

OREGON ACCOUNTING MANUAL		Number 25.00.00.PR
Oregon Department of Administrative Services State Controller's Division	Procedure	Effective Date July 1, 2001
Chapter	Management Accounting	.1 OF .3
Part		
Section		Approval Signature on file at SCD

Developing a Management Process

- .101 A suggested process is described here to assist management in its development and planning efforts. The definition of information needs and the ability to obtain that information will evolve and improve over time. This process should not be interpreted as mandatory. Each agency may develop a process to meet its needs, if appropriate.

Define the Primary Needs or Purposes for Information

- .102 It is important to understand what information is needed and what it will be used for (i.e. what decisions it will support). The kinds of costs or statistical information to be captured and the degree of detail will vary depending on how the information is to be used and whether collection of the data is cost justified.
- .103 Both internal and external information needs should be considered. Each state agency is a part of a larger organization. It may be a division, department or simply the State of Oregon. External users of agency information may include legislators, auditors, budget analysts, investors and the general public.
- .104 Documents available for review which may be helpful in determining these information needs include budgets, internal operating or business plans, federal and central state agency publications, and established performance measurements of the organization.

Identify Performance Measures

- .105 **Performance measures** are generally designed to measure the efficiency and effectiveness of programs. Not only will this be useful information for department management, but it is also a method for demonstrating accountability and program results to external parties such as the legislature and the general public.
- .106 Performance measures are generally separated into two categories.

Efficiency is obtained when a given level of activities is accomplished with fewer resources and efforts than before. Efficiency is also obtained when a greater level of activity is accomplished with the same efforts or resources as before.

Effectiveness relates to the extent to which program objectives have been achieved. A 100% effective program would be one that accomplished all of its objectives. It is helpful to have measurable objectives when evaluating effectiveness.

- .107 Managers are accountable for the continual improvement of activity performance. In structuring how an activity is performed or service provided, a manager has a variety of choices to make among different processing methods and resources.
- .108 Each alternative method of providing a service or product brings with it certain implications in terms of response to customers, costs, level of investment required, and type of control and management structure. The fundamental rationale for choosing a specific method of providing a service is that it is the method best able to support the business objectives of the agency and the state as a whole.

Define Services

- .109 The appropriate level of aggregation of activities for a cost center or cost pool depends on management information needs. These needs may vary over time and from agency to agency. Generally, an ideal cost center represents a level of aggregation that allows services delivered to be linked directly with the costs of providing the services. If defined in this manner, a cost center will have its own measures of productivity (unit costs) and its own measures of benefits (the value of the services delivered). Activity Based Costing (ABC) techniques may be useful in defining services.
- .110 A list of services should be assembled to determine the accounting structure necessary to capture the appropriate data. Reviewing the agency's mission, budget document, goals, and objectives will be useful in developing the list. An additional source may be a review of staff activities - where do people spend their time. Management can then categorize the information at an appropriate level of detail.
- .111 Ideally, to be useful for cost analysis purposes, a service should have the following characteristics:
- **Observable:** Different observers should agree on what is being done, by whom it is being done, and for whom, if possible.
 - **Exclusivity:** An employee doing one thing should not be doing something else simultaneously.
 - **Homogeneity:** The tasks necessary to perform the service should be reasonably similar from one instance to the next.
- .112 Of these standards, exclusivity is the one most likely to cause a problem, because some governmental activities result in more than one service being delivered at the same time. For example, within the Department of Human Services, a home visit to a pregnant teen on drugs could involve several program areas. Likewise, a state policeman could issue speeding tickets while on patrol. In such situations, considerable judgment must be used whenever a particular service must be costed.
- .113 Once a service has been defined, a unit of that service is simply one instance of the service. Creativity is helpful when choosing a unit of service since a unit of service must provide information that addresses management concerns and many of the obvious units of service may only appear to do so. For example, measuring the number of burglaries investigated may provide insight into efficiency but the number of burglary convictions may give information about effectiveness. Since both efficiency and effectiveness are desired, it may be advisable to measure both of these units of service.
- .114 Generally, it is desirable that a unit of service focus attention on outputs as much as possible. Government spends money to achieve goals, and a wise choice of units of service should always reflect the goals being pursued. There are many possible units of service for any given type of service. Clearly, there are more possible units of service than there is time to measure. A selection process is needed, but first we must determine what constitutes a good unit of service.

- .115 A good unit of service should be:
- Result-oriented;
 - Simple, clear, and understandable;
 - Amenable to accurate measurement; and,
 - Acceptable to those who deliver the service.
- .116 Of these four characteristics, the one most frequently ignored or overlooked is the fourth – acceptance by those who deliver the service. It is absolutely essential that the people who actually deliver a service understand and agree on both its definition and its measurement. If the people who deliver the service do not agree with the process, the likelihood of accurate data collection is reduced greatly.
- .117 Since the purpose of measuring a service is to provide management with the information it needs to improve either the quantity or the quality of the service, units of service must focus on critical variables whose alteration can materially affect the service delivery pattern. Ultimately, a unit of service must become a focus of action.
- .118 The identification of units of service and the capturing of cost information related to these units will provide management with the information necessary to explain to themselves and others what is obtained from dollars spent. This information is critical to resource allocation.

Establish Structure to Capture Data

- .119 Using the Statewide Financial Management System, establish classification structures to capture data to meet the requirements of the plan including the collection of data by organizational unit, geographic location, program, or grant project. This will effectively identify cost pools (responsibility centers) to capture the necessary data. When appropriate, fully use the functionality of available systems such as cost allocation to allocate indirect or **overhead** costs.
- .120 If justified by need and allowed within resources available, use **cost accounting** methodologies, techniques and tools to accumulate, analyze and report the information managers need to supplement the basic information above.

Analyze and Evaluate

- .121 Using performance measures, internal and external reports, and other analyses, measure how well the delivery of services or products is being managed. Comparisons to other units within the organization, other government organizations and the private sector may be useful, when applicable. Comparisons to historical information, where available, may be helpful. This process can also be used to establish future goals for improvement.
- .122 The identification of additional information which will better support decision making and the ability to demonstrate value for dollars spent is an ongoing process. It is this process which will provide information which allows for the continuous improvement of agency operations.