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

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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 the budgetary details, I would like to take a few minutes to provide a bit of background. The Board was authorized in 1970 by Public Law 91-379. In January of 1971, acting pursuant to the Law, I appointed four members, Mr. Herman W. Bevis, Mr. Charles A. Dana, Mr. Robert K. Mautz, and the Honorable Robert C. Moot. The membership has remained unchanged, and all members, with the exception of Mr. Mautz, are principally engaged in the same capacities as I reported on March 30, 1971, when I appeared before this Subcommittee. Mr. Mautz has recently left his post at the University of Illinois to associate with the accounting firm of Ernst and Ernst.

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:

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1. A legislative requirement that 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 is due by February 4, 1972. Comments received by then will be evaluated and any suggested improvements in the proposed issuances that should be made will be accomplished in the next few weeks. Then, about the first of March, we anticipate submitting the finished product to 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 sixty 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, there is, of course, a large number of subjects that must be considered for potential development as 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.

Mr. Chairman, 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, reimbursements for computer services,

administrative and personal services, and reimbursements to other Government agencies.

\$75,000 Other--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 controller's 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 about \$100,000 unobligated.

The way our work is evolving, however, we continue to believe that to man the job fully we are going to need the additional 4 professional employees. We have several people under consideration. It appears that our staffing requirements will be essentially 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 administrative services such as printing, payroll reporting, budget, personnel, security investigations, and office services to the Board on a reimbursable basis. I might note in passing that the Memorandum also provided for legal services to be provided by GAO. As Board activities developed, it became apparent that the need for services in this area were of such magnitude as to require establishment of a legal office as part of the Board staff.

I believe 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.

## COST ACCOUNTING STANDARDS BOARD

### SALARIES AND EXPENSES

For expenses of the Cost Accounting Standards Board necessary to carry out the provisions of Section 719 of the Defense Production Act of 1950, as amended (Public Law 91-379, approved August 15, 1970), [\$1,500,000], \$1,650,000. (Legislative Branch Appropriation Act, 1972.)

#### Justification of Estimates

##### Fiscal Year 1973

The budget estimates presented and the increase in the estimates are for the first fiscal year of full-scale operations of the Board.

Section 103, title I, of the 1970 amendment (Public Law 91-379) to the Defense Production Act of 1950, established as an agent of the Congress a Cost Accounting Standards Board. This legislation provides that the Board shall consist of the Comptroller General of the United States who shall serve as Chairman and four other members appointed by the Comptroller General. The Act empowers the Board to appoint an Executive Secretary at a rate of compensation not to exceed the rate prescribed for level IV of the Federal Executive Salary Schedule.

In January 1971, the Comptroller General appointed four members to serve on the Cost Accounting Standards Board and in March 1971 he appointed an Executive Secretary.

The enabling legislation provides that three Board members appointed from private life will receive compensation at a rate of one two-hundred-sixtieth of the rate prescribed for level IV (\$38,000 per annum) of the Federal Executive Salary Schedule for each day in which he is engaged in the actual performance of duties vested in the Board. The enabling legislation also provides that the Comptroller General (who serves as Chairman) and one member to be named from Government would continue to receive the compensation of his regular position from the agency employing him. In addition, the Executive Secretary receives compensation at the annual rate prescribed for level IV of the Federal Executive Salary Schedule.

The principal function of the Board is to develop and promulgate Cost Accounting Standards designed to achieve greater uniformity and consistency in the cost accounting practices followed by defense contractors and subcontractors under negotiated defense procurements in excess of \$100,000. The Standards, rules, and regulations promulgated are to be followed in estimating, accumulating, and reporting costs of defense contracts.

The budget estimate for Fiscal Year 1973 is \$1,650,000. This estimate is the same as the estimate for Fiscal Year 1972 and is \$150,000 more than the amount ultimately appropriated.

	<u>1971</u> <u>Actual</u>	<u>1972</u> <u>Estimate</u>	<u>1973</u> <u>Estimate</u>
<u>Object Classification (in thousands of dollars)</u>			
Personnel compensation:			
11.1	69	726	913
11.3		113	113
permanent			
12.1			
Personnel benefits:			
	5	71	87
Civilian employees			
21.0			
Travel and transportation			
	8	165	212
of persons			
23.0			
Rent, communications, and			
	110	25	25
utilities			
24.0	-	30	34
Printing and reproduction			
25.0	52	250	250
Other services			
26.0	4	8	8
Supplies and materials			
31.0	<u>71</u>	<u>12</u>	<u>8</u>
Equipment			
99.0	<u>-</u>	<u>820</u>	<u>1,650</u>
Total obligations			

An explanation of our fund requirements by object classification follows:

11.1 Permanent Positions. This estimate covers the salary costs for 40 permanent positions in Fiscal Year 1973. These positions include three Board members, an Executive Secretary (at level IV), 24 other professional positions, and 12 supportive clerical positions.

12.1 Civilian Personnel Benefits. This estimate covers the Board contributions to the retirement, life insurance, and health benefit funds.

21.0 Travel and Transportation of Persons. This estimate covers the cost for travel of the Board and its staff to obtain on-site information of contractors' offices and for attendance at meetings and conferences regarding Board programs.

23.0 Rent, Communications, and Utilities. This estimate covers the costs of rental of office space, equipment, telephones, postage, etc.

24.0 Printing and Reproduction. This estimate covers the cost of day-to-day printing requirements, i.e., stationery, envelopes, etc., and the cost of publishing a Disclosure Statement form and Cost Accounting Standards promulgated by the Board.

25.0 Other Services. This estimate covers the costs for contract services, development of computer applications, and reimbursements to other Government agencies for administrative and personal services.

26.0 Supplies and Materials. This estimate covers the cost of day-to-day operating supplies and materials.

31.0 Office Furniture and Equipment. This estimate provides for the cost of typewriters, adding machines, calculators and other office machines and for office furniture, technical books and publications.