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Streamlining Defense Contracts

BY W. R. GINDER

SHAKESPEARE has written, "If it were done when 'tis done, then 'twere well it were done quickly."

The essence of the current national defense construction and production program is speed. Provision for practically all construction of buildings and related facilities under this program must be made by the letting of appropriate contracts.

Ordinarily in peace time, detailed plans and specifications would be prepared to suit the site and other requirements, and lump-sum bids would be invited through advertising and circularization. Such procedure is time-consuming at best and, when detailed plans and specifications have not been drawn or require revision, the time element makes some other arrangement necessary.

To meet this need and at the same time avoid some of the disadvantages associated with the cost-plus contracts of 1917-18, the cost-plus-a-fixed-fee negotiated type of contract was adopted. The procedure consists, in general, of the simultaneous selection and acquisition of the site of a proposed project, preparation or revision of the general plan and estimate of cost, and investigating and selection of a general contractor and architect-engineer contractor. This is followed by negotiation of contracts with the selected contractors under which each is entitled to reimbursement for all legitimate direct costs incurred in performing under the contract, plus a fixed fee for his services.

NOTE.—Address presented October 17, 1940, at the annual meeting of the American Institute of Accountants, in Memphis, Tennessee.

NECESSITY FOR A PRE-AUDIT AND WHAT IT DOES

It will be immediately apparent to anyone familiar with the subject that costs incurred when speed or time is of prime importance must be carefully scrutinized and controlled if excesses are to be avoided. The experience of our government in 1917 and 1918 clearly demonstrated that truth. Although the general contractor has no pecuniary interest in costs under a cost-plus-a-fixed-fee contract, his zeal may not be tempered always by good judgment, and his employees may not be sufficiently cost conscious.

For the foregoing reasons, if for no others, pre-audit of expenditures of the contractor to the extent found practicable is both desirable and necessary. It should be understood clearly that pre-audit of the transactions does not impugn the integrity or good faith of the contractor. Those qualifications were rather well established before his selection and the negotiation of the contract. However, pre-audit may curb the tendency of the employee of the contractor towards irregularity.

Pre-audit attempts to and does establish to a great extent:

1. That the contractor does not unwittingly incur any costs or expenses for which he may not be reimbursed under his contract;
2. That the contractor is not reimbursed for any costs or expenses incurred by him which are not authorized by or which are specifically excluded by his contract;
3. That the contractor is not reimbursed for excessive costs resulting from carelessness of his agents or

- employees or from disregard of instructions given him;
4. That materials and services are obtained at the lowest available prices consistent with maintenance of quality and required time of delivery and that qualities and quantities of materials received are as specified;
 5. That services engaged or contracted for are rendered satisfactorily and as specified;
 6. That wage rates paid are fair and are not in excess of those prevailing in the community;
 7. That overtime or shift work requiring payment of increased wage rates is approved in advance of its use;
 8. That wages are paid only for time actually spent on the work by employees of the contractor;
 9. That no unauthorized deductions are made from wages earned by any employee of the contractor;
 10. That the correct amount of wages is actually paid to each employee of the contractor; and so on with respect to each type of expenditure.

ORGANIZATION OF CONSTRUCTING QUARTERMASTER'S STAFF

The direct representative of the government during performance of such a contract is a commissioned officer of the Army designated as constructing quartermaster. A constructing quartermaster is assigned to each major project or to each group of smaller projects in a given locality. He is responsible for supervision of all activities in connection with the contract, including determination of the propriety and accuracy of the cost for which the contractor is to be reimbursed.

The constructing quartermaster must organize a rather large staff, consisting of engineering, accounting and auditing, property, procurement and administration branches, each branch varying in size with various characteristics of the construction work in hand. The accounting and auditing branch should be

normally the largest branch of the staff, because of the great volume of detail to be handled; because it performs duties which would otherwise fall to the engineering branch, and because it must control to some extent and audit the other branches.

ACCOUNTING AND AUDITING BRANCH

The accounting and auditing branch is headed by the field auditor, whose staff consists of chief fiscal auditor, chief materials inspector, chief time inspector, chief tools and equipment inspector, chief transportation inspector, chief commissary auditor, and administrative assistant, each having a number of assistants of various kinds. During the early stages of a project or on small projects, staff duties may be combined by, for instance, having the chief materials inspector perform the duties of chief tools and equipment inspector and having the administrative assistant perform the duties of chief transportation inspector. No commissary department may be required on projects located in thickly settled communities.

The prime duty of the accounting and auditing branch is to protect and assist the constructing quartermaster by pre-audit or concurrent audit of all transactions entered into by the contractor. The contract sets forth in considerable detail the types of cost for which the contractor may be reimbursed and it is the duty of the field auditor not only to limit reimbursements to authorized items but also to assist the contractor to limit his expenditures to such items and thus avoid loss.

This is accomplished as far as practicable by approving, and having the constructing quartermaster approve, purchase orders or other commitments of the contractor before they are issued and by similarly approving invoices and payrolls before they are paid by the contractor.

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OPERATION OF THE SEVERAL SECTIONS

The chief fiscal auditor is the senior chief of section. He acts for the field auditor in his absence, supervises the detailed operation of the branch and, with his assistants, maintains a liability record, voucher register, fund or procurement authority records and various accounting controls. He also supervises such miscellaneous auditing as cannot be done currently.

The materials section is charged with ascertaining that purchases are made from the lowest responsible bidder who can offer or guarantee satisfactory delivery dates; that prices are not above market; that deliveries are correct as to quantity and quality; that nonexpendable property acquired is properly accounted for by the property officer; that invoices are proper for payment by the contractor and that appropriate records of all the foregoing are maintained by his assistants.

The time or payroll section is charged with ascertaining that all employees of the contractor have been on duty all of the time for which they are to be paid; that personnel and salaries of the contractor's office and supervisory staff have been approved by the constructing quartermaster; that wage rates are not in excess either of those prevailing in the locality or of those approved by the Department of Labor; that overtime and/or shift work requiring payment of increased wage rates have been approved by the constructing quartermaster; that payroll extensions, additions, and authorized deductions are correct; that payrolls are correct before payments are made by the contractor; that each employee is properly paid and that appropriate records of all the foregoing are maintained by his assistants.

The tools-and-equipment section is charged with ascertaining that all rented or purchased tools and equipment are received on the job in good working order; with approving valuations and

rental rates of rented equipment; determining responsibility as between the owner and the lessee of equipment, for all maintenance and repair cost of rented equipment; approving equipment rental payments and maintaining appropriate records of the foregoing.

The transportation section is charged with the expeditious handling of all traffic by railroad, truck, etc.; preparing bills of lading for accomplishment; obtaining advance notice of arrival of shipments; controlling demurrage charges; preparing claims against carriers; approving transportation charges, and maintaining appropriate records of the foregoing.

The commissary section is charged with maintaining such test audit of commissary operations as may be required, including purchases and receipt of food and supplies, payroll, cash transactions and operating or profit-and-loss statements.

The administrative section is charged with general office operation including personnel matters, routing of mail, filing, etc.

ORGANIZATION OF FIELD AUDITOR'S STAFF

Arrangements have been made whereby the field auditor may select his chiefs of section, or key men, or be assured that he will be furnished men of satisfactory integrity, knowledge, and ability. It is essential that these key men be well chosen because the field auditor will find that he must delegate considerable responsibility and authority to them.

The chief fiscal auditor must be, as his title implies, a thoroughly trained and experienced auditor of full senior or supervisor grade as rated in public practise. The chief materials inspector and chief time inspector must have organizing and executive ability. In addition, the chief materials inspector must be a trained construction man and the chief time inspector must be firm, courageous, tactful, and energetic.

Before attempting operation, the field auditor and his key men should spend several days studying the contract, all available instructions, procedure charts, and approved or suggested forms and adapting them to the conditions peculiar to the project. At the earliest possible date, he should with approval of the constructing quartermaster, instruct the contractor to have the required forms printed.

He should then proceed to engage his initial force of assistants and acquire initial office space, furniture, equipment, and supplies. Prior approval of all these items by the constructing quartermaster must be obtained and the constructing quartermaster must in turn obtain authority from the quartermaster general, all of which is time-consuming. It must be borne in mind also that the constructing quartermaster has many other things to do and

think about at this time, which he may consider more pressing and important than the needs of the field auditor.

The contractor should be warned that the requirements of government accounting and auditing will necessitate a larger office force than he may have been in the habit of having on private work. Early information in regard to forms and procedure will enable the contractor to plan for an adequate force and adequate field office space, furniture and equipment.

The field auditor should not worry if his material inspectors, time checkers and clerks do not have much to do for the first few days of their service. Their presence and the opportunity to creep before walking and running, will prove economical in the long run and the field auditor may be spared considerable nervous strain and its inevitable consequences.