

GAO

History Program



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Arthur Schoenhaut



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Arthur Schoenhaut



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Preface

The General Accounting Office (GAO) was established by the Budget and Accounting Act of 1921. Since then, new legislation and modified policies have been adopted that enable GAO to meet the needs of the Congress as it comes to grips with increasingly complex governmental programs and activities.

GAO has initiated a History Program within its Office of Policy to ensure that the basis for policy decisions and other important events are systematically recorded for posterity. The program should benefit the Congress, future Comptrollers General, other present and future GAO officials, GAO's in-house training efforts, and scholars of public administration.

The primary source of historical data is the written record in official government files. A vital supplement contributing to a better understanding of past actions is the oral history component of the program. Key governmental officials who were in a position to make decisions and redirect GAO's efforts are being interviewed to record their observations and impressions. Modern techniques make it possible to record their statements on videotapes or audiotapes that can be distributed to a wider audience, supplemented by written transcripts.

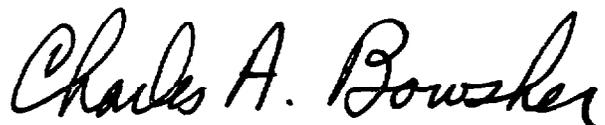
Arthur Schoenhaut served GAO from 1950 to 1967 and attained the position of Deputy Director, Civil Accounting and Auditing Division. In the latter capacity, he shared with the Director of the Division the responsibility for planning and directing the work of a staff of about 600 professional accountants in Washington, D.C., and for reviewing related activities carried out by a staff of about 1,500 professional accountants in GAO's 16 regional offices in the United States and its European and Far East offices.

In 1971, Mr. Schoenhaut was appointed Executive Secretary to the newly created Cost Accounting Standards Board and remained in that position for almost 9 years. The Comptroller General served as Chairman of the Board. The Board was discontinued in 1981.

When Mr. Schoenhaut retired from the government in 1980, Congressman Jack Brooks, in remarks to the House of Representatives, said: "It is an unhappy day for the Government when a public servant as skilled and dedicated as Mr. Schoenhaut leaves it. I wish him well in his retirement and take this opportunity to thank him, on behalf of the American people, for a job well done."

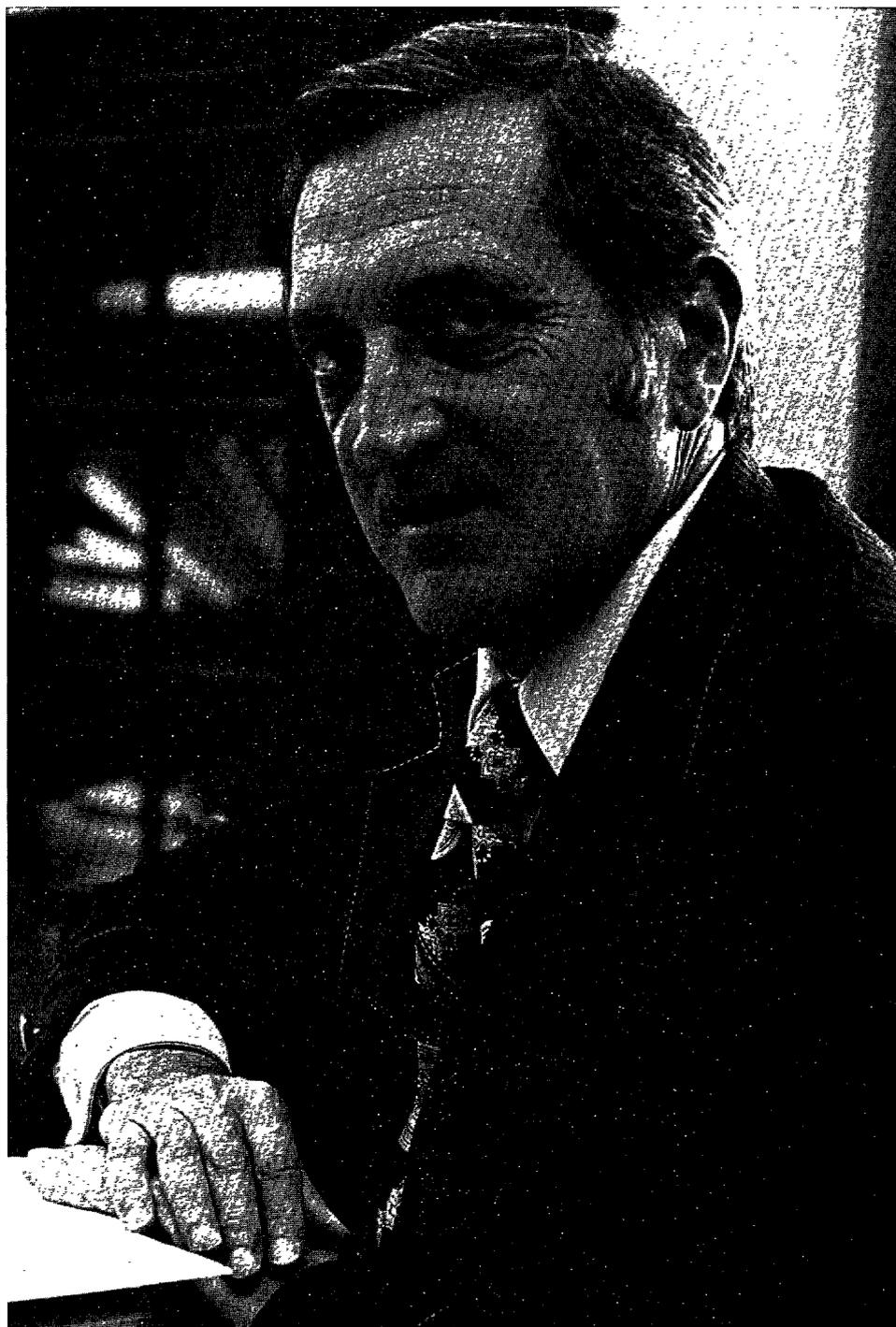
On November 10, 1987, Mr. Schoenhaut was interviewed on videotape by two present GAO officials and one former GAO official (see p. vii) at GAO headquarters in Washington, D.C. The interview covered Mr. Schoenhaut's activities in GAO and as Executive Secretary of the Cost Accounting Standards Board. This document is a transcript of the videotape. Although a number of editorial changes have been made, GAO has tried to preserve the flavor of the spoken word.

Copies of the videotape and this document are available to GAO officials and other interested parties.



Charles A. Bowsher
Comptroller General
of the United States

Arthur Schoenhaut



Biographical Information

Arthur Schoenhaut

Mr. Schoenhaut served on the staff of the United States General Accounting Office (GAO) from 1950 to 1967 and was Executive Secretary of the Cost Accounting Standards Board from 1971 to 1980. He was born on February 19, 1925, in New York City and received a Bachelor of Business Administration from the City University of New York. Mr. Schoenhaut did postgraduate work at New York University and at the Harvard Graduate School of Business. He is a certified public accountant.

Mr. Schoenhaut joined GAO in Washington, D.C, progressing from trainee, GS-5, in 1950 to Deputy Director of the Civil Accounting and Auditing Division in 1964. From 1967 to 1971, he was Deputy Controller of the U.S. Atomic Energy Commission. With the establishment of the Cost Accounting Standards Board, Mr. Schoenhaut was appointed its Executive Secretary and served in that capacity for almost 9 years until 1980.

Following his distinguished career in the U.S. government, Mr. Schoenhaut served as a consultant to Arthur Andersen and Company and as an instructor at the Federal Executive Institute Alumni Association. From 1981 to 1982, he was the Director, Division of Budget and Finance, of the International Atomic Energy Agency in Vienna, Austria. Since then, he has been a consultant to the Comptroller General of the United States on various projects related to financial management in the federal government.

Mr. Schoenhaut is an honorary member of Beta Alpha Psi and the recipient of the Distinguished Leadership Award from the Association of Government Accountants (AGA) in 1974. He was selected Man of the Year (1976) by the Washington Chapter of the Institute of Internal Auditors. He served as National President of AGA from 1978 to 1979 and received the Robert W. King Memorial Award from that Association in 1980.

Interviewers

Henry Eschwege

Henry Eschwege retired in March 1986 after almost 30 years of service in GAO under three Comptrollers General. He held increasing responsibilities in the former Civil Division and became the Director of GAO's Resources and Economic Development Division upon its creation in 1972. He remained the Director after the Division was renamed the Community and Economic Development Division. In 1982, he was appointed Assistant Comptroller General for Planning and Reporting.

Werner Grosshans

Werner Grosshans became Director of the Office of Policy in December 1986. He began his diversified career as a government auditor in 1958 in the San Francisco Regional Office and held positions of increased responsibility; he was appointed Assistant Regional Manager in 1967. In July 1970, he transferred to the U.S. Postal Service as Assistant Regional Chief Inspector for Audits. In this position, he was responsible for the audits in the 13 western states. In October 1972, he returned to GAO to the Logistics and Communications Division. In 1980, he was appointed Deputy Director of the Procurement, Logistics, and Readiness Division and, in 1983, he was appointed Director of Planning in the newly created National Security and International Affairs Division. In 1985, he became Director of the Office of Program Planning, where he remained until going to the Office of Policy.

Roger Trask

Roger R. Trask became Chief Historian of GAO in July 1987. After receiving his Ph.D. in History from The Pennsylvania State University, he taught between 1959 and 1980 at several colleges and universities, including Macalester College and the University of South Florida; at both of these institutions, he served as Chairman of the Department of History. He is the author or editor of numerous books and articles, mainly in the foreign policy and defense areas. He began his career in the federal government as Chief Historian of the U.S. Nuclear Regulatory Commission (1977-1978). In September 1980, he became the Deputy Historian in the Historical Office, Office of the Secretary of Defense, where he remained until his appointment in GAO.

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Abbreviations

AEC	Atomic Energy Commission
AGA	Association of Government Accountants
CASB	Cost Accounting Standards Board
CIA	Central Intelligence Agency
CPA	certified public accountant
DCAA	Defense Contract Audit Agency
DOD	Department of Defense
FAA	Federal Aviation Administration
FGAA	Federal Government Accountants Association
GAO	General Accounting Office
GASB	Governmental Accounting Standards Board
IAEA	International Atomic Energy Agency
NASA	National Aeronautics and Space Administration
OFPP	Office of Federal Procurement Policy
OGC	Office of the General Counsel
OMB	Office of Management and Budget
PPC	Program Planning Committee
TVA	Tennessee Valley Authority

Interview With Arthur Schoenhaut

November 10, 1987

Biographical Data

Mr. Eschwege

Good morning, Arthur Schoenhaut. We are glad that you could join us here as part of GAO's History Program. As you know, Werner Grosshans, our Director of the Office of Policy, is here, as well as GAO's Historian, Roger R. Trask. We want to talk to you this morning about your tenure in GAO, as well as your participation in setting cost accounting standards on the Cost Accounting Standards Board, which, like GAO, was headed by the Comptroller General. Before we get into some of these details, we want to know a little bit about Arthur Schoenhaut himself, where you were born, what education process you went through, and your experience—although we will get into that in more detail later on—and finally we would like you to bring us up-to-date on what you have been doing since you left the Board.

Mr. Schoenhaut

Ok. Well, I was born in New York City in 1925. All the schools I attended were in New York—public school, elementary school, junior high school, and high school. I went to City College in New York—their business school. Our campus was on the corner of 23rd Street and Lexington Avenue in New York. I met my first wife there. She was attending college also, and we graduated together, along with Bernie Sacks, who used to work for GAO. And the three of us were side by side at the graduation ceremony, since our last names all began with "S." Subsequently, I was working part-time as a bookkeeper in a venetian-blind-manufacturing company, and I attended New York University Graduate School of Education for a short period. My idea was to become a high school book-keeping teacher. My reasoning was that if I had a lot of time off, I could play a lot of golf.

Entering GAO

A fellow named Harry Trainor used to be the staff manager for GAO in the early days that I was here. He came to New York City and interviewed me and asked me if I wanted to go to work for the government. He explained what GAO was. I spoke with my wife and decided that I might just as well not become a rich man working for the government instead of not becoming a rich man teaching in New York City. So I came down here in October 1950 and started work with GAO. That gets us as far as getting here to Washington.

Mr. Eschwege You did serve in the military as well?

Mr. Schoenhaut Yes.

Mr. Eschwege Was that still during World War II?

Mr. Schoenhaut I served during World War II for 3 years but always in the states, having a good time running up and down the East Coast.

Mr. Eschwege You helped win the war anyhow.

Mr. Schoenhaut That is right. Somebody had to do what I did —taking care of the young ladies on the East Coast.

Mr. Eschwege Well, we will get to some of the other details of your career later as we go through this, but let's focus on your coming to GAO. You mentioned that Harry Trainor recruited you. How did he first get to know that you were available? Did you apply?

Mr. Schoenhaut I vaguely recall that Bernie Sacks and I took some kind of a civil service exam in New York City. We were both recent graduates. It was very difficult to get a job with a public accounting firm then, because it was right before the Korean War and there was somewhat of a depression. We were trying in every way possible to come up with a career. We even went to the Army recruiting office to see if they would take us back as officers since we were now college graduates, but they did not want any part of us. We finally took this exam thinking that maybe we would work for the government. I think that is how Trainor got my name. We got very high grades on whatever kind of exam they gave. Sacks was not interested in coming then.

Mr. Eschwege Did he come to interview you in New York, or did you have to come to Washington?

Mr. Schoenhaut No, Trainor came to New York City and interviewed me in a hotel room and told me what GAO was all about. It sounded very interesting. I figured I would take a shot at it. I have never been sorry.

Mr. Eschwege Good. So you came to GAO, as you say, in October 1950—right to Washington I assume. How were you received? Which division did you get into? Under whose tutelage or guidance did you start your work?

Maritime Audit

Mr. Schoenhaut I was a GS-5 trainee, and first I was put into what they called a “bull-pen,” where they placed staff members before they had an assignment or when they were in between assignments. All I did there was read various pieces of literature about GAO. Then I was assigned to the audit of the Maritime Administration. I proceeded to go over there one morning and asked for Roy Gerhardt, who was the manager of the audit. I trooped into his office and told him, “I am here to help you.” He was kind of stunned because I did not ask his secretary whether I could go in or whether I would have to wait. Well, he said, “Welcome,” and he shook hands with me. I took my coat off and hung it up in his office. I asked him where my office was and he sent me to some big room with about six desks in it. He said, “One of those desks is yours; pick whichever one is not occupied.” That is how I got started.

Mr. Eschwege This was really a site audit at the time in the Commerce Department.

Mr. Schoenhaut Yes, I was in GAO’s Corporation Audits Division.

Mr. Grosshans Can you tell us about what GAO was all about in those days? What type of work did they do?

Mr. Schoenhaut Well, Maritime was the subject of intense study by GAO. I do not remember all the details of the findings, but I would say it put the Corporation Audits Division and GAO on the map because of the uncovering of vast

overpayments of subsidies—almost everything the Maritime Administration did had some problem with it. All the personnel assigned to the Maritime Administration audit ultimately became part of the upper management of GAO over the years. They had a top-notch staff that did a good job. As a trainee, I audited the payroll. Then my first two supervisors were Fletcher Lutz and John Kurlich, and somewhere in that group was Paul McClenon. My initial big task there was to audit all kinds of vouchers. I was part of a group of Maritime auditors being trained. I was the test. If I could answer the questions correctly, then they knew they were teaching the course properly. As it turned out, I kept getting 100 on every exam Kurlich and Lutz gave me, and the Maritime people were suffering trying to get 65. So they figured the course was okay; it was the people that were not too good.

Mr. Eschwege

You were giving this course to the agency people?

Mr. Schoenhaut

To the agency people to train them on how to audit vouchers.

Mr. Eschwege

But in terms of GAO's internal training, did you get any training when you first came here like we do now for the GS-5s and GS-7s coming into GAO, or was it all on-the-job training as far as you were concerned?

Mr. Schoenhaut

It was really all on-the-job training, except for some brief interviews with Personnel people telling me what I am entitled to. As for any formal training in auditing or accounting, there was none. It was all on-the-job training.

Mr. Grosshans

Was Ted Westfall still over there when you came in? Most of his career was spent in that same agency, and I know that when we interviewed him, he indicated some of the same types of findings that you alluded to.

Mr. Schoenhaut

No, by the time I came, he had left and I believe he was succeeded at Maritime by A. T. Samuelson. Samuelson had already left and Gerhardt was the man in charge. He had a fellow named Howard Perrill as his assistant. Most of the people who were there one way or another wound up in high positions in the General Accounting Office. It was a good assignment for on-the-job training.

Mr. Eschwege Would it be fair to say that what they were trying to do at Maritime was to apply the kind of audit to Maritime as they had to corporations?

Mr. Schoenhaut Correct. That's about what it was.

Mr. Eschwege Was this about the first attempt to do that?

Mr. Schoenhaut Well, I'm not sure. It may have been.

Mr. Eschwege I got the impression it was one of the first, if not the first.

Comprehensive Audits and Other Changes

Mr. Grosshans Did they call that the comprehensive audit? Apparently that came into existence about the time you came in.

Mr. Schoenhaut I had been on that audit about a year or a year and a half. Out came some pronouncement that from now on we were going to do comprehensive audits. Then we had some initial difficulty understanding what was intended by a comprehensive audit. It really was the forerunner to operations audits. It didn't take us very long to get to understand what was intended and we liked it. I never heard anybody complain about getting away from the rudimentary auditing of the books of the agency and getting down to taking a look at how well the programs were being run, and it didn't matter what it was. If inventory was written off, you dug into why it was written off and what was written off. You started with the books, but you wound up taking an operation apart to see what went wrong.

Mr. Eschwege Did you have any contact with people outside of that Corporation Audits Division? Did you get any sense for what was going on in the older type of operation, the voucher audits work?

- Mr. Schoenhaut We knew there was an Accounting and Bookkeeping Division at the time. There also was some kind of a Reconciliation Division that reconciled checks, but I never knew exactly what they did. GAO also had to approve the allocation of funds, or the appropriation warrants. It all seemed like a bunch of nonsense to me at the time. I was happy where I was because the work was interesting.
- Mr. Trask GAO was in the Pension Building, basically, at that time. Did you go there first and what were your impressions of that?
- Mr. Schoenhaut No, I did not go there. GAO was in the Pension Building, but the Corporation Audits Division was in the Old Post Office Building. That's where I went. I never went to the Pension Building at all. I went to the Old Post Office Building and then out on an audit.
- Mr. Eschwege Did you travel at all in those early days?
- Mr. Schoenhaut We visited the New Orleans office of Maritime for a couple of weeks. We also went to the New York office of Maritime for a couple of weeks, but that was all the travel I did.
- Mr. Eschwege Did you make any use of the people we had out in those locations?
- Mr. Schoenhaut No. It was strictly Washington staff of the Corporation Audits Division that did all the work. I didn't even know we had any offices anywhere.
- Mr. Eschwege How long did you stay on Maritime?
- Mr. Schoenhaut Three years.
- Mr. Eschwege During that time, were there any hearings up on the Hill about your Maritime activities?

Mr. Eschwege Did you meet Westfall at all?

Mr. Schoenhaut Yes.

Mr. Eschwege While he was head of the Audit Division?

Mr. Schoenhaut Yes, the Audit Division.

Mr. Eschwege I see. And you recall he left about 1952.

Mr. Schoenhaut Yes, he got some super job with Grace Line, I guess.

Mr. Eschwege Right. Also, during that time, were you somewhat aware of what was going on in the Investigations group?

Mr. Schoenhaut Yes, I don't recall exactly when, but my understanding was that the Investigations Office had issued a report. This was after Campbell had come.

Mr. Eschwege Yes. I'm thinking more about earlier. We'll get to that report too; that's the zinc report that you are talking about. But during the period that you were on Maritime, for instance, did Investigations come in sometimes to review some activity there?

Mr. Schoenhaut Not that I was aware of. I knew there was an Office of Investigations; I didn't know what they did. It was kept very secret. For example, I had a neighbor in the apartment building where we lived in Silver Spring, Maryland, and we talked to one another. I asked him what he did and he told me he couldn't tell me. It was very secret. I subsequently found out he was in the Investigations Office in GAO, and the only way I found out was I visited the Dallas Regional Office years later and there he was. I said, "Is this the secret office you were in?" He said, "No, I'm in the regional office now, but I was in the Office of Investigations." So I never really knew what they did.

Bureau of Standards Audit

Mr. Eschwege You left Maritime after about 3 years. Is that when you went to the Bureau of Standards?

Mr. Schoenhaut Correct.

Mr. Eschwege That still was part of Commerce really. Was Roy Gerhardt still in charge?

Mr. Schoenhaut No, Paul McClenon was. He had been my supervisor after Lutz and Kurlich got through with me at Maritime. McClenon was the supervisor at the Bureau of Standards, and I guess he asked for me. That audit was under the overall direction of Roy Lindgren. In those days, I suppose, they didn't have an assistant director in charge of a department of the government. We had a pretty good staff at the National Bureau of Standards. McClenon ran the audit, and Bill Parker was there; so were Ray Poskaitis, a couple of others whom I don't recall, and myself. Ultimately, we issued some good reports. One that I recall involved overpayments to a contractor in New York City. We found a few hundred thousand dollars of overpayments, which seemed to me like an enormous sum at the time. We did a pretty good job of auditing out there because the Bureau of Standards made a number of changes, and they hired McClenon to be their chief accountant. When that happened, the audit kind of disintegrated. I was left there with Bill Parker, and I was in charge of Bill Parker. That was the audit staff. Lindgren told us to just hang in there until Bob Long, who was the Director of Audits, decided what to do with us and what to do with that audit.

Mr. Eschwege This was in what time frame?

Mr. Schoenhaut Well, it was about 1955.

Mr. Eschwege Oh, you stayed that long. One thing I do want to just mention to the rest of my colleagues here: This is the same Paul McClenon whom you hired

later on the Cost Accounting Standards Board to help you when you worked there.

Mr. Schoenhaut

And the same Bill Parker who also came to the Cost Accounting Standards Board.

Mr. Grosshans

You mentioned the case of a New York contractor and the refund that you got. Could you just tell us how you worked with the Office of the General Counsel [OGC]? I imagine there was a close relationship there. How would you characterize that working relationship with OGC?

Mr. Schoenhaut

Well, there was one lawyer in particular, Wayne Smith, who eventually got involved in the case because there was no effort being made to seek reimbursement of this \$200,000 to \$300,000 overpayment. The contractor, in effect, kept two sets of books. The contract called for paying them on the basis of a percentage of direct labor cost, and since most of the high-priced labor was on the government work, there was no equitable allocation of cost. Any allocation of cost was on a basis of direct labor dollars. Since the high cost engineering labor was allocated, primarily on government contracts, they pulled most of the overhead. Then the New York office of GAO found out that the contractor on its other records allocated overhead costs on the basis of labor hours. This made more sense because then there would be no prejudice against the government contract. By comparing the two methods, we came up with this overpayment. It turned out there were a whole lot of other government contracts that were working about the same way.

We asked the General Counsel at GAO what we should do. And Wayne Smith got involved, and he forced a hearing before a Commerce appeals board in which I testified; I guess Smith was there as our counsel. I think I did all the testifying. By then, McClenon was no longer with GAO. The appeals board ruled in favor of the contractor, and so Wayne Smith simply said, "Okay, the contractor is now blacklisted." In those days, GAO could blacklist the contractor and nobody could pay him any money. After a couple of months, the contractor was running out of money. The head of the company called me up to come to New York and talk to him about this problem, and I went there and he said, "You're bankrupting us." I said, "Well, why don't you pay the \$200,000?" And then I thought he was implying something when he said, "Well, can't we settle this between us? You know, we give you a check but not for that amount and

that will be the end of it." I said, "Look, you're not going to make that check out to me," and he said, "I didn't have that in mind at all," and I said, "Well, I think you're going to have to pay what the government says is an overpayment." Eventually, they had to pay because they were being starved for cash; they also were missing out on a whole lot of new government contracts. I don't even know if the company exists now. It was a landmark case. One effect was a Comptroller General ruling that the wording of the contract constituted a "cost-plus-percentage-of-the-cost" contract, which is illegal.

The Campbell Era

Mr. Eschwege

This period at the National Bureau of Standards was also the period in which there was a change of Comptrollers General from Lindsay Warren to Joe Campbell.

Mr. Schoenhaut

Just about, when I left the Bureau of Standards.

Mr. Eschwege

How did you first meet Mr. Campbell? Was it in the early years or later on?

Bureau of Public Roads

Mr. Schoenhaut

Not in his first years; I heard of him because I went over to the Bureau of Public Roads to run that audit for Lindgren. At that time, there was a big debate about how to pay for the National Interstate and Defense Highway System that exists in the country today. The Republican administration had appointed Campbell because Campbell was Eisenhower's Treasurer at Columbia University and—I'm just speculating—because Eisenhower had difficulty coming up with somebody who was acceptable to the Congress. Joe Campbell was sort of unknown.

He took the job, and one of the first things he supported was the administration's idea of having the highway system paid for through a bond issuance, much like turnpikes are paid for. It didn't take very long to convince him that this was not the way to go at all and that this would

be money that would not be subject to control by the Congress. He ended up opposing the bond scheme. That was about the first time I ever got involved at all with a Joe Campbell decision. I don't recall whether I met him at the time or not, but I know I attended a lot of meetings where we argued at length about not financing highways with funds that would in no way be controlled by the Congress.

Mr. Eschwege

Campbell was confirmed by the Senate. Did he have much of a problem getting confirmed? Do you remember anything about that?

Mr. Schoenhaut

Not that I recall. I thought it was pretty cut and dry.

Mr. Eschwege

But aside from your personal relationship with Mr. Campbell, which we'll pick up on later on, did you notice any change in the Office soon after he came in, in terms of professionalizing the staff, doing the kinds of audits that we know he advocated, and so on, or did that come later?

Mr. Schoenhaut

Well, changes came pretty quickly. Of course, the comprehensive audit had already started but as I recall, there was increased emphasis on comprehensive auditing. There was a substantial decrease in helping with any kind of accounting systems development. Those changes were pretty obvious. I don't remember whether they were made exactly when he came in or some time after he came in.

Recruiting and Training

There was almost an immediate intense recruiting program started to get as close to the cream of the crop of college accounting graduates as possible. That evolved into recruiting about 400 or 500 new people every year. To me, that's the biggest legacy Campbell ultimately left to the organization. He created a highly professional staff of accountants who were urged to go on and become certified public accountants (CPAs). I guess we were just like the ninth of the Big Eight CPA firms, or maybe the first of the Big Nine. I think we had more CPAs after a while than any of the Big Eight firms.

Mr. Eschwege

This also involved more training or really starting those training programs.

- Mr. Schoenhaut Yes, GAO had some report-writing training and some audit training; there was an in-house CPA review course that was a top-notch course. GAO selected some very high-powered accountant, who knew what he was talking about, and he wound up teaching the course to those that wanted to pass the CPA exam. That went on for years all during Campbell's tenure at GAO. I mean, he really did a job of building up the professional capability of this organization.
- Mr. Grosshans Did it start with Leo Herbert?
- Mr. Schoenhaut No, it started with Charlie Murphy.
- Mr. Trask How did they go about recruiting all of these accountants at that time? Government salaries were not particularly attractive at that time. What process was followed?
- Mr. Schoenhaut I'll tell you about my experience. I had never recruited anywhere, and by the time I got around to recruiting, Leo Herbert was on the scene. Since I was a young employee who had made great progress in the organization, he said, "You ought to go out and try recruiting." I said, "Okay, what do I have to do?" He told me what I had to do, and I asked him, "How many accountants do you want?" He said, "Well, you'll be lucky if you get one, but I'll take six." So, I went out recruiting with somebody who worked for Leo, a fellow named Maurice Paradis, and we got six people who signed letters of intent to come to GAO.
- Mr. Eschwege Where did you go?
- Mr. Schoenhaut The first time I went out, we went to the University of Rhode Island, Providence College, and the University of Connecticut. What we would do is interview people or make a speech or both. I think I was successful in recruiting because I believed in what we were doing. I sold them on the idea that if they joined GAO, they would truly be making a contribution to the citizens of the United States and that there was a lot more satisfaction in that than just making money. They believed me because I was very intense about how great GAO was; much of that has never left me.

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- Mr. Eschwege I think it's still true today. It's an exciting place to work.
- Mr. Schoenhaut I agree.
- Mr. Grosshans Art, we made a switch in the late 1950's. Up until then, we hired primarily from CPA firms. I realize we got a few people out of the colleges earlier, but 1957 was the first big recruiting year. And then, of course, 1958 and 1959 followed. As you were saying, 400 or 500 people came in every year and by that time we had the training program established to really take care of all of those new incoming people. What caused us to change our recruiting from the CPA firms to almost exclusively going to the schools and getting the young folks?
- Mr. Schoenhaut I believe it was because we were not getting the best available people out of the CPA firms. We couldn't compete salarywise, and it was hard to get a potential partner to leave a public accounting firm. The potential partner was the fellow you wanted because he had the most on the ball. I never discussed this with Campbell, but I suspect he and Charlie Murphy decided the better way to do this would be to grow your own accountants by getting them out of college, and that dictated the switch. You just couldn't get enough good people out of public accounting. We had some; in fact, the Corporation Audits Division was started entirely by former employees of CPA firms. I don't know if any of them was a partner.
- Mr. Eschwege Some of those had been in the war, in the military, and I guess we got hold of them before they even decided to go back to their previous employers. Like Samuelson and McDowell.
- Mr. Schoenhaut Samuelson had been an auditor for the Navy; [Stephen B.] Ives and [Irwin S.] Decker ran the Corporation Audits Division. One or both of them were ex-colonels—I don't remember now.
- Mr. Eschwege Yes. My point was that before the war, they had been with one of the Big Eight, like Samuelson was with Price Waterhouse...

- Mr. Schoenhaut Lindgren was with Price Waterhouse, and George Staples was with Arthur Andersen; many came out of the Big Eight firms.
- Mr. Grosshans Can you tell us a little bit about how decisions like that would have been made in the Campbell era? In other words, most of us are more familiar with what went on during Mr. Staats' days and, of course, now in Chuck Bowshe's days. This was a major change in the way we went about doing things and how we were building the GAO of the future. How would Mr. Campbell have gone about making that decision? Did he rely on certain people for that type of input? Did he have advisers that he worked with?
- Mr. Schoenhaut I'm not aware of anybody who could have influenced him in that direction. He may have asked somebody who suggested that that was the way to go, but most things that Campbell did came out of Campbell. He decided and that was it.
- Mr. Eschwege Leo Herbert was recruited by Campbell.
- Mr. Schoenhaut Correct.
- Mr. Eschwege Did you have much contact with him during these years?
- Mr. Schoenhaut Yes, but never in connection with much of anything he did with Joe Campbell.
- Mr. Eschwege Or with recruiting and training?
- Mr. Schoenhaut Well, I did the recruiting for him, as I said; I gave you a description of one recruiting trip where I got six and he was overwhelmed, or seemed to be. He said we'll send you out again, and he sent me with Clerio Pin the next time. We went to Pennsylvania, specifically to Wilkes Barre and Scranton, and came back with another six.

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- Mr. Eschwege All these people were recruited for Washington, or did some of them go to the field?
- Mr. Schoenhaut All the recruiting I did was for Washington.
- Mr. Trask How did GAO handle so many new employees—I think the total number of employees in that period was pretty stable—why were there so many spaces available?
- Mr. Schoenhaut Well, what Joe Campbell did was find divisions in GAO that he thought were not suitable for the mission of GAO, so he abolished those divisions or units and got rid of the people. That opened up spaces to hire professional accountants out of college. For example, he got rid of the old divisions and the Office of Investigations. We had something called Indian Tribal Claims; he got rid of that function.
- Mr. Eschwege He and Warren before him; Warren did some of that too.
- Mr. Schoenhaut I remember being involved in the Indian Tribal Claims thing.
- Mr. Eschwege Yes, there was a Postal unit too.
- Mr. Schoenhaut I don't know; there may have been a Postal Division.
- Mr. Trask Did the abolition of these divisions or units have any pronounced effect on morale? How did the agency and the personnel take to this?
- Mr. Schoenhaut Well, the professional accountants, such as myself, were kind of happy to get rid of them because we knew we could get some good people in to replace those that had to go. I don't know what those people did. I don't know how much effort was made to find them jobs, but it seems to me I was happy to see them go because it opened up a whole lot of slots to fill with professional accountants.

Professional Conduct of Staff

Mr. Eschwege

Now, Mr. Campbell, as we understand it, had some definite ideas on how the GAO professional staff should conduct itself. For example, joining professional organizations, GAO staff relationships with the executive branch agencies that were under audit by GAO, and so forth. What do you know about that?

Mr. Schoenhaut

Yes, it became pretty obvious to me very quickly that you could not socialize with the agency people. You sure couldn't socialize with any of their contractors. Whether you were a single or married auditor, you couldn't date anybody, whether it be male or female; we didn't have many female auditors at the time. You couldn't date any of the people in the agency; you couldn't participate in any of their functions. We once joined the bowling team of the Bureau of Public Roads, where we did our audit. Mr. Campbell found out about it, and I got a call to come see him. He asked me whether I wanted a career as a bowler or as an accountant. I told him I wanted to be an accountant. He said, "Okay, then get your crew out of that bowling league," which we immediately did.

There were some incidents where somebody dated a woman in an agency and got fired because of it when Mr. Campbell found out about it. There was one big incident down in Dallas, where some fellow was at an office working on a weekend. We had found a whole lot of problems, and I'm not sure if it was fraud—I don't remember exactly what it was—but that office was in pretty deep trouble. This fellow was working there on a Saturday, and the division head's secretary, as I recall, was a good-looking woman. They had lunch after he worked there a while. She took him up to her apartment, and I don't know how intimate they got. But, by Monday morning, the division head demanded that this fellow be fired. It didn't take long for the word to get back to Campbell. I think what the division head allegedly did was try to make a deal with the fellow that nothing would be said about his collaborating with the secretary if GAO dropped all these findings.

That's the story I got and it didn't take long for the word to get to Campbell and he told John Thornton, who was Director of Field Operations, "You fire that guy immediately," which he did. Those kinds of things

became common knowledge. You just knew he would not tolerate your jeopardizing his or your independence in anyway or otherwise compromise GAO's position in any fashion.

Mr. Eschwege

Did those rules apply to carpooling too?

Mr. Schoenhaut

If you were carpooling with somebody from the agency, I'm sure it applied. I never was in a carpool except with people in GAO, but I'm sure the same rule would apply.

Mr. Grosshans

How about the dress code? Did we have a very strict dress code under Mr. Campbell?

Mr. Schoenhaut

I'm not sure whether it was Campbell or the people who came out of public accounting, but you could not wear colored shirts; you could not wear short-sleeve shirts.

Mr. Grosshans

Sport coats were out?

Mr. Schoenhaut

No such thing as a sport coat. You could not go out of an office into the hallway to go to the men's room, for example, without having your jacket on. In those days, very little office space, if any, was air conditioned. And just to go to lunch, you had to put your jacket on. You could not be seen by the agency people without the proper dress, and it was very strictly enforced. I don't think anybody ever showed up with a colored shirt, let alone a short-sleeve shirt.

Mr. Eschwege

I can verify that, yes.

Mr. Trask

Was there any grumbling about this? How did the GAO staff take this?

Mr. Schoenhaut

No, it was accepted. It was all part of the feeling of being a true professional.

Mr. Eschwege I think it is fair to say that standards, universal standards, if you can call them that, were different for everybody, even outside of GAO in those days. People were more formal in their dress all around.

Mr. Schoenhaut That is true.

Mr. Eschwege One other aspect of my question was whether he had any views on which professional organizations GAO staff could join?

Mr. Schoenhaut Yes, he was very much in favor of everybody becoming a CPA and joining the American Institute of Certified Public Accountants. He became very much opposed to anybody joining the Federal Government Accountants Association [FGAA]. I'm not sure of exactly why. There is some history of him not getting along with Frank Weitzel and Frank Weitzel was a great supporter of FGAA. That may have been the reason, but I did hear him say it is not a professional organization. He was not in favor of anybody from GAO joining the organization. He didn't stop you; he didn't say "I prohibit you." Some of us, including me, stayed as members because we thought he couldn't tell us what to do with our own time as long as we didn't participate while we were supposed to be working and, of course, did not get involved in anything that might be damaging to GAO's reputation.

Relationship With Assistant Comptroller General

Mr. Grosshans You touched on the relationship between Mr. Campbell and Mr. Weitzel. Would you like to elaborate on that? We have heard rumors that he even kept a diary as to who entered and exited Mr. Weitzel's office. Are you aware of any of that?

Mr. Schoenhaut Yes. In fact, I got personally involved in some of it. I think the breakdown in relations occurred first because Campbell didn't select Weitzel. He was here in GAO when Campbell showed up, and he inherited Weitzel as an Assistant Comptroller General. In those days, you didn't have a

deputy, but Weitzel was the equivalent of a deputy. The falling-out came, I think, over the Dixon-Yates contract with the Atomic Energy Commission [AEC]. When Campbell was a member of the Commission, he voted in favor of awarding a contract to Dixon-Yates to do some work for TVA [Tennessee Valley Authority]. Somehow AEC was involved. I'm not sure I know exactly how it all worked. GAO led by Weitzel determined that the contract was illegal. There was a conflict of interest, but I'm not sure of the details of that.

Joe Campbell having been in favor of this contract, the first thing he asked for when he got over here to GAO were the workpapers on the Dixon-Yates issue. He went through the workpapers with John Abbadessa, and Abbadessa made him believe there was a problem, but he never forgave Weitzel for testifying against the Commission at public hearings. That is my understanding of what happened. The relationship went downhill pretty quickly from there on. In effect, Campbell gave Weitzel the jobs that were kind of out of the mainstream. He was in charge of the European Office.

There was a messenger who sat outside the offices of both Campbell and Weitzel. If you went to see Weitzel, that messenger, as I understand it, wrote down who went in there and how long they stayed.

I was unaware of the problem really until I became Deputy Director of the Civil Division. We had a squawk box connected to Mr. Campbell, Mr. Weitzel, and one or two others. I would get called on the squawk box by Weitzel, and he would ask me to do something or get something done. He was the Assistant Comptroller General, so I would do it and then I would go up to see him with the product. After a few such visits, Samuelson, my boss, told me to quit doing things for Frank Weitzel. I said, "Why? He's the Assistant Comptroller General. How do you tell him I don't want to do it?" He said, "Every time you do something or go in there, a record of your visit is made available to Mr. Campbell, and I don't know how to tell you to stop helping Weitzel but you stop or you won't be around here very long." And so whenever Weitzel would call up after that, I would tell him I didn't have the time or I didn't have the people or I was going out of town. I made up some excuse, and after a while he got the message and stopped calling me. But the relationship was terrible and very difficult to deal with for the people caught in between.

Mr. Grosshans How was Mr. Campbell's relationship with other key people, like Mr. Keller, for example, or Samuelson or Newman later on? Did they have a close relationship? Mose [Ellsworth H.] Morse was another one.

Mr. Schoenhaut Well, Keller, in particular, was his principal adviser. Keller was first a special assistant to him and then he became General Counsel. He relied very heavily on Bob Keller's judgment; however, I once asked Keller to suggest something to Mr. Campbell, and he said, "You don't suggest anything to him. If he asks me, I'll tell him what I think." He said, "You remember that; don't you ever suggest anything to him." I said, "Okay." He got along very well with Keller, he got along very well with Morse, he got along very well with Samuelson, and I guess he got along very well with Bill Newman.

Mr. Grosshans What about Larry Powers—he was still there in those days?

Mr. Schoenhaut Powers was a special assistant to him, and he relied heavily on him. The principal person he looked to for advice, when he wanted advice, was Bob Keller.

Delegation of Authority

Mr. Eschwege Would you say he didn't get that much involved in the details of the operations of the divisions? In other words, he looked to the division directors and the heads of offices to run their shops pretty well within broad guidelines that he set up?

Mr. Schoenhaut Yes, I suspect he was something like J. P. Morgan or John Rockefeller, who hired or put the best people he could in the right jobs and then, except for some overall policy guidance, would let them do the job. If they didn't do the job, he got rid of them. I think he only got involved, to my knowledge, in something directly when he had a problem with somebody in the Congress over something we were doing. Then he would get involved to find out what information we had. For example, we were doing some audit of the highway program down in Louisiana, and a congressman from one of the districts in Louisiana called up Mr. Campbell

and said he wanted to know what this audit was all about and how dare we be auditing in his district without his knowledge. Mr. Campbell called me up and said, "Why don't you go over and make this congressman happy?" So I went to his office. I may have taken [Clerio] Pin or somebody with me—I don't remember. This congressman chewed me out unmercifully, and I explained to him what we were finding. He was irritated almost beyond belief. He was so angry I thought he was going to hit me. He said, "I want this audit discontinued immediately."

I told him that I would carry his message to Mr. Campbell and that he made those decisions. When I went back to see Campbell, he said, "How did you make out?" I explained it all to him. I explained what we had found, and I don't recall now what it was, but there was some serious mismanagement if not downright fraud. He simply said, "Well, continue the audit." He was about as independent a person as you could have in that job.

Congressional Relations

Mr. Grosshans

How were his relations with the Hill and some of the key committees like the oversight committees? I know Mr. Warren was very close to them coming from the Hill; how was Mr. Campbell perceived up there?

Mr. Schoenhaut

I think he was well-liked by Congressman Albert Thomas.

Mr. Eschwege

He was the Appropriations Committee head?

Mr. Schoenhaut

I forget now whether it was Appropriations; I guess he was the Appropriations Committee Chairman. Also, Senator McClellan liked him. He had a good number of backers in both the House and the Senate. I don't know of anybody until Congressman Holifield came along who seriously opposed him about anything. I know, for example, that he was encouraged by the committees to ask for more money every time he went up there so that he could hire more people of the caliber that he had been hiring. Yet, he resisted their efforts to push money on him. He

always went to the Hill prepared to turn back some money. He never spent the entire appropriation; somehow or other, he made sure he would give back money.

Mr. Eschwege

Not much, but some.

Mr. Schoenhaut

Some. Well, sometimes it was a pretty good hunk of money; he just didn't get the people recruited and that had a very salutary effect. He was loved by those Appropriations Committees. I think he could have written his own check.

Mr. Eschwege

Other than going up to the Hill for GAO appropriations hearings, did he go up there much—I am talking pre-Holifield hearings now—to testify on any substantive matter like a particularly important GAO report that he had signed?

Mr. Schoenhaut

Well, I was at one hearing before a Senate committee; I don't know which committee it was. He was the principal witness. I and three or four others were with him; Campbell read the statement. We testified on our audits of the Area Redevelopment Administration. He looked to me to designate the GAO staff member who would answer the questions when he didn't want to answer the questions. One of the funnier things that happened at that hearing was that all of us were answering questions at one time or another, except Sherman Henig [GAO], who was also there. So Mr. Campbell suddenly got up and walked down to Henig and whispered in his ear. Henig shook his head indicating a no, and Mr. Campbell went back and sat down. Afterwards I asked Henig, "What did he ask you?" He said, "He asked me if I wanted to say something, so I could be in the record."

Mr. Eschwege

I see.

Mr. Schoenhaut

He did do some testifying but, by and large, he left it to the division directors and assistant directors.

are interested and we'll hold a hearing." We would get them to send us a congressional request, and then you bowled over all the reviews. Once you had a congressional request, it got top priority and we got the reports out quickly. They held hearings; it was great stuff, I thought. I don't know that very many other people in GAO did it.

Mr. Eschwege

No, and I think the way it works today is—because we have a central planning system—we go up to the Hill much earlier and tell them what it is we are planning. It allows them to see our plans and tell us at that point, early in the game, what they particularly would like to see us do. This permits us early in the process to focus on doing certain jobs that both we and congressional committees think are good ones to do.

Mr. Schoenhaut

There are some pros and cons in that. They may cut you off from some job for political reasons, whereas...

Mr. Eschwege

Well, I don't think they would cut us off, but they would tell us what is more important to them.

Mr. Schoenhaut

And you would never get around to the one you thought was important if they didn't like it politically.

Mr. Eschwege

I would have to say that it could result in rearranging some priorities. But if we continued to do a job that is politically very sensitive and there is no other congressional interest, it might just be—and this is my own opinion—that the report will simply collect dust somewhere on the Hill and will not be paid attention to, except maybe the newspapers could surface it.

Mr. Schoenhaut

I'm not criticizing GAO's planning system. I think it's a good idea and it is a more organized approach than what we had, but nobody had any control over us unless you made a mistake. If you made a mistake, you were out. So, we had to be sure we had all winners [well-supported significant findings] and a client to give the report to and hold a hearing.

Mr. Eschwege

I just want to make sure we understand we are really now into the era [beginning in the mid-1950's] in which we had the two major divisions—the Civil Accounting and Auditing Division and the Defense Accounting and Auditing Division. Of course, you were in that Civil Division, and you were still, I think, for some time at the Bureau of Public Roads while the Civil Division was already in existence. That required a lot of travel because these roads were being built all over the country, and at that time also we already had regional offices. Now, to what extent did you use the staff in the regions to help you do this work?

Staffing Assignments

Mr. Schoenhaut

Well, I would say it was to a somewhat limited extent. I had a very high-powered staff. One of the deals I made with Roy Lindgren when I first went to Public Roads was that I could pick my own staff. I selected people like Bill Parker and Jack Emery; I forget the names of some of the others. We kept one or two of the old staff members that were at that audit. Eventually, we ended up with staff members like Gregory Ahart and Clerio Pin; these are two fellows who later became Assistant Comptrollers General. So, you might say that similar to what happened when I was at Maritime, a lot of the people I had on the Bureau of Public Roads audit became the management of GAO, except that on the latter audit, I had more to do with them getting ahead.

In any event, after doing some preliminary review, we would send requests out to the GAO field staff and ask some regional office to do some work. Then we would go out to review the work they had performed. Our way of reviewing what they had done was to see exactly what the workpapers showed they had looked at, and on a test basis, we would look at some of the same files of correspondence or whatever to see if we came up with the same conclusion that they did. I would say that often they missed the importance of what they were looking at.

Mr. Eschwege

Are you saying, in effect, you were kind of duplicating their audit activities?

Mr. Schoenhaut

I would call it more like a peer review because we wouldn't look at everything they had looked at, but we would look at some of the things

Role as Deputy Director

Mr. Eschwege

Well, this really gets us into the question I have been wanting to ask you anyhow. You became Deputy Director. How did you become Deputy Director of the Civil Accounting and Auditing Division back in 1964? You were an Assistant Director, a GS-15 and, in effect, jumped over a lot of associate directors and got to be a GS-17, Deputy Director?

Mr. Schoenhaut

My recollection is something like this: the spot was vacant, but I don't remember exactly why. I believe Abbadessa had been the Deputy, and he left and went to the Atomic Energy Commission. Then I think Oye Stoval became the Deputy and he went to the Transportation Division. The position was open, and so there was a lot of conjecture as to who was going to get the job. One day, George Sullivan, who was Samuelson's administrative person, came around to see me about something, and I asked him, "Who do you think is going to get that job?" He said, "I don't know," and I said, "I know." He said, "Who?" and I said, "It is going to be me."

Now to this day I think he believed me and went back and asked Samuelson whether Schoenhaut is going to get that job—this is just conjecture on my part—and Samuelson probably said gee I never thought about him. Samuelson liked me because I was a maverick. One time he called me up to give me hell for breaking some rules that GAO had about report processing; I forget exactly what the problem was. I told him, "Look, rules are made for a bunch of morons. Every time I turn around, I'm breaking a rule," and he said, "Well, okay, I guess you get things done that way" and he hung up. I think the seed was planted with George Sullivan, not purposely by me, just as a gag, but I never asked Samuelson why he chose me. Anyhow, he went to Campbell and said he wanted me, and Campbell went along with him.

Mr. Eschwege

By that time, Campbell knew you pretty well? This was still before the Holifield hearings. So then you became the Deputy? Talking about your duties as a Deputy, obviously you were taking care of the Division in the absence of the Director, but I got the feeling in those days, and I worked

under you in those days, that you paid particular attention to accounting systems and the financial management area. Am I wrong on that?

Accounting Systems Work

Mr. Schoenhaut

You are absolutely wrong. I thought that stuff was the wrong thing for us to be involved in.

Mr. Eschwege

Okay, then why did you make us do so much work in that area?

Mr. Schoenhaut

At the time? I don't recall ever requesting it. What did happen was that the House Government Operations Committee had a hearing to find out why there were so many unapproved systems in the government. I participated with Mr. Campbell and others to come up with testimony and to agree on the kind of actions that could be taken to accelerate the process. I believed, however, that all of us from Mr. Campbell on down thought this was not a high priority area. It seemed that we needed to use the good auditors to do what we thought was the more important work, but we were in trouble with the House Government Operations Committee for not doing anything in the systems area.

Mr. Eschwege

Would you agree, though, that because it was important to people up on the Hill, it also gave the appearance [was a signal] to the staff in GAO that this was important?

Mr. Schoenhaut

Certain staff members in GAO viewed working on systems like being assigned to Siberia. If you got assigned to accounting systems work, you thought you were on your way out. I think, in retrospect, it was a big mistake to deemphasize systems work, but at the time, there was no way anybody could convince me I should pay much attention to accounting systems development. I think it all stemmed from Joe Campbell. He didn't believe it was important. He thought that it was important to do audits and to be independent and that you should not have to help the agencies with anything. He believed it was their job to get their house in order with accounting systems and all he had to do was to issue the principles and standards and see if they complied with them.

opportunity since the contracts and the big procurements were on the Defense side.

Mr. Grosshans

Well, it almost looked like it fed on itself because in some of these meetings that you had, division representatives pointed to reports that had just been issued and how they were handled. At the next meeting, two or three others would come in and say here are some more examples of reports we handled the same way. It looked like it was almost a matter of competition amongst the divisions—Civil and Defense—in effect practicing a sort of “one-upmanship.”

Interdivisional Competition

Mr. Schoenhaut

Oh, no doubt about it. The competition between the two divisions was vicious. The method of reporting, I don't think, was caused by that competition; it was just caused by the policy directives we got to name names, put in headline-type headings, and have headline-type titles on the reports. The competition was quite apart from that. The competition was over who's finding it was, the Civil Division's or the Defense Division's, particularly when the Defense Division got involved with some of the same contractors as the Civil Division.

In our audits of the Atomic Energy Commission and NASA [National Aeronautics and Space Administration], we would review some of the same contracts that were being looked at by the Defense Division. Samuelson and Newman never got along at all. Whenever there was some problem between the two divisions, Samuelson would send me to be our representative because he didn't want to deal with Newman. In one of those meetings, Bill Parker, who was running the NASA audit at the time, pointed out that some findings that a regional office had come up with concerning NASA and one or more of its contractors had wound up as material for a report developed by the Defense Division. He felt it had actually been “stolen” from the Civil Division. I went to a meeting with Newman and showed him what we had—we had him cold—that it had been taken away from the Civil Division. The Assistant Director-in-Charge for Newman was called in, and Newman gave him the dickens, not because he had taken and used the stuff, but because he had been

caught. That's a true story. Newman said, "I'm not going to apologize, it's just that our man got caught. He should never have gotten caught."

Mr. Eschwege

Did Samuelson talk to Newman at all? I mean, socially?

Mr. Schoenhaut

No.

Mr. Eschwege

Do you think Campbell was aware of this, that this was going on?

Mr. Schoenhaut

Yes.

Mr. Eschwege

He didn't try to do anything about that?

Mr. Schoenhaut

Not that I'm aware of. In an effort to make some sort of peace, he asked if the Civil and Defense Divisions would send the head people to Hawaii to see if there was some common audit ground there, whereby the divisions could develop a governmentwide report on activities there. This was proposed at a regional managers' meeting in New York and after that meeting Samuelson told me, "Well, if Newman is going to Hawaii, you are going with him, not me."

Mr. Eschwege

Why Hawaii?

Mr. Schoenhaut

Well, there were a number of civil agencies there, such as FAA [Federal Aviation Administration] and the Department of the Interior. Obviously, the military were spending a lot of money there, and the Weather Bureau had something there. I went with them and we tried to find something in common that we could issue as a governmentwide report. I don't remember—I think we may have come up with one or two things. Al Clavelli came with us, and ultimately Newman and I got into a shouting contest in an automobile coming away from a GAO dinner.

Mr. Eschwege

Did this dispute involve GAO business?

went wrong, but it was there by implication by naming the people who were in charge, right down to the program level you were working on.

Mr. Grosshans

Did you ever have any discussions with Mr. Campbell or Mose Morse about this policy? I know some of us felt very uncomfortable doing that. I remember being on a job in San Francisco where I was told specifically you either do this or else the report isn't going to get published. There was no "give and take" on those. Was there any kind of discussion by the key people in GAO?

Mr. Schoenhaut

Only when an effort was made to stop that kind of reporting after Campbell had retired for ill health and when Frank Weitzel was running the place and after we had gotten into problems in the Holifield hearings. Then memorandums started coming in saying don't name names and use neutral titles. The memorandums were written in a fashion quite honestly as if that had always been our policy. It irritated me because I could cite chapter and verse of comments on reports that had been bounced back because we did not pinpoint responsibility or have catchy titles. The only discussion I know of was when I got angry and went over to Morse and Bob Rasor and protested because they made it sound like we were the problem. We weren't the problem; we were just following directions.

Holifield Hearings

Mr. Eschwege

Let me get back to the Holifield hearings. Now as I understand it, the purpose of those hearings was to critically examine the way GAO did its audits of contracts, primarily defense contracts, but there were also some Atomic Energy Commission contracts and space agency [NASA] contracts involved. They questioned the way we did our audit, as well as the way we reported on the results of those reviews. The Committee held these hearings and asked the Comptroller General to come up and react to some of the criticisms that were voiced by the Defense Department, by the contractors, contractor organizations, and others. As I understand it, you were appointed or selected to be the representative of the Civil Division at those hearings and to work with the GAO group that was preparing for those hearings and with the Committee staff. Could you tell us a little bit more about your role?

Mr. Schoenhaut

Well, let me explain how we got to the Holifield hearings. There was such intense competition between the two divisions and over which could produce more audit reports that the Defense Division literally made six reports out of one pair of pants. They complained about the military—some of them had flaps on their pockets, and some did not; some had zippers, some had buttons, some had cuffs, and some didn't; some had front pockets, and others didn't; some had back pockets, and some didn't. I mean, it went on and on. They would issue a report on each of these findings. That was one kind of problem. The Congress didn't know what to do with all these reports. You made six reports out of one pair of pants when you could have made just one report.

The other problem was at that time there was no Truth in Negotiations Act (Public Law 87-653). If Defense Division auditors found what looked to them like improper negotiation, particularly on a fixed-price contract, they issued a report that said the contractor had lied at the negotiations; that he knew better what his costs were going to be than what he told the government; and that, therefore, he had been overpaid millions of dollars. They would compute a dollar amount and insist that the contractor make a voluntary refund.

Defense Division reports coming out recommending voluntary refunds were highlighted immediately in the press, and companies would be portrayed as stealing from the government because they had done the government in at negotiations. The contractors couldn't stand the bad press; so many of them made the voluntary refunds. Now that irritated the dickens out of the contractors, and I think irritated Holifield, coming from the West Coast, particularly from California, where there are big defense contractors. I believe the contractors got him to hold these hearings.

At the hearings, most of the discussion was about these kinds of reports, and questions were raised as to whether GAO had the charter or right to ask for voluntary refunds. Some in the Congress didn't even seem to understand what a voluntary refund was and what to do with the deluge of reports that were showing up on the Hill.

As far as the Civil Division was concerned, the AEC reports and the NASA reports were held up as examples of how audit reports should be written, because there was no effort made to put out a multiple number of reports on the same finding. We didn't ask for voluntary refunds; we asked for corrective action in some manner, such as for better estimating, or we suggested that the Congress pass a law to require that the

contractor be more truthful in negotiations. That's what eventually happened; the Truth in Negotiations Act was passed. In the Civil Division, we were held up as a good example of how to do the work and the reporting.

Mr. Eschwege

You were right up there at the table during the hearings?

Mr. Schoenhaut

Well, I don't remember exactly how it was. Campbell may have been up at the table alone or with Keller, and the rest of us may have been in the next row to answer questions. I don't remember exactly what the format was like. After one of the hearings, Campbell said to me, "Did you hear Newman discuss this business about computers and airplanes? Nothing he said made sense." I told him, "I know; I thought I was the only one who didn't understand him." I am not knocking Newman because he did a remarkable job of getting GAO involved in Defense. I mean there had been no work in the Defense Department for years, and it took somebody like him to get tough with the generals and the civilians over there and make them pay attention. I think our Defense reports just went overboard, and that triggered all this animosity on the part of contractors that complained to the Holifield people.

Mr. Eschwege

Did you deal with Herb Roback there on the Committee staff? Was he easy to deal with?

Mr. Schoenhaut

Well, no, he was tough. He seemed to be out to kill off GAO in some way. I didn't have very much to do with him, except I would get incensed at some of the things he was saying and doing. There was also some other fellow, whose name I don't remember, who was General Counsel of the Committee. He was also very hard on GAO. There was one incident where Joe Campbell was supposed to testify on the Area Redevelopment Administration before the House Public Works Committee at the same time he was supposed to testify at the Holifield hearings. I went to see him and told him that we were going to get hell at the Area Redevelopment Administration hearings because we had issued a bunch of critical reports on the Democrats' favorite program. The same people who were giving us pats on the back for our audits of the highway program were now going to give us hell for issuing all these reports on the Area Redevelopment Administration.

In any event, he had a conflict as to which one of the hearings Campbell was going to attend. He said to me, "Well, if it is a conflict, then you read my statement and you go testify on area redevelopment." I said, "You know you are getting beat up by Holifield," and he said, "Oh no, I have known Chet Holifield a long time and I have talked to him. He told me he is not out to hurt GAO at all or me personally. He is a good friend." I told Mr. Campbell that he reminded me of the fellow who was in a boxing ring getting the daylights beat out of him by the other fighter while his manager was telling him the fellow wasn't even laying a glove on him. The fighter who was getting beat up told his manager, "You had better watch the referee because somebody is beating the hell out of me." That is what Campbell reminded me of. He just didn't think Holifield was out to do him harm, when it was pretty obvious to me that he was.

Resignation of Joseph Campbell

Mr. Eschwege

We'll get back to the Holifield hearings some more, but Campbell testified only once or twice and then he resigned right in the middle of the hearings because of ill-health. Is there any connection between those hearings and the resignation that you know of?

Mr. Schoenhaut

No, none whatsoever. He had some kind of arthritis; it probably was rheumatoid arthritis. He wound up in Georgetown Hospital, and I went to see him there. The arthritis had gotten to his eye—his eye was blood-shot—and he was a mess, a total physical wreck. The doctor had told him that if he wanted to live, he had to stop working; so he was going to retire. The Holifield hearings had nothing to do with his retirement, unless it brought on the onslaught of severe rheumatoid arthritis.

Mr. Eschwege

On the other hand, he told you he really wasn't too worried about those hearings?

Mr. Schoenhaut

That is correct.

Rewriting the Committee Report

Mr. Eschwege

Now you apparently continued to be involved in those hearings, and Weitzel testified a couple of times as Acting Comptroller General. There was a long period between the end of the hearings and the issuance of the final report. The last testimony was in July, and then the report didn't get out until the following March. All during that time, were you still involved with the matter in terms of negotiating what that report should say and attending the hearings with Weitzel?

Mr. Schoenhaut

Yes, I don't recall whether I attended the hearings with Weitzel or not. I probably did not. I remember I was pretty upset because Weitzel had immediately said everything was going to change now in GAO as far as the kind of reports we would issue.

Mr. Eschwege

These changes were discussed in the meeting he had with the GAO staff in the auditorium after Campbell retired?

Mr. Schoenhaut

Correct. Since he was obviously a potential candidate for Comptroller General, I felt that he wanted to accommodate Holifield to the extent he possibly could. I thought the world of Frank Weitzel; I thought he was very bright. But, nevertheless, I thought GAO might have been better served if it had tried harder to resist some of the changes forced by the Holifield report.

Mr. Eschwege

There was an argument made at the time that since the Truth in Negotiations Act had been passed now, it would take care of the problem with these voluntary refunds that you talked about. Also, the fact that the Defense Contract Audit Agency [DCAA] was being established to do audits of Defense contracts should allow GAO to relent somewhat from doing the intensified audits that it had been doing. GAO, instead, could look over the shoulder of the Defense Department and review whether the Truth in Negotiations Act was being carried out properly and how effectively DCAA was doing its job in auditing the contracts.

Mr. Schoenhaut

Well, there is no question that GAO gave up auditing defense contractors as a result of those hearings and the report. Let me tell you one reason why there was a big delay between the time of the hearings and the issuance of the report. We were sent the draft report that Herb Roback and his staff had put together. In my opinion, if that report had gone out as it was, GAO would have become a branch of the Treasury Department; it would have been the end of GAO. So, we all got a chance to read the report draft, and for some reason there were only Deputies around. Charlie Bailey was Newman's Deputy; he was there. Newman and Samuelson were out of town, and Morse was out of town. But Fred Smith [Deputy Director of Policy] was there. They were all Deputies, and then there was Bob Keller—I forget whether Larry Powers was around—and Frank Weitzel. We got this draft report and looked at it, and some of us got together and said it was terrible. GAO would wind up as a division of the Treasury Department. Everybody seemed opposed to the darn report in that form anyhow.

We had a meeting with Weitzel, and he said, "What do you think of the report?" He just asked everyone at the table. I volunteered and said, "I think you should send Congressman Holifield a telegram that says a four-letter word and tell him a nasty letter would follow." Frank Weitzel was stunned and said, "You can't do that with a powerful Chairman of a Committee;" I told him that this report was horrible and that it had to be rewritten from cover to cover. He said, "Okay, let's do that." We then spent 2 or 3 weeks rewriting the report, working until 11 or 12 o'clock at night. That's when I really got very friendly with Bob Keller, because he and I were in one of the several little groups rewriting some part of it. I can remember we couldn't get a Xerox machine to work, so we could show everybody the rewritten material. We had typists there typing, but then we needed to xerox it. Keller took a screwdriver and busted a lock off a Xerox machine so we could get it to run; it was one heck of a time.

We did rewrite the report and sent it back over there. Then there followed negotiations—not by me but I guess by Weitzel and Keller—with Roback and Holifield, and eventually the report was going to come out. Jack Brooks was on the Committee on Government Operations, and his staff man was Ernest Baynard. Baynard kept calling me about the terrible things that were still in that report, and then Baynard drafted a dissenting opinion for Brooks, which—I don't recall for sure—he may have sent to me. Anyhow, he got some advice from me, and Brooks wrote a dissenting opinion saying, in effect, that the kind of things that

were said in the report were inaccurate and misleading. It was a smashing dissent in my opinion. Then Staats showed up as Comptroller General, and he agreed that GAO should modify its intense audits of contractors as envisioned in the final report.

Mr. Grosshans

I want to go back to a point. There seemed to be a significant change in Mr. Weitzel's position from the time he finally testified until the Committee report was issued. The hearings started in early May when Mr. Campbell testified, and then witnesses from DOD [Department of Defense] who were fairly critical of GAO testified. I just want to point out for the record that John Abbadessa testified for AEC. He was very complimentary actually of GAO and testified that these reports were quite helpful to AEC in administering their contracts. I think that corroborates what you indicated. After Mr. Campbell resigned, Mr. Weitzel took the final hearing in July, and I think you, Charlie Bailey, and a small group attending that particular hearing took a very strong position. He agreed on a few things that GAO was going to modify, but he went through and rebutted, point by point, each of the contractors' arguments referring to each of the contracts or reports that were at issue. When one reads the record, the position that we took at the final Committee hearing was a very strong one, but something must have happened in between that final hearing where Weitzel testified and the issuance of the final report. After that final hearing, Mr. Weitzel issued a letter saying what we were going to do, which was to modify considerably our approach to contract auditing. Can you shed some light on that? Something must have happened in that period of time after July that caused this kind of a radical change. Was that when we saw the report and saw the handwriting on the wall? Did this convince GAO that it had to make major changes to survive?

Mr. Schoenhaut

I don't recall the chronology at all, and some of what I'll say is speculation. But Frank Weitzel was Acting Comptroller General, and so he was in charge of the Office. Now all those reports that had been issued by this Office, he couldn't walk away from them; he had to defend them because they were products of the General Accounting Office, which Frank Weitzel loved about as much as anybody, including me. I wasn't at that hearing as near as I can recall. But he would have had to defend the reports, and he would have wanted to defend GAO and counter some of the criticisms that remained in the Holifield report. Right at that time, however, Frank Weitzel wanted to become Comptroller General; there is

no two ways about it. I think the concessions that were made were part of an effort to become Comptroller General.

Now at that time, his chief rival for the position apparently was Jack Brooks. Jack Brooks had been redistricted in Texas, and he faced possible defeat in the primary. The fellow who was going to run against him owned all the newspapers and television stations, and it looked like his defeat was probable. The rumor was that Jack Brooks had told Lyndon Johnson who was President and a friend of Brooks that if he got beat, he would take the job of Comptroller General. I was at a Brookings Institution dinner one night. Brooks was the speaker, and he said that he had spoken to Lyndon Johnson that day. Johnson called this fellow who was going to oppose Brooks in Texas, and that fellow withdrew. Therefore, Jack Brooks was going to stay in the Congress, and he looked at me and he said, "You can tell Frank Weitzel to relax." But nonetheless Weitzel did not get the job.

Mr. Eschwege

One other witness at the Holifield hearings gave a brief statement; he was Elmer Staats. He did not really agree with the Committee. He seemed to be supportive of GAO; do you recall that?

Mr. Schoenhaut

No, I didn't know that Staats testified; I was out of town when the announcement was made that he was appointed. The only way I found out was when Pin and I were coming back from California and couldn't land in Washington. We wound up in Newark in the middle of the night. I called my wife and told her we were going to take a bus because we couldn't land in Washington. It was very foggy, and it would be a long time. She asked me, "Who is Elmer Staats?" I said, "I don't know; I never heard of him." She said, "Well, he's your new boss; he's now going to be the Comptroller General," and that is the first I ever heard of him.

Mr. Eschwege

Clerio Pin knew him though.

Mr. Schoenhaut

Yes, because Pin had done an audit over at the Bureau of the Budget.

Mr. Eschwege

He tried to do an audit.

Mr. Schoenhaut Yes, tried to do it.

Changes Resulting From Hearings

Mr. Eschwege Now, we've already talked about some of the changes in direction that GAO made, and I guess those changes affected the Defense Division more than the Civil Division.

Mr. Schoenhaut I would say so.

Mr. Eschwege We've talked to others, including Elmer Staats, about this. Elmer has his own view on the subject. I think he would agree that there were changes but not in terms of having less staff coverage of the Defense area. Was that your impression? In other words, we no longer split our reports the way you explained by trying to make a separate report out of every finding. Instead, GAO reorganized and focused on auditing the Defense Department on a functional basis. I realize you didn't stay in GAO that much longer, but was that the direction in which you saw them going?

Mr. Schoenhaut Well, we were reviewing programs and functions and were staying out of contractors' plants. I don't know for sure, but I don't think the Defense Division did very many more contract audits, if any. The expertise they had was allowed first to dissipate, and then it virtually disappeared. I mean they were kept out of contractors' plants.

Mr. Eschwege This included also the field staff and its expertise?

Mr. Schoenhaut Yes, as far as I know, the Holifield hearings and report resulted in the end of contract auditing so to speak. There may have been some contract audits, but by and large, such audits were just allowed to disintegrate and disappear, and GAO concentrated on reviewing programs and activities.

Contacts With Congressmen Brooks and Holifield

Mr. Eschwege

You mentioned Brooks; apparently you had a pretty close relationship at that point already with Congressman Brooks and his staff. How did that relationship develop between you and Brooks?

Mr. Schoenhaut

Well, Brooks came to the Congress in 1952 and, that was 35 years ago. I have known him 34 years. I just introduced him at a lunch that the Association of Government Accountants had. I guess my association with him developed when he was Chairman of something called the House Government Activities Subcommittee. He was holding hearings on the federal departments' efficiency and economy. The first hearing was going to be the Department of Commerce—I don't know why. At that time, at least, Brooks seemed somewhat unsure of himself, and so you had to have a complete script, both the questions and the answers in advance, and then you had a rehearsal. You brought in the witnesses and gave them copies of the questions and answers and went through them with the witnesses. Each agency in Commerce sent somebody over, and there was one meeting with the Federal Highway Administrator where Brooks had just walked in and sat down and listened to what was going on. The Highway Administrator said, "Well, Art, I can't answer this question that way," and I said, "Well, how would you like to answer it?" So he gave me some other answer. I said, "Okay, then the next question is..." and it was not in the script. I asked him another question and he said, "Well, that's worse, I don't want to answer that." So I told him, "You better stay with the damn script." Brooks roared and afterward he said, "You really slashed them up," and ever since then he calls me "slasher."

Mr. Eschwege

This was not at a hearing though?

Mr. Schoenhaut

This was at a rehearsal.

Mr. Eschwege

And you were helping Brooks to rehearse?

Mr. Schoenhaut

I helped write the script—the questions and the answers for every witness. At the hearing itself, he could pretty well control all the Democrats on the Committee, but he couldn't control the Republicans. His staff could help him enough when the Republicans asked a question, but by and large, they stayed with that script. They issued a report and from then on, in one fashion or another, I have always been helping Jack Brooks and his staff. This fellow Baynard [Brooks' assistant] would always call me up no matter where I was. In fact, before I left GAO, there were only two people Baynard still could speak to here in GAO—one was Fred Thompson, who was in the Office of Legislative Liaison; the other was me. He wouldn't speak to anybody else. He didn't think much of anybody else. We were the only two he would trust, but even after I left, he would call me at AEC and ask me to give him my thoughts. He was frequently seeking advice, and Brooks was often seeking advice.

Mr. Eschwege

Did you get to meet Congressman Holifield during the Holifield hearings?

Mr. Schoenhaut

I guess so.

Mr. Eschwege

But you weren't close to him. Did you get involved with him later on at AEC?

Mr. Schoenhaut

Yes, he was Chairman of the Joint Committee on Atomic Energy, and I had a lot of exposure to him there, testifying at some hearings for AEC. He was tough then too with AEC, but it was on program matters. The biggest confrontation with AEC that I was involved with was whether or not to allow private ownership of the Gaseous Diffusion Plants.

Relationships With Other GAO Offices

Mr. Eschwege

Privatization was an issue also in the Dixon-Yates contract—one other thing that I wanted to come back to. We talked already about the relationship between the Civil and Defense Divisions, but what about the

relationship of the audit divisions with the Office of the General Counsel? I'm not talking here only of the period when you were in the Civil Division, but do you know of anything earlier? What role did the Office of the General Counsel play in the early days when you came in?

General Counsel

Mr. Schoenhaut

People in the Office of the General Counsel were really in charge. Every report had to be reviewed by a couple of lawyers—there may have been as many as three lawyers. I remember Owen Kane had to review every report, and Eddie Eckert had to review every report before it went out. They would give us fits over things that to them were legal questions. In an effort to have us get along better with the Office of the General Counsel, they assigned an attorney to us full time, a fellow named Norman Engelberg. When we thought we had a legal question, we went to Norman and he got us an answer, or he was part of the review team that reviewed the report before it went up to the General Counsel's office.

Mr. Eschwege

Whom was he assigned to, your particular audit staff or the whole division?

Mr. Schoenhaut

The whole division. We had one lawyer for the whole division, and he was the liaison with the Office of the General Counsel. I think that worked well in getting better relations with the Office of the General Counsel. Ultimately, the pendulum swung the other way; the auditors became the people in charge of everything, and the General Counsel's office provided a service—advising us whether or not there was a legal question.

Mr. Eschwege

Lyle Fisher was the General Counsel when you came in. Did it change when Bob Keller became General Counsel or some time before then?

Mr. Schoenhaut

My guess is that it changed under Keller more so than under Lyle Fisher. Keller was an accountant too, by the way.

Mr. Eschwege

I guess it had a lot to do with the fact that by that time the accounting side of GAO became professionalized, whereas the lawyers in the olden days were perhaps the only true professionals in GAO, along perhaps with some people in the Office of Investigations.

Mr. Schoenhaut

That's probably true. All I know is they were in charge and we had a heck of a time with them.

Office of Investigations

Mr. Eschwege

Werner, did you want to cover the Office of Investigations?

Mr. Grosshans

Well, we touched on it lightly earlier, but I just wondered were you at all familiar with what led up to the demise of the Investigations Office? You mentioned the Zinc Case¹, but were you familiar with the circumstances that led to that? Also, what happened to the Office? What happened to the staff? Maybe you could just address that?

Mr. Schoenhaut

I really wasn't close to that Office at all. I wasn't sure what they did, if anything. I knew a lot of their people were not formally educated. I knew because I saw it; some of them drank a lot—alcohol that is. I think that Zinc Case report was the straw that broke the camel's back and resulted in the dissolution. Then the problem became what to do with their people. Some retired and some had to be absorbed by the audit divisions. We got some in the Civil Division, and they weren't very good or useful.

Some of the field offices got these people, and we did have a fellow on a Public Roads audit down in Atlanta whom I'll never forget because he was like somebody walking around with a time bomb under his arm. When he was right, he was great. But he could be wrong and then we could be devastated. I think that was the kind of problem with the whole Investigations Office. They didn't necessarily have to have support for what they were coming up with; they just had to have a gut feeling. This fellow had a big gut, and he got this feeling all the time.

¹A GAO report alleging questionable government practices in procuring zinc for strategic stock piles. Comptroller General Campbell conceded that there were errors in the report.

Whenever we would have a close-out conference with the agency, I had to show up and see just how much support he had for what he was going to talk about, and I would get into big arguments with him. But he was probably among the best they had; he was a good investigator.

Mr. Grosshans

In San Francisco, we absorbed three of them, and one of them was just outstanding. He stayed around for many years while I was out there, and he was probably one of the best investigators that we had around. If there was any data to be gotten, Joe Gordon could get it. We did get a few very good people, but by and large, I think the regions were not too happy with having to absorb some of those folks.

Relationships With GAO Officials

Mr. Eschwege

Art, I gave you a list earlier of some people with whom you were probably associated while you were in GAO. I have a few more names that I just thought of in the last couple days. Could you just run down that list—I know you've talked about several of them already—and pick those that you want to talk about. Say anything you want to about them in terms of your relationship with them and how they were thought of in GAO in terms of their management style, their relation to the Hill, or anything else that comes to mind.

Lindsay Warren

Mr. Schoenhaut

Lindsay Warren I knew little about; most of it was hearsay. I can recall Joe Campbell telling me that when a high GAO official got in trouble because of some statements he made on his government application, Campbell had called Warren and told him, "This fellow you hired is in trouble; can you help him in some way?" and Warren said, "I don't even know him." This was what Campbell told me.

Warren did start the Corporation Audits Division and started the hiring of people out of CPA firms.

Joseph Campbell

Joe Campbell I thought the world of and still do today. I think he was what a Comptroller General is supposed to be. He may have lacked a lot of humility and feeling for other people's feelings. But he was tough, and he was surely independent and called them exactly as he saw them.

Frank Weitzel

Frank Weitzel was the best man I ever saw testify; his memory was endless, and he could speak without script and without notes. He was very articulate. I never thought badly of him. He did seem to give in after the Holifield hearings; that is the only negative thing I would have to say about him. I thought he was a pretty good man. The fact that Weitzel and Campbell didn't get along, I think, is what led Mr. Staats to attempt to get legislation passed that would permit the incoming Comptroller General to pick his Deputy. It was a terrible circumstance at the time to have Weitzel working for Campbell.

Robert Keller

Keller, I thought, was one of the finest people I ever met anywhere. His judgment was terrific, he had humility, he was articulate, and he made an excellent witness. It was my opinion that he should have been the Comptroller General after Campbell. Not only I but I think most people who knew him just thought he was terrific.

Mr. Eschwege

But he wasn't really in the running?

Mr. Schoenhaut

Well, the only way he got in the running at all was that I knew Brooks very well. I also knew that Brooks knew Johnson very well, so I called up and asked Brooks if I could bring Keller over to meet him. I thought he had all the equipment to be a Comptroller General. We went over to talk to Brooks, and Brooks said that he wasn't about to call up Lyndon Johnson and tell him who to make Comptroller General, but he said, "If I'm asked, I will recommend Mr. Keller." Of course, he was never asked, so Keller never got recommended. I'm sure in the White House they didn't know who Keller was.

Mr. Eschwege

Actually, that was a concern when he was even nominated for Deputy Comptroller General. Mr. Staats told us that he had some problem trying to get Keller confirmed, not because he wasn't a good man but because he was not really well known or what you might call "politically connected" with the right people.

Mr. Schoenhaut That's probably right. The one connection that I know he had, I got him, but it never materialized.

Ted Westfall Westfall: I had very little to do with him, I knew very little about him.

Robert Long Bob Long: I had several meetings with him, and as far as I knew, he was a good man. Whatever happened to him was unfortunate because I think GAO lost a good man.

A. T. Samuelson Samuelson was almost like a father to me. He put up with a lot of my shenanigans. He taught me a lot of things, and I can't say enough good about him. I just thought the world of the man and enjoyed working with him both as an Assistant Director and as his Deputy. We got along fine.

William E. Newman Bill Newman, I think, did a good job in getting GAO to audit the Defense Department. I think he became too aggressive and that hurt him.

Ellsworth Morse Morse was the true professional accountant at the General Accounting Office. He knew what he was talking about when it came to systems and financial management. This is in retrospect. At the time, I didn't think he knew what he was doing, but I think if he were alive today, he would be in the forefront of trying to get good financial management, consolidated financial statements, and all those good things that Chuck Bowsher wants.

Leo Herbert and Ed Breen I think Leo Herbert was a good man. He had Ed Breen; I looked to Breen more for guidance and help than to anybody else. I didn't become a CPA until 1960, mostly because I didn't have the time to study for the exam. Plus I took a couple of tries at it and flunked. Breen kept after Bill Parker and me and insisted that we go to the GAO class. He would call us up to make sure we were going to show up. George Staples was my supervisor at the time; he used to keep me late at night, and then I couldn't go to the class. Breen would give Staples hell and would make sure we would show up on Saturdays when they would give us tests.

Breen would bring in doughnuts and coffee for everybody. He did a terrific job and we passed the exam.

Elmer Staats

Staats is a fine fellow and, in retrospect, I think what he did was right in hiring other disciplines within GAO. However, I left GAO primarily because I didn't think Staats was doing the right thing in a number of different ways. The deemphasis of audits of defense contractors—slowing them down, at least—I thought that was a mistake. Staats was a shock to the system of GAO as far as I was concerned. Suddenly he had coffee klatsches, where you would go over to the Post Office or some other agency and eat with the people and have coffee with them.

Mr. Eschwege

You mean executive branch officials?

Mr. Schoenhaut

Yes. We were going to breakfast with executive branch people. Now for 10 years, we were told that was a “no-no,” and all of a sudden it was encouraged. A big debate ensued between Samuelson and me as to who was going to go to these parties to represent the division. Samuelson didn't want to go and I didn't want to go. So we usually sent somebody else. But it really was a shocking experience, I thought, to have your independence suddenly jeopardized by consorting with the agencies in all kinds of ways that we were told were “no-no” for 10 years.

I can remember one meeting with Staats, Weitzel, Larry Powers, Samuelson, and Bill Newman. A whole group of us were there talking about doing systems work and helping the agencies get good accounting systems. Weitzel asked me, “Do you think we have the capability in GAO to do systems work after all these years?” My comment was, “Yes I do, but you have to remember that you have been making tigers out of us for the past 10 years and you are not going to make pussycats out of us overnight to go help these agencies.” That story of the tigers and the pussycats followed me for a number of years; in fact, Larry Powers would call me up on the squawk box and ask, “Are you a tiger today or a pussycat?” When I went to AEC, I got a picture of a big sea lion sent to me from Alaska. Somebody in AEC sent it as a gift. I had it framed. I took it over to Powers, and he hung it on his wall. I signed it “To the pussycat from the tiger” or something like that.

Staats was a real shock to the system, and when I decided to leave, I called up and asked for a meeting with him. His secretary said that he

couldn't meet with me and he was too busy. I said, "Okay, well tell him I'm resigning as of 2 weeks from now." She said, "Just a minute." She told him and he wanted to know if I could come in on Saturday, so I said, "Sure." I came down on Saturday, and he asked me what the problem was. I said, "Well, have you got a couple hours to listen to me?" He said yes, and I spent 2 hours telling him my views on what the job of Comptroller General should be. He said to me, "Why didn't you come and tell me this before you decided to resign?" I already had a job with Abbadessa at AEC, and I said because "You don't come in and tell the boss you don't like this, you don't like that, you ought to change this, and you ought to change that," unless you have got some place to go. He is very likely to say to you "Thank you very much, goodbye, good luck, and get out." So I got myself a job before I decided to tell you all these things. I don't think he ever understood that you don't tell a boss off. His impression was, as I heard afterward, that I left for more money. Now, I was a GS-17 when I left GAO, and I got a GS-18 at the Atomic Energy Commission as Deputy Controller. The difference in pay was something like \$300 a year. I was a heavy smoker, so that didn't even pay for my cigarettes. I didn't leave for the money.

Mr. Eschwege

Well, we'll get back to the Staats/Bowsher era a little bit more, but there are two or three other names between Werner and me that we had some questions about.

John Abbadessa

One is John Abbadessa. We are talking here primarily about your association with him in GAO. I know you worked with him later on at AEC.

Mr. Schoenhaut

Well, he was top-notch. Whatever Abbadessa lacked in skill or brainpower—and it wasn't much—he made up for it with just plain old hard work. I mean there was a fellow who worked 20 hours a day if he had to. I thought the world of him. I thought that he was the best accountant in town, or one of the best, and really that he could not do much wrong. He was a superstar here, and Joe Campbell thought so too. He treated him as a son. After Abbadessa left, I was adopted as Campbell's son.

Mr. Eschwege

Yes, well, I guess when he did leave, Joe Campbell wasn't particularly enthused anymore about Johnny Abbadessa. Am I understating or overstating that?

Mr. Schoenhaut

No, that's correct. If you left GAO under Campbell, you were considered stupid, unless he wanted you to leave. We gave Johnny Abbadessa a going-away party in which I was the emcee. It all had to be done underground. You had to ask around; there couldn't be any publicity. The turnout was amazing; somewhere around 150 to 200 people showed up for the party. It was amazing considering there was no announcement of it. I roasted Abbadessa pretty good. I said at the going-away party that, as far as Mr. Campbell was concerned, nobody by the name of Johnny Abbadessa ever worked at the General Accounting Office. And that's the way it turned out. He just didn't want to talk about him anymore.

Clerio Pin

Mr. Eschwege

Clerio Pin: You mentioned him earlier; anything further on him?

Mr. Schoenhaut

Pin was about as sharp an auditor as there was, and probably still is today. He had a very keen mind, and I got along with him exceedingly well. Between us, I think we did some great work; he is a longtime friend. We took him in to work at AEC because he wanted out of GAO. Then he went back to GAO as what I called "Chief Janitor" in charge of administration and personnel. I think he was in the wrong job. He should have been a division director because audit was his suit, not administration. I think it turned out that way. Some things got fouled up here either because Pin engineered them or because Pin was told by somebody to do them. He was just in the wrong job when he finally came back to GAO, but I thought the world of him and still do.

Current Reflections on GAO

Mr. Eschwege

Just, sort of as a last item, could we get some of your reflections on GAO activities, now that you are looking back. For example, you mentioned you didn't really like the idea of Mr. Staats bringing in other disciplines, but over the years you began to feel that that was the thing to do under

the circumstances. I was going to try to have you reflect on GAO activities since you left in 1967 and to contrast the Staats era with the Bowsher era in some of these areas, like the way we recruit and train, the planning activities, the types of reviews being made, and generally the areas GAO gets into, as well as the relationships it has with different organizations—with the executive branch, the Congress, and the public. This is kind of a compound question, but I think I gave you some of that material ahead of time.

Hiring the Disciplines

Mr. Schoenhaut

Yes, well, you are absolutely right; I have changed my mind about Staats on the hiring of other disciplines. In retrospect, that turned out to be an excellent move, and I was just plain wrong. I thought you should have nothing but CPAs and accountants generally in the General Accounting Office and that you should have a few lawyers around to figure out what the legal problems were. But I think that was an excellent move to come up with these other disciplines. I don't know why I didn't think so at the time. I always said all you had to do to be a good auditor is to be smart and have a sense of inquiry and distrust—you know, be skeptical about anything you look at or about anything somebody told you, and you would make a good auditor.

Those people who were brought in with different disciplines were capable and smart. They could have the same skepticism when they looked at something, and more importantly, they understood the programs; whereas when we had nothing but accountants, we had to learn how to be highway designers. A lot of time went into just trying to figure out what the programs were like and how the programs were run. Staats' biggest contribution as near as I can tell was getting this multidiscipline approach to people at GAO.

Accounting Systems and Financial Management

As far as accounting systems and financial management are concerned—I don't mean it as a criticism because I would have been the first to agree with him—but I honestly think that during that period GAO just paid lip service to it. I don't think GAO staff were really ready to make a great big effort in the systems and financial management area. There was very little action in the divisions under Ellsworth Morse and then under Don Scantlebury. Don's division had a number of people who

couldn't cut the mustard as auditors. This was during the Staats era. So, while GAO may have expressed its intention to do so, its actions didn't lead to improving accounting systems and financial management.

Mr. Grosshans

Art, before you move on, Mr. Staats did make Don Scantlebury the Chief Accountant, and that really raised the stature of Don's position. Wouldn't that argue against the point you just made?

Mr. Schoenhaut

I don't think so; it doesn't follow just because somebody has a title of Chief Accountant. Nobody understood what he was Chief Accountant of. He wasn't Chief Accountant of GAO; he was supposed to be Chief Accountant of the government, I suppose. To me, the proof of the pudding was that the people he had were not very good. The cast-offs of the other divisions wound up in Scantlebury's division. Now, maybe eventually Scantlebury would have gotten all that changed. To me, it was just smoke without any fire really. It was no big effort to improve financial management.

Mr. Eschwege

How do you feel about that today, contrasting it with the Bowsher era?

Mr. Schoenhaut

In the interim, after I left GAO and went over to AEC, I had to work with probably the best accounting and financial management system that existed in the government. It was just like running a business. For the first time, I really began to understand why you had to have a good accounting system and good management reporting and how it all tied together into financial statements and internal audits of those statements. I got a real appreciation for getting timely information, and that was the only information available. I won't say it was always correct, but nobody else had anything else.

I got a further appreciation for why you needed a good accounting system. When I came back to CASB [Cost Accounting Standards Board] and I first got acquainted with Chuck Bowsher, he understood why you needed good financial management, a good accounting system, and consolidated statements. I would have lunch with him every once in a while, and we would talk about it. I think he ran an audit of the District of Columbia Government for Arthur Andersen, and he came up with statements. He asked me what I thought of them and I told him, I remember vividly, "Why don't you drop the other shoe?" He asked,

“What do you mean?” I said, “Well, the budget has to tie in with the accounting; it doesn’t anywhere in the government except maybe at AEC. The same format and the same numbers ought to be used in both the budget and the accounting.” He said, “Yes, I didn’t realize that; will you help me write an article about it?” I agreed. Then I would meet him for lunch, and he would say, “We have to write that article.”

After I retired, he got Arthur Andersen to hire me as a consultant, or he hired me as a consultant, and I helped him write that article. He is the only Comptroller General I ever worked for who really understands why you need a good accounting system, how that leads to better financial management, and how the whole thing ties together. Bowsher is the first Comptroller General I have met that really understands this stuff and why it is important, and therein is the contrast between all these Comptrollers General.

If I were God and could make one Comptroller General, he would have Campbell’s intestinal fortitude—being fearless and willing to fire people who can’t cut the mustard; he would have Staats’ political savvy, which I thought was incredible—I mean he knew how to get along with the Hill in no uncertain terms—and he would be a nice fellow like Bowsher who really knows the importance of improving financial management. If you could mix all those together, you would have a great Comptroller General, and I am not about to rank them.

Mr. Eschwege

No, we are not asking you to rank them—we pretty much covered this area of contrast, but a lot of contrast also involved the environment in which we lived. Life was simpler in Lindsay Warren’s days, perhaps, than it is in Chuck Bowsher’s day.

Relationship With the
Congress

Under Elmer Staats, GAO began to testify during the season almost daily and sometimes four or five times a day, and I think that trend continues under Chuck Bowsher. Do you think that is a good way to communicate, not that we have much choice about it, but does that give some indication on GAO’s effectiveness and the role that it can play in the deliberations of the Congress?

Mr. Schoenhaut

Well, to me, it’s fairly simple. GAO works for the Congress and, therefore, should be doing most of its work, possibly all of its work, for congressional committees. Now, there then arises the problem of independence.

How can you be independent under those circumstances? Well, whatever you work on, you still call the shots the way you see them and you are independent. Moreover, what has been missing—and maybe it has been corrected—or is being corrected is a certain rapport between the audit staff and the committee staffs, wherein GAO's agenda becomes their agenda. In other words, you may want to do something because you think it's important. But if you waited for the committee to request it, you might never get the request. If you worked on it and they would say they are not interested, then there is something wrong in the rapport between the GAO staff and the committee staff.

When I ran audits—I went through the story of how we had a buyer up there—it didn't take very long for my agenda to become the agenda for a couple of those committees. I told them what had to be done, and they had enough confidence in me to agree with it. I don't think we ever got challenged or told not to do something because they weren't interested. We knew more about the programs than they did; we were in there all the time. GAO has to develop this capability of having the committee staffs lean on the audit staff for direction as to what should be done. And there is your independence; you decide what is important and no matter what request you get, you call the shots as you see it. That way, I don't see any jeopardy to the independence. In my view, I think you are wasting your time if you go off and do what you think is important on your own because you are independent, unless you have a customer up there who will do something with what you come up with. You need a client, and the client ought to be just like the one in private industry. A client should be able to rely on what the accountant tells him or the auditor tells him.

Redirecting GAO Efforts

Mr. Eschwege

I think we have come a long way in that direction to do the things that are important and, at the same time, that are of interest. Looking at GAO today, do you foresee any further areas in which we ought to be expanding? Is there a need for any new legislation? Should we do something else for our staff in terms of training or broadening their outlook? Finally, can we improve our communications [reporting] with the Congress?

Defense Contract Audits

Mr. Schoenhaut

Well, as to the first item, most of the defense contract audit capability is gone and should be recouped in some fashion. Somebody has to decide whether you do contract audits, or you do some kind of functional audit or across-the-board audit of several contractors. In my opinion, the basis of my experience at the Cost Accounting Standards Board, there was virtually no capability left at GAO to do contract audits.

Mr. Eschwege

Isn't it true though, at least in the last few years, that there have been some major requests to do some contract audit work? Do you think it is going to help revitalize this expertise in GAO?

Mr. Schoenhaut

Well, you are being forced to by getting some requests from Senator Proxmire and from Congressman Brooks. In Washington, D.C., I know, the ability had been virtually nil. In the field, there are some good people who have been there for years—[Joe] Quicksall in Dallas comes to mind and [Ron] Bononi in Los Angeles. Those people know contract audits. To the extent they get involved, they can train people. You get some capability that way, but what you really need is a deliberate effort to get some capability in Washington and in the field. You need training programs, you have to recruit people, and you have to find them in DCAA [Defense Contract Audit Agency] and anywhere you can to do contract audits and understand cost accounting standards. We wrote all these standards, but I'm not sure if anybody is following them. I'm not sure GAO has the ability to find out whether anybody is following them or if they are being enforced.

Mr. Grosshans

Art, aren't you being a little bit hard on the staff? I thought we had converted you and made a believer out of you that we do have some of that capability left.

Mr. Schoenhaut

You have some capability to evaluate defense programs, and [Frank] Conahan does a good job on these things. But it is kind of a hit-and-miss thing. You don't have an agenda of the sort I was talking about to be able to go to a Jack Brooks or a Senator Proxmire and say, "Here is what we are going to do as far as defense contracts is concerned, and when we

are finished, we think you will want to hold hearings on this.” I don’t think that happens; I could be wrong. I think the reverse happens. Every now and then they ask for something; then you scramble around and look for somebody to do it, and you have a hard time coming up with the people. I know that from a couple of recent personal experiences here as a consultant. A couple of jobs came up, and somebody asked me how GAO was going to do these jobs.

Mr. Grosshans

Well, maybe there is a basic difference as to what role GAO ought to play in this whole area. I think you still have that same question we had earlier with DCAA sitting there with 5,000 people. That being their role, should ours be more of an oversight role? Some in GAO would argue that is what we ought to be all about. When you boil it all down, while we are getting some payoff from doing these contract audits, in relation to some of the other work GAO does, it may not justify us being that heavily involved. I am just saying there may be different views. I am not arguing that we shouldn’t be into this area because I’ve been heavily involved in it over the years and loved contract auditing, but there is a different view that one can take with respect to GAO’s role.

Mr. Schoenhaut

That’s correct, but may I make two points. One is, if the Congress requests some kind of audit investigation involving a defense contractor, GAO cannot tell them that it should use DCAA and that GAO doesn’t have the ability. GAO will have to do that kind of work. The other one gets close to what I think you are talking about; I think GAO should do a peer review of the Defense Contract Audit Agency. In order to do that, you have to know something about defense contract auditing, and in my opinion, GAO knows virtually nothing about defense contract auditing. So how are you ever going to get to that peer review? To me, a peer review is not only a review of whether they have the right workpapers and of whether they follow the right procedures and document their findings. But I go back to my story about how we used to review the work done on the Bureau of Public Roads audits.

I think GAO should, every now and then, go into some contractor’s plant, do an overhead audit, and see if they come up with the same answer as DCAA came up with. If they don’t, then they really have a finding about something wrong in DCAA. But to say we are just going to do peer reviews and not say what they are or who is going to do them—I don’t think you have any capability around, really, to do them. If it exists, I don’t know of it. Of course, there are a lot of things in GAO I don’t know

about. But you asked me what would I propose GAO might do. That would be number one on my list. I guess because I spent 10 years of my life, day and night, developing those standards, it really hurts to see them just being given what I consider slipshod treatment or being ignored.

Mr. Eschwege

This argument you make on GAO not having expertise to review even DCAA—I don't know if it is the same, but isn't this the kind of argument that some of us used to get from agencies, like Public Roads, that GAO auditors are not highway engineers, so how can they review our road program? I think though, in the case of DCAA, we at least have accountants. They may not be particularly well-versed in all the ins and outs of defense contracting. But could the argument not be made that we have enough of a background to be able to know what is right and wrong when we look over things—it is always a little easier to do it that way?

Mr. Schoenhaut

Only if you get a lot of on-the-job training and enough congressional requests, and if you do enough of it, then you will have a bunch of experts. But you start out with virtually nil expertise. Then you wait for somebody else to request the work, and only then do you scramble around and try to find somebody to do it. If you did the peer reviews and the people who did them learned defense contract auditing, yes, you would eventually get the capability.

Mr. Eschwege

I guess I have been away from GAO for close to 2 years myself now, but I did get the impression before I left that we were moving in that direction and that we were developing some expertise through the Quicksalls and the other people that GAO has. Of course, we can't put everyone on it, it is very time-consuming.

Mr. Schoenhaut

No, it probably is a policy.

Mr. Eschwege

But, other than that, are you pretty satisfied in the financial accounting and management area that GAO is making more progress now than in earlier years when you were in GAO?

Developing CPAs and Other Accountants

Mr. Schoenhaut

Oh, no question about it. I mean, Fred Wolf has got a good division down there. He has good people; they are on the right track. There have been a couple of things that have slightly irritated me since I've been back in here helping GAO and Chuck Bowsher. They are small things, but they are important. They have to stop calling everybody an "evaluator." A person who is an accountant should be allowed to be called an accountant. It is something demeaning to them, I know, from speaking to some in the field. They say, "Well, GAO is not really interested in good accounting and good financial management; otherwise, why do we have to be called 'evaluators?'" It is a small thing, but it is easy to fix. Whoever wants to be called an accountant instead of an evaluator ought to be called an accountant. It would go a long way I think toward emphasizing that GAO is really interested in improved accounting and financial management.

The other matter is that GAO for years ran a CPA review course. Then it didn't want to tie up good people teaching the exams, so it paid for accountants to go to private coaching courses, but somehow that has disappeared now. It takes an overt act on somebody's part—Bowsher's or Fred Wolf's—to say, "I encourage all the accountants to become CPAs and take these coaching courses for which GAO either pays all the cost or most of the cost." When I left here, Elmer Staats asked me to give him a memorandum recommending what should be done differently and that is one thing I picked on. You know, you can't run these courses here. And if you are going to run them outside and you are going to let people go to them, GAO should pay at least part of the cost and probably the employees should pay part of it so that they will have some incentive to pass. GAO did that for a while. You had hundreds of people going to those coaching courses, but the last time I checked here in Washington, I think, there were only one or two people on the Washington staff going to those coaching courses. So again, in order to improve the accounting capability and to get more CPAs and improve the visibility of accounting in GAO, there should be some encouragement to prepare for and take the CPA exam.

Mr. Grosshans

Aren't we doing some of that currently? You must be speaking more of the field people when you talk about designating them as evaluators

rather than accountants [510 series] because can't Fred Wolf's people in Washington be designated accountants if they so choose?

Mr. Schoenhaut

I don't think so; I'm not sure.

Mr. Grosshans

That's my understanding. I'll have to check on it.

Mr. Eschwege

I recall some of them remained in the 510 series, but I don't know to what extent. It has a lot to do with portability, I think, within GAO.

Mr. Grosshans

We also announce and advertise the 510 series; in fact, the GS-15 was so designated in Kansas City because of the heavy accounting work load there. He was picked specifically for his accounting background. So we are doing some of that now; I'm not sure if we are doing enough.

Mr. Schoenhaut

I'm not sure either. All I know is about some of the complaints I got in the field. I did check; I think I have a computer printout from Personnel on how many people became CPAs over several years and how many are called "evaluators" and how many are called "accountants." The number of CPAs in relation to the total staff is steadily going down, and the number of evaluators outnumbers accountants by probably 100 to 1 or more. That comes out of your system.

Mr. Eschwege

We'll take another look at that one I'm sure. You have got the Director of Policy here...

Mr. Grosshans

I don't want to debate this, but you are absolutely right that most of us switched over to the evaluator series. That doesn't mean we are not accountants and that by training we are not accountants. A lot of those may even be certified, but they still show up as evaluators. So I think the point you are making is a valid one.

Mr. Schoenhaut

I know from talking to some people in the field. At one point, Chuck Bowsher asked me to try to recruit some people from the field for Fred Wolf's division. When I talked to them, they said, "Well, we don't think

GAO is really serious.” Why are we called “evaluators?” If GAO were serious, we would be called “accountants.” That is what they told me.

Mr. Eschwege

I think we are about completed on the GAO side of things. Are there any new areas or different things we ought to be getting involved in—forgetting about financial management, which I think you covered very well—that GAO is not into today but maybe ought to be involved in, looking at the government as a whole? You don’t necessarily have to react, but GAO is now in the process of maybe getting more access to the CIA [Central Intelligence Agency] or getting more into the budget process of the government. It’s those kinds of things, new areas, different kinds of reviews that you might think we ought to take on.

Focus on Strategic Defense Initiative

Mr. Schoenhaut

Well, I think GAO has plenty on its plate right now. I wouldn’t add much of anything. The only suggestion I would have is, other than to do more Defense contract audits—and I’m speaking entirely from ignorance—whether you are doing enough with this “Star Wars” effort that the administration is pushing. You know, that is a multi-billion-dollar program that is going to grow by leaps and bounds over the years. Here again, I am calling on my experience with highways. To develop an expertise in that area requires that somebody real sharp be in charge of whatever work is being done on Star Wars. This person should stick with it at least until the point where you get more people trained in Star Wars to really be able to review that program and audit it. It is complicated, and I don’t know if you have any disciplines to help with that or not. You need one lead person to become the Star Wars expert. I once mentioned that to Chuck Bowsher in passing. Whether that has happened or not, I don’t know, but if I had to pick one thing that you ought to do...

Mr. Eschwege

In other words, a dedicated team that would work on Star Wars...

Mr. Schoenhaut

Yes.

Mr. Grosshans

Harry Finley [Associate Director, National Security and International Affairs Division] has the responsibility, and we have given him additional staff-years to do exactly that. I think you are absolutely right. It is a big program; he has a good team there, and they have really been very much involved. I think the PPC [Program Planning Committee] recognized that a couple of years ago, and that's why we have increased Harry's allocation of staff.

Interaction With GAO As Deputy Controller, AEC

Mr. Eschwege

Okay, I just want to ask you one brief question because we want to get into the Cost Accounting Standards Board. You were over at AEC for a number of years as the Deputy Controller, and you had a lot of dealings with GAO there, but they were sort of from a different perspective. GAO staff—I think we've always had good staff at AEC—funneled its draft reports through you. You had an opportunity to comment on them, and you, John Abbadessa, and others looked at those reports with a fine-tooth comb, didn't you?

Mr. Schoenhaut

Yes, well, the GAO people out there were top-notch. For a while, Pin was head man, and then, I think, Phil Bernstein, Dick Kelley, and maybe Tim McCormick. They were all out there; I don't know who was in charge. Both before and after we got Pin to come to AEC, those poor fellows had a terrible time. You had three ex-GAO people like Pin, myself, and Abbadessa looking at those draft reports. We knew where the weak spots were and where they couldn't support something just by the kind of language they used.

Mr. Eschwege

I'm sure that you alone would have been tough enough, but then they had these two other guys.

Mr. Schoenhaut

If they got through Pin and still persisted, then they came to me, and if they got past me, they had to deal with Abbadessa. He was a lot tougher than either Pin or I would be. We used a fairly simple tactic. If GAO was

right on something, we would get the agency to take immediate corrective action and tell the GAO staff to put that in the report. That was usually the end of the report. I mean the Congress was no longer interested because GAO said AEC was taking corrective action. We didn't say we were going to take it; we took it, in order to steal the thunder of the report. Those poor fellows really had a tough time in dealing with us.

Moreover, if we would get into an argument and they wouldn't agree that they couldn't support something, I was not beyond threatening and maybe actually calling up Samuelson or Ahart and telling them, "These clowns you have over here can't support their report. You don't want a nonprofessional product to go out?" I don't know if I ever actually called him, but I threatened to do so. I said, "You know, if you persist with this stupidity, I'm going to call up Sammy and tell him." We usually worked it out. But they had a tough role. No other agency had that type of ex-GAO expertise sitting there.

Mr. Eschwege

They would have to argue with you over titles of reports. The very thing we talked about earlier because you would want them to be more bland. Even we would want to make them stronger, and this was after the Holifield hearing.

Mr. Schoenhaut

Admiral Rickover had a saying, "Whose bread you eat, whose song you sing." When I got on the other side, I sang the other song.

Mr. Eschwege

Maybe this is the reason GAO put such good people on the AEC staff because they knew they had to deal with guys like you.

Mr. Schoenhaut

They were very capable; they helped the Joint Committee tremendously, really—especially on that privatization business [privatizing atomic power facilities]. This fellow, Roger Sperry, who is no longer with GAO, did a tremendous job in testifying on the privatization issue. I tried to get him to come to AEC, but he wouldn't. It was an outstanding staff.

Mr. Eschwege

Well, Roger is on detail, but I think he is still considered to be a GAO employee.

Cost Accounting Standards Board

Getting to the Cost Accounting Standards Board, I want to note for the record that in spite of your earlier statement that you resigned from GAO because there were some things you didn't like in the new management, it was Elmer Staats who brought you back. Is that correct?

Mr. Schoenhaut

At the urging of Robert Keller.

Mr. Eschwege

Okay.

Mr. Schoenhaut

But, yes, he brought me back.

Prime Movers for Standards

Mr. Eschwege

Getting into the climate in which the Cost Accounting Standards Board was finally established, who and what initiated the idea that there ought to be cost accounting standards, primarily for Defense contracts?

Mr. Schoenhaut

The father of the Cost Accounting Standards Board was Admiral Rickover. I'm not sure who the mother was, probably the Defense contractors because they kept yelling they were getting screwed by these cost accounting standards. I say that with some humor and tongue in cheek. Admiral Rickover's philosophy was that he should be spending his time worrying about the quality of the product that was going to be delivered and its timeliness, rather than arguing over a bunch of accounting gimmicks that were being followed by contractors. He was spending a good part of his time arguing the accounting, and he thought this didn't make any sense.

Admiral Rickover was a scientist; he had a very orderly mind. There were certain specifications and certain rules everybody had to follow. He didn't know why the accountants didn't have the same kind of standards of audit performance. He used to tell me he would get three different audits done of a company—by its accounting firm, by DCAA, and by one of the service audit organizations—and yet they would come up with three different answers. He said, "That doesn't make any sense."

He was a big motivator, and he kept pushing for legislation to cover the whole government. He wound up with confining it to Defense because the only way you could get something passed was through an amendment of the Defense Production Act. Wright Patman in the House and Senator Proxmire in the Senate had jurisdiction over that bill, so as a compromise, they applied it to Defense only. But he really wanted the whole government subject to the same rules.

Mr. Eschwege

Was Congressman Gonzalez involved in this?

Mr. Schoenhaut

Yes, Gonzalez was on Patman's committee. But the big prime movers were Patman and, I guess, Gonzalez and Proxmire.

Mr. Eschwege

Okay, so they came to GAO. GAO had an initial reaction as to whether they wanted to assume this kind of a task. Do you recall that?

Mr. Schoenhaut

Yes, and the answer was no.

Mr. Eschwege

Why was it no?

Mr. Schoenhaut

I don't know. Elmer may know, but I really don't know.

Mr. Eschwege

Well, we did talk to Elmer about it a little bit, and I think he wasn't sure it could be done for one thing; furthermore, I think there was a fairly short time frame in which we were to do it. They wanted everything done within 18 months—a year and a half.

Feasibility Study

As I understand it then, the compromise was not to worry for the time being about where to put this function or not even say it's got to be done but to have GAO make a feasibility study. Is that your understanding of it?

Mr. Schoenhaut

Yes.

Mr. Eschwege You know who was put in charge of that? Bill Newman. It took about 2 years, I would say, to get that study done, and it came out in 1970. Of course, it created a lot of debate; do you recall the study? The study in effect said it could be done.

Mr. Schoenhaut It said standards were feasible and desirable.

Mr. Eschwege But what was the reaction to the study by the different factions and parties?

Mr. Schoenhaut Well, the contractors didn't want any part of it. The defense contracting industry almost had a knee-jerk reaction to any proposed change. They were accustomed to dealing with the old system, and they didn't want anything new because they could not trust it. This is how I perceived their reaction. So they were dead-set against anything like cost accounting standards. GAO, I think, did a credible job in that feasibility study in recommending that standards were feasible and desirable.

I participated to a very limited extent. I was on a sea-trial of a nuclear-powered submarine with Admiral Rickover. Mel Greer then was his administrative assistant. While we were, God knows, how many fathoms under water, they asked me to help him write a letter to Newman about the feasibility of cost accounting standards. It never dawned on me for a minute that I would have to wind up doing this thing. Otherwise, it may have come out differently. I did help a little bit to try to get it done. But to get back to the original question, it was principally Rickover—there was just no two-ways about it—who was the prime mover in steering that legislation through the Congress.

Enactment and Implementation of Legislation

Mr. Eschwege And it was enacted in August 1970?

Mr. Schoenhaut Yes.

We started with me and a secretary and a couple of old beat-up desks and a typewriter in the middle of the bowels of the GAO Building, and away we went. Before I took the job, I made an agreement with Mr. Staats that I could pick the staff myself, except that when hiring top level staff members, the Board would have to approve them. In other words, anybody at the GS-17 level or GS-18 level would have to be approved by them.

Mr. Eschwege

Yours was a level 4 job?

Mr. Schoenhaut

Yes. I never hired anybody above a GS-17 level, and nobody ever got raised higher than GS-17. There was a method to that too, I mean; the method to my madness was to keep everybody competing to try to do a better job—the top people anyhow. Mr. Staats cooperated; he said you don't have to hire anybody you don't want. In one instance, however, they tried to get me to take a certain person and I about quit. I went to Keller and said, "I'm going back to AEC or I'm going to go up on the Hill." Then they relented and said okay. I told them that I would take Ray Poskaitis, who was involved in the feasibility study, because I used to work with him. So that was the deal: I got Ray Poskaitis. And then we hired staff, and we had an unusual way of operating, I think. Nobody got hired unless they were interviewed by the top people and me—the project directors, the General Counsel, and myself.

Mr. Eschwege

Was the General Counsel Harry Van Cleve then?

Mr. Schoenhaut

Yes. No paper ever went out of that staff that was not subjected to what we used to call a "taffy pull"—where the whole staff got together in one room and whoever drafted the paper had to defend it to the rest of the staff. There were two reasons for that: One is you had a better product because we had very bright people, you got all that intelligence looking at that paper and making it better. The other reason was the questions that were raised were such that there was virtually nothing a Board member could ask that we didn't already have an answer for because collectively that staff was at least as smart and as knowledgeable as the whole Board; it worked like a charm. Sometimes I had to pull these fellows apart to keep them from beating up on each other. But the material that came out was well-done, and we could answer all the questions.

Mr. Eschwege Now, this Board that existed for almost 10 years promulgated a total of 19 standards?

Mr. Schoenhaut Yes.

Mr. Eschwege These standards applied to contracts over a certain dollar limit—is that correct? Defense contracts?

Mr. Schoenhaut Yes, over \$500,000. You could change the limit; the law said \$100,000, but there was a way we could change it to \$500,000, which we did. We said if you have contracts over \$500,000, you have to comply and any that are over \$100,000 in that same Defense company or subsidiary also have to comply. In other words, we grandfathered in anything that was around. It didn't make any sense for them to have one set of rules in a system for one group of contractors and contracts and another for others. So, by and large, we got most of the big defense dollars—over 90 percent all the time, I'm sure.

Setting the Standards

Mr. Eschwege Now, the process was that once you had promulgated the standards, they had to lie before the Congress for 60 days, a provision that I think was later struck down by the Supreme Court?

Mr. Schoenhaut No, not at that time as far as standards were concerned. The recent Bowsher versus Synar case may have a bearing on it—I don't remember for sure—but Boeing brought suit against Staats saying that the standards were unconstitutional because they were being set by a legislative branch agency. The Court of Claims said that the question was moot since the Defense Department had adopted the cost accounting standards clause in its contracts; therefore, Boeing had to comply with its contract. The Supreme Court declined to hear the case. Now, whether or not the Board was legal was not decided in that Boeing case. So we never really got a Supreme Court case that said we were constitutional or not constitutional. I think, looking at it today, that if somebody had raised

that question before Defense ever awarded a contract to anybody, they probably would have won the case.

Mr. Eschwege

Now, in promulgating these standards, did you run into a lot of opposition on standards like those for pensions, depreciation, and others?

Mr. Schoenhaut

The biggest argument was on depreciation. The Industry Board member dissented and wrote about it in the trade periodicals. This business of laying the standards before the Congress for 60 days, to me, was a joke. I mean, you can't expect the Congress to understand this stuff within 60 days. It takes them 60 days to get organized to look at it and begin to hold a hearing. On that particular standard, we had a big hearing before Senator Cranston with the Cost Accounting Standards Board on one side of the room and the Defense contractors on the other side. Our industry member sat with the Defense contractors instead of with the Board.

Mr. Staats had laryngitis, so I read his statement. Every question asked that he couldn't answer, I had to answer; I had a field day. We were so thoroughly prepared that we knew who was going to testify; we knew more about their companies—present were the chairmen and presidents of these companies. We knew more about their companies than they did. In fact, there was one company, which has since gone "belly up," where the chairman said they used one kind of method of depreciation; I told him he was wrong and I told him what they were using. He said, "Well, that's not what my accountants tell me." I said, "Well, then your accountants are wrong." Their accountants were one of the Big Eight firms in which one of our Board members was a partner. It took me a while to get over that one.

Mr. Eschwege

When the legislation first went through, Admiral Rickover made a rather rash statement that it could save the government \$2 billion a year. I think later he retracted it and said there was no way of knowing. Do you recall that?

Mr. Schoenhaut

I don't know that he ever retracted it. He got his \$2 billion in a fairly simple way, if I can remember it. He said that if he negotiated a contract, he could reduce the price by 10 percent. No question, he would get back 10 percent. Since the rest of the government negotiators were not as smart as he was, they ought to be able to get back at least 5 percent.

At that time, 5 percent of \$40 billion of negotiated defense contracts was \$2 billion and that's where the \$2 billion came from. I don't think he ever retracted it.

Mr. Eschwege

The Defense Department did make an estimate, based on the research I did, that in 1 year, at least, it was saving them about \$130 million, which is nothing to sneeze at either. But I just thought I would get your reaction.

Mr. Schoenhaut

Well, it was hard to really tell how much could be saved. Things happened at the negotiating table because of standards that otherwise would never have happened. You don't know how much of the savings were forced by the standards or how much was just forced by the negotiating effort.

Mr. Eschwege

Did you have the accounting profession generally behind you in what you were doing?

Mr. Schoenhaut

Not at all, initially. They thought we were invading their territory. I don't remember who was the Chairman or President of the Institute at the time. They came to meet with the Board and said that they would watch what we did with a careful eye and hoped that we would not destroy any of their pronouncements. In other words, we were not enthusiastically endorsed by the accounting profession. There were two exceptions; one was one of the Seidman brothers at Seidman & Seidman, who was all for it. The other was the head of Arthur Andersen, Leonard Spacek; he endorsed it. Some of his people helped us a lot. They collaborated with us, and we tried out things on them.

Mr. Eschwege

Of course, you had some prestigious Board members, too, who came from the accounting profession, didn't you?

Mr. Schoenhaut

Well, we had Herman Bevis, former head of Price Waterhouse; he was a good man.

Mr. Eschwege

Mautz [Robert H. Mautz], was he on the Board?

Mr. Schoenhaut Yes.

Terminating the Board but Continuing the Function

Mr. Eschwege Then you left in February 1980. You left before the Board was abolished. Did you see the handwriting on the wall?

Mr. Schoenhaut No, I was old enough to retire. Also, I was not in very good health toward the end.

Mr. Eschwege Yes, I remember that. Did you feel that the Board had accomplished its mission and that it should go out of business at that point in time?

Mr. Schoenhaut No, I didn't think the Board should ever go out of business.

Mr. Eschwege I'm not talking about the function. The function I guess you felt should go on, but whether the Board needed to do it or whether it could be phased into some other organization.

Mr. Schoenhaut I don't know how it could be done as independently as the Board could do it. In another organization, the function would be subject to the whims of whoever ran that organization. I don't think industry realized how independent and capable and good the work of this Board was. They still had that knee-jerk reaction to oppose whatever the Board put out. We were not trying to penalize industry or make them suffer. We were trying to do what five members of the Board thought was fair to the government and the contractors.

I think they have since come to realize that we did a good and fair job. They don't want anybody else meddling with these standards, and now there is a move on, with the help of industry, to try to get the function established again in the Office of Federal Procurement Policy [OFPP]. How independent it will be there, I don't know, but I always felt there was a need for a Board. They hadn't quite issued all the standards that

they should have, but you can live without the ones they didn't issue. However, things have changed with the passage of time, and some of the provisions of those standards should be changed. There is no way now to change them; in the absence of a Board, the only possible way is to get the Congress to pass an act.

Mr. Eschwege

Who is enforcing them now?

Mr. Schoenhaut

Supposedly DCAA but...

Mr. Eschwege

Does GAO do any work to see that they are doing the job right?

Mr. Schoenhaut

I don't think so. If they are doing it, I am not aware of it.

Mr. Eschwege

Now Elmer Staats, if I remember correctly, was asked to comment on where that function should go. Do you recall that? He threw out alternatives—either GAO or OMB [Office of Management and Budget].

Mr. Schoenhaut

In the dying days of the Board, when it looked like it was going to disappear, the question arose what to do with the function. I wasn't involved so I really can't say. Peripherally, I heard some of what was going on. Mr. Staats was trying to save the function and place it either in GAO or OMB—I'm not sure—but OFPP may have been an alternative.

Mr. Eschwege

Which was in OMB?

Mr. Schoenhaut

Yes. But at one point, he thought he had a bill, but it came unglued when a Senator testified and wanted some provision in there in favor of industry. As I understand it, Senator Proxmire got up and stormed out of the hearing and that was the end of the bill.

Reflections on Board

Mr. Eschwege

I want to get your overall view of whether that effort which went on for almost 10 years was worthwhile? Here's your chance.

Mr. Schoenhaut

I don't know which was more self-satisfying to me—the work I did as a lowly supervisor and Assistant Director in GAO, doing audits of the highway program, or helping to get out these cost accounting standards—both are very high on my list. The reason I took that job as Executive Secretary of the Board was that we had too much talent at the time at AEC. You had Abbadessa, Schoenhaut, and Pin there, so there was not enough for two of us to do—let alone the three of us. I mean Abbadessa was so capable that I would go to work every morning wondering what am I going to do today, whereas when I worked for GAO, I use to go to work in the morning and wonder how was I going to get through the day. After a while, working over there at AEC wore thin on me, and I guess it did on Pin, because there wasn't enough for us to do. So I had to go somewhere, and I had a problem with Abbadessa about something which is really not important now, but I told him I was going to get another job.

I was offered a job on a committee on the Hill, and I think I called Keller about this Executive Secretary job and asked him if they were interested in me. He said he was. He talked to Staats, and I went over there. The reason I picked that job instead of going on the Hill, where they made me a very attractive offer and kept trying to get me to change my mind, was that since nobody had ever written cost accounting standards, I saw this as an opportunity to leave my imprint on society, which probably comes only once in a lifetime. I thought, "Well I may not do the job right, but I am going to get a chance to do it right;" so I took it really for that reason. It was a way of contributing something that would last a long time. That is why I took the job. I sure think it was worthwhile.

Mr. Eschwege

Do you see this task that the Governmental Accounting Standards Board [GASB] now has as a similar kind of task as the one you had with the Cost Accounting Standards Board?

Mr. Schoenhaut Yes, except that GASB is dealing with state and local governments instead of government contractors. They have similar problems.

Mr. Eschwege This is another effort in the accounting field.

Mr. Schoenhaut Absolutely.

Mr. Eschwege I think we are coming down to the end of what I wanted to cover, but I would like to ask you about some of the things that I may have missed that you might want to discuss concerning GAO, etc. I know you also worked for a short time in the International Atomic Energy Agency [IAEA]. Anything at all that you might want to add to what we asked you?

Mr. Schoenhaut No, about the only thing I would encourage is that GAO continue its all-out effort to get accrual accounting, cost-based budgeting, financial statements for the agencies, and consolidated government financial statements. Maybe you can't get it all done at once. You take what you can get, because I really think that that kind of effort in the long run will make a greater contribution to better management in the government and to saving money than almost anything else GAO is doing. Again, that comes from my experience at AEC and also my experience at IAEA, the International Atomic Energy Agency. At AEC, I dealt with probably the best system anywhere in the government, and at the International Atomic Energy Agency, I dealt with probably the worst system in existence. I know the importance of having good financial information. I can't overstate the significance of getting that in the federal government. I think the future of the government as an entity that can be managed depends in large measure on that effort.

Mr. Grosshans Art, as a final question, I know you have developed a very close relationship with Chuck Bowsher, and you alluded earlier that it started in your days with the Cost Accounting Standards Board when you began to know him. Do you want to comment any further on that? What has kept that friendship up? Is it the fact that you let him beat you on the golf course?

Mr. Schoenhaut

Oh no, no, no. In fact, the last couple of times we played down in Florida, I beat him. Up here, I think I beat him on his own course. No, that friendship is out of mutual interest in what is important for the General Accounting Office to do. I just can't explain it, but it is a good friendship.

Conclusion

Mr. Grosshans

Very good. Well, we certainly want to thank you, Art, for taking the time and for the discussion this morning. I think we have covered an awful lot of ground.

Mr. Eschwege

If I might just have one more word too. You talked about the impact that you saw you could have from your work on the Cost Accounting Standards Board. I don't think you ought to in any way diminish the thought that you also had a great impact on GAO in the days that you were here until you left back in 1967, as well as the impact you have to this day trying to keep GAO on the straight and not so narrow path of doing the best possible job it can do to serve the Congress and to serve the Comptroller General with whom you consult periodically.

Mr. Schoenhaut

Thank you very much.

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