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STATEMENT OF



124155

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BEFORE THE

SUBCOMMITTEE ON ECONOMIC STABILIZATION

OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

UNITED STATES HOUSE OF REPRESENTATIVES

ON

COST ACCOUNTING STANDARDS

028839

Mr. Chairman and Members of the Subcommittee:

I am pleased to appear before the Subcommittee to discuss the need for establishing an administrative body with cognizance over cost accounting standards applicable to defense contracts.

Cost Accounting Standards are of critical importance to the government acquisition process. In reviewing compliance with the Standards promulgated by the now defunct Cost Accounting Standards Board, we have found that the standards are generally effective and that federal departments' and agencies' implementation of the Standards is generally good.

We must recognize, though, that the environment in which the Standards exist continues to change while the Standards themselves remain fixed. It is increasingly difficult for contractors, agency officials, and those charged with resolving CAS-related questions to continue to operate efficiently without a means of adjusting the Standards to meet newly perceived needs and without provision for administrative interpretations that are authoritative. Without proper attention, the value of

existing Standards will doubtless diminish over time. There clearly is a need to reactivate some form of the prior Board's function.

One of the problems we face is the absence of an authority to grant exemptions or waivers to Standards. An occasional need for exemptions or waivers does arise; the CAS Board used this authority sparingly. Inflationary factors may dictate the desirability of modifying the applicability of the Standards. Dollar thresholds incorporated in Standards and Regulations should be continually reviewed for possible adjustment.

Then there is the question of interpreting the Standards. From time to time during the Board's existence it provided interpretations when there were widespread and serious questions as to a particular Standard's intended meaning. During its lifetime, the CAS Board issued interpretations sparingly. Only three interpretations were issued but they were critical to promoting a uniform understanding and smooth administration of necessary though highly technical concepts.

Finally, we need to consider that there might well be need for modifying some aspects of the Standards. It is generally agreed that the Standards are founded in well-reasoned accounting theory. The Board and its staff put extensive effort into researching, drafting, soliciting comments, and revising drafts of the Standards. The cost accounting principles incorporated in the Standards are basic and sound and they will continue to be so for a long time to come. We must recognize, however, that there are external influences which may require modifications in the existing Standards and Regulations from time to time.

We testified recently before this Subcommittee on the need for a continuing Cost Accounting Standards setting function. At that time, we recommended that the Comptroller General as head of the GAO be authorized to perform duties and functions similar to those of the original Board aided by an Advisory Board similar in make-up to that of the prior Board.

As we previously testified, this approach would preserve the elements essential to a continuing standard setting

function--maintaining sufficient accounting expertise and assuring independence of the activity from agency procurement considerations. By placing the function with the Comptroller General it could be accomplished at minimum expense to the government as much of the required staff work could be done by GAO employees. We do not consider it essential to establish a separate board with its attendant staff and administration requirements to accomplish what needs to be done.

H.R. 5480 virtually reestablishes the prior Board with the exception that Board members, to avoid constitutional concerns, would be appointed by the President with advice and consent of the Senate rather than by the Comptroller General.

H.R. 5480 retains the authority to appoint an executive secretary and other staff members. It also authorizes the Board to utilize personnel from the federal government (with the consent of the head of the agency concerned) to assist the Board in carrying out its functions. Although we do not consider that a full fledged Board operation is necessary, we would concede

that the bill provides a structure for accomplishing what needs to be done and we would support it rather than allow the existing hiatus to remain unattended.

Mr. Chairman, this concludes my prepared statement. I will be pleased to answer any questions you or members of the Subcommittee may have.