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STATEMENT OF
ELMER B. STAATS, COMPTROLLER GENERAL OF THE UNITED STATES
BEFORE THE
LEGISLATIVE SUBCOMMITTEE, APPROPRIATIONS COMMITTEE
UNITED STATES HOUSE OF REPRESENTATIVES
ON
COST ACCOUNTING STANDARDS BOARD
BUDGET ESTIMATES FOR FISCAL YEAR 1974



MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I am appearing before you today in my capacity as Chairman of the Cost Accounting Standards Board to discuss the budget estimates for Board operations during Fiscal Year 1974.

Let me take a very few minutes to tell you of the Board's work in the past twelve months. The Board has vigorously urged representatives of all those who are concerned with its work, including Government agencies, the accounting profession, defense contractors, industry associations, and the academic community to assist in the extensive research which is basic to the development of Cost Accounting Standards and the Board's rules and regulations. As a new regulatory agency, the Board early took action to establish active, open consultations with representatives of all of these groups. Participation on either an individual basis or an organizational basis was encouraged, and the response has been gratifying, since the participation has been of exceptionally high value to the Board.

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Recently, the Financial Executives Institute has established a number of task forces to work closely with us as we conduct research in various fields. The American Institute of Certified Public Accountants also established committees to work with us. The Cost Accounting Standards Board has arranged to meet in Washington with the newly appointed members of the Financial Accounting Standards Board, which was created to issue Standards dealing with financial accounting matters.

In my last appearance before you, I noted that the Board's first two Standards, its regulation requiring disclosure of cost accounting practices, and its contract clause implementing the Board's rules, regulations, and Standards, had been published for public comment. All of those materials were published in their final version on February 29, 1972; and after submission to the Congress for the requisite sixty days, they became effective on July 1, 1972.

Since then, the Board has published for public comment two additional Standards, one of which has been republished in the final version and submitted to the Congress on January 3, 1973. This Standard deals with the allocation of corporate home office expenses to segments of the corporation, such as subsidiaries, divisions, and plants. The other proposed Standard, dealing with capitalization of tangible assets, was published for comment on October 5, 1972, and sixty days were provided within which to receive comments from the interested public. This Cost Accounting Standard will be republished this month in the final version and will be submitted at that time to the Congress.

In addition to these proposed Standards, the Board is preparing to publish for initial comment a number of other proposed Standards, which I will discuss later in my statement.

Section 719(h)(2) of the Defense Production Act of 1950, as amended, authorizes the Board as soon as practicable, to prescribe rules and regulations exempting from the requirements of Section 719 such classes or categories of defense contractors or subcontractors as it determines, on the basis of the contracts involved or otherwise, are appropriate and consistent with the purposes sought to be achieved by Section 719. The Board soon after its organization requested interested groups to offer suggestions for use by the Board in considering such exemptions, and it also had staff studies made of potential bases for exemptions. This effort has resulted in the Board's issuing a number of permanent exemptions from its regulations, including exemptions for contracts made pursuant to small-business and labor-surplus area set-asides, contracts made pursuant to the authority of Section 8(a) of the Small Business Act, and prime contracts with the Canadian Commercial Corporation. In addition, the Board has issued a regulation which will give it authority to waive the requirements of Section 719 in exceptional cases for individual contracts, if the Board determines that such waiver is appropriate and necessary.

The Board has worked cooperatively with Federal agencies in the development of those agencies' regulations implementing the Cost Accounting Standards and pertinent Board rules and regulations. The three principal

relevant agencies--the Department of Defense, the National Aeronautics and Space Administration, and the Atomic Energy Commission--have all issued implementing regulations. Additionally, the General Services Administration in its publication of the Federal Procurement Regulations has further provided that the Board's Cost Accounting Standards, rules and regulations, as a matter of policy, shall be extended to the negotiated contracts of the civilian executive agencies.

The implementing regulations issued by all of these agencies were developed through joint action and consultation by the several agencies with the Board. The result of this coordination is that the regulations of all agencies are parallel in structure and content. The Board believes that its own regulations, when viewed with the regulations of these Federal agencies, are compatible and are structured in such a fashion that they can be readily used by contractors.

One notable feature in the regulations of the relevant Federal agencies is their provision for a single contracting officer to be designated for each contractor, to negotiate with that contract. The objective is to achieve consistent practices relating to the Cost Accounting Standards issued by the Board. The Board had strongly urged the procuring agencies to adopt such a procedure so that there could be uniform application of the Board's requirements. Techniques have now been devised and procedures established by which Government contractors may be reasonably certain that only one contracting officer will deal with the contractor to resolve issues

that may arise concerning the application of Cost Accounting Standards, without regard to which Government agencies may be involved.

In May and June, 1972, the Board, recognizing that early orientation in its first regulations and Cost Accounting Standards would materially assist persons in both industry and Government, formulated a program to cover Board issuances and the related Department of Defense implementation of them. Teams comprised of representatives from the Cost Accounting Standards Board and the Department of Defense conducted 55 one-day sessions in 34 cities across the country; 12 were offered to industry representatives and 43 to Government employees. During this intensive effort, orientation was provided to over 4,000 Government employees and over 2,000 industry representatives. The demand for orientation of representatives of Government and industry so far exceeded the facilities available that four additional sessions were offered in September, 1972. These additional sessions reached another 1,500 persons. Since the Board believes that part of its responsibility is to assist the public in a clear understanding of the requirements which the Board is establishing for Federal agencies, the Board has encouraged its staff to participate as fully as their time allows as speakers or panelists in conferences or meetings dealing with the work of the Board.

To improve further understanding of the Board's fundamental objectives and concepts, the Board has formulated and proposes to publish a Statement of Operating Policies, Procedures and Objectives. The Board intends that this Statement will improve general understanding of the Board's fundamental

procedures and policies. By publishing it at this time, the Board will provide the basis for a productive dialogue with those concerned with the Board's work, hoping that this Statement will enable those concerned persons to focus on the complex and difficult substantive issues which the Board faces in promulgating future Cost Accounting Standards.

Turning to those Standards, in addition to those which the Board has already promulgated, the Board has been researching a number of other areas for possible development of Cost Accounting Standards. Research is well under way in the following areas:

- Depreciation of tangible capital assets
- Accounting for unallowable costs
- Selection of cost accounting period
- Allocation of overhead expenses to contracts
- Classification of costs as direct or indirect
- Labor and labor-related costs
- Material costs
- Standard costs
- Contract termination

Work has also been initiated on several other subjects. I expect that the Board will authorize exposure for public comment of one or more proposed Standards in many of these areas within Fiscal Year 1974.

Our budget estimate for Fiscal Year 1974 is \$1,500,000 to carry out the provisions of Section 719 of the Defense Production Act of 1950, as amended. This amount is the same amount we estimate we will spend in Fiscal Year 1973 and is \$150,000 less than the amount appropriated for that year. The principal reason for this reduction in our budget request is that, instead of contracting for certain outside services, the Board's

own professional staff is developing certain computer applications which will permit analysis of the effects of a contemplated Cost Accounting Standard on existing cost accounting practices of defense contractors. The Board is pleased to have been able to effect this savings by using the capabilities of its own staff.

All 21 of the Board's professional staff members who were with the Board at this time last year are still with us, and we have added two more persons to the professional staff, for a total of 23, including the Executive Secretary.

Our budget estimate for Fiscal Year 1974 will be allocated essentially as follows:

\$1,020,000 for salaries and related benefits of the members of the Board, permanent professional staff, part-time consulting assistants, and supportive clerical staff.

\$170,000 for travel of Board members and staff.

\$250,000 for contractual services, computer services, and reimbursement to other Government agencies for administrative and personnel services.

\$60,000 for rent, communications, utilities, printing and reproduction, supplies, materials, and equipment.

The amount for salaries does not include any increase over Fiscal Year 1973 in the number of professional or clerical positions. The cost of salary increases in line with those established by Executive Order 11691, which the President issued under his authority set out in Public Law 91-656, will be absorbed within the reduced appropriation request for Fiscal Year 1974.

Our travel estimate reflects our belief that there will be a need for extensive field trips to perform research and development of possible Cost Accounting Standards. We must travel to obtain on-site information at contractors' offices regarding cost accounting practices in our effort to assure that Standards give due consideration to the requirements of contractors as well as of the Government.

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

The contract services estimate also reflects anticipated costs for development of computer applications that will facilitate analysis of the data received in compliance with Disclosure Statement requirements. We believe that such analyses will assist in identification of areas in which

Standards are particularly desirable and will also expedite the research needed to establish a firm foundation for individual Standards. These analyses may also be of considerable interest to the general public and especially to the accounting profession.

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

This covers, in general, what we have accomplished in the past twelve months and the areas in which we propose to continue our research for development of possible Cost Accounting Standards during the upcoming Fiscal Year. I will be glad to answer any of your questions.