #4 and required MCA implementation in all its major components. In FY 2004, VA leadership established a Finance and Logistics Council, chaired by the Department CFO. This council has all the Administration CFOs as members. VA has and will continue to fully support MCA and all other federal financial requirements.

Slide #13, 4<sup>th</sup> Bullet: Department-level leadership ensured that VHA, VBA and NCA established cost accounting systems. All three administrations implemented cost accounting systems and dedicated staff to ensure the systems were being used.

Slide 15, 1<sup>st</sup> Bullet: This is not accurate. VBA did not abandon its MCA efforts. In March 2003, VBA discontinued the use of the Activity Based Costing (ABC) system in place due to reasons outlined in the GAO report. VBA identified alternative data sources to provide cost accounting information to the Department and to use as part of our annual financial audit.

Slide #16, 1<sup>st</sup> Sub-Bullet: VA does not have a central repository for its accounting data; however, costs for the Administrations and staff offices are consolidated in the SNC along VA's 10 lines of business. End-of-year auditor adjustments are a normal function in preparing the Consolidated Financial Statements. They are not unique to the preparation of the SNC. VA uses a network of Excel spreadsheets in preparing the SNC, which allows adjustments to flow through all the appropriate lines of business. VA is in the process of implementing a data warehouse to store accounting data. This will assist in further automating the preparation of all VA financial statements.

Slide #16, 2<sup>nd</sup> Sub-Bullet: VA does have documentation of current SNC compilation procedures. Recent revisions were made to reflect current VA procedures.

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THE DEPARTMENT OF VETERANS AFFAIRS (VA) COMMENTS  
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Slide #16, 2<sup>nd</sup> Bullet: This is not accurate. The Fiscal Year Conversion Guidelines, which are revised and published on an annual basis, provides detailed information on assigning indirect costs to cost objects.

Slide #20, 1<sup>st</sup> Sub-Bullet: The last sentence does not reflect what was stated in the GAO/DSO interview. Recommend GAO reword as follows: "Because of the information provided via DSS, actual data was utilized in the analysis process that supported the funding request."

Slide 21, 1<sup>st</sup> Bullet: Recommend GAO delete "Information Technology (IT)". The IT staff is typically not involved in DSS utilization.

Slide #22, 1<sup>st</sup> Bullet: VA agrees that leadership and strong internal controls are necessary for successful implementation and operation of MCA. The Department anticipates implementing an annual certification process that will require VHA, VBA, and NCA to state that they are meeting all federal requirements for a MCA. This will include how the MCA is being used in managerial decision-making and will be presented to VA's Finance and Logistics Council for review and approval.

Slide #22, 2<sup>nd</sup> Bullet: VA does not agree that it has a lack of leadership regarding MCA. The Department has a history of strong leadership in this area, which includes preparing the Government-wide Managerial Cost Accounting Handbook

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## Public Affairs

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