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FOR RELEASE 12:00 NOON (EST)  
WEDNESDAY, JANUARY 31, 1973

PERSONAL ACCOUNTABILITY IN FINANCIAL MANAGEMENT

by  
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at the  
FINANCIAL MANAGEMENT CONFERENCE  
Mayflower Hotel  
Washington, D. C.  
Wednesday, January 31, 1973

I was honored when the Comptroller General extended to me the invitation on behalf of himself, the Secretary of the Treasury, the Chairman of the Civil Service Commission, and the Director of the Office of Management and Budget to address this Conference.

I have been fortunate to know the Comptroller General for many years. He is a dedicated public servant who handles a most difficult job with objectivity and integrity. He exemplifies the maxim: "Goodness civilizes the intelligence."

Although I know that high-minded speechmaking will not solve anything, I hope that my experience of more than 50 years of Government service--30 of which have been spent at the head of large defense programs--may help. For in this time I have encountered many problems which point to the need to improve Government financial management.

Often the problems are recognized and well-publicized, but are condoned on one of the following theories: "it has always been that way," "it is too big a

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problem for me to tackle, " "it is not in my job description, " "the management wants it that way, " or some other pointless and self-serving excuse.

If we do our jobs with determination, each of us can bring about needed improvements in Government financial management. Not to do so is to evade our responsibility as responsible officials and as citizens. Or as Thomas Carlyle wrote: "Do the duty that lies nearest thee. "

Although each of you faces problems and pressures, the public nevertheless looks to you to establish discipline in financial undertakings and in accountability for expenditure of funds and performance of work. As the conscience of Government, you are required to sort out solutions from a range of alternatives and to set priorities. Your responsibilities also provide you the opportunity to make a lasting contribution to responsible Government.

All of us know of the public skepticism that is assuming massive proportions-- a skepticism based on concern for our institutions and the Government's ability and willingness to keep its house in order. There is also growing awareness of how little control Congress and the executive branch exercise over federal expenditures. Cost overruns, waste and inefficiency, undue industry influence in rule-making and enforcement--all tend to undermine public confidence in Government management of its financial affairs. This loss of confidence has spread to other functions of Government and contributes to disillusionment and to low regard of the federal bureaucracy.

Improving financial management is an important step in the betterment of Government. Knowing what needs to be done is the easy part; getting it done is the

challenge. Nor are good ideas automatically adopted; they must be driven into practice with a sense of courageous impatience. And once implemented, they can be easily overturned or subverted through apathy or lack of follow-up. Too often we paper over good issues, not because they do not exist, but because it is comfortable not to face them.

Worthwhile things are rarely accomplished without hard work. In the early days of nuclear power, for example, there was considerable resistance within the Navy to building a nuclear submarine. It was thought that since the state of the art had been adequate for World War II operations, there was no need for such a ship. Only after much frustration and hard work was approval obtained to build the first nuclear submarine--the NAUTILUS. Twelve years after the NAUTILUS went to sea the nuclear submarine had become the mainstay of our nation's strategic deterrent.

Ten years ago I encountered similar apathy and resistance when I pointed to the need for cost accounting standards in defense contracting. Contractors were able to charge costs in almost any way they wished by justifying them under the gimmick of "generally accepted accounting principles." It was virtually impossible for the Government to determine the actual cost of making defense equipment or how much profit contractors were making without spending months reconstructing contractor records.

There was no support in the Department of Defense or elsewhere in the executive branch for establishing cost accounting standards. But despite this apathy and opposition, I kept on, year after year, testifying to Congress about the need for these standards.

In 1968, Congressmen Patman and Gonzales and Senator Proxmire took the initiative and introduced legislation requiring establishment of cost accounting standards for defense contracts. The defense industry, the accounting profession, the Department of Defense and the rest of the executive branch were all opposed. As a result, the legislation finally enacted merely called for the Comptroller General to study the need and feasibility of establishing such standards.

After a two-year study, Mr. Staats reported that standards were feasible and necessary. Then, and only then, was it possible to overcome the opposition. Congress promptly enacted legislation establishing the Cost Accounting Standards Board.

The Board has begun to issue its standards. Although only a small part of the job has been done, these have already had a far-reaching effect. The requirement that defense contractors disclose their cost accounting practices and follow them consistently provides a basis for open and fair dealings with the Government. Even nondefense agencies have now invoked the Board's standards for their negotiated contracts. The idea of setting standards has spread also to the field of financial accounting where the accounting profession recently established a full-time Financial Accounting Standards Board.

Reform does not come easily. In cost accounting it took a tremendous amount of time and determined effort merely to reach the stage where the Comptroller General was asked to look into the problem. Had we listened to the so-called accounting experts or given up during the years when there was no progress, there would still be no Cost Accounting Standards Board.

The great flaw in our system of Government is not the temptation it offers the strong man, but the latitude it allows the weak man to do less than is necessary. Repeatedly I have found deficiencies in the management of Government financial

airs, yet little evidence that those responsible were trying to correct them.

Government financial managers are often willing to accept and even adapt to situations they know to be wrong. Their tendency has been to wait for someone else to take action or to seek refuge in the sanctuary of negative consensus.

Take Government accounting practices: I am still unable to rely on the Navy's accounting system for information about the funds for which I am responsible. For this reason I have had to develop my own procedures. Those who have no other means than to rely on data from present systems frequently find themselves working with misinformation. You may have read recently of overexpenditures in appropriations. This was attributed to inadequate financial management and control systems. Yet, to preclude that very situation the 1950 Budget and Accounting Procedures Act provided that agency accounting systems must comply with standards set by the Comptroller General. I understand that the civil agencies have made progress in the last few years. However, today--23 years after the Act was passed--more than 1/3 of their accounting systems have not been approved. In the Department of Defense, which has more accounting systems subject to approval than the rest of the Government combined, 95 percent are still not approved.

The lack of approved and effective accounting systems--so many years after the legal requirement was established by Congress--is a glaring deficiency, and one which has been entirely within the capability of the agencies represented here to correct. If this conference is truly interested in improving financial management in Government, it should resolve, prior to adjournment, to establish, in 1973, approved accounting systems. The Office of Management and Budget could

assure this improvement by requiring each agency to show in its annual budget submission whether or not its accounting systems have been approved. In any event, this is a problem that must be corrected without further havoring.

For the past several years I have also looked into the Navy's administration and financial management practices at major private shipyards. Nearly all work at these yards is under Government contract awarded with little or no competition. Despite the presence of 300 to 400 Government representatives, including 10 to 20 auditors, at each yard, I found that there was no effective surveillance of contractor financial operations for expenditure of Government funds. There were numerous deficiencies in procurement, cost control, and accounting practices--all contributing to unnecessary high costs. The Government officials responsible for administering these contracts excused their inaction by stating that they were relying on the contractor himself to perform these functions. They used an army of words to justify their static position. Eventually, senior Washington officials intervened and issued instructions to exercise close surveillance of contractor operations. Only after this, was some effort made locally to correct deficiencies.

It is difficult to overcome years of inaction. Many Government representatives are reluctant to identify and raise controversial issues with contractors. Somehow they are blinded by the small amount of effort it takes to isolate oneself from anything that isn't particularly appealing. Some spend more time trying to get people to love them than trying to achieve something. Others, have essentially become clerks instead of professionals; having no convictions, they are slow to speak up because they doubt their ability to defend their position.

Too readily we accept conclusions that contradict common sense. This attitude is not unique to the Navy or to shipyards or, for that matter, to contract administration. Time and again, in all areas of private and public life, poor performance is accepted as the norm.

I have seen some Government agents who represent business interests to the Government with far more eloquence and determination than they use to represent the Government's interests to business. The innocuous documents they write to contractors are no more likely to receive a satisfactory and responsive reply than St. Paul's epistle to the Romans. For my own part I believe it is better to be respected and disliked than to be weak and liked.

Auditing is another area that needs strengthening. A good audit should identify significant items warranting management attention and then suggest a practical solution. However, most audits focus on trivial matters and do not give a representative and accurate view of actual performance. For example, a recent audit of Government contract administration at one shipyard contained 80 recommendations. Only 16 of these related to how well the Government contract administration office was carrying out its primary functions. Sixty-four dealt with internal administrative matters--items of minor importance that, if adopted would not disrupt the normal placid way of doing business.

I mentioned major contract administration deficiencies at shipyards which I myself found and reported to my superiors. Audits made prior to my investigations, including reviews by Navy, Defense Department, and even General Accounting Office auditors, had not revealed the extent of these deficiencies. Although the

auditors did uncover significant deficiencies, they did not take the measures necessary to get them corrected. In many cases they believed that their responsibility extended only to reporting the problems, but not for seeing that they were corrected. They took the narrow view that anything not specifically listed in their job description required no action by them.

Much also remains to be done in the procurement area. Defense contractors, including steel companies, computer manufacturers, forging and nickel suppliers, routinely refuse to provide the cost or pricing data required by the Truth in Negotiations Act. Rather than face up to the disagreeable problem of taking on large and recalcitrant companies, some procurement officials maintain their peaceful way of life by simply not enforcing the Act.

Procurement rules need to be rewritten to reflect that competition in defense procurement is the exception, not the rule. The ineffective Renegotiation Board and its cursory renegotiation practices need overhauling to provide a curb on excess profits. The Department of Defense needs a better profit reporting system--one that covers actual profits on all major contracts and subcontracts, not just on cost reimbursement and incentive type prime contracts.

We also need better procedures for discouraging and for defending against unwarranted contractor claims. Because of the small number of Government personnel available to fight the growing number of claims, I have recommended hiring outside legal talent.

Another area requiring improvement, one being considered by this conference, is productivity. The most significant step which could be taken to effect improvement

is simply to get each Government official at headquarters and in the field to do his job and look after Government funds as conscientiously as if he were running his own business or spending his own money.

In case after case, the problems I find are consequential to a Government employee not carrying out his assigned responsibility. Too frequently he accepts unbusinesslike situations which he would not tolerate in his personal affairs.

I must also warn about relying on so-called management systems to measure and enhance productivity in the Federal Government. There is a perennial resurgence of interest in various esoteric management systems and concepts intended to measure and improve productivity of Federal employees. Over the years I have seen the introduction of these systems in the Department of Defense and the rest of the Federal Government, as well as in industry. They promise a cheap, easy way to do a difficult job. My experience with these expensive and time-wasting systems is that they do little or nothing to help management identify or solve problems. Rather, their paper-work results delude management with the mirage that problems are being solved when in reality they are not. In fact, the proliferation of management systems within the Department of Defense has contributed significantly to spiraling defense costs and to delays in weapons acquisition.

One program made a reputation for developing a major improvement in management information systems. This innovation was heralded far and wide as a means by which cost and schedules could be controlled. Later investigation disclosed it had not been used by the program itself or by its contractors; that it pretended to indicate that the program was under close control, but that it actually served to prevent outsiders from questioning progress.

The examples I have given illustrate fundamental deficiencies in all financial accounting. There are others I have not touched on. No doubt, you can think of analogous problems in your own areas of competence. The essential point is that each of you should recognize your responsibility, not only to find the problems, but also to correct them. You must start placing this responsibility before other obligations; before personal ambition or comfort.

One often hears the phrase "I am not responsible." This has become a standard response in our society to complaints of a breakdown in a system. The person using the excuse actually means "I cannot be held legally liable." But I see it another way. The man who takes such a stand is truly not responsible; in other words, he is irresponsible.

As a financial manager, there are three questions you should ask yourself:

First, "Would I do this if I were spending my own money?"

Second, "Given the need, is there a better way to do it?"

Third, "Am I working for the U. S. Government or for industry?"

Financial management is a good place to start in restoring public confidence in Government. It does not require a great deal of insight to see the problems. But it takes willingness, indeed determination, to try to solve them. In this regard, even one individual can set an example which can result in a far-reaching benefit. In the process, the individual himself will discover the pleasure of being creative, of challenging and improving the system.

To find an undeveloped situation, to see the possibilities, to identify yourself with something worth doing, to put yourself into it and stand up for it--that is a

satisfaction in comparison with which superficial pleasures are trivial. But to accomplish this you must fight apathy in yourself as well as in others, and apathy is the largest single stumbling block to efficient Government.

Throughout history it has been the inaction of those who were in the position to act, the indifference of those who should have known better, the silence of the voice of justice when it mattered most, that has made it possible for evil to triumph. Some in positions of authority are overly obsessed with the contemporary weakness for trying to see the other side's point of view, relying extensively on the debate technique that it is right to take both sides of any issue, without having convictions of their own based on facts, experience, and judgment. They also possess the romantic ability to hold fast to beliefs and policies that run directly contrary to the evidence before them. By means of these beliefs they are able to find intellectual escape from the inevitability of struggle and absolve themselves from the painful experience before them.

Every individual must have a purpose outside his own interests if he is to play a useful part in his society and if he is to survive. But it is obvious that many individuals have become lost in their life and have forgotten the purpose for which they were created and for which they are being paid.

If we do not work to serve our society, what other purpose do we then have? It lies with each of us to determine whether, when he becomes old, he will have to regret his wasted years. I often remember Carlyle's simple bookplate. I saw it when I was young, and it left a deep impression on me. It shows a lighted candle beneath which stands the words:

"I burn that I may be of use."