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STATEMENT OF
ELMER B. STAATS, COMPTROLLER GENERAL OF THE UNITED STATES
BEFORE THE
LEGISLATIVE SUBCOMMITTEE, APPROPRIATIONS COMMITTEE
UNITED STATES SENATE
ON
COST ACCOUNTING STANDARDS BOARD
BUDGET ESTIMATES FOR FISCAL YEAR 1972



MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

We appear before you today to discuss the budget estimates for the operations and continuing expenses for fiscal year 1972, of the Cost Accounting Standards Board authorized by Public Law 91-379, approved on August 15 of last year. Mr. Chairman, the budget estimates we are presenting are for the first full fiscal year of operations of the Board. For fiscal year 1971, funds were approved in December to establish the Board and commence operations.

In the way of background, the Congress, in extending the Defense Production Act of 1950, included a new section 719 last year--creating a Cost Accounting Standards Board. The new section was passed by the Congress following an 18-month study by the General Accounting Office (GAO) undertaken by previous direction of the Congress. In this study, GAO found that cost accounting standards for negotiated procurements were both feasible and desirable and that the cumulative benefits from the establishment of such standards should outweigh the cost of implementation.

The principal function of the Board is to develop and promulgate cost accounting standards designed to achieve uniformity and consistency in the cost accounting practices followed by defense contractors and subcontractors under negotiated defense procurements in excess of \$100,000,

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except where the price negotiated is based on established catalog or market prices of commercial items sold in substantial quantities to the general public or prices set by law or regulation. A large and growing proportion of defense procurements is of the negotiated type, reaching 89 percent of dollar volume in fiscal year 1970.

The Board was created as an agent of the Congress, consisting of the Comptroller General of the United States who shall serve as Chairman, and four other members appointed by the Comptroller General. Two of the members to be appointed to the Board are to be from the accounting profession, one of whom is to be particularly knowledgeable about cost accounting problems of small business; one member is to be representative of industry; and one is to be from a department or agency of the Federal Government. The act empowers the Board to appoint an Executive Secretary at a rate of compensation not to exceed the rate prescribed for level IV of the Federal Executive Salary Schedule.

Mr. Chairman, in January of this year I appointed four members to serve on the Cost Accounting Standards Board. Appointments to the Board are as follows:

From the Accounting Profession: Mr. Herman W. Bevis, New York City, who served with Price, Waterhouse & Company, certified public accountants, from 1933 to 1969, and was Senior Partner from 1961 to 1969.

Dr. Robert K. Mautz, Urbana, Illinois, Professor of Accountancy, University of Illinois, and a leader for many years in the accounting profession.

From Industry: Mr. Charles A. Dana, Lexington, Massachusetts, Manager of Government Accounting Controls, Raytheon Company.

From the Federal Government: The Honorable Robert C. Moot, Assistant Secretary (Comptroller), Department of Defense, and formerly Administrator, Small Business Administration.

Both Dr. Mautz and Mr. Bevis have had extensive accounting experience in small business. Mr. Bevis served as a member of the President's Task Force on Improving the Prospects of Small Business, which reported to the President in March 1970. This report served as the basis for the Presidential Message to the Congress in which the President outlined a series of programs designed to assist small business.

These appointments were made after soliciting nominations for members of the Board from 5 professional accounting associations, 11 industry associations (including several associations representing small business), 10 Government departments and agencies (including the Department of Defense and the Office of Management and Budget), as well as several prominent individuals in the accounting profession. In response to these solicitations, we received the names of over 85 individuals for consideration for appointment to the Board.

The Cost Accounting Standards Board has held four meetings to date. At its initial meetings, the Board reviewed the legislative history of the act establishing the Board, approved the form and structure of its organization, defined certain administrative operations, including the extent to which the GAO might handle administrative matters for the Board, and approved the employment of an Executive Secretary and other principal staff of the Board.

On March 5, 1971, the Board announced the selection of Mr. Arthur Schoenhaut as Executive Secretary. Mr. Schoenhaut, a Certified Public

Accountant, will bring to the Board outstanding experience in the accounting field. He has been with the Federal Government since 1950. From that time until 1967 he was with the General Accounting Office where he served as Deputy Director of the Civil Division of that Office from 1964 to 1967. Since 1967 he has been Deputy Controller of the Atomic Energy Commission.

At its meeting held April 30 and May 1, 1971, the Board had a series of informal discussions with several Federal agencies, professional accounting associations and industry associations concerning the organization, operation, and mission of the Board. Also, the Board elicited from the various Federal agencies and professional and industry associations suggestions as to how their organizations might best contribute to the efforts of the Board.

The Board staff will be concerned heavily in researching existing cost accounting principles and practices, reviewing and analyzing such information from a technical standpoint, and testing possible cost accounting standards in operation. At its most recent meeting on May 28, the Board approved an overall technical work plan to be followed by the staff in meeting the objectives and requirements of Public Law 91-379. The staff has initiated effort leading to the development of regulations requiring affected defense contractors and subcontractors to disclose, in writing, the cost accounting practices being followed in pricing contract proposals and in accumulating and reporting contract performance cost data. Also, the staff was directed to initiate exploratory research leading to early development and promulgation of certain cost accounting standards.

Mr. Chairman, the estimate of \$1,650,000 for the first full year of operation of the Board--fiscal year 1972--as shown in the budget does not take into account the pay raises granted to Federal employees in January of this year. We are not requesting the additional \$45,000 cost of this pay increase since we expect to absorb it.

On the basis of our estimates, the \$1,650,000 will be used as follows:

\$750,000 for salaries and related benefits of the Board, professional staff (including an Executive Secretary) and supportive clerical staff.

\$520,000 for travel of Board, its staff and task force teams comprised of representatives of Government, accounting profession and industry.

\$310,000 for contract services, reimbursements for computer services, administrative and personal services, and reimbursements to other Government agencies.

\$ 70,000 Other--rent, communications, utilities, printing and reproductions, supplies and materials and equipment.

Our estimate is prepared on the basis that about 25 professional positions and 12 supportive clerical positions will be required to perform the research and technical effort needed for the early operations of this new organization.

Our estimate takes into account the need for coordination and cooperation with other Government agencies, the accounting profession, and industry. For example, it is possible that the Board will wish to establish task force teams. The size of these teams presumably would vary (3 to 5 members or possibly more) with usually one member being from the Board's professional staff. These teams may visit plants of various types of defense and nondefense industries to obtain information on basic cost accounting practices in use today for the purpose of developing cost

accounting standards for specific elements of cost. The task forces might be comprised of representatives of Government, the accounting profession and industry. In view of the indications of voluntary assistance coming from those sources, we anticipate that those serving on the task force teams will not be reimbursed for their services, but that the Board will pay the necessary travel costs involved.

Our estimate also takes into account that the Board will have to obtain as consultants or by contract the services of people highly qualified in the technical aspects of cost accounting from industry, the academic world, or the accounting profession, whose services the Board would not otherwise be able to obtain by permanent employment with the Board. We think that the Board staff should be held to a minimum and that other qualified services should be obtained through consultants or by contract on an as-needed basis. In addition to these services, the Board has entered into a Memorandum of Understanding and Agreement with the GAO whereby the latter would provide administrative services such as printing, payroll, financial reporting, budget, personnel, security investigations and office services to the Board on a reimbursable basis.

This generally summarizes our views with respect to the initial operation of the Cost Accounting Standards Board. I will be glad to answer any questions.