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STATEMENT OF
ELMER B. STAATS, COMPTROLLER GENERAL OF THE UNITED STATES
BEFORE THE
LEGISLATIVE SUBCOMMITTEE, APPROPRIATIONS COMMITTEE
UNITED STATES SENATE
ON
COST ACCOUNTING STANDARDS BOARD
BUDGET ESTIMATES FOR FISCAL YEAR 1973



MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I am appearing before you today in the capacity of Chairman of the Cost Accounting Standards Board to discuss the budget estimates for Board operations during Fiscal Year 1973.

Before getting into our budget justification, I would like to outline just briefly the background of how the Board came to be established and how we have organized to carry out our job. This was outlined in some detail last year, but a brief statement at this point would perhaps be useful.

In 1968, when the Congress was considering extension of the Defense Production Act of 1950, testimony was given critical of the manner in which Government procurement was being accomplished, particularly negotiated procurements. As a result of this testimony, an amendment was made to the bill which provided that the Comptroller General, in cooperation with the Secretary of Defense and the Director of the Bureau of the Budget, shall:

*** undertake a study to determine the feasibility of applying uniform cost accounting standards to be used in all negotiated prime contract and subcontract defense procurements of \$100,000 or more."

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This amendment, which became law on July 1, 1968, as part of Public Law 90-370, also required that the results of the study be reported to Congress within 18 months.

In this study, GAO found that Cost Accounting Standards for negotiated procurements were both feasible and desirable. Based on the study, the Congress in 1970, in further extension of the Defense Production Act of 1950, included a new section creating a Cost Accounting Standards Board to promulgate the Standards. The amendment was passed by the Congress and approved by the President on August 15, 1970. Funds were first appropriated for the Board in the Supplemental Appropriation Act of 1971, approved January 8, 1971.

In January 1971, I appointed four members to serve with me on the Cost Accounting Standards Board. Appointments to the Board were as follows:

From the Accounting Profession: Mr. Herman W. Bevis, who served with Price, Waterhouse & Company, certified public accountants. Dr. Robert K. Mautz, with the public accounting firm of Ernst and Ernst.

From Industry: Mr. Charles A. Dana, with the Raytheon Company.

From the Federal Government: The Honorable Robert C. Moot with the Department of Defense.

On March 5, 1971, the Board selected Mr. Arthur Schoenhaut as Executive Secretary and on April 25, 1971, Mr. Harry R. Van Cleve

became our General Counsel. As of February 1, 1972, we had selected 32 employees, excluding the Board Members--21 professional and 11 administrative and clerical.

- In the year of operation since the Board's first meeting on February 8, 1971, several matters of significance have been achieved. Most notable has been the publication in the Federal Register on December 30, 1971, for public comment, of four proposals consisting of:

1. Provision for a requirement that, pursuant to the Statute, defense contractors disclose their cost accounting practices and then follow those practices consistently. The disclosure requirement will permit establishment of a data bank of contractors' practices--by class of contractor; by dollar volume of business with the Government in relation to total business; by size of contractor, etc. This kind of data does not exist anywhere in the United States. With such information, the Government will be in a better position to develop Cost Accounting Standards.
2. A Standard on the subject of "Consistency in Charging and Allocating Costs Incurred for the Same Purpose." This is designed to eliminate instances in which the same cost is charged, in the same time period, to a contract, both as a direct cost and as a share of indirect costs. This practice commonly is termed "double counting."

3. A Standard on the subject of "Consistency in Estimating, Accumulating and Reporting Costs"--to require consistency between the manner in which contractors present cost data in pricing proposals and the manner in which they record the actual cost of contract performance.
4. A contract clause implementing rules, regulations, and Standards promulgated by the Board that will become part of the regular language, or "boilerplate," for appropriate Government contracts.

Public response to publication of these items was due by February 4, 1972. The numerous comments received were evaluated, and many suggested improvements were made in the proposed issuances. Then, on February 24, we submitted the finished product to the Congress as required by Public Law 91-379. The material promulgated by the Board will take effect at the beginning of the fiscal quarter following 60 days of continuous session of the Congress unless both Houses pass a concurrent resolution stating that the Congress does not favor the proposed Standards and regulations.

Looking now to the work that is in process and planned, the Board has identified a large number of subjects for potential Standards. There is also the administrative work involved in obtaining, collating, and evaluating responses to the Disclosure

Statement requirement. Additionally, there will be a continuing effort to evaluate the effectiveness of the Disclosure Statement, the Standards, and our rules and regulations in bringing about the-desired improvements and consistency in cost accounting practices under defense contracts.

More specifically, we anticipate that we will concentrate efforts during the forthcoming year in the development of Cost Accounting Standards covering the following subjects: allocation of overhead, contractor research and development, contract termination, personal services, materials, depreciation, segregation of unallowed costs, and others. Some of these subjects may prove susceptible to a single Standard; most will have to be subdivided into several Standards.

Our budget estimate for Fiscal Year 1973 is \$1,650,000 to carry out the provisions of Section 719 of the Defense Production Act. This estimate is the same as our estimate for Fiscal Year 1972 and is \$150,000 more than the amount ultimately appropriated. It will be allocated essentially as follows:

\$1,113,000 for salaries and related benefits of the Board, permanent professional staff (including the Executive Secretary), part-time consulting assistance and supportive clerical staff.

\$212,000 for travel of the Board and its staff.

\$250,000 for contract services, computer services, and reimbursements to other Government agencies for administrative and personal services.

\$75,000 for rent, communications, utilities, printing and reproduction, supplies and materials and equipment.

We estimate that our staffing requirements will necessitate filling 25 professional and 12 clerical positions. We have been very selective in recruiting the professional staff of the Board because we believe that in such a small organization, it is especially important that these positions be filled by individuals who are well qualified in cost accounting and Government contracting. After considering about 600 applications and conducting more than 100 interviews, we have thus far selected 21 professional people. These people come from Government, industry, the public accounting profession and the academic community; fourteen are certified public accountants, four are lawyers, and three come from controllers' offices of major defense contractors. Our selective recruiting has been a factor in the reduction below our estimated level of expenditures for Fiscal Year 1972. We anticipate that by the end of this Fiscal Year, there will be only \$100,000 unobligated from our current appropriation.

The way our work is evolving, however, we continue to believe that to man the job fully we are going to need the additional four professional employees. We have several people under consideration.

We believe that our staffing requirements will be complete by the beginning of Fiscal Year 1973.

Our travel estimate reflects our judgment that there will be a need for field trips to evaluate the effectiveness of our Disclosure Statement requirements and Standards which will have been promulgated. It also reflects the continuing need for travel to obtain on-site information at contractors' offices regarding cost accounting practices in our effort to assure that future Standards give due consideration to the requirements of contractors as well as the Government. In this regard, the Board has established a policy of earnestly seeking advice and assistance from Government, industry, and professional accounting organizations in the research and development of Cost Accounting Standards. This policy has produced beneficial results in the work that has been done to date and we plan to continue this cooperative approach.

Our contract service estimate includes an amount to be used to secure the services of people with special qualifications to deal with particular technical aspects of cost accounting. In most cases, this will involve engaging individuals who either are not available for permanent employment or whose services are so specialized that the need for them arises only for study of specific subjects.

The contract service estimate also reflects anticipated costs for development of computer applications that will facilitate analysis of the data received in compliance with Disclosure

Statement requirements. We believe that such analyses will assist in identification of areas in which Standards are particularly desirable and will also expedite the research needed to establish a firm foundation for individual Standards.

In addition to the contractual services noted above, we are continuing to operate under a Memorandum of Understanding and Agreement with the General Accounting Office (GAO), whereby GAO will provide support services such as printing, payroll reporting, budget, personnel, security investigations, information and office services to the Board on a reimbursable basis.

This covers, in general, what we have done thus far and what we propose to accomplish during the upcoming Fiscal Year. I will be glad to answer any questions.

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COST-ACCOUNTING STANDARDS BOARD

WITNESSES

Elmer B. Staats

Comptroller General of the United States,
Chairman

Arthur Schoenhaut

Executive Secretary