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Statement of
Elmer B. Staats, Chairman, Cost Accounting Standards Board
Before the
Subcommittee on Reports, Accounting & Management
of the
Committee on Governmental Affairs
United States Senate
On
the Subcommittee Staff Study on
The Accounting Establishment

May 26, 1977

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 various aspects of the Subcommittee Staff Study on the Accounting Establishment as it relates to the CASB.

Before discussing the staff study, I would like first to review briefly for you our activities to date.

We have promulgated 14 cost accounting standards, 2 interpretations of standards, and implementing regulations. All of these promulgations are required to be included in major negotiated defense contracts.

In addition, we have developed a cost accounting conceptual framework. The essence of that framework was published in March 1973, in our Statement of Operating Policies, Procedures, and Objectives. The framework has recently been updated and expanded and a restatement has just been published. We believe that establishing concepts for cost accounting, as early in our history as 1973, was very important to our

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success. The framework establishes as one of our principal purposes the setting of standards to measure the cost of supplies and services acquired by the Government in a way that is fair to both buyer and seller. Beyond providing for a reasonable profit, the Government wants to pay the cost of the resources used to fulfill a Government contract--no more and no less. Therefore, our principal guideline for measuring and allocating cost is to match costs with resources used. The details of our objectives, policies, and concepts are outlined in the published restatement. I would like that document made a part of the hearing record.

Our major promulgations are listed in appendix A to this statement. We expect 13 additional subjects, now in various stages of research and development, to culminate in cost accounting standards or regulations; these are briefly described in appendix B.

At this point it may be useful to summarize the process by which we identify subjects for research leading to potential new standards.

We began operations in 1971 with the benefit of major research work recently completed as part of GAO's feasibility study which supported the desirability of a Cost Accounting Standards Board. That research included impressive work by groups outside GAO. We used the

feasibility study report as one of the major guides in selecting the first subjects for standards; in effect, we started working on the major problems which had already been pinpointed.

Our staff provides us with time-phased technical work plans, including proposals for additional topics. We periodically review these work plans. We also keep informed about the entire process of staff research and the development of potential standards.

We have from time to time sought and obtained advice about the importance of various subjects. We have asked Government agencies, contractors, industry associations, academicians, professional accounting associations and others for their suggestions for research topics. We have especially asked for instances where contracting parties found problems or difficulties. Decisions on whether and when to research a subject are based primarily on three factors:

- (1) The subject's relationship to the objectives of Public Law 91-379,
- (2) The importance of contract cost accounting problems in the area, and
- (3) The subject's relationship to other work of the Board.

The Board also has designed a cost accounting practices disclosure statement which must be submitted by companies

who receive negotiated defense contracts and subcontracts exceeding \$10 million in 1 year. Contractors are required to follow their stated practices in pricing contract proposals and in accumulating and reporting contract performance cost data.

As of December 31, 1976, we have received copies of 1,447 disclosure statements from 203 companies. Information from these statements is fed into a computer which can provide aggregate data on any question or combination of questions covered by the disclosure statement. This data bank helps us in our research. Much of this information is published in aggregate form in our progress report to the Congress and is available to the public.

The task of issuing sound, fair cost accounting standards is exceedingly complex. To help us achieve our objectives, we continually seek the cooperation of all those who have an interest in our work. We have established active, open consultations with representatives of all groups, including Government agencies, professional and industry associations, the academic community, and representatives of individual companies. There are now more than 1,300 organizations and individuals from all of these groups to whom our proposals are regularly mailed during our research. These organizations and individuals have provided constructive comments.

Recognizing that training on Board regulations and newly issued standards would serve both industry and Government, we are participating in established training programs of the Government and of professional accounting and legal associations. In addition, Board members and staff speak to interested groups and participate in panels, conferences, and the like, sponsored by accounting or legal professional associations or by industry associations. These occasions have afforded us opportunities to inform interested parties about the Board and to answer questions and discuss concerns about the Board's standards and regulations. In conjunction with the Department of Defense, we have undertaken special efforts to explain our standards and regulations to European contractors involved in negotiated defense contracts and subcontracts.

We have also cooperated with Federal agencies in developing regulations to implement Board promulgations. We sponsored establishment of an Interagency Advisory Committee, to which procurement and finance representatives of DOD, ERDA, NASA, GSA, HEW, and DOT are appointed. This Committee meets from time to time to discuss problems of common interest concerning the Board's regulations and cost accounting standards and to discuss ways that all executive branch agencies can act uniformly on such matters. The Administrator of the Office of Federal Procurement Policy, Office of Management and Budget, is Chairman of this Committee.

We receive annual reports from Federal agencies who use our standards. The agencies comment on their experience in using standards and Board regulations. They have reported several improvements in contract negotiation and administration because of Board promulgations:

1. More meaningful cost data is being submitted in contractors' proposals.
2. Questions and time-consuming controversies on cost accounting practices have been reduced in the negotiating phase, thereby leaving the negotiating parties better able to concentrate on anticipated overall cost.
3. Many long-term accounting and estimating problems have been resolved by narrowing the range of accounting options and issues among auditors, contractors, and procurement personnel.
4. Contractors have been encouraged to discuss proposals to change their cost accounting practices with Government personnel, thereby reducing the number of such changes.

At our request, the Department of Defense has reviewed 218 of the largest defense contractors (whose contracts represent 75 percent of the Defense Contract Audit Agency's annual workload in dollars) to estimate the impact of cost accounting standards on Government contracts. We requested

the DOD review because a recent report released by the Aerospace Industries Association of America, Inc., stated that industry surveys they had participated in "show clearly that extensive efforts in furtherance of [P.L. 91-379] have produced little, if any, benefits." The Association concluded that "the expenditures of effort required to develop, promulgate and administer CAS far exceed any quantifiable benefits."

The DOD review concluded that for the 218 defense contractors it is estimated that there has been a nonrecurring net decrease of contract costs of approximately \$121 million since 1972 that can be related to cost accounting standards. Also, there is estimated to be an additional annual recurring decrease in contract costs of \$106 million.

We do not write standards to affect the flow of cost to or from Government contracts. We are pleased to note, however, that required compliance with standards which were developed to increase uniformity and consistency has had the additional effect of helping to achieve decreases in contract costs. These monetary benefits are in addition to the reported improvements in contract negotiation and administration enumerated previously.

Comparisons between FASB and CASB

The staff study mentions CASB at several points, but chapter X of the study focuses on its operations and my

comments will relate to that chapter. Several comparisons are made between CASB and the Financial Accounting Standards Board. The following statement is made in the study:

"The CASB establishes cost accounting standards in a manner which is essentially similar to the FASB's for establishing financial accounting standards used in reporting the results of business activities to the public. Both have technical staffs and procedures to ensure that proposed standards are well-researched and subjected to public comment. Members of the CASB and the FASB exercise the same type of analysis in reaching decisions on accounting standards in their respective areas."

As Chairman of CASB and a member of the Financial Accounting Standards Advisory Committee, I believe I am in a fairly good position to compare the similarities and differences in the operations of the two Boards.

--FASB is a full-time Board that has been in operation for more than 4 years; CASB is a part-time Board that has been operational for a little over 6 years.

--The scope of CASB's mission in developing cost accounting standards is more specialized, in that the standards must be used by companies with negotiated contracts with the Federal Government. FASB develops accounting standards to be applied in presenting

financial statements for all publicly and privately owned companies. In essence, financial accounting standards must be followed by all of the companies who must comply with cost accounting standards, plus the rest of American business that has to prepare financial statements.

--CASB relies heavily on the work of its staff. Because of the reliance placed upon the staff, its output includes numerous issue papers and preliminary draft standards that, after review by the Board, are distributed for comment by the staff as part of their research effort. FASB has no comparable staff activities.

--In empirical research, the CASB staff takes a different approach from the FASB staff's in that our staff can find out the how and the why of companies' cost accounting practices because it has access to company records. They can also request assistance on a reimbursable basis from the Defense Contract Audit Agency and other Government agencies which have such access.

--Fourteen Standards have been promulgated by each of the two Boards. CASB, however, as required by law, has also developed and promulgated two separate forms of disclosure statement -- one for companies and one for colleges and universities. In addition,

CASB has developed and issued regulations, including a contract clause, dealing with the manner in which standard and disclosure statement requirements are to be applied.

The staff study states that since CASB is successfully setting accounting standards with half of the resources used by FASB, Federal agencies have demonstrated the ability to perform that task more efficiently than private organizations. The study recommends either the Government should directly establish financial accounting standards for publicly owned corporations--through the Securities and Exchange Commission or through a Federal board similar in operation to CASB--or accounting standards should be established by the General Accounting Office.

I do not agree that the job of setting financial accounting standards should be legislated away from the private sector. FASB has been in operation only a short time, part of which was devoted to recruiting board members and staff and setting up operations. Under the circumstances, I believe FASB's progress has been good. They have a number of problems which have been reported by the structure committee of the Financial Accounting Foundation. I believe that prompt implementation of the committee's recommendations will go a long way toward overcoming some of the problems it reported; these also are discussed in the staff study.

In summary, although CASB has been effectively performing the scope of its mission, this mission is quite

different from that of FASB. Any comparison between the operations of the two Boards must be looked at in a proper perspective. The current approach to setting accounting standards in the private sector is appropriate, particularly if it is coupled with close SEC oversight and review of FASB operations and output.

Staff Study Comments on CASB

We are pleased that the staff study acknowledges that CASB is performing its task successfully. We are concerned, however, with some of the stated or implied criticisms of CASB.

1. The composition of the Board is criticized as being dominated by representatives of industry and the accounting profession. The Board's enabling legislation, P.L. 91-379, very clearly prescribes the criteria to be followed by the Comptroller General in appointing the other four members of the Board.

Two members are required to be appointed from the accounting profession, one of whom must be particularly knowledgeable about the cost accounting problems of small business. The two appointed from the accounting profession have continued as members of the Board since its inception in 1971. Mr. Herman W. Bevis retired as the senior partner of Price Waterhouse and Co. in 1969. He was a member of the

President's Task Force on Improving the Prospects of Small Business. Mr. Robert K. Mautz was a professor of accountancy at the University of Illinois when he accepted his appointment, and he has been a partner in the firm of Ernst & Ernst since 1972. Both Mr. Mautz and Mr. Bevis assisted me in studying the feasibility of developing cost accounting standards and both joined with me in recommending legislation to provide for their development.

One member is required by law to be appointed as representative of industry. That member presently is Mr. John M. Walker, Senior Vice President and Corporate Treasurer of Texas Instruments, Inc.

In my opinion, these Board Members have acted fully in the spirit of the law. They have in no sense "represented" industry, the accounting profession, or the Government. At all times, they have acted in their capacity as Board members in an effort to carry out the statute.

As might be expected, they sometimes disagree on key issues and they have on occasion written reservations or dissented from Board decisions when a standard was promulgated. They have been performing a valuable public service and they have contributed greatly to the Board's success.

2. The staff study recommends that appointment of a member from the Federal Government should be rotated among the many Federal departments and agencies affected by standards and should not always represent the Department of Defense.

No reasoning or facts are offered in support of this recommendation. DOD contracts represent about 75 percent of the total national defense contracts that are required to include the cost accounting standards contract clause. DOD has the leading and dominant role in the implementation and administration of cost accounting standards. In many instances, DOD negotiates and audits contracts on behalf of other Government agencies. The Cost Accounting Standards Board is aided by receiving DOD's input before deciding whether proposed standards can be successfully implemented and administered. For these strong reasons, I have to date selected a DOD representative as the other Government member.

3. CASB is criticized for not having its meetings open to the public and for not being subject to the "sunshine" legislation (P.L. 94-409).

I am convinced that subjecting CASB to the "sunshine" legislation would seriously jeopardize the Board's ability to maintain the privacy and confidentiality of the commercial and financial

information which it obtains from Government contractors.

Much of such information is volunteered by Government contractors, during the Board's extensive research into possible cost accounting standards, under pledges of confidentiality. The Board relies heavily on that information in its own deliberations.

We could endeavor to close Board meetings at the time when we knew that this confidential information was to be discussed, but this information is closely linked to other research data which our staff develops. All of the staff research, including both private information and information which may be disclosed to the public, must be discussed in detail as the Board considers the formulation of a cost accounting standard. We do not know how we could isolate the private information to avoid any discussion of it in public.

In these circumstances, I think Board meetings open to the public would involve a great risk of inadvertent disclosure of private information.

We enclose as appendix C a paper which suggests other arguments against including the Cost Accounting Standards Board in the "sunshine"

legislation. We strongly urge that the Board not be included.

4. The staff study criticizes the membership of CASB personnel in AICPA and other professional accounting associations which are among the sponsors of FASB. The staff study recommends that Federal employees not serve on committees of these associations, because such organizations directly or indirectly influence accounting policies and regulations of the Federal Government.

The members and professional staff of CASB all were members of these accounting associations for years before becoming affiliated with the Board. Generally, accountants join such associations to keep current with new developments in the profession. Membership in the associations is entirely voluntary and the dues assessed members by the associations are paid for by the individual, not by the Federal Government.

Most Federal Government employees who are chosen to serve on committees of these professional accounting organizations must devote much of their own time to those committees. They look upon such committee service as an opportunity to

--obtain recognition of their professional competence.

--exchange ideas with fellow professionals and further their education.

--influence the direction and policies of these organizations so that the interests of Federal agencies and the professional needs of association members might be better served.

5. The staff study states that in two cases the Board has shown a disturbing tendency to benefit private contractors by issuing standards that depart from accepted concepts of "costs." The first case cited was a proposal dealing with the effects of inflation. The second case cited was Cost Accounting Standard No. 414: "Cost of Money as an Element of the Cost of Facilities Capital."

The proposal to deal with the effects of inflation was developed, not to benefit contractors, but to provide a rational basis for measuring the impact of inflation. As early as March 1973, the Board's Statement of Operating Policies, Procedures, and Objectives mentioned that "in periods of continuing inflation or deflation the reliance on historical cost * * * can be misleading." The Board reported then that it was "interested in all aspects of measurement of cost of contractual performance including concepts of measurement on the basis of current value or price-level accounting." The impact

of inflation was greater in 1973, 1974, and 1975 than it had been before the Board's Statement was prepared. Even so, we did not take hasty action. Inflation has an impact on all business, not just on those who sell to the Government. In October 1975, the Board published a proposed cost accounting standard on this subject.

The staff study mentions an estimate of the increases in contract costs which could have been attributed to the proposed standard. The Board, of course, was aware that the proposal would have raised measured contract costs. The Board's withdrawal of the proposal in March, 1976, was not based primarily on any such estimate. Rather, it was based on the determination that the major impact of inflation could be dealt with much more effectively in connection with the other proposed standard mentioned in the staff study.

This Standard, No. 414: "Cost of Money as an Element of the Cost of Facilities Capital," is an excellent example of the Board's willingness to recognize that providing funds to acquire facilities to carry out a contract is a real cost and should be uniformly measured and allocated, not paid for in profit allowances or buried in some other cost allocation such as depreciation.

In developing Standard No. 414 we worked closely with the Department of Defense. It was, as you may know, engaged during 1975 and 1976 in a major study called "Profit '76", resulting in a new profit policy which recognizes the cost of money determined in accordance with the new standard. Prices will thus be negotiated with more uniform understanding by the contracting parties of how cost of money relates to facilities capital and to profit policies.

Standard No. 414 has enabled the procurement agencies to discriminate more effectively between capital-intensive contractors, whose cost of money is significant, and others who may have been receiving a disproportionate share of the potential profits under old pricing policies. Also, to the extent that the standard results in investment in cost-reducing equipment, the Government will be able to procure goods and services at lower prices.

At the time that Standard No. 414 was issued by the Board, Senator Proxmire recognized these benefits and commended the Board for its action. He stated:

"The Board has come up with a proposal that will help to stimulate defense contractor investment in badly needed new cost-saving equipment and facilities. I feel certain that the Congress will accept this proposal.

"Up to now, federal agencies have not permitted reimbursement of a company's cost for financing facilities for performance of government contracts. This encourages defense contractors to continue using old and outmoded plant and equipment, since the government does reimburse them for their entire labor costs. This adds to defense costs.

"The new standard changes facilities investment expenses from an open-ended profit factor to a documentable cost factor. It will permit procurement agencies to discriminate more effectively between contracts in which a contractor has made a significant investment of his own funds and contracts where this is not true."

6. The staff study also cites as disturbing the Cost Accounting Standards Board's recent proposal to increase exemptions from cost accounting standards. The study states that adoption of the proposal would impair the application of cost accounting standards to major contractors--the reason for which the Congress created the Cost Accounting Standards Board.

Section 719(h)(2) of the Defense Production Acts of 1950 as amended authorizes the Cost Accounting Board

"* * * to prescribe rules and regulations exempting from the requirements of this section such classes or categories of defense contractors or subcontractors under contracts negotiated in connection with defense procurements as it determines, on the basis of size of the contracts involved or otherwise are appropriate and consistent with the purpose sought to be achieved by this section."

Since its creation, the Board has viewed its exemption authority as a responsibility which must be exercised with great care to insure that the purpose of the law is not frustrated. With this in mind, the Board has made a series of studies of numerous classes and categories of defense contractors and subcontractors, to determine which could properly be exempted. No class or category has been exempted by the Board unless the information available clearly established that the exemption was appropriate and consistent with the act's purpose.

The purpose of the act is clearly stated in its requirement that the Board promulgate standards designed to increase uniformity and consistency. However, the act states that the Board shall take into account the probable costs of implementing a

standard with the probable benefits. This requirement was amplified in an amendment to the act in 1975 which specifically included in the probable benefits improvements in pricing, administering, and settling contracts. Consequently, if the Board finds categories of contractors--small business, for example--where such improvements would be consistently small in relation to the probable costs of implementation, it considers that exempting such a class of contractor would be appropriate and consistent with the purposes of the act.

The Board has been studying for some time the subject of exemptions for small business concerns and predominantly commercial companies. We have gathered substantial data as who would and who would not be exempt under the proposed modifications to the Board's regulations, and we have received numerous comments in response to our proposal. It is difficult to achieve the proper balance between exempting concerns whose alleged problems in implementing standards outweigh the benefits and assuring that those companies whose cumulative activities affect defense procurement are covered. This matter is still under consideration. We are grateful for the views of your staff on this matter; they will be taken fully into account in our action.

7. As a final point, the staff study questions CASB's need for presenting public service awards to organizations such as AICPA, which it so honored in 1976.

The award was made in recognition of the assistance received from the CASB Committee of AICPA in providing the Board and its staff with information and advice during the many phases of the Board's research into potential cost accounting standards. The AICPA Committee has participated extensively in the Board's research and has met frequently with its staff to discuss proposals under consideration. The Board has seen no indication that Committee members have attempted to influence the Board to serve the interests of the accounting firms represented on the Committee or of clients of those accounting firms. In fact, the contrary has been true on some occasions. For example, in commenting on Standard No. 409: "Depreciation of Tangible Capital Assets," the AICPA Committee agreed in general with the accounting principles provided in that standard. Since the fundamental requirements of that standard were generally opposed by most of industry, one can conclude that the AICPA's views represented the objective and technical judgment of professional accountants. The Board believes that the comments it receives on its proposals from all

professional accounting associations are essential inputs to its research. Those inputs generally deal with the cost accounting concepts involved and are not viewed as an attempt to subjectively or improperly influence standards set by CASB.

In conclusion, I welcome these hearings, which have brought to public attention issues which need to be aired. While I disagree with some of the criticisms and recommendations made in the staff study, the subject is a most important one and debate about the issues raised can be constructive.

This completes my prepared statement. I will be glad to answer any questions.

APPENDIX A

MAJOR PROMULGATIONS BY THE COST ACCOUNTING STANDARDS BOARD

AS OF JANUARY 31, 1977

| Description | Effective Date |
|---|-----------------|
| 1. Contract Clause | July 1, 1972 |
| 2. Disclosure Statement | July 1, 1972 |
| 3. Standard 401 - Consistency in Estimating, Accumulating and Reporting Costs | July 1, 1972 |
| 4. Interpretation No. 1 to Standard 401 | July 1, 1972 |
| 5. Standard 402 - Consistency in Allocating Costs Incurred for the Same Purpose | July 1, 1972 |
| 6. Interpretation No. 1 to Standard 402 | July 1, 1972 |
| 7. Standard 403 - Allocation of Home Office Expenses to Segments | July 1, 1973 |
| 8. Standard 404 - Capitalization of Tangible Assets | July 1, 1973 |
| 9. Standard 405 - Accounting for Unallowable Costs | April 1, 1974 |
| 10. Standard 406 - Cost Accounting Period | July 1, 1974 |
| 11. Standard 407 - Use of Standard Costs for Direct Material and Direct Labor | October 1, 1974 |
| 12. Standard 408 - Accounting for Costs of Compensated Personal Absence | July 1, 1975 |
| 13. Standard 409 - Depreciation of Tangible Capital Assets | July 1, 1975 |
| 14. Standard 410 - Allocation of Business Unit General and Administrative Expenses to Final Cost Objectives | October 1, 1976 |

APPENDIX A

| Description | Effective Date |
|--|-----------------|
| 15. Standard 411 - Accounting for Acquisition Costs of Material | January 1, 1976 |
| 16. Standard 412 - Composition and Measurement of Pension Cost | January 1, 1976 |
| 17. Standard 414 - Cost of Money as an Element of the Cost of Facilities Capital | October 1, 1976 |
| 18. Standard 415 - Accounting for the Cost of Deferred Compensation | July 10, 1977 |

CURRENT STUDIES

Specific areas are selected for research and possible development of cost accounting standards primarily on the basis of (1) their relationship to the objectives of Public Law 91-379, (2) the importance of observed costing problems, and (3) their relationship to other work of the Board. The Board has sought advice about the importance of various problems involved in contract cost accounting. The research projects may result in one or more promulgations on each subject. Preliminary proposals and research papers have been widely circulated for some subjects.

1. Cost Accounting Practice--This project is expected to result in amending the Board's regulations to define the terms "cost accounting practice" and "materiality" as used in the Board's promulgations. The project also will provide guidance to determining when a change in a cost accounting practice occurs.

2. Adjustment and Allocation of Pension Cost--This project deals with the criteria used for measuring and assigning to cost accounting periods the value of actuarial gains and losses. Criteria will be developed for both recurring and abnormal gains and losses. The standard will also provide criteria for allocating pension cost from a home office to segments.

3. Allocation of Manufacturing, Engineering, and Comparable Overhead--This project covers the allocation of pools of manufacturing, engineering, and comparable overhead costs.

4. Distinguishing Between Direct and Indirect Costs--This study covers the accounting concepts and principles and the bases governing consistent classification of costs as direct or indirect.

5. Accounting for Costs of Service Centers--Research on this subject involves developing concepts for use in accounting for the cost of service centers.

6. Allocation of Material-related Expenses--This subject deals with the criteria for creating expense pools and selecting allocation bases for material-related expenses. The scope of research includes the functions traditionally associated with the flow of materials, such as material planning and control, purchasing, receiving and storage, internal and external transportation, distribution, etc.

7. Accounting for Insurance Costs--This research deals with criteria for measuring costs of insurance, including self-insurance, and the appropriate treatment of retrospective premium adjustments.

8. Independent Research and Development and Bid and Proposal Costs--This subject covers accounting for costs of

performing independent research and development and costs of preparing bids and certain proposals.

9. Indirect Costs of Colleges and Universities--This study concerns the nature and composition of indirect cost rates of colleges and universities which have Government contracts and grants.

10. Cost of Money as an Element of the Cost of Operating Capital--This project was part of the broader topic dealing with the cost of capital. That topic was split into two distinct subjects before the cost accounting standard on Cost of Money as an Element of the Cost of Facilities Capital was issued. The coverage of that standard is limited to the cost of money as related to facilities capital. Research is continuing on the cost of money as related to operating capital.

11. Joint Product Costing--This study involves special cost accounting problems related to manufacturing processes in which multiple products are produced in a joint operation. Such processes are usually used in, although not limited to, the chemical and petroleum refining industries.

12. Accounting for Contract Terminations and Excess Capacity--This study concerns the inquiry into cost accounting principles and practices applicable to contracts which

are terminated for the Government's convenience and the costing of excess and idle plant capacity.

13. Accounting for Intracompany Transfers--This project is in the preliminary research stage. It covers inquiry into the accounting problems involved in the pricing of intracompany sales or transfers of goods and services.

ARGUMENTS AGAINST MAKING THE COST ACCOUNTING
STANDARDS BOARD SUBJECT TO PUBLIC LAW 94-409

The Cost Accounting Standards Board is among those agencies not subject to Public Law 94-409. Reasons why it should not be subject to the requirements of that law are as follows:

1. 5 U.S.C. 552b(c) states an exception to the requirement of 5 U.S.C. 552b(b) that every portion of every meeting of an agency covered by the bill shall be open to public observation. Paragraph 4 of subsection (c) provides that the requirement for public meetings does not apply if the meetings are likely to disclose trade secrets and commercial or financial information considered privileged or confidential. At almost every Board meeting, staff papers are made available to the Board which describe the accounting practices of many contractors doing business with the Government. The accounting practices described are discussed in detail during the Board meeting. Most contractors consider such accounting practices to be privileged and confidential financial information. The information on those accounting practices almost invariably is only made available during research performed by the Board's staff with the understanding that it will not be made public. Having Board meetings that are open to the public would preclude the Board's discussing such information and would render those meetings

almost wholly useless for issuing cost accounting standards that accommodate industry's best accounting practices.

2. None of the five Board members is employed full time on Board work. The Board meets typically for one or two days each month. To prepare for Board meetings, members perform much work in their offices, reading and drafting materials which will be discussed, meeting with staff members to discuss those materials, and telephoning other Board members and staff.

The business transacted in the Board meetings themselves is based on all of the work done in advance of the meetings. The meetings provide the only monthly opportunity for members to meet to discuss proposed cost accounting standards and related issues. Having those meetings open to the public would severely inhibit the discussion of accounting practices that are currently followed by contractors and of the ramifications of requiring changes in certain of those practices. Because of the Board's part-time nature, having its meetings open to the public would impede its progress in issuing cost accounting standards.

3. The Board has, at all times, attempted to operate in an open manner. It has an open-door policy for any organization or individual who wishes to appear before it and goes through as thorough a consultation and exposure process as any organization in the Federal Government. Proposals for

standards or rules and regulations are published in the Federal Register to give the public an opportunity to comment. The Board has received up to 150 comments from interested members of the public on a proposal. All of these comments are available at the Board's office for inspection by any interested person. Additionally, in researching each proposed cost accounting standard, the Board has developed extensive techniques for consulting with the public and interested groups in Government, industry, public accounting, and academia. These techniques assure consideration of the views of all those who will be affected by cost accounting standards and provide essential openness in the Board's entire research and deliberative process.

4. The Board's authorizing legislation, P.L. 91-379, requires the Board to submit to the Congress any cost accounting standard, rule, or regulation which it promulgates. The standard, rule, or regulation does not take effect if the two Houses pass a concurrent resolution, within 60 calendar days of continuous session of the Congress, stating in substance that the Congress does not favor the proposed standard, rule, or regulation. This provides an opportunity for the fullest possible public participation and scrutiny of the Board's activity through the procedures of the two Houses. Thus, the Congress is afforded an opportunity to review all proposed standards, rules, and regulations before they take effect.