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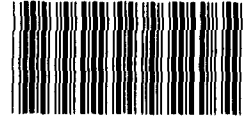


United States  
General Accounting Office  
Washington, D.C. 20548

Accounting and Financial  
Management Division

B-250756

December 17, 1992



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Mr. Rudolph J. Schuhbauer  
Project Director  
Cost Accounting Standards Board  
Office of Federal Procurement Policy  
Office of Management and Budget

Attention: CASB Docket No. 91-07

Dear Mr. Schuhbauer:

We have reviewed the Cost Accounting Standards Board's (CASB) advance notice of proposed rulemaking which would remove certain exemptions for educational institutions that receive a federal negotiated contract. The amendments would require educational institutions to periodically file statements disclosing their cost accounting practices and to follow 4 of the 19 existing cost accounting standards. Currently, they are required to follow the provisions set forth in Office of Management and Budget (OMB) Circular A-21, Cost Principles for Educational Institutions.

As you know, we recently reported<sup>1</sup> that universities have charged the government for millions of dollars of unallowable, questionable, or improperly allocated indirect costs involving federally funded research contracts and grants because of inadequate federal guidance and oversight and weak internal controls. Most of the overcharges resulted from inappropriate cost allocations to federally sponsored contracts and research. To protect the government's interest, we suggested in our report that OMB, as part of its oversight activities, consider fundamental changes to the existing reimbursement system for universities under contracts and grants. One of the suggestions was to consider application of cost accounting standards to universities.

<sup>1</sup>Federal Research: System for Reimbursing Universities' Indirect Cost Should Be Reevaluated (GAO/RCED-92-203, August 26, 1992).

GAO/AFMD-93-24R CASB - Educational Institutions

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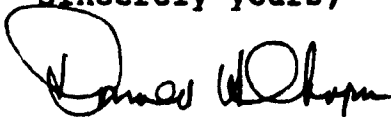
We support the portion of the proposal requiring educational institutions to file disclosure statements about their cost accounting systems. We agree with the CASB that the benefits of filing the statements include (1) significant reductions in costs of responding to auditors' recurring inquiries on an institution's cost accounting practices, (2) reduction in testing considered necessary by auditors, and (3) reduction in disagreements between auditors and the institution regarding the institution's cost accounting practices.

We believe the CASB is moving in the right direction by requiring educational institutions to follow 4 of the existing 19 cost accounting standards applicable to federal government contractors at this time. Since educational institutions must follow the requirements of Circular A-21 in accounting for grants, the imposition of the additional 15 cost accounting standards that would be required to be followed under federal contracts may create unnecessary accounting burdens at some universities.

However, it is not certain that all of the 15 standards will create conflicting requirements to those in Circular A-21 for educational institutions. We believe, therefore, that the CASB should study each of the remaining 15 standards to determine their applicability to all educational institutions with the objective of minimizing the potential for increased administrative burdens. Therefore, we suggest that the CASB indicate in the proposed rule its intention to review each of the remaining standards to determine their applicability to educational institutions.

We hope our views are helpful. If you have any questions, please contact John W. Hill, Jr., Director, Audit Support and Analysis, at (202) 275-8549.

Sincerely yours,



Donald H. Chapin  
Assistant Comptroller General