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July 1998

Managerial Cost Accounting System Checklist

Systems Reviewed Under the Federal Financial Management Improvement Act of 1996

Exposure Draft

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HEADS OF DEPARTMENTS AND AGENCIES

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires, among other things, that agencies implement and maintain management systems that substantially comply with federal financial management systems requirements. These requirements are detailed in the Financial Management Systems Requirements series issued by the Joint Financial Management Improvement Program (JFMIP) and in Office of Management and Budget (OMB) guidance (Circular A-127 and September 9, 1997 implementation guidance).

To assist in reviews of financial management systems under the requirements of the FFMIA, we are issuing this exposure draft of a checklist that reflects JFMIP's Managerial Cost Accounting System Requirements. The purpose of this checklist is to assist (1) agencies in implementing and monitoring their managerial cost accounting systems and (2) management and auditors in reviewing the systems to determine if they are in substantial compliance with FFMIA. This checklist is not required to be used in assessing the managerial cost accounting system. It is provided as a tool for use by experienced staff. This checklist, the JFMIP source document, and the two previously mentioned OMB documents (Circular A-127 and the September 9, 1997, implementation guidance) should be used concurrently.

Please send comments by August 31, 1998, to Robert W. Gramling, Director, Corporate Audits and Standards, Accounting and Information Management Division, at:

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PREFACE

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires, among other things, that agencies implement and maintain management systems that substantially comply with federal financial management systems requirements. These requirements are detailed in the Financial Management Systems Requirements series issued by the Joint Financial Management Improvement Program (JFMIP) and in Office of Management and Budget (OMB) guidance (Circular A-127 and September 9, 1997, implementation guidance).

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Experienced judgment must be applied in the interpretation and application of this tool to enable the user to consider the impact of the completed checklist on the entire managerial cost accounting system and whether that system as a whole substantially complies with system requirements.

As technology progresses, new applications emerge replacing older, less efficient, and less effective ones. Policies and procedures in effect under older technologies give way to new and different processes. Judgment must be used when assessing an agency's managerial cost accounting system against JFMIP systems requirements in order to recognize when new and different technologies, although not specified in the guidance, achieve the objectives of JFMIP systems requirements.

Additional copies of this checklist can be obtained from Room 1100, 700 4th St. NW, U.S. General Accounting Office, Washington, D.C. 20548, or by calling (202) 512-6000, or TDD (202) 512-2537. When the checklist is issued in final, it will be available on the Internet on GAO's Home Page (*www.gao.gov*) under "Special Publications."

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Abbreviations

FFMIA	Federal Financial Management Improvement Act of 1996
JFMIP	Joint Financial Management Improvement Program
OMB	Office of Management and Budget
PP&E	property, plant and equipment
SFFAS	Statements of Federal Financial Accounting Standards
SGL	U.S. Government Standard General Ledger

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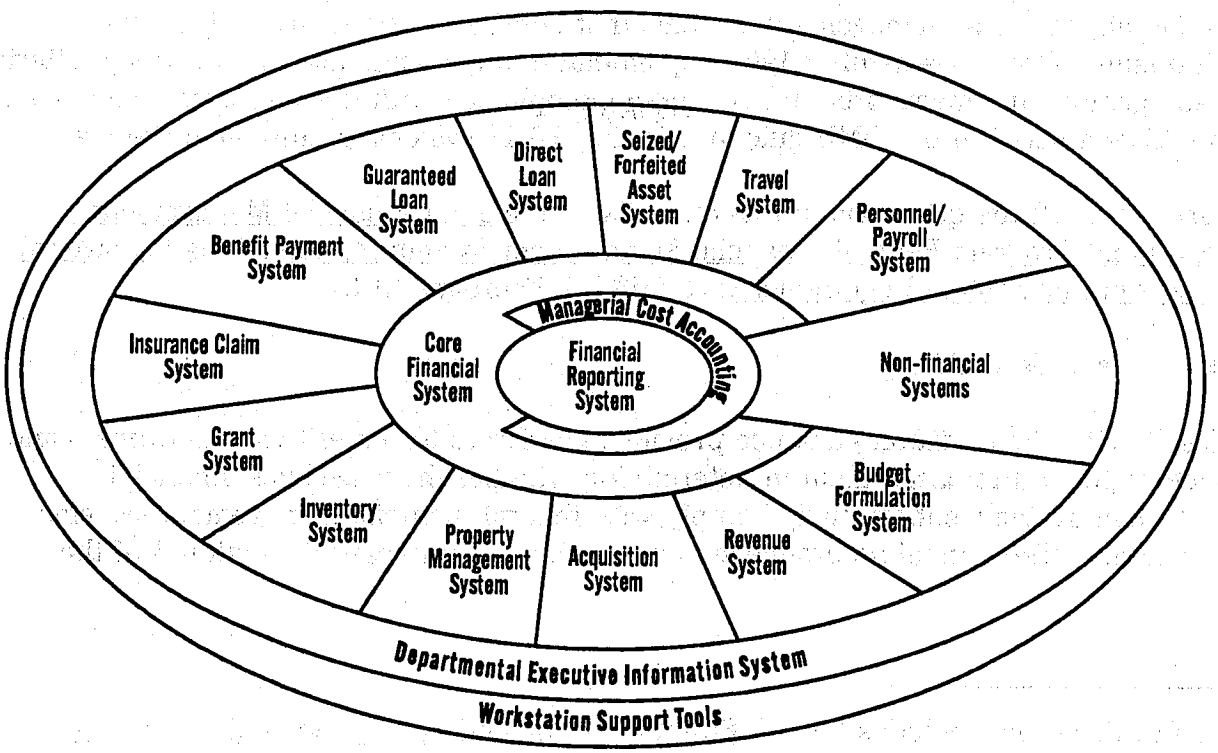
OVERVIEW

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires, among other things, that agencies implement and maintain financial management systems that substantially comply with federal financial management systems requirements. These system requirements are detailed in the Financial Management Systems Requirements series issued by the Joint Financial Management Improvement Program (JFMIP) and Office of Management and Budget (OMB) Circular A-127, Financial Management Systems. JFMIP requirements documents identify (1) a framework for financial management systems, (2) core financial systems requirements, and (3) 16 other systems supporting agency operations. Figure 1 illustrates how these elements fit together in an agency systems architecture.

Figure 1: Agency Systems Architecture



Source: JFMIP Federal Financial Management System Requirements documents.

To date, JFMIP has issued the framework and core documents and 7 of the 16 systems identified in the architecture. (See figure 1.)[1]

In December 1997, we issued eight exposure drafts proposing checklists for the then eight documents in the JFMIP series. In early 1998, JFMIP decided to initiate projects to update two of those documents (systems related to employee travel and payroll) and to assess three others (systems related to seized/forfeited assets, direct loans, and loan guarantees) to determine the extent updates may be needed, and, if needed, to initiate revisions. When the two documents are updated and the other three documents are either updated or determined not to need revision, we will issue related final checklists. Until the revisions are completed, the exposure drafts reflecting the existing five system requirements documents will be available for use to the extent agencies wish to apply them. In May 1998, we issued final checklists for the JFMIP framework, core, and inventory systems requirements documents.

Authoritative Guidance

OMB Circular A-127 and OMB's Implementation Guidance for the Federal Financial Management Improvement Act (FFMIA) of 1996, issued September 9, 1997, provide the basis for assessing compliance with the FFMIA requirement for agencies to implement and maintain financial management systems that comply substantially with federal requirements. OMB's September 1997 implementation guidance identifies various criteria that an agency must meet to be in substantial compliance with these requirements. One of the criteria listed in the OMB guidance is the JFMIP systems requirements series.

The source of all the questions in this checklist is the Joint Financial Management Improvement Program Federal Financial Management System Requirements Managerial Cost Accounting System Requirements (FFMSR-8, February 1998).

How to Use This Guide

OMB's 1997 implementation guidance provides indicators for chief financial officers and inspectors general to assist them in determining whether their agencies' financial management systems substantially comply with federal financial management systems requirements. The annual assurance statement required pursuant to section 4 of the

[1]Thus far, the series includes the (1) Framework for Federal Financial Management Systems, (2) Core Financial System Requirements, (3) Inventory System Requirements, (4) Seized/Forfeited Asset System Requirements, (5) Direct Loan System Requirements, (6) Guaranteed Loan System Requirements, (7) Travel System Requirements, (8) Personnel-Payroll System Requirements, and (9) Managerial Cost Accounting System Requirements.

Federal Managers' Financial Integrity Act is one of those indicators. Agencies can use our checklist to help determine annual compliance with section 4 of the act.

Filling out this checklist will allow agencies to systematically determine whether specific system requirements are being met. In determining substantial compliance, agencies should assess the results of the completed checklist on the managerial cost accounting system taken as a whole. "No" answers should not be viewed by themselves or taken out of context. Rather, "no" answers should be assessed as to the impact on the overall system and the extent to which the "no" answers inhibit the entire system from meeting substantial compliance.

In the checklist, two columns follow each question. Use the first column to answer each question "yes," "no," or "NA." Use the second column to explain your answer. A "yes" answer should indicate that the agency's system or systems provide for the capability described in the question. For each "yes" answer, the second column should contain a brief description how the system(s) contain the capability and should also refer to a source that explains or shows the capability.

A "no" answer indicates that the capability does not exist. For a "no" answer, the second column should provide an explanation and, where applicable, a reference to any related supporting documentation. Such explanations could include the following examples: (1) the agency is working on modifying or implementing its system(s) to have the capability available in subsequent years or (2) management believes the capability is not cost- effective and will not enhance the systems' ability to manage operations. Cost-benefit studies that support each explanation should be identified in the explanation column. If there are no cost-benefit studies or other support, a full explanation should be provided.

Not every guide may apply to each agency. Further, while a guide may be applicable to an agency, certain questions within the guide may not be applicable. Answer such nonapplicable question(s) with "NA" and provide an appropriate explanation in the second column.

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MANAGERIAL COST ACCOUNTING SYSTEM REQUIREMENTS

The managerial cost accounting system requirements document helps agencies meet government guidance by summarizing the integration requirements and specifying the information and functional processing requirements needed to accumulate and assign cost data consistent with laws and policies.

The summarized integration requirements of the managerial cost accounting system are discussed as follows.

> Integration Requirements - The sources of the integration requirements are OMB Circular A-127, Financial Management Systems, and JFMIP's Framework for Federal Financial Management Systems, especially the Systems Architecture chapter of that document. To be integrated, financial management systems need to have the following characteristics, as described in OMB Circular A-127: common data elements, common transaction processing, consistent internal controls, and efficient transaction entry. (The checklist questions for this area are drawn from pp. I-3 through I-5 of the source document.)

The two requirements areas of the managerial cost accounting system are discussed as follows.

1. Information Requirements - These requirements are for the three separate but related classification structures consisting of financial information, operations information, and program information. The financial information classification structure is the primary structure for capturing accounting information, including costs, revenues, and units of input, such as labor, inventory, etc. The operations information classification structure is used to measure the efficiency of an operation and associate costs to outputs. The program information classification structure is used to measure program effectiveness and associate costs to outcomes. (The checklist questions for this area are drawn from pp. II-1 through II-6 of the source document.)

2. Functional Requirements - These requirements consist of system administration, data capture, indirect cost distribution, cost and revenue calculations, and cost monitoring. The checklist questions for this area are drawn from pp. III-1 through III-10 of the source document.)

The checklist questions follow the JFMIP source document. It should be noted that not all questions will apply in all situations and, as with the use of any checklist, professional judgment should be exercised. Using the JFMIP source document along with the two

previously mentioned OMB documents will help ensure that the user is cognizant of the background information necessary to fully understand the questions.

Managerial Cost Accounting System Requirements

Integration Requirements	Yes/no NA	Explanation
1. Is the managerial cost accounting system fully integrated with other agency systems, that is designed to eliminate unnecessary duplication of transaction entry and share data elements without rekeying or reformatting?		
2. Does the managerial cost accounting system accept financial and nonfinancial (e.g., units) data from the core financial system, inventory system, payroll or labor distribution system, property management system, and others? These data include but are not limited to labor costs, material costs, depreciation, labor hours, exchange revenues, and number of items produced.		

Managerial Cost Accounting System Requirements

Integration Requirements	Yes/no NA	Explanation
3. Does the managerial cost accounting system provide data to the core financial system, inventory system, property management system, financial reporting system, and possibly others? Examples of data provided include work-in-process values, finished goods values, and data for the Statement of Net Costs.		

Managerial Cost Accounting System Requirements

Information Requirements	Yes/no NA	Explanation
1. Does the system share summary data with the core financial system and other transaction processing systems?		
2. Does the system manipulate these data to support management's analysis and reporting of cost information?		
3. Does the system capture data consistent with the information requirements, and are these data processed according to the functional requirements?		
4. Does the system share data with and return them to other systems and report them according to the reporting requirements?		
5. Are the data needs defined and classified?		

Managerial Cost Accounting System Requirements

Information Requirements	Yes/no NA	Explanation
6. Does the information classification structure consist of the following separate but related classification structures: – Financial information? – Operations information? – Program information (optional)?		
7. Does the financial information classification structure for cost accounting contain the following essential categories: – Organization unit? – Funding identification? – Accounting categorization? – Program? – Special descriptors? – Accumulators?		

Information Requirements	Yes/no NA	Explanation
8. Does the system's financial information classification structure have at least the following organization unit levels at which financial information is consolidated and reported within an agency or externally to central agencies: – Reporting entity, the level at which financial statements are produced? – Responsibility segments, required for the statement of net costs for external reporting purposes? – Responsibility centers, a level below responsibility segment? Based on existing law and policies, agency management cost accounting systems need at least the above three levels. A fourth level, ABC Activity, used in activity-based costing, is optional.		

Information Requirements	Yes/no NA	Explanation
9. Does the system's financial information classification structure include the following funding identification elements that are used to control the budget formulation and execution processes: – Account symbol? – Fund year? Although cost accounting at the budget account level is not a specific requirement of the managerial cost accounting standard, these elements have been included to enable an entity to correlate budget accounts with related responsibility centers.		

Managerial Cost Accounting System Requirements

Information Requirements	Yes/no NA	Explanation
10. Does the system's financial information classification structure contain the following minimum accounting categorization elements used to track assets, costs, and revenues in the cost system: – Standard general ledger account? – Object class/cost element? – Entity/nonentity/inter-entity indicator? – Federal/nonfederal indicator? – Reporting period? – Revenue source code (optional)?		

Managerial Cost Accounting System Requirements

Information Requirements	Yes/no NA	Explanation
11. Does the system's financial information classification structure have, at a minimum, the following program elements to support aggregation of financial information related to specific activities or purposes: – Program? – Project? Each of these could have several levels (e.g., program, subprogram, or sub-subprogram).		
12. Does the managerial cost accounting system's financial information classification structure have, at a minimum, the flexibility to include special descriptors to satisfy management's special information needs?		

Information Requirements	Yes/no NA	Explanation
13. Does the system's financial information classification structure provide for accumulating the monthly, current year, 4 prior years and inception to date total for – revenue dollars (optional), – cost dollars, – planned total revenue dollars (optional), – planned total cost dollars, and – units?		
14. Does the system's operations information classification structure have the following essential categories: – Operations unit? – Activity type? – Efficiency measures? – Standards? – Accumulators?		

Information Requirements	Yes/no NA	Explanation
15. Does the operations unit category of the system's operations information classification structure include – responsibility segments, – responsibility centers, – program, and – project?		
16. Does the system's activity type category of the operations information classification structure identify product/service type?		
17. Does the system's efficiency measures category of the operations information classification structure provide information on the efficiency measure type?		
18. Does the system's standards category of the operations information classification structure capture information on – planned output units, and – planned output costs?		

Managerial Cost Accounting System Requirements

Information Requirements	Yes/no NA	Explanation
19. Does the system's accumulators category of the operations information classification structure capture information on – output units and – output costs?		
20. Does the system's program information classification structure have the following categories: – program unit, – effectiveness measures, – goals and objectives, and – accumulators?		
21. Does the system's program information classification structure for the program unit category categorize information by program?		
22. Does the system's program information classification structure for the effectiveness measures category capture information on planned outcomes?		

Managerial Cost Accounting System Requirements

Information Requirements	Yes/no NA	Explanation
23. Does the system's program information classification structure for the goals and objectives category capture information on – quantitative outcome goals and – planned program costs?		
24. Does the system's program information classification structure for the program accumulators category capture information on – outcome measures and – program costs?		

Managerial Cost Accounting System Requirements

Functional Requirements	Yes/no NA	Explanation
1. Does the managerial cost accounting system support the information requirements in chapter II of the JFMIP Managerial Cost Accounting System Requirements and use the data classification structure described there?		
2. Does the managerial cost accounting system, where possible and practical, access the other systems' tables (or other data structures) that define codes in the data classification structure, rather than maintaining its own set of tables for these data elements?		
3. Are the reconciliation and replication of the duplicated data between the other system and the managerial cost accounting system easy, frequent, and reliable to minimize data integrity problems if the managerial cost accounting system does maintain its own set of tables (due to system architecture restrictions, for example)?		

Managerial Cost Accounting System Requirements

Functional Requirements	Yes/no NA	Explanation
4. Does the managerial cost accounting system allow authorized users to maintain unique data classification elements (for example, activities in an activity-based costing system) and use them for editing and reporting purposes? Different users may have different access and update capabilities.		
5. Does the system administration function of the managerial cost accounting system enable authorized users to maintain the rules for cost assignment through a process that supports the costing methodologies, cost objects, and resources chosen by the agency for its use?		
6. Is system security established and maintained following the computer security policies set forth in appendix III to OMB Circular A-130, Security of Federal Automated Information Systems, to prevent unauthorized access to system functions and data?		

Managerial Cost Accounting System Requirements

Functional Requirements	Yes/no NA	Explanation
7. Are data maintained for the periods needed for compliance with applicable standards, laws, and regulations and to meet management's needs for historical information?		
8. Is the managerial cost accounting system able to capture or access several types of data, such as data on costs, units, exchange revenues, and gains and losses?		
9. Does the managerial cost accounting system capture (or share with other systems) all data on costs needed to determine the costs of outputs and the total net cost of the entity's operations, with the appropriate disclosures of the components of net cost (e.g., operating costs, acquisition of mission assets, and exchange revenue)?		

Managerial Cost Accounting System Requirements

Functional Requirements	Yes/no NA	Explanation
10. Are costs captured by the managerial cost accounting system stored according to the data classification structure?		
11. Does the managerial cost accounting system capture summary information on all costs from the core financial system and other systems of original entry for cost transactions? These costs include, but are not limited to, operating expenses, costs of transfer payments, costs of goods sold, work-in-process costs, and mission asset costs.		
12. Does the managerial cost accounting system allow for direct input of cost information by authorized users with an appropriate audit trail in order to capture costs that are not entered into any other system?		

Managerial Cost Accounting System Requirements

Functional Requirements	Yes/no NA	Explanation
13. Does the managerial cost accounting system summarize and send costs entered directly into the system to the core financial system for posting to the general ledger? An example of this is recording the estimated cost of goods and services received from another entity without reimbursement and the corresponding financing source to cover it, where the cost needs to be recorded at a level of detail not supported by the core financial system.		
14. Does the managerial cost accounting system capture (or share with other systems) all data on units needed to determine the costs of outputs and the total net cost of the entity's operations, with the appropriate disclosures of the components of net cost?		

Managerial Cost Accounting System Requirements

Functional Requirements	Yes/no NA	Explanation
15. Are units captured by the managerial cost accounting system stored according to the data classification structure? Examples of unit information to be captured include amounts and unit types (e.g., hours or items). These data elements are used to represent actual units of inputs and outputs, equivalent units (such as full-time equivalent employees), percentage of a project completed and measurements of outcomes.		
16. Does the managerial cost accounting system capture (or share) information on units from the core financial system and other systems of original entry?		
17. Does the managerial cost accounting system allow for direct input of unit information by authorized users with an appropriate audit trail in order to capture unit information not entered into any other system?		

Managerial Cost Accounting System Requirements

Functional Requirements	Yes/no NA	Explanation
18. Does the managerial cost accounting system capture (or access) information on exchange revenues (net of revenue adjustments) and gains and losses resulting from exchange transactions (net of adjustments) from the core financial system and other systems of original entry (optional)?		
19. Does the managerial cost accounting system assign the cost of supporting services and intermediate products to the segments that receive the services and products? This is referred to as the intra-entity cost assignments.		
20. Does the managerial cost accounting system recognize inter-entity costs for goods and services received from other federal entities?		
21. Does the managerial cost accounting system assign the inter-entity costs to the responsibility segments that use the inter-entity services and products?		

Managerial Cost Accounting System Requirements

Functional Requirements	Yes/no NA	Explanation
22. Are the system's cost methods consistent with the order of preference in SFFAS No. 4, Managerial Cost Accounting Standards, as follows:: 1. Directly tracing costs wherever economically feasible? 2. Assigning costs on a cause-and-effect basis? 3. Allocating costs on a reasonable and consistent basis?		
23. Does the managerial cost accounting system support one or more of the following four costing methodologies described in SFFAS No. 4: – Activity-based costing? – Job order costing? – Process costing? – Standard costing? The managerial cost accounting system is not limited to them as long as the methodology used complies with the principles in SFFAS No. 4.		

Functional Requirements	Yes/no NA	Explanation
24. Is the summarized impact of cost assignments sent to the core financial system for posting to the general ledger and for external reporting if the cost assignment process affects the values of Standard General Ledger (SGL) accounts in the core financial system's general ledger? If, on the other hand, cost assignment merely moves costs between classification structure elements other than SGL accounts (e.g., organizations and programs), posting changes to the core financial system is optional.		
25. Are alternate controls in place to ensure that all costs have been properly accounted for if posting to the core financial system is not preformed?		
26. Is either the cost accounting system or the core financial system able to report costs upon request both before distribution (i.e., as originally recorded) and after distribution of indirect costs?		

Managerial Cost Accounting System Requirements

Functional Requirements	Yes/no NA	Explanation
27. Does the managerial cost accounting system support the inventory system (or other property system) by accumulating costs from multiple sources for inventory and related property that has been acquired, is undergoing repair, or is in production (work-in-process)?		
28. Does the managerial cost accounting system provide accumulated costs, including applicable indirect costs, to the appropriate system for recording as the appropriate asset or expense type?		
29. Does the managerial cost accounting system provide cost data to systems that need them to calculate revenue amounts for goods and services being produced?		

Managerial Cost Accounting System Requirements

Functional Requirements	Yes/no NA	Explanation
30. Does the managerial cost accounting system accumulate and determine the full cost of general property, plant and equipment (PP&E) under construction?		
31. Does the managerial cost accounting system maintain costs for the current period and in total for each construction project and item of property?		
32. For asset valuation purposes, does the managerial cost accounting system pass to the core financial system and property management system(s) information that occurs when a project is completed and construction-in-progress is transferred to the appropriate asset account?		
33. Does the managerial cost accounting system capture and handle depreciation expenses in much the same way it captures expenses associated with labor, materials, and other items?		

Managerial Cost Accounting System Requirements

Functional Requirements	Yes/no NA	Explanation
34. Does the managerial cost accounting system capture and classify the costs of acquiring, constructing, improving, reconstructing, or renovating heritage assets; the costs of acquiring PP&E; and the costs of acquiring stewardship land and preparing it for its intended use to comply with SFFAS No. 8, Supplementary Stewardship Reporting?		
35. Does the managerial cost accounting system also support the proper accounting for multi-use heritage assets, such as buildings that both provide reminders of our heritage and are used for day-to-day government operations unrelated to the assets themselves?		

Managerial Cost Accounting System Requirements

Functional Requirements	Yes/no NA	Explanation
36. Does the managerial cost accounting system accumulate and maintain costs for stewardship investments (investment in human capital, research and development, and nonfederal physical property) on an annual basis for stewardship reporting for a period of 5 years?		
37. Is the managerial cost accounting system able to provide cost data needed to produce the Statement of Net Costs for the agency's financial statements?		
38. Does the managerial cost accounting system maintain the exchange revenue data needed to produce the Statement of Net Cost (optional)?		

Managerial Cost Accounting System Requirements

Functional Requirements	Yes/no NA	Explanation
39. Does the managerial cost accounting system support cost management by performing such tasks as the following: – Accumulating costs in agency-defined cost centers that are associated with agency-defined performance measures? – Accumulating numerically valued agency-defined output information? – Calculating the unit cost of outputs? – Produce unit cost reports by output? – Produce project, job order, and work order reports showing costs from inception to date? – Produce contract reports showing revenue and costs?		

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