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P R O C E E D I N G S

MEETING OF COUNCIL

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

October 4, 1969

Biltmore Hotel

Los Angeles, California

MARTIN C. JOHNSON REPORTING SERVICE
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REPRESENTATIVES IN PRINCIPAL CITIES

TABLE OF CONTENTS

Saturday Morning Session
October 4, 1969

Page

Call to Order 1

Introduction of Foreign Visitors 2

Election of three members of Council to fill vacancies 3

Approval of minutes of meetings of May 5 and 6, 1969 4

Approval of Election Ballots 4

Election of member to Trial Board to fill a vacancy 4

Supplementary Report of Executive Committee . 5

Report of the Treasurer, Walter E. Hanson ... 8

"The Role of Research In a Dynamic Profession," Leonard M. Savoie 15

"The Current Agenda of the APB," George R. Catlett 17

"Where Do We Stand on a Revision of the Code?", Wallace E. Olson 29

"A Look at the Pending Tax Bill," William T. Barnes 30

"Advances in Auditing: A Case History in the Development of the 'Subsequent Discovery' Statement," Robert C. Holsen 48

TABLE OF CONTENTS

Saturday Afternoon Session
October 4, 1969 — Page

"The World of Accounting Beyond Our Shores," Robert L. May 59

"Minorities and the Profession: A Progress Report," Edwin R. Lang 59

"The CPA and Medicare," William Freitag 61

"Professional Development In the '70s", Robert E. Schlosser 84

Report of Committee on Budget and Finance, Walter J. Oliphant 98
 Adoption of 1969-70 Budget 109

Election of two members of Committee on Nominations 110

Expressions of appreciation to retiring members of Council and Committees of Council 111

Adjournment 113

SATURDAY MORNING SESSION

October 4, 1969

The Meeting of Council of the American Institute of Certified Public Accountants, held in the Renaissance Room of the Biltmore Hotel, Los Angeles, California, convened at 9:05 a.m., Mr. Ralph E. Kent, New York, President of the Institute, presiding.

PRESIDENT RALPH E. KENT: Good morning, gentlemen! We are together for our formal Council meeting. Mr. Secretary, do we have a quorum?

MR. JOHN LAWLER: We do.

PRESIDENT KENT: Our efficient Secretary decided that very quickly.

If Marvin Stone were here, and I don't see him--oh, he just came in--several people have asked me, Marvin, if it has stopped raining in Colorado.

MR. MARVIN STONE (Colorado): We have eight inches of snow!

PRESIDENT KENT: Eight inches?

Marvin told me the other day that when the weather man in Colorado said there was a 30% chance of rain, he meant a 30% chance of rain for four straight days. [Laughter]

Welcome to the final Council Meeting of this year's

administration. It concludes a busy and interesting year.

At this 82nd Annual Meeting of the Institute we are privileged to have a number of guests from abroad. I am not sure whether any of these gentlemen have come in yet, but if they have I would like for them to stand.

First, the President of the Canadian Institute, Mr. J. Emile Maheu. Mr. Maheu is in the back. [Applause]

And the Executive Director of the Canadian Institute, right next to him, Douglas Thomas. [Applause]

The President of the Mexican Institute, Senor Rafael Alonso y Prieto. I don't think Alonso is here yet this morning. And the President-elect of the Mexican Institute, Rogerio Casas Alatriste. I don't imagine he is yet here either. I think both of these fellows will be here later today.

And the Executive Vice President and head of the delegation from the Philippine Institute, Mr. Leonardo L. Cabanero. He is not here yet either.

We will be hearing from several of these out-of-the-country guests at our Business Session on Monday. I wanted to mention here the presence of these visitors from beyond our borders and to urge members of Council to seek them out and to add your personal welcomes to our official greetings.

We have just one day here to wind up this year's business. We have a number of questions of importance for discussion and several matters on which Council has to take action.

In keeping with the format established at recent meetings, we have asked several committee chairmen and members to speak to us on some major policy questions of the profession. These presentations are designed to highlight areas of concern and to stimulate floor discussion of them. I urge you to speak out on the issues so that the officers and staff may have the benefit of your views.

A box has provided at the back of the room, at the main entrance. Please be sure you fill out your attendance slip and put it in the box so that we will have that as part of our official record.

Our first order of business is the election of three members of Council to fill vacancies until the time of the Annual Meeting. The Committee on Nominations has recommended J. Littleton Daniel, of Oklahoma; Robert S. MacClure, of Illinois; and James VanderLaan, of Colorado. May I have a motion, please, for the election of these gentlemen?

[The requested motion was duly made, seconded, voted upon and carried.]

PRESIDENT KENT: Mr. Daniel, Mr. MacClure and Mr.

VanderLaan are officially in office as members of Council until the Annual Meeting.

May I have a motion for the approval of Minutes of Meetings of the Council Meeting of May 5 and 6, 1969?

[The requested motion was duly made, seconded, voted upon and carried.]

PRESIDENT KENT: Since our Spring Meeting you have received a number of election ballots: No. 418, dated April 30, 1969; No. 419, dated May 31, 1969; No. 420, dated June 30, 1969; No. 421, dated July 31, 1969; and No. 422, dated August 31, 1969.

May I have a motion to approve of the election ballots, please?

[The requested motion was duly made, seconded, voted upon and carried.]

PRESIDENT KENT: They are officially approved.

We have come now to the election of a member to the Trial Board to fill a vacancy created by the resignation of Winston Brooke, of Alabama. As you know, Winston Brooke is a nominee for Vice President.

The Executive Committee recommends the election of William H. Westphal, of North Carolina, to complete the term of Winston Brooke on the Trial Board. May I have a motion for

the election of William Westphal to the Trial Board?

[The requested motion was duly made, seconded, voted upon and carried.]

PRESIDENT KENT: Mr. Westphal is now officially a member of the Trial Board.

Our first report this morning will be a Supplementary Report of the Executive Committee, and we have asked Stanley J. Scott, of Dallas, a Vice President, to submit this report to you. Stanley, please!

[Mr. Stanley J. Scott presented the Supplementary Report of the Executive Committee.]

PRESIDENT KENT: Gentlemen, we have heard the report of Vice President Scott. May I have a motion for the acceptance of that report and approval of the acts of the Executive Committee, please?

[The requested motion was duly made and seconded.]

PRESIDENT KENT: It has been moved and seconded. Are there any questions you would like to address to Stan?

MR. J. S. SEIDMAN (New York): In connection with permissive incorporation, may I ask what the reasoning was that had the cutoff in connection with the liability insurance at $2 million? I gather from what Mr. Scott said that the idea

of a professional person base was adopted, which in my opinion makes a great deal of sense, and that the motivation basically was to make sure that the public was adequately protected and, I think the expression was used, would "buy it."

On that type of reasoning, does it make sense to say that a 40-person organization and a 400-person organization and a 4,000-person organization might represent the same protection to the public at a same $2 million insurance liability?

I would have envisioned as the theory was being evolved that there would have been a step down per person as size goes down, because there is a required base of substantially greater amount, but I am just curious to know what the reasoning is.

PRESIDENT KENT: It's nice to have a Vice President who will answer all the questions.

MR. SCOTT: Jack, I think basically the reason, as I have stated, and I think it still holds, apparently, and I don't know the research on this, in the 75-year history of insurance that we have had in the profession, apparently there has been no claim against a CPA firm that has exceed $2 million--a successful claim, and basically we felt that that was sufficient protection to the public. This, of course, does not preclude that any CPA firm can have as much insurance as they

want, you understand.

You asked the philosophy. That was the philosophy behind it so far as the Executive Committee is concerned.

PRESIDENT KENT: I would only add to that that we have to be practical. There has been great difficulty in getting insurance. The insurance market has been unsettled, as everyone in this room knows, and it has been increasingly unsettled for the last three or four years. Within the past year the Institute's Liability Insurance Committee has developed an insurance plan which makes available to members up to a million dollars of basic insurance and up to a million dollars of excess insurance over the $1 million basic. These are carried with different insurance companies.

It is very difficult, indeed, for any local or medium-sized firm to get insurance at anything approaching reasonable cost, and many times to get any insurance at all in excess of $2 million, so the Executive Committee did not feel it would be pprudent to put in a requirement for insurance that would exceed what a practitioner could go out and get.

We were also influenced, as Stan says, by the fact that there has never been a claim paid, to the best of our knowledge, and we think our knowledge is comprehensive on the subject, in excess of $2 million.

I might also add, Jack, that this insurance amount that we have is higher than any I have seen in any of the professional service corporation statutes. I think Marvin Stone said that in Colorado you have $50,000 per professional person up to a maximum of $300,000 in the Professional Service Corporation of Colorado. So we feel we have gone beyond that amount to indicate our good faith.

Is there any further discussion? We welcome any comments, any questions, any desire for elaboration of the items included in the Executive Committee's report to Council.

Are you ready for the question?

All those in favor of the motion to accept the report and approve the actions of the Executive Committee please signify by saying "Aye." Contrary. The motion is carried.

Thank you very much, Stanley.

Our next report is one that always fascinates us, of course. How much money did we take in and how much money did we spend? As you know, we are generally successful in spending most of the money we take in. Walter Hanson, our Treasurer, will give us the Treasurer's report. The disappearance from the dais of these people is not in fear of adverse action by Council. It is just to make the screen available to you.

[Mr. Walter E. Hanson presented the

report of the Treasurer.]

PRESIDENT KENT: It has recently come to our attention that people are more interested in income than they are in the balance sheet. I think you might take a couple of minutes to thumb through your financial statements now in the light of the slides and see what questions you might have and what elaboration you might desire.

I think Walter gave extensive coverage to the Professional Development. I think it might be worth calling your attention particularly to page 7. If you will come down to the actual 1968-69 column, you will notice we come down to the net excess of costs over revenues of $428,000, but I think Council might wish to be reminded that the basic operating policy for the PD Division is that they will endeavor to recover all costs through their pricing structure, but not including this Management and Service Charges line through the bottom items included in expenses, so I think for comparison of our basic Council objective, a policy that was established a number of years ago, you would take off of the $428,000 the $215,000 management service charges, so we did fail by $212,000 in fiscal '69 to comply with Council's instructions with respect to the PD program over a period of years.

Just to drive that point clearly home, if you will

look over three columns to the right, you will notice in each of those years we were projecting accounts of $244,000, $250,000 and $255,000, and you will see that those are the same identical amounts as appear in the Management Service Charge line.

As Walter has said, the Professional Development program has spent a great deal of money this year getting its programs updated and also building up a much larger inventory than we have customarily carried in our PD activities. We have a deficit of $200,000 for this year.

Are there any other questions on the financial statement?

MR. DAVID F. LINOWES (New York): I wonder if there are available the number of members of the Institute who are involved in Professional Development programs this past year as compared with the past two years.

PRESIDENT KENT: Bob Schlosser, I am sure, is in the audience, and I wonder if he would like to answer that question. Bob heads up the Professional Development program for the Institute and is doing an outstanding job.

MR. ROBERT E. SCHLOSSER: The complete figures are not in for this year yet, because we need to hear from some of the states regarding particularly the seminar program.

We should have this year just under 21,000

participants in the PD program. This is off from a budgeted enrollment that we expected this year of 22,000, and last year we had 20,000, or I think it was 21,000, participants in the program. Where we are off this year in so far as the budget, we are over in participation.

We divide our programs into training programs, lecture programs, courses and seminars, and we are off in the seminar category. I attribute this to the fact that we just didn't have new seminars available during this fiscal year, and some of the ones that were available just weren't quite up to date to satisfy the purchasers of these programs.

I am quite confident that our figure will round out at about 21,000 participants this year, but we fully anticipate for the coming year an increase of about 30% in enrollments because we are, with the states, planning just a little bit further ahead, and it is quite clear from the planning that has already been done that there will be a more extensive PD program all around the country during the coming year.

PRESIDENT KENT: Thank you, Bob.

As I mentioned, Bob will be on the program this afternoon to give us a preview of PD in the 1970s.

Jim Ould, from Virginia and North Carolina, alternating!

MR. JAMES P. OULD: What I wanted to ask was with regard to the accounting method for these statements. I believe Mr. Hanson mentioned that the PD was on a cash basis. I wonder if PD is the only thing on a cash basis.

Then I have another question. I serve on the Institutes Planning Committee, and I see we spent $15,000. I was curious as to what that was. [Laughter]

MR. HANSON: I didn't get that last part of the question.

PRESIDENT KENT: It shows $15,000 spent by the Planning Committee, and as a member of the Planning Committee he was curious as to what they spent that for.

MR. HANSON: You'll have to refer that one to George.

MR. GEORGE TAYLOR: As to the first question, the Institute is on a cash basis.

The second question, the $15,000 you are looking at, represents minor expenses of the committee, but includes charges for staff time, such as Mr. Lawler's time, and the time of other people on the staff, time they spent with the Planning Committee in getting ready for Planning Committee meetings.

MR. OULD: On that matter, I see on the balance sheet here, for example, "Dues Collected In Advance." Did you say the whole Institute activity is on a cash basis?

MR. TAYLOR: Yes.

MR. OULD: We certainly don't understand Yankee accounting! [Laughter]

PRESIDENT KENT: Bob Schlosser, I wonder if we could have a PD program projected for this, possibly next year.

Walter, would you want to elaborate?

MR. HANSON: We are on a cash basis. We slip over a little on the accrual basis. That was part of the consideration, actually, on whether or not we should set up a provision for the loss on the funds, the bond portfolio, because we felt in that case we needed to slip over a little bit on an accrual basis, at least from the standpoint of consideration in setting up a provision there, so we do have have it in certain of the areas; as you noted, in the one area we actually are accruing those dues. So it is a modified cash basis, actually. You can pick out some payables, too, actually.

MR. RICHARD S. HELSTEIN (New York): I have one question that is bothering us very much in New York State, and I imagine other states have the same problem.

Referring back to the PD program and the theory that it must be self sustaining except for the allocation of management services, in order to do that it means your increased costs are passed on to the states in the form of increased fees to

the states in charges for the courses, which in turn, if the states are on a self-sustaining basis, must be passed on to those members whom we are most anxious to reach in professional development, and who probably are most loathe to increase the amount of money they are going to spend for the various seminars.

We have found this to be a real problem in New York, to change our fee structure for the seminars so that we accord with the new charges. The new list of charges which is coming through has caused a real agonizing appraisal of our policy as to whether the Professional Development program should be self sustaining, or whether this is something we should give to the members. Therefore I think perhaps it might be advisable in the coming year that the Executive Committee reappraise its policy as to whether this program should be self sustaining or whether the Institute itself should not absorb part of this cost. The state societies would then absorb part of the cost and we probably could get a much larger membership participation in the Professional Development program.

PRESIDENT KENT: I would mention, Dick, that in our Executive Committee yesterday we agreed that we should re-examine our policy with respect to PD programming, but I would not want you to believe that that necessarily would go in just the direction you asked. We wanted it to be an examination as

to whether it should be more self sustaining, meaning to include some portion of the management service charges, or whether there should be some change, and of course whatever comes out of that will come back to Council.

Are there any other questions on the accounts? If not, may I have a motion to receive these accounts?

[The requested motion was moved, seconded, voted upon and carried.]

PRESIDENT KENT: Thank you very much, Walter.

We will now have a ten- or fifteen-minute coffee break. This will be in the Music Room. You go out the main door, and turn left past the Institute registration desk.

[Announcements and coffee break.]

PRESIDENT KENT: Gentlemen, I wonder if we may take our seats.

[Announcements.]

PRESIDENT KENT: Our next item on our agenda is a report by Len Savoie on "The Role of Research in a Dynamic Profession." Len Savoie, Executive Vice President of the Institute!

[Mr. Leonard M. Savoie presented his prepared paper, "The Role of Research in a Dynamic Profession."] [Applause]

PRESIDENT KENT: Are there any queries you would like to put to Len? We are not asking for any action, of course, on this at the present time. Len is just concentrating his attention on the growing research needs of the profession as a whole. This is performed on a cash basis, Jim.

MR. OULD: Yes, sir. That's what my interest is. Where is the cash coming from? What's in the back of my mind, I noticed there is a substantial increase in the research budget, and are the Council members supposed to get these new folks to join the accounting research organization? And if the Council members are, from experience I know that I'm not the best salesman, and I wonder if you could jot down any thoughts on selling the research program to those who don't have the benefit of the insight of some of the rest of us on the value of the accounting research program.

PRESIDENT KENT: I think we will try to do that in writing.

Jim's comment reminds me to thank the Council members who have undertaken to enlist and to enroll members in the ARA. In our continuing efforts to get the maximum enrollment we have asked Council members to personally contact member firms that have not joined the ARA, and Jim, among others, has brought in new members to that group.

The amounts of money, of course, that Len referred to, and particularly that Bob Trueblood referred to in his talk at the AAA are very sizable indeed and will take a great deal of money. I think we must get all members to the maximum extent enrolled in our research program. We will try to give you additional background material to enable you to do that, Jim.

Are there other comments on Len's report?

If not, Len, thank you very much.

We come now to a subject that is a little bit related to research, the APB, which has commanded a great deal of our research money. George Catlett, Vice Chairman of the Accounting Principles Board, will report to us on "The Current Agenda of the APB."

MR. GEORGE R. CATLETT: I am pinch-hitting today for Lee Layden, Chairman of the Board, who is giving an important speech to members of the business community in which he will be explaining and defending, I imagine, he activities of the Board, so that is an important mission also.

Lee gave a comprehensive report to you at the May Council Meeting, and my purpose today is to update that report and tell you what is ahead in the Board for the next few months.

Opinion No. 15 was issued by the Board in May on "Earnings Per Share." As you know, that subject has been a very

controversial one. That opinion has been criticized somewhat because of its complexity and difficulties of application and interpretation. However, I might add that the complexity is not so much the result of the opinion as it is the result of the very complex securities that exist today in business--all types of convertible debentures, preferred stocks, option warrants, contingencies, going through all types of mergers, and so forth. That is what causes the difficulty, and not the opinion.

In that case the Board had the alternative, I think, of either dealing with a problem in some depth with the hope of obtaining order out of chaos and achieving a reasonable degree of comparability, or to avoid the problem completely and not do anything. Most of the Board members finally decided that it was necessary for the Board, on behalf of the profession, to take some definitive action and leadership on that important issue.

There are many problems of interpretations of that opinion. There have been certain interpretive matters issued and put in the Journal of Accountancy, and others will be issued over the next few months as needed.

Statement No. 3, on "Financial Statements, Restated for General Price Level Changes," was issued in June. This

publication represents the culmination of many years of work by three different directors of accounting research and their staffs as well as members of the Board. This is a sort of long-range project, but we think of some significance.

The Committee on Bank Accounting and Auditing has prepared a supplement to the Bank Audit Guide relating to banks as a result of several meetings with representatives of the bank regulatory agencies, SEC, and American Bankers Association. As you know, there have been several controversies over the last year as to whether banks should follow the same principles in reporting practices as other industries.

This supplement in general brings the banks into line, and an arrangement has been worked out with the bankers and the regulatory agencies to accomplish this.

The supplement was reviewed in a general way by the Board at its September meeting and it has received the approval of the Chairman of the Board. The supplement is currently being sent to the regulatory agencies for their information, and the members of the Bank Accounting and Auditing Committee will ballot on that supplement about October 10, and hopefully this will settle the controversy that has been so difficult, I think in general on a satisfactory basis.

The Board can't be criticized, I don't believe, for

avoiding any of the serious and controversial accounting problems facing the profession. I know at times it seems that progress is slow, but when you look back over what has been accomplished during the last three years we realize that opinions have been issued on some very difficult subjects, including accounting for pension plans, reporting results of operations, accounting for income taxes, and earnings per share. The Board now is in the middle of a most difficult subject, "Business Combinations and Good Will," and this will probably be the most controversial of all of these.

The Board has been giving top priority in recent months to the subject of business combinations and good will, and spent much of the time at the regular May and June meetings on this. A special 2-day meeting was held in August for this specifically, and much of a three and one-half day meeting in September was also spent on this. We have been going through a series of drafts of an opinion. A new draft is to be distributed to the cooperating organizations, industry groups, the SEC, the stock exchanges and so forth, about October 8. An all-day symposium is going to be held in New York on October 22 with representatives of all of these organizations to discuss this draft of the opinion, and the Board will again take up the subject at its October Board Meeting right after that

symposium.

I might just tell you briefly what will be in this next draft. These, of course, are all tentative conclusions, subject to discussions of the symposium and probably a great deal more discussion by the Board. But these are the tentative conclusions at the moment, just as a matter of information.

Pooling of interest as an accounting method would be abolished. All business combinations would be accounted for as purchases. The cost assigned to purchase of good will and other intangible assets should be amortized by systematic charges in the income statement over the estimated remaining period of benefit, but in no case longer than four years. The opinion would not apply retroactively, and would not need to be applied to the purchase of good will or other intangibles acquired prior to the effective date of the opinion.

This entire subject is, and certainly these conclusions are, very controversial, both in the Board and every place else, and there will be a great deal more discussion and consideration of this opinion before it is completed.

The item of second priority on the Board agenda currently is the equity method of accounting for inter-corporate investment in common stocks. This method is now required for such investment with respect to unconsolidated consideration in

consolidated statements. It is frequently followed for investment of 50% on companies and has been used in some cases for less than 50% on companies, particularly the so-called corporate joint ventures.

The principal question here is, when and under what conditions should the equity method be used for investment in common stock when the investor company owns less than 50% of the voting stock? We do have a draft of an opinion in progress, and that will be discussed at the October meeting. Our plan is to expose the draft of that some time within the next few months.

Another related subject is the question of carrying marketable securities at market value. With increasing interest in the financial and business community as to the earnings of insurance companies and with insurance companies being acquired by other companies and their earnings being consolidated with those of other companies, a very important question has arisen with respect to the carrying of marketable securities by insurance companies.

As you may know, such securities at the present time are carried at market value in accordance with state regulatory requirements and, of course, there are billions of dollars involved in these securities. Two different approaches are now

being followed with respect to the gains and losses of these securities.

First, realized gains and losses are shown in the income statement, but the unrealized are reflected directly in retained earnings. Another method is for both realized and unrealized gains and losses to be reflected in a separate statement, or directly in retained earnings.

There are several questions here we must deal with. First, is the carrying of these securities at market value appropriate? This is done under state regulatory requirements, but we have to decide whether it's appropriate in generally accepted accounting principles.

What about similar securities held by companies in other industries? While this is a huge problem in the insurance industry, there are, of course, securities held by other companies outside of that industry.

Second, should realized and unrealized gains and losses be shown in the same place and, if so, should this place be in the income statement? Another one: Should unrealized gains and losses be spread out as a part of the long-term yield in those securities, or should this be allowed to be reflected directly on the basis of current market prices?

We held a symposium in New York on September 16 to

discuss this problem in a preliminary way with all of the co-operating organizations, and we also invited representatives of several insurance industry organizations, and we will be working on this over the next few months.

Another matter that the Board is struggling with for some time, and it has been a very sticky question, is the accounting for and reporting of adjustments arising from changes in accounting methods. The difficulty of this problem is really compounded by the existence of acceptable alternative methods, and the Board has been trying to eliminate some of these alternatives, but of course there are some still with us and they probably will be for some time, and therefore we have to deal with the problem of companies changing from one acceptable method to another acceptable method.

There are many imponderables when you start to analyze this problem, such as whether or not there are changed circumstances; which alternatives are preferable; and such things as management motives.

An adjustment could be treated in the year of change or preparatory to adjustment as a charge to current operations or as an extraordinary item; or it could be rolled forward over several years in the future.

As I said earlier, he Board has been struggling with

this for more than a year. We had another discussion in the September Board meeting, and I think we finally have reached sufficient agreement on a solution to this problem so we probably can proceed, and you may see an exposure draft on this within the next few months.

I will just comment briefly on other things that are in the works at the present time, at different stages of development. One of these is a disclosure by companies in footnotes to financial statements of their accounting policies and methods. Another is the accounting for components of a business enterprise, such as subsidiaries, divisions and branches; the accounting for discounted premiums on bonds and other fixed obligations; the disclosure of financial data by segments of a business enterprise; and the question of whether such disclosure should be required for a fair presentation of financial position and results of operations.

I might just say there, as you know, the SEC has issued regulations for certain disclosures by segments of business and by product lines, but this is outside the financial statements and registration statements. The question the Board is addressing itself to is whether any disclosures of this type are necessary in the financial statements for a fair presentation, which is a different subject.

The special problem involving accounting and financial reporting of extracting industries is also on the docket. There is an accounting research study which I believe is at the printers now on this and it will be published in the very near future.

The accounting problems involved in preparing interim financial statements, such as quarterly statements issued by publicly held companies: This is a matter that is of particular concern to the SEC and the stock exchanges, and the Board has agreed to consider it.

The National Association of Accountants has a research project in process on this, and we, of course, will use the results of that research to the extent we can.

We are also reconsidering the five areas involving questions of tax allocation which were deferred when Opinion No. 11 was issued.

A possible revision of Opinion No. 5 relating to accounting for leases by lessees is also under consideration.

Another subject is accounting by regulated industries.

The Board has had a project in process for several years involving the determination and summarization of existing principles and practices, concepts and standards, which form the basic framework of accounting theory today. This has

been a major undertaking and continuing progress is being made on it.

A new committee of the Board has been appointed to study the purposes and objectives of financial statements for the future. This project can be described as the establishment of goals on a coordinated basis so that the solution to individual problems can be fitted into a predetermined plan.

The Board has three- or four-day meetings scheduled for October, December, January, March and April, as well as numerous committee meetings involving all matters that are coming before the Board. In fact, all of the subjects that I have mentioned we have separate committees on, as well as a few that I haven't mentioned. So we will have plenty of activity during the next six months. The accomplishments that are achieved between now and May will be reported to you at the next Council meeting. [Applause]

PRESIDENT KENT: Thank you very much, George.

Does anybody have any queries to put to George?

If you gave the time schedule for the business combinations opinion, George, I missed it. Maybe you didn't cover it.

MR. CATLETT: Well, we adjust our time schedule periodically on this. [Laughter] I might say this is a very

controversial subject. The Board is working on it very hard. I would say we will make progress as fast as it is humanly possible.

The present schedule is to try to have a public exposure draft after the October Board Meeting, probably have ninety days' exposure, try to clear the opinion at the March meeting, publish it, and have it effective May 1. This would be for business combinations after the effective date of the opinion.

But I would say that I think in between rushing out an opinion and getting it done, as compared to getting the best possible answer, the latter has to be the more important, and it is entirely possible that at the October meeting we might consider we need to debate it a little further. But, in any event, that is our current schedule, Ralph, but I wouldn't bet a whole lot on it.

PRESIDENT KENT: As George indicated, this is likely to be the most controversial of all of the opinions that the Board has dealt with--not only controversial maybe within the Board, but in the eyes of financial executives, that the abolishment of poolings will have a dramatic effect on business combinations.

Thank you very much, George. Every time I hear the

backlog of the Board, the meeting schedule and the number of meetings they have, it almost makes me weary just to listen to it, because I don't know any group that is working any harder on behalf of the profession than the Accounting Principles Board.

Coming now to the Code of Professional Ethics, Wallace Olson, who is Chairman of the Advisory Committee on Code Restatement, will discuss, "Where Do We Stand on a Revision of the Code?" Wallace!

[Mr. Wallace E. Olson presented his prepared statement, "Where Do We Stand on a Revision of the Code?"]

PRESIDENT KENT: Are there any comments or questions on Wallace Olson's report?

If not, we will move on to a subject that intrigues all of us. You will recall Bill Barnes' interesting report to our Spring Council Meeting, at which time he referred to the lengthy presentations to the House Ways and Means Committee. Since that time the Senate Finance Committee has taken up the House Bill, and Bill wouldn't quite promise to tell us what, exactly, is going to be in this tax bill, but it seemed like a reasonable question to put to the Chairman of the Federal Tax Committee. William T. Barnes, Chairman of the Division of

Federal Taxation: "A Look at the Pending Tax Bill."

MR. WILLIAM T. BARNES: Mr. President, Distinguished Guests, Members of Council: I am here this morning to discuss such things as LTP, AOD, LIA, and EDA. For those of you who have had time to keep up with the events in Washington, you will know I am referring to provisions of theTax Reform Act of 1969, and not to new gasoline additives or new government agencies.

The pending tax legislation is probably the most significant tax reform legislation Congress has ever undertaken at one time. It involves more than $16 billion in revenues, $7 billion in tax increases and $9 billion in tax cuts. H.R. 13270 is the short handle for 368 pages of proposed tax law which in some cases is so bewilderingly complex as to boggle one's mind.

It's easy to decry the complexities of our current and proposed tax structure. On the other hand, I wonder whether it is possible to have simple tax laws when one considers the demands our complex society places upon the tax system. I fear that simplicity is a desirable goal which may be unattainable when the tax structure is to be used for economic, social and political purposes. In one sweeping action the Tax Reform Bill, if enacted in its present form, would

exert an as yet undetermined influence on churches, schools, colleges, state and local governments, as well as corporate and individual taxpayers.

It may be fair to say that there is no single individual or group in this country who likes all of the bill in its present form. This attitude starts with the Administration, which recommends substantial changes in the House-passed bill. It suggested the "investment consumption myths" be changed to favor productive investment over current consumption. This is sought through a cut in the corporate tax rate and a more cautious approach in the taxation of capital gains.

The House Bill has also been attacked by such diverse groups as Parents Without Partners, and Women's War Singles, not to be confused with war widows. This latter group complains of the "rape of single women by our government." It seeks reparations for single women for having been deprived of their "human rights, for mental cruelty, and suffering emotionally, socially, economically, physically and biologically."

Last Spring I reported to you on the Tax Division's views regarding proposals under consideration by the House Ways and Means Committee. Two days ago, on October 2, Bob Skinner, a member of the Tax Division's executive group, presented our testimony before the Senate Finance Committee on

H.R. 13270, the bill resulting from House Committee deliberations. In six short months members of the Tax Division, and particularly its executive group, have had both the privilege and the pain of dealing with this extraordinary piece of legislation. I am sure you will recognize how proud I am to be associated with a group of men who have so dedicated their time and effort to come up with a 141-page document for the House Committee and a similar length document for the Senate group.

At this time I would like to summarize briefly the more significant comments and recommendations which we presented to the Senate Finance Committee. On balance we supported, either in full or with some modifications, more of the reform package than we opposed.

In connection with the adjustment of tax burden for individuals, we supported the increase in the standard deduction, the establishment of a minimum tax on earned income, and the low income allowance, or LIA.

The bill increases the 10% standard deduction and $1,000 ceiling to 15% with a $2,000 ceiling in three stages. The increase was made in three stages to avoid an excess revenue loss in 1970 and '71.

Currently the individual income tax rates reach a maximum of 70% for taxable income in excess of $100,000 for

single persons and $200,000 for joint returns. The 70% rate is applicable to all taxable income other than capital gains, subject to the alternative tax of 25%. The high rates are responsible in part for attempts to shelter income from tax and for the diversion of considerable time, talent and effort into tax planning rather than economically productive activities.

The bill provides that the maximum marginal rate applicable to an individual's earned income is not to exceed 50%.

At present the minimum standard deduction is $200 plus $100 for each personal exemption up to a total of $1,000. Inflationary price increases have had their most severe impact in the erosion of the already inadequate purchasing power of the poor. Many persons with incomes below the poverty level are subject to tax, and in addition substantial tax burdens are imposed on those with incomes immediately above the poverty level.

The bill replaces the minimum standard deduction with a low income allowance of $1,100 for each taxpayer. The level of taxation for each taxpayer will begin when adjusted gross income exceeds the $1100 plus the number of personal exemptions.

The proposed rules regarding private foundations are comprehensive and extremely complex, so much so that it is difficult to determine whether the abuses sought to be corrected will be accomplished without unnecessarily restricting the appropriate activities of private foundations. Equally difficult to determine without extensive analysis are the socio-economic consequences which may result from the enactment of the present provisions. While we agree with the intention of the bill to curb abuses by private foundations, we were unable to express a consensus opinion on all of the specific provions of the bill designed to accomplish this result. However, we did support the prohibition on self dealing which would prevent taxpayers from using tax-exempt private foundations for their own purposes rather than for the charitable purposes for which the foundation was established.

The bill would extend the tax on unrelated business income to additional exempt organizations, including churches, social welfare organizations, social clubs, and fraternal beneficiary societies. To the extent that these organizations operate business enterprises that are unrelated to their exempt purposes they are permitted to compete unfairly with tax-paying enterprises. We supported this proposal, but recommended that the specific deduction allowed in the determination

of unrelated business income be raised from $1,000 to $5,000. This will eliminate much of the burden of compliance and audit by the Internal Revenue Service.

We opposed the proposal supporting the Treasury regulations in which the advertising activities of a periodical published by an exempt organization are singled out for treatment as unrelated business. We believe this is an unrealistic concept, particularly since it is possible for both the advertising and editorial content of certain of these periodicals to be functionally related to the exempt purposes of the organization. Accordingly we recommended that the Code be amended to incorporate the following concepts: First, a trade or business should be defined along vertically integrated lines so that advertising activity standing alone could not constitute a trade or business. If the activities of such defined trade or business are functionally related to the purposes for which the organization has been granted exemption, the trade or business should not be characterized as unrelated to the exempt purposes of the organization.

H.R. 13270 proposes extensive changes in current tax treatment of capital gains and losses for individuals. We supported the following provisions: The allowance of only 50% of net long-term capital losses to be deducted from

ordinary income; the treatment of gains from the sales of collections of letters, memoranda and similar property as ordinary income; the revised treatment of total distributions from qualified pension and other profit-sharing plans; the treatment proposed for the sale of life estates, certain casualty losses under Section 1231, and the transfers of franchises.

The bill provides that long-term capital gain is to be a gain from the sale or exchange of capital assets held for more than twelve months rather than the present six months. Gains realized from the sale or exchange of capital assets held for not more than twelve months are fully taxable as ordinary income.

Admittedly the proposed twelve-month holding period is arbitrary. However, we felt that it is desirable to lengthen the present period. We stated that a holding period beyond twelve months would more accurately indicate the intention to invest, and thereby serve more clearly and more closely the Congressional intent that special tax treatment be afforded gains from investment as distinguished from speculative gains.

The effective date for the capital gain and loss provisions of the bill is July 25, 1969. We suggested that the effective date be put at December 31, '69 or, in the alternative, that the provisions of the bill should not apply

to transactions to which the seller was committed in writing on or before July 25, 1969.

The bill provides that a person who receives a beneficial interest in property by reason of services performed, for example stock options, is to be taxed with respect to the property at the time it is received if he can transfer the property and if it is not subject to substantial risk of forfeiture, the tax to be in an amount by which the fair market value of the property exceeds the amount the employee paid for it.

We supported this provision on condition that the legislation as finally approved contained the proposed 50% maximum rate on earned income. This provision, coupled with the capital gain provisions in the bill, reflects the recognition of greater equality of tax treatment between earned income and capital gain income. We believe that these provisions, taken together, will continue to provide incentive for those who have contributed so much to our society and will also lessen the search for transactions motivated by tax avoidance.

The provisions of the bill placing a limit on tax preferences would impose a tax by indirect means on amounts which presently are fully or partially tax exempt. Under the limit on tax preferences, in the case of individuals, estates

and trusts, no more than 50% of the taxpayer's total income may be excluded from tax. In other words, an individual is to be allowed to claim exclusions and deductions comprising tax preference income only to the extent that the aggregate amount of these preferences does not exceed one-half of his total income. The items covered by LPB are tax-exempt interest on state and local bonds, the excluded one-half of capital gains, the untaxed appreciation in property for which a contribution deduction is allowed, the excess of depreciation claimed on real property over straight line, and farm losses to the extent they result from the use of special farm accounting rules.

We agree that public confidence in our self-assessment system is undermined by the ability of individuals to realize large amounts of disposable income with little if any payment of tax. Nevertheless, we recommended that the tax preference items should be dealt with individually by direct legislation, rather than through this back-door approach.

We supported the proposal to require that personal deductions be allocated to tax-free as well as to taxable income. Under present law, an individual is permitted to charge his personal income tax deductions entirely against his taxable income, without attributing any part of these deductions to his tax-free income. To prevent individuals with

tax preference amounts from reducing their tax liability by charging all of their personal deductions to taxable income, the bill provides that individuals must allocate most of their itemized personal deductions proportionally between their taxable income and their tax preference amounts. Only the part of these personal deductions which is allocated to taxable income is to be allowed as a tax deduction.

To complicate matters, in addition to the five items that are included as tax preference items under LTP, two additional items are included in the allocation of deductions; namely the excess of percentage depletion over cost and the intangible drilling cost deduction.

We agreed with the intended purpose of the proposed legislation to curb abuses of capital gains provisions in connection with losses from farm operation. These abuses arise because present law allows a current deduction of certain farm expenses which are capital in nature rather than requiring that they be added to the basis of farm property. On the other hand the language of the bill is so sweeping that it will affect more taxpayers than apparently it intended, and therefore we suggested some changes.

Here is where the EDA comes in. The bill provides that the gain on the sales of farm property are to be treated

as ordinary income to the extent of a taxpayer's previous farm losses. To accomplish this it is necessary to set up an EDA, or Excess Deduction Account, to maintain a record of farm losses. Losses are added to the account only if the individual has more than $50,000 of normal farm income, and only to the extent that his farm loss exceeds $25,000 for the year.

We supported the provisions of the bill regarding charitable contributions, which would increase the charitable deduction limitation to 50%, repeal the unlimited charitable deduction and the two-year charitable trust rule, and disallow charitable deductions for gifts of the use of property.

With respect to the provisions regarding charitable contributions of appreciated property, we did not favor the distinction drawn between gifts to public and gifts to private foundations. Under the bill, gifts of the same type of property would receive different tax treatment depending on the type of recipient--that is, public versus private. We stated that whatever the treatment decided on regarding gifts of appreciated property, the treatment used should be the same for public and private foundations.

We opposed the proposal which provides that a corporation is not to be allowed an interest deduction with respect to certain types of indebtedness. It is our view that

restrictions on the "tide of conglomerate mergers" should be imposed outside of the tax laws.

We also opposed the proposal which would require a bondholder to include original issue discount on the income ratably over the life of the bond. This rule would apply to the original bondholder as well as to successive subsequent holders. We recommended as an alternative solution to the problem that the present law defining capital assets be amended to exclude from the definition of a capital asset all corporate non-covertible debt, sometimes referred to as straight debt. Such a provision would make all gains and losses on the sale of non-convertible corporate debt ordinary income or ordinary deductions respectively.

We supported the proposal which would limit a controlled group of corporations to one $25,000 surtax exemption, and, in the aggregate, to one $100,000 accumulated earnings credit after an eight-year transition period. To ease the transition, controlled corporations would be allowed to increase the dividend received deduction from 85% to 100% at the rate of 2% a year. In addition, controlled corporations who file consolidated returns may deduct net operating loss carryovers from a taxable year ending on and after December 31, 1969 against the income from other members of such groups.

Present regulations allow such losses to be deductible only against the income of the corporation which sustains the losses.

The House Bill provides limitations similar to those contained in H.R. 10 with respect to contributions made by sub-Chapter S corporations to the retirement plans of those individuals who are shareholder employees. Under the bill a shareholder employee must include in his income the contributions made by the corporation under a qualified plan on his behalf to the extent contributions exceed 10% of his salary or $2,500, whichever is the lesser.

We expressed our support of the objective of achieving similarity of tax treatment as between shareholders of electing corporations and partners of partnerships. However, we expressed the view that the rules governing self-employed retirement plans presently are overly restrictive, and that a change to align the treatment of sub-S corporations with them would be a move in the wrong direction. Rather we urged that the rules governing self-employed retirement plans should be amended to make them more nearly comparable to those governing corporate executives.

The House proposal would affect professional service corporations which mey elect such sub-chapter S treatment.

Although our comments were directed primarily to

selected provisions of H.R. 13270, we expressed the view that any effort on behalf of tax reform should include also consideration of substantive technical amendments to present provions of the Internal Revenue Code which perpetuate inequities, give unintended benefits, or create unintended hardships. The Tax Division has prepared a legislative document entitled "Recommendations for Amendments to the Internal Revenue Code," which explains a number of these proposals which we believe should be enacted into law. We presented these recommendations along with our other testimony on October 2. In addition we commented on certain items which did not appear in either our recommendations booklet or the bill but which we believe need urgent Congressional attention.

For example, the taxation on payments for merchandise or other property received to the occurrence of the sale. There has been a significant and widespread increase in the efforts of Internal Revenue Agents to tax advance payments or deposits for both goods and services without regard to matching related costs and without regard to whether such advances are refundable. These actions by Revenue Agents have been stimulated by a series of recent court decisions in which the Commissionahas been sustained in taxing gross receipts from advance payments from the sale of goods rather than gain from such

sale. In effect, these cases hold that upon receipt of a sale price, or any part thereof, such amounts must be taken into income. Subsequently, when the merchandise is shipped or delivered or title passes to the customer, a deduction is allowed for the cost of the merchandise. The fact that these two events take place in different years, distorting the income of both years, has been disregarded.

We believe that the problem should be remedied by an amendment to the Internal Revenue Code, and we have proposed that the payment received for goods sold by a taxpayer in the ordinary course of business should be included in income in the year in which the sale takes place. For that latter purpose the method of accounting regularly employed by the taxpayer in keeping his books should be determined.

Alternatively we have asked that it should be made clear that gross income from the sale of merchandise or other property is the gain from such sale, and not the gross receipts therefrom.

Now for what is ahead. I am sure you would like a much more definitive answer than I am going to give you as to what is going to happen to the reform bill. Consider the present environment surrounding the bill. President Nixon wants substantial changes, but Congress has had the initiative

on tax legislatioon right from the beginning. This likely to cause substantial politicking in order to resolve differences. A key group of Senate Republicans appears ready to try to slow down consideration of the bill, to give the Administration more time to get its views across and to get ahead of Congress on the next round of tax legislation.

As you may know, President Nixon recently appointed a task force on business taxation to help him formulate future tax policy proposals. Incidentally, I was delighted to see that three CPAs were appointed to that 10-man group--Ken Reams, Ken Sanden and Don Sumner.

Lobbyists are out in full force. Their presence surely will be felt in unmeasurable specific ways, but most likely to delay final enactment of the bill. I noticed just this morning or yesterday that the President has announced that he very much wants to sign a tax reform bill, but that he will keep his weather eye cocked on the effect on the revenues, and if it is too significant, he will veto it.

In view of all these forces, I believe that the most that can be expected this year is the reporting of the revised bill by the Senate Finance Committee. In my personal view it would be in the best interests of our tax structure, and therefore our nation's economy, if the Senate Finance

Committee would devote more time to the bill than its present plans call for. Senator Russell Long, Chairman of the Senate Finance Committee, has set October 31 as a deadline for reporting out a bill.

There are too many uncertainties about the meaning of specific provisions and too many unknown possible consequences. Time should be taken to analyze the bill carefully for structural deficiencies and to measure the potential economic and social effects. Much will be gained and little lost if the Senate would deliberate longer on this far-reaching tax reform measure.

Our normal circulation of our testimony is to the members of the Tax Division, but we have extra copies of our presentation to the Senate Finance Committee. If any Council member would like to have a copy, a letter to Gil Simonetti will make it forthcoming.

Thank you. It has been my pleasure to be with you. [Applause]

PRESIDENT KENT: Thank you, Bill. I thought it was going to be hard to pin Bill down on what was going to take place on the tax bill, and it was hard.

Would anybody like to throw a couple of questions at him?

MR. GEORGE M. MARROW (Vermont): I was favorably impressed with Mortimer Kaplan's article in Reader's Digest recently, wherein he proposed the elimination of the capital gains exclusion to simplify the tax structure. I wonder how many members of our CPA Committee on Taxation were in accord with that recommendation, if any.

MR. BARNES: In our executive group we had all shades of the spectrum, from those who favor taxing all capital gains as ordinary income, with no exclusions, to those who favor a zero tax on capital gains. We had very little consensus--we had no consensus--exception on the extension of the holding period from six months to twelve months.

PRESIDENT KENT: It sounds like they have almost as much trouble as the APB.

Are there any other questions or comments?

Thank you very much, Bill.

The detailed report that he referred to in his concluding remarks will be available to any Council member. I think you might find it will be very interesting reading. These two presentations, first the one to the House Ways and Means Committee and then this one to the Senate Finance Committee, are written in very clear language, very understandable language, an excellent presentation of the proposed action and

the comments of the committee itself on this action.

Our last subject before lunch relates to "Advances in Auditing: A Case History in the Development of the 'Subsequent Discovery' Statement," and will be presented to us by Robert C. Holsen, a member of the Committee on Auditing Procedure. Bob!

MR. ROBERT C. HOLSEN: Mr. President, Distinguished Guests, Members of Council: It is a pleasure for me to tell you that last month the twenty-four members of the Committee on Auditing Procedure unanimously voted their approval of Statement on Auditing Procedure No. 41, which now bears the title of "Subsequent Discovery of Facts Existing As of Date of the Auditor's Report." The presses are rolling, and I think the statement should be distributed very shortly.

Because this statement deals with a subject that has not heretofore been covered in accounting literature, nor, so far as we were able to determine, by any of the courts, I would like to tell you what circumstances triggered action by the committee, some of the things we considered in developing the statement, and just a little bit, without trying to interpret it, about what what the statement proposes to do for us.

On November 30, 1966, the *New York Times* reported

that the Securities and Exchange Commission had filed a brief in amicus curiae in the Yale-Express case. The news article stated that the SEC "is seeking through the courts to establish a rule that accountants who certify to businesses' financial statements have a duty to disclose promptly any subsequent discovery they make that the statements were false."

That case has not yet come to trial, but some time later, in a preliminary hearing on a motion to dismiss certain charges, the court held in a preliminary and tentative way that as a general proposition an auditor who fails to disclose subsequently discovered information may be liable to third parties relying on his uncorrected report.

The article appeared on November 30. A week later the committee considered the problem at its meeting on December 7, 1966. At that time it did not, of course, have the benefit of knowing about this tentative court decision, and actually all we had was the article from the New York Times, a copy of the SEC brief, and a feeling of potential trouble.

The full committee, in discussing the matter at this meeting, came to the conclusion that this was an area that seemed to pose some serious problems with broad implications to all auditors, and it was decided we should look into the need to issue a statement on the subject, so 'way back in

December of 1966 the Chairman of our Committee appointed a subcommittee. I was lucky enough to be named Chairman of that group.

That was two years and ten months ago. If you think that's a long time, you're right. Some of us on the subcommittee thought it was even longer, but we were plowing new ground in working on a project that was a combination of law and auditing. We had to consult with a good many people, including counsel for the Institute, who was most helpful.

We, as well as the full committee, were aware of the implications of what we were trying to do. We started out by trying to get answers to questions like these:

1. Does the auditor have a duty to disclose after-acquired information? If he does, what circumstances give rise to this duty? What is the duration of his duty? How, and to what extent, should disclosure be made? To whom should disclosure be made? What about the Code of Professional Ethics and state laws regarding confidential relations between the auditor and client?

When we began our deliberations we believed that revised financial statements arising from subsequent discovery of facts would be extremely rare. In fact, we were unable to find any examples. But in the last couple of years we have

found four, five, or six companies that have issued revised financial statements, so this thing may not be quite as rare as we think.

Some of the first conclusions we reached later turned out not to be as good as we first believed, so we shifted gears and started off in a new direction. Sometimes we found our way back to where we started and other times we found new answers, which gave rise to new questions.

Through it all we kept consulting with the full committee by means of correspondence. Each draft of a statement--I think we had a total of thirteen drafts, of which seven were given to the full committee--evoked a letter from each member of the full committee, and each letter was fully considered in writing the next draft.

At the first meeting of our subcommittee one of our members suggested what might be a very good solution. Certainly it would be Stan. He suggested we use just three words: "Consult your attorney." This seemed a bit terse. So we added some words here and there, a few sentences, and arrived at, I think, about a five-page printed statement. But I believe the additions do give the auditor some worthwhile guidance in a hitherto unexplored area.

We began our deliberations pretty much agreed on the

basic premise that an item must be more material than usual to make the statement become operative. We had a fine paragraph on this thought, which read like this: "The act of issuing corrective financial statements may have adverse effects over and apart from the newly discovered information, or may precipitate events which exaggerate the effect of such information. Therefore a much larger discrepancy would be required before statements already issued were corrected than would apply to statements which had not yet been issued."

Now, you must admit that sounded pretty good. The grammar and spelling were perfect. But only as we continued to polish it we became more and more aware of the fact that we were creating a monster. In effect, we were saying that an item found during the audit had one concept of materiality, and the same item, discovered after the audit had been completed, had a different degree of materiality. And after some soul searching we finally decided we cold not have two concepts of materiality for the same item, so out came those lovely words.

We also talked about the effect newly discovered information would have on financial statements, yet on reflection we realized that we should not be concerned with the effect the information would have on the statement, but what it would

have on our report, and that is the way this final statement is pitched.

Now, I mentioned the term "newly discovered information," and we used that in a few of our drafts. But as we progressed it seemed that the word "discovered" had a connotation of some work by the auditor that he could discover or find the things that we had in mind. This is something we didn't want to do. So we went to the words "the auditor becomes aware of facts," and it solved one problem but raised others as to the source of his new information. Did it mean graffiti on the wall of a men's room, idle gossip in a bar? We hoped not, but one of the most difficult problems we faced was limiting the information that the auditor subsequently received.

We tried various combinations of words and ideas, and at last came to the thought that the auditor would investigate a fact only if it was of such a nature, and from such a source, that he would have investigated it had it come to his attention during the course of his examination. We felt that these words effectively ruled out any action on his part when the auditor read a message on the men's room wall. On the other hand, if, during an audit, he did pay attention to such information, he could continue to do so. [Laughter]

But we do think that the language keeps the auditor

from investigating every bit of trivia that he hears or sees.

Throughout our work we have been painfully aware of the existence of the Code of Professional Ethics and certain state laws regarding the confidentiality of auditor-client communication. However, some attorneys have advised us that the auditor's responsibility may very well override the Code and state laws, but inasmuch as the laws of the states differ, we obviously could not take a position that would be equally acceptable in each of the states, and as a result we suggest that the auditor consult his attorney whenever he encounters circumstances to which this statement applies.

Much of what I have said relates to matters we considered and discarded, so I would like to devote just a few minutes to talking about some of the things that are in the statement.

The purpose of the statement, and here I quote, is "to establish procedures to be followed by the auditor who, subsequent to the date of his report, becomes aware that facts may have existed at that date which might have affected his report had he been aware of such facts."

I have already mentioned how he may become aware of such facts, but the statement goes further and says, quite bluntly, that the auditor "once he has issued his report, has

no obligation to make any further or continuing inquiry or perform any other auditing procedure with respect to the financial statements covered by that report unless new information which may affect his report comes to his attention." We have a little exclusion in there about financial statements and registration statements.

Now let's assume that some of the new information comes to the auditor's attention and he wants to investigate and, to make a proper investigation, the cooperation of the client is a necessity. Let's take the case of a cooperative client who assists in determining that the newly discovered information is both right and reliable and existed before the date of the auditor's report. The auditor must then decide (1) whether his report would have been affected if the information had been known to him prior to the date of his report and had not been reflected in the financial statement; and (2), whether he believes there are persons currently relying or likely to rely on financial statements who would attach importance to this new information.

If he decides the answers to both (1) and (2) are in the affirmative the statement says, "He should advise his client to make appropriate disclosure of the newly discovered facts and their impact on the financial statement."

Now, if the client is still cooperative, he can meet the disclosure requirements by issuing a revised financial statement, presumably with a new auditor's report, and the matter hopefully will then be ended.

When the client agrees with everything but refuses to make disclosure, the statement discusses this situation and concludes with this: "Unless the auditor's attorney recommends a different course of action, the auditor should, to the extent applicable, notify the client, any regulatory agencies having jurisdiction over the client, and each person known to the auditor to be relying on the financial statement, that his report should no longer be associated with the financial statement or relied upon."

In the larger companies, notification to persons relying on financial statements becomes almost impracticable, because the auditor rarely knows the names of the shareholders or investors at large. Here notification to the regulatory agency having jurisdiction over the client may well be the only way the auditor can provide for adequate disclosure.

The statement also sets out some procedures to follow in the horrible situation where the client refuses to help in investigating the information or even to make any kind of disclosure. It closes with the idea that while the

statement is written as though it applies solely to corporations, and this was done only for ease of making it understandable, the concepts apply in all cases where financial statements have been examined and reported on by independent auditors.

One of the important aspects of the statement is that it gives the auditor something in professional literature to support him in those situations when the auditor concludes, after consultation with counsel, that other considerations override the Code of Professional Ethics and state laws regarding confidential relations between auditor and client.

As we worked on the statement we had hoped that its publication might deter courts and regulatory agencies from developing unworkable broad rules for disclosure. We are cognizant at the same time that any standards developed by the Institute could possibly be accepted by courts as minimum standards, with the attendant risk of liability for those who fail to follow. We have tried to be as specific as we could, and yet the judgment of the auditor here, as in everything else he does, must play an important part.

Finally, we have attempted to write something reasonable, something that does not impose undue responsibilities on the auditor and yet is not so namby-pamby that the profession can rely on it only at its peril.

Thank you. [Applause]

PRESIDENT KENT: Thank you, Bob.

Are there any questions you would like to put to Bob Holsen?

I get the feeling that the subcommittee is happy to have this assignment finished.

[Announcements.]

PRESIDENT KENT: We will reconvene at two o'clock.

[The meeting was recessed at 12:05 p.m.]

SATURDAY AFTERNOON SESSION

October 4, 1969

The session reconvened at 2:00 p.m., President Ralph E. Kent, presiding.

PRESIDENT KENT: Gentlemen, may we be seated?

Going back to our program now, our first speaker this afternoon is Bob May, who is the Chairman of the Committee on International Relations. Bob is going to talk about a narrow subject like "The World of Accounting Beyond Our Shores." Bob May!

[Mr. Robert L. May presented his paper, "The World of Accounting Beyond Our Shores."] [Applause]

PRESIDENT KENT: Any comments?

Thank you, Bob.

Our next item is "Minorities and the Profession: A Progress Report," by Edwin R. Lang, Chairman of the Committee on Recruitment from the Disadvantaged. Those of us who were in Colorado Springs will all recall Ed's stirring talk at that time. He is going to bring us up to date now on what has taken place in the last five months. Ed!

[Mr. Edwin R. Lang presented his prepared paper, "Minorities and the Profession: A Progress Report," making the following interpolation between

the resolution ending on page 2 thereof:]

[Insert] We did advise the members of the American Institute through an article in the Journal of Accountancy in June, as you may recall, and this coming week we are sending letters to the appropriate people I mentioned in the academic community. We decided that since, you recall, the Council meeting was in May, it was the end of the academic year, and we thought it was much more timely to postpone the mailing of this resolution until the beginning of the new academic year.

[Mr. Lang continued reading his prepared paper, making the following interpolation between pages 6 and 7 thereof:]

[Insert] Incoming President Lou Kessler spoke to the National Meeting of Beta Alpha Pi Society in August, which was held at the same time as the American Accounting Association Annual Meeting. During the course of his remarks he touched on minority group recruiting, and these remarks will be published in the Beta Alpha Pi National Newsletter.

[Mr. Lang completed the reading of his prepared paper.] [Applause]

PRESIDENT KENT: Do we have any questions for Ed?

If not, Ed, thanks very much, not only for your report but for all of the good work you and your committee are doing.

We come now to "The CPA and Medicare," and our presentation will be by William Freitag, Chairman of the Committee on Health Care Institutions. Bill!

MR. WILLIAM FREITAG: Mr. President, Our Guests, Members of the Council, and those fellows who are watching the ball game upstairs, hi! I think a lot of people here would like to be with you, instead of hearing about Medicare.

I have been asked to report to the Council on the Medicare program and its implications with respect to the profession. I hope nobody will object too much if I expand my remarks a little bit more broadly into the procedures and the involvement of the Committee on Health Care Institutions, not only with Medicare but with many of the aspects of accounting for health care institutions these days.

Medicare, or accounting for health care institutions, can not be considered out of context with the entire field of accounting for these institutions, both proprietary and non-profit, and consisting of all the varying kinds of such institutions, including hospitals, extended care facilities, nursing homes, home health agencies, free-standing laboratories, and many other organizations which fall either between or within the categories mentioned. It must also be considered in relation to the profession's approach to the non-profit organization

generally and the hospital specifically.

My partner, Howard E. Woody's article in the Journal of Accountancy in December of 1967, entitled "Financial Reporting for Non-Profit Organizations," said, in conclusion, "It is hoped that this article will stimulate sufficient discussion to result in steps leading to the development of appropriate reporting standards for non-profit organizations."

While there have been many shortcomings in the implementation of the Medicare program, the failure of the profession to have dealt adequately with the accounting problems in the health care industry in the past was at least a contributing factor in the implementation difficulties. That is not to say, however, that the profession is now doing nothing in this field. Later on I would like to bring you up to date on some of the things that have been accomplished and some that are in process of being accomplished.

The initial problems of Medicare were many, and those of you who were present at the Council meeting in Boston three years ago will recall that I addressed the meeting on the problems being encountered at that time in the initial stages of Medicare, and specifically those of working with the Social Security Administration, toward the implementation of the audit function under the Medicare program. At that time

these problems were being handled by the Medicare Task Force, which was appointed in the Spring of 1966 by the then President Bob Trueblood. While I am at it, I must say that the Council and Institute owe a vote of thanks to the men who participated with me in that Task Force, namely Will Irwin and Philip Taylor. Not only did they give of themselves unstintingly in the initial phases of Medicare, but they have continued to serve on the Medicare Committee and its successor, the Committee on Health Care Institutions. It would be impossible to measure, in terms of fees, the value of the services performed by these men, both to the profession and to whatever successes there have been in the implementation of the auditing under the Medicare program.

It is particularly proper at this time to mention their names, since they have completed their assignments on the committee and will be sorely missed in its deliberations in the future.

As I reported in Boston, most of our initial problems dealt withj lack of understanding of the function of the CPA in a special audit situation as required under Medicare. Many hours were spent in educating personnel at the Social Security Administration as to the proper use of independent auditors. Many other hours were spent in hammering out a contract

acceptable to the profession for auditing services under the program and attempting to obtain recognition of the profession's needs with respect to contractual relationships, reporting requirements, and roles with respect to providing assurance as to reasonableness of cost figures being reported upon.

Many of the initial problems and the continuing problems stem from the fact that the legislation was extremely vague with respect to intent. The Congress indicated that it wished to pay "reasonable costs." Even at this late date, over three years into this program, there is something less than clarity as to what is meant by "the reasonable cost of delivering medical services to a Medicare recipient."

Another major initial and continuing problem has been one of communication. In addition to the law, which is Public Law 8997, regulations were adopted to implement the law. Interpretations of the law and the regulations have been continuously forthcoming and under continuous revision by the Social Security Administration. Some of the interpretations have been freely available on a timely basis through manuals published by the government. Some of the interpretations, on the other hand, have been available only to limited audiences, through intermediary letters numbering at this point in time in excess of 390, any one of which may be interpretive of some

aspect of what is considered to be acceptable reimbursible cost under the program.

Probably the most illustrative act, though, of the situation we were in in those days is one which Will Irwin recently recalled to me. In our first meeting at the Social Security Administration, after practically beating down the door to get there, we were asked if this organization, called the American Institute of Certified Public Accountants, had any monthly publication or anything that they could read. That question, by the way, was asked by the man who at that time, and for a substantial period subsequently, was in charge of all reimbursement of health care institutions for the entire United States.

What have we accomplished in these three and a half years? The Institute, through this Committee, has accomplished a great deal. We have established liaison with the Social Security Administration personnel and have, in fact, been called upon upon numerous occasions for critique, comment and assistance in the development of changes in the program, generally prior to their implementation.

As I said earlier, a contract for auditing services was developed which the membership of the Institute has been able to live with over this period.

The Committee has completed the development of an Audit Guide for Medicare which is available to all the membership as of last Monday. I might say that I haven't even got my copy yet. However, it is available, because one of our juniors bought it over at the AICPA office the other day.

This Audit Guide has taken two years to bring out and should provide any practitioner with the basic approach to be used in Medicare audit. It does not contain all of the detail contained in the government regulations and interpretations, but the practicing CPA with a copy of the Guide is certainly led into an understanding of the type and source of information with which he must become acquainted in order to adequately perform in this program.

In the July, 1969, issue of the Journal of Accountancy, on page 64, in the "Accounting and Auditing Problems" section, there is published a position paper which has the name of the Committee on Health Care Institutions on it, with an introduction written by Len Savoie on the subject of "Accounting for the Differential Resulting From Health Care Institutions Obtaining Reimbursement Services Rendered Under Medicare, Using Accelerated Appreciation and Reporting Their Financial Statements On the Basis of Straight Line Appreciation."

The background of the publication of this statement

should be of interest to the Council. In August of 1968 this problem of the differential between reimbursement appreciation and financial reporting appreciation was brought to the atten-
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tion of the Committee by Oscar Galanti. Recognizing the im-
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portance of the implications, a subcommittee chaired by Orthcutt
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Howell was appointed to recommend a position to be taken, if any, by the Committee on Health Care Institutions.

This subcommittee reported to the Committee in October of 1968 with the position paper essentially in the format published in the Journal in July of 1969. On the recommendation of the Institute's Advisory Committee the paper was submitted to the Accounting Principles Board for its review. The APD unofficially recommended the approach of adjusting the allowance for appreciation instead of deferring income. The Committee on Health Care Institutions unanimously disagreed with this approach and referred it back to the APD.

Because of the timeliness of the problem, I requested the intervention of Len Savoie in order to expedite the matter. As a result agreement, again unofficial, of the APB was obtained for the Committee on Health Care Institutions' position, finally resulting in the publication of the paper in the Journal.

I feel that this has assisted practitioners in

determining how to treat the presentation of such information in financial statements.

Although the implications of this statement are important with respect to non-profit organizations reflecting their financial position and the results of operations, probably the most important application is with respect to the proprietary health care institutions which, as you know, in the last two or three years have been going public at a phenomenal rate.

I feel hat this guidance has been one of the major accomplishments of the Committee, in that it should assist the practitioner to avoid pitfalls and to provide him with guidance and support for taking a position with respect to situations in which the described circumstances are present.

Another important accomplishment begun at least two years ago by the Committee was the initiation of limited auditing with respect to Medicare cost reports. It has consistently been the Committee's position with the Social Security Administration that a full-scale audit of reimbursable cost under the program for each provider in the United States for each year under the program probably would become less necessary and desirable as the program advanced. In addition it has been the position of the Committee that the intermediary has and should

exercise the responsibility for determining whether an audit is needed; whether a limited scope audit would suffice; if a limited scope audit would suffice the exact content of that audit, or whether in fact, in the judgment of the intermediary, a full-scale audit is required.

The Social Security Administration has begun implementation of this recommendation, and limited scope audits are already under way throughout the country. It would be difficult to estimate the savings in time and dollars that will be gained from this recommendation.

One of the major problems inherent in the program, however, is that in many cases intermediary staffs are inadequate to perform the proper reviews and the necessary judgments for limitation of audit. In fact, in some areas the intermediaries have attempted to delegate this responsibility to the independent auditor. This, of course, negates the limitation and throws full responsibility upon the auditor for the determination of the scope, thus eliminating any limitation on the auditor's responsibility and also any limitation on the savings of fees.

During the course of the preparation and exposure of the Medicare Audit Guide, one of the important areas to which it was exposed was James F. Kelly, the Assistant

Secretary Comptroller of HEW, from whom we obtained many valuable recommendations. However, as a result of this exposure we learned that Mr. Kelly's concept of the auditor's function in the program, and that which we had thought was generally accepted, differed substantially, particularly with respect to the allocation of cost of governmental units to hospitals which come under the jurisdiction of those units. It was Mr. Kelly's opinion that the auditor under Medicare should not seek out properly allocable charges to a provider of service where the provider himself had not claimed them.

Had this concept been followed, it would have invalidated the auditor's opinion to the effect that the statement fairly presented reasonable costs under the program. As a result of subsequent conversations we learned that the U. S. Department of Health, Education and Welfare published in March of 1969 a booklet entitled "A Guide for State Government Agencies"; the reference number, OASC-6, which implements Circular A-87 of the Government, which provides principles and standards for determining costs applicable to grants in contracts with state government agencies. The booklet applies rules previously not applicable to medical installations to the extent that effective July 1, 1969, a state wishing to allocate costs downward to a medical installation for reimbursement

purposes under Medicare has to have statewide approved cost allocation. Such approval of cost allocation must be obtained annually from HEW.

Further, this booklet indicates that effective January 1, 1970, although I think this has been delayed, the same rules will apply to local governments.

The Committee has pointed out to the representatives of HEW that until such time as these rules are incorporated in the Reimbursement Principles of Medicare, either through regulation or specific recognition in manuals or otherwise, the Medicare auditors can not be held responsible for their implementation, and therefore the same rules will apply as have in the past.

Some of the current involvement problems of this Committee bear some discussion. Probably the most frustrating part of dealing with Medicare has been the fact that we have met with only partial success in obtaining recognition by governmental personnel of the extensive practical knowledge of the program, the providers, and the reimbursement formula available among the membership of the Committee on Health Care Institutions of the AICPA. By way of example, and perhaps to elicit the support of the members of this Council politically or in any other way it will accomplish the end, I would like to

outline a series of letters.

In the latter part of May, 1969, it came to our attention that Mr. Robert Finch, the Secretary of Health, Education and Welfare, had ordered the elimination of the 2%, or in the case of proprietary providers 1.5%, allowance in lieu of other costs from the Medicare reimbursement formula. As a result of this action the American Hospital Association, which had not been previously consulted about the change, requested conversations with HEW and got agreement that a complete revision in the reimbursement formula under Medicare would be discussed and promulgated. At that time, late in May, 1969, I wrote to Secretary Finch on behalf of the Committee, offering the services of the Committee in assisting in the establishment of the new formula, and indicated to him the expertise and free availablity of the membership of the Committee.

Mr. Finch referred this letter to Mr. Robert Ball, Commissioner of the Social Security Administration, who answered me in July of 1969, indicating that they would be happy to have written recommendations and comments on shortcomings of the present formula from members of the Committee.

At the Committee's meeting in Denver in August a reply was discussed, and it was the consensus that this would be a waste of the members' time and that our comments would be

on a par with what had happened in the past, and would be made in a vacuum as to what was presently occurring between the Social Security Administration and the American Hospital Association.

A letter to Mr. Ball with a copy to Mr. Finch was written in August indicating this position and further enunciating our capability and extreme willingness to assist in the deliberations so as to minimize the complexity of the formula and its requirements for the expenditure of time and effort on the part of the providers, the intermediaries and the auditors.

It was also indicated in this letter that we did not feel that Mr. Ball's approach would be an effective use of the expertise represented on this Committee. To date we have received no reply.

At the risk of over-simplifying what may result from these discussions, the American Hospital Association will probably attempt to obtain a revised formula which will maximize hospital reimbursement with minimal regard for the administrative burden to be placed on these hospitals, the intermediaries and the government, whereas the Social Security Administration representatives will probably attempt to minimize reimbursement, again with very little cognizance of the effect of their decisions upon those who must administer the programs at the

provider and intermediary levels, and ultimately of the effect on those who must audit the resulting accumulation of distribution of costs.

The Institute could be of great service not only to its membership but also to the citizenry of the United States in minimizing the costs of this very expensive program if it were able to obtain agreement to the participation of our personnel in these discussions, and I am not speaking of myself personally, but on this committee there are some extremely expert people who are dedicated to this cause.

One of our other problems has to do with the largest intermediary in the entire program, which is the Blue Cross Association. This Association represents 76 Blue Cross Plans throughout the United States which are intermediaries on a local basis for Medicare. These Blue Cross Plans, among them, probably handle something in excess of 90% of the Medicare reimbursement and auditing throughout the United States.

In the initial stages of the Medicare program, three members of the AICPA were members of a liaison committee with the Blue Cross Association established for the purpose of assisting in the resolution of accounting and auditing problems relating to the program. This liaison committee was dissolved after the reorganization of the Blue Cross Association.

Subsequent to that reorganization liaison with that intermediary has been sporadic and in many cases ineffective. We have made every attempt to deal with the organization on a businesslike basis in areas of mutual interest. However, too often we have not been consulted on substantial matters nor have we been consulted on a timely basis on things that affect us.

Some examples of the problems we have encountered include various instances in which the Association has encouraged plans to use non-CPAs for auditing, since they would be less expensive; establishment of a canned limited audit program for local plan use which may run counter to the limited audit concept, wherein the intermediary takes responsibility, as I discussed earlier; the establishment of dollar limitations on auditors' proposals to perform Medicare audits which in some cases are highly unrealistic in the light of today's costs.

Their most recent action was to send a broadside to Blue Cross Plans indicating that a major national firm had indicated acceptance of the concept of a fixed-price audit contract for mid-year audits. This was followed by a communication to one of the plans indicating that not only had that firm accepted the concept, but also that many other national firms had indicated interest in the idea.

We learned that one firm had in fact indicated a

willingness to discuss the subject with the Association. However, to the best of the knowledge of the other firms represented on our Committee, no one else had indicated interest in this subject to the Association.

The problems of a fixed-price contract scare me. Even though experience in prior years may have shown that the records in a specific institution were in reasonably good condition, because of the extreme shortage of accounting personnel in the medical field today it is not unusual to find the key personnel in the accounting department and elsewhere have left between audits. Under these circumstances a fixed-price contract for audit work would be a dangerous concept.

In addition, self protection may require that some kind of cushion be built into such a contract in order to protect the firm against unforeseen circumstances, such as somebody leaving. This in turn could in the long run have the effect of increasing audit costs rather than reducing them.

In short, the only point in favor of the proposal would appear to be that the intermediary could get competitive bids on a fixed base and be able to budget its funds for the government fiscal year. In my opinion the quality of work would suffer and the cost to the government could be higher, and the danger to the professional status of CPAs is

immeasurable.

Another problem which has been wish us since the inception of the program has been the involvement of non-professional auditor organizations in the program. In the State of Maryland prior to the inception of Medicare there existed, with the acquiescence of the Maryland State Society, a non-professional audit group which audited hospital costs for Blue Cross in the State of Maryland. This group became the Medicare intermediary auditor group for Blue Cross in the entire State of Maryland. This summer, after much negotiation on the part of the Maryland State Society, the Maryland Blue Cross agreed to accept proposals for Medicare auditing from independent certified public accountants in that state. This is not to say that the profession will be performing this work in the future, but merely that their services will be considered.

I personally doubt that a professional CPA who is constricted to operate within the rules of the profession will be able to compete effectively with a non-professional organization. I also sincerely doubt that the quality of work that is being done by the non-professional can be compared with that of the professional.

There were indications over a year ago that in the State of Virginia a similar organization was being considered. At

least that's the way we heard it. Inquiries made at that time of the Virginia State Society indicated this was not so. Nevertheless we understand that currently such an organization is in existence, and that the Virginia Blue Cross, based in Richmond, is using the services of such an organization for auditing under Medicare. This organization, entitled the Virginia Council on Uniform Hospital Accounting, was, I am told, formed as an advisory group, but in 1968 amended its articles of organization to permit it to carry out Medicare audits.

I personally am not enough of a politician to know the implications, either nationally or within either of the two states mentioned, of permitting non-professional organizations to practice public accounting. But I think the Institute should be concerned with the situation and, to the best of its ability, be seeing to it that our profession is protected from non-professional competition being accepted on a par with professional services.

I mentioned earlier that advances were being made in the area of accounting for health care institutions. The greatest advance that has taken place is in the preparation of the Audit Guide for Hospitals. This is being done under the auspices of the Committee on Health Care Institutions. This is not to be confused with the Audit Guide for Medicare, since it

goes far beyond the Medicare program and into the actual accounting and auditing related to the hospital industry. If you will permit me to blow my own horn just a little bit, I might say that I am proud to be associated with the firm that has made Howard Woody's services available to write the first draft and subsequent revisions of this manual. It's not completed yet, but it's a tremendous job to do.

I can not promise a date for the completion of the Guide, but I can state that this Guide is and has been very badly needed in an industry which today is expending in excess of $19 billion a year. I am only sorry that such a Guide was not prepared five or even ten years ago by the Institute, because it would have made implementation of the Medicare and other medical programs much, much easier.

Very briefly I would like to do a little looking into the future. I have so far dealt with our problems, our failures, our few sduccesses, and some things that are still in limbo. For what it is worth, let me give you my opinion of the future of the Medicare and health care institution auditing area.

In the not too distant future I would expect to see a far greater uniformity of accounting stemming not only from the efforts of the AICPA and its Audit Guide for Hospitals when it comes out, but also from the demand for uniformity from various

quarters, including, but not limited to, HEW, SSA, the American Hospital Association, state governmental authorities, regional health plan councils, and many other organizations which need comparative, accurate accounting and statistical information from health care institutions. We already see areas where, within the next year or so, basic reporting for cost reimbursement for Blue Cross, Medicare and Medicaid are expected to be on the same forms, at least initially, with subsequent adjustments for the various programs for reimbursing and the like.

Another thing we can almost certainly predict for the future is that all providers under these programs will be required to be audited by independent accountants as a prerequisite to participation in the programs. The Committee has been working toward this for years, and it will come. I hope it will come a little faster than I projected originally, but I would say that within the next three or four years we could expect to see this. In certain areas, particularly in the State of New York, I expect to see this within the next year.

In these cases that we are talking about it probably will be in the future that the independent accountant will be asked to render his opinion on the financial position and results of operation, but also on the cost reports of the

various programs.

This leads to the next expectation, and one that has been deep in the hearts of those who have been working in this program since its inception, namely that all information with respect to reimbursement under Medicare be freely and completely available to anyone who wishes to know. For well over two years we have been suggesting to the Social Security Administration that one of the loose-leaf services, and we didn't tell them any specific one; we said any one--we don't care; one or more--be asked to prepare a service on Medicare, and that they be given full and complete cooperation from SSA as to all information to be included in such a service.

This service is now available. This has taken two years of hard work to get the SSA to agree to make the information freely available, but it is now available. I talked with their representative the other day, and you can now get such a service.

I previously mentioned the limited audit. I would expect that this will continue for a period of several years, to be replaced ultimately by a CPA opinion on a cost statement and a far greater internal audit capability in the intermediaries, plus subsequent use of external CPAs in unusual circumstances in an investigative capacity.

Last, but not least, particularly if the knowledgeable members of the AICPA become involved in the development of the new Medicare reimbursement formula, I would expect a far simpler, more easily managed and audited formula for reimbursement of health care institutions to be developed. Other changes will come about, and it would not surprise me to see a change in the formula relating to proprietary installations whereby some further limitations on the bases of assets and/or the allowance of accelerated depreciation will be imposed.

It is interesting to note that as I originally drafted this talk I would not have said "further changes," but I would have said "changes." But the recent SSA intermediary letter has already begun the process.

You should know, so far as accomplishments are concerned, that the Institute has been involved with training programs for Medicare in something like in excess of twenty-five situations throughout the country in cooperation with various state societies. This has been a massive effort of training of personnel throughout this country to cooperate in this program.

In conclusion, I would like to thank you for your attention and apologize for the longwindedness of this report. However, I would not have felt that I had done justice to the

importance of the subject without covering many of the detailed areas that I have mentioned. Before I close I should like to acknowledge various assistance I have received as Chairman of the Committee on Health Care Institutions. First in line, of course, as I have already mentioned, are Will Irwin and Phil Taylor. Second in line, certainly, must be "Stick" Ness, who, as our staff liaison man from the Institute in the past, during the early periods particularly, provided invaluable service to the Committee and to the profession.

Currently Joe [?] of the Institute is handling this aspect and is doing a yeomanlike job.

I must also acknowledge with gratitude the continuing work of all of the members of the Committee. I have been told by a staff man at the Institute that this is one of the hardest working committees they have ever seen. I do not know how any other committee could work harder. They are a dedicated group of men who have given of their time and of themselves without hesitation.

Finally I would like to recognize the foresightedness of Jack Carey and Bob Trueblood in establishing the predecessor committee, and my appreciation to Len Savoie, particularly with respect to that appreciation thing, because I know that when the chips are down and there is a problem, I can rely not only

on his support but his good judgment.

Thank you for your attention. [Applause]

PRESIDENT KENT: Thank you very much, Bill.

Are there any queries to put to Bill?

I guess your report satisfied everybody, Bill. Good work!

We come now to the promised presentation on "Professional Development in the '70s," to be given to us by Bob Schlosser, who is the Director of the Professional Development Division. Bob!

[Mr. Robert E. Schlosser presented his prepared paper through the first two sentences in the second paragraph on page 15 thereof, and continued thereafter as follows:]

MR. SCHLOSSER (continuing): I would like to ask now that the lights be dimmed, because George Taylor has promised to help me a little bit. I have a diagram of what we hope to do so far as the staff training program curriculum is concerned.

[Slide] Really what I want you to see is this kind of concept, and I think you can probably see that from the organization-chart-like diagram.

We are planning to put together a six-level staff training program curriculum. The first level is a two-week

program which is designed to bridge the gap between the time a boy finishes college and his first year on the job. We are trying to make the theory that he learned in college become effective through this, I think very effective, training program.

All of the other programs are designed to be a week in length, and our theory runs something like this, that a young man entering the profession normally will go through Level I and Level II, and then after Level II he has an option to go into the General Practice sequence, which is down the left-hand side. We call this "General Practice," although this is predominantly auditing. We are trying to build a series in this area particularly under the philosophy that an auditor has to be more than just an auditor if he is really going to do the job. In other words, if our auditors are going to locate potential management services engagements or potential tax problem areas, they have to know a little bit about these areas if we hope to have them recognize them.

Therefore the material in this line, with Levels II, III and IV of General Practice, will have what we hope will be a good amount of both Taxation and Management services topics to make the young man aware that these other areas exist, and that he can help if he is alert in his audit.

The Level III, IV and V Taxation is designed to be training courses to train tax specialists.

In the Management Services area we have an introductory level, and then we have split Levels IV and V into three different areas, Financial Management, Manufacturing Management, and Data Processing, and of course the capstone which we hope will be taken at the beginning of a man's sixth year in practice is devoted to the management of a CPA practice, and the concept of that course, particularly, is to try to make good, sound management principles relevant to the practice of public accounting.

We have worked into all of these courses material that is devoted to how to handle staff on engagements, so that it leads up to Level VI, but Level VI is a General Management course with the CPA practice in mind.

To tell you how far we have come with this, we have developed, and they are working, Levels I and II, General Practice III and Taxes III. We have been criticized, and I think rightly so, because we haven't been open enough about the full detailed outline of what goes into each one of these programs. But as you are building a training program it is an evolutionary thing, and we have tried different approaches. We have discarded some, added others, so we have been a little

unwilling to say "Well, this is what it's going to be," because really the program is evolving, and we are indebted to the help that many, many people have given us by giving us their honest opinions about the approach, and particularly the men that teach in these programs do a tremendous job so far as telling us what is wrong and how it can be improved.

We are putting together a more detailed description of the staff training program and we will have this available, hopefully yet this Fall, so that all of you can see in detail what we are trying to do.

The over-running philosophy in the development of the staff training program is that we are trying to stimulate the types of problems that the participant will encounter during his coming year in the profession, and then to teach various technical topics which are part of practice but were not treated, or treated only theoretically, during his college preparation.

To summarize, the 1970s for the profession can see a common development of training materials, regional training centers, regional coordination, promotion and administration of programs through state societies; the strengthening of self-study programs, and the completion of our training program curriculum. But I am convinced that if we are going to

accomplish this, you must support a climate for Columbus.

Thank you very much for permitting me to speak.

[Applause]

PRESIDENT KENT: Thank you, Bob.

Is there discussion of Bob Schlosser's report?

MR. JAMES E. MONEY (Alabama): He stated that the Level I course would generally come between the date of engagement and the end of the first year. We have used that. What is Dr. Schlosser's opinion of when the Level II should come--at least the range of time?

MR. SCHLOSSER: In my judgment he shouldn't have more than three months' experience. In fact, the sooner you can get him into it, the better, because it is a program that is designed to use, in a kind of a laboratory setting, a simulated audit engagement, so that when he gets out in the field and you assign him as a staff assistant on a particular engagement, he will be somewhat productive; not as productive as he may be a year from now, but it helps make that transition between a very theoretical college training program and the staff's.

MR. MONEY: Perhaps I didn't make myself clear. Aren't you answering Level I instead of Level II?

MR. SCHLOSSER: I'm sorry, sir; yes, I am.

Level II should be taken at the beginning of the

man's second year. In other words, if he takes it in the summer as he starts into the profession, roughly a year later he should be taking Level II. And, of course, I did make this clear but I hope you realize that each one of the training programs can hope to be only a minimum, and I might add that trying to really come to grips with what ought to be in there is more a problem of "Have we left out something?", you know.

PRESIDENT KENT: Did I see a second person standing? Dick Rea, from Ohio.

MR. RICHARD C. REA (Ohio): Your chart would lead me to believe that each of these levels is coordinated, and one is a prerequisite for the other. You scheduled a pilot course in Level VI, but you haven't announced any courses for the intermediate levels. How are you going to accomplish this?

MR. SCHLOSSER: That's right. We have a strong feeling that the Level VI program in a way is predicated on what has gone on before, but more importantly it is developed to a level of maturity of man in practice, rather than all the technical things that he got in the other training programs, because again, this is Management, and it is aimed at the man who has been in the profession between five and seven years.

Let me add, you see, we want to try to introduce the young man to the problems of managing a practice before he is

saddled with the job of trying to do it as a manager of an area or manager of an office.

MR. REA: Then there would be no reason why someone should not attend this pilot course even though they have not had any of those previous levels.

MR. SCHLOSSER: This is true, although as I mentioned, we do cover a few of the management skills in the area of supervision, particularly, in some of the other programs. But we feel that it is not absolutely essential that he go through the other levels also.

Of course one of the things we are doing and trying to do with this prerequisite business, sure, there is maturity in Level II that is predicated on material in Level I, so what we are asking the firms to do is to become familiar with what we cover in Level I, so if they want to put a man in Level II, who didn't come to Level I but he has been around a year or so, all we ask them to do is just to be sure that he has covered this building material on his own, because I am convinced that what we are teaching in Level I can be learned on the job.

The point we try to push, and I feel very strongly about, is that we can do it easier than you can on the job. I think we can do it in the classroom setting a little easier, and therefore make that first year of work of the young man

somewhat efficient and productive.

PRESIDENT KENT: Harry Ward, from Texas.

MR. HARRY E. WARD (Texas): Bob, I haven't had a chance to ask you. I have heard conflicting reports tha this course material that the P.D. Department developed is offered for sale to some members and not to other members. I really don't know, because I have received conflicting reports. I would like to find out what the story is on the sale of this course material for in-house use.

MR. SCHLOSSER: I can't recite it verbatim, but the existing policy of the Board of Managers goes something like this, that our primary source of distribution of P.D. materials that our Division develops will be through the state societies. The Board policy goes on to say, however, wherever it is impractical to offer materials through state societies, we will make the materials available directly to firms, and I have been, and I take full credit or blame for this, but with the knowledge of the Board of Managers, interpreting it like this, that a firm should have the capacity to offer the program, just as we have a very firm policy not to make our manuals available for individual sale, because our traditional courses and seminars are not designed for individual study. You might get some benefit out of reading some of the advance reading, but it is

designed to be a classroom type presentation with an exchange and interchange of ideas.

So we have been applying this like this. If a group of firms, particularly, or some of the larger firms, feels that they want more control over their program than they feel they can get from sending their men to a state society program, we will permit them to put this on in house if they will abide by the regulations or the rules, I guess, that are in the front of each one of our manuals; that they don't give this out for individual study; that they have a qualified instructor, and so forth.

I must admit that some might get the impression that we are discriminating against some firms and not others, you see. We don't mean to do this at all, except that we want to be sure that the program isn't hurt by a particular firm getting three or four people together and trying to run a seminar, which would be very ineffective.

MR. WARD: Bob, I really want to take issue with you. I really don't think you're qualified to determine whether I can put this on in my firm effectively or not.

MR. SCHLOSSER: I think you're right.

MR. WARD: This bothers me. I don't care whether a man has a big firm or a little firm. We just spent half a

million dollars in P.D., and if the numbers don't turn out right by the end of this time next year we will have spent a million.

I think that each member of the Institute ought to have a right to determine for himself if he wants to avail himself of any service of the Institute. However you dispense the materials, I am not getting into that. I think that is an entirely different subject. But I have heard considerable comment on the fact that you, or the Board of Managers, do not know my firm or somebody else's firm, and this creates a real problem with me and the people back in Texas. You are telling us whether we can buy or avail ourselves of the services of the Institute. I feel that if any service is available to any member it ought to be available to each and every member on the same basis.

I think this is a point that really is a real policy matter, and not necessarly just a P.D. matter, and I think this ought to be fully explored.

MR. SCHLOSSER: I couldn't agree more, Harry, because I felt that I was in a very peculiar position in having to make these interpretations. I have asked the Board, and the Board is now working out a set of guidelines so that this kind of availability would be available to all members of the Institute.

PRESIDENT KENT: Waldo, I don't know whether you want to add to that. Waldo Sowell is the Chairman of the Board of Managers of this program, and has been for many years. Do you want to add to that?

MR. WALDO SOWELL: Thank you, Ralph.

I think to comment on this I have got to go a little bit into the past, if you will forgive me for taking of your time.

As you know, it was at the Spring Council Meeting in 1958 that the Professional Development Project was authorized. As originally stated in the Proceedings, or the report of the Institute to its membership that year, this project was designed primarily at that point to assist the local firms, the smaller firms, who were not in position to finance a professional development program or continuing education to any extent out of their own resources. And so it started this way.

It was also stated that this would provide for the continued growth and the education of the profession.

Well, over the years the Board of Managers was concerned with the problem and the proposition of how to carry out this charge; how to develop a continuing education program which would be for the best interests of the entire profession. But again the main thrust of it during the early years was to

the smaller practitioners. But as time went on, the Board of Managers had before it the question of, should we limit ourselves or must we necessarily limit ourselves just to the smaller practitioners, or should we be providing continuing education, professional development if you will, for the entire profession?

We were concerned also with the problem of how do you do this? Again, in the earlier years we had basically the course materials and they had to be presented in the prescribed way because we were not in the publishing business. A person couldn't take a manual and study it and come out with what he was supposed to get from a seminar or a two- or three-day or five-day program, where you had the discussion, the guidance, the leadership and interchange of ideas.

So we wanted to try to provide other means, as we have done recently in CPAudio and the home study programs that are available.

But about two and a half years ago, I believe it was, at a meeting of the Board of Managers which took place in Houston, we spent two days working on this question of the policy of availability of materials, if you will, and we came up with a basic decision that the materials would be available to all firms; we would continue to use as our primary means of

presenting them the state societies, but we would also make materials available to, at that time the words were, multi-state firms or groups of firms which had need for in-house presentation and felt they could best do it this way, and would not normally be expected to utilize or be utilizing the state society presentation. So this was a basic policy change that was made in Houston.

After we had done this we ran into some difficulties, and there were some modifications made about six months after that because, for example, in this initial policy decision or change it had been concluded that possibly some of the state societies would be hurt financially by this making of materials available to the larger firms, so we had determined upon a policy of paying to each state society a pro rata amount based on individuals from that state who might participate in such a program that went directly to a firm. This sort of thing was misunderstood and it was finally changed, so that the policy which has evolved, and as it stands now, is substantially what Bob has told you.

The Board feels that it is its obligation to make professional development available to the entire profession. The mechanics of doing it are still primarily through your state societies, but materials are available to firms which are

in position to utilize them and present them in such a way that they can be effective. This is as it stands now. This is something that is of continuing concern to us. I expect that we will be considering this from time to time. We will be working on it at our next meeting, I know. We are trying to handle this in such a way that the entire profession can get the maximum benefit out of it, and this is where it stands right now.

Thank you.

PRESIDENT KENT: Thank you very much, Waldo.

Are there any other questions to either Waldo Sowell or Bob Schlosser?

If not, thank you very much, Bob, for your presentation, and you, Waldo, for your comprehensive answer.

Would you like to take a two-minute stretch?

[Brief intermission.]

PRESIDENT KENT: We come now to the money man, the report of the Committee on Budget and Finance. Our timing is set up, as you know, so that it's at the end of our Council session, when we have had the benefit of all of the discussion that has preceded it before we pass judgment on the budget for the new fiscal year. This is to be presented to us by Walter Oliphant, Chairman of our Budget and Finance Committee.

[Mr. Walter J. Oliphant presented the Report of the Committee on Budget and Finance.]

PRESIDENT KENT: Thank you, Walter. Are there any questions?

QUESTION: Has any estimate been made of what, in fact, this projected $9,000 of net income to the next administrative year there would be if the Institute is called upon to pay taxes on its advertising and other income that either the Administration or the new law might inject?

MR. OLIPHANT: I have to tell you that, of course, there is no provision for that in here, and there really isn't any attempt at determining at this stage what this impact would be. This could have an impact unfavorable if the cards are stacked against us in that way.

PRESIDENT KENT: George, you may have a figure for that. You have a figure for those things.

MR. TAYLOR: So far as the advertising alone, based on the present regulation, we would have no tax, we hope. Of course all of these things depend on whether everything we include in the statement is allowed. We intentionally made no provision for the future three years because of the considerations that are now taking place on taxes on unrelated business income. If what is included in the Tax Bill passes, our sale

of publications and other things might be involved, and I think it is almost impossible to try to make any determination as to what might be the effect in terms of taxes.

PRESIDENT KENT: I think we also have the benefit, don't we, George, by starting the Tax Magazine, that minimizes our problem for fiscal 1970 because we have a $69,000 deficit that would be pooled with our publication activity for that year. We may come back to you for some tax advice later on, Jack.

MR. HAROLD M. BERLFEIN (California): We're the biggest customer for P.D., California is, and we are naturally very concerned about a 20% increase. Then on top of that we find that the budget, including the 20% increase for materials, will show a $250,000 deficit for next year. We also see some management expense of $250,000.

I don't know if the accounting has to be improved or we are not as efficient as we should be, but even though we are very interested in subsidizing education we are more interested in seeing that the program is efficiently run, because I can say that the 20% increase in price will affect us greatly here, since we already have objections to the cost of P.D. courses to begin with.

MR. OLIPHANT: I'm not sure how I can respond to that,

other than to indicate first, I believe, that the figures that you mention, as it runs to the deficit--I'm not clear where those came from. It is $219,000, if we can look at the budget--

MR. BERLFEIN: And $244,000 in '70.

MR. OLIPHANT: All right. In each case that is the amount of the management and service charges, and it is not in addition to.

MR. BERLFEIN: That's what I said.

MR. OLIPHANT: I'm sorry. Then I misunderstood you.

That, as I think is probably clear, although these excesses of expenses over revenue reflected that way seem to run contradictory to the policy that was adopted by Council a number of years ago. This allocation, not having been made previously, has been considered not in violation. It doesn't produce an answer in violation of that policy as it was then adopted.

Now, in so far as the pricing of the individual programs and efforts of P.D. are concerned, this has been agreed upon as a matter to be reviewed again by the Executive Committee, along with the P.D. group, but, as Ralph mentioned this morning, one of the forces, perhaps, suggesting such a review is the question as to whether or not they should be increased additionally so as to totally absorb the cost, including

that which is allocated now as management and service. That runs even worse to the reaction that you mentioned and, frankly, I think what this indicates to me, and I know it does to others, is that we have to appraise the quality of the programs; they have to be marketable; they have to be accepted and used, and we will just have to face up to whatever the right answer needs to be from the Institute standpoint, and either shape the program differently so as to live within this policy statement, or change, as I don't remember who it was now suggested; that it ought to be a subsidized effort, in which case, then, those costs would be spread through the dues structure.

But this is a basic policy decision which is up for review again, and I am sure it will be in this coming year. The increase of the 20% is expected to take effect January--it is not expected; it will take effect January 1, according to all of the plans laid down by the P.D. group.

PRESIDENT KENT: I think we do get the feeling from both Harold's and Dick Carlson's comments this morning that there is concern in these larger states with respect to the cost of the P.D. programs. There might and should be some relief if we were able to implement what Bob Schlosser referred to, which is greater cooperation among the various firms that are preparing P.D. material for themselves and the Institute

program to cut out the duplication, triplication, quadruplication and on up that is taking place in certain of the basic courses. That should provide for some saving and yet give us some much better material.

Are there other questions?

MR. RUDULPH ELLIS (Virgin Islands): I don't have a question, but I would like to make a remark, if I may. I would like to direct my remarks to the exhibit where we show a possible deficit of a quarter of a million dollars in three or four years.

It seems to me that we have a potential area of revenue of approximately half a million dollars which, if we were to aggressively attempt to tap it, we might be able to come out with a quarter of a million dollars within two or three years. I am speaking of the gap between the total CPAs within our country and the number of members in the Institute.

In the '68 figures released I believe there were 107,000 CPAs, of which 65,000 were members of the Institute. There we see a difference of some 40,000 members. If we could assume a ballpark figure that 20,000 of these 40,000 could be brought into the Institute within the next three, four, or five years, this would represent, in the first three years of income at $25.00 a year, half a million dollars.

I have been a member of Council for about a year and a half, and in Council approved the publications of the Institute. I feel that there is not really real effort being made to close this gap between the members of the state societies, the members of the firms, and staff members who are not members of the Institute. I think if we were to develop an aggressive enrollment or recruiting program, giving help to the societies, to the firm members and to the individual members to attempt to go out and recruit or enroll within the next two years 10,000 of this 40,000 gap, we would not only increase our revenue by a quarter of a million dollars in the first three years each year, but it would have, of course, benefit that would far exceed the actual increase of revenue.

If we were to establish a goal within this next period of time to bring up the level of the Institute membership, which in '68 was some 61% of the entire national CPAs, which was in eight years, from '60 to '68, an increase of only 7%; if we had an objective to reach, let us say, of 70% in the next few years, and then 80%--not shooting for 100% but for 80%--this, I think, perhaps might go a long way to solving some of our revenue problems.

Thank you.

MR. MAURICE J. DAHLEM (California): I would like to

this Schedule 3 on Professional Development.

As I recall the earlier comments, there was an investment made in the year 1968-'69 in building an inventory of the program, with the view that we would reap the benefit from that in the year 1969-70 and beyond, and therefore, in looking at your budget forecast for this coming year, it would seem to me that you are probably budgeting on an extremely conservative basis, Wallie, and that the likelihood would be that you could surpass the budget results with perhaps a break-even or profit on the total activity.

MR. OLIPHANT: You are referring now to the revenue side, of course, right?

MR. DAHLEM: That's right. The indications were that you would have courses on the shelf that were not used during the past year, so, if anything, you are setting a budget goal in this Division which would be, if you want to call it that, the minimum result would be opportunity to exceed it in actual practice.

MR. OLIPHANT: We are projecting an increase in income from revenue of that type of between 20 and 30%, Maurie, and it has been felt that that was as aggressive an estimate from the revenue side as we can logically assume.

Now, if we turn to the other side for the moment,

also the expense side, while it is true that we have the newly developed programs which were not really taken full advantage of in this last year because they were completed late in the year, it is also felt that in this new year we will, of course, be continuing in the efforts to develop those plus programs which at the end of this coming fiscal year we will not again have been able to take advantage of, and it's just a lapping process, because we have a considerable catching up, it is believed, to do, and that's why we had the bump in the year just ended.

There are $650,000 in the new revenue figures, the budgeted figures representing the volume, the tape program, and, as I say, it was felt that that other fairly significant increase was as much as we could plan on at this stage of the game. Even that is felt by some to be quite aggressive, I would add.

PRESIDENT KENT: Also, Maurie, I think as your volume of P.D. revenue goes up, inevitably we will have more inventory. Bob Schlosser gave the Executive Committee some figures yesterday, I think it was, and if Bob is still here and I misquote him he will correct me, that for the entire 11-year period of the P.D. program, going back to Waldo Sowell's 1958 start, on a cash basis we have a loss of $205,000, most of

which in effect took place in '69, and on an accrual basis for that same period, where we might reflect our inventory, a loss of $55,000, so we are that close to being in balance with the Council resolution of eleven years ago.

MR. OLIPHANT: Maurie, I might add one other thought relating to the revenue side. Because this year will be the first full year of impact of the tape effort, there is a little uncertainty, perhaps, as to what impact the use of these may have on attendance at the normal program, so this is a delicate balancing, quite obviously.

I should perhaps also mention that although there is no fat in this cost side, we do see how, as a result of current, in fact monthly, review of progress in terms of attendance and all of that program, we can cut back on costs, so that there are some variables in here, and they will be watched on a monthly basis as we go along, and it is understood not just where P.D. is concerned, but this is something which those of us on the Committee felt was quite important, and with which everyone is agreed, I might add that, based on the current reviews, then, if there are any indications developing of significance, these will be brought to the attention of the Executive Committee for re-examination to see just what direction we should take from there on. So we are not stepping off

into water 'way over our heads, but we are going to have to watch it, and that's what is set up now so that we can be efficient in that way.

MR. DAHLEM: I just wanted to make the point that it seemed to me that with this monitoring and what not, this is an area that poses a great potential.

MR. OLIPHANT: It does.

MR. DAHLEM: And substantially additional amounts in amount that is hard to say.

PRESIDENT KENT: Very good. Thank you, Maurie.

Are there any other comments? Yes, George.

MR. GEORGE M. MARROW (Vermont): I am puzzled a little bit about the introduction of the Tax Magazine. I think most of us are in accord with nearly all of the programs of the Institute, but this was not submitted to Council, I don't believe, was it? I am wondering what the reaction has been to the proposed introduction.

I ask this because we receive very fine tax services now, and I am wondering--I don't think our firm would subscribe to the new one.

PRESIDENT KENT: I am not totally clear as to when it was submitted to Council. We started discussing it in 1968, and it has been in the Executive Committee on various

occasions.

MR. OLIPHANT: Wasn't it at the Spring Meeting, Ralph, that it was discussed?

MR. BARNES: I guess at the Spring Meeting.

MR. MARROW: I was at the Spring Meeting, and I remember that as being discussed at that time.

PRESIDENT KENT: We don't expect this to be a drain on the Institute budget.

MR. MARROW: I understand it will eventually probably come out whole and perhaps make a profit. What concerns me is the expansion of Institute activities. I would not like to see us spread ourselves beyond our immediate concerns with our practices and with our policies and our ethics and our general image in the country, and I am wondering if publishing a tax magazine is really a part of that. That is the way I'm seeing it.

PRESIDENT KENT: It would be my own view that it is just as much a part of our professional activity as the Journal of Accountancy, Management Services Magazine and many other publications, and possibly, it seems to me, and this is hindsight, our mistake was in not starting our tax magazine five, six, eight or ten years ago, at which time it was initially discussed and put aside for the time being.

MR. MARROW: I see.

MR. OLIPHANT: Ralph, isn't it also fair to comment that there was made a fairly effective, it seems to me, and maybe I should say very effective, market research by contacting a broad segment, not only within our profession but in industry, and there seemed to be a feeling that there was room for the kind of tax magazine which this contemplates being in comparison with some of the other information which is now currently available.

MR. MARROW: Thank you. I think you're right. Now I remember that that was stated at the Spring Meeting. This is the question I had in mind.

PRESIDENT KENT: Thank you.

MR. RICHARD W. PADDOCK (Ohio): I move for approval of the budget as presented.

[The motion was severally seconded.]

PRESIDENT KENT: Is there any further discussion?

The question has been called for. The approval of the budget has been moved and seconded. All those in favor say "Aye." Contrary. Mr. Chairman, you can hardly do better than that. Thank you very much.

MR. OLIPHANT: Thank you.

PRESIDENT KENT: We come now to the election of two

members of the Committee on Nominations.

It has been customary for many years for the retiring President to be elected to the Committee on Nominations for the ensuing year. In accordance with this custom, I have accepted Lou Kessler's request that my name be placed in nomination. He and I are also agreed that Edward A. DeMiller, Jr., of Mississippi, should be proposed as the second member of Council to be elected to this Committee on Nominations.

You will recall that five members of the Institute, not members of Council, will be elected to the Committee on Nominations at the Annual Meeting on Monday. There are before you for election to the Committee on Nominations the following members:

Ralph E. Kent, New York, Temporary Chairman.

Edward A. DeMiller, Jr., Mississippi.

Are there other nominations?

[The motion was made and seconded that the nominations be closed.]

PRESIDENT KENT: It has been moved that the nominations be closed. It has been seconded. All those in favor say "Aye." Contrary.

I give you the glad tidings that Ralph Kent and Edward DeMiller, Jr., have been approved for the Committee on

Nominations.

As you are probably aware, the printed report of Council, which you all received, "In Service To the Profession," has been distributed to members who will be in attendance at our Business Session on Monday. There are two or three things that have transpired today that will be covered in the report to the Business Meeting as Council actions. These would include the items which were in the Executive Committee's report relating to amount of liability insurance for corporate practice, and we will also make reference to the approval yesterday by the Executive Committee of the final report of the Ad Hoc Committee. That will give us the official report of Council to the Annual Business Meeting.

We come now to "New Business." Is there any new business to come before this meeting?

[A motion was made to adjourn.]

PRESIDENT KENT: We are not quite ready to adjourn, but we are getting very close to it.

There are with us today a number of members of Council who are attending the final meeting of their term of office. I should like, on behalf of all of you, at this time to thank them on behalf of the Institute and thank them personally for the time, thought and effort they have devoted

as members of the Council to the interests and advancement of our profession. As we know, our Council is our national legislature and our governing body, and service on this is a matter of great importance to the accounting profession.

I would also like to express our thanks to Committee Chairmen this past year for their service.

We had in our program today eight Committee Chairman; George Catlett speaking as Vice Chairman; Wallace Olson; William Barnes; Robert Holsen; Robert May; Ed Lang; Bill Freitag and Wallie Oliphant, all of whom spoke to us. That represents eight Chairmen out of some 94 Committee Chairmen, and I don't think any of us could leave this meeting today without being impressed with the content and the meat that was in the reports of these eight Committee Chairmen. I think one of our real strengths in the profession, obviously, is that we have some 86 other Chairmen that we did not hear from today whose Committees are also working with considerable vigor. So I would like to express our thanks to the Committee Chairmen for their service this past year.

[Announcement.]

PRESIDENT KENT: I will now entertain a motion for adjournment.

[The motion to adjourn was duly made,

seconded and carried.]

PRESIDENT KENT: Thank you very much for your attendance.

[The meeting was adjourned at 4:40 p.m.]