

094508

HOLD FOR RELEASE  
UNTIL 10:00 A.M.  
APRIL 12, 1972.

STATEMENT OF HONORABLE ELMER B. STAATS,  
CHAIRMAN, COST ACCOUNTING STANDARDS BOARD  
*Comments* • ON S. 1901, 92nd CONGRESS  
BEFORE THE SUBCOMMITTEE ON PRODUCTION AND  
STABILIZATION OF THE COMMITTEE ON BANKING,  
HOUSING, AND URBAN AFFAIRS,  
UNITED STATES SENATE,  
ON APRIL 12, 1972.

S 706  
U 30

BEST DOCUMENT AVAILABLE

Mr. Chairman and Members of the Subcommittee, I am pleased to be with you this morning to express the views of the Cost Accounting Standards Board on S. 1901, 92nd Congress, a bill which would amend Section 719 of the Defense Production Act of 1950 in two major respects. First, it would abolish the present Cost Accounting Standards Board and establish a new Cost Accounting Standards Board as an independent board of the Executive Branch of the Government. The five members of the new Board would be appointed by the President, by and with the advice and consent of the Senate. The Comptroller General, instead of serving as Chairman of the Board, as Section 719 now provides, would become an ex officio, non-voting member of the Board.

Secondly, S. 1901 would delete Section 719(h)(3) of the Defense Production Act of 1950. That section presently requires that any Standards, rules or regulations proposed by the Board shall not become effective until expiration of 60 days of continuous session of the Congress, during which time the Congress may by a concurrent resolution passed by the two Houses state in substance that the Congress does not favor the proposed Standards, rules or regulations. In lieu of that provision, S. 1901 would substitute a requirement that proposed

Standards, rules and regulations shall not take effect earlier than the

*Oversight by Congress  
Government procurement  
Procurement procedures  
Auditing standards*

*Cost control  
Management information systems  
Standards evaluation  
Personnel matters management*

094508

709905

4-10-72 (S. 1901)

expiration of 30 calendar days of continuous session after transmission to the Congress of a copy of the proposed Standard, rule or regulation. S. 1901 makes no provision for possible Congressional action by a concurrent resolution.

As members of this Subcommittee know, I have served as Chairman of the Cost Accounting Standards Board from its creation on August 15, 1970. To explain why I strongly oppose enactment of S. 1901, I wish first to outline the background of how the Board came to be established and how we have organized to carry out our job.

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

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

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

BEST DOCUMENT AVAILABLE

Upon completion of the study, GAO reported that Cost Accounting Standards for negotiated procurements were both feasible and desirable. Based on the study and extensive hearings, the Congress in 1970, by Public Law 91-379, extending and amending the Defense Production Act of 1950, included a new section creating a Cost Accounting Standards Board. The amendment was passed by the Congress and approved by the President on August 15, 1970.

As members of this Subcommittee are aware, during the debate on the measures which became P.L. 91-379, an amendment was offered on the floor in both the House and the Senate to place the Cost Accounting Standards Board in the Executive Branch rather than in the Legislative Branch, and that amendment was defeated in both Houses. I had been  
✓ at that time in favor of placing the proposed Board in the Executive  
✓ Branch, and my views and the views of others who testified on this  
✓ subject were considered by the Congress before it acted.

Funds were first appropriated for operation of the Board in the Supplemental Appropriation Act of 1971, approved January 8, 1971. Immediately thereafter, I appointed four members to serve with me on the Cost Accounting Standards Board. Appointments to the Board were as follows:

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

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

BEST DOCUMENT AVAILABLE

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

On March 5, 1971, the Board selected Mr. Arthur Schoenhaut as Executive Secretary, and on April 25, 1971, Mr. Harry R. Van Cleve became our General Counsel. As of April 1, 1972, we had selected 32 employees, excluding the Board members--21 professional and 11 administrative and clerical employees. We anticipate very little additional growth in our professional staff; our budget request for Fiscal Year 1973 includes funds for a maximum professional staff of 25. In staff selection, a particular effort has been made to recruit people from Government, industry, the accounting profession, and the academic community. We have selected staff with skills in accounting, contract administration, and law. We believe we have recruited a well-balanced, representative and highly motivated staff.

In the 14 months since the Board's first meeting on February 8, 1971, the Board has made several notable achievements. Most particularly, on February 24, 1972, the Board transmitted to the President of the Senate and the Speaker of the House of Representatives its first proposed Cost Accounting Standards, requirements for disclosure of cost accounting practices, and implementing regulations. Those materials were also published for a second and final time in the FEDERAL REGISTER on February 29, 1972. The Board believes that these first, important regulations constitute a significant initial step toward improving cost accounting and the proper determination of the cost of defense contracts. These first materials are:

BEST DOCUMENT AVAILABLE

1. A Board regulation on disclosure of cost accounting practices. This regulation and the Disclosure Statement which it contains are issued pursuant to Section 719(h)(1) of our law. The regulation will require that defense contractors disclose their cost accounting practices as a condition of contracting and then requires that those practices be followed consistently throughout performance of the contract. This requirement will assist materially in achieving a basic objective of our law, uniformity and consistency in the cost accounting practices of defense contractors and subcontractors. The disclosure requirement will additionally permit establishment of a data bank of contractors' practices-- by class of contractor; by dollar volume of business with the Government in relation to total business; by size of contractor, etc. This kind of data does not exist anywhere. With such information, the Government will be in a better position to develop Cost Accounting Standards.

2. A Standard on the subject of "Consistency in Allocating Costs Incurred for the Same Purpose." This Standard is designed to eliminate instances in which the same type of cost is charged to a contract, both as a direct cost and as a share of indirect costs. This practice, commonly termed "double counting," was the most prevalent cost accounting problem identified in the GAO Feasibility Study.

3. A Standard on the subject of "Consistency in Estimating, Accumulating and Reporting Costs"--to insure that a contractor's practices used in estimating costs for a proposal are consistent with cost accounting practices used by him in accumulating and reporting costs. Government procurement regulations have not before now contained this kind of requirement for consistency.

**BEST DOCUMENT AVAILABLE**

4. A regulation publishing the definition of key words and phrases used in Cost Accounting Standards. This regulation will be supplemented from time to time as additional Standards are issued containing additional definitions. This regulation should clearly promote use of uniform terminology, not only in the Government, but in the accounting profession as well.

5. A contract clause implementing the rules, regulations and Standards promulgated by the Board, which will become a part of the regular language, or "boiler-plate," for appropriate Government contracts.

These first regulations and Standards will become effective on July 1, 1972, unless the Congress by concurrent resolution states that it does not favor them.

Behind these documents transmitted to the Congress in late February of this year lies an extremely intensive effort by the Board to prepare Standards and regulations to meet the high tests of effectiveness and fairness expected of us by the Congress. The documents in an earlier version had been published for comment in the FEDERAL REGISTER on December 30, 1971. The Board, additionally, on that day mailed the documents directly to 175 persons or organizations which had indicated a desire to comment on them or which had assisted the Board in its early research, development, consideration, and field testing of the proposed measures. The Board received 105 responses to the first publication, every one of which was analyzed and considered by the Board. As a result, the documents finally promulgated were strengthened and improved.

**BEST DOCUMENT AVAILABLE**

I indicated earlier that the Board performed extensive research, development, and testing of all of its documents prior to their promulgation. We have regarded this process both as arduous and also as highly rewarding. The Board is firmly committed to making the Standards, rules and regulations a cooperative endeavor by affected industries, concerned Government agencies, and the accounting profession. To that end, we have urgently solicited all interested persons to participate in identification of problems, in the consideration of possible approaches to Standards, in the formulation of Standards, and in preliminary testing of them. The extensive response and cooperation by industry, the accounting profession, and Government agencies has made an invaluable contribution to our effort.

The Board has identified a large number of subjects for potential Standards. Our Staff is also working on computer applications involved in obtaining, collating, and evaluating responses to the Disclosure Statements. Additionally, there will be a continuing effort to evaluate the effectiveness of the Disclosure Statements, the Standards, and our rules and regulations in bringing about desired improvements and consistency in cost accounting practices under defense contracts.

The process followed in the research, development, consultation, and drafting of proposed Standards is under way with respect to the following subjects: allocation of overhead, contractor research and development, contract termination, personal services, materials, depreciation, segregation of unallowed costs, and others. These subjects

include some of the most troublesome areas in contract cost accounting. Some of these subjects may prove susceptible to a single Standard; most will have to be subdivided into several Standards.

I think the Subcommittee will understand fully that before the Board could address itself to any particular Standard, there had to be a mutual understanding by the Board members of their own views, aspirations, and beliefs about concepts and methodology. The Board members have been at pains to discuss these matters together and arrive at consensus about them. The Board was strongly urged, and we clearly accepted the need, to arrive at an agreed conceptual framework for Board decisions on Standards. We have devoted all or part of many Board meetings to discussion among ourselves of the conceptual framework for Cost Accounting Standards. We have also established strong and clear operating relationships between the Board and the Staff in order to give the Staff all appropriate initiative and yet be sure to retain the responsibility for decisions in the Board. Each of our Board members is an extremely busy man with many demands upon his time. Nonetheless, I believe that we are functioning very successfully as a Board. One of the primary reasons for this is the quality of support which our Staff provides to us and the clear understanding by the Staff of the Board's needs and responsibilities.

What I have said about the way the Board has begun its work leads me to one of the reasons why I oppose enactment of S. 1901. That bill, if enacted, would necessarily disrupt, possibly for a very considerable period of time, the forward momentum which the Board now enjoys and

BEST DOCUMENT AVAILABLE

has worked hard to initiate. A new Board would, I believe, necessarily have to undertake the conceptual and operational discussions which have occupied a considerable time in the Cost Accounting Standards Board's meetings to date. As a prelude to establishing a firm policy of soliciting the views of all interested parties, the Board early in 1971 invited representatives of industry, the accounting profession, and Government agencies to meet individually with it and to present their recommendations and concerns directly to the Board. These meetings greatly assisted the Board and led to the establishment of highly beneficial working relationships between the Board and these as well as other interested groups.

In addition to having reached consensus on many concepts and methods by which the Board approaches its tasks and having established working relationships with groups representing industry, universities, the accounting profession, and Government agencies, the Board has also devoted considerable time to consideration of and agreement on other organizational matters. Among these have been the appointment of the Executive Secretary, decisions on the general size and composition of the Board Staff, adoption of by-laws to govern Board meetings, approval of technical work plans on research techniques and major projects and sub-projects of work, and establishing Board policy on personnel matters, and responsibilities and conduct for Board and Staff members.

I mentioned earlier that when the creation of a Cost Accounting Standards Board was being considered over two years ago, I favored placing it in the Executive Branch. Regardless of the merits of the

**BEST DOCUMENT AVAILABLE**

position taken at that time, I could not now favor an interruption of the Board's vigorous activity and consequent delay by its transfer to the Executive Branch. Most of what the present Board has spent considerable time to accomplish would have to be begun again. Mutual understandings would have to be created within the newly established Board, new relationships worked out, and schedules and plans redesigned. Projects now under way or about to begin would have to be shut down and await consideration by the new Board. The obvious delays, the loss of forward motion in these days when effective defense procurement is essential--not to mention the waste of time and effort already invested by the present Board, industry, the accounting profession, and Government agencies--is far too high a price to pay for any theoretical advantages which might result from placement of the Board in the Executive Branch.

Even my earlier concerns for the Board's administrative relationships with Executive Branch agencies have not resulted in problems. We find that those relationships are not in the least impeded by the Board's present location; indeed, we might speculate that our success in achieving agreements among executive agencies has been greater than what it might have been had the Board been located elsewhere. I do not know of a single example of how this Board might have operated more effectively, if it had been in the Executive Branch.

I have previously described the first proposed Standards and regulations of the Cost Accounting Standards Board and testified to my conviction that they are significant and important accomplishments in achieving the statutory objective of uniformity and consistency in the

**BEST DOCUMENT AVAILABLE**

cost accounting practices of defense contractors. If S. 1901 were enacted, it is extremely dubious, as a legal matter, that any of these Standards or regulations promulgated by the present Board would remain valid or be in any way binding on the new Board. It additionally is unlikely that S. 1901 could be successfully amended to provide for automatic adoption by the new Board of the Standards and regulations of the present Board, since that bill is predicated on the assumptions that the new Board should be differently chaired, that the members should be differently appointed, and that the Board should no longer be an agent of the Congress, but within the Executive Branch. In such circumstances, it could not be expected that the new Board should be required to adopt the same Standards, rules and regulation promulgated by the old Board.

The second of the two major provisions in S. 1901 would amend Section 719(h)(3) so as to reduce from 60 to 30 days the period of time during which proposed Standards, rules and regulations would lie before the Congress. Further, that bill makes no provision for Congressional disapproval of proposed Standards and regulations by concurrent resolution of both Houses, as the present Section 719(h)(3) does. This reduction of Congressional authority and control may be thought to be a necessary aspect of the establishment of the Board in the Executive Branch which is also embodied in S. 1901.

The Board feels wholly comfortable with the present legal requirement for a 60-day report to the Congress and the provision for disapproval by concurrent resolution. We recognize the importance of what Congress

BEST DOCUMENT AVAILABLE -

has asked the Board to do, and we recognize that our actions will have a significant impact on Government, industry, and ultimately the American taxpayer. In these circumstances, we find nothing inappropriate or untoward in the responsibilities, authorities, and control of the Congress as set out in Section 719. In view of the seriousness with which the Board approaches its tasks and the high importance it attaches to its Cost Accounting Standards, we indeed welcome the rôle of the Congress established by Section 719(h)(3).

In summary, I strongly favor the Board's remaining as the Congress established it by Public Law 91-379, an agent of the Congress, independent of the Executive Branch, with appropriate Congressional authority and control over its issuances, building on its present achievements, and allowed to continue to proceed vigorously with its tasks.

Mr. Chairman, that concludes my prepared statement. My colleagues and I would be very happy to answer any questions which you and the Subcommittee members may have for us.

**BEST DOCUMENT AVAILABLE**