

BEFORE THE SECURITIES AND EXCHANGE  
COMMISSION

In the Matter of MCKESSON & ROBBINS, INC.

OFFICES OF THE SECURITIES AND EXCHANGE COMMISSION,  
120 Broadway, New York, N. Y., Tuesday, April 25, 1939.

Met, pursuant to adjournment, at 10 o'clock a. m.

PROCEEDINGS

Mr. GALPEER. I would like to call first Mr. Tucker, the managing director of the Controllers Institute of America.

Whereupon:

ARTHUR R. TUCKER

was called as a witness for and on behalf of the Commission, and, having been duly sworn, was examined and testified as follows:

The EXAMINER. Please give your address, Mr. Tucker.

The WITNESS. One East Forty-Second Street, New York City.

The EXAMINER. Mr. Tucker, it is customary at Commission's hearings to apprise the witness of his constitutional privileges. You have the privilege of refusing to answer any question if you believe such answer would tend to incriminate, degrade you, or subject you to fine, imprisonment, or forfeiture.

That privilege extends to each and every question that may be propounded to you.

Q. (By Mr. GALPEER.) Mr. Tucker, you are the managing director of the Controllers Institute of America?

A. I am.

Q. And in behalf of the institute you have prepared a memorandum on the functions of the controller?

A. I have.

Q. Is this the memorandum? [Handing witness paper.]

A. It is.

Mr. GALPEER. May I ask that this be marked in evidence, please?

The EXAMINER. Any objection, Mr. Henderson?

Mr. HENDERSON. No objection.

The EXAMINER. Let it be received as Commission's exhibit 236.

(Whereupon the document referred to was marked "Commission's Exhibit #236" and received in evidence.)

Mr. GALPEER. I believe that the memorandum sets forth the views of the institute and just as a matter of economy of time and space. I think there would be no purpose in further elaborating on it now, and if Mr. Stewart has no questions, that is all I have.

Mr. STEWART. I have not read the memorandum, but I have no questions.

Mr. GALPEER. Thank you, Mr. Tucker.

(Witness excused.)

## COMMISSION'S EXHIBIT #236

### CONTROLLERS INSTITUTE OF AMERICA

ONE EAST FORTY-SECOND STREET

NEW YORK CITY

The usual duties and responsibilities of a controller have been defined and published by the Controllers Institute of America. The definitions were compiled early in 1933 by a committee of the institute, which made wide inquiries extending over a period of 6 months, during which statements were obtained from controllers of large, medium, and small companies in diversified lines of business—manufacturing, banking, railroad, utility, and miscellaneous.

The information obtained was analyzed carefully, collated, and finally put into a simple form. It embraced 16 items, and later a seventeenth was added. The board of directors of the institute went over the committee's report carefully, amending, adding to, and deleting some portions, and giving special attention to phraseology, with the result that the finished statement gave considerable information in condensed form.

The statement suggests that provision for the office of controller be made in the bylaws of a corporation, and two suggested forms for inclusion in bylaws were given—one a brief description of the duties of a controller and the other a longer form in which the duties of a controller were enumerated and defined in detail.

Since 1933 some changes have occurred, with the result that the scope of the controller's authority is believed by many to be much more clearly defined today than it was in 1933.

The full text of the report approved by the board of directors of the institute is as follows:

#### RESPONSIBILITIES OF THE CONTROLLER

When the Controllers Institute of America was formed late in 1931 it was the thought of its officers and members that one of its first undertakings should be to bring some degree of order and uniformity out of the unorganized and widely divergent thought and practice which has prevailed with respect to the authority, duties, rank, and responsibilities of the controller.

The office of controller is of comparatively recent occurrence in American business management. It is not surprising, therefore, that its evolution should have taken place without an organized attempt having been made at standardization or regulation, and it can readily be appreciated that such divergent views should exist.

#### COMMITTEE MAKES SURVEY

The institute's committee on professional standing, composed of B. G. Smith, controller of E. R. Squibb & Sons, chairman; H. G.

Kessler, controller of the Commonwealth & Southern Corporation; and Leroy V. Porter, controller of the New York Central Lines, was requested to make a survey of the situation and submit its recommendations for the consideration of the directors of the institute.

The committee studied the problem for several months, assembled material from many sources, and its findings, which have been approved by the institute, are presented in this pamphlet.

#### DIVERSE PRACTICES DISCOVERED

In the case of many corporations it was found that the office of controller is not mentioned in the bylaws; in other cases, in which it was mentioned, its responsibilities were expressed in a perfunctory and inadequate manner.

It was found also that the duties of the controller, as outlined herein, were in many instances performed by one or more persons having other titles, such as vice president, treasurer, assistant treasurer, secretary, or auditor; that, in many instances, the person performing the duties of controller had no official title; that, in other instances, the controller had high rank, reporting only to the chief executive officer or the board of directors; and that, in still other instances, he was classed as a minor officer, his authority and responsibilities being correspondingly less.

Incident to the presentation of the duties of the controller, his rank and authority have also been touched upon in the committee's report.

#### NOT MINIMIZING DUTIES OF OTHER OFFICERS

The institute wishes to have it clearly understood that it is not intended, by anything contained in the bylaw herewith presented, to minimize the duties or responsibilities of other officers. The duties described, however, have been found to be delegated to the controller in the case of one corporation or another, are considered fundamental by the institute, and they have been stated in full for the purpose of supplying as complete data as possible and not as carrying the institute's endorsement that all of them should be invariably assigned to the controller regardless of the peculiar requirements of such corporations as may find this bylaw useful as a guide.

#### NO LIMITS TO RESPONSIBILITIES

The opinion was expressed very definitely by many of the members of the institute that the organization, in publishing this material on the duties and responsibilities of the controller, should not imply a limit to those duties—either general or specific. As a matter of fact, many duties which are not incorporated herein are frequently delegated to the controller by various corporations. The fact that they may not be included here does not mean that the controller should not exercise initiative of the highest order at all times in visualizing the implied responsibilities of his office, taking into consideration the peculiar requirements of his company. Thus, he should not be relieved from the duty of seeing that important responsibilities not theretofore specifically delegated are assumed by him or assigned to

other officers of his company. With that idea in mind, attention is called to the "short form (duties)," wherein it is broadly stated that "in conjunction with other officers and department heads" the controller shall "initiate and enforce measures and procedures whereby the business of this corporation shall be conducted with the maximum safety, efficiency, and economy."

The committee also discovered that there was a tendency on the part of many controllers to advocate the election of the chief accounting officer by the stockholders—to make him responsible to, and be removable only by, the stockholders. The institute does not consider it opportune to endorse such a policy at this time, although it recognizes the possibility that such practice may become common as it has, to a certain extent, in Great Britain, with respect to public auditors.

### THE COMMITTEE'S REPORT

#### A DEFINITION OF THE DUTIES OF THE CONTROLLER OF A MANUFACTURING COMPANY

The duties of the controller outlined herein are primarily designed for use by manufacturing companies. With some slight modifications, however, they may be readily adapted to a wide variety of corporations, associations, and other types of organizations.

The specification of duties has been presented in the form of bylaws which may be used as prepared or modified to meet the peculiar requirements of the case in hand.

Some of the duties ascribed herein to the controller are sometimes assigned by corporations to other officers, such as vice president, the secretary, or the treasurer. In this presentation, however, they have all been included in order that attorneys, incorporators, or directors of corporations may have complete data at hand on which to base their own specifications and also in order that a comprehensive idea may be had as to the potential possibilities of the office of controller and its obvious value to the corporation as an important adjunct to up-to-date management.

Developments during the past few years, when many corporations have been subjected to close scrutiny and some to severe criticism, have conclusively proved that the old-time conception of some heads of corporations that a controller is merely a needless luxury is a thing of the past.

On the contrary, the Controllers Institute is firmly of the opinion that the greater latitude allowed and powers granted to a controller of the right type, the greater will be his contribution to successful and profitable management. To this end the Controllers Institute believes that the controller should be elected by the board of directors and attend its meetings as well as those of the executive committee, if any; if not as a member, at least in an *ex officio* capacity.

The institute further believes that it is desirable to define the duties of the controller in the bylaws of corporations with some degree of detail, possibly even to a greater extent than in the case of other officers whose duties may have become more generally recog-

nized from long-established custom. By doing so, the danger of overlapping responsibilities as between the controller and other officers or possible neglect of important corporate activities due to failure to properly assign the duties, will be greatly lessened.

The first bylaw is merely a brief statement or list of the officers, which includes that of the controller.

The second bylaw is designed for use in conjunction with other bylaws describing the duties of individual officers. In it will be found a brief statement of the position and duties of the controller.

The third bylaw contains separate statements of particular duties, one or more, or in some cases all of which may be applicable to the office of controller in the organization for which bylaws are being prepared.

### VARIOUS PROPOSED FORMS OF BYLAWS

#### 1. SHORT FORM

(Officers)

The officers of this corporation shall be a president, one or more vice presidents, a controller, a secretary, and a treasurer, and such other officers as may be elected by the board of directors. The officers shall perform such duties and have such powers as generally pertain to their respective offices and such other duties and powers as from time to time may be imposed or conferred upon them by the board of directors. One person may hold two or more offices, except that the offices of controller and treasurer shall not be held by the same person.

#### 2. SHORT FORM

(Duties)

The duties of the controller shall be to maintain adequate records of all assets, liabilities, and transactions of this corporation; to see that adequate audits thereof are currently and regularly made; and, in conjunction with other officers and department heads, to initiate and enforce measures and procedures whereby the business of this corporation shall be conducted with the maximum safety, efficiency, and economy. He shall attend all meetings of the board of directors and of the executive committee and he shall report to the president and/or the board of directors as said board of directors may prescribe. His duties and powers shall extend to all subsidiary corporations and, so far as the president may deem practicable, to all affiliated corporations.

#### 3. DETAILED FORM

(Statement of specific duties to be set forth in a bylaw when it is desired to set forth the controller's duties in detail. [Any one or more may be included as occasion requires.] )

The controller is specifically charged with the following duties:

1. The installation and supervision of all accounting records of the corporation.

2. The preparation and interpretation of the financial statements and reports of the corporation.
3. The continuous audit of all accounts and records of the corporation wherever located.
4. The compilation of production costs.
5. The compilation of costs of distribution.
6. The taking and costing of all physical inventories.
7. The preparation and filing of tax returns and the supervision of all matters relating to taxes.
8. The preparation and interpretation of all statistical records and reports of the corporation.
9. The preparation, as budget director, in conjunction with other officers and department heads, of an annual budget covering all activities of the corporation, for submission to the board of directors prior to the beginning of the fiscal year. The authority of the controller, with respect to the veto of commitments or expenditures not authorized by the budget, shall, from time to time, be fixed by the board of directors.
10. The ascertainment currently that the properties of the corporation are properly and adequately insured.
11. The initiation, preparation, and issuance of standard practices relating to all accounting matters and procedures and the coordination of systems throughout the corporation, including clerical and office methods, records, reports, and procedures.
12. The maintenance of adequate records of authorized appropriations and the determination that all sums expended pursuant thereto are properly accounted for.
13. The ascertainment currently that financial transactions covered by minutes of the board of directors and/or the executive committee are properly executed and recorded.
14. The maintenance of adequate records of all contracts and leases.
15. The approval for payment (and/or countersigning) all checks, promissory notes, and other negotiable instruments of the corporation which have been signed by the treasurer or such other officers as shall have been authorized by the bylaws of the corporation or from time to time designated by the board of directors.
16. The examination of all warrants for the withdrawal of securities from the vaults of the corporation and the determination that such withdrawals are made in conformity with the bylaws and/or regulations established from time to time by the board of directors.
17. The preparation or approval of the regulations or standard practices required to assure compliance with orders or regulations issued by duly constituted governmental agencies.

#### DECLARATION OF PRINCIPLES

The following declaration was adopted by the board of directors of the Institute on January 19, 1933, at the suggestion of the committee on professional standing:

The Controllers Institute of America stands for the observance of the highest ethical standards in corporate accounting practice and

in the preparation of reports of financial and operating conditions of corporations to their directors, stockholders, and other parties at interest, in such manner that all concerned may know the actual conditions insofar as such reports may assist in the determination thereof. To that end, the Controllers Institute of America offers its advice and assistance in connection with any movement which has for its purpose the establishment of better safeguards for the protection of the investor.

ARTHUR R. TUCKER,  
*Managing Director.*

APRIL 12, 1939.