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ACCOUNTING PRACTICES - DO THEY PROTECT THE PUBLIC?

by

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at the
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I welcome the opportunity to address your Association.

I have some definite views related to the theme of your Symposium
"Prologue to Progress: Let the public service be a proud and lively career,"
especially as it applies to the federal accountant.

It is my view that the accountant, particularly the federal accountant,
must accept a greater responsibility for the public well-being.

I am a Naval Officer and an engineer, not an accountant. My interest
in accounting stems from my experience in managing technical programs for
the Atomic Energy Commission and the Department of Defense, and from personal
concern as an interested citizen. It also stems from the fact that the
funds I am given are limited and must be expended as economically as possible
or we will have fewer ships to protect our country. Added to this is my
knowledge, based on much experience, that without the active help of account-
ants, I cannot do my job efficiently.

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For over 20 years I have been responsible for designing, procuring, constructing and maintaining the nuclear plants in our nuclear-powered warships. I was also responsible for the design and construction of the Shippingport Atomic Power Station, the first full-scale central station nuclear power plant in the United States. Managing civilian and military programs has afforded me a unique opportunity to assess the contributions as well as the deficiencies of federal accounting, particularly as they relate to government dealings with industry.

Professional societies in all disciplines must, I believe, be more active in looking out for the public interest. A year ago I made this same point in an address to the American Society for Metals. I questioned whether industrial safety codes developed by private industry associations were adequate to prevent injury to the public health and well-being. I asked, "Who protects the public?" The same question applies here. Who protects the public in accounting matters?

Today our nation faces many difficult problems. Our cities are crowded and run-down. We are using up our natural resources at a prodigious rate. We have polluted our water supply and the air we breathe. The ecological balance is threatened.

The ever-increasing concentration of economic power in giant corporations threatens our competitive economic structure. In a number of basic items, our industrial society is no longer competitive in world markets. Balance of payments deficits are a recurrent worry. Many of our institutions have grown so large, they are almost unmanageable. For example, the Department

of Defense today is larger than the entire federal government was in 1939, and federal employment has tripled since then. Inflation and cost overruns are plaguing military programs. The public has lost confidence in military procurement. The words "economy in Government" have lost significance.

Can the federal government accountants solve all of these problems? Obviously not. But the point I want to make is that you could make a greater contribution than you have in the past.

I am encouraged that your agenda includes panel discussions on three topics relating to current problems in defense procurement: uniform cost accounting standards, implementation of the Truth-in-Negotiations Act, and profits on defense contracts. The problems in each of these areas relate directly to your professional accounting responsibilities as well as your responsibilities to the public.

The role of the federal government has expanded over the years. Today the government affects the economic climate in which almost every industry operates. It regulates banking, communications, broadcasting, transportation, and utilities. It subsidizes farming, shipping, airlines, large and small business. It spends \$60 billion a year through government contracts. It collects over \$200 billion a year in income taxes, social security taxes, excise taxes, and so forth. It greatly influences education, health and welfare, scientific research and development--every aspect of national life.

The growth of large industrial and financial corporations has paralleled the growth of the federal government. Years ago, the typical business unit was a small, local establishment with a single owner. But for the past

one hundred years, the history of industrial development in the United States is largely the story of the growth of large corporations. The advantages of the corporation as an instrumentality for the conduct of business in a free enterprise system have resulted in its phenomenal growth in the United States. The reality is that a new economic order is emerging, characterized by large industrial organizations that maintain a partnership between themselves and government.

It may be that in this rapidly spiraling scientific and technological age this is the best way to marshal our resources, both for national security and for optimum economic use of resources and manpower. If this is so, a great responsibility rests on all of us to see that these giant organizations do not become, in effect, a fourth branch of government--a fourth branch, but without the accountability to the public that is the distinguishing mark of a democracy.

For if the tendency of the federal bureaucracy to make accommodations with industrial corporations is not properly controlled, we will, in effect, have a fourth branch of government, where men exert power without political responsibility. This constitutes a threat to our democratic society and makes it imperative that the federal accountant do his job properly, since it is his responsibility to make relevant facts visible and to show the financial consequences of management actions. It is therefore essential that accounting be accurate in a total sense--that it be meticulous in portraying facts as they are, not as someone wants them to be. Lord

Kelvin once said:

"When you measure what you are speaking about, and express it in numbers, you know something about it; but when you cannot measure it, when you cannot express it in numbers, your knowledge is of a meager and unsatisfactory kind."

It is the accountant's job to insure that the relevant facts are expressed in the right numbers.

As our nation has grown, this role of the accountant, both in government and out, becomes more and more important to the public and to those responsible for the management and supervision of our large industrial and governmental institutions.

Government, the public, and industry management look to the accountant for objective reports. They want differences in accounting figures to reflect real differences. They want timely and responsive reports containing reliable information so that they may be able to judge efficiency. This cannot be achieved unless there are definitive rules and standards for reporting costs.

The difference between operating with and without definitive accounting rules is like the difference between a man who has fallen into the water and a man who is bathing--both have to swim, but one does it frantically from necessity and the other deliberately from choice.

It is the responsibility of accountants, and particularly of federal accountants, to establish proper standards. In my opinion the federal accountants have not, as a group, met their public responsibility in this regard. Consider first the current situation in defense contracting. The

Department of Defense spent over \$40 billion for military procurement in 1969. Of this amount, about \$4 billion was spent in formally advertised, competitive contracts and the remainder, \$ 36 billion, in negotiated procurements-- procurements which are not truly competitive. Of the \$36 billion in negotiated procurement, \$24 billion was spent under sole-source contracts; \$12 billion in contracts involving only limited competition among two or sometimes three bidders.

Under these circumstances supplier costs are bound to be the primary consideration in determining contract prices. The government is, however, compelled to rely almost entirely on the contractor's estimates and cost records for data to determine the reasonableness of the prices he demands.

I find that it is virtually impossible, without spending months reconstructing each supplier's books, to discover what it really costs to manufacture defense equipment or how much profit contractors actually make in producing it. The problem is the extreme variability of accounting practices--the lack of uniform standards. Costs on some contracts are not considered as costs on other contracts. Contractors price contracts under one accounting system, yet charge their costs under a different accounting system. On most defense contracts there is no requirement that the contractor keep meaningful cost records. In these circumstances, it becomes virtually impossible to determine true costs.

I first raised the issue of cost accounting standards for defense contracts before Congress in 1963. Each year thereafter I testified before Congressional committees about the serious need for such standards. Finally,

in 1968, the House of Representatives passed a bill requiring the development of uniform cost accounting standards for defense contracts. Even at that late date the accounting profession gave little heed to the problem.

In the 1968 Senate hearings on the House Bill, the Department of Defense claimed that adequate standards already existed. The General Accounting Office hedged and attempted to side-step the issue. The American Institute of Certified Public Accountants opposed the bill. Financial executives of company after company in the defense industry went on record against the bill.

In all the accounting profession, only Mr. J. S. Seidman of Seidman and Seidman, Certified Public Accountants, testified to the serious need for cost accounting standards. The federal government accountants were conspicuous by their silence. As a result, the bill that emerged from Congress in 1968 required only that the General Accounting Office study the matter.

After studying it, the GAO agreed that uniform cost accounting standards are both feasible and necessary. Mr. Staats, the Comptroller General, in testimony before the Senate Banking and Currency Committee, stated that he believed uniform cost accounting standards would result in a substantial saving of public funds. My own estimate is about \$2 billion a year.

Industry, of course, strongly opposes uniform cost accounting standards. It is lobbying to weaken, frustrate, or if possible kill uniform cost accounting legislation. To hear industry tell it, uniform cost accounting standards would be a tragedy.

To paraphrase Oscar Wilde's famous quip about the death of Little Nell in Dickens' Old Curiosity Shop a man would have to have a heart of stone to read their stories without laughing. Industry naturally does not like uniform cost accounting standards. It would like to continue the system whereby it can nationalize its losses and privatize its gains.

To date this lobbying has been effective, aided to a considerable degree by the reluctance of federal accountants, particularly the General Accounting Office, to take the initiative in establishing such standards. Several years ago, the General Accounting Office testified to Congress that someone other than they should conduct the study of uniform accounting standards. Ultimately, Congress had to direct it to make the study.

Now the study is complete and the need for uniform cost accounting standards well established. However, the GAO--legally the most authoritative accounting group in government--has once more testified that some group other than itself should be given the job of setting these standards.

That office took a similar position when the Joint Economic Committee asked it to study defense profits. The Comptroller General said it was not his job; someone else should do it--someone outside government--or industry might not cooperate.

One excuse given by the GAO in backing away from sensitive issues has been that it lacks the legislative authority to do the job. Yet its charter is extremely broad. Here is an extract:

"The Comptroller General shall investigate at the seat of Government

or elsewhere, all matters relating to the receipt, disbursement, and application of public funds, and shall make to the President when requested by him and to Congress at the beginning of each regular session, a report in writing of the work of the General Accounting Office, containing recommendations concerning the legislation he may deem necessary to facilitate the prompt and accurate rendition and settlement of accounts and concerning such other matters relating to the receipt, disbursement, and application of public funds as he may think advisable. In such regular report, or in a special report at any time when Congress is in session, he shall make recommendations looking to greater economy or efficiency in public expenditures."

Moreover, the Budget and Accounting Procedures Act of 1950 states:

"The Comptroller General *** shall prescribe the principles, standards, and related requirements for accounting to be observed by each executive agency ***"

With such charters, the General Accounting Office has adequate authority to get into virtually all aspects of government operations. The office could, in a sense, become the conscience of our government; it could also become a center of excellence, a locus of discontent. However, it has waited for others to take the lead in these fundamental issues.

This characteristic is not peculiar to the General Accounting Office alone. I see it in the conduct of other groups of federal accountants as well. So in considering the matter of uniform cost accounting standards,

the question keeps occurring to me: Where have the federal accountants been all these years? Why haven't they raised the issue long ago? Whose job is it to see that adequate accounting standards exist to protect public funds? Is it among the duties of a naval officer? Is it the job of Congress?

Take another area--renegotiation of government contracts.

Renegotiation as it is presently carried out cannot be effective. Because of exemptions in the law, large blocks of defense work are not even covered by renegotiation. Moreover, the Renegotiation Board uses Internal Revenue Service accounting rules for cost and profit determinations. Any accountant knows that Internal Revenue Service rules were not designed for cost accounting and that they are inadequate for the purpose. The apparent standard is no standard at all. Industry can report, for renegotiation purposes, almost whatever profit it chooses.

Time and again I find that cost and profit figures reported by contractors differ substantially from the figures found subsequently by government audit. Yet the Board accepts these industry reports at face value, without even auditing them. Its staff has been kept so small that the Board, even had it wanted to, could not have closely checked contractor reports.

Thus, we have the semblance but not the substance of effective renegotiation. Uniform cost accounting standards are fundamental to making renegotiation an effective process. The public does not understand this. Nor are most members of Congress fully aware of this need.

Imagine what would happen if the Internal Revenue Service started accepting tax returns at face value. The tax collection system would not be effective or equitable. Yet the Renegotiation Board has been accepting renegotiation statements at face value for years.

There are other loopholes in the renegotiation process. For example, the Renegotiation Act permits a contractor to average profits over all his business. The growth of conglomerates in recent years has made this a significant loophole. In 1951, when the Renegotiation Act was passed, most of the Navy's major private shipbuilders were independent companies devoted chiefly to shipbuilding, and with their own corporate managements. They had to file profit statements on their shipbuilding activities with the Renegotiation Board. But today, most of these shipbuilders have become divisions or subsidiaries of giant conglomerates. Electric Boat Company is now a division of General Dynamics Corporation; Ingalls Shipbuilding Company a division of Litton Industries; Puget Sound Bridge & Dry Dock Company a division of Lockheed Aircraft Company; Avondale Shipyard a division of Ogden Corporation; and the Navy's largest private shipbuilder, Newport News Shipbuilding and Dry Dock Company, has now been taken over by Tenneco.

Consequently the Renegotiation Board no longer gets a direct look at the profits earned by the Navy's shipbuilders. The Board may review the defense profit of the conglomerate, but that figure merely reflects the total profit on all its defense contracts. The government has effectively lost its ability to check against excessive profits on shipbuilding contracts.

The rules established for renegotiation in 1951 are simply not adequate today. We must have accurate financial reports to make the system work. I should think federal accountants would be deeply concerned with this problem since it so deeply affects the public interest.

Other areas of government activity besides renegotiation have been adversely affected by the trend toward large conglomerates.

These continuing mergers of large corporations present a number of problems in connection with their defense work. Besides having to pay the normal operating costs of the division actually performing government work, the government now has additionally to pay a tax in the form of a corporate general and administrative expense rate levied by the parent company on its division--hence on the government. Therefore, the cost of government work goes up. It is not clear to me what value the government gets for the additional cost. I am involved in one case where the major portion of the general and administrative tax levied on government work consists of interest expense on the debt incurred by the conglomerate in acquiring the company.

These mergers tend to result in what might be called "pooling of inefficiencies". My experience is that conglomerate managements generally do not much concern themselves with improving efficiency of the companies they acquire. Rather, they concentrate most of their efforts in seeking ways to eke out more cash or profits from the business. Much effort goes into looking at ways to reduce the company's investment in facilities and inventories, even if this results in higher operating costs. Since most

defense procurement is non-competitive, defense contractors are usually able to pass these higher operating costs directly onto the government. Under Department of Defense rules for determining profit as percentage of costs, the higher the operating costs, the higher the profits.

Another problem concerns depreciation costs. Suppose Company A has a plant making defense equipment. Company A is then merged into a conglomerate. The government, in the price of its contracts, has absorbed much of Company A's depreciation expense. However, under current accounting rules for acquisitions by purchase, the conglomerate may revalue Company A's fixed assets to a new higher value--a so-called "fair market value"--as part of the merger. Company A is then able to write off on government contracts more than it paid originally for the plant. It can charge the government higher depreciation costs for the very same plant, even though the only "improvement" is a new name over the door.

Conglomerate mergers have been thriving for over 20 years, aided by loose accounting rules and practices. The question is whether these loose rules and practices are in the public interest. Today two companies may merge without any recognition of a gain or loss in the transaction--even if there is a large gain for one of the companies. I understand that the Accounting Principles Board will be meeting in the near future to consider new standards to restrict certain aspects of accounting for mergers, but the situation has been allowed to go on far too long.

There are other illustrations indicating that you, as federal government accountants, have been dilatory in facing up to problems affecting the public interest.

Recently, I read that banks, unlike other industries, have not been required to show losses on loans--or gains and losses on security transactions--in their net income figures. So for years banks have reported income figures higher or lower than their actual income.

The Federal Trade Commission, to put it mildly, has been slow in facing up to the issue of whether companies should be required to report costs and profits by product lines. The Securities and Exchange Commission--although it has extensive statutory authority over security issuers' accounting methods--has been less than avid in requiring conglomerates to report profit and other financial information regarding the operations of major divisions or subsidiaries. The Interstate Commerce Commission has also managed to avoid getting involved in these disagreeable matters. In 1960, it ruled that public statements had to conform to a uniform system of accounts. But two years later, the Commission rescinded this rule and authorized carriers to issue public statements based on "generally accepted accounting principles."

In all these cases federal agencies and federal accountants could have been more effective in making certain that the public gets relevant and adequate financial information.

The Truth-in-Negotiations Act is another case where federal government accountants have not been adequately protecting the public. You have scheduled a panel discussion on the subject. I hope you will consider two major points: First, what positive action will your organization take to promote full compliance with the spirit and the letter of the Act?

Second, why have the federal government accountants stood by in silence during the eight years the Truth-in-Negotiations Act has not been complied with?

The Act was passed in 1962. It has not yet been fully implemented. For example, I found recently that our major shipbuilders had not yet carried out its provisions. Steel companies, the forging industry, the computer industry, and other material suppliers all refuse to provide the cost and pricing data required by the Act. These are merely the industries where I have had first hand experience. I understand there are others that ignore the Truth-in-Negotiations Act.

Since your own membership would not raise these issues, I decided to do so myself. I investigated and reported that our shipyards were not complying with the Truth-in-Negotiations Act; I reported that cost and pricing data are not being obtained from steel manufacturers. In the past year I referred four specific sole-source forging procurements to higher authority for resolution because none of the four suppliers involved would comply with the requirements of the Truth-in-Negotiations Act.

The refusal of industries and companies to comply with the Act is common knowledge among people working in the field. I am sure the examples I have given come as no surprise to you.

Defense procurement officials, however, profess ignorance. They have officially stated that they are unaware of any serious problem in implementing the Truth-in-Negotiations Act. Apparently federal accountants have not been reporting problems encountered in implementing the Act.

Congress has been led to believe that the Truth-in-Negotiations Act has been an effective safeguard against overcharging. In truth, however, in the case of a large number of favored companies and industries, it is not being applied at all.

I believe that federal accountants should be playing a major role in settling the long standing controversy over profits on defense contracts. The issue is simple: the Defense Department pays out billions of dollars each year in profits to defense contractors. My experience has been that in many cases defense profits are too high; that in the public interest we should know exactly how much profit each contractor makes on his defense work.

On the other hand, the Department of Defense and industry contend that defense profits are low. Yet they will not set up a profit reporting system that would reveal factual data on defense profits.

Instead they have tried to assuage public concern with estimates of defense profits based on questionnaires, surveys, stockholder reports, volunteered information, Renegotiation Board data, and the like. Studies by the Logistics Management Institute--studies financed by the Department of Defense--have been the most publicized of these estimates.

These estimates are then used to support the Defense Department and industry position that on the average, defense profits are low. Any accountant however recognizes the hazards of averages. I am reminded of the six-foot tall traveler who had been told that the river he was about to cross had an average depth of three feet. He drowned, a victim of averages.

The public, members of Congress, and government officials receiving these profit studies tend to accept the information at face value, not understanding how easy it is to conceal serious problems in averages and that, in the absence of definitive accounting standards, contractors can report whatever profit figures will suit their purpose. The fact is that no one in government knows how much profit is actually being made on defense contracts.

In case after case you will find companies changing their accounting system, or changing asset valuation, or changing their method of depreciation to show a different overall profit figure. They have great flexibility in deciding how to assign costs and profits between defense and non-defense work. No one ever checks the details. Such checks would be of limited value anyway because of the absence of definitive accounting standards.

Just a week ago, a large conglomerate--one of the nation's largest defense contractors--announced that the company was considering changes to its 1969 financial statements. The company stated:

"These [changes] include some accounting entries involving a change to an expense basis of accounting in one division, which became a charge to income of \$10 million, and another change in the reserve for depreciation of another division, which became a credit of \$13 million, and other miscellaneous items."

This shows the flexibility they have in accounting matters.

Mr. Peter Drucker, the management expert, stated the issue succinctly when he said: "Far too few management scientists...realize that practically every single definition of accounting is based on assumptions of high

metaphysical content--and that any accountant worth his salt can convert any profit figure into a loss figure, or vice versa, if given control of the accounting definitions, all unquestionably within the limits of the proper accounting practice."

All of you no doubt recognize the problem. But is it not your professional responsibility to make government and the public aware of it?

There is another aspect to the question of profits on defense contracts. Industry's accepted criterion for profitability is return on investment. But the defense procurement regulation is based on computing profit as a percentage of cost.

The effect of this regulation is to discourage efficiency. Since competition in the defense industry is limited, contractors who increase their efficiency may, in the long run, actually lose profit under the present system. If it costs \$100 to do a job and the prevailing profit paid under Department of Defense guidelines is 10 percent, the contractor will get \$10 profit every time he does that job. If he cuts his costs to \$90, he will get only \$9 profit in the future. Thus, contractors get higher profits in the long run by keeping costs up. So they have little incentive to invest in facilities and in new machine tools which could make defense work more efficient and less costly. There is instead a strong incentive to maintain minimum investment with the highest possible cost base for determining profit.

This is a problem apparent to federal government accountants. I believe you have a duty to make it known to the government and the public.

In case after case I observe federal accountants letting others take the lead in the very area where you should have been pioneers protecting the public. Take the issue of uniform cost accounting standards which is neither new nor revolutionary. This concept has existed in Continental Europe for years.

In the early 1920's the German professor Eugene Schmalenbach was frustrated by his inability to make accurate comparisons of the financial data made available by different companies. His Model Chart of Accounts laid the foundation for the subsequent development of uniform accounting in Germany and in other European countries.

Today, uniform plans of accounts are used in Germany for more than 100 applications. These plans range from simple classifications for individual proprietorships and tradesmen to complex uniform plans of accounting for large industrial enterprises. In France, the official General Accounting Plan has been mandatory since 1947 for publicly owned enterprises and for firms receiving government subsidies. Other European countries have similar plans. Yet in our country the notion of uniform accounting standards has been viewed by accountants, including federal accountants, as an heretical idea.

Accountants in this country have been slow to face up to other aspects of their public responsibility as well. Until 40 years ago they recognized no legal or professional responsibility to anyone other than the immediate client. The 1931 court decision in the case of Ultramares Corp. v. Touche, Niven & Co. upheld this point of view. A creditor, relying on an accountant's certification of the corporation's financial statements, lent money to a

small corporation. The corporation went bankrupt within a few months. The creditor then sued the accountant, arguing that he had relied on the accountant's certification. Judge Cardozo ruled that the accountant was not liable to the creditor. He said that, except in cases of actual fraud, an accountant had no legal duty except to the person who hired him or to a third party, if the accountant knew at the time of the certification that the third party would rely on the certification. Of this decision Lord Justice Denning said: "I think it is to be regretted, for it means that the accountant's certification, which could be a safeguard, becomes a snare for those who rely on it."

While the courts held to this precedent for 25 years, the 1933 law establishing the Securities and Exchange Commission gave the government broad powers over security issues, accounting methods, and public disclosure of financial information.

The accounting profession, too, began to consider its professional responsibility. In 1938 the American Institute of Accountants established a Committee on Accounting Procedure, forerunner of the present Accounting Principles Board. The Committee was, however, largely ineffectual. In the 21 years of its existence it published 51 research bulletins recommending acceptable procedures. According to one analysis:

"The Bulletins tended to present ad hoc solutions to unrelated specific problems and frequently recognized the acceptability of two or more procedures for accounting for identical transactions occurring under identical circumstances. Furthermore, the Bulletins presented recommendations only; with the exception of the six rules

adopted by the AICPA membership vote, the conclusions contained in the Bulletins were not binding on the Institute membership. Accordingly, procedures not embraced in the Bulletins might also be considered to be 'generally accepted'."

Meanwhile, the idea of increasing the scope of responsibility of public accountants was growing in legal and financial circles. A series of judicial decisions in the 1960's in effect overturned the Ultramares decision. Thus, in the Yale Express case, an accounting firm, Peat, Marwick, and Mitchell, discovered that figures previously certified in annual reports were false and misleading. But they waited more than a year before they informed the Securities and Exchange Commission and the investing public of the falsity of the certified report. In a suit against the accounting firm by a group of investors and creditors, a federal court ruled that the firm could be held liable to investors and lenders even though it had no contractual relationship with these investors and had received no financial benefit from the nondisclosure.

In Rusch Factors Inc., v. Levin, the court held that an accountant was liable for his "professional malpractice" to any third party who might foreseeably rely on the accountant's certification.

In recent years more than 100 similar suits have been filed, all based on the concept of the public accountant's public responsibility. These cases involve some of the largest and most prestigious firms in the profession. Ernst & Ernst faces a number of suits concerning allegedly misleading financial statements about the Westec Corporation; and two partners of Lybrand, Ross Brothers and Montgomery were held liable for inaccuracies in

the prospectus of BarChris Construction Company.

Mr. Leonard Spacek, chairman of Arthur Andersen and Company, is one of the few public accountants who have recognized this issue of public responsibility. He said:

"The accounting profession hasn't recognized the fact that public ownership exists. The profession still labors under the impression that it is working for entrepreneurs who know all the details about their companies--the accountants have thought little about what the public investor wants to know."

Clearly the courts now recognize--even though most members of the accounting profession may not--that accountants have a broad general responsibility, not only to their clients but to the public as well. But too often, loyalty to an employer takes precedence over the public interest.

The essential service of the accounting profession is to sort out and direct attention to relevant facts regarding performance. The nature of federal government accounting work carries you to the very heart of all aspects of our government's operations. You are in a unique position to seek out fundamental deficiencies in the conduct of public business and to promote reform. This, moreover, is your primary responsibility, both as individuals and as a professional association.

The idea of individual responsibility is paramount. Time and again in my work I have seen improper and wasteful practices by contractors go uncorrected because the responsible government officials did not see to it that government work was performed properly. These officials limit their

activities to the narrow confines of their job descriptions, ignoring many basic deficiencies not literally spelled out as matters for which they are responsible. After a while deficient practices become accepted as a way of life. As Alexander Pope said:

"Familiar with her face,
We first endure,
Then pity, then embrace."

Inevitably when I look into these deficiencies I find that it is not a question of an insufficiency of government personnel, or inadequacy of government salaries. Rather, I find the deficiencies are prevalent because government officials will not accept the responsibility to look after the government's interests in the broad sense of the term. They become instead a sort of bystander, an observer duly recording what the contractor chooses to show him. Whether he is an accountant, lawyer, engineer, or military professional, the principal duty of a government official is to protect the government--and thus the American public--financially, legally, and technically.

Responsibility is a unique concept. It can only reside and inhere in a single individual. You may share it with others, but your portion is not diminished. You may delegate it, but it is still with you. You may disclaim it, but you cannot divest yourself of it. Even if you do not recognize it or admit its presence you cannot escape it. If responsibility is rightfully yours; no evasion, or ignorance, or passing the blame can shift the burden to someone else.

I have been criticized because I, a Naval Officer, have intruded into accounting matters. My answer is that as long as accountants neglect their

own responsibilities, to the detriment of mine, I will continue to intrude. It is my responsibility to do so. When an institution does not do its job, a vacuum is created and some outsider always has to step in and fill the vacuum.

If you as federal accountants desire to be considered professionals, you must earn the title by your attitude and by your actions. One does not become a professional simply by getting a degree. Professionalism requires one to maintain constant awareness and consciousness of all matters affecting his area of competence; it also requires continued application of one's capabilities to advance his chosen field.

Nor does a society of accountants become a professional group merely by holding meetings and symposia. It is the application of the total effort of the group to correction of specific problems and to advancement of the field as a whole in the public interest; it is acceptance of the duties such a responsibility entails that is the distinguishing characteristic of a true professional society.

Contractors, industry associations, Washington lawyers--all exert tremendous pressure on legislators and government officials to loosen the constraints of laws, regulations, and policies governing their conduct. Federal government accountants must become the counterpoise.

By failing to work for rules and standards of accounting protecting the public, your profession has in my opinion neglected its public responsibilities. For, in the absence of such standards, industry has been free to use accounting flexibility to its own advantage and to the disadvantage of the

public. Moreover, because the profession has been laggard in promoting authoritative standards, accounting issues are being decided by boards, by courts, and by industry--instead of by accountants.

I want to make it clear that in speaking so frankly, I do so with no derogatory intent. I am reminded of the old Indian prayer: "Great Spirit, grant that I may not criticize my neighbor until I have walked a mile in his moccasins." My comments reflect my experience of nearly half a century in government service. If I speak critically, I do so because I believe that a complex industrial society such as ours cannot be conducted efficiently and for the public good unless there is a group such as yours that is qualified for and faithfully carries out its duties. Only by informed criticism can our society be improved; only so improved can it survive.

I believe that as federal accountants you have a responsibility to take the lead in accounting matters affecting the federal government. You cannot simply leave it to the American Institute of Certified Public Accountants; their actions have shown them to be incapable of resolving these issues.

Moreover, I do not think you can expect the public accountants hired by industry to establish proper cost accounting standards for defense contracts. Despite their best effort at objectivity and professionalism, they must represent industry, since they are paid by industry. Unless they represent industry, their services will not be retained. "Whose bread I eat, his song I sing." I am not sure just how much you can count on a firm's objectivity when its financial benefit depends on its business with a company that has a vested interest in the accountant's report.

In contrast, the clear duty of the federal accountant is to the public. If the Federal Government Accountants Association is to be more than a social club, it must assume a greater role in looking after the public interest in all accounting and auditing matters affecting public funds or public well-being.

I suggest that your Association give consideration to adopting a creed similar to the one formulated by Hippocrates for the medical profession some 24 centuries ago. That oath has stood the test of time. As I see it, your responsibility as members of a profession rather than a business is to bring out the truth in an area where the Government, and hence the American public, must deal with manipulation of facts. You have the expertise which the public lacks to cut through these manipulations to the truth and to make it known.