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An Evaluation Of Financial Management Controls In Erda

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AN EVALUATION OF FINANCIAL MANAGEMENT CONTROLS IN ERDA

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AN EVALUATION OF FINANCIAL MANAGEMENT
CONTROLS IN ERDA

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THESIS

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ABSTRACT OF THESIS

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AN EVALUATION OF FINANCIAL MANAGEMENT
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The Energy Research and Development Administration (ERDA) integrated contractors are required to comply with all the rules, regulations, and cost accounting standards promulgated by the Cost Accounting Standards Board. Because of the unique contracting relationship that exists between these contractors and the government, there was a question whether this compliance results in any monetary benefits to the government. Or, does compliance only result in increased contract costs?

A review was made of the results of the study conducted by the Comptroller General of the United States to determine the feasibility of applying cost accounting standards to negotiated defense contracts. The Cost Accounting Standards Board, its purpose, objectives, organization, and method of operation were reviewed. These reviews were made in order to understand what the cost accounting standards are supposed to accomplish.

An estimate of the monetary benefits to the government resulting from the ERDA integrated contractor compliance

was made by comparing the cost accounting standards to the ERDA internal regulations. In order to do this, five of the ten cost accounting standards promulgated through fiscal year 1975 were selected at random. The purpose as stated in each standard was compared to the accounting controls of the ERDA Manual and ERDA Procurement Regulations. No monetary benefits could be identified.

The cost of compliance was determined by surveying the eight integrated contractors administered by Albuquerque Operations Office (ALO) of ERDA. The ERDA audit costs that could be directly related to the ALO integrated contractors were also considered. The results of the study showed costs of $178,872 that could be directly related to the ALO integrated contractor compliance with the cost accounting standards.

The same contracting relationship exists between all ERDA integrated contractors and the government. The same rules and regulations apply to all of the ERDA integrated contractors. Therefore, there is no reason to believe the results of this study will not apply ERDA wide rather than just to the ALO integrated contractors.

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CHAPTER I

THE RESEARCH PROBLEM AND APPROACH

Introduction

The Energy Reorganization Act of 1974 abolished the United States Atomic Energy Commission (AEC) and established the United States Energy Research and Development Administration (ERDA). The act transferred to ERDA all the general research activities that had previously been the responsibility of the AEC including its military and production activities.[1] These military and production activities include the responsibility for nuclear weapons research, development, and production that is primarily carried out through eight integrated contracts administered by the Albuquerque Operations Office (ALO) of ERDA.[2]

The Defense Production Act Amendments of 1970 established a five member Cost Accounting Standards Board. This Board, chaired by the Comptroller General of the United States, was established to "promulgate cost accounting standards designed to achieve uniformity and consistency in the cost accounting principles followed by defense contractors and subcontractors under federal contract." According to the act, the standards promulgated by the Board are to be used by:

> All relevant Federal agencies, and by defense contractors and subcontractors in estimating accumulating, and reporting costs in connection with the pricing, administration and settlement of all negotiated prime contract and subcontract national defense procurements with the United States in excess of $100,000, other than contracts or subcontracts where the price negotiated is based on (1) established catalog or market prices of commercial items sold in substantial quantities to the general public, or (2) prices set by law of regulation.[3]

The act goes on to say that the probable costs of implementing promulgated standards shall be considered by the Board in relation to their probable benefit.[4]

Purpose and Scope of the Study

The purpose of this study was to determine if the monetary benefits to the United States government resulting from the ERDA integrated contractor compliance with the cost accounting standards, promulgated by the Cost Accounting Standards Board, is greater than the dollar cost of compliance.

The ERDA integrated contractors were studied on a sample basis using the integrated contracts administered by ALO. The monetary benefits of the cost accounting standards and the dollar cost of compliance were studied for the ALO administered integrated contracts. A comparison of the benefits and costs was then made.

The same contracting relationship exists between the government and the integrated contracts administered by other ERDA operating offices. The same ERDA rules and regulations apply to all ERDA integrated contractors.

Therefore, the results of this study should apply ERDA wide rather than just to ALO.

Background

The magnitude of the cost accounting problem related to government procurement is easily understood by looking at procurement statistics for 1969. Thirty-six billion dollars worth of military hardware contracts were negotiated by the Department of Defense in that year. The basis used in the negotiations to determine the contract price was generally contractor prepared cost data. The use of contractor prepared cost data was necessary because these contracts were primarily negotiated with either sole source suppliers or under limited competition conditions.[5] Potential government contractors were not required to follow any specific cost accounting guidelines when preparing cost data for negotiations in 1969. Thus, the government had no assurance the cost data used in the negotiations were reasonable.

The American Accounting Association and the American Institute of Certified Public Accountants have been making pronouncements regarding accepted accounting practices affecting financial statements since 1936. These pronouncements are referred to by accountants as generally accepted accounting principles.[6] However, the accounting profession had made virtually no pronouncements in the area of cost accounting. Cost data are used almost entirely by firms for internal management control and thus had little interest to the accounting profession, as opposed to the financial reporting data used by the certified public accountant to express opinions on financial statements. Management within firms had been free to develop the cost accounting methods that would best serve their needs for cost control and planning purposes. Since the needs of each firm's management were different, a single set of cost accounting principles did not develop.[7]

The Armed Services Procurement Regulations, the regulations used in the majority of defense procurements, had tried to fill the gap caused by the lack of cost accounting principles by making references to generally accepted accounting principles and Internal Revenue Service regulations. However, these principles and regulations were not adequate for government defense contract costing because they had been developed for other purposes. Generally accepted accounting principles had been developed to protect persons such as stockholders that were interested in the financial condition of the total firm and cared little about cost allocations between government contracts and the firm's private business. Internal Revenue Service regulations, developed for tax purposes, allowed shifts of income and expense between fiscal periods. While these shifts did not affect the amount of tax paid by the firm, only the year in which it was paid, they could affect the amount of cost allocated to government contracts.[8]

Uniform Cost Accounting Standards

The possible impact of the cost accounting principles gap was shown by Admiral Hyman Rickover during the 1968 Defense Production Act hearing. On April 11, 1968, Admiral Rickover testified before the House Banking and Currency Committee that the government could save at least five percent on defense procurements, an annual saving of two billion dollars, if uniform standards of accounting were developed for defense contracts and their use made mandatory. He contended that without uniform accounting standards, contract costs could not be accurately determined, excessive contractor profits were possible, and there was no way to enforce the statutory provision prohibiting discrimination against government contracts "by charging higher prices." Admiral Rickover testified that the most serious deficiency in government procurement in 1968 was the lack of uniform accounting standards. This deficiency allowed contractors to use the accounting practices that would result in the least cost and highest profits and prevented the government from objecting. He recommended the Defense Production Act be amended by Congress to require government contract costs to be accounted for in accordance with uniform accounting standards. According to his recommendation these standards would apply to each defense contract over $100,000.[9]

As a result of Admiral Rickover's testimony, the Defense Production Act Amendments of 1968 contained a provision for studying this problem. This provision called for the Comptroller General to conduct a study to determine if it was feasible to apply uniform cost accounting standards to negotiated defense contracts.[10]

The feasibility study was completed in eighteen months. The results of the study were contained in the Report on the Feasibility of Applying Uniform Cost-Accounting Standards to Negotiated Defense Contract. This report was signed by the Comptroller General and addressed to the chairmen of the Senate Armed Services Committee, the Senate Banking and Currency Committee, the House Armed Services Committee, and the House Banking and Currency Committee. The report identified major cost accounting problem areas and stated that neither generally accepted accounting principles, Internal Revenue Service regulations, Securities and Exchange Commission regulations, nor Renegotiation Board rules were acceptable for contract costing purposes. The report discussed potential benefits and limitations of cost accounting standards and concluded that cost accounting standards were feasible.

Cost Accounting Standards Board

After receiving the Comptroller General's report, both the Senate and the House Banking and Currency Committees held hearings on legislation requiring application of cost accounting standards during 1970. There was considerable effort made to require statutory action by Congress for each standard and thus limit the power of the Cost Accounting Standards Board that was to develop the standards. Another controversy developed over who would have the authority to appoint Board members. Some Congressmen favored assigning this authority to the Comptroller General while others felt the President of the United States should have the responsibility. The act that was passed on August 15, 1970 established a five member Cost Accounting Standards Board. The Board, chaired by the Comptroller General, was to be an agent of Congress and independent of the executive departments. The Board was given the authority to promulgate standards. These standards would become law sixty days after being transmitted to Congress unless vetoed by a concurrent resolution of both Houses.[12]

The Defense Production Act Amendments of 1970, which established the Board, specified that the purpose of the cost accounting standards promulgated by the Board was to "achieve uniformity and consistency in the cost accounting principles followed by defense contractors and subcontractors under federal contracts." The act also required defense contractors and subcontractors to disclose their cost accounting practices in writing as a condition of contracting. Authority was given to the Board to exempt either classes or categories of defense contractors or subcontractors from the requirements of the act as the Board felt was appropriate.[13]

Since being established in 1970, the Cost Accounting Standards Board has developed a twenty-six page form to be used by defense contractors and subcontractors in disclosing their cost accounting practices. Through fiscal year 1975, ten cost accounting standards had been promulgated by the Board.[14]

The March 6, 1973 Federal Register contained a statement drafted by the Cost Accounting Standards Board which discussed the Board's objectives. These objectives contained two primary goals. The first goal stated was to achieve an "increased degree of uniformity in accounting practices among Government contractors." The second was to achieve "consistency in accounting treatment of costs by individual Government contractors." The Board went on to say that the "administration of its rules, regulations, and cost accounting standards should be reasonable and not seek to deal with insignificant amounts of cost." Finally, the statement contained a discussion of the probable costs of implementing promulgated standards compared to the probable benefits. The Board views costs as "all disruptions of contractors' and agencies' practices and procedures." Benefits, according to the Board, will include a reduction in controversies over cost allocability and "simplified negotiations, administration, audit, and settlement procedures." Use of the cost accounting standards is also expected to increase the comparability between contractor offers.[15]

The Energy Research and Development Administration

ERDA, a new executive agency, was established on October 11, 1974 when the President of the United States signed the Energy Reorganization Act of 1974.[16] President Ford, after signing the act, summarized the reasons for creating the new agency as follows:

> What is envisioned is nothing less than a complete energy research and development organization. It will be one which will fill in the gaps in our present research efforts and provide a balanced national research program. It will give proper emphasis to each energy source according to its potential and its readiness for practical use.[17]

ERDA consolidated the energy research and development that had previously been done by four separate agencies, the AEC, the Interior Department, the National Science Foundation, the Environmental Protection Agency, and their contractors.[18]

The October 11, 1974 White House press release listed the major ERDA responsibilities as follows:

1. Exercising central responsibility for policy planning, coordination, support, and management of research and development respecting all energy sources and utilization technologies
2. Encouraging and conducting research, development, and demonstration for extraction, conversion, storage transmission, and utilization of energy phases
3. Engaging in and supporting environmental, biomedical, physical, and safety research
4. Participating in and supporting cooperative research and development projects
5. Developing, collecting, distributing scientific information.[19]

In addition to the energy responsibilities, the AEC weapons development activities were transferred to ERDA. These activities include "research and development, production, and testing of nuclear weapons." With the weapon development and production activities, goes the responsibility for "safeguarding nuclear materials including plant protection, materials accountability, transportation, and research and development."[20]

Purpose, Organization, and Responsibilities

ERDA began functioning on January 19, 1975,[21] Its purpose, as stated in the act, is to develop new energy sources and to increase the "efficiency and reliability" of energy sources presently available. The goals set by Congress for the new agency were to develop energy sources to the extent that the United States would no longer have to rely on other countries for its energy needs, while also protecting the public health and safety and the quality of the environment. Congress felt that meeting these goals would serve to strengthen the nation's economy and its international trade position. In addition to coordinating and directing the nation's energy research and development activities, ERDA assumed the responsibility for all the general research activities that had previously been the responsibility of the AEC. Included in the activities transferred from the AEC was its military and production activities. However, the AEC's licensing and regulatory activities became the responsibility of a newly established Nuclear Regulatory Commission.[22]

The ERDA chief executive is a civilian administrator of energy research and development. The administrator is appointed "by the President, by and with the advice and consent of the Senate." Also appointed in the same manner, is a deputy administrator and six assistant administrators. The six areas the assistant administrators are responsible for are fossil energy; nuclear energy; environment and safety; conservation; solar, geothermal, and advanced energy systems; and national security. The assistant administrators provide programmatic guidance in their particular area of responsibility to the ERDA field offices and contractors. A director of military applications directs the activities of the Division of Military Applications, an organization transferred from the AEC. The director is appointed "by the Administrator and shall serve at the pleasure of and be removable by the Administrator." He must be an "active commissioned officer of the Armed Forces serving in general or flag officer rank or grade."[23]

History

In order to understand the ERDA weapons responsibilities better, it is necessary to understand why the AEC was originally established and the weapons organization that was transferred from the AEC to ERDA.

The AEC, established on July 31, 1946 by the Atomic Energy Act, took over responsibilities for atomic affairs on January 1, 1947.[24] The original purpose for establishing the AEC was to create a civilian agency to control atomic research as the United States shifted to a peace time economy after the ending of World War II. Prior to January 1, 1947 this research had been done by the War Department program, the Manhattan Project, that had produced the first atomic bomb.[25] ALO, an AEC field office, was soon created to administer the AEC weapons program. On January 19, 1975 ALO was transferred to ERDA.

Albuquerque Operations Office

The ALO weapons program complex includes eight integrated operating and support contractors. These contractors are the University of California; Sandia Corporation, a wholly owned subsidiary of the Western Electric Company; Rockwell International; Monsanto Research Corporation; the General Electric Company; Mason & Hanger-Silas Mason Company, Inc.; the Bendix Corporation; and The Zia Company. Through the contracts with these eight contractors, ALO carries out its nuclear weapons mission of "research, development, production, testing, stockpile surveillance, and transportation." The ALO nonweapons work includes about thirty million dollars worth of reimbursable projects annually for other government agencies. Energy-related research and development projects are becoming more frequent since ERDA was created.[26]

The ALO chief executive is a manager who is administratively responsible to the ERDA administrator of energy research and development. The ALO programmatic direction is received from the applicable assistant administrator at ERDA headquarters. ALO maintains seven area offices at the ALO integrated contractor locations. These area offices are the Amarillo Area Office at Amarillo, Texas, the Location of the Pantex Plant operated by Mason & Hanger-Silas Mason Company, Inc.; the Dayton Area Office at Miamisburg, Ohio, the location of Mound Laboratory operated by Monsanto Research Corporation; the Kansas City Area Office at Kansas City, Missouri, the location of the Kansas City Plant operated by The Bendix Corporation; the Los

Alamos Area Office at Los Alamos, New Mexico, the location of the Los Alamos Scientific Laboratory operated by the University of California with support from The Zia Company; the Pinellas Area Office at Pinellas, Florida, the location of the Pinellas Plant operated by the General Electric Company, Neutron Devices Division; the Rocky Flats Area Office at Rocky Flats, Colorado, the location of the Rocky Flats Plant operated by Rockwell International; and the Sandia Area Office at Albuquerque, New Mexico, the location of Sandia Laboratories operated by Sandia Corporation. The managers at each of the seven area offices report directly to the manager of ALO.[27]

Integrated Contractors

All of the plant facilities and the equipment at each of the five plants and two laboratories are owned by the United States government.[28] The plants and laboratories are operated, under contracts with ERDA, by the eight contractors on an integrated contractor basis. The ERDA Manual defines an integrated contractor as follows:

> An integrated contractor is one that works for and receives a cash advance from ERDA or otherwise uses ERDA funds to finance his operations under a cost-type contract and maintains a separate set of accounts and records for the recording and reporting of all business transactions under the contract in accordance with the ERDA accounting policies and system. The accounts maintained by the contractor, for operations under the contract, are integrated with those of ERDA. . . . An integrated contractor may be a private enterprise, a nonprofit institution, a corporation,

or any other form of organization legally capable of entering into a contract with ERDA, or another Government agency administering work for ERDA.[29]

The ERDA and the integrated contractor accounting relationship is like that used by private industry for home office and branch accounting. The ERDA Manual explains how integrated contractor operations are financed as follows:

> ERDA provides funds in advance to meet the needs for the actual disbursements of an integrated contractor, in the form of a letter or credit or a cash advance. ERDA funds advanced to integrated contractors are not commingled with the private funds of the contractor but are carried in special accounts, maintained in accordance with the provisions of the contract between ERDA and the contractor, in banks qualified as depositories of public monies.[30]

Thus, an ERDA integrated contractor can be defined as a contractor that (1) operates a government owned facility under contract with ERDA, (2) keeps a separate set of accounting records for the ERDA contract work that are integrated with ERDA accounting records, and (3) operates under a letter of credit or a cash advance and keeps the funds separate from the contractor's private funds.

The seven government owned facilities that make up the weapons complex administered by ALO include two laboratories and five production plants. The primary mission of the Los Alamos Scientific Laboratory is the research and development of "explosive systems of nuclear weapons." However, about fifty percent of the technical effort at the Los Alamos Scientific Laboratory is now devoted to nonweapons work. The Zia Company furnishes the Los Alamos Scientific Laboratory primarily nontechnical support services and maintains and manages the vehicles and equipment owned by the federal government at Los Alamos. The assignments at Sandia Laboratories in Albuquerque include "nuclear weapons systems, nonnuclear component design and development, field and laboratory testing, manufacturing engineering, quality assurance, and military training." A branch of Sandia Laboratories at Livermore, California provides engineering support to the third weapons laboratory, Lawrence Livermore Laboratory, an integrated contract administered by ERDA's San Francisco Operations Office. The assignments of the five production plants--Pantex, Kansas City, Rocky Flats, Pinellas, and Mound Laboratory--include: "development support for the three weapons laboratories; production of experimental, prototype, or stockpile components and completed weapons; and the assembly, modification, or retirement of weapons."[31]

Use of ERDA facilities and operating personnel for research and development work for private firms is permitted. However, ERDA does not compete with commercial firms. This work is done on a not to interfere with ERDA work basis and when "commercial facilities are not reasonably available." If these two conditions are met, the work is done up to the point where a commercial firm can take the work over.[32] This work is not significant and in fiscal year 1975 amounted to only eight-hundredths of one percent of the total ALO integrated contractor effort.[33]

Summary

ERDA areas of responsibility are fossil energy; nuclear energy; environment and safety; conservation; solar, geothermal, and advanced energy systems; and national security. Six assistant administrators, one over each area of responsibility, provide programmatic guidance to the ERDA field offices and contractors. However, managers of the various ERDA field offices report directly to the ERDA administrator of energy research and development in order to promote a "one agency concept."[34] ALO, a field office transferred to ERDA from the AEC, has the primary responsibility for nuclear weapons design, development, and production. This responsibility is carried out through the eight integrated contractors that operate the two government owned laboratories and five government owned production plants which constitutes the ALO weapons program complex.

The Hypothesis of the Study

The ERDA integrated contracts are subject to all the rules, regulations, and cost accounting standards promulgated by the Cost Accounting Standards Board despite the unique contracting relationship between these government contractors and ERDA. This relationship, as previously discussed, includes separate accounting records and advance funding for these contracts which are carried out totally in government owned facilities.

Because of this unique contracting relationship, there was a question whether the compliance of these contractors with the cost accounting standards is beneficial to the government. Or, whether compliance merely results in increased contract costs. Therefore, this study examined the validity of the following hypothesis:

The dollar cost of ERDA integrated contractor compliance with the cost accounting standards is greater than the monetary benefits to the United States government.

The Research Methodology

The research included a study of both the monetary benefits and the dollar costs. The monetary benefits were studied by examining five of the promulgated cost accounting standards. A cost study was made of both the dollar costs incurred by the integrated contractors and by ERDA. Finally, the benefits and costs were compared.

A literature search was made to determine the history, purpose, organization, and method of approach of the Cost Accounting Standards Board. Five of the ten cost accounting standards promulgated through fiscal year

1975 were selected at random. The purposes, as stated in the standards, and the accounting controls of the five standards were compared to the accounting controls imposed by the ERDA Manual and ERDA Procurement Regulations. Considered in the comparison was the cost accounting standards' objectives of uniformity, consistency, allocability and allowability, fairness, verifiability, and materiality as stated in the Board's policies, procedures, and objectives.[35] The purpose of this comparison was to determine if the cost accounting standards provide more accounting control than that provided by ERDA rules and regulations.

In order to determine the dollar cost of contractor compliance with the cost accounting standards, the eight integrated contractors under the administration of ALO were surveyed. A copy of the survey that was used and a sample cover letter are shown in appendix A. The ERDA cost included in this study was for ALO audit effort associated with the integrated contractors.

After determining the monetary benefits and dollar costs, a comparison was made.

Organization

Chapter II contains a brief history of cost control for government contracts. The Comptroller General's feasibility study is reviewed. The Cost Accounting Standards Board, its purpose, organization, and method of operation is discussed.

Chapter III contains the comparison between the accounting controls imposed by five of the promulgated cost accounting standards and the ERDA rules and regulations.

Chapter IV contains the results of the cost survey. The cost of ALO audit effort is also contained in this chapter.

Chapter V contains a comparison of the monetary benefits and the dollar costs. The recourse available to the government if a contractor does not comply with the cost accounting standards is also discussed.

Chapter VI contains the conclusions and recommendations of this study.

ENDNOTES

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[4] Ibid.

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Robert C. Seamans, Jr., speech presented at the 16th Regional Conference of the University of New Mexico Program for Advanced Study in Public Science Policy and Administration, Albuquerque, New Mexico, 8 October 1975.

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Cost Accounting Standards Board, "Statement of Operating Policies, Procedures, and Objectives," p. 6122.

CHAPTER II

THE UNIFORM COST ACCOUNTING STANDARDS

Introduction

The biannual extension of the Defense Production Act Amendments in 1970 was used as the vehicle to establish a Cost Accounting Standards Board. The 1968 extension of this act had directed the Comptroller General of the United States to perform a study of the feasibility of developing uniform cost accounting standards for defense contracts. The feasibility study was done with assistance from the accounting profession, government agencies, and industry. The feasibility study report, dated January 19, 1970, concluded that cost accounting standards were feasible and recommended a system be established for developing them.

As a result of the feasibility study report, a five member Cost Accounting Standards Board was established. The purpose of the Board is to promulgate cost accounting standards designed to promote uniformity and consistency in the cost accounting practices used by defense contractors and subcontractors.

History of Cost Control for Government Contracts

The Treasury Department's contract cost principles were used to govern military procurements during World War II. Those principles were contained in "The Green Book" that was issued jointly, in 1942, by the United States War Department and Navy Department. These cost principles were used until 1949 when they were superseded by section fifteen, contract cost principles and procedures, of the Armed Services Procurement Regulations.[1]

Although section fifteen continued to serve as the cost principles that were used in Department of Defense procurements, there were no generally accepted cost accounting principles. The accounting profession had traditionally emphasized financial reporting principles and left the details of cost accounting up to the management of the individual firms. Both the accounting profession and industry were satisfied with this logical division of accounting responsibilities. The public accountants were concerned only with the overall financial condition of a firm, and this was not affected by internal cost allocations. The managers of the individual firms each had different needs for planning, control, and cost purposes. Therefore, a single set of cost principles did not logically develop. Contractors, in their attempts to maximize profits on noncompetitive government contracts, were free to use the cost accounting alternative that would result in the greatest return.[2]

The government, during the 1950s and 1960s, attempted to fill the cost accounting principle gap by revising section fifteen of the Armed Services Procurement Regulations. However, section fifteen contained frequent references to generally accepted accounting principles and Internal Revenue Service regulations both of which had been developed for other purposes and allowed too many cost accounting alternatives to be an effective control in contract pricing.[3] Many of the defense contracts were obtained through negotiation which requires an accurate estimate of the contractor's cost in order to establish a reasonable price for the contract. The lack of specific cost accounting principles prevented the government contract negotiators from determining if prices were reasonable or whether profits were excessive.[4]

In September 1950, the Defense Production Act was passed. The purpose of this act was

> To establish a system of priorities and allocations for materials and facilities, authorize the requisitioning thereof, provide financial assistance for expansion of production capability and supply, provide for price and wage stabilization, provide for the settlement of labor disputes, strengthen controls over credit. . . .[5]

The objectives of the act were originally contained in seven titles. Four of the titles were terminated after the Korean War. The provisions of the remaining three titles, with periodic ammendments, were continued by biannual extensions of the act.[6]

Feasibility of Uniform Cost Accounting Standards

Admiral Hyman Rickover first suggested cost accounting standards during testimony before Congress in 1963.[7] The Defense Production Act came up for renewal in 1968. The House Banking and Currency Committee conducted hearings, and Admiral Rickover again testified on April 11, 1968. He testified that the provision of the act that prohibited "discrimination against government contracts by charging higher prices" could not be enforced. He maintained that there is no way of determining contractor costs, profits, or whether the contractor had discriminated against the government without uniform accounting standards. Admiral Rickover stated that the procurement rules in existence at that time allowed industry to change their accounting practices at any time, in any way, and prevented the government from objecting.[8]

As a result of Admiral Rickover's testimony, the House committee recommended that the Defense Production Act be extended with an additional requirement. This requirement was that the Comptroller General develop uniform accounting standards for "negotiated defense contracts and subcontracts in excess of $100,000." The House of Representatives passed the bill as recommended by the committee on June 4, 1968.[9]

During the Senate Banking and Currency Committee Hearings in June 1968, testimony was given by representatives from industry, government agencies, and the accounting profession. These representatives were almost all opposed to the additional requirement because they felt the "uniform accounting standards" term was vague and meaningless. The Senate committee deleted the uniform accounting standards portion of the bill. However, during Senate hearings Senator William Proximire offered an amendment that was accepted. Senator Proximire's amendment required that a feasibility study be made by the Comptroller General to determine if it was feasible to apply uniform cost accounting standards to negotiated defense contracts. The Comptroller General was to perform the study "in cooperation with the Secretary of Defense and the Bureau of the Budget and in consultation with the accounting profession and defense industries." The House accepted Senator Proxmire's amendment and the act was signed into law on July 1, 1968 by President Johnson.[10]

The Feasibility Study

The feasibility study was made under the direction of a five person steering committee. The committee members were a designee of the Controller General, three Department of Defense officials, and one official from the Bureau of the Budget.[11] The objective of the study was to determine if it was feasible to apply uniform cost accounting standards to negotiated defense contracts to increase the "comparability, reliability, and consistency of cost data."[12]

The study was undertaken in four steps as follows:

1. Research was conducted on the nature and interrelationships of cost accounting standards and generally accepted accounting principles
2. The attitude of industry on the adoption of uniform cost accounting standards was determined
3. Information was gathered on the current methods and practices used by industry for cost accounting purposes
4. Section fifteen of the Armed Services Procurement Regulations was evaluated to determine if it could be used as a basis from which to develop uniform cost accounting standards.[13]

The research performed on the nature and interrelationships of cost accounting standards and generally accepted accounting principles was done by a consultant, Professor William J. Vatter, from the University of California at Berkeley. Professor Vatter's study examined the problem of how cost accounting standards would influence the cost analysis process and what standards are or should be. This included an evaluation of the existing methods of cost allocation as opposed to future alternatives.[14]

A questionnaire was developed by the General Accounting Office with assistance from Professor Robert K. Mautz, University of Illinois. The purpose of the questionnaire was to obtain information on current cost accounting methods used by industry, to obtain opinions on suggested cost accounting standards, to obtain opinions on the feasibility of using cost accounting standards for government contracts, and to obtain opinions on using section fifteen of the Armed Services Procurement Regulations as a basis from which to develop uniform cost accounting standards. This questionnaire was sent to 1400 defense contractors, 750 nondefense companies, and various government agencies. The responses were tabulated by a research staff whose members were academic staff of the University of Illinois and the University of Minnesota. The tabulated results were then used in arriving at the study conclusions.[15]

Another consultant, Professor Robert N. Anthony from the Graduate School of Business Administration at Harvard University, was engaged "to review section fifteen of the Armed Services Procurement Regulations in an effort to seek ways and means of establishing improved cost principles and their application."[16]

The Comptroller General's Report

The feasibility study took eighteen months to complete. The report, entitled Report on the Feasibility of Applying Uniform Cost Accounting Standards to Defense Contracts, was dated January 19, 1970 and was addressed to the chairman of the Senate Armed Services Committee, the Senate Banking and Currency Committee, the House Armed Services Committee, and the House Banking and Currency Committee.[17]

The report states that the term "cost accounting standards," as used in the study, "embraces the related principles, standards, and general rules of criteria for their usage." The report goes on to say that cost accounting standards can be considered uniform when they achieve "comparability, reliability, and consistency of significant cost data in similar circumstances and with due regard to the attainment of reasonable fairness to all parties concerned in such circumstances."[18]

Major Report Items

There are three principal areas discussed in the report that were found by the study to have a major impact on the development of cost accounting standards.

Section fifteen of the Armed Services Procurement Regulations, used to provide general cost accounting instructions methods for defense contracting, was found to be ineffective by the study. Its use was required only for cost reimbursement contracts, and therefore, had limited application. It contained no specific criteria on either the use of alternative accounting practices or procedures for indirect cost allocation. It contained many references to both generally accepted accounting principles and Internal Revenue Service regulations.[19]

The study had included an extensive review of generally accepted accounting principles, Internal Revenue Service regulations, Securities and Exchange Commission regulations, and Renegotiation Board rules. These also were found to be unsuitable for contract costing, primarily because they had been developed for other purposes.

Generally accepted accounting principles had been developed by the American Institute of Certified Public Accountants and the American Accounting Association for use in reporting the financial condition of a firm. Financial condition reports were made for the benefit of stockholders and potential investors who were interested in the company as a whole but were unconcerned with allocations between cost objectives. Therefore, generally accepted accounting principles did not address the cost accounting problem because they had been developed for another purpose.[20]

Internal Revenue Service regulations also did not deal with allocations between cost objectives. They allowed expense to be shifted between years. Because taxes are collected each year, the expense shifting did not have a material effect on the total taxes a firm paid. However, the duration of a government contract may be only one year and shifting expense to that year could increase contract costs significantly.[21]

Securities and Exchange Commission regulations, like generally accepted accounting principles, were concerned with reporting the financial condition of a total firm. However, at the time the feasibility report was issued, a proposed revision was being studied that would require firms to report revenue and expense data by lines of business. This method of reporting would require cost allocation by some accepted method.[22]

The Renegotiation Board used either the contractor's accounting method used for income tax purposes or another method the Board and the contractor had agreed upon in attempting to eliminate excess profits on government contracts. The Renegotiation Board was not concerned with individual contracts but with all the contractor's renegotiable business for the entire fiscal year.[23]

Benefits and limitations likely to result from applying cost accounting standards to government contracts was the second major area reported.

The report stated that cost accounting standards would be particularly useful in determining cost data for contracts not based on competition. Some of the benefits discussed were a better understanding of cost estimates and actual costs developed using a basic design, an assurance that contract costs were reported on a consistent basis, an improvement of the communication process between the parties relevant to the contract, and an elimination of differences within the government on what is an acceptable cost accounting practice.[24]

Limitations were that the use of cost accounting standards could not guarantee effective contract negotiation, administration, or settlement. However, they could assist government procurement officials in these areas by requiring contractors to develop cost data in accordance with established standards. Cost accounting standards were viewed, at the time the report was issued, as broad guidelines to promote consistency in the accounting on a particular contract. Their purpose was not seen as a method of eliminating all the variety of ways contractors use to account for costs. A reasonable application of cost accounting standards was to provide consistency between all contractors in like contracting situations.[25]

Major cost accounting problem areas were discovered as a result of investigating the past experiences of the Defense Contract Audit Agency and the General Accounting

Office auditors. The majority of the problems that had been encountered by the auditors were either difficulties in distinguishing between direct and indirect costs or problems of indirect cost allocation. Most of the auditors expressed the opinion that these problems resulted from the lack of adequate criteria to control the use of alternative accounting methods. Alternative accounting methods were especially a problem when contractors used one method in preparing cost proposals and another in accounting for actual contract costs. By using alternative methods in this way, contractors made audit verification of costs especially difficult.[26]

Another problem occurred when contractors charged government contracts directly for costs usually charged indirectly. Frequently the indirect cost pool would not be adjusted to eliminate like costs. This resulted in the government contract's being charged twice for these costs, once as a direct charge and again as an indirect charge.[27]

Problems also occurred when costs usually charged directly were charged indirectly. This normally occurred because the costs were unallowable as direct charges due to contract provisions.[28]

In order to overcome the cost accounting problems, a written disclosure of the contractor's cost accounting practices was recommended. This disclosure, provided in advance of contract performance, would distinguish between types of costs treated as direct costs and types treated as indirect costs. The allocation basis used for indirect costs would also be disclosed. The contractor would be required to follow the disclosed practices consistently. If the contractor needed to change cost accounting practices because of change in operations, the disclosed practices would have to be amended.[29]

Conclusions and Recommendations

The report showed that the study had found that cost accounting standards were feasible and recommended that they be developed. The specific conclusions and recommendations were:

1. Establishing and applying cost accounting standards to achieve more uniformity and consistency in cost data used in contract negotiation and administration were found to be feasible
2. Application of cost accounting standards government wide, rather than just to defense cost type contracts, was recommended
3. The benefits of cost accounting standards should be greater than the implementation cost
4. Establishment of a system for developing cost accounting standards was recommended
5. Requirement for contractors to maintain contract

records in accordance with cost accounting standards and approved disclosed practices was recommended.[30]

Cost Accounting Standards Board

A subcommittee of the Senate Banking and Currency Committee began hearings on legislation relative to uniform cost accounting standards on March 17, 1970. Testimony from fifteen witnesses was heard. Those in favor of the uniform cost accounting standards legislation were Admiral Rickover, Senator Proxmire, Comptroller General Elmer B. Staats, and members of the accounting profession. Those opposed were primarily representatives from industry and the Federal Executive Institute.[31]

The same witnesses gave essentially the same testimony before the subcommittee of the House Banking and Currency Committee in June 1970.[32]

The extension of the Defense Production Act, which contained the amendment providing for uniform cost accounting standards, was delayed beyond the end of the fiscal year because of the debates. The Senate version of the bill was passed on July 9 and the House version on July 31, but the bills contained a major difference. The House bill required the Cost Accounting Standards Board to make an annual report of their recommended uniform cost accounting standards legislation to Congress. The Senate version allowed the Cost Accounting Standards Board to actually promulgate standards. The Senate version was accepted and signed into law on August 15, 1970 by President Nixon.[33]

Purpose

The purpose of the Cost Accounting Standards Board, established by the Defense Production Act Amendments of 1970, is to promulgate cost accounting standards applicable to federal defense contractors and subcontractors. The purpose of the standards is to achieve "uniformity and consistency" in the contractor's cost accounting methods. The act made standards, promulgated by the Board, applicable to all negotiated defense contracts over $100,000 except where the negotiated price is based on "(1) established catalog or market prices of commercial items sold in substantial quantities to the general public, or (2) prices set by law of regulation."[34]

The definition of national defense used by the Cost Accounting Standards Board is given in title seven of the Defense Production Act. The definition contained in the act is "any program for military and atomic energy production or construction, military assistance to any foreign nation, stockpiling, space, and directly related activity."[35] Although the act that established the Board specified that the cost accounting standards would be applicable only to defense contracts, they have been voluntarily adopted by nondefense agencies. The cost accounting standards have been incorporated into the Federal Procurement Regulations by the General Services Administration, the federal agency with authority over nondefense contracts.[36]

The Defense Production Act Amendments of 1970 requires the disclosure in writing of "cost accounting principles" used by defense contractors and subcontractors. This disclosure, a "condition of contracting," must include the methods used to differentiate between direct and indirect costs and the indirect cost allocation basis. If a defense contractor fails "to comply with duly promulgated cost accounting standards or to follow consistently his disclosed cost accounting principles' in either estimating proposals or in accumulating the reporting costs, the contractor agrees to a "contract price adjustment, with interest, for any increased costs paid to the defense contractor by the United States."[37]

Organization

The Cost Accounting Standards Board consists of five members. The chairman of the Board is the Comptroller General of the United States who appoints the other four members. The members appointed by the Comptroller General, two from the accounting profession, one from industry, and one from the federal government, serve four year terms.

The Board's existence is for an indefinite period of time. However, the Board is required to make a progress report to Congress each year in August.[38]

The four members appointed by the Comptroller General serve as board members on a part time basis, usually meeting one or two days a month. However, the Board has a twenty-four person full time professional staff that includes an executive secretary and a general counsel. Representatives from the accounting profession, industry, government, and the academic community are included in the professional staff.[39]

Method of Operation

Cost accounting standards are developed by the Cost Accounting Standards Board through the use of a research process that involves the Board and its staff with input from contractors, agencies, professional associations,and industrial associations.

Potential cost accounting standard topics are received from government agencies, professional associations, and industry, or they may be identified by staff research. These topics are studied by staff members. If a topic appears to be feasible for a cost accounting standard, it is presented to the Board with the staff's recommendations. Board approval of the topic is necessary before any additional work is done.[40]

Once a topic is approved, the staff begins an extensive research process. The purpose of this research is to determine the magnitude of the problem and the potential benefits likely to result from a cost accounting standard on the topic. The research may include reviews of court decisions, government agency files, procurement regulations, and disclosure statements that have been submitted. The staff considers the viewpoints of contractors, government agencies, industry, and professional associations.[41]

After this share of the research is completed, a cost accounting standard is drafted, reviewed by the staff, and circulated to contractors for their comments. The standard will be circulated again if the comments received make a revision necessary. After the final revision, the draft is sent to the Board to be discussed at their next meeting.[42]

The approval of the Board is necessary before the proposed standard can be published in the Federal Register. Publication in the Federal Register is used by the Board to formally solicit comments on the proposed standard and to begin the promulgation process.[43]

The proposed standard is again revised by staff members after publication to take into consideration comments that are received. The standard is then presented to the Board. A vote is taken by the Board and recorded in the minutes of their meeting along with any dissents. Once the proposed standard is approved by the Board, it is promulgated by publication in the Federal Register.[44] The proposed standard is transmitted to the Congress when published for the second time. Congress has sixty days to veto the standard by passing a concurrent resolution of both Houses. If no action is taken by Congress, "the Board's promulgation shall have the full force and effect of law no earlier than 121 days and no later than 219 days after such promulgation."[45]

The rules, regulations, and standards of the Cost Accounting Standards Board apply to both federal agencies and government contractors. The General Accounting Office and the audit staffs within the agencies are responsible for determining if the federal agencies are in compliance with the cost accounting standards. Contractor compliance is the responsibility of the federal agencies.[46]

Accomplishments

The Cost Accounting Standards Board has developed a disclosure statement form to be used by contractors to describe their cost accounting practices as required by the legislation that established the Board. A copy of this form is contained in appendix B. Contractors that received over thirty million dollars of negotiated defense prime contracts during fiscal year 1971 were required to file disclosure statements effective October 1, 1972. Contractors that received over ten million dollars of negotiated defense prime contracts during either fiscal year 1972 or 1973 were required to file disclosure statements effective April 1, 1974. Contractors are required to file separate disclosure statements for each profit center or organizational unit that is subject to the cost accounting standards, if different cost accounting practices are used.[47]

Through fiscal year 1975, the Boards had promulgated ten cost accounting standards. The subjects of these standards are:

1. Consistency in Estimating, Accumulating, and Reporting Costs
2. Consistency in Allocating Costs Incurred for the Same Purpose
3. Allocation of Home Office Expense to Segments
4. Capitalization of Tangible Assets
5. Accounting for Unallowable Costs
6. Cost Accounting Period
7. Use of Standard Cost for Direct Materials and Direct Labor
8. Accounting for Costs of Compensated Personal Absence
9. Depreciation of Tangible Capital Assets
10. Accounting for Acquisition Costs of Material.[48]

Summary

The military procurements during World War II were guided by the Treasury Department's contract cost principles explained in "The Green Book" issued jointly by the United States War Department and the Navy Department. These principles were superseded in 1949 by the contract cost principles contained in the Armed Services Procurement Regulations. Because these cost principles allowed many cost accounting alternatives, a study was made on the feasibility of developing cost accounting standards. The study concluded that cost accounting standards were feasible. A Cost Accounting Standards Board was established by the Defense Production Act Amendments of 1970. Through fiscal year 1975, the Board had developed a disclosure statement to be used by negotiated defense contractors to disclose their cost accounting practices and had promulgated ten cost accounting standards.

ENDNOTES

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42 Mautz, p. 57.

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CHAPTER III

THE MONETARY BENEFITS OF ERDA INTEGRATED CONTRACTOR COMPLIANCE WITH THE UNIFORM COST ACCOUNTING STANDARDS

Introduction

A Cost Accounting Standards Board was established by the Defense Production Act Amendments of 1970 to promulgate cost accounting standards. These standards are "designed to achieve uniformity and consistency in the cost accounting principles followed by defense contractors and subcontractors under federal contracts." The promulgated cost accounting standards are applicable to all negotiated defense contracts and subcontracts over $100,000 unless the negotiated price is based on "(1) established catalog or market prices of commercial items sold in substantial quantities to the general public, or (2) prices set by law or regulation."[1]

Contractors and subcontractors to whom the cost accounting standards apply are required to disclose their cost accounting practices in writing in order to contract with the government. The cost accounting practices disclosed must include the methods used to distinguish between direct costs and indirect costs and the indirect cost allocation basis used. An additional requirement necessary to contract is that potential contractors or subcontractors must "agree to a contract price adjustment, with interest," for any increased cost to the government resulting from their failure to follow disclosed accounting practices or comply with cost accounting standards.[2]

ERDA inherited from the AEC the administration of a group of integrated contractors that have a unique contracting relationship with the government. These are cost reimbursement contracts that are carried out totally in government owned facilities. The contractors are required to maintain accounting records separate from their commercial work that are integrated with ERDA accounting records for reporting purposes. Advance funding is provided for the integrated contracts through letter of credit or cash advance arrangements.[3]

Because these integrated contractors operate government owned facilities, they are permitted to do research and development work for private firms only when there are no commercial firms "reasonably available," capable of doing the work and then only after review and approval by government representatives. Work for private firms is undertaken on a not to interfere with ERDA work basis and is done up to the point where a commercial firm can take the work over.[4]

The ERDA integrated contractors are subject to all of the rules and regulations of the Cost Accounting Standards Board. These contractors are required to comply with all promulgated cost accounting standards.[5]

Through fiscal year 1975, the Cost Accounting Standards Board had promulgated ten cost accounting standards. Five of these standards were selected at random. The purposes, as stated in the standards, and the accounting controls of the five standards were compared to the accounting controls imposed by the ERDA _Manual_ and ERDA _Procurement Regulations_. The purpose of this comparison was to determine if the cost accounting standards provide more accounting control for ERDA integrated contracts than that provided by ERDA rules and regulations.

In order to understand the cost accounting standards better, it is necessary to understand the objectives of the Cost Accounting Standards Board.

Cost Accounting Standards Board Objectives

The Cost Accounting Standards Board has published a statement explaining the policies, procedures, and objectives the Board uses in developing cost accounting standards. The statement discusses six objectives: Uniformity, consistency, allocability and allowability, fairness, materiality and verifiability.[6] Each of these objectives has been examined in order to gain a better understanding of what individual cost accounting standards should accomplish.

Uniformity

One of the Board's principal goals is to develop cost accounting standards that will attain "an increased degree of uniformity in accounting practices among government contractors." The Board feels uniformity in accounting practices will aid in the "understanding and communication" between contractors and the government, lessen the number of disputes, and help achieve fair contract settlements. The Board views uniformity as comparable accounting practices between two similar accounting entities.[7]

Uniformity is not a new accounting concept. A special committee of the American Institute of Certified Public Accountants was organized in 1932 to study methods of "improving corporate accounting and financial reporting." At the conclusion of the study a report was made to the Committee on Stock List of the New York Stock Exchange. The report gave two possible methods that could be used to achieve uniformity. One method was to develop an exact set of accounting practices for the mandatory use by all similar corporations. This method was not considered to be feasible. The second and more logical method suggested was to permit corporations to choose their accounting methods from acceptable alternatives but to require the corporations to disclose their chosen accounting methods and to follow them consistently. The committee felt investors were not concerned with exact rules but with which acceptable method was being followed and some assurance it was being followed consistently.[8]

This was very similar to the opinion expressed by the Comptroller General in testimony before Congress. He said:

> It is not feasible to establish and apply cost accounting standards in such detail as would be necessary to insure a uniform application of precisely prescribed methods of computing costs for each of the different kinds of costs, under all of the wide variety of circumstances, involved in Government contracting. To attempt to do so would be unreasonable and unenforceable.[9]

The feasibility report that the Comptroller General made to Congress had recommended, regarding uniformity, that no single method of accounting be prescribed, that the variety of methods used by contractors not be eliminated, and cost accounting standards not be so exact as to try to identify all possible accounting situations.[10]

It is not possible to achieve uniformity between all government contractors by developing a single set of accounting instructions. There are too many different accounting requirements. To achieve uniformity between similar types of contractors, accounting instructions for each type would have to be developed. This has been done for regulated industries, such as utilities and railroads, but the companies have still had to develop their own accounting systems to fit their particular management needs. The uniform systems have not eliminated the variety of methods used and achieved complete uniformity. Accounting involves judgments and estimates. Until judgments and estimates are eliminated and accounting becomes an exact science, accounting methods will not be uniform.[11]

The Cost Accounting Standards Board recognizes that it is not possible to establish a single accounting system that would be appropriate for all defense contractors to use. However, if circumstances for groups of contractors were determined to be the same, the Board feels a single accounting system for these contractors could be developed.[12]

Consistency

The second principal goal of the Board is to develop cost accounting standards that will attain "consistency in accounting treatment of costs by individual government contractors." Consistency is also expected to aid in the "understanding and communications" between contractors and the government, lessen the number of disputes, and help achieve fair contract settlements. The Board views consistency as relating to an individual company over a period of time.[13]

Consistency as an accounting concept gained increasing importance in the nineteen thirties when the

American Institute of Certified Public Accountants published a report, "Audits of Corporate Accounts." This report stated that corporate management is responsible for corporation financial statements. In fulfilling this responsibility, management must select the accounting methods that best suit the corporation's needs. The methods selected must be disclosed and used consistently over the accounting periods.[14] Management is permitted to change from one acceptable practice to another provided the change and its effect are disclosed on the corporation financial statements.[15]

The feasibility report that the Comptroller General made to Congress recommended, regarding consistency, that criteria be established for using alternative accounting methods. If this was not possible, the report recommended limiting the use of alternative methods. The report also recommended that the costs of implementing standards to promote consistency be considered in relation to probable benefits.[16]

Although absolute consistency is not possible, the Cost Accounting Standards Board has established some general requirements designed to improve consistency for individual contractors. Disclosed cost accounting must be followed consistently. A necessary change in an accounting practice requires an amendment to the contractor's disclosed practices. Contractors are required to follow the same accounting practices consistently in estimating contract proposals and in accumulating and reporting contract costs. The "classification of costs incurred for the same purpose in like circumstances" must be consistent.[17]

These general requirements are designed to improve consistency in the cost accounting practices for individual contractors on individual contracts. However, they were not designed to demand consistency just for the purpose of consistency. The idea of consistency is to prevent contractors from making changes in their accounting practices that will result in increased contract costs. A contractor is free to change his practices if the inconsistency will not result in any increased cost to the government or if he agrees to reimburse the government for the amount of the increase that results from the change.[18]

Allocability and Allowability

The cost accounting standards do not address the problem of whether or not a particular type of cost is allowable. The determination of cost allowability is left to the various agencies. Cost allowability is a matter of law or public policy and is dealt with in the procurement regulations used by the contracting agencies.[19]

Cost allocability is an accounting concept which can affect the amount of a contract's cost depending on the method used. Allocation refers to the process of charging one or more items to cost objectives, operations, or products in the same ratio as the benefit the objectives, operations, or products received from the item.[20]

It is the responsibility of the contracting agency to negotiate the allowability of costs. However, in areas applicable to the cost accounting standards, the standards must be used to determine whether or not costs should be allocated to the contract. Cost accounting standards will be developed to:

1. Measure the amount of costs which may be allocated to covered contracts
2. Determine the accounting period to which costs are allocable
3. Determine the manner in which allocable costs can be allocated to covered contracts.[21]

Fairness

A cost accounting standard is thought to be fair when the standard "provides for allocating costs without bias or prejudice to either party to affected contracts."[22]

Materiality

Materiality is an accounting concept used by accountants in attempting to determine the importance or impact of an item on financial statements or operating information. Some accountants have attempted to establish a percent or dollar amount to use as a guide in determining materiality. However, since small dollar value items can have a significant effect on financial statements in some circumstances, the determination of what is material continues to require a value judgment.[23]

The concept of materiality was not included in the regulations promulgated to implement the law that established the Cost Accounting Standards Board.[24] The regulations had first been published in the Federal Register on December 30, 1971 for comments. Many of the comments received suggested that to prevent the application of standards to insignificant amounts of costs, a materiality clause be added. Although the Board agreed with the comments in principle, they did not feel it was necessary to address the materiality concept at that time. The materiality, or common sense rule, already applied to government contracting.[25]

However, when the Board's "Statement of Operating Policies, Procedures, and Objectives" was published in March 1973, to increase understanding of the Board's work, the materiality concept was addressed.

Materiality was included as an objective to assure that the application of the cost accounting standards would be reasonable and that they would not be applied to minor amounts of cost. Guidelines were given to be used in determining whether or not an item was material. These guidelines were:

> The absolute dollar amount involved. The larger the dollar amount, the more likely it is that a decision involving it will be material.

The amount of total contract cost compared with the amount under consideration. The larger the portion of the total contract cost which is represented by the item or the decision under consideration, the more likely it is to be material.

The relationship between a cost item and a cost objective. Decisions about direct cost items, especially if the amounts are themselves part of a base for distribution of indirect cost, will normally be more material than like decisions about indirect costs.

The impact of Government funding. Decisions about accounting treatment will be more material if they influence the distribution of costs between Government and non-Government cost objectives than if all objectives have Government financial support.

The relationship to price. When contract pricing is based on estimated cost, decisions about cost accounting treatment in estimates are more material than comparable decisions about treatment of actual costs. When contract pricing is based on actual cost, decisions about accounting treatment for actual costs are more material than comparable decisions about estimates.

The cumulative effect of individually immaterial items. It is appropriate to consider whether individual variances (a) tend to offset one another, or (b) tend to be in the same direction and hence to accumulate into a material amount.[26]

Even with these guidelines, value judgments are required to determine materiality. However, they do provide criteria for comparisons. Large dollar amounts are more material than small amounts. Large portions of the total contract costs are more material than small portions. Direct cost items are more material than indirect cost items, particularly if the direct cost items are part of an allocation base. Decisions about items allocated between government and commercial work are more material than decisions about items supported totally by government funds. If the contract is a cost reimbursement contract, decisions regarding the accounting methods used for actual costs are more material than decisions about cost estimates. In determining materiality the cumulative effect of items must be considered.

Verifiability

Verifiability is an auditing concept. It refers to the procedure used by auditors to assure themselves that a cost has actually been incurred, is proper, is reasonable, and is applicable to a contract.[27] A cost that is verifiable can be traced from a source document to the final cost objective.

The term verifiability, as used by the Cost Accounting Standards Board, refers to the substantiation of contract costs through audit. Contract costs should be substantiated by source documents and should reconcile to the contractor's financial records.[28]

Promulgated Cost Accounting Standards

Five of the ten cost accounting standards promulgated by the Cost Accounting Standards Board through fiscal year 1975 were selected at random. The five standards selected were Consistency in Estimating, Accumulating, and Reporting Costs; Consistency in Allocating Costs Incurred for the Same Purpose; Cost Accounting Period; Depreciation of Tangible Capital Assets; and Accounting for Acquisition Costs of Material.

The monetary benefits to the government resulting from the application of these standards to the ERDA integrated contracts was determined. Considered in the determination was the examination of the Cost Accounting Standard Board's objectives, the purposes of the standards selected, the accounting controls of the ERDA Manual and ERDA Procurement Regulations, and the contractor's contracting relationship with the government.

Consistency in Estimating, Accumulating, and Reporting Costs

The first cost accounting standard, Consistency in Estimating, Accumulating, and Reporting Costs, was effective July 1, 1972.[29] The purpose of this standard is to guarantee that each individual contractor will be consistent in the accounting practices used in estimating proposals and in accumulating and reporting contract costs. The consistent use of accounting practices will insure that similar items are dealt with in the same manner and that cost estimates can be compared with contract performance costs.[30]

Members from the Cost Accounting Board staff and the Defense Contract Audit Agency visited, in 1973, contractors to discuss problems the contractors were having in implementing this standard. An instruction was written for the use of Defense Contract Audit Agency auditors in determining contractor compliance with this standard as a result of these visits. The instruction was made available to other "interested parties" by the Cost Accounting Standards Board. This document states that a contractor is complying with the standard when:

1. His estimate is made in accordance with his normal accounting practices and
2. He accumulates his costs in the same manner.[31]

The ERDA Manual contains the accounting policies and procedures that ERDA headquarters, operations offices, area offices, and integrated contractors are required to use. The system is designed to provide:

1. A system of internal control
2. Uniform accounting principles and procedures
3. Full disclosure of the results of financial operations
4. Financial and cost data reporting for the use of management in controlling both the operating and construction activities
5. Financial and accounting control over all revenues and expenditures and funds, property, and other assets of ERDA
6. For the accumulating and classification of costs for budget estimating and reporting
7. For the maintenance, retention, and control of documents and records for management and audit purposes.[32]

A uniform numbering system for budget and reporting classifications has been developed by ERDA to provide a uniform format for cost and budget reports. The required use of this system assures uniformity between ERDA offices and integrated contractors. The required use of the system also provides consistency in estimating (budgeting) and reporting costs of operations within an individual ERDA office or integrated contractor.

Supporting the budget and reporting classification system is a product cost accounting system that is integrated with the ERDA financial accounting system. The product cost accounting system specifies the accounting treatment to be used for particular items of costs.[33] The required use of this system assures both uniformity between ERDA offices and integrated contractors and consistency in accumulating costs within individual ERDA offices and integrated contractors.

Although the ERDA integrated contractors are permitted to develop a chart of accounts appropriate for their own particular requirements, they are required to use the uniform budget and reporting classifications in reporting financial and cost information. Each of the ERDA integrated contractors is required to have accounting systems to account for contract costs that are completely separate from any of their other activities.[34]

The mandatory use of the budget and reporting classifications and the product cost accounting system by the ERDA integrated contractors assures that they will be consistent in estimating, accumulating, and reporting contract costs.

Consistency in Allocating Costs Incurred for the Same Purpose

The second cost accounting standard, Consistency in Allocating Costs Incurred for the Same Purpose, was effective July 1, 1972.[35] The purpose of this standard is to insure that each particular kind of cost is allocated only once and on a consistent basis to a contract. The adherence to this standard prevents a contract from being charged twice for a particular cost. A cost is most often charged twice when the contract is charged directly for a kind of cost that is also allocated to the contract as an indirect cost.[36]

The ERDA "Contract Cost Principles and Procedures" apply to all ERDA cost reimbursement contracts including the integrated contracts.[37] These principles and procedures specify:

> Where a type of cost is charged direct to the ERDA contract, no item of a similar character which on the same basis is properly chargeable to other work should be included in indirect costs apportioned to the ERDA contract.[38]

Thus, the ERDA "Contract Cost Principles and Procedures" applicable to the integrated contracts prohibit double charging of costs, the same thing for which this cost accounting standard was designed.

However, even without the control imposed by the "Contract Cost Principles and Procedures," the application of this standard to these contracts would not be necessary because of the materiality concept. It has already been shown that the integrated contractors operate government owned facilities and maintain accounting systems to account for contract costs that are completely separate from any of their other activities. Commercial work done in these facilities is not material, less than one-tenth of one percent of total work. This means that the government is paying, essentially, all the costs incurred by these contractors. Thus how the costs are allocated cannot make any material difference in the government's total costs.

Cost Accounting Period

The sixth cost accounting standard, Cost Accounting Period, was effective July 1, 1974.[39] The purpose of this standard is to establish rules governing a contractor's selection of "time periods to be used as cost accounting periods for contract cost estimating, accumulating, and reporting." This standard is expected to increase "objectivity, consistency, and verifiability, and promote uniformity and comparability in contract cost measurements."[40]

This standard requires contractors to use their fiscal year as their cost accounting period except in four instances:

1. If an indirect cost activity exists for a portion of the cost accounting period, the costs of this activity

may be allocated to the cost objectives associated with the same portion of the cost accounting period

2. If it is the usual practice of the contractor to use an annual period other than his fiscal year as his cost accounting period, the practice may be continued provided the government agrees to its use
3. If it becomes necessary for a contractor to change his fiscal year, a transitional period other than a year may be used as his cost accounting period. The transitional period may be the period between the end of one fiscal year and the start of the next, or one fiscal year can be extended to include the interim period, provided this does not make the transition period over fifteen months long
4. If a contractor uses a period other than his cost accounting period to report to the Renegotiation Board, he may continue this practice.[41]

Contractors are required by this standard to use "appropriate practices for deferrals, accruals, and other adjustments" in distributing costs to cost accounting periods. Consistency is required in the selection of cost accounting periods.[42]

The accounting records of the ERDA integrated contractors are combined with ERDA accounting records "to produce comprehensive financial and cost statements covering all direct and contract operations of ERDA."[43] The

ERDA and the integrated contractor accounting relationship is like that used by private industry for home office and branch accounting. The accounting is done on the accrual basis.[44]

Financial statements are prepared annually, covering the government fiscal year, that consolidate all ERDA and ERDA contract operations. Each integrated contractor is required to "certify" that the financial statements submitted have been prepared as directed by ERDA and contain only those costs applicable to the contract.[45]

The ERDA Manual requirement for consolidated financial and cost statements prevents the integrated contractors from using other than the United States government fiscal year as their cost accounting period. Therefore, if the government is consistent in the choice of a fiscal year, the integrated contractors will be consistent in their choice of a cost accounting period.

Depreciation of Tangible Capital Assets

The ninth cost accounting standard, Depreciation of Tangible Capital Assets, was effective July 1, 1975.[46] The purpose of this standard is to establish standards to be used in distributing the costs of "tangible capital assets to cost accounting periods" and for assigning these costs to the cost objectives within the cost accounting periods using "objective and consistent" methods. The standard was designed to insure that the amount of depreciation charged to the cost accounting period and allocated to cost objectives within the period reasonably measured the "expiration of service potential" of the asset being depreciated.[47]

The standard gives specific guidelines to be followed in assigning tangible capital asset depreciation to cost accounting periods and to cost objectives within the period. The guidelines for assigning depreciation to cost accounting periods are:

1. Asset capitalization cost less residual value is the amount subject to depreciation
2. Accounting periods to which depreciation is assigned are to be determined based on the service life of the asset
3. The pattern of use of the asset is the basis to be used in determining the method of depreciation
4. The accounting period in which disposition of the asset occurs shall be assigned the gain or loss that results from the disposition.

The guidelines for assigning depreciation to cost objectives are:

1. Cost objectives may be directly charged for depreciation if the charge is based on usage and if the depreciation for similar assets is charged by this method
2. Depreciation costs associated with support organizations

whose costs are allocated to cost objectives based on support provided shall be included in the support organization's costs

3. Depreciation costs shall be handled as indirect costs if the methods specified in (1) or (2) are not used

4. Material disposition gains or losses shall be assigned to cost objectives by using the same method that was used to assign the depreciation cost of the asset. Gains or losses may be handled as indirect costs if they are not material.[48]

The term depreciation, as used by accountants, has a definite meaning. Depreciation accounting involves the allocation of the cost of an asset to accounting periods through the use of "rational and systematic" methods. It does not imply that an attempt is made to allocate depreciation to accounting periods in relation to events within the period that affect the length of the asset's life. "Definitions are unacceptable which imply that depreciation . . . is a measurement . . . of anything that actually occurs within the year."[49] Because depreciation amounts are estimates, about the only logical criteria that can be applied to depreciation methods are reasonable, objective, and consistent.

The primary concern with depreciation methods used to allocate costs to government contracts is fairness. The methods used should not assign the entire asset cost over the life of the contract if the asset life is longer than the contract life. If this were done by a commercial contractor, it would result in the government's paying the entire asset cost. However, the asset could continue to be used for commercial work after the contract was completed. A disproportionate share of depreciation should not be allocated to government work during the life of the contract. The depreciation allocated to cost objectives should approximate the amount of the asset expended. The use of these criteria can be used as assurance that the government contract is not being overcharged for depreciation.[50]

The ERDA integrated contractors operate government owned facilities.[51] Thus, all of the capital assets used by these contractors were originally purchased by the government with capital equipment funds. Unlike other contractors who use depreciation to charge the cost of capital assets to a contract for reimbursement by the government, the integrated contractors use depreciation only for internal management and control purposes.[52] Depreciation of government owned capital assets is not used as a method of charging the cost of a capital asset to the government. The depreciation method used does not affect the amount of cost to the government.

The ERDA Manual contains depreciation guidelines that the integrated contractors are required to follow.[53] Although these requirements differ from the requirements of this cost accounting standard, the depreciation guidelines do assure uniformity between integrated contractors and consistent depreciation methods for individual contracts. Because the depreciation methods used by ERDA integrated contractors do not affect contract costs, adopting the depreciation guidelines of this cost accounting standard would not result in any monetary benefit to the government.

Accounting for Acquisition Costs of Materials

The tenth standard, promulgated by the Cost Accounting Standards Board, was Accounting for Acquisition Costs of Materials. This standard was effective January 1, 1976.[54] The purpose of the standard is to provide guidelines to be used in accounting for "acquisition costs of materials." The consistent use of these guidelines is expected to "improve the measurement and assignment" of materials costs.[55]

The standard requires the contractor to have written policies that are followed consistently of the methods used to account for materials costs and to allocate these costs to the cost objectives. Inventory records must be used to account for materials except in two instances:

1. Materials purchased for use on a specific cost objective can be directly charged to that objective
2. Materials used entirely for indirect activities or that involve insignificant amounts may be charged to an indirect cost pool.

Significant amounts of materials not used during a cost accounting period must be transferred to an inventory account.[56]

The standard permits the contractor to choose between the first-in, first-out; the moving average; the weighted average; the standard cost; or the last-in, first-out inventory methods for charging materials cost. However, the method chosen must be followed consistently. Materials cost is the purchase price of the material adjusted to include such items as discounts, credits, or extra charges. The discounts, credits, or extra charges may be charged or credited to an indirect cost pool if it is not practical to include them in the materials cost.[57]

The ERDA Manual requires that each integrated contractor establish "detailed procedures" to control and account for materials costs. They are required to maintain perpetual inventory records for inventory items and to reconcile these records to their general ledger control accounts at least twice a year.[58]

All materials purchased must be charged to inventory accounts unless the material is purchased for a particular purpose, is not subject to general use, or involves an insignificant dollar amount. If these conditions are met, the material can be direct charged to the cost objective. However, if the material is not used within thirty to ninety days, the material must be accounted for and controlled as inventory items.[59]

The *Manual* specifies that purchased materials cost will be the "actual cost of acquisition" plus any costs incurred to convert the materials to a "usable form." Items such as transportation costs, cash discounts, and handling costs are treated as indirect costs unless they are significant and can be associated with specific material purchases.[60]

The average cost method is recommended by the ERDA *Manual* for charging out inventory items. The first-in, first-out; the standard cost; or other generally accepted inventory methods are acceptable provided they are used consistently.[61] The average cost method is the same method referred to in the standard as the moving average method. The cost of a unit of material is calculated by dividing the total cost of all the units in the inventory by the number of units. The unit cost is calculated after each acquisition of material.[62]

The mandatory requirements of the ERDA *Manual*, followed by the ERDA integrated contractors, contain the same controls over the acquisition costs of materials as the cost accounting standard. The integrated contractors must establish procedures to control and account for materials costs. Materials must be accounted for as inventory items unless they are purchased for a particular purpose or involve insignificant amounts. The _Manual_ contains an additional requirement. Items not used within thirty to ninety days must be accounted for and controlled as inventory items.

Both the cost accounting standard and the ERDA _Manual_ allow a contractor to use one of the generally accepted methods of charging out inventory items. Consistent use of the method chosen is required.

The materials cost is considered to be the purchase price adjusted to include such items as discounts, credits, or extra charges. Discounts, credits, and extra charges may be treated as indirect charges if the amounts involved are not significant.

Summary

The Cost Accounting Standards Board had promulgated ten cost accounting standards through fiscal year 1975. The Board had also published a "Statement of Operating Policies, Procedures and Objectives." The six objectives contained in the statement were examined in order to gain an understanding of the cost accounting standards.

Five of the ten cost accounting standards were selected at random. The purposes and accounting controls of these five standards were compared to the accounting controls of the ERDA Manual and the ERDA Procurement Regulations. The purpose of this comparison was to determine if the cost accounting standards provide more accounting control for ERDA integrated contractors than is provided by ERDA rules and regulations.

The comparison showed that the ERDA Manual and ERDA Procurement Regulations are as effective as the cost accounting standards for controlling the operations of the integrated contractors.

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4 Ibid., chap. 7603.

5 U.S., Energy Research and Development Administration, _Procurement Regulations_, Temporary Regulation no. 1.

6 U.S., Cost Accounting Standards Board, Notice, "Cost Accounting Standards Board, Statement of Operating Policies, Procedures, and Objectives," _Federal Register_ 38, no. 43, 6 March 1973, 6122.

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8 Paul Grady, _Inventory of Generally Accepted Accounting Principles for Business Enterprises_ (New York: American Institute of Certified Public Accountants, Inc., 1965), p. 32.

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CHAPTER IV

THE DOLLAR COST OF ERDA INTEGRATED CONTRACTOR COMPLIANCE WITH THE COST ACCOUNTING STANDARDS

Introduction

The dollar cost of ERDA integrated contractor compliance with the cost accounting standards is comprised of costs incurred by both ERDA and the individual integrated contractors. The costs, associated with the cost accounting standards, incurred by ERDA that can be directly attributed to the ERDA integrated contracts, as opposed to other cost type contracts, are audit costs. These costs were incurred in reviewing the statements submitted by the integrated contractors to disclose their cost accounting practices.

The integrated contractors have incurred costs associated with the cost accounting standards in five areas. Costs have been incurred in filling out and submitting their disclosure statements; revising their accounting systems to comply with promulgated cost accounting standards; auditing their cost accounting systems to assure compliance with the cost accounting standards; responding to proposed standards, published standards, rough drafts of standards, and other items as required by the Cost Accounting Standards Board; plus other costs such as training and publications costs directly related to compliance with the cost accounting standards.

Contractor Costs

A survey questionnaire was used to determine the costs that have been incurred by the integrated contractors. The questionnaire, with an individual cover letter, was mailed to each of the eight integrated contractors under the administration of ALO. Contractors receiving the questionnaire were the University of California, Los Alamos Scientific Laboratory; Sandia Corporation; Rockwell International, Rocky Flats Plant; Monsanto Research Corporation, Mound Laboratory; the General Electric Company, Neutron Devices Division; Mason & Hanger-Silas Mason Company, Inc., The Pantex Plant; the Bendix Corporation, Kansas City Division; and The Zia Company.

A copy of the questionnaire, developed specifically for this study, and a sample cover letter are contained in appendix A.

A response to the questionnaire was received from each of the eight contractors. Summary tabulations of the responses are shown in tables 1 through 6 with the contractors identified by alphabetical letters to prevent responses from being associated with a particular contractor.

A discussion of each question follows the summary tabulations.

1. How many man months were required for the initial submission of your disclosure statement and amending your disclosure statement, if this has been necessary? What is the total cost associated with this effort?

TABLE 1

DISCLOSURE STATEMENT

Contractor	Initial Submission	Amendments	Total Cost
A	2.00	.50	$5,000
B	1.00	1.00	4,000
C	2.50	.50	5,500
D	6.00	.00	13,000
E	6.00	1.00	10,000
F	1.00	.25	2,500
G	4.00	1.00	10,000
H	1.00	.00	1,800
	23.50	4.25	$51,850

2. How many man months have been required to revise your accounting system to comply with promulgated cost accounting standards, if this has been necessary? What is the total cost associated with this effort?

TABLE 2

ACCOUNTING SYSTEM REVISIONS

Contractor	Man Months	Total Cost
C	4.00	$7,400

3. How many man months have you expended in audit effort to assure yourselves you are complying with the cost accounting standards? What is the total cost associated with this effort?

TABLE 3

INTERNAL AUDIT

Contractor	Man Months	Total Cost
D	3.00	$7,500
G	1.00	1,500
	4.00	$9,000

4. How many man months have you expended in responding to proposed standards, published standards, rough drafts of standards, and other items related to the cost accounting standards? What is the total cost associated with this effort?

TABLE 4

RESPONDING

Contractor	Man Months	Total Cost
A	5.00	$10,000
B	.50	500
C	2.00	3,700
D	11.00	23,000
E	1.00	1,500
F	1.00	2,000
G	4.00	7,200
H	1.00	1,800
	25.50	$49,700

5. Do you have any employees who are devoting all of their time to your compliance with the cost accounting standards?

All eight contractors reported they do not have any employees who devoted all of their time to the contractor's compliance with the cost accounting standards.

6. Have you had any other costs such as training, publication, etc., associated with the cost accounting standards not included in your answers to questions one through four? If so, what is the amount and nature of these costs?

TABLE 5

OTHER COSTS

Contractor	Nature of Costs	Amount
D	Training and publications	$22,400
F	Training	140
F	Publications	240
G	Publications	225
		$23,005

TABLE 6

SUMMARY OF TOTAL
CONTRACTOR COST REPORTED

Question	Total Cost
1	$51,850
2	7,400
3	9,000
4	49,700
5	- 0 -
6	23,005
	$140,955

Disclosure Statement

The Defense Production Act Amendments of 1970 authorized the Cost Accounting Standards Board to create regulations to implement the cost accounting standards promulgated by the Board. The law specifies:

> Such regulations shall require defense contractors and subcontractors as a condition of contracting to disclose in writing their cost accounting principles, including methods of distinguishing direct costs from indirect costs and the basis used for allocating indirect costs. . . .[1]

The disclosure statement contained in appendix B was developed by the Cost Accounting Standards Board to be used in meeting this requirement. The disclosure statement when completed by a contractor contains a detailed description of the cost accounting practices to be used by the contractor to estimate, record, and report costs for all of his contracts subject to the cost accounting standards.[2]

Although a phased filing requirement is being used for the disclosure statement, ultimately all firms with a government contract over $100,000 will be required to file unless the contract price is based on prices set by law or regulation or catalog or market prices of commercial items sold in substantial quantities to the general public.[3]

Contractors are required to file separate disclosure statements for each profit center that contributes more than $100,000 of costs to a contract. If the cost accounting practices are the same for more than one profit center, a single disclosure statement can be submitted for these centers. Disclosure statements are also required for each "corporate or group office" that has costs allocated to the profit centers performing the contract work.[4]

A previously submitted disclosure statement must be amended when the contractor's cost accounting practices change. These practices may be changed due to a decision by the contractor or the application of a new cost accounting standard.[5]

Each of the eight integrated contractors surveyed have filed disclosure statements for their profit centers. Six of the contractors indicated that costs have been incurred to amend their disclosure statements. The initial submission required from one to six man months. The amendments required from one-quarter to one man month. The submission of the disclosure statements and amendments cost a total of $51,850 for the eight contractors.

The costs associated with the disclosure statements submitted by the ALO integrated contractors' corporate offices are not being considered in this study. The corporate office disclosure statements are a requirement for other contracts the company may have that are subject to the cost accounting standards. Thus, the costs would be incurred even if the integrated contract was exempt from the cost accounting standard requirement.

Accounting System Revisions

Only one of the eight integrated contractors surveyed indicated that an accounting system change has been made to comply with promulgated cost accounting standards. This change required four man months for a total cost of seventy-four hundred dollars.

The comparison in chapter three of the purposes and accounting controls of five cost accounting standards and the accounting controls imposed by the ERDA Manual and ERDA Procurement Regulations indicated an inconsistency. The inconsistency shown was between the depreciation requirements of the ERDA Manual and the cost accounting standard, Depreciation of Tangible Capital Assets.

One of the integrated contractor representatives addressed this point in the survey reply. He said:

> As an integrated contractor within the ERDA-ALO complex, we have pointed out conflict between the ERDA system and Cost Accounting Standards, either promulgated or yet to be promulgated. Until these conflicts are resolved we have made no attempt to revise our system to comply with such standards. It should be noted that we have questioned the applicability of Cost Accounting Standards to a government owned-contractor operated facility when, in our judgment, the intent of the standards is to assure the consistent and proper distribution of cost in an environment where both government and commercial work is performed.[6]

The integrated contractors are required to follow the accounting policies outlined in the ERDA Manual.[7] Because the survey responses showed that only one ALO integrated contractor has revised an accounting system to comply with promulgated cost accounting standards, an assumption can be made that the ALO integrated contractors are continuing to comply with the ERDA Manual rather than with the cost accounting standards. A change to cost accounting standards compliance is not being suggested. It was shown in chapter three that such a change would not be beneficial. The point that the integrated contractors are complying with the ERDA Manual rather than the cost accounting standards is being made to suggest that seventy-four hundred dollars is not the total cost that would be required if accounting systems were revised to comply with promulgated cost accounting standards.

Internal Audit

Only two of the eight integrated contractors surveyed have used their internal auditors to assure cost accounting standards compliance. These two contractors have expended four man months in audit effort for a total cost of nine thousand dollars. Two other integrated contractors stated that they relied on ERDA for audit support.

Responding

The Cost Accounting Standards Board relies on contractor input in the cost accounting standard development process. Recognizing that a problem area exists is the first step in this process.

After the problem area is recognized and approved by the Cost Accounting Standards Board for further study, the Board's professional staff confers with contractor representatives, government agencies, and accounting groups. This provides a cross section of opinions on the identified problem area. This study sometimes results in the various solutions to the problems being tried at contractor installations.[8]

The next step in the cost accounting standard development process involves a study of various solutions. The result of this step is a draft cost accounting standard. This draft is circulated to contractors, government agencies, accounting groups, and other interested parties to determine the probable costs versus benefits of the standard.[9]

The comments received from this circulation are incorporated in a proposed cost accounting standard. The proposed standard is presented to the Cost Accounting Standards Board for their review and approval. After approval by the Board, the proposed standards is published in the Federal Register. The purpose of this publication is to solicit formally comments on the proposed standard from contractors, government agencies, and others.[10]

The comments received as a result of the Federal Register publication are incorporated in an additional revision. This revision of the standard is again presented to the Cost Accounting Standards Board. Finally, the Board votes on whether or not to approve the standard for promulgation. If the standard is approved, it is promulgated by being published in the Federal Register a second time.[11]

The eight ALO integrated contractors indicated in their survey responses that responses to proposed standards, published standards, rough drafts of standards, and other items related to the cost accounting standards have required from one-half to eleven man months. They estimated the total cost for this effort to be $49,700.

Other Costs

Costs associated with the cost accounting standards in the other cost category were reported by three of the integrated contractors. These were identified by the contractors as training and publications costs.

Contractor D did not provide a breakdown of the $22,400 incurred between training and publications nor were specific training courses or publication titles given. Contractor F has incurred training costs of $140 for one employee to attend a seminar on cost accounting standards. Contractor F incurs publication costs of about eighty dollars each year for a subscription to the Cost Accounting Standards Guide published by Commerce Clearing House, Inc. A three year subscription was assumed for the purpose of this study. Contractor G incurs costs of seventy-five dollars each year for publications. Again a three year subscription was assumed. Total other costs were estimated to be $23,005.

Summary

The eight ALO integrated contractors estimate they have incurred costs of $140,955 that can be directly associated with their compliance with the cost accounting standards. This figure will be increased if the conflicts between the ERDA accounting policy requirements and the cost accounting standards are resolved. A resolution of these conflicts plus mandatory integrated contractor compliance with the cost accounting standards will clearly result in additional costs for accounting system changes.

Two former ALO integrated contractors were not included in this survey. The Dow Chemical Company operated the Rocky Flats Plant from 1952 until July 1, 1975 when the operation was taken over by Rockwell International.[12]

Mason & Hanger-Silas Mason Co., Inc. operated the Burlington Plant, located near Burlington, Iowa, from 1949 until July 1, 1975 when the plant activities were transferred to the Pantex Plant.[13] The total cost of ALO integrated contractor compliance with the cost accounting standards is increased to $162,455 by assuming a median of the eight contractor survey responses of $10,750 for the two former contractors.

ERDA Costs

The ERDA costs associated with the ALO integrated contractor compliance with the cost accounting standards that were considered in this study are ALO audit costs. Although there were other costs involved, they are not readily identifiable with the cost accounting standards.

Auditing is a factor in the administration of ERDA integrated contractor operations. The objectives of the ERDA audit policies are:

1. To provide an independent, objective review of the various activities performed by ERDA and its contractors in carrying out ERDA's operating programs, construction projects, and administrative services
2. To bring about the maximum utilization of the results of audits in the discharge of management's responsibilities for assuring that the financial interests of the Government are adequately safeguarded and properly accounted for; that applicable laws and regulations are complied with; that operations are conducted economically and efficiently; and that the desired programmatic results are effectively achieved.[14]

It is an ERDA audit policy to rely on the audit work done by other auditors to the "extent practicable." Therefore, the level of ERDA audit work at any integrated contractor location is a function of the level of the integrated contractor's internal audit effort.[15]

Contractor compliance with the cost accounting standards is the responsibility of the contracting federal agency. The contracting agency is responsible for obtaining the contractor's disclosure statement and for determining if it is adequate. The adequacy determination is an audit responsibility.[16]

The purpose of the auditor's review of the disclosure statement is to determine if the statement is "current, accurate, and complete." The disclosure statement is current if it describes the cost accounting practices that will be used on the contract. The disclosure statement is accurate if it accurately describes the cost accounting practices. The disclosure statement is complete if all of the cost accounting practices are disclosed. After the auditor's review is completed, the results of the review are reported to the contracting officers.[17]

Determining whether or not a contractor is in compliance with the cost accounting standards is also an audit responsibility.[18] However, the cost of the ALO compliance audits is not being considered in this study. The ALO auditors include a review of the integrated contractor's compliance with the cost accounting standards in their regular management audits of the contractor's functional areas. The time used in performing the compliance reviews is charged to the functional audit and cannot be separately identified.

The "Audit Branch Time and Status Reports" on file in the Audit Branch, Finance Division at ALO were used to determine the audit hours that were required to review the eight ALO integrated contractor and two former ALO integrated contractor disclosure statements. A tabulation of the hours is shown in table 7 with the contractors again identified by alphabetical letters. The hours are shown by audit year. The audit year runs from the first of September to the end of August of the following year. The audit year 1976 hours are for the period of September 1, 1975 through December 20, 1975.

An average salary rate was applied to the audit hours to arrive at a dollar amount for the purpose of this study. The use of an average was necessary because of the difficulty in determining which auditor performed the review and the auditor's salary at that time. The annual salary used was $19,700, an hourly rate of $9.47 based on 2080 annual hours. The $19,700 salary was paid a grade thirteen step one under the General Salary Schedule effective January 1, 1973. Five of the reviews are known to have been performed by a grade thirteen.[19] The salary

TABLE 7

ERDA AUDIT HOURS

Contractor	1973	1974	1975	1976	Total
A	98	-0-	-0-	-0-	98
B	-0-	-0-	-0-	40	40
C	56	8	18	70	152
D	-0-	212	-0-	-0-	212
E	40	-0-	-0-	20	60
F	130	-0-	8	-0-	138
G	60	80	-0-	-0-	140
H	-0-	70	50	-0-	120
I	56	26	-0-	-0-	82
J	106	58	-0-	-0-	164
	546	454	76	130	1,206

amounts paid for steps above one are assumed to offset the lower salaries received by any auditors below grade thirteen that performed one of the reviews.

The ERDA Manual includes a "Pricing Handbook" that contains rates that are used to price any work done for private firms. The rates have been developed to recover all ERDA costs.[20]

The rates given to price work for private firms are:

1. employee's gross salary, plus
2. personnel benefits at 25% of employee's gross salary, plus
3. 15% of (1) and (2), plus
4. any other directly associated costs, such as travel and communications.[21]

These rates were used to arrive at the total cost of the ALO audit review of the disclosure statements submitted by the integrated contractors.

A tabulation of the hours required to review the ALO integrated contractor disclosure statements is shown in table 8. The average hourly salary rate of $9.47 has been applied to the hours to arrive at the total labor cost. The loading rate of twenty-five percent for personnel benefits has been applied to the labor cost to arrive at labor cost including personnel benefits. The loading rate of fifteen percent for overhead costs has been applied to the labor cost including personnel benefits to arrive at fully loaded labor costs. (See table 8 on following page.)

TABLE 8

ERDA AUDIT COSTS

Contractor	A Total labor hours	B Average hourly rate	C Labor Costs (AxB)	D Labor including personnel benefits (Cx125%)	E Labor including personnel benefits & overhead (Dx115%)
A	98	$9.47	$928.06	$1,160.08	$1,334.09
B	40	9.47	378.80	473.50	544.53
C	152	9.47	1,439.44	1,799.30	2,069.20
D	212	9.47	2,007.64	2,509.55	2,885.98
E	60	9.47	568.20	710.25	816.79
F	138	9.47	1,306.86	1,633.58	1,878.62
G	140	9.47	1,325.80	1,657.25	1,905.84
H	120	9.47	1,136.40	1,420.50	1,633.58
I	82	9.47	776.54	970.68	1,116.28
J	164	9.47	1,553.08	1,941.35	2,232.55
	1,206		$11,420.82	$14,276.04	$16,417.46

There were no other costs directly associated with the ALO auditors' review of the integrated contractor disclosure statements.

Summary

The dollar cost of ERDA integrated contractor compliance with the cost accounting standards is comprised of costs incurred by ERDA and by the individual integrated contractors. An estimate of the costs relative to the eight ALO integrated contractors and two former ALO integrated contractors have been determined for the purposes of this study.

In order to determine the costs incurred by the eight ALO integrated contractors in complying with the cost accounting standards, a survey questionnaire was used. The survey responses showed that the eight integrated contractors have incurred costs of $140,955 directly associated with their compliance with the cost accounting standards. This amount was increased to $162,455 by assuming a median of the eight contractor survey responses of $10,750 for the two former ALO integrated contractors. The two former integrated contractors were not included in the survey.

Because of conflicts between the accounting policy requirements contained in the ERDA Manual, that the integrated contractors are required to follow, and the cost accounting standards, few accounting system changes have been made. A change in the ERDA Manual to make it consistent with the cost accounting standards will increase the integrated contractor compliance costs because of accounting system changes that will be required.

The ALO audit effort required to review the disclosure statements submitted by the eight ALO integrated contractors and two former integrated contractors was the only ERDA cost considered in this study. Other ERDA costs, such as administrative costs associated with the cost accounting standards and audit costs incurred in reviewing the ALO integrated contractor compliance with the cost accounting standards, could not be separately identified.

The total cost of the ALO audit review of the disclosure statements submitted by the ALO integrated contractors was estimated to be $16,417.

The total cost associated with the ALO integrated contractor compliance with the cost accounting standards was estimated to be $178,872 at December 1975. This figure includes the ERDA costs that could be identified and the integrated contractor costs.

ENDNOTES

[1] Defense Production Act Amendments of 1970, U.S. Code, vol. 50 app., sec. 2168 (1970).

[2] Bernard B. Lynn, "Auditing Contractor Compliance with Cost Accounting Standards," Journal of Accountancy 138 (June 1975): 63.

[3] Arthur Schoenhaut, "Work of the Cost Accounting Standards Board," GAO Review (Winter 1972): 51.

[4] Robert Feinschreiber, "Federal Regulation of Cost Accounting Begins," CPA Journal 42 (December 1972): 1025.

[5] CCH Cost Accounting Standards Guide, par. 1761.

[6] U.S. Energy Research and Development Administration, Albuquerque Operations Office, Integrated Contractor, survey response.

[7] U.S., Energy Research and Development Administration, Manual, chap. 1101-061.

[8] P. R. McClenon, "Operations of the Cost Accounting Standards Board," Journal of Accountancy 135 (April 1973): 60.

[9] David H. Li, "Cost Accounting Standards Board: A Progress Report," Management Accounting 54 (June 1973): 14.

10 Robert K. Mautz, "The Other Accounting Standards Board," Journal of Accountancy 137 (February 1974): 57.

11 Ibid.

12 U.S., Energy Research and Development Administration, The Story of Albuquerque Operations (Albuquerque, New Mexico: Albuquerque Operations Office, 1975), p. 27.

13 Ibid., p. 24.

14 Energy Research and Development Administration, Manual, chap. 1201-02.

15 Ibid., app. 1201, pt. I, sec. 14.

16 Ibid., app. 1201, pt. IV, sec. V.

17 Ibid.

18 Ibid.

19 Roger M. Sargent, interview held at the U.S., Energy Research and Development Administration, Albuquerque Operations Office, Albuquerque, New Mexico, 5 January 1976.

20 Energy Research and Development Administration, Manual, chap. 1701-01.

21 Ibid., app. 1701, pt. I, sec. I.

CHAPTER V

THE COMPARISON OF THE MONETARY BENEFITS AND THE DOLLAR COSTS TO THE UNITED STATES GOVERNMENT

Introduction

A Cost Accounting Standards Board was established by the Defense Production Act Amendments of 1970. The purpose of this Board is to promulgate cost accounting standards that will attain "uniformity and consistency" in defense contractor's and subcontractor's cost accounting practices.[1]

The cost accounting standards portion of the amendments was a direct result of testimony given by Admiral Hyman Rickover on April 11, 1968 before the House Banking and Currency Committee. At that time, Admiral Rickover stated that "uniform standards of accounting could save at least five percent of the defense procurement budget," an annual saving of two billion dollars.[2] An eighteen month study was made of the feasibility of applying cost accounting standards to negotiated defense contracts. The study, done under the direction of a five man steering committee, showed that cost accounting standards were feasible.[3] However, one of the recommendations made in the report issued at the conclusion of the feasibility study was that cost accounting standards' benefits should be greater than the implementation cost.[4]

The standards promulgated by the Cost Accounting Standards Board must be followed by:

> All relevant Federal agencies and by defense contractors and subcontractors in estimating, accumulating, and reporting costs in connection with the pricing, administration, and settlement of all negotiated prime contract and subcontract national defense procurements with the United States in excess of $100,000, other than contracts or subcontracts where the price negotiated is based on (1) established catalog or market prices of commercial items sold in substantial quantities to the general public, or (2) prices set by law or regulation.[5]

The Defense Production Act Amendments of 1970 requires the Board to "take into account the probable costs of implementation compared to the probable benefits."[6]

The purpose of this chapter is to compare the monetary benefits likely to result from the ERDA integrated contractor compliance with the cost accounting standards to the dollar costs incurred by the ALO integrated contractors in complying with the standards. The penalty for noncompliance with the cost accounting standards is also discussed.

Monetary Benefits and Dollar Costs

A comparison of the accounting controls of five of the ten cost accounting standards, promulgated through fiscal year 1975, to the accounting controls imposed by the ERDA Manual and ERDA Procurement Regulations is contained in chapter three of this study. The purpose of this comparison was to determine if the cost accounting standards are more beneficial in controlling costs incurred by the ERDA integrated contractors than the ERDA Manual and ERDA Procurement Regulations.

Chapter four of this study contains the results of a survey of the ALO integrated contractors that was used to determine the amount of dollar costs these contractors have incurred in complying with the cost accounting standards requirements. The dollar cost of ALO audit effort required to review the disclosure statements submitted by the ALO integrated contractors is also shown in chapter four.

Monetary Benefits

For the purpose of this study, a comparison of the accounting controls of the cost accounting standards and the ERDA Manual and ERDA Procurement Regulations was done on a test basis using five of the standards selected at random. The objectives of the Cost Accounting Standards Board were also reviewed. The monetary benefits of ERDA integrated contractor compliance with the cost accounting standards were determined through this comparison and review.

The first cost accounting standard selected for comparison was Consistency in Estimating, Accumulating, and Reporting Costs. The purpose of this standard is to assure that a contractor uses the same accounting practices in estimating contract proposals that are used in accumulating and reporting contract costs.[7]

It was shown that the budget and reporting classifications and the product cost accounting policies that the integrated contractors are required to use assures consistency in estimating, accumulating, and reporting costs. The budget and reporting classifications and the product cost accounting policies are requirements of the ERDA Manual.[8]

The second cost accounting standard selected for comparison was Consistency in Allocating Costs Incurred for the Same Purpose. The purpose of this standard is to insure that each type of cost is allocated only once and on a consistent basis to a contract. This standard was developed to prevent costs from being charged to a contract twice.[9]

It was shown that the ERDA "Contract Cost Principles and Procedures" prohibit a cost from being charged to a contract twice. The government is paying virtually all of the costs incurred by the integrated contractors. The method used to allocate costs cannot result in any material increased costs to the government since costs are not allocated between government and commercial work.[10]

The third cost accounting standard selected for comparison was Cost Accounting Period. The purpose of this standard is to establish rules to be followed by contractors in selecting their cost accounting periods. The standard requires contractors to use their fiscal years as their cost accounting period except in four specific instances. The contractors are required to be consistent in their selection of cost accounting periods.[11]

It was shown that the ERDA Manual requires the preparation of annual financial and cost statements that consolidate all ERDA and ERDA integrated contractor operations. This requirement assures that the integrated contractors will consistently use their fiscal year, the fiscal year of the United States Government, as their cost accounting period.[12]

The fourth cost accounting standard selected for comparison was Depreciation of Tangible Capital Assets. The purpose of this standard is to establish consistent methods for contractors to follow in assigning tangible asset depreciation costs to cost objectives within cost accounting periods. The use of these methods assures that the amount of depreciation costs assigned to cost objectives reflects the using up of the asset being depreciated.[13]

The primary concern with depreciation methods used by government contractors is fairness. The methods used should not allocate a disproportionate share of the contractor's depreciation cost to government work.

It was shown that all of the capital assets used by the ERDA integrated contractors were purchased with government capital equipment funds. Depreciation of the assets is used only for internal management and control purposes. It is not used as a method of charging the government for the cost of expended assets. The depreciation guidelines contained in the ERDA Manual assure uniformity and consistency in the depreciation methods used by the ERDA integrated contractors. Because contract costs are not affected by the depreciation methods used, uniformity and consistency controls are all that are needed.[14]

The fifth cost accounting standard selected for comparison was Accounting for Acquisition Cost of Materials. The purpose of this standard is to provide guidelines contractors are to follow consistently in accounting for materials acquisition costs. The standard specifies the methods that can be used to charge materials costs to cost objectives, when inventory records must be used, and what is to be considered materials costs.[15]

It was shown that the controls over the acquisition costs of materials, contained in the ERDA Manual, that the ERDA integrated contractors are required to follow are basically the same as the controls contained in the cost accounting standard.[16]

It is important to understand the contracting relationship that exists between the ERDA integrated contractors and the government. Understanding this relationship is more important in determining the benefits of cost accounting standards compliance than comparing the accounting controls of the cost accounting standards and the ERDA Manual and ERDA Procurement Regulations.[17]

It would appear that the "probable benefits" that the Cost Accounting Standards Board is to consider in promulgating cost accounting standards[18] refers to a government cost saving. This saving can result from promulgating cost accounting standards that require uniformity and consistency in the practices followed by commercial contractors and which control the timing and allocation of costs between government contracts and commercial work. However, uniformity and consistency within and between the integrated contractors is required by ERDA internal regulations. Timing, when a cost is charged to a cost objective, does not affect the total government costs because the government is paying virtually all the costs incurred by the ERDA integrated contractors. Similarly, the method used to allocate

ERDA integrated contractor costs cannot affect the government's total costs.

Although the annual budget of the eight ALO integrated contractors is material, $616 million in fiscal year 1975,[19] the fact that their costs are essentially all reimbursed by the government, not allocated between commercial and government work, and not commingled with the costs of their commercial work, prevents cost manipulation from being a material consideration.

Dollar Costs

The survey questionnaire, used to determine costs incurred, showed that the eight ALO integrated contractors have incurred costs of $140,955 in complying with cost accounting standards requirements. These costs have been incurred primarily in meeting two requirements. Their initial disclosure statement submission and necessary amendments required a total of 27 3/4 man months, a total cost of $51,850. Responding to proposed standards, published standards, rough drafts of standards and other items related to the cost accounting standards accounted for $49,700 of the total costs incurred or 25 1/2 man months.[20]

The ALO integrated contractors' costs were increased to $162,455 by using the median questionnaire response for two former ALO integrated contractors not included in the survey.[21]

The costs incurred by ERDA, associated with the ten integrated contractors' compliance with the cost accounting standards, were estimated to be $16,417. These costs are connected with the ALO audit effort required to review the disclosure statements submitted by the eight ALO integrated contractors and two former ALO integrated contractors.[22]

The costs shown in this study of $178,872, a combination of the costs incurred by the ALO integrated contractors and ERDA, are not intended to represent the total costs of ALO integrated contractor compliance with the cost accounting standards. There will be additional costs for accounting system changes when the conflicts between the ERDA accounting policy requirements and the cost accounting standards are resolved. Additional ERDA costs, such as administrative costs and costs associated with auditing for ALO integrated contractor compliance with the cost accounting standards, could not be isolated.[23]

The Comparison

The accounting controls of five of the cost accounting standards were compared to the accounting controls contained in the ERDA Manual and ERDA Procurement Regulations. This comparison showed that the ERDA Manual and ERDA Procurement Regulations are just as effective for controlling the operations of the ERDA integrated contractors. The cost accounting standards provided no monetary benefits.

The survey of the ALO integrated contractors plus a review of the ALO "Audit Branch Time and Status Reports" showed at least $178,872 of costs have been incurred for these contractors' compliance with the cost accounting standards.

Although this dollar amount is immaterial when compared to the ALO integrated contractor's budget, it is more than the monetary benefits. Circumstances such as this one are probably what both the report issued at the conclusion of the feasibility study and the Defense Production Act Amendments of 1970 were addressing when they stated that probable benefits of the cost accounting standards should be greater than the cost of implementation.

The ALO integrated contractor implementation costs thus far are relatively small, but the need for economy in government requires that all unnecessary costs be eliminated.

Penalty for Noncompliance

The Defense Production Act Amendments of 1970 authorized the Cost Accounting Standards Board to make rules and regulations implementing cost accounting standards.

The Board is required to make regulations that require:

> Defense contractors and subcontractors as a condition of contracting to disclose in writing their cost accounting principles . . . . and to agree to a contract price adjustment, with interest, for any increased costs paid to the defense contractor by the United States because of the defense contractor's failure to follow consistently his disclosed cost accounting practices in pricing contract proposals and in accumulating and reporting contract performance cost data.[24]

This requirement resulted in the Board issuing a contract clause that is included in all government contracts subject to the cost accounting standards. The clause contains a repayment provision, with interest, for failure either to follow disclosed practices or to comply with cost accounting standards. The clause allows contractors to offset price increases on government contracts resulting from changes in their accounting practices against price decreases on other government contracts in determining increased costs to the government.[25] The increased cost to the government for a cost reimbursement contract is the difference between the cost actually charged and the cost that would have been charged using disclosed practices or applicable cost accounting standards.[26]

The contract clause that requires contractors to repay any increased costs, with interest, resulting from failure to follow disclosed practices or to comply with cost accounting standards provides an incentive for compliance. However, the failure of ERDA integrated contractors to follow their disclosed practices or comply with cost accounting standards does not result in an increased cost to the government. The accounting systems of these contractors only account for costs of government work.[27] Therefore, their cost allocation methods do not affect the cost of their government work. Thus, ERDA integrated contractor compliance with the cost accounting standards cannot, practically speaking, be enforced.

Summary

A comparison between the monetary benefits and the dollar costs of ALO integrated contractor compliance with the cost accounting standards showed the costs are greater. The contract provision that requires a contractor to repay any increased costs, with interest, that results from failure to follow disclosed practices or to comply with cost accounting standards cannot be used as a compliance incentive for the ERDA integrated contractors.

ENDNOTES

1
Defense Production Act Amendments of 1970, U.S. Code, vol. 50 app., sec. 2168 (1970).

2
Paul M. Trueger, Accounting Guide for Defense Contracts, 6th ed. (Chicago: Commerce Clearing House, Inc., 1971), p. 676.

3
Ibid., p. 679.

4
U.S., Congress, House Committee on Banking and Currency, Report on the Feasibility of Applying Uniform Cost Accounting Standards to Negotiated Defense Contracts, By the Comptroller General of the United States, 91st Cong., 2d sess. (Washington, D.C.: Government Printing Office, 1970), pp. 20-23.

5
Defense Production Act Amendments of 1970.

6
Ibid.

7
For a detailed discussion of this matter see p. 61 above.

8
Ibid., pp. 62-63.

9
Ibid., p. 64.

10
Ibid., pp. 64-65.

11
Ibid., pp. 65-66.

12
Ibid., pp. 66-67.

13
Ibid., pp. 67-70.

14
Ibid., pp. 70-71.

15
Ibid., pp. 71-72.

16
Ibid., pp. 72-74.

17
Ibid., pp. 14-15.

18
Defense Production Act Amendments of 1970.

19
U.S., Energy Research and Development Administration, Albuquerque Operations Office, "Consolidated Financial Plan," June 1975. (Computer Run.)

20
For a detailed discussion of this matter see pp. 82-93 above.

21
Ibid., pp. 93-94.

22
Ibid., pp. 94-100.

23
Ibid., pp. 100-101.

24
Defense Production Act Amendments of 1970.

25
Arthur Schoenhaut, "Cost Accounting Standards Board: Past, Present, and Future," Financial Executive 41 (September 1973): 31.

26
Robert Feinschreiber, "Federal Regulation of Cost Accounting Begins," CPA Journal 42 (December 1972): 1025.

27 For a detailed discussion of this matter see pp. 14-15 above.

CHAPTER VI

CONCLUSIONS AND RECOMMENDATION

Summary

The purpose of this study was to determine if ERDA integrated contractor compliance with the cost accounting standards is beneficial to the government. The history and organization of ERDA and ALO were reviewed. The term "integrated contractor" was defined. The eight ALO integrated contractors were identified and their missions discussed. A background was provided by reviewing the history of cost control for government contracts and the cost accounting standards feasibility study. The Cost Accounting Standards Board, its purpose, organization, and method of operation were discussed to provide an understanding of the cost accounting standards.

The monetary benefits and dollar costs of the ERDA integrated contractor compliance with the cost accounting standards were determined and compared in order to accomplish the purpose of this study. The comparison was made using the estimated dollar costs that have been incurred by ALO and the ALO integrated contractors in the contractor's compliance with the cost accounting standards.

The comparison showed the estimated costs to be greater than the monetary benefits. Although the total identifiable compliance costs are small in relation to the ALO integrated contractors' operating budgets, this study showed there are no monetary benefits.

Conclusions

It was not possible to determine the total cost incurred by ALO associated with the ALO integrated contractor compliance with the cost accounting standards. However, the costs are in excess of those shown in this study.

The ALO cost accounting standards compliance audits are performed in connection with regularly scheduled audits of the integrated contractor's functional areas. The audit hours used are charged to the functional area audited. Therefore, the hours required for auditing cost accounting standard compliance could not be separately identified. The ALO administrative costs also could not be isolated. No attempt was made to estimate either the compliance audit hours nor the administrative costs.

An estimate of the compliance costs incurred by the ALO integrated contractors was obtained using a survey questionnaire. However, no attempt was made to estimate the costs that will be required for accounting system changes if the conflicts between the ERDA Manual accounting policies and the cost accounting standards are resolved.

Costs of $178,872 associated with ALO integrated contractor compliance with the cost accounting standards were identified. A comparison of these costs with the monetary benefits that result from compliance tend to support the hypothesis of this study. Costs are greater than benefits.

The costs shown in this study are only those related to ALO integrated contractors. However, the same cost accounting standard requirements apply to the integrated contractors administered by other ERDA operations offices. It seems reasonable to assume these operations offices and integrated contractors have incurred similar costs.

An additional problem discussed earlier was the probability that the ERDA integrated contractors are not complying with the cost accounting standards.[1] This problem is resulting from conflicting ERDA and cost accounting standard requirements. Because the integrated contractors are required to follow both, the conflicts result in the contractors' having to make a choice. They can comply with the ERDA requirements and be in violation of the cost accounting standards. Or, they can choose to comply with the cost accounting standards and be in violation of ERDA requirements. The more economical choice appears to be compliance with ERDA requirements. Accounting system changes do not have to be made. Failure of the integrated contractors to comply with cost accounting standards cannot result in any increased cost to the government. Thus, repayment of increased costs, with interest, is not a consideration.

The inconsistencies between ERDA requirements and cost accounting standards also require the auditors of integrated contractors to make a choice. Two of the objectives of the ERDA audit effort are to assure "applicable laws and regulations are complied with" and "that operations are conducted economically and efficiently."[2] The guidelines given for integrated contractor audits state that one of the main purposes is to determine compliance with "applicable policies, procedures, and controls." If the auditor discovers noncompliance, the bad effects and "whether or not the policies, procedures, or control is appropriate" must be determined.[3] However, cost accounting standard compliance is mandatory. Noncompliance must be reported to the contracting officers.[4] If these guidelines are followed, the auditor must conclude in the event of a conflict that the ERDA requirements are not appropriate. This conclusion is required even if there are no bad effects from noncompliance with the cost accounting standards and the contractor's present method is the most economical.

Recommendation

The Defense Production Act Amendments of 1970 gives the Cost Accounting Standards Board the authority to exempt contractors from the cost accounting standards requirements. The Act states:

> The Board is authorized . . . 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 national defense procurements as it determines, on the basis of the size of the contracts involved or otherwise, are appropriate and consistent with the purposes sought to be achieved by this section.[5]

The ERDA integrated contractors appear to be a class of contractors appropriate for exemption. Their almost total government funding plus the ERDA accounting policy requirements make the cost accounting standard requirements of little or no benefit. As a result of this study, it is recommended that ERDA request the Cost Accounting Standards Board to waive the cost accounting standards requirements for these contractors.

An Additional Point

The United States House of Representaives passed H.R. 10031 on November 14, 1975. The provisions of H.R. 10031, known as the "Defense Production Act Amendments of 1975," requires the Cost Accounting Standards

Board to compare the "probable" costs to the "probable" benefits of promulgated cost accounting standards. The Board is required to transmit a copy of the comparison to Congress with copies of proposed cost accounting standards. This requirement also applies to rules and regulations of the Cost Accounting Standards Board.[6]

The Board is required to develop methods to be used in the comparison. Three major areas are to be included in the comparision as follows:

> 1. An analysis of the principal cost or other inflationary effects of the proposed standard, rule or regulation on markets, consumers, businesses or Federal, State or local government, and, where practical, an analysis of secondary cost and price effects. These analyses should have as much quantitative precision as necessary and should focus on a time period sufficient to determine economic and inflationary impacts.
>
> 2. A comparison of the benefits to be derived from the proposed standard, rule or regulation with the estimated costs and inflationary aspects. These benefits should be quantified to the extent practical.
>
> 3. A review of alternatives to the proposed standard, rule or regulation that were considered, their probable costs, benefits, risks, and inflationary impacts compared with those of the proposed standard, rule or regulation.[7]

This requirement, if followed, should prevent the implementation costs of future individual cost accounting standards, rules, and regulations from exceeding the benefits.

This bill has been signed into law by President Ford.[8]

ENDNOTES

1 For a detailed discussion of this matter see pp. 89-90 above.

2 U.S., Energy Research and Development Administration, Manual, chap. 1201-02.

3 Ibid., app. 1201, pt. II, sec. A.

4 Ibid., app. 1201, pt. IV, sec. V.

5 Defense Production Act Amendments of 1970, U.S. Code, vol. 50 app., sec. 2168 (1970).

6 U.S., Congress, House, Defense Production Act Amendments of 1975, 94th Cong., 1st sess., 14 November 1975, Congressional Record 121: H11212.

7 Ibid.

8 CCH Cost Accounting Standards Guide, supp. no. 43.

APPENDIX A

UNITED STATES
ENERGY RESEARCH AND DEVELOPMENT ADMINISTRATION
ALBUQUERQUE OPERATIONS OFFICE
P.O. BOX 5400
ALBUQUERQUE, NEW MEXICO 87115

General Electric Co.
Neutron Devices Division
P. O. Box 11508
St. Petersburg, Florida 33733

Attn: Mr. D. L. Pilini, Manager of Finance

Dear Mr. Pilini,

I am attempting to obtain from the ERDA-ALO integrated contractors an estimate of the amount of costs they have incurred as a result of the cost accounting standards.

I am an ERDA employee. However, this year I am attending The University of New Mexico as a Public Science Policy and Administration Fellow under the sponsorship of ERDA. The information I am requesting from GE will be used in my thesis, "An Evaluation of Financial Management Controls in ERDA."

I am enclosing a questionnaire to be filled in and a self-addressed envelope for your convenience in returning it. The individual contractors will not be identified with their responses in any way in my thesis.

This letter and questionnaire have been reviewed and are endorsed by ERDA-ALO management.

Thank you for your cooperation.

Janell Crego

Janell Crego

AMERICAN REVOLUTION BICENTENNIAL 1776-1976

COST ACCOUNTING STANDARDS

The purpose of this questionnaire is to determine the dollar impact of the cost accounting standards on integrated contract costs. The impact, i.e., audit effort, procurement effort, etc., associated with the cost accounting standards application to your subcontracts should not be included in your answers.

1. Disclosure Statement
   a. How many man months were required for the initial submission of your disclosure statement?

      ____

   b. If it has been necessary to amend your disclosure statement, how many man months were required for this?

      ____

   c. Estimate the total cost associated with this effort.

      $______________________

2. Promulgated Cost Accounting Standards
   a. Has it been necessary to revise your accounting system to comply with promulgated cost accounting standards?

      no______ yes______

   b. If so, how many man months were required?

      ____

   c. Estimate the total cost associated with this effort.

      $______________________

3. Internal Audit
   a. How many total man months have you expended in audit effort to assure yourselves you are complying with the cost accounting standards?

      ____

b. Estimate the total cost associated with this effort.

$____________________

4. How many man months have you expended in responding to proposed standards, published standards, rough drafts of standards, or other items related to the cost accounting standards?

____

Estimate the total cost association with this effort.

$_________________________

5. Do you have any employees that are devoting all their time to your compliance with the cost accounting standards?

no______ # of employees____________

yes_____ total salary ____________

6. Have you had any other costs, such as training, publications, etc., associated with the cost accounting standards not included in your answers to questions 1-4?

no______ yes ______

If yes, what is the amount and nature of these costs?

$_________________________

Nature of costs:

APPENDIX B

COST ACCOUNTING STANDARDS BOARD **DISCLOSURE STATEMENT** *REQUIRED BY PUBLIC LAW 91-379*	GENERAL INSTRUCTIONS

1. This Disclosure Statement has been designed to meet the requirements of Public Law 91-379, and persons completing it are to describe their contract cost accounting practices. For timing of requirement to file a Disclosure Statement, see 4 C.F.R. 351.4. For complete regulations and instructions concerning submission of the Disclosure Statement, refer to the *Federal Register*, Title 4, Parts 331 and 351. A Statement must be submitted by all defense contractors who enter into negotiated national defense contracts with the United States in excess of $100,000 other than contracts where the price negotiated is based on (1) established catalog or market prices of commercial items sold in substantial quantities to the general public, or (2) prices set by law or regulation. A separate Disclosure Statement must be submitted covering the practices of each of the contractor's profit centers, divisions, or similar organizational units, whose costs included in the total price of any contract exceed $100,000, except where such costs are based on (1) established catalog or market prices of commercial items sold in substantial quantities to the general public; or (2) prices set by law or regulation. If the cost accounting practices under contracts are identical for more than one organizational unit, then only one Statement need be submitted for those units, but each such organizational unit must be identified. A Disclosure Statement will also be required for each corporate or group office when costs are allocated to one or more corporate segments performing contracts covered by Public Law 91-379, but only Part VIII of the Statement need be completed.

2. The Statement must be signed by an authorized signatory of the reporting unit.

3. The Disclosure Statement should be answered by checking the appropriate box or inserting the applicable letter code which most nearly describes the reporting unit's cost accounting practices. Pen and ink may be used to enter the check or letter code. Part I of the Statement asks for general information concerning the reporting unit. Part VIII covers Corporate and Group (Intermediate) offices whose costs are allocated to one or more segments performing contracts covered by Public Law 91-379. Part VIII should be completed by each such office, and care should be taken to insure proper identification of such offices on the cover of the Disclosure Statement. In short, while a Corporate or Group Office may have more than one reporting unit submitting Disclosure Statements, only one Statement need be submitted to cover the Corporate or Group Office operations.

4. A number of questions in this Statement may need narrative answers requiring more space than is provided. In such instances, the reporting unit should use the continuation sheets provided. The number of the question involved should be indicated and the same coding required to answer the questions in the Statement should be used in presenting the answer in the continuation sheet. The reporting unit should indicate on the last continuation sheet used, the number of such sheets that were used.

5. The Disclosure Statement is printed on both sides of the paper. To submit additional copies of the Statement, as required, companies may reproduce it on one side of the paper.

6. Amendments shall be submitted to the same offices, including the Cost Accounting Standards Board, to which submission would have to be made were an original Disclosure Statement being filed. Revised data for Items 1.4.0 through 1.7.0, 8.1.0, and 8.2.0 must be submitted annually at the beginning of the contractor's fiscal year. If fewer than five of the other items in the Disclosure Statement on file are changed, a letter notice precisely identifying the Disclosure Statement, the specific items being amended, and the nature of the changes will suffice. If five or more items are changed, the entire Disclosure Statement shall be resubmitted. Resubmitted Disclosure Statements must be accompanied by a notation specifying the items which have been changed and the nature of the change.

7. For Item 1.3.0 of the Disclosure Statement the following codes and classification descriptions have been selected from the Standard Industrial Classification Manual 1967, Executive Office of the President (Bureau of the Budget), which is used by U.S. Government agencies to classify establishments data by industry.

For the most part, only those industries which account for a major portion of defense contracting are specifically identified to a significant 4-digit level, that is, a code whose last two digits are each greater than zero. Where the specific industries are not relatively large in defense contracting terms, either a group code (ending in zero) or a major group code (ending in two zeros) is used. An exception to this rule is made when only one specific industry is assignable to a group, e.g., Metal Cases, Code 3411, is used because it is the only industry in Group 3410. One other exception applies to the group code rule: When a specific industry code is used and the group has two or more specific industries, the remaining industry codes within the group are consolidated into a group code ending in zero, e.g., Industrial Gases, is separately identified as Code 2813 and the remaining industries in the group are consolidated into a Group Code 2310 for all other industrial organic and inorganic chemicals.

To obtain the appropriate code for entry in Item 1.3.0 of the Disclosure Statement, each reporting organization should first examine the list of major-group descriptions below to determine which apply to the organization's products or services. Second, the specific codes and descriptions for the major group or groups should be reviewed to select the one code that most nearly identifies the product or service which accounted for most of the organization's sales or shipments in the base fiscal year used for the Disclosure Statement.

If research and development or modification and overhaul is associated with a product, use a specific manufactured product code (Codes 1911 through 3900) rather than a service code. For example, development work associated with aircraft should be coded 3721 (aircraft) rather than 7391 (commercial research and development laboratories).

Following are the major groups whose codes and descriptions are included:

I—Manufactured Products

19 Ordnance and Accessories.
20 Food and Kindred Products.
21 Tobacco Manufactures.
22 Textile Mill Products.
23 Apparel.
24 Lumber and Wood Products except Furniture.
25 Furniture and Fixtures.
26 Paper and Allied Products.
27 Printing, Publishing and Allied Industries.
28 Chemicals and Allied Products.
29 Petroleum Refining.
30 Rubber and Miscellaneous Plastic Products.
31 Leather and Leather Products.
32 Stone, Clay, Glass and Concrete Products.
33 Primary Metal Industries.
34 Fabricated Metal Products, except Ordnance Machinery and Transportation Equipment.
35 Machinery, except Electrical.
36 Electrical Machinery, Equipment and Supplies.
37 Transportation Equipment.
38 Professional, Scientific and Controlling Instruments; Photographic and Optical Goods; Watches and Clocks.
39 Miscellaneous Manufactures.

II—Construction and Services

15 Building Construction.
16 Construction, other than Building Construction.
17 Construction, Special Trade Contractors.
40 Railroad Transportation.
42 Motor Freight Transportation and Warehousing.
44 Water Transportation.

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45 Transportation by Air.

47 Transportation Services.

48 Communication.

73 Miscellaneous Business Services.

80 Medical and Other Health Services.

82 Educational Services.

PRINCIPAL PRODUCT OR SERVICE CODE

SECTION I—MANUFACTURED PRODUCTS

Code *Description*

19. ORDNANCE AND ACCESSORIES

1911 *Guns, Howitzers, Mortars, and Related Equipment.* Artillery having a bore over 30 mm, or over 1.18 inches, and components.

1925 *Guided Missiles and Space Vehicles.* Completely assembled guided missiles and space vehicles. Excludes guided missle and space vehicle engines and engine parts (Code 3722); ground and airborne guidance, checkout and launch electronic systems and components (Code 3662); and guided missile and space vehicle airframes, nose cones, and space capsules (Code 3729).

1929 *Ammunition, Except for Small Arms.* Ammunition over 30 mm or 1.18 inches, and also bombs, mines, torpedoes, grenades, depth charges, chemical warfare projectiles, and component parts. Excludes explosives (Code 2892).

1931 *Tanks and Tank Components.* Complete tanks and specialized components for tanks. Excludes military vehicles other than tanks (Code 3711) and tank engines (Code 3519).

1941 *Sighting and Fire Control Equipment.* Includes bomb sights, percentage correctors, wind correctors, directors, and sound locators. Excludes computers and computer systems (Code 3573).

1951 *Small Arms.* Small firearms having a bore 30 mm or 1.18 inches and below and parts for small firearms. Includes certain weapons over 30 mm which are carried and employed by the individual, such as grenade launchers and heavy field machine guns.

1961 *Small Arms Ammunition.* Ammunition for small arms as defined in Code 1951.

1999 *Ordnance and Accessories, Not Elsewhere Classified.* Examples include flame throwers, Y-guns, and smoke generators.

20. FOOD AND KINDRED PRODUCTS

2000 Foods and beverages for human consumption, and certain related products, such as manufactured ice, chewing gum, and prepared feeds for animals.

21. TOBACCO MANUFACTURES

2100 Cigaret[illegible]s, cigars, smoking and chew[illegible]g tobacco, and snuff.

22. TEXTILE MILL PRODUCTS

2200 Includes any of the following: (1) Yarn, thread, braids, twine, and cordage; (2) broad woven fabric, narrow woven fabric, knit fabric, and carpets and rugs from yarn; (3) dyeing and finishing fiber, yarn, fabric and knit apparel; (4) coating, waterproofing, or otherwise treating fabric; (5) the integrated manufacture of knit apparel and other finished articles from yarn; and (6) the manufacture of felt goods, lace goods, bonded-fiber fabrics, and miscellaneous textiles.

23. APPAREL

2300 Clothing and other finished products fabricated by cutting and sewing purchased or government-furnished textile fabrics and related materials, such as leather, rubberized fabrics, plastics, and furs.

24. LUMBER AND WOOD PRODUCTS, EXCEPT FURNITURE

2400 Poles, timber and pulpwood, sawmill and planing mill products, flooring, cooperage, millwork, plywood, prefabricated buildings, and wooden containers.

25. FURNITURE AND FIXTURES

2500 Household, office, public building and restaurant furniture, and office and store fixtures.

26. PAPER AND ALLIED PRODUCTS

2600 Pulps from rags and from wood and other cellulose fibers; paper and paperboard including building paper and building board, paper bags, boxes and envelopes.

27. PRINTING, PUBLISHING AND ALLIED INDUSTRIES

2700 Printing, such as by letterpress, lithography, gravure or screen; bookbinding, typesetting, engraving, and electrotyping; and newspaper, periodical, and book publishing.

28. CHEMICALS AND ALLIED PRODUCTS

2813. *Industrial Gases.* Gases in compressed liquid, and solid forms. Excludes fluorine and ammonia (Code 2810).

2810 *Industrial Organic, Inorganic Chemicals, Except Industrial Gases.*

2820 *Plastic Materials and Synthetic Resins, Synthetic Rubber, Synthetic and Other Man-Made Fibers, Except Glass Fibers.*

2830 *Drugs and Pharmaceuticals.*

2840 *Soaps, Detergents, and Cleaning Preparations.*

2850 *Paints, Varnishes, Lacquers, and Enamels.*

2860 *Agricultural Chemicals.* Fertilizers and pesticides.

2892 *Explosives.*

2890 *Chemicals, Not Elsewhere Classified.*

29. PETROLEUM REFINING

2900 Petroleum, paving and roofing materials (asphalt and tar), and lubricating oils and greases.

30. RUBBER AND MISCELLANEOUS PLASTIC PRODUCTS

3000 Products from natural, synthetic or reclaimed rubber; and miscellaneous finished plastic products.

31. LEATHER AND LEATHER PRODUCTS

3100 Includes finished leather and artificial leather products, and also the tanning, currying, and finishing of hides and skins.

32. STONE, CLAY, GLASS, AND CONCRETE PRODUCTS

3200 Flat glass and other glass products, cement, structural clay products, pottery, concrete, and gypsum products, cut stone, abrasive and asbestos products.

33. PRIMARY METAL INDUSTRIES

3310 *Products of Blast Furnaces, Steel Works, and Rolling and Finishing Mills.*

3320 *Iron and Steel Foundry Products.*

3330 *Primary Smelting and Refining of Nonferrous Metals.*

3340 *Secondary Smelting and Refining of Nonferrous Metals.*

3350 *Rolling, Drawing, and Extruding of Nonferrous Metals.*

3360 *Nonferrous Foundry Products.*

3390 *Miscellaneous Primary Metal Products.* Iron, steel, and nonferrous forgings, and primary metal products, not elsewhere classified.

34. FABRICATED METAL PRODUCTS, EXCEPT ORDNANCE, MACHINERY, AND TRANSPORTATION EQUIPMENT

3411 *Metal cans.*

3420 *Cutlery, Hand Tools and General Hardware.*

3430 *Heating Apparatus (Except Electrical) and Plumbing Fixtures.*

3440 *Fabricated Structural Metal Products.*

3450 *Screw Machine Products and Bolts, Nuts, Screws, Rivets, and Washers.*

3461 *Metal Stampings.*

3470 *Coating, Engraving, and Allied Services.*

3481 *Miscellaneous Fabricated Wire Products.*

3490 *Miscellaneous Fabricated Metal Products.* Barrels, drums, kegs, and pails; safes and vaults; steel springs; valve and pipe fittings, except brass goods and other fabricated metal products, not elsewhere classified.

35. MACHINERY, EXCEPT ELECTRICAL

3510 *Engines and Turbines.* Steam engines; steam, gas, and hydraulic

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turbines; steam, gas and hydraulic turbine generator set units; and internal combustion engines not elsewhere classified. Excludes aircraft and rocket engines (Code 3722) and automotive engines (Code 3714).

3522 *Farm Machinery and Equipment.*

3531 *Construction Machinery and Equipment.* Includes heavy machinery and equipment, such as bulldozers, concrete mixers, cranes, dredging machinery, pavers and power shovels.

3532 *Mining Machinery and Equipment.*

3533 *Oil Field Machinery and Equipment.*

3534 *Elevators and Moving Stairways.*

3535 *Conveyors and Conveying Equipment.*

3536 *Hoists, Industrial Cranes and Monorail Systems.*

3537 *Industrial Trucks, Tractors, Trailers and Stackers.*

3540 *Metal Working Machinery and Equipment.*

3550 *Special Industry Machinery, Except Metalworking.*

3560 *General Industrial Machinery and Equipment.*

3573 *Electronic Computing Equipment.* Includes general purpose electronic analog computers as well as electronic digital computers. The electronic computers may be used for data processing or may be incorporated as components into control equipment for industrial use, and as components of equipment used in weapons and weapons systems, space and oceanographic exploration, transportation and other systems. Electronic computer systems contain high speed arithmetic and program control units, on-line information storage devices and input/output equipment. Examples of input/output equipment are converters (card and/or tape), readers and printers. Examples of storage devices are magnetic drums and disks, magnetic cores, and magnetic film memories.

3570 *Office, Computing and Accounting Machines. Except Electronic Computing Equipment (Code (Code 3573).*

3580 *Service Industry Machines.*

3599 *Miscellaneous Machinery, Except Electrical.*

36. ELECTRICAL MACHINERY, EQUIPMENT AND SUPPLIES

3611 *Electric Measuring Instruments and Test Equipment.* Pocket, portable, panel-board, and graphic recording instruments for measuring electricity, such as voltmeters, ammeters, watt meters, watt-hour meters, demand meters, and other meters and indicating instruments. Also includes analyzers for testing the electrical characteristics of internal combustion engines and radio apparatus.

3612 *Power, Distribution, and Specialty Transformers.* Excludes radio frequency or voice frequency transformers, coils or chokes (Code 3679).

3613 *Switchgear and Switchboard Apparatus.*

3621 *Motors and Generators.* Electric motors (except starting motors) and power generators; motor generators sets; railway motors and control equipment; and motors, generators, and control equipment for gasoline, electric, and oil electric busses and trucks.

3622 *Industrial Controls.* Motor starters and controllers, control accessories, electronic controls and other industrial controls. Excludes automatic temperature controls (Code 3822).

3620 *Electrical Industrial Apparatus, Except Motors and Generators (Code 3621) and Industrial Controls (Code 3622).*

3630 *Household Appliances.*

3640 *Electric Lighting and Wiring Equipment.*

3651 *Radio and Television Receiving Sets, except communication Types.* Electronic equipment for home entertainment. Includes public address systems, and music distribution apparatus except records.

3652 *Phonograph Records.*

3661 *Telephone and Telegraph Apparatus.*

3662 *Radio and Television Transmitting, Signaling, and Detection Equipment and Apparatus.* Radio and television broadcasting equipment; electric communication equipment and parts, except telephone and telegraph; electronic field detection apparatus, light and heat emission operating apparatus, object detection apparatus and navigational electronic equipment, and aircraft and missile control systems; and high energy particle accelerator systems and equipment designed and sold as a complete package for radiation therapy, irradiation, radiographic inspection, and research (linear accelerators, betatrons, dynamotrons, Vandergraff generators, resonant transformers, insulating core transformers, etc.); high energy particle electronic equipment and accessories sold separately for the construction of linear accelerators, cyclotrons, synchrotrons, and other high energy research installations (transmitters/modulators, accelerating waveguide structures, pulsed electron guns, vacuum systems, cooling systems, etc.); other electric and electronic communication and signaling products, not elsewhere classified. Excludes transmitting tubes (Code 3673).

3671 *Radio and Television Receiving Type Electron Tubes Except Cathode Ray.*

3672 *Cathode Ray Picture Tubes.*

3673 *Transmitting, Industrial and Special Purpose Electron Tubes.*

3674 *Semiconductors and Related Devices.* Semiconductor and related solid state devices, such as semiconductor diodes and stacks, including rectifiers, integrated microcircuits (semiconductor networks), transistors, solar cells, and light sensitive semiconductor (solid state) devices.

3679 *Electronic Components and Accessories Not Elsewhere Classified.* Establishments primarily engaged in manufacturing specialty resistors for electronic end products; inductors, transformers, and capacitors and other electronic components, not elsewhere classified.

3690 *Miscellaneous Electrical Machinery, Equipment, and Supplies.* Includes storage and primary batteries, X-ray apparatus, electrical equipment for internal combustion engines and miscellaneous electrical machinery, equipment and supplies, not elsewhere classified.

37. TRANSPORTATION EQUIPMENT

3711 *Motor Vehicles.* Complete passenger automobiles, trucks, commercial cars and buses, and special purpose motor vehicles.

3714 *Motor Vehicle Parts and Accessories.*

3715 *Truck Trailers (Full).*

3721 *Aircraft.* Complete aircraft. Also includes factory type modification and overhaul of aircraft.

3722 *Aircraft Engines and Engine Parts.*

3723 *Aircraft Propellers and Propeller Parts.*

3729 *Aircraft Parts and Auxiliary Equipment, Not Elsewhere Classified.*

3731 *Ship Building and Repairing.* Ships, barges, and lighters, whether propelled by sail or motor power or towed by other craft. Also includes the conversion and alteration of ships.

3732 *Boat Building and Repairing.*

3740 *Railroad Equipment.*

3750 *Motorcycles, Bicycles and Parts.*

3790 *Miscellaneous Transportation Equipment.*

38. PROFESSIONAL, SCIENTIFIC, AND CONTROLLING INSTRUMENTS; PHOTOGRAPHIC AND OPTICAL GOODS; WATCHES AND CLOCKS

3811 *Engineering, Laboratory, and Scientific and Research Instruments*

COST ACCOUNTING STANDARDS BOARD **DISCLOSURE STATEMENT** *REQUIRED BY PUBLIC LAW 91-379*	COVER SHEET AND CERTIFICATION

Item No.

0.1 Company or Reporting Unit:

Name

Street Address

City, State and ZIP Code

Division or Subsidiary of (if applicable)

0.2 Reporting Unit is: (*Check one.*)

A. ☐ Corporate (home) office B. ☐ Group office C. ☐ Division or subsidiary D. ☐ Other

0.3 Official to Contact Concerning this Statement:

Name and title

Phone number (including area code and extension)

0.4 Date of:

This statement

Most recent prior statement

CERTIFICATION

I certify that to the best of my knowledge and belief this Statement is the complete and accurate disclosure as of the above date by the above-named organization of its cost accounting practices, as required by the Disclosure Regulation of the Cost Accounting Standards Board under 50 U.S.C. App. 2168, Public Law 91-379 (4 CFR 351).

____
(*Name*)

____
(*Title*)

THE PENALTY FOR MAKING A FALSE STATEMENT IN THIS DISCLOSURE IS PRESCRIBED IN 18 U.S.C. 1001

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COST ACCOUNTING STANDARDS BOARD **DISCLOSURE STATEMENT** *REQUIRED BY PUBLIC LAW 91-379*	PART I—GENERAL INFORMATION Name of Reporting Unit

Item No.	Item Description

Instructions for Part I

Sales data for this part should cover the most recently completed fiscal year of the reporting unit. "Government Sales" includes sales under both prime contracts and subcontracts. "Annual Total Sales" includes intracorporate transactions. Educational institutions may skip Items 1.4.0 and 1.6.0, and consider sales as used in Items 1.5.0 and 1.7.0 to refer to research revenues. Estimates are permitted for Items 1.4.0 through 1.7.0.

1.1.0 **Type of Business Entity of Which the Reporting Unit is a Part.** (*Check one.*)

A. ☐ Corporation   B. ☐ Partnership   C. ☐ Proprietorship

D. ☐ Not-for-profit organization   E. ☐ Joint venture   F. ☐ Educational institution

1.2.0 **Predominant Type of Government Sales.** (*Check one.*)

A. ☐ Manufacturing   B. ☐ Research and Development   C. ☐ Construction

D. ☐ Services   Y. ☐ Other (*specify*) ____________

1.3.0 **Principal Product or Service Sold to the Government.** (*Specify name of product or service and enter code from Instructions.*)

Name ____________   Code ______

1.4.0 **Annual Total Sales (Government and Commercial).** (*Check one.*)

A. ☐ Less than $1 million   B. ☐ $1–$10 million   C. ☐ $11–$25 million   D. ☐ $26–$50 million

E. ☐ $51–$100 million   F. ☐ $101–$200 million   G. ☐ $201–$500 million   H. ☐ Over $500 million

1.5.0 **Annual Total Government Sales.** (*Check one.*)

A. ☐ Less than $1 million   B. ☐ $1–$10 million   C. ☐ $11–$25 million   D. ☐ $26–$50 million

E. ☐ $51–$100 million   F. ☐ $101–$200 million   G. ☐ $201–$500 million   H. ☐ Over $500 million

1.6.0 **Government Sales (Item 1.5.0) as Percentage of Total Sales (Item 1.4.0).** (*Check one.*)

A. ☐ Less than 10%   B. ☐ 10%–50%   C. ☐ 51%–80%   D. 81%–95%   E. ☐ Over 95%

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COST ACCOUNTING STANDARDS BOARD **DISCLOSURE STATEMENT** *REQUIRED BY PUBLIC LAW 91-379*	PART I—GENERAL INFORMATION Name of Reporting Unit

Item No.	Item Description
1.7.0	**Government Subcontract Sales as Percentage of Total Government Sales (Item 1.5.0).** (*Check one.*) A. ☐ Less than 10% B. ☐ 10%–50% C. ☐ 51%–80% D. ☐ 81%–95% E. ☐ Over 95%
1.8.0	**Description of Your Cost Accounting System for Government Contracts and Subcontracts.** (*Check the appropriate block(s) and if more than one is checked, explain on a continuation sheet.*) A. ☐ Standard costs—Job order B. ☐ Standard costs—Process C. ☐ Actual costs—Job order D. ☐ Actual costs—Process Y. ☐ Other(s) (*Describe on a continuation sheet.*)
1.9.0	**Integration of Cost Accounting with Financial Accounting.** The cost accounting system is: (*Check one. If B or C is checked, describe on a continuation sheet the costs which are accumulated on memorandum records.*) A. ☐ Integrated with financial accounting records (Subsidiary cost accounts are all reconcilable to general ledger control accounts.) B. ☐ Not integrated with financial accounting (Cost data are accumulated on memorandum records.) C. ☐ Combination of A and B
1.10.0	**Unit or Job Costs.** Is your cost accounting system capable of producing unit or job lot costs during contract performance? (*Check one.*) A. ☐ Yes (*If Yes, describe on a continuation sheet the method used or which could be used to arrive at such costs.*) B. ☐ No (Interim repricing not involved.) C. ☐ No (*Interim repricing involved. Describe on a continuation sheet the manner in which interim repricing is developed.*)
1.11.0	**Year, Month, Day on Which Your Most Recent Fiscal Year Ended.** (*Enter in blocks below. Use numeric terms, e.g., 710630 for June 30, 1971; 711231 for December 31, 1971.*) ______

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COST ACCOUNTING STANDARDS BOARD DISCLOSURE STATEMENT *REQUIRED BY PUBLIC LAW 91-379*	PART II—DIRECT COSTS Name of Reporting Unit

Item No.	Item Description

Instructions for Part II

This part covers three major elements of direct costs, i.e., Direct Materials, Direct Labor, and Other Direct Costs. It is not the intent here to spell out or define the three elements of direct costs.

Rather, contractors should disclose practices based on their own definitions of what costs are, or will be, charged directly to Government contracts or similar cost objectives as Direct Materials, Direct Labor, or Other Direct Costs. For example, some contractors may charge or classify purchased labor of direct nature, as "Direct Materials" for purposes of pricing proposals, requests for progress payments, claims for cost reimbursement, etc.; some other contractors may classify the same cost as "Direct Labor," and still others as "Other Direct Costs." In these circumstances, it is expected that contractors will disclose practices consistent with their own classifications of Direct Materials, Direct Labor, and Other Direct Costs.

2.1.0 Description of Direct Materials. Direct Materials as used here are not limited to those items of materials actually incorporated into the end product; they also include materials, consumable supplies, and other costs when charged to Government contracts or similar cost objectives as Direct Materials. (*Describe on a continuation sheet the principal classes of materials and service costs which are charged as direct materials; group the materials and service costs by those which are incorporated in an end product and those which are not.*)

2.2.0 Method of Charging Direct Materials.

2.2.1 Direct Charge Not Through an Inventory Account at: (*Check the appropriate block(s) and if more than one is checked, explain on a continuation sheet.*)

A. ☐ Standard costs (*Describe the type of standards used, e.g., current standards, basic standards, etc., on a continuation sheet.*)

B. ☐ Actual costs

Y. ☐ Other(s) (*Describe on a continuation sheet.*)

Z. ☐ Not applicable

2.2.2 Charged from Central or Common, Company-owned Inventory Account at: (*Check the appropriate block(s) and if more than one is checked, explain on a continuation sheet.*)

A. ☐ Standard costs (*Describe the types of standards used on a continuation sheet.*)

B. ☐ Average costs

C. ☐ First in, first out

D. ☐ Last in, first out

Y. ☐ Other(s) (*Describe on a continuation sheet.*)

Z. ☐ Not applicable

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COST ACCOUNTING STANDARDS BOARD DISCLOSURE STATEMENT *REQUIRED BY PUBLIC LAW 91-379*	PART II—DIRECT COSTS Name of Reporting Unit

Item No.	Item Description
2.3.0	**Timing of Charging Direct Materials Incorporated in End Product.** (*Check the appropriate block(s) to indicate the point in time at which materials incorporated in the end product are charged to Government contracts or similar cost objectives, and if more than one block is checked, explain on a continuation sheet.*) A. ☐ When orders are placed B. ☐ When material is received, or when fabricated, if fabricated in-house C. ☐ When material is issued or released to jobs D. ☐ When consumed or incorporated in end product E. ☐ When invoices are vouchered or paid Y. ☐ Other(s) (*Describe on a continuation sheet.*) Z. ☐ Not applicable
2.4.0	**Variances from Standard Costs for Direct Materials.** (*Do not complete this item unless you use a standard cost method, i.e., you have checked Block A of Item 2.2.1 or 2.2.2. Check the appropriate block(s) in Items 2.4.1, 2.4.2, 2.4.3 and 2.4.4, and if more than one block is checked, explain on a continuation sheet.*)
2.4.1	**Type of Variance.** A. ☐ Price B. ☐ Usage C. ☐ Combined (A and B) Y. ☐ Other(s) (*Describe on a continuation sheet.*)
2.4.2	**Method of Accumulating Variance.** A. ☐ Plant-wide basis B. ☐ By department C. ☐ By product or product line D. ☐ By contract Y. ☐ Other(s) (*Describe on a continuation sheet.*)
2.4.3	**Method of Disposing of Variance.** (*Describe on a continuation sheet the basis for, and the frequency of, the disposition of the variance.*) A. ☐ Prorated between inventories and cost of goods sold B. ☐ Charged or credited only to cost of goods sold C. ☐ Charged or credited only to overhead Y. ☐ Other(s) (*Describe on a continuation sheet.*)
2.4.4	**Revisions.** *Standard costs for direct materials are revised:* A. ☐ Semiannually B. ☐ Annually C. ☐ Revised as needed, but at least once annually Y. ☐ Other(s) (*Describe on a continuation sheet.*)

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COST ACCOUNTING STANDARDS BOARD **DISCLOSURE STATEMENT** *REQUIRED BY PUBLIC LAW 91-379*	PART II—DIRECT COSTS Name of Reporting Unit

Item No.	Item Description

2.5.0 **Method of Charging Direct Labor.** (*Check the appropriate block(s) for each Direct Labor Category to show how such labor is charged to Government contracts or similar cost objectives, and if more than one block is checked, explain on a continuation sheet. Also describe on a continuation sheet the principal classes of labor or costs that are, or will be, included in Manufacturing Labor, Engineering Labor, and Other Direct Labor, as applicable.*)

	Direct Labor Category		
	Manufacturing (*1*)	**Engineering** (*2*)	**Other Direct** (*3*)
A. Individual/actual rates	☐	☐	☐
B. Average rates (*Describe the type of average rates on a continuation sheet.*)	☐	☐	☐
C. Standard costs/rates (*Describe the type of standards used on a continuation sheet.*)	☐	☐	☐
Y. Other(s) (*Describe on a continuation sheet.*)	☐	☐	☐
Z. Labor category is not applicable	☐	☐	☐

2.6.0 **Variances from Standard Costs for Direct Labor.** (*Do not complete this item unless you use a standard cost/rate method, i.e., you have checked Block C of Item 2.5.0 for any direct labor category. Check the appropriate block(s) in each column of Items 2.6.1, 2.6.2 and 2.6.3 and in Item 2.6.4. If more than one is checked, explain on a continuation sheet.*)

2.6.1 **Type of Variance.**

	Direct Labor Category		
	Manufacturing (*1*)	**Engineering** (*2*)	**Other Direct** (*3*)
A. Rate	☐	☐	☐
B. Efficiency	☐	☐	☐
C. Combined (A and B)	☐	☐	☐
Y. Other(s) (*Describe on a continuation sheet.*)	☐	☐	☐
Z. Labor category is not applicable	☐	☐	☐

2.6.2 **Method of Accumulating Variance.**

A. Plant-wide basis	☐	☐	☐
B. By department	☐	☐	☐
C. By product or product line	☐	☐	☐
D. By contract	☐	☐	☐
Y. Other(s) (*Describe on a continuation sheet.*)	☐	☐	☐
Z. Labor category is not applicable	☐	☐	☐

FORM CASB-DS-1

COST ACCOUNTING STANDARDS BOARD **DISCLOSURE STATEMENT** *REQUIRED BY PUBLIC LAW 91-379*	PART II—DIRECT COSTS Name of Reporting Unit

Item No.	Item Description

2.6.3 **Method of Disposing of Variance.** (*Describe on a continuation sheet the basis for, and the frequency of, the disposition of the variance.*)

	Direct Labor Category Manufacturing (*1*)	Engineering (*2*)	Other Direct (*3*)
A. Prorated between inventories and cost of goods sold	☐	☐	☐
B. Charged or credited only to cost of goods sold	☐	☐	☐
C. Charged or credited only to overhead	☐	☐	☐
Y. Other(s) (*Describe on a continuation sheet.*)	☐	☐	☐
Z. Labor category is not applicable	☐	☐	☐

2.6.4 **Revisions.** Standard costs for direct labor are revised:

A. ☐ Semiannually B. ☐ Annually C. ☐ Revised as needed, but at least once annually Y. ☐ Other(s) (*Describe on a continuation sheet.*)

2.7.0 **Credits to Contract Costs.** When Government contracts or similar cost objectives are credited for the following circumstances, are the rates of direct labor, direct materials, other direct costs and applicable indirect costs always the same as those for the original charges? (*Check one block for each circumstance, and for each "No" answer, explain on a continuation sheet how the credit differs from original charge.*)

Circumstance	A. Yes	B. No	Z. Not Applicable
(a) Transfers to other jobs/contracts	☐	☐	☐
(b) Unused or excess materials remaining upon completion of contract	☐	☐	☐

2.8.0 **Interorganizational Transfers.** This item is directed only to those materials, supplies, and services which are, or will be, transferred to you from divisions, subsidiaries, or affiliates under common control with you. (*Check the appropriate block(s) in each column to indicate the basis used by you as transferee to charge the cost or price of interorganizational transfers of materials, supplies, and services to Government contracts or similar cost objectives. If more than one block is checked, explain on a continuation sheet. Full cost means the cost incurred as set forth in ASPR 15-205.22(e) or other pertinent procurement regulations.*)

Basis	Materials (*1*)	Supplies (*2*)	Services (*3*)
A. At full cost excluding transferor's general and administrative (G&A) expenses	☐	☐	☐
B. At full cost including transferor's G&A expenses	☐	☐	☐
C. At full cost (A or B above) plus a markup percentage	☐	☐	☐
D. At established catalog or market price or prices based on adequate competition	☐	☐	☐
Y. Other(s) (*Describe on a continuation sheet.*)	☐	☐	☐
Z. Interorganizational transfers are not applicable	☐	☐	☐

FORM CASB-DS-1

COST ACCOUNTING STANDARDS BOARD **DISCLOSURE STATEMENT** *REQUIRED BY PUBLIC LAW 91–379*	PART III—DIRECT VS. INDIRECT Name of Reporting Unit

Item No.	Item Description

3.1.0 **Criteria for Determining How Costs are Charged to Government Contracts or Similar Cost Objectives.** (*Describe on a continuation sheet your criteria for determining whether costs are charged directly or indirectly.*)

3.2.0 **Treatment of Costs of Specified Functions, Elements of Cost, or Transactions.** (*For each of the functions, elements of cost or transactions listed in Items 3.2.1, 3.2.2, and 3.2.3, enter one of the Codes A through F, or Y, to indicate how the item is treated. Enter Code Z in those blocks that are not applicable to you. Also, specify the name(s) of the indirect pool(s) for each function, element of cost, or transaction coded E or F. If Code E, Sometimes direct/Sometimes indirect, is used and if there is a deviation from the criteria described in response to Item 3.1.0, explain on a continuation sheet the circumstances involved which cause the deviation.*)

Treatment Code

A. Direct material
B. Direct labor
C. Direct material and labor
D. Other direct costs
E. Sometimes direct/Sometimes indirect
F. Indirect only
Y. Other(s) (*Describe on a continuation sheet.*)
Z. Not applicable

3.2.1	**Functions, Elements of Cost, or Transactions Relative to Direct Materials.**	**Treatment Code**	**Name of Pool(s)**
	(a) Cash discounts on purchases	☐	________
	(b) Freight in	☐	________
	(c) Income from sale of scrap	☐	________
	(d) Income from sale of salvage	☐	________
	(e) Incoming material inspection	☐	________
	(f) Inventory adjustments	☐	________
	(g) Purchasing	☐	________
	(h) Trade discounts, refunds, rebates, and allowances on purchases	☐	________
3.2.2	**Functions, Elements of Cost, or Transactions Relative to Direct Labor.**		
	(a) Health insurance	☐	________
	(b) Holiday differential (premium pay)	☐	________
	(c) Overtime premium pay	☐	________
	(d) Pension costs	☐	________
	(e) Shift premium pay	☐	________
	(f) Training	☐	________
	(g) Travel and subsistence	☐	________
	(h) Vacation pay	☐	________

FORM CASB–DS–1

COST ACCOUNTING STANDARDS BOARD **DISCLOSURE STATEMENT** *REQUIRED BY PUBLIC LAW 91-379*	PART III—DIRECT VS. INDIRECT Name of Reporting Unit

Item No.	Item Description		
3.2.3	**Functions, Elements of Cost, or Transactions—Miscellaneous.**	**Treatment Code**	**Name of Pool(s)**
	(a) Design engineering (in-house)	☐	
	(b) Drafting (in-house)	☐	
	(c) Computer operations (in-house)	☐	
	(d) Contract administration	☐	
	(e) Freight out (finished product)	☐	
	(f) Line (or production) inspection	☐	
	(g) Packaging and preservation	☐	
	(h) Preproduction costs and start-up costs	☐	
	(i) Production shop supervision	☐	
	(j) Professional services (consultant fees)	☐	
	(k) Purchased labor of direct nature (on premises)	☐	
	(l) Purchased labor of direct nature (off premises)	☐	
	(m) Rearrangement costs	☐	
	(n) Rework costs	☐	
	(o) Royalties	☐	
	(p) Scrap work	☐	
	(q) Special test equipment (as defined in ASPR 15-205.40 or other pertinent procurement regulations)	☐	
	(r) Special tooling (as defined in ASPR 15-205.40 or other pertinent procurement regulations)	☐	
	(s) Subcontract costs	☐	
	(t) Warranty costs	☐	
3.3.0	**Other Costs Charged Direct to Contracts.** (*Describe on a continuation sheet all other significant functions, elements of cost, or transactions charged to Government contracts or similar cost objectives as direct material, direct labor or other direct costs. Do not include functions or costs covered in Items 2.1.0, 2.5.0, and 3.2.0 which are always charged direct. Describe also whether there are any deviations from the criteria set out in Item 3.1.0 with respect to any continuation sheet items.*)		

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COST ACCOUNTING STANDARDS BOARD **DISCLOSURE STATEMENT** *REQUIRED BY PUBLIC LAW 91-379*	PART IV—INDIRECT COSTS Name of Reporting Unit

Item No.	Item Description

Instructions for Part IV

For the purpose of this part, indirect costs have been divided into three categories: (i) manufacturing, engineering, and comparable indirect costs, (ii) general and administrative (G&A) expenses, and (iii) service center costs, as defined in Item 4.3.0. The term "overhead," as used in this part, refers only to the first category of indirect costs.

The following Allocation Base Codes are provided for use in connection with Items 4.1.0, 4.2.0 and 4.3.0. Educational institutions, to which ASPR XV, Part 3 applies, may enter Code Y for Items 4.1.0(n), 4.2.0(n) and 4.3.0(l), and describe on a continuation sheet the indirect cost pools and the bases for allocating such pools of expenses to Government contracts or similar cost objectives.

A. Sales
B. Cost of sales
C. Cost input (direct material, direct labor, other direct costs and applicable overhead)
D. Total cost incurred (cost input plus G&A expenses)
E. Prime cost (direct material, direct labor and other direct cost)
F. Processing or conversion cost (direct labor and applicable overhead)
G. Direct labor dollars
H. Direct labor hours
I. Machine hours
J. Usage
K. Unit of Product
L. Direct material cost
M. Total payroll dollars (direct and indirect employees)
N. Headcount or number of employees (direct and indirect employees)
O. Square feet
Y. Other(s) or more than one basis (*Describe on a continuation sheet.*)
Z. Pool not applicable

4.1.0 **Overhead Pools and Allocation Bases.** (*Enter for each type of overhead pool one of the Allocation Base Codes A through O or Y, to indicate the basis for allocating such pool of expenses to Government contracts or similar cost objectives, i.e., allocation to these final cost objectives without any intermediate allocations. Enter Code Z in those blocks for types of pools that are not applicable to the reporting unit; however, if you use a single plant-wide pool, Lines (b) through (n) may be left blank.*)

Type of Pool	Allocation Base Code
(a) Single, plant-wide pool (*If an entry other than "Z" is made here, skip to Item 4.2.0*)	☐
(b) Manufacturing	☐
(c) Engineering	☐
(d) Manufacturing and Engineering	☐
(e) Tooling	☐
(f) Off-site or out-plant (geographical pool)	☐
(g) Field service	☐
(h) Material handling	☐
(i) Departmental/shop	☐
(j) Subcontract administration	☐
(k) Use and occupancy	☐

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Item No.	Item Description
4.1.0	**Continued.**

Type of Pool — **Allocation Base Code**

(l) Quality control ☐
(m) Fringe benefits ☐
(n) Other Pools (*Enter Code Y on this line if other pools are used and identify on a continuation sheet each such pool and its Allocation Base Code. If no other pools are used, enter Code Z.*) ☐

4.2.0 **Reporting Unit's G&A Pools and Allocation Bases.** (*Enter for each type of G&A pool one of the Allocation Base Codes A through O, or Y, listed on Page 9 to indicate the basis for allocating G&A to Government contracts or similar cost objectives, i.e., allocation to these final cost objectives without any intermediate allocations. Enter Code Z in those blocks for types of pools that are not applicable to the reporting unit; however, if an entry other than "Z" is made on Line (a), (b), (c) or (d), Lines (e) through (n) may be left blank.*)

Type of Pool — **Allocation Base Code**

(a) Single G&A pool only ☐

No Separate G&A Pool

(b) Combined with single, plant-wide overhead pool ☐
(c) Combined with manufacturing overhead ☐
(d) Combined with engineering overhead ☐

More Than One Pool

(e) General and administrative ☐
(f) Commercial—general and administrative ☐
(g) Government—general and administrative ☐
(h) Selling or marketing expense ☐
(i) Independent research and development (IR&D) costs ☐
(j) Bidding and proposal (B&P) costs ☐
(k) IR&D and B&P costs ☐
(l) Spares administration ☐
(m) Corporate or home office expense ☐
(n) Other Pools (*Enter Code Y on this line if other pools are used and identify on a continuation sheet each such pool and its Allocation Base Code. If no other pools are used, enter Base Code Z.*) ☐

COST ACCOUNTING STANDARDS BOARD **DISCLOSURE STATEMENT** *REQUIRED BY PUBLIC LAW 91-379*	PART IV—INDIRECT COSTS Name of Reporting Unit

Item No.	Item Description

4.3.0 **Service Centers and Allocation Bases.** Service centers are departments or other functional units which perform specific technical and/or administrative services for the benefit of other units within a reporting unit.

Category Code

Generally, costs incurred by such centers are, or can be, charged or allocated (i) partially to specific final cost objectives as direct costs and partially to other indirect costs pools (such as a manufacturing overhead pool) for subsequent reallocation to several final cost objectives, referred to herein as Category "A" and (ii) only to several other indirect cost pools (such as manufacturing overhead pool, engineering overhead pool and G&A expense pool) for subsequent reallocation to several final cost objectives, referred to herein as Category "B".

Rate Code

Some service centers may use predetermined billing or costing rates to charge or allocate the costs (Rate Code A) while others may charge or allocate on an actual basis (Rate Code B).

(Enter in Column (1) for each service center, Code A or B to indicate the category of pool. Enter in Column (2) one of the Allocation Base Codes A through O, or Y, listed on Page 9, to indicate the basis of charging or allocating service center costs. Enter in Column (3) Rate Code A or B to describe the costing method used. Enter Code Z in Column (1) only, if any service center is not applicable to the reporting unit.)

Service Center	Category Code (1)	Allocation Base Code (2)	Rate Code (3)
(a) Scientific computer operations	☐	☐	☐
(b) Business data processing	☐	☐	☐
(c) Photography services	☐	☐	☐
(d) Reproduction services	☐	☐	☐
(e) Art services	☐	☐	☐
(f) Technical typing services	☐	☐	☐
(g) Communication services	☐	☐	☐
(h) Facility services (maintenance, etc.)	☐	☐	☐
(i) Auto pool services	☐	☐	☐
(j) Company aircraft services	☐	☐	☐
(k) Wind tunnels	☐	☐	☐
(l) Other service centers (*Enter Code Y on this line if other service centers are used and identify on a continuation sheet each such service center, its Category Code, Allocation Base Code, and Rate Code. If no other service centers are used, enter Code Z.*)	☐	☐	☐

FORM CASB-DS-1

COST ACCOUNTING STANDARDS BOARD **DISCLOSURE STATEMENT** *REQUIRED BY PUBLIC LAW 91–379*	PART IV—INDIRECT COSTS Name of Reporting Unit

Item No.	Item Description
4.4.0	**Treatment of Variances from Actual Cost (Underabsorption or Overabsorption).** Where predetermined billing or costing rates are used to charge costs of service centers to Government contracts or other indirect cost pools (Rate Code A in Column (3) of Item 4.3.0), variances from actual costs are: (*Check the appropriate blocks(s) and if more than one is checked, explain on a continuation sheet.*) A. ☐ Prorated to users on the basis of charges made, at least once annually B. ☐ All charged or credited to indirect cost pool(s) at least once annually Y. ☐ Other(s) (*Describe on a continuation sheet.*) Z. ☐ Service center is not applicable to reporting unit
4.5.0	**Major Types of Indirect Costs.** (*For each pool coded other than Z in Items 4.1.0, 4.2.0 and 4.3.0, list on a continuation sheet the major functions, activities, and elements of cost included.*)
4.6.0	**Allocation Base.** (*For each allocation base code used in Items 4.1.0, 4.2.0 and 4.3.0, describe on a continuation sheet the makeup of the base; for example, if direct labor dollars are used, are overtime premium, fringe benefits, etc., included?*)
4.7.0	**Application of Overhead and G&A Rates to Specified Transactions or Costs.** This item is directed to ascertaining your practice in special situations where, in lieu of establishing a separate indirect cost pool, allocation is made from an established overhead or G&A pool at less than the normal full rate for that pool. The term "less than full rate" below applies to this type of indirect cost allocation practice. The term does *not* apply to situations where, as in some cases of off-site activities, etc., a separate indirect cost pool and base are used and the rate of such activities is lower than the "in-house" rate. (*For each of the transactions or costs listed below, enter one of the following codes to indicate your indirect cost allocation practice with respect to that transaction or cost. If Code A, Less than full rate, is entered, describe on a continuation sheet the major types of expenses that are covered by such a rate. If Code B, Full rate, is entered, identify on a continuation sheet the pool(s) reported under Items 4.1.0, 4.2.0 and 4.3.0 which are applicable. If Code C, Combination of A and B, is entered, describe on a continuation sheet the applicable expense and pool data.*) **Rate Code** A. Less than full rate B. Full rate C. Combination of A and B D. No overhead or G&A is applied Z. Transaction or cost is not applicable to reporting unit

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COST ACCOUNTING STANDARDS BOARD **DISCLOSURE STATEMENT** *REQUIRED BY PUBLIC LAW 91–379*	PART IV—INDIRECT COSTS Name of Reporting Unit

Item No.	Item Description

4.7.0 **Continued.**

Transaction or Cost to Which Indirect Costs May be Allocated	**Rate Code**
(a) Subcontract costs	☐
(b) Purchased labor	☐
(c) Government-furnished materials	☐
(d) Interorganizational transfers in	☐
(e) Interorganizational transfers out	☐
(f) Self-constructed depreciable assets	☐
(g) Labor on installation of assets	☐
(h) Off-site work	☐
(i) Other transactions or costs (*Enter Code A on this line if there are other transactions or costs to which less than full rate is applied. List such transactions or costs on a continuation sheet, and for each describe the major types of expenses covered by such a rate. If there are no other such transactions or costs, enter Code Z.*)	☐

4.8.0 **Independent Research and Development (IR&D) and Bidding and Proposal (B&P) Costs.**

4.8.1 **Independent Research and Development.** IR&D costs are defined in ASPR 15–205.35 or other pertinent procurement regulations, as revised. The full rate of all allocable manufacturing, engineering, and/or other overhead is applied to IR&D costs as if IR&D projects were under contract, and the "burdened" IR&D costs are: (*Check one.*)

A. ☐ Allocated to Government contracts or similar cost objectives as part of the G&A rate

B. ☐ Allocated as a separate IR&D rate

C. ☐ Transferred to the corporate or home office level. The corporate or home office level IR&D costs are subsequently allocated back to the reporting unit for allocation as part of the unit's G&A rate

D. ☐ Treated the same as C, except that the IR&D costs are allocated as a separate IR&D rate

Y. ☐ Other (*Describe on a continuation sheet.*)

Z. ☐ Not applicable

4.8.2 **Bidding and Proposal.** B&P costs as defined in ASPR 15–205.3 or other pertinent procurement regulations, as revised, are treated as follows: (*Check one.*)

A. ☐ Same as IR&D costs as checked above

Y. ☐ Other (*Describe on a continuation sheet.*)

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COST ACCOUNTING STANDARDS BOARD **DISCLOSURE STATEMENT** *REQUIRED BY PUBLIC LAW 91-379*	PART V—DEPRECIATION AND CAPITALIZATION PRACTICES Name of Reporting Unit

Item No.	Item Description
5.1.0	**Depreciating Tangible Assets for Government Contract Costing.** (*For each of the asset categories listed on Page 15, enter a code from A through G in Column (1) describing the method of depreciation (Code F for assets that are expensed); a code from A through E in Column (2) describing the basis for determining useful life; a code from A through C in Column (3) describing how depreciation methods or use charges are applied to property units; and a Code A, B or C in Column (4) indicating whether or not residual value is deducted from the total cost of depreciable assets. Enter Code Y in each column of an asset category where another or more than one method applies. Enter Code Z in Column (1) only, if an asset category is not applicable.*)

Column (1)—Depreciation Method Code

A. Straight-line
B. Declining balance
C. Sum-of-the-years digits
D. Machine hours
E. Unit of production
F. Expensed at acquisition
G. Use charge
Y. Other or more than one method (*Describe on a continuation sheet.*)
Z. Asset category is not applicable

Column (2)—Useful Life Code

A. U.S. Treasury Department "guideline lives"
B. Replacement experience
C. Term of Lease
D. Engineering estimate
E. As prescribed for use charge by the Office of Management and Budget Circular No. A-21
Y. Other or more than one method (*Describe on a continuation sheet.*)

Column (3)—Property Units Code

A. Individual units are accounted for separately
B. Applied to groups of assets with similar service lives
C. Applied to groups of assets with varying service lives
Y. Other or more than one method (*Describe on a continuation sheet.*)

Column (4)—Residual Value Code

A. Residual value is deducted
B. Residual value is covered by the depreciation method (e.g., declining balance)
C. Residual value is not deducted
Y. Other or more than one method (*Describe on a continuation sheet.*)

FORM CASB-DS-1

COST ACCOUNTING STANDARDS BOARD **DISCLOSURE STATEMENT** *REQUIRED BY PUBLIC LAW 91-379*	PART V—DEPRECIATION AND CAPITALIZATION PRACTICES Name of Reporting Unit

Item No.	Item Description

5.1.0 Continued.

Asset Category	Depreciation Method Code (*1*)	Useful Life Code (*2*)	Property Units Code (*3*)	Residual Value Code (*4*)
(a) Land improvements	☐	☐	☐	☐
(b) Buildings	☐	☐	☐	☐
(c) Building improvements	☐	☐	☐	☐
(d) Leasehold improvements	☐	☐	☐	☐
(e) Machinery and equipment	☐	☐	☐	☐
(f) Furniture and fixtures	☐	☐	☐	☐
(g) Automobiles and trucks	☐	☐	☐	☐
(h) Data processing equipment	☐	☐	☐	☐
(i) Programming/reprogramming costs	☐	☐	☐	☐
(j) Patterns and dies	☐	☐	☐	☐
(k) Tools	☐	☐	☐	☐
(l) Other depreciable asset categories (*Enter Code Y on this line if other asset categories are used and enumerate on a continuation sheet each such asset category and the applicable codes. Otherwise enter Code Z.*)	☐	☐	☐	☐

5.2.0 Depreciation Practices for Costing, Financial Accounting, and Income Tax. Are depreciation practices the same for costing Government contracts as for financial accounting and income tax? (*Check one block on each line under Financial Accounting and Income Tax. Educational institutions and not-for-profit organizations need not complete this item.*)

Financial Accounting	A. Yes	B. No	Income Tax	A. Yes	B. No
(a) Methods	☐	☐	(e) Methods	☐	☐
(b) Useful lives	☐	☐	(f) Useful lives	☐	☐
(c) Property units	☐	☐	(g) Property units	☐	☐
(d) Residual values	☐	☐	(h) Residual values	☐	☐

5.3.0 Fully Depreciated Assets. Is a usage charge for fully depreciated assets charged to Government contracts? (*Check one. If Yes, describe the basis for the charge on a continuation sheet.*)

A. ☐ Yes   B. ☐ No   Z. ☐ Not applicable

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COST ACCOUNTING STANDARDS BOARD **DISCLOSURE STATEMENT** *REQUIRED BY PUBLIC LAW 91-379*	CAPITALIZATION PRACTICES PART V—DEPRECIATION AND Name of Reporting Unit

Item No.	Item Description

5.4.0 **Treatment of Gains and Losses on Disposition of Depreciable Property.** Gains and losses are: (*Check the appropriate block(s) and if more than one is checked, explain on a continuation sheet.*)

A. ☐ Credited or charged currently to the same overhead or G&A pools to which the depreciation of the assets was charged.

B. ☐ Taken into consideration in the depreciation cost basis of the new items, where trade-in is involved

C. ☐ Not accounted for separately, but reflected in the depreciation reserve account

D. ☐ Credited or charged to Other (Miscellaneous) Income and Expense accounts

Y. ☐ Other(s) (*Describe on a continuation sheet.*)

Z. ☐ Not applicable

5.5.0 **Capitalization or Expensing of Specified Costs.** (*Check one block on each line to indicate your practices regarding capitalization or expensing of specified costs incurred in connection with capital assets. If the same specified cost is sometimes expensed and sometimes capitalized, check both blocks and describe on a continuation sheet the circumstances when each method is used.*)

Cost	A. Expensed	B. Capitalized
(a) Freight-in	☐	☐
(b) Installation costs	☐	☐
(c) Sales taxes	☐	☐
(d) Excise taxes	☐	☐
(e) Architect-engineer fees	☐	☐
(f) Overhauls (extraordinary repairs)	☐	☐
(g) Major modifications or betterments	☐	☐

5.6.0 **Criteria for Capitalization.** (*Enter (a) the minimum dollar amount of expenditures for acquisition, addition, alteration and improvement of depreciable assets, capitalized, and (b) the minimum number of expected life years of capitalized assets. Use leading zeros for dollar amount, e.g., 0150 for $150. If more than one dollar amount or number applies, show the information for the majority of your depreciable assets, and enumerate on a continuation sheet the dollar amounts and/or number of years for each category or subcategory of assets involved which differ from those for the majority of assets.*)

(a) Minimum dollar amount ☐ (b) Minimum life years ☐

5.7.0 **Group or Mass Purchase.** Are group or mass purchases (initial complement) of similar items, which individually are less than the capitalization amount indicated above, capitalized? (*Check one.*)

A. ☐ Yes B. ☐ No

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COST ACCOUNTING STANDARDS BOARD **DISCLOSURE STATEMENT** *REQUIRED BY PUBLIC LAW 91-379*	PART VI—OTHER COSTS AND CREDITS Name of Reporting Unit

Item No.	Item Description

6.1.0 **Method of Charging and Crediting Vacation, Holiday and Sick Pay.** (*Check the appropriate block(s) in each column of Items 6.1.1 and 6.1.2 to indicate the method used to charge, or credit any unused or unpaid, vacation, holiday, or sick pay for direct and indirect labor. If more than one method is checked, explain on a continuation sheet.*)

6.1.1 Charges.

	Direct Labor (*1*)	Indirect Labor (*2*)
A. When accrued (earned)	☐	☐
B. When taken	☐	☐
Y. Other(s) (*Describe on a continuation sheet.*)	☐	☐

6.1.2 **Credits for Unused or Unpaid Vacation, Holiday, or Sick Pay.**

	Direct Labor (*1*)	Indirect Labor (*2*)
A. Credited to Government contracts at least once annually	☐	☐
B. Credited to indirect cost pools at least once annually	☐	☐
C. Credited to Other (Miscellaneous) Income	☐	☐
D. Not credited	☐	☐
Y. Other(s) (*Describe on a continuation sheet.*)	☐	☐

6.2.0 **Supplemental Unemployment (Extended Layoff) Benefit Plans.** Costs of such plans are charged to Government contracts: (*Check the appropriate block(s) and if more than one is checked, explain on a continuation sheet.*)

A. ☐ When actual payments are made directly to employees
B. ☐ When accrued (book accrual or funds set aside but no trust fund involved)
C. ☐ When contributions are made to a nonforfeitable trust fund
D. ☐ Not charged
Y. ☐ Other(s) (*Describe on a continuation sheet.*)
Z. ☐ Not applicable

6.3.0 **Severance Pay.** Costs of normal turnover severance pay, as defined in ASPR 15-205.39(b)(i) or other pertinent procurement regulations, which are charged directly or indirectly to Government contracts, are based on: (*Check the appropriate block(s) and if more than one is checked, explain on a continuation sheet.*)

A. ☐ Actual payments made
B. ☐ Accrued amounts on the basis of past experience
C. ☐ Not charged
Y. ☐ Other(s) (*Describe on a continuation sheet.*)
Z. ☐ Not applicable

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COST ACCOUNTING STANDARDS BOARD **DISCLOSURE STATEMENT** *REQUIRED BY PUBLIC LAW 91-379*	PART VI—OTHER COSTS AND CREDITS Name of Reporting Unit

Item No.	Item Description
6.4.0	**Incidental Receipts.** (*Check the appropriate block(s) to indicate the method used to account for receipts from renting real and personal property or selling services when related costs have been charged to Government contracts. If more than one is checked, explain on a continuation sheet.*) A. ☐ The entire amount of the receipt is credited to the same indirect cost pools to which related costs have been charged B. ☐ The amount of the receipt, less an allowance for profits, is credited to the same indirect cost pools to which related costs have been charged; the profits are credited to Other (Miscellaneous) Income C. ☐ The entire amount of the receipt is credited directly to Other (Miscellaneous) Income Y. ☐ Other(s) (*Describe on a continuation sheet.*) Z. ☐ Not applicable.
6.5.0	**Proceeds from Employee Welfare Activities.** Employee welfare activities include all of those activities set forth in ASPR 15-205.10(a) or other pertinent procurement regulations. (*Check the appropriate block(s) to indicate the practice followed in accounting for the proceeds from such activities. If more than one is checked, explain on a continuation sheet.*) A. ☐ Proceeds are turned over to an employee-welfare organization or fund; such proceeds are reduced by all applicable costs such as depreciation, heat, light and power B. ☐ Same as A., except the proceeds are not reduced by all applicable costs C. ☐ Proceeds are credited at least once annually to the appropriate indirect cost pools to which costs have been charged D. ☐ Proceeds are credited to Other (Miscellaneous) Income Y. ☐ Other(s) (*Describe on a continuation sheet.*) Z. ☐ Not applicable

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COST ACCOUNTING STANDARDS BOARD **DISCLOSURE STATEMENT** *REQUIRED BY PUBLIC LAW 91-379*	PART VII—DEFERRED COMPENSATION AND INSURANCE COSTS Name of Reporting Unit

Item No.	Item Description

Instructions for Part VII

This part covers pension costs and certain types of deferred incentive compensation and insurance costs. Some organizations may record all of these costs at the corporate or home office level, while others may record them at subordinate organization levels. Still others may record a portion of these costs at the corporate or home office level and the balance at subordinate organization levels. Reporting units, therefore, should obtain the necessary information from the organizational level at which such costs are recorded.

7.1.0 **Pension Costs.** The actuarial terms used in this item are defined in Opinion Number 8 of the Accounting Principles Board, American Institute of Certified Public Accountants.

7.1.1 **Pension Plans Charged to Government Contracts.** Does your organization have one or more pension plans whose costs are charged to Government contracts? (*Check one.*)

A. ☐ Yes (*If Yes, list each such plan on a continuation sheet. Indicate the approximate number and type of employees covered by each plan and whether the plan is, or is not, qualified under Internal Revenue Service criteria. Complete Items 7.1.2 through 7.1.9 for the three plans covering the greatest number of employees whose pension costs are charged to Government contracts.*)

B. ☐ No (*If No, skip to Item 7.2.0.*)

7.1.2 **Extent of Funding.** (*Check one block for each plan. In the event the amount funded for each plan is different from the amount charged on the books of account, describe the difference on a continuation sheet.*)

	Plan I	Plan II	Plan III
A. Normal costs only	☐	☐	☐
B. Normal costs plus interest on past or prior service costs	☐	☐	☐
C. Normal costs plus an amortized portion of past or prior service costs	☐	☐	☐
Y. Other (*Describe on a continuation sheet.*)	☐	☐	☐
Z. Not applicable	☐	☐	☐

7.1.3 **Actuarial Cost Method.** (*Check one block for each plan to show the method used to compute normal and past or prior service costs.*)

	Plan I	Plan II	Plan III
A. Accrued benefit cost	☐	☐	☐
B. Aggregate	☐	☐	☐
C. Attained age—initial liability frozen	☐	☐	☐
D. Attained age—initial liability not frozen	☐	☐	☐
E. Entry age—initial liability frozen	☐	☐	☐
F. Entry age—initial liability not frozen	☐	☐	☐
G. Individual level premium	☐	☐	☐
Y. Other (*Describe on a continuation sheet.*)	☐	☐	☐
Z. Not applicable	☐	☐	☐

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COST ACCOUNTING STANDARDS BOARD **DISCLOSURE STATEMENT** *REQUIRED BY PUBLIC LAW 91-379*	PART VII—DEFERRED COMPENSATION AND INSURANCE COSTS Name of Reporting Unit

Item No.	Item Description

7.1.4 Frequency of Actuarial Reevaluations. (*Check one block for each plan.*)

	Plan I	Plan II	Plan III
A. Annually	☐	☐	☐
B. 2–3 years	☐	☐	☐
C. 4–5 years	☐	☐	☐
Y. Other (*Describe on a continuation sheet.*)	☐	☐	☐
Z. Not applicable	☐	☐	☐

7.1.5 Criteria for Changing Actuarial Computations and Assumptions. (*Describe on a continuation sheet your criteria for determining when actuarial assumptions and computations for your funded plan(s) are changed.*)

7.1.6 Amortization of Past or Prior Service Costs. (*Check one block for each plan to show the period over which past or prior service costs are amortized.*)

	Plan I	Plan II	Plan III
A. 10 years or less	☐	☐	☐
B. 11–20 years	☐	☐	☐
C. 21–40 years	☐	☐	☐
Y. More than one amortization schedule (*Describe on a continuation sheet.*)	☐	☐	☐
Z. Not applicable	☐	☐	☐

7.1.7 Adjustment for Actuarial Gains and Losses. (*Check one block for each plan to show the period for which costs are adjusted for actuarial gains ond losses. If actuarial losses for a plan are treated differently from actuarial gains, describe the difference on a continuation sheet.*)

	Plan I	Plan II	Plan III
A. Adjustment of past service costs	☐	☐	☐
B. Adjustment of current year's costs	☐	☐	☐
C. Adjustment of future years' costs	☐	☐	☐
Y. Other (*Describe on a continuation sheet.*)	☐	☐	☐
Z. Not applicable	☐	☐	☐

7.1.8 Unrealized Gains and Losses. Do the actuarial gains and losses reported in Item 7.1.7 above include unrealized gains and losses? (*Check one block for each plan. If Yes is checked, describe the method of recognition of such gains and losses on a continuation sheet.*)

	Plan I	Plan II	Plan III
A. Yes	☐	☐	☐
B. No	☐	☐	☐
Z. Not applicable	☐	☐	☐

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COST ACCOUNTING STANDARDS BOARD **DISCLOSURE STATEMENT** *REQUIRED BY PUBLIC LAW 91-379*	PART VII—DEFERRED COMPENSATION AND INSURANCE COSTS Name of Reporting Unit

Item No.	Item Description

7.1.9 **Amortization of Actuarial Gains and Losses.** (*Check one block for each plan to show the period over which actuarial gains and losses are amortized. If the amortization of actuarial losses for a plan is treated differently from the amortization of actuarial gains, describe the difference on a continuation sheet.*)

	Plan I	Plan II	Plan III
A. 10 years or less	☐	☐	☐
B. 11–20 years	☐	☐	☐
C. More than 20 years	☐	☐	☐
Y. Other (*Describe on a continuation sheet.*)	☐	☐	☐
Z. Not applicable	☐	☐	☐

7.2.0 **Deferred Incentive Compensation Charged to Government Contracts.**

7.2.1 **Deferred Incentive Compensation.** Does your organization award deferred incentive compensation (i.e., profit sharing, stock bonus, etc.) which is charged to Government contracts? (*Check one.*)

A. ☐ Yes (*If Yes is checked, list each plan by name or title on a continuation sheet and show the approximate number and type of employees covered. Complete Items 7.2.2 and 7.2.3 for the three plans covering the greatest number of employees whose deferred incentive compensation cost is charged to Government contracts.*)

B. ☐ No (*If No is checked, skip to Item 7.3.0.*)

7.2.2 **Qualification of Plan.** (*Check one block for each plan.*)

	Plan I	Plan II	Plan III
A. Qualifies under section 401(a) of the Internal Revenue Code of 1954, as amended	☐	☐	☐
B. Does not qualify under section 401(a) of the Internal Revenue Code of 1954, as amended	☐	☐	☐

7.2.3 **Method of Charging Costs to Government Contracts** (*Check one block for each plan.*)

A. When accrued	☐	☐	☐
B. When contributions are made to a trust fund	☐	☐	☐
C. When paid directly to employees	☐	☐	☐
D. When other "nonqualified" payments are made	☐	☐	☐
Y. Other or more than one method (*Describe on a continuation sheet.*)	☐	☐	☐

7.3.0 **Employee Group Insurance Charged to Government Contracts.** (*Includes coverage for life, hospital, surgical, medical, long-term disability, accident, etc.*)

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Item No.	Item Description
7.3.1	**Method of Providing Insurance.** (*Check one.*) A. ☐ All by purchase B. ☐ All self-insured (*If checked, skip to Item 7.4.0.*) C. ☐ Combination of A and B above (*Describe on a continuation sheet.*) Z. ☐ Not applicable (*If checked, skip to Item 7.5.0.*)
7.3.2	**Type of Purchased Insurance Plans.** (*Check one.*) A. ☐ Retrospective rating (also called experience rating plan or retention plan) B. ☐ Manually rated Y. ☐ Other or more than one type (*Describe on a continuation sheet.*)
7.3.3	**Treatment of Earned Refunds and Dividends from Purchased Insurance Plans.** Refunds are also called experience rating credits or retroactive rating credits. All earned refunds and dividends allocable to Government contracts: (*Check one.*) A. ☐ Are credited directly or indirectly to contracts in the policy year earned, in the same manner as the premiums are charged B. ☐ Are credited directly or indirectly to contracts in the year received in the same manner as the premiums are charged, not necessarily in the year earned C. ☐ Which are estimated to be received in the future are accrued each year, as applicable, to currently reflect the net annual cost of the insurance D. ☐ Or portions thereof are not credited or refunded to the contractor each year and are retained by the carriers as reserves. (*If D is checked, describe on a continuation sheet (i) the purposes of the reserves, other than "claims reserves" retained by carriers and (ii) whether such reserves are refundable on call or upon termination of the policies, clauses, or auxiliary agreements which provide for reserve retentions.*) Y. ☐ Other or more than one method (*Describe on a continuation sheet.*)
7.3.4	**Employee Contributions (Contributory Purchased Insurance Plans).** (*Check one.*) A. ☐ Plans provide that employees contribute fixed amount, employer is responsible for balance B. ☐ Plans provide for fixed percentage participation by both employer and employee Y. ☐ Other or more than one method (*Describe on a continuation sheet.*) Z. ☐ Not applicable
7.3.5	**Employee Sharing in Refunds and Dividends (Contributory Purchased Insurance Plans).** (*Check one.*) A. ☐ Employees do not participate in refunds and dividends unless employer's contribution is less than the refunds and dividends B. ☐ Employees share in refunds and dividends in the same fixed amount or percentage ratio as their contributions to premium costs C. ☐ Employees do not share in refunds and dividends Y. ☐ Other or more than one method (*Describe on a continuation sheet.*) Z. ☐ Not applicable

COST ACCOUNTING STANDARDS BOARD **DISCLOSURE STATEMENT** *REQUIRED BY PUBLIC LAW 91-379*	PART VII—DEFERRED COMPENSATION AND INSURANCE COSTS Name of Reporting Unit

Item No.	Item Description

7.4.0 **Self-Insurance Programs (Employee Group Insurance).** Costs of the self-insurance programs are charged to Government contracts: (*Check one.*)

A. ☐ When accrued (book accrual only)

B. ☐ When contributions are made to a nonforfeitable fund

C. ☐ When contributions are made to a forfeitable fund

D. ☐ When the benefits are paid to employees

E. ☐ When amounts are paid to an employee welfare plan or union

Y. ☐ Other or more than one method (*Describe on a continuation sheet.*)

Z. ☐ Not applicable

7.5.0 **Workmen's Compensation, Liability and Casualty Insurance (Purchased Insurance Only).** All allocable earned refunds and dividends under retrospectively rated workmen's compensation and liability insurance policies, and dividends and deposit refunds under casualty insurance policies, are: (*Check one.*)

A. ☐ Credited directly or indirectly to Government contracts in the year earned

B. ☐ Credited directly or indirectly to Government contracts in the year received, not necessarily in the year earned

C. ☐ Accrued each year, as applicable, to currently reflect the net annual cost of the insurance

D. ☐ Not credited or refunded to the contractor but are retained by the carriers as reserves

Y. ☐ Other or more than one method (*Describe on a continuation sheet.*)

Z. ☐ Not applicable

7.6.0 **Self-Insurance Programs (Workmen's Compensation, Liability and Casualty Insurance).**

7.6.1 **Workmen's Compensation and Liability.** Costs of such self-insurance programs are charged to Government contracts: (*Check one.*)

A. ☐ When claims are paid or losses are incurred (no provision for reserves)

B. ☐ When provisions for reserves are recorded based on the present value of the liability

C. ☐ When provisions for reserves are recorded based on the full or undiscounted value, as contrasted with present value, of the liability

D. ☐ When funds are set aside or contributions are made to a fund

Y. ☐ Other or more than one method (*Describe on a continuation sheet.*)

Z. ☐ Not applicable

7.6.2 **Casualty Insurance.** Costs of such self-insurance programs are charged to Government contracts: (*Check one.*)

A. ☐ When losses are incurred (no provision for reserves)

B. ☐ When provisions for reserves are recorded based on replacement costs

C. ☐ When provisions for reserves are recorded based on reproduction costs new less observed depreciation (market value) excluding the value of land and other indestructibles

D. ☐ Losses are charged to retained earnings with no charge to contracts (no provision for reserves)

Y. ☐ Other or more than one method (*Describe on a continuation sheet.*)

Z. ☐ Not applicable

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COST ACCOUNTING STANDARDS BOARD **DISCLOSURE STATEMENT** *REQUIRED BY PUBLIC LAW 91-379*	PART VIII—CORPORATE OR GROUP EXPENSES Name of Reporting Unit

Item No.	Item Description

Instructions for Part VIII

For corporate (home) office, or group (intermediate management) office, as applicable (includes home office type operations of joint ventures, partnerships, etc.).

Sales data for this part should cover the most recently completed fiscal year. For a corporate (home) office, such data should cover the entire corporation. For a group office, they should cover the subordinate organizations managed by that group office. "Government Sales" includes sales under both prime contracts and subcontracts.

8.1.0 **Annual Total Sales (Government and Commercial).** (*Check one.*)

A. ☐ Less than $50 million B. ☐ $50–$100 million C. ☐ $101–$200 million

D. ☐ $201–$500 million E. ☐ $501 million-$1 billion F. ☐ Over $1 billion

8.2.0 **Approximate Percentage of Government Sales to Annual Total Sales.** (*Check one.*)

A. ☐ Less than 5% B. ☐ 5%–10% C. ☐ 11%–25%

D. ☐ 26%–50% E. ☐ 51%–80% F. ☐ Over 80%

8.3.0 **Expenses or Pools of Expenses and Methods of Allocation.** For classification purposes, three methods of allocation are defined: (i) Directly Chargeable—those expenses that are charged to specific corporate segments for centrally performed or purchased services; (ii) Separately Allocated—those individual or groups of expenses which are allocated only to a limited group of corporate segments; and (iii) Overall Allocation—the remaining expenses which are allocated to all or most corporate segments on an overall basis. Corporate segments, as used here, refer to divisions, product departments, plants, or profit centers of a corporation with production and, usually, profit responsibility, reporting to corporate headquarters directly or through intermediate organizations. The term includes Government-owned, contractor-operated (GOCO) plants, foreign operations, subsidiary corporations and joint ventures.

Allocation Base Codes

A. Sales
B. Cost of sales
C. Cost input (direct material, direct labor, other direct costs and applicable overhead)
D. Total cost incurred (cost input plus G&A expenses)
E. Prime cost (direct material, direct labor, and other direct costs)
F. Processing or conversion cost (direct labor and applicable overhead)
G. Direct labor dollars
H. Direct labor hours
I. Machine hours
J. Usage
K. Unit of product
L. Direct material cost
M. Total payroll dollars (direct and indirect employees)
N. Headcount or number of employees (direct and indirect employees)
O. Square feet
Y. Other or more than one basis (*Describe on a continuation sheet.*)

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COST ACCOUNTING STANDARDS BOARD **DISCLOSURE STATEMENT** *REQUIRED BY PUBLIC LAW 91-379*	PART VIII—CORPORATE OR GROUP EXPENSES Name of Reporting Unit

Item No.	Item Description
	(Enter the type of expenses or the name of the expense pool(s) and one of the Allocation Base Codes A through O, or Y, to indicate the basis of allocation. Use a continuation sheet if additional space is required.)
	Type of Expenses or Name of Pool of Expenses — **Allocation Base Code**
8.3.1	**Directly Chargeable** (a) ☐ (b) ☐ (c) ☐ (d) ☐ (e) ☐
8.3.2	**Separately Allocated** (a) ☐ (b) ☐ (c) ☐ (d) ☐ (e) ☐
8.3.3	**Overall Allocation** (a) ☐ (b) ☐ (c) ☐ (d) ☐ (e) ☐
8.4.0	**Major Types of Expense.** *(For each pool reported in Items 8.3.1, 8.3.2 and 8.3.3, list on a continuation sheet the major functions, activities, and elements of cost included.)*
8.5.0	**Allocation Base.** *(For each Allocation Base used in Items 8.3.2 and 8.3.3, describe on a continuation sheet the makeup of the base; for example, if direct labor dollars is used, are overtime premium, fringe benefits, etc., included?)*
8.6.0	**Overall Allocation.** Are expenses in this category, Item 8.3.3, allocated to all corporate segments? *(Check one. If No is checked, list on a continuation sheet the names of excluded corporate segments and the reasons for their exclusion from the allocation.)* A. ☐ Yes B. ☐ No

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COST ACCOUNTING STANDARDS BOARD **DISCLOSURE STATEMENT** *REQUIRED BY PUBLIC LAW 91-379*	PART VIII—CORPORATE OR GROUP EXPENSES Name of Reporting Unit

Item No.	Item Description
8.7.0	**Transfer of Expenses.** Are there normally transfers of expenses from corporate segments to corporate or group office? (*Check one. If Yes is checked, identify on a continuation sheet the classifications of expense, the names of the corporate segments incurring the expense, and the corporate or group office pools in which the expenses are included.*) A. ☐ Yes B. ☐ No
8.8.0	**Fixed Management Charges.** Are fixed amounts of expenses charged to any corporate segments in lieu of a prorata or allocation basis? (*Check one. If Yes is checked, list on a continuation sheet the names of such corporate segments and the basis for making fixed management charges.*) A. ☐ Yes B. ☐ No
8.9.0	**Government Owned/Contractor Operated (GOCO) Plants.** Are corporate or group office expenses allocated to GOCO plants? (*Check one. If Yes is checked, describe on a continuation sheet the types of expenses involved and the method of allocation.*) A. ☐ Yes B. ☐ No Z. ☐ Not applicable

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