April 6, 2011

Memorandum

To: Members of the Board
From: Julia E. Ranagan, Assistant Director
Through: Wendy M. Payne, Executive Director

Subj: Informational Report on March 16, 2011, Managerial Cost Accounting Forum¹ – Tab L

OBJECTIVE

The purpose of this memorandum is to inform the board about an educational session on managerial cost accounting (MCA) that FASAB staff hosted on Wednesday, March 16, 2011.

This material is for informational purposes only and is not on the agenda for the April board meeting.

BRIEFING MATERIAL

☐ Attachment 1 provides a copy of the agenda and speaker bios.

☐ Attachment 2 provides a copy of the speaker’s PowerPoint presentations.

NEXT STEPS

Staff plans to continue to host these educational sessions on various topics as long as (1) there continues to be an interest from our constituents and (2) they do not result in a significant cost to FASAB.

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

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

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

As a result, FASAB’s cost accounting project was closed. However, since the June 15, 2010, forum on cost accounting was considered extremely useful by participants, FASAB staff planned to hold another educational session on managerial cost accounting in early 2011.

SUMMARY OF FORUM

On Wednesday, March 16, 2011, FASAB staff hosted a second forum, Managerial Cost Accounting Part II: Usefulness of MCA Beyond the Widgets. The forum was held in the auditorium of the Government Accountability Office building and was attended by over 190 individuals from the federal financial management community. Attachment 1 contains the agenda for the forum and speaker bios; Attachment 2 contains copies of the speakers’ PowerPoint presentation slides.

The forum was very well-received, as evidenced by the results of the written evaluation below and the 84 emails that were received after the forum stating that they would be interested in attending a future FASAB-hosted event on additional topics. Additional topics of interest noted by participants were:

- Issues that traditionally hinder uses of MCA and how we can overcome them (the following are some examples):
  - Misconceptions behind expenditures vs. operating costs
  - Misunderstanding of the purpose of budgetary vs. proprietary accounting
o Not relating microcosm office/division/branch savings to macro department /
governmentwide objectives. Why strive for cost savings using MCA when
there’s no recognition or long-term benefit?

• Specifically, what does OMB, Congress, and other external stakeholders hope to
do with MCA data? Mr. White spoke of internal mgmt uses of MCA, which is
easier to demonstrate than corporate/executive level uses. What positive,
constructive examples exist where external stakeholders are using MCA
information to plan for and measure progress toward reaching strategic goals and
objectives?

• Tying cost to performance using statistical analysis and how we can help.

• The Federal Performance community needs help understanding how cost is
related to performance metrics and measures. In addition, they need help
understanding how their own performance metrics relate to outcomes.

• Capitalization, especially on Internal Use Software. Agencies are spending
significant funding on capitalization efforts, with little benefit being derived.

• More specifics on how agencies track costs. I thought it was interesting that the
speaker from FBI mentioned they have recently started using sub-object class
codes to track certain costs. In general, I would love to hear from accountants and
managers what has worked for them and what has not.

MARCH 16, 2011
FORUM EVALUATION RESULTS

Makeup of those who completed evaluation (31% completion rate):

Preparer / Auditor / Consultant / Other:

Preparer: 15 (28%)
Auditor: 14 (26%)
Consultant: 4 (7%)
Other: 20 (38%)

(PMP Project Manager for MCA, Systems Accountant (3), Budget
Officer, Reconciliation/Reports, Special Projects, Financial System
Integration, Accounting Policy, Analyst, Budget Analyst, MCA - Project
Mgmt., Project Manager developing a cost model, Responsible for
collection of program/activity data for agency employees, Financial
Policy (2), FASAB Staff )
Position:
CFO / Director / Executive: 4 (7%)
Deputy CFO / Assistant Director / Manager/ Lead: 20 (36%)
Senior: 9 (16%)
Staff: 22 (40%)

<table>
<thead>
<tr>
<th>Rating Area</th>
<th>Avg</th>
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<tr>
<td>Based on a scale of 1 – 5 with 1 = to “strongly disagree” and 5 = “strongly agree”</td>
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<td>Meeting site was adequate in size, comfortable, and convenient</td>
<td>4.17</td>
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<tr>
<td>Registration was efficient and friendly</td>
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<tr>
<td>Program objectives were consistent with those advertised</td>
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<tr>
<td>Material was up-to-date, well-organized, and presented in sufficient depth</td>
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</tr>
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<td>Speakers demonstrated a comprehensive knowledge of the subject</td>
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<td>Speakers appeared to be interested and enthusiastic about the subject</td>
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</tr>
<tr>
<td>Speakers spoke clearly and distinctly</td>
<td>4.34</td>
</tr>
<tr>
<td>Speakers encouraged questions and participation</td>
<td>4.38</td>
</tr>
<tr>
<td>Audio-visual materials used were relevant and of high quality</td>
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</tr>
<tr>
<td>The information presented will be useful to my organization</td>
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<tr>
<td>Overall, I would rate the speakers</td>
<td>4.31</td>
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<tr>
<td>Overall, I would rate this program</td>
<td>4.24</td>
</tr>
</tbody>
</table>

If you have any questions or comments, please contact me by telephone at 202.512.7377 or by e-mail at ranaganj@fasab.gov.

Attachments (2)
Tab L
Attachment 1
Agenda and
Speaker Bios
MANAGERIAL COST ACCOUNTING PART II:
USEFULNESS OF MCA BEYOND THE WIDGETS

WEDNESDAY, MARCH 16, 2011
GAO AUDITORIUM, 441 G. STREET, NW
8:30 AM – 12:30 PM

Objective: To provide an opportunity for the federal community to learn about others’ experiences with using managerial cost accounting beyond just the traditional use for calculating widget-based user fees.

8:00 – 8:25 Arrival / Check-in to Main GAO Headquarters Building

8:30 – 8:35 Opening Remarks
-- Wendy Payne, CGFM, CPA, MPA, Executive Director, FASAB

8:35 – 9:25 Benchmarking Processes, Controls, and Costs
-- Jay Hurt, CGFM, Chief Financial Officer, Federal Student Aid, U.S. Department of Education

-- Larry White, CMA, CFM, CPA, CGFM, Executive Director, Resource Consumption Accounting Institute

10:15 – 10:30 Break

10:30 – 11:20 The ABCs of the FBI—What is the Cost to Train a Special Agent?
-- Kamile Narine, Accounting Section Chief, Finance Division, Federal Bureau of Investigation, U.S. Department of Justice

-- Sandy Van Booven, CPA, CFE, Director of Finance, National Reconnaissance Office

12:10 – 12:30 Closing Remarks
-- Debra Bond, Deputy Controller, Office of Management and Budget
**Speaker Bios**

**Debra Bond**

In November 2009, Debra Bond assumed the role of Deputy Controller of the Office of Federal Financial Management within the Office of Management and Budget (OMB). As Deputy Controller, she is responsible for helping coordinate OMB's efforts to initiate government-wide improvements in all areas of financial management, including financial reporting, improper payments, open government, and real property management.

Prior to her current position, Ms. Bond served as the Chief Financial Officer of US Immigration and Customs Enforcement (ICE) agency within the Department of Homeland Security (DHS), managing budget, finance, acquisition, and asset management matters. She moved to ICE from the US-VISIT program in DHS, where she served worked on initiatives to improve coordination of terrorist screening efforts in the Federal government.

Earlier, Ms. Bond served in multiple capacities within OMB, including Policy Analyst in the Office of Information & Regulatory Affairs working on labor issues. Later, Ms. Bond moved to various Resource Management Offices (RMOs) including the Labor Branch, Justice Branch, and the Homeland Security Branch, where she concentrated on immigration policy and biometrics policy.

Ms. Bond holds a Masters Degree in Public Administration from North Carolina State University and a Bachelors Degree in Political Science from the University of North Carolina at Chapel Hill.

**Jay Hurt, CGFM**

Jay Hurt has over 18 years experience in federal financial management. In his current role as the CFO of Federal Student Aid, he promotes sound financial management in the distribution of over $130 billion in grant, direct loan, and loan guaranty assistance annually. In previous jobs, Mr. Hurt was a consultant for IBM, PricewaterhouseCoopers, and American Management Systems. He has an undergraduate degree from the University of Richmond and an MBA from the University of Michigan.

**Kamile Narine**

Kamile Narine is currently the Accounting Section Chief of the Finance Division for the FBI. The accounting section consists of over 100 FBI employees with an additional 30 contractors and an annual budget of approximately $7.5 billion. His span of control is comprised of establishing accounting policies and procedures in compliance with US Generally Accepted Accounting Principles, Accounts Payable, Accounts Receivable, Inter-Agency Reimbursable agreements, Debt Collection, Asset Management, Travel Management, Financial Statements reporting, external and internal audit compliance and coordination, OMB A-123 internal controls and internal controls on the financial management system. He is also responsible for policies and procedures pertaining to the complete and accurate recording of all financial transactions throughout the FBI including the overseas operation. He is also currently the Business Operations financial executive over a new financial management system and a new asset management system. Mr. Narine began at the FBI eleven years ago as a financial auditor in the Miami Office and then relocated to DC to work with the Internal Inspection Division as an Information Systems Auditor on mainframe applications.
Prior to working for the FBI, Mr. Narine worked as an Accounting Manager for UPS, International Region, for nine years. His experience included financial systems implementation in foreign countries and financial statement reporting in the accounting office in Miami. He also worked as a Cost Accountant for UPS to determine pricing formulas for the international customers. Mr. Narine has a B.S. in Accounting, a M.S. in Accounting and a M.S. in Information Systems Technology. He is the recipient of the FBI Director’s Award, considered one of the most prestigious awards within the FBI.

Sandy Van Booven, CPA, CFE

Sandy Van Booven has been a federal government accountant, auditor, and manager for over twenty years, with seven years experience in commercial sector accounting and compliance (defense-related), and nine years experience in Offices of Inspectors General. Beginning in 2001, she served in the Central Intelligence Agency at the National Reconnaissance Office (NRO), Office of Inspector General (OIG), and was assigned the NRO Director, Finance in 2007.

Ms. Van Booven began her career in the Defense Contract Audit Agency residential office of a major defense contractor and subsequently held accounting and management positions at two commercial defense contractors, where she managed all corporate internal operational and compliance audits and served as the company compliance officer, interpreting federal regulations for management and employees. Her four year assignment at the NRO OIG included planning, managing, and executing complex federal financial and performance audits, investigations and inspections. She managed the NRO OIG financial audit team and oversaw the contract audit of the financial statements. As NRO Director Finance, she led the NRO efforts to achieve the first consecutive clean audit opinion (FY2009 and 2010) in the Intelligence Community. She is a member of the Association of Government Accountants and the Association of Certified Fraud Examiners.

Larry R. White, CMA, CFM, CGFM, CPA

Larry White is the Executive Director of the Resource Consumption Accounting (RCA) Institute. He retired from the US Coast Guard as a Captain with over 28 years of service, 21 years in financial management and accounting. His service included Commanding Officer of the Coast Guard Finance Center and Deputy Chief Financial Officer and Chief, Office of Financial Policy and Systems, at USCG Headquarters in Washington, DC.

Mr. White holds a bachelors degree from the US Coast Guard Academy and an MBA from Columbia University. His professional activities have included member of the Association of Government Accountant’s Professional Certification Board for the CGFM certification, member of the International Public Sector Accounting Standards Board, and Chairman of the Board of the 65,000 member Institute of Management Accountants.
Tab L
Attachment 2
PowerPoint
Presentation
Slides
FASAB Forum on Managerial Cost Accounting: Benchmarking Processes, Controls and Costs

Jay Hurt
Federal Student Aid
March 16, 2011
Internal Control & Cost Management is a lot of work!

Control Documentation

Process Mapping

Control Testing & Assessment

Cost Allocation
Why spend the effort?

**Current Annual Costs of Efforts**

Cost Management Team = $650,000
- 4 fully-loaded FTE
- ABC tool maintenance
- Contractor assistance

Internal Control Management Team = $2,700,000
- 3 fully-loaded FTE
- Contractor assistance

FSA-wide support = $650,000
- 5 FTE across over 1200 FSA employees
  (50 participants, 10% of each of their time)

Total annual estimated cost = $4 million
Why spend the effort?

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  (50 participants, 10% of each of their time)  

Total annual estimated cost = $4 million

**Potential Benefits**

- Total loan principal outstanding = $744 billion  
- Total default receivable = $24 billion  
- Pell improper payments estimated at $1 billion  
- FY 2010 administrative costs = $950 million

**Realized Benefit**

Contract negotiations savings in FY 2009 = $4 million

One small realized benefit in FY 2009 paid for an entire year of estimated costs for both cost management and internal control management!
Imagine the opportunity for savings government-wide

<table>
<thead>
<tr>
<th>Federal Organization</th>
<th>Direct Loans</th>
<th>Loan Guarantees</th>
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</thead>
<tbody>
<tr>
<td>Agriculture</td>
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<td>✓</td>
</tr>
<tr>
<td>Commerce</td>
<td>✓</td>
<td></td>
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<tr>
<td>Defense</td>
<td>✓</td>
<td></td>
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<td>Education</td>
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<td>✓</td>
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<tr>
<td>Energy</td>
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<td>✓</td>
</tr>
<tr>
<td>Export-Import Bank</td>
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<td>✓</td>
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<tr>
<td>Health &amp; Human Services</td>
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<tr>
<td>Homeland Security</td>
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<tr>
<td>Housing &amp; Urban Development</td>
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<td>✓</td>
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<tr>
<td>Interior</td>
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<td></td>
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<td>Overseas Private Investment Corp</td>
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<td>Small Business Administration</td>
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<td>Transportation</td>
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<td>Treasury</td>
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<td>USAID</td>
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<td>✓</td>
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<tr>
<td>Veterans Affairs</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

Per the Federal Credit Supplement in the FY 2011 President’s Budget, there are 17 organizations with direct loan or loan guaranty portfolios.
Specifically, what is FSA trying to benchmark?

Process details, controls, and costs related to the following processes:

- Intake and process application
- Originate and disburse loans
- Originate and disburse grants
- Service loans
- Discharge loans
- Consolidate loans
- Collect defaulted loans
- Guaranty loans and oversee compliance with guaranty covenants
- Perform fulfillment services, such as scanning or document storage, advertising the availability of proceeding services to the public, and operating customer care centers
How do we benchmark in a way that facilitates action?

Collect the following types of information from other organizations

- Process flow charts
- Lists of internal controls that exist within the processes
- Performance metrics for the processes (i.e., workload, outputs, outcomes, etc.)
- Costs associated with the process (e.g., administrative vs. program, total vs. marginal costs, annual vs. lifetime costs, etc.)

Make the collected information consistent with our information

- Separate application vs. origination? Delinquency vs. default? Etc.

Compare the details and identify opportunities to consider

- Process owners must embrace this and be “Champions of Change”
- For example: realized benefit for reducing costs related to increasing direct loan origination capacity
- Create incentive for Champions of Change
Process flow chart example

Each process that has a significant impact on our financial reporting is documented.

Swim lanes identify the entity performing the process.

Each process has a specific owner and the last date the process was updated/validated.
## Control matrix example

Controls labeled and link directly to processes.

Details about control (owner, frequency, type, etc.) captured.

Design effectiveness assessment documented.

<table>
<thead>
<tr>
<th>Control Objective</th>
<th>Risk</th>
<th>Control Activity</th>
<th>Reference ID</th>
<th>COSO Component</th>
<th>Activity Type</th>
<th>Control Frequency</th>
<th>Control Owner</th>
<th>Financial Assertion</th>
<th>Design Effectiveness Assessment</th>
<th>Design Deficiency Description</th>
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<tbody>
<tr>
<td>Title IV funds are provided to recipients who meet eligibility requirements of Title IV. Ineligible recipients participate in FSA programs and receive Title IV funds for which they are not eligible to receive.</td>
<td>No</td>
<td>Preventive</td>
<td>Rights and Obligations</td>
<td>N/A</td>
<td>As Needed</td>
<td>N/A</td>
<td>As Needed</td>
<td>Yes</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>SE1 FSA provides three ways to authenticate the FAFSA. (1) Establish a personal identification number (PIN). (2) Mail in a hard copy signed, signature page. (3) Submit the signature to the institution who notifies FSA periodically that the signature page is on file where it is kept five years. In the event that none of the authentication options has been received within 14 days of application submission, the application is rejected and a Student Aid Report (SAR) and Institutional Student Information Record (ISIR) are submitted to the student and all institutions listed on the application.</td>
<td>No</td>
<td>Detective</td>
<td>Rights and Obligations</td>
<td>N/A</td>
<td>As Needed</td>
<td>N/A</td>
<td>As Needed</td>
<td>Yes</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>SE2 CPS Electronic Receipt and Editing Subsystem performs edit checks and data validation: - Ensures data and files are valid according to the DE Edit specifications (SSN match) - Performs transmission edits - Uses data from PEPS interface for school codes - Performs some code field editing - Pulls forward and converts previous data for renewals - Evaluates signatures - Sets record source code - Applies data from corrections to data already on database - Checks for field length and valid values</td>
<td>No</td>
<td>Preventive</td>
<td>Rights and Obligations</td>
<td>N/A</td>
<td>As Needed</td>
<td>N/A</td>
<td>As Needed</td>
<td>Yes</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>SE3 The Central Processing System (CPS) performs concurrent external database matches with the Selective Service, Veterans Affairs, SSA, DHS and NSLDS based on criteria parameters built into the application. (For detailed match criteria and processes see Volume I, Section 5.0 of the CPS Processing System Functional Specification manual)</td>
<td>No</td>
<td>Preventive</td>
<td>Rights and Obligations</td>
<td>N/A</td>
<td>As Needed</td>
<td>N/A</td>
<td>As Needed</td>
<td>Yes</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>
### Performance metrics examples

#### Workload & Output
- Applications (by status)
- Originations
- Disbursements (by program)
- Borrowers (by program or status)
- Loans (by program or status)
- Discharges (by reason)
- Consolidations (by program)
- Grant Awards (by program)
- Defaulted Borrowers (by receivable age)
- Amount Defaulted (by institution type, lender type, etc.)
- Default Dollars Collected (by institution type, lender type, etc.)
- Audits/Reviews (by type)

#### Outcome
- % of application filers by population
- % of students dropping out due to financial causes
- Customer satisfaction scores for entire lifecycle
- Delinquency & default rates
- Proportion of population that are college graduates
# Cost data examples – Direct Unit Costs

<table>
<thead>
<tr>
<th>Measure</th>
<th>Actual FY06</th>
<th>Actual FY07</th>
<th>Actual FY08</th>
<th>Actual FY09</th>
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<tbody>
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<td>FAFSA Applications</td>
<td>$5.85</td>
<td>$5.00</td>
<td>$4.79</td>
<td>$3.50</td>
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<tr>
<td>Pell Originations</td>
<td>$3.56</td>
<td>$3.61</td>
<td>$3.56</td>
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<td>SMART Originations</td>
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<td>$3.61</td>
<td>$3.56</td>
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<td>ACG Originations</td>
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<td>$3.56</td>
<td>$3.02</td>
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<td>TEACH</td>
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<td>$11.54</td>
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<td>Direct Loan Originations</td>
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<td>$3.73</td>
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<td>Federal Work Study Student Awards</td>
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<td>Loan Servicing</td>
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<td>$20.05</td>
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<td>$82.22</td>
<td>$126.63</td>
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<td>FFEL Reviews</td>
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<td>School Compliance Reviews</td>
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<td>Oversight &amp; Monitoring of Schools</td>
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<td>Compliance Audits</td>
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<td>$616.86</td>
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</table>

*Direct costs are activities that directly produce or can be directly traced to the FSA outputs.
Cost data examples – FAFSA Direct Unit Cost Trends

- The total number of FAFSA Applications increased 3.6 million from FY08, a 23% increase.
- Total FAFSA Application direct costs decreased $8.4 million, an 11% decrease.
How do we benchmark in a way that facilitates action?

Collect the following types of information from other organizations:

- Process flow charts
- Lists of internal controls that exist within the processes
- Performance metrics for the processes (i.e., workload, outputs, outcomes, etc.)
- Costs associated with the process (e.g., administrative vs. program, total vs. marginal costs, annual vs. lifetime costs, etc.)

Make consistent with our information

- Separate application vs. origination? Delinquency vs. default? Etc.

Compare the details and identify opportunities to consider

- Process owners must embrace this and be “Champions of Change”
- For example: realized benefit for reducing costs related to increasing direct loan origination capacity
- Create incentive for Champions of Change
## Creating Champions of Change – Show Cost Success

<table>
<thead>
<tr>
<th>Description</th>
<th>Year Achieved</th>
<th>Year(s) Realized</th>
<th>Amount</th>
<th>Category</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Loan Servicing System (DLSS) Migration</td>
<td>FY11</td>
<td>FY11-13</td>
<td>$23.0</td>
<td>Continuous</td>
<td>CSB contract mod to transfer borrower hosting from the current DLSS system to the Nelnet system.</td>
</tr>
<tr>
<td>Debt Management Collection System (DMCS2) Hosting Services Migration</td>
<td>FY11</td>
<td>FY12-13</td>
<td>$3.6</td>
<td>Continuous</td>
<td>Should save $1.8M annually by moving hosting from VDC to ACS (at no charge).</td>
</tr>
<tr>
<td>Federal Records Disposition</td>
<td>FY11</td>
<td>FY11-13</td>
<td>$0.4</td>
<td>Continuous</td>
<td>Assumes we get the budget to remove and destroy these unnecessary documents.</td>
</tr>
<tr>
<td>DMCS2 Development</td>
<td>FY10</td>
<td>FY10-11</td>
<td>$10.3</td>
<td>One-time</td>
<td>CSB contract mod to eliminate $10M in DMCS development costs ($2M in FY10, est. $8.25M in FY11).</td>
</tr>
<tr>
<td>Common Origination and Disbursement (COD) Modification - Electronic Fulfillment</td>
<td>FY10</td>
<td>FY10</td>
<td>$4.3</td>
<td>One-time</td>
<td>COD contract was modified to replace letters to borrowers w/electronic notices under certain circumstances.</td>
</tr>
<tr>
<td>CSB Contract Modification - Elimination of Account Transfer Fees</td>
<td>FY10</td>
<td>FY10</td>
<td>$5.2</td>
<td>One-time</td>
<td>The CSB contract was modified to eliminate the account transfer fee.</td>
</tr>
<tr>
<td>COD Capacity Increase for 100% Direct Loan</td>
<td>FY09</td>
<td>FY09</td>
<td>$4.0</td>
<td>One-time</td>
<td>Direct Loan origination and disbursement capacity was increased, at a cost of $4.9 million rather than the original bid of $8.9 million.</td>
</tr>
<tr>
<td>Cost Savings / Avoidance Total</td>
<td></td>
<td></td>
<td>$50.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>National Directory of New Hires</td>
<td>TBD</td>
<td>TBD</td>
<td>$37.0</td>
<td>Estimated</td>
<td>A computer match agreement is to finalized between data files in FSA’s defaulted loan database and HHS’ NDNH database in order to locate defaulted borrowers.</td>
</tr>
<tr>
<td>Increased Collections Total</td>
<td></td>
<td></td>
<td>$37.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Creating Champions of Change – Show Positive Audits

- **Loan Purchase Program**: The Department IG “…concluded that FSA established and implemented adequate controls and system edits to reasonably ensure that the Department did not purchase ineligible loans under the Loan Purchase Commitment Program.”
  [Federal Student Aid's Controls Over Loan Purchases Under the Ensuring Continued Access to Student Loans Act of 2008 Control Number ED-OIG/A03J0005](#)

- **Pell Program**: “Our review of internal controls over its Pell Grant program did not identify any flaws in their overall design. Consequently, if fully and effectively implemented, the controls should provide reasonable assurance that Education can adequately maintain financial accountability over the billions of dollars it disburses annually to participating schools on behalf of eligible postsecondary students.”
  [GAO-11-194--Improved Oversight and Controls Could Help Education Better Respond to Evolving Priorities](#)

- **Increasing Capacity in the Direct Loan Program**: “…we found FSA executed contract modifications that expanded the COD contract’s loan origination tier pricing structure to accommodate the projected origination volume for FY 2010 and beyond, and subsequently ordered sufficient processing capacity in relation to the anticipated FY 2010 COD origination volume…In addition, we concluded that FSA is providing appropriate technical assistance to impacted schools and has reasonable plans in place to accommodate schools that experience challenges in successfully transitioning to the Direct Loan program…Lastly, we noted that FSA has a COD contingency plan in place that documents related disaster recovery procedures intended to assist in resuming critical data processing support with the least amount of delay in the event of disruption of data processing operations. “
  [Federal Student Aid’s Efforts to Ensure the Effective Processing of Student Loans Under the Direct Loan Program, Control Number ED-OIG/X19](#)
What have we done thus far to benchmark?


• Sent benchmarking requests to other agencies and Canadian counterpart – Have had some continued interaction with HUD, SBA, USDA, and Canadian Student Loans Program

• Collecting benchmarking data through FSA contracting efforts – Comparison to private industry

• Working with CFO Council on Direct Loan Benchmarking Survey – Survey to collect common loan metrics and process information
What’s next?

More of the same….interested?

Chief Financial Officer
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Bill Blot
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Cost Management Team Lead
Gene Park
Eugene.Park@ed.gov
Conceptual Framework for Managerial Costing & Resource Consumption Accounting

Larry R. White, CMA, CFM, CGFM, CPA
Chair, IMA Managerial Costing Conceptual Framework Task Force
Executive Director, RCA Institute
Agenda

1. Conceptual Framework for Managerial Costing (Institute of Management Accountants Task Force)

2. Resource Consumption Accounting as a Costing Approach for Federal Entities
Managerial Costing

- SFFAS 4 (Para 61, 62, 63)
  - Financial Accounting
  - Budgetary Accounting
  - Management Decisions

- Cost Accounting
  - Tool for Financial Reporting

- Management Accounting
  - Activities of Professional Accountants in Business

- Managerial Costing
  - Tool for Managerial Decision Support
Conceptual Frameworks

• Importance of Conceptual Frameworks
  – Statements of Federal Financial Accounting Concepts (SFFAC’s)
  – FASB/IASB
  – IPSASB

• Guidance for Managerial Costing for internal decision support?
Methods

Roots in Accounting Profession

1920 1935 1980 2008

- Std. Costing
- MA’s Golden Age
- GPK
- ABC
- TD-ABC
- RCA

Roots in Other Disciplines

- Production Scheduling
- Theory of Constraints
- Lean Thinking
- Lean Acc

Legend:
- ✔️ Production Method Centric
- 🔹 Accounting Method Centric
- 🌿 Principle-based
Moving Beyond Methods

- Objective
- Scope
- Qualitative Characteristics
  - Principles
  - Concepts
  - Constraints
- Framework in Operation
- Call to Action
- Appendix: Truth in Managerial Costing
Objective

• The objective of managerial costing is to:
  – Provide a monetary reflection of the utilization of business resources *and*
  – Provide cause and effect insights into past, present, or future enterprise economic activities.

• Managerial costing aids managers:
  – In their analysis and decision making *and*
  – Supports optimizing the achievement of an enterprise’s strategic objectives.
Scope

- Provide managers and employees with an **accurate, objective cost model** of the organization and cost information that reflects the use of the organization’s resources.

- Present decision support information in a flexible mold that **caters to** the timeline and insights needed for internal decision makers.

- Provide decision makers insight into the **marginal/incremental aspects** of the alternatives they are considering.

- **Model quantitative cause and effect linkages** between outputs and the inputs required to produce and deliver final outputs.
Scope

- Accurately values all operations (support and production) of an entity (i.e. the supply and consumption of resources) in monetary terms.

- Provides information that aids in immediate and future economic decision making for optimization, growth, and/or attainment of enterprise strategic objectives.

- Provides information to evaluate performance and learn from results.

- Provides the basis and baseline factors for exploratory and predictive managerial activities.
Principles

• **Causality**
  – *The relation between a managerial objective’s quantitative output and the input quantities that must be, or must have been, consumed if the output is to be achieved.*

• **Analogy**:  
  – *The use of causal insights to infer past or future outcomes.*
Principles & Concepts

MODELING VIEW
Resources, Operational Quantities and Costs

USE VIEW
Managers’ Analogous Activities

CONCEPTS
Causality

CONCEPTS
Analogy

Operational Model Providing Attributable Cost

Baseline Optimization Information
Modeling Concepts

- Resource
- Managerial Objective
- Cost
- Responsiveness
- Traceability
- Capacity
- Work
- Attributability
- Homogeneity
- Integrated Data Orientation

MODELING VIEW
Resources, Operational Quantities and Costs

CONCEPTS
Causality

Operational Model Providing Attributable Cost

INFORMATION
USE VIEW
Managers’ Analogous Activities

CONCEPTS
Analogy

Baseline Optimization Information
Modeling Concepts

• **Resource:** A definitive component of an enterprise acquired to generate future benefits.

• **Managerial Objective:** A specific result or outcome of the application or provision of resources, which management chooses to monitor for the purpose of enabling one or more managerial activities.

• **Cost:** A monetary measure of (1) consuming a resource or its output to achieve a specific managerial objective, or (2) making a resource or its output available and not using it.

• **Responsiveness:** The correlation between a particular managerial objective’s output quantity and the input quantities required to produce that output.

• **Traceability:** A characteristic of an input unit that permits it to be identified in its entirety with a specific managerial objective on the basis of verifiable transaction records.
Modeling Concepts

• **Capacity:** The potential for a resource to do work.

• **Work:** A measure of the specific nature of units of resource output.

• **Attributability:** The responsiveness of inputs to decisions that change the provision and/or consumption of resources.

• **Homogeneity:** A characteristic of one or more resources or inputs of similar technology or skill that allow for their costs to be governed by the same set of determinants and in an identical manner.

• **Integrated Data Orientation:** Information about an organization's economic resources, events, and their corresponding monetary values free from traditional accounting artifacts (such as that available in a general ledger), which allows for the aggregation of elementary data elements and their values for any purpose.
Information Use Concepts

MODELING VIEW
Resources, Operational Quantities and Costs

INFORMATION USE VIEW
Managers’ Analogous Activities

CONCEPTS
Causality

CONCEPTS
Analogy

Operational Model Providing Attributable Cost

Baseline Optimization Information

- Avoidability
- Divisibility
- Interdependence
- Interchangeability
Information Use Concepts

- **Avoidability**: A characteristic of an input that allows for the input (and hence its costs) to be eliminated as a result of a decision.

- **Divisibility**: A characteristic of a resource that allows it to be associated in its entirety with the change in a managerial objective’s output resulting from a decision.

- **Interdependence**: A relation between managerial objectives which occur because of a decision to use resources to achieve one objective that affects the amount or quality of resources required to achieve other objectives.

- **Interchangeability**: An attribute of any two or more resources or resource outputs that can be substituted for each other without affecting the costs of the other resources that are required to carry out the activities to which the interchangeable resources are devoted.
Constraints

Cost Modeling Constraints

• **Objectivity**: A characteristic of a cost model that show it to be free of any biases.

• **Accuracy**: The degree to which MA information reflects the intended concepts modeled.

• **Verifiability**: A characteristic of modeling information that leads independent reviewers to arrive at similar conclusions.

• **Measurability**: A characteristic of a causal relationship enabling it to be quantified with a reasonable amount of effort.

Cost Modeling Constraints

• **Materiality**: A characteristic of cost modeling that would allow for simplification without compromising managers’ decision making needs.

Information Use Constraints

• **Impartiality**: The unbiased consideration of all resource application alternatives.

• **Congruence**: The interdependence of individual managerial actions to attempt to achieve both individual and enterprise objectives in an optimal manner.
Framework Finale

• Framework in Operation
  – Evaluating a Company’s Operations and Strategy for the Purpose of Modeling
  – Model Design & Construction
  – Implementation Factors
  – Managerial and Operational Factors

• Call to Action

• Appendix: Truth in Managerial Costing
  – Pursuit of Truth vs. Relativism
Resource Consumption Accounting
The Primary Challenge

Desired Performance Outcome

Projected New Output

= New Resources to Achieve a Performance Outcome (Marginal Change) + Existing Resource Base & Current Output
Primary Problems

- Lots of relatively fixed costs
- Unclear cause and effect relationships
- Limited capacity information – productive, unproductive, idle/excess
- Tracing money is easier than tracing resources, but provides limited information.
- Priority – Financial Reporting, Budgetary Reporting, Managerial Reporting
Cost & Consumption Concepts

Operational

- Fixed
- Variable

Decision Support

- Opportunity Cost
- Avoidable
- Unavoidable

“Relevant Range”

Can be Modeled

Divisibility of Resource Information

Basis for Action

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Tab L, Attachment 2 - Page 39 of 79
Traditional CVP Analysis

Change in Total $’s Due to a Change in Total Volume
Resource Responsiveness

Product A

Inputs & their $’s

Fixed Inputs

Proportional Inputs

An Output

Inputs & their $’s

Fixed Inputs

Proportional Inputs

An Output

Inputs & their $’s

Fixed Inputs

Proportional Inputs

An Output

Product B

Service 1

Inputs & their $’s

Fixed Inputs

Proportional Inputs

An Output

Inputs & their $’s

Fixed Inputs

Proportional Inputs

An Output

Inputs & their $’s

Fixed Inputs

Proportional Inputs

An Output

Service 2

Service 3

Tab L, Attachment 2 - Page 41 of 79
Resource Consumption Accounting

- **RCA Inherits Core Principles from German Cost Management (GPK)**
  - Grenzplankostenrechnung (GPK) Translated – Flexible Analytic Cost Planning & Accounting
  - Principles Applied in Practice since the late 1940’s
  - Used by 3,000+ Companies

- **German firms currently using GPK**
  - Deutsche Telekom
  - Daimler AG
  - Porsche AG
  - Deutsche Bank
  - Deutsche Post

- **RCA Focuses on Managerial Decision**
  - Enterprise Optimization
  - Capacity Management
  - Superior Marginal/Incremental Analytics
### IFAC Costing Continuum/Levels of Maturity

<table>
<thead>
<tr>
<th>Level</th>
<th>Traditional Standard Costing</th>
<th>Activity Based Costing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Blind Bookkeeping</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Process Visibility</td>
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<td>Direct Cost to Outputs</td>
<td></td>
</tr>
<tr>
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<td>Add Indirect Costs</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Individual Std Costs, Project &amp; Job Costing</td>
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</tr>
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<td>6</td>
<td>Explicit Costs</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Customer Demand Sensitive</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Unused Capacity Aware</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Pull ABC Resource Planning</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Time-driven ABC</td>
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</tr>
<tr>
<td>11</td>
<td>R C A</td>
<td>Finite systems modeling</td>
</tr>
</tbody>
</table>

#### Descriptive: Expense Tracking, Cost Reporting and Consumption Rates
- **Expense Tracking**
- **Cost Reporting**
- **Consumption Rates**

#### Predictive: Demand Planning Driven with Capacity Sensitivity
- **Demand Planning**
- **Capacity Sensitivity**

**IFAC Costing Continuum/Levels of Maturity**

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</tbody>
</table>

**IFAC Costing Continuum/Levels of Maturity**
IFAC Costing Continuum/Levels of Maturity

Descriptive: Expense Tracking, Cost Reporting and Consumption Rates
- Book-keeping: No marginal insights
- 2 Process Visibility: Limited process marginal insights
- 3 Direct cost to outputs: Direct cost marginal insights
- 4 Add indirect costs: All output cost marginal insights
- 5 Add indirect costs: Output specific marginal insights
- 6 Individual std costs, project & job costing: Explicit output marginal insights
- 7 Implicit: Add customer & channel marginal insights
- 8 Level 6 with customer & channel profitability reporting; Cost-to-serve
- 9 Push activity-based costing (ABC), Product costs
- 10 Unused capacity costs (estimated)

Predictive: Demand Planning Driven with Capacity Sensitivity
- 11 (ABRP): forecast driver quantities X std unit rates, driver-based budgeting
- 12 (TDABC); forecast driver quantities X std unit rates; direct cost focus; repetitive work conditions
- 13 Increased ability to isolate common fixed costs
- 14 Increased ability to isolate common fixed costs
- 15 Increased ability to isolate common fixed costs

Marginal Insight Awareness

Finite systems modeling

Explicit resource cost object, supply-based denominator, strong & weak forms of causality catered for

No change

Tab L, Attachment 2 - Page 44 of 79
1. Your organization is organized into resource pools.

2. Resource from a pool are consumed with a fixed or proportional relationship to their direct output.

3. Resource pool can produce an output (which consumes resources) or be idle.

4. A resource pool’s output supports other resource pools or managerial objectives.

5. A resource pool’s characteristics transfer to the consuming resource pool.....and may be changed.

6. Dollars can be attached to the flow of resources.
RCA Approach

1. Understand detailed resource pools and their outputs

2. Model the flow of resources (fixed & proportional) through resource pools to managerial objectives.

3. Apply resource quantities without a causal relationship to outputs to the lowest level of organization that can manage (i.e. eliminate) them.

4. Apply dollars to resources and their flow.
## Quantification

<table>
<thead>
<tr>
<th>Resource Pool</th>
<th>Output Measure</th>
<th>Output Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting Policy Branch</td>
<td>Accounting Policy Labor Hr</td>
<td>18,000 Hours</td>
</tr>
</tbody>
</table>

### Primary Costs:
- **Branch Chief**: $120,000
- **Accountants (7 @ $100K)**: $700,000
- **Contractor Hours (4K @$100)**: $400,000
- **Operating Budget (less contractors)**: $70,000
- **Equipment Replacement Depreciation**: $10,000

### Fixed Costs

<table>
<thead>
<tr>
<th>Costs</th>
<th>Fixed</th>
<th>Proportional</th>
</tr>
</thead>
<tbody>
<tr>
<td>Branch Chief</td>
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</tr>
<tr>
<td>Equipment Replacement Depreciation</td>
<td>$10,000</td>
<td></td>
</tr>
</tbody>
</table>

### Total Primary Costs: $200,000

### Secondary Costs:
- **Occupancy & Utilities (2000 SQFT)**: $100,000
- **IT & Telecom (12 workspaces, 20 services)**: $36,000
- **Personel Services & Payroll (8 employees)**: $8,000
- **Procurement (6 Recurring, 10 Large, 30 Small)**: $6,000

### Fixed Costs

<table>
<thead>
<tr>
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<td>$8,000</td>
<td></td>
</tr>
<tr>
<td>Procurement (6 Recurring, 10 Large, 30 Small)</td>
<td>$6,000</td>
<td>$5,500</td>
</tr>
</tbody>
</table>

### Total Secondary Costs: $150,000

### Total Resource Pool Costs: $350,000

### Unit Cost Rates (/18,000 Hrs):

<table>
<thead>
<tr>
<th></th>
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<th>Proportional</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>$19.44</td>
<td>$65.31</td>
</tr>
</tbody>
</table>
Model Example

- Bldg Space
- IT Support
- Motor Pool
- HR & Pay
- Procurement

- Fire Inspectors
  - Inspections
- Fire Investigators
  - Investigations
- Fire Stations
  - Readiness
- Training Center
- Internal Affairs
- Fire Chief/Staff
  - Fire Safety Mission Man-Hrs

Product/Services

Results Segment

Weak Causal Relation
Idle/Excess Capacity
Results

- Deep understanding of resources and multi-level managerial objectives (outputs)
- Resource Capacity - capacity limits and use/consumption
- Illustrates causal operational relationships
- Attributable Cost - Causal cost relationships or clear responsibility to manage.
- Responsiveness – The key to marginal/incremental cost information
Agenda

Questions?

Thank You

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ABCs of the FBI Training Academy

What it costs to train a Special Agent

March 16, 2011
May 1972, the modernized FBI Academy was opened to train Special Agents and High-level Police Professionals. It included:

- 24+ classrooms,
- 8 conference rooms,
- 2 seven-story dormitories,
- 1,000-seat auditorium,
- dining hall,
- full-sized gym and swimming pool,
- library,
- firing range,
- specialized classrooms for forensic science training,
- 4 labs,
- 12+ dozen darkrooms,
- mock-city classroom, and
- crime scene room for practical exercises.
Nearly 40 years later Quantico supports over 12,000 students a year

- New Agents, Intel Analysts, State-Local-International Law Enforcement, Professional Staff, Leadership Training, Operational Training and Continuing Education/In-Services

- Post 9/11 use has significantly exceeded the complex’s original purpose
There are over 100 buildings constructed since 1972 -- most planned uniquely independent of one another.
Our Road to ABC at Quantico

• *Started with a yogurt machine...*
Success with Personnel Cost Modules

• Existing Cost Mods have financially covered many aspects of training
  ⇨ Background Checks, Uniforms, Food, and Equipment for Agents, Intel Analysts and Professional Staff…..but has left major gaps in Quantico Infrastructure requirements
• Criminal Justice Information Services (CJIS) Business Model based on total cost recovery from fingerprint user fee revenue
  ⇒ 80,000+ customers and nearly $200 million collected annually for all non-law enforcement fingerprint checks
  ⇒ Pays salaries, keeps the lights on, and covers IT requirements
What a difference a business model makes

- Proven success with ABC for the transition from labor intensive legacy processes to automated business models:
  - Integrated Automated Fingerprint Identification System (IAFIS)
  - National Name Check Program
Different business challenges required new model - paying for the yogurt machine.....

- Comprehensive Managerial view of Academy cost drivers
- Multiple FBI Organizations, Missions and Funding Sources
- Costs of training and support activities
**Operational Entities:**
- National Security Branch
- Criminal Cyber Branch
- Science and Technology Branch

**Other Support Entities:**
- Facilities And Logistics Division
- Information and Technology Branch
- Human Resources Division
- Security Division
- Records Management Division
- Finance Division

**Mission:**
- Intelligence
- Counterterrorism
- Counterintelligence
- Weapons of Mass Destruction
- Criminal Enterprises
- Cyber
- Criminal Justice Services

**Budget:**
- Recurring Funding
- One-Time Resources
- Reimbursable Funding
- Centralized Personnel
- Unfunded Requirements
Activities:
Academic Services
Student Services
Lodging Services
Instruction
International Assistance
Counseling and Evaluation
Behavioral Science
Investigative Training
Leadership Training
Law Enforcement Training
National Academy Development
Weapons Training
Vehicle Training
Physical and Defensive Training
Intelligence Training
Virtual Academy
Logistical Support
In-Service Travel
Non-Training Facilities

Cost Objects:
Curriculum
New Agent
Career Path
National Academy
Basic Analyst
Regional Event
HUMINT
Other Intel
In-Service Program
International Training
Itemized services
Next Steps – Long-Term Capital Investment Plan

• 2010 to 2020 Capital Investment Planning
  ➞ Usage/Demand Modeling
  ➞ Capacity/Facility Gaps
  ➞ Infrastructure Requirements
    • New Requirements
    • Renovations Projects
    • Infrastructure Upgrades
  ➞ Funding Requirements/Solutions
    • Close Gaps
    • Sustain O&M
Strategy to expand ABC at FBI

• **Capital Planning Office - GE Model**
  - Strategic Linkages; Net Present Value; Cost to Benefit Rations; Internal rate of return; Investment Payback; Return on Investment

• **Focus on Facilities; Major Operational Assets; Information Technology and Operational Systems**

• **24 Interlinking Divisions**
  - Capital Formulation
  - Operational Formulation
  - Acquisition Planning
  - Spend Plans
  - Accounting

• **“Case Cost Modeling”**
Cost Accounting in the Federal Government

“One Size Does Not Fit All”

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

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

This briefing focuses on several key concepts for federal agencies to consider in adopting Managerial Cost Accounting (MCA) (“data”, “relevance”, “full cost”, “accounting treatment”)

• Overview of NRO Cost Accumulation Framework (data)
• Federal agencies have differing cost data needs (relevance, full cost, accounting treatment)
• Challenges of MCA implementation to large, innovative acquisition programs (relevance, full cost, accounting treatment)
• How the accounting rules pose challenges to MCA decisions (full cost, accounting treatment)
MCA Key Concepts

High level concepts for MCA

- Must start with a sound cost accumulation framework (good data)

- Determine what cost information (asset, activity or program) is relevant to management decisions
  - Means a sound analysis of the business model/practices
  - Define the “full cost” that makes up the asset, activity, or program
    - Justify cost/benefit of accumulating and tracking the full cost of your asset, activity, or program

- Determine how you will account for this cost information in the financial reports
NRO Cost Accumulation Framework

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

- Established strong monitoring controls in Finance
  - Internal Controls team
  - Property accounting team
  - Construction in progress (program execution) team
  - A-123 review/test team
  - Finance prominent member Senior Assessment Team

- Finance (program/funds control) officers embedded in programs

- Finance established a small group of subject matter experts (project accountants) to bridge the gap between financial accounting and budgetary management
  - Assists programs in designing funding strategies and contract structure to minimize impact to programs and contract administration
  - Participates in the design of financial related enterprise processes
NRO Cost Accumulation Framework

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

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

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

NRO Property Accounting Model

Acquisition Lifecycle

Program Requirements
- BLIs Mapped to ET
- Each Deliverable Assigned Separate BLIs and CLINs

Standard Work Breakdown Structure
- CAD Statements

Contract Requirements
- Contracts SOW
- Contract CLINs by ET/Deliverable

Accounting System
- Costs recorded by CLINs and allocated to BLIs and GLACs by Algorithm

Project Accounting
- ET2 CIP Account
- Separate CLIN
- Ground
- Systems
- Launch
- Indirect Cost
- Allocate costs to individual assets

Contractor Invoice by CLIN
- Cutoff
- Finished Goods
- Finished Goods
Federal Agencies Differ in Need for MCA

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

MCA provides beneficial information to pricing “widgets”

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

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

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

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

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

<table>
<thead>
<tr>
<th>Financial Accounting</th>
<th>Managerial Accounting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Historical perspective</td>
<td>Future looking</td>
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<tr>
<td>Informs external stakeholders</td>
<td>Informs internal stakeholders</td>
</tr>
<tr>
<td>Required by law</td>
<td>Best practice</td>
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</tbody>
</table>

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

National Intelligence Strategy (NIS) Objectives
- Combat Violent Extremism
- Counter WMD Proliferation
- Strategic Intelligence and Warning
- Enhance Cyber Security
- Support Current Operation
- Integrate Counter–Intelligence

National Reconnaissance Program (NRP) Directives/Strategies

National Reconnaissance Office (NRO)
Mission: To provide innovative overhead intelligence systems for national security

Balance Sheet
The NRO utilizes intelligence systems (satellites, ground systems, launch boosters) purchased from contractors for use in fulfilling NRO and supporting NIS strategic goals/objectives. The amounts paid to contractors for these systems are capital costs inclusive of direct and indirect production costs.

- Acquisition Development Contracts (Capital per SFFAS No. 6)

Statement of Net Cost
The NRO executes programs to manage intelligence system acquisition and operation in support of NRO/NIS strategic goals/objectives. The NRO incurs expenditures for management/advisory services provided by government employees and contractors. These costs are period costs (expenses).

- Acquisition Management Costs (includes Government employees, CAAS/SETA/FFRDC, and Program Support and Integration Services) (Expense)
- General and Administrative (Expense)

OUTPUT to Mission Partners (NSA, NGA, CIA, DIA) - data collected by NRO Systems

OUTPUT - intelligence information to fulfill NIS Objectives

*This chart is UNCLASSIFIED*
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