Chapter 10
Segment Reporting,
GPRA Performance Measures & Cost Accounting

A. Performance Measurement

Measuring performance is a means of improving program efficiency, effectiveness, and program results. One of the stated purposes of the Government Performance and Results Act (GPRA) of 1993 is to “…improve the confidence of the American people in the capability of the federal government, by systematically holding federal agencies accountable for achieving program results.”

One of the most important tools the Department has for communicating our accountability to the public is through reporting performance results in the Departmental Accountability Report, bureau annual financial reports and the Annual Performance Report.

- Performance results are required to be reported in an Annual Performance Report, in the Department Accountability Report and in bureau annual financial reports. For fiscal year 2002 the Department is required by OMB Bulletin 01-09 to consolidate the Accountability Report with the Annual Performance Report.

- Costs associated with Performance Goals, and reported in the Statement of Net Cost, will be accumulated in Hyperion subtotals created for this purpose.

- The Departmental Annual Report on Performance and Accountability will report on all performance measures included in the related fiscal year Annual Performance Plan. All performance measures included in the Annual Performance Plan will be included in “Other Accompanying Information” section of the Report. A subset of the annual performance measures will be reported in bureau annual financial reports and in the Management Discussion and Analysis (MD&A) section of the Departmental Report. The measures selected for presentation in the bureau annual financial reports should concisely communicate the degree of success in meeting specific goals. Bureau management, Office of Planning and Performance Management (PPP) and PFM will jointly decide the selection of which measures will be reported in the bureau annual financial reports and the MD&A section of the Accountability Report. At least one performance measure will be reported for each GPRA Program Activity in the Department. The Department has undertaken to revise its strategic plan for fiscal year 2004. To the extent feasible, the Department and its Bureaus will provide overview information on how the current performance management process may relate to the new strategic plan.

- The Annual Performance Report will report on all performance measures included
in the related fiscal year Annual Performance Plan. All performance measures included in the Annual Performance Plan will be included in other accompanying information in the Department’s Accountability Report. A subset of the annual performance measures will be selected to be reported in Bureau annual financial reports and in the Management Discussion and Analysis (MD&A) section of the Departmental Accountability Report. The measures selected for presentation in the annual financial reports should concisely communicate the degree of success in meeting specific goals. Bureau management, PPP and PFM will jointly decide the selection of which measures will be reported in the bureau annual financial reports and the MD&A section of the Accountability Report. At least one performance measure will be reported for each GPRA Program Activity in the Department. The Department has undertaken to revise its strategic plan for fiscal year 2004. To the extent feasible the Department and its bureaus will provide overview information on how the current performance management process may relate to the new strategic plan.

The performance measures to be selected for inclusion in the MD&A section of the Departmental Accountability Report will be those that best demonstrate the success or failure in each of the Department’s GPRA Program Activities with the Department’s five goals to:

1. Protect the environment and preserve our Nations’ natural and cultural resources;
2. Provide recreation for America;
3. Manage natural resources for a healthy environment and a strong economy;
4. Provide science for a changing world; and
5. Meet our responsibilities to American Indians and our commitments to Island Communities

Bureaus, through their Performance Management Council representatives, will determine which goals and performance measures to include in bureau annual financial reports and in the MD&A section of the Departmental Annual Report on Performance and Accountability. The proposed goals and measures should be:

- Clearly linked to the five Departmental goals;
- Representative of the bureau GPRA Program Activities;
- Representative of the bureau missions;
- Clearly and readily understood;
- Outcome oriented, rather than activity, output, or process oriented;
Supported by quantifiable and reliable data, with a clear collection process and sound reporting system;

Supported by data that will be available to meet fiscal year-end reporting requirements; and

Expected to relate to long-term goals to be included in the Strategic Plans.

Representative of a significant portion of the resources devoted to each segment.

Unit cost performance measures are encouraged to be reported where:

Cost comparisons of a unit cost of a service or product can be compared with a similar service or product produced by other entities in the private sector following set standards.

Cost comparisons of a unit cost of a service or product can be compared with similar services or product produced by other entities in the Federal Government where reporting standards have been established by authoritative governmental bodies.

Information on program costs is being used for cost-benefit considerations such as program authorization, modification, or discontinuation.

Unit cost performance measures are those measures where the performance, as measured in terms of units, can be divided into the full cost to provide a meaningful unit cost measure that focuses management on an efficiency or effectiveness goal to improve performance.

For inclusion in the financial statement reporting, unit costs measures should use full costing concepts defined in SFFAS # 4, except where common commercial practices or regulatory authority exists or other organizations use a standard method for comparisons that is not the same as the SFFAS standard. In those cases, cost should be accumulated following the appropriate standards established for the community being used for comparative purposes.

Assumptions and/or standards used to accumulate unit costs should be disclosed along with the unit cost performance measures.

Other unit cost information may be tracked by the Department for management purposes that would not be reported as part of the Departmental performance measurement process. Unit costs computed for management purposes may be based either on full cost or a subset of full cost appropriate to the management purpose.
It will remain a Bureau responsibility to ensure that data used in reporting on performance measures in the bureau annual financial reports is consistent with data reported in the Departmental Annual Report on Performance and Accountability.

Effective reporting is critical to the Department to ensure Congress and the Public that the Department is accountable for carrying out its missions effectively and efficiently and that the Department is properly managing its resources.

B. **GPRA Program Activity**

As part of the process for integrating performance, budget, and financial data, the Department has elected to categorize its numerous bureau missions and programs into GPRA program activities, which are directly linked to Interior’s five strategic goals. These GPRA Program Activities are often referred to as Bureau Mission Goals. The cost for each GPRA activity are in the Bureau financial statements. In addition, these costs are related to the five Department goals in the Department’s Accountability Report.

C. **Managerial Cost Accounting Concepts and Standards**

The managerial cost accounting concepts and standards, presented in SFFAS #4, are intended to assist internal and external federal information users including Government managers, Congress and federal executives and citizens in assessing operating performance, stewardship, systems and control of the federal government. The Standards are aimed at achieving three general objectives:

1. Provide program managers with relevant and reliable information relating costs to outputs and activities. Based on this information, program managers can respond to inquiries about the costs of the activities they manage. The cost information will assist them in improving operations economy and efficiency;
2. Provide relevant and reliable cost information to assist the Congress and executives in making decisions about allocating federal resources, authorizing and modifying program, and evaluating program performance; and
3. Ensure consistency between costs reported in general purpose financial reports and costs reported to program managers. This includes standardizing terminology for managerial cost accounting to improve communication among federal organizations and users of cost information.

Managerial Cost Accounting Concepts are as follows:

Managerial cost accounting should be a fundamental part of the financial management system and, to the extent practicable, should be integrated with other
parts of the system. Managerial costing should use a basis of accounting, recognition, and measurement appropriate for the intended purpose. Cost information developed for different purposes should be drawn from a common data source, and output reports should be reconcilable to each other.

The Managerial Cost Accounting Standards are as follows:

**Requirement for cost accounting**: Each reporting entity should accumulate and report the costs of its activities on a regular basis for management information purposes. Costs may be accumulated either through the use of cost accounting systems or through the use of cost finding techniques.

**Responsibility segments**: Management of each reporting entity should define and establish responsibility segments. Managerial cost accounting should be performed to measure and report the costs of each segment’s outputs. Special cost studies, if necessary, should be performed to determine the cost of outputs.

**Full cost**: Reporting entities should report the full costs of outputs in general purpose financial reports. The full cost of an output produced by the responsibility segment is the sum of (1) the costs of resources consumed by the segment that directly or indirectly contribute to the output, and (2) the costs of identifiable supporting services provided by other responsibility segments within the reporting entity, and by other reporting entities.

**Inter-entity costs**: Each entity’s full cost should incorporate the full cost of goods and services that it receives from other entities. The entity providing the goods or services has the responsibility to provide the receiving entity with information on the full cost of such goods and services either through billing of other communication.

Recognition of inter-entity costs that are not fully reimbursed is limited to material items that (1) are significant to the receiving entity, (2) form an integral or necessary part of the receiving entity’s output, and (3) can be identified or matched to the receiving entity with reasonable precision. Broad and general support services provide by an entity to all or most other entities should not be recognized unless such services form a vital and integral part of the operations or output of the receiving entity.
D. **Responsibility Segment Reporting**

SFFAS #4 requires that the management of each reporting entity define and establish responsibility segments. A responsibility segment is defined as a component of a reporting entity that is responsible for carrying out a mission, carrying out a major line of activity, or producing one or a group of related products or services. A basic purpose of dividing an entity into segments is to determine and report the costs of services and products that each segment produces and delivers. Another important purpose of segmentation is to facilitate cost control and management. Cost information provided for each segment helps managers to examine costs of specific resources consumed and activities performed in each segment.

- Reporting entity management should define and structure its responsibility segments. The designation of responsibility segments should be based on the following factors:
  - Entity's organization structure,
  - Lines of responsibilities and missions,
  - Outputs (goods or services it delivers), and
  - Budget accounts and funding authorities.

However, the predominant factor is the reporting entity’s organization structure and its existing responsibility components such as bureaus, administration offices and divisions within a department.

E. **Financial Reporting**

The Department is required to produce a Statement of Net Cost and a Statement of Budgetary Resources.

1. **Statement of Net Cost**

According to OMB Bulletin 01-09, the Statement of Net Cost is designed to show separately the components of the net cost of the reporting entity's operations for the period. However, the organizational structure and operations of some entities are so complex that to fully display their sub-organizations, major programs and activities may require supporting schedules to supplement the information in the Statement of Net Cost. The supporting schedules shall be included in the notes to the financial statements.
In addition, Bulletin 01-09 states that it is important to monitor budget execution at the individual account level. Accordingly, budgetary information aggregated for purposes of the Statement of Budgetary Resources should be disaggregated for each of the reporting entity's major budget accounts and presented as Required Supplementary Information (RSI). For purposes of this presentation, small budget accounts may be aggregated. The major accounts and the aggregate of small budget accounts should, in total, agree with the amounts reported on the face of the Statement of Budgetary Resources.

To facilitate compliance with the above requirements, the Department has determined that there are three types of segments applicable to its financial reporting:

**GPRA Program Activities**: Preparers of the Statement of Net Cost should present responsibility segments that align directly with the major goals and outputs described in the entity's strategic and performance plans, required by the Government Performance and Results Act.

**Responsibility Segments**: The Statement of Net Cost and related supporting schedules classify revenue and cost information by sub-organization or responsibility segment and, to the extent practicable, within each classification by major program.

**Major Budget Accounts**: Budgetary information aggregated for purposes of the Statement of Budgetary Resources should be disaggregated for each of the reporting entity's major budget accounts and presented as RSI. For purposes of this presentation, small budget accounts may be aggregated.

Responsibility segments generally reflect the management structure of the bureau, while GPRA Program Activities reflect the programs and missions accomplished by the bureau. Since some programs may be jointly managed by two or more Responsibility Segments, a network of cost centers can be established to accumulate costs by both Organization and Program component.

Within the Department, GPRA Program Activity should be established in coordination with Government Performance and Results Act (GPRA) Reporting. Responsibility Segments may be defined according to operational units, underlying mission, geographic regions, or any other categorization that the bureau believes would provide meaningful information to users of the financial reports. Federal accounting standards specifically state that the identification of Responsibility and GPRA Program Activities segments are the responsibility of management. In most cases, a bureau would have more than one Responsibility Segment and more than one GPRA Program Activity. However, as noted in
paragraph 80 of SFFAS #4, some reporting entities may have only one Responsibility Segment, if they perform one single mission or one type of service. In addition, a bureau may find that due to the structure of the bureau, Responsibility and GPRA Program Activity are identical.

- Segment data for the Statement of Net Cost may be reported either in the Notes to the Financial Statements or on the face of the financial statements. In general, the Department prefers a “single column” presentation (e.g. just GPRA Program Activities) on the face of statement, accompanied by a matrix of both Responsibility and GPRA Program Activities presented in the Notes to the Financial Statements. The Department believes this approach results in a more understandable and concise financial statement presentation. It is not appropriate to present the required portion of the Statement of Net Cost Segment disclosures as supplementary information. Additional disclosures beyond minimum requirements can be presented in the Other Supplementary Information section or elsewhere provided that the auditors are consulted.

- The Department recommends that bureaus follow the general format in Section 4.2 of OMB Bulletin 01-09, Form and Content of Agency Financial Statements, Illustrative Statement – Consolidated Statement of Net Cost. This section illustrates a single column presentation for each year on the primary statement, with the statement detail highlighting the expenses, revenues and net cost of each program. The program information reported in the Statement of Net Costs should be consistent with “GPRA Program Activities” in the GPRA annual performance plans. Footnote disclosure should be used to present GPRA Program Activity split among the various Responsibility Segments. If the Responsibility and GPRA Program Activities are identical, the bureau should take care to avoid redundant reporting. Bureaus should note that segment data presented in the Statement of Net Costs and in the footnotes will be covered by the auditors’ opinion and so will be subject to audit procedures.

- To complement the 01-09 primary statement presentation, a detailed breakout of expenses by type of expenditure (e.g. operating expense, depreciation, bad debt expense, etc.) may be included in the Notes to the Financial Statements.

- For fiscal year 2001 data and beyond, the GPRA Program cost data should be presented in a single column both on the primary statement and in the footnotes.
2. Statement of Budgetary Resources

OMB Bulletin No. 01-09 requires that a breakout of the Statement of Budgetary Resources be presented in the Required Supplementary Information section of the report. See Chapter 4 of this document for more information.


Segment reporting is permitted for the bureau Balance Sheet and Statement of Changes in Net Position but is not required.

- If presented, Segment information for these statements should be presented as other supplementary information.

- The Department will report Responsibility Segments for the Balance Sheet and both Responsibility Segments and GPRA/Program Segments for the Statement of Net Cost in other supplementary information.

F. Cost Information Used for Management Purposes

Managerial cost accounting is not an end in itself but is intended to provide information that is useful for making decisions and assessments regarding economic resources, organizational efficiency and effectiveness, and management stewardship responsibilities. The Department views managerial cost accounting within the broader context of performance management in the Department.

One element of performance management is meeting the requirements of GPRA. The Department has elected to report its responsibility segments following the Department’s GPRA Program Activities (see description on Segment Reporting above). However, bureaus require additional managerial cost information on outputs that may be used for management purposes and these outputs may not necessarily relate to specific responsibility segments. Managerial costing should use a basis of accounting, recognition, and measurement appropriate for the intended purpose. Cost information developed for different purposes should be drawn from a common data source, and output reports should be reconcilable to each other. [Cost information used for management purposes is not part of the audited financial statements and is not required for the opinion on whether the financial statements are fairly stated.]

In addition, bureaus may decide to manage certain operation through the use of unit cost measures. Unit costs measures will follow full costing concepts defined in SFFAS # 4, except where a common commercial practice or regulatory authority exists or other organizations use a standard method for comparisons that is not the same as the SFFAS standard. In those cases, cost will be accumulated following the appropriate standards established for the community being used for comparative purposes. Assumptions and/or
standards used to accumulate unit costs will be disclosed along with the unit cost performance measures. In determining whether full costs of an output should be computed the Department will use the following criteria:

- **Usefulness** - Will full cost information be useful for management decision-making, e.g., for resource allocation, or for assessing operational efficiency? Will this information be useful to other constituents and stakeholders such as the Congress, the general public (taxpayers), and customers? In some cases, public accountability will be an important factor in determining whether full cost information should be compiled.

- **Feasibility and cost-benefit** - Full cost information is likely to have different value to different users of this information. An assessment needs to be made to determine whether the aggregate perceived benefits exceeds the costs of compiling full cost information. If full cost information would not provide minimal decision-usefulness or would not facilitate the assessment of operational efficiency, the compilation and presentation of such information for general interest only might not be justified.

- **Availability and timeliness of reliable cost information** - This factor is related to the usefulness of full cost information. If full cost information is useful in management decision-making and the assessment of performance, it is important that such information be available before its usefulness diminishes. If full cost information cannot be compiled and provided timely, its value decreases, which would impact the cost-benefit of providing such information.

- **Legislative exclusions** - In some cases, there may be legal provisions for not computing full costs. For example, for Reclamation, capital investment allocated to irrigation is non-interest bearing because Congress did not explicitly provide for assessing interest on these costs. In this instance, it would not be feasible or cost-effective to apply an imputed interest rate to capital investment costs that may have been incurred over an extended period of time.

- **Industry accounting standards** - To facilitate comparability and consistency, where industry accounting standards exist, it may be beneficial to compile costs of outputs in accordance with applicable standards. For example, Reclamation compiles hydropower costs in accordance with Federal Energy Regulatory Commission accounting requirements. This facilitates comparisons with other power generating entities. While necessary for differing management purposes, the presentation of conflicting cost information in different reports may lead to confusion in interpreting and analyzing cost information. This is why it is important to appropriately form a particular cost report by disclosing its nature, source, and purpose, as well as any assumptions and/or industry standards used.

Further, in some instances, it may not be feasible or cost-effective to determine the full
cost of an output.

G. **Imputed Costs**

In Form and Content Guidance, costs are imputed only for those select situations identified by OMB.

- The costs required to be imputed by the Department are retirement costs paid by OPM and costs from Treasury’s Judgment Fund. In addition, liabilities are recorded for certain employment costs paid by the Department of Labor, which the Department will pay at a later date. (Although similar in nature, the Department of Labor costs result in the creation of a liability rather than imputed financing and so are not considered to be “imputed costs”.)

Department-wide guidance for recognizing retirement costs and imputed financing will not be available until the data is provided by OPM. The format and content of the guidance is not expected to change significantly from FY 2000 guidance. Department-wide guidance for the accrual of Department of Labor liabilities will be provided when available.