



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

February 7, 2001

**Accounting Policy Memorandum – OAIC 01-02**

MEMORANDUM FOR BUREAU CHIEF FINANCIAL OFFICERS  
DEPUTY CHIEF FINANCIAL OFFICERS

FROM: James R. Lingeback (Signed)  
Acting Deputy Chief Financial Officer

SUBJECT: Implementation of Managerial Cost Accounting

The Office of the Deputy Chief Financial Officer is issuing this Accounting Policy Memorandum as assistance for complying with Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Standards*. Consistent with Treasury Directive 32-01, *Accounting Principles and Standards*, this memorandum provides additional implementation guidance to amend the Department's accounting principles and standards.

Attachment

**Department of the Treasury  
Office of the Deputy Chief Financial Officer**

February 7, 2001

***Accounting Policy Statement: Policy for the Implementation of Managerial  
Cost Accounting***

**Implementation: FY 2001**

The Office of the Deputy Chief Financial Officer is issuing this Accounting Policy Memorandum for Department-wide implementation of *Statement of Federal Financial Accounting Standards No. 4* (SFFAS No. 4).

**Policy Overview**

The Department seeks to ensure that both the objectives and standards of SFFAS No. 4 are met or exceeded by the Department as a whole. However, SFFAS No. 4 provides flexibility so that diverse agencies, such as the Department, may employ managerial accounting practices that are best suited to the particular operating environment of each of its responsibility segments (i.e., bureaus).

SFFAS No. 4, paragraph 82, states that “A basic purpose of dividing an entity into segments is to determine and report costs of services and products that each segment produces and delivers. Many federal departments and agencies manage programs that produce a variety of goods and services. Accounting for entity-wide revenues and expenses in aggregate would serve financial reporting for the entity, but would not serve costing purposes. In order to determine the cost of each type of service or product, it is necessary to divide an entity into segments such that each segment is responsible for certain types of services or products. Each segment can be used as a vehicle for accumulating costs incurred by the segment to match with its outputs. Each segment can use a cost methodology that is best suited to its operations.”

SFFAS No. 4 requires that the management of each reporting entity define and establish responsibility segments. The predominant factor given is the reporting entity’s organizational structure and its existing responsibility components, such as bureaus, administrations, offices, and divisions within a department. The Departmentwide Statement of Net Cost mainly reflects bureaus as the Department’s designated responsibility segments. Further designation of responsibility segments at the bureau level is incumbent upon bureau management.

Accordingly, the Department is not planning on implementing a Departmentwide managerial cost accounting system or defining a standard costing methodology across the board. Instead, the Department expects every bureau/reporting entity, within its own particular operating environment, to individually meet or exceed the objectives and standards of SFFAS No. 4.

The Department will oversee and contribute to the improvement of managerial cost accounting at the bureau level by addressing consistency, when appropriate, sharing best practices, and facilitating improvements to bureau systems.

### **Department's Informational Needs**

The Department does have needs for certain specific cost information that bureaus must be capable of providing.

#### **Timely Submission of TIER Data**

**Bureaus must submit monthly TIER data in compliance with Departmental due dates in order to allow the Department to produce timely information and complete consolidations.**

The Department is continuing with its implementation of the Financial Analysis and Reporting System (FARS), which includes the Treasury Executive Information Repository (TIER) and CFO Vision. FARS is used to produce Departmentwide and bureau financial statements and enable managers to analyze financial data. The timely submission of data is crucial to the success of the system.

#### **Departmentwide Statement of Net Cost**

Bureaus that report in multiple programs on the Department's Statement of Net Cost will need to work with the Department on options to facilitate production of the statement at year-end and on a periodic basis during the year, initially quarterly and ultimately monthly.

The Department currently produces a year-end Statement of Net Cost that displays aggregated information for each of its responsibility segments. There are three programs (cost buckets): Economic, Financial, and Law Enforcement. The programs represent the Department's Strategic Plan Missions. The costs of the Management Mission may be allocated to the other programs, or are reported under costs not assigned to programs. As previously stated, bureaus must produce more detailed information for their own internal and external use, as determined by bureau management.

Bureaus that support only one mission at the Departmental level do not present a challenge to producing the statement. Assignment of the costs of multiple program bureaus is problematic in that TIER data does not currently have data elements to support an allocation methodology.

The entities that currently support multiple missions are listed below:

- Alcohol, Tobacco and Firearms
- Bureau of Public Debt (Administration)
- Customs
- Departmental Offices
- Internal Revenue Service (Administration)

Accordingly, the Department has determined that there are **two options** to solve this problem for multiple mission bureaus:

1. Utilize Percentages – At year-end, the Department will provide an Excel spreadsheet version of the Departmentwide Statement of Net Cost. Affected bureaus will populate the spreadsheet with the information for each line. The spreadsheet will automatically calculate percentages that are needed for CFOV. The percentages will then be used by the Department to periodically (quarterly/monthly) produce the statement of net cost during the next fiscal year, with the understanding that these statements will be less accurate.
2. Memorandum SGL Accounts – Bureaus will populate memorandum SGL accounts in TIER. Each account will represent a cell (i.e., the combined amount for a particular line, the elimination amount for a particular line) on the statement of net cost. Separate accounts would be needed for eliminations. The Department may migrate to this option in the future. However, at the present time the percentage option is more desirable from a cost-benefit standpoint.

**Bureaus must be able to provide cost information below the level of the Departmentwide Statement of Net Cost (i.e., major bureau programs/ processes).**

- Bureau cost data also needs to be collected by each bureau at a level lower than the three missions and unassigned costs displayed on the Departmentwide Statement of Net Cost. The Departmentwide Statement of Net Cost is too broad for meaningful internal management purposes. Accordingly, the Department needs bureaus to provide cost information by the major bureau programs/processes that feed into the Departmentwide cost buckets. The Department expects that each bureau will have several programs or processes at this lower level. This should correlate to the programs that bureaus display on their own standalone statements of net cost or to the major processes for which cost information should be compiled and used by bureau management. The Department's goal is to collect this information on a quarterly basis through FARS or other electronic means. Bureaus should also be able to identify their major programs/processes and demonstrate how this cost information maps into the Department's statement of net cost. Assistant Secretaries and their respective bureau heads should be involved in determining what programs/processes meet these criteria for each bureau. The key criterion for identifying these programs/processes is that they will be useful to bureau management and Departmental program oversight offices.

### **Cost Data to Support Performance Information**

Bureau cost accounting methods/systems need to be able to produce cost data supporting significant performance measures/budget initiative requests.

Cost data should complement and support performance data, thereby enhancing the Department's and the bureaus' capability to oversee bureau operations. Bureaus should ensure that their cost accounting methods/systems produce accurate cost data necessary to track costs for significant performance measures (primarily measures of productivity and efficiency). This is important because the Department is accountable for managing its performance during the year, and reporting on its key measures, or groups of similar measures, at the end of each year. Thus, it is critical that cost data supporting the performance measures be as accurate and timely as possible.

Bureau cost accounting methods/systems also need to produce data supporting those measures incorporated in the bureaus' budget initiative requests. Since additional resources are being requested, these measures will come under the most intense scrutiny during OMB and Congressional budget deliberations, and accurate projected cost data for these measures will be important.

Bureaus will benefit from accumulating costs for their other performance measures wherever possible, to provide a cost perspective along with the performance data they use to manage.

The availability of cost data for management purposes should parallel the availability of performance data, at least at a summary level (e.g., for several related performance measures). Ideally, bureaus should be able to provide such information to the Department in a timely manner upon request.

In addition, some Departmentwide performance measures that can be costed are roll-ups of bureau performance measures. To the extent these Departmentwide cost driven performance measures are established, bureaus need to capture the associated costs. The Department's Office of Strategic Planning and Evaluation will work with bureaus to identify these measures.

However, in all cases, bureau management must determine the level at which costs should be captured and whether the benefits of capturing the information exceed the costs. This is supported by SFFAS No. 4, which states that a cost accumulation method is not advantageous "if it requires a large amount of resources and yet produces information of little value to users."

The Department has a long-term goal of full alignment of bureau budget structures, bureau strategic plans, the Department's strategic plan, and accounting/cost structures to the maximum extent practicable.

Bureau budget structures should ultimately be directly aligned with how programs are actually managed and costs should be accumulated the same way. The goal is for the strategic plans,

budgets, and accounting data to all be aligned so as to provide timely, accurate cost data for internal program management and more macro-level cost data for external reporting.

**Inter-Entity Costs – Possible Future Requirement**

The Accounting and Auditing Policy Committee of the Federal Financial Accounting Standards Board (FASAB) is conducting a survey to determine which inter-entity costs meet the criteria for recognition specified in SFFAS No. 4. Agencies are being asked to identify inter-entity goods and services that they provide to other federal entities at less than full reimbursement. These costs potentially will be recognized as imputed costs by the receiving federal entities. SFFAS No. 4, paragraph 112, specifically identifies “check writing by Treasury” as a cost that should be imputed by other entities. If specific Treasury costs are required to be imputed, the Department will need to produce the cost information both for use by entities outside of Treasury and for standalone bureau financial statements within the Department.

**Contact:** Joe McAndrew (202) 622-0807