

tions lasted nearly a year. Altogether there were seven reports containing 11 differing estimates or evaluations of the supplier's costs, in addition to the estimates made by the supplier himself.

These various reports showed estimates of the supplier's costs differing by as much as 50 percent. Thus, profit statistics are meaningless unless measured in accordance with a uniform standard. However, there are no uniform standards of accounting for costs under defense contracts. There are some criteria for cost-type contracts in the Armed Services Procurement Regulation and in the Federal Procurement Regulation. However, these regulations provide that these standards are merely a guide for negotiated fixed-price-type contracts, which constitute the major portion of defense contracts. Even the criteria for cost-type contracts permit widely varying accounting systems and treatment of costs by contractors.

Under fixed price contracts, a contractor has virtually unlimited flexibility in deciding how he will keep his books and how he will assign costs among a number of individual contracts. Generally he is required only to maintain an accounting system conforming to the vague standard of generally accepted accounting principles for tax purposes or for reporting to stockholders. Not even the accountants agree on what constitutes generally accepted accounting procedures.

May I read an editorial? It is from the *Forbes* magazine of October 15, 1966, on this very subject.

Mr. BARRETT. You may, without objection.

(The editorial referred to follows:)

UNACCOUNTABLE C.P.A.'s

[From *Forbes* Magazine, Oct. 15, 1966]

Unaccountable C.P.A.'s—It's past time certified public accountants were called to account for practices that are so loose that they can be used to conceal rather than reveal a company's true financial picture. The owners of public companies and the analysts who recommend purchase or sale of their securities used to think they could rely on the honesty of financial statements certified by reputable outside auditing firms. But in some very spectacular situations, it has turned out that such certification was not of the value or meaning or importance that the public thought. All these certifications usually bear the phrase: "According to generally accepted accounting principles," a phrase which is now coming to be generally accepted as damned meaningless. "When the Westec situation hit the fan, it developed that the Ernst & Ernst certification was so "liberal" as to warrant a less flattering description. Then, not long ago, there was the *Yale Express* case. In *Forbes'* last issue, Leonard Spacek, chairman of Chicago's C.P.A. firm of Arthur Andersen & Co., urged the establishment of an official Government "court," appointed by the President, with jurisdiction over not only C.P.A.'s but also Federal agencies like the Securities and Exchange Commission, Federal Power Commission, and Interstate Commerce Commission, to rule on accounting principles.

With firm rulings from a Government group, Spacek reasons, C.P.A.'s will not be subject, as they presently are, to client pressure. Does he think the uproar over Westec's accounting practices will help bring about sweeping reform? Spacek shakes his head. "No, not unless the public demands it, as they did of the auto companies over the safety issue."

We do.

Before Government action is taken, the stock exchanges, industry groups and C.P.A.'s themselves ought to get together to establish accounting standards that will be standard, and a method of enforcement that will be enforceable.

Admiral RICKOVER. More recently, on April 20, 1967, the *Wall Street Journal* carried an announcement that the American Institute of Certified Public Accountants has taken steps to improve its internal organization. The *Journal* noted that "this move comes at a time when