



United States Government Accountability Office  
Washington, DC 20548

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September 21, 2006

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

Subject: *Managerial Cost Accounting Practices: Department of Agriculture and the Department of Housing and Urban Development*

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. For example, the Chief Financial Officers (CFO) Act of 1990<sup>1</sup> contains several provisions related to managerial cost accounting (MCA), one of which states that an agency's CFO should develop and maintain an integrated accounting and financial management system that provides for the development and reporting of cost information. Statement of Federal Financial Accounting Standards No.4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, and the Joint Financial Management Improvement Program's (JFMIP) *Framework for Federal Financial Management Systems*<sup>2</sup> established accounting standards and system requirements for MCA information at federal agencies. The Federal Financial Management Improvement Act of 1996<sup>3</sup> built on this foundation and required, among other things, CFO Act agencies to comply substantially with federal accounting standards and federal financial management systems requirements.

In light of the requirements for federal agencies to prepare MCA information, 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 MCA information as well as how

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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 Officers Council.

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

governmental managers use cost information to support managerial decision making and provide accountability.

This report summarizes information provided during our briefing to your staff on September 7, 2006, concerning our review of MCA practices at the Department of Agriculture (USDA) and the Department of Housing and Urban Development (HUD). The slides from that briefing are presented in enclosure I. This was our fourth in a series of briefings concerning the status of MCA activities at large government agencies. Our first briefing covered the status of MCA activities at the Department of Veterans Affairs and the Department of Labor.<sup>4</sup> Our second briefing covered the status of MCA activities at the Departments of Education, Transportation, and the Treasury.<sup>5</sup> The third briefing covered the status of MCA activities at the Department of Health and Human Services and the Social Security Administration.<sup>6</sup>

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 measure the occurrences of activities and can include, for example, the number of hours worked, units produced, claims paid, grants managed, or time needed to perform individual activities.

## **Status of Efforts to Implement Managerial Cost Accounting at USDA and HUD**

Similar to issues that surfaced in our earlier reports, we found that stronger leadership would be needed to enhance the development and use of managerial cost information at USDA and HUD. The departments generally had not developed policies on the development and use of cost information, were not promoting the benefits of identifying the cost of performance, and were not monitoring implementation in the components.

### Department of Agriculture

USDA has not shown strong leadership to promote, guide, and monitor MCA implementation. USDA did not have a departmentwide MCA system in place and, instead, has delegated responsibility for MCA implementation to the component agencies. USDA, however, did not have procedures in place to monitor component agency MCA initiatives, and had only limited information on the status of MCA implementation at its 15 component agencies at the time of our review.

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<sup>4</sup> GAO, *Managerial Cost Accounting Practices: Leadership and Internal Controls Are Key to Successful Implementation*, GAO-05-1013R (Washington, D.C.: Sept. 2, 2005).

<sup>5</sup> GAO, *Managerial Cost Accounting Practices: Departments of Education, Transportation, and the Treasury*, GAO-06-301R (Washington, D.C.: Dec. 19, 2005).

<sup>6</sup> GAO, *Managerial Cost Accounting Practices: Department of Health and Human Services and Social Security Administration*, GAO-06-599R (Washington, D.C.: Apr. 18, 2006).

USDA's current financial system, the Foundation Financial Information System (FFIS), was not designed to provide in-depth MCA information. FFIS analysis and reporting functions and its related data warehouses allow users to conduct inquiries and execute ad hoc reports on, for instance, the status of funds and open obligations. These analyses, however, do not integrate nonfinancial data with financial data to provide the cost of activities or outputs on an ongoing basis.

According to USDA officials, the Financial Management Modernization Initiative (FMMI) system is scheduled to replace FFIS by the end of fiscal year 2012. FMMI is expected to include a cost accounting module which officials said will incorporate MCA functionalities required by the Office of Federal Financial Management at OMB. Except for ongoing initiatives at the Farm Services Agency, the Forest Service, and Rural Development, USDA MCA planning initiatives did not set time frames or requirements for other component agencies to improve cost management.

At USDA, we also selected for review larger component agencies in terms of number of employees and outlays, and those with cost recovery activities, such as working capital funds (WCF) and services with user fees. USDA's WCF has 22 activity centers providing payroll, accounting, and other administrative and support services to internal and external customers. We reviewed MCA activities at four USDA component agencies: the Animal and Plant Health Inspection Service (APHIS), the Farm Service Agency (FSA), the Food and Nutrition Service (FNS), and the Forest Service (FS).

WCF activity centers are intended to recover the full cost of goods and services they provide. WCF officials told us that the activity centers use a range of methodologies, from spreadsheets to more sophisticated activity-based costing systems, to assign costs to customers. WCF officials, however, did not have documented procedures to help ensure appropriate cost accounting methodologies are used by the activity centers to allocate costs to customers and set prices, and they could not centrally confirm that all of the activity centers were charging their customers the full cost of services rendered.

According to APHIS officials, they used ABC costing techniques to manage around 10 percent of their budget, primarily for administrative purposes. In addition, APHIS is developing the APHIS Cost Management System (ACMS), a system to track spending to cost centers that is to be implemented by fiscal year 2007. APHIS officials told us that ACMS has several data fields that could be used to include nonfinancial data and thus provide MCA information. However, an APHIS official said that procedures for using the ACMS data fields for MCA are not finalized and are still being documented.

FSA plans to implement its Budget and Performance Management System (BPMS) by October 2008 to link and integrate FSA's budget, cost, and performance management information. FSA reported that improvements are needed in nonfinancial data quality and consistency, including the nonfinancial data used in its current ABC system. FSA officials said that planned upgrades to labor and workload systems through BPMS are intended to address these issues.

FNS officials said that the agency designed its National Data Bank system to integrate detailed cost and program performance information with its state grantee program data reporting system, enhancing the usefulness of cost data for FNS program managers. That information is available by program at state, regional, and national levels at monthly, quarterly, and annual reporting intervals.

FS, on the other hand, did not have a system in place with which it could routinely analyze cost information. The FS can use cost-finding techniques and FFIS data to prepare ad hoc cost information reports that are generally at the program or budget line item level. Special job codes required to track costs for specific projects below the budget line item level can be established. The FS CFO stated that implementation of MCA would not be a priority until outstanding financial reporting issues have been resolved. He said that reliable and timely financial information was necessary before pushing to develop MCA information. FS management is focused on completing implementation of a new centralized financial management system, and building strong internal control systems to address outstanding material weaknesses in financial management and reporting processes.

At the department level, USDA uses cost information to prepare the Statement of Net Cost (SNC). Some component agency officials used cost information and analyses to make staff hiring decisions, adjust user fees, allocate administrative costs, investigate anomalies in program participation rates, and prepare ad hoc cost studies.

#### Department of Housing and Urban Development

The absence of continual strong leadership to promote and monitor MCA implementation across HUD programs has contributed to HUD's lack of reliable, comprehensive MCA information on its activities and outputs that is widely and routinely used. HUD had not issued departmentwide policy guidance on MCA, and did not accumulate the full costs of its activities or outputs for day-to-day managerial decision making. Instead, a HUD official stated that HUD is a budget-driven organization primarily focused on oversight of its programs, and manages its operations principally with required budgetary data.

Although expanding the range of MCA information could help HUD better manage its programs and operations on a daily basis, HUD's plans for current and future systems lack broad application of MCA functionalities. For example, management indicated that its Total Estimation and Allocation Mechanism–Resource Estimation and Allocation Process (TEAM-REAP) has the potential for supporting activity based costing, but during our review HUD management said it had no plans for using the system for MCA purposes beyond quarterly cost allocation for the SNC, management of staffing levels, and an ABC pilot project. In response to OMB concerns about the lack of management information at the Federal Housing Administration (FHA), HUD recently agreed to start an ABC pilot project to obtain the costs of activities, including loan origination, monitoring, and servicing. However, an FHA official commented that ABC and MCA were of limited benefit to FHA. Finally, in 2002, the department began the HUD Integrated Financial Management Improvement Project (HIFMIP)—an enterprisewide initiative to develop and implement an integrated financial accounting system. According to HUD officials, however, HIFMIP

requirements were based upon current system functionalities and do not include a more comprehensive MCA system.

Agencies with nonintegrated financial systems expend major effort and resources to develop information that should be provided on a recurring basis. HUD's OIG reported in November 2005 that the department relied on extensive compensating procedures that were costly, labor intensive, and not always effective to prepare its annual financial statements. Further, the OIG reported that HUD's financial management systems did not enable it to generate and report accurate, timely information needed to manage operations on an ongoing basis. Improvement of internal control over financial and nonfinancial information will enhance the reliability of data available for MCA purposes at HUD.

HUD MCA activities included preparation of the SNC, accumulation of project costs for IT systems financed through a HUD WCF, analysis and reporting of financial and operational data accumulated in Data Mart (a repository for selected financial and nonfinancial information that is primarily used as a cash management and financial reporting tool), and ad hoc, manual accumulation of costs to respond to external federal oversight parties, including OMB and the Congress.

### **Recommendations for Executive Action**

We are making eight recommendations to the Secretary of the Department of Agriculture and five recommendations to the Secretary of the Department of Housing and Urban Development.

#### Recommendations to the Secretary of the Department of Agriculture

To promote the implementation and use of reliable MCA methodologies to better inform managerial decision making in USDA and its components, we recommend that the Secretary direct appropriate officials to:

- take an active leadership role to promote the benefits and uses of MCA,
- develop procedures to monitor the implementation of its MCA policy at its components,
- finalize appropriate USDA-specific functional specifications to ensure that the cost accounting module of the FMMI will provide MCA information to support decision making at USDA and its component agencies, and
- expand ongoing MCA planning efforts to include time frames and requirements for all component agencies to help improve cost management.

To promote the use of proper cost accounting methodologies to inform pricing and other managerial decisions at USDA WCF activity centers, we recommend that the Secretary of Agriculture direct appropriate WCF officials to design, document, and implement procedures to periodically review those methodologies.

To promote the implementation and use of MCA methodologies at APHIS, we recommend that the Secretary of Agriculture direct appropriate APHIS officials to finalize and document procedures for using ACMS data fields for MCA as a step toward better informed managerial decision making.

To enhance the reliability of MCA data at FSA, we recommend that the Secretary of Agriculture direct appropriate FSA officials to continue efforts to improve and upgrade workload systems as they implement BPMS.

We agree that the FS should continue to place a high priority on addressing its remaining financial management and reporting problems. At the same time, we recommend that the Secretary of Agriculture direct appropriate FS officials to assess FS MCA needs and require that they are appropriately addressed in any new systems that are implemented.

#### Recommendations to the Secretary of the Department of Housing and Urban Development

To improve HUD's implementation and use of reliable MCA methodologies, we recommend that the Secretary of HUD direct appropriate officials to:

- take an active leadership role to promote the benefits and uses of MCA;
- establish and document a department-level policy for MCA;
- develop potential uses of current systems (e.g. TEAM-REAP) to derive MCA functionalities;
- develop financial system requirements that will fully address MCA capabilities needed for managerial decision making throughout the organization using appropriate, integrated financial and nonfinancial information systems; and
- strengthen internal controls over financial and nonfinancial data in MCA systems.

#### **Agency Comments and Our Evaluation**

We requested comments on a draft of our briefing presentation from the Secretary of Agriculture and the Secretary of Housing and Urban Development or their designees. We considered and incorporated, as appropriate, the comments in HUD's letter and the technical comments we received by e-mail from each department's Office of the Chief Financial Officer. The comment letter from HUD is reprinted in enclosure II.

#### Comments from the Department of Agriculture

In an e-mail from the Office of the Chief Financial Officer, USDA generally agreed with our findings and eight recommendations and stated that subsequent to our audit,

its CFO modified the WCF budget review and approval process to require annual review of activity center costing methodologies, with the first review to be completed as part of the fiscal year 2008 budget formulation cycle.

### Comments from the Department of Housing and Urban Development

HUD's Chief Financial Officer, in a letter commenting on a draft of this briefing, generally agreed with our findings. He neither agreed nor disagreed with our five recommendations but described actions HUD would take on four of the five.

In response to our recommendations about promoting the benefits and uses of MCA and developing an MCA policy for the department, the letter indicated that a new Executive Financial Management Advisory Committee would address both of these issues.

Concerning our recommendation to develop existing systems to derive MCA functionalities, the letter indicated the TEAM/REAP system was being modified to cost staffing data at the activity level and that the benefits of HUD's pilot ABC project would be assessed to consider applying it more broadly.

Concerning our recommendation that HUD develop financial system requirements that will fully address HUD MCA capabilities needed at HUD, HUD said that Data Mart and TEAM/REAP would be used for any increased MCA application, but not HIFMIP. We modified our recommendation to focus on the development of MCA capabilities generally, rather than specifying the use of HIFMIP.

Finally, concerning our recommendation that HUD strengthen internal controls over financial and nonfinancial data in MCA systems, HUD stated that it was not aware of any significant data quality problems in HUD's existing MCA practices. We were referring to concerns raised by the HUD OIG and independent auditors about the reliability of financial data due to control weaknesses in HUD's financial management systems. These weaknesses could negatively affect data integrity and indicate uncertain data reliability during the year. Such conditions would affect MCA data reliability as well as other financial reporting.

### **Scope and Methodology**

Our methodology was consistent with the one employed in our prior reviews of MCA practices.<sup>7</sup> To obtain an understanding of how MCA systems at USDA and HUD generate cost information, we reviewed documentation and interviewed officials on the status of MCA system implementation and the related obstacles to managerial costing. We also examined departmental guidance and looked for evidence of leadership and commitment to the implementation of entitywide cost management practices. Using the *Standards for Internal Control in the Federal Government*<sup>8</sup> as a guide, we identified internal controls over the reliability of financial and nonfinancial information used in MCA. To determine how managers use cost information to

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<sup>7</sup> GAO-05-1013R, p.12; GAO-06-301R, p. 7; GAO-06-599R, p. 5.

<sup>8</sup> GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

support decision making and provide accountability for government resources, we obtained an understanding of how USDA and HUD use cost accounting data for budgeting, costing services or products, preparing the Statement of Net Cost, managing contractors' reimbursable costs, and other managerial uses through a review of documentation provided by the agencies and interviews of agency officials.

During our review, we visited USDA and HUD headquarters in Washington, D.C. At USDA, we visited four component agencies – the Animal and Plant Health Inspection Service (APHIS) in Riverdale, Maryland; the Farm Service Agency (FSA) and the Food and Nutrition Service (FNS) in Alexandria, Virginia; and the Forest Service (FS) in Washington, D.C. – and the Departmental Working Capital Fund (WCF) in Washington, D.C. We also held teleconferences with APHIS policy and program development officials in Minneapolis, Minnesota; and FS staff in Custer, South Dakota, and in Albuquerque, New Mexico. At HUD, we reviewed MCA practices at the Federal Housing Administration (FHA) and the Office of Federal Enterprise Housing Oversight (OFHEA), an independent office within HUD, in Washington, D.C.

When possible, we corroborated information obtained in interviews with agency documents such as policies, procedures, system descriptions, and flowcharts. We also reviewed prior Office of Inspector General, independent public accountant, and GAO reports regarding MCA activities, systems, and data. The agencies provided comments on a draft of this report, which we considered and incorporated as appropriate. We performed this work from March 2006 through July 2006 in accordance with U.S. generally accepted government auditing standards.

We are sending copies of this report to the Secretary of the Department of Agriculture and the Secretary of the Department of Housing and Urban Development; the Director of the Office of Management and Budget; and other interested parties. Should you or your staff have any questions on the matters discussed in this correspondence, please contact me at (202) 512-6131 or [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. GAO staff who made major contributions to this report are listed in enclosure III.

Sincerely yours,

A handwritten signature in black ink, reading "Robert E. Martin". The signature is written in a cursive style with a large, stylized "R" and "M".

Robert E. Martin  
Director, Financial Management and Assurance



## Managerial Cost Accounting Practices



### Managerial Cost Accounting Practices

Department of Agriculture and  
Department of Housing and Urban Development

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

September 7, 2006

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### Briefing Agenda

- Introduction and Objectives
- Scope and Methodology
- Results in Brief
- Background
- Department of Agriculture
- Department of Housing and Urban Development
- Conclusions
- Recommendations for Executive Action
- Agency Comments and Our Evaluation

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**GAO**

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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, including:
  - 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.

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**GAO**

Accountability • Integrity • Reliability

## 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 for government resources.
- This is the fourth in a series of briefings concerning the status of MCA activities at large government agencies; we reported on our reviews at seven other agencies in previous phases of this work.
- This briefing summarizes our observations at the Department of Agriculture (USDA) and the Department of Housing and Urban Development (HUD).

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## Scope and Methodology

- To determine how USDA and HUD generate MCA information, we reviewed documentation and interviewed officials at the USDA and HUD headquarters and at selected component agencies and offices on
  - the status of MCA system implementation;
  - departmental guidance, leadership, and commitment to the implementation of cost management practices entitywide;
  - departmental internal controls to help ensure the reliability of financial and nonfinancial information used in MCA; and
  - any obstacles to managerial costing.

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## Scope and Methodology

- To determine how USDA and HUD managers use cost information to support decision making and provide accountability for government resources, we reviewed documentation provided by the agencies and interviewed officials at USDA and HUD headquarters and at selected USDA components on the use of MCA data for
  - budgeting; costing activities, services, or products; monitoring operations; and enhancing performance measures and operational efficiency; and
  - preparing the Statement of Net Cost (SNC).

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## Scope and Methodology

- We selected for review the agencies' larger components and programs in terms of number of employees and outlays, and those with cost recovery activities, such as working capital funds and services with user fees.
- We conducted our reviews at USDA and HUD headquarters in Washington, D.C. At USDA, we visited four component agencies—the Animal and Plant Health Inspection Service (APHIS) in Riverdale, Maryland; the Farm Service Agency (FSA) and the Food and Nutrition Service (FNS) in Alexandria, Virginia; and the Forest Service (FS) in Washington, D.C.—and the Departmental Working Capital Fund (WCF) in Washington. We also held teleconferences with APHIS policy and program development officials in Minneapolis, Minnesota; and FS staff in Custer, South Dakota, and Albuquerque, New Mexico.

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## Scope and Methodology

- At HUD, we reviewed MCA practices at HUD's Federal Housing Administration (FHA) and the Office of Federal Enterprise Housing Oversight (OFHEO), an independent office within HUD, in Washington, D.C.
- 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), independent public accountant (IPA), and GAO reports regarding MCA activities, systems, and data.
- We performed this work from March 2006 through July 2006 in accordance with U.S. generally accepted government auditing standards.

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## Results in Brief

- At the department level, USDA did not have an MCA system focused on managerial decision making. USDA assigned responsibility for MCA implementation to its components, but did not take an active leadership role to promote MCA or monitor its implementation at its components.
- USDA officials told us that the departmentwide Financial Management Modernization Initiative, a program to replace the current USDA financial system, is currently in the early planning stages, is expected to be implemented in 2012, and is to include a cost accounting module.
- None of the four USDA component agencies that we reviewed had integrated, agencywide MCA systems, although they used cost finding techniques.

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## Results in Brief

- FNS maintained a system that combines state grantee program data with its cost and benefit data to produce unit cost and trend information for program management.
- At WCF, management identified weaknesses in its oversight of WCF activity centers and is taking steps to improve activity center financial systems and reporting.
- USDA used cost information at the department level to prepare the SNC. At the component agencies we reviewed, uses of cost information included comparing program costs by location, making staffing decisions, identifying program participation anomalies, and determining rates for user fees and reimbursable agreements.

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## Results in Brief

- HUD does not have an MCA system in place that is routinely used to accumulate full costs of its activities or outputs for periodic managerial decision making. Instead, HUD management stated that HUD is a budget-driven organization with sufficient information to effectively support budget formulation and management of enacted programs.
- HUD's MCA activities include the allocation of salary and expense costs to its major programs reported on the SNC, allocation of project costs for its information technology (IT) systems, review of other budget-based cost and human capital reports and data, and manual accumulation of costs for special studies reported to external parties.

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## Results in Brief

- An integrated financial management system being phased in at HUD from 2009 to 2013 is expected to generate program and performance measures upon completion. HUD officials told us the system is not expected to provide more MCA functionalities than HUD's current systems.
- To address our findings, we made eight recommendations to USDA and five recommendations to HUD. We provided a draft of these briefing slides to the agencies. We received a comment letter from HUD and technical comments by e-mail from both agencies. We have incorporated the agencies' comments herein, as appropriate.

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## Background

- The Chief Financial Officers (CFO) Act of 1990 calls for the development and reporting of cost information and the systematic measurement of performance. FASAB Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, and JFMIP's *Framework for Federal Financial Management Systems* establish accounting standards and requirements for MCA at federal agencies.<sup>1</sup>
- The Federal Financial Management Improvement Act of 1996 builds on the foundation provided by the CFO Act and includes requirements for CFO Act agencies to comply with federal accounting standards and for the agencies' systems to comply substantially with, among other things, federal financial management systems requirements.

<sup>1</sup> In 2005, JFMIP's responsibilities for financial management and oversight were realigned to the Office of Management and Budget, the Office of Personnel Management, and the CFO Council.

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## Background

- MCA involves accumulating and analyzing financial and nonfinancial data to allocate costs to organizational pursuits, such as performance goals, programs, activities, and outputs, to establish cost and performance baselines in support of managerial decision making. The data analyzed depend on the operations and needs of the organization.
- Financial data include the costs of all activities associated with a given output, including direct and indirect costs.
- 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, or people trained or the amount of time needed to perform activities.

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## USDA Background

- USDA's mission is to provide leadership on issues related to nutrition, agriculture, natural resources, and quality of life in rural America.
- In fiscal year 2005, USDA reported net outlays of about \$85 billion and had approximately 99,400 employees.
- USDA has 15 component agencies organized in distinct mission areas, including food nutrition and consumer services, farm and foreign agricultural services, and natural resources and environment. It also has a WCF with 22 activity centers that provide various support services to internal and external customers.

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## USDA MCA Systems in Place

- USDA does not have a departmentwide MCA system in place.
- USDA delegated responsibility for MCA implementation to the component agencies because of their mission differences but did not have procedures in place to monitor component agency MCA initiatives.
- The department's *Agriculture Financial Standards Manual* required agencies to develop MCA capabilities to satisfy their unique needs in accordance with departmentwide standards, to the extent practicable.
- USDA had only limited information on the status of MCA implementation at the 15 components. USDA officials referred us to components and a 2002 study on 10 of the agencies for information on the status and application of MCA at major programs and activities.

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**USDA**  
**MCA Systems in Place**

- Other than issuing its *Agriculture Financial Standards Manual* and updating a user fee biennial reporting directive, USDA did not provide the component agencies with guidance or leadership on implementing MCA.
- Two component agency officials stated that managers focused on budget authority and obligations data, instead of using cost data to achieve efficiencies and manage expenses.

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**USDA**  
**MCA Systems in Place**

- USDA's current financial system, the Foundation Financial Information System (FFIS), is a financial accounting and reporting tool, which, according to USDA officials, provides all of the financial reporting necessary to meet government mandates. However, it was not designed to provide in-depth MCA information.
  - Officials at two of the four component agencies that we visited told us that FFIS generally does not provide cost information below program or budget line item level.
  - FFIS analysis and reporting functions and its related data warehouses allow users to conduct inquiries and execute ad hoc reports on, for instance, the status of funds, detailed transaction registers, and open obligations. However, these analyses do not integrate nonfinancial data with financial data to provide the cost of activities or outputs on an ongoing basis.

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**USDA**  
**MCA Systems in Place**

- Although USDA obtained an unqualified audit opinion on its financial statements in 2005, the OIG reported that stronger internal controls are needed to improve the timeliness and accuracy of financial data available to managers and cited material weaknesses related to overall financial management across USDA. For example, the auditor identified “abnormal balances” in more than 90 accounts, totaling over \$1 billion, that had not been fully researched or corrected before the end of the fiscal year.
- Weaknesses in internal control can result in inaccurate cost data throughout the year, which may adversely affect any decision based on these data.

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**USDA**  
**MCA Systems in Place**

- USDA's draft Financial Data Integration Improvement Plan (FDIIP) refers to incorporating MCA into the department's financial management improvement efforts only in general terms, not clearly defining its future MCA system.
- The FDIIP includes the Financial Management Modernization Initiative (FMMI) system to replace FFIS. FMMI is scheduled to be implemented by the end of fiscal year 2012 and is expected to include a cost accounting module. According to USDA officials, they intend to incorporate into FMMI the MCA functionalities required by the Office of Federal Financial Management (OFFM).<sup>2</sup>
- However, except for FMMI and ongoing initiatives at FSA, FS, and Rural Development, the FDIIP did not set time frames or requirements for other component agencies to improve cost management.

<sup>2</sup> Responsibilities of OFFM, an office within OMB, include establishing financial management policies for executive branch agencies.

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**USDA**  
**MCA Systems in Place**

- USDA's WCF has 22 activity centers that provide payroll, accounting, and other administrative and support services to internal and external customer agencies.
- For fiscal year 2005, the WCF reported total gross costs of \$498 million and 2,412 employees at the activity centers.
- The WCF activity centers are intended to recover the full cost of goods and services they provide. WCF officials told us that the activity centers use a range of methodologies, from spreadsheets to more sophisticated activity based costing (ABC) systems, to assign costs to customers.

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**USDA**  
**MCA Systems in Place**

- WCF officials identified areas for improving internal controls over WCF activities. For example, they are taking steps to improve activity center financial systems and reporting as well as divisional oversight of activity center costing methodologies.
- However, the WCF did not have documented procedures to help ensure appropriate cost accounting methodologies are used by the activity centers to allocate costs to customers and set prices for services.
  - Therefore, WCF officials could not centrally confirm that all of the activity centers were charging their customers the full cost of services rendered.
  - Those officials told us WCF did not routinely review and monitor MCA techniques used by activity centers.

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**USDA**  
**MCA Systems in Place**

- APHIS helps ensure the health and care of animals and plants and improve agricultural productivity. For fiscal year 2005, APHIS had outlays of \$1.1 billion, 1.3 percent of USDA's net outlays, and 7,078 (7.1 percent) of USDA's employees. APHIS administered over 300 types of user fees, according to agency officials.
- APHIS does not have an agencywide MCA system.
- According to APHIS officials, they used ABC costing techniques to manage around 10 percent of their budget, primarily for administrative purposes rather than routine program management. They said that each ABC project stands alone and is not routinely linked to any other financial or nonfinancial system.

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**USDA**  
**MCA Systems in Place**

- Financial data come from a data warehouse that is populated from FFIS.
- Nonfinancial data are drawn from personnel and procurement systems and a quarterly survey where employees report their time by type of activity. APHIS ABC officials rely on controls in place over the personnel, procurement, and other sources to ensure the reliability of nonfinancial data used by the ABC systems.
- APHIS is developing the APHIS Cost Management System (ACMS), a system to track spending to cost centers that is to be implemented by fiscal year 2007.
  - APHIS officials told us that ACMS has several data fields that could be used to include nonfinancial data and thus provide MCA information.
  - However, an APHIS official said that procedures for using these ACMS data fields for MCA are not finalized and are still being documented.

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**USDA  
MCA Systems in Place**

- FSA administers credit and loan programs and manages conservation, commodity, and disaster relief programs through a national network of offices. For fiscal year 2005, FSA had outlays of \$23.1 billion, 27 percent of USDA's net outlays, and 5,577 (5.6 percent) of USDA's employees.
- FSA does not have an agencywide MCA system.
- FSA does, however, have an ABC system to track costs related to reimbursable agreements at the two locations that administer those agreements, covering about \$100 million, or 10 percent of FSA's administrative budget. Officials said that financial data come from the FFIS. Nonfinancial data come from ABC online surveys related to employee time charges and FSA's Work Status Reporting System, a labor activities data collection system.

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**USDA  
MCA Systems in Place**

- FSA plans to implement its Budget and Performance Management System (BPMS) by October 2008 to link and integrate FSA's budget, cost, and performance management information. Officials told us that in 2003, after significant budget cuts, FSA determined that an MCA system could help it defend its budget. Until then, FSA officials said that having an MCA system was not a priority, as the emphasis was on executing the initiatives of the President's Management Agenda.
- FSA expects the BPMS MCA module to improve existing labor and workload data systems.

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**USDA**  
**MCA Systems in Place**

- FSA reported that BPMS is expected to provide the full cost of services and activities, including FSA and department-level indirect costs. The MCA model in BPMS is intended to formalize cost management practices for FSA and help decision makers answer questions concerning the full cost of programs, expenditure trends, and activity locations.
- FSA reported that improvements are needed in nonfinancial data quality and consistency, including the nonfinancial data used in its current ABC system. Planned upgrades to its labor and workload systems are intended to address these issues.

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**USDA**  
**MCA Systems in Place**

- FNS helps provide low-income people access to a healthy diet and nutrition education. For fiscal year 2005, FNS reported having budgetary outlays of \$50.2 billion, 58.7 percent of USDA's outlays, and 1,451 (1.4 percent) of USDA's employees.
- FNS officials said the agency designed its National Data Bank (NDB) system to integrate detailed cost and program performance information with its state grantee program data reporting system, enhancing the usefulness of cost data for its program managers. That information is available by program at state, regional, and national levels at monthly, quarterly, and annual reporting intervals.
  - States submit financial and nonfinancial data online for NDB. According to FNS officials, NDB includes both FNS and department-level direct and indirect costs.

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**USDA**  
**MCA Systems in Place**

- FNS officials said the agency uses state auditors and CPA firms under the OMB Circular No. A-133 single audit process to determine whether state program and administrative costs charged to FNS are allowable. FNS also performs edit checks, analytical reviews, and comparisons of the data submitted by the states.


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**USDA**  
**MCA Systems in Place**


- FS sustains the health, diversity, and productivity of the nation's forests and grasslands to meet the needs of present and future generations. For fiscal year 2005, FS had outlays of \$5 billion, 5.9 percent of USDA's net outlays, and 36,631 (36.9 percent) of USDA's employees.
- FS does not have an MCA system with which it can routinely analyze cost information.
- FS can use cost finding techniques and FFIS data to prepare ad hoc cost information reports. However, for the majority of FS dollars, these reports are limited to data at the program or budget line item level. Special job codes required to track costs for specific projects below the budget line item level can be established.


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	<div style="text-align: right;"> <b>USDA</b>  <b>MCA Systems in Place</b> </div> <ul style="list-style-type: none"> <li>• FS received an unqualified opinion on its fiscal year 2005 financial statements after making 177 accounting adjustments with an absolute value of \$1.9 billion. Year-end adjustments of this magnitude indicate impaired reliability of data during the year and of the cost analyses based on those data.</li> <li>• The FS CFO stated that implementation of MCA would not be a priority until outstanding financial reporting issues have been resolved and that reliable and timely financial information was necessary before pushing to develop MCA information. Instead, FS management is focused on             <ul style="list-style-type: none"> <li>• completing implementation of a new centralized financial management system at its Albuquerque Finance Center,</li> <li>• continuing to obtain an unqualified audit opinion, and</li> <li>• building strong internal control systems to address outstanding material weaknesses in financial management and reporting processes.</li> </ul> </li> </ul>
<hr style="width: 80%; margin-left: auto; margin-right: 0;"/> 31	

	<div style="text-align: right;"> <b>USDA</b>  <b>Uses of MCA Information</b> </div> <ul style="list-style-type: none"> <li>• At the department level, USDA uses cost information to prepare the SNC.             <ul style="list-style-type: none"> <li>• The USDA SNC is broken down by strategic goal. Some component agencies support more than one goal.</li> <li>• Component agencies submit cost information by performance goal using a template provided by USDA.</li> </ul> </li> <li>• APHIS managers used ABC analyses to help             <ul style="list-style-type: none"> <li>• make staff hiring decisions,</li> <li>• adjust user fees at the National Veterinary Services Laboratory, and</li> <li>• set a new user fee for Plant Protection and Quarantine permits.</li> </ul> </li> </ul>
<hr style="width: 80%; margin-left: auto; margin-right: 0;"/> 32	



 <b>GAO</b> <small>Accountability * Integrity * Reliability</small>	<b>USDA</b> <b>Uses of MCA Information</b>
<ul style="list-style-type: none"> <li>• However, APHIS user fees did not recover the full cost of providing some services because they did not include certain indirect and imputed costs incurred by other federal entities for its benefit. For example, in 2005, APHIS fees recovered \$122 million of the reported \$147 million cost for agricultural quarantines and inspections and \$5 million of the reported \$12 million cost for issuing plant health certificates.</li> <li>• APHIS stated that those indirect and imputed costs were not included in user fees because it believed that it did not have legal authority to recover those costs and transfer the collections to the agency that incurred them.</li> <li>• USDA policy requires its agencies to impose user charges consistent with the full cost principles of SFFAS No. 4 and section 6 of OMB Circular No. A-25. Section 6(d) of Circular No. A-25 provides that a user charge will recover the direct and indirect costs to any part of the federal government for providing a service. According to 31 U.S.C. 3302(b), APHIS's collections of costs incurred by other agencies need to be credited to the general fund of the Treasury if not otherwise specified in statute.</li> </ul>	
33	

 <b>GAO</b> <small>Accountability * Integrity * Reliability</small>	<b>USDA</b> <b>Uses of MCA Information</b>
<ul style="list-style-type: none"> <li>• FSA officials said they used an ABC system to allocate administrative costs at the two locations that administer reimbursable agreements.</li> <li>• FNS used NDB data to investigate anomalies in program participation rates and cost. <ul style="list-style-type: none"> <li>• FNS officials told us they used NDB data to identify declining Food Stamp Program participation rates and costs in one state.</li> <li>• FNS officials also used NDB data to analyze Women, Infants, and Children (WIC) program cost increases. One reason for increased program costs was the proliferation of WIC-only stores, which often charged higher prices than stores that sell to the general public as well as WIC participants. Subsequent legislation required that average payments to WIC-only stores not be higher than average payments to other stores.</li> </ul> </li> </ul>	
34	



**USDA**  
**Uses of MCA Information**

- FS used cost finding techniques and FFIS data in preparing the following ad hoc cost studies:
  - An outsourcing study under OMB Circular No. A-76 concerning information technology functions.
  - Reports on the cost of road maintenance, brush clearing, and other activities by region.

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**HUD**  
**Background**

- HUD's mission is to increase home ownership, support community development, and increase access to affordable housing free from discrimination.
- HUD reports costs for eight major programs, including the Federal Housing Administration (FHA), Section 8 Rental Assistance, Community Development Block Grants, and the Government National Mortgage Association (GNMA).
- HUD's mission support activities include OFHEO, which oversees two government-sponsored enterprises—the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association.
- In fiscal year 2005, HUD had approximately 9,100 employees with a salary and expense budget of about \$1.1 billion and reported net outlays of about \$42.7 billion. HUD bears the risk of a portfolio of over \$900 billion in FHA-insured loans and GNMA mortgage-backed securities.

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**HUD**  
**MCA Systems in Place**

- HUD senior management had not promoted the benefits of MCA activities beyond current basic uses.
- Over the past 5 years, HUD did not have sustained department-level senior financial management whose responsibility was to develop and maintain financial management activities, one of which is MCA.
  - The CFO position had been filled by three confirmed and three acting CFOs during this time frame.
  - Although HUD issued procedures for specific systems and processes, it had not issued departmentwide policy guidance on MCA as required by federal accounting standards.

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**HUD**  
**MCA Systems in Place**


- HUD did not accumulate full costs of its activities or outputs for day-to-day managerial decision making. Instead, the full costs (including direct costs, such as labor, administrative, and other costs, and indirect costs allocated from other segments and entities) of HUD's outputs were accumulated only to comply with federal reporting requirements, for example, in its annual performance and accountability report.
- A HUD official stated that HUD is a budget-driven organization primarily focused on oversight of its programs, and manages its operations principally with required budgetary data, such as
  - the status of budgetary funds and resource data, including obligations incurred and outlays, and
  - human capital utilization as measured by expected and expended full-time equivalents (FTE) at the activity level.<sup>3</sup>


<sup>3</sup> FTEs are a workforce estimate based on the number of work years to achieve an agency mission or objective used as a substitute for the cost of employee salaries and benefits. Salaries and benefits represent approximately 2 percent of HUD's total budget.


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 <b>GAO</b> <small>Accountability * Integrity * Reliability</small>	<b>HUD</b> <b>MCA Systems in Place</b>
<ul style="list-style-type: none"> <li>• Furthermore, HUD management stated it has sufficient information needed for managing the department. However both the President's Management Council (PMC) and OMB have indicated the need for HUD to develop more robust MCA information. <ul style="list-style-type: none"> <li>• PMC's 2005 report on the extent to which federal agencies have established efficiency measures, a key element of which is determining the costs of delivering services to improve program performance, showed that HUD lagged behind other federal agencies. HUD has agreed with OMB to establish additional efficiency measures.</li> <li>• Because of OMB's concerns about the lack of management information at FHA, HUD recently agreed to start an ABC pilot project to obtain costs of activities, including loan origination, monitoring, and servicing. However, an FHA official commented that ABC and MCA were of limited benefit to FHA.</li> </ul> </li> </ul>	
<hr/> 39	

 <b>GAO</b> <small>Accountability * Integrity * Reliability</small>	<b>HUD</b> <b>MCA Systems in Place</b>
<ul style="list-style-type: none"> <li>• Information that HUD could use for cost analyses must be accumulated and integrated from a number of financial and nonfinancial data sources that included <ul style="list-style-type: none"> <li>• a workload survey;</li> <li>• the Total Estimation and Allocation Mechanism-Resource Estimation and Allocation Process (TEAM-REAP);</li> <li>• the Project Cost Accounting System (PCAS);</li> <li>• Financial Data Mart (Data Mart); and</li> <li>• other cost finding techniques, such as manual, ad hoc systems queries.</li> </ul> </li> </ul>	
<hr/> 40	

<div style="display: flex; justify-content: space-between; align-items: center;"> <div style="text-align: center;">  <div style="font-size: 2em; font-weight: bold; margin: 0;">G A O</div> <div style="font-size: 0.8em; margin: 0;">Accountability * Integrity * Reliability</div> </div> <div style="text-align: right;"> <div style="font-weight: bold; margin: 0;">HUD</div> <div style="font-weight: bold; margin: 0;">MCA Systems in Place</div> </div> </div> <hr style="border: 0.5px solid black; margin: 5px 0;"/> <ul style="list-style-type: none"> <li>According to HUD management, a workload survey was used prior to fiscal year 2006 to allocate costs to its major programs reported on the SNC. The survey is a spreadsheet-based allocation methodology summarized by an outside contractor.</li> <li>TEAM-REAP, designed and currently used to provide a basis for staffing requests for budget development and human resource management, will partially replace the workload survey for fiscal year 2006.             <ul style="list-style-type: none"> <li>However, FHA (one of HUD's largest programs), OFHEO, and the OIG decided to continue using an annual survey to allocate their costs to programs reported on the SNC.</li> <li>Management indicated that TEAM-REAP has the potential for supporting activity based costing, but during our review, HUD management said it had no plans for using the system for MCA purposes beyond quarterly cost allocation for the SNC, the ABC pilot project, and management of staffing levels.</li> </ul> </li> </ul> <hr style="border: 0.5px solid black; margin-top: 10px;"/> <div style="text-align: right; font-size: 0.8em;">41</div>
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<div style="display: flex; justify-content: space-between; align-items: center;"> <div style="text-align: center;">  <div style="font-size: 2em; font-weight: bold; margin: 0;">G A O</div> <div style="font-size: 0.8em; margin: 0;">Accountability * Integrity * Reliability</div> </div> <div style="text-align: right;"> <div style="font-weight: bold; margin: 0;">HUD</div> <div style="font-weight: bold; margin: 0;">MCA Systems in Place</div> </div> </div> <hr style="border: 0.5px solid black; margin: 5px 0;"/> <ul style="list-style-type: none"> <li>PCAS is used expressly to track working capital funds appropriated for IT systems costs, inform program managers of the progress and costs of over 100 projects, and provide the basis for allocating systems costs to various users.</li> <li>Data Mart is HUD's repository for selected information extracted from its general ledger and other sources of financial and nonfinancial data. Data Mart has been used primarily as a cash management and financial reporting tool.</li> <li>Additionally, HUD employed other cost finding techniques that used spreadsheets and informal procedures to provide ad hoc analyses. These included reporting about conference-type activities to Congress and calculating budgetary costs for counseling activities.</li> </ul> <hr style="border: 0.5px solid black; margin-top: 10px;"/> <div style="text-align: right; font-size: 0.8em;">42</div>
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	<b>HUD</b> <b>MCA Systems in Place</b>
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- In 2002, the department began the HUD Integrated Financial Management Improvement Project (HIFMIP)—a four-phase, enterprisewide initiative to develop and implement an integrated financial accounting system.
  - HUD asserted that the system, currently being implemented, will ensure full OFFM compliance, correct material weaknesses, strengthen financial system data integrity, and improve controls when fully implemented in 2013.
  - However, when questioned about future system capabilities specific to MCA, HUD management said that, while HIFMIP is expected to enable improved MCA information, HIFMIP requirements were based upon current system functionalities and do not include a more comprehensive MCA system.
  - GAO previously reported that HUD had not sufficiently planned for the implementation of HIFMIP.<sup>4</sup>

<sup>4</sup>GAO, *Department of Housing and Urban Development: Status of Efforts to Implement an Integrated Financial Management System*, GAO-03-447R (Washington, D.C.: Apr. 9, 2003).

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	<b>HUD</b> <b>MCA Systems in Place</b>
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- GAO has reported that agencies with nonintegrated financial systems expend major effort and resources to develop information that should be provided on a recurring basis, increasing the likelihood for errors in that information.<sup>5</sup>
  - HUD's OIG reported in November 2005 that the department relied on extensive compensating procedures that were costly, labor intensive, and not always effective to prepare its annual financial statements. Key reported information had to be manually posted, verified, reconciled, and traced.
  - Further, the OIG reported that HUD's financial management systems did not enable it to generate and report accurate, timely information needed to manage operations on an ongoing basis.

<sup>5</sup>GAO, *Financial Management: Achieving FFMA Compliance Continues to Challenge Agencies*, GAO-05-881 (Washington, D.C.: Sept. 20, 2005).

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**HUD**  
**Uses of MCA Information**

- HUD management stated that HUD is a budget-driven agency with a focus on the oversight of its programs. MCA activities included the following:
  - A spreadsheet-based allocation of salary and expense costs to its major programs on the SNC.
  - Accumulation of project costs for its working-capital-funded IT systems.
  - Analysis and reporting of financial and operational data accumulated in Data Mart.
  - Ad hoc, manual accumulation of costs to respond to external federal oversight parties, including OMB and Congress.
  - Review of other budgetary reports and data, including FTE effort and workload information at the activity level.

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**Conclusions**

- Strong leadership and commitment by top management is required to achieve the cultural change needed to implement MCA across government. This is true regardless of whether a departmentwide system is selected or responsibility for system development is delegated to component agencies. In either case, sound systems of internal control and implementation monitoring are required to help ensure that data used by the system, and therefore, data provided by the system, are reliable.

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## Conclusions

### USDA

- Although USDA has delegated responsibility for MCA to its components, it has not shown strong leadership to promote, guide, and monitor MCA implementation. As a result, most components that we reviewed lacked reliable cost information to routinely inform managerial decisions concerning the reasonableness of costs for performing activities, providing programs, or pursuing department goals on an ongoing basis. Further, it has resulted in managers continuing to focus on budget management rather than improved cost management. Clearly defined MCA information needs and implementation time frames are lacking at some components and in USDA's current financial systems plan, putting at risk the opportunity to better inform agency decision-making processes and improve program efficiency.

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## Conclusions

### HUD

- The absence of continual strong leadership to promote and monitor MCA implementation across HUD programs has contributed to HUD's lack of reliable, comprehensive MCA information on its activities and outputs that is widely and routinely used. Developing a department-level MCA policy and strengthening internal controls over financial and nonfinancial data would improve the reliability of MCA information. Although expanding the range of MCA information beyond current rudimentary practices could help HUD better manage its programs and operations on a daily basis, HUD's plans for current and future systems lack broad application of MCA functionalities.

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## Recommendations for Executive Action

### Recommendations to the Secretary of Agriculture

- We recommend that the Secretary of Agriculture take the following eight actions to promote the implementation and use of reliable MCA methodologies to better inform managerial decision making in USDA and its components. We recommend that the Secretary direct appropriate officials to
  - take an active leadership role to promote the benefits and uses of MCA,
  - develop procedures to monitor the implementation of its MCA policy at its components,
  - finalize appropriate USDA-specific functional specifications to ensure that the cost accounting module of the FMMI will provide MCA information to support decision making at USDA and its component agencies, and
  - expand ongoing MCA planning efforts to include time frames and requirements for all component agencies to help improve cost management.

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## Recommendations for Executive Action

- To promote the use of proper cost accounting methodologies to inform pricing and other managerial decisions at USDA WCF activity centers, we recommend that the Secretary of Agriculture direct appropriate WCF officials to design, document, and implement procedures to periodically review those methodologies.
- To promote the implementation and use of MCA methodologies at APHIS, we recommend that the Secretary of Agriculture direct appropriate APHIS officials to finalize and document procedures for using ACMS data fields for MCA as a step toward better informed managerial decision making.

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## Recommendations for Executive Action

- To enhance the reliability of MCA data at FSA, we recommend that the Secretary of Agriculture direct appropriate FSA officials to continue efforts to improve and upgrade workload systems as they implement BPMS.
- We agree that the FS should continue to place a high priority on addressing its remaining financial management and reporting problems. At the same time, we recommend that the Secretary of Agriculture direct appropriate FS officials to assess FS MCA needs and require that they are integrated in any new systems that are implemented.

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## Recommendations for Executive Action

### Recommendations to the Secretary of Housing and Urban Development

- To improve HUD's implementation and use of reliable MCA methodologies, we recommend that the Secretary of HUD direct appropriate officials to take the following five actions:
  - take an active leadership role to promote the benefits and uses of MCA;
  - establish and document a department-level policy for MCA;
  - develop potential uses of current systems (e.g., TEAM-REAP) to derive MCA functionalities;

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## Recommendations for Executive Action

- develop financial system requirements that will fully address MCA capabilities needed for managerial decision making throughout the organization using appropriate, integrated financial and nonfinancial information systems; and
- strengthen internal controls over financial and nonfinancial data in MCA systems.

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## Agency Comments and Our Evaluation

- We requested comments on a draft of our briefing presentation from the Secretary of Agriculture and the Secretary of Housing and Urban Development or their designees. We considered and incorporated, as appropriate, the comments in HUD's letter and the technical comments we received by e-mail from each department's Office of the Chief Financial Officer.
- In an e-mail from the Office of the Chief Financial Officer, USDA generally agreed with our findings and eight recommendations and stated that subsequent to our audit, its CFO modified the WCF budget review and approval process to require annual review of activity center costing methodologies, with the first review to be completed as part of the fiscal year 2008 budget formulation cycle.

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## Agency Comments and Our Evaluation

- HUD's Chief Financial Officer, in a letter commenting on a draft of this briefing, generally agreed with our findings. He neither agreed nor disagreed with our five recommendations but described actions HUD would take on four of the five.
- In response to our recommendations about promoting the benefits and uses of MCA and developing an MCA policy for the department, the letter indicated that a new Executive Financial Management Advisory Committee would address both of these issues.
- Concerning our recommendation to develop existing systems to derive MCA functionalities, the letter indicated the TEAM/REAP system was being modified to cost staffing data at the activity level and that the benefits of HUD's pilot ABC project would be assessed to consider applying it more broadly.

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## Agency Comments and Our Evaluation

- Concerning our recommendation that HUD develop financial system requirements in the HIFMIP that will fully address MCA capabilities needed for managerial decision making throughout the organization, HUD's comments did not indicate a commitment to expanding its use of MCA but said Data Mart, TEAM/REAP, and other data sources would be used for any increased MCA application.
  - During our review, HUD management had indicated the department would use HIFMIP, its future integrated core financial management system, rather than Data Mart and TEAM/REAP, for any expansion of MCA.
  - We continue to believe that HUD could improve efficiency of its programmatic operations through use of a well-planned MCA system departmentwide, regardless of the systems employed. We modified our recommendation to focus on development of MCA capabilities generally, rather than specifying the use of HIFMIP.

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**Agency Comments  
and Our Evaluation**

- Concerning our recommendation for HUD to enhance the reliability of data in MCA systems by continuing to assess internal control over financial and nonfinancial information, HUD stated it was not aware of any significant data quality problems in HUD's existing MCA practices.
  - MCA involves the accumulation and integration of financial and nonfinancial information. As such, we were referring to the concern that HUD's OIG and independent auditors have raised over the reliability of financial data due to control weakness in HUD's financial management systems.
  - For example, the OIG reported for fiscal year 2005 that HUD relied on extensive compensating procedures to prepare its annual financial statements. This indicates uncertain data reliability during the year. In its report on HUD's fiscal year 2005 financial statements, an IPA stated that financial information system control weaknesses could negatively affect data integrity. Such conditions would affect MCA data reliability as well as other financial reporting.

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**Agency Comments  
and Our Evaluation**

- In HUD's comments, they advised that HUD disagreed that its limited application of MCA was due to a lack of leadership.
- Our conclusion was based on the fact that we found no evidence that senior leadership had actually promoted the benefits and uses of MCA or developed a department-level policy for MCA. HUD's comment letter says it will take steps to address these issues. Specifically, it says HUD has now established an executive committee that will consider enhanced MCA practices and is taking steps to develop a department-level policy for MCA. These leadership initiatives, taken following our review, should help facilitate the development of MCA in the future. Continuing leadership such as this will be crucial to the implementation of MCA at HUD, and throughout government.

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**GAO**

Accountability • Integrity • Reliability

**Agency Comments  
and Our Evaluation**

- HUD also disagreed that a lack of a more widespread application of MCA deprives the department of essential management information.
- We continue to believe that implementing MCA to help inform the department's day-to-day managerial decision making could increase the efficiency of delivering the department's programs and pursuing its performance goals under its more than \$40 billion program budget, as well as its \$1.1 billion administrative budget. We are encouraged by HUD's expanded use of TEAM/REAP and Data Mart as MCA tools, and implementation of an MCA pilot program, as discussed in HUD's letter.

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## Comments from the Department of Housing and Urban Development



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, DC 20410-3000

CHIEF FINANCIAL OFFICER

August 24, 2006

Mr. John C. Warner  
Assistant Director  
Financial Management and Assurance  
Government Accountability Office  
441 G Street, NW  
Washington, DC 20548-0001

Dear Mr. Warner:

Thank you for the opportunity to comment on the draft GAO report entitled Managerial Cost Accounting Practices: Department of Agriculture and Department of Housing and Urban Development. While we agree in concept that increased managerial cost accounting practices could provide better information for management decision-making purposes, there are considerable costs associated with developing and maintaining managerial cost accounting (MCA) systems that federal managers must weigh against the potential benefits in deciding what to implement. We find that the draft GAO report accurately depicts HUD management's past decisions on the limited application of MCA practices in the Department. However, we disagree with both the draft report's contention that HUD's limited application of MCA is due to a lack of leadership on the issue and the erroneous implication that the lack of a more widespread application of MCA deprives the department of essential information necessary for managing the Department. Nevertheless, as HUD embarks upon a major core financial management systems modernization effort through the HUD Integrated Financial Management Improvement Project (HIFMIP), we agree it is an opportunity to reassess the application of MCA practices at HUD.

The Department plans to take appropriate action on each of GAO's five recommended actions as follows:

1. Take an active leadership role to promote the benefits and uses of MCA.

HUD has established an "Executive Financial Management Advisory Committee" to direct and support financial management improvement efforts such as HIFMIP and the implementation of the new OMB Circular A-123 requirements for assessing internal controls over financial reporting. As HUD's CFO, I chair that committee and will work to assure that the consideration of enhanced MCA practices is on the committee's agenda. Consideration will be given to creation of a standing sub-committee working group on MCA practices.

2. Establish and document a department-level policy for MCA.

As CFO, I will draft an MCA policy document for review and approval by HUD's Executive Financial Management Advisory Committee as a means of directing the future consideration and implementation of MCA practices at HUD.

[www.hud.gov](http://www.hud.gov)

[espanol.hud.gov](http://espanol.hud.gov)

3. Develop potential uses of current systems (e.g., TEAM-REAP) to derive MCA functionalities.

In the current HUD operating environment, most program activities are directly delivered by third parties and HUD's primary role is one of program policy, funding and oversight. As such, the principal resource for which HUD is directly accountable is its staff. The Resource Estimation and Allocation Process-Total Estimation and Allocation Mechanism (REAP-TEAM) was developed as a result of a Congressionally mandated study for the purpose of providing a systemic means of improving the management of HUD's staffing and workload. The system provides a valuable management tool in that it accounts for the utilization of HUD's total available staffing effort at the activity level, and allows for consideration of "what if" scenarios. In support of the President's Management Agenda, and subsequent to GAO's review, the system was recently modified to enable HUD to cost out REAP-TEAM data at the activity level. Additionally, HUD plans to pilot a full activity-based costing effort in its Single Family Housing Mortgage Insurance Programs area under the Credit Program Management Initiative of the President's Management Agenda. Upon assessment of the benefits of that pilot effort, HUD will consider the benefits of applying activity-based costing in other areas.

4. Develop financial system requirements in the HIFMIP that will fully address MCA capabilities needed for managerial decision making throughout the organization.

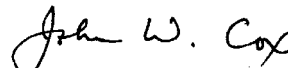
As indicated above, we agree that the HIFMIP effort presents an opportunity to reassess the cost-benefit of an expanded application of MCA practices as part of HUD's overall financial management systems modernization effort. However, it is expected that any increased application of MCA will be done through HUD's Financial Data Mart, which provides the capability to combine accounting/cost data with REAP-TEAM and other data sources to produce automated reports on MCA-type information for management's use.

5. Enhance the reliability of data in MCA systems by continuing to assess internal control over financial and non-financial information.

While we are unaware of any significant data quality problems in HUD's existing MCA practices, and the draft GAO report provides no specific evidence of such problems, HUD will continue to assess internal control over financial and non-financial information through its OMB Circular A-123 and other evaluation processes.

Additional technical comments on the draft report are being forwarded electronically for your consideration under separate cover. If you or your staff have any questions regarding this response or our technical comments, please contact James M. Martin of my staff at (202) 708-1946.

Sincerely,

  
John W. Cox



Enclosure III

## **GAO Contact and Acknowledgments**

### **GAO Contact**

Robert E. Martin (202) 512-6131 or martinr@gao.gov

### **Acknowledgments**

In addition to the contact named above, key contributors to this assignment were Jack Warner, Assistant Director; Lisa Crye; Dan Egan; Fred Evans; Barry Grinnell; Tom Hackney; Barbara House; Jeff Isaacs; Paul Kinney; Lisa Knight; James Moses; and Glenn Slocum.

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