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BACKGROUND MATERIAL ON ECONOMIC
ASPECTS OF MILITARY PROCUREMENT
AND SUPPLY

MATERIALS PREPARED
FOR THE
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LETTER OF TRANSMITTAL

FEBRUARY 12, 1960.

To Members of the Joint Economic Committee:

Submitted herewith for the consideration of the members of the Joint Economic Committee and others is a report which presents "Background Material on Economic Aspects of Military Procurement and Supply."

This study was prepared by temporary staff members, Ray Ward and Richard J. Newman, in connection with the Subcommittee on Defense Procurement's hearings on "The Impact of Defense Procurement," which were held January 28-30, 1960.

The materials contained in this report provide a most comprehensive and useful examination into the economic aspects of the vastly complicated programs and systems of military procurement and supply.

The findings and conclusions are those of the authors. The committee indicates neither approval nor disapproval by publication of this committee print.

PAUL H. DOUGLAS,
Chairman, Joint Economic Committee.

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BACKGROUND MATERIAL ON ECONOMIC ASPECTS OF MILITARY PROCUREMENT AND SUPPLY

INTRODUCTION

Following President Eisenhower's state of the Union message to the 2d session of the 85th Congress in which he called for "real unity" in the Department of Defense, the President submitted to Congress on April 3, 1958, his proposed defense reorganization plan. A primary purpose of this reorganization plan was to strengthen the authority of the Secretary of Defense over the military departments. The President stated in his message that one effect of the "separately administered" concept of the National Security Act was to "impede such techniques for the increased efficiency and economy as the single manager plan" in the Department of Defense.

The Congress not only modified the "separately administered" clause but it also adopted the McCormack-Curtis amendment to the Department of Defense Reorganization Act of 1958. This legislation removed any possible doubt as to the authority of the Secretary of Defense to integrate supply and service functions when it would be in the best interest of Government. Moreover, the amendment was a renewed expression of the intent of Congress that positive and continued action be taken by the Secretary of Defense to eliminate duplication and waste in military supply and service programs and to develop ways to bring about efficient performance in this area.

The McCormack-Curtis amendment (sec. 3(a)(6) of Public Law 85-599) reads as follows:

Whenever the Secretary of Defense determines it will be advantageous to the Government in terms of effectiveness, economy, or efficiency, he shall provide for the carrying out of any supply or service activity common to more than one military department by a single agency or such other organizational entities as he deems appropriate.

The sheer magnitude of defense procurement, supply, and surplus disposal activities is without parallel in any other phase of our social or economic life. They are a major determinant in the functioning of the Nation's economy. The purpose of this study is to appraise in the light of the Defense Reorganization Act of 1958 the steps which have been taken or are in the process of being taken to improve the management of the principal support functions in the Department of Defense. It is prepared as background information for hearings by the Joint Economic Committee. This study does not encompass problems of military strategy, the management of military forces, nor related development of weapons systems. Nor does it deal with the broad problems of the economic consequences associated with disarmament. Rather, the study is focused on the purely economic and budgetary issues involved in the way the Government manages the defense outlays, which consume 58 percent of the budget.

SUMMARY OF REPORT

A. MAGNITUDE OF DEFENSE PROCUREMENT

In the period just prior to the Korean conflict, defense needs were a relatively smaller element than at present in the economy, amounting to \$13 billion in fiscal year 1950, or about 5 percent of the gross national product. Since then military requirements have absorbed at least double the proportion of the Nation's product. The current rate of major national security expenditures is \$45.7 billion and accounts for 58 percent of Government's entire budget expenditures. This spending consumes more than 9 percent of our gross national product and is a significant determinant in the functioning of the economy. From 1950 to 1959 while the Nation's volume of business expanded 76.5 percent, Department of Defense expenditures expanded 246.2 percent.

The Department of Defense (DOD) employs 3.6 million military and civilian persons and has real and personal property of \$150 billion on the basis of cost. Personal property alone is valued at \$118 billion and is made up of 3.4 million items.

It requires 585 million square feet of space throughout the world to store the Department's vast inventories. And to keep the defense arsenal supplied with new weapons and to replenish supplies, it currently takes 6.7 million "procurement actions" to buy material at an annual expenditure of \$23.9 billion.¹ From fiscal years 1950 to 1959, there were armed services "procurement actions" totaling some 38 million separate transactions having a dollar volume of \$228.4 billion.

About \$26.7 billion or 23 percent of personal property inventory has recently been identified by the Department of Defense as being in surplus, or long supply of present defense needs. The DOD has an accelerated surplus disposal program now underway to dispose of about \$10 billion annually to rid itself of these tremendous stocks. The net return to the Government on the DOD surplus disposal sales is less than 2 percent of the acquisition cost.

B. BACKGROUND

The Congress and other interested groups have been critical of the Defense Department systems for computing requirements, contracting, cataloging, storing, distributing material, and surplus disposal over the past 10 years. They have urged the Defense Department to find new and more productive ways of integrating these systems in order to obtain the economies which are believed possible. These recommendations have included—

¹ See footnote, table 27, p. 94.

Integrating requirements ("what," "how much," and the "way" they are procured);

Integrating the use of assets;

Integrating the use of facilities;

Integrating the organizations concerned in managing common supplies and services.

Advocates of integrated supply consider the following areas most adaptable to consolidated management:

1. *Areas of common supply*

Of the 3.4 million items which have been identified under the Federal catalog system, items which can be included within the various definitions of "common supply" range from 14 to 52 percent. A recent analysis in the DOD of the catalog on an item-by-item basis reveals that only 14 percent has been identified to date as common in two or more services. But a still broader definition covers approximately 52 percent of the items by including all categories which in themselves are of similar manufacture or fabrication but differ only superficially, as in color, finish, and markings. For example, items in the Federal supply group for administration and housekeeping supplies total 25,116 items. These include such supplies as furniture, food equipment, office machines and supplies, cleaning equipment, athletic equipment, and toiletries. Yet despite the obvious non-technical nature of these supplies, only 3,601 items or 14.3 percent are used by two or more services. The commonality in this group ranges from 3 percent for office machines to 37 percent for musical instruments.^{1a}

Within the Department of Defense there has been lack of agreement as to which functions of supply should be brought under integrated management. The supply cycle starts with the statement of gross requirements by the military planning authorities and continues through the net procurement requirements, making the contract with industry, positioning the material in storage depots, and finally distributing the material to the user. Because of requirements in the National Security Act for coordinating procurement, it is the only supply function where historically a wide degree of coordination has taken place. Single department procurement assignments in which one department procures a class of supplies for all departments have resulted in some improvements; however, there are inherent limitations in this system. Since the planning of requirements is not coordinated, the purchasing service is not informed of the inventories and usage rates of the requisitioning service. Thus the purchasing service cannot evaluate procurement requests or take steps to redistribute excess stocks. Also, coordinated buying alone does not achieve integration of storage and distribution—areas where glaring instances of duplication exist.

To meet the deficiencies of single Department procurement several single manager arrangements were made in 1955 and early 1956 covering food, clothing, medical supplies, and petroleum products. In general these arrangements include only part of the supply control function. Responsibilities for planning of gross requirements, operation

^{1a} The Department of Defense completed a supply systems study model of hand tools, administration and housekeeping supplies in September 1959. While these classes consist of only 75,000 items, the findings are believed to reflect conditions generally symptomatic of the DOD management of all general supplies (2.3 million items). This study will be referred to in this summary as the General Supplies Study Model.

of depots, and custody and use of assets at the consumer level still remain with the individual military services.

2. *Areas of common-use services*

Other than in the transportation field (land, sea, and air), the Defense Department has no consolidated management arrangements in the potentially fruitful area of common-use services. These services include a wide range of activities, such as the operation of hospitals, contract auditing, communications, surplus property disposal, weather services, chaplain services, commissary stores, aircraft overhaul, and the like. Only through considering each service activity on its own merits and applying to each the proper degree of integrated management can the best results be obtained. As the analysis in this report shows, hospital operations and the unilateral service contract audit functions seem to lend themselves to consolidated management. On the other hand, aircraft overhaul appears to be more adaptable to cross-servicing arrangements among the services.

C. ASSESSMENT OF PRESENT TECHNIQUES FOR SUPPLY MANAGEMENT

The DOD has taken certain steps since 1947 to integrate supply management. Some of these actions have been forced upon the Department by Congress over strong military resistance and some were accepted by the services as compromise solutions. They consist of four areas: (1) Single department procurement; (2) cross servicing of assets; (3) single manager plans; and (4) cataloging and standardization.

1. *Single department procurement (SDP)*

There are 33 single department procurement assignments, of which 3 (office furniture, equipment, and supplies) are assigned to the General Services Administration. The only large commodity group not now covered by some form of coordinated procurement is electrical and electronic supplies (990,000 items). As discussed above, there are limitations to single department procurement.

The principal benefits of this technique are derived from the prevention of interservice procurement competition; the concentration of industry relationships at one point in the DOD; the opening up of opportunity for obtaining the most favorable price and contract terms; and the orderly placing of contracts with small business and in depressed labor areas to meet certain objectives laid down by Congress.

These benefits are, however, being largely negated by conflicting DOD policies. As expressed in directives issued with respect to the Armed Services Procurement Regulations, on the one hand they provide for items to be procured directly by the requiring services while on the other hand the use of the central procurement assignees is discretionary with the requiring services. The Air Force was prevented by the DOD regulation (No. 4000.8), issued pursuant to the O'Mahoney amendment (sec. 638 of the Department of Defense Appropriation Act, 1953), from setting up a supply system for common-use items and services which were being supplied to it by the Army under the Eisenhower-Spaatz agreements, without prior permission from the Secretary of Defense. However, to avoid the limitations of this restriction, the Air Force greatly expanded authority for local purchase at its bases and also placed no geographical limitation on

purchasing locally. As a result, as shown in a recent DOD survey of 100 common items of general supply, the Air Force centrally managed only 8 items, while the Army managed 64 and the Navy 86 of the items. Another sample survey showed that 63 percent of Air Force local procurement was done with business firms located more than 100 miles from the procuring bases.

There is now little coordination in the DOD on procurement, whether local or central. The Army or Navy may have large depot excesses while Air Force bases are procuring the same items locally. Moreover, since there is no coordination among Air Force bases before making local purchases, the same situation will frequently exist within that service itself as well as between the Air Force and the other services.

The General Supplies Study Model indicated that the use of the single department procurement sources for attaining coordination is considerably less than would be expected. Out of a total reported procurement of \$115.4 million in general supplies study model during fiscal year 1959, only \$30 million or 26 percent was made under this arrangement.

2. The cross-servicing of assets

In order to overcome some of the limitations in single department procurement, the Department of Defense in July 1955 initiated a new program which placed major emphasis on requiring maximum utilization of the assets available in all military supply systems. The principal feature of this program is that before procurement the requirements of one service are checked against possible availability of like items in other services. With considerable top-echelon effort, the Department established 33 commodity coordinating groups to effect the interchange of assets among the services. This program, initiated in answer to congressional and Hoover Commission criticism, still maintains the status quo of the services' independent supply systems.

Despite the great effort to make the program of interservice supply support work, the DOD has not succeeded. One of the reasons is that the wide geographical separation among the services of the inventory managers of the same commodities makes exchange of information difficult, and is a limiting factor in the interchange of assets. For example, in order for the managers of automotive supplies to send information on stocks in long supply, they must contact one another between Detroit, Mich. (Army), Memphis, Tenn. (Air Force), Port Hueneme, Calif. (Navy), and Washington, D.C. (Marines). In addition there are a total of 58 inventory control points or program managers for the various commodities required by the services. Yet only five of these service program managers for particular classes of commodities are located in a geographical area proximate to the services with single service procurement responsibility. The general supplies study model findings concluded: This coordinative process both in resources exchanged or commodity/system improvements is lagging for reasons beyond the control of the commodity coordinating groups. Out of an annual procurement of \$115 million of GSSM material only an estimated \$1 million were exchanged among the services, or less than 1 percent of total procurement.

3. *Single manager plans*

The most comprehensive effort to effect integrated supply management is represented by the four commodity single manager assignments for food, clothing and textiles, medical and dental supplies, and petroleum products. They account for \$2.5 billion annually in procurement. Single manager arrangements were initiated in 1955 and early in 1956. Several studies to determine the effectiveness of these plans have concluded that they are reaping considerable benefits.

The change to single manager administration was a sharp break with the tradition of independent inventory control and distribution by each of the services. The program did not come into existence as an evolutionary process. In fact, the DOD had completely reversed its position on unification along single manager lines that it had announced only a short time before. On July 27, 1954, the Assistant Secretary of Defense (Supply and Logistics) in a letter to the chairman of the House Military Operations Subcommittee attacked the validity of unification of supplies by categories under one service. He contended that this was a fragmentary approach to military supply management. Furthermore, he admonished, since all materials were categorized under 17 broad classifications, independent supply systems would consequently result in 17 different and separate systems in place of the existing four systems. Actually, there are at the present time 58 inventory control points or commodity supply systems among the military services. Consequently it could be argued that if they were all placed under single manager plans, these 58 commodity supply systems would be reduced to only 17 systems.

The General Supplies Study Model, covering administration and housekeeping supplies and hand tools, concluded that there is an urgent need for management improvement across service lines, and that substantial economies can be realized for the following reasons:

(1) Economies in distribution systems:

(a) *Reduction in operating costs of inventory control points (ICP's).*—The preponderance of common-use GSSM items is managed by the four commodity type ICP's. Under consolidated management, any one of these ICP's could manage common GSSM items for all services, thereby eliminating duplicate management and reducing overall costs.

(b) *Reduction in depot operating costs.*—A single distribution system to serve the needs of all the services would produce savings through a reduction in the number of wholesale outlets and through better utilization of existing facilities.

(c) *Reduction in transportation costs.*—Cross-hauling and back-hauling can be kept to a minimum with an integrated distribution system in the DOD.

(2) Economies in inventory investment:

(a) *Consolidation of GSSM requirements.*—Consolidated management will eliminate certain deficiencies in the single department procurement program. It will make possible volume procurement savings and reduced administration costs. The levels of requirements among the services have been unsupported for peacetime operations, mobilization needs, economic retention levels, and excess stocks. The levels of supplies within the

GSSM, as determined by each service, vary over a wide range as shown below:

TABLE 1.—Percentage distribution of GSSM inventories held by the military services by retention categories

	[Percent]			
	Peacetime operating	Mobilization	Economic reserve	Excess
Army.....	44	34	4	18
Navy.....	33	17	33	17
Air Force.....	75	1	15	9
Marine Corps.....	9	19	22	50

Source: Armed Force Supply Support Center—General Supplies Study Model.

While it is not feasible to subject all four services to the same retention levels because of their differing military missions, consolidated management could apply a weighted retention level for common-use supplies. This approach would give opportunities for achieving optimum inventory investment in light of variable factors of demand, procurement leadtime, and quantity principles of economic order.

(b) *Prompt utilization of long-supply stocks.*—Consolidated management would achieve maximum utilization of long-supply items through the matching of total requirements against total assets in the DOD. Under consolidated management concurrent buying and selling would be eliminated on centrally managed items. Through uniform local purchase procedures, concurrent activities would be kept to a minimum on items decontrolled to station management.

TABLE 2.—Summary of GSSM financial inventory management

	Inventory, December 1958	Procurement, fiscal year 1959	Sales, fiscal year 1959
Army.....	\$158.0	\$44.5	\$65.2
Navy.....	107.9	44.7	38.4
Air Force.....	52.0	23.2	33.7
Marine Corps.....	21.5	3.0	5.4
Total.....	349.4	115.0	132.7

Source: Armed Forces Supply Support Center, General Supplies Study Model.

(c) *Reduction in item range.*—The assignment of responsibility to a single agency for inventory management of GSSM supplies provides a built-in monitoring of item entry into the supply systems. It should foster standardization not easily attainable under separate supply systems.

(3) Integrated distribution system:

(a) Regardless of the number of single managers for procurement, it is important that all common-use supplies flow through the same distribution system insofar as possible.

(b) Apart from the desirability of relying on "systems-in-being," the Defense Department could logically employ the Army general depot structure for a consolidated defensewide distribution system. Its regional distribution makes it adaptable and flexible for defense activities.

(4) Simplified and uniform funding procedures:

(a) There is an urgent need for a uniform system of funding procedures. About 80 percent of the reported GSSM supplies is stock funded. But the services have not applied uniform criteria in stock-fund operations. With the exception of the Air Force, the services had in excess of 90 percent of their stocks stock-funded. Less than 4 percent of the Air Force GSSM supplies of \$52 million was stock-funded.

TABLE 3.—*Stock-funding of GSSM inventories in the military services*

	Stock funding	Nonstock funding	Total	Stock funding as a per- cent of total
	<i>Millions</i>	<i>Millions</i>	<i>Millions</i>	<i>Percent</i>
Army.....	\$148.0	\$10.0	\$158.0	93.4
Navy.....	98.7	9.2	107.9	93.0
Air Force.....	2.0	50.0	52.0	3.8
Marine Corps.....	29.3	2.2	31.5	93.0
Total.....	278.0	71.4	349.4	80.0

Source: Armed Forces Supply Support Center general supplies study model.

(b) Stock-fund provisions at the retail level under single manager plans cause unwarranted duality of control at the field installation level. Any plan to consolidate the GSSM supplies management should provide that stock funds extend only to the wholesale level.

The disclosures of the General Supplies Study Model report moved the Secretary of Defense to establish two additional single manager plans. The Army was designated as the single manager for GSSM supplies—handtools and administration and housekeeping. The Navy was given the single manager assignment for hardware and certain related supply items. These were the only new single-manager assignments in 4 years. In addition, the Secretary announced that an integrated distribution system and uniform operating procedures for all single managers will be developed to facilitate supply operations.

4. Cataloging and standardization

Public Law 436, enacted in July 1952, gave a mandate to the Secretary of Defense to accomplish cataloging and standardization as rapidly as possible. The cataloging program has completed its identification of some 3.4 million items in the military supply system by descriptions and individual stock numbers. The Department is maintaining the catalog up to date by identifying the new items going into the supply systems.

Highly important to the standardization program is the objective of consolidating specifications to reduce the number of items in the system. There are 50 assignees responsible for planning, scheduling, and coordinating the efforts of the 4 services in specification studies and technical analyses. It will be several years before the program will have completed even the initial analysis of existing items. As pointed out above, 52 percent or 1.8 million items identified under the Federal catalog system are common to 2 or more services although only 14 percent or about one-half million items have the same stock numbers. Thus, about 38 percent or 1.3 million items, while having

similar fabrication or manufacture, have not yet been standardized and differ among the services in such relatively minor respects as color, finish, workings, or even in terminology only. The attendant savings from standardization are substantial. The DOD estimates that about \$1 million a year in management expenses are saved for every 1,000 items eliminated from its supply systems.

Because of their wider perspective the single managers are better qualified to study overall specifications than are the service assignees. Their experience enables them to identify superficial differences and eliminate duplication of items as well as keeping new duplications from creeping into the systems. As a case in point, the activity of the single manager for clothing and textiles (Army) illustrates the savings that can result when there is fixed responsibility coupled with program interest for specification analysis in a commodity area. When this single managership was established, there were 43,910 stock numbers inherited from the services. There are now 33,664 stock numbers.

This reduction means that 10,246 stock numbers, equal to 23 percent of the original amount, need no longer be carried in inventory. Thus in addition to the reduction in investment by the elimination of these items, there will be fewer administration and physical actions, such as requisitioning, stock control, procurement, storage, and handling and maintaining many records at each level within the military structure. What is equally significant is that the number of items used by 2 or more services has increased from 3,976 to 7,086, an increase of 78 percent. Thus, the so-called commonality of the commodity group has increased from 9 percent to 21 percent. Furthermore, these are items that have a rapid turnover and account for a very high proportion of the total issues of the single manager.

The General Supplies Study Model reported limited progress in the standardization of items in this group. This is evidenced by the following summary showing an extremely low percentage of items used by two or more services. The low level of commonality is particularly disturbing since these items consist almost solely of commercial-type items.

TABLE 4.—*Summary of item commonality in the GSSM inventory of the military services, as of Sept. 4, 1959*

Federal supply group	Name	Number of items	Number of items used by 2 or more military services	Percentage of commonality
51	Hand tools.....	50,373	13,042	25.9
71	Furniture.....	2,579	215	8.0
72	Furnishings.....	687	109	16.0
73	Food equipment.....	4,657	662	14.0
74	Office machinery.....	2,090	70	3.0
75	Office supplies.....	6,303	1,093	17.0
77	Musical instruments.....	832	308	37.0
78	Athletic equipment.....	355	125	35.0
79	Cleaning equipment.....	779	188	24.0
81	Containers.....	4,632	617	13.0
85	Toiletries.....	127	46	36.0
9310	Paper.....	320	31	10.0
99	Miscellaneous.....	1,755	137	8.0
	Administration and housekeeping.....	25,116	3,601	14.3
	Total hand tools and administration and housekeeping.....	75,489	16,643	22.0

Source: Armed Forces Supply Support Center, General Supplies Study Model.

D. PROBLEMS OF INTEGRATING SUPPLY MANAGEMENT

Problems of integrating supply management grow out of a wide variation in practices. To achieve military readiness in the most economical way requires consistent policies and procedures in the Department of Defense through integrated supply management wherever possible. These problems can be grouped into the four functional areas: (1) requirements planning; (2) distribution and redistribution; (3) procurement practices; and (4) surplus disposal.

1. Problems resulting from practices in requirements planning

The computation of requirements is one of the most important functions in the supply system. There is an urgent need to establish realistic levels of requirements. There is a lack of uniformity among the services as to the factors in requirements planning—including operating levels, mobilization reserves, economic retention reserves and surplus. For example, in a survey of planning practices in mobilization requirements, of 100 common items checked it was found that the Navy keeps mobilization reserves of 72; the Army, of 50; and Air Force keeps none.

2. Problems resulting from distribution and redistribution practices

An examination of the distribution phase of the supply cycle discloses that in almost any geographical region of the United States there are several DOD wholesale depots or quasi-wholesale supply points, each primarily engaged in supplying the needs of its own service generally with the same items. For example, in the southeastern area, Army's Atlanta General Depot and Memphis General Depot, the Air Force's Mobile Depot, the Marine Corps Supply Center in Albany, Ga., and four Navy primary stock points supply the needs of their respective services with the same supplies.

Efficiency in the distribution of common supplies can more readily be achieved if the requisitioning channels are simplified and the number of supply points for the military customer are at a minimum. The fewer the number of supply points a customer must contact to obtain his materiel, the less confusing, and therefore the more effective that supply system will be. This is particularly true if supply points, each carrying a maximum number of different commodities, and located conveniently in each geographic area, serve the most needs of the most customers.

3. Problems resulting from procurement practices

Two factors in the military system create problems for consolidated purchasing. The first is independent planning for buying requirements by the services. The second is the variation in local purchase policies. For instance out of a 100 common items analyzed, the Air Force has placed 92 on local purchase; the Army, 36; and the Navy, 14.

The net value of military procurement actions with business firms for work in the United States in fiscal year 1959 amounted to \$22.7 billion. Of this total only 13.6 percent was by formally advertised procurement—the lowest level since the Korean conflict.

A marked change has been taking place in the type of contracts utilized by the DOD. The use of fixed-price contracts as compared with cost-reimbursement contracts has shown a generally steady decline. In 1951, approximately 87 percent of the value of all procure-

ment actions was by fixed-price contracting, while in 1959 the percentage declined to 59 percent. Contrariwise, cost-reimbursement contracts increased over the same period from 12.7 percent to 40.9 percent.

The Comptroller General's report for fiscal year 1959 pointed out that certain GAO audits reports and investigations programs are now being prepared on the basis of the DOD as an entity. They should provide a better understanding of the overall problems involved and the methods, procedures, and practices employed on similar activities by the Army, Navy, and Air Force. Along this line the Department of Defense has under consideration a recommendation made by a panel of accounting experts on November 1958 to consolidate into one agency all contract auditing by the Department of Defense. Negotiated procurement presupposes full knowledge of the prime contractors' and subcontractors' costs in price determinations. Proponents of a defensewide contract audit agency contend that it would offer definite possibilities for improved techniques in determining cost data and provide a more uniform approach in dealing with industry.

It is the intent of Congress in the Armed Services Procurement Act of 1947 that—

a fair proportion of the total purchase and contracts for supplies and services for the Government shall be placed with small business concerns.

Yet small business is receiving a declining share of military procurement. In fiscal year 1957 small business accounted for 19.8 percent of military procurement; in fiscal year 1958, 17.1 percent; and in fiscal year 1959, 16.6 percent.

In addition, the Armed Services Procurement Act emphasized the importance of utilizing competitive bidding to the fullest extent possible to obtain the best value to Defense in military supply. Some military needs are so complex and so urgent that the Defense Department must negotiate contracts rather than ask for competitive bids. However, the Defense Department appears not to be employing competitive bidding to the fullest extent possible but rather to be assigning conditions applicable to complex and urgent requirements to other procurements in order to contravene the intent of Congress.

4. Problems resulting from surplus disposal

A House Appropriations Committee report on DOD supply operations, released in May of 1958, stated:

Excesses in inventory that exist in the supply systems are probably the major deterrent to the efficiency of the supply services.

The report pointed out that the Army alone had an inventory of some \$20 billion in its supply system, of which it estimated that \$6.2 billion, or 31 percent of the total, were in excess of that service's needs. In 1957 the DOD as a whole disposed of only \$3.7 billion of surplus property, indicating the hoarding that was taking place. The retention of surplus inventories incurs costs incident to storage, accounting, inspection, maintenance, and preservation of materiel of about 0.5 percent annually of the acquisition cost, according to DOD estimates.

About \$26.7 billion of personal property have recently been identified by the Department of Defense as being excess of present defense needs. The DOD has underway an accelerated program for disposing

of surplus materiel of about \$10 billion or more annually. These tremendous stocks accumulated over the years are of no value to its present requirements. While this stepped-up disposal program is laudable, the DOD practice of squirreling away useless material has been costly. In addition, its disposal in such large quantities may have serious impacts on industries, such as the duck and webbing business. The present level of excess property of \$26.7 billion is costing the Government \$134 million a year to retain in the supply systems. For instance, each \$1 billion that should have been disposed of 4 years ago, has in the meantime eaten up in storage and handling charges about \$20 million. This expense alone would offset the average net return to the Government of 2 percent or \$20 million on the surplus sale of that amount of material.

When military equipment has been overbought, it usually ends up in the scrap heap and is sold for about 2 cents on the dollar. When consumable material has been overbought, some of it may eventually be used up by the DOD and other Government agencies or by hospitals and schools under the donable property program. But in both cases there is an additional cost factor that is frequently overlooked. Much of the stock held by the services is owned on borrowed funds on which the Treasury must pay interest charges.

The extremely poor inventory condition of non-single-managed commodities is indicated in the high ratio of long-supply stocks to total inventory in the General Supplies Study Model.

TABLE 5.—*Inventories of GSSM supplies held by the military services*

	Total inventory	Long supply ¹	Long supply as a percent of total inventory
	Millions	Millions	Percent
Army.....	\$126.1	\$28.1	22
Navy.....	71.5	36.0	50
Air Force.....	66.8	16.2	24
Marine Corps.....	29.3	21.1	72
Total.....	293.7	101.4	34

¹ Supplies over the levels required for peacetime operations and mobilization reserves.

Source: Armed Forces Supply Support Center, general supplies study model.

The average of 34 percent long supply in the Department of Defense appears quite conservative in view of the following observation contained in the study report:

It was noted that at certain inventory control points, general MRMR (mobilization reserve materiel requirements) was being computed for all items on a non-selective basis for retention purposes only. Such assets which previously fell into long supply (and thereby to transfer without reimbursement) would now be categorized as MRMR and thereby not subject to transfer on a nonreimbursable basis. To the extent that computation of general MRMR is accomplished for items on a nonselective basis for retention purposes it will preclude maximum achievement of the objectives of DOD Directive 4140.13).

E. PROGRAM OF IMPROVEMENT

As indicated above, requirements determination is crucially important in the functioning of the supply management cycle. It establishes what the military services need and want. Since it is the start-

ing point for new procurement, miscalculations can result in the overaccumulation of stocks and the generation of excesses. Except for single managerships, requirements determinations are variously fragmented in the DOD because (1) there are three and sometimes four unilateral service programs for all common-use supplies and common services; (2) each service adds to its own program as if it were the only service in the market for these items. This results in—

1. Significant overlapping of programs, including duplication of staffs, stocks, facilities and distribution systems.

2. Higher cost for achieved capability and hence relatively more defense dollars going for support and fewer dollars for payoff weapons.

The following is a brief summary and evaluation of the various alternative solutions to the supply management problems which are either currently in effect or have been proposed.

First alternative.—The single department procurement program, whereby a particular service acts as a purchasing agent for all others, is by far the largest area of interservice coordination in the DOD. This form of coordination, while having certain advantages, has basic limitations. Planning of requirements is not coordinated, and the purchasing service is not informed of the inventories and usage rates of the requisitioning service. Thus the purchasing service cannot evaluate requests or take steps to redistribute excess stocks. Coordinated buying does not achieve integration of storage and distribution where a large amount of duplication exists or achieve substantial economies through reduction in inventory investment. To remedy some of these inherent limitations, the DOD has, in effect, a number of cross-servicing arrangements designed to provide greater utilization of defense assets among the services. However, these arrangements are, at best, temporary expedients, dependent upon cooperation among the services' independent supply systems, which differ widely in their organization and procedures. Many attempts which have been made in the past to bridge the gap between the purchasing and distribution functions have met with minimal success.

Second alternative.—The piecemeal efforts at military supply coordination reflected in single department procurement assignments, limited cross-servicing of assets, and the like were criticized by the Hoover Commission. The Commission contended that substantial economies would be realized, only if a broader range of supply functions for all common supplies and services were brought under control of a single agency.

As a compromise, the DOD adopted the single-manager concept for selected commodity and service areas. The professed aim of the plan was to balance demands for more integrated supply operations against the preference in the military departments for separate supply organizations. The distinctive feature of the plan was to vest in one military department supply management of selected commodities and services for all military users, with minimum disruption to the services' existing organizational patterns.

While the single-manager plan is a definite step forward, the DOD policy until very recently did not promise any extension of this program. This view is reflected in the fact that there have been no further commodity assignments since early in 1956. Yet this inaction was in face of the fact that the DOD spokesmen responsible for the

execution of the single-manager plan claimed large benefits from the program in operating economies, efficient performance and customer satisfaction. These professed benefits, however, were not in themselves of sufficient consequence to overcome the strong resistance to the extension of the plan. Far more significant is the fear in the DOD that additional single-manager plans for commodities would inevitably lead to the creation of an overall manager for all single managers. Such a manager would be able to provide: (a) a single integrated distribution system for all single-managed commodities and (b) uniform operating procedures to include requisitioning; stock status reporting; depot supply procedures; funding and accounting procedures; and related operations.

A defensewide model study of a small segment of general supplies (hand tools, administration and housekeeping items) revealed the presence of a large degree of uncoordinated activity, even in areas where some coordination was generally assumed to be in effect. The study disclosed that the criteria used by the services in every important supply function were unreasonable. The report concluded that these wasteful practices could only be corrected through consolidated management. Because of the reverberations of this study, the long period of inaction appears to be over—at least for the time being. The Department of Defense is establishing a single managership for the commodities studied and assigning them to the Army. At the same time and without a detailed study other commodities consisting mainly of hardware, abrasives, paint and related material have been designated for single management to the Navy.

Third alternative.—In the search for an organizational arrangement to provide overall management for all single managers, the question is raised whether it would be feasible to assign responsibility for all common supplies and services to one military department. While such an assignment seems workable the service might be suspected of giving preference to its own needs and interests particularly when material is in short supply, thus intensifying service rivalries. Further it would place a heavy burden on one military department in addition to its primary military mission.

It may also be feasible for General Services Administration to be assigned responsibility over common supply and service activities in the DOD. This proposal is fortified by the fact that the GSA is rendering outstanding supply support in the limited areas being utilized by the services. The argument that defense has historically used against the concept of a supply organization outside the Defense Department is that military effectiveness would be jeopardized because supply would become less responsive to command.

Fourth alternative.—This alternative envisions a civilian-managed agency, independent of the three military departments, but within the organization of the DOD to provide all common-use supplies to the end of the wholesale pipeline. It would also include all common-service activities that are adaptable to consolidated management. The creation of such an agency is based on the underlying principles that—

1. All wholesale stocks of common-use supplies belong to the entire Department of Defense, as opposed to the present concept that they belong to the individual military services.
2. All common services be pooled for use of all military services.

The Hoover Commission and other advocates of the proposed plan contend it would overcome innate weaknesses in other types of coordination. They support their position with arguments such as the following:

1. The agency would overcome the DOD inertia and strong service resistance to the extension of single-manager plans. It would assure equitable treatment under tight mobilization conditions when the supplying service tries to meet its own needs while simultaneously furnishing the supply support desired by others.

2. The agency would provide a quickly expandable base in the event of an emergency without the need of drastic reorganization.

3. The agency would remove from the military departments to the fullest extent possible supply support operations so that professional military personnel can devote primary attention to combat aspects of the defense program.

4. The agency would follow well defined guidelines which would prevent it from performing any but service functions or from assuming responsibilities which would impair the services' ability to carry out their combat aspects of the defense program. These guides would include—

- (a) Gross requirements always would flow from the services under policies established and reviews conducted by the Office of the Secretary of Defense. (As the major repository of experience in the handling of commodities, the agency can lend valuable assistance to the services.)

- (b) Specifications for technical items must also flow from the services to the agency.

- (c) A buyer-seller relationship should be established between the agency and the requiring service. Each buyer service would continue to request and justify the funds required for its total needs so that it actually buys supplies and services from the agency which would be financed by a stock fund.

- (d) While the agency would eventually handle all common-use supplies and services as appropriate, the Secretary of Defense would phase the orderly transfer to the agency.

F. DEPARTMENT OF DEFENSE OPPOSITION TO A COMMON-USE SUPPLY AND SERVICE AGENCY

The Department of Defense has opposed the proposed agency for common-use supplies and services, citing arguments such as the following:

1. The objectives of the Hoover Commission give inadequate consideration to the mission and organization of the armed services; overemphasizes peacetime conditions; and assumes a lack of efficiency in military logistic activities.

2. Deficiencies in the area of common-supply and common-service activities have been recognized by the Department of Defense and actions have been taken to correct them.

3. The establishment of the agency would lead to duplications in both overhead and operating personnel, since two supply organizations would be required, one for common items and the other for military peculiar items. Moreover, civilians would be

hired to perform work now being accomplished by troops on practical application training assignments and destined for duty in the combat zone in wartime.

4. The expandability of a common supply and service agency in time of war would be much less rapid than that of the armed services, since it would not have access to personnel through the draft, does not have reserve units available to it, and would perhaps be subject to loss of men to the draft.

5. Retention of civilians in wartime on military supply and service jobs is doubtful, particularly under the threat of nuclear war.

6. Military effectiveness would be jeopardized because supply would become less responsive to command.

PART I

THE MILITARY SUPPLY PROGRAM

Spending in the Department of Defense is the largest item in the national budget and the world situation indicates that it may continue into the foreseeable future. The overall significance of this spending has a direct relationship to the Nation's present economic well-being. The task of managing defense supply and procurement activities which accounts for a major portion of this spending is equalled in complexity only by the problems of managing the military forces themselves. No businessman or other civilian expert who assumes this awesome responsibility has the genius to operate the present multiple military supply operations with optimum efficiency. He must frequently accept compromises and expedient solutions to vexing problems on the theory that "half a loaf is better than none at all." Secretary of Defense Robert A. Lovett in his letter of resignation to President Truman characterized the difficulty in unifying the technical services of the Army "as being no less painful than backing into a buzz saw." Under these circumstances, encouragement rather than unsympathetic criticism is often due those civilians who have the courage and patriotism to undertake the heavy burdens of managing the vast bureaucracies which comprise the defense supply systems.

While the Department of Defense has been manned by some of the Nation's leading businessmen, they have been unable to achieve necessary changes in military supply in many critical areas. In fact, it has been largely by stimulation through congressional interest that the most significant improvements developed in military supply operations. For instance, the present cataloging and standardization programs are, in large part, the result of the work of the House Armed Services Committee and the single manager plan had its genesis in the prodding over the years by the House Government Operations Committee for Defense to eliminate duplication in common-use supplies and service in the Department of Defense.

The task of improving supply management in the Department of Defense is a continuing one, in order to utilize effectively the tremendous resources represented by defense inventories. Management must weigh changing strategic requirements and other exigencies of the military situation. Before any evaluation can be made of how well the Department of Defense is meeting its challenge today, it is necessary to review the background information with respect to—

- A. The size of defense supply operations;
- B. The functions which comprise defense supply systems;
- C. The present organization of defense supply systems;
- D. The present assignments for procurement; and
- E. The chronology of important events in defense supply management.

A. THE SIZE OF DEFENSE SUPPLY OPERATIONS

For fiscal year 1960, our Federal budget expenditures will show that of an estimated total of \$79 billion, almost \$46 billion or about 58 percent will be directed to major national security efforts. Of this amount, some \$41 billion will be for military functions of the Department of Defense. New obligational authority provided about \$9.9 billion for the Army, \$11.3 billion for the Navy, \$18.3 billion for the Air Force, and \$1.6 billion for the Office of the Secretary of Defense.¹

The increase in our defense expenditures as compared with the growth in our gross national product over the 20 years, 1939 to 1959, presents a startling picture. The gross national product increased from \$91 billion in 1939 to an estimated \$464 billion for 1959, an increase of 411 percent. In this same period, defense expenditures for military functions increased from \$1.2 billion to \$41.2 billion, or 3,333 percent.

TABLE 6.—Expenditures for Department of Defense military functions as a percentage of gross national product, fiscal years 1939-59

[Billions of dollars]

Fiscal year	Gross national product	DOD military function		Fiscal year	Gross national product	DOD military function	
		Expenditures	Percent of GNP			Expenditures	Percent of GNP
			<i>Percent</i>				<i>Percent</i>
1939.....	91.1	1.2	1.3	1950.....	284.6	11.9	4.2
1940.....	100.6	1.6	1.5	1951.....	329.0	19.8	6.0
1941.....	125.8	6.1	4.8	1952.....	342.0	39.0	11.2
1942.....	159.1	23.6	14.8	1953.....	365.4	43.7	12.0
1943.....	192.5	63.1	32.8	1954.....	363.1	40.3	11.1
1944.....	211.4	76.1	36.0	1955.....	397.5	35.5	8.9
1945.....	213.6	79.9	37.4	1956.....	419.2	35.8	8.5
1946.....	210.7	42.0	19.9	1957.....	442.5	38.4	8.7
1947.....	234.3	13.8	5.9	1958.....	441.7	39.1	8.9
1948.....	259.4	11.1	4.3	1959 ¹	478.8	41.2	8.6
1949.....	258.1	12.0	4.6				

¹ Preliminary actual.

Sources:

1939-40: Advice of Department of Defense.

1941-59: Department of Defense, OSD Comptroller, EFAD-119, Oct. 13, 1959.

The Departments of the Army, Navy, and Air Force buy, stock, and use or consume 3.4 million items. These items consist of the weapons of war (ships, missiles, planes, tanks); and the vast range of consumable supplies required by the Armed Forces.

¹ "Federal Budget Midyear Review, Fiscal Year 1960" pp. 23, 24, 25.

The purchase of 3.4 million items requires annual expenditures running into many billions of dollars. (It costs over \$2 billion a year for supply systems to contract, store, and issue these items.)²

TABLE 7.—*Net value of military procurement actions, fiscal years 1951-59*

[Billions of dollars]

Fiscal years	Net value of military procurement actions	Fiscal years	Net value of military procurement actions	Fiscal years	Net value of military procurement actions
1951.....	21.5	1954.....	10.9	1957.....	19.9
1952.....	34.0	1955.....	13.7	1958.....	22.8
1953.....	29.3	1956.....	18.2	1959.....	23.9

Source: OSD procurement statistics, Sept. 21, 1959.

These expenditures represent a major part of total Federal expenditures. For example, in the fiscal year 1959, defense procurement alone was well over half of all other Federal expenditures.

Budget expenditures for fiscal year 1959

[Billions of dollars]

	Budget expenditures		Budget expenditures
Defense material procurement.....	23.9	All other Federal expenditures.....	39.7
Other defense expenditures.....	17.1	Total.....	80.7

Source: Federal Budget Midyear Review, Fiscal Year 1960.

Of the moneys spent by the Federal Government for procurement in fiscal year 1959, more than 75 percent was spent by the Department of Defense, 2 percent was spent on defense-related items (atomic energy and stockpiling), and less than 23 percent for the remaining procurement needs of the Government. Annual expenditures for defense procurement are twice as large as total net farm income of the Nation in 1959; almost twice as large as the total U.S. expenditure for public education; almost 45 percent larger than the total revenue received from Federal corporate income taxes in fiscal year 1959.

Defense procurement has become increasingly important as a factor affecting the economic stability and growth of our national economy. It reaches out geographically into many segments of local economic

² U.S. Congress, House of Representatives, Committee on Appropriations, Subcommittee on Department of Defense, hearings, Defense Department Appropriations, 1960, 86th Cong., 1st sess., 1960, pt. 4, p. 89.

activity. The following table demonstrates the distribution of defense activities among the States:

TABLE 8.—*Net value of military procurement actions for supplies, services and construction, fiscal years 1956, 1957, 1958 and 1959¹*

State	Fiscal year 1956		Fiscal year 1957		Fiscal year 1958		Fiscal year 1959	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Total, United States and territories ²	\$18, 184, 532		\$19, 855, 801		\$22, 752, 260		\$23, 902, 014	
Not distributed by State ³	1, 693, 968		1, 828, 436		1, 885, 199		2, 141, 550	
State totals ⁴	16, 490, 564	100.0	18, 027, 365	100.0	20, 867, 061	100.0	21, 760, 464	100.0
Alabama.....	138, 488	.8	161, 624	.9	163, 220	.8	138, 175	.6
Arizona.....	140, 683	.9	175, 217	1.0	189, 314	.9	238, 989	1.1
Arkansas.....	32, 175	.2	23, 523	.1	31, 562	.1	16, 012	.1
California.....	3, 311, 203	20.1	3, 381, 927	18.8	4, 457, 666	21.4	5, 282, 659	24.3
Colorado.....	73, 732	.5	222, 226	1.2	205, 470	1.0	252, 476	1.2
Connecticut.....	1, 231, 154	7.5	977, 889	5.4	897, 283	4.3	920, 309	4.2
Delaware.....	118, 364	.7	89, 842	.5	127, 021	.6	73, 650	.3
District of Columbia.....	118, 364	.7	122, 934	.7	84, 573	.4	98, 477	.5
Florida.....	163, 253	1.0	249, 652	1.4	308, 891	1.5	404, 663	1.9
Georgia.....	196, 154	1.2	248, 659	1.4	323, 086	1.5	270, 821	1.2
Idaho.....	8, 208	(⁵)	6, 747	(⁵)	12, 050	(⁵)	9, 270	(⁵)
Illinois.....	887, 053	5.4	510, 719	2.8	577, 329	2.8	490, 760	2.3
Indiana.....	255, 170	1.5	405, 521	2.2	421, 046	2.0	388, 990	1.8
Iowa.....	81, 590	.5	111, 105	.6	106, 199	.5	155, 423	.7
Kansas.....	362, 482	2.2	463, 232	2.6	1, 169, 464	5.6	450, 204	2.1
Kentucky.....	46, 947	.3	38, 247	.2	34, 422	.2	39, 411	.2
Louisiana.....	168, 875	1.0	170, 530	.9	141, 863	.7	151, 486	.7
Maine.....	85, 468	.5	118, 916	.7	87, 237	.4	116, 751	.5
Maryland.....	554, 423	3.4	561, 517	3.1	472, 275	2.3	509, 160	2.3
Massachusetts.....	509, 301	3.1	604, 688	3.4	734, 514	3.5	1, 150, 522	5.3
Michigan.....	308, 292	1.9	431, 234	2.4	531, 791	2.5	782, 914	3.6
Minnesota.....	145, 922	.9	222, 270	1.2	155, 891	.7	238, 400	1.1
Mississippi.....	48, 273	.3	98, 625	.5	42, 689	.2	86, 724	.4
Missouri.....	537, 641	3.3	449, 818	2.5	498, 744	2.4	571, 505	2.6
Montana.....	12, 641	.1	18, 447	.1	35, 184	.2	27, 712	.1
Nebraska.....	24, 044	.1	30, 930	.2	47, 025	.2	62, 589	.3
Nevada.....	15, 644	.1	13, 307	.1	17, 397	.1	10, 828	.1
New Hampshire.....	25, 077	.2	38, 435	.2	33, 538	(⁵)	41, 313	.2
New Jersey.....	879, 011	5.3	848, 216	4.7	884, 589	4.2	918, 916	4.2
New Mexico.....	52, 838	.3	52, 168	.3	77, 397	.4	72, 743	.3
New York.....	1, 927, 255	11.7	2, 219, 654	12.3	2, 424, 043	11.6	2, 408, 734	11.1
North Carolina.....	314, 522	1.9	376, 723	2.1	329, 537	1.6	321, 272	1.5
North Dakota.....	23, 216	.1	47, 712	.3	19, 558	.1	17, 416	.1
Ohio.....	1, 046, 613	6.3	1, 225, 653	6.8	1, 007, 230	4.8	1, 030, 556	4.7
Oklahoma.....	96, 676	.6	136, 053	.8	173, 880	.8	134, 562	.6
Oregon.....	25, 636	.2	31, 873	.2	27, 917	.1	31, 486	.1
Pennsylvania.....	691, 502	4.2	686, 211	3.8	700, 262	3.4	684, 331	3.1
Rhode Island.....	36, 632	.2	36, 838	.2	24, 174	.1	27, 478	.1
South Carolina.....	44, 807	.3	51, 609	.3	57, 654	.3	38, 323	.2
South Dakota.....	16, 278	.1	7, 728	(⁵)	13, 099	.1	12, 315	.1
Tennessee.....	104, 546	.6	79, 835	.4	80, 489	.4	106, 096	.5
Texas.....	929, 438	5.6	1, 168, 237	6.5	1, 446, 482	6.9	1, 304, 740	6.0
Utah.....	29, 273	.2	30, 535	.2	76, 391	.4	174, 550	.8
Vermont.....	13, 008	.1	12, 064	.1	17, 895	.1	13, 645	.1
Virginia.....	121, 791	.7	198, 216	1.1	220, 947	1.1	292, 576	1.3
Washington.....	445, 293	2.7	693, 235	3.8	1, 202, 354	5.8	961, 238	4.4
West Virginia.....	21, 727	.1	18, 202	.1	15, 997	.1	19, 834	.1
Wisconsin.....	180, 298	1.1	128, 314	.7	161, 190	.8	163, 221	.8
Wyoming.....	6, 692	(⁵)	30, 502	.2	6, 100	(⁵)	41, 239	.2

¹ See "Notes on Coverage."

² Includes all contracts awarded for work performance in the United States, including its territories and possessions, regardless of location of the procuring office.

³ Includes contracts of less than \$10,000, all contracts awarded for work performance in Alaska and in U.S. territories and possessions, contracts which are in a classified location, and any intragovernmental contracts entered into overseas.

⁴ Net value of contracts of \$10,000 or more for work in the continental United States. Data on Alaska and Hawaii will be shown separately effective July 1, 1959 (fiscal year 1960).

⁵ Minus figure is a net amount resulting from contract cancellations in excess of new awards associated with reprogramming.

⁶ Less than 0.05 percent.

NOTES ON COVERAGE

It is emphasized that data on prime contracts by State do not provide any direct indication as to the State in which the actual production work is done. For the majority of the contracts with manufacturers, the data reflect the location of the plant where the product will be finally processed and assembled. Con-

struction contracts are shown for the State where the construction is to be performed. However, for some contracts with large companies with more than one plant, and for contracts with service, wholesale, or other distribution firms, the location is usually the address of the contractor's main office.

More important is the fact that the reports refer to prime contracts only, and cannot in any way reflect the distribution of the very substantial amount of material and component fabrication and other subcontract work that may be done outside the State where final assembly or delivery takes place.

The report includes definitive contracts, and funded portions of letter contracts and letters of intent, job orders, task orders and purchase orders on industrial firms, and also includes interdepartmental purchases made from or through other governmental agencies, such as those made through the General Services Administration. The data include upward or downward revisions and adjustments of \$10,000 or more, such as cancellations, price changes, supplemental agreements, amendments, etc.

The report does not include that part of open end or indefinite quantity contracts that has not been placed under specific purchase order, nor does it include that part of project orders (i.e., production directives to Government-owned-and-operated facilities) which has not yet been translated into contracts with industrial firms.

The contract value data shown in this report differ from obligations data in Department of Defense fiscal reports on procurement and construction because: (1) this report includes contract awards for services while the fiscal reports exclude obligations for this purpose; (2) contract data do not include obligations for project orders issued to military-owned and military-operated establishments, such as Navy Yards, unless and until those funds are used to finance contracts with private business firms or with other Government agencies; and (3) this contract report is limited to transactions within the United States whereas the fiscal reports include obligations on a worldwide basis.

Source: Office of the Secretary of Defense, Sept. 21, 1959.

In addition to military contracts, the military installations in the U.S. account for a Government military and civilian payroll of about \$11 billion a year. This payroll alone is equal to 1½ times the combined payrolls of the iron and steel industry and of all other basic metal producers. It is more than double the payrolls of the automobile industry. In California, the military payroll is about equal to the payrolls of the aircraft industry. In Virginia, the Government is spending about 75 cents in military pay for every dollar the manufacturers of the State pay their employees. In Texas, the military payroll is equal to about 40 percent of the wages and salaries paid by manufacturers.

The following table shows the number of personnel in the Department of Defense in June 30, 1959, and the estimated annual payrolls by State:

TABLE 9.—Number of DOD military and civilian personnel stationed in the United States (including Alaska and Hawaii) and annual payrolls, by State of duty location

	Active duty military personnel		Civilian employees	
	Number, June 30, 1959 ¹	Estimated annual pay and allowances ²	Number, June 30, 1959	Estimated annual payroll ³
U.S. total.....	1,563,007	\$5,893,293,000	973,375	\$5,304,998,000
Alabama.....	22,723	86,626,000	38,950	208,720,000
Alaska.....	32,033	124,022,000	6,373	43,320,000
Arizona.....	21,269	83,873,000	7,176	38,552,000
Arkansas.....	10,557	42,134,000	3,764	20,346,000
California.....	208,827	756,860,000	143,329	780,373,000
Colorado.....	28,431	110,658,000	14,477	77,443,000
Connecticut.....	5,613	19,943,000	2,394	13,139,000
Delaware.....	7,198	30,064,000	1,512	8,056,000
District of Columbia.....	⁴ 19,724	73,456,000	34,316	188,037,000
Florida.....	62,595	248,252,000	25,113	136,687,000
Georgia.....	69,823	258,928,000	33,511	179,627,000
Hawaii.....	37,536	133,195,000	18,895	123,841,000
Idaho.....	4,747	19,560,000	720	3,891,000
Illinois.....	45,171	169,996,000	29,284	158,050,000
Indiana.....	8,006	31,472,000	11,025	60,109,000
Iowa.....	1,987	8,045,000	522	2,807,000
Kansas.....	34,875	135,205,000	6,504	34,826,000
Kentucky.....	43,988	156,074,000	12,077	65,604,000
Louisiana.....	21,932	89,790,000	7,110	38,471,000
Maine.....	13,022	53,559,000	1,921	10,325,000
Maryland.....	⁴ 47,373	173,765,000	41,075	223,710,000
Massachusetts.....	36,732	142,589,000	25,492	138,761,000
Michigan.....	12,828	50,398,000	9,645	52,062,000
Minnesota.....	4,756	19,123,000	6,752	9,423,000
Mississippi.....	21,728	90,915,000	6,325	32,254,000
Missouri.....	29,704	110,772,000	15,032	80,908,000
Montana.....	6,070	25,371,000	718	3,668,000
Nebraska.....	14,554	60,773,000	4,212	22,659,000
Nevada.....	7,146	28,558,000	2,847	15,346,000
New Hampshire.....	9,007	36,408,000	8,866	48,808,000
New Jersey.....	42,940	158,068,000	26,458	141,701,000
New Mexico.....	23,982	95,410,000	11,259	60,511,000
New York.....	40,231	155,611,000	55,128	299,629,000
North Carolina.....	73,434	247,757,000	10,225	55,944,000
North Dakota.....	2,960	12,364,000	676	3,634,000
Ohio.....	19,317	78,981,000	39,573	211,370,000
Oklahoma.....	31,052	118,148,000	25,423	135,211,000
Oregon.....	4,799	19,298,000	3,715	20,102,000
Pennsylvania.....	15,760	57,122,000	69,027	375,541,000
Rhode Island.....	7,087	25,344,000	8,613	47,519,000
South Carolina.....	48,687	182,035,000	14,248	77,914,000
South Dakota.....	7,050	29,139,000	1,519	8,168,000
Tennessee.....	19,218	71,366,000	8,065	43,396,000
Texas.....	160,721	630,200,000	58,901	314,656,000
Utah.....	3,207	12,579,000	17,844	95,387,000
Vermont.....	1,510	6,276,000	275	1,464,000
Virginia.....	⁴ 85,637	307,354,000	77,596	427,842,000
Washington.....	48,969	185,219,000	26,063	142,355,000
West Virginia.....	651	2,496,000	1,127	6,136,000
Wisconsin.....	5,079	20,196,000	2,043	10,979,000
Wyoming.....	1,726	7,211,000	765	4,060,000
Undistributed.....	⁴ 29,130	99,935,000	195	1,056,000
Washington, D.C.. metropolitan area.....	59,063	219,831,000	78,870	434,033,000
District of Columbia.....	⁴ 19,724	73,456,000	34,316	188,037,000
Maryland.....	⁴ 9,583	38,350,000	11,932	65,162,000
Virginia.....	⁴ 29,756	108,025,000	32,622	180,834,000

¹ Excludes naval personnel assigned to fleet units and to other afloat and mobile activities.

² For number of personnel indicated in preceding column.

³ Partly estimated.

⁴ In transit.

Source: Statistical Services Center, Office of Secretary of Defense, Oct. 28, 1959.

The above employment figures do not take into account those directly employed on military construction. Contracts for military construction are running at a current rate of about \$1.4 billion a year, with California accounting for about 14 percent; New York, about 7 percent; and Texas, nearly 6 percent. Much of the expenditure for construction is for local labor and materials.

From year to year, part of these expenditures keep adding to the size of our defense arsenals. As of December 1958, about 10 percent of our total national wealth was invested in the implements of warfare and in the facilities, supplies, and materials required to maintain our fighting forces. The tangible assets of the Department of Defense are estimated currently to be \$150 billion.³

Summary of Department of Defense property holdings as of June 30, 1958

(Billions of dollars)

Land, buildings, fixed equipment.....	29
Construction in progress.....	3
Personal property.....	118
Total.....	150

About 63 percent of the third category—\$118 billion in personal property—are in major weapons of war. The remaining 37 percent, or about \$44 billion, is invested in support-type items (component parts and supplies), toward which this study is directed. The following table shows the personal property inventory as it is carried in either stock fund or appropriated fund accounts by each of the services.⁴

TABLE 10.—*Department of Defense supply system inventories by source of funds and military departments as of June 30, 1959*

(Millions of dollars)

	Total	Stock-fund inventories	Appropriated-fund inventories
Department of Defense total.....	44,467	8,162	36,305
Army.....	18,612	5,513	13,099
Navy.....	12,116	1,820	10,296
Marine Corps.....	1,419	390	1,027
Air Force.....	12,320	437	11,883

It is in the category of support-type items that huge excesses in stocks can develop quickly due to the multiplicity of items and the wide dispersion of support stocks at the numerous depots, posts, camps, bases, and stations located around the world. Very little can be done to prevent the generation of surplus property from obsolescence caused by the accelerated influx of newer weapons systems. But in the support items, many opportunities exist to minimize the incidence of surplus. The total of Department of Defense property, in surplus or long supply, is \$26.7 billion.⁵ Disposal of surplus personal property is expected to be about \$10 billion in fiscal year 1960,

³ U.S. Congress, House of Representatives Committee on Government Operations, Federal Real and Personal Property Inventory Report as of June 30, 1959, 85th Cong., 2d sess., p. 85.

⁴ *Ibid.* p. 98.

⁵ U.S. Congress, House of Representatives, Committee on Appropriations, Department of Defense Subcommittee, "Hearings, DOD, 1960," 86th Cong., 1st sess., 1959, pt. 4, p. 11.

but the proceeds will amount to only about \$265 million or less than 3 percent of acquisition cost. Further, the cost of this disposal will probably run about \$75 million.

Military expenditures divert funds, material, and manpower from nondefense uses. Defense procurement has a very real and substantial effect on our present economy. For example, the aircraft industry, the Nation's biggest, is 90 percent dependent on Government contracts. With the necessity for a high level of defense expenditures, policies must be developed to reduce this burden on the economy and the taxpayer and to lessen the impact of major shifts in procurement on national, regional, and local economic conditions.

The following table shows a list of 100 U.S. companies and their 129 subsidiaries which received 74 percent of the military prime contract awards of \$10,000 or more in fiscal year 1959. The top 50 companies received over 65 percent of all contracts.

TABLE 11.—100 companies and their subsidiaries listed according to net value of military prime contract awards, July 1, 1958, to June 30, 1959

Rank	Companies	Millions of dollars	Percent of U.S. total	Cumulative percent of U.S. total
	U.S. total ¹	\$22,591.8	100.0	100.0
	Total, 100 companies and their subsidiaries ²	16,681.3	73.8	73.8
1	General Dynamics Corp.....	1,616.3	7.2	.....
	Electronic Control Systems, Inc.....	.1	(³)	.....
	Total.....	1,616.4	7.2	7.2
2	Boeing Airplane Co.....	1,166.5	5.2	12.4
3	North American Aviation, Inc.....	1,015.5	4.5	.....
	Astrodyne, Inc. ⁴	2.6	(³)	.....
	Total.....	1,018.1	4.5	16.9
4	General Electric Co.....	913.8	4.1	.....
	International General Electric Co., Inc. (Puerto Rico).....	.2	(³)	.....
	Total.....	914.0	4.1	21.0
5	Lockheed Aircraft Corp.....	862.2	3.9	.....
	Lockheed Aircraft Service, Inc.....	28.1	.1	.....
	Lockheed Aircraft Service International, Inc.....	8.7	(³)	.....
	Lockheed Aircraft Service Overseas, Inc.....	-1.5	(³)	.....
	Lockheed Air Terminal, Inc.....	1.0	(³)	.....
	Total.....	898.5	4.0	25.0
6	Douglas Aircraft Co.....	676.4	3.0	28.0
7	United Aircraft Corp.....	538.1	2.4	.....
	United Aircraft Service Corp.....	.1	(³)	.....
	Total.....	538.2	2.4	30.4
8	Martin Co.....	524.0	2.3	32.7
9	Hughes Aircraft Co.....	494.0	2.2	34.9
10	American Telephone & Telegraph Co.....	.6	(³)	.....
	Teletype Corp.....	13.4	(³)	.....
	Western Electric Co.....	462.5	2.1	.....
	Total.....	476.5	2.1	37.0
11	McDonnell Aircraft Corp.....	403.5	1.8	38.8
12	Sperry Rand Corp.....	383.6	1.7	.....
	Vickers, Inc.....	19.6	.1	.....
	Wheeler Electronic Corp.....	(³)	(³)	.....
	Total.....	403.2	1.8	40.6
13	Raytheon Manufacturing Co.....	392.6	1.7	42.3

See footnotes at end of table, p. 31.

TABLE 11.—100 companies and their subsidiaries listed according to net value of military prime contract awards, July 1, 1958, to June 30, 1959—Continued

Rank	Companies	Millions of dollars	Percent of U.S. total	Cumulative percent of U.S. total
14	Chrysler Corp.....	\$320.9	1.4	
	Chrysler Airtemp Sales Corp.....	2.3	(3)	
	Total.....	323.2	1.4	43.7
15	Grumman Aircraft Engineering Corp.....	300.1	1.3	
	Dynamic Developments, Inc.....	.1	(3)	
	Total.....	300.2	1.3	45.0
16	Republic Aviation Corp.....	280.5	1.2	46.2
17	International Business Machines Corp.....	276.6	1.2	
	Service Bureau Corp.....	.3	(3)	
	Total.....	276.9	1.2	47.4
18	Bendix Aviation Corp.....	270.9	1.2	
	Bendix-Westinghouse Automotive Air Brake Co.....	.3	(3)	
	Sheffield Corp.....	.1	(3)	
	Total.....	271.3	1.2	48.6
19	Westinghouse Electric Corp.....	237.9	1.1	
	Westinghouse Electric Supply Co.....	.1	(3)	
	Total.....	238.0	1.1	49.7
20	General Motors Corp.....	210.3	.9	
	Ethyl Corp. ^a.....	.3	(3)	
	Frigidaire Sales Corp.....	.1	(3)	
	Total.....	210.7	.9	50.6
21	General Tire & Rubber Co.....	12.1	.1	
	Aerojet General Corp.....	193.9	.8	
	Byers (A. M.) Co.....	.8	(3)	
	RKO Teleradio Pictures, Inc.....	(3)	(3)	
	Total.....	206.8	.9	51.5
22	Radio Corp. of America.....	199.7	.9	52.4
23	Avco Corp.....	183.7	.8	53.2
24	Standard Oil Co. (New Jersey).....			
	Carter Oil Co.....	10.6	.1	
	Enjay Co., Inc.....	(3)	(3)	
	Esso Export Corp.....	98.0	.5	
	Esso Research & Engineering Co.....	1.3	(3)	
	Esso Standard Oil Co.....	49.3	.2	
	Esso Standard Oil Co. (Puerto Rico).....	(3)	(3)	
	Ethyl Corp. ^a.....	.2	(3)	
	Gilbert & Barker Manufacturing Co.....	.1	(3)	
	Humble Oil & Refining Co.....	7.6	(3)	
	Penola Oil Co.....	2.0	(3)	
	Standard Vacuum Oil Co. ^b	2.6	(3)	
		Total.....	171.7	.8	54.0
25	Northrop Corp.....	140.2	.6	
	Page Communications Engineers, Inc.....	4.8	(3)	
	Total.....	145.0	.6	54.6
26	International Telephone & Telegraph Co.....	68.9	.3	
	Federal Electric Corp.....	68.8	.3	
	Intelix Systems, Inc.....	.2	(3)	
	Kuthe Laboratories, Inc.....	1.1	(3)	
	Mackay Radio & Telegraph Co.....	(3)	(3)	
	Royal Electric Corp.....	.1	(3)	
	Total.....	139.1	.6	55.2
27	Bethlehem Steel Corp.....	10.0	.1	
	Bethlehem Pacific Coast Steel Corp.....	.4	(3)	
	Bethlehem Sparrows Point Shipyard, Inc.....	113.5	.5	
	Bethlehem Steel Export Co.....	.1	(3)	
	Total.....	124.0	.6	55.8

See footnotes at end of table, p. 31.

TABLE 11.—100 companies and their subsidiaries listed according to net value of military prime contract awards, July 1, 1958, to June 30, 1969—Continued

Rank	Companies	Millions of dollars	Percent of U.S. total	Cumulative percent of U.S. total
28	Standard Oil Co. of California.....	\$69.9	0.3	
	American Bitumuls & Asphalt Co.....	.1	(3)	
	California Co.....	.1	(3)	
	California Oil Co.....	3.8	(3)	
	California Spray Chemical Co.....	(9)	(3)	
	California Tanker Co.....	(9)	(3)	
	Caltex Oil Products Co. ²	40.2	.2	
Overseas Tankship Corp. ³.....	.2	(3)		
Standard Oil Co. of Texas.....	8.8	(3)		
Total.....	123.1	.5	56.3	
29	Burroughs Corp.....	116.8	.5	
	Control Instrument Co.....	4.1	(3)	
Total.....	120.9	.5	56.8	
30	Collins Radio Co.....	114.9	.5	
	Communications Accessories, Inc.....	(9)	(3)	
Total.....	114.9	.5	57.3	
31	Merritt-Chapman & Scott Corp.....	2.9	(3)	
	Devoe & Reynolds Co., Inc.....	.1	(3)	
	New York Shipbuilding Corp.....	102.7	.5	
Total.....	105.7	.5	57.8	
32	Minneapolis-Honeywell Regulator Co.....	104.5	.5	
	Marlon Electrical Instrument Co.....	.1	(3)	
Total.....	104.6	.5	58.3	
33	Thompson Ramo Wooldridge, Inc.....	58.9	.3	
	Bell Sound Systems, Inc.....	(9)	(3)	
	Space Technology Laboratories, Inc.....	43.6	.2	
Total.....	102.5	.5	58.8	
34	Thiokol Chemical Corp.....	101.7	.5	
	Hunter-Bristol Corp.....	(9)	(3)	
	National Electronics Laboratories, Inc.....	(9)	(3)	
Total.....	101.7	.5	59.3	
35	American Bosch Arma Corp.....	101.5	.5	59.8
36	Newport News Shipbuilding & Dry Dock Co.....	98.7	.4	60.2
37	Philco Corp.....	95.6	.4	
	Lansdale Tube Co.....	.2	(3)	
	Sierra Electronics Co.....	.1	(3)	
Total.....	95.9	.4	60.6	
38	Goodyear Tire & Rubber Co.....	24.2	.1	
	Goodyear Aircraft Corp.....	63.5	.3	
	Goodyear Engineering Corp.....	2.6	(3)	
Total.....	90.3	.4	61.0	
39	Ford Motor Co.....	79.3	.4	
	Aeronutronic Systems, Inc.....	10.1	(3)	
Total.....	89.4	.4	61.4	
40	Massachusetts Institute of Technology.....	89.0	.4	61.8
41	Bath Iron Works Corp.....	84.9	.4	62.2
42	Pan-American World Airways, Inc.....	80.1	.4	62.6
43	Texas Co. (The).....	34.2	.2	
	Caltex Oil Products Co. ²	40.2	.2	
	Overseas Tankship Corp. ³.....	.2	(3)	
	Texaco Brazil, Inc.....	.1	(3)	
	Texas Co. (Puerto Rico), Inc.....	.2	(3)	
	Texas Petroleum Co.....	4.7	(3)	
	Total.....	79.6	.4	63.0

See footnotes at end of table, p. 31.

TABLE 11.—100 companies and their subsidiaries listed according to net value of military prime contract awards, July 1, 1958, to June 30, 1959—Continued

Rank	Companies	Millions of dollars	Percent of U. S. total	Cumulative percent of U. S. total
44	Continental Motors Corp.....	\$31.7	0.2	
	Continental Aviation & Engineering Corp.....	47.5	.2	
	Gray Marine Motor Co.....	.1	(3)	
	Wisconsin Motor Corp.....	(3)	(3)	
	Total.....	79.3	.4	63.4
45	Brown-Raymond-Walsh ⁹	78.3	.4	63.8
46	Garrett Corp.....	76.9	.3	64.1
47	General Precision Equipment Corp.....	0	0	
	CPE Controls, Inc.....	.1	(3)	
	General Precision Laboratory, Inc.....	6.7	(3)	
	Grayflex, Inc.....	.7	(3)	
	Griscom-Russell Co.....	.1	(3)	
	Hertzner Electric Co.....	.1	(3)	
	Kearfott Co., Inc.....	13.0	(3)	
	Librascope, Inc.....	37.0	.2	
	Link Aviation, Inc.....	14.9	.1	
	Strong Electric Corp.....	.1	(3)	
		Total.....	72.7	.3	64.4
48	Marquardt Aircraft Co.....	71.4	.3	
	Cooper Development Corp.....	1.0	(3)	
	Total.....	72.4	.3	64.7
49	Socony Mobil Oil Co.....	19.1	.1	
	General Petroleum Corp.....	15.8	.1	
	Magnolia Petroleum Co.....	6.7	(3)	
	Mobil Overseas Oil Co., Inc.....	27.7	.1	
	Standard Vacuum Oil Co. ⁷	2.6	(3)	
	Total.....	71.9	.3	65.0
50	Shell Caribbean Petroleum Co.....	43.3	.2	
	International Lubricant Corp.....	.5	(3)	
	Shell Chemical Corp.....	1.1	(3)	
	Shell Development Co.....	.5	(3)	
	Shell Oil Co.....	25.0	.1	
	Total.....	70.4	.3	65.3
51	Morrison-Knudsen-Hardeman-Drake-Olson-Young ¹⁰	67.6	.3	65.6
52	Olin Mathieson Chemical Corp.....	64.9	.3	
	Liberty Powder Co.....	1.6	(3)	
	Liberty Powder Defense Corp.....	.5	(3)	
	Total.....	67.0	.3	65.9
53	Curtiss-Wright Corp.....	66.9	.3	66.2
54	Hoffman Electronics Corp.....	57.7	.3	66.5
55	Bell Aircraft Corp.....	26.2	.1	
	Bell Helicopter Corp.....	29.6	.2	
	Hydraulic Research Manufacturing Co.....	.5	(3)	
	Wheelabrator Corp.....	.1	(3)	
	Total.....	56.4	.3	66.8
56	Hercules Powder Co.....	55.2	.2	67.0
57	Cities Service Co.....	.1	(3)	
	Arkansas Fuel Oil Corp.....	.7	(3)	
	Cities Service Gas Co.....	.2	(3)	
	Cities Service Oil Co.....	53.0	.2	
	Orange State Oil Co.....	(3)	(3)	
	Total.....	54.0	.2	67.2
58	Food Machinery & Chemical Corp.....	53.6	.2	67.4
59	Ryan Aeronautical Co.....	51.1	.2	67.6
60	Ingalls Iron Works Co.....	0	0	
	Ingalls Shipbuilding Corp.....	49.9	.2	
	Ingalls Taiwan Shipbuilding Corp.....	.2	(3)	
	Total.....	50.1	.2	67.8
61	Hayes Aircraft Corp.....	48.6	.2	68.0

See footnotes at end of table, p. 31.

TABLE 11.—100 companies and their subsidiaries listed according to net value of military prime contract awards, July 1, 1953, to June 30, 1959—Continued

Rank	Companies	Millions of dollars	Percent of U.S. total	Cumulative percent of U.S. total
62	International Harvester Co.....	\$44.0	.2	-----
	Hough (Frank G.) Co.....	2.2		
	Total.....	46.2	.2	68.2
63	Union Oil Co. of California.....	45.8	.2	68.4
64	Laboratory for Electronics, Inc.....	45.4	.2	68.6
65	General Telephone & Electronics Corp.....	0	.2	-----
	Automatic Electric Sales Co.....	.9		
	Sylvania Electric Products, Inc.....	43.4		
	Total.....	44.3	.2	68.8
66	Oman-Farnsworth-Wright ¹¹	44.1	.2	69.0
67	Westinghouse Air Brake Co.....	.6	.2	-----
	Le Tourneau-Westinghouse Co.....	3.5		
	Melpar, Inc.....	37.4		
	Union Switch & Signal Construction Co.....	(³)		
	Total.....	41.5		
68	Fairchild Engine & Airplane Corp.....	41.2	.2	69.4
69	Kiewit (Peter) Sons Co.....	41.2	.2	69.6
70	Ridewater Oil Co.....	39.5	.2	-----
	Seaside Oil Co.....	.4		
	Total.....	39.9	.2	69.8
71	Temco Aircraft Corp.....	39.3	.2	-----
	Fenske Fedrick & Miller, Inc.....	.5		
	Total.....	39.8	.2	70.0
72	Firestone Tire & Rubber Co.....	39.5	.2	70.2
73	Northern Pump Co.....	38.0	.2	-----
	Northern Ordnance, Inc.....	0		
	Total.....	38.0	.2	70.4
74	U.S. Rubber Co.....	36.0	.2	70.6
75	Continental Oil Co.....	35.7	.2	70.8
76	States Marine Corp.....	23.0	.2	-----
	States Marine Corp. (Delaware).....	5.9		
	Isthmian Lines.....	6.7		
	Total.....	35.6	.2	71.0
77	Todd Shipyards Corp.....	35.5	.2	71.2
78	Lear, Inc.....	35.3	.2	71.4
79	Standard Coil Products Co., Inc.....	(⁴) 35.3	.2	-----
	Kollsman Instrument Corp.....			
	Total.....	35.3	.2	71.6
80	Gulf Oil Corp.....	28.6	.2	-----
	Callery Chemical Co.....	6.5		
	Gulf Research & Development Co.....	.1		
	Total.....	35.2	.2	71.8
81	Goodrich, (B. F.) Co.....	33.0	.1	71.9
82	Asiatic Petroleum Corp.....	32.9	.1	72.0
83	Hazeltine Corp.....	32.3	.1	72.1
84	Standard Oil Co. (Indiana).....	14.5	.1	-----
	American Oil Co.....	10.7		
	Amoco Chemical Corp.....	.6		
	Tuloma Gas Products Co.....	(⁵) 6.2		
	Utah Oil Refining Co.....	(⁵)		
	Total.....	32.0	.1	-----

See footnotes at end of table, p. 31.

TABLE 11.—100 companies and their subsidiaries listed according to net value of military prime contract awards, July 1, 1958, to June 30, 1959—Continued

Rank	Companies	Millions of dollars	Percent of U.S. total	Cumulative percent of U.S. total
85	Phillips Petroleum Co.-----	\$29.0	0.1	-----
	Astrodyne, Inc. ⁴ -----	2.7	(⁵)	-----
	Total-----	31.7	.1	72.3
86	California Institute of Technology-----	31.6	.1	72.4
87	System Development Corp.-----	31.3	.1	72.5
88	Kaman Aircraft Co.-----	31.2	.1	72.6
89	Johns Hopkins University-----	31.1	.1	72.7
90	Greenland Contractors ¹¹ -----	30.7	.1	72.8
91	Sunray Midcontinent Oil Co.-----	.0	(⁶)	-----
	DX Sunray Oil Co.-----	27.0	.1	-----
	Suntide Refining Co.-----	2.6	(⁷)	-----
	Total-----	29.6	.1	72.9
92	Richfield Oil Corp.-----	29.4	.1	-----
	American Mineral Spirits Co.-----	.2	(⁸)	-----
	Total-----	29.6	.1	73.0
93	Cutler-Hammer, Inc.-----	29.5	.1	73.1
94	Transocean Corp. of California-----	.0	.0	-----
	Aircraft Engineering & Maintenance Co.-----	8.0	(⁹)	-----
	Flight Enterprises, Inc.-----	11.5	.1	-----
	Oakland Aircraft Engine Services, Inc.-----	2.0	(³)	-----
	Transocean Air Lines, Inc.-----	7.9	(⁸)	-----
	Total-----	29.4	.1	73.2
95	Cook Electric Co.-----	28.4	.1	73.3
96	Lane Construction Co.-----	27.8	.1	73.4
97	Puget Sound Bridge & Dredging Co.-----	27.4	.1	73.5
98	Mason & Hanger-Silas Mason Co.-----	27.3	.1	73.6
99	Continental Electronics Manufacturing Co.-----	26.7	.1	73.7
100	Magnavox Co. (the)-----	26.7	.1	73.8

¹ Net value of new procurement actions minus cancellations, terminations and other credit transactions. The data include debit and credit procurement actions of \$10,000 or more, under military supply, service and construction contracts for work in the United States; plus awards to listed companies and other identifiable U.S. companies for work overseas.

Procurement actions include definitive contracts, the obligated portions of letters of intent and letter contracts, purchase orders, job orders, task orders, delivery orders, and any other orders against existing contracts, and debit and credit actions that amend, cancel or terminate contracts. The data do not include that part of open-end or indefinite quantity contracts that have not been translated into specific orders on business firms. The data do not include purchase commitments or pending cancellations that have not yet become mutually binding agreements between the Government and the company.

² The assignment of subsidiaries to parent companies is based on stock ownership of 50 percent or more by the parent company, as indicated by data published in standard industrial reference sources. The company totals do not include contracts made by other U.S. Government agencies and financed with Department of Defense funds, or contracts awarded in foreign nations through their respective governments. The company names and corporate structures are those in effect as of June 30, 1959. Only those subsidiaries are shown for which procurement actions have been reported.

³ Less than 0.05 percent.

⁴ Stockownership is equally divided between North American Aviation, Inc. and Phillips Petroleum Co.; one-half of the total military awards is shown under each of the parent companies.

⁵ Less than \$50,000.

⁶ Stockownership is equally divided between General Motors Corp. and Standard Oil Co. of New Jersey; half of the total military awards is shown under each of the parent companies.

⁷ Stockownership is equally divided between Standard Oil Co. of New Jersey and Socony Mobil Oil Co.; half of the total of military awards is shown under each of the parent companies.

⁸ Stockownership is equally divided between Standard Oil Co. of California and Texas Co.; half of the total of military awards is shown under each of the parent companies.

⁹ A joint venture of Brown & Root, Inc., Raymond International, Inc., and Walsh Construction Co.

¹⁰ A joint venture of Morrison-Knudson Co., Inc., Paul Hardeman, Inc., Johnson-Drake & Piper, Inc., Olson Construction Co., and Young (F.E.) Construction Co.

¹¹ A joint venture of Kiewit (Peter) Sons, Inc., Groves (S. J.) Sons Co., Johnson (Al) Construction Co., and Condon Cunningham, Inc.

Source: Office of the Secretary of Defense.

B. THE FUNCTIONS WHICH COMPRISE DEFENSE SUPPLY SYSTEMS

1. *Planning for procurement*

The most difficult and influential phase of the entire procurement cycle is in development of the plans—long range and short range—which define strategic objectives, set force levels, and chart the requirements. These determinations start at the highest levels of Government, and are the work of the National Security Council, the Secretary of Defense, the Joint Chiefs of Staff, the staff chiefs in the military departments, and finally the technical bureaus and services.

2. *Acquisition*

Based upon the specific requirements growing out of the basic plans, the military departments acquire the weapons, parts, and supplies to meet both current and reserve needs. Many thousands of personnel trained in purchasing, engineering, and accounting contribute their talents. On the one side are the tasks of buying or contracting in accordance with the myriad requirements imposed by law and administrative regulations. On the other side are the steps required of the Department of Defense in the supervision of contract execution. These involve the highly technical tasks of scheduling, inspection, auditing, price redetermination, and contract termination. Substantial savings in the cost of material can be achieved by improved contracting practices and by combining or coordinating the requirements of the individual departments, as well as by coordinating inspection and auditing staffs.

3. *Distribution*

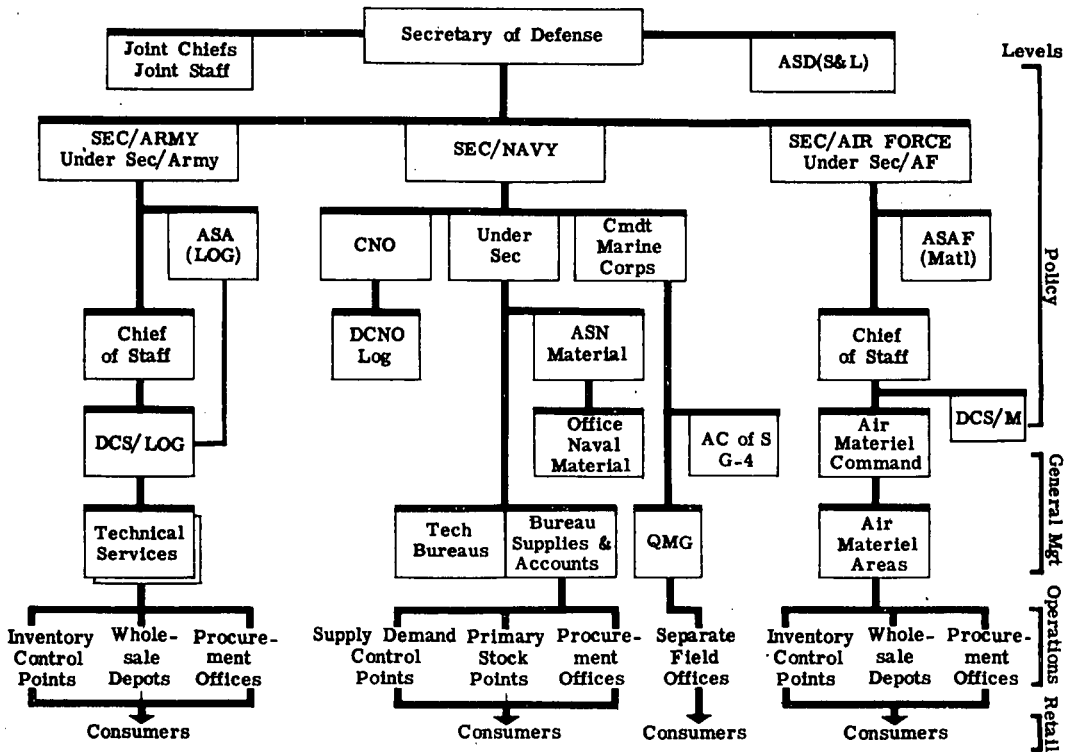
Materials off the contractors' production line are transported to the network of depots maintained throughout the world to support the operating forces. These goods are issued upon demand to the ultimate users, and records are kept showing the volume and value of issues and of stocks on hand. Large savings in inventory investment can accrue from their fullest utilization and from the skill and the manner with which inventory assortments are planned and distributed among the several levels of depots.

Finally, the stocks at the depot level must be replenished in accordance with rates of consumption. With some 100 million inventory transactions each month, replenishment control becomes a gigantic task. The avoidance of waste and surpluses largely depends upon proper organization and the accuracy and completeness of information regarding what is on hand and what is consumed. This task has been greatly simplified and accuracy enhanced in recent years as a result of strides in data forecasting by electronic equipment.

C. THE PRESENT ORGANIZATION OF DEFENSE SUPPLY SYSTEMS

The organization for defense supply operations extends through every segment of the Department of Defense from the Office of the Secretary of Defense to the tactical units in the field. There are five principal levels of supply organization.

CHART 1.—Overall organization for the management of procurement and supply in the Department of Defense
MILITARY SUPPLY MANAGEMENT



Source: Department of Defense,

1. *Office of Secretary of Defense*

Final authority for the management of defense supply (as in all other matters of defense management) is vested in the Secretary of Defense. However, by law or regulation there are others, both outside and inside his Office, who have important roles in supply determination. The external agencies include the National Security Council, the Atomic Energy Commission, the General Services Administration, National Aeronautics and Space Administration, the General Accounting Office, and the Bureau of the Budget.

Internally, the Chairman of the Joint Chiefs of Staff is by law the principal military adviser to the President, the National Security Council, and the Secretary of Defense. Among his and the Joint Chiefs of Staff designated responsibilities is that of preparing "joint logistic plans" and reviewing "major material requirements * * * in accordance with strategic and logistic plans." The Assistant Secretary of Defense for Supply and Logistics assists the Secretary in all phases of managing defense supply operations. In addition, other Assistant Secretaries who are responsible for financial management, property and installations, manpower and personnel, et cetera, have roles bearing upon supply matters in varying degrees.

2. *The military departments*

Each military department has an Assistant Secretary (commonly known as the Materiel Secretary) who has a role in supply similar to that of his counterpart in the Office of the Secretary of Defense. Also, in each department under the chief military officer is a deputy specifically responsible for logistics. While the scope of responsibilities of these deputies is not parallel, each is the principal agent for the preparation of the logistic plans in his service, and for the translation of departmental plans into procurement programs for major weapons and support equipment and supplies.

Within each service are agencies which plan the detailed supply programs called bureaus in the Navy, the Air Materiel Command in the Air Force and technical services in the Army.

In the Navy, the Bureau of Supplies and Accounts operates its inventory control and distribution system, although each of the technical bureaus procures its own major end items, determines the distribution of these items, and furnishes technical assistance to the Bureau of Supplies and Accounts in the operation of other field procurement and supply activities.

In the Marine Corps, the Quartermaster General manages an integrated supply system with respect to the operational and technical aspects of supply.

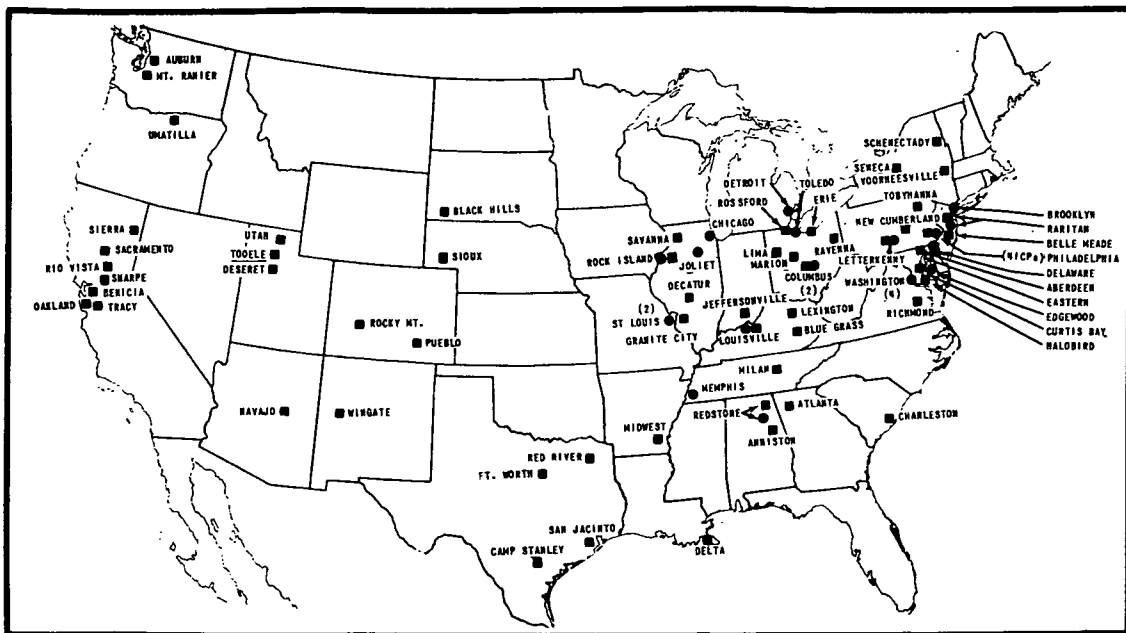
In the Air Force, the Air Materiel Command has the central management for all procurement, inventory control, and distribution. Headquarters USAF determines procurement and distribution policies for aircraft, while the Air Materiel Command makes the actual procurements.

In the Army, the Deputy Chief of Staff for Logistics, in addition to being part of the basic policy setting organization, has direct responsibility for the management of the technical services. Each technical service has a procurement and supply mission and operating agencies. The Quartermaster General furnishes, for example, Armywide support with respect to food, clothing and general supplies and in the operation of general depots.

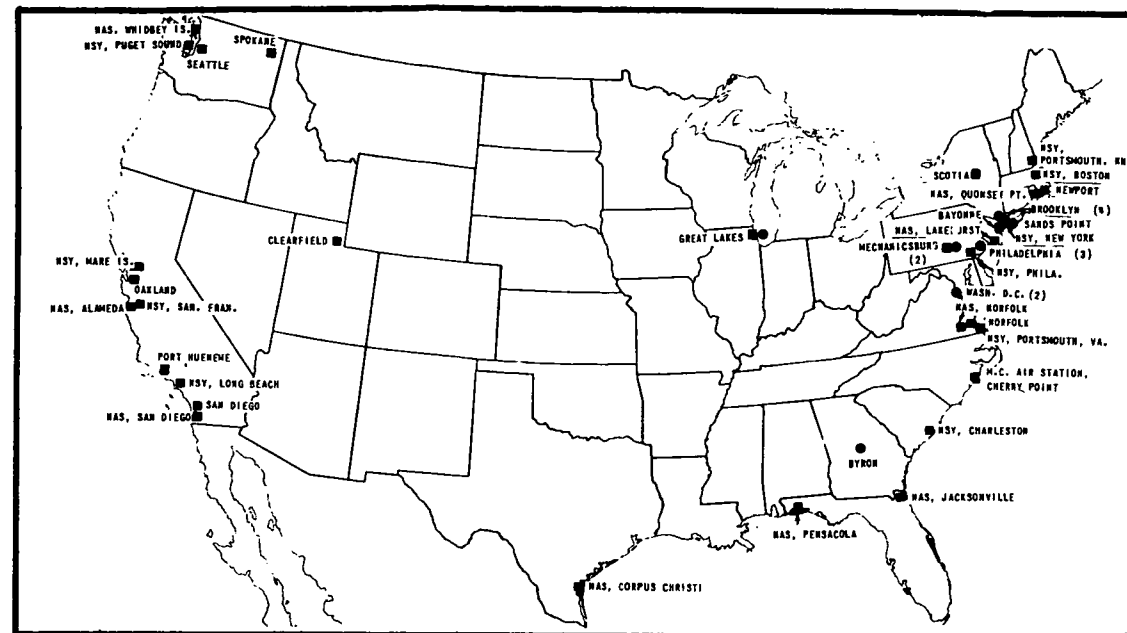
● INVENTORY CONTROL POINTS

■ DEPOTS (Wholesale Distribution)

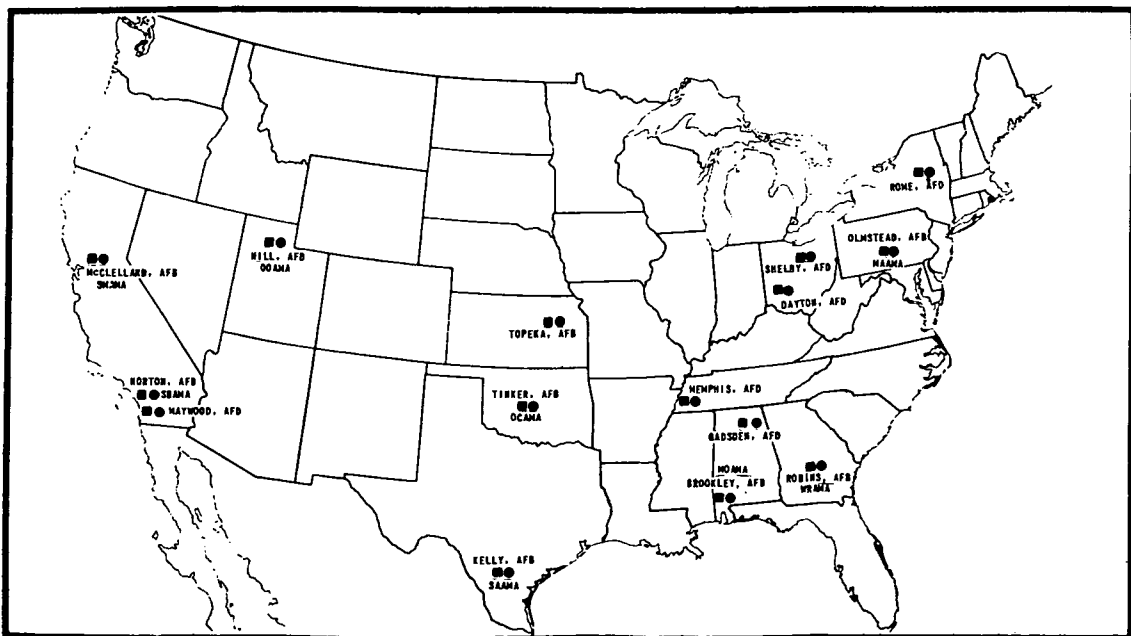
ARMY



NAVY



AIR FORCE



MARINE CORPS

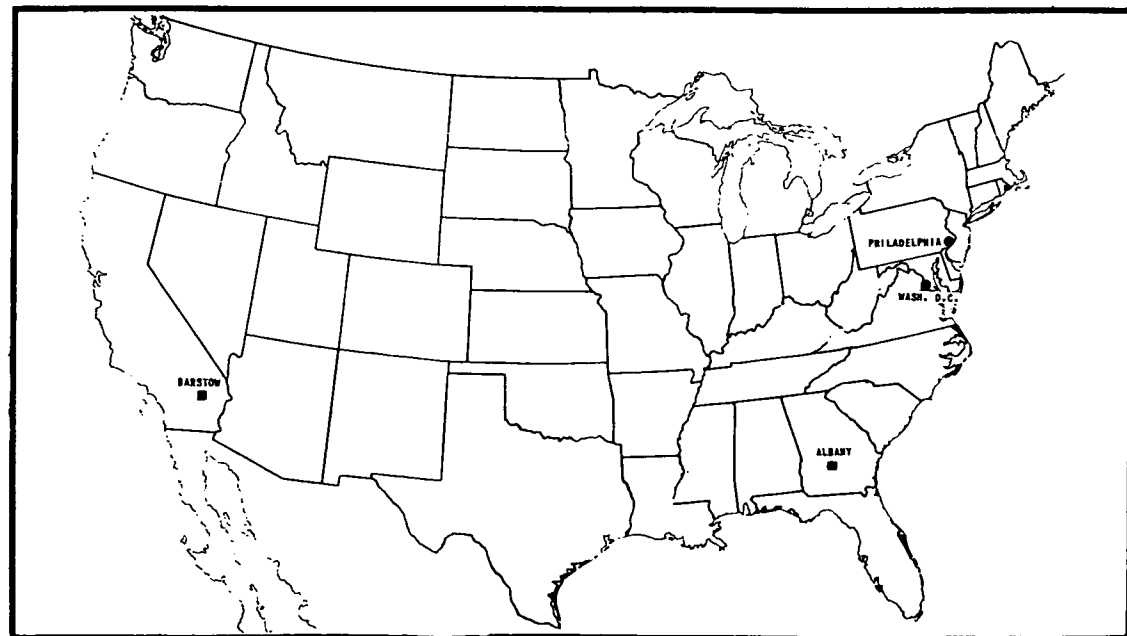


CHART 2.—Location of Principal Inventory Control and Distribution Points

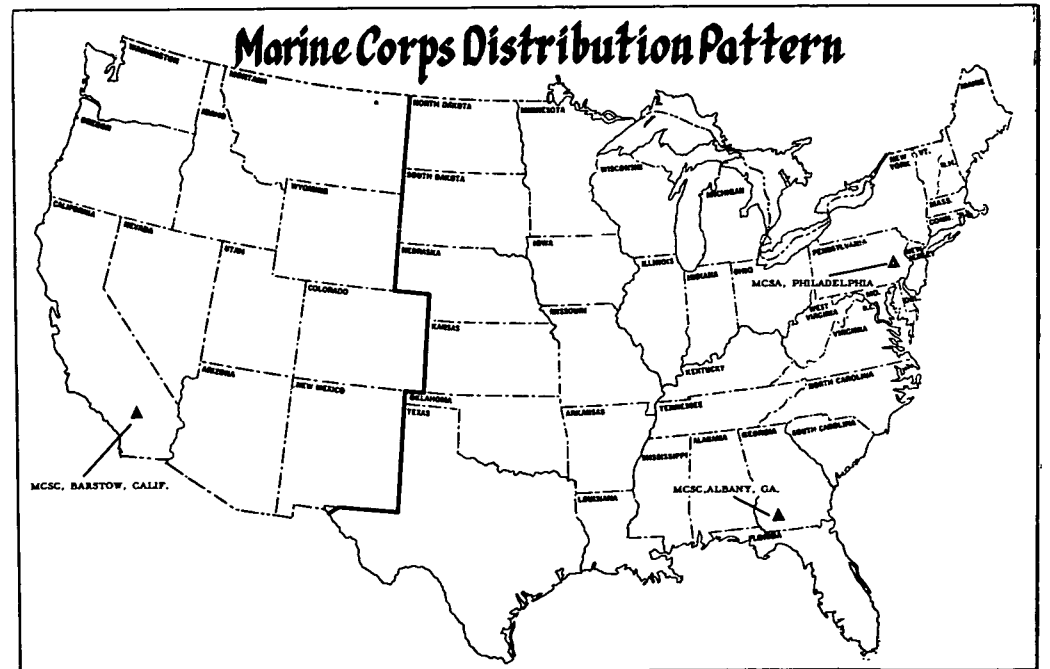
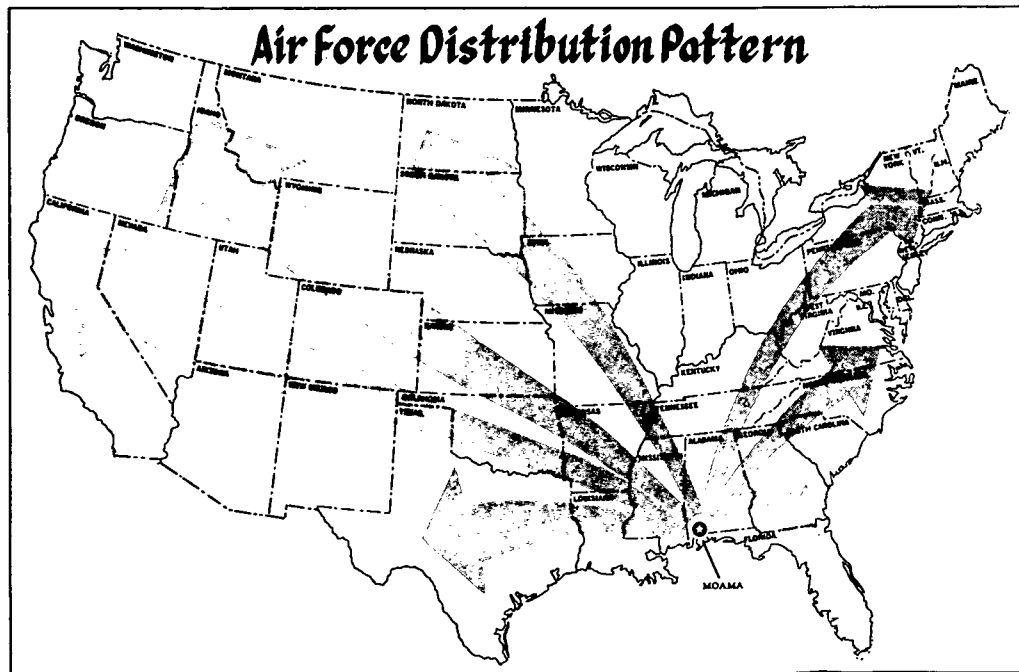
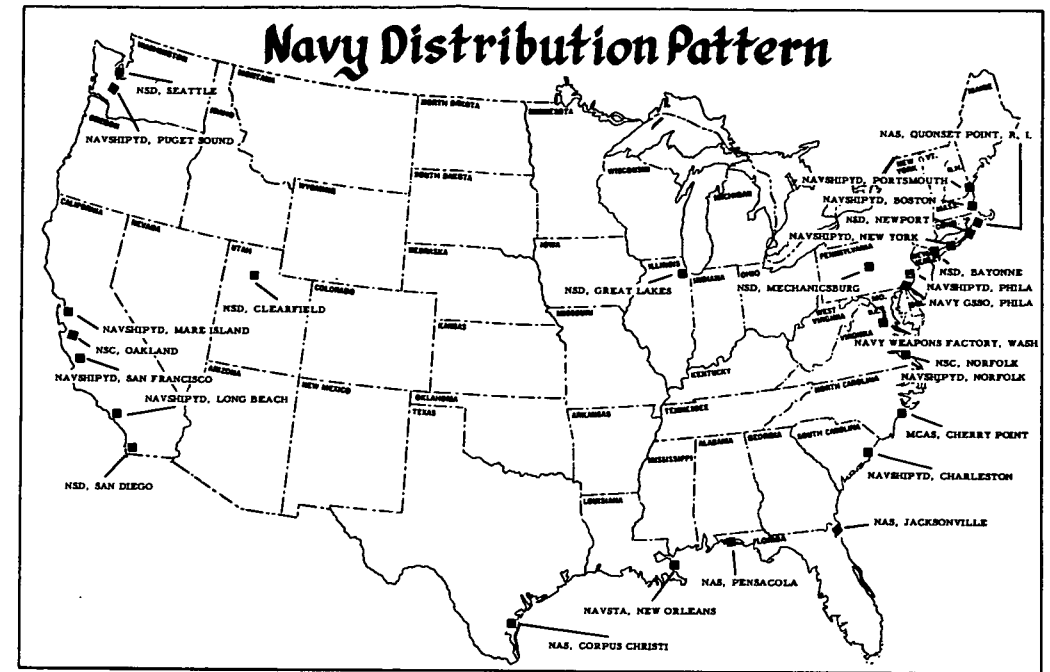
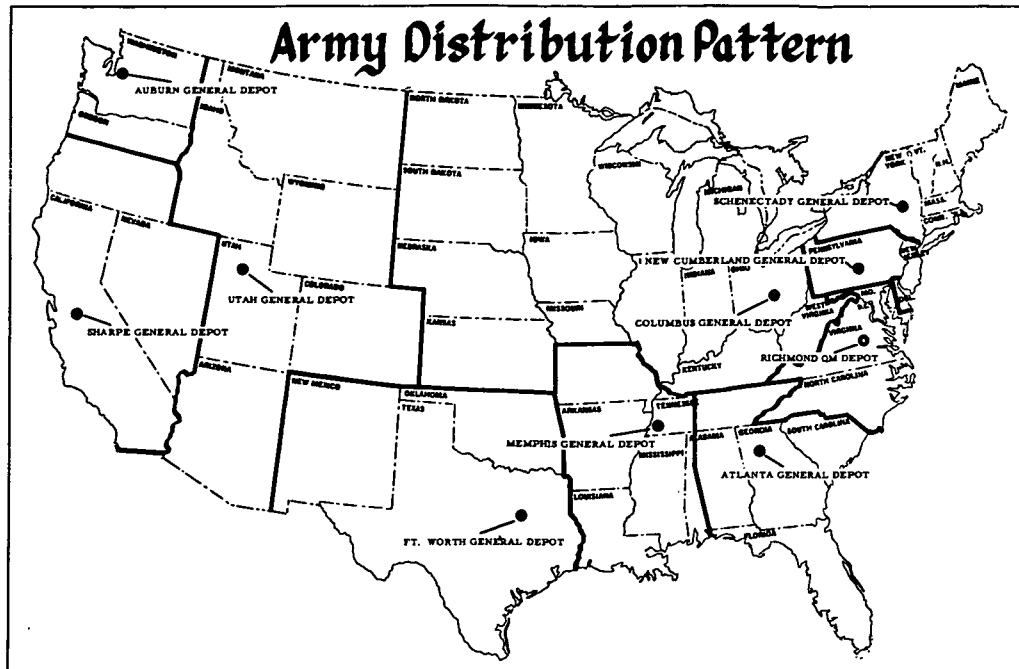


CHART 3.—Army, Navy, Air Force, and Marine Corps Distribution Patterns

3. *Inventory control points*

Important in the organizational setup are the field agencies in each service which exercise worldwide control over categories of stocks maintained at depot levels. There are 58 such field activities known as inventory control points, which not only regulate the varieties and quantities of stocks, but direct and supervise purchasing. In each case the inventory control points are under the supervision of the Army Technical Services, the Navy Bureau of Supplies and Accounts, the Air Materiel Command, and the Quartermaster General of the Marine Corps. Hence, a number of these inventory control points supervise the procurement and distribution of identical items. It is in this area that considerable overlapping and duplication of supplies and facilities originate.

4. *Wholesale depots*

Each service maintains its own system of depot installations in the United States and overseas. These service depots have a mission of serving using organizations in a prescribed geographic area with a wide range of supplies or with a prescribed class of material. There are about 250 such installations.

5. *Retail depots*

Finally, there are some 2,500 activities of significant size attached to, or physically situated at, locations which serve the ultimate consumers. These ultimate users are represented by the installations which construct, repair, and maintain the primary end items, and by the operating forces themselves.

D. THE PRESENT ASSIGNMENTS FOR PROCUREMENT

Before describing the various methods used at the present time by the Department of Defense for the procurement of materials and supplies essential to the Military Establishment, we shall review briefly some background developments in procurement.

Even before World War II, aircraft procurement had been subjected to some measure of coordination through the Joint Aircraft Committee and assignment of cognizance to the Army Air Forces or the Navy with cognizance over particular plants manufacturing aircraft. The Army Technical Services provided some measure of coordination of procurement in other areas, such as lumber and certain ordnance items.

During World War II, other areas of procurement were coordinated to varying degrees. The Army Quartermaster General procured much of the subsistence required by the Navy, and this proved to be particularly effective. A Central Procurement Agency for lumber for the armed services was established in the Army Engineers Corps in 1942. The Army and the Navy informally cooperated in the procurement of medical supplies, chemical warfare equipment, tractors, and small arms.

Feeling not only that the further coordination of procurement was needed in connection with large classes of similar material purchased by various services, but also that there was a danger that the coordination which had been achieved might be lost after the war was over, Secretary of the Navy James Forrestal and the Under Secretary of the Army, Robert P. Patterson, directed that a study be made by Capt. Lewis L. Strauss, USNR, and Col. William H. Draper, Jr. As an outgrowth of this study, the Army-Navy Medical Procurement

Agency was established in 1945. Also, the Army and the Navy located their procurement offices for textiles and clothing items in a single building in New York City. By this arrangement, it was hoped that the procuring officials of the two Departments would keep each other advised of their respective actions, thereby achieving some of the advantages of unified procurement.

Congressional and public criticisms of military waste, duplication of procurement functions, and competition between military agencies for material were widely voiced during the war and were continued into the postwar period. The Army-Navy Munitions Board began making assignments for single-department procurement. This work was continued by the Munitions Board after it was established under the National Security Act of 1947. The act provided for the "greatest practicable allocation of purchase authority of technical equipment and common-use items on the basis of single procurement." The function of making specific assignments is now the responsibility of the Assistant Secretary of Defense (Supply and Logistics), but there has been considerable deviation from the original concept in certain assignments. There are presently four main centralized arrangements for purchasing:

1. *Single department procurement assignments* is an arrangement whereby one service is designated as the procuring agency for a Federal supply classification commodity grouping to perform the purchase function and certain ancillary followup arrangements. There are presently single military department procurement assignments in 30 commodity areas.^{1a} In addition, there are three commodity areas assigned to the General Services Administration. The commodities are assigned as follows:

Commodity:	<i>Procured by—</i>
Antifreeze.....	Army.
Batteries, dry cell.....	Do.
Chemical warfare equipment, furnishings, and supplies.....	Do.
Construction and agricultural equipment and tractors.....	Do.
Drums and cans.....	Do.
Ecclesiastical equipment and supplies.....	Navy.
Fibers, fiber rope, cordage, and twine.....	Do.
Firefighting, rescue, and safety equipment, airport.....	Air Force.
Firefighting, water purification, and sewage treatment equipment.....	Army.
Food preparation and serving equipment.....	Do.
Fuels, solid.....	Navy.
Hand tools.....	Do.
Lifesaving equipment, marine.....	Do.
Lighting fixtures, airport.....	Air Force.
Lumber, plywood, millwork, and veneer.....	Army.
Materials handling equipment.....	Navy.
Mortuary equipment and supplies.....	Army.
Motor vehicles, trailers, and cycles.....	Do.
Office furniture, machines, and supplies.....	GSA.
Paints and sealers.....	Navy.
Paper and paper products.....	Army.
Pest control agents.....	Navy.
Photographic equipment.....	Air Force.
Prefabricated and portable buildings.....	Navy.
Railway equipment.....	Army.
Sextants, aircraft.....	Navy.
Ships, small craft and related marine equipment.....	Do.
Telephone and telegraph equipment and components, military.....	Army.
Time measuring instruments (certain items—Navy).....	Do.
Tires and tubes.....	Do.
Weapons, fire control equipment, ammunition and explosives (certain items—Navy).....	Do.

^{1a} The DOD is creating new single department procurement assignments in the area of electronic equipment on a parent-user basis, and for common electron tubes.

2. *Single manager plan* is a program whereby all wholesale stocks of the designated commodity are owned and controlled by the single manager, to whom each service submits its requirements. After matching requirements against stocks on hand, the single manager computes the overall net requirements for the Department of Defense and buys accordingly. The single manager finances his stores from a revolving fund, and each military service purchases what it needs from him. To distribute stores most advantageously, the single manager selects the depot which can best support all military activities in an area designated. The selected depot may belong to any one of the military services and that service continues to operate it, acting as the single manager's agent.

The single manager plans are of relatively recent origin starting in 1955. During fiscal year 1959 the four commodity assignments to single managers accounted for procurements totaling about \$2.5 billion. The commodities and transportation services covered by the plan through 1959 are assigned to the services as follows:

Commodity or service:	<i>Assignment</i>
Subsistence.....	Army.
Clothing and textiles.....	Do.
Medical material.....	Navy.
Petroleum.....	Do.
Land-traffic management.....	Army.
Sea-transportation management.....	Navy.
Airlift transportation management.....	Air Force.

3. *Plant cognizance procurement* is a form of coordination whereby one service procures certain supplies from a particular plant to satisfy the requirements of all the services. This type of procurement is limited presently to airframes, aircraft engines, and propellers. The major part of procurements under plant cognizance is made by the service having the assignment for their own requirements and only a small part is procured for the other services.

4. *Weapons systems contracting* is a new concept which envisions the procurement as a whole for the total management of a weapons system. It comprises both facilities and equipment of complex instruments of combat and involves planning, budgeting, research design, development, acquisition, storage, distribution, maintenance, logistics support and training of personnel. It is a method of producing and placing in operation the necessary advanced instruments of combat in the most suitable manner for each weapon system without regard to existing organization and functions of the military departments.

E. THE CHRONOLOGY OF IMPORTANT EVENTS IN DEFENSE SUPPLY MANAGEMENT

The following is a brief chronological résumé of the important events in defense supply management:

1947

The National Security Act of 1947 provided for the "unification" of the Army, Navy, and Air Force, gave a statutory basis to the Munitions Board and the Research and Development Board within the Department of Defense, and created the

National Security Council and the National Security Resources Board. The act provided for the "greatest practicable allocation of purchase authority of technical equipment and common-use items on the basis of single procurement."

1948

1. The Munitions Board proceeded to make single service purchase assignments for categories of supplies (presently there are 33 such assignments).

2. The Armed Services Procurement Act, approved February 19, 1948, became the basic procurement law for the Army, Navy, and Air Force, supplanting scores of statutes.

3. The "Armed Services Procurement Regulations" (ASPR) were first issued following direction by the President to the Secretary of Defense to provide for suitable procedures to insure the proper use of the new legal discretion given to the services to negotiate contracts under the Armed Services Procurement Act.

1949

1. The report of the Hoover Commission Task Force on "National Security Organization." This was followed by the National Security Act Amendments of 1949 which established in the Department of Defense three Assistant Secretaries and the Chairman of the Joint Chiefs of Staff. Title IV of this act established the positions of Comptroller in each of the military departments and authorized the use of revolving funds.

2. The Federal Property and Administrative Services Act of 1949, an outgrowth of the first Hoover Commission as well, created the General Services Administration and authorized Federal programs of property utilization, surplus disposal, standardization, and cataloging.

1950

1. Following the Korean invasion, the Defense Production Act of 1950 provided various means for expanding our Nation's defense plant including the establishment of the Office of Defense Mobilization.

1951

1. Congress became concerned over the way the mobilization program was functioning. Among others, Senator Lyndon Johnson, Congressmen Hardy, Hébert, and Bonner headed subcommittees investigating various facets of the program.

2. Because of disclosures of supply inadequacies by the Bonner subcommittee of the House Government Operations Committee, the Deputy Secretary of Defense directed the Munitions Board (July 17, 1951) to set up a supply systems study project for each category of material and ordered that "priority consideration shall be given to the feasibility of assigning to a single military department the responsibility for procurement, distribution, including depot storage and issue for classes of common items of supply and equipment and depot maintenance of such equipment." A feasibility test was started in medical supplies at Alameda, Calif., to determine if the Army could satisfactorily distribute these supplies in that area to the Navy.

1952

1. The Defense Cataloging and Standardization Act of 1953⁶ established in the Office of the Secretary of Defense a Defense Supply Management Agency to develop a single catalog and a supply standardization program. (This act stemmed from the investigations of the Hébert subcommittee of the House Armed Services Committee.)

2. An amendment to the Department of Defense Appropriations Act of 1953 (the O'Mahoney amendment) required the Secretary of Defense to issue mandatory regulations to the services with respect to procurement, production, warehousing, and distribution of supplies and equipment. In September 1952, the Secretary issued Department of Defense Directive 4000.8 which enunciated 11 basic principles covering major phases of supply and logistics, and calls for maximum coordination among the services. (The O'Mahoney rider grew out of the Bonner subcommittee disclosures that the Air Force was building a separate supply system for common-use items instead of continuing the Eisenhower-Spaats cross-servicing agreements.)

1953

1. Reorganization Plan No. 3⁷ created the present Office of Defense Mobilization with added responsibility, including functions formerly vested in the National Security Resources Board, and the administration of the Strategic and Critical Materials Stock Piling Act⁸ (formerly responsibilities of the military services, the Munitions Board, and the Department of the Interior).

2. Reorganization Plan No. 6⁹ was based upon a report of the Rockefeller Committee. The Munitions Board, the Defense Supply Management Agency, the Research and Development Board, and the Director of Installations were abolished, and their functions were transferred to the Secretary of Defense. Six new Assistant Secretaries of Defense were authorized.

3. The Assistant Secretary of Defense (Supply and Logistics) notified (November 13, 1953) the military departments that the supply systems study project (in which priority attention was to be given to the feasibility of one service performing procurement, distribution, and issue of classes of common items of supply for all services) was discontinued and that subsequent emphasis was to be placed on supply management improvement within the respective services.

1954

1. The feasibility medical test at Alameda, Calif., was discontinued in accordance with the above (November 13, 1953) pronouncement.

2. Assistant Secretary of Defense (Supply and Logistics) notified the Riehlman subcommittee on July 27, 1954 (which took over the work of the Bonner subcommittee in the 83d Cong.), that it would not continue to study the feasibility of integrating

⁶ 66 Stat. 318; 5 U.S.C. 173 note.

⁷ 67 Stat. 634.

⁸ 60 Stat. 596; 50 U.S.C. 98 et seq.

⁹ 67 Stat. 638.

supplies on a commodity basis because it was considered a fragmentary approach to supply management problems.

1955

1. A number of Hoover Commission task force reports were released recommending improvements in the support activities in the Defense Department. The task force report on food and clothing¹⁰ recommended expansion of the single service purchase assignments to include responsibility for—

- (a) requirements determination;
- (b) inventories at the wholesale level;
- (c) standardization and specification;
- (d) inspection;
- (e) storage and distribution;
- (f) followup with vendors.

2. The "Hoover Commission Report on Business Organization of Department of Defense" recommended the expansion of the concept contained in the food and clothing report by the establishment of a separate civilian-managed agency in Department of Defense to administer all common supply and service activities.

1956

The Secretary of Defense reversed actions taken in 1953 and 1954 discontinuing the supply systems study project and the Alameda medical supplies feasibility test by setting up single-manager plans in four commodity groups and the three transportation services.

1957

The Secretary of Defense directed (October 7, 1957) that a critical appraisal be made of all the principal arrangements for coordinating the supply and logistics systems of the military departments and to plan ahead on further steps to improve the integration of supply and logistic systems (logistics systems study project).

1958

1. The logistics systems study project findings were to the effect that the single-manager plans are effective supply management techniques. The study project was discontinued before completing the development of an ultimate plan of organization for Department of Defense supply authorities.

2. Department of Defense Reorganization Act of 1958 provided for strengthening the authority of the Secretary of Defense over the military departments. The McCormack-Curtis amendment to this act removed any possible doubt of the authority of the Secretary to integrate supply and service functions.

1959

1. The Armed Forces Supply Support Center commenced operations (established by Department of Defense directive of June 1958) providing for a permanent systems analysis staff. The center is also responsible for cataloging, standardization, and material utilization.

¹⁰ Commission on Organization of the Executive Branch, Task Force on Subsistence, "Services Task Force Report on Food and Clothing in the Government," April 1955.

2. The Secretary of Defense announced (November 10, 1959) the establishment of two additional single-manager assignments effective January 1, 1960. The Army was designated as the single manager for hand tools, and administration and house-keeping supplies. The Navy was assigned responsibility for hardware and certain related material.

PART II

DEPARTMENT OF DEFENSE SUPPLY MANAGEMENT PROBLEM AREAS

Private business enterprises make plans for periods into the future. Such plans chart a course for those who purchase materials, carry out the production program, and handle sales and distribution. Business executives upon assuming top management responsibility in the Department of Defense quickly discover that they cannot find counterparts for similar planning in the Military Establishment. While in theory the same elements of planning are present, they are scarcely recognizable because of several conditions which have little parallel in business enterprise:

1. The Department of Defense is not one but many industrial enterprises whose major end products (weapons of war) are constantly being modified and superseded as a result of vast programs of research and development and changing strategic and military assumptions.

2. The Department of Defense does not have one integrated policymaking board of directors, but five. In fact, the three military services, the Joint Chiefs of Staff, and the Assistant Secretaries of Defense are each making basic policy decisions which have a direct bearing upon supply. Among these groups (other than the Joint Chiefs of Staff), there are two essentially different points of view—one represented by those who are the civilian policy executives, and the other, by those who have military background and interests.

3. The problems of planning defense procurement are without comparison because such plans flow from the unknown intentions of potential enemies which must be predicted far in the future.

4. Over and above these considerations, there is present the vitiating effects of interservice rivalries.

The problems of securing greater order and clarity in supply planning have drawn the attention of congressional and civilian authorities over the years. Such authorities have stressed the importance of better planning in the interest of national security and some have also pointed to the large amount of waste that could be curtailed by better organization. The second Hoover Commission identified the principal supply deficiencies in Department of Defense in the following areas:¹

Inadequate integration in requirements

Lack of uniformity in requirements planning factors, including operating levels, mobilization reserves, and economic retention reserves.

Uncoordinated phasing of procurements of identical items which prevents maximum consolidation of quantities.

¹ Department of Defense, logistics systems study project summary, pp. 1-6.

Incomplete standardization of specifications for items to perform the same function.

Inadequate integration in use of assets

Duplication in inventories and pipelines.

Inadequate interchange of assets to minimize total stocks and prevent concurrent buying and selling.

Inadequate coordination in planning distribution of stocks to minimize transportation and handling expense, avoid crosshauls, backhauls, etc.

Inadequate integration in use of facilities

Excess depot facilities over those required by consolidated stockage.

Duplicate overhead charges resulting from separate purchasing and supply offices.

Inadequate integration in management

Multiple managers of common-use supplies and services.

Incomplete standardization of procedures and documents.

Insufficient followup by Department of Defense on uniform practices prescribed in directives and instructions.

As a solution to these deficiencies, the Hoover Commission recommended that Congress enact legislation establishing a separate civilian managed agency reporting to the Secretary of Defense to administer supply and service activities that are common to two or more services.² The Department of Defense did not concur in this recommendation but instituted a number of what it considered to be important improvements in its supply operations that would enhance efficiency and eliminate unnecessary duplication without creating a new agency.

An evaluation of the various supply arrangements that are now in effect is made in subsequent chapters of this report.

² Commission on Organization of the Executive Branch of the Government, "Task Force Report on Business Organization of Department of Defense," p. 45.

PART III

AN ASSESSMENT OF THE SINGLE MANAGER PLAN

A. SINGLE MANAGER SYSTEM

Under the single manager plan, one military department is designated to be responsible for certain Department of Defense supply-management functions for a particular class of commodities or services. The plan automatically eliminates concurrent buying and selling by different services since the single manager is the only designated inventory manager of wholesale stocks of a particular commodity or service. Each service computes its own requirements but the single manager collates them and determines net procurement requirements. The single manager enters into procurement and performs contract administration for centrally procured items. He determines those items to be procured locally by the individual services, which administer local procurement contracts and finance such procurement from their own retail stock funds. There are two stock funds for each commodity assignment. The retail stock fund within each military service finances retail stocks procured from the single manager by reimbursing the wholesale stock fund.

The single manager stores and issues all centrally procured items except petroleum. The plan provides that distribution depots of all the military services may be utilized by the single manager. The plan is, however, applicable at present only at the wholesale level and only within the continental United States.

Upon designation as a single manager, a military department makes appropriate organizational arrangements for carrying out its responsibilities through an operating agency headed by an executive director. Military personnel on the staff are assigned from all the military services; civilian staff members are supplied by the department having the single manager assignment.

B. STATUS OF THE PROGRAM

The program was set in motion in November 1955 when the single manager for subsistence was designated. This was followed in quick succession with single manager assignments for other commodities and services.¹

¹ U.S. Congress, House of Representatives, Subcommittee on Department of Defense Appropriations, "Staff Report on Procurement, Supply, and Surplus Property in Department of Defense," 85th Cong., 2d sess., 1958, pp. 238-239.

TABLE 12.—Assignment of commodities and services to single managers, by service

Commodity or service	Date assigned	Single manager
1. Subsistence.....	November 1955..	Secretary of the Army.
2. Clothing-textile.....	May 1956.....	Do.
3. Medical materiel.....	do.....	Secretary of the Navy.
4. Petroleum.....	July 1956.....	Do.
5. Military traffic management.....	May 1956.....	Secretary of the Army.
6. Sea transportation.....	do.....	Secretary of the Navy.
7. Air transportation.....	November 1956..	Secretary of the Air Force.

While air transportation (MATS) and sea transportation (MSTS) were designated as single-manager plans, these operations have been in effect since 1948 and 1949, respectively.

Single-manager assignments in the four commodity areas account for sizable budgetary expenditures. Of the Department of Defense annual procurement for material and supplies at \$23.9 billion currently, approximately \$2.5 billion, or 10.5 percent, represent the amount procured under single-manager plans. While the material represents only about 2 percent of the total number of supply items, it accounts for about 20 percent of the total receipt-and-issued line items.²

Although petroleum products were designated as a single-managed commodity under the Navy Department, this assignment does not include the responsibility for the wholesale storage and distribution functions. The Air Force, which is the predominant user of petroleum products, has opposed the transfer of the distribution responsibility to the Navy single manager.

C. DEVELOPMENT OF THE PROGRAM

The establishment of the single-manager concept in 1955 was a sharp break with traditional independent inventory control and distribution operations by the military services. The program did not come into existence as a planned and evolutionary process. Actually, the Department of Defense completely reversed the position it had announced only a short time before which questioned the value of unification along single-manager lines. On July 27, 1954, the Assistant Secretary of Defense (Supply and Logistics) addressed a letter to the chairman of the House Military Operations Subcommittee attacking the soundness of the concept of unification of supplies by categories under one service (appendix I). The letter claimed that this was a fragmentary approach to military supply management and that since all military materials were categorized under 17 broad classifications, independent supply systems for each classification would consequently result in 17 different and separate systems in place of the existing 4 systems. The letter stated that no further studies using a so-called commodity segment approach would be carried on by the Department.

In this connection, it is important to consider the fact that there are at the present time, 58 inventory control points or supply systems for the various commodity classes among the military services.³ Conceivably, if all these 58 supply systems were placed under single-manager arrangements, they could be reduced to 17 systems.

The Department's break with tradition in setting up single-manager plans occurred only a short time after rejecting this concept. It came

² *Ibid.*, p. 238.

³ U.S. Congress, House of Representatives, Subcommittee on Military Operations May 26, 1959, p. 251.

at the time that the Department of Defense was under criticism from Congress for nonconformance with the requirements of the O'Mahoney amendment (sec. 638, Defense Appropriation Act of 1953).⁴

It also coincided with the release of the Hoover Commission "Report on Business Organization in the Department of Defense," which recommended much more sweeping unification measures than those envisioned in the single-manager concept.

The criteria formulated by the Department of Defense for determining the feasibility of single-manager assignments are based on such factors as the amount of commonality of the commodity class, dollar volume, number of items, and susceptibility to stock funding.⁵ The degree of success in this technique is assumed to increase in commodities showing a higher degree of commonality and among items with low military peculiarity. It is estimated that the consolidation of inventory management, procurement and distribution functions among the military Services is feasible for about 52 percent of the items in the military supply systems.⁶

There is considerable looseness in the interpretation that the Department of Defense puts on the commonality of items. An inventory stratification study by the Navy in 1953 made a finding that has resulted in recasting the positioning of supplies in the Navy supply system and in the other Services as well.⁷ This study showed that, across-the-board, some 10 percent of all items in a commodity class generally accounted for about 90 percent of the total receipts and issue. This high turnover rate in a relatively small number of items would indicate that it is not the low numerical percentage of common items in a particular commodity group that should be used as a criterion in determining its single-manager feasibility, but rather the demand for the common items in relation to the total demand or the velocity of turnover of the common items.

In this connection, the single-manager assignment for clothing and textiles has made the greatest relative gains in coordination in the four commodity groups.⁸ In large part, the gain represented an improvement over the lack of any coordination in this commodity area at the outset (Appendix II). Yet it is significant that this single manager started with only 3,976 items or 12 percent commonality, but this has now been increased to 7,086 items or 21 percent of the total items and accounts for a large proportion of this total turnover. The single-manager was able to reduce a total of 43,910 clothing and textile items inherited from the Services to 33,664 items.

D. VARIOUS VIEWS ON THE MERITS OF THE SINGLE-MANAGER PLAN

The Secretary of Defense directed in October 1957 that the three Services make a critical appraisal of all the principal arrangements for coordinating the supply and logistics systems of the military departments in order to assess the benefits from present arrangements and to plan ahead on further steps to improve the integration of supply

⁴ U.S. Congress, House of Representatives, Committee on Government Operations, Hearings on the Hoover Commission Report on Food and Clothing May 5, 10, 11, 12, and 13, 1955.

⁵ Letter of Nov. 4, 1958, from the Office of Secretary of Defense (Supplies and Logistics) to the Director, Armed Forces Supply Support Center.

⁶ Department of Defense Logistics System Study Project Summary Report, pp. 1-8.

⁷ Department of the Navy, Bureau of Supplies and Accounts Inventory Study, 1953.

⁸ U.S. Congress, House of Representatives, Military Government Operations Committee Report No. 674, p. 4.

and logistics systems. All the single-manager arrangements were studied. While there were a number of recommendations made for improvement, the overall conclusion was as follows:⁹

In summary the single-manager technique has proved to be an important step forward in integrating supply management. Experience, to date, shows that for the commodities now under single managership, centralization of responsibility for inventory control, procurement and distribution at the wholesale level is a source of definite economy * * *.

A panel of representatives from three large accounting firms made a study of the auditing function carried on independently by each military service and submitted a report in November 1958 to the Assistant Secretary of Defense (Comptroller.) While the significance of this report will be reviewed in a subsequent section, it is germane to note that even though it was outside the study group's frame of reference, its principal recommendation was for a single-manager arrangement for contract auditing.¹⁰

The advantages that could be gained from the establishment of one contract audit agency within the Department of Defense appear to be of such significance that this matter should be given prompt consideration by the highest appropriate officials in the Office of the Secretary of Defense.

Assistant Secretary McNeil did not act on this recommendation before leaving office in October 1959. However, his testimony before various congressional committees appears to "damn with faint praise" the efficacy of consolidating common supply and service activities.¹¹ During the hearings before the Joint Economic Committee on February 10, 1959, Mr. McNeil's testimony regarding single managers stated in part (see pt. VII on surplus disposal for an appraisal of Mr. McNeil's statement):

* * * There appears to be a mistaken impression that large sums of money can be made available from savings effected through single-manager operations. Although some savings have been achieved through the reduction of inventories and operating expenses in the Defense Department supply system as a whole, it is difficult to assess the extent to which these savings are wholly due to the single-manager assignments in contrast to those which would have been attained through the system of individual service management.

Mr. Perkins McGuire, Assistant Secretary of Defense for Supply and Logistics, who has policy control over single-manager plans, in a letter to Congressman John W. McCormack on March 10, 1959, had this to say with respect to savings through single-management plans:

It is impossible to assess precisely the extent to which savings made through the reduction of inventories and operating expenses are directly derived from the single-manager concept as compared to other improvement programs. However, our studies indicate that in the commodity fields presently covered by single management encouraging economies are being effected.

The effectiveness of single-manager operations in peacetime and under mobilization was studied during 1958-59 by teams consisting of representatives from Joint Chiefs of Staff, Office of Secretary of Defense, Armed Forces Supply Support Center, and the military services.¹²

⁹ Department of Defense Logistics Systems Study Project Summary Report, pp. 1-14.

¹⁰ Panel Report by Haskins & Sells, Arthur Anderson & Co. and Price Waterhouse & Co. on "Contract Auditing Function of the Army, Navy, and Air Force."

¹¹ U. S. Congress, House of Representatives, Committee on Appropriations, Defense Department Appropriations Subcommittee Hearings, Department of Defense Appropriations, 1960, 86th Cong., 1st sess., 1959, pt. 5, p. 31. U. S. Congress, Joint Economic Committee, Hearings on the President's Economic Report, 86th Cong., 1st sess., 1959, pp. 679-680.

¹² "Commodity Single Manager Evaluation Study."

Their report issued in June 1959 made findings that the present wholesale commodity single manager plans accomplished the following:

- (a) Organized a highly effective supply system;
- (b) Reduced inventories and started stock attrition;
- (c) Shortened procurement processing time and improved delinquency rates;
- (d) Streamlined commodity distribution systems;
- (e) Saved storage space;
- (f) Contributed to item reduction;
- (g) Achieved general satisfaction at the customer level;
- (h) Reduced crosshauls and backhauls;
- (i) Assisted in eliminating concurrent buying and selling;
- (j) Reduced personnel and payroll; and
- (k) Corrected deficiencies in certain mobilization areas.

The House Military Operations Subcommittee report on single-manager agencies in July 1959, concluded that although the plan as presently formulated may not be the best possible supply arrangement, nevertheless, it has been a big step forward in bringing together certain interrelated functions.¹³ This report found that the savings thus far realized were modest in comparison with the potential. The subcommittee recommended an extension and strengthening of the single-manager concept and included among its recommendations that—

(1) * * * the existing single-manager agencies be strengthened to gain maximum savings and efficiency in performance. The agencies should be authorized to participate actively in the process of military requirements determination and should be assigned additional supply management responsibilities as experience dictates.

(2) * * * the single-manager plans be extended to additional commodity and service areas and that selection of appropriate areas be made without protracted study on a case-by-case basis.

The subcommittee report further cautions that if the plan became unfairly discredited because of slow or abortive action by means of "studying to death" the assignment of additional functional responsibilities and the establishment of new commodity and service areas, it would be a great setback in the uphill climb over the past decade toward achieving greater cooperative effort among the military services. The report also pointed out that such protracted study often becomes merely a symptom of underlying interservice rivalry, inaction, and an excuse for delaying the unpopular duty of eliminating unnecessary duplicative activities.¹⁴

An example of what the subcommittee report refers to as protracted study in Department of Defense in lieu of action is indicated in the half-hearted efforts over the past 10 years toward getting agreement among all interested parties on a uniform ration bill to recommend to Congress. The purpose of such a law would be to end disparities in and equalize standards of feeding within the Armed Forces. Such legislation is highly desirable on the basis of equity of treatment to all servicemen and of better supply management. Its enactment would exploit more fully the potential savings by the subsistence single manager and simplify the task of determining requirements. Further, there are opportunities for significant savings through the development of a coordinated annual master menu. This plan could take advantage of opportunity buys, seasonal prices, items in excess, rotations of reserve stocks, and a uniform head count system at the mess level.

¹³ U.S. Congress, House of Representatives, Rept. No. 674, pp. 6 and 7.

¹⁴ *Ibid.*, p. 42.

Yet since 1949, this still unresolved problem has been interminably discussed among the services and with the Office of the Assistant Secretary of Defense (Supply and Logistics); and also between Department of Defense and the Bureau of the Budget (BOB).

The following is a brief chronology of events between Department of Defense and the Bureau of the Budget which shows the extent of indecision and procrastination on this important subject. One might question whether the inability to reach agreement might not stem from its unpopularity in certain quarters.

(1) At present the Army and Air Force are operating under a uniform garrison ration, which was established by an Executive order in 1932 and amended in 1940. The Navy operates under a Navy ration law (Public Law 411) passed by the 72d Congress in 1933 (now codified in ch. 557 title 10, U.S.C.). The disparity in these two systems is quite obvious from the difference in the per capita food allowance per man per day. The soldier and airman are required to live within a specific, nutritionally approved menu, which ranges in cost in the 1959 budget from \$1.10 to \$1.15 per man per day. The sailor and marine, through the Navy system of conversion, gets from \$1.12 to \$1.22 per man per day for food in the same fiscal year 1959 budget. (Range of budgeted food costs within each department is based on location, CONUS or overseas.) There are also wide differences in the head count system which permits the Navy a higher per capita food allowance on the basis of the number of men actually served.

(2) Although work on a uniform ration bill was started in 1949, it was not until January 1952 that it was forwarded to the Bureau of the Budget. In June 1952, the Bureau of the Budget returned the proposed legislation with few recommendations for minor changes in language. These changes were made and the proposed legislation was returned to the Bureau of the Budget on September, 29, 1952, for clearance. On August 18, 1953, almost 1 year later, the Bureau of the Budget forwarded a substitute draft of a uniform ration bill which constituted a major rewrite of the original proposal. This revision was not acceptable to the Department of Defense and no further action was taken at that time to introduce legislation.

(3) The Hoover Commission Report on Food and Clothing recommended that the Department of Defense submit to Congress proposed legislation for a uniform ration law, applicable to all military departments, which would end disparities and improve coordination in departmental ration standards and feeding plans.

(4) In March 1956, at the request of the Office of the Secretary of Defense, the military departments once again drafted and submitted a proposed uniform ration bill to the Office of the Secretary of Defense for approval and further processing. The Department included this proposal in its legislative program for 1957, and it was transmitted to the Bureau of the Budget on August 15, 1956. After considering certain changes recommended by the Bureau, the Department of Defense resubmitted the proposal to the Bureau of the Budget on November 15, 1956, with some revisions as suggested by the Bureau of the Budget, and with a statement of the Department of Defense position on the other Budget Bureau recommendations which were not acceptable.

(5) The Bureau of the Budget took no action on the November 1956 proposal and the matter remained dormant until September 1958 when the Department of Defense again transmitted the identical proposal to the Bureau of the Budget for approval. One of the basic provisions in this bill is that each service Secretary shall prescribe the ration for personnel under his jurisdiction, despite the fact that the Defense Reorganization Act of 1958 called for strengthening the authority of the Secretary of Defense vis-a-vis the service Secretaries.

(6) The latest action was in June 1959 when the Bureau of the Budget replied to the Department of Defense on the identical November 1956 and the September 1958 bills that were unacceptable and proposed once again consideration of another revised draft.

E. POSSIBLE EXTENSION OF THE SINGLE-MANAGER PLAN IN COMMODITY AREAS

Assistant Secretary McGuire notified Senator Paul Douglas by letter dated July 10, 1959, that a comprehensive study was underway of a segment of the general supplies area. The scope of this study covered 75,000 items out of a total of 2,300,000 general supply items, and its objective was to determine the feasibility of managing these types of items under a single manager system. The commodity range included household furniture and furnishings, office furniture and appliances, office machines, office supplies, cleaning equipment and supplies, containers and packing supplies, toiletries, paper and paper-board, food preparation and serving equipment, musical instruments, recreational and athletic equipment and other related administration and housekeeping supplies as well as hand tools.

This study completed in October 1959 recommended the establishment of a single manager plan under the executive direction of the Army. The report reveals the existence of very costly duplication and inconsistent practices among the services in every supply function for these commodities. An analysis of this report follows.

RÉSUMÉ OF THE DEPARTMENT OF DEFENSE REPORT ON THE MANAGE- MENT OF CERTAIN SELECTED GENERAL SUPPLIES

Scope

The term "general supplies" has different connotations among the military services. In its broadest connotation it is considered to include the following identifiable segments:

TABLE 13.—*Items in general supplies*

	<i>Number of items</i>
Administration and housekeeping supplies	25, 000
Handtools	50, 000
Hardware and abrasives	520, 000
Construction equipment and supplies	100, 000
Automotive equipment and supplies	325, 000
Electrical/electronic supplies	990, 000
"Other type" general supplies	300, 000
Total	2, 310, 000

NOTE.—"General supplies" amount to about 70 percent of the 3.4 million items in the Department of Defense supply systems.

The commodity segments selected for this study were confined to administration and housekeeping supplies and hand tools. This class range is referred to as the general supplies study model (GSSM) throughout the report.

The following is the GSSM financial inventory management summary:

TABLE 14.—Summary of financial inventory management of the general supplies study model

	Inventory December 1958	Procurement fiscal year 1959	Sales fiscal year 1958	Amount of long supply
	Millions	Millions	Millions	Millions
Army.....	\$158.0	44.5	65.2	51.2
Navy.....	107.9	44.7	38.4	21.4
Air Force.....	52.0	23.2	33.7	12.1
Marine Corps.....	21.5	3.0	5.4	15.3
Total.....	349.4	115.0	142.7	100.0

Long supply is the amount of stock over the sum of operating and mobilization requirements. However, since there are wide differences among the services in amounts allocated to operating and mobilization requirements, the above table shows a very conservative estimate of long-supply stocks. It also should be taken into consideration that very little technological obsolescence develops in this type of supplies.

The following summary of item commonality shows an extremely low percentage of the number of items that are used by two or more services, particularly since the GSSM consists almost solely of commercial-type items.

TABLE 15.—Summary of item commonality in the GSSM as of Sept. 4, 1959

Federal supply group	Name	Number of items	Number of items used by 2 or more military services	Percent- age of com- monality
51	Handtools.....	50,373	13,042	26
71	Furniture.....	2,579	215	8
72	Furnishings.....	687	109	16
73	Food equipment.....	4,657	662	14
74	Office machines.....	2,090	70	3
75	Office supplies.....	6,303	1,093	17
77	Musical instruments.....	332	125	37
78	Athletic equipment.....	355	125	35
79	Cleaning equipment.....	779	188	24
81	Containers.....	4,632	617	13
85	Toiletries.....	427	46	36
9310	Paper.....	320	31	10
99	Miscellaneous.....	1,755	137	8
	Administration and housekeeping.....	25,116	3,601	14
	Total hand tools and administration and house- keeping.....	75,489	16,643	22

Findings

Item management

Within the GSSM there are two types of items that should be managed by the respective services—engineering-essential and operational-essential items.

Requirements

There is a need for realism in the computation of requirements. There is an absence of specific criteria among the Services with respect to requirements for peacetime operations, mobilization needs, economic retention levels and stocks designated as being excess of needs. The following table shows the percentage of these various levels for GSSM supplies held by each service.

TABLE 16.—Percentage distribution of inventories of GSSM among the services

Service	Peacetime operations	Mobilization	Economic reserve	Excess
	<i>Percent</i>			
Army.....	44	34	4	18
Navy.....	33	17	33	17
Air Force.....	75	1	15	9
Marine Corps.....	9	19	22	50

The amount of long-supply stocks (economic reserve plus excess) is high. It ranges from 22 percent for the Army to 72 percent for the Marine Corps. Since there is little obsolescence in the GSSM, this condition is due largely to uncoordinated requirements determination. The integration of requirements under consolidated management would directly and immediately exploit the maximum utilization of resources within the Department of Defense.

Procurement

Single department procurement assignments have been made for the various commodities in the GSSM among Army, Navy, and General Services Administration. The philosophy behind this technique is for the Department of Defense to realize the advantage of volume buying and the economies made possible therefrom. Yet out of total reported procurement of \$115.4 million in the GSSM supplies during fiscal year 1959 only \$30 million or 26 percent were made under this arrangement. The service participation in this supposedly key Department of Defense management technique was as follows:

TABLE 17.—Service participation in single department procurement fiscal year 1959

	<i>Millions</i>
Army.....	\$15.2
Navy.....	12.6
Air Force.....	1.6
Marine Corps.....	.6
Total.....	30.0

Use of single department procurement is far less than would be expected. This limited use is attributable to conflicting Department of Defense policies. The armed services procurement regulations, on the one hand, provide for items to be procured directly by the requiring services; while on the other hand, the use of the central procurement assignees is discretionary with the requiring services.

Standardization

The progress in the standardization of GSSM items has been extremely slow as evidenced by low commonality. The percentage of commonality ranges from a low of 3 percent for office machines to a

high of 37 percent for musical instruments as shown in a previous table. This results from (a) the low priority assigned to some GSSM projects, and (b) the absence of a vigorous program among the services to implement existing published standards.

Stock fund management

About 80 percent of the reported GSSM supplies is stock funded. But the services have not applied uniform criteria in stock-fund operations. The following table shows that with the exception of the Air Force, all other services had in excess of 90 percent of their stocks in this category. Less than 4 percent of the Air Force GSSM value of \$52 million was stock funded.

TABLE 18.—*Stock fund operations in GSSM*

	Stock funded	Nonstock funded	Total	Percent of total stock funded
	<i>Millions</i>	<i>Millions</i>	<i>Millions</i>	<i>Percent</i>
Army.....	\$148.0	\$10.0	\$158.0	93.4
Navy.....	98.7	9.2	107.9	93.0
Air Force.....	2.0	50.0	52.0	3.8
Marine Corps.....	29.3	2.2	31.5	93.0
Total.....	278.0	71.4	349.4	80.0

Existing regulations for single-manager stock funds for purchases at the field installations level cause unwarranted duality of control at field installation level. Any plan of GSSM consolidated management should provide that stock funds extend only to the wholesale level.

Distribution

An examination of the distribution phase of the supply cycle discloses that in almost any geographical region of the United States there are several wholesale depots or quasi-wholesale supply points, each primarily engaged in supplying the needs of its service with GSSM items. For example, in the southeastern area, the Army's Atlanta General Depot, Memphis General Depot, Air Force Mobile Depot, Marine Corps Supply Center in Albany, Ga., and four Navy primary stock points (Charleston Navy Shipyard, Naval Air Station, Pensacola, Naval Air Station, Jacksonville, and Naval Station, New Orleans) are in the business to supply the needs of their respective services.

The Army's triarea distribution pattern (Richmond QM Depot, Atlanta General Depot, and Utah General Depot) services more than 240 requisitioning activities with GSSM items.

Navy GSSM items are distributed nationwide through 28 primary stock points. There are approximately 133 secondary and consumer stock points.

The Air Force mobile air materiel area services over 150 Air Force bases with some GSSM materiel while a large number of these items are procured independently by each of these bases without centralized control. (The Air Force distribution system is currently undergoing major realignment.)

The Marine Corps supply centers at Albany, Ga., and Barstow, Calif., service eight major installations.

Interservice supply support

In the Department of Defense the interservice supply support program has received major emphasis since 1955. It was designed to eliminate concurrent buying and selling while maintaining the status quo of the independent service supply systems. Considerable top echelon effort went into establishing 33 commodity coordination groups. The study indicates that this program with respect to GSSM items has been a failure. Out of an annual procurement of \$115 million of GSSM materiel only an estimated \$1 million were interserviced, or less than 1 percent. The findings were that "This coordinative process both in resources exchanged or commodity system improvements is lagging for reasons beyond the control of the CCG's [commodity coordination groups]."

Utilization of excess materiel

A program in effect for some time designed to promote better utilization of excess materiel throughout the Government before being declared as surplus is doing much better than the interservice support program. Out of a total of \$44 million declarations during fiscal year 1959 of excess for GSSM supplies the services acquired \$5.8 million, or 13 percent. The acquisition of this materiel is not reimbursable whereas the interservice supply support program requires reimbursement. Apparently when the services have to buy stock they prefer going into the open market rather than trading with one another.

Significantly, the report points out the certain inventory control points were computing GSSM items for mobilization requirements on a nonselective basis for retention purposes only. Such assets which previously fell into the category of long supply (and thereby subject to transfer without reimbursement) would now be categorized as mobilization requirements and thereby not be subject to transfer on a nonreimbursable basis. In other words, the inventory control points are using mobilization reserves as a convenient coverup for long-supply stocks.

General Services Administration

The General Services Administration depots stock a range of 9,000 items. Of these there are 3,338 GSSM items used by the military or 4 percent of the total item range (75,489).

Military use of General Services Administration facilities is growing. About 60 percent (\$492 million) of total General Services Administration sales (\$825 million) and 70 percent (\$115 million) of stores depots sales (\$163 million) were made to the military during fiscal year 1959.

The General Services Administration depot system is a reasonably extensive system for support of governmental activities for selected items. For the range of items stocked, it performs supply support effectively (that is, the General Services Administration has been able to supply 94 percent of these items without delay for fiscal year 1959).

According to the General Services Administration, its warehouse facilities are 88 percent utilized. Any substantial increase in range or depth of stocks would necessitate expansion of present facilities.

Conclusions

NEED FOR MANAGEMENT IMPROVEMENT

There is need for management improvement across service lines. The range of commodities in the GSSM is a fertile field for better overall management with sustained and improved effectiveness. The principal economies can be realized in the distribution systems and in inventory investment.

I. Economies in the distribution systems

(a) *Reduction in operating costs at inventory control points (ICP's).*—The preponderance of common use GSSM items are managed by the four commodity-type ICP's. Under consolidated management, any one of these ICP's could manage common GSSM items for all services, thereby eliminating duplicate management and reducing overall ICP costs.

(b) *Reduction in depot operating costs.*—A single distribution system to serve the needs of all the services would produce savings through a reduction in the number of wholesale outlets and better utilization of remaining facilities.

(c) *Reduction in transportation costs.*—Crosshauling and backhauling can be kept to a minimum with the establishment of an overall Department of Defense distribution system.

II. Economies in inventory investment

(a) *Consolidation of GSSM requirements.*—Total services requirements for GSSM under consolidated management will correct current deficiencies in the single department procurement program. It will thereby achieve price advantages inherent in volume procurement and also result in reduced administrative procurement costs.

(b) *Reduction in overall system stock level.*—There are several separate procurement pipelines, safety levels, operating levels, and mobilization levels. While it is not feasible to subject all four services to uniform techniques because of different missions, this uniformity can be achieved under consolidated management. This would assure the optimum inventory investment based on variability of demand, variability of procurement, lead time and economic order, and quantity principles.

(c) *Prompt utilization of long-supply stocks.*—Consolidated management would achieve maximum utilization of long-supply items through the matching of total Department of Defense requirements with total assets. Under consolidated management concurrent buying and selling would be eliminated on centrally managed items. It would be kept to a minimum on items decontrolled to station management through uniform local purchase policies.

(d) *Reduction in item range.*—The assignment of responsibility to a single agency for inventory management of GSSM provides a built-in, authoritative monitorship of item entry into the supply systems. This will foster standardization which is not easily attainable under separate supply systems.

FEASIBILITY OF ESTABLISHING SINGLE MANAGER FOR GSSM

III. The real feasibility test for establishing a single manager for the SSM is in the determination of whether an overall increase in efficiency and economy can be accomplished without a decrease in effectiveness in supply support in peace and war.

(a) It was determined that it was feasible and appropriate to establish a single manager for the GSSM.

(b) In view of the similarities between the GSSM items and hardware and abrasives, it was also determined to be feasible and appropriate to establish a single manager for these items without further study.

IV. Each service is qualified to operate a single manager, with these reservations:

(a) In order to put the plans into immediate action it is considered essential that the current single manager know-how and operational capabilities of the Army and the Navy be exploited.

(b) The Army through the OQMG inventory management facility in Richmond is most closely aligned to the GSSM range and is qualified for the task.

(c) The Navy through the Bureau of Supplies and Accounts inventory management facility in Philadelphia is most closely aligned with hardware and abrasive material and is qualified for the task.

THE BLUEPRINT FOR OTHER ACTIONS

V. Because of different characteristics, detailed studies should be made on—

Automotive equipment and supplies.

Construction equipment and supplies.

Electrical/electronic supplies (but only after GAO completes its study in June 1960).

Other types of general supplies such as, bearings, pipe, measuring tools, metal bars, etc., can be made single managed without need for further study.

VI. Alinement of items designated for single managers and the military services

(a) Single managers must have basic responsibility for overall management within the assigned commodity area, with authority to review and challenge, where appropriate, items coded by the services for their own supply management.

(b) Single managers should monitor item by item coding with the services.

(c) Single managers should have final determination of how items will be managed.

VII. Role of General Services Administration

(a) The individual services currently negotiate separately with the GSA for supply support. This approach fractionates defense management considerations for the same items and fosters unnecessary DOD/GSA duplication.

(b) The role of the GSA should be uniform with respect to all services. Items decontrolled from defense supply management should be processed through GSA for its determination of how best to manage these items.

VIII. Integrated distribution system

(a) Regardless of the number of single managers in existence or subsequently to be established, it is necessary that all common-use supplies flow through the same distribution system insofar as possible.

(b) Apart from the desirability of relying on systems-in-being the use of the Army general depot structure as a basis upon which to build a consolidated defensewide distribution system is logical, because the concept of regional distribution is most adaptable and flexible from an overall viewpoint for all defense activities.

(c) All designated single managers should work jointly in developing a defensewide distribution system.

IX. Simplified and uniform supply and funding procedures

There is an urgent need for a uniform system of requisitioning channels, supply, and funding procedures. The Army Quartermaster General and the Chief, Bureau of Supplies and Accounts, should be charged with this task.

As a result of this report, the Secretary of Defense announced on November 10, 1959, that he is establishing a single manager for the commodities studied, namely, administration and housekeeping supplies and hand tools, and assigned this responsibility to the Army. At the same time, he has assigned to the Navy single managership for certain supplies including hardware and related items.

The Secretary further stated that along with the creation of these additional commodity managers, a single integrated distribution system for all single-managed commodities is being studied. Also uniform operating procedures for all single managers are to be developed to facilitate effective supply operations.

F. POSSIBLE EXTENSION OF SINGLE-MANAGER PLAN IN SERVICE-TYPE AREAS

There are three single-manager agencies for services, and all of them are in the transportation field: Military Traffic Management Agency, Military Air Transport Service, and Military Sea Transportation Service. There has been equally as much delay in moving forward in the establishment of single-manager plans in this area as with the commodity classes. The Defense Department claims significant benefits in the unified operation of these transportation programs, yet it is reluctant to apply the single-manager concept in other potentially fruitful areas such as hospitals, contract auditing, communications, weather services, chaplain services, etc.

Hospital services operations are reviewed below to illustrate the opportunities for achieving substantial benefits by the integration of other common service-type activities.

Brief analysis of benefits that would result from consolidating Department of Defense hospitals

Within the Department of Defense, there are now three completely independent medical services, one each for the Army, Navy, and Air Force. There is also an Assistant Secretary of Defense (Health and Medical), who has responsibility for establishing overall policies. There are some 275 hospitals operated by the military services throughout the world—185 in the United States and 90 overseas. These hospitals have a bed capacity of about 105,000 and the average patient load is about 40,000 or less than 40 percent utilization. There are approximately 145,000 persons employed in all military medical activities, of which about 75 percent are military and 25 percent civilians.

Both the first and second Hoover Commissions recommended consolidation of the medical and hospital services in the three armed services. Also, the Bureau of the Budget in testimony April 1952, before the Senate Subcommittee on Reorganization of the Committee on Government Operations, maintained that medical services are readily adaptable to complete unification.

It is difficult to conceive of an area which would more readily lend itself to consolidation than medical care. The conditions which require medical services, the facilities for treatment, and the professional standards for medical personnel are virtually indistinguishable as among the services. Such unification might consist of establishment of a single medical service for the Department of Defense with the responsibility for—

- (1) Providing overall policy, direction and control;
- (2) Operating all fixed medical facilities throughout the world;
- (3) Furnishing of medical personnel (both professional and subprofessional) for the combat forces of the four armed services;
- (4) Operating such support activities as education, training, and medical research;
- (5) Planning and constructing all medical facilities.

Medical personnel could under a single-manager arrangement be detailed into the military services for the support of combat troops in the same way as naval medical personnel now support Marine Corps field forces. Military personnel could be assigned for treatment in the same manner as the Great Lakes Naval Hospital is now providing care for all the armed services in that area.

The operations of the armed forces medical program currently cost over \$400 million a year. A single manager of the three medical services would certainly result in substantial economies in operating costs. These economies would result from—

- (1) Elimination of duplication in central administration, education and training, and medical research; and
- (2) Elimination of duplication in operation of medical treatment facilities.

Another important benefit from unification could be the reduction in requirements for scarce professional personnel, such as physicians, nurses, and medical technicians. In addition, unification would permit a noncompetitive recruitment system and the complete flexibility of assignment in personnel and resources. The great difficulty the

Army has in the past experienced in recruiting doctors as compared with the Navy and Air Force would be eliminated by unified medical service.

The following are some examples of duplication or poor utilization in the operation of military medical activities:

(1) The Air Force hospital at Langley Air Force Base, Va., has a capacity of 217 beds. Only 100 are in operation caring for 62 patients. Six miles away, the Army has a 141-bed hospital at Fort Monroe, Va., in which only 35 beds are now operated with an average of 20 patients. Either of these hospitals has sufficient capacity to care for the patient loads from both bases.

(2) In the Harrisburg, Pa., area, there are two military medical facilities with the travel time between them not exceeding 30 minutes by automobile. These facilities are the Army hospital at Carlisle Barracks with a capacity of 73 beds caring for 21 patients; the Olmstead Air Force Base Hospital, with a capacity of 23 beds caring for 15 patients. Only one hospital is required to serve the military personnel and their dependents in the area.

(3) The Randolph Air Force Base Hospital in Texas has a capacity of 173 beds of which 50 are in operation caring for 22 patients. Less than 30 minutes by automobile is the Brooke Army Medical Center, San Antonio, Tex., with a capacity of 1,745 beds of which 1,100 are in operation caring for 717 patients. A dispensary could be operated at Randolph Air Force Base with hospital care being provided by the Brooke Army Medical Center.

(4) At Denver, Colo., the Air Force has a hospital at Lowry Air Force Base with a capacity of 350 beds of which 100 are in operation to care for 51 patients. Six miles away is the Fitzsimons Army Hospital with a capacity of 2,078 beds of which 900 are in operation to care for 684 patients.

(5) In the San Francisco area, there are four military hospitals. These are the Letterman Army Hospital, Oakland Naval Hospital, Travis Air Force Base Hospital, and Fort Ord Army Hospital, with a total constructed capacity of 5,235 beds of which less than 2,850 are in operation to care for approximately 2,250 patients. The Army and Navy are proposing replacement of the Letterman and Oakland hospitals with 1,000 and 1,500 bed hospitals, respectively. Although these two hospitals have poor physical plants, the proposed construction program ignores the excellent inactivated 775-bed hospital of permanent construction at Mare Island.

(6) In the Washington, D.C., area, the Army, Air Force, and Public Health Service have joined in dividing the area into zones with an Army, Air Force, or Public Health Service medical facility designated to care for the Army, Air Force, and Public Health Service personnel and dependents living in the area. The Navy, however, insists upon having personnel and dependents from the entire metropolitan area, including those living in Virginia, utilize Navy medical facilities. These include:

(a) U.S. Naval dispensary at the Main Navy Building (192 employees).

(b) Naval Air Station, Anacostia (32 employees).

(c) Naval Research Laboratory, Anacostia (8 employees).

(d) Navy Weapons Plant, Washington, D.C. (33 employees).

(e) Naval Station, Washington, D.C. (26 employees).

(f) Naval Ordnance Laboratory at White Oak (3 employees).

(7) The Army operates a Medical Service School at San Antonio, Tex., for indoctrination and professional education of its doctors, dentists, nurses, medical administrative personnel, and medical technicians. The Army also provides professional education and training at the Walter Reed Army Medical Center in Washington, D.C. The Air Force operates its own schools at two locations for indoctrination and some types of professional training. The Navy operates a similar school at Bethesda Naval Hospital in Maryland. One system of schools could serve all three services.

(8) The Air Force has an extensive aviation medicine research facility at Randolph Air Force Base in Texas and is constructing a larger and more modern facility to replace it at Brooke Air Force Base nearby where a \$12 million expansion program was authorized by the Congress in 1959 and funds are being requested to implement the program in 1961. The Navy has a similar aviation medicine research facility at Pensacola, Fla. These two units could be combined for the benefit of both services.

PART IV

AN ASSESSMENT OF OTHER TECHNIQUES OF INTEGRATING THE MANAGEMENT OF DEPARTMENT OF DEFENSE SUPPLIES AND SERVICES

There are a number of formal assignments to operating agencies within the Department of Defense, the objective of each being to achieve specific cross-servicing arrangements of some part of the multiple military procurement and supply systems. These assignments have come into existence to correct duplications and other deficiencies within the existing organizational framework. The emphasis for cross-servicing arrangements is on coordination while still maintaining separate administration. A description and general assessment of the effectiveness of these arrangements follow:

A. SINGLE DEPARTMENT PROCUREMENT ASSIGNMENTS (SDP)

Following the passage of the National Security Act the coordinated purchase program in Department of Defense became one of the major responsibilities of the Munitions Board. Single Department procurement assignments centralize only the purchasing function in one service; requirements determination, inventory management, distribution, and other supply functions remain in the separate military services.

There are 33 formalized SDP assignments of which 3 (office furniture, office equipment, and office supplies) are assigned to the General Service Administration. The Defense Department claims that over 75 percent of the procurement dollars are obligated under SDP arrangements where one department (GSA has responsibility for approximately 2 percent) handles the centralized contracting for all the military departments.¹ The accuracy of this figure, however, is questionable as subsequently indicated. The only commodity group not now assigned to some form of coordinated procurement is electronics and electrical equipment comprising some 990,000 items out of a total of 3.4 million items in supply systems.

According to the Department of Defense the advantages of the single-department procurement assignments include:

1. Dealing with industry is simplified by—
 - (a) Presentation of total military requirements of an item which permits better production planning by industry.
 - (b) Providing one single military purchase agency for each group of commodities.
 - (c) Elimination of minor differences in specifications.
2. Economies are achieved by—
 - (a) Elimination of interdepartmental competition which has caused price rises in cases of short supply.

¹ Department of Defense, Logistic System Study Project Summary Report, p. 1.

(b) Elimination of duplication in purchasing personnel and office overhead.

(c) Combining military requirements which permits proper programing for entry into the market and generally results in lower unit cost of supplies.

Prior to the inauguration of single-manager plans, this program met with strong resistance from the Navy.² Because of this resistance the Munitions Board arranged for independent studies at various universities to determine the effectiveness of the SDP technique.³ Each of these study groups concluded that insofar as the purchase function is concerned, the arrangement was an improvement over unilateral procurement by the services. The findings of certain of these studies went beyond their frame of reference and pointed out the inherent limitations in the assignments that merely provide for the purchase function.⁴ Since planning of requirements is not coordinated, the service performing the purchase function is not informed of the inventories and usage rates of the requisitioning services. Thus the purchasing service cannot evaluate procurement requests or take steps to redistribute excess stocks. Also, coordinated buying does not achieve integration of storage and distribution, and may continue building up inventories even where glaring instances of duplication exist.

In order to correct certain of these shortcomings and assure the cross-utilization of assets, a regulation was issued by the Department of Defense in July 1955 for the purpose of carrying out an intensive interservice supply support program.⁵ It was initiated to answer certain congressional and Hoover Commission criticisms in the field of supply management.⁶ The program made very limited progress, however, despite elaborate efforts on the part of Department of Defense to make it effective. This program was preferred by the services over single-manager arrangements for it required no change in their organizations. Consequently, its adoption was merely an attempt at alleviating the symptoms of the problems and not a cure for them. A House Appropriations Committee staff report of January 1958, dealing with Department of Defense supply activities pointed out:⁷

1. Inventory managers are reluctant to release assets which they hold as mobilization reserve (which should be rotated to prevent deterioration on the shelf) or excess operating stock because, under present procedures, reimbursement dollars received from the "buying" service cannot be reinvested and are made available to the "selling" service only through apportionment procedures.

2. Inventory managers are reluctant to buy from another service releasable assets which may have been in stock for a considerable period of time when they can buy new stock at the same price.

3. Because of (1) and (2), inventory managers are not making inquiries to the other services when material is available within their own service for redistribution. This means that expensive redistributions may frequently be made since funds will not readily be available to buy material located closer to the point of need but held by another service.

² History of the Armed Services Textile Procurement Agency (app. 2).

³ Harvard Business School: "Pilot Study on Paint," August 1951; Stanford Research Institute: "Construction Material," June 1952; Syracuse University: "Medical Material," June 1952; Michigan University: "Automotive Equipment," November 1952; Washington University: "Subsistence," October 1952.

⁴ Washington University: "Report on Subsistence"; Syracuse University: "Report on Medical Material."

⁵ Department of Defense Directive 4140.6.

⁶ U.S. Congress, House of Representatives, Government Operations Committee, "Hearings on the Hoover Commission Report on Food and Clothing," 1955. 84th Cong., 1st sess., 1955.

⁷ U.S. Congress, House of Representatives, Committee on Appropriations, "Report of the Surveys and Investigations Staff," 85th Cong., 2d sess.

It is noteworthy in this connection that when Senators Paul H. Douglas and Joseph C. O'Mahoney were attempting to strengthen the requirements of the so-called O'Mahoney rider (sec. 638 to the Department of Defense Appropriations Act of 1953) in the Defense appropriation bill for fiscal year 1958, the Secretary of Defense in a letter on June 17, 1957, to the chairman of the Subcommittee on Department of Defense Appropriations attested to the salutary effect of the program (see app. 3.) Yet the record shows that before sending this letter to influence decisions in Congress both the ASD Comptroller and ASD Supply and Logistics were fully aware of the fact that the program was not effective.⁸

Attempts were made to correct certain of the fiscal impediments⁹ but the primary reason for the inability of the program to get off the ground is the geographical dispersal of the individual service inventory commodity managers among the services which negates the utilization of interchanging assets to the full potential. For example, in order for the supply managers of automotive supplies to exchange essential and necessary information to assure utilization of long-supply stocks, they must communicate with one another between Detroit, Mich. (Army), Memphis, Tenn. (Air Force), Port Hueneme, Calif. (Navy), and Washington, D.C. (Marines). There are a total of 58 inventory control points, or program managers, for the various classes of commodities required by the services (see app. 4). Yet only five of these program managers for a particular class of commodities are located in the same geographical area as the service which happens to have the single service procurement responsibility.

A recent Department of Defense study concluded that for reasons beyond control the interservice supply support program was not effective.¹⁰ This report showed that only a minimal amount of cross-utilization is taking place, as illustrated below:

Interservicing at the inventory control point level for the last half of fiscal year 1959 is \$243,338 in hand tools, and \$260,156 in administration and house-keeping, against annual procurement programs of \$25 million and \$90 million respectively.

B. DECENTRALIZED ACQUISITION OF MATERIAL (LOCAL PURCHASE)

1. General

There is considerable ambiguity in the interpretation of "local" purchase among the military services. Local purchase to the Army and Navy means limiting procurement by installations to nearby sources in a geographical area. This is not so in the Air Force which places no geographical limitation on its activities authorized to purchase locally.

There is little coordination in Department of Defense on items subject to local procurements and items subject to central procurement. Thus, the result may frequently be that the Army or Navy has large depot excesses while Air Force bases are procuring the same items "locally." Moreover, there is no coordination among Air Force bases before making "local" purchases. Thus the same duplicate procurement may often occur even within that service as well as between the Air Force and the other services. Further, since Air

⁸ *Ibid.*, pp. 230-234, 296-301.

⁹ Department of Defense Directive 4140.13.

¹⁰ Armed Forces Supply Support Center Study Project 59-2.

Force "local" procurement is actually national procurement made at the base level, many of the purchases may in fact be competing with one another and thus defeating the purposes of the single service procurement program.

According to a survey made by the Department of Defense of 100 common general supply items, the Air Force centrally managed only 8 items, while the Army managed 64 and the Navy 86 of the items.¹¹

"Local" purchase has grown to the point where it amounts to about \$2 billion annually for supplies going into military supply systems.¹² This figure includes depot purchases from GSA of about \$160 million and direct purchases from GSA's Federal supply schedule contracts of about \$300 million in fiscal year 1959.

2. Effect of "local" purchase on single department procurement

Two important local purchase policies currently limit the effectiveness of the single department procurement program. The first of these policies (DOD Instruction 4140.7) authorizes each military department to determine separately the method of supply for commodities under the SDP program. The second of these policies is an Armed Services Procurement Regulation (ASPR 4-203.6) which authorizes unlimited procurement of items when these items are coded by the military services for local procurement.

The combination of these two policies operates to neutralize the advantages of single department procurement. Since the local purchase policy in ASPR does not provide any maximum dollar limitation, an item coded for local purchase may be procured in substantial amounts.

The philosophy behind the single department procurement assignments is for the Defense Department to realize economies from volume buying. As stated above, the Department of Defense claims that about 75 percent of its procurement dollars is obligated under the single department procurement arrangements. Yet according to a recent Defense Department study of a small segment of general supplies, it was found that out of a total reported procurement of \$115.4 million of these supplies during fiscal year 1959, only \$30 million or 26 percent was made under this arrangement.¹³ The services used the single department procurement procedure to the following extent:

*Single department procurement of general supplies study model material,
fiscal year 1959*

	<i>Millions</i>
Army	\$15.2
Navy	12.6
Air Force	1.6
Marines .....	.6
Total	30.0

Local purchase could result in savings from decreasing pipeline time, reducing stockage at base level, eliminating depot warehousing, reducing handling, packing, and crating at depot level, and reducing transportation costs. It may provide opportunities for small business enterprises to participate in supplying materials for the military. On the other hand, because the base makes local purchase decisions inde-

¹¹ Department of Defense, Logistics Systems Study Project No. 33, p. 101.

¹² *Ibid.*, p. 101.

¹³ Armed Forces Supply Support Center Study Project 59-2.

pendently and does not refer to any central inventory control, local purchasing deprives the Department of Defense of the fullest utilization of long-supply assets. By the decentralization of procurement, local purchase weakens Department of Defense supply management programs, including single department procurement, cataloging, and standardization. It is one of the contributory factors in the poor utilization of long-supply assets. Further, local purchase is generally by negotiated sale rather than by sealed bid and thus the procuring officer may not be successful in obtaining the lowest cost to the Government.

3. *Need for a uniform local purchase policy*

The wide divergence in local purchase practice in commodities handled by the single department procurement program does not exist in those commodities covered by the single manager program. Under the single manager arrangement the department having the assignment determines the items that can advantageously be procured locally and those that are to be centrally procured. For those items procured centrally a certain proportion is set aside for small business. But under this arrangement the department performing the purchase function does not have authority to specify the items that may be locally procured. Moreover, the fact that one service designates certain items as being more suitable for local purchase while another service relies on central procurement for the same items raises the question as to how valid the cost justifications by the services are in deciding between the two methods.

4. *History of the O'Mahoney rider to the Department of Defense Appropriations Act of 1953*

The Air Force attitude favoring the widest use of "local" purchase appears to stem from the limitations imposed on that service by the so-called O'Mahoney rider.

Soon after the outbreak of the Korean hostilities, the Congress became so concerned over how well the Department of Defense was marshaling a large share of the Nation's resources that it subjected the military supply systems to a series of investigations. Among others, Senator Lyndon Johnson, Congressman Porter Hardy, Jr., F. Edward Hébert, and Herbert C. Bonner headed subcommittees which critically assessed various facets of this problem. The Bonner Subcommittee on Expenditures in the Executive Departments of the House Government Operations Committee devoted much attention to military supply management and in its report of June 27, 1951, stated:¹⁴

* * * unification from the standpoint of military supply rests largely on paper
 * * * should the Air Force be permitted to organize and operate its own supply system, the Department of Defense would be underwriting a program of triplication rather than the unification sought in part at least by the act of 1947.

As a result of these findings, during floor debate in the House on the Department of Defense appropriation bill of 1953, Congressman George Meader, a member of the Bonner subcommittee, proposed the following amendment which was adopted:¹⁵

No part of the funds herein appropriated shall be used to expand the personnel, facilities, or activities of the Department of the Air Force, to establish or main-

¹⁴ U.S. Congress, House of Representatives, Rept. No. 658, 82d Cong., 1st sess., p. 8.

¹⁵ U.S. Congress, House of Representatives, subcommittee of the Committee on Expenditures in the Executive Departments. Hearings, June 24, 25, and July 1, 1952, p. 99.

tain a separate system for providing such supplies and services as were furnished to the Department of the Air Force by the Department of the Army prior to August 1, 1951.

Before the Defense appropriation bill reached the Senate floor, Senator Paul Douglas announced his intention of introducing a far-reaching amendment providing for "integration of supply and service activities within and among the military departments" under the direction of an Under Secretary of Defense for Supply Management.¹⁶ The debate on this proposal ended in a compromise amendment known as the O'Mahoney rider, which required the Secretary of Defense to issue regulations aimed at fostering an "integrated supply system designed to meet the needs of the military departments without duplicating or overlapping of either operations or functions * * *." (App. 5.)

In accordance with this requirement, the Secretary of Defense issued Department of Defense Directive 4000.8 in September 1952 as the basic regulation for the military supply system. (App. 6.) Section III-K provides:

Supply system expansion prohibited.—1. Effective on and after September 8, 1952, until modified by directive issued by the Secretary of Defense, and regardless of any prior interdepartmental agreements, and without the necessity of any implementing directive described in paragraph IV-I below *no additional independent or expanded supply facilities for a common-use standard stock item shall be created without prior approval by the Secretary of Defense.* [Italic added.]

The primary purpose of this section in the regulation was to keep the Air Force from expanding its supply system for common-use supplies and services without prior approval of the Secretary of Defense, and to continue to cross service with the Army in accordance with the Eisenhower-Spaatz agreement.¹⁷ Partly because of the limitations imposed on the Air Force by this provision, this service embarked on a policy of the widest possible use of local procurement. This was done without securing prior approval from the Secretary of Defense as it was interpreted to be within the letter, at least, if not the spirit, of the regulation.

C. PROCUREMENT AND SUPPLY SUPPORT BY THE GENERAL SERVICES ADMINISTRATION

1. *Early history of Department of Defense-General Services Administration relations*

The first Hoover Commission recommended the establishment of an Office of General Service to supply common items and services to both civilian and military agencies of the Government. Acting on this recommendation, Congress passed the Federal Property and Administrative Services Act of 1949,¹⁸ which authorized the establishment of the General Services Administration. However, because of strong opposition from the Department of Defense, the act departed somewhat from the original proposal in authorizing the Secretary of Defense to exercise his discretion in exempting the military services from mandatory provisioning by General Services Administration.

¹⁶ Congressional Record, 82d Cong., 2d sess., vol. 98, No. 116, June 30, 1952, p. 8, 777.

¹⁷ Army-Air Force agreement of Sept. 15, 1947, as to the initial implementation of the National Security Act of 1947.

¹⁸ Public Law 152, 81st Cong.

In order to offset the limiting effect of the legislation as passed by Congress, President Truman, upon signing the bill into law on July 1, 1949, sent a joint directive to the Secretary of Defense, the Director of the Bureau of the Budget, and the Administrator of the General Services Administration, directing the Secretary of Defense not to exercise the exemption under the act, and directing that their agencies should develop areas of understanding in the field of supply and related matters. (This directive has since been revoked by President Eisenhower on June 8, 1954.) (Appendix 7.)

In accordance with President Truman's directive, the head of the three agencies promulgated a joint policy statement with respect to the military use of GSA facilities for certain types of procurement, surplus property disposal, traffic management, and other supply management activities.¹⁹ The statement proved to be more of a fond hope on the part of the signatories than any reflection of concrete accomplishment. The services were unwilling to cooperate with GSA as they considered it a potential source of erosion of their own supply systems. Some 3 years later, both the Bonner subcommittee²⁰ and the Hardy subcommittee²¹ reported to Congress that there was no improvement in various Department of Defense-General Services Administration supply support relations, as contemplated by the act that established the General Services Administration. These critical reports resulted in the issuance of still another policy statement by the three agencies concerned.²² It required the services to screen their depots for civilian-type items with a view toward eliminating them from military distribution systems and transferring responsibility for such items to the GSA.

The agreement of November 1952 provided for a series of General Services Administration-Department of Defense feasibility supply support studies. But regardless of the findings of these studies, the final decisions rested with the services whether items would be transferred from their respective distribution systems to GSA. The outcome was that no transfers were made as a result of these studies.

The agreement also provided that in order to eliminate competition in the central procurement of certain administrative commodities used by both the military and civilian agencies in the Government, GSA would be assigned the single agency procurement responsibility for designated items.

2. Three single purchase assignments to General Services Administration

After considerable protracted negotiations between Department of Defense and General Services Administration, it was decided that GSA would handle all purchasing of office furniture, office machines and office supplies for the services. The pattern of resistance continued, however, long after the purchase assignments were formalized. It took about 18 months for the first 2 assignments and 8 months for the third before Department of Defense got around to issuing implementing instructions.

¹⁹ Larson-Johnson-Lawton policy agreement, Jan. 12, 1950.

²⁰ U.S. Congress, House of Representatives, Government Operations Committee, "Sixth Intermediate Report," 82d Cong., 2d sess., 1952.

²¹ U.S. Congress, House of Representatives, Government Operations Committee, "11th Intermediate Report," 82d Cong., 2d sess., 1952.

²² Larson-Lovett-Lawton policy agreement, Nov. 28, 1952.

Commodity	Date assigned	Date of DOD implementing instructions
Office furniture.....	Dec. 30, 1952	Mar. 31, 1954
Office machines.....	Feb. 25, 1953	July 26, 1954
Office supplies.....	Oct. 16, 1954	June 8, 1955

Despite the inordinate delays, these procurement arrangements have resulted in the following benefits, according to a recent DOD study:²³

- (a) Eliminate duplication of purchasing organizations.
- (b) Extend the price advantage of volume purchases to small purchasers.
- (c) Eliminate competition among agencies.
- (d) Permit participation of small business by set-asides.
- (e) Improve quality of inspections and reduce costs by the elimination of duplicate inspections.
- (f) Assure lowest transportation charges for movement of Government property through centralized rate negotiations with carriers.
- (g) Encourage participation by the maximum number of bidders by providing uniform bidding terms and conditions.

3. *Growing confidence in General Services Administration's ability to provide supply support*

During 1953 and 1954, the General Services Administration arranged to furnish the Air Force with some 15,400 items of supply either from their 12 GSA depots (4,000 items) or by direct delivery under GSA term contracts in accordance with its Federal supply schedules (11,500 items). This represented over 10 percent of the 145,000 items the Air Force coded for local procurement.²⁴

The Riehlman subcommittee in the 83d Congress (successor to the Bonner subcommittee) raised the question with the DOD whether, since the GSA was rendering satisfactory supply support to the Air Force, GSA should not furnish the same support to the other services.²⁵ Because of this prodding, the Navy and the Marine Corps followed the lead of the Air Force by identifying some 11,000 items to be removed from their supply systems and transferring supply responsibility to GSA.

The Army, unlike the other services, authorized some 10,000 common supply items for local purchase and issued a general instruction permitting the use of GSA facilities only when in the opinion of the local post, camp or station the use of GSA supply was more advantageous than purchasing from commercial sources.

In 1956, the Air Force and GSA conducted a test of GSA supply support operations of civilian-type items for Air Force installations located in the Far East. The results of the test indicated that GSA could also provide highly satisfactory service overseas. The Air Force is now using GSA supply support both in its Far East and in European theater bases.

²³ Department of Defense, logistics systems study project, team 3B.

²⁴ Department of Defense logistics systems study project, team 3B.

²⁵ U.S. Congress, House of Representatives, Government Operations Committee, Third Intermediate Report, 83d Congress, 1st sess., 1953.

The following table indicates the growing acceptability of supply support furnished by GSA from its own depots and certain other revolving fund activities.

TABLE 19.—*Supplies furnished from General Services Administration depots, fiscal years 1954 through 1959*

[Millions of dollars]

	Fiscal year 1954	Fiscal year 1955	Fiscal year 1956	Fiscal year 1957	Fiscal year 1958	Fiscal year 1959
Military.....	39.8	57.7	78.0	95.4	105.4	160.4
Civilian.....	66.5	77.1	82.2	108.0	98.6	122.0
Total.....	106.3	134.8	160.2	203.4	204.0	282.4

Source: DOD logistics systems study project, team 3B.

The above figures are exclusive of the substantial amount of purchasing from GSA's Federal supply schedule contracts. While statistics are not available showing the dollar value of DOD purchases under GSA term (direct delivery) contracts, it is estimated that they represent about 60 percent of this fast growing total.²⁶

TABLE 20.—*Supplies furnished from Government Services Administration Federal supply schedule contracts, fiscal years, 1954 through 1959*

[Millions of dollars]

	Fiscal year 1954	Fiscal year 1955	Fiscal year 1956	Fiscal year 1957	Fiscal year 1958	Fiscal year 1959
Supplies.....	275.0	308.9	333.2	373.7	411.3	511.7

Source: DOD logistics systems study project team 3B.

4. *Need for uniform Department of Defense-General Services Administration policy*

More than half of the military support furnished by GSA is for the Air Force.²⁷ The individual services negotiate separately with GSA for supply support. This approach fractionates defense management considerations for the same items and fosters unnecessary DOD/GSA duplication. There is a need for a single DOD policy requiring the use of GSA purchase and supply services for all items commonly handled by civilian agencies and for which there is no current mobilization requirement.

D. PLANT COGNIZANCE PROCUREMENT AND WEAPONS SYSTEMS CONTRACTING

Plant cognizance procurement is a device for coordinated contract administration which originally was limited to aircraft and certain aircraft equipment but now includes missiles, etc. There are currently about 64 such assignments. As a result, virtually no duplication of Government staffing exists at contractors' plants. However, complications develop when the interest of a particular service may shift with model changes, resulting in a service maintaining plant cog-

²⁶ Armed Forces Supply Support Center "Report on Management of General Supplies," vol. I, p. 13.

²⁷ Armed Forces Supply Support Center "Study Project 59-3," p. 24.

nizance without a direct interest in the production of the plant. The guided missile program introduced new complications with the development of an entirely new concept of procurement known as weapons systems for advanced instruments of combat contracting which is revolutionizing supply systems.

The weapons systems concept is not restricted to contracting. It is a concept of total management both within the services and with respect to activities by contractors. It involves planning, budgeting, research design, development, acquisition, storage, distribution, maintenance, logistic support, and training of personnel. This pure concept, however, is seldom, if ever, used undiluted. In actual practice, the services retain certain management responsibilities, but as weapons become more complex, the problem of furnishing the necessary manpower to administer weapons contracts becomes increasingly acute. Examples of instruments of combat that may be designated as weapons systems are missiles, aircraft, and ships which contain highly complex gear or vehicles. These require specialized, varied, and integrated logistic support and training. High military department authority makes the designation that certain instruments of combat are to be managed under the weapons systems concept after determining that existing organizational structures are not adequate to enable the military departments to develop and produce the required equipment and place it in operational use. There are, however, no fixed patterns and the precise degree to which existing organizational lines and normal procurement methods are disrupted depends upon many factors, including:

1. Degree of complexity.
2. Capability of available development and production agencies.
3. Requirements for compatibility.
4. Producibility.
5. Military urgency.

Hence, the weapons systems concept must be extremely flexible, departing from normal procedures only to the extent necessary for the purpose of producing and placing into operational use the advanced instruments of combat.

The weapons systems concept is in an early stage of development and may change drastically as experience is gained. Supplies which traditionally had been furnished through the military procurement and distribution systems are, under some weapons systems arrangements, now supplied by the contractors. This development is bound to have a disturbing influence on existing Department of Defense supply systems, particularly such measures as single procurement arrangements, standardization, utilization and other supply management improvements that are now being challenged by this new concept. Each of the services is going its separate way in pursuing this new concept without (thus far) any published guidelines from the Assistant Secretary of Defense for Supply and Logistics. Unless the entire program is closely evaluated and brought into consonance with other Department of Defense supply programs to the greatest practicable extent consistent with military necessity, it is obvious that tremendous quantities of supplies will be generated for surplus disposal by weapons system contractors. The General Accounting Office has been studying this new method of contracting in the Air Force and will soon release its first report on this subject.

PART V

WHAT TO DO ABOUT UNIFICATION OF COMMON-USE SUPPLIES AND SERVICES

Requirements determination is one of the most crucially important functions of the entire supply management cycle. It establishes what the military services need and want. Since it is the starting point for new procurement, miscalculations can result in the overaccumulation of stocks and the generation of excesses. Except for single managerships, procurement requirements determinations are variously fragmented in Department of Defense because (1) there are three and sometimes four unilateral service programs for all common-use supplies and common services, and (2) each service adds to its own program as if it were the only one of the services in the market for these items. This results in—

1. Significant overlapping of programs, including duplications in staffs, stocks, facilities, and distribution systems;
2. Higher cost for achieved capability and hence relatively more defense dollars going for support relative to payoff weapons.

The following is a brief summarization and evaluation of the various alternative solutions to the problem which either are currently in effect or have been proposed.

First alternative

The single service procurement program whereby a particular service acts as a purchasing agent for all others is the largest area of interservice coordination in Department of Defense. This form of coordination, while having certain advantages, has basic limitations. Planning of requirements is not coordinated, and the purchasing service is not informed of the inventories and usage rates of the requisitioning service. Thus the purchasing service cannot evaluate requests in the light of stocks on hand or take steps to redistribute excess stocks. Coordinated buying does not achieve integration of storage and distribution where a large amount of duplication exists or achieve substantial economies through reduction in inventory investment. To remedy some of these inherent limitations, the Department of Defense has, in effect, a number of cross-servicing arrangements designed to provide greater utilization of defense assets among all services. However, these arrangements are, at best, temporary expedients, dependent upon the cooperation among the services' independent supply systems, which differ widely in their organization and procedures. Many attempts in the past to bridge the gap between the purchasing and distribution functions have met with minimal success. As pointed out in part IV, a recent Department of Defense study showed that new procurement for certain general supplies was reduced only by 1 percent through the interservicing of assets—a program that has been receiving considerable emphasis in Department of Defense since 1955.

Second alternative

The piecemeal efforts at military supply coordination reflected in single-service procurement assignments, limited cross-servicing of assets, and the like were severely criticized by the Hoover Commission. The Commission contended that substantial economies would be realized only if a broader range of supply functions for all common supplies and services were brought under control of a single agency.

As a compromise, Department of Defense adopted the single-manager concept for selected commodity and service areas. The professed aim of the plan was to balance demands for more integrated supply operations against the preference in the military departments for separate supply organizations. The distinctive feature of the plan was to vest in one military department supply management of selected commodities and services for all military users, with minimum disruption to the services' organizational patterns.

While the single manager plan is a definite step forward, the Department of Defense policy until very recently did not promise any extension of this program. This view is reflected in the fact that there had been no further assignments since November 1956 until very recently. Yet this inaction was in face of the fact that Department of Defense spokesmen responsible for the execution of the single-manager plan claimed large benefits from the program in operating economies, efficient performance, and customer satisfaction. These professed benefits, however, were not in themselves sufficiently impressive to overcome resistance to extension of the plan. Far more significant is the apprehension in Department of Defense that the establishment of additional single-manager plans for commodities and services would inevitably lead to the creation of a single common supply agency. Such an agency would be able to provide (a) a single integrated distribution system for all single-managed commodities and (b) uniform operating procedures to include requisitioning; stock status reporting; depot supply procedures; funding and accounting procedures; organizational patterns; and related operations.

An extremely significant and thorough Department of Defense-wide study of a small segment of general supplies (reviewed in pt. III) was completed in October 1959. Its findings revealed the presence of a vast amount of uncoordinated effort, even in areas where some coordination was generally assumed to be in effect. The study disclosed unreasonable differences in criteria used by the services in every important supply function. The report concluded that these wasteful practices could only be corrected through consolidated management. Because of the reverberations from the disturbing revelations brought out by this study, the long period of inaction appears to be over, at least for the time being. The Department of Defense, concurring in the report's main recommendation, is establishing a single managership for the commodities studied (hand tools and administration and housekeeping supplies) assigned to the Army. However, in order to balance this action, hardware, abrasives, and other commodity groups have been designated for single management by the Navy.¹

Third alternative

The foregoing alternatives are viewed in some quarters as only partial solutions to the problem of management of common supply.

¹ Department of Defense press release, Nov. 10, 1959.

The question is being raised whether it would be feasible for one military service to perform inventory control, item requirements computation, procurement, depot storage and issue of all common supply as well as all common service-type activities for all military services.

The apparent advantage of this proposal is its expediency. It would require a minimum amount of reorganization as compared with the establishment of a separate agency to perform these activities. But on the other hand, this proposal has the following important disadvantages:

1. It gives undue advantage to the supplying service, particularly when materiel is in short supply.
2. It intensifies service rivalries.
3. It places a large additional burden on one military department superimposed on its primary military mission.

It may also be feasible for General Services Administration to be assigned responsibility over common supply and service activities in the DOD. This proposal is supported by the fact that the GSA is rendering outstanding supply support in the relatively limited areas being utilized by the services. The argument that the military has historically used against this concept of a supply organization outside the Defense Establishment is that military effectiveness would be jeopardized because supply would become less responsive to command.

Fourth alternative

This alternative envisions the establishment of an agency, independent of the three military departments, but within the organizational framework of Department of Defense, to provide eventually all common-use supplies to the end of the wholesale pipeline. It would also include all common-service activities that are found to be feasible for consolidated management.

The first Hoover Commission, in its study of the supply systems in the Federal Government, made these comments concerning the Navy Supply System:²

The Department of the Navy has established, and has been operating since February 11, 1947, a coordinated and integrated system for the supply of all materiel necessary for the maintenance and operation of the Navy Establishment. One of the basic concepts in the Navy Supply System is that all materiel belongs to the Navy, not to an individual bureau. The Navy further recognized that supply problems form a common pattern, and has centralized responsibility for them in its Bureau of Supplies and Accounts. To insure a uniform supply system that meets the needs of the technical bureaus, various items are grouped into types which can be controlled from a specific supply demand control point. The maximum degree of uniformity consistent with the various types of materials is obtained under the Navy Supply System.

The organizational concept of the Navy supply system operates on the rule that all materiel belongs to the Navy and not necessarily to the individual bureaus. Prior to its establishment in 1947, the various bureaus in the Navy had 26 supply systems with the resultant multiple duplications. Following the Navy concept to its logical conclusion, the question arises whether the basic principles that are incorporated in that system could not be broadened and adopted by the Department of Defense for all the military services. An affirmative answer was given to this proposition by the second Hoover Commission in recommending, as one of its key proposals, the establish-

²First Hoover Commission, Task Force Report on Federal Supply Systems, January 1949.

ment of a single supply management agency for common support activities to be administered by a Presidential appointee.³

Background of the proposed agency

The Hoover Commission's recommendation was not supported with a detailed organizational and functional blueprint showing precisely how the proposed agency would operate. This caused considerable misunderstanding in some quarters and left unanswered a host of important questions. In fact, one of the Commissioners, Congressman Chet Holifield, while favoring the objectives of this recommendation, expressed concern about the lack of clarity in some of the proposed organizational relationships of such an agency. He stated:⁴

Had the Committee on Business Organization analyzed in detail the role of the proposed new agency and more carefully defined its place in the Military Establishment I believe that it would have a better chance of acceptance. It is well to understand that the proposal will encounter active opposition in some quarters, and, if adopted, could be reduced to ineffectiveness by a hard core of military resistance and failure of the Secretary of Defense to give the agency strong support.

The rationale and role of the proposed agency are reviewed below in order to remove certain misunderstandings concerning its contemplated mission and operation so that this proposal may be evaluated on its merits. In the first place, the Commission's recommendation for the formation of such an agency was not new, but revived a longstanding proposal for a single or common supply service. During World War II, when war experience brought home forcibly the need for unification, Gen. Joseph T. McNarney, Deputy Chief of Staff of the Army, testified to Congress on this subject as follows:⁵

I would add to the three armed services which are united in this single Department, a fourth element, directly under the Secretary of the Armed Forces, which would consist of the common supply services that can be combined and which renders supply services which are not peculiar to any one service.

The proposal was again revived in 1952 when Senator Paul H. Douglas announced he would introduce a bill in Congress similar to a bill Congressman H. C. Bonner introduced in the House, having the same general purpose as the Hoover Commission recommendations some 3 years later.⁶ The bill was proposed as an amendment to the Defense appropriation bill in fiscal year 1953. But this amendment was not introduced because of a probable point of order objection. In its place the O'Mahoney amendment was accepted as a compromise arrangement. The proposed Douglas amendment would have transferred the functions of the Munitions Board to an Under Secretary of Defense for Supply Management, responsible for—

- (1) eliminating duplication and overlapping within and among the supply activities of the military departments in the fields of production, procurement, warehousing, and distribution;
- (2) establishing and operating depots for common items and other common supply and service installations throughout the United States;
- (3) developing unified logistics organizations overseas;
- (4) developing standardized procedures and forms;

³ "Hoover Commission Report on Business Organization of Department of Defense," June 1955.

⁴ "Hoover Commission Report on Business Organization of the Department of Defense," June 1955, p. 121.

⁵ U.S. Congress, House of Representatives Select Committee on Postwar Military Policy (Woodrum committee hearings), 78th Cong., 2d sess., pt. 1.

⁶ Congressional Record, 82d Cong., 2d sess., vol. 98, No. 116, June 30, 1952, p. 8777.

(5) establishing and operating a program to systematize scrap recovery, redistribution of excess material, and surplus disposal, and coordinating such programs with the Department of Defense and with those of other departments and agencies of the Government having responsibilities in those fields;

(6) developing plans for recruitment and training of a professional corps of supply personnel within the Department of Defense.

Basic considerations relating to the creation of the proposed agency

Materiel procured by the military departments can be divided into two broad classifications: those that are common use and those that are peculiar to only one service. The former includes items that are either commercial and military in character which have similar manufacture or fabrication and may differ superficially among the services in such respects as color, finish, markings, etc. They account for about 52 percent of the 3.4 million items in the system.⁷ Duplication is inherent in this area under the present Department of Defense organizational framework. Two considerations are fundamental to any plan adopted:

1. That the Department of Defense should establish a plan of organization and definition of responsibilities during peacetime that would be effective in a period of emergency without the necessity of disruptive change. In the past two wars this country was given time to build its capacity to wage war while our allies met the early attacks of the enemy. This advantageous time margin may not exist in the event of another war.

2. That the impact of a war, or even the threat of war, creates so many new situations involving the supply and demand requirements for both military and civilian use that there should be developed an organization that can effect maximum economies in periods of both war and peace without injuring either military strength or its necessary production supply. In the final analysis, the civilian economy provides the sinews of war and its strength must not be unduly burdened.

The establishment of a few single-manager plans partially clears up some of the concern raised by Congressman Holifield over the functional aspects of the proposed agency. As more single managers are established, it will eventually require the designation of an overall manager with authority to provide coordinated supervision and direction of all single-manager plans that are being separately and unilaterally administered by the various services.

The Secretary of Defense has clear authority under the McCormack-Curtis amendment to the recent Department of Defense Reorganization Act to transfer, reassign, abolish, or consolidate supply functions. The Secretary could, therefore, establish a common-use supply agency, but it is quite apparent in view of the inaction during the last 4 years that the Department of Defense does not choose to do so. Under these circumstances, it would alternatively require a legislative mandate if Congress considered there was sufficient need for a common support agency.

⁷ Department of Defense logistics systems study project, summary report, p. 1-8.

The advocates of the proposed plan contend it would overcome innate weaknesses in other types of coordination. They support their position with arguments such as the following:

1. Establishment of a common-use supply agency would overcome Department of Defense inertia and strong resistance of the services to the extension of single-manager plans. It would remove the difficulty of assuring equitable treatment under tight mobilization conditions when the service designated as "single manager" tries to meet its own needs and simultaneously furnish the degree of supply support desired by others.

2. The agency would provide a base which in the event of an emergency could be quickly expanded without the need of drastic reorganization.

3. The agency would assume from the military departments, to the fullest extent possible, supply support operations so that professional military personnel could devote primary attention to combat aspects of the defense program.

4. The agency would follow well-defined guidelines which would prevent it from performing any but service functions or assuming responsibilities which would impair the services' ability to carry out their combat missions. These guides would include:

(a) Gross requirements always would flow from the services under policies established and reviews conducted by the Office of the Secretary of Defense. (However, since the agency will become the major repository of experience in the handling of commodities, it can lend valuable assistance to the services and the Secretary of Defense in this area.)

(b) Specifications for technical items also must flow from the services to the agency.

(c) A buyer-seller relationship should be established between the agency and the requiring service. Each buyer service would continue to request and justify the funds required for its total needs so that it actually buys supplies and services from the agency which would be financed by a stock fund.

(d) While the agency would eventually handle all common-use supplies and services as appropriate, the Secretary of Defense would phase the orderly transfer to the agency.

The proponents of this concept also point out that there are ample precedents for centralized administration of common services to be found both within industry and within Government. Within major corporate enterprises, it has long been the practice to centralize the administration of common service functions in the interest of securing maximum utilization of manpower and facilities. The primary test applied in industry, just as it must be in Department of Defense, is that the central service must meet all of the legitimate requirements of the line organization.

Within the Federal Government, the Government Printing Office and the General Services Administration provide central services to the departments and agencies.

Within Federal departments and major agencies, centralized services for the various bureaus is a commonplace device.

Within the Department of Defense itself there are numerous precedents. For instance, the cataloging project is administered as a common service for the entire Department.

Organization for a common-use supply and service agency

A. *Functions.*—It has been suggested by supporters of the common-use supply and service agency that the recently established Armed Forces Supply Support Center (reviewed in pt. IV) might very well serve as a nucleus for the proposed agency. The next step would be the transfer of responsibility to the agency over all presently established single manager commodity and service areas. From this start the agency would, on a phased basis—

1. Develop single manager arrangements for all homogeneous categories of supplies except for the management of certain items that should remain with the service, such as engineering and operational essential items. Each single manager will be responsible to and receive direction from the central agency. In other words the agency would provide centralized management but decentralized operation would be carried on by the various single managers.

2. Develop single manager arrangements for common service activities, to be transferred to the agency, as appropriate.

3. Maintain pipeline ownership of materiel in a stock fund until issued for use to consuming activities of the services at which point they would reimburse the stock fund and charge their respective appropriations.

4. Operate its own storage facilities. This will require the transfer of certain warehouses now operated by the services.

5. Determine the mission of each single manager and its corresponding stock control points. Each single manager will have the responsibility of performing certain primary functions of supply for all the services, including inventory control, net requirements determination, purchase, and distribution.

6. Utilize GSA facilities to the fullest extent practicable on specified items of supply that do not have a mobilization requirement.

B. *Staffing.*—The Administrator of the agency would be appointed by the President. He would be assisted by management personnel drawn from industry, career civil service, and the Army, Navy, Marine Corps, and Air Force by detail.

Appointive representatives would provide civilian control and bring business management into fields that are primarily business-type operations. Civil service career assistants would maintain continuity of management and would be trained specialists. Military personnel serving regular tours of duty would bring to the agency the experience and knowledge of the special problems of their services.

The Administrator would supervise all of the agency's activities subject to the authority, direction, and control of the Secretary of Defense. He would have direct channels of communication with the services, without interfering in any sense with their respective military missions. He would also be able to exercise considerable flexibility in the use of effective management practices. He would have authority to—

1. Determine the extent of centralization or decentralization required to provide economical and effective service; and

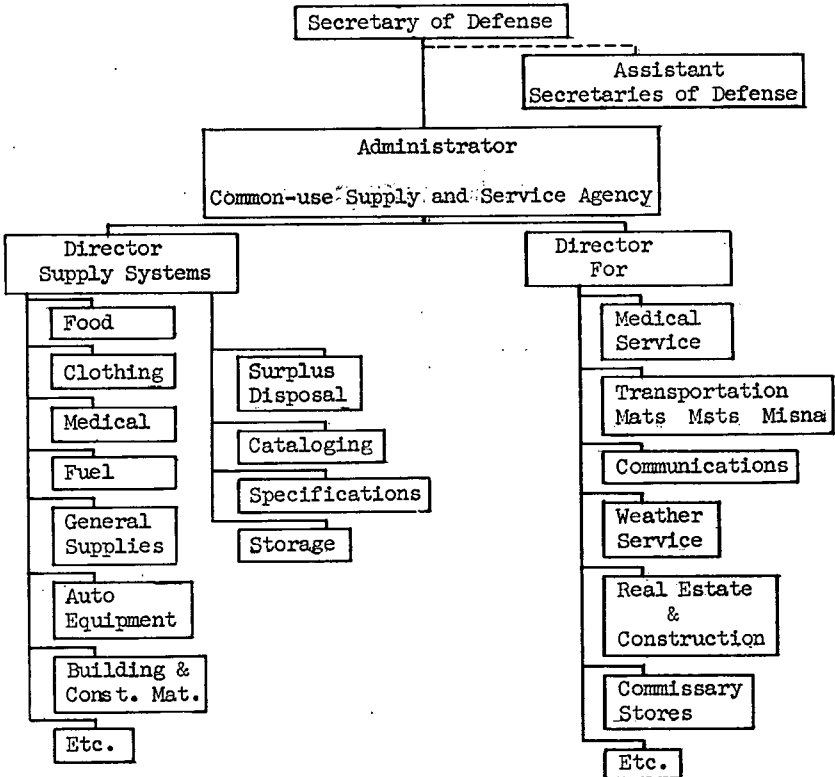
2. Eliminate or reduce commercial-type activities that compete unnecessarily with private enterprise.

C. *Conceptual framework.*—The proposed agency would, according to its advocates, pattern its organizational concept along the lines of the Navy Supply System and hence would be based on these underlying principles:

1. All wholesale stocks of common-use supplies belong to the entire Department of Defense, as opposed to the present concept of belonging to the individual military services.

2. All common services are pooled for use of all military services.

The agency would function in a similar fashion to the Navy's Bureau of Supplies and Accounts. It would supervise and coordinate the activities of the various single managers. It would operate a single distribution system and develop uniform operating procedures. In addition, the agency would direct such defensewide activities as surplus disposal, cataloging, standardization, and other centralized programs but would decentralize operations as appropriate with the single managers. The top echelon organization might perhaps be along the lines suggested in the following chart.



Flexibility of proposed agency to changes in Department of Defense organization

The proposed agency, its advocates contend, has the requisite flexibility to meet the rapidly changing demands of war in the nuclear missile age. It lends itself to phased implementation under the present Department of Defense organizational framework and would be a basis upon which to expand under any possible future Department of Defense reorganization of roles and missions that might contemplate the setting up of a Logistic Command with full responsibility for all aspects of logistic support.

The President in his message to Congress on April 3, 1958, said:

Separate ground, sea, and air warfare is gone forever. If ever again we should be involved in war, we will fight it in all elements, with all services, as one single concentrated effort.

General Omar N. Bradley testified on the reorganization proposals before the House Armed Services Committee in May of 1958. He highlighted this fundamental problem when he said, in effect, that it is getting more and more difficult to distinguish among missions of the Army, Navy, and Air Force as time goes on. As a result of the unprecedented acceleration of weapons technology, the problem will become more difficult.

One of the shortcomings in the last Reorganization Act was that it made no provision for the situation where weapons developed and procured unilaterally by the three services are to be deployed later and used in joint operations in the various unified and specified commands.

There appears to be a growing sentiment among some Members of Congress in favor of a complete Department of Defense reorganization on the basis of functions and missions.⁸ Such reorganization would be designed on a functional and mission basis and would consist of an air defense command, assault command, unified commands, deterrent force, and logistic command. It would be based on the job to be performed independent of the artificial land, sea, and air areas of responsibility. On the other hand, there is strong congressional opposition to the idea because of the traditional antagonism to concentration of military authority and to a unified General Staff at defense level.

Such far-reaching Department of Defense reorganization as proposed would entail a vast amount of regrouping of appropriate units and facilities in the Military Establishment. In order to retain military combat effectiveness during the reorganization, a suitable target date, possibly 5 years after the enactment of enabling legislation, would be necessary for the phased completion of the entire reorganization. In the meantime, it is argued that without questioning the merits of such reorganization, the more limited proposal advanced for the establishment of an agency to handle all common-use supply and service activities would alternatively serve as a sizable and important initial step in the formation of any possible future logistics command.

⁸ Congressional Record, 86th Cong., 1st Sess., Aug. 28, 1959, vol. 105, No. 149, pp. 15846-15864.

Department of Defense opposition to the proposed common-use supply and service agency

In general, the Department of Defense has opposed the establishment of the proposed agency, citing arguments such as the following:⁹

1. The objectives of the Hoover Commission give inadequate consideration to the mission and organization of the armed services: overemphasizes peacetime conditions; and assumes a lack of efficiency in military logistic activities.

2. Deficiencies in the area of common-supply and common-service activities have been recognized by the Department of Defense and actions have been taken to correct them.

3. The establishment of the agency would lead to duplications in both overhead and operating personnel, since two supply organizations would be required, one for common items and the other for military peculiar items. Moreover, civilians would be hired to perform work now being accomplished by troops on practical application training assignments and destined for duty in the combat zone in wartime.

4. The expandability of a defense supply and service agency in time of war would be much less rapid than that of the armed services, since it would not have access to personnel through the draft, does not have Reserve units available to it, and would perhaps be subject to loss of men to the draft.

5. Retention of civilians in wartime on military supply and service jobs is doubtful, particularly under the threat of nuclear war.

6. Military effectiveness would be jeopardized because supply would become less responsive to command.

⁹ Department of Defense Supply Management Reference Book, June 1958.

PART VI

CONTRACTING

The procurement program in the Department of Defense is of unparalleled size and complexity. Many Government agencies participate directly and indirectly in it. Some 6.7 million procurement actions are made annually to replenish the millions of individual products in the inventories of the military supply systems. They include a wide variety of supplies and equipment ranging from office supplies, paint, and hardware to aircraft, ships, and missiles. They also include initial production contracts for newly developed weapons and research contracts for developing weapons which make obsolescent the current new weapons. Government and industry alike have a vital stake in seeking the most effective policies and practices by which this tremendous procurement can be accomplished.

From July 1, 1950, to June 30, 1959, the dollar value of the more than 31 million military procurement actions for work in the United States totaled some \$208 billion. Order placements have fluctuated from year to year as shown in the table below.

TABLE 21.—*Net value¹ of military procurement actions with business firms for work in the U.S., fiscal years, 1951-59*

Fiscal year:	<i>Total net value (millions)</i>	Fiscal year—Continued	<i>Total net value (millions)</i>
1951-----	\$30, 823	1957-----	\$19, 133
1952-----	41, 482	1958-----	21, 827
1953-----	27, 822	1959-----	22, 744
1954-----	11, 448		
1955-----	14, 930	Total, 1951-59-----	207, 959
1956-----	17, 750		

¹ Net value refers to the net change in the amount of obligations resulting from debit and credit procurement actions recorded during the fiscal year. Debit procurement actions are all new contracts plus contract changes that increase the amount of obligations by \$10,000 or more. Credit procurement actions are contract modifications that decrease the amount of obligations by \$10,000 or more.

Source: Department of Defense, Military Prime Contract Awards to Small Business and Other Contractors, July-December 1953, 12 (1959) supplemented for 1959 by the Department of Defense.

Many congressional investigations have been made since 1951 on various aspects of Defense's procurement operations. During the past session of Congress several committees of both Houses looked into different aspects of the problems growing out of military procurement. For example, a subcommittee of the Senate Armed Services Committee held extensive hearings on the following bills.

S. 500, introduced by Senator Saltonstall, would amend title 10, United States Code for the purpose of removing obstacles to improving the management of military weapon systems procurement.

S. 1383, introduced by Senator Williams, would require the use of competitive bidding to the greatest practical extent through the establishment by the Secretary of Defense of specific standards governing the use of negotiated contracts.

S. 1875, introduced by Senators Javits and Keating, would amend title 10, United States Code for the purpose of encouraging competition in the procurement by the armed services. Among other things, this bill sets forth a congressional declaration of policy to the effect that procuring agencies shall consider the strategic and economic desirability of allocating purchases to different geographic areas of the Nation, and to eligible suppliers from whom relatively smaller proportions of procurement have been made, as well as to small business and to labor surplus areas.

These bills are still under consideration by the subcommittee. Recognizing the need for fuller knowledge in defense contracting, the Congress in extending the Renegotiation Act to June 30, 1962, directed the Committees on the Armed Services of the House and Senate to undertake studies relating to procurement policies and practices in the Defense Department. Such studies are to include an examination of various methods of procurement and types of contractual arrangements, with particular regard to their effectiveness in achieving reasonable costs, prices, and profits. The results of such studies, together with recommendations of the committees, are to be reported to their respective Houses by September 30, 1960.

A. PLACEMENT OF THE CONTRACT

The placement of contracts embraces two important considerations: (1) The selection of method of purchase, either by advertised bid requests or by negotiations; and (2) the application of certain legal and administrative controls designed to place contracts for the purpose of meeting social and economic objectives.

1. *Method of contracting—Formal advertising and negotiation*

Advertising is historically the favored method of government contracting. At one time it was virtually the only legal way of entering into a contract. The Armed Services Procurement Act of 1947, Public Law 413, 80th Congress, liberalized the use of negotiation by allowing the following 17 exceptions.

CIRCUMSTANCES PERMITTING CONTRACTING BY NEGOTIATION UNDER THE ARMED SERVICES PROCUREMENT ACT OF 1947 (PUBLIC LAW 413, 80TH CONG.)

SEC. 2. (c) All purchases and contracts for supplies and services shall be made by advertising, as provided in section 3, except that such purchases and contracts may be negotiated by the agency head without advertising if—

- (1) determined to be necessary in the public interest during the period of a national emergency declared by the President or by the Congress;
- (2) the public exigency will not admit of the delay incident to advertising;
- (3) the aggregate amount involved does not exceed \$1,000 (increased to \$2,500 by Public Law 85-804);
- (4) for personal or professional services;
- (5) for any service to be rendered by any university, college, or other educational institution;
- (6) the supplies or services are to be procured and used outside the limits of the United States and its possessions;
- (7) for medicines or medical supplies;
- (8) for supplies purchased for authorized resale;
- (9) for perishable subsistence supplies;

(10) for supplies or services for which it is impracticable to secure competition;

(11) the agency head determines that the purchase or contract is for experimental, developmental, or research work, or for the manufacture or furnishing of supplies for experimentation, development, research, or test: *Provided*, That beginning six months after the effective date of this Act and at the end of each six-month period thereafter, there shall be furnished to the Congress a report setting forth the name of each contractor with whom a contract has been entered into pursuant to this subsection (11) since the date of the last such report, the amount of the contract, and, with due consideration given to the national security, a description of the work required to be performed thereunder;

(12) for supplies or services as to which the agency head determines that the character, ingredients, or components thereof are such that the purchase or contract should not be publicly disclosed;

(13) for equipment which the agency head determines to be technical equipment, and as to which he determines that the procurement thereof without advertising is necessary in order to assure standardization of equipment and interchangeability of parts and that such standardization and interchangeability is necessary in the public interest;

(14) for supplies of a technical or specialized nature requiring a substantial initial investment or an extended period of preparation for manufacture, as determined by the agency head, when he determines that advertising and competitive bidding may require duplication of investment or preparation already made, or will unduly delay procurement of such supplies;

(15) for supplies or services as to which the agency head determines that the bid prices after advertising therefor are not reasonable or have not been independently arrived at in open competition: *Provided*, That no negotiated purchase or contract may be entered into under this paragraph after the rejection of all bids received unless (a) notification of the intention to negotiate and reasonable opportunity to negotiate shall have been given by the agency head to each responsible bidder, (b) the negotiated price is lower than the lowest rejected bid price of a responsible bidder, as determined by the agency head, and (c) such negotiated price is the lowest negotiated price offered by any responsible supplier;

(16) the agency head determines that it is in the interest of the national defense that any plant, mine, or facility or any producer, manufacturer, or other supplier be made or kept available for furnishing supplies or services in the event of a national emergency, or that the interest either of industrial mobilization in case of such an emergency, or of the national defense in maintaining active engineering, research, and development, are otherwise subserved: *Provided*, That beginning six months after the effective date of this Act and at the end of each six-month period thereafter, there shall be furnished to the Congress a report setting forth the name of each contractor with whom a contract has been entered into pursuant to this subsection (16) since the date of the last such report, the amount of the contract, and, with due consideration given to the national security, a description of the work required to be performed thereunder; or

(17) otherwise authorized by law.

In enacting the Armed Services Procurement Act, Congress incorporated a number of earlier statutory exceptions to formally advertised procurement and extended them uniformly to all three military departments, the Coast Guard and the National Advisory Committee for Aeronautics (now NASA). These and other exceptions introduced for the first time, it was believed, would add procurement flexibility in limited situations to obtain greater benefit for the Government. However, it was still contemplated that the great volume of purchases and contracts would be made by advertising for bids.

Subsequent experience, however, has not borne this out. In terms of dollar value, by far the largest volume of procurement actions has been negotiated. Negotiated contracts have represented more than 82 percent of procurement actions each year since the outbreak of the Korean emergency. The comparison of negotiated and formally advertised procurement since 1951 is shown in the following table:

TABLE 22.—*Net value of military procurement actions, with business firms for work in the United States, classified by method of procurement, fiscal years, 1951-59*

Fiscal year	Total net value (millions)	Formally advertised procurement		Negotiated procurement	
		Millions	Percent	Millions	Percent
1951.....	\$30,823	\$3,720	12.1	\$27,103	87.9
1952.....	41,482	4,479	10.8	37,003	89.2
1953.....	27,822	3,089	11.1	24,733	88.9
1954.....	11,448	1,789	15.6	9,659	84.4
1955.....	14,930	2,386	16.0	12,544	84.0
1956.....	17,750	2,815	15.9	14,935	84.1
1957.....	19,133	3,321	17.4	15,812	82.6
1958.....	21,827	3,115	14.3	18,712	85.7
1959.....	22,744	3,089	13.6	19,655	86.4
Total, 1951-59.....	207,959	27,803	13.4	180,156	86.6

Source: 1951-58: Department of Defense, Military Prime Contract Awards to Small Business and Other Contractors, July 1957-June 1958 at 24, 27; 1959: Advice of the Department of Defense.

Over 70 percent of the dollar value of procurement by negotiation was attributed to three exceptions to formal advertised bidding:

1. For technical or specialized supplies requiring substantial initial investment or extended period of preparation for manufactures, 33 percent.

2. For experimental development and research contracts, 18.9 percent.

3. As impractical to secure competition by formal advertising, 18.6 percent.

It is significant that an imperceptible proportion had been negotiated after advertising failed. The following table shows the breakdown of negotiated procurement by the services in fiscal year 1959 and the assigned reasons for using this method.

TABLE 23.—*Net value of military procurement actions under negotiated contracts, fiscal year 1959*

Negotiated authority ¹	Total net value		Net value		
	Dollars	Percent	Army, dollars	Navy, dollars	Air Force, dollars
Total Negotiated Contracts ²	<i>Thousands</i> 21,298,036	100.0	<i>Thousands</i> 4,406,036	<i>Thousands</i> 6,173,009	<i>Thousands</i> 10,718,991
(1) National emergency (total).....	627,974	3.0	251,896	177,468	198,610
(a) Labor surplus area and industry set-aside.....	121,486	0.6	85,759	18,785	16,942
(b) Small business set-aside (unilateral).....	61,280	0.3	30,606	4,655	26,019
(c) Disaster area set-aside ³					
(d) Experimental development or research less than \$100,000.....	250,090	1.2	89,024	74,359	86,707
(e) Non-perishable subsistence ⁴	63,337	0.3	62,760	4	573
(f) Modifications authorized by existing contract negotiated prior to Jan. 1, 1956.....	40,750	0.2	(-)63,112	55,345	48,517
(g) Actions more than \$1,000, but not more than \$2,500 ⁵	91,031	0.4	46,859	24,320	19,852
(2) Public exigency.....	199,218	0.9	41,140	81,283	76,795
(3) Purchases not more than \$2,500.....	678,292	3.2	293,395	183,495	201,402
(4) Personal or professional services.....	81,665	0.4	42,387	13,492	25,786
(5) Services of educational institutions.....	335,818	1.6	89,814	84,799	161,205
(6) Purchases outside the United States.....	1,117,228	5.2	594,554	319,539	203,135
(7) Medicines or medical supplies.....	33,959	0.2	408	33,018	533
(8) Supplies purchased for authorized resale.....	128,555	0.6	99,514	11,769	17,272
(9) Perishable or nonperishable subsistence.....	416,759	1.9	411,381	1,982	3,396
(10) Impracticable to secure competition by formal advertising.....	3,966,992	18.6	481,342	1,298,439	2,187,211
(11) Experimental, developmental or research.....	4,027,675	18.9	487,228	503,657	3,036,790
(12) Classified purchases.....	630,148	3.0	100,733	517,293	12,122
(13) Technical equipment requiring standardization and interchangeability of parts.....	12,897	0.1	5,515	7,286	96
(14) Technical or specialized supplies requiring substantial initial investment or extended period of preparation for manufacture.....	7,022,201	33.0	284,379	2,308,903	4,428,919
(15) Negotiation after advertising.....	2,268	(*)	187	939	1,142
(16) Purchases to keep facilities available in the interest of national defense or industrial mobilization.....	1,345,573	6.3	944,096	362,521	38,956
(17) Otherwise authorized by law.....	670,814	3.1	278,067	267,126	125,621

¹ 10 U.S.C. 2304(a). Includes modifications pursuant to terms of existing negotiated contracts; however, statutory negotiation authority was not required nor used. Modifications are classified according to the statutory authority applicable to the existing contracts which they modify.

² Excludes intragovernmental procurement; includes procurement outside the United States.

³ No disaster areas were designated by the President for procurement purposes during fiscal year 1959.

⁴ Public Law 85-800 (August 1958) provided that such purchases could be negotiated under exception 9, which previously had been limited to perishable subsistence.

⁵ Public Law 85-800 (August 1958) provided that such purchases could be negotiated under exception 3, which previously had been limited to actions of not more than \$1,000.

* Less than 0.1 of 1 percent.

Source: Department of Defense, Office of the Secretary of Defense, Oct. 16, 1959.

As the agent of the Congress responsible for determining how well the executive agencies are handling their affairs the General Accounting Office has favored advertised procurement and has been critical of the military services for resorting to negotiated procurement as much as they do. The underlying reasons for the preference for advertising are (1) the assumption that advertising will generally bring the lowest price, and (2) the desire to allow everyone in the country to compete for the Government business involving public funds. On the other hand, negotiated contract prices must be based largely on estimated costs of production, and the Government generally does not have the assurance of fair and reasonable pricing normally afforded by free competitive conditions. The GAO recognizes—indeed the law makes provision for it—that negotiation is both necessary and desirable under certain circumstances, such as procuring complex weapons, but that even in such cases, DOD should provide effective competition through the design, research, and development stages in weapon systems contracting. If competitive conditions are not allowed to prevail through design and development stages, GAO believes there is little likelihood of effective competition for subsequent production contracts.

The GAO further contends that while negotiation might be the accepted method of procurement in some segments of private industry and business, equal opportunity to all businesses to supply the needs of our Government is important in the Nation's free enterprise economy; that full and free competition is important to economical procurement by the Government. Exceptions to these principles, in the form of authority to negotiate contracts with limited competition, should be granted only when it is impractical or against the public interest to submit the needs of the Government to all qualified suppliers by formal advertising for bids.

The DOD takes the position that in view of the swift changes in world events and the constant acceleration of technological developments, the vast majority of the military procurement dollars must be contracted for by the negotiated method. In addition, the sociological aims fulfilled by military procurement can only be met by a departure from straight formal advertising. The DOD contends that it can procure better by negotiation of aircraft, aircraft engines, complex electronics items, and weapons systems. Frequently the military services invite proposals for the manufacture of an item about which they know little more than the desired performance characteristics. Proposals to such invitations are as much suggestions of how work can be performed as they are price quotations. These proposals must be evaluated technically to determine which will best accomplish the job. In such situations, negotiation is the method of procurement. On the other hand, the DOD believes that for standard commercial-type material, based on clear-cut specifications, as well as for construction, advertising is preferable.

The DOD maintains that it is a mistake to assume that negotiation means lack of competition. In addition, it claims that competition can be just as effective in negotiation as it is in advertising. Unless the item to be bought is available only from a single source, the procedure in negotiation is to solicit proposals from a number of sources. After the proposals are received and evaluated, it is the practice of many procuring units to call in all or some of the potential contractors

and to negotiate with them on price as well as on other factors. The DOD indicates that while techniques of negotiation may vary from unit to unit, they make an effort to obtain the lowest price from each proposer, so that each is negotiating in an atmosphere of awareness that others are competing for the same contract.

Another blending of the two methods is found in the "two-step formal advertising" procedure recently adopted experimentally by the Air Force for procurement.¹ When the Service does not have detailed performance specifications—or is unable to prepare them accurately enough—to define precisely the desired product "package," negotiating procedures are utilized to obtain technical proposals without prices from a number of defense contractors. The proposals are reviewed in Air Force laboratories to determine the technical acceptability of the products offered and to evolve from them the precise performance characteristics desired. Those contractors whose proposed products are acceptable are given the opportunity to bid under normal advertising procedures for award to the lowest responsive bidder.

An additional reason, according to the DOD, for the large amount of negotiation is that the administrative costs of advertised procurement are likely to be considerably higher than those of negotiated procurement. The greater the number of invitations to bid and of plans and specifications, the greater the time and efforts of more people involved in the preparation of bid sets, the ancillary problems of filing and recordkeeping, all contribute to making the administrative cost of advertising higher than negotiation. This cost is justifiable where the item is of such nature that an overall economic advantage to the Government can be expected. Almost 5 million procurement actions annually for \$2,500 or less are made through negotiation which is permitted by law to save administrative costs. Assistant Secretary of Defense (S and L) McGuire favors an increase in this exemption to \$10,000.² According to the attached table the average value per contract is only about \$160.

2. *Certain contracting preferences*

There are certain statutory and administrative controls which have the effect of diverting contracts from one contractor to another on bases other than price and performance. They are policy determinations for purposes other than procurement objectives and include such legislation as the Small Business Act, and labor-surplus areas policy.

(a) Participation by small-business concerns in Defense Department procurement is a declared objective of Congress. The basic policy is that small business shall obtain a "fair proportion" of the total purchases and contracts for supplies and services for the Government. In addition to stating this basic policy in the Armed Services Procurement Act, Congress has assigned the Small Business Administration the function of seeing to it that the policy is carried out. The Small Business Administration performs a number of functions calculated to assist small-business concerns. Among them is the screening of all DOD procurements in excess of \$10,000 and entering

¹ U. S. Congress, 85th, 1st sess., House of Representatives, Committee on Appropriations, Subcommittee on Defense Appropriations, "Hearings for 1960," pt. 5, pp. 493, 521-522.

² U. S. Congress, Senate, subcommittee of the Armed Services Committee, hearings on S. 500, S. 1383, and S. 1875. July 13, 15, 21, 24, 28, and 31, 1959, p. 79.

TABLE 24.—Number and net value of military procurement actions, by method of procurement,¹ fiscal year 1959

Method of Procurement	Number of Actions				Net Value (Thousands)			
	Total	Army	Navy	Air Force	Total	Army	Navy	Air Force
Total.....	6,698,897	2,865,072	2,075,464	1,758,361	\$25,312,065	\$6,008,638	\$7,671,313	\$11,632,114
Intragovernmental.....	847,430	384,088	194,534	268,808	758,347	248,148	141,219	368,980
Modifications pursuant to terms of existing contracts (negotiation authority not required or used).....	23,600	5,420	6,391	11,789	8,306,455	284,785	1,453,724	6,567,946
All other, total.....	5,827,867	2,475,564	1,874,539	1,477,764	16,247,263	5,475,705	6,076,370	4,695,188
Advertised (formal and small business restricted advertising).....	286,077	102,073	74,774	109,230	3,446,672	1,418,848	1,397,753	630,071
Negotiated competitively (subtotal).....	47,780	24,157	8,873	14,745	2,371,173	847,344	1,049,791	474,038
Set-asides (small business and labor surplus area) ²	22,848	10,265	5,326	7,257	437,259	190,244	215,930	31,085
Other new procurement.....	24,932	13,892	3,552	7,488	1,933,914	657,100	833,861	442,953
Negotiated for procurement and use outside the United States. ³	491,062	279,769	65,801	145,492	923,955	494,215	320,840	108,900
Negotiated procurement of \$2,500 or less within United States.....	4,830,311	1,996,766	1,680,846	1,152,699	769,325	340,254	207,816	221,255
Negotiated with 1 source (subtotal).....	34,902	9,366	11,130	14,406	8,237,830	2,128,900	3,107,464	3,091,466
Modifications and delivery orders.....	17,905	5,737	5,390	6,778	3,843,259	1,429,730	1,169,482	1,244,047
Other procurement.....	16,997	3,629	5,740	7,628	4,394,571	699,170	1,847,982	1,847,410
Negotiated, comeptitive status unknown ³	137,735	63,433	33,110	41,192	498,308	246,144	82,706	169,458

¹ For definitions and coverage, see notes on coverage.² Excludes set-asides accomplished through small business restricted advertising.³ Includes revised data for July-December 1958.

into joint determinations with the contracting officer that some portion of each procurement deemed suitable for small business be set aside for small business. What constitutes a "fair proportion" has never been defined and as a result there appears to be a wide difference of opinion on whether small business is receiving a "fair proportion" of total DOD procurements. The small-business proportion of the total military procurements has, however, been declining in recent years. In fiscal year 1957, small business accounted for 19.8 percent of military procurement, in fiscal year 1958, 17.1 percent, and in fiscal year 1959, 16.6 percent.³

The following table shows that small business obtained only 4.6 percent of the procurement awards of \$10,000 or more in the heavy equipment and weapons programs, and 12.5 percent of the service awards, but received 52.3 percent of certain other procurements, which accounts for only approximately one-fourth of total procurements. (This latter category also includes all awards of less than \$10,000.)

TABLE 25.—Small business procurement by program, July 1958–June 1959, fiscal year 1959

[Amounts in millions]

	All business firms, net value	Small business firms	
		Net value	Percent
Major hard goods:			
Actions of \$10,000 or more.....	\$15,439.8	\$711.0	4.6
Aircraft.....	6,487.0	175.1	2.7
Guided missiles systems.....	4,490.3	62.2	1.4
Ships.....	1,094.8	90.0	8.2
Tank-automotive.....	350.1	58.8	16.8
Weapons.....	187.0	26.1	13.9
Ammunition.....	356.4	45.0	12.6
Electronics and communications equipment.....	2,474.2	253.8	10.3
Services:			
Actions of \$10,000 or more.....	1,875.5	233.6	12.5
Subtotal.....	17,315.3	944.6	5.5
All other.....	5,428.9	2,838.3	52.3
Subsistence.....	490.8	265.5	54.1
Textiles, clothing, and equipage.....	177.7	124.5	70.1
Fuels and lubricants.....	981.4	210.2	21.4
Miscellaneous hard goods construction.....	866.7	336.6	38.8
Construction.....	1,409.8	918.1	65.1
Actions of less than \$10,000.....	1,502.5	983.4	65.4
Total.....	22,744.2	3,782.9	16.6

Source: Office of the Secretary of Defense, Nov. 2, 1959.

Small business received some awards in all of the major hard-goods program, ranging from 1.4 percent of the missile funds to 16.8 percent of the tank-automotive awards. However, in the aggregate, small business was able to compete successfully for only 4.6 percent of the total awarded contracts for hard goods.

Small-business opportunities also are limited in the services program awards, which in fiscal year 1959 represented 8.8 percent of all the military awards of \$10,000 or more. The small-business share in this category was 12.5 percent. One reason for this is that experi-

³ Office of Secretary of Defense, "Military Prime Contract Awards," report for July 1958–June 1959.

mental, developmental, and research contracts account for about half of this services category. Contracts for utilities, usually available only to large companies, also are included in this category.

In some soft-goods areas, such as for subsistence and textiles, small-business concerns are accounting for well over half the volume of awards. Small business is also participating in 65 percent of construction awards. Almost two-thirds of all contracts valued at less than \$10,000 are going to small-business concerns.

(b) Under defense manpower policy, there is a procedure whereby contracts may be channeled into distressed-labor areas where the Secretary of Labor determines that there is widespread unemployment.

The procedure is quite similar to that under the small-business provisions. It entails a determination by the contracting officer of the optimum quantity of a given item to be purchased which would probably result in the most favorable price, considering the manufacturing processes involved and the quantity required for an economical production run. Unrestricted procurement is then initiated for at least this amount and a set-aside to surplus-manpower areas may be made for not less than that amount. The set-aside portion of the contract is awarded only if the offer meets the price at which the unrestricted portion is awarded. In a tie-bid preference, awards are made to bidders in labor-surplus areas whose bids match those of competing firms outside labor-surplus areas. (Normally in a tie-bid situation a drawing is held to determine which bidder is to receive the award.)

In addition, the Office of Civil Defense Mobilization has offered incentives in the form of accelerated amortization of emergency facilities to defense contractors who locate their plants in surplus-labor areas. However, the effectiveness of the entire program has been negligible. The DOD procurement actions involving set-asides or tie-bid preferences in labor-surplus areas amounted to only \$96 million in fiscal year 1959.⁴

B. CONTRACT PRICING

The determination of a fair price for material is one of the most difficult problems confronting contracting officers. The following is a summary of the basic types of contracts utilized, although there are many variations to these:

1. Types of contracts

(a) *Firm-fixed price.*—This is a contract in which the parties agree, at the time of entering into the contract, on the final and total price to be paid for the supplies. The price is subject to change only (1) if the quantities ordered are changed, (2) if the nature or scope of the work is changed by the contracting officer, or (3) if changed or unforeseen conditions are encountered. This type is always used in advertised procurement.

(b) *Fixed price with provision for redetermination.*—There are a number of various forms of this type of contract, some providing for

⁴ Office of the Secretary of Defense, "Awards in Labor Surplus Areas and Industries Report," Oct. 5, 1959.

redetermination by negotiation, others by formula. Some provide for redetermination on the happening of a contingency; others provide for it based on actual cost experience; still others provide for it based upon a target price and a target profit.

(c) *Cost reimbursement.*—This type may be with or without a fee. It provides for reimbursement to the contractor of actual allowable costs up to a predetermined ceiling.

The discretion given to contracting officers to negotiate purchases under the 17 exceptions is elaborated by the armed services procurement regulation. It also provides instructions applicable to all procurement by negotiation. The Congress had contemplated that most negotiated procurement would be by means of fixed-price contracts.⁵ According to the record, this anticipation has not been realized. The use of fixed-price contracts as compared with cost-reimbursement contracts has shown a generally steady decline. In 1951, approximately 87 percent of the value of all procurement actions involved fixed-price contracts; this percentage had declined to 59 percent by 1959. It is noteworthy from the following tables that fixed-price contract totals include \$3 billion advertised awards in fiscal year 1959. Cost-reimbursement contracts were therefore about equal in volume to negotiated fixed-price contracts. Another noteworthy trend is that fixed-fee contracts have become the most widely used form of defense contracting.

TABLE 26.—*Net value of military procurement actions, by type of contract pricing provision,¹ fiscal years, 1951–59*

Fiscal year	Total net value of actions	Type of contract			
		Fixed price		Cost reimbursement	
		Dollars	Percent of total	Dollars	Percent of total
	<i>Millions</i>	<i>Millions</i>		<i>Millions</i>	
1951.....	21,458	18,736	87.3	2,722	12.7
1952.....	34,028	27,954	82.1	6,074	17.9
1953.....	29,285	23,358	79.8	5,927	20.2
1954.....	10,942	7,708	70.4	3,234	29.6
1955.....	13,661	10,366	75.9	3,295	24.1
1956.....	16,102	11,221	69.7	4,881	30.3
1957.....	17,997	11,995	66.6	6,002	33.4
1958.....	22,162	13,389	60.4	8,773	39.6
1959.....	22,873	13,520	59.1	9,353	40.9

¹ Includes Army, Navy, and Air Force, but excludes Armed Services Petroleum Purchasing Agency. Beginning Jan. 1, 1957, data for the Military Petroleum Supply Agency, the successor to ASPPA, are included with the Navy figures. Includes overseas procurement except for Army prior to fiscal year 1958. Excludes intragovernmental procurement. Excludes procurement actions less than \$10,000 in value except in fiscal year 1951; for fiscal year 1951 the exclusions are: Army, less than \$100,000; Air Force, less than \$10,000, and Navy, less than \$5,000. Also excludes some Navy letters of intent (on which pricing provisions had not been determined) during fiscal years 1951 and 1952.

Source: Department of Defense, Office of the Secretary of Defense, Sept. 23, 1959.

⁵ U.S. Congress, 80th, 2d sess., Senate, S. Rept. No. 571, p. 16.

TABLE 27.—Net value of military procurement actions by type of contract pricing provision,¹ fiscal years 1951-59

Type of pricing provision	Fiscal year 1951	Fiscal year 1952	Fiscal year 1953	Fiscal year 1954	Fiscal year 1955	Fiscal year 1956	Fiscal year 1957	Fiscal year 1958	Fiscal year 1959
Net value of actions (thousands)									
Total.....	\$21,458,131	\$34,027,996	\$29,285,024	\$10,941,854	\$13,661,308	\$16,101,941	\$17,997,053	\$22,161,627	\$22,873,335
Fixed price type, total.....	18,736,133	27,953,710	23,358,219	7,707,753	10,365,840	11,220,693	11,995,425	13,388,816	13,520,289
Firm.....	9,426,234	10,128,940	9,307,381	4,157,793	5,418,631	5,859,400	6,360,956	6,168,679	7,498,601
Redeterminable.....	7,206,455	13,122,675	6,368,482	639,040	1,715,573	1,596,461	1,548,113	1,630,271	1,070,589
Incentive.....	1,951,457	4,079,848	7,029,516	2,756,136	3,124,378	3,096,450	3,210,857	4,253,712	3,508,293
Escalation.....	151,987	622,247	652,840	154,784	107,258	668,382	875,499	1,336,154	1,442,806
Cost reimbursement type, total.....	2,721,998	6,074,286	5,926,805	3,234,101	3,295,468	4,881,248	6,001,628	8,772,811	9,353,046
No fee.....	855,019	1,523,065	482,099	288,797	363,371	626,198	338,635	616,629	686,581
Fixed fee.....	1,852,046	4,509,585	4,779,868	2,606,666	2,693,335	3,887,588	5,380,975	7,363,218	7,836,391
Incentive fee.....			631,036	277,121	193,408	303,759	209,296	703,175	741,247
Time and materials ²	14,933	41,636	33,802	61,517	45,354	63,703	72,722	89,789	88,827
Percent									
Total.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Fixed price type, total.....	87.3	82.1	79.8	70.5	75.9	69.7	66.6	60.4	59.1
Firm.....	43.9	29.8	31.8	38.0	39.7	36.4	53.3	27.8	32.8
Redeterminable.....	33.6	38.5	21.8	5.9	12.5	9.9	8.6	7.4	4.7
Incentive.....	9.1	12.0	24.0	25.2	22.9	19.2	17.8	19.2	15.3
Escalation.....	.7	1.8	2.2	1.4	.8	4.2	4.9	6.0	6.3
Cost reimbursement type, total.....	12.7	17.9	20.2	29.5	24.1	30.3	33.4	39.6	40.9
No fee.....	4	4.5	1.6	2.6	2.7	3.9	1.9	2.8	3.0
Fixed fee.....	8.6	13.3	16.3	23.8	19.7	24.1	29.9	33.2	34.3
Incentive fee.....			2.2	2.5	1.4	1.9	1.2	3.2	3.2
Time and materials ².....	.1	.1	.1	.6	.3	.4	.4	.4	.4

¹ Includes Army, Navy, and Air Force, but excludes Armed Services Petroleum Purchasing Agency. Beginning Jan. 1, 1957, data for the Military Petroleum Supply Agency, the successor to ASPPA, are included with the Navy figures. Includes overseas procurement except for Army prior to fiscal year 1958. Excludes intragovernmental procurement. Excludes procurement actions less than \$10,000 in value except in fiscal year 1951; for fiscal year 1951 the exclusions are: Army, less than \$100,000; Air Force, less than

\$10,000; and Navy, less than \$5,000. Also excludes some Navy letters of intent (on which pricing provisions had not been determined) during fiscal years 1951 and 1952.

² Includes labor-hour contracts.

Source: Office of the Secretary of Defense, Sept. 23, 1959.

2. Contract cost principles

The Comptroller General in his annual report for fiscal year 1958 stated that as long ago as 1955 and again in 1957, he advised the Secretary of Defense of his concern over the fact that the DOD had not issued policy guidance in making uniform cost principles applicable to all types of negotiated defense contracts and that guidance is available only under cost-type contracts. He also cited a number of areas and specific instances where unsound negotiated procurement practices were carried on, such as—

- (a) Excessive prices were negotiated in the absence of latest cost data.
- (b) Contractor's data supporting price proposals were not available for agency review.
- (c) Excessive estimated subcontract costs were included in final prime contract price proposals.
- (d) Prices quoted by sole source were accepted without assurance of reasonableness.
- (e) Inconsistent insurance practices were permitted by contractors on Government-owned facilities.
- (f) Excessive payments were retained by contractors.
- (g) Excess payments were made for anticipated services.
- (h) Payments to contractors were in excess of contract limitations.
- (i) Delays were occurring in negotiations of final contract prices.
- (j) Improper chargeoff of capital assets were allowed.
- (k) Dual administration of Government-owned property held by contractors was taking place.

In the Comptroller General's annual report for fiscal year 1959, he reiterated the continued existence of the cause of most of the foregoing deficiencies. The principal weakness noted with respect to control over prime contract prices was the failure of the military departments to require their contracting officials and the prime contractors to give sufficient consideration in establishing firms contract prices to cost data available at the time prices were negotiated. Also the main weakness noted in control of subcontract prices was the failure of both the departments and the prime contractors to require that sufficient consideration be given in establishing prices to cost data available at the time the prices were negotiated.

The Defense Department has recently issued new rules detailing costs and expenses a company may charge to the Government in carrying out military contracts.⁶ The revised list of cost principles for the first time provides a uniform policy for all major contracts.

The principal features of this new regulation follow:

- (a) The revised principles will serve as the contractual basis for the payment of costs under cost-reimbursement type contracts.
- (b) In all other contracting or contract settlement situations, the new rules will serve as a guide in the negotiation of prices or settlements, to the extent that the evaluation of costs is necessary for the setting of fair and reasonable prices.
- (c) The new regulation will have no application in connection with the placing of contracts by formal advertising nor to those

⁶ Revision No. 50, Armed Services Procurement Regulation, dated Nov. 2, 1959.

awarded by the negotiation method where adequate competition is available to insure fair and reasonable prices.

(d) The new rules will provide common guidelines for both Government and industry and will facilitate the selection of the proper type of contract for specific situations since costs will be treated similarly for all types of contracts.

(e) In the past, the DOD had used a separate set of cost principles where contracts are terminated for the convenience of the Government. The new regulation eliminates these separate cost principles.

(f) Numerous individual elements of cost have not been allowed in prior cost principles and will continue to be treated as unallowable costs. These include such things as most advertising costs, bad debts, entertainment, contributions and donations, interest on borrowing, and certain selling costs.

(g) Procurement officials may use the new rules now, but they will not be mandatory until July 1, 1960.

3. *Proposed single contract auditing agency*

The Assistant Secretary of Defense (Comptroller), because of certain GAO criticism, appointed a panel of representatives from three of the country's largest accounting firms (Haskins & Sells, Arthur Anderson & Co., and Price Waterhouse & Co.) to survey the internal audit functions carried on by the Army, Navy, and Air Force. This panel summarized its recommendations in a letter to Secretary McNeil in November, 1958, in which its first and principal recommendation (even though it was outside its frame of reference) was that contract auditing be consolidated into one agency within the Department of Defense. The reasons given by the panel for proposing this consolidation were stated as follows:⁷

Because of the importance of the question of establishing one contract audit agency within the Department of Defense, a few additional comments relating to this subject are included in this letter. This subject was not initially contemplated as a part of our survey, and was not included in the matters suggested by you and your representatives for our consideration. However, in our field contacts with contractors, procurement personnel, as well as auditors, we encountered such widespread opinion in favor of one contract audit agency that we gave further consideration to it.

The audit of contractors' accounting records, the evaluation of industrial cost accounting systems and other work performed by the audit agencies in connection with procurement are similar in nature, regardless of which of the three military departments originates the procurement. In other words, the contract audit activities of the three audit agencies fundamentally are alike.

Experience has been gained in having one agency audit for all three military departments, particularly in the case of resident audit staffs in contractors' plants. In most cases, this procedure has worked out in a satisfactory manner.

A single contract audit agency would offer definite possibilities for better utilization of manpower, improved recruiting and training, more efficient operations, reduced overhead costs, elimination of different instructions and policies, improved communication and a more uniform approach in dealing with industry. Internal auditing should remain in the military departments.

Improved cooperation between audit and procurement personnel (referred to previously in this letter) would be as necessary in the case of a new contract audit agency as at present. This relationship must be carefully developed in connection with the establishment of any such agency.

⁷ Letter from the Panel of Independent Public Accountants to Assistant Secretary of Defense, dated Nov. 14, 1958.

The DOD has not yet taken an official position on this significant recommendation. Secretary McNeil testified before the House subcommittee on Department of Defense appropriations that the matter was still under study and that a decision would be forthcoming during the past summer. No decision, however, has yet been announced.

Along the lines of this recommendation, the Comptroller General's last annual report pointed out that some GAO audit and investigation programs are now being performed on the basis of the Defense Department as an entity. Thus, the GAO will be able to review similar activities in all three departments simultaneously, and get a better understanding of the problems involved, and the methods, procedures, and practices employed by the Army, Navy, and Air Force in dealing with these problems.⁸

4. *Impact on industry*

During the period from 1950 to 1959 the national volume of production expanded 76.5 percent while the DOD expenditures expanded 246.2 percent.⁹ Defense expenditures alone currently amount to 9 percent of our gross national product.

The DOD expenditures for procurement of supplies and services comprise a large part of total defense spending and are a major determinant of the functioning of the economy. Individual industries are affected in varying degrees, depending in part upon whether their utility is primarily or particularly military. Several benefits accrue to the contractor from defense contracting on a fairly sustained basis, such as—

(a) Within the framework of present types of defense contracts, renegotiation procedures; a contractor is expected to make a reasonable profit.

(b) Defense contracts may permit continuous use of production facilities and thus lower overhead expenses reducing unit costs of goods for the civilian as well as for the military market.

(c) Much of military hardware is of highly complex types requiring specialized techniques. New or improved civilian products which are the outgrowth of military technology advances give a contractor a head start in providing them to the civilian economy.

Defense procurement's impact may often reorient industry lines. The prime contractors subcontract auxiliary equipment normally produced by other industries. Acquisition of the technology in new fields may lead the company toward new lines. For example, weapons system procurement gives broad responsibility for development, design, and production of a whole complex weapon to one company. Such a company will subcontract much of the work on component parts. This provides the opportunity to acquire the subcontractors' know-how for the production of profitable components under the contractors' own roof.

Attempts to relate the volume of contract actions to the industry organization affected presents some difficulties on the basis of available statistics. The following table illustrates procurement program breakdown in terms of 1958 procurement actions. However, the basic military items classified in this table are not necessarily directly

⁸ See app. 8, concerning exchange of letters between Congressman John W. McCormack and the Comptroller General relating to the McCormack-Curtis amendment (sec. 3 (b)) of Public Law 85-599.

⁹ Report of the Attorney General on Procurement for Defense, Nov. 9, 1959, p. 44.

comparable with the usual products of the related industry. For example, the separate category for electronics (A-7) does not include electronic missile guidance systems, which are reported under the missile (A-2) program.

TABLE 28.—*Net value of military procurement actions, by programs, January–December 1958*

Program	January–December 1958	
	Millions of dollars	Percent of total
Total, net value.....	26,505	100.0
Intragovernmental.....	741	2.8
Work outside the United States.....	1,566	5.9
Educational and nonprofit institutions.....	427	1.6
Business firms, for work in United States.....	23,771	89.7
Actions of less than \$10,000.....	1,465	5.6
Actions of \$10,000 or more.....	22,306	84.1
A-1 Aircraft.....	7,170	27.1
A-2 Guided missiles system.....	3,915	14.8
A-3 Ships.....	866	3.3
A-4 Tank-automotive.....	470	1.8
A-5 Weapons.....	140	.5
A-6 Ammunition.....	339	1.3
A-7 Electronics and communications equipment.....	2,443	9.2
A-8 Fuels and lubricants.....	1,027	3.9
A-9 Textiles, clothing, and equipage.....	250	.9
B-1 Military building supplies.....	8	(¹)
B-2 Subsistence.....	485	1.8
B-3 Transportation equipment.....	1	(¹)
B-9 Production equipment.....	153	.6
C-2 Construction.....	1,708	6.4
C-9 Miscellaneous (total).....	724	2.7
Services.....	2,607	9.8

¹ Less than 0.05 percent.

Source: Office of the Secretary of Defense, Military Prime Contract Awards to Small Business and Other Contractors, July–December 1958, 18, 20 (1959).

The above table reflects the emphasis on particular weapons. Nearly two-thirds of total procurement has been under three programs, aircraft, missiles, and electronics. Since 1950 the aircraft procurement program has been, of course, the largest program; and, in the past 4 years, the aircraft companies have been making a great effort to offset aircraft procurement cutbacks by utilizing their facilities and know-how in missile and missile component production. The 25 leading companies in the DOD prime contract awards shown in the following table are most heavily representative of the aircraft industry, and contain a fair cross section of the middle and larger companies in that industry. This list contains all major producers in the automobile industry. The electronics and communication industry also has a considerable representation. Finally, several of the larger firms listed are multiproduct companies, producing a wide range of the items.

TABLE 29.—Net value of military procurement actions, by program, January–December 1958, total prime contract awards with business firms for work in the United States total actions of \$10,000 or more, and \$500,000 or more, by company

(Thousands of dollars)

	Total, all programs	A-1 Aircraft	A-2 Guided missiles	A-3 Ships	A-4 Tank-automotive	A-5 Weapons	A-6 Ammunition	A-7 Electronics and communication	Other miscellaneous equipment	Services		C-2 Construction
										Research and development ¹	Other	
Total, actions \$10,000 and over.....	22,305,583	7,169,611	3,914,714	866,109	470,320	140,086	338,946	2,442,870	2,648,324	2,606,718	1,707,885	
Total, actions \$500,000 and over.....	18,242,578	6,179,686	3,732,333	663,199	374,598	81,672	254,684	1,845,345	1,660,541	1,428,142 (2,198,536)	1,251,984	
Total, 25 companies ² (actions \$500,000 and over).....	12,223,092	5,382,687	3,204,343	241,355	200,539	57,055	33,147	1,327,478	287,741	1,082,190	376,120	30,437
1. Boeing Airplane Co.....	1,796,928	1,318,965	446,250	-----	-----	-----	-----	-----	7,137	4,711	19,865	-----
2. General Dynamics Corp.....	1,463,259	1,081,049	110,476	76,699	-----	-----	-----	23,783	13,415	154,850	2,987	-----
3. General Electric Co.....	833,886	349,236	132,005	47,959	-----	2,335	6,171	124,025	17,842	138,785	13,530	1,998
4. Lockheed Aircraft Corp.....	864,866	476,085	183,098	-----	-----	-----	-----	-----	19,337	139,053	47,293	-----
5. North American Aviation, Inc.....	864,825	463,119	178,322	6,733	-----	-----	280	17,943	10,844	179,307	8,277	-----
6. American Telephone and Telegraph Co.....	759,498	-----	551,686	-----	-----	1,475	-----	123,172	2,479	16,770	35,477	28,439
7. Douglas Aircraft Co., Inc.....	608,111	305,731	129,305	-----	-----	-----	4,401	-----	1,752	144,159	22,763	-----
8. Hughes Aircraft Co.....	529,061	89,291	208,933	-----	-----	20,395	-----	130,492	—271	35,987	44,234	-----
9. Martin Co.....	389,700	—5,803	336,169	-----	-----	-----	-----	10,194	3,118	41,808	4,214	-----
10. Sperry Rand Corp.....	367,997	16,681	186,999	13,972	-----	17,476	—7,185	125,801	535	12,425	1,293	-----
11. International Business Machines Corp.....	354,274	3,602	-----	-----	-----	-----	-----	287,547	-----	19,876	43,249	-----
12. Chrysler Corp.....	406,273	-----	279,725	-----	113,832	7,582	-----	-----	3,878	4,727	1,256	-----
13. McDonnell Aircraft Corp.....	389,435	355,801	28,907	-----	-----	-----	-----	-----	-----	10,598	3,261	-----
14. United Aircraft Corp.....	308,024	283,578	-----	1,120	-----	-----	-----	6,299	3,068	29,607	13,138	-----
15. Radio Corp. of America.....	308,035	1,553	7,359	-----	-----	—1,824	-----	259,202	-----	27,388	500	-----
16. Republic Aviation Corp.....	342,142	313,540	714	-----	-----	-----	-----	6,524	1,409	37,803	2,260	-----
17. General Motors Corp.....	226,843	100,317	33,462	-----	45,178	—110	-----	93,677	1,500	3,273	-----	-----
18. Raytheon Co.....	239,079	-----	133,543	-----	-----	7,086	-----	48,702	1,338	16,055	-----	-----
19. Westinghouse Electric Corp.....	233,721	57,305	9,150	93,788	-----	1,133	6,250	-----	-----	694	-----	-----
20. Northrop Corp.....	221,501	29,387	177,932	-----	-----	-----	-----	11,675	18,987	937	13,938	-----
21. Bendix Aviation Corp.....	157,295	72,367	38,068	-----	-----	-----	-----	-----	-----	17,248	2,906	-----
22. Standard Oil Co. (New Jersey).....	182,283	-----	632	-----	-----	-----	-----	-----	178,751	86,021	565	-----
23. General Tire & Rubber Co.....	156,180	16,075	24,176	-----	-----	-----	-----	-----	-----	2,836	0,489	-----
24. Curtiss-Wright Corp.....	117,438	54,808	6,892	1,084	41,529	800	-----	-----	-----	-----	-----	-----
25. International Telephone and Telegraph Corp.....	102,438	-----	-----	-----	-----	707	-----	11,254	2,730	2,216	85,531	-----

¹ Includes research and development awards not assignable to a specific program.

² 25 companies, including their subsidiaries, which received the largest net values of military prime contract awards during 1958.

Source: Compiled by the Office of the Attorney General from data supplied by the Department of Defense (Supply and Logistics).

In summary of this discussion on DOD contracting, it is apparent that the complexity and urgency of military needs appear to override other considerations. There is the possibility of large supply needs for defense for years to come, despite hopes of settlement of the world's disputes. The defense share of the national product is already considerable. The Armed Services Procurement Act emphasizes the importance of utilizing existing competition to the extent possible to obtain the best value to Defense in military supply. But when the necessity of situations permit negotiated contracting, there is a concomitant responsibility to prudently utilize all relevant cost data of prime contractors and subcontractors in such price determinations. More consideration, it appears, should be given by the Department of Defense to complying with the intent and spirit of the law by utilizing procurement authority to preserve the basis of future competition to the extent present military needs permit.

5. Synopsis of General Accounting audit reports

A brief analysis of GAO audit and investigation reports for fiscal year 1959 appear in appendix 9.

These reports show an alarming degree of waste, inefficiency and ineffectiveness in various aspects of both military procurement and supply management. They are relatively small samplings but point up the neglect by the military in this area and the urgent need for a greatly accelerated program of procurement as well as supply systems studies within the Department of Defense and all executive agencies vested with responsibility to conduct such studies in these areas.

PART VII

A LOOK AT THE ARMED FORCES SUPPLY SUPPORT CENTER

1. Origin

On October 7, 1957, the Secretary of Defense directed the military department Secretaries to make a critical appraisal of all defense programs for integrating supply and logistics systems and on the basis of their findings "to plan ahead on further steps to improve the integration of our supply and logistics systems" as recommended by congressional committees and other groups.

The Secretary of Defense thereby set in motion plans for a comprehensive analysis of Department of Defense supply support activities known as the logistics systems study project. Its aim was to develop an "ultimate plan of supply system organization" and chart a course over a 5-year period to attain this objective. This objective was apparently too controversial, as the project was discontinued before reaching conclusions on the composition of such an organization. The study did, however, identify other problems and recommended changes in the management of common supply as summarized below:¹

1. Peacetime operating stock levels of the services are inconsistent.
2. Mobilization requirements planning practices are also inconsistent for the same items.
3. Only the medical single manager participates fully in the computation of requirements.
4. Responsibility of the single manager for supervision of assets at retail levels is unclear.
5. Special problems exist in coordinating the distribution of petroleum.
6. Techniques are needed to coordinate distribution of common items not under single-manager control.
7. Limitations are imposed on cross-servicing and on consolidated procurement by the incomplete status of cataloging and standardization programs.
8. Limitations are imposed on cross-servicing by lack of a uniform definition of retainable versus releasable assets.
9. The organizational separation of procurement and inventory-control responsibility may be a limiting factor in assuring optimum redistribution of assets.
10. A system is needed to provide continuing documentation of the benefits and problems of coordinated procurement.
11. Different time phasing of requirements planning militates against consolidated procurement and complicates interservicing.

¹ "Logistics Systems Study Project Summary Report," pp. 11-27, 28, 29.

12. Variations in local purchasing practices affect the opportunities to consolidate procurement, as well as other aspects of supply management.

13. Geographical separation of procurement, requirements, and standardization offices may prevent realizing the full potential of single department procurement.

14. Separate ownership of wholesale and retail stocks is believed by some to overcomplicate the single-manager operations and to introduce inflexibility.

15. The difficulty in the reuse of reimbursement from stock fund sales without reapportionment restricts interservicing of peacetime operating and mobilization reserve stocks.

16. Standard pricing policies should be applied to facilitate interservicing.

17. Various possibilities for increasing the effectiveness of the single managers should be explored.

18. The development of programs for implementation by the Interservice Supply Support Committee justifies more staff support.

19. The reports of each study team reveal the desirability of bringing counterpart inventory control activities together physically, wherever possible, as a primary means of fostering effective coordination.

20. Although present single-manager agencies are staffed with competent military and civilian personnel, opportunities for career civilians appear desirable to retain and continue to attract competent personnel.

The study also identified what it considered a serious "gap" in organization of the Department of Defense:

No central group devotes itself primarily to ferreting out problems in interservice supply operations and identifying opportunities for economy through improved coordination or integration.

There have been several attempts in the past within the Department of Defense to close this gap. These are discussed later in this chapter. The study project's solution to the deficiency was to recommend strongly the establishment of a separate agency outside of the Office of the Assistant Secretary of Defense (Supply and Logistics) which would have as its primary responsibility to conduct studies of supply systems on a continuous basis. The proposed agency would also perform certain other centralized functions: cataloging, standardization, and materiel utilization. Foremost, it must be responsive to the military needs of the services and have, as its principal mission, to effect optimum integration in the management of common supply. It would engage only in supply support and not in supply operations.

On the basis of this recommendation, the Department of Defense in a directive (5154.14) issued in June 1958, set up the Armed Forces Supply Support Center (AFSS Center). This is the Department of Defense's most recent tool to solve problems caused by the inherent overlapping and duplication of supplies and facilities among the services.

2. Programs of the Armed Forces Supply Support Center

The center is responsible for the functions below. The first three of these have been in existence for some time but were transferred to

the center to provide better support to the services and to assist the analysis staff in its studies.

The following functions were assigned to the Armed Forces Supply Support Center, as stated in its charter:

(a) Prepare and publish Federal catalog data and insure conversion to the data by the military supply systems.

(b) Recommend the assignment of responsibility among the services for the monitorship and the development of specifications for certain categories of supplies.

(c) Develop and coordinate interservice operations to assure cross-utilization of assets in order to minimize procurement, stockage, and transportation.

(d) Conduct specific study projects of the operations of supply systems of the military services and noncommercial common items of material to obtain optimum integration in the interest of increased military effectiveness and economy.

3. *Armed Forces Supply Support Council*

The AFSS Council consists of the Deputy Assistant Secretary of Defense (Supply and Logistics) as Chairman, a principal military representative appointed by each of the four services, and the Director of the AFSS Center.

The Council is the primary authority in the center, controlling both input and output. According to the charter establishing this agency, the Council will (app. 10)—

(a) Approve all study and work projects,

(b) Approve the appointment of key personnel,

(c) Make decisions on the findings and recommendations of approved studies, and

(d) Make recommendations for decisions and implementation by responsible officials of the Department of Defense.

The Assistant Secretary of Defense (Supply and Logistics) was formerly the sole arbiter among the services in this field. It is also noteworthy that the military representatives have a majority of four to two over the civilian representatives on the Council and hence could control the destinies of the AFSS Center.

4. *Cataloging, standardization, and materiel utilization*

As stated above, the programs for cataloging, stabilization, and materiel utilization have been in existence for some years. Cataloging and standardization programs were transferred from the Office of the Assistant Secretary of Defense (Supply and Logistics); materiel utilization prior to transfer to the center was the responsibility of a joint service committee.

(a) *Cataloging*.—Public Law 436, enacted in July 1952, gave a mandate to the Secretary of Defense to accomplish the fullest practicable integration in military supply systems. The cataloging program has reached the point where real dividends can be realized, for it is a prerequisite to the standardization and other supply management programs. Some 3.4 million items in the military supply systems have been identified by descriptions and individual stock numbers. The catalog is composed of 75 broad commodity groups, which are subdivided currently into 548 materiel classes, and is sufficiently comprehensive in scope to permit the classification of all items of personal property. As of January 1, 1959, the services were 100-percent converted to these numbers. The Department of Defense is continuing to maintain the catalog up to date by absorbing into it the heavy flow of new items that enter the supply system.

(b) *Standardization.*—The highly important objective of the standardization program is to consolidate specifications and to reduce the number and variety of items in the military supply systems. It will be a period of years before the program will have completed the initial analysis of existing items, and the Department of Defense will be in a position to screen only new items proposed for addition to the military supply systems. There are about 50 service assignees responsible for planning, scheduling, and coordinating the efforts of the four services in specification studies and technical analyses. A recent study in the Department of Defense estimated that about 52 percent of the 3.4 million items identified under the Federal catalog system are common to two or more services although only about 14 percent have the same stock numbers. Thus about 38 percent or 1.3 million items, while having similar fabrication or manufacture, differ among the services in such relatively minor respects as color, finish, markings, or only in terminology. The attendant savings from standardization are substantial. The Department of Defense estimates that about \$1 million a year in management expenses are saved for every 100 items eliminated from its supply systems.^{1a}

The activity of the single manager for clothing and textiles (Army) illustrates the potential savings from assigning responsibility for the specifications program in a commodity area. As stated previously, after this single managership was established, 10,246 stock numbers equal to 23 percent of the original amount inherited from the services were eliminated from the inventory. Thus, in addition to the reduction in investment by the elimination of items, the administration and physical actions involved such as requisitioning, stock control, procurement, storage and handling, and the many records maintained at each level within the military structure were reduced. What is equally significant is that items with multiple users have increased from 3,976 to 7,086, an increase of 78 percent. Thus, the so-called commonality of the commodity group has increased from 12 percent to 21 percent. Further, these are items that have a rapid turnover and account for a very high proportion of the total issues of the single manager.

The single managers lend themselves much better to specification studies than do the individual service assignments because of their wider perspective. They are thus able to recognize superficial differences and eliminate duplicative terminology of numerous items of supply as well as keep new duplications from cropping up in the systems.

The need for shortcuts to accelerate the reduction of items in the supply systems and achieve a high degree of commonality is being emphasized by Department of Defense. But efforts to date have only scratched the surface. An example of the great urgency for stepping up the standardization program is in a recent review of administration and housekeeping supplies. It would be expected that these items would have a very high degree of commonality, yet out of a total of 25,116 commercial-type items only 3,601 items or 14.3 percent are used by two or more services.²

^{1a} Address by Assistant Secretary of Defense, Supply and Logistics, before the American Standards Association, Dec. 9, 1959.

² Armed Forces Supply Support Center "Report on Management of General Supplies," vol. II, p. 33.

TABLE 30.—Commonality of administration and housekeeping items in the military departments

Class	Number of items	Number of items used by 2 or more services	Percentage of commonality
Furniture.....	2, 579	215	8
Furnishings.....	687	109	16
Food equipment.....	4, 657	662	14
Office machines.....	2, 090	70	3
Office supplies.....	6, 303	1, 093	17
Musical instruments.....	832	308	37
Athletic equipment.....	355	125	35
Cleaning equipment.....	779	188	24
Containers.....	4, 632	617	13
Toiletries.....	127	46	36
Paper.....	320	31	10
Miscellaneous.....	1, 755	137	8
Total, administration and housekeeping items.....	25, 116	3, 601	14

Source: Armed Forces Supply Support Center, general supplies study model.

Standardization contributes importantly to—

1. Facilitating the determination of logistics requirements;
2. Facilitating procurement through—
 - (a) The consolidation of purchasing requirements,
 - (b) Increasing sources of supply,
 - (c) Improvement of design and productibility of items and supply;
3. Saving materials on the Department of Defense mobilization lists;
4. Facilitating interdepartmental cross-servicing;
5. Reducing distribution and maintenance costs;
6. Minimizing the generation of surplus material.

(c) *Material utilization.*—In July 1955, the Secretary of Defense issued a directive calling for maximum utilization of all the assets in the Department of Defense by making them available to all military supply systems.³ To meet this objective, the military chiefs of the four services by joint agreement created an Interservice Supply Support Committee (ISSC). The ISSC consisted of the senior supply managers of each of the services. A number of commodity coordination groups (CCG's) were formed and each was composed of the services' inventory managers responsible for similar items of supply. The ISSC chartered several CCG's after developing elaborate procedures to assure maximum utilization of the material concerned. There are currently 33 CCG's in operation. The plan provides that when an inventory control manager reaches a "buy" position on an item which has been predetermined from Federal catalog data to be interserviceable, the other service inventory managers stocking the item are queried for releasable assets. After evaluation of replies, the buying inventory manager either initiates a transfer order or proceeds with procurement on the open market.

The plan had difficulty in getting into operation for several reasons. One problem was that under fiscal arrangements then in effect, reimbursement dollars received from the "buying" service could not be reinvested and were made available to the "selling" service only through apportionment procedures. To eliminate this roadblock,

³ Department of Defense Directive 4140.6.

Department of Defense issued a directive in December 1957 simplifying fiscal procedures so that now (a) materiel which is beyond the mobilization needs of the owning service will be transferred to other services where a valid deficit exists, without reimbursement, and (b) materiel which is held to meet mobilization and peacetime operating needs may be transferred to needing services by the selling service with authority to reinvest the proceeds.⁴

Other impediments to cross-utilization are far more difficult to correct. Whether to buy from another service their operational or mobilization supplies or to go into the open market where they are assured of new stock is optional with the requiring service. There is a natural reluctance on the part of inventory managers to buy at market prices material from another service which may have been in stock for a considerable period of time and may be in varying degrees of deterioration.

In addition, as stated previously, there is difficulty in communication because of the geographical dispersal of the services' inventory control managers. After more than 4 years of strenuous effort to make the interservice supply program work it remains ineffective. A recent study in the Department of Defense pointed out:

This coordinative process both in resources exchanged or commodity system improvement is lagging for reasons beyond the control of the CCG's.⁵

5. Armed Forces Supply Support Center conducting study projects on a continuous basis

In order to close what had been referred to as the serious "gap" in the organization of Department of Defense, the AFSS Center carries on as one of its primary functions study projects on specific proposals. Such studies, which are originated by the Director but must be approved by the Council, are to include, according to its charter—the development of practical steps to foster efficient interservice utilization of assets and to achieve closer working relations in the management of common supply.

Various facets of supply management in Department of Defense have been subjected to numerous studies since the passage of the National Security Act in 1947. Careful and objective studies are very useful and necessary, but they should not be used as a substitute for forthright and effective action. The record, however, appears to indicate that studies have often been utilized in Department of Defense solely for the purpose of postponing decisions.

The National Security Act provided for coordination of the three military Departments and the establishment of integrated policies and procedures. In the area of supply management, the Munitions Board was given the responsibility to bring about the maximum integration of military supply activities. The Board first established study groups known as facilities and services committees at all echelons of departmental and field activities with the assigned mission of eliminating overlapping and duplication among the three military Departments and to promote the maximum cross-servicing. While some good work was done by these committees in uncovering deficiencies it became apparent after a time that only the surface could be treated because extensive cross-servicing could not be interlaced

⁴ Department of Defense Directive No. 4140.12.

⁵ Armed Forces Supply Support Center, "Report on Management of General Supplies," vol. II, p. 90.

with independent supply systems. Because of the close relationship among the basic logistic functions of requirements determination, procurement, and distribution, the Munitions Board then decided that greater progress would come in coordinating the supply management area, if examination were turned to the functional fields of supply such as, materiel control, property accounting, and purchasing.

Accordingly, the facilities and services committees were disbanded and, as a second approach, a number of so-called councils for various supply functions, such as purchasing and distribution, were set up in May of 1949.⁶ Thereupon, the councils, composed of Munitions Board staff and military departmental members, wrestled with the problem of effecting uniform methods and procedures for each functional field of supply applicable to many different materiel categories. The Councils' approach was that of a horizontal functional dissection through the many segments of the services' supply systems.

When unrest arose in Congress at the slow progress in unifying supply activities the Munitions Board discarded the functional approach to the problem. It brought forth a new concept in August 1951 by establishing a supply systems study project and required that—⁷

For each of the typical categories of materiel selected [for study], detailed examination will be made of the policies, standards, and procedures governing the functions of requirements computation, procurement, distribution, and redistribution, maintenance, budgeting, and financing. *Examination also will be given on a priority basis to the feasibility of assigning to a single military department responsibility for procurement, distribution, including depot storage and issue, and maintenance of common categories of supply.* [Italic added.]

As a preliminary step to making studies on a category basis, the Munitions Board developed 17 category groupings, or families of items of supply, which encompassed the entire area of logistic materiel stocked in the Department of Defense supply systems. However, only 3 studies out of the 17 groupings actually got underway. These were concerned with medical and dental materiel, subsistence, and automotive equipment. The findings were extremely valuable because with the scope of the studies narrowed to specific commodities they focused attention for the first time on inconsistent practices among the services in many functions of supply. Criticism of the services' performance and highlighting the pressing need for remedial action soon created opposition by the services to studies of other commodity areas. Consequently, in November of 1953, the newly appointed Assistant Secretary of Defense for Supply and Logistics (and former Assistant Secretary of the Navy) provided a new policy guidance on supply systems studies that completely reversed all previous efforts toward unification since the passage of the National Securities Act.⁸ This new policy stated:

The experience of the Military Departments indicates that in order to reduce supply problems to manageable proportion, emphasis at this time would be more advantageously directed toward greater efficiency within individual departmental supply systems and supply management functions; development of fiscal procedural means for effective and economical cross-servicing among the military services; and the closest practicable coordination of departmental supply systems. Future supply studies will not be confined to a review and analysis of a category of materiel, but will be directed toward the accomplishment of the foregoing

⁶ Secretary of Defense policy statement accompanying transfer order No. 39 of May 1949 concerning the separation of the Air Force from the Army.

⁷ Department of Defense Directive No. 4100.3.

⁸ Memorandum of Nov. 13, 1953, from Assistant Secretary Charles E. Thomas to the Assistant Department Secretaries (Materiel).

principles on the basis of placing first things first. *In addition, in line with the policy of this office to remain out of operations, the responsibility for conducting studies as they are required will be delegated to the Military Departments. Since the directive setting up the supply studies is not in conformity with this approach, it is accordingly being rescinded.* [Italic added.]

In July of 1954, the Assistant Secretary of Defense (Supply and Logistics), in a letter to the chairman of the House Military Operations Subcommittee, reiterated this new Department of Defense policy and attacked the validity of the concept of unification of supplies by categories under one service. But in November 1955 the Department of Defense completely reversed its position and reverted to the original concept in the abandoned supply systems study project. Without any preliminary studies it established four commodity single-manager plans. This about-face change in position, induced by severe congressional criticism at the time,⁹ was a compromise solution to Hoover Commission recommendations proposing a much more comprehensive unification plan in the supply field.¹⁰

After scrapping the supply systems study project in 1953, the Department of Defense undertook no further supply systems studies until October 1957 when the Secretary of Defense set in motion the logistics system study project. The concept of this study, as indicated, was to develop an "ultimate plan of supply system organization." However, the project was discontinued, as were all previous studies having the same ultimate purpose, rather than face up to the basic problem of recommending the best supply support organizational plan that might be worked out at the time. The Department of Defense compromised the issue in favor of continuing the present patchwork supply arrangements. Taking an alternative course of action, it created the Armed Forces Supply Support Center for the purpose of carrying on supply management studies on a continuing basis.

In the light of past experience, it is not clear what new features are provided in the AFSS Center arrangement so that studies under its aegis will be any more fruitful than were all previous supply study projects. The Council is heavily weighted with the military—four military service representatives and two civilian representatives. The Council has authority to exercise virtual veto power over what studies will be made and how study recommendations will be implemented. It appears, therefore, that the Assistant Secretary of Defense for Supply and Logistics might have transferred much of his decision-making responsibility to the Council in this vitally important field. In the final analysis, the Assistant Secretary can appeal the Council's action or inaction to the Secretary of Defense, but this is a procedure that is rarely employed in the Department of Defense.

The analysis staff of the center has recently completed (October 1959) the first phase of a major study which developed, not from the Council's action, but from recommendations of the logistics study project that priority be given to the study of general supplies. It covered only a small segment of such supplies—handtools and administration and housekeeping supplies (reviewed in pt. III). The study was made along the lines of the supply systems study project that the Department of Defense disbanded in 1953—namely, examining a

⁹ U.S. Congress, House of Representatives, Committee on Government Operations, Hearings, May 5, 10, 13, 1955.

¹⁰ Hoover Commission Report on Business Organization in the Department of Defense, Rec. 9.

manageable group of commodities by each step of the supply cycle, both within and among the services. In revealing the shocking conditions of waste, the study shows how extremely costly was the decision to discontinue these studies 6 years ago. It also points up the urgent need for studying all areas of supplies. For example, in the relatively small area of the management of household furniture, which is within the scope of the model study but was not specifically reviewed, there are a great many inconsistent and wasteful practices carried on by the military services, as shown below.

BRIEF ANALYSIS OF GOVERNMENT-OWNED HOUSEHOLD FURNITURE
AND FURNISHINGS FOR FAMILY QUARTERS PROVIDED BY THE
DOD IN UNITED STATES

(1) *Legal authority*

There is no specific legislation authorizing the use of Government-owned household furniture in family quarters for the armed services in the United States. However, past appropriation legislation and long-established practice would perhaps indicate that it was the intent of Congress that such quarters be equipped with furniture; otherwise Congress would not have approved appropriations for this furniture over a period of years. Conversely, section 614 of the 1956 Department of Defense Appropriation Act specifically prohibits the furnishings of table linens, glassware, silver, and kitchen utensils in public quarters; Congress has specifically restricted certain furnishings.

On the other hand, the authority to make expenditure for facilities utilized by civilian personnel and to impose a user charge is contained in the act of March 5, 1928 (sec. 3, 45 Stat. 193) which reads as follows:

The head of an executive department or independent establishment, where, in his judgment, conditions of employment require it, may continue to furnish civilians employed in the field service with quarters, heat, light, household equipment, subsistence, and laundry service; and appropriations for the fiscal year 1929 and thereafter of the character heretofore used for such purposes and hereby made available therefrom: *Provided*, That a reasonable value of such allowances shall be determined and considered as part of the compensation in fixing the salary rate of such civilians.

The legal authority with respect to the State Department is contained in 46 Stat. 177 (22 U.S.C. 291), which authorizes the Secretary of State to provide living quarters in Government-owned or rented buildings together with heat, light, and household equipment to officers and employees of the Foreign Service who are U.S. citizens.

(2) *Basis of Government policy of providing furniture and furnishings*

It is the policy of the Government as set forth in the Bureau of the Budget Circular A-15, dated December 24, 1948, not to provide furnishings for housekeeping quarters within the continental United States and its possessions except where conditions of employment require frequent change of station in the interest of the Government. Where residence is of a permanent nature, it is not the policy of the Government to provide furnishings for housekeeping quarters. This policy is based on the principle

that the Government is justified only where it is cheaper for the Government to purchase certain items of furnishings than pay the expense incident to the frequent transportation and/or storage of personally owned furnishings.

(3) *Scope*

The total estimated replacement value of the Department of Defense household furniture being used in the United States for family quarters is over \$150 million. This amount is being increased by approximately \$100 million due to the acquisition of some 50,000 Capehart and 22,000 Wherry quarters.

(4) *Procurement practices*

Army.—All furniture within the United States is centrally procured by the Office of the Quartermaster General (OQMG) based on military specification developed by OQMG.

Navy.—Procurements of furniture up to \$5,000 are made through General Services Administration schedule contracts. However, in actual practice practically all purchases are for quantities in excess of that amount and are made through Navy district purchasing offices in accordance with instructions as to commercial grades from the Bureau of Yards and Docks. (Marines follow the same practice.)

Air Force.—All furniture requirements are procured through the General Services Administration.

(5) *Inconsistent practices*

In addition to the uncoordinated procurement practices for household furniture, there are also extremely wide differences among the services in the amounts and grades of furniture provided.

Army.—Furniture consisting of 13 basic items is provided in about 80 percent of family quarters. This does not include any living room furniture, rugs, lamps, and other furnishings. There is only one grade of furniture provided (except for the Chief of Staff). The estimated cost of furnishing a three-bedroom set of family quarters is \$1,209.

Navy.—All quarters are completely provided with furniture and furnishings. There are two grades of furniture; one grade for junior officers and enlisted men at an estimated average cost of \$3,200, and the other for senior officers at an average cost of about \$4,150 for a three-bedroom set of family quarters. (Marines follow Navy practice.)

Air Force.—The Air Force provides in family quarters only those items of furniture which incur high transportation costs and those which the average Air Force family may not possess. About half of the quarters are furnished with such items. There is only one grade of furniture provided. The average cost of furnishing a three-bedroom house is about \$2,019.

These inconsistent practices are in face of the fact that a sample survey by the Air Force (equally applicable to all services) shows that if its officers were to occupy family quarters (whether Government or private) at their next duty station in the United States, 10 percent would require fully furnished quarters; 10 percent, partly furnished; and 80 percent have their own furniture. If the

Air Force enlisted men with dependents were to occupy family quarters in the United States, 35 percent would require fully furnished quarters; 15 percent, partly furnished; and 50 percent would have their own furniture.

Only about 15 to 20 percent of military personnel entitled to occupy Government family quarters would be able to do so even after the Capehart and Wherry housing programs are completed. Thus the situation results in the periodic transfers of personnel from a money allowance status in lieu of quarters in which personnel must provide their own furniture, to Government quarters where furniture is provided as indicated above. Further, the expense to the Government to ship privately owned furniture back and forth across the country runs about \$130 million annually.

(6) *Need for uniformity*^{1a}

It is apparent that the Government policy of providing furniture only where it is cheaper to do so has received little consideration in the Department of Defense.

It was the intent of Congress in the Military Pay Act in the 85th Congress to adjust pay and allowances so that they would apply uniformly to all armed services. While provision for quarters' furniture is not covered by legislation, it is considered by the Department of Defense as a "fringe" benefit. However, instead of uniformity and equality, there is a difference of more than 3 to 1 in the value of furniture provided between the Navy and the Army. Also, since family quarters are available within the country to between 15 and 20 percent of the personnel having this entitlement, only a small segment of the armed services enjoys this "fringe" benefit. Perhaps it would be more equitable and in keeping with the intent of Congress for the Department of Defense to charge a rental for the use of Government-owned furniture in the United States by the military services personnel as is required of the civilian agencies' employees.

^{1a} House of Representatives Rept. No. 474, Department of Defense appropriations, fiscal year 1958, requested that the Bureau of the Budget modify its circular No. A-15, dated December 29, 1948, as follows: " * * * initiate a study of this problem on a Governmentwide basis, in order that equity in dealing with all personnel with such entitlement shall be maintained, and with a view toward restricting the issue of furniture to the basic non-easily transportable items and reducing the enormous funding requirement for procurement of furniture * * * ." The Budget Bureau, however, has not yet revised its circular No. A-15.

PART VIII

EXCESS PROPERTY, SURPLUS DISPOSAL, AND STOCKPILE PROGRAMS ¹

1. *Excess property in the Department of Defense (not available for public sale)*

Property not required within a particular military service is reported to the Armed Forces Supply Support Center located in Washington. The AFSS Center assembles these reports into consolidated listings by property class and distributes them to all military activities authorized to acquire property and to certain other agencies and activities authorized to obtain excess property. The center currently has about 1,800 addresses on its mailing list to receive these listings of excess availability.

Procedures provide that within the time period reserved for utilization screening (45 days for defense activities and thereafter an additional 90 days for civilian agencies through the General Services Administration), reviewing activities must designate to the center or the GSA that property which can be used in planned requirements. Following the completion of military and civilian agency screening, the property is declared as surplus and is made available to programs authorized by Congress to receive surplus property on a donation basis, such as educational, public health, research, and civil defense programs. Should no claim be processed within the screening period by the AFSS Center for transfer to another military activity or to one of the civilian agencies of Government, and should the property not be earmarked for donation by the Department of Health, Education, and Welfare, it is then established that the property in question is surplus to the needs of the Federal Government.

2. *Surplus property (available for public sale)*

When it is determined that there is no reasonable prospect of utilization by the Federal Government the property is declared surplus, and is eligible for sale to the general public. Any proposed sale of material with an acquisition value of \$250,000 or more must be referred to the Department of Commerce for determination of the impact of the sale on the market. Public sale is accomplished generally by the activity holding the property.

3. *Reasons for disposal of property*

There are six major causes for the generation of surplus property, in Department of Defense.

First.—Major items of military equipment become obsolete. . . .

Second.—Repair parts peculiar to obsolete aircraft, ships, tanks, and other equipment are no longer needed.

¹ The stockpile program section was prepared by Frances Topping.

Third.—Wornout equipment, where it is determined that the cost of annual repair exceeds the annual pro rata cost of replacement is replaced by new equipment.

Fourth.—Normal peacetime operations generate certain waste byproducts, such as production scrap, paper, and food waste.

Fifth.—Revised estimates and mistakes resulted in buying something in the past for which there is no current or foreseeable use.

Sixth.—Finally, there are three and sometimes four unilateral service programs, each acting to a large extent independently of the others without regard for the overall Department of Defense assets.

4. Size of the disposal program

The Department of Defense investment in equipment, materiel, and spare parts totals about \$120 billion.^{1a} A large part of this investment is in major combat equipment and spare parts. The total of property which Department of Defense has earmarked as being excess and in long supply is \$26.7 billion.² The condition and age of combat equipment combined with the military characteristics result in practically no residual utilization for nonmilitary purposes. Well over half of the disposal program of the Department of Defense is involved in the preparation for scrap and disposal of scrap resulting from the demilitarization of combat items.³

TABLE 31.—Total dispositions (at acquisition cost) of surplus property, fiscal years 1958-60

[In billions]

	1958	1959	1960
(a) Utilization by other Government agencies and MAP.....	\$0.3	\$0.5	\$0.6
(b) Destroyed for safety reasons.....	.1	.1	.1
(c) Authorized donations.....	.2	.3	.3
(d) Sold as scrap and salvage.....	3.4	4.6	6.0
(e) Sold as usable property.....	2.0	2.5	3.0
Total dispositions.....	6.0	8.0	10.0

Source: Department of Defense.

There are two primary reasons why the volume of surplus disposal is large and increasing:

(a) The investment in military hardware has taken place over a long period of time. The reserve fleet of the Navy averages 16 years of age and some ships range to over 30 years. Most of the aircraft are over 5 years old and the tanks and other equipment are of World War II vintage. While it is manifestly uneconomical to maintain obsolete equipment and supporting spare parts, the Department of Defense has been extremely slow in disposing of this old equipment. But under the pressure of the GAO and congressional criticism, the Department of Defense has now a more aggressive program in effect to eliminate materiel in excess of needs.

^{1a} House of Representatives, Committee on Government Operations, "Federal Real and Personal Property Inventory Report," p. 98.

² U.S. Congress, House of Representatives, Appropriations Subcommittee on Department of Defense Appropriations, Hearings, Fiscal Year 1959, p. 10, pt. 5.

³ U.S. Congress, Senate Subcommittee on Department of Defense Appropriations, Hearings for Fiscal Year 1959, p. 925.

(b) Each year the Congress appropriates funds to purchase new combat equipment which when delivered serves to modernize the Department of Defense total capability. Some of these funds will be used for consumable materiel, such as food, fuel and miscellaneous general supplies. The balance expended for new military hardware for the combat forces will phase out obsolete equipment which will have been only partially expended.

5. Financial returns from disposed property

The values placed by Department of Defense on materiel being disposed of are in terms of their acquisition cost. No matter how long a piece of equipment has been in use, or in what condition it may be, it is carried on the books at the original value. This, therefore, gives a misleading impression as to the low rate of return on the surplus property disposal program. It currently costs about 30 percent of the gross proceeds for the administration of the disposal program.⁴ And over 60 percent of this cost is for demilitarization of technical equipment and ammunition which must be accomplished prior to sale for safety and security purposes.

TABLE 32.—*Proceeds from disposal sales of surplus property by the military departments, fiscal years 1958-60*

[In millions]

	1958	1959	1960 (estimated)
From scrap and salvage.....	\$76.6	\$83.0	\$120.0
From sale of other property.....	108.1	125.0	140.0
Total.....	184.7	208.0	260.0
Percent of gross proceeds to acquisition cost.....	3.17	2.57	2.67

Source: Department of Defense.

TABLE 33.—*Costs of disposal sales of surplus property by the military departments, fiscal years, 1958-60*

[In millions]

	1958	1959	1960
Cost for demilitarization.....	\$24.0	\$31.3	\$47.0
Cost for preparation and selling.....	18.5	22.7	28.0
Total.....	42.5	54.0	75.0
Percent of sales cost to gross proceeds.....	23.0	25.9	29.2

Source: Department of Defense.

During fiscal year 1960, the Department of Defense estimates that it will dispose of about \$10 billion surplus property.⁵ The gross receipts from this disposal are estimated at \$260 million, from which must be deducted the cost of disposing of this property of about \$75 million. Thus, the estimated net return will be somewhat less than 2 percent of the acquisition cost. Although this return is small there are certain tangible benefits accruing to the Government from a stepped-up disposal program rather than continuing its former

⁴ U.S. Congress, Senate, Subcommittee on DOD Appropriations, Hearings for Fiscal Year 1959, p. 925.

⁵ U.S. Congress, Senate Subcommittee on Department of Defense Appropriations, Hearings for Fiscal Year 1959, p. 925.

“string saving” policy. It results not only in greatly improving supply efficiency by eliminating vast quantities of obsolete equipment that clog operations but also reduces the overhead costs of storage, accounting, and inventorying such material.

A House Appropriations Committee staff report of January 1958 on Department of Defense supply operations commented that excesses in inventory that exist in the supply systems are probably the major deterrent to the efficiency of the supply services. The report pointed out that the Army alone had an inventory of some \$20 billion in its supply system, of which it estimated that \$6.2 billion, or 31 percent of the total, were in excess of that service’s needs.⁶ Yet, in 1957, the entire Department of Defense disposed of only \$3.7 billion of surplus property. This policy of squirreling away unneeded supplies was in spite of the Department of Defense annual expense incident to storage, accounting, inspection, maintenance, and preservation of materiel estimated at about 0.5 percent of the acquisition cost.⁷

As indicated, the Department of Defense new accelerated program calls for disposing of materiel amounting to about \$10 billion or more annually, until it eventually rids its supply systems of the accumulations over the years of these tremendous stocks that are of worthless value to present military needs. While this stepped-up disposal program is commendable, the long-existent Department of Defense attitude, on the other hand, of amassing useless materiel has been wasteful. For example, the present excess stocks of \$26.7 billion are eating up in storage and handling charges alone about \$134 million annually at the rate of one-half of 1 percent per year. These costs must be deducted from the average net return of 2 percent which will eventually accrue from sale of surplus materiel. Certainly, in view of this record Department of Defense representatives should not attempt to bestow a significance to this belated action out of proportion to its merits. Yet, because of this program, the Assistant Secretary of Defense (Comptroller) attempted to downgrade the value of the single-manager plans at hearings of the Joint Economic Committee on February 10, 1959.⁸ This testimony was in sharp contrast with the position the Department of Defense had taken publicly on this subject.

The colloquy between Senator O’Mahoney and Assistant Secretary McNeil with the Secretary’s summary statement has been given wide currency.

Senator O’Mahoney reminded Secretary McNeil of—

the long fight we have had over the desire to enforce in the Department of Defense a rule of consolidated buying for common-use items—

and inquired about what progress had been made. Secretary McNeil replied that—

in four major areas it has been pretty completely done. These areas are food, clothing, medical supplies, and petroleum. * * * in other areas there is a great deal of joint purchasing by the services but it is not formally set up by the Department of Defense as a departmentwide affair. For example, the Army is buying certain equipment for the Navy, and vice versa. There is a great deal of that, as you know, in the single service procurement.

⁶ U.S. Congress, House of Representatives, Committee on Appropriations, report by its surveys and investigations staff, January 1958, pp. 263, 264.

⁷ U.S. Congress, Senate Subcommittee on Department of Defense Appropriations, hearings for fiscal year 1960, p. 926.

⁸ U.S. Congress, Senate Subcommittee on DOD Appropriations, hearings for fiscal year 1960, 86th Cong., 1st sess., pp. 679, 680.

When asked to estimate the saving that is being made in the budget for 1960 as compared with the budget for 1959 by "following this policy urged so long by Congress", Secretary McNeil took this position:

I don't see that we have much saving. * * * We certainly have hopes and are striving for it. The only way I can find a saving is if we can do the business with less inventory and with less people. So far we have not been able to do that.

SUMMARY STATEMENT OF ASSISTANT SECRETARY OF DEFENSE McNEIL FILED WITH THE JOINT ECONOMIC COMMITTEE

There appears to be a mistaken impression that large sums of money can be made available from savings effected through single-manager operations. Although some savings have been achieved through the reduction of inventories and operating expenses in the Defense Department supply system as a whole it is difficult to assess the extent to which these savings are wholly due to the single-manager assignments in contrast to those which would have been attained through the system of individual service management.

The inventories of materiel which qualify for consideration for single-manager assignments are generally capitalized under Department of Defense stock funds. Such materiel is purchased by the stock funds in terms of net requirements, i.e., items in short supply are purchased to meet sales requirements, while items in long supply are sold to consumers without replacement. This policy is implemented through the budgetary review channel, whether the items are separately managed or by the military services, or are managed under single-manager assignments. The fiscal year 1960 budget—for the stock funds as a whole and for the single-manager areas—demonstrates the progress expected in reducing inventories of materiel and reducing concomitant reductions in personnel costs for supply management, storage, and maintenance of materiel. These reductions, to the extent that they can be identified, are reflected in the fiscal year 1960 budget.

Progress planned in the fiscal year 1960 budget for stock funded materiel and the proportion of this materiel under current single-manager assignments is shown below:

(Dollars in millions)

	Total stock funds	Single-manager assignments	Percent single-manager assignments
Sales, fiscal year 1960.....	\$5,145.0	\$3,870.9	75.2
Obligations, fiscal year 1960.....	\$4,883.4	\$3,772.1	77.2
Amount of sales program not requiring reinvestment in inventory.....	\$261.6	\$98.8	37.8
Percent of sales program not requiring reinvestment.....	5.1	2.6	
Inventories:			
June 30, 1959.....	\$8,139.9	\$3,306.7	40.6
June 30, 1960.....	\$7,242.2	\$3,071.8	42.4
Amount of reduction during fiscal year 1960.....	\$897.7	\$234.9	26.2
Percent of reduction during fiscal year 1960.....	11	7.1	

As may be noted above, significant progress is being made in reducing inventories carried in stock funds through the enforcement of regular supply and financial policies whether or not such inventories are under single managers.

Perhaps the most promising potential economies associated with the single-manager concept arises from opportunities it provides for eliminating concurrent buying and selling and for diminishing backhauls and crosshauls through integrated distribution operations. Although they are not precisely measurable it is reasonable to conclude that some economies from these sources have been achieved. Although they may have been partially offset during the initial phases of the single-manager operation by expenses related to adjustment to new distribution patterns, once adjustments to desired distribution patterns have been completed, economies should be possible on a continuing basis.

Assistant Secretary McNeil appears to be "adding apples and pears." He did not explain to the committee that the surplus dis-

posal program had increased from about \$2 billion in 1956 to \$8 billion in 1959, and is expected to reach \$10 billion or more in 1960, and that reduced inventories in the Department of Defense would naturally reflect that fact. The categories of supplies that were in the worst condition would show the largest reduction in inventories. Moreover, the inventories of the single-managed commodities have been under intensive "purification" programs since the single managers were established early in 1956. In fact, even for a period prior to that time both subsistence and medical supplies were subjected to individual reviews by the Hoover Commission and other interested groups.⁹

On the other hand, an indication of the deplorable inventory condition of non-single-managed commodities is evident in the following table showing the ratio of long-supply stocks to total inventory of two small segments of general supplies—namely, administration and housekeeping supplies and hand tools.¹⁰

TABLE 34.—*Long supplies of administration and housekeeping supplies and hand tools held by military departments, as of July 1, 1959*

	Total inven- tory	Long sup- ply ¹	Long supply as a percent of inventories
	<i>Millions</i>	<i>Millions</i>	
Army.....	\$126.1	\$28.1	22
Navy.....	71.5	36.0	50
Air Force.....	66.8	16.2	24
Marines.....	29.3	21.1	72
Total.....	293.7	101.4	34

¹ The sum of economic reserve and excess stocks.

It should be noted that the 34 percent long supply is perhaps very conservative, according to the Department of Defense study group that compiled these figures. The military services appear to practice a sort of "shell game" technique in segmenting their inventories applicable to peacetime operating, mobilization reserve, economic reserve, and excess stocks. A percentage breakdown by each of these levels to the total supplies in this one area, which is presumed to be symptomatic of other areas as well, shows the inconsistent practices and the lack of uniform criteria applied by the services in segmenting inventories.¹¹

TABLE 35.—*Percentage distribution of classifications of inventories held by the military departments*

	[Percent]				
	Army	Navy	Air Force	Marine Force	Total DOD
Peacetime operating.....	44	33	75	9	45
Mobilization reserve.....	34	17	1	19	21
Economic reserve.....	4	33	15	22	15
Excess.....	18	17	9	50	19
Total.....	100	100	100	100	100

Source: Armed Forces Supply Support Center, General Supplies Study Model.

⁹ Munitions Board supply systems study projects, 1952 and 1953.

¹⁰ Armed Forces Supply Support Center, "Report of Management of General Supplies," vol. 2, p. 58.

¹¹ "Armed Forces Supply Support Center Report of Management of General Supplies," vol. 2, p. 56.

The Department of Defense study group report, while addressing itself to the inadequacy of the cross-utilization of defense resources, made the following observation which is particularly pertinent.¹²

It was noted that at certain inventory control points, general mobilization reserve requirements were being computed for all items on a nonselective basis for retention purposes only. Such assets which previously fell into long supply (and thereby subject to transfer without reimbursement) would now be categorized as mobilization reserves and thereby not subject to transfer on a nonreimbursable basis. To the extent that computation of general mobilization reserves requirements is accomplished for items on a nonselective basis for retention purposes, it will preclude maximum achievement of the objective of DOD Directive 4140.13. [Italic added.]

6. Present structure for surplus disposal

The Assistant Secretary of Defense (S. & L.) is responsible for all policy matters connected with surplus disposal, but he exercises no management or operating functions. Within the military departments there are 24 departmental and field organizations responsible in various degrees for the direction, supervision, and/or operation of disposal programs. This fragmentation of control causes extremely wide differences in the operations at some 315 selling activities. The following table gives the breakdown among the services of the number of organizations now exercising certain supervisory authority affecting the selling of surplus property:

TABLE 36.—Number of control elements and selling points for surplus property in the military departments

Service	Number of—	
	Control elements	Selling points operated
Army.....	10	127
Air Force.....	10	141
Navy.....	2	41
Marine Corps.....	2	6
Total.....	24	315

Source: Department of Defense.

7. Consideration of a single manager for property disposal

The Department of Defense is opposed to a single manager for command control over the sale of surplus property on the theory that the problems of a tenant (at the 315 selling activities) not related to installation missions would militate against such an arrangement. This rationale raises the question of consistency inasmuch as the same relationship exists in the case of all single-manager arrangements. For instance, the Navy uses Army depots to store and issue medical supplies, while the Army uses Navy depots to store and issue food supplies. As an alternative measure to a single managership, however, DOD is planning for a very limited consolidation arrangement that will be concerned only with minor management responsibilities, such as establishing bidders' lists while letting the selling controls remain with the respective services. The new activity, known as the Armed Forces Surplus Sales Information Office, was established on January 1, 1960.

¹² Ibid., p. 95.

The assignment of the functions of compiling and furnishing bidder lists in the new Information Office is an improvement. However, it would seem far more desirable if this limited function were housed in the same agency (AFSS Center) performing the function of excess material utilization because of their very close interrelationship. In addition to the center's responsibility as the clearinghouse for the screening of excess property, it carries on the related centralized functions of cataloging and standardization. Moreover, it is an organization already in being. But instead, this new Office is being located at Kelly Air Force Base at San Antonio, Tex., while the AFSS Center is located in Washington, D.C.

A recent DOD study group on surplus property recommended that the AFSS Center be made responsible for the development of uniform procedures and that it conduct sales of all surplus property. The Department of Defense did not approve this recommendation. When the AFSS Center was being established in 1958, there was considerable concern in some DOD quarters that such an organization might expand into other areas and become a nucleus of a Defense-wide supply support agency. It is quite conceivable that the DOD's disregard of its study group's recommendation could stem from the desire to keep a tight check on the activities of the center as much as possible.

8. Requirements planning

The computation of requirements for materiel to meet current and future needs is one of the most complex functions within the military services. Plans and programs are under continuous review and updating, based on constantly changing international and domestic situations. Also, because of technological advances, a large amount of equipment is constantly becoming outmoded while new equipment is being phased into the system. Consequently, a great deal of effort must necessarily be directed toward developing revised tables of organization and equipment to determine initial gross allowances and requirements.

When military equipment has been overbought, it eventually ends up in the scrap heap and is sold for about 2 cents on the dollar. When consumable materiel has been overbought, it may eventually be used up. But in both cases there is an additional cost factor that is frequently overlooked. Much of the stock held by the services is owned on borrowed funds on which the Treasury must pay interest charges.

In many areas, there is a lack of uniformity and an obvious need to establish realism in the level of requirements. As previously indicated, the services do not participate with each other in the computation of requirements. Inventory control offices are located at geographically distant points which hinder facile exchange of information. Thus, conditions such as the following are typical: out of a sample of 100 common items, reviewed by a study group in the DOD, the Navy reported a mobilization requirement for 72 of the items, Army for 50, and the Air Force for none.¹³

9. Federal Government stockpile programs

The Federal Government maintains many stockpiles related to the civil and defense mobilization needs. Included among these are the strategic and critical materials inventories, Commodity Credit food inventories, civil defense inventories, and machine-tool inventories.

The original purpose of the stockpile program was to accumulate strategic and critical materials for use in defense of the country. The shortages of vital materials experienced during World War II continued for some time after the war so that even at the time of the Korean outbreak, Government stockpile objectives had not been reached. During the Korean war, in an all-out effort to build up stockpiles, the Government subordinated the prices paid for materials and the economic effects of removing basic raw materials from civilian industries to the vital necessity of mobilization preparedness.

The accumulations of inventories for stockpiles have been authorized by several laws enacted since the end of World War II. These laws provide for adequate supplies to meet both military and essential civilian requirements during an emergency and for economic assistance to domestic producers through guaranteed purchases. The following laws contain provision for purchases of materials: Strategic and Critical Materials Stockpiling Act of 1946 (Public Law 520, 79th Cong.); Defense Production Act of 1950, as amended (Public Law 774, 81st Cong.); Domestic Minerals Program Extension Act of 1953 (Public Law 206, 83d Cong.); Agricultural Trade Development and Assistance Act of 1954 (Public Law 480, 83d Cong.); Domestic Tungsten, Asbestos, Fluorspar, and Columbium-Tantalum Production and Purchase Act of 1956 (Public Law 733, 84th Cong.); the Agricultural Act of 1956 (Public Law 540, 84th Cong.); and Federal Facilities Corporation Act of 1956 (Public Law 608, 84th Cong.).

¹³ The Department of Defense, "Logistics System Study Summary Report," pp. 11-14.

The following table is a summary of Government inventories of both stockpile and nonstockpile materials, as of June 30, 1959.

TABLE 37.—*Summary of Government inventories, June 30, 1959*

	Inventory		On order, acquisition cost
	Acquisition cost	Market value ¹	
National stockpile (Public Law 520):			
Stockpile grade.....	\$5,916,844,000	\$5,784,864,400	² \$45,987,000
Nonstockpile materials.....	299,383,300		
Total.....	6,216,227,300		
Defense Production Act inventory (Public Law 744):			
Stockpile grade.....	³ 943,017,100	704,477,100	⁴ 510,751,000
Nonstockpile materials.....	425,169,900		
Total.....	1,368,187,000		
Supplemental stockpile (Public Law 480):			
Stockpile grade.....	581,227,700	⁵ 573,761,200	
Nonstockpile materials.....	22,911,500		
Total.....	604,139,200		
Commodity Credit Corporation inventory (Public Law 489):			
Stockpile grade.....	93,701,400	86,659,600	161,251,000
Nonstockpile materials.....	4,808,900		
Total.....	98,510,300		
Federal Facilities Corporation (Public Law 608): Stockpile grade—tin.....	9,519,100	9,096,200	
Subtotals:			
Stockpile grade.....	7,544,309,300	7,158,858,500	717,989,000
Nonstockpile grade.....	752,273,600		
Grand total.....	8,296,582,900	7,158,858,500	717,989,000

¹ Market value of nonstockpile materials not available.

² Includes materials valued at \$10,800,000 to be transferred from International Cooperation Administration account at no cost to the stockpile; also \$4,500,000 cost of upgrading certain materials now in inventory.

³ Does not include work in process (Nicaro nickel and mica) totaling \$524,577.

⁴ Value of materials at market prices which it is reasonable to assume Government will be required to accept under Defense Production Act expansion program contracts.

⁵ Includes transfer of \$27,500,000 (\$26,700,000 material costs and \$800,000 accessorial costs) from Department of the Interior inventory acquired under Public Law 733.

NOTE.—Nonstockpile materials include materials in Government inventories not having stockpile objectives or not meeting stockpile specifications.

To encourage new domestic sources of certain critical and strategic materials, the Government during the Korean period guaranteed new producers that it would purchase whatever materials they could not sell at specified prices in the general market. Some of these contracts which are still in effect represent a contingent liability to the Government estimated in 1958 at \$1,750 million and procurement continues even though Government inventories now exceed stockpile goals. The Government faces great problems in the disposal of these materials if it is to realize at least its initial outlay. Further, market demand must be sufficiently strong that Government sales would not depress the price below the contract price the Government is obligated to pay. These conditions have not generally prevailed.

One approach to the problem of forward contracts would be to enter into negotiations for reasonable settlements of these commitments, possibly involving payments for cancellation of rights to future de-

livery where these expansion projects are no longer essential to national security.

The stockpile objectives are based on specific and detailed emergency requirements. National stockpile levels are based on two objectives: basic objectives and maximum objectives. The basic stockpile is computed on the basis of deficits remaining after allowing for U.S. production and for imports from world sources under certain strategic assumptions. The maximum objectives are computed in the same way, but only supplies from nearby sources, such as Canada, Mexico, and Cuba are included.

Of the 75 materials for which basic and maximum objectives have been established, 63 approximately equaled or exceeded the basic objectives and 50 exceeded the maximum objectives. In other Government inventories, another five materials exceeded both minimum and maximum objectives.

Data for many materials for the five major segments of the economy, military, atomic energy, industrial, civilian, and export, are extremely precarious and revisions in estimates in any segment can result in major changes in the objectives levels. Yet, stockpiling goals have been reviewed all too infrequently. The initial goals tend to remain frozen, even though patterns of use have changed substantially in defense production and advances in military strategy and logistics have reduced direct military requirements for many of the common industrial materials.

In summary, materials held in Government inventories in excess of maximum stockpile objectives have cost the Government \$4.3 billion. This excess is greater than the value of materials now in inventories which meet these objectives. OCDM is currently reviewing the stockpile objectives. The following table is a summary of total Government inventories and excess stocks, as of June 30, 1959.

Stockpile procurement has at times been used to maintain essential productive facilities threatened by economic tribulations. Maintaining essential productive capacity is a problem quite separate from stockpile procurement and the stockpiles should not be swollen with materials accumulated to meet foreign or domestic economic objectives. If existing statutory authorities are inadequate to maintain this capacity, additional legislation should be requested to meet the specific problem.

The management of stockpile purchases and sales can have a significant effect on both domestic and foreign markets and on foreign relations. While it is important to plan stockpile buying and selling to the market conditions best suited to getting the value for the Government, to use the stockpiles to regulate the Nation's economy seems economically unjustifiable. The Joint Committee on Defense Production and the Special Stockpile Advisory Committee¹⁴ both have taken the position that purchases of materials for the Defense Production Act inventory and the strategic stockpile should be limited to defense needs, and that it is not the purpose of these programs to regulate prices or to solve economic problems,¹⁵ or to regulate the Nation's economy.

¹⁴ Appointed in 1957 by the Director of the Office of Civil and Defense Mobilization.

¹⁵ U.S. Congress, Joint Committee on Defense Production, "Eighth Annual Report of the Activities of the Joint Committee on Defense Production," 86th Cong., 1st sess., 1959, p. 3.

TABLE 38.—*Summary of Government inventories, June 30, 1959*

[Maximum stockpile objective: Market value, \$4,147,346,000]

	Total inventory		Excess to maximum stockpile objective	
	Acquisition cost	Market value	Acquisition cost	Market value
A. Inventories having stockpile objectives:				
(1) Meeting stockpile specifications:				
National stockpile.....	\$5,916,844,000	\$5,784,864,400	\$2,086,813,900	\$1,908,388,600
Supplemental stockpile.....	581,227,700	573,761,200	468,514,400	462,338,300
Defense Production Act.....	943,017,100	704,477,100	893,167,300	664,410,500
CCC barter.....	93,701,400	86,659,600	55,461,600	54,293,200
RFC (FFC Texas smelter).....	9,519,100	9,096,200	9,519,100	9,096,200
Total.....	7,544,309,300	7,158,858,500	3,513,476,300	3,098,526,800
(2) Not meeting stockpile specifications: ¹				
National stockpile.....	95,746,500	-----	95,746,500	-----
Supplemental stockpile.....	4,805,900	-----	4,805,900	-----
Defense Production Act.....	250,117,700	-----	250,117,700	-----
CCC barter.....	702,400	-----	702,400	-----
RFC (FFC Texas smelter).....	0	-----	0	-----
Total.....	351,372,500	-----	351,372,500	-----
B. Inventories not having stockpile objectives:¹				
National stockpile.....	203,636,800	-----	203,636,800	-----
Supplemental stockpile.....	18,105,600	-----	18,105,600	-----
Defense Production Act.....	175,052,200	-----	175,052,200	-----
CCC barter.....	4,106,500	-----	4,106,500	-----
RFC (FFC Texas smelter).....	0	-----	0	-----
Total.....	400,901,100	-----	400,901,100	-----
C. Summary:				
National stockpile.....	6,216,227,300	-----	2,386,197,200	-----
Supplemental stockpile.....	604,139,200	-----	491,425,900	-----
Defense Production Act.....	1,386,187,000	-----	1,318,337,200	-----
CCC barter.....	98,510,300	-----	60,270,500	-----
RFC (FFC Texas smelter).....	9,519,100	-----	9,519,100	-----
Total.....	8,296,532,900	-----	4,265,749,900	-----

¹ Market value has not been calculated due to the mixed nature of individual commodities such as different types, quality, and grades as well as lack of active trading which would create current market values.

Source: General Services Administration.

10. Present stockpile policy

During the first half of 1958, the executive agencies participated in a review of stockpiling policy. The review included considerations of the recommendations of the Special Stockpile Advisory Committee which had been appointed by the Director of the Office of Defense Mobilization.

The new policy adopted by the executive branch was encompassed in the following major points:

(1) Stockpile objectives will be established on the basis of a war period of 3 years instead of 5 years as previously used. (The Defense Department claims it had advocated this principle for several years.)

(2) Supply-demand studies leading to the establishment of objectives will be conducted on the basis of both general war and limited war and objectives will be established at whichever level is the higher.

(3) Emphasis will be placed upon stockpiling some of each material in the most advanced form of processing consistent with flexibility of use, so as to provide for any sudden increase in demand at the outset of an emergency.

(4) Stockpile procurement will be limited to the objectives based on security needs and will not be utilized solely as a means of maintaining the mobilization production base nor for domestic or foreign economic purposes. Conversely, stockpile excesses created by the general lowering of objectives will not be disposed of without assurance that industry will not be substantially injured thereby.¹⁶

11. Amount of excess materials in Government stockpiles

In hearings in August 1959 before the Joint Committee on Defense Production, Mr. Leo Hoegh, Director of the Office of Civil and Defense Mobilization, when questioned about the dollar value of stockpile materials in excess of the maximum objectives, stated:

* * * Let us say that there are over \$2 billion that are considered to be in excess of our maximum objective * * * that could be disposed of when the market is right.¹⁷

The \$2 billion dollar excess was later qualified as the value at August 1959 market prices and refers only to the national security stockpile.

With respect to "other inventories" (presumably, the Defense Production Act stockpile, the National Industrial Emergency Reserve, etc.), Mr. Hoegh estimated that there are an additional \$1 billion at current market prices. He presented it to the Joint Committee on Defense Production in the following way:

About \$1 billion additional at current market prices. You might say that there is an additional \$2 billion, but when you realize these nonspecification and miscellaneous materials have depreciated from \$750 million down to \$225 million, that reduces it, and then we have some other items that were purchased at premium prices that are no longer needed as part of the strategic stockpile and that we are going to dispose of.¹⁸

The OCDM through the GSA is continuing to procure materials for the stockpile which are already in excess of the maximum objectives. The GSA anticipates that additional materials costing \$718 million will be delivered into Government inventories under firm contracts or "put" options through fiscal year 1965. These acquisitions will consist mainly of minerals, part of which were in excess of goals.¹⁸

The following table shows the value of acquisitions of the program under which the GSA will procure these materials:

TABLE 39.—Additional materials to be delivered to Government stockpiles under firm or "put" contracts through fiscal year 1965

[In millions of dollars]

Defense Production Act inventories.....	\$510.8
National stockpile.....	46.0
CCC inventory for transfer to the supplemental inventories.....	161.2
Total.....	718.0

¹⁶ U.S. Congress, Joint Committee on Defense Production, Eighth Annual Report, 86th Cong., 1st sess., p. 261.

¹⁷ U.S. Congress, Joint Committee on Defense Production, "Hearings on Defense Production Act, Progress Report No. 44," 86th Cong., 1st sess., 1959, p. 17.

¹⁸ U.S. Congress, Joint Committee on Defense Production, Ninth Annual Report, 86th Cong., 2d sess., House Rept. No. 1193, 1960, pp. 38-39.

NONSPECIFICATION GRADES OF MATERIALS FOR WHICH THERE ARE
STOCKPILE OBJECTIVES

Included in the strategic stockpile are inventories of nonspecification grades of materials for which there are stockpile objectives. Most of the nonspecification-grade stocks were acquired by transfer of Government-owned surplus materials. Some were procured under stockpile specifications that are now outmoded for reasons of changes in industry practices and in technology. Others were acquired when stockpile inventories in the commodities were low, with the expectation that at some later time they could be processed into usable grades to meet emergency requirements. As of June 30, 1959, nonstockpile grade materials in all Government inventories totaled \$752 million at acquisition cost.

The strategic stockpile includes the following quantities of nonspecification grades of materials for which there are stockpile objectives. For most of these commodities, not only have the basic objectives been reached but the inventories are either equal to or in excess of the maximum objectives.

TABLE 40.—Strategic stockpile inventories of nonspecification grades of materials for which there are stockpile objectives as of June 30, 1959

Material	Unit	Quantity
Aluminum	Short ton	1, 676
Bauxite, metal grade, Surinam type	Long deadweight ton	24
Bismuth	Pound	36, 580
Cadmium	do.	1, 765, 200
Celestite	Short deadweight ton	12, 171
Chromite, metallurgical grade	Long deadweight ton	361
Cordage fibers, abaca	Pound	379, 395
Cordage fibers, sisal	do.	44, 637
Diamond dies, small	Piece	8, 375
Fluorspar, acid grade	Short deadweight ton	4, 960
Graphite, Madagascar-crystalline fines	Short ton	1, 054
Jewel bearings	Piece	14, 715, 973
Magnesium	Short ton	7, 446
Manganese, metallurgical grade	Long deadweight ton	434, 213
Mica, Muscovite block, stained A/B and better	Pound	348, 514
Mica, Muscovite film, 1st and 2d qualities	do.	23, 674
Nickel	do.	2, 345, 937
Opium	do.	1, 215
Platinum group metals, platinum	Troy ounce	3, 379
Pyrethrum	Pound	130
Quartz crystals	do.	11, 914
Tungsten	do.	15, 410, 261
Vanadium	do.	447, 828

Source: Executive Office of the President, Office of Civil and Defense Mobilization, "Stockpile Report to the Congress, January-June 1959."

Further, there are strategic stockpile inventories of materials for which there are no stockpile objectives. The following table lists the commodities and the quantities which were available for disposal as of the end of June 1959.

TABLE 41.—Strategic stockpile inventories of materials for which there are no stockpile objectives

[As of June 30, 1959]

Material	Unit	Quantity
Agar.....	Pound.....	198, 173
Bristles, hog.....	do.....	1, 232, 465
Coconut oil.....	do.....	265, 835, 228
Cotton, extra long staple.....	do.....	109, 798, 811
Diamond dies, other than small.....	Piece.....	355
Diamonds, cuttables, and gems.....	Carat.....	55, 461
Diamonds, tool.....	Piece.....	64, 197
Guayule seeds.....	Pound.....	17, 426
Mica, Muscovite block, stained B and lower.....	do.....	4, 674, 994
Mica, Muscovite flm, 3d quality.....	do.....	493, 737
Mica, phlogopite block.....	do.....	223, 013
Platinum group metals, osmium.....	Troy ounce.....	27
Platinum group metals, rhodium.....	do.....	3, 136
Platinum group metals, ruthenium.....	do.....	51
Poppyseeds, opium.....	Pound.....	51, 646
Quartz, processed.....	Piece.....	7, 625, 082
Quinine.....	Ounce.....	11, 937, 557
Quinine, hydrochloride of.....	do.....	1, 872, 460
Rutile.....	Short deadweight ton.....	18, 593
Talc, steatite ground.....	Short ton.....	6, 285
Totaquine.....	Ounce.....	7, 820, 275
Zirconium ore, baddeleyite.....	Short deadweight ton.....	16, 533
Zirconium ore, zircon.....	do.....	15, 902

Source: Executive Office of the President, Office of Civil and Defense Mobilization, Stockpile Report to the Congress, January-June 1959."

DISPOSAL OF STOCKPILE MATERIALS

The Strategic and Critical Materials Stockpiling Act of 1947 (Public Law 520, 79th Cong., 2d sess.) provided the legislative authority for rotating and replacing stockpile materials and for disposal of those in excess, as follows:

The Secretary of War and the Secretary of the Navy shall direct the Secretary of the Treasury, through the medium of the Procurement Division of his Department, to—

* * * * *

(d) provide for the rotation of any strategic and critical materials constituting a part of the stockpile where necessary to prevent deterioration by replacement of acquired stocks with equivalent quantities of substantially the same material with the approval of the Secretary of War and the Secretary of the Navy;

(e) dispose of any materials held pursuant to this Act which are no longer needed because of any revised determination made pursuant to section 2 of this Act, as hereinafter provided. No such disposition shall be made until six months after publication in the Federal Register and transmission of a notice of the proposed disposition to the Congress and to the Military Affairs Committee of each House thereof. Such notice shall state the reason for such revised determination, the amounts of the materials proposed to be released, the plan of disposition proposed to be followed, and the date upon which the material is to become available for sale or transfer. The plan and date of disposition shall be fixed with due regard to the protection of the United States against avoidable loss on the sale or transfer of the material to be released and the protection of processors, producers, and consumers against avoidable disruption of their usual markets:

Provided, That no material constituting a part of the stockpiles may be disposed of without the express approval of the Congress except where the revised determination is by reason of obsolescence of that material for use in time of war. For the purposes of this paragraph revised determination if such determination is by reason of obsolescence on account of (1) deterioration, (2) development or discovery of a new or better material or materials, or (3) no further usefulness for use in time of war.

The Executive policy has interpreted this law to mean that except where the total stockpile quantities were obsolete, disposals could proceed only on the authorization of Congress. The stockpiles have been bulging with materials far in excess of currently estimated mobilization needs, although the Congress has been asked to authorize disposal of very few commodities. In 1958, the special Stockpile Advisory Committee recommended that—

(a) the executive policy be rescinded; (b) the Congress be requested to modify present restrictive statutory provisions in a manner to permit the disposal of stockpile surpluses, by sale or otherwise, without the necessity of obtaining express approval of Congress.

The Committee further recommended that—

perishable materials in excess of the greater security stockpile goals be sold or otherwise disposed of when this can be done without causing serious domestic or foreign economic disruption or international political situations contrary to interests of the United States.

The Advisory Committee also proposed that—

sub-specification-grade materials unsuitable for upgrading be disposed of, when this can be done without undue interference with usual markets. Sub-specification-grade metals and minerals should be disposed of, preferably in a manner designed to encourage development of processes for treating low-grade ores.

DISPOSALS UNDER THE INDEPENDENT OFFICES APPROPRIATION ACT OF 1960¹⁹

In September 1959 Congress provided in the Independent Offices Appropriation Act that the General Services Administration could dispose of excess material subject to rotation and that GSA's appropriations during the current fiscal year shall not exceed \$50 million:

Provided, That to the extent materials sold under section 3(d) of said Act²⁰ to prevent deterioration are excess to stockpile needs the replacement provisions of said Act shall not be mandatory: *Provided further*, That during the current fiscal year, there shall be no limitation on the value of surplus strategic and critical materials which, in accordance with section 6(a) of the Strategic and Critical Materials Stock Piling Act (50 U.S.C. 98e(a)), may be transferred to stockpiles established in accordance with said Act: *Provided further*, That no part of funds available shall be used for construction of warehouses or tank storage facilities: *Provided further*, That unobligated balances of funds in excess of \$50,000,000 as of July 1, 1959, together with any receipts from sales or otherwise, during the fiscal year 1960, are hereby rescinded and shall be promptly deposited into the Treasury.

By the end of June 30, 1959, the total inventories of materials in Government stockpiles had been acquired at a cost of \$8,296,582,900. Of that amount \$4,265,749,900 of material were in excess of maximum stockpile objectives. The market value of the maximum stockpile objective was \$4,147,346,000.²¹ In order that the stockpile program be reviewed every year, the Appropriations Committee included in the independent offices appropriations bill provision for rescinding the unobligated balance held by the GSA so that future requests for funds will have to be submitted to Congress.

The day after the bill became law, the General Services Administration announced that 470,000 long tons of natural rubber on rotation had been declared surplus to stockpile needs and that disposal would

¹⁹ Public Law 86-255, 86th Cong., H.R. 7040, Sept. 14, 1959.

²⁰ Strategic and Critical Materials Stock Piling Act (50 U.S.C. 98-986).

²¹ U.S. Congress, Joint Committee on Defense Production, ninth annual report, H. Rept. 1193, 86th Cong., 2d sess., 1960, p. 39.

take place over a period of 9 years. It was stated that the revised determination resulted from—

a downward revision of objectives based on lower military requirements, technological advances, and a reduction of the planning basis for stockpiling from a 5- to 3-year potential emergency.

Further, since the material is required for the national stockpile and is not obsolete, its sale except where made in lieu of rotation replacement requires the express approval of Congress. Forty to fifty thousand long tons will be offered for sale during the fiscal year ending June 30, 1960. On November 4, the GSA announced sales of 5,796 long tons without replacement of stockpiled rubber requiring rotation to prevent deterioration.

Let us look at what this program alone has cost the Government. In June 1958, the stockpile objectives for all stockpile commodities were reduced from 5-year emergency period to a 3-year period. However, previously, in November of 1957, the determination was made to withhold further stockpile purchases pending a review of these objectives in the light of the extensive and fundamental changes in the weapons systems. Because of the secrecy which surrounds all materials subject to stockpiling, it is not possible to estimate how long the rubber stockpile had been in excess of the maximum objectives. We do know, however, that it would have had to be in excess at least since June 1958, when requirements were changed to a 3-year instead of a 5-year basis.

Stockpile commodities which are subject to deterioration must be rotated, and this process is very costly to the Government. Rubber is a case in point. In fiscal year 1959, the rubber rotation schedule, involving 55,000 long tons (the excess is known now to be 470,000 long tons) entailed the following market expenses to the Government. These do not cover the administrative, handling, purchasing, selling, transportation, and other costs incurred in the rotation processes.

Rubber rotation schedule, 1959

Quantity	long tons ..	55,000
Sales price:		
Per unit		\$675.00
Total		37,125,000.00
Replacement price:		
Per unit		768.71
Total		42,279,000.00
Net cost of rotation to Government:		
Per unit		93.71
Total		5,154,000.00

Maintaining the excess rubber stock of 470,000 long tons costs on the basis an annual rotation of 55,000 long tons an outright expenditure of \$5 million to maintain the rubber stockpile. And this does not include the cost of storage, handling, bidding, inventorying, inspecting, transportation, deterioration, and other costs incurred in the process of rotating large quantities of rubber.

Rubber has been on the stockpile list since the inception of the stockpiling program in 1946. It has been under constant surveillance by Government agencies. Yet, even with the technological development of synthetic rubber and the excess quantities in the stockpile, the Office of Civil and Defense Mobilization (or its predecessors) has not

come to Congress with a proposal to reduce the quantities known to be excess. At a current market value the excess rubber in the stockpile (using the 1959 sales price and the replacement price) is in the range of \$317 to \$361 million. The original cost to the Government is not available.

Prior to the spring of 1959, the GSA disposed of negligible quantities of stockpile materials. However, beginning with the 1st of April, GSA tackled the surplus disposal problem aggressively. The methods of sales and the timing varied widely depending on the nature, the number of users, markets, location, and condition of the commodities. The GSA announced sales by competitive bids, negotiated bids, and set price on first come, first served basis, and negotiated sale on the basis of prevailing market prices.

The following table shows the publicly announced disposal program for stockpile commodities in 1959:

TABLE 42.—General Services Administration disposal program for stockpile commodities, 1959

Date of GSA news release, 1959	Commodity	Quantity
Apr. 1.....	Quinine (sulfate powder).....	13,860,000 ounces.
Apr. 3.....	Synthetic cryolite.....	22,423 short tons.
Apr. 29.....	do.....	22,423 short tons.
June 5.....	Agar.....	42 short tons.
June 8.....	Synthetic cryolite.....	22,423.
June 23.....	Coconut oil.....	26,500,000 pounds (10,000,000-14,000,000 pounds at 6-week intervals).
July 22.....	Zinc oxide pellets.....	
July 23.....	Hyoscine.....	4,070 ounces.
July 27.....	Calcined aluminum.....	6,000 short tons.
Aug. 7.....	Agar.....	41-42 short tons.
Aug. 11.....	Chromite ore concentrates.....	2,050 long tons.
Aug. 13.....	Copan tin alloy.....	537 long tons.
Aug. 25.....	Partially processed quartz crystal.....	
Aug. 26.....	Calcinel kyanite.....	3,664 short tons.
Aug. 31.....	Magnesium scrap.....	3,075 short tons.
	Cadmium magnesium scrap.....	4,413 tons.
Sept. 2.....	Experimental titanium sponge.....	35,120 pounds.
Sept. 15.....	Natural rubber.....	470,000 long tons (50,000 long tons a year over 9-year period).
Sept. 18.....	Rare earth materials.....	3,060 wet tons.
Oct. 2.....	Rubber.....	
Oct. 12.....	Zirconium ores.....	1,300 short tons.
Oct. 23.....	Calcined hyanite.....	3,664 short tons.
Nov. 4.....	Crude natural rubber.....	5,796.
Nov. 6.....	Crude quartz crystal.....	19,000 pounds.
Nov. 9.....	Titanium sponge.....	

PART IX

GOVERNMENT COMPETITION WITH BUSINESS PROGRAM IN THE EXECUTIVE BRANCH

START OF THE ADMINISTRATION PROGRAM

During the 83d Congress, the House Intergovernmental Relations Subcommittee (Harden) made a comprehensive study of commercial-type operations carried on by the Government in competition with private enterprise. The subcommittee's report recommended that "a permanent vigorous preventive and corrective program be inaugurated" emanating from the Executive Office of the President and establishing criteria for the guidance of all Federal agencies.¹

In line with the recommendation of this subcommittee, the Bureau of the Budget issued a directive to all executive agencies, which expressed the policy of the administration in the following terms:²

It is the general policy of the administration that the Federal Government will not start or carry on any commercial activity to provide a service or product for its own use if such product or service can be procured from private enterprise through ordinary business channels. Exceptions to this policy shall be made by the head of an agency only where it is clearly demonstrated in each case that it is not in the public interest to procure such product or service from private enterprise.

The Budget directive provided for (1) the development of an inventory of all commercial activities carried on by the Government for its own use, and (2) a series of evaluations of these activities intended to lead to the termination of any activities which can more appropriately be conducted by private enterprise. The first evaluation of commercial activities covering manufacturing was only applicable to the civilian agencies of the Government. Special instructions were issued to the Department of Defense as to procedure and timing that were more adaptable to its manifold commercial operations.

SCOPE OF THE PROGRAM

Commercial- and industrial-type activities of the Government comprise three categories:

1. Those which provide products or services for all or part of the general public.
2. Those which provide products or services for Federal civilian employees and military personnel.
3. Those which provide products or services for the use of the Government itself.

The program covered by Budget directive was limited specifically to the third category; the other two categories were to be examined in other contexts.

INVENTORY

The Bureau of the Budget released on May 15, 1956, "An inventory of certain commercial-industrial activities of the Government." This was the initial phase of what was contemplated to be an orderly and systematic review of commercial-type activities of the Government competitive with private enterprise. Consolidated summaries of these activities follow:

¹ U.S. House of Representatives, Rept. No. 1197, 83d Cong., 1954.

² Bureau of the Budget Bull. 55-4, dated Jan. 15, 1955.

TABLE 43.—*Inventory of certain commercial-industrial activities of the Government for its own use, 1956*

	Number of installations	Capital assets	Number of employees	
			Civilian	Other
A. Government-operated:				
Civilian agencies.....	22,927	\$799,706,354	94,228	4,524
Defense Department (manufacturing only).....	358	2,228,454,160	166,105	3,572
Total.....	23,285	3,029,160,514	260,333	8,096
B. Government-owned, contractor-operated:				
Civilian agencies:				
Atomic Energy Commission.....	280	4,011,449,000	68,649	-----
General Services Administration.....	8	1,378,754	68	-----
Tennessee Valley Authority.....	1	148,904	(1)	-----
Civil functions, Army.....	11	2,385,000	350	-----
Defense Department (manufacturing only).....	149	4,845,335,176	(1)	-----
Total.....	449	8,860,696,834	69,067	-----

¹ Information not available.

The inventory figures of the manufacturing activities in the Department of Defense revealed that 68 percent of the capital assets were traceable to the work in the shipyards of the Navy, and 30 percent were related to the production of artillery, small arms, ammunitions, and the like performed largely by the Army. All other manufacturing activities in Defense amounted to only 2 percent.

A breakdown of civilian agencies' inventory of commercial-industrial activities indicated that certain programs limited to a few agencies constitute well over half of the total installations, assets and personnel reported. These major programs are set forth in the following table:

TABLE 44.—*Inventory of commercial-industrial activities of manufacturing and nonmanufacturing of the Government, by major categories, 1956*

	Number of installations	Capital assets	Civilian personnel
Grain bins of the Commodity Stabilization Service.....	4,531	\$197,975,000	3,120
Dredging, miscellaneous maintenance to flood control, etc. (Corps of Engineers).....	78	96,837,000	3,173
Field engineering, engineering research and testing laboratories (Corps of Engineers).....	44	8,381,000	4,611
Local trucking and draying (Post Office).....	(1)	39,362,000	(1)
Custodial services.....	8,000	1,500,000	20,700
Storage of strategic and critical materials (GS).....	10	42,940,097	119
Custodial services (GSA).....	308	8,658,810	6,325
Construction and maintenance of facilities (TVVA).....	48	30,347,000	11,102
All other.....	9,908	373,705,447	45,078
Total.....	22,927	799,706,354	94,228

¹ Information not available.

RESULTS OF THE FIRST SERIES OF EVALUATIONS—MANUFACTURING ACTIVITIES

Agencies reviewed their manufacturing operations, as the first segment of commercial-type activities that were being carried on by the Government, to determine which could be undertaken competitively by private business. The White House released an interim report of the results of this review on October 27, 1956. The report indicated that 492 installations had been or were in the process of being discontinued or curtailed.

The Defense Department had reached decisions to close or substantially curtail 355 activities, including 83 office-equipment repair shops, 79 automotive repair shops, 45 tree and garden nurseries, 22 bakeries, 15 laundries, and 4 coffee-roasting plants.

The civilian agencies had decided to close 137 commercial-type installations, including 76 bakeries, 21 ice manufacturing plants, 20 surgical or orthopedic appliance units, and 15 ice cream plants.

The interim report further stated that reaching a decision to continue or discontinue an activity as being in the public interest does not depend exclusively on whether the product or service can be produced more cheaply outside the Government. As a general guide, the policy was adopted that the apparent cost was not a deciding factor where adequate competition exists. According to the White House report this policy was based on the following reasons:

1. The cost of Government operations is not comparable with corresponding business costs. The Government, for example, pays no income taxes and operates its own tax-free facilities, thereby keeping costs down.

2. Government accounts are not kept in the same manner as business accounts so that a comparison of the operating costs of Government versus business, for example, is not only difficult but often misleading.

3. Above all, the decision whether to continue or discontinue a Government activity solely on an apparent cost basis runs counter to our concept that the Government should not compete in a private enterprise economy.

CONGRESSIONAL INTEREST IN THE PROGRAM

There has been considerable congressional interest both for and against the program. Several bills were introduced in the 83d Congress designed to terminate Government competition with private enterprise, but none passed. However, Public Law 83-108 of that Congress, establishing the Second Hoover Commission, sets forth the declaration of congressional policy calling for:

- (4) abolishing services, activities, and functions not necessary to the efficient conduct of the Government.

- (5) eliminating nonessential services, functions, and activities which are competitive with private enterprise.

A number of bills were also introduced during the 84th Congress to accomplish essentially the same general purpose, but none passed the Congress. During consideration of the 1956 defense appropriation bill, Congress indicated its concern at the seemingly unwarranted closing of certain activities and approved an amendment to the bill (sec. 638) which had the effect of temporarily slowing down the program in the Defense Department. This slowdown was despite the fact that the President, upon signing the bill, sent a message to Congress stating that he was advised by the Attorney General that the amendment was an unconstitutional invasion of the executive branch and that, accordingly, he would not acquiesce in it. The Comptroller General, on the other hand, took the position that the General Accounting Office, as the agent of the Congress, would disallow any expenditures of funds paid in contravention of the amendment so long as it was unimpaired by judicial determination:

A provision similar to section 638 was stricken on the House floor from the 1957 defense appropriation bill in favor of a less restrictive

provision which did not pass the Senate. The Senate Appropriations Committee, however, in order to keep a congressional check on the Department of Defense, placed a requirement in its report on the bill which directed—

the Department of Defense to maintain all such facilities and activities within the Department unless such disposal or transfer is economically justified, and unless no increased costs result.

RESULTS OF THE SECOND SERIES OF EVALUATIONS— SERVICE ACTIVITIES

The Bureau of the Budget's next directive required executive agencies to evaluate their service-type activities.³ Despite congressional attitude, the policy of immediate termination or curtailment was reiterated and comparative costs under competitive conditions were not to be a determining factor. The agencies' evaluation of this group of service-type activities showed that out of a total of some 10,000 activities a preponderant number were more or less quasi-commercial operations that are inseparably integrated in administration, research, and security responsibilities of the agencies concerned. For example, 8,000 of these activities were for custodial services, most of which were at post offices throughout the country. This review program resulted, therefore, in the turning over to private enterprise only 245 activities, consisting of laundries, small repair shops, various minor miscellaneous operations to buildings, and the like.

A LAG IN THE PROGRAM

The administration appears to have lost some of its earlier enthusiasm for this program. When the program was initiated in January of 1955 it called for the phased evaluation of all commercial-industrial type activities as quickly as possible. The Director of the Bureau of the Budget testified before the Senate Select Committee on Small Businesses on April 16, 1957, that the Government agencies had completed the evaluation of manufacturing and service-type activities and stated that—

* * * subsequent reviews of other classifications of commercial activities, such as construction; transportation; communications, etc., will be scheduled.

Yet it was about 2½ years after this testimony that the Bureau of the Budget got around to requesting agencies to conduct the next series of its phased evaluations program of governmentally conducted commercial-type activities.⁴

As indicated, the administration had established a policy that—costs of a particular product or service will not be a deciding factor when adequate competition exists.

Nevertheless, when executive agencies compared their costs for commercial-type activities with prices for procurement through private channels they appeared to increase substantially Government costs. This is because the agencies do not pay taxes, consider depreciation factors, and other indirect costs of their commercial activities. The agencies therefore tended to resist the whole program. For instance, the Post Office Department, in direct contravention of the administration policy, would not discontinue its own manufacture of mail bags

³ Bureau of the Budget, Bull. No. 57-7, dated Feb. 5, 1957.

⁴ Bureau of the Budget Bull. No. 60-2, dated Sept. 21, 1959.

and related activities because it claimed that it represented a saving to the Department of \$600,000 per year.⁵

Another factor which has affected the rate of progress in this program has been the fear of adverse social and economic effects in the community in which the activity to be discontinued or curtailed is located. Congressional and other interested groups have often taken action to forestall termination in such cases.

The administration is now taking a different attitude toward cost comparisons and not depending solely on the existence of what might appear to be a competitive market condition. According to the recent Bureau of the Budget directive comparative costs will now be recognized as a compelling reason requiring continued Government operations if the direct and indirect cost differentials are substantial and are validly computed.

As pointed out, the administration's program had been inactive for over 2 years. As a result of this delay certain competitive Government activities have not yet been evaluated under this program. For instance, the Military Air Transportation Service was not required to justify to the Bureau of the Budget its competition with both passenger and cargo air traffic. Yet for several years, there had been a running controversy on this subject between the Appropriations Committee, the House Military Operations Subcommittee and a special subcommittee of the Senate Committee on Interstate and Foreign Commerce on the one hand, and the Department of Defense on the other.

A GAP IN THE PROGRAM

As noted above, the scope of this program does not include those activities which provide products and services for military personnel and Federal civilian employees. These activities are to be examined in other contexts. But the evidence does not bear this out. For example, the largest single fringe benefit in the Government is the operation of the military commissary stores. Senator Paul H. Douglas addressed Congress on this subject on August 11, 1959, and while subscribing to the original intent of the law, he brought out the following facts regarding their operations.⁶

There are 269 commissary stores within the United States having sales in fiscal year 1958 of \$366,659,000 and estimated in fiscal year 1959 at \$400 million.

The Army runs 73 stores, the Navy 11, the Marine Corps 11, and the Air Force 134.

Under the law and regulations, commissary stores within the continental limits of the United States may be established when it is certified by the Secretary of the Service that there are no adequate facilities which are conveniently available to the post and which sell at reasonable prices.

This provision has not only been most liberally interpreted, but has, in fact, been grossly violated.

There are 914,247 permit holders—only 169,730, or 18.5 percent are individuals who live on the base or post where the store is located.

In fiscal year 1958 of the 8,851 employees of these commissaries, some 4,978 (56 percent) were military personnel. Their average

⁵ Copy of Post Office report to Budget Bureau (form 54-4B signed by Deputy Postmaster General) filed with the House Government Operations Committee.

⁶ Congressional Record, 86th Cong., 1st sess. No. 136, p. 14094-14096.

pay was \$3,468. Thus \$17,263,580 were paid from the budget to military personnel who worked in these 269 stores.

The 4,978 military personnel selling bread, meat, and canned goods is almost the equivalent to two combat regiments. This must be viewed against the administration's program of reducing the size of the Marine Corps and Army that might be needed to fight brush fire wars.

The law and regulation require that no appropriated funds shall be used for the purchase and maintenance of operating equipment and supplies and for the actual or estimated cost of utilities, spoilage, etc. The services use a 3 percent markup to cover these costs. But it is far from adequate. On the basis of around \$450 million annual sales, which includes the 3 percent markup, is equal to some \$12 million to cover costs. Yet, the annual military and civilian payroll in fiscal year 1958 amounted to \$35,182,996. And to this should be added all other operating costs.

The Department of Defense Appropriations Act for fiscal year 1960 (Public Law 86-166) provides—

SEC. 613. No appropriation contained in this Act shall be available in connection with the operation of commissary stores of the agencies of the Department of Defense for the cost of purchase (including commercial transportation in the United States to the place of sale but excluding all transportation outside the United States) and maintenance of operating equipment and supplies, and for the actual or estimated cost of utilities as may be furnished by the Government and of shrinkage, spoilage, and pilferage of merchandise under the control of such commissary stores, except as authorized under regulations promulgated by the Secretaries of the military departments concerned, with the approval of the Secretary of Defense, which regulations shall provide for reimbursement therefor to the appropriations concerned and, notwithstanding any other provision of law, shall provide for the adjustment of the sales prices in such commissary stores to the extent necessary to furnish sufficient gross revenue from sales of commissary stores to make such reimbursement: *Provided*, That under such regulations as may be issued pursuant to this section all utilities may be furnished without cost to the commissary stores outside the continental United States and in Alaska: *Provided further*, That no appropriation contained in this Act shall be available in connection with the operation of commissary stores within the continental United States unless the Secretary of Defense has certified that items normally procured from commissary stores are not otherwise available at a reasonable distance and a reasonable price in satisfactory quality and quantity to the military and civilian employees of the Department of Defense.

The following user charge matter is pointed out here, since it is another example of the unwillingness in the DOD to face up to unpopular issues. Every Defense Appropriation Act since fiscal year 1954 contains the following provision:

SEC. 609. No appropriation contained in this Act shall be available for expenses of operation of messes (other than organized messes the operating expenses of which are financed principally from non-appropriated funds) at which meals are sold to officers or civilians except under regulations approved by the Secretary of Defense, which shall (except under unusual or extraordinary circumstances) establish rates for such meals sufficient to provide reimbursement of operating expenses add food costs to the appropriations concerned: *Provided*, That officers and civilians in a travel status receiving a per diem allowance in lieu of subsistence shall be charged at the rate of not less than \$2.25 per day: *Provided further*, That for the purposes of this section payments for meals at the rates established hereunder may be made in cash or by deductions from the pay of civilian employees.

To date, the Department of Defense has not issued a regulation, as required by this provision. As a result, the loss to the Government has been conservatively estimated around \$5 million per year. For example, the Veterans' Administration charges \$2 per day for meals for supernumerary personnel while the DOD charges only \$1.60 per day for meals in the same general circumstances.

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APPENDIXES

APPENDIX 1

ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D.C., July 27, 1954.

HON. R. WALTER RIEHLMAN,
*Chairman of the Military Operations Subcommittee,
Committee on Government Operations, House of Representatives.*

DEAR MR. RIEHLMAN: Through our conversations in the past and through appreciation of that accomplished by you and your committee, I have recognized your sincere interest and the efforts you have made to provide guidance for the development of a comprehensive program for correcting deficiencies in supply and stock management practices of the military departments. As a result of this fact, I feel it is appropriate to advise you at this time of the course of action which we have developed in this area.

We are greatly encouraged by the progress made in the field of supply and logistics to assure the accomplishment of the most effective and economical administration and management of the respective military supply systems.

To permit you to evaluate our program objectives, it is necessary to discuss some of the history and background which resulted in the development of our current program. Specifically, I have reference to the concept which provided for separate supply-systems studies in the area of common-use-type items of supply. These studies were carried on under the jurisdiction of the former Munitions Board. They were based on the premise that, by combining like inventories of all military stocks, economies in the total inventory held by the Department of Defense would result. Further, that different types of items of supply required different organizations and methods of receipt, storage, and issue of supply. In the method of approach, these studies were made for the services, rather than by them, for the purpose of insuring that unification of supply systems would thus be achieved. In general, it was then thought that centralization of supply-management functions by commodity segments would result in economy by such centralization.

The formulation of such premises under which the studies were conducted did not, however, take into consideration the basic principles governing military supply support. It did not give recognition to the basic fact that each military supply system is maintained solely to provide supplies as needed by the tactical force that they were called upon to support, and that such tactical force—Army, Navy, Marines, and Air Force—must develop its own requirements; further, that these requirements must be provided for at all times.

When engaged in operations, the tactical commander cannot rely solely on resources which his service cannot control. He can rely on support of other services only to the extent that such support is available.

Taking due cognizance of the philosophy and approach established by these earlier supply systems studies and by giving recognition to the basic principles governing military supply support, an ad hoc committee on supply systems studies was established by this office with representation by the three top military supply managers and representatives of the Office of the Secretary of Defense; specifically, the Directorate of Storage, Distribution, and Disposal. The mission of this committee was to reevaluate the supply systems studies of medical-dental, subsistence and automotive materiel for the purpose of determining those recommendations which had already been adopted by the military departments, those which could be adopted, or those which could not be adopted in the form contained in the separate supply systems studies.

The committee arrived at several basic conclusions. Primarily, the supply systems studies, if all had been completed and implemented, would have estab-

lished far more diversification in organization, methods, and forms than now exist.

Second, the combining of stocks of similar supply classes in a single but separate distributive system would not reduce the total volume of requirements of the four military services.

Third, the use of stock funds within each service facilitates cross supply support and permits the use of judgment in total quantities to be on hand to support the service affected since the stock fund manager is responsible commandwise to that service.

Fourth, and of equal importance, is recognition of the fact that the original studies recommended jointly administered systems, each basically different. If the 14 studies had been carried out as planned, *there would likely be 14 different and separate systems where 4 now exist.* Because of the joint management concept of the proposed systems there would be no agency except the Office of the Secretary of Defense to administer them. [Italic supplied.] If the Office of the Secretary of Defense administered them, the responsiveness of the three military departments would be lost. Thus, the departments would not be separately administered, as required by statute, and the Office of the Secretary of Defense would become an operating agency and yet not tactically responsible for tactical operations. This would be a violation of fundamental military doctrine of proven worth.

The Alameda test was also a subject considered by the ad hoc committee. It is believed that this test has been much misunderstood. At a depot on the west coast, it had been decided to position all stocks for the Pacific coast and the Far East, regardless of whether it was necessary or advantageous. The total stock remained under control of the services represented. Total stocks for each service were established by each service and, as a result, there was no reduction of stock. This test resulted, for example, in backhauling from Alameda to the Naval Supply Center, Oakland, for all Navy ships. In the warehousing area, the criteria established were inflexible and often, where good supply management decision dictated delivery to user direct from producer, such action was set aside and delivery made to the central warehousing point.

The final and unanimous report of the ad hoc committee recognized the operational deficiency disclosed by the supply systems studies and approved the implementation of the original study recommendations which were directly concerned with operating deficiencies. It recommended that those recommendations included in the studies which required the establishment of separate distribution systems for different commodity types, each different from one another, be disapproved. Finally, it recommended that no further studies using the commodity segment approach be made.

The original study recommendations covering subsistence, medical-dental, and automotive equipment totaled 147. Of these, 104 have been implemented or await implementation, indicating that the substantive value of the studies has been gained. However, it must be clearly recognized that the large number of recommendations indicated as already implemented by the military supply systems is not a direct result of the Munitions Board studies. Many of the features that were the subject of the recommendations were actually in effect prior to the conclusion of these studies and others were effected in the normal course of improving inventory management.

The continued existence of the supply systems study project precluded the treatment of basic supply problems across the board. Our present programs, now well established and advanced, require that basic supply policies applicable to all supply areas be developed and published; *that receipt, storage, and issue of supply, subject to control of the service owning the supplies, be treated as a common function within each service and the utmost standardization which is practicable and desirable be achieved in this area.* [Italic supplied.] Further, real economies in total volume of inventories will be achieved by shortening the length and volume of the pipeline; by storing high turnover items near the point of consumption and not at each stage in the pipeline; by improving (speedier) transportation; by use of financial data pertaining to inventories; by improving valid and accurate records upon which requirements and procurement are based.

Since the establishment of the Office of the Secretary of Defense, we now for the first time have within the Department of Defense a constructive and comprehensive program governing the military supply systems mutually established and unanimously supported. It is under the immediate direction and administration of Mr. Albert B. Drake, my Director of Storage, Distribution, and Disposal. Mr. Drake is singularly qualified. He is the founder and former president of the

Lehigh Warehouse & Transportation Co., Inc.; of Newark, N.J. He is experienced and well grounded in handling all phases of storage and distribution of many different types of materiel produced and utilized by our national industrial complex. This had fitted him exceptionally well as Director of this all-important component of the Office of the Assistant Secretary of Defense (Supply and Logistics). He also founded in 1945 and served as president until 1949, the firm of Drake, Startzman, Sheahan, Barclay, Inc., materials handling and warehousing consultants. During World War II he gained broad experience in the field of military supply systems as Director of Depot Operations, Army Forces, Western Pacific, and as Director of the Storage Division, Army Services Forces.

Under Mr. Drake's immediate supervision and coordination, the top military supply managers—Maj. Gen. G. W. Mundy, USAF; Rear Adm. Murrey L. Royar, SC, USN; and Brig. Gen. A. T. McNamara, USA—meet regularly and for the first time have succeeded in burying service interests and developing among themselves a fine operating climate within which the remaining and much more important logistics problems are now being studied and solved objectively in the common good.

For your information, I am inclosing concrete evidence of the progress being made and which I am confident will continue to be made toward achieving the most effective and economical administration and management of the military supply systems. The program speaks for itself. In addition to the statement of programs, there are included copies of four directives, some already issued and others soon to be published. These directives are entitled, "Inventory Management," which establishes basic Department of Defense Policy for the management of inventories of materiel; "Materiel Pipeline—Military Supply System," which prescribed the Department of Defense policies governing the requirements for, determination, establishment, and administration of the elements in the complete materiel pipeline of the military supply systems; "Administration of Mobilization Reserve Stocks," which prescribes Department of Defense policies governing the administration of mobilization reserve stocks by the military departments and other military agencies with specific reference to retention, storage, and care and preservation of all material available or to become available for application against the mobilization reserve materiel requirement; "Management of Materiel in Long Supply," which establishes policies and criteria governing the management throughout the Department of Defense of materiel in long supply.

The statement of programs has received the full concurrence of the military departments and all elements of my office. The fundamental difference between the new approach used in this program and that previously established by the supply systems project is that *a commodity approach only solves commodity problems whereas the functional approach covers all problems inclusive of the commodity treatment.* [Italic supplied.]

Please be assured of my appreciation of your interest and cooperation in these vital matters.

Sincerely,

T. P. PIKE.

APPENDIX 2

HISTORY OF EFFORTS TO COORDINATE PROCUREMENT IN DOD OF CLOTHING AND TEXTILES ¹

On January 6, 1945, a memorandum signed by James Forrestal, Secretary of the Navy, and Robert Patterson, Secretary of the Army, approved "the immediate establishment of a Joint Central Procurement Office for Textiles and Clothing in New York."

What was established were two separate offices in the same building to provide coordinated procurement.

The War Department and Navy position in this assignment and on single service responsibility is established in the report, "Coordination of Procurement between the War and Navy Departments," volume II, "Functional Studies dated February 1945."

"The Navy * * * recommends * * * joint committee * * * with power to recommend only.

"The War Department * * * recommends * * * a joint Army-Navy Assignment Board * * * with authority to assign procurement responsibility."

¹ Excerpted from Hoover Commission Task Force Report on Food and Clothing, pp. 129-134.

The National Security Act of 1947 provided for "the greatest practicable allocation of purchase authority of technical equipment and common use items on the basis of single procurement."

On August 29, 1950, the Munitions Board approved the assignment of single service procurement to the Army for woolen piece goods, cotton piece goods, selected end items and textile synthetics. On November 2, 1950, all but duck and webbing were deleted at the insistence of the Navy.

On May 25, 1951, the Secretary of the Navy sent a memorandum to the Chairman of the Subcommittee on Intergovernmental Relations, which stated in part:

"1. From various reports, I have gained the impression that there is considerable feeling in your subcommittee toward requiring the military departments to utilize cross-servicing in the distribution of material to the maximum extent possible. The Navy is convinced that such a requirement would seriously reduce the effectiveness of military supply support and would increase rather than lessen the ultimate cost of such support. Some of the principal reasons for this opinion are set forth in the following paragraphs:

"2. * * * In short, each echelon of the Navy, from my office down to the ship and station consumers, has its assigned place and responsibility in the Navy supply system, with each contributing to the effective operation of the system.

"3. Obviously, any extensive employment of cross-servicing in material distribution would completely disrupt the existing Navy Supply System."

On July 25, 1951, the Assistant Secretary of the Navy stated to this same subcommittee that:

"I believe very strongly, Mr. Chairman, that in line with the declaration of the policy of the National Security Act, each of the services shall have its own combatant and service functions * * * I think that the maintenance of a separate supply system for each service is an essential for the efficient operation of that service and to provide combat efficiency.

* * * * *

"The Navy Department firmly believes that procurement is an essential and integral part of the effective supply support of military operations."

Later, in these same hearings, Representative Curtis asked the Chairman of the Munitions Board:

"We asked that question of various witnesses who have preceded you, whether or not they felt that cross-servicing was going to accomplish the results we thought it was. I have never been satisfied with those answers and I am particularly not satisfied with the answers of the Navy. I get this impression: That they are giving lipservice and they do not really believe in it. * * * Is there resistance on the part of some of the services * * *?"

Mr. Small replied:

"Call it resistance or call it what you like. I say there are differences of opinion at various levels."

Excerpt from Sixth Intermediate Report of the Committee on Expenditures in the Executive Departments, June 27, 1951.

"Each Service or activity was understandably concerned with its own mission; how these efforts could be brought more closely together for greater overall economy and efficiency yielded little reply. The prevailing attitude was well summed up in the comment of Admiral Fox, Chief of the Bureau of Supplies and Accounts in the Navy: 'We are looking out for the Navy; that is our mission.'

"The justification commonly offered by military supply officials for maintaining separate supply systems or operations in each service or activity is the concept of 'responsiveness to command.' According to this concept, commanders in the field must be sure that their supplies are adequate, on hand, and under their control and this insurance will best be obtained by having each service supply its own field units. In the words of Admiral Fox, 'the Navy supply we have must be responsible to Navy Command.'"

On July 17, 1951, the Deputy Secretary of Defense issued a directive which is quoted in part, "Priority study shall be given to the feasibility of assigning to a single military department the responsibility for procurement, distribution, including depot storage and issue for classes of common items of supply and equipment and depot maintenance of such equipment."

On January 21, 1952, the Armed Services Coordinating Committee for clothing, textiles, and footwear, was mutually agreed to, but on February 14, 1952, at a Munitions Board meeting, the Navy member voted against the idea as he felt "that it was unnecessary to proceed further than the current degree of collaboration." Thus the committee was never formed.

On June 18, 1952, a Department of Defense directive established the Armed Services Textile and Apparel Procurement Agency, which was activated on October 1, 1952, and actually remained in existence for only 13 months, at which time Congress refused funds for its continued operation.

On September 24, 1953, by joint agreement and a Department of Defense directive, coordination of procurement was again provided for after the deactivation of the Armed Services Textile and Apparel Procurement Agency.

On July 1, 1954, the Army moved to Philadelphia, thus ending even the "proximity collaboration" set up in 1945 through the housing of both Army and Navy procurement offices in the same building.

Today, within the Department of Defense, there are three clothing buying offices: one in New York (Navy) and two in Philadelphia (Army and Marine Corps). Each is dealing with the textiles, clothing, and shoe business throughout country. Each maintains bidders' lists and sends out invitations. Each makes contacts to negotiate procurement. Each maintains separate accounts, specifications data, contract status records, etc. And each office carries a staff trained and experienced in clothing procurement.

As indicated in the previous section, annual and quarterly coordination meetings precede actual processing of procurement actions. But these meetings do not eliminate duplication of procurement staffs and records nor have they resulted in any coordinated approach to industry. In one quarter, the task force found all three going out on invitations to bid for shoes, trousers, and shirts. What did coordination accomplish?

Coordination, or collaboration, is ineffective and the time spent in meetings almost entirely wasted. This has long been recognized, and as long ago as July 1951 the Chairman of the Munitions Board stated with regard to clothing, textiles, and footwear that "Collaborative procurement—will no longer be considered as satisfying the intent of the National Security Act." Why then does the Department of Defense still have "collaborative procurement" for clothing?

The answer is apparent in the rise and fall of the Armed Services Textile and Apparel Procurement Agency (ASTAPA)—the Department of Navy does not want joint or central procurement. The question seems to be whether the Congress of the United States or the Navy will rule. The consistent stand of the Navy on this matter is very clearly demonstrated by these quotations from the official record.

On May 22, 1953, the Navy Department testified before the House Appropriations Committee to the effect that the Armed Services Textile and Apparel Procurement Agency (ASTAPA)—central procurement service—cost the Navy \$840,000 annually whereas they used to do the job for \$230,000. The House cut the difference of \$610,000 from the Navy's original budget request for support of ASTAPA during 1954. The Navy requested restoration before the Senate Appropriations Committee, but made the same unfavorable and incomplete comparison.

To quote the Senate report on its findings:

"The committee has denied the request since testimony before this committee (Navy and Marine Corps) has indicated that the various services can procure their textiles and apparel individually at a lesser cost than through this agency and has provided that the agency be abolished."

This action was taken as a result of distorted and misleading comparative costs when ASTAPA had been operating only 5 months. That the Congress acted on the Navy statements without studying motives and the much more significant aspects of central procurement was unfortunate.

But the brief history of ASTAPA did point up certain shortcomings which should be corrected under any future centralization of procurement:

(1) There was no absolute authority to make decisions—the individual services held the "veto power."

(2) Too many variations existed in the clothing systems of the services from which the orders came and into which the Agency fed the procured items—and some of the services would not bend to make it easier for all.

(3) The lack of a single working fund required direct payments from the service to the contractor, which raised almost insurmountable accounting problems for consolidated procurement actions.

(4) Donations from the individual services' appropriations supported the Agency—this proved its Achilles' heel.

In 1951 the Munitions Board found that separate clothing procurement offices on different floors of the same building was not acceptable under the National

Security Act. Since that time we have seen Navy kill joint procurement and Army move not only out of the building but from New York to Philadelphia.

Before the Intergovernmental Relations Subcommittee of the House Committee on Expenditures in the Executive Departments in February 1952, the Assistant Secretary of the Army stated:

"The Army was willing some years ago to undertake single service procurement of clothing. It is still willing to do so. I would assume it would have in good faith to be willing either to do it or let somebody else do it for them."

Because of the fact that there was no reasonable amount of elimination of "overlapping, duplication and waste" in the supply and service activities among the military services, in July of 1952 the O'Mahoney rider was enacted into law.

This farseeing legislation showed an unusual insight into the multiple advantages which would result from an "efficient, economical and practical operation of an integrated supply system designed to meet the needs of the military departments without duplicating or overlapping of either operations or functions."

A definite plan was required in 60 days.

On September 6, 1952, DOD Directive 4000.8, Basic Regulations for the Military Supply System, was released, 5 years after the passage of the act of 1947 directing the Secretary of Defense to "take appropriate steps."

Paragraph III B, 5 of DOD 4000.8 states in part:

"Single procurement in the form of a single department, joint agency or plant cognizance shall be effected whenever it will result in net advantages to the Department of Defense as a whole, except insofar as it can be demonstrated that such procurement will adversely affect military operations."

Two years after the publication of 4000.8, situations existed in stock levels, stock funds, item standardization, and many other areas covered by the directive which could be considered as "violations." These are pointed up in the particular sections of the report.

Many instances were noted where operating offices within the Services even at Headquarters level were unaware of long-standing DOD directives affecting clothing operations. For example, in June and July of 1954 the offices in the Services which control the entire clothing pipeline flow were still not aware of DOD Directive 4000.8 mentioned above, first issued in September of 1952 or 1338.5 issued in June 1953 which prescribes the basic policies and procedures on Armed Forces clothing monetary allowances. Any instructions to individual services will never bring about the really significant logistic advantages in unification. Second, no one individual or office within the Office of the Secretary of Defense is concerning itself with clothing supply operations. Item standardization, requirements, procurement, manufacturing, storage and all the other phases of clothing operations are closely interrelated and yet are scattered through the Secretary's office or delegated to Services where differing priorities and policies are applied.

Reorganization Plan No. 6 relating to the Department of Defense limits the authority of Assistant Secretaries of Defense to "provide the Secretary with a continuing review of programs and help him institute major improvements." The plan also says that Assistant Secretaries of Defense will NOT "impose themselves in the direct lines of responsibility and authority."

These extracts from Plan No. 6 explain why DOD directives are frequently not properly implemented and it also explains the reason why there is so little uniformity of action in the Services.

During May and June of 1953 the Riehlman subcommittee reported their hearings as follows:

"It is the conclusion of the subcommittee that the good intentions expressed by the various directives and by the O'Mahoney Amendment have brought only a slight degree of progress although it believes that the regulations and directives were well conceived."

At the end of 1954 there was even less unification. The Army clothing buying office had been moved from New York to Philadelphia and the Alameda Test (medical distribution) had been ordered closed.

APPENDIX 3

THE SECRETARY OF DEFENSE

WASHINGTON, June 17, 1957.

Hon. DENNIS CHAVEZ,
*Chairman, Department of Defense Subcommittee of the Committee on Appropriations,
United States Senate.*

DEAR MR. CHAIRMAN: It has been brought to my attention that an amendment is proposed to H.R. 7665, the Department of Defense appropriation bill for fiscal year 1958. This amendment, among other things, would require the President, within 180 days after the date of enactment of the Appropriation Act, to submit to the Congress his recommendations "for a civilian-managed agency, to be under the supervision and direction of the Secretary of Defense, which shall be responsible for the procurement, production, warehousing, distribution of supplies or equipment, standardization of inventory control, and other supply management functions for common supply items other than combat equipment, material, and directly related combat items."

The Department of Defense, as you know, has from the beginning fully supported section 638 of the Department of Defense Appropriation Act of 1953. The Department continues to support the objectives of that amendment and, moreover, is in full agreement with the stated purposes of the new amendment; namely, "achieving an efficient, economical, and practical integrated supply system designed to meet the needs of the military departments without duplication or overlapping of either operations or functions * * *." However, we do not think that the proposed amendment will achieve these purposes and objectives. In fact, I am convinced that the implementation of the proposed amendment setting up a new and separate supply agency within the Department of Defense would actually create more paperwork, less efficiency, and higher costs.

Equally important, passage of this amendment would wash out the programs in being and require the Department of Defense to start all over again without fully realizing benefits derived from the substantial progress made to date.

The idea of a separate service of supply for common-use items is not new to me. I have been familiar with the matter for years. After some 2 years of openminded review within the Department, my associates and I have come to the firm conclusion that there would be no net gain to the Government or the taxpayer in establishing a separate supply service for common-use items. To the contrary, it would require the establishment of a new supply organization paralleling the existing supply organizations, which must continue to exist under the proposal in order to carry out our field missions.

The great bulk of Defense Department inventories, in dollar value, consists of what the proposed amendment calls "combat equipment, material, and directly related combat items," all of which would be left undisturbed in the existing supply systems. Only the common supply items of a noncombat nature would be placed under the proposed civilian managed agency. Obviously, we cannot dispense with the existing supply systems which now handle both combat and noncombat items, since they will have to continue to handle the so-called combat equipment, material, and directly related combat items. In effect, therefore, the proposed amendment would simply require us to superimpose on the existing supply systems an additional supply system, thus increasing, rather than decreasing, duplication and cost.

Whenever we think about setting up a new organization to take over some of the functions of existing organizations, we must consider how much it is going to cost in people and money. The creation of an agency which the amendment proposes would certainly set up new organizations for administration, personnel management, communications, budgeting, depot management, production and mobilization planning, inventory management, accounting, purchasing, inspection, and payment of bills. In our single-manager assignment, and other steps we have taken to integrate the kinds of things that are subject to effective integration, which will be discussed later, we have very largely avoided such new organizations particularly at the headquarters level, by using existing organizations. I am convinced that the creation of this new agency would add to our net costs of operation.

The problem of centralization versus decentralization is not unique to the Defense Department. It is a common problem in private industry, especially in the larger business enterprises. It is essentially a problem of bigness—a problem which I have struggled with for more than 20 years in private business:

The bigger the enterprise, the greater the need to decentralize the actual operations, retaining for top management the function of establishing and clarifying policy and following up on performance.

The Defense Establishment is far bigger than any private business. Here, the problem is one of integration versus consolidation. Our policy is to integrate and interlock operations; not to arbitrarily consolidate them. This complies completely with the purpose of section 638 of the Department of Defense Appropriation Act of 1953.

After more than 4 years in the Pentagon, I am convinced that centralization or consolidation, in itself, is not the panacea for our management problems. The real problems are the sound determination of requirements, an effective check on usage, and the flow of supplies to meet these requirements. There is a place for centralization or consolidation wherever it can produce a profit. Similarly, there is a place for decentralization wherever it is the best way of doing the job. Thus, fundamentally the problem is to get the best job done in the most efficient manner that will satisfy the requirements of both peace and war conditions.

I might mention, in passing, that decentralization has not only proved to be economical for the Department of Defense but has also been extremely advantageous to the many small-business men.

The degree to which it should be consolidation, integration, or decentralization in the supply function should be determined solely on the basis of what produces the most efficient and economical results. This, I believe, is precisely the objective and outcome of the original amendment. It is also the basic policy of the Department of Defense.

In keeping with these policies and objectives, the Department of Defense over the past several years has developed and instituted a large number of very important improvements in its supply operations, specifically designed to enhance efficiency and economy and to eliminate unnecessary duplication. For example, the extension of the stock fund principle has made available savings of over \$3 billion to be utilized as directed by Congress.

The scope of these improvements goes considerably beyond the goals of the proposed amendment since it includes all common-use items (both combat and noncombat type), numbering over 3 million.

With respect to certain categories of common use type items, such as food and clothing, medical supplies, etc., we have found that a rather high degree of integration at the wholesale level is both practical and economical. For these categories of supplies, as well as for certain common services, we have developed and established what we call the single manager system.

Under the single manager plan, as applied to a commodity, the secretary of a particular military department is designated to perform all supply management functions for the supply of that commodity to all military services. The assignment embraces a complete supply cycle including standardization, cataloging, net requirements determination, procurement, inspection, inventory management, positioning, receipt, storage, issue, transportation, maintenance, and disposal. Control of that commodity is exercised through one central agency and its distribution is effected through a single distribution system employing existing facilities of the military services and serving the needs of all military customers.

In single manager assignments for common services, the designated military departmental secretary exercises a like measure of central control of such services to meet the demands of all military requirements.

At the present time the single-manager assignments have been made in the commodity areas of subsistence, textiles clothing, petroleum products, and medical materiel; and in the service areas of ocean transportation, traffic management, and airlift services. We are now actively studying the feasibility of applying the single-manager principle to the management of photographic equipment and supplies.

The single-manager program represents complete integration in the area assigned of both operations and organization; in the strictest sense of the word, and without the extra costs of another supply system. The single-manager system uses the facilities, manpower, staff organizations, etc., already available within the military departments, thus avoiding the need for more people, more facilities, overlapping of inventories and other types of duplication.

We have also recognized the need for a companion approach for the handling of those items which may not lend themselves to the single-manager concept. To meet this problem, the Department has outlined a program of interservice supply support. This program goes well beyond many of the recommendations

on this subject made in various Hoover Commission reports, in that it covers all items in the Department of Defense supply system which are common to more than one service, combat or noncombat. The military services have executed an agreement which provides for an Interservice Supply Support Committee, composed of the top supply managers to implement this system. Services and supplies hitherto available only to the units of the owning department are now available to the units of all departments in the same geographical area which may have requirements for these services and supplies. It also provides for more effective utilization of available stocks since commodity coordination groups must identify items which are used by more than one military service. These commodity coordination groups must assure that the military services fully utilize each other's available stocks of interserviceable items to meet requirements. The continuing interservice comparison of assets and requirements now required of these commodity coordination groups screens procurement actions as well as disposal actions.

This interservice supply support arrangement operates worldwide and has been implemented in the overseas commands as well as here in the continental United States. Currently, there are 18 commodity coordinating groups established and another 13 are under study.

In addition we are continuing to utilize and improve the procurement assignment system. Under this program, one of the military departments, through its normal procurement system, purchases all of a given class of technical and commercial commodities for itself and for the other services, in accordance with their respective requirements when it is deemed to be necessary. Exceptions are made for local procurement and certain equipment of special design. This program alone covers about one-half of all Department of Defense purchases of materiel and supplies.

Included in the single procurement assignment program is the plant cognizance program. Under this program each aircraft, engine, and propeller plant is placed under the cognizance of a single service. The cognizant service alone maintains a contract administration staff at the facility and processes orders to the plant for all the services. Steps are now being taken to place missile plants under the plant cognizance system. Even where plant cognizance has not been assigned to a single service, one service normally performs the inspection and local contract administration functions for all the services buying from the plant, thus minimizing duplication of effort and personnel.

A prime prerequisite of any intergrated or coordinated supply operation is a common language. Thus, the Federal catalog program is a key tool in our effort to achieve the objectives of section 638 of the Department of Defense Appropriation Act of 1953. This program is well on its way to successful completion. The identification phase of the program was completed last December, with over 3 million items identified with a single name and catalog number which will be used in the supply transactions of all military services. Conversion is the next major step and almost half of that job has been completed. Conversion is the act of putting the new item identifications into use by tagging the stock and changing stock arrangements to conform to the Federal numbers. Total conversion to Federal identification will be completed throughout the military supply system by the end of calendar year 1958.

Another important program, which is basic to our progress in achieving integration, is the defense standardization program. During calendar year 1956, for example, standardization decisions stopped procurement of more than 190,000 generally similar items. It is estimated that this stoppage alone will eventually save about 2¼ million cubic feet of storage space and approximately one-fourth million man-hours annually in supply operations.

I have touched just briefly on some of the highlights of the efforts to achieve our mutual objective of a more efficient and economical supply operation in the Department of Defense. Over the last several years the Office of the Secretary of Defense has issued directives and instructions implementing over 200 facets and phases of this supply and distribution problem in carrying out the purposes of the section 638 of the Department of Defense Appropriation Act of 1953. These cover not only the areas I have discussed but also such matters as the determination of requirements, inventory levels of supply, purchasing, inspection, distribution, warehousing, transportation, depot utilization, port terminal facilities, traffic management, utilization and disposal of surplus, uniform reporting, etc.

As the above indicates, the Department of Defense has approached this problem in a realistic way consistent with big-business practice to achieve minimum

costs. Great progress has actually been made and we are well organized to make further progress in the future.

I, personally, would like to move faster in the several fields which I have discussed, but changes must be introduced only as rapidly as the organization can be trained to absorb them and only after adequate preparation. This is particularly important in an organization as large as the Defense Department. Radical changes such as that involved in the proposed amendment, in my opinion, will undo a great deal of the progress that has been made to date, would create a period of confusion, and ultimately not result in any savings.

In the interest of the taxpayer and our national defense, as well as in the interest of preserving the substantial forward progress that has already been made in this field, I urge that the proposed amendment not be adopted.

Sincerely yours,

C. E. WILSON.

APRIL 25, 1957.

Memorandum for Rear Adm. R. J. Arnold, Chairman, Interservice Supply Support Committee.

Subject: Reimbursement for interservices supply support.

Attached are copies of memorandums to and from ASD (Comptroller) in response to General Brown's memorandum of October 25, 1956, on the above subject. This has been a matter of considerable negotiation between the ASD (S. and L.) and ASD (Comptroller) staffs. The Office of the Comptroller is of the opinion that relief from BOB apportionment of stock funds is a long-range project, particularly in commodity areas now under ISSC groups. Pending resolution, it is felt that OASD (Comptroller) officials would be sympathetic to efforts of the services to budget, including in stock fund financial plans, for apportionments covering estimated amounts to be interserviced. It is recognized that such estimates, applied to the new and rapidly expanding program, will be difficult to make. However, this approach seems to offer the most immediate relief.

Meantime, it is felt that discussion by interservice supply support officials with service comptroller elements, in an effort to explain and publicize the problem, to enlist aid in providing budget estimates, and to emphasize the urgent need for relief from stock fund apportionment would be most helpful. It is understood that the Air Force stock fund segment covering retail subsistence supply has been proposed as the first area for which apportionment relief will be requested. Since the interservice supply support problem area is most critical in wholesale stock not in the single manager commodities, the Interservice Supply Support Committee may wish to suggest a more considerable and appropriate commodity area for immediate review and application to BOB on a top priority basis.

It is felt that a discussion between the supply managers and OASD (Comptroller) representatives might prove beneficial. For this reason, this problem area will be made an agenda item on the next supply managers meeting. OASD (Comptroller) representatives will be present to participate in this discussion.

The meeting has been tentatively scheduled for May 8, 1957. Additional agenda items will be forwarded on or before May 3, 1957.

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D.C., *January 23, 1957.*

Memorandum for the Assistant Secretary of Defense (Supply and Logistics).

Subject: Reimbursement for interservice supply support.

Reference is made to your memorandum of November 19, 1956, on the above subject.

The problem involved in making fund resources for procurement programs (including estimated earnings on interservice transactions) available to the activity rendering the supply service falls into two major divisions:

- (1) Procurement financed by stock funds.
- (2) Procurement financed by appropriations.

With respect to stock fund operations, we are completing development of stock-fund financial statements and budgets designed to strengthen management control of supply operations through emphasis on cash control rather than apportionments. In addition, and along the lines of your suggestion, we have already initiated action in seeking Bureau of the Budget consent to discontinue apportionment of the Navy stock fund and certain selected Army stock fund divisions beginning with the fiscal year 1958. Since these actions are underway, I do not believe it is necessary to conduct a joint evaluation to determine the "leader" stock funds to be exempted from apportionments.

Operating budgets for each stock fund major materiel category, corresponding to management responsibilities of inventory control points, include therein the materiel requirements to cover all estimated issues. Within each military department, budget authority is granted through allotments for authorized procurement regardless of the point in the departmental organization that cash realized from interservice sales is actually collected.

We are also engaged in preparing a DOD instruction which will establish a new system of funding and accounting for appropriation reimbursements. Under the system we have in mind, reimbursements to procurement appropriations will be made available, within broad limits to organizations directly responsible for managing procurement programs for their immediate use in financing authorized procurement.

It would be helpful if our staffs discussed the problems involved with respect to appropriation reimbursements. It is suggested that your representative get in touch with Mr. Robert B. Lewis (extension 73200).

LEE R. SHANNON,
Deputy Assistant Secretary of Defense.

DEPARTMENT OF THE ARMY

OFFICE OF THE DEPUTY CHIEF OF STAFF FOR LOGISTICS

WASHINGTON, D.C., *October 25, 1956.*

Memorandum for the Assistant Secretary of Defense (Comptroller).
Through: The Assistant Secretary of Defense (Supply and Logistics).
Subject: Reimbursement for interservice supply support.

1. One of the chief objectives of the interservice supply support program, established by the joint agreement on interservice supply support, December 30, 1955, enclosure 1, is to effect maximum utilization of existing stocks of items common to more than one service, hereinafter referred to as interserviceable items. Under policies established by the interservice supply support committee and directed through service channels, inventory control points of the four services are required to cross check with each other in an effort to satisfy buy requirements for interserviceable items from existing Department of Defense stocks, in lieu of effecting new procurement.

2. Experience to date has shown complete willingness on the part of inventory control points to make long supply and excess stocks available to satisfy buy requirements of other services. On the other hand, inventory managers are reluctant to release stocks below this level to another service since there is no known method by which the inventory manager can use dollar reimbursements to replenish his stocks. This problem is considered to be a major stumbling block to achieving the degree of interservice utilization desired under the joint agreement and as contemplated by DOD 4140.6. Enclosures 2 and 3, recommendations from two inventory control points further emphasize the necessity for a reexamination of the funding policies involved.

3. Since the existing and proposed reimbursement policies discourage rather than encourage interservice supply support, the interservice supply support committee recommends initiation of remedial action.

FREDERIC J. BROWN,
Major General, GS,
Chairman, Interservice Supply Support Committee.

SEPTEMBER 21, 1956.

Subject: Interservice reimbursing procedures.

Through: Commander, Air Materiel Command, Attention: MCSY, Wright-Patterson Air Force Base, Ohio.

To: Mr. J. C. Rimkus, AFMSS-OP, Hq USAF, executive director for single-manager photographic area, Washington, D.C.

1. In analyzing the continental distribution patterns of supply support to determine cases where an activity or operating unit of one service can more advantageously draw its support from a nearby activity of another service, per charter CCG No. 9, it became apparent that very little real progress could be made under existing interservice reimbursing procedures.

2. Present and proposed reimbursing procedures provide no encouragement to a holding activity to release items to another service (other than excess and long supply items) due to the fact that he will be required to reprogram and refund the item prior to initiating procurement to replace the item. This action may require 12 months or more, which, added to manufacture lead time, may result in a time lapse of 24 months or more before he can replace the item.

3. Since this problem involves all four services, commodity coordination group No. 9 believes that it must be resolved at the DOD level. It is therefore being referred to you for action.

W. B. MANN,
Colonel, USAF,
Chairman, Commodity Coordination Group 9.

[Extract of letter, Navy General Stores Supply Office, 401: bd CCG, September 28, 1956. Subject: Commodity Coordinations Group (CCG) Report: (reports control symbol ISSC-1002)]

(E) COMMENTS ON DOD FINANCIAL PLAN

Experience to date indicates that a "selling" ICP must be able to convert assets to procurement authority quickly if the CCG program is to be a significant device for avoiding long hauls to rebalance activity stocks. Accordingly, the ISSC has been requested to provide for an automatic increase to ICP obligation authority equal to CCG releasable-asset sales.

The draft of a proposed DOD Instruction 1, forwarded by the Secretary, ISSC memo of September 17, 1956, designed to include provision for meeting this problem, had been reviewed. The DOD plan provides that ICP's will estimate in advance the amount of such sales and that credit for these will be provided in the regular budget process. Such an estimate appears most difficult to develop, since there is no assigned responsibility or pattern of supply support upon which to predicate the sales figure.

It is recommended that the ISSC reconsider the original proposal of enclosure (4) (2) for increasing procurement authority as CCG releasable-asset sales are made.

(1. Reference is to DOD Instruction 4000.17, October 9, 1956, Administration of Coordinated Procurement and Related Supply Programs.

(2. Referenced enclosure is attached hereto.)

UNITED STATES NAVY

GENERAL STORES SUPPLY OFFICE

PHILADELPHIA, PA., April 19, 1956.

From: Chairman, Commodity Coordination Group No. 2 (CCG-2).

To: Mr. T. W. Graves, Secretary, Interservice Supply Support Committee, Office of the Director of Supply Operation, Deputy Chief of Staff for Logistics, Department of the Army.

Subject: Exchange of releasable assets; reimbursement for.

Reference: (a) Joint meeting of CCG-1, CCG-2, and CCG-3 on March 19, 1956.

1. During reference (a), the ISSC staff indicated that it recognized that present provisions for effecting reimbursement upon a cross-service exchange of releasable assets might tend to discourage participation in the program. Specifically, since the inventory control point (ICP) selling releasable assets to another ICP does not receive the reimbursement the administrator of the appropriate

stock fund does, this ICP is discouraged from releasing assets which might be attrited in the future in its own supply program.

2. It is the consensus of CCG-2 that the interservice exchange of releasable assets could be encouraged by providing that reimbursement be placed directly to the account of the transferring ICP, increasing its obligation authority. It is believed that considerations of timing, in particular, would make the concept attractive to the ICP's and that it would not reduce the effectiveness of regular financial-control procedures.

3. It is recognized that the regular budget/apportionment review cycle provides for the consideration of any special needs for funds which might arise because an ICP sold releasable assets to another ICP. It is also true, however, that this same routine of financial review can recover any excess funds or obligation authority from the account of an ICP. And this is the process visualized on an as-necessary basis under the proposal put forth in paragraph 2, above.

4. A change in financial-management procedures, to provide that a transferring ICP receive direct reimbursement in its account so as to augment its obligation authority, it recommended to the consideration of the Interservice Supply Support Committee.

STUART HENRY SMITH,
Commander, Supply Corps, United States Navy.

NOVEMBER 19, 1956.

Memorandum for the Assistant Secretary of Defense (Comptroller).

Subject: Reimbursement for interservice supply support.

The interservice supply support program, established by DOD directive 4140.6 is 1 of the 2 basic materiel-management programs fostered by this Office to achieve maximum utilization of all DOD materiel assets regardless of ownership. The directive was implemented by a joint military service agreement on December 30, 1955. Since that time, OSD, in cooperation with the departments, has directed efforts to assure successful pursuit of the program. The services have established a Joint Interservice Supply Support Committee to guide the program, and have organized commodity coordination groups at the inventory control points to conduct operations.

Attached is a memorandum from the chairman of the Interservice Supply Support Committee enclosing comments from commodity coordination groups as to difficulties encountered in the replacement of military stocks that have been used in interservice transactions. It requests that remedial action be taken as soon as possible to insure success of the program. Basically, the problem involves development of a practical method by which the inventory-control points, under prescribed conditions, will promptly receive and be free to reinvest funds received from interservicing without further delay. As it is now, lack of such a practical method creates the possibility of at least temporary bankruptcy where large amounts are involved.

Partial relief from this difficulty is provided by DOD directive 4000.17 dated October 9, 1956, Administration of Coordinated Procurement and Related Supply Programs. The Interservice Supply Support Committee, however, feels that the relief afforded by this directive is inadequate.

The directive makes interservice payments available, on consumables only to the extent that they can be forecast. These forecasts are to show payments for operating and reserve stocks separately from payments for long-supply stocks, and include estimates of the prices at which these transactions will be accomplished. Such forecasts are obviously extremely difficult, if not impossible, to make at this time. Further, the directive does not provide fund availability to the selling inventory-control point, but reverts the funds to the apportionment level of the department concerned.

In the attachment to the committee chairman's memorandum, a further point is discussed in reference to apportionment procedures in the stock-fund area. The cost consciousness and buyer-seller relationship advantages of stock funding can also be achieved by adaptations of the financial inventory accounting systems. Therefore, the chief advantages of stock funds to DOD are (1) the elimination of fiscal-year and funding limitations, and (2) provision for continuous logistics operations on the basis of careful planning and control rather than through apportionments and allocations. In apportioning the funds, these advantages have been largely lost.

In view of the attached memorandums and the need to provide maximum incentives under interservice supply support for the ready exchange of materiel assets between services, it appears timely for ASD (S. and L.) and Comptroller representatives to review these matters as a team, with a view to taking positive action.

It is recommended that:

1. S. and L. and Comptroller jointly evaluate military stock funds and the overall and segment records, operations, and plans, and determine which is the best managed and planned fund or segment. Following this, S. and L. and Comptroller should make a determined joint effort to have this "leader" fund exempted from apportionment. Such an action would generate a great deal of confidence in OSD and would, also, demonstrate the unmistakable virtues of good management, stimulating efforts to improve fund operation and planning.

2. S. and L. and Comptroller, in collaboration with the services, develop criteria under which funds derived from interservicing may be promptly applied for reinvestment or balanced-stock positions without delay, by the various inventory-control points. These criteria should then be incorporated in policy guidance.

Such actions can provide the needed flexibility as recommended by the General Stores Supply Office to insure proper incentives so that the full scope and benefits of the interservice supply support program will be made possible. They may also help to make stock-fund operations more efficient and more appealing.

R. C. LANPHIER, Jr.,

Deputy Assistant Secretary of Defense (Supply and Logistics).

APPENDIX 4

DEPARTMENT OF DEFENSE NATIONAL INVENTORY CONTROL POINTS

Summary sheet

	<i>NICP's</i>
Army	24
Navy	19
Marine Corps	2
Air Force	13
Total	58

DEPARTMENT OF THE ARMY

Inventory control point	Location	Material controlled
1. Chemical Corps Materiel Command.	Army Chemical Center, Md.	Chemical Corps items, such as smoke generators, flame throwers, chemical ammunition, toxics, basic chemicals.
2. Chemical Parts Center, Memphis General Depot.	Memphis, Tenn.....	Repair parts for chemical equipment.
3. Engineer Supply Control Office.....	St. Louis, Mo.....	Engineer end items consisting of construction, water supply, electric, generating, automotive, camouflage, precision instruments, reproduction, petroleum, oil, and lubricant storage and pipeline equipment and fortifications, lumber-supply office.
4. Engineer Maintenance Center.....	Columbus, Ohio.....	Repair parts for engineer equipment commodities.
5. Army Medical Supply Activity.....	Brooklyn, NY.....	Medical supplies and equipment.
6. Quartermaster Petroleum Center.....	Washington, D.C.....	Bulk and packaged petroleum, oil, and lubricant, petroleum containers and containers accessories.
7. Quartermaster Equipment and Parts Commodity Center.	Columbus, Ohio.....	Materiel-handling equipment, special-purpose vehicles and equipment, quartermaster air-type items and repair parts.
8. Military Subsistence Supply Agency (single manager, Army).	Chicago, Ill.....	Subsistence items.
9. U.S. Army Subsistence Center (retail).	.....do.....	Subsistence items (Army and Air Force).
10. Military Clothing and Textile Supply Agency (single manager, Army).	Philadelphia, Pa.....	Clothing and textile items.

DEPARTMENT OF DEFENSE NATIONAL INVENTORY CONTROL
POINTS—Continued

DEPARTMENT OF THE ARMY—Continued

Inventory control point	Location	Material controlled
11. U.S. Army Clothing and Textile Materiel Center (retail).	Philadelphia, Pa.....	Clothing and textile items (Army).
12. Army General Supplies Commodity Center.	Richmond, Va.....	General supplies and petroleum, oil, and lubricant handling equipment.
13. U.S. Army Signal Supply Agency...	Philadelphia, Pa.....	Tactical communications equipment and repair parts.
14. U.S. Army Signal Communications Engineering Agency.	Arlington, Va.....	Fixed communications equipment.
15. U.S. Army Transportation Supply and Maintenance Command.	St. Louis, Mo.....	Railway, marine, Army aviation equipment, supplies, and repair parts.
16. Major Item Supply Management Agency.	Letterkenny Ordnance Depot, Chambersburg, Pa.	All ordnance major items except ballistic missiles and conventional ammunition.
17. Army Ballistics Missile Agency.....	Redstone Arsenal, Huntsville, Ala.	Ordnance major items, tools, fuels, repair parts, and special-weapons materiel peculiar to ballistic missile systems.
18. Army Rocket and Guided Missile Agency.	-----do-----	Ordnance major items of missiles (other than ballistic) and rockets; repair parts, special tools and equipment for guided missile systems, missiles, and rockets.
19. Ordnance Tank Automotive Command.	Detroit, Mich.....	Repair parts for tank and automotive equipment.
20. Ordnance Weapons Command.....	Rock Island Arsenal, Rock Island, Ill.	Repair parts and special tools for conventional weapons and ground equipment for free flight rocket systems.
21. Ordnance Ammunition Command...	Joliet, Ill.....	Ammunition, including testing and handling equipment, repair parts, and special tools for special-weapon materiel.
22. Frankford Arsenal.....	Philadelphia, Pa.....	Repair parts for fire-control equipment.
23. Raritan Arsenal.....	Metuchen, N.J.....	Hardware, cleaning and preserving materiel, and repair parts, tools and equipment for RCAT's.
24. Rossford Ordnance Depot.....	Toledo, Ohio.....	Tools and equipment.

DEPARTMENT OF THE NAVY

1. Bureau of Ships.....	Washington, D.C.....	Major electronics equipment; e.g., electronics systems, equipments, major units of radio, radar, sonar, teletype, major shipboard machinery, equipment and components primarily for use on board or by ships; e.g., hull, mechanical, and electrical components.
2. Bureau of Naval Weapons.....	-----do-----	Fire-control equipment; guns, mounts, and missile launchers; major aeronautical equipments; underwater ordnance; torpedoes, mines, and depth charges, harbor defense material, degaussing material; guided missiles; armor and ballistics; Project Polaris; nuclear ordnance; ammunition.
3. Bureau of Naval Personnel.....	-----do-----	Training aids and library books.
4. Bureau of Supplies and Accounts.....	-----do-----	Excess materiel, Government-furnished materiel, and materials handling and dehumidifying equipment.
5. Bureau of Yards and Docks.....	-----do-----	Public works and public utility type equipment and materiel, transportation, construction, and weight-handling equipment intended primarily for operations outside of buildings, materiel and appliances for defense ashore against chemical, biological, and radiological warfare except instruments for detection and measurement of radioactivity.
6. Military Medical Supply Agency....	Brooklyn, N.Y.....	Single manager wholesale stocks of medical and dental materiel, including blood plasma and related items.
7. Aviation Supply Office.....	Philadelphia, Pa.....	Aeronautical materiel and photographic materiel.
8. Electronics Supply Office.....	Great Lakes, Ill.....	Electronics assemblies and repair parts.
9. Forms and Publications Supply Office.	Byron, Ga.....	Printed materiel.

DEPARTMENT OF DEFENSE NATIONAL INVENTORY CONTROL POINTS—Continued

DEPARTMENT OF THE NAVY—Continued

Inventory control point	Location	Material controlled
10. Fuel Supply Office.....	Washington, D.C.....	Solid fuel, petroleum and related products, asphalts, and coal tars.
11. General Stores Supply Office.....	Philadelphia, Pa.....	General stores material which includes multiprogram items and operating supplies, bearings, valves, tools, metals, lumber, electric cable, chemicals, hardware, cordage, and controlled material in the defense materials system.
12. Navy Clothing and Textile Office.....	.....do.....	Special occupational and environmental clothing and textiles, and resale clothing and accessories.
13. Navy Medical Material Office.....	Brooklyn, N.Y.....	Navy-owned retail stocks of medical and dental material.
14. Navy Subsistence Office.....	Washington, D.C.....	Food and food products (alcoholic beverages and tobacco products are excluded) required in the retail system to support Navy general messes and contract messes, and composite food packages for operational or emergency use.
15. Navy Ship's Store Office.....	Brooklyn, N.Y.....	All articles intended for resale in ship's stores or commissary stores, and material to be used in the operation and maintenance of such stores and services.
16. Ordnance Supply Office.....	Mechanicsburg, Pa.....	Ordnance equipments and ordnance sets, including the repair parts, special tools and related accessories, and consumables for the equipments, special weapons and special-weapon items as authorized by the Field Command, Armed Forces special weapons project, or the Bureau of Ordnance.
17. Ships Parts Control Center.....	.....do.....	Ship assemblies and repair parts which have primary naval application aboard surface ships.
18. Submarine and Reactor Parts Supply Office.	.....do.....	Submarine equipments and repair parts, nuclear equipments and repair parts.
19. Yards and Docks Supply Office.....	Port Hueneme, Calif.....	Materials and peculiar repair parts.

MARINE CORPS

U.S. Marine Corps Supply Activity....	Philadelphia, Pa.....	Repair parts for ordnance, motor transport, engineering, electrical, and general supplies.
Headquarters, U.S. Marine Corps.....	Washington, D.C.....	All major items of Marine Corps equipment and secondary items such as batteries, petroleum, oil, and lubricants, retail subsistence.

DEPARTMENT OF THE AIR FORCE

1. Ogden Air Materiel Area.....	Hill Air Force Base, Utah.	Airframe parts, aircraft components, drone components, assist takeoffs, missile warheads and components, ammunition, biological weapons, electrical supplies, school equipment, navigational - bomb - gunnery radio training aids, aircraft tires and tubes.
2. San Antonio Air Materiel Area.....	Kelly Air Force Base, Tex.	Airframe parts, aircraft engines, atomic ordnance, thermonuclear systems, nuclear components, gun-type systems, fusing-firing devices, explosives, propellants, detonators, specialized test and handling equipment, aircraft lights and fixtures, electric motors and converters, hazard-detecting instruments.

DEPARTMENT OF DEFENSE NATIONAL INVENTORY CONTROL
POINTS—Continued

DEPARTMENT OF THE AIR FORCE—Continued

Inventory control point	Location	Material controlled
3. Middletown Air Materiel Area.....	Olmsted Air Force Base, Pa.....	Airframe parts, chutes, aircraft engines, missile components, ammunition rocket engines, solid fuels, time-measuring equipment and instruments, gases and cylinders, waxes, Air Force local and overseas petroleum, oil, and lubricants, food-preparation equipment.
4. Warner Robins Air Materiel Area...	Robins Air Force Base, Macon, Ga.	Airframe parts, aircraft components, props, missile components and related, fire control, weapons, ground-handling equipment, tires, and tubes except aircraft.
5. Oklahoma City Air Materiel Area...	Tinker Air Force Base, Okla.	Airframe parts, aircraft engines, missile components, turbosuperchargers, aircraft engine cooling and filter systems.
6. Sacramento Air Materiel Area.....	McClellan Air Force Base, Calif.	Airframe parts, aircraft components, wing tanks, missile components, electric generators and sets.
7. Mobile Air Materiel Area.....	Brookley, Air Force Base, Ala.	Airframe parts, aircraft components, marine equipment, alarms and signals, valves, photographic equipment, hardware and abrasive material, office machines and supplies, mechanical transmissions, rope cable, pipe, tubing, cleaning chemicals, paints, metal shapes, ores, refrigerator and air-conditioning pumps, furnaces, plumbing and heating, purification and sewage, furniture and furnishings, hose, prefabricants, music recreational, nonmetal fabricants, crudes, publications.
8. San Bernardino Air Materiel Area...	Norton Air Force Base, Calif.	Airframe parts, guided missiles and related explosives, aircraft components and accessories, auxiliary engines and accessories, bearings.
9. Memphis Air Force Depot.....	Mallory Air Force Base, Tenn.	Vehicles and engines, tractors, construction equipment, rail equipment, MHE, vehicle lights, marine engines and lights, lubrication equipment, fuel pumps, bearings, service-trade equipment, firefighting equipment, gas-generating equipment.
10. Rome Air Materiel Area.....	Griffiss Air Force Base, N. Y.	Communications equipment (except airborne and marine), underwater and visual communications, wire power distributing equipment (except lamps), meteorological instruments, photographic supplies.
11. Dayton Air Force Depot.....	Gentile Air Force Base, Ohio.	Airborne electronics, miscellaneous communications equipment, electric and electronic components, gages, miscellaneous instruments, wood and metalworking machinery.
12. Air Materiel Command.....	Wright-Patterson Air Force Base, Dayton, Ohio.	Specifications, drawings, microfilm, chaplain-mortuary equipment, memorials, requirements for complete aircraft and missiles.
13. Air Force Medical Materiel Field Office.	Brooklyn, N. Y.....	Air Force owned retail stock of medical and dental materiel.

APPENDIX 5

SENATE REPORT ON SECTION 638, DEFENSE APPROPRIATION ACT,
1953 (O'MAHONEY AMENDMENT)

INTEGRATED SUPPLY SYSTEM

The committee believes that great savings can be made by improved integration and management of the military supply system. To this end it recommends addition of section 636 (638) to the bill, imposing a direct and specific duty on the Secretary of Defense to achieve such improvement at an early date.

It is recognized that all the desirable changes cannot be accomplished in the 60-day period within which regulations must be issued. However, it is anticipated that, within that period, new interim regulations can be promulgated which will state the general principles to be followed, effect certain of the more obvious improvements, and assure that no additional independent or expanded supply facilities are created during development of the definitive regulations.

When the next Congress convenes the Department of Defense should present a program, based upon regulations in effect, which will speedily eliminate the duplications and "historical accidents" that recur and exist in the present system of procurement, warehousing, and issue of supplies and equipment.

Under the new system, it should be impossible for two competing facilities to be set up (or to continue to exist) in the same area for the same purpose as determined by the Secretary of Defense. Service facilities for maintenance of equipment such as motor shops, laundries, etc., should be integrated to serve all departmental requirements in the area. Special attention should be given to the procurement, production, distribution, warehousing, maintenance, and issue of common-use items such as clothing, food, medical supplies, and building materials, to minimize stocks, handling, transportation, and related supply-management activities. Wherever possible such items and the method of handling them will be made uniform throughout the Department of Defense to facilitate such integration. Where different stock levels exist in various parts of the Department, it is expected that the lowest level will be applied to the whole Department in the absence of a compelling justification for special treatment which justification will be made to the appropriate committees of the Congress.

It is recognized that the administration of the program outlined above will require some changes in the organization and staffing of parts of the Department of Defense, including the office of the Secretary of Defense. To the extent possible under existing laws this should be done within the powers and personnel ceilings presently available to the Secretary of Defense, and it is expected that necessary action will be taken immediately so that the program can be instituted without delay. Emphasis should also be placed on civilian personnel in this interservice—cross-the-board—work of the business organization of the Department since they can provide continuity and can approach these problems unencumbered by loyalty to the traditions and practices of one particular corps or service.

This section states:

"Notwithstanding any other provision of law and for the purpose of achieving an efficient, economical, and practical operation of an integrated supply system designed to meet the needs of the military departments without duplicating or overlapping of either operation or functions, no officer or agency in or under the Department of Defense after the effective date of this section shall obligate any funds for procurement, production, warehousing, distribution, or supplies or equipment or related supply management functions except in accordance with regulations issued by the Secretary of Defense.

"(b) This section shall be effective sixty days after the approval of this Act."

APPENDIX 6

DEPARTMENT OF DEFENSE DIRECTIVE

No. 4000.8,
17 November 1952.

Subject: Basic Regulations for the Military Supply System

References: (a) Directive 4000.8, Establishment of Basic Military Supply System Regulations, 5 September 1952.

(b) Directive 5025.3, Issuance of Military Supply System Regulations, 24 September 1952.

I. PURPOSE

This directive revises reference (a) to: (1) redefine the relationships between the Basic Regulations and other Department of Defense directives regulating supply management; and (2) prescribe improved methods and procedures for implementing the Basic Regulations.

The Basic Regulations are designed to achieve an efficient and practical operation of an integrated supply system (including procurement, production, warehousing, and distribution of supplies and equipment, and related supply functions) to meet the needs of the military departments, without duplicating or overlapping of either operations or functions, in accordance with the provisions of Section 638 of the Department of Defense Appropriations Act, 1953.

II. SCOPE AND APPLICABILITY OF THE BASIC REGULATIONS

A. *Scope of the Basic Regulations.*—The Basic Regulations set forth important and desirable objectives in the field of supply which are to be implemented as fast as practicable, but they do not cover that whole field. All Department of Defense directives which regulate supply are to be regarded as implementing Section 638 of the Department of Defense Appropriations Act of 1953, and/or any other applicable legal requirements. Accordingly, the use of "MSSR No." and the subheading "Military Supply System Regulations" will not appear on future Department of Defense directives.

C. *Applicability of the Basic Regulations.*—On and after 8 September 1952, no officer or agency in the Department of Defense shall obligate any funds for procurement, production, warehousing, distribution of supplies or equipment or related supply management functions, in violation of these regulations or further directives issued by the Secretary of Defense or an officer of the Office of the Secretary of Defense designed to achieve an efficient and practical operation of an integrated supply system. (See sec. IV of this directive for method of effecting changes in existing regulations, procedures and instructions and for interim effectiveness of existing regulations, directives, procedures, and instructions until changed.)

III. BASIC REGULATIONS GOVERNING THE MILITARY SUPPLY SYSTEM

In order to accomplish the purpose set forth in Section I above, the following principles are hereby established as Basic Regulations, from which deviations may be permitted only by the officers of the Office of the Secretary of Defense charged with implementation of these regulations.

A. *Procurement.*—

1. Procurement will be in accordance with procedures which include timely submission of consolidated requirements, the phasing of requirements, market analyses, phased placement of orders, and phased delivery schedules.

2. Procurement procedures shall continue to be improved by such considerations as: efforts to reduce contract preparation time; maximum use of definitive contracts; simplification and standardization of contract forms and accounting procedures within and between military departments; improving the process of negotiation through standardizing procedures and instructions; and proper use of formal advertising and negotiation in the placement of contracts.

3. Purchasing shall be done on the basis of close, accurate and definite pricing to the greatest extent possible at the time of negotiation of contracts, in order to reduce the necessity for price redetermination and refunds under renegotiation. Price redetermination provisions shall generally provide for downward adjustments only. When upward price redetermination provisions are used, a reasonable ceiling shall be included therein and the obligation set up shall reflect the ceiling price.

4. Price redetermination shall be conducted within the time period specified in contracts, and contracts shall be promptly modified to reflect resulting revisions, in order to facilitate close pricing, to provide firm price information, and to avoid possible conflict with statutory renegotiation proceedings.

5. Single procurement in the form of single department, joint agency or plant cognizance shall be effected whenever it will result in net advantages to the Department of Defense as a whole, except in so far as it can be demonstrated that such procurement will adversely affect military operations. This principle will also apply to procurement from all Government-owned plants, whether operated by the Government or a contractor.

6. In order to eliminate unnecessary handling, warehousing and transportation, direct deliveries from suppliers to points-of-use shall be made to the maximum extent possible, except in those specific cases where it can be demonstrated that there would be no net advantage to the Department of Defense as a whole.

B. *Commercial and Industrial-Type Facilities.*—

1. Commercial and industrial-type facilities (including, among others, warehouses, motor repair shops, bakeries, and laundries) operated by each of the military departments shall be made available to the maximum extent for the use of any of the military departments. Existing commercial and industrial-type facilities shall be surveyed to determine the need for their continued operation and retention. Such facilities will not be continued in operation where the required needs can be effectively and economically served by existing facilities of any department or where private commercial facilities are available, except to the extent that such private commercial facilities are not reasonably available or their use will be demonstrably more expensive or except where the operation of such facilities is essential for training purposes. No facilities, not in operation, shall be retained unless necessary for mobilization reserve. Cost accounting methods will be employed to assist in formulation of decisions concerning cross-servicing, establishment or continuance of such activities in or under the Department of Defense.

2. Additional facilities of these types shall not be established or acquired by a military department unless the required needs cannot be effectively served by existing facilities of all of the departments or by private commercial facilities. Except in a zone of action (e.g., Korea), no such additional facilities shall be established or acquired without prior approval of the Secretary of Defense.

C. Distribution.—

1. Within each military service (Army, Navy, Marine Corps and Air Force) there shall be established and maintained but one single supply and inventory control point for each specified category of items. The translation of established stock levels into quantitative terms and the determination of requirements will be achieved by the appropriate supply control point based upon information available to the control point, including accurate, timely and complete reports from its supported activities.

2. As a minimum, all supply accounting at depot, post, camp, station, base and installation levels will be developed to achieve integration and uniformity on a quantitative and monetary basis, except for supplies and property with troop units and afloat, where periodic quantitative inventories only will be required. (Intransit stocks, Government-owned stocks in hands of contractors or Government industrial facilities, and stocks aboard supply ships and tenders will be considered as part of aggregate depot, post, camp, station, base and installation stocks.)

3. Stock levels shall be established and maintained at the lowest practicable level. Such prescribed stock levels shall be uniform between military departments where similar conditions exist. Effective controls will be established in all areas and at all levels to insure compliance with approved stock levels.

4. Within unified commands, unified logistic arrangements for overseas theatres will be further developed.

5. Each category of common-use standard-stock items will be procured, warehoused, and distributed by not more than one agency within each military service (Army, Navy, Marine Corps and Air Force). (The term "common-use standard-stock items" as used in these regulations includes items similar in character used by two or more departments or subdivisions thereof for the same or closely related purpose. Examples of such items or categories of items are: subsistence, medical and dental supplies, lumber, hardware, fuels and lubricants, household and office type furniture and material, general housekeeping material, individual clothing, and equipment, and vehicular spare parts.)

6. Stocks of common-use standard-stock items will be financed through Stock (revolving) Funds. Special attention shall immediately be given to all categories of common-use standard-stock items including those listed in 5 above.

7. Integrated supply support for common-use standard-stock items will be developed. In areas within the United States and overseas, supply support will be accomplished by single service assignment in which one department will support all others, or by cross-servicing in such areas in which supply support will be obtained by one department from the nearest or most economical source without regard to which department controls such source, unless it can be demonstrated that such support will adversely affect military operations or will not result in net advantages to the Department of Defense as a whole.

D. Cataloging and Standardization.—

1. The cataloging and standardization programs will be vigorously expedited in accordance with the provisions of Public Law 436, 82d Congress.

2. All supply items in the three military departments shall be described, identified, classified, and numbered, in accordance with a uniform method for all categories of material.

3. The uniform catalog data for each specified category of material shall be utilized in all supply operations from requirements calculation to final disposal, by replacing existing data in accordance with prescribed schedules.

4. The highest practicable degree of standardization of items shall be achieved through the development and use of single specifications, through the elimination of overlapping and duplicating item specifications, and through the reduction of the number of sizes, kinds, and types of generally similar items. Procedures shall be developed to require the use of applicable standard specifications by all procurement agencies.

5. Duplication in the inspection of material procured by the military departments will be eliminated by the coordination of inspection organizations and by the standardization of inspection formats.

6. Packing, packaging, preservation and marking procedures in the three military departments will be made uniform, consistent with operational requirements, and wherever practicable will parallel those used in industry.

7. Commercial specifications and standards, when practical and economical, will be adopted and integrated in the military specifications and standards, items.

E. Conservation.—

1. The programs for renovation of economically reparable material will have as their objectives the maximum coordinated and timely utilization of such resources in lieu of new procurement.

2. Supply discipline to encourage effective maintenance and preservation of equipment in use will be emphasized. Issue of materials from storage for training and garrison purposes will be based upon maximum utilization of obsolescent and limited-life materials.

3. Programs will be established to eliminate or reduce uses of strategic and critical materials. Within categories of materials, consideration shall be given not only to relative availability under current conditions but also under mobilization conditions; in the establishment of specifications and standards, including the use of alternate specifications and standards, less critical material of greater cost may be specified within reasonable price limitations.

F. Utilization and Disposal.—

1. Programs will be established for the maximum utilization of property, including scrap, which will include continuous review of stocks to assure they are active, to determine which property is excess, to make maximum use of available storage space, and to minimize maintenance and storage costs.

2. Programs for utilization or disposal of government material and property will provide for continuous screening to make available the excess property of any one department to meet the needs of others. In order that adequate information may be available to other departments before bulk procurement is undertaken, an adequate and practicable reporting system will be established which will include reports to and from the appropriate supply control points of the existence of such excesses.

3. Programs for handling scrap material will provide for the segregation and identification of strategic and critical materials.

G. Transportation and Traffic Management.—

1. The management, control, routing, negotiation, and procurement of transportation services for the movement of persons and things shall be accomplished in accordance with traffic management policies designed to achieve and assure efficient and economical traffic management.

2. Transportation activities of the military departments in both current and mobilization planning aspects will be coordinated with those of the civilian economy through the appropriate agencies within the Department of Defense and the civilian agencies.

H. Production.—

1. Production programs for the military departments shall be realistic, orderly, and scheduled to meet phased requirements. Such programs shall be developed on the bases of: the relative availabilities of facilities, materials, materiel, money and manpower; the relative availability of each item in relation to all other items which are essential to its employment; and the feasibility of programed rates of acquisition. Once the approved active forces are raised and modernized and current operating stocks and mobilization reserves (not in excess of those provided in plans approved by the Secretary of Defense) are on hand, maximum feasible reliance will be placed on continuing expandible production rather than on the accumulation of reserve stocks of end items. Accordingly, the basic objective of the military procurement program will be to supply to the services the material and equipment required for the timely accomplishment of their respective missions.

In doing so, procurement and delivery of all items must be scheduled in a carefully planned and balanced manner to meet the actual service needs. At all times the present and future productive capacity of industry must be given full consideration and plans must, among other things, provide for the maintenance of production lines, and, wherever possible, when computing requirements take into account the rapid expansibility of these lines.

2. In computing mobilization requirements, and in planning for production during mobilization, consideration shall be given to the availability of men, materiel, materials, and facilities (all expressed both in quantities and dollars), and the relative availability of each item to other items essential to its utilization, and to the feasible rate of acquisition.

3. No funds shall be obligated for industrial mobilization activities except in full compliance with applicable legislation (currently sec. 623, Public Law 434, 81st Cong., approved October 29, 1949).

4. Current production programs will be integrated to the maximum extent practicable with mobilization plans established under the "Production Allocation Program."

5. Relative urgencies between military programs and the system for determining them will be kept under continuous review.

6. Maximum utilization will be made of reserves of machine tools and production equipment before initiating procurement of such items. Machine tools should be procured to meet the requirements of current production and to establish-tooled production lines with such mobilization capacity as may be approved by the Secretary of Defense. The highest priority is to be given to the requirements for current production needs, and the second priority is to the machine tool requirements for approved mobilization capacity.

7. Industry shall be encouraged to expand productive capacity through private financing.

8. Government expansion of facilities will be undertaken only after consideration of available capacity of privately owned and Government-owned or operated facilities and when indicated by screened mobilization needs.

I. *Personnel and Training.*—

1. Within each military department, a definitive program will be established for the recruitment and training of competent military and civilian personnel to serve in the areas of procurement, production, warehousing, and distribution of supplies and equipment, and related supply management functions. Rotation, promotion, and assignment policies within each military department will be adapted to assure the most effective use of trained personnel within these areas.

J. *Requirements Review.*—

1. In each military department, there shall be established and maintained, responsible directly to the Secretary of the military department concerned an office or agency charged with making an adequate and thorough audit and review of requirements for materiel, materials and facilities, including responsibility for monitoring the development of the systems and methods for computing such requirements.

K. *Supply System Expansion Prohibited.*—

1. Effective on and after September 8, 1952, until modified by a directive issued by the Secretary of Defense, and regardless of any prior interdepartmental agreements, and without the necessity of any implementing directive described in paragraph IV I below, no additional independent or expanded supply facilities for common-use standard-stock items of supply shall be created without prior approval by the Secretary of Defense.

IV. IMPLEMENTATION

A. *Basic Regulations Implemented by Outstanding Directives.*—Many of the foregoing Basic Regulations are wholly or partially implemented by outstanding directives issued by the Secretary of Defense or by an office or agency of the Office of the Secretary of Defense. Other Basic Regulations will require implementation by new or amended directives. The Secretary of Defense will issue instructions to designated officers of the Office of the Secretary of Defense to proceed with such implementation.

B. *Implementation by the Military Departments.*—The regulations, procedures and instructions of the military departments will be progressively and promptly altered to reflect the changes made by each directive issued by the Secretary of Defense or his designee which either implements the Basic Regulations or otherwise regulates supply (hereinafter called "implementing directives"); as follows. The Secretaries of the military departments shall, as soon as may be

after the issuance of each implementing directive, and in any event within the time specified in such directive, cause regulations, procedures and instructions issued by them or their subordinates to be revised to incorporate the substance of such directive, and shall promptly submit to the officer issuing such implementing directive for approval such revision to regulations, procedures and instructions (other than those relating to particular transactions) issued by the head of any bureau, technical service (including for the Air Force, the Air Materiel Command), or equivalent or higher authority. After making such changes, if any, in such revision as such officer may deem necessary to cause such revision to incorporate the substance of such implementing directive, such officer shall approve such revision, and such revision shall become effective upon the effective date specified in such approval.

C. *Other Methods of Ensuring Compliance.*—The method of ensuring compliance set forth in paragraph B above is subject to the qualification that implementing directives may prescribe other means of ensuring compliance in cases in which the officer issuing such implementing directive deems that prior approval of such revision by him is unnecessary for effective implementation; provided that another effective method of ensuring compliance shall be prescribed in such implementing directive. In cases where proper implementation by the military departments consists merely of forwarding copies of the implementing directive, no approval under paragraph B above or other means of ensuring compliance under this paragraph C need be required; provided that a copy of the published change in the regulations, procedures or instructions of the military department shall be promptly furnished to the officer issuing the implementing directive.

D. *Improvements Initiated by the Military Departments.*—The foregoing provisions of this section IV are not intended to prevent the military departments from initiating improvements in the military supply system which either implement, or are not inconsistent with, the Basic Regulations. Copies of such changes in the regulations, procedures and instructions effecting such improvements shall be promptly furnished to the appropriate officer of the Office of the Secretary of Defense. Such changes which implement the Basic Regulations to any substantial extent should be submitted to the appropriate officer of the Office of the Secretary of Defense for approval prior to their issuance.

E. *Regulations Continued in Effect.*—Except as may be otherwise provided in any implementing directive, all regulations, directives, procedures and instructions relating to procurement, production, warehousing, distribution of supplies or equipment, and related supply functions, originating within the Office of the Secretary of Defense or within the military departments, which were in effect on 8 September 1952, and those which are subsequently issued, and are not inconsistent with this directive or other directives originating within the Office of the Secretary of Defense, shall remain in full force and effect until revised or changed as provided in this Section IV.

V. CANCELLATIONS

References (a) and (b) are canceled.

VI. EFFECTIVE DATE

This directive is effective immediately.

WILLIAM C. FOSTER,
Acting Secretary of Defense.

APPENDIX 7

THE WHITE HOUSE,
Washington, June 8, 1954.

To: The Director of the Bureau of the Budget,
The Secretary of Defense,
The Administrator of General Services.

By virtue of the authority vested in me by section 205(a) of the Federal Property and Administrative Services Act of 1949, as amended (40 U.S.C. 481(a)), there is hereby revoked the memorandum of the President dated July 1, 1949, and directed to the Director of the Bureau of the Budget, the Secretary of Defense, and the Administrator of General Services, copy of which appears on page 108 of the pamphlet of the General Services Administration dated October 1952 and entitled "Federal Property and Administrative Services Act of 1949, as amended."

DWIGHT D. EISENHOWER.

THE WHITE HOUSE,
Washington, July 1, 1949.

To: The Director of the Bureau of the Budget,
The Secretary of Defense,
The Administrator of General Services.

By virtue of the authority vested in me by section 205(a) of the act entitled "An act to simplify the procurement, utilization, and disposal of Government property, to reorganize certain agencies of the Government, and for other purposes," approved June 30, 1949 (the Federal Property and Administrative Services Act of 1949), it is hereby directed that:

1. Pending determinations made in the course of the studies hereinafter directed to be instituted, the several departments and agencies constituting the National Military Establishment shall continue to procure through the Administrator of General Services such supplies, materials, equipment, and other personal property, and have performed by the Administrator such related functions of the types specified in section 201(a)(1) of the Federal Property and Administrative Services Act of 1949 as were customarily procured or performed for the departments and agencies of the National Military Establishment by the Bureau of Federal Supply prior to the taking effect of said act. Until further order of the President, the Secretary of Defense shall not, without the prior approval of the President, issue any order or directive exempting the National Military Establishment in accordance with the proviso in section 201(a) of the Federal Property and Administrative Services Act of 1949, from action taken or to be taken by the Administrator of General Services under said section.

2. The Administrator of General Services, the Secretary of Defense, and the Director of the Bureau of the Budget (1) shall forthwith undertake, and diligently pursue, studies aimed at developing areas of understanding with respect to the extent to which the National Military Establishment should be exempt from the jurisdiction of the Administrator under sections 201 and 206 of the Federal Property and Administrative Services Act of 1949, and (2) shall present any appropriate recommendations to the President.

HARRY S. TRUMAN.

APPENDIX 8

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
OFFICE OF THE MAJORITY LEADER,
Washington, D.C., January 30, 1959.

HON. JOSEPH CAMPBELL,
Comptroller General of the United States,
Washington, D.C.

DEAR MR. CAMPBELL: I am in receipt of your report (B-133036) relating to examination of the U.S. Army Signal Supply Center, Yokohama, Japan. This and the other reports which you have furnished to me are of great value and, as you know, relate directly to the so-called McCormack amendment (sec. 3.(6)) (Public Law 85-599).

I note from your letter of transmittal and from the report itself that this one signal supply center has failed to properly discharge its supply control responsibility in regard to determining requirements. As a result of this failure the Government was placed in a position of buying millions of dollars worth of unneeded stocks.

I also note on page 1 of the report itself:

"We did not make an overall appraisal of the activity or its administration. Our work and the related report devote major attention to the identification of deficient areas and the corrective actions taken by the agency in those areas."

It occurs to me that the findings and conclusions of your excellent report at one supply center indicate a deficiency in the supply system itself in the Signal Corps with respect to requirements determination, procurement, overall inspection and review, and inventory control methods and procedures.

Nor can I help but wonder as to the adequacy of the overall Department of Defense supply demand control system. For example, your report indicates a failure at the one signal supply center in the supply management function involving one item—dry batteries. What is the situation with respect to dry batteries within the Department of Defense? Does anyone relate overall inventory with requirements before procurements are made? Is there concurrent buying and selling?

I am enclosing for your use a copy of the Federal real and personal property inventory report issued by the House Government Operations Committee. In analyzing the inventories in the supply systems of the Department of Defense it is noted that communications and signal equipment total hundreds of millions of dollars. It is to be noted also from the distribution of the reported stocks that a large percentage falls into categories that are either designated as being excessive or could reasonably be so considered. Also that each of the major services carries similar categories of stocks which undoubtedly include identical items.

The McCormack amendment to which I referred earlier reads as follows:

“(6) Whenever the Secretary of Defense determines it will be advantageous to the Government in terms of effectiveness, economy, or efficiency, he shall provide for the carrying out of any supply or service activity common to more than one military department by a single agency or such other organizational entities as he deems appropriate. For the purposes of this paragraph, any supply or service activity common to more than one military department shall not be considered a ‘major combatant function’ within the meaning of paragraph (1) hereof.”

Would it be possible for your agency to extend the scope of its investigation to all facets of supply management of electronic supplies and equipment within the Department of Defense? This would mean a study as to the adequacy of the requirements determination, procurement, inventory control, utilization of all available assets before procurement, distribution of stock and disposal of excess or surplus property.

I should also appreciate recommendations which you may be able to make for improvement of supply management across the board in the Department of Defense as contemplated by the legislation to which I refer.

Sincerely yours,

JOHN W. McCORMACK,
Majority leader.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, February 4, 1959.

HON. JOHN W. McCORMACK,
Majority Leader,
House of Representatives.

DEAR MR. McCORMACK: Receipt is acknowledged of your letter of January 30, 1959, referring to our report on examination of the U.S. Army Signal Supply Center, Yokohama, Japan, and raising certain questions with respect to the supply management function at the Department of Defense level.

This matter will be given immediate attention and we will be pleased to advise you.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, March 9, 1959.

HON. JOHN W. McCORMACK,
Majority Leader,
House of Representatives.

DEAR MR. McCORMACK: Reference is made to your letter of January 30, 1959, acknowledging receipt of our report on examination of the U.S. Army Signal Supply Center, Yokohama, Japan. We are particularly appreciative of your comment that this and other reports which we have furnished you are of great value.

A substantial portion of our audit efforts in the Department of Defense is directed toward the delineation of significant areas of deficiencies in the supply and logistics system, an examination and analysis of these deficiencies in terms of shortcomings in management controls including basic policies and procedures, and recommending to management, and to the Congress when appropriate, such action as will, in our opinion, correct or improve the logistical inadequacies. During the year ended June 30, 1958, over 200 reports were issued to the Congress and the military departments, the majority of which dealt with various aspects of the supply operations of the military services and involved deficiencies in requirements determination, procurement practices and supply control management. Our reviews have covered signal supply control agencies and depots of the Army, requirements determinations for ground communication-electronic equipment in the Air Force and various supply installations of the Navy. In addition, we have reviewed selected aspects of the supply operations of the military services in Europe, north Africa, and the Far East.

Our previous reviews have disclosed the unreliability of stock records at major supply centers and the consequent lack of sound data on which to base supply decisions; requirement determinations have been improper; inadequate coordination existed for supply matters among the military services; contracting procedures in awarding and administering procurements required improvements; and stocks were being disposed of as surplus when valid requirements existed within the military departments.

The results of our previous reviews can now be applied to a study of all facets of supply management of electronic supplies and equipment within the Department of Defense, as you suggested in your letter of January 30, 1959, including a review of the inadequacy of requirements determination, procurement, inventory control, utilization of all available assets before procurement, distribution of stock and disposal of excess or surplus property. The broad nature of such a study, which must encompass evaluation of basic policies and procedures of the Army, Navy, and Air Force, as well as the Office of the Secretary of Defense, will also include a review of the operations of the major electronic supply agencies of the military services in the United States and abroad. As significant matters are disclosed during the course of our review, management and the Congress will be apprised of our findings.

We anticipate that as a result of this defensewide study we will be in a position to make appropriate recommendations for improvement of supply management applicable to all three military services. In this report we will, of course, consider the objectives of the McCormack amendment to which you referred.

As a matter of collateral interest, we have today advised the chairman, Military Operations Subcommittee, House Committee on Government Operations, that as a result of the deficiencies disclosed by our reviews of military supply operations, this area may be of interest to that subcommittee in determining the adequacy of action undertaken by the military departments to correct the matters brought to their attention.

We would be pleased to discuss the proposed study in more detail with you or your staff if you should desire.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
OFFICE OF THE MAJORITY LEADER,
Washington, D.C., March 12, 1959.

HON. JOSEPH C. CAMPBELL,
Comptroller General of the United States, Washington, D.C.

DEAR MR. CAMPBELL: I have read with special interest your letter of March 9, 1959 (B-133036) in response to my letter of January 30, 1959, concerning the need for improvement in the military supply management activities.

I consider that the reports you have issued on the subject to date have laid an excellent groundwork for more comprehensive studies into the systems themselves.

I also am of the opinion that untold sums of money can be saved by streamlining the military supply systems and that military effectiveness will result from such action.

You and your staff who have contributed to this work are to be complimented.

I have inserted our exchange of correspondence in the Congressional Record of March 11, 1959, and have sent copies of the Record to all the interested committees in both the House and the Senate.

Sincerely yours,

JOHN W. McCORMACK, *Majority Leader.*

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, March 17, 1959.

HON. JOHN W. McCORMACK,
Majority Leader,
House of Representatives.

DEAR MR. McCORMACK: Receipt is acknowledged of your letter of March 12, 1959, with further reference to our audits of the military supply management activities.

We wish to thank you for having our exchange of correspondence placed in the Congressional Record and for calling this matter to the specific attention of the interested committees in both the House and the Senate. I am sure that the interest that you have shown and the importance which you have attached to these activities will be of material assistance to us in carrying out our audit responsibilities of the military supply management activities.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

APPENDIX 9

COMPILATION OF GENERAL ACCOUNTING OFFICE FINDINGS AND RECOMMENDATIONS FOR IMPROVING GOVERNMENT OPERATIONS AND ACTIONS TAKEN IN FISCAL YEAR 1959 BY THE DEPARTMENT OF DEFENSE, AND DEPARTMENTS OF THE ARMY, NAVY, AND AIR FORCE

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DEPARTMENT OF DEFENSE AND DEPARTMENTS OF THE ARMY, NAVY AND AIR FORCE

Review of contract pricing

Inadequate evaluation of cost information and ineffective negotiation and administration of prime contracts for airplanes and related equipment and equipment for naval vessels.—Our examinations disclosed instances in which prime contractors for aircraft and related equipment and equipment for naval vessels proposed, and Air Force and Navy contracting officials accepted, contract prices based on cost estimates that were excessive by about \$40 million because proper recognition was not given to cost information available at the time of negotiations. The results of our examinations are summarized as follows.

1. Cost estimates, used as a basis for negotiating prices for firm fixed-price and incentive-price contracts, were unreasonably high by about \$34.7 million because contractors, in preparing these cost estimates, did not give sufficient consideration to prior cost experience and to production efficiencies nor did contracting officials obtain this information or analyze and evaluate the contractors' cost estimates in the light of available cost and production experience. Prices based on these unreasonably high cost estimates resulted in additional cost to the Government of about \$13.3 million, of which \$3.1 million has been refunded.

2. Prices under price-redeterminable contracts and final prices under incentive-price contracts were based on cost estimates which were excessive by about \$5.2 million because contracting officials, in negotiating prices, accepted cost data that were excessive in relation to actual costs which had been incurred under the contracts being priced or that included duplicate costs or costs not related to the contract. In reply to our reports, the contracting agencies stated that price reductions of \$1.6 million have been obtained.

Unreasonably high prices, in most of these instances, may be attributed to inadequate evaluation of prices proposed by contractors and ineffective negotiation and administration of contracts. One of the major deficiencies in the negotiation of contract prices has been the tendency to accept contractors' representations as to actual costs and estimates of future costs without ascertaining the correctness and completeness of the cost estimates used in establishing contract prices.

Actions by the Air Force

Air Force comments indicate that the agency has given serious consideration to our findings and has initiated action to adjust prices in certain instances and to make certain improvements in the negotiation and administration of contracts with respect to the deficiencies disclosed by our reviews. The Air Force agreed generally with our findings in regard to failure by the Air Force and its prime contractors to obtain and use the latest available cost information and with our recommendations concerning the implementation of the requirement that the latest available cost information be obtained and used. The Assistant Secretary advised us of corrective measures taken by the Air Force. These corrective measures consist chiefly of—

1. Asking 28 major contractors to review the pricing information furnished to Air Force negotiators in negotiating prices of price-redeterminable and price-incentive contracts, on which final settlement had not been made, to determine whether the information was current, complete, and correct. The contractors were advised that if discrepancies were disclosed by these reviews the Air Force would like to discuss price adjustments.

2. Bringing the matter to the attention of three industry associations and requesting their support.

3. Requiring, since April 1958, contractors to certify at the time of negotiation conferences that all pricing data available have been considered by the contractor in preparing its proposal and have been made known to the Air Force negotiator and, further, that all significant data being considered at the conference are current. All contractors who were not required to make this certification when target prices were negotiated are being asked to do so at the time prices are finalized. Instructions in implementation of the above-mentioned measures were issued by the Air Materiel Command (AMC) on January 23, 1959, to the various Air Force commands involved in procurement activities.

4. Impressing Air Force procurement personnel with the need for thorough review and critical analysis of contractors' cost estimates supporting price

proposals. In its January 23, 1959, letter to Air Force commands, AMC pointed out to the procuring activities that the findings of the General Accounting Office show that procurement personnel must make a thorough analysis of contractors' proposals and obtain current, complete, correct, and significant cost and pricing data before decisions are made on contract prices and that information available to the entire negotiating team must be thoroughly examined and related.

Subsequently, we were advised by the Air Force of the following revisions to the Air Force procurement instruction:

1. AFPI 3-811(b) was revised to the effect that the prescribed contractor's certificate is not to be considered a substitute for careful review and analysis of contractors' proposals by contracting officers, price analysts, and, where appropriate, Government auditors. The practical effect of this is to continue to emphasize careful review and analysis of contractors' proposals by Air Force personnel even though the contractor executes the prescribed certificate.

2. AFPI 3-808 has been revised, directing that Air Force procurement personnel must (a) make a thorough analysis of contractors' proposals, (b) obtain current, complete, correct, and significant cost and pricing data, and, (c) secure information on the types of subcontracts before contract prices are finalized.

In a letter dated June 22, 1959, subject: Action To Improve AMC Pricing," the commander, Air Materiel Command, furnished AMC procuring activities with additional instructions which emphasize the need for review and analysis of contractors' price proposals and supporting data and indicate that such review and analysis will include review of contractors' records to assure that the most current cost and pricing information available has been made known to Air Force negotiators. We feel that these instructions should make it clear to Air Force contracting personnel that as a general practice the agency contracting "team" should, in reviewing and evaluating price proposals, examine contractors' records related to the proposals to ascertain whether the amounts proposed for significant elements of cost are reasonable and whether the cost and pricing data for use in negotiating contract prices are the most current, complete, and accurate information available to the contractor.

Actions by the Navy

In general, the Navy has agreed that it is necessary for its contracting officials to obtain and use cost information in negotiating contract prices and indicated that their problems stem more from manpower failures than from their procedures, which are amended from time to time. We were advised of two recent procurement directives which compel all personnel involved in a procurement to give more consideration to (1) the planning of the procurement, (2) the study of a proposal prior to the negotiation conference, (3) reducing plans to writing and obtaining approval thereof prior to negotiation, and (4) having the individuals involved in the negotiation identify themselves with the actions proposed and taken. The Navy believes this will result not only in better application of existing instructions by staff employees but also more thorough supervisory action. The Navy advised us also that there is under study a procedure which will, to a far greater degree than in the past, make mandatory the participation of technical inspection personnel and audit personnel in the analysis of proposals and in subsequent negotiations.

Further, we were informed that revision No. 49 of the Armed Services Procurement Regulations (ASPR) covers, among other things, guidance relating to price and cost analysis, including the evaluation of cost data supporting contractors' proposals. Also, this revision, which will apply to all three military services, requires generally that contractors certify that all available actual or estimated costs or pricing data have been considered in the preparation of proposals and that this information and any significant changes which have occurred since the date of preparation of the proposals have been made known to the procurement personnel. This certificate and related instructions, which caution contracting officers against relying primarily on the contractor's certificate or on profit-limiting statutes as remedies for ineffective pricing, are similar to the revisions made earlier by the Air Force in its procurement instruction.

Inadequate evaluation of subcontract prices for major components for airplanes and airplane equipment.—Firm fixed-price subcontracts were negotiated by prime contractors at unreasonably high prices on the basis of subcontractors' estimates without either the Air Force's or the prime contractors' requiring the subcontractors to furnish evidence of the reasonableness of the proposed

prices. Prices of about \$47.2 million were negotiated in these instances, as compared with actual costs of about \$36.5 million subsequently incurred by the subcontractors.

We recommended that the Air Force require its prime contractors to generally obtain from their major subcontractors (1) information on prior cost and production experience, where such data are available, and (2) detailed analyses of estimated costs in support of proposed subcontract prices. We recommended also that the Air Force exercise closer controls over the effectiveness of prime contractors' subcontracting practices by (1) verifying, on a test basis, that cost information being used by prime contractors in negotiating prices of major subcontracts is current, complete, and correct and (2) evaluating the prices of major subcontracts, in relation to known and estimated costs of performance, to determine whether prime contractors are negotiating fair and reasonable subcontract prices.

The Air Force agrees that control over the prime contractors' purchasing system should and must include close surveillance over major subcontract negotiations in order to assure that fair and reasonable prices are negotiated by the prime contractors. In this regard, our attention was directed to a recent revision of the Air Force Procurement Instruction (AFPI) which stresses that the Air Force must have substantial assurance that subcontract prices are reasonable and states that the pricing and contracting philosophies of ASPR and AFPI apply to subcontract negotiations as well as prime contract negotiations. The Air Force has advised us that it is currently exploring the feasibility of furnishing prime contractors with Air Force audit information to improve the evaluation of subcontract proposals by prime contractors.

Further, on June 22, 1959, the commander, Air Materiel Command, furnished AMC procuring activities with additional instructions which specify that Air Force procurement personnel will establish procedures to insure that prime contractors obtain the latest available cost and pricing information from their subcontractors and use it in evaluating proposed subcontract prices. These instructions also require audit review, by either the prime contractor or agency auditor, in the pricing of all large subcontracts to major prime contracts. The measures outlined above should provide the control over subcontract pricing which we believe is necessary.

Inadequate administration of claims for delay under shipbuilding contracts.—We completed a review of 15 claims, amounting to \$6.9 million, which had been submitted by 10 shipbuilders for damages allegedly arising from Government delays in furnishing plans and material. These shipbuilders were constructing, or had constructed, ships for the Navy under fixed-price contracts. Our examination of the 15 claims revealed that the settlements were not necessarily representative of the true cost of the delays for which the Government was responsible. Neither the contractors nor the Navy had adequate information concerning the extent of delays or their cost and for this reason the claims were settled on the basis of inconclusive data.

In order to make such information available, we recommended that the Navy's Bureau of Ships (1) issue instructions for the guidance of contractors in preparing delay claims, (2) evaluate the effects of delays as they occur, and (3) encourage contractors to submit claims within a reasonable period after termination of the delays so that settlements can be negotiated before details of the delays are forgotten. The Bureau concurred with our recommendations and indicated that it will take appropriate action to put them into effect.

Ship overhaul contract prices were unnecessarily high.—Our review of ship overhaul contracting activities administered by Industrial Managers, Bureau of Ships, Department of the Navy, disclosed that a lack of effective price evaluation procedures permitted the award of contracts at unnecessarily high prices. Our review further disclosed that laxity of controls over supplemental work increased ship overhaul costs. In this respect, we found that additional repair work authorized after the award of the contracts totaled about \$16 million annually and that generally the prices negotiated for additional work were between 115 percent and 170 percent of competitive prices for such work. We found also that (1) failure to use split-bidding techniques unnecessarily restricted competition for ship overhaul work, (2) inequitable pricing of Government-furnished materials allowed contractors unwarranted benefits, and (3) a lack of coordination between inspection and contracting functions permitted overpayments to contractors.

We made a number of recommendations to the Navy pertaining to (1) measures for improving price evaluation procedures, (2) methods for improving control over repair work added after award of the contract, (3) alternative methods for getting

work done when contractors' bids are excessive, (4) more extensive use of split-bidding techniques, (5) the charging of market prices when Government-furnished materials are substituted for materials that the contractor was to provide, and (6) more careful correlation of the work authorized and the work performed. The Navy informed us that it has accepted substantially all of our recommendations and that necessary corrective action has been taken or is underway. We believe that the corrective measures which the Navy has indicated will be taken, if properly implemented, will satisfactorily resolve the problems disclosed by our review.

Inadequate review of proposed prices under negotiated contracts of the Corps of Engineers.—Our review of contracting procedures showed that in some instances price negotiations by the U.S. Army Engineer Procurement Office, Chicago, Ill., were based entirely on desk reviews of contractors' proposals. In one case we questioned the validity of the contractor's labor and overhead rates, and in another we found that the contractor, in the execution of the contract, made substitution of less costly material than was included in the price proposal and the contingency factors, which were not substantiated in the price proposal, did not materialize.

In recognition of our findings the procurement office strengthened its price analysis by including a verification of pricing and cost data proposed by prospective contractors. A voluntary reduction in contract price was negotiated in one case in the amount of \$188,882, of which \$111,756 was attributable to our findings, and in another case a voluntary refund was obtained in the amount of \$25,000. While such recoveries are important, we place greater significance on the recognition by the procurement office of the importance of the verification of contractors' price proposals in order to obtain better contract pricing.

Review of determinations of requirements for purchases of materials and supplies

Recommendation designed to forestall overprocurement of spare aircraft engines and to reduce out-of-service time for engine overhaul.—Our study of the physical movement of unserviceable naval aircraft engines (1) while awaiting removal from aircraft, (2) during the overhaul process, and (3) while awaiting return to the Navy supply system for reuse, revealed a general lack of expeditious handling in almost every segment of the overhaul pipeline. Consequently, the actual overhaul pipeline period was considerably in excess of the estimate which had been used in computing requirements for procurement purposes. Notwithstanding this condition, the actual procurement of spare parts and new engines was substantially in excess of the Navy's actual needs because of other variations in requirements determinations.

Our reviews of the physical movement of naval aircraft engines and comparison with performance by the Department of the Air Force on similar engines suggested that a reasonable pipeline would be approximately 150 days as contrasted with the Navy's scheduled 210 days used for computing requirements and with the current performance record of 275 days. Using the 150-day basis, we estimated that at July 31, 1958, 793 aircraft engines, costing about \$68 million, were being procured in excess of the Navy's requirements. In addition, at that date the Navy had planned requirements for 204 more of these engines estimated to cost about \$33 million.

We recommended that (1) a pipeline factor of 150 days be used in computing requirements for spare aircraft engines, (2) engine requirements be recomputed on this basis and that quantities on order be reduced where it was economically practicable to do so, and (3) the requirement for serviceable engines include all engines in serviceable condition regardless of their physical location. We also made several recommendations designed to accelerate the flow of engines through the overhaul pipeline.

In commenting on our findings and recommendations, the Navy stated that it did not concur with our principal recommendation. It stated that (1) the pipeline criteria suggested by us would not provide sufficient engines to support the Navy's mission and (2) including all serviceable engines in the operating requirement was not feasible. We evaluated the Navy's comments and reached the conclusion that its response did not justify the retention of the current pipeline factor used in determining spare engine requirements. Our report, including our findings and recommendations, the Navy's comments, and our evaluation of those comments, was submitted to the Congress on February 4, 1959. The Navy later informed us that it will use the 150-day cycle as recommended for the management of the pipeline and it has based its 1960 procurement program on the 150-day pipeline.

Recommendation that purchase orders for unneeded aeronautical spare parts and ground communication-electronic equipment be canceled.—Review of requirements, procurement, and supply records at three Air Force air materiel areas and one Air Force depot disclosed large excess procurements of aeronautical spare parts and ground communication-electronic equipment. As a result of our findings and recommendations, orders were canceled for excess procurements at the following locations in the amounts shown:

San Antonio air materiel area	\$16,360,000
Oklahoma City air materiel area	3,000,000
Oklahoma City air materiel area (followup review) ..	24,380,000
Sacramento air materiel area	1,500,000
Rome Air Force Depot	1,400,000
Total	46,640,000

A similar study at the San Bernardino air materiel area revealed deficiencies in supply management which were corrected locally upon receipt of our report. Details of our findings and the corrective actions taken are shown below.

San Antonio air materiel area (SAAMA)

Review was made at SAAMA, San Antonio, Tex., of Air Force recorded requirements in relation to stocks on hand and on order for certain aeronautical spare parts, and a later review was made of actions taken by the Air Force on our recommendations to cancel orders for excess materiel.

We found that large quantities of aircraft parts on order in excess of needs were not canceled because satisfactory controls had not been established to assure timely cancellation action when requirements were reduced. During our initial review of requirements records, SAAMA had over \$20 million worth of spare parts on hand in excess of current program needs and about \$20 million worth more on order. However, only a small portion of the excesses on contract had been canceled prior to our review, although program changes and other factors had caused many of these items to become excess 7 or 8 months earlier.

We recommended to the Air Force that contracts be canceled as soon as possible for the excess quantities on order that had not been delivered. Following our recommendation, the Air Force canceled orders for about \$16,360,000 worth of spare parts, with an estimated savings of between \$13 million and \$14 million after termination charges.

We also made recommendations to the Air Force for improving internal controls to insure prompt cancellation of excesses on order. We have been informed that our recommendations in this respect were adopted by the Air Force and that appropriate procedures were prescribed for all air materiel areas and depots.

Oklahoma City air materiel area (OCAMA)

Review of certain requirements determinations and related procurement for spare parts for aircraft and aircraft accessories at OCAMA, Oklahoma City, Okla., disclosed a need for additional controls to minimize overprocurement and to insure prompt contract termination or disposition of excess equipment. The need for improvement in controls was illustrated by the failure to terminate all excess parts on order, the reordering of spare parts in excess of current requirements, and the improper use of a fixed percentage for determining the requirements for a particular type of spares. We found that the lack of consolidated records for certain parts had resulted in incorrect contract orders. These deficiencies, involving significant contract orders, were called to the attention of OCAMA officials during our review. These officials reduced orders at that time, thereby avoiding expenditures amounting to approximately \$3 million.

We recommended certain improvements in requirements procedures, and we have been advised that procedural changes will be made at OCAMA substantially in accordance with our recommendations.

We also found evidence at other installations as well as at OCAMA that the worldwide inventory and consumption reports are of questionable reliability and in many cases are not usable for requirements purposes. This indicates that this defect is a general condition and is a serious weakness in the management of Air Force inventories and related supply functions. We believe that these inaccuracies in records and reports are due primarily to the lack of adequate controls over inventories, particularly at the time of delivery to the Air Force and extending in greater or lesser degree to all echelons of the supply system.

In a subsequent review we found that OCAMA officials had made significant progress in improving requirements procedures and that they had generally

maintained close control over the requirements and related procurement for spare parts. Officials had canceled the vast majority of outstanding orders for parts excess to program requirements, had returned substantial quantities of delivered excess parts to a major contractor for use in the production of aircraft on order, and had uniformly applied more conservative criteria in establishing requirements for parts questioned by us in the prior year. With a few exceptions, we found that all high value items originally on order in excess of the fiscal year program requirements had been canceled in the aircraft, aircraft engine, and aircraft accessory property classes. According to the Air Force, the total value of orders canceled in these classes during the fiscal year was about \$24 million. The total value of delivered parts returned to the contractor for credit on B-52 aircraft contracts was about \$2,500,000.

In several property class units not covered by our prior review, we found relatively minor deficiencies and some excesses remaining on order. When these were referred to OCAMA officials, additional contract orders valued at approximately \$380,000 were promptly terminated. OCAMA officials have now completed the installation of uniform requirements controls for all supply units substantially as we recommended.

Headquarters, Air Materiel Command, also has issued a general regulation that contains the main substance of recommendations we made in connection with reviews at other supply centers as well as at OCAMA. This regulation prescribes a detailed system of controls for all air materiel areas and depots for the identification, reporting, and cancellation of excesses on order.

The actions taken by the Air Force provide improved procedures for the control of Hi-Valu spare parts requirements and excess procurements throughout the Air Force supply system.

Sacramento air materiel area (SMAMA)

Our review of certain requirements determinations and control of related procurement of aircraft spare parts at SMAMA, McClellan Air Force Base, Sacramento, Calif., disclosed that SMAMA officials did not have effective procedures for controlling important phases of requirements management for spare parts, particularly with respect to identifying and canceling orders for excess equipment and obtaining reliable termination cost estimates. Because of these deficiencies, the requirements for certain Hi-Valu items were overstated by \$1,500,000 and approximately \$500,000 of other parts were needlessly delivered after reduced requirements were computed.

As a result of information developed in our review, the Air Force canceled orders for excess parts with a total contract price of nearly \$1,500,000, at an estimated net saving in Government expenditures of approximately \$1,200,000. We recommend improved procedures and controls for the management of these activities at SMAMA at the conclusion of our initial review.

Rome Air Force Depot (RAFD)

Review of requirements determinations and related procurement for ground communication-electronic (C-E) equipment one of the major equipment classifications of the Air Force, at RAFD, Rome, N.Y., disclosed that the Air Force did not have an effective program control of ground communication-electronic equipment or the capability of computing current and valid requirements, under the methods of computing requirements in operation at the time of our review, and the supply system did not have the capability to promptly identify and cancel excess equipment on order.

During our review at RAFD we reported to the Air Force a number of excesses on contract that had not been canceled. The Air Force subsequently terminated orders for equipment with a total contract price of approximately \$1,400,000. A much larger reduction would have been possible if the Air Force had acted when the reduced requirements were recorded.

The principal deficiencies found in the Air Force controls were ineffective methods of processing and recording program changes, incomplete review and analysis of requirements information at RAFD, lack of controls and delegated authority at RAFD for terminating excess equipment on order, and unreliable inventory records and reports throughout the Air Force.

We submitted our findings regarding these problems and deficiencies to the Air Force, together with our recommendations for improving the management of ground C-E equipment requirements. The Air Force responded very favorably to our findings and recommendations and stated that extensive improvements have been made in the management system, including the adoption of all of our recommendations.

San Bernardino Air Materiel Area (SBAMA)

Review of the determination of requirements and related procurement for aircraft spare parts at SBAMA, Norton Air Force Base, San Bernardino, Calif., disclosed ineffective management controls.

For many high-cost spare parts, officials had not reviewed and, where necessary, revised their estimated requirements in accordance with the fiscal year 1958 aircraft programs and changes in consumption. The latest computation of requirements for spare parts in one property class was in February 1957. In another property class there had been only partial reviews of requirements for spare parts since January 1957. In a third property class the latest recomputations were made in May 1957, but again for only a portion of the spare parts in the class. Also, because of increasing aircraft programs, SBAMA supply officials retained during the calendar year 1957 over \$1 million worth of spare parts that had been declared surplus, although no recomputations were made to determine the effect of these program changes on specific parts and quantities required.

Neither the contractor nor the Air Force adequately analyzed production information prepared by the contractor for use by SBAMA officials in determining the feasibility of canceling orders for certain high-cost C-133 spare parts. Our examination of the contractor's records showed that the contractor had not received all the materials ordered, was not scheduled to begin fabrication of certain parts for at least 6 months, and had not considered utilizing materials and partial fabrications of spare parts in the concurrent production of C-133 aircraft. This information was reported to SBAMA officials who reopened discussions of contract cancellations with the contractor. We were later informed that on more recent contracts, for additional C-133 aircraft, more economical spare parts arrangements were made, whereby the contractor carries partially fabricated parts that can be either rapidly completed for spares on request or utilized in production of the last block of aircraft.

The requirements analysis function, an independent review of requirements programs, computations, and procedures, was not effectively managed at SBAMA because of inadequate instructions, records, and reports. No written instructions had been prepared for this function, and accordingly the analysis of requirements was not well coordinated and systematized.

These deficiencies were reported to the Commander, SBAMA, and to Headquarters, Air Materiel Command. The commander, SBAMA, acknowledged the reported deficiencies in management and stated that corrective action had been taken substantially as recommended. The reply from Headquarters, AMC, informed us of recent supply and procurement procedural changes devised for the entire Air Materiel Command, which we were informed, should eliminate the reported deficiencies.

Recommendation that purchase orders for unneeded supplies at major Air Force installations in the Far East be canceled.—Examination of supply management and stock control practices and procedures of the major Air Force installations in the Far East—Japan, Korea, Okinawa, and the Philippines—disclosed various deficiencies and weaknesses among which were (1) failure to properly discharge supply control responsibilities in regard to determination of requirements, (2) requisitioning action based on invalid customers' requirements, (3) requisitioning in excess of established control levels, (4) erroneous stock records, and (5) deficiencies in maintenance supply operations.

As a result of our recommendations, cancellations were issued in the approximate amount of \$10,475,000 for items not required at the time of requisitioning. The installations and approximate amounts involved in the cancellations were:

Andersen AFB, Guam, Mariana Islands.....	\$2, 700, 000
Clark Air Base, Philippine Islands.....	585, 000
Itazuke Air Base, Japan.....	3, 100, 000
Johnson Air Base, Japan.....	990, 000
Naha Air Base, Okinawa.....	220, 000
Tachikawa Air Base, Japan.....	1, 100, 000
Yokota Air Base, Japan.....	845, 000
6314th Air Base Group, Osan, Korea.....	935, 000
Total.....	10, 475, 000

At Kadena and Naha Air Bases, Okinawa, inaccurate subsistence forecasts were revised to reflect actual requirements, resulting in a savings of approximately \$60,000 a month.

Recommendations designed to correct deficiencies in computing requirements for peacetime operating stocks of the U.S. Army, Europe.—Improper requirements computations for peacetime operating stocks of the U.S. Army, Europe, have resulted in substantial quantities of material being requisitioned, shipped, and stored in excess of actual requirements. In other cases, computed stock requirements were lower than warranted. Reviews of stockage requirements computations by supply control agencies and the Army Communications Zone Command were inadequate to detect or prevent inaccuracies and to assure adjustments.

We recommended (1) that applicable experience factors be developed and incorporated in data used to compute requirements, (2) that a closer and more systematic command review of requirements computation practices be instituted, and (3) that more realistic criteria be applied in determining retention needs. Although corrective action had been promised as a result of this review and earlier findings in this area, our follow-up review indicated that deficiencies in computing and reviewing requirements still exist.

Material and equipment requirements for military assistance program have been established without sufficient information as to needs.—Our examinations disclosed that military assistance program requirements have frequently been developed without knowledge of the recipient country forces, without valid tables of organization and equipment, without reliable information as to country consumption rates, and without adequate knowledge of material already possessed by recipient country forces. Considerable excess material existed, and, in the absence of a sound basis for programing, additional excess material could be delivered.

We recommended that the programing process be reviewed and that more adequate controls be established. We were advised that corrective action had been taken and that substantial quantities of material and equipment were either recovered or canceled from approved programs.

Review of supply management and stock control practices

Recommendations made to correct deficiencies in supplying spare parts for Navy aircraft.—Our review of the aviation segment of the Navy supply system disclosed that, because of serious deficiencies in several critical areas, the system does not adequately meet aircraft spare parts requirements of the fleet. Although it has not been possible to identify all the direct causes, some of the causes contributing to its ineffectiveness are (1) unreliability of requirement computations, (2) inaccurate field reporting of quantities and condition of assets on hand, (3) unrealistic usage information, (4) inadequate control of short shelf-life items, (5) questionable provisioning practices, (6) untimely allocation, distribution, and redistribution of material, (7) frequent changes in programs, and (8) frequent technical changes.

These conditions have resulted in shortages of certain material, causing aircraft to be grounded and work stoppages in maintenance activities. During the first few months of 1958, an average of 7.9 percent of the Navy's operational aircraft were reported grounded for lack of parts, but for certain first-line aircraft the rate was much higher. These conditions resulted also in substantial quantities of other materials being accumulated which must be disposed of at a substantial loss. During the fiscal years 1955-58, material valued at approximately \$823 million was declared excess. The Navy estimated that additional aeronautical material valued at \$350 million would be declared excess in the fiscal year 1959.

We made specific recommendations to improve each of the deficient areas noted in our review. Practically all of our recommendations have been accepted by the Navy, and Navy officials have advised us that necessary corrective action has been initiated. The prompt action should result in substantial improvement in aviation material support.

Recommendations designed to provide more effective and economical supply support at Navy shipyards.—We found that Navy shipyards have consistently overestimated their needs for material for ship overhaul and conversion work. As a result, enormous quantities of surplus materials have been accumulated which, experience shows, will be ultimately disposed of at a fraction of their cost. During the last 3 fiscal years, a sizable amount of Navy inventories have been classified as excess to its needs. This included nearly \$850 million worth of electronic and shipboard equipment and ship repair parts which are used almost exclusively for overhaul and conversion of ships.

We found also that (1) retention of inactive items increased shipyard storage, accounting, and administrative costs and delayed making this stock available to other potential users, (2) about 40 percent of material carried in shop stores for day-to-day use was in excess of established supply levels, (3) a substantial amount

of the stock held as insurance items did not meet criteria established for stocking such items, and (4) little or no accounting control exists over the more than \$40 million worth of surplus materials at the four shipyards we reviewed.

We made a number of recommendations which, if properly implemented, should result in more effective and more economical supply support at naval shipyards. The Navy concurred with all our recommendations and informed us that a number of them have been put into effect. Other recommendations, because of their far-reaching impact, will require considerably more time for proper implementation, but the Navy is actively working to put them into effect.

Recommendation designed to eliminate unnecessary work in provisioning ship repair parts in Navy supply system.—We found that the policies and procedures followed by the Navy in reviewing provisioning forms for ship repair parts involve a substantial amount of unnecessary work in making a detailed review of items already carried in the supply system. Based on the results of our review, we estimated that the cost of this unnecessary work amounted to more than \$300,000 annually. We recommended that initial reviews of provisioning forms be made to identify the new items and the stock list items. We recommended also that complete reviews be made for new items and that reviews of stock list items be restricted to establishing the correctness of stock numbers and revising quantity requirements. The Navy concurred in our findings and stated that our recommendations are being implemented.

Need for improvement of supply data at Engineer Supply Control Office.—Our review of supply activities at the Engineer Supply Control Office (ESCO), St. Louis, Mo., disclosed that there was in use certain supply data which we deemed unreliable. As of June 30, 1957, the differences in which the dollar value of the stock balance cards exceeded the financial inventory accounting (FIA) ledgers totaled \$44.4 million; differences in which the ledgers exceeded the cards totaled \$32.2 million. The dollar value of the maintenance and operation (M. & O.) stock balance cards was \$13.2 million in excess of the FIA ledgers. All these differences totaled nearly \$90 million, or about 30 percent of the FIA balance of \$303 million for stock fund and M. & O. inventories.

ESCO also was making significant adjustments in its studies of principal items in order to reconcile the asset data reported on worldwide asset reports with the assets that ESCO analysts had determined to be in the supply system. Adjustments totaling \$25 million, representing \$18.6 million in increases of reported assets and \$6.4 million in decreases, were made on the April 1957 supply control studies for 33 of the 49 principal items for which ESCO had responsibility for computation.

Accuracy of the asset data is, of course, important because it is a major factor in the determination of the quantities to be procured, and a system which requires the continual compilation of information by ESCO for the purpose of correcting data in field reports is of questionable value. Although ESCO questioned the field commanders on a number of the apparent discrepancies, we believe that, in order to prevent their recurrence, it will be necessary to ascertain and correct the underlying causes. At other installations we also found that inventory and consumption reports were of questionable reliability.

The Assistant Secretary of the Army (Logistics) disagreed with the implications of our finding and stated that the stock reporting differences did not consist completely of errors in the records but that initiation of various technical and procedural improvements in themselves had caused some backlog and temporary differences. He said also that the consolidated stock status report has been traditionally used and accepted as a management tool as representative of the stocks in inventory available for requisition, not necessarily the total inventory on hand. The comprehensive program of integrated dollar and item accounting which was installed by ESCO on May 1, 1958, and the use of automatic data-processing equipment promise increased reporting improvement, and such reporting will be based on the same source data that will be used in the development of financial management reports. The Assistant Secretary agreed that the worldwide asset reporting needed improvement and said that there were 17,000 reporting sources, that improved procedures had been under test for 2½ years and would require at least 1 year more, that improvements were being initiated, and that a high-level committee had been established to assure continued and sustained improvement.

Need for improvement in supply operations of Signal Corps, U.S. Army, Europe.—Review of the Army Signal Corps supply operations, U.S. Army, Europe, Communications Zone (COMZ), headquartered at Orleans, France, disclosed that practices, procedures, and controls were inadequate to assure proper supply

determinations and this resulted in uneconomical operations. One of the adverse effects was the generation of a significant amount of excess stock. Out of an inventory of \$108 million worth of stock at December 31, 1957, there was \$42 million worth in excess of normal operating requirements and approved reserves.

Our review disclosed that (1) orders were placed for significant quantities of unneeded supplies because close supervision was not being exercised, proper analysis of outstanding orders was not being made, and records were inaccurate, (2) a significant portion of stocks was reserved for various purposes without a valid requirement or proper authorization (\$5 million of \$11.6 million worth of stock reviewed was improper), (3) screening of unfilled customers' requisitions was inadequate because of insufficient coordination and ineffective internal controls at the agency, (4) a substantial percentage of the stock levels on the line items examined were excessive because of lack of (a) internal control to insure recording, of adjustments of stock levels and (b) proper emphasis on reviews of stock levels for high-dollar-value line items, (5) excess stocks were not being utilized to fill significant deficiencies in mobilization reserve materiel requirements, (6) timely action was not taken by the agency to fill customers' current requirements for high-dollar-value stocks ordered and received from the United States, (7) no adequate formal storage plans existed at any of the three depots to assure efficient and economical operations, and (8) excess property was not always being properly reviewed and controlled by the agency in accordance with established procedures.

Many of these same deficiencies were noted by us in previous examinations of Signal Corps supply operations in 1955 and 1956. These matters were then brought to the attention of the U.S. Army, Europe (USAREUR), and the Assistant Secretary of the Army (Logistics), but our recent review disclosed that effective corrective action had not been taken. We have been informed by the Deputy Assistant Secretary of the Army (Logistics) that, subsequent to our recent review, many corrective actions were initiated which should materially aid in achieving a higher quality of management of Signal Corps supply operations in Europe. Since we were unable to determine all the specific actions taken, we restated the following recommendations:

1. That Signal Corps officials give more consideration to determining the causes for the errors in the records and that action be taken to prevent their recurrence.
2. That timely reviews of known changes in requirements be made by competent and closely supervised personnel in order to insure that only supplies currently needed are on order.
3. That the Signal Officer, USAREUR; Signal Officer, COMZ; and the agency institute additional controls to assure that all reservations of stock are properly authorized and supported and that reviews are made timely to determine the continued need for the reservations.
4. That there be more effective coordination between the agency and its customers in regard to the current status of unfilled requisitions.
5. That the agency establish a procedure to assure that appropriate disposal action is taken on all excess property.

Need for improvement in supply management practices in the Far East.—In our review of supply management practices and procedures of the U.S. Army Signal Supply Center (SSC), Yokohama, Japan, we found that SSC was failing to properly discharge its supply control responsibilities in determining requirements due to overstatement of needs because of numerous erroneous determinations; action was not being taken to cancel active requisitions for items in an excess position; outdated equipment authorization lists were being used to determine requirements; contrary to regulations, SSC authorized the stockage of a 60-day level of major components in addition to the 100 percent authorized stockage of the end item; stock records were in such poor condition that many overstated requisitions could not be canceled during our examination; issues made to closed installations were considered in computing requirements; excesses totaling \$1.5 million in dry batteries were on hand or order, due to errors in computation in establishing stock levels, to inadequate recordkeeping, and in part to the Army phasedown in Japan; excessive stocks were reserved for special projects, without giving consideration to the use of the excesses to fill general issue requirements; and stock was being reserved for special projects which had been canceled, completed, or otherwise rendered inactive.

As a result of our findings, recommended corrective action was taken promptly. Overstated requisitions amounting to over \$8 million, which represented more than one-half of the amount on order at the time of our examination, were canceled, and

we were advised that action was taken to improve procedures and controls which should provide for more effective supply management and avoid similar deficiencies in the future.

Inefficient procurement policies and procedures for the solid fuel program of the U.S. Army, Europe.—In our review of policies and procedures for this program and their implementation in terms of procurement, storage, distribution, and accountability, we found that (1) seasonal price advantages were lost as a result of poor delivery scheduling and consistently late contract awards, (2) deliveries to several locations exceeded unloading capacities, with the result that demurrage charges were incurred in some cases, and (3) personnel costs were excessive at some distribution yards because of full-time assignments of enlisted personnel instead of utilizing local wage-rate employees and because of multiple distribution operations serving a single area.

We recommended that USAREUR award contracts on a timely basis and that efforts be made to schedule fuel shipments so as to obtain the most advantageous price, that contracts be amended to show unloading capacities for each destination, that personnel assignment practices be reviewed, and that consolidation of fuel distribution functions be considered.

USAREUR has promised satisfactory corrective action on each of our recommendations and stated that its policy will be revised to have enlisted men replaced with local wage-rate employees and that a study of a consolidation of functions was underway.

Savings can be realized by deleting many ship repair parts now in inventory which can be purchased readily from commercial sources.—The Navy has a large number of ship repair-part items in its inventory which are of low unit value and low inventory value and have been in low demand for the past several years. Our test disclosed that many of these items are readily available from commercial sources. We concluded that about 50,000 of these items could be eliminated from the Navy supply system at an approximate systemwide savings of \$1.6 million annually. We also found that the programs established for removing nonessential items from the supply system were not effective. We recommended that items presently in the supply system having low unit costs and little demand be continually reviewed and analyzed to assure that such items are deleted from the system to effect all possible savings in system costs. The Navy concurred in our findings and recommendations and stated that studies are currently being made to eliminate nonessential items and to decentralize control of shelf-type commercial items.

Many ship repair parts are included in mobilization reserve stocks although they are not essential for wartime operations.—Many ship repair-part items for such equipment as movie projectors, heaters, and laundry equipment were included as mobilization reserve stocks although such items are not considered by the Department of the Navy as essential for wartime operations. We recommended that more emphasis be placed on the degree of essentiality for wartime operations and that all items presently included in mobilization reserve stocks be reappraised on this basis. The Navy concurred in our findings and recommendations and stated that mobilization reserve stock items will be reviewed and items not meeting the criteria will be eliminated.

Ability to meet supply needs of U.S. Army in Europe impaired by inaccurate stock records.—Our review of supply activities of the U.S. Army in Europe disclosed that the capability of supply control agencies and depots to meet the needs of our forces has been seriously impaired by inaccurate supply records. The unreliable records largely invalidated the usefulness of financial inventory reports as a management tool.

We recommended the establishment of a strong program to assure that needed materials are provided in a timely and efficient manner based upon the initiation of controls, reviews, reports, and examinations directed toward eliminating noted deficiencies.

Our followup review disclosed that some corrective action had been initiated but that stock records continued to be inaccurate.

Little improvement in supply operation by use of the Modern Army Supply System, Europe.—The Modern Army Supply System (MASS) is not achieving its originally established objective of improving the 7th Army's supply system in Europe by providing parts for modern vehicles, weapons, and equipment in quantities consonant with the needed mobility of the combat elements. The MASS concept included the rapid delivery of needed stocks directly from U.S. depots and a reduction in line items and quantities stocked by the 7th Army to increase its mobility.

Our examination disclosed that there are continuing and substantial shortages of spare parts, that combat units are unable to obtain adequate and timely replenishment supplies of parts, and that, with one exception, the establishment of mobile depots within the 7th Army has not been achieved.

We recommended that needed items be adequately stocked and that action be initiated to preclude overordering and unauthorized ordering of MASS items.

Our followup review showed that efforts are underway to reduce order and shipping time for replenishment requisitions and to improve requisitioning procedures. However, there has been only a slight improvement in the 7th Army's supply system since MASS was permanently installed in July 1958.

Deficiencies in the supply system for the Southern European Task Forces in Italy due to inadequate instructions and supervision.—We found a general misunderstanding and misinterpretation of the combat reserve program objectives and instructions at all levels of the Southern European Task Forces (SETAF) in Italy, defective instructions and guidance issued by its headquarters and its support command staff, improper computation of stock levels by the technical supply services, insufficient or excessive requisitioning by the two supply services which had issued requisitions, and an inadequate stock inspection and rotation program. In our opinion, substantially all these deficiencies resulted from or were aggravated by the failure of the Department of the Army to furnish SETAF with detailed instructions and program guidance for almost 2 years after authorizing the reserve and by the lack of adequate supervision and review of the program by the headquarters staff and support command personnel.

The Assistant Secretary of the Army (Logistics) concurred in our findings and recommendations that the procedures be improved and that clarifying instructions be issued at departmental and local levels to correct the deficiencies. He informed us of several actions which were taken both prior to and after receipt of our informal report to correct the deficiencies. It is noted that SETAF also had taken some corrective action at the time of our review.

Deficiencies in the supply-management activities of the U.S. 8th Army, Korea.—Our review of selected supply-management activities of the U.S. 8th Army, Korea, disclosed that substantial amounts of materiel in excess of requirements were being requisitioned because quantities of serviceable, repairable, and turned-in assets were not considered; that issues to Armed Forces aid to Korea, although inapplicable, were included in 8th Army demand data and inventory adjustments which decreased stocks recorded to be on hand were included in the computations for developing demand data; that requisitions were not canceled when theater activity was reduced; that quantities on customer orders were not considered; and that customers' orders were placed in excess of authorized quantities. Also, the accounting records for stocks, upon which supply actions are based, were inaccurate and unreliable; the records did not include large quantities of materiel on hand; materiel was shown as due in subsequent to receipt and, in the case of ordnance, the materiel was not reconcilable with listings from the Ordnance Stock Management Agency, Japan; invalid or canceled customers' orders were recorded as due out; and numerous posting errors were noted. The engineer depot cement-block plant was in production while there was no known forecast of need.

In response to our findings and recommendations, orders placed were reduced by about \$4.1 million. The Engineer depot canceled orders for 253 18-ton pontoons valued at \$373,428; 16-inch fans valued at \$71,425; bridge components, generators and paint valued at about \$75,000; 2 D-8 tractors valued at \$58,964; and 2,000 cylinders valued at \$73,000. The Engineer depot also reviewed and restated its lumber forecast, reducing it by about 25 million board feet, valued at \$2.3 million, a reduction of about 55 percent. The cement-block plant was put on standby basis from December 1, 1957, to March 15, 1958, at an estimated savings of \$46,000. The Ordnance depot reduced its requisitions for M37 trucks valued at \$179,452, 14 commercial-type trucks valued at \$138,465, 365 trailers valued at \$332,880, and 31 buses valued at \$124,775. The buses were rerequisitioned to satisfy a requirement placed by the Department of the Army. The Signal depot was able to cancel various requisitions having a value of about \$42,000. Also, the correction of errors in the stock accounting records led to cancellation of orders amounting to about \$250,000.

Headquarters, 8th Army, concurred in our recommendations that, prior to submission of any sizable requisitions, complete verification be made of stocks on hand at the depots; that customer "due outs" be verified as to their continued requirement; and that the cases of overstated requirements be corrected.

Deficiencies in the supply management activities of the Army Engineer Supply Center, Japan.—Controls in the supply and stock control activities at the Engineer Supply Center, Tokyo, Japan, were found to be inadequate to assure the proper determination of requirements and proper supply actions. There was a failure to consider all assets already on hand; erroneous information was furnished to continental U.S. supply control points and depots; insufficient consideration was given to use of substitute material on hand; overstated demand data was used in computing theater requirements; numerous errors appeared in the computations which resulted in overstatements of requisitioning objectives; and cancellations of orders for materiel which was no longer needed were processed in a routine and excessively time-consuming manner also, combat reserve stocks were excessive in quantity and included items of doubtful combat necessity, such as electric fans and asphalt tile, and excess quantities of materiel were placed in reserve for set assembly.

It was found also that items of equipment which were dismantled while undergoing rebuild at the center were being reassembled although destined for disposal as scrap, and some were again dismantled by the Property Disposal Division prior to sale; that serviceable wooden pallets were being sold as scrap lumber while new ones were being manufactured; that usable scrap lumber costing 2 cents a board foot to reclaim was not being returned to the box factory, which used lumber costing about 12 cents a board foot; and that a substantial number of vehicles were in disposal channels but could be used by cannibalization of parts by the logistical depot at Kokorozawa for its military assistance program.

The center concurred generally in our recommendations and took corrective action. Among other actions as a result of our review, the center canceled outstanding requisitions amounting to about \$1 million.

Need for improvement in the operations of the Army Transportation Supply Control Agency, Europe.—The Transportation Supply Control Agency, U.S. Army, Europe, failed to effectively perform its supply mission for the 18-month period ended December 31, 1957. During that time there were serious delays in filling requisitions, the backlog of requisitions increased enormously, and no recognizable management procedures existed to govern performance of basic supply and stock control functions.

We recommended that command staffs be required to critically review supply reports, investigate areas of indicated weakness, and take timely action to correct deficient supply operations.

The Agency has now been reorganized and restaffed in all key positions, and new control procedures have been developed to implement our recommendations.

Savings to be made by changing storage location.—During our review of the activities at a naval supply activity at Oakland, Calif., we noted that savings in operating costs could be realized by moving packaged petroleum products from a storage location approximately 15 miles from the supply activity to a storage location at the supply activity. We estimated that initial savings would be approximately \$184,000, the amount required to improve the present storage location, and that approximately \$4,000 could be saved annually on transportation, utilities, and maintenance costs. As a result of our inquiry and recommendation, these products are being moved to a location at the supply activity.

Review of utilization of materials, supplies, and equipment

Additional procurement avoided by redistribution of excess aeronautical equipment of one military service to another.—Prior to fiscal year 1958, the Department of Defense had no system for redistributing the excess aeronautical equipment of one military service to another service, if a need existed. At that time the military services usually notified one another of the availability of excess aeronautical equipment only if it were being disposed of as surplus property; i.e., stocks exceeding maximum long-range program requirement. During fiscal years 1957 and 1958, we found that millions of dollars worth of excess aircraft and engine parts stocked at two Air Force supply points could be used by the Navy but that the Navy had no knowledge of these spare parts and was procuring identical items. As a result of the information we developed, the Navy obtained over \$1,600,000 worth of excess Air Force aeronautical equipment, consisting primarily of J-48 and J-57 aircraft engine spare parts.

After our examination of the above cases, the Department of Defense established commodity coordination groups for aeronautical equipment, in order to facilitate the redistribution of stocks exceeding the current or midrange program needs of any one of the services. The operating procedures of these groups, however, did not contain adequate provision for disseminating information on excess stocks. We found at the Middletown Air Materiel Area, for example, that dur-

ing fiscal year 1958 the Air Force had about \$8,400,000 worth of helicopter spare parts in stock that exceeded its then current programed requirements. Over \$2 million worth of these parts had been declared surplus to any foreseeable needs by the Air Force and were placed on excess property listings distributed to the other services in February and March 1958. At that time the Air Force was not required to notify other services of its remaining excesses, which in this case amounted to about \$6 million worth of parts, unless direct inquiries were made.

We found that during this period the Army, which utilized the same helicopter, was placing substantial orders for identical spare parts. Not only were Army supply officials unaware of the overall Air Force excesses, but they had failed to take notice that those particular parts had been placed on excess property listings. As a result of the information we presented to the services, arrangements were made to transfer about \$3,400,000 worth of excess Air Force helicopter parts to the Army. The transfer of these parts enabled the Army to cancel orders that had been placed for about \$1 million worth of parts; and the Air Force was able to withdraw over \$1,500,000 worth of parts from the disposal yards that would have otherwise been sold for a fraction of their original cost.

Several additional measures were taken by the Department of Defense to improve the management of interservice supply activities, after our examinations of these cases. In June 1958, there was established, in the Office of the Secretary of Defense, an Armed Forces Supply Support Center which replaced the former committee arrangement as the central directing point for interservice supply activities in the Department of Defense. In January 1959, the Department issued a more comprehensive policy statement on redistributing supply inventories which we understand: (1) requires the military services to circulate lists of all common stocks exceeding their respective current or midrange program needs, and (2) provides for more effective redistribution of such stocks when needed in another service.

In view of the significance of the interservice supply problem, we are continuing our review of supply cooperation and of the extent that common items are utilized effectively in the Department of Defense.

Savings realized by cancellation of disposal actions on binoculars and bearings in the Navy supply system.—Because of inadequate data furnished to the Bureau of Ships, Department of the Navy, excess quantities of binoculars valued at \$2.4 million that were in ready-for-issue condition were recommended and scheduled for disposal while quantities of similar binoculars in need of repair were being retained in the supply system to maintain adequate supply levels. After this was called to the attention of the Navy, the binoculars in ready-for-issue condition were removed from disposal lists and replaced by binoculars in need of repairs. This action saved approximately \$225,000 in estimated repair costs. We recommended that procedures be established to require the submission of all available data on excess quantities available for disposal, including the physical condition of inventories. The Navy advised that procedures will be developed to preclude recurrence of any situation of this type.

Usable bearings in supply at one Navy depot were erroneously being scrapped because of a misinterpretation of instructions issued by the inventory manager. As a result, requisitions for such material were not being filled by the depot and instead were being forwarded to other supply points for action. We found that quantities of bearings which cost (1) \$6,288 had already been scrapped, (2) \$87,292 had been surveyed and were to be scrapped, and (3) \$691,765 were in inventory and presumably would have been scrapped if the same survey criteria were followed. These bearings had previously been inspected and preserved by commercial contractors and the depot at a cost of \$187,335. At our suggestion, the depot suspended further action on the bearings and requested clarification of the instructions from the inventory manager who advised that the instructions were misinterpreted and disposal of the bearings was in error. We were subsequently informed that the inventory manager was revising the instructions to preclude misinterpretation by field activities.

Recommendation that the Army Transportation and Maintenance Command use helicopter transmission assemblies on hand rather than purchase new assemblies.—The Army Transportation and Maintenance Command (TSMC) failed to consider in its supply studies large quantities of old model H-13 helicopter transmissions which were currently being rebuilt by a contractor. Although old model transmissions were specified in a requirement, 27 new model transmissions were furnished and 13 additional were ordered. Also, an error in the computation of requirements for helicopter transmission assemblies was made with the result that 29 were ordered.

TSMC accepted our recommendation that independent verification be made of supply studies on which procurement actions in excess of \$5,000 are based. TSMC was able to cancel the order for 13 transmissions, valued at \$62,079, and utilize the old model transmission. The order for the 29 assemblies valued at \$109,488 also was canceled.

Need to review disposal actions relating to spare parts for the Army M-51, heavy recovery vehicle.—In November 1957, the Ordnance Tank-Automotive Command initiated disposal action on 19 spare parts peculiar to the M-51, heavy recovery vehicle. The disposal action was taken as a routine matter because there were no recent issues or demands for the parts. Although these vehicles had been in storage for several years, they represented an important segment of the Ordnance tactical fleet and their continued use was contemplated.

The Ordnance Tank-Automotive Command accepted our recommendation and promptly canceled the disposal actions and parts valued at \$9,235 were returned to the supply system. It also issued instructions for screening all past disposal actions for parts peculiar to the current vehicle fleet. In addition, procedures were adopted to direct supply analysts to consider potential requirements of all fleet vehicles in processing future disposal actions.

Expensive delays in servicing aircraft engines.—Our review of activities at two naval air stations disclosed deficiencies in the controls over aircraft engines and other aeronautical material. We found that unserviceable engines, classified as being in critically short supply, were not promptly removed from aircraft awaiting overhaul. Once removed from the aircraft, the shipment of these engines to the designated overhaul points was further delayed. These delays presumably increased the out-of-service time of the engines and the possibility of grounding aircraft in fleet use because of lack of engines. At one air station we found also that engines had to be reshipped because of the failure of the Bureau of Aeronautics to promptly revise shipping instructions when the overhaul point was changed. As a result, engines were delayed in reaching the overhaul point and unnecessary transportation costs were incurred. We made specific recommendations to improve these areas. The Navy advised that procedures have been revised to correct these deficiencies.

Insufficient coordination in use of material and equipment made available under both the military assistance and economic aid programs.—In certain countries, the military assistance programs and economic aid programs have not been sufficiently coordinated to insure efficient use of material and equipment made available under both programs. Equipment, including construction material, has been programed, and in some cases delivered, under one program, while equipment delivered under the other program was available to meet the requirement. We also noted in one country that the U.S. military and economic programs were being used to sponsor communication and highway projects without adequate coordination to prevent duplication in plans and materiel.

We recommended closer coordination between the economic and military programs and that equipment furnished under either program be made available to fill both defense and economic development needs.

We were advised that a closer working relationship between the two programs has been established. In one country, however, no progress has been made due to an absence of cooperation of the recipient country's officials.

Equipment furnished under the military assistance program in excess of that which the recipient countries could effectively use.—In certain of the countries examined, the United States has programed and delivered military equipment in excess of that which the recipients could effectively maintain and utilize. Significant quantities of material and equipment were deteriorating in storage or inoperative, mainly because of a shortage of trained operating and maintenance personnel and an inadequate supply distribution system.

We recommended that programing of material be more closely related to the recipients' capabilities and that more adequate controls be established to determine whether MAP equipment is being properly accounted for and effectively used in furtherance of approved purposes.

We were advised that corrective action was being taken in most instances. However, military and political factors were cited as justifying the level of aid provided in some of the countries.

Review of management and utilization of vehicles

Uneconomical vehicle replacement policy of the Air Force not fully disclosed to the Congress.—Our review disclosed that since fiscal year 1957, the Air Force has spent over \$5 million more in repairs and depreciation on thousands of old commercial design vehicles than it would have cost to replace them. Due to

retention of wornout vehicles and other factors, Air Force repair costs are among the highest, if not the highest, in the entire Government for comparable types of vehicles. Postponing the purchase of replacements needed in prior years has also cost the Air Force higher vehicle prices paid or to be paid for purchase of replacement vehicles in fiscal years 1959 and 1960 because of the general rise in market prices. These conditions have resulted from the policy of Air Force management to accept increased maintenance costs in order to postpone procurement expenditures for replacements.

Although the initial cash outlay for new vehicles is greater in most cases than the annual cost of repairing old vehicles, our study shows that over the long run the annual costs of depreciation and repairs would be substantially less than the present costs incurred by the Air Force to retain and operate wornout vehicles. We found in examining maintenance records for 327 vehicles that the Air Force had spent about \$91,000 over a 2-year period for repairs of 37 vehicles that originally cost only \$68,000. For 11 of these vehicles, the repair costs recorded for a single year actually exceeded their original acquisition prices.

Despite their general recognition of excessive repair costs for wornout vehicles, Air Force management officials have not informed the Congress of their total replacement needs and the longrun costs of their replacement policy. Air Force budget justifications have presented as total needs only those vehicles which officials have determined can be financed within their self-imposed procurement fund limitations. No attempt has been made to relate the effect of vehicle procurement decisions on maintenance and operations, military pay, and other appropriations. As a result, the Congress is unable to analyze and evaluate the real costs of the Air Force's vehicle replacement policy.

According to our understanding, the Air Force did not notify the Congress that there was a major accumulation of wornout vehicles with rising repair costs until presenting the fiscal year 1959 budget. At that time the Air Force requested funds to procure replacements for about 10,000 vehicles when its forecast requirements were nearly 20,000. In the succeeding year the Air Force requested 10,000 vehicles while its forecast requirements were closer to 30,000. As far as we can determine, the Congress was not informed of the total number of uneconomical vehicles or the high cost of utilizing those not replaced.

Inadequate internal reporting of total vehicle maintenance costs and replacement needs.—The methods of recording maintenance costs and the requirements for replacement of wornout vehicles within the Air Force do not disclose adequate information for sound management decisions. Neither the total costs of vehicle repairs nor reliable estimates of complete replacement requirements are available in the Air Force. Air Force management officials are unable, therefore, to evaluate and control the general efficiency of their vehicle repair operations or to systematically plan ahead for replacing all needed vehicles that are estimated to become uneconomical.

We recommended to the Assistant Secretary of the Air Force (Materiel) that a thorough study of replacement requirements and repair costs be made and a replacement policy be developed that would be the most economical in both replacement and repair costs. Although the Air Force subsequently made some improvements in the reporting of requirements and repair costs, there has been no change in its replacement policy. We were informed that Air Force management is relying on an "orderly" 4-year replacement program begun in fiscal year 1959 to modernize the fleet by the end of fiscal year 1962. We were also informed that the Air Force does not consider it worthwhile to undertake an extensive survey of vehicle repair costs, primarily on the premise that these costs could not be significantly reduced even if the fleet were composed of all new vehicles.

The Air Force has not presented any information to demonstrate the economy of its present replacement policy or the inability to significantly reduce its overall repair costs. We believe that the current and planned rate of replacing wornout vehicles, without any reduction in the level of repair costs previously experienced, will add at least \$2 million a year to the total cost of providing serviceable vehicles to Air Force units. The Air Force also risks, of course, the payment of higher purchase prices by postponing the procurement of these needed replacements to later years.

We therefore recommended again to the Secretary of the Air Force that the Air Force (1) direct the previously recommended study and analysis of vehicle maintenance costs, in order to identify and measure all costs involved, improve the efficiency and economy of the repair operations, and obtain essential information for evaluating the relative costs of repair and replacement, (2) reconsider its replacement plans in order to develop and plan the necessary financing of the

most economical program for both replacement and repair of vehicles, and (3) fully disclose to the Congress the total costs of repairs, depreciation, and operation for vehicles in the Air Force fleet.

We also made recommendations to the Secretary of the Air Force regarding the recording and reporting of all costs involved in vehicle repairs.

Since similar conditions of excessive repair costs may exist in the other military departments, we recommended that the Office of the Secretary of Defense carefully examine the vehicle repair and operating costs and the requirements for replacement of uneconomical vehicles in the Department of the Army and of the Navy.

Inefficient storage, maintenance and issuance of vehicles and heavy equipment by the U.S. Army, Europe.—Our review of policies, procedures, and practices relating to the storage and maintenance of vehicles and heavy equipment of the U.S. Army, Europe, located in the vicinity of Kaiserslautern, Germany, disclosed that certain types of maintenance float vehicles have not been issued on a first-in, first-out basis, with the result that units were not properly rotated; requirements for maintenance floats were based on inaccurate records as to types and quantities of equipment supported by maintenance units; both excesses and shortages have existed in the quantities of equipment on hand and on order for floats of the field maintenance units, as a result of incorrect determinations and deficient procedures for control and followup of requisitions; equipment servicing has been seriously delayed by shortages of spare parts, attributed by USAREUR primarily to periodic restrictions on consumer credit expenditures under the current austerity program and to procedural and personnel problems in the supply control agencies; and vehicle repair costs have not been properly recorded, with a resulting impairment of controls to prevent uneconomical repair of vehicles.

USAREUR has advised that recommended corrective action has been taken on each of the deficiencies and that they have been called to the attention of subordinate commands with instructions to take corrective action where required.

Review of production planning and cost control

Inadequate cost control over material and labor.—Our examination of production planning and cost controls at the Longhorn Army Ordnance Works, a Government-owned, contractor-operated plant at Marshall, Tex., disclosed that direct material issues to production were not adequately controlled. The quantities of materials to be issued were determined by production personnel based on their personal knowledge of the requirements without reference to the bill of material requirements or the production schedule. The contractor did not utilize or ascertain the validity of his predetermined scrap or waste allowance standards, neither did he develop general material usage factors or report materials lost in process. No production labor standards had been established and the plant was not staffed with industrial engineers until after some time had elapsed. Labor requirements forecasting also was predicated on the past experience and personal knowledge of production personnel. Further, no segregation of idle-time costs was made. The Army Ordnance Ammunition Command did not require analysis of the variances between planned and actual labor expenditures on which to base corrective action.

We were informed by the Office of the Chief of Ordnance that the contractor has developed an adequate system for control over production material issues and consumption and was developing a system of labor standards based on plant capabilities, and which would segregate idle-time costs.

Inadequate planning for efficient use of manpower and facilities.—Naval ordnance industrial installations do not plan or schedule work sufficiently in advance to assure efficient use of manpower and facilities. Without adequate advance planning of jobs, there can be no assurance that manpower of appropriate skills and facilities of appropriate types are effectively used. We made a number of recommendations designed to strengthen the procedures for planning and scheduling work. The Bureau of Ordnance stated that its program for devising and implementing production planning and control procedures, which had been introduced in selected depots and later extended to all industrial-type installations, is correcting the deficiencies in work scheduling in accordance with the objectives of our recommendations.

Inadequate inspection of contractors' work.—Our review of job orders issued by the Granite City Army Engineer Depot, Ill., disclosed that final inspections at contractors' plants by personnel of the depot were inefficient, resulting in unnecessary duplication of inspection and additional work and repairs when equipment was delivered to the depot. In connection with 75 job orders for contract work, 15 cases required supplementary work to correct deficiencies, for which the contractors were not liable following final inspection at their plants.

Depot officials stated that as a result of our review both contractors and inspectors had been re-instructed on inspection procedures and other action had been taken to correct the situation.

Cumbersome fund control system resulting in insufficient attention to control of costs.—Work authorization procedures used by the Bureau of Ordnance in assigning work to naval ordnance industrial-type activities result in a cumbersome funding program which requires management to devote a disproportionate amount of time and attention to administration of funds. As a consequence, insufficient attention is being given to the objective of effectively controlling costs and work programs.

We made a number of recommendations designed to achieve simplification of fund control and to encourage shifting of emphasis from fund control to cost control. The Navy agrees that a further simplification of funding and the shifting of management emphasis from fund control to operational control would be desirable. The Navy believes, however, that further major steps in this direction are not practicable under the provisions of existing laws and regulations and the requirements of the Congress, the Bureau of the Budget, and the Office of the Secretary of Defense in connection with the Federal budget and apportionment system. We do not agree that further simplification of funding is inconsistent with existing laws and regulations. We believe that greater emphasis on operational control, together with improvement in the system of operational reports for management, should provide adequate fund control in conformity with the provisions of existing laws and regulations and provide adequate budgetary information to meet the requirements of the Congress, the Bureau of the Budget, and the Office of the Secretary of Defense.

Unreliable cost estimates and inadequate comparison of estimated and actual costs.—Job cost estimates prepared by most naval ordnance industrial-type installations are not sufficiently reliable to serve as a basis for comparison with actual costs, upon completion of jobs, and for evaluation of efficiency of performance on the jobs. Furthermore, most naval ordnance industrial-type installations do not review, or review inadequately, significant variances between the estimated and actual costs. We recommended (1) that procedures for cost estimating be reviewed and appropriate action be taken to assure that cost estimates are properly documented and are based on the best information available and (2) that the installations be directed to review cost variances to identify the factor or factors which caused them and to determine costs attributable to the factors.

The Bureau of Ordnance stated that its program for devising and implementing production planning and control procedures, including the development and application of engineered time standards, when completed will provide the results contemplated in our recommendations. We believe that significant benefits from the Bureau's long-range program may not be evident for several years and that the adoption of our recommendations should not await the completion of the program.

Deficiencies in cost finding and estimating.—We found that production in some cases at the Pine Bluff Army Arsenal, Ark., was scheduled and performed before receipt of authorization. The costs of production were accumulated initially against established work orders and later transferred to the production orders by which the work was subsequently authorized. Also, labor costs were charged in amounts to match estimates, resulting in inequitable charges to customers and in voiding the basis on which improvement of the cost-estimating processes could be effected. The depot officials promised to take corrective action on these matters.

Review of contracting policies and procedures

Need for improvement in contracting practices and administration of advertised contracts for military clothing.—The objective of our review of the award and administration of advertised contracts by the Military Clothing and Textile Supply Agency (M.C. & T.S.A.), Philadelphia, Pa., was to determine the timeliness of contracting, the existence of effective and fair competition, adherence to contract terms, the proper maintenance of contract files, and the progress made by the Department of Defense (DOD) and M.C. & T.S.A. in improving procurement practices as recommended by the House Committee on Government Operations through its Military Operations Subcommittee.

While we identified several areas requiring improvement, the deficiencies existing at the time of our review did not, in our opinion, significantly impair the overall effectiveness of the Agency's performance in the award and administration of advertised contracts. We found that progress had been made in improving controls, much of which resulted from actions taken to implement the recommendations of the subcommittee.

Major deficiencies noted during our review were as follows:

1. M.C. & T.S.A. officials had not initiated the necessary action to debar contractors for repeated delinquencies in deliveries, resulting in these contractors receiving additional awards although they continue to perform in a delinquent manner.

2. Guidance in the "Armed Services Procurement Regulations" (ASPR) and M.C. & T.S.A.'s procedures were inadequate to aid contracting officers in detecting objectionable multiple bids, and the attorneys at M.C. & T.S.A. had no written policy on which to base their recommendations to contracting officers for actions to be taken on such bids.

3. The Agency did not have a method that would assure adequate consideration for the Government and consistent treatment of contractors in determining price considerations to be received from contractors for extending delivery schedules when the delays were not excusable. At our suggestion, the Agency established such a formula.

4. A proportionately greater number of delinquencies in deliveries and extensions of delivery schedules were encountered under the contracts awarded during the last quarter of fiscal year 1958, apparently because of acceleration in preaward work in order to complete the annual procurement program. We were informed that the acceleration was necessitated by a Government-wide expenditure limitation program during the first half of the fiscal year. This condition should not recur at the end of the fiscal year 1959 since adequate funds were made available for the first quarter to cover the procurements planned for the first three quarters of the year.

5. In many instances, small-business firms took an unfair advantage of other small-business firms under contracts set aside in part for small business by submitting bids (token bids) at extremely low prices for very small quantities of the portion of the contracts not set aside for small business. Under existing regulations, they thus received priority for consideration for award at much higher prices of part or all of the portion of the contracts set aside for small business.

6. DOD had not yet implemented the recommendation of the Military Operations Subcommittee that "Government contracts should not be awarded to the members of the immediate family of a Government official occupying a major administrative or policymaking position." We were informed by officials of DOD that a draft of a directive on the point had been prepared but that major problems in addition to those referred to by the subcommittee had been encountered and were awaiting resolution.

We recommended that the Agency take necessary action to make suppliers with a history of unsatisfactory performance ineligible for awards for an appropriate period of time; that ASPR be expanded to include adequate guidance to all procurement personnel in DOD to assist them in detecting objectionable multiple bidding in their respective areas; that M.C. & T.S.A. continually study the application of its formula for determining price consideration for extending delivery schedules, and adjust it when necessary; and that the Administrator, Small Business Administration, review the application of certain of the current revisions of Government regulations designed to assure that competition among small-business firms is fair.

In lieu of action to debar contractors for repeated delinquencies in deliveries, M.C. & T.S.A. is currently establishing qualified manufacturers lists consisting of firms which have met established criteria, one of which is that the firm does not have a past history of repetitive unsatisfactory performance on Government contracts. Firms failing to qualify for placement on the lists prior to bid opening will not be considered for award. We have recommended that the Agency, through proper implementation of the lists and the debarment procedures prescribed in ASPR, take the necessary action to make suppliers with a history of unsatisfactory performance ineligible for awards for an appropriate period of time.

The Agency has taken recommended corrective action to aid contracting officers to detect objectionable multiple bids. However, we believe that ASPR should be expanded in this area to include adequate guidance to all procurement personnel in DOD, and we have so recommended to the Secretary of Defense.

Corrective action also was taken by the Agency on our recommendation with respect to token bids, through establishment of a procedure whereby the right is reserved to disregard such bids in determining the priority of bidders for award on the set-aside portion. Also, the ASPR Committee of DOD is considering revisions to ASPR for the purpose of negating token bids. We were advised also that the Small Business Administration (SBA) assisted the General Services Administration (GSA) in issuing new regulations in February 1959 for the purpose of eliminating the use of token bids.

We recommended that the Administrator, SBA, review the application of the revised GSA regulation and the ASPR revision when issued to assure that small business firms do not receive any undue advantage over other small business firms through token bidding and other unfair practices.

Excessive profit allowance in contracts for aircraft spare parts for military assistance program.—The prices of F-86 aircraft spare parts being procured for the military assistance program under an offshore procurement contract with FIAT were based on North American Aviation, Inc., export sales prices which contained a profit factor of approximately 25 percent rather than upon prices normally paid by the Air Force which contain a profit factor of about 10 percent.

During our review of the contract, we inquired into the propriety of the basis used in pricing the spare parts. Based upon this inquiry, the Air Force negotiated price adjustments which resulted in obtaining additional spare parts valued at \$669,000.

Improper assumption of license charge and unreasonable technical assistance costs to reproduce aircraft in Italy.—In a military assistance program offshore contract with FIAT, the United States Air Force improperly assumed charges for a license to reproduce the F-86K aircraft in Italy and for fees for transfer of know-how to the Italian contractor which were in excess of a reasonable charge for the technical assistance rendered or for the services required to transfer such know-how.

We recommended that the Air Force determine a reasonable charge for the technical assistance rendered, or for the services required to transfer know-how, by North American Aviation, Inc., to FIAT for the purpose of recovering the excess costs improperly included in the license and technical assistance charges assumed by the Air Force. Our formal report containing this recommendation was issued in August 1959, and to date we have not been advised of any action taken in the matter.

Unauthorized changes in scope of repair and rehabilitation service in Korea.—There was a lack of control by the 8th Army Korea, over repairs and rehabilitation performed by the Seoul Electric Construction Co. in the Seoul, Inchon, and Ascom City areas. The area post engineers, as the contracting officers' representatives, authorized changes in the scope of work, after work was started, for which Government-furnished material was committed. Also, in at least one instance, the requirement that the contractor furnish specified material was not met and was apparently waived.

The 8th Army concurred in our recommendations that procedures be established to facilitate obtaining the necessary approval by the contracting officer prior to action by the site representatives to amend the scope of work to be performed and that, in the instant case, a postaudit of work-in-place be performed by U.S. Army Procurement Agency, Korea, and made a part of the contract records to establish the basis of settlement of any claims which may arise as a result of the changes in the scope of work as set forth in the contract.

Inadequate consideration of comparative costs of Government manufacturing versus purchasing.—Materials were selected for manufacturing at the Army Clothing Factory, Philadelphia, without consideration as to which items could be manufactured at the least cost disadvantage to the Government as compared with costs from commercial sources.

The Military Clothing and Textile Supply Agency took cognizance of our recommendations by revising its procedures to provide (1) that the items selected for factory production to sustain the mobilization base strength will be those which will result in the least cost disadvantage as determined by comparison of factory and contractor unit costs and (2) that in all instances the files will show the justification for the selection.

Need for revision of regulation to preclude interest-free use of Government funds.—Refunds of about \$1.4 million due the Government as a result of subcontract price reductions were not made until March 1958 after the repricing negotiations with the Navy were concluded although the extent of the reductions were known to the prime contractor in February 1955 when the subcontractors submitted their price proposals. During this 3-year period, the prime contractor and the subcontractors had interest-free use of these Government funds.

We recommended that the Secretary of Defense amend Department of Defense Directive 4105.7, which limits the aggregate total payments to prime contractors on price-revision-type contracts, so that the directive also will apply to their subcontractors under similar types of subcontracts. The Office of the Assistant Secretary advised us that the recommendation appears to have considerable merit and that the problem has been referred to the Armed Services Procurement Regulation Committee for complete study.

Action taken to assure receipt of and right to use contractor-furnished drawings acquired at Government expense for future procurement of military items for the Air Force.—Initial procurement contracts often require the contractor to furnish design drawings to the Air Force at Government expense. These drawings are essential if the benefits of competition are to be realized in letting additional contracts for the same items. We made a review of the use of contractor-furnished drawings at the Air Materiel Command prompted by the disclosure in our examination of contract award procedures at selected air materiel areas that a number of contracts were awarded to the initial supplier on a sole-source basis because contractor-furnished drawings were not available for use of other prospective suppliers.

We found in many cases that the Air Materiel Command executed contracts without definite provisions giving the Government the right to use the drawings furnished by the contractor. Contracts not containing the standard clause set forth in the Armed Services Procurement Regulation, which would give the Government unlimited right to use such drawings, were construed by the Air Materiel Command as forbidding the use of such drawings by the Government. This construction was contrary to the policy of the Air Force and of the Department of Defense that, when the terms of contracts under which drawings are furnished do not specifically restrict their use, the Government has an implied right to use them for procurement purposes.

We found also that (1) there was no assurance that the Air Force received all drawings required to be furnished under the contracts and (2) no effective controls existed to assure adequate followup action on missing drawings or proper identification of drawings received. The Air Materiel Command's drawing records and records showing whether the Government had the right to use contractor-furnished drawings were unsatisfactory and incomplete, resulting either in additional work and delay in furnishing drawings to procurement activities or a denial of the right to use the drawings in the absence of records of reproduction and use rights.

We recommended that (1) a definite provision be included in all future contracts regarding the Government's right to use drawings furnished under the contracts, (2) with respect to the records already on hand showing that the Government did not have the right to use contractor-furnished drawings, the applicable contracts be reviewed on an as-required basis to determine the correct extent and status of the Government's rights, and (3) a control system be adopted to assure that AMC receives all drawings to which it is entitled. Our recommendations were accepted by the Air Force and corrective action was initiated.

Need for care in selecting type of contract to avoid excessive pricing.—The use of inappropriate types of contracts by the Air Force and the Navy resulted in the negotiation of excessive prices. In these instances, prices of about \$10.6 million were negotiated, as compared with actual costs of about \$7.8 million subsequently incurred under the contracts. These prices were later reduced to \$9.8 million through price adjustments. The results of our examinations are summarized as follows:

1. Firm fixed-price contracts were negotiated by the Air Force at unreasonably high prices for items which had not been previously produced or for which there was insufficient cost experience. The Air Force did not require the contractors to furnish detailed cost estimates from which to determine the reasonableness of the prices, or provide for price redetermination after cost experience had been gained, which would have been appropriate under the circumstances.

2. The use of firm fixed-price and incentive-price contracts by the Navy, before adequate cost and production experience was available to estimate future production costs with reasonable accuracy and where there was no competition, resulted in the negotiation of excessive prices.

Actions by the Air Force

In reply to our reports, the Assistant Secretary of the Air Force concluded that fixed-price contracting has generally saved the Government considerable sums of money but indicated that our findings would be used in Air Force training programs to illustrate the need for adequate cost analysis in the negotiation of fixed-price contracts. Subsequently, we recommended that our findings be brought to the attention of Air Force procurement personnel as examples of the need for care in selecting contract forms and that consideration be given to revising Air Force instructions for selection of the form of contracting to be used.

Actions by the Navy

The Deputy Comptroller of the Navy agreed that the selection of the type of contract most appropriate for each procurement is a factor of importance in all procurement. He stated that, occasionally, contracts awarded in the past have not been the most appropriate type for the procurement but that proper selection of contracts is now better understood and that, since the likelihood of incorrect selection has been substantially reduced, there is no need for additional written guidance at this time.

We were subsequently advised by the Navy that the revised procedures relating to the review and analysis of contractors' proposals, and those requiring more consideration of a procurement and study of a proposal prior to the negotiation conference, should help to assure the selection of appropriate contract pricing clauses.

Insurance required contrary to general policy.—Under the terms of its lease agreement with the Navy, a subcontractor was required to carry fire and extended-coverage insurance in the amount of \$4,255,000 on the buildings and equipment owned by the Navy. During the period of the lease, the subcontractor was engaged primarily in producing tank hulls and turrets for the Army Ordnance Corps. The Government plant was rehabilitated and expanded by Ordnance at a cost of about \$35 million, which was five times the cost of the Navy facilities, but Ordnance did not require the contractor to provide this type of insurance coverage on the Ordnance portion of the facilities.

The insurance cost of about \$28,700 was included in the costs submitted for price-redetermination negotiations under the subcontracts and served to increase the cost bases upon which the profits of both the subcontractor and the prime contractor were computed.

We recommended to the Navy that, in accordance with paragraphs 13-104 and 13-411 of the Armed Services Procurement Regulation, contractors generally not be required to carry fire and extended-coverage insurance on Government-owned facilities. We recommended also that, if it was considered necessary to equalize the competitive position of a contractor who is furnished insurance-free use of Government facilities with that of other producers, the estimated cost of insurance be taken into account when establishing a rental for the contractor's use of Government-owned facilities.

The Assistant Secretary of the Navy stated that, under present Navy policy, insurance is not required by a facilities contract when it is known beforehand that the facilities will be used substantially for Government work for a reasonable period, even though the facilities may be used in part for non-Government work. He stated further that insurance would not now be required under the present policy.

Review of agreements with private contractors for payment of rent for use of Government-owned facilities

Recommendation that prices paid by the Government not include profit on rent paid for use of Government-owned facilities.—We found instances in which the prices of items supplied to the Government under negotiated contracts were increased because contractors were allowed profit on rental charges by the military departments for Government-owned facilities used almost exclusively on Government contracts.

For example, a subcontractor was charged rental by the Navy for a Government-owned plant used in production under Army Ordnance Corps subcontracts. The subcontractor and the prime contractor were allowed profit on the rental charges paid to the Navy by the subcontractor for the use of the Government-owned plant, which increased by about \$184,600 the price to the Government under the Army prime contracts. In our report submitted to the Congress on July 23, 1958, we recommended to the Secretary of Defense that consideration be given to issuing specific policy guidance to the military departments to the effect that prices to the Government under negotiated contracts or subcontracts generally will not include profit on rent paid for the use of Government-owned facilities.

In a reply of September 2, 1959, the Acting Assistant Secretary of Defense (Supply and Logistics) stated that the Department of Defense does not agree that it is generally equitable to exclude rental expenses for the use of Government-owned facilities in the cost base upon which the contractor computes its profit. He stated further that, since reasonable expenditures a contractor makes in the rental of facilities from a private source are considered to be a proper con-

tract cost, the Department of Defense sees no reason for a different view merely because the rental of the facility happens to be from the Government rather than from a private source.

In replying to the comments of the Acting Assistant Secretary of Defense, we stated that it is unreasonable for the Government to incur additional cost in the form of profit to contractors merely because rental is charged for facilities which could have been furnished to the contractor rent free. We stated also that the key point involved in setting a profit or fee under any leasing agreement is whether the contractor has taken any action or assumed any obligation which would entitle him to a fee or profit, and we presented several differences between the leasing of facilities from a private source and from the Government which should be considered in establishing a profit factor to be allowed on any rental charge.

In addition, we pointed out that the exclusion of rental payments from the cost base in establishing the contractor's fee or profit is the most practical means of carrying out the intent of ASPR 3-808.4(c) which provides that, where extraordinary assistance must be furnished to a contractor by the Government, such extraordinary assistance should have a modifying effect in determining what constitutes a fair and reasonable profit.

Accordingly, we again recommended to the Secretary of Defense that specific policy guidance be issued to the military departments to the effect that prices to the Government under negotiated contracts or subcontracts will generally not include profit on rent paid for the use of extensive Government-owned facilities.

Rent not paid on all facilities in use or not based on the full cost.—A contractor had paid no rental for the use of Government-owned facilities in its commercial production even though the facilities had been used for about 4 years and the contract with the Navy provided for rental charges, if the commercial use of the facilities was substantial.

After we brought this matter to the attention of Navy contracting officials, we were advised that a rental charge for the commercial use of Government-owned facilities, through December 31, 1956, had been negotiated. Later, we were informed that the Navy had executed a rental charge with the contractor for 1957.

Subsequently, we found that the contractor's proposal for rental charges for 1957 did not include all the facilities to be used or, in some cases, the full cost of the facilities. We found no evidence to indicate that Navy contracting officials made any evaluation of the data supporting the contractor's 1957 rental proposal and that the costs and facilities omitted from the rental negotiated for 1957 were also omitted from the contractor's 1958 proposal.

We submitted our findings to the Navy and recommended that Navy contracting officials include in the rental fee negotiated for 1958 a fair rental for the contractor's commercial use of Government-owned office equipment and that consideration be given to negotiating a rental rate for all Government-owned facilities so used without cost by the contractor in prior years. Further, we recommended that the Department of the Navy generally withhold approval of proposed rental fees until it has been determined that the full costs of all Government-owned facilities used by contractors in their commercial operations have been considered in establishing the rental charges.

As a result, the Navy has obtained rentals of \$230,475 for the commercial use of Government-owned facilities through December 31, 1958, and further negotiations are in progress with respect to additional rental for the year 1957. We have been informed by the Navy that, in addition to negotiating appropriate rental charges in this instance, it has adopted procedures recommended by us with respect to approval of proposed rental fees.

No rent collected since 1950.—Although a facilities contract provided for payment of rent for use of Government-owned machinery and equipment in the performance of work other than that authorized by the contract, the prime contractor and its subcontractors had been using these facilities for commercial work since 1950 and the amount due for rent or other use charges had not been determined.

Beginning in 1952, the contracting officer attempted to obtain data from the contractor on which to base an agreement as to rent to be paid. Finally, on December 12, 1955, after we suggested that the contracting officer take immediate action to collect estimated rentals based on available information, the contracting officer made a unilateral determination of rental due, which the contractor appealed to the Armed Services Board of Contract Appeals. Air Force representatives estimated that rentals due from the contractor through June 30, 1957, amounted to about \$4,500,000 and that an additional \$933,000 might be due the Government for subcontractors' use of such facilities through June 30, 1955.

We recommended that the Department of the Air Force process the contractor's appeal in an expeditious manner and that an administrative report be submitted to the General Accounting Office to include the decision of the Armed Services Board of Contract Appeals and any further action taken or planned by the Air Force to insure that the Government has been properly compensated for the use of its facilities by the contractor and its subcontractors.

On September 23, 1959, the Armed Services Board of Contract Appeals reached a decision that the Government is entitled to rent in the amount of \$652,298 for the period through 1956 for commercial use of the facilities by the prime contractor. The Air Force has not yet furnished advice of action taken or contemplated with respect to recovery of this amount from the prime contractor and any additional amount due the Government for subcontractors' use of facilities under this contract. At such time as this information is furnished, we contemplate a review of all actions taken by the Air Force in this case, as well as an evaluation of the decision by the Armed Services Board of Contract Appeals.

Review of military construction

Need for full disclosure to the Congress of total cost of construction programs to be financed from several appropriations.—During fiscal year 1959, we completed an examination of the program for constructing and equipping the Air Force Academy, Colorado Springs, Colo., and issued our report to the Congress on April 29, 1959. The report is of particular interest because it demonstrates the necessity for more effective control of construction programs involving large expenditures which are financed from several appropriations. We found that the amounts expended and obligated by the Air Force for constructing and equipping the Academy did not exceed the amounts authorized by law. The Air Force, however, has not made a full disclosure to the Congress with respect to the needs and total cost for constructing and equipping the Air Force Academy.

The total expenditures and obligations through August 31, 1958, excluding expenditures of approximately \$13 million for operating expenses, together with additional anticipated costs, amounted to \$256 million whereas, at the time the Academy Act was enacted, the Congress evidenced an intention that the authorization for appropriations in the amount of \$126 million—subsequently increased to \$139,797,000—constituted a total ceiling on the ultimate cost of the Academy. However, the Air Force used funds contained in the maintenance and procurement appropriations to finance the cost of many items for use in completing the Academy. Items specifically for use in completing the Academy were included in departmental justifications for the maintenance and procurement appropriations.

We found nothing in the legislative histories of these appropriation acts which indicated one way or another that amounts appropriated thereunder were specifically considered to be in addition to the statutory construction limitation or that the Congress considered these appropriation requests in the light of the statutory limitation. However, the policy of the Air Force at the time of the original construction authorization, and continuing with respect to other similar construction authorizations, of charging uninstalled items of equipment and furnishings to other than construction appropriations appears to have been known to the Congress. While we found no specific approval on the part of the Congress neither did we find that Congress as a whole or the appropriations committees expressed any specific disapproval of the stated practice of budgeting and funding these additional items.

Accordingly, it is our opinion that the amounts of expended or obligated appropriations for establishing, constructing, and equipping the Academy as of August 31, 1958, did not exceed the amounts authorized by law. However, we believe that the Air Force should have made a complete disclosure to the Congress with respect to the needs and total cost involved in constructing and equipping the Academy.

We recommended to the Secretary of the Air Force that the total foreseeable costs planned for future major construction programs be included in the program and budget justifications to the Congress. The full disclosure of all costs to be incurred will enable the Congress to more effectively evaluate and control such programs through authorization and appropriation legislation. The Air Force stated that, because of the far-reaching implications of this recommendation, it would need time for adequate consideration before replying to us.

Need for complete disclosure to Congress on planned Academy airfield, including cost and capability.—The Air Force had spent approximately \$3.5 million at August 31, 1958, to acquire land and prepare a suitable airfield site within the Academy boundaries and was planning to spend a minimum of \$19 million for a

runway and other operating facilities. Official reports and records indicate that the airfield planned for the Academy may have limited capability and may create an air traffic problem. The Air Force had not disclosed these facts to the Congress, although the necessity for an airfield at the Academy had been questioned repeatedly in congressional hearings. In reply to our recommendation, the Air Force stated that it would apprise the Congress of all factors relative to the Academy airfield.

Wide variances between construction program justified to Congress and program actually followed.—Construction costs of individual facilities for the Academy have far exceeded the amounts justified to the Congress for these facilities. Our report contains a list illustrating instances of significant increases in scope and construction costs of specific facilities over the original estimates justified to the Congress. The originally estimated cost of \$30,691,000 had increased to \$44,089,000 with respect to the specific items listed. Costs of approximately \$2.2 million were incurred in connection with the construction of certain facilities in advance of congressional approval which, when subsequently requested, were not approved. Also, over \$6 million specifically justified to the Congress for family housing was used for other purposes. We recommended that, in cases where there are wide variances between the cost of the overall construction programs justified to the Congress and the costs actually involved, the Secretary of the Air Force take prompt steps to inform the Congress of such increases. The Air Force advised us that the Congress would be promptly informed of wide variances between amounts justified for a construction program and the actual costs to be incurred as a result of changing conditions.

Deficiencies in determining prices for Wherry housing acquired by the Air Force.—Our review of the Air Force's program for the acquisition of Wherry housing disclosed that, for the first 23 projects on which purchase prices were agreed to, the vendors were offered the "formula price," the maximum price permitted by law, without any attempt to negotiate, as required by law, a price within the formula price. The procedure was in accordance with Department of Defense policy which remained in effect until November 1957. Since that date, price negotiations are conducted if the value of the property is determined, by appraisal or otherwise, to be less than the formula price. Generally, the vendors are advised of the formula price prior to offer or negotiation of a purchase price. We recommend it to the Office of the Secretary of Defense that (1) the formula price be determined by the military departments as required by law, without consultation or negotiation with the vendors on any elements of price to be included therein and without disclosure to the vendors, (2) the military departments give consideration to all factors influencing a fair price for the property, and (3) price negotiations be conducted with a view to arriving at a fair price for the property and, for this purpose, the formula price should be regarded solely as the legal maximum price that can be offered.

Formula price for Wherry housing overstated by reason of inadequate deductions for repairs and replacements.—In arriving at the "formula price" the amounts deducted from the FHA-estimated replacement cost for the estimated cost of repairs necessary to restore the projects to sound physical condition were often significantly inadequate. The total of \$1.7 million deducted for this purpose for the 33 projects we reviewed may be at least \$1.6 million, but not more than \$4 million, less than the amounts since spent or to be spent by the military departments for repairs and replacements. We recommended that the Office of the Secretary of Defense or the Office of the Secretary of the Air Force, as appropriate, take steps to see that the estimated cost of repairs and replacements to be deducted in arriving at the formula price approximates the estimated costs to be incurred subsequently by the military departments for all past-due repairs and replacements.

Failure to recover windfall profits when acquiring Wherry housing.—Pursuant to instructions from the Office of the Secretary of Defense (OSD), the Air Force was required to deduct windfall profits, if any (excess of mortgage proceeds over actual cost of the project), from the "formula price" to arrive at what then was to become an administratively effective formula price. However, the guidelines established by OSD involved unjustified deviations from congressional policy embodied in the law with regard to the recovery of windfall profits. In accordance with the guidelines, the Air Force determined that there were no windfall profits. We believe that at least three vendors may have earned windfall profits, totaling perhaps \$740,000. We recommended that the Office of the Secretary of Defense, in determining formula prices for the purchase of Wherry projects, deduct the amounts of the excess mortgage proceeds as certified by the

Federal Housing Administration, based on the definition of actual cost contained in the law.

Large profits may have been realized by vendors of Wherry housing.—Some project vendors may have earned large profits on the sale of their projects to the Air Force. Although we are not qualified to say whether or not the prices paid by the Air Force were fair and reasonable for the projects acquired, we believe that the Congress should be informed if large profits were apparently earned by vendors. In view of the special arrangement under which Wherry housing was financed and operated, we feel that these vendors should have been entitled to no more than reasonable profits.

Lack of emphasis on economy in administration of Capehart housing program.—When the Fort Belvoir Capehart housing project was originally contemplated, the average cost limitation for each housing unit was \$13,500 and the project was designed as 4-, 6-, and 8-unit row houses. After the limitation was raised to \$16,500, the project was redesigned for the same number of duplex units. The resulting increase in estimated cost was about \$2 million, a substantial part of which was assignable to the conversion from row houses to duplex houses. The policy of the Department of the Army is to obtain housing of the maximum size and quality possible, provided that the size and cost limitations imposed by law are not exceeded. Under this policy the cost limitations become, in effect, objectives to be met rather than ceilings under which acceptable standard housing is to be provided at minimum cost. Further, invitations to bid on the projects provide for a series of "additive items" which may be added to the bid prices for basic housing and on-site utilities when deciding on the low bidder, that is, the bidder who will supply the most "additive items" within the ceiling of \$16,500. Moreover, the unused cost limitation can be further reduced through the issuance of change orders subsequent to the award of the contract. We recommended that the Army issue instructions which would provide appropriate and adequate standards of construction for Capehart housing at minimum cost and thus provide for the discontinuance of the practices which result in emphasis on full use of available funds within legal limitations rather than on economy.

Unnecessary requirement for title insurance on Capehart housing.—We noted, also, that the Government was required by regulations of the Federal Housing Administration and the Federal National Mortgage Association (FNMA) to obtain and to assume the cost of obtaining title insurance on or other evidence of title to its own land on which a Capehart project is to be located, in spite of the fact that title insurance or certificate of title was obtained when the land was originally purchased by the Government. On the Fort Belvoir project alone the Army will pay \$15,000, plus related interest charges, over a period of 25 years. We recommended in turn to the Department of Defense and the Bureau of the Budget that steps be taken to eliminate the expense of title insurance either by administrative action or by legislative consideration in connection with the current housing bill.

A Department of Defense committee had explored the possibility of eliminating the requirement for title insurance. The matter was dropped, however, primarily as a result of objections by FNMA. In response to our stated position, the Assistant Secretary advised that the Department is "of the view that it is not feasible to eliminate the requirement for title insurance, both because private mortgagees have in the past evinced their unwillingness to eliminate it, and also because the substitute procedure to which FNMA might agree to accept presents serious difficulties." When this matter was brought to the attention of the Congress, we assisted in the drafting of legislation to correct this situation. As a result section 415 of Public Law 149 was enacted on August 10, 1959, and provided that none of the proceeds of any mortgage loan insured under title VIII shall be used for title search and title insurance costs. Title insurance may be provided out of the revolving fund if it is impossible to obtain financing for a project without this insurance.

Review of organization

Separate offices to be consolidated.—The Navy has two separate offices to control and manage the inventories of repair parts and equipment needed to keep its vessels in operating condition—(1) the Submarine Supply Office, Philadelphia, Pa., which controls and manages submarine repair parts and nuclear parts applicable to nuclear power units on surface vessels and submarines and (2) the Ships Parts Control Center (SPCC), Mechanicsburg, Pa., which controls and manages ship repair parts. Approximately one-third of the ship repair parts controlled by SPCC are applicable to components used on submarines as well as surface vessels.

Based on our comparison of the organizations, missions, responsibilities, and operations of the two activities, we concluded that the supply of repair parts for naval vessels could be managed more efficiently and economically by combining under one inventory manager the function of furnishing spare-parts support for all naval vessels. We estimated that consolidation of these activities would result in annual savings of more than \$1 million.

We recommended that the Navy consolidate these activities. The Navy concurred and advised that the Submarine Supply Office will be moved and consolidated with the Ships Parts Control Center at Mechanicsburg, Pa., in November 1959, when the lease on the quarters now occupied by the Submarine Supply Office expires.

Army to make recommended study of hospital staffing.—Our review at Letterman Army Hospital disclosed that the composite patient workload had decreased 11 percent between January 1, 1955, and March 31, 1958, while personnel increased over 6 percent. One thousand and forty persons were engaged in patient care on the latter date. Our workload indexes were computed by use of the formula established by the Surgeon General. The hospital command management system has not revealed areas of overstaffing because of the failure on the part of the hospital staff to determine the causes and effects of changes in workload. The staff has relied on the periodic determinations made by the manpower survey team from the Office of the Surgeon General. However, the Surgeon General has indicated that the staffing criteria appeared to be set too high.

We recommended, in connection with the command management system, that analyses be made of the cause and effect of variations between the programed and actual workload, between actual workloads of different periods, and between forecasts and actual unit costs.

The commanding officer advised that the hospital management is currently comparing personnel requirements with workload, and personnel adjustments are being made accordingly, and also that the command management system was rapidly approaching the point where the data gathered were relatively factual as to workload and costs.

Review of financial practices

Costly procedure for estimating funds required for spare parts for naval aircraft and related equipment.—We noted that considerable cost and effort were being expended by the Aviation Supply Office, Department of the Navy, in preparing budget requirements for spare parts for newly constructed aircraft and related equipment on a line item basis. In our opinion, initial budgets prepared on this basis are comparatively useless since (1) funds provided differ significantly from funds requested and (2) individual parts requirements frequently change from estimates prepared 18 months or more in advance of purchases.

During our review we recommended that approval be obtained from the Bureau of Aeronautics to prepare the budget for spare parts on the basis of a factoring procedure. This procedure for determining needed funds consists of determining the ratio of the flying hour program during the budget year to the program for the previous year and applying this ratio (factor) to the procurement requirements of the previous year. Aviation Supply Office management estimated that the adoption of this method would result in annual savings of about \$85,000 in administrative expenses.

The Navy authorized this method of budgeting for fiscal year 1960 provided that (1) the Aviation Supply Office could demonstrate that an estimate projected on this basis would reflect actual requirements with reasonable accuracy and (2) sufficient detail was retained at the Aviation Supply Office on significant items to permit a comprehensive review of the estimate by all budget review levels.

Financing procurement of aeronautical spare parts from two appropriations.—Funds used for the purchase of aeronautical spare parts are provided from two appropriations: "Aircraft and related procurement, Navy" and "Aircraft and facilities, Navy." Under this arrangement, it is not feasible or practical to conform with the intent of the appropriations on a consistent basis. We recommended that the Department of the Navy take action to secure approval for financing all aeronautical spare parts through one appropriation. Recently the Comptroller of the Navy recommended to the Assistant Secretary of Defense (Comptroller) that funding of the procurement of certain replenishment aircraft support be transferred from the annual appropriation to the continuing appropriation. This should alleviate some of the problems encountered in the administration of the two appropriations. However, we believe that the action taken is only a partial solution to the problem.

Inadequate control over use of foreign currency for military support.—Satisfactory controls have not been established over the use of local currency provided from the U.S. economic assistance program.

Local currencies generated from the sale of commodity imports are turned over to the countries for use in supporting their military budgets. The United States presently does not examine country records with respect to use of these funds and there is no assurance that they are being used for the purposes intended. In some countries, we were informed of grave waste and mismanagement of these funds. We recommended that adequate U.S. supervision and audit be established to afford a reasonable degree of control over the use of budget support funds.

Both the Office of the Assistant Secretary of Defense (International Security Affairs) (ISA) and the International Cooperation Administration agreed that some examination should be made. ISA has since agreed to accept the responsibility for review and observation of country utilization of local currencies for budget support purposes. We were advised that policies and procedures are being drafted and would be issued in September 1959.

Interest earned through transfer of sterling funds from non-interest-bearing to interest-bearing bank accounts.—Our review of the administrative activities of the American Embassy in London in February 1959 disclosed that the Embassy had on deposit with the Bank of England a balance of about \$16.5 million in sterling, not needed for current operations, in non-interest-bearing accounts. The sterling funds, which originally totaled about \$138 million, were derived from the sale of surplus agricultural products to the British, under the Mutual Security Acts of 1953 and 1954, and were used in lieu of dollars for various mutual-aid programs in the United Kingdom. At the time of our review the aid program for the balance of \$16.5 million in sterling had not been determined.

The Embassy had inquired about transferring the funds to interest-bearing accounts in October 1954 since the government-to-government agreements pertaining to the use of the funds did not preclude the U.S. Government from earning interest on them; however, the British Treasury objected because of the then existing balance-of-payments position of the sterling area, and further efforts were not made to transfer the funds to interest-bearing accounts when the balance-of-payments position later improved.

In our discussion with Embassy officials, we suggested that, in view of the improved British economic position, they obtain the current British views on the matter.

As a result of our inquiry, and after obtaining approval from the British Treasury and the Bank of England, the Embassy, on March 11, 1959, transferred the \$16.5 million in sterling funds to interest-bearing accounts with American banks in London. As of September 30, 1959, \$166,889 in interest had been earned on the funds.

Reduction of excess balance in limited dollar depository account.—Our examination of the records of the Accounting and Finance Office, Aviano Airbase, Italy, relating to the conversion of military payment certificates to U.S. currency disclosed that a limited dollar depository account with Credito Italiano, the Aviano banking facility, had a balance of approximately \$2.85 million although there had been very little activity in the account since its conversion to U.S. dollars in May 1958.

We recommended to Headquarters, U.S. Air Force, Europe (USAFE), that the requirements for U.S. dollar deposits at Aviano be reviewed and that the balance be reduced if appropriate. USAFE informed us that, in line with our recommendation, the amount on deposit in the account had been reduced by \$2 million at the end of February 1959 and that on July 2, 1959, the Treasurer of the United States was requested to further reduce the balance to \$400,000 effective July 20, 1959.

Review of accounting and financial reporting

Consolidation of Air Force accounting and financial organizations.—Our report covering the review and evaluation of organization and selected activities of the Air Force Comptroller procedures and operations contained recommendations for the consolidation of the various accounting and financial functions.

In the report conclusions and recommendations, the following comments were made: The foundations of an Air Force system which can become an effective instrument for financial coordination and management control have been laid; attainment of the ultimate objective, however, will require development of and adherence to a systematic, continuous program of completion and refinement.

The need for a long-range master plan for development of improved Air Force comptrollership in general was discussed in part I of the report which dealt with the comptroller organization. The importance of the application of such a plan to the task of completing the accounting system development cannot be overstressed.

In accordance with our recommendations, the Air Force has developed a system for the consolidation of accounting and financial functions and under date of August 26, 1959, issued appropriate revisions to the Air Force Manual (AFM 170-6E, pt. 5, ch. 3, "Accounting and Finance"). The change consolidates technical responsibility for the financial accounting, disbursing, and financial reporting of (a) all appropriations, funds, and financial resources of the Air Force and (b) all financial resources under the custody of the Air Force. In explanation of the change, the manual states that:

"The separation of accounting functions from finance functions has been proven uneconomical, particularly in the preparation of documentation and processing steps, often involving duplicate files and records. The use of separate reporting channels for financial data was conducive to duplication and nonreconcilable reports. Proper internal control and fixing of responsibility was difficult. Functional integration was directed to overcome these and other deficiencies. * * *

Improvement in accounting and reporting for central procurement contracts.—In our report on the review and evaluation of the organization and selected activities of the Air Force Comptroller, we pointed out also that there was a great potential for improvement in the efficiency of accounting and the effective use of the accounting products by management in the area of central procurement and related supply activities. We found that accounting problems in the central procurement area were the result of a complex situation in which there are at least four basic factors, briefly as follows:

1. The division of responsibilities for supply requirements and procurement between Air Materiel Areas and depots on the basis of prime and zonal responsibilities, the retention of certain responsibilities by Headquarters, Air Materiel Command, and the administration of contracts through Air Procurement Districts and Air Force plant representatives.
2. Air Force methods of programing and funding and of exercising program and fund controls.
3. The effect of fragmentation of records, lack of adequate document control procedures, and other deficiencies of the general accounting system.
4. Practices followed in the negotiation, administration, and payment of central procurement contracts.

We recommended (1) development, through coordination of Comptroller, Supply, and Procurement organizations, of a long-range plan for a simplified system of budgeting, accounting, and reporting which conforms to the organizational structure and operating practices of the Air Materiel Command and (2) a realignment of Comptroller functions and responsibilities with the several central procurement organizational levels, specifically to reassign accounting responsibilities for central procurement contracts to the point of contract administration, generally the Air procurement district or the Air Force representative, to improve reliability of financial reports, reduce the flow of documents, and eliminate the duplication in records and procedures.

We recommended also that there should be developed the form and content of reports to be prepared from detailed accounting records maintained at Air Procurement Districts (APD) and Air Force plant representatives for use by Supply, Procurement, and Comptroller organizations in carrying out their management functions.

In consonance with our recommendations, the Air Force conducted a test operation at the Newark APD and developed a simplified system for accounting and reporting of the financial and nonfinancial data associated with contract management at Air Procurement Districts and Air Force Plant Representative Offices (AFPRO). In July 1959 the Air Force formally established a procedure for operating an integrated management data and control system to satisfy all requirements of the Air Force and the ADP/AFPRO concerning financial accounting, disbursing, and financial reporting and nonfinancial reporting with respect to contract management responsibilities at APD's and AFPRO's.

Inadequate financial and operating reporting system used by naval ordnance industrial-type installations.—The financial and operating reporting system used by naval ordnance industrial-type activities does not provide management with a ready means for review and evaluation of results of operations and for disclosure of those areas of operations which require management inquiry, investigation,

and corrective action. Although available reports furnish valuable information on various aspects of operations, the reports do not present a comprehensive view of the operations as a whole or of their relative efficiency.

We recommended that the Bureau of Ordnance design and adopt a reporting system which will show, among other things, (1) a concise summation of the results of depot operations in relation to predetermined standards or estimates, (2) an analysis of the variances between results of operations and predetermined norms, and (3) comments of the depots as to the action taken or proposed to be taken by the depots to correct unfavorable operating results disclosed by the reports. We recommended further that the Bureau use the reports as a basis for evaluation of relative efficiency of its various depots as well as evaluation of efficiency of an individual depot. The Bureau accepted the concepts and objectives of our recommendations. It believes that, as management improvement programs progress, improvements in the reporting system will manifest themselves. However, in view of the long-range and comprehensive nature of the management improvement programs from which significant benefits may not be evident for several years, we believe that current adoption of our recommendation is necessary.

Review of the administration of military pay and allowances

Need for improvement in administration to control extensive overpayments.—Combined selective audits by the General Accounting Office and the Departments of the Army and Air Force continue to reveal that extensive overpayments to military personnel are being made year after year. The areas concerned are generally the same, such as erroneous reenlistment bonus payments, duplicate payments of travel allowances, overpayments on accrued leave settlements, erroneous mustering-out payments, improper payments for travel of dependents, etc. During the fiscal year, we reported that overpayments of more than \$46 million had been disclosed in audits made in fiscal years 1956 and 1957. The overpayments disclosed in fiscal year 1958 amounted to more than \$19 million and in fiscal year 1959, over \$25 million. The overpayments in the fiscal year 1958 occurred prior to the issuance of our report for the fiscal years 1956 and 1957 and therefore there had not been time for the reflection of any corrective action subsequently initiated. Reported recoveries of the overpayments made during the 4 fiscal years amounted to \$39 million at the end of fiscal year 1959.

The continuance of this high error rate is attributable primarily to basic weaknesses in the administration of pay and allowances at the installation level. We have recommended to the departments that steps be taken to provide adequate training of personnel responsible for finance operations and that personnel of other organizational units be made more aware of their responsibility for furnishing or certifying correct information affecting military pay and allowances. We have recommended also that the Air Force expand its internal audit program so that greater coverage on a more timely basis will be given to the review of procedures and controls at field installations. The departments have advised that corrective actions are being taken in line with our recommendations.

Review of payroll practices

Savings of \$2 million annually could be realized by paying Navy employees on a biweekly basis.—In our reviews of Navy activities, we noted that approximately 200,000 Navy civilian employees occupying ungraded positions were being paid weekly in accordance with policy established by the Secretary of the Navy. We believe that processing weekly payrolls for these employees almost doubles the cost of payroll preparation and creates an unnecessary burden on payroll departments. We estimate that about \$2 million could be saved annually if the Navy paid such employees on a biweekly basis.

We recommended that the Navy adopt the policy of paying such employees on a biweekly basis consistent with the practice followed by the Departments of the Army and Air Force and other Government activities. We pointed out that many of the field installations of the Departments of the Army and Air Force which employ personnel for ungraded positions are located within the same geographical areas as Navy field activities which employ personnel for similar type positions.

The Navy officials informed us that they had reviewed the basis of their policy in the light of our recommendation and considered that it would not be in the best interest of the Navy or the public to adopt a biweekly pay period. The Navy officials later advised that they would reexamine the assumption under-

lying their conclusions in the matter to ascertain if their position should be altered in any respect. The Navy now has underway a study of the actual dollar savings which would result by converting to a biweekly pay period.

Review of operations at military installations, bases, and stations

Variety of weaknesses in administrative procedures and controls.—Our reviews at over 25 installations, bases, and stations during the fiscal year disclosed many administrative deficiencies which were resulting in uneconomical operations. These deficiencies were brought to the attention of appropriate officials and in all cases recommended corrective action was taken or promised. Some of the deficiencies generally noted are as follows:

- Unreliable supply and accounting reports.
- Excessive use of priority requisitions.
- Errors in inventory accounting.
- Inadequate control over casual payments.
- Lack of necessary entries on military pay records.
- Improper costing of work orders.
- Inadequate verification of billings received for public utilities.
- Failure to maintain accurate real property records.
- Failure to adequately review requisitions.
- Discrepancies in obligation records.
- Failure to charge or to adequately charge for services provided to nonappropriated fund activities.
- Inadequate control of material.
- Inadequate control of repairable supply items.
- Failure to take timely physical inventory.
- Delay in processing critical materials for repair.
- Failure to report material for disposition.
- Failure to inspect and preserve material.
- Inaccurate stock records.
- Failure to dispose of excess stocks.
- Failure to screen surplus property.
- Unauthorized use of military personnel to support nonappropriated fund activities.
- Unnecessary accounting for low-value items.
- Weaknesses in property administration.

In our followup reviews at the installations, bases, and stations, we intend to determine the sufficiency of the corrective action taken.

Review of dependents' medical care program

Improvements in administration made as a result of our review.—The Dependents' Medical Care Act, approved June 7, 1956, provides that eligible dependents of members of the uniformed services may receive medical and hospital care from civilian facilities at Government expense. To provide for such benefits, the Office of the Surgeon General, Department of the Army, under authority delegated by the Secretary of Defense, is authorized to negotiate contracts with medical societies, associations, and insurance companies. Allowable fees for the various types of medical services are incorporated in each contract.

Our review during the fiscal year of the physician and hospital phases of the program in selected geographical areas disclosed weaknesses in the procedures for determining eligibility of dependents for medical care benefits and certain instances where allowable fees to physicians appeared to be in excess of amounts allowable for substantially identical services under another group plan applicable to families with comparable incomes.

In our review of the administration of the program in the State of Illinois, we found (1) that a large number of claims for medical services were submitted for amounts considerably less than the allowable fees shown in the medical service contract, indicating that the fees allowable under the contract were higher than the customary rates charged by physicians to the general public; (2) that under existing procedures, the physicians and administrator of the program do not, in all cases, receive sufficient information to determine whether a dependent is eligible for medical care; and (3) that the contractor had not supplied dentists with any informational material relating to dental services covered by the program, as required by the contract.

We recommended to the Surgeon General that the contracting officer review the existing schedule of allowable fees and, on the basis of experience gained during a contracting period, negotiate any adjustments necessary to obtain a realistic schedule which would serve as a sound basis for the payment of claims. In accordance with our recommendation, new fee schedules were negotiated for

the State of Illinois, and the maximum allowable fees for certain surgical procedures have been reduced to more realistic levels. We have been informed that steps have been taken, both in the negotiation of contracts and otherwise, to keep fees at the customary rates. Corrective measures have either been taken or are under consideration with respect to other findings relating to our review.

APPENDIX 10

DEPARTMENT OF DEFENSE DIRECTIVE

ASD (S&L)—Number 5154.14

June 23, 1958

Subject: Establishment of the Armed Forces Supply Support Center

References:

- (a) DOD Directive 4000.8, Basic Regulations for the Military Supply System
- (b) DOD Directive 5126.1, Assistant Secretary of Defense (Supply and Logistics)
- (c) DOD Directive 4130.2, Development and Maintenance of the Federal Catalog System within the Department of Defense
- (d) DOD Directive 4120.3, Defense Standardization Program
- (e) DOD Instruction 4140.12, Utilization of Department of Defense Materiel Assets
- (f) DOD Directive 5126.14, Department of Defense Materiel Secretaries' Council.

I. AUTHORITY, PURPOSE AND INTENT

A. Pursuant to the authority contained in the National Security Act of 1947, as amended, and Reorganization Plan No. 6 of 1953, and in furtherance of the basic policy set forth in reference (a), the Armed Forces Supply Support Center is established within the Department of Defense as a joint center of the military services under the authority, direction and control of the Secretary of Defense, with functions, responsibilities and relationships as set forth below. The Assistant Secretary of Defense (Supply and Logistics) shall, within established procedures, act for the Secretary of Defense in carrying out the provisions of this directive.

B. The purposes and objectives of the AFSS Center are:

1. To provide the most effective and economical administration of certain common supply functions of the military services.
2. To promote and coordinate integrated supply management among the military services concerned with common materiel.
3. To develop means for the elimination of any undesirable inconsistency, duplication and overlapping among supply operations of the military services, and for the elimination of any unnecessary administrative procedures.

C. The AFSS Center will not engage in the determination of materiel requirements, or in procurement, inventory control, storage or distribution operations.

II. MODIFICATION OF DIRECTIVES

This directive modifies the provisions of references (c), (d) and (e), which will be changed accordingly.

III. DEFINITIONS

A. *Commercial items of materiel*—those items required by the military services which are generally used throughout the civilian economy and which are available through normal commercial distribution channels (frequently referred to as "off-the-shelf" items).

B. *Non-commercial common items of materiel*—those items required by two or more of the military services, which are not generally used by the civilian economy, including items of similar manufacture or fabrication which may vary among the services as to color, finish, marking, etc.

IV. ORGANIZATION AND FUNCTIONS

A. SCOPE

The AFSS Center will confine its activities to the fields of "commercial" and "non-commercial common" materiel, except to the extent that the cataloging, standardization, and materiel utilization programs apply also to non-commercial, non-common items of materiel.

B. MANAGEMENT

The AFSS Center shall operate under the general direction of a council, the name of which shall be the Armed Forces Supply Support Council, and under the direct supervision of a Director.

C. RESPONSIBILITIES OF THE AFSS COUNCIL AND THE DIRECTOR

1. The AFSS Council provides a fully-representative executive group responsive to the military services, but under the direction of the Secretary of Defense, to exercise general direction over the work of the AFSS Center. The principal functions of the AFSS Council will be to approve and review progress in accomplishing the work projects established by the Director of the AFSS Center; to approve appointments to key positions within the AFSS Center on the recommendations of the Director; to make decisions to the extent authorized, based upon the analyses and recommendations submitted by the Director, to be implemented through appropriate channels within the military services; and to make recommendations (including additions to and changes in DOD Directives and Instructions) for decisions and implementations by responsible officials of the Department of Defense. The AFSS Council shall delegate to the Director the authority necessary to carry out the functions of the AFSS Center.

2. The Director shall be responsible to the AFSS Council and shall be in full charge of the internal management of the AFSS Center, with responsibility for supervising current operations, planning and conducting approved work projects, determining the data required, and obtaining such reports and information as needed directly from the military services. The Director will establish work projects, prepare analyses and recommendations, and select key personnel, for the review and approval of the AFSS Council.

D. FUNCTIONS OF THE AFSS CENTER

The AFSS Center is charged with the performance of the following functions in accordance with the applicable DOD Directives and Instructions.

1. Administers the Federal Catalog Program in accordance with reference (c). The AFSS Center will prepare and publish catalog data and insure conversion of military supply systems to the exclusive use of Federal Catalog data.

2. Administers the Defense Standardization Program in accordance with reference (d). The AFSS Center will recommend the assignment of responsibility among the military departments, monitor studies, and monitor the development of specifications and standards in accordance with approved plans and schedules.

3. Administers the Defense Materiel Utilization Program in accordance with reference (e). In this connection the AFSS Center develops procedures, to be executed by the Commodity and Area Coordination Groups after approval by the AFSS Council, to assure the cross-utilization of assets in order to minimize procurement, stockage and transportation.

4. In accordance with specific study projects, conducts analyses of the operations of the supply systems of the military services concerned with commercial and noncommercial common items of materiel, to obtain optimum integration in the interest of increased military effectiveness and economy. Such studies will include the development of practical steps to foster efficient interservice utilization of assets; to increase the degree of commonality of items; to obtain greater consistency in requirements computation practices (factors, cycles, lead times and levels) and distribution patterns; and to achieve closer working relationships among the organizational elements concerned with the management of common supply, i.e., inventory control, procurement, distribution and standardization. Particular attention shall be given to such matters in the commodity areas covered by Single Manager assignments and the Single Department Procurement assignments.

E. RELATIONSHIPS WITH OASD(S&L)

1. The AFSS Center shall conduct its work programs in accordance with objectives and policies developed or approved by the Assistant Secretary of Defense (Supply and Logistics).

2. Specific projects for the AFSS Center will be established by the Director with the approval of the AFSS Council, based on proposals made by the AFSS Center itself, including any member of the AFSS Council, any military service, or the OASD(S&L). The Assistant Secretary of Defense (S&L) and the Materiel Secretaries of the Military Departments shall be kept advised of all projects.

3. Reports of the AFSS Center Director to the AFSS Council will be transmitted concurrently to the Assistant Secretary of Defense (S&L) and to the Materiel Secretaries of the Military Departments. If action is not taken by the AFSS Council within a reasonable period, the Assistant Secretary of Defense (S&L) will call for a report from the Director and the AFSS Council and obtain action through appropriate channels.

4. The Assistant Secretary of Defense (S&L) shall review and evaluate the work of the AFSS Center and may call for reports on its work at any time. Such reports shall be furnished simultaneously to the Materiel Secretaries of the Military Departments.

5. In the performance of the responsibilities outlined in this directive, the Assistant Secretary of Defense (S&L) will utilize the advice and assistance of the Materiel Secretaries' Council in accordance with the procedures established in reference (f).

F. STAFFING

1. *AFSS Council.* The AFSS Council shall consist of a Deputy ASD (S&L) as Chairman, a principal military representative of general or flag rank appointed by each of the four military services, and the Director of the AFSS Center.

2. *The AFSS Center.* The Director and Deputy shall be appointed by the Secretary of Defense after considering recommendations of the Materiel Secretaries' Council. The Director will be a civilian and the Deputy Director a military officer. Division Chiefs and the professional staff of the Analysis Staff shall be appointed by the Director with the approval of the AFSS Council. These positions will be filled by either military or civilian personnel. Staffing of the Analysis Staff and the Materiel Utilization Division will be on a joint basis. The normal tour of duty for military assignees (other than those on temporary detail) will be four years.

G. ADMINISTRATION

1. The method of financial support and funding for the AFSS Center shall be arranged by the Assistant Secretary of Defense (Comptroller).

2. Administrative services required in support of the activities of the AFSS Center shall be arranged by the Office of the Secretary of Defense.

V. IMPLEMENTATION

A. Each military service shall designate its member of the AFSS Council and an alternate who shall have the power to act in the absence of the principal member. The Secretary of Defense shall appoint the Director and Deputy Director of the AFSS Center.

B. Within ninety days after the date of this directive, regulations, procedures, organizational and staffing plans, and arrangements for financial and administrative support, required to implement the provisions of this Directive, will be developed and coordinated with the military services by the Chairman of the AFSS Council and submitted to the Secretary of Defense for approval. The Assistant Secretary of Defense (S&L) will be responsible for the coordination of these matters with other cognizant elements of the Office of the Secretary of Defense. The military services, ASD (S&L), ASD (Comptroller), ASD (MP&R), and the General Counsel will detail staff assistants to work with the AFSS Council and the Director in the accomplishment of the above steps.

NEIL D. McELROY,
Secretary of Defense.

APPENDIX 11

Summary of property holdings, by military department and type and class as of June 30, 1959—Department of Defense

[Millions of dollars]

Type and class of property	Department of Defense	Army	Navy (including Marine Corps)	Air Force
All types, total.....	¹ \$150,660	¹ \$38,847	\$56,679	\$55,134
Real property inventory, total.....	² 29,689	9,372	9,022	11,295
Construction in progress (cost of work in place), total.....	³ 3,255	³ 517	893	1,845
Personal property inventory, total.....	117,716	28,958	46,764	41,994
Equipment and supplies in supply system.....	44,467	18,612	13,535	12,320
Military and general equipment issued for use.....	⁴ 63,573	⁴ 6,164	30,446	26,963
Production equipment.....	5,278	2,724	1,181	1,373
Industrial funds.....	⁴ 371	102	268	1
Surplus and foreign excess property inventories held by property disposal officers.....	4,027	1,356	1,334	1,337

¹ Excludes personal property inventories under the jurisdiction of Civil Works Division, Office, Chief of Engineers, Department of the Army, in the amount of \$192,100,000. Includes \$2,000,000 personal property of the Office of the Secretary of Defense.

² Excludes real property in the amount of \$4,246,000,000 under the jurisdiction of the Civil Works Division, Office, Chief of Engineers, Department of the Army.

³ Excludes \$1,942,000,000 of work in place on construction under the jurisdiction of the Civil Works Division, Office, Chief of Engineers, Department of the Army.

⁴ Consists of materials, supplies, and work in process.

APPENDIX 12

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
OFFICE OF THE MAJORITY LEADER,
Washington, D.C., January 18, 1960.

Hon. PAUL H. DOUGLAS,
Chairman, Joint Economic Committee,
Washington, D.C.

DEAR CHAIRMAN DOUGLAS: I am pleased to learn from your letter of December 31, 1959, that definite plans have been made by the Joint Economic Committee to hold hearings on "The Impact of Government Supply and Service Programs on the National Economy."

It will be profitable, I am sure, if the committee explores the subject of implementation and planned implementation of existing laws applicable to the subject. This is particularly so with regard to the O'Mahoney amendment of 1952 which might well be called the O'Mahoney-Douglas amendment and the McCormack-Curtis amendment of 1958.

You requested me to comment on the need for the McCormack-Curtis amendment and its intent. There were several reasons why I sponsored it.

First, it was necessary to remove the language from the National Security Act, as amended in 1949, which indicated that there should be "three departments separately administered" insofar as supply and services are concerned. Most efforts toward effective, efficient, and economical common supply and service management since 1949 have eventually grounded on this charter of separatism.

I consider that the McCormack-Curtis amendment, which incidentally was enacted on August 6, 1958, and received scant attention prior to your letter of inquiry to Secretary McElroy on January 15, 1959, gives the Secretary clear authority and a mandate to move vigorously ahead in common supply and service areas. The letters which you, Senators O'Mahoney, Lausche, Gruening; and Congressmen Curtis, Brown, and others have directed to the Secretary of Defense, the Director of the Budget and the President's Economic Advisor during the past year have had an invigorating effect toward the redemption of responsibility vested in them by numerous enactments of the Congress.

I predict, Mr. Chairman, that the announcement of your hearings will also have a stimulating effect in this important area where decision and followup have been so sorely missing.

Related to the above point is the matter of constitutional government. My letter of October 24, 1955, attached, to Secretary Wilson emphasizes my concern in this respect. Secretary Wilson on September 2, 1955, complained to the three service secretaries that DOD directives were not implemented. I stated to Secretary Wilson:

"Your concern with respect to DOD directives is similar to mine with respect also to congressional statutes. I am sure we both agree that our constitutional form of government is in jeopardy whenever the executive agencies, regardless of motives, good intentions or even greater wisdom in a given instance, choose the laws they will execute and those they will disregard.

"One of the most disturbing examples is that involving the so-called O'Mahoney amendment to the DOD Appropriations Act, 1953. The amendment, which is permanent law and as such is actually an amendment to the National Security Act (Unification Act) of 1947, calls upon the Secretary of Defense to develop an "Integrated Supply System" and the Senate Report No. 1861 spells the intent out in detail.

"It should be stated that the O'Mahoney amendment was predicated to a great extent upon comprehensive hearings and reports of the Bonner and Hardy subcommittees of the House and the Preparedness Subcommittee of the Senate which pointed out the excessive overlapping, duplication and waste within and among the services with respect to common supply and related matters.

"DOD Directive 4000.8 of November 19, 1952 constituted a good attempt to carry out the statute although it was limited to an intraservice basis generally rather than the intended integrated interservice basis. The directive did add some strength to the Alameda Medical Supply test which had been directed a year prior by the Secretary's order of July 17, 1951. Unfortunately, the service pressure became too great and the Alameda operation was broken up last spring though it was generally acclaimed a success.

"The whole story of the Alameda test was detailed to you in Congressman Thomas B. Curtis' 13 page letter of January 19, 1955. Certain of the Hoover Reports confirm the conclusions of the congressional reports and enactments as to the need for more integration among the military services with respect to common supplies and services and as to the necessity of following applicable laws and regulations.

"As I view the situation, Mr. Secretary, not only is the basic problem of constitutional government involved but many other issues of real concern to the American people. I will comment briefly on some of them.

"The facts are conclusive that our educational facilities—though basic to defense—need great assistance. Large sums are required for the development and conservation of basic natural resources. Billions are needed for highways and public works. Costly outlays for fundamental and applied research are "a must" if we are to keep ahead in the technological race. Our health institutions are not in the state we desire. Oppressive taxes should be reduced, especially for the low-income groups. The budget requires balancing in its turn and the ever-growing national debt reduced.

"As you know, I am, and have always been an advocate for a strong national defense upon which to support a foreign policy. It is also essential to our survival. I will not be beguiled into laxity by the palliative tactics now emanating from the Kremlin. No one dares be. I believe that our defenses and basic institutions should be strengthened in every possible way for the long pull ahead.

"But the evidence is conclusive that the overlapping, duplication and waste is of such magnitude in and among the military services as to make possible enormous savings, with no loss of efficiency or military effectiveness, and thus release funds badly needed for the objectives listed above."

In addition to the instances of noncompliance stated above should be added that the legislative intent of the National Security Act of 1947 was that the Air Force would continue to get supply and service support from the Army as had historically been the case. The Eisenhower-Spaatz agreements implemented this concept.

Despite this background, the new Air Force began to establish supply depots in the United States and over the world at tremendous expense. Trainloads of common supplies were moved from Army depots to Air Force depots. Much of this property has now been declared surplus and donated or sold at a few cents on the dollar. The installations themselves in a number of cases have been or will be declared surplus.

The cost of this venture by the Air Force is incalculable and was not within the intent of the law.

In reviewing legislation where the will of Congress has been disregarded I must also mention the Armed Services Procurement Act of 1947, Public Law 413 80th Congress, 2d session. This act provides in section 2(c):

"All purchases and contracts for supplies and services shall be made by advertising, as provided in section 3, except that such purchases and contracts may be negotiated by the agency head without advertising if—"

It should be noted that negotiated purchasing and contracting was to be the exception—not the rule.

In line with the intent of the law, the President of the United States admonished the five agencies named in the statute to use their authority with discretion. In identical letters of February 19, 1948, he wrote:

"The act states the basic policies of the Government with respect to procurement by the Armed Services. It declares that a fair proportion of all procurement shall be placed with small business concerns. It also states that all purchases and contracts for supplies and services shall be made by advertising except under circumstances specified in the act where exceptions to this general policy may be made.

"This bill grants unprecedented freedom from specific procurement restrictions during peacetime. That freedom is given to permit the flexibility and latitude needed; in present-day national defense activities. The basic need, however, remains to assure favorable price and adequate service to the Government. To the degree that restrictions have been diminished, therefore, responsibility upon the Defense Establishment has been increased. There is danger that the natural desire for flexibility and speed in procurement will lead to excessive placement of contracts by negotiation and undue reliance upon large concerns, and this must not occur."

Despite the intent of Congress and the admonition by the Chief Executive of the United States there has been a steadily rising use of negotiated contracting in our defense work. Chairman Vinson of the House Armed Services Committee testified on June 3, 1959, before the Senate Finance Committee that over 90 percent by number and volume of defense contracts were negotiated. Concurrently, there has been a growing concentration of the defense business in a fewer and fewer number of corporations. For example, in the period July 1950 to June 1951 the percentage by dollar volume of military contracts awarded to 100 companies and corporate groups was 61.2 percent with the first 10 receiving 28.6 percent. In calendar year 1958, the 100 largest contractors received 74 percent of the volume and the first 10 received 38.4 percent.

Concurrently, also, the number of fixed-price contracts has been decreasing in favor of the cost-performance type of contract.

A further disquieting aspect of the whole contracting situation is the statement of Chairman Vinson that the quality of the Government contracting officers is such that they are actually captives of the contractors.

The numerous GAO reports on contracting which have been made during the past 2 years also show that the quality of the negotiated contracts is not what it should be and that some drastic action needs to be taken to bring about an improvement.

The third reason for my sponsorship of the so-called McCormack-Curtis amendment was to point to the fact that savings through improved management of supply and service functions in the Department of Defense would go a long way toward financing schools, hospitals, roads, research, stream and air pollution and other essential activities and programs for the Nation including needed defense itself. Economy in the Department of Defense would prove to be a great source of income.

As to the scope of the amendment the statement I made on the floor of the House on June 12, 1958 is self-explanatory. This statement appears at page 9927 and following, and a copy is attached.

I want to state that the McCormack-Curtis amendment is considerably broader than the previous O'Mahoney amendment in that it covers service functions in addition to supply functions and permits the removal of both from the category of major combatant functions. It also vests the Secretary of Defense with clear authority to deal positively in obtaining economy, efficiency and effectiveness in these areas which use some 60 percent of the annual military budget.

Again let me congratulate you and the members of your excellent committee in the important work you are doing in connection with these hearings.

Sincerely yours,

JOHN W. McCORMACK,
Majority Leader.

APPENDIX 13

Office of the Secretary of Defense

RECORD OF TOP CIVILIAN OFFICIALS TENURE IN OFFICE (DEC. 31, 1959)

	Dates	Prior Government service ¹		Department of Defense service to date of separation from position ²	
		Years	Months	Years	Months
Secretary of Defense:					
James Forrestal	September 1947 to March 1949	7	3	8	7
Louis Johnson	March 1949 to September 1950	3	10	4	7
Gen. George C. Marshall, U.S. Army.	September 1950 to September 1951	2		1	
Robert A. Lovett	September 1951 to January 1953	7	6	7	3
Charles E. Wilson	January 1953 to October 1957			4	8
Neil H. McElroy	October 1957 to present		6	2	
Under Secretary of Defense (position abolished):					
Stephen T. Early	May to August 1949	12	3		3
Deputy Secretary of Defense:					
Stephen T. Early	August 1949 to September 1950	12	6	1	5
Robert A. Lovett	October 1950 to September 1951	6	6	5	11
William C. Foster	September 1951 to January 1953	4	10	1	4
Roger Kyes	February 1953 to May 1954			1	3
Robert B. Anderson	May 1954 to August 1955	1	3	2	6
Reuben B. Robertson	August 1955 to April 1957	1	7	1	9
Donald A. Quarles ³	May 1957 to May 1959	3	8	5	8
Thomas S. Gates	June 1959 to present	5	8	6	
Chairman, Research and Development Board (position abolished):					
Vannevar Bush	September 1947 to October 1948	6	3	2	3
Karl T. Compton	October 1948 to March 1950	1	10	1	5
William Webster	March 1950 to July 1951		9	2	2
Walter G. Whitman	August 1951 to June 1953	3	6	2	
Assistant Secretary of Defense (Research and Development) (position abolished):					
Donald A. Quarles	September 1953 to August 1955			1	11
Clifford C. Furnas	December 1955 to February 1957	4	9	1	3
Assistant Secretary of Defense (Applications Engineering) (position abolished):					
Frank D. Newbury	August 1953 to March 1957			3	7
Assistant Secretary of Defense (Research and Engineering) (position abolished):					
Frank D. Newbury	March to May 1957	3	7	3	9
Paul D. Foote ⁴	September 1957 to October 1958	15	2	1	2
Director, Defense Research and Engineering:					
Herbert York	December 1958 to present		6	1	4
Special Assistant (Financial Management) (position abolished):					
W. J. McNeil	September 1947 to September 1949	2	1	4	
Assistant Secretary of Defense (Comptroller):					
W. J. McNeil	September 1949 to present	4		14	2
Chairman, Armed Forces Medical Policy Council (position abolished):					
Raymond B. Allen	July to September 1949		1		4
Richard L. Meiling	October 1949 to June 1951		4	2	1
William R. Lovelace	July 1951 to March 1952		1		10
Melvin A. Casberg	April 1952 to August 1953		3	1	7
Assistant Secretary of Defense (Health and Medical):					
Melvin A. Casberg	August 1953 to January 1954	1	7	2	1
Frank B. Berry	January 1954 to present			5	9
Special Assistant (position abolished):					
John H. Ohly	October 1947 to March 1949	7	1	8	7
Assistant to the Secretary (Planning) (position abolished):					
John H. Ohly	March to December 1949	8	7	9	3
Assistant to the Secretary (International Security Affairs) (position abolished):					
Maj. Gen. James H. Burns, U.S. Army (retired).	July 1949 to August 1951			2	1
Frank C. Nash	August 1951 to February 1953	2	7	2	4

See footnotes at end of table, p. 207.

Office of the Secretary of Defense—Continued

	Dates	Prior Government service ¹		Department of Defense service to date of separation from position ²	
		Years	Months	Years	Months
Assistant Secretary of Defense (International Security Affairs):					
Frank C. Nash.....	February 1953 to February 1954.....	4	1	3	4
H. Struve Hensel.....	March 1954 to June 1955.....	5	8	6	11
Gordon Gray.....	July 1955 to February 1957.....	3	2	4	2
Mansfield D. Sprague.....	February 1957 to October 1958.....	1	5	3	—
John N. Irwin, II.....	October 1958 to present.....	2	—	2	7
Chairman, Personnel Policy Board (position abolished):					
Thomas R. Reid.....	December 1948 to August 1949.....	—	—	—	9
Hubert Howard.....	August to November 1949.....	—	—	—	3
J. Thomas Schneider.....	February 1950 to January 1952.....	8	9	2	11
Assistant Secretary of Defense (Manpower, Personnel and Reserve):					
Anna M. Rosenberg.....	November 1950 to January 1953.....	11	6	2	2
John A. Hannah.....	February 1953 to July 1954.....	—	—	1	6
Carter L. Burgess.....	September 1954 to January 1957.....	2	4	2	4
William H. Francis.....	April 1957 to May 1958.....	—	—	1	1
Charles C. Finucane.....	July 1958 to present.....	3	8	4	11
Director of Installations (position abolished):					
Frank Creedon.....	August 1952 to June 1953.....	14	5	—	10
Assistant Secretary of Defense (Properties and Installations):					
Franklin G. Floete.....	August 1953 to February 1956.....	—	—	2	7
Floyd S. Bryant.....	May 1956 to present.....	—	7	4	1
Assistant to the Secretary (Public Affairs) (position abolished):					
Harold B. Hinton.....	July 1948 to March 1949.....	—	2	—	8
Clayton Fritchey.....	November 1950 to June 1952.....	—	—	1	7
Director of Public Information (position abolished):					
William F. Frye.....	March 1949 to February 1950.....	2	3	3	2
Andrew Berding.....	July 1952 to November 1953.....	3	11	1	5
Assistant Secretary of Defense (Administrative and Public Affairs) (position abolished):					
Paul H. Griffith.....	September 1949 to November 1950.....	—	6	1	8
Assistant Secretary of Defense (Legislative and Public Affairs) (position abolished):					
Fred A. Seaton.....	September 1953 to February 1955.....	1	—	1	5
Robert T. Ross.....	March 1955 to February 1957.....	3	11	2	11
Assistant Secretary of Defense (Public Affairs):					
Murray Snyder.....	March 1957 to present.....	4	2	2	7
Chairman, Munitions Board (position abolished):					
Thomas J. Hargrave.....	September 1947 to September 1948.....	—	—	1	—
Donald F. Carpenter.....	September 1948 to June 1949.....	3	4	3	9
Hubert E. Howard.....	November 1949 to September 1950.....	—	3	1	1
John D. Small.....	November 1950 to January 1953.....	—	—	2	2
Assistant Secretary of Defense (Supply and Logistics):					
Charles S. Thomas.....	August 1953 to May 1954.....	3	2	3	11
Thomas P. Pike.....	May 1954 to June 1956.....	—	7	2	9
E. Perkins McGuire.....	December 1956 to present.....	1	4	4	2
Special Assistant (Legal Affairs) (position abolished):					
Marx Leva.....	September 1947 to September 1949.....	4	2	3	10
Assistant Secretary of Defense (Legal and Legislative Affairs) (position abolished):					
Marx Leva.....	September 1949 to May 1951.....	6	2	5	6
Daniel K. Edwards.....	May to November 1951.....	—	—	—	7
Charles A. Coolidge.....	November 1951 to December 1952.....	—	8	1	1

See footnotes at end of table, p. 207.

Office of the Secretary of Defense—Continued

	Dates	Prior Government service ¹		Department of Defense service to date of separation from position ²	
		Years	Months	Years	Months
General Counsel:					
H. Struve Hensel.....	August 1953 to March 1954.....	5	2	5	9
Wilber M. Brucker.....	April 1954 to July 1955.....			1	3
Mansfield D. Sprague.....	October 1955 to February 1957.....			1	5
Robert Dechert.....	February 1957 to July 1959.....			2	5
J. Vincent Burke.....	September 1959 to present.....				1
Assistant to Secretary (Legislative Affairs):					
George W. Vaughan.....	April 1959 to present.....				6
Assistant to Secretary (Atomic Energy):					
Donald F. Carpenter.....	March to September 1948.....	2	9	3	
William Webster.....	September 1948 to June 1949.....				9
Robert LeBaron.....	October 1949 to August 1954.....	1	8	4	10
Maj. Gen. Herbert Loper, U.S. Army (retired).....	August 1954 to present.....		4	5	6
Assistant to Secretary (Special Operations):					
Gen. Graves B. Erskine, USMC (retired).....	July 1953 to present.....			6	3
Assistant to Secretary (Guided Missiles) (position abolished):					
K. T. Keller.....	November 1950 to September 1953.....			2	10
Eger V. Murphree.....	March 1956 to March 1957.....			1	
William M. Holaday.....	May 1957 to October 1958.....	2	10	2	9
Special Assistant (Transportation) position abolished):					
E. G. Plowman.....	January 1951 to January 1952.....	1	9	1	
Director, Military Traffic Service (position abolished):					
Kenneth Vore.....	March 1951 to October 1953.....			2	7
Chairman, Civilian Components Policy Board (position abolished):					
William T. Faricy.....	September 1949 to May 1950.....				8
Edwin H. Burgess.....	May 1950 to June 1951.....			1	1
Charles H. Buford.....	June 1951 to April 1953.....			1	10
Chairman, Reserve Forces Policy Board:					
Arthur S. Adams.....	April 1953 to September 1955.....			2	4
Maj. Gen. Milton G. Baker (USAR).....	September 1955 to September 1957.....			2	
John Slezak.....	October 1957 to present.....	1	8	3	8

¹ Civilian service only.² Tenure figured to Oct. 15, 1959 if official still on duty. Excludes military service (such as General Marshall) and closely related experience with wholly owned Government organizations (such as Mr. Quarles, SANDIA, or Dr. York, UCLA Radiation Laboratory).³ Died in office.⁴ Mandatory retirement

Department of the Army

RECORD OF TOP CIVILIAN OFFICIALS TENURE IN OFFICE (DEC. 31, 1959)

	Dates	Prior Government service ¹		Department of Defense service to date of separation from position ²	
		Years	Months	Years	Months
Secretary of the Army:					
Kenneth C. Royall.....	September 1947 to April 1949.....	1	10	3	6
Gordon Gray.....	June 1949 to April 1950.....	1	9	2	7
Frank Pace.....	April 1950 to January 1953.....	4	2	2	9
Robert Stevens.....	February 1953 to July 1955.....	1	6	2	6
Wilbert M. Brucker.....	July 1955 to present.....	1	3	5	6
Under Secretary:					
William H. Draper.....	September 1947 to February 1949.....	1	1	1	6
Gordon Gray.....	May to June 1949.....	1	8	1	9
Tracy S. Voorhees.....	August 1949 to April 1950.....	3	7	4	3
Archibald Alexander.....	May 1950 to April 1952.....	2	9	2	8
Karl K. Bendetsen.....	May to October 1952.....	2	4	2	9
Earl D. Johnson.....	October 1952 to January 1954.....	2	4	3	8
John Slezak.....	February 1954 to January 1955.....	1	9	1	8
Charles C. Finucane.....	February 1955 to April 1958.....	2	5	3	8
Hugh M. Milton III.....	August 1958 to present.....	4	9	5	11
Assistant Secretary:					
Gordon Gray.....	September 1947 to May 1949.....	1	1	1	8
Tracy S. Voorhees.....	June 1948 to August 1949.....	2	5	3	7
Archibald S. Alexander.....	August 1949 to May 1950.....	1	2	2	9
Karl R. Bendetsen.....	February 1950 to May 1952.....	1	2	2	4
Earl D. Johnson.....	May 1950 to April 1952.....	1	1	1	10
Assistant Secretary (Manpower, Personnel and Reserve Forces):					
Fred Korth.....	May 1952 to January 1953.....	1	4	2	---
James P. Mitchell.....	May to October 1953.....	2	7	3	---
Hugh M. Milton III.....	November 1953 to August 1958.....	4	4	4	9
Dewey Short.....	December 1958 to present.....	25	10	2	7
Assistant Secretary (Financial Management):					
Francis Shackel Ford.....	October 1952 to January 1953.....	2	2	2	6
George H. Roderick.....	February to August 1954.....	---	---	---	7
Charles C. Finucane.....	September 1954 to February 1955.....	---	---	---	5
Chester R. Davis.....	March 1955 to December 1956.....	---	---	1	9
George H. Roderick.....	March 1957 to present.....	3	1	5	8
Assistant Secretary (Civil-Military Affairs) (position abolished):					
George H. Roderick.....	August 1954 to March 1957.....	---	7	3	1
Dewey Short.....	March 1957 to December 1958.....	24	---	1	10
Assistant Secretary (Research and Materiel) (position abolished):					
Earl D. Johnson.....	April to October 1952.....	1	11	2	4
Assistant Secretary (Materiel):					
John Slezak.....	May 1953 to February 1954.....	---	---	---	9
Assistant Secretary (Logistics and Research and Development) (position abolished):					
Frank H. Higgins.....	August 1954 to November 1955.....	2	3	1	9
Assistant Secretary (Logistics):					
Frank H. Higgins.....	November 1955 to March 1959.....	3	6	5	2
Courtney Johnson.....	April 1959 to present.....	7	4	2	11
Director of Research and Development:					
William H. Martin.....	August 1955 to May 1959.....	1	8	5	5
Richard S. Morse.....	June 1959 to present.....	---	---	---	5
General Counsel:					
Bernard Monaghan.....	August 1952 to August 1953.....	---	---	1	---
John G. Adams.....	October 1953 to March 1955.....	4	8	6	2
Frank Millard.....	April 1955 to present.....	---	---	4	7

¹ Civilian service only.² Tenure figured to Oct. 15, 1959, if official is still on duty. Excludes military service and closely related experience with wholly owned Government organizations.

Department of the Navy

RECORD OF TOP CIVILIAN OFFICIALS TENURE IN OFFICE (DEC. 31, 1959)

	Dates	Prior Government service ¹		Department of Defense service to date of separation from position ²	
		Years	Months	Years	Months
Secretary of the Navy:					
John L. Sullivan.....	September 1947 to May 1949.....	7	2	3	11
Francis P. Matthews.....	May 1949 to July 1951.....	16		2	2
Dan A. Kimball.....	July 1951 to January 1953.....	2	5	3	10
Robert B. Anderson.....	February 1953 to May 1954.....			1	3
Charles S. Thomas.....	May 1954 to March 1957.....	3	11	6	10
Thomas S. Gates, Jr.....	April 1957 to June 1959.....	3	6	5	8
William B. Franke.....	June 1959 to present.....	8	4	8	8
Under Secretary of Navy:					
W. John Kenney.....	September 1947 to May 1949.....	8	9	8	5
Dan A. Kimball.....	May 1949 to July 1951.....		3	2	5
Francis P. Whitehair.....	August 1951 to January 1953.....		6	1	6
Charles S. Thomas.....	February to August 1953.....	4	3	4	9
Thomas S. Gates, Jr.....	October 1953 to March 1957.....			3	6
William B. Franke.....	April 1957 to June 1959.....	6	3	8	4
Fred A. Bantz.....	June 1959 to present.....	2	2	2	6
Assistant Secretary:					
Mark E. Andrews.....	January 1948 to February 1949.....			1	1
John T. Koehler.....	February 1949 to October 1951.....	4	3	5	7
Herbert R. Askins.....	October 1951 to January 1953.....			1	4
Raymond Fogler.....	June 1953 to January 1957.....			3	7
Assistant Secretary (Air) (position abolished):					
John N. Brown.....	November 1946 to March 1949.....			2	4
Dan A. Kimball.....	March to May 1949.....				3
John F. Floberg.....	December 1949 to July 1953.....			3	8
James H. Smith, Jr.....	July 1953 to June 1956.....	1	8	4	7
Garrison Norton.....	June 1956 to February 1959.....	3	6	2	10
Assistant Secretary (Personnel and Reserve Forces):					
Albert Pratt.....	October 1954 to January 1957.....			2	4
Richard Jackson.....	September 1957 to present.....			2	1
Assistant Secretary (Financial Management) (position abolished):					
William B. Franke.....	October 1954 to April 1957.....	3	8	6	3
J. Sinclair Armstrong.....	May 1957 to January 1959.....	3	10	1	7
Assistant Secretary (Material):					
Fred A. Bantz.....	April 1957 to June 1959 ³			2	2
Cecil P. Milne.....	April 1959 to present.....	1	4	1	10
Assistant Secretary (Research and Development):					
James H. Wakelin.....	July 1959 to present.....				3
General Counsel:					
James T. Hill, Jr.....	August 1946 to May 1947.....	4		4	9
Hudson B. Cox.....	May 1947 to April 1949.....	3	5	5	4
Harold B. Gross.....	May 1950 to August 1953.....	4		7	4
F. Trowbridge vom Bauer.....	December 1953 to present.....			5	10

¹ Civilian service only.² Tenure figured to Oct. 15, 1959, if official still on duty. Excludes military service and closely related experience with wholly owned Government organizations.³ Acting as Under Secretary from Apr. 17, 1959.

Department of the Air Force

RECORD OF TOP CIVILIAN OFFICIALS TENURE IN OFFICE (DEC. 31, 1959)

	Dates	Prior Government service ¹		Department of Defense service to date of separation from position ²	
		Years	Months	Years	Months
Secretary of the Air Force:					
W. Stuart Symington.....	September 1947 to April 1950.....	2	3	4	3
Thomas K. Finletter.....	April 1950 to January 1953.....	4		2	9
Harold E. Talbott.....	February 1953 to August 1955.....		10	2	6
Donald A. Quarles.....	August 1955 to April 1957.....	1	11	3	8
James H. Douglas, Jr.....	May 1957 to present.....	5	5	6	7
Under Secretary of the Air Force:					
Arthur S. Barrows.....	September 1947 to April 1950.....		7	3	2
John A. McCone.....	June 1950 to October 1951.....		6	1	10
Roswell L. Gilpatric.....	October 1951 to February 1953.....		5	1	9
James H. Douglas, Jr.....	March 1953 to April 1957.....	1	3	4	2
Malcolm A. MacIntyre.....	June 1957 to July 1959.....			2	2
Dudley C. Sharp.....	August 1959 to present.....	3	4	3	6
Assistant Secretary (Civil-Military-Diplomatic) (position abolished):					
Cornelius V. Whitney.....	September 1947 to April 1949.....			1	7
Harold C. Stuart.....	October 1949 to May 1951.....		5	2	
Assistant Secretary (Material):					
Roswell L. Gilpatric.....	May to October 1951.....				5
Edwin V. Huggins.....	November 1951 to February 1953.....		5	1	3
Roger Lewis.....	April 1953 to September 1955.....			2	6
Dudley C. Sharp.....	October 1955 to January 1959.....			3	4
Philip B. Taylor.....	April 1959 to present.....				6
Assistant Secretary (Management) (position abolished):					
Eugene M. Zuckert.....	September 1947 to February 1952.....	5	2	6	
James T. Hill.....	July 1952 to January 1953.....	6	8	7	2
H. Lee White.....	February 1953 to July 1954.....			1	5
Assistant Secretary (Manpower, Personnel and Reserve Forces) (position abolished):					
David S. Smith.....	October 1954 to January 1959.....			4	3
Special Assistant for Manpower Personnel and Reserve Forces:					
Lewis S. Thompson.....	April 1959 to present.....	12	3	5	9
Assistant Secretary (Financial Management):					
Lyle S. Garlock.....	August 1954 to present.....	17	9	11	7
Assistant Secretary (Research and Development):					
Trevor Gardner.....	March 1955 to February 1956.....	2	1	3	1
Richard E. Horner.....	July 1957 to May 1959.....	1	4	3	3
Joseph V. Charyk.....	June 1959 to present.....		5		9
Special Assistant for Installations:					
John M. Ferry.....	June 1953 to present.....			6	4
General Counsel:					
Brackley Shaw.....	September 1947 to December 1949.....	1	5	3	9
James T. Hill.....	July 1950 to July 1952.....	4	9	6	8
John A. Johnson.....	August 1952 to October 1958.....			6	2
Max Golden.....	October 1958 to present.....	6	11	7	11

¹ Civilian service only.² Tenure figured to Oct. 15, 1959, if official still on duty. Excludes military service and closely related experience with wholly owned Government organizations.

APPENDIX 14

U.S. SENATE,
Washington, D.C., January 15, 1959.Hon. NEIL H. McELROY,
Secretary of Defense,
Department of Defense,
Washington, D.C.

DEAR MR. SECRETARY: In my opinion it is important that we make the maximum possible economy in defense and other operations in order that we may finance projects vital to our defense and general welfare and, possibly make a reduction in our national debt and income-tax levies.

Because of this I am very interested in section 3(a)(6) of Public Law 85-599, which is known as the McCormack amendment to the Department of Defense Reorganization Act of 1958. As you know, the McCormack amendment permits you to provide for carrying out of any supply and service activity common to more than one military department by a single agency or such other organizational entities as you deem appropriate.

The combined supply and service activities certainly constitute a large part of the military budget. I am aware that some steps toward greater efficiency have been made through the so-called single manager systems but I also understand that other potential common supply classes have not been brought into this type of structure. I also realize that there have been some other actions taken in conformance with the McCormack amendment but I am very much interested in knowing to what extent all "supply and service" activities have been systematically defined and programed for implementation within the intent of the amendment.

Will you kindly supply me with a listing of all the supply and service activities within the Department of Defense which are common to more than one military department and a statement as to what plans or actions have been taken or are contemplated to bring about necessary effectiveness, economy or efficiency with respect to them

As you know, I have been interested in this subject for a great many years and have been dismayed to date that more progress has not been made under the original National Security Act and under the O'Mahoney amendment of 1952.

I believe that the present charter gives you an outstanding opportunity to save untold sums of money and at the same time to increase effectiveness and efficiency within the Defense Establishment.

A reply at your early convenience will be greatly appreciated.

With best wishes,
Faithfully,

PAUL H. DOUGLAS.

ASSISTANT SECRETARY OF DEFENSE,
SUPPLY AND LOGISTICS,
Washington, D.C., January 29, 1959.

Hon. PAUL H. DOUGLAS,
U.S. Senate.

DEAR SENATOR DOUGLAS: This is with further reference to your letter of January 15 to Secretary McElroy, requesting various data pertaining to section 3(a)(6) of Public Law 85-599, which is known as the McCormack amendment to the Department of Defense Reorganization Act of 1958.

As the principal staff assistant to the Secretary of Defense in the supply and logistics area, this Office is most concerned with both optimum and expeditious implementation of the McCormack amendment. We share your observation that the present charter offers an outstanding opportunity to effect dollar savings and, at the same time, to increase effectiveness and efficiency within the Department of Defense.

As you can appreciate, however, the terms "supply" and "services" are very broad and encompassing. For this reason, we are not clear as to the scope, form, or detail of the material you desire. In the interest, therefore, of furnishing you the information you requested exactly as you want it and as quickly as possible, may I suggest that you and I, or perhaps if you prefer, just our staffs arrange to get together to discuss and clarify the areas you have expressed an interest in.

I have asked Mr. Paul Riley, Director of Supply Management Policy, code 11, extension 79238, to firm up arrangements for such a meeting. I would appreciate, therefore, your office contacting Mr. Riley in order that we may expedite this matter.

Sincerely yours,

C. P. MILNE,
Acting Assistant Secretary of Defense
(Supply and Logistics).

ASSISTANT SECRETARY OF DEFENSE,
SUPPLY AND LOGISTICS,
Washington, D.C., July 10, 1959.

Hon. PAUL H. DOUGLAS,
U.S. Senate.

DEAR SENATOR DOUGLAS: Your letter of January 15, 1959, to the Secretary of Defense requested a statement as to plans contemplated and actions accomplished which are related to the objectives of section 3(a)(6) of Public Law 85-599. In February our respective staff members held discussions to clarify the range and depth of the information requested. I appreciate your courtesy in permitting this delay in responding to your letter.

As a result of the staff discussions, it was decided that the Department of Defense should address its reply to the broad functional areas mentioned by Mr. McCormack during the 1958 debate on the Reorganization Act. The enclosure to this letter, therefore, contains the information requested in a listed sequence by major functional area. In this enclosure, only those actions and plans completed or initiated since August 6, 1958, the date of the Defense Reorganization Act, have been included. We have used this date as a starting point since your letter was primarily addressed to plans or actions related to section 3(a)(6) which is known as the McCormack amendment to the Defense Reorganization Act.

Your letter noted that steps toward greater efficiency have been made through the single-manager systems but indicated that other potential common supply classes have not been included in this type of supply system. You likewise indicated disappointment that more progress has not been made under the original National Security Act and under the O'Mahoney amendment of 1952.

In those commodity areas where it can be demonstrated that integration of management will be economical and will not impair effective material support of our combat forces, we shall continue to make progress by consolidating logistical assignments. Our planning in this regard is detailed in the enclosure to this letter.

The plans and actions outlined in the enclosure cover a period of approximately 8 months. Prior to the passage of the Reorganization Act of 1958, and during the period between the O'Mahoney and the McCormack amendments, the Department of Defense did institute many very important improvements which were specifically designed to bring about effectiveness and economy in logistics operations. Certain of these improvements resulted in consolidations between services and others in the improvement in policies and procedures. Because of your expressed interest in the progress during this period, I would like to cite several of the important improvements accomplished between 1952 and 1958.

In July of 1958, the Armed Forces Supply Support Center was activated. This center integrated in one organization the management of defensewide functions of cataloging, standardization, and materiel utilization. In addition, the center likewise includes an organizational group of top talent supply analysts who are spending full time in the development of improved procedures for application throughout the logistics systems.

Starting in 1956, and continuing on a progressive basis thereafter, the single-manager systems were instituted in four commodity areas and in the service areas for land, sea, and air transportation.

The program for single department procurement assignments has expanded to the point that well over one-half of the value of the fiscal year 1959 procurement program will be performed under consolidated buying arrangements.

In this same period, the Federal Catalog System was initiated and currently the 3.4 million items in our supply systems have been centrally identified, cataloged, and the common identifications have been adopted for use in all logistic operations of the Department.

Comprehensive systems providing for the interchange of material assets between the services on a continuing basis were established and such interchange is taking place at a rate of several hundreds of millions of dollars each year. In addition, we have reduced our supply system inventories by \$4 billion between June 30, 1957, and December 31, 1958.

Significant progress has been achieved in attaining cross-utilization of training facilities and activities, medical facilities, and services including hospitals, dispensaries, laboratories, research facilities, food inspection, field X-ray, and epidemiological services.

We have continuously refined and improved our fiscal accounting system. Progress has continued in extending the use of working capital funds. Consumable inventories have been placed on an interdepartmental basis for prac-

tically all types of materiel except spare parts. In all, 55 charters for industrial funds have been issued to finance the operations of 138 activities.

We have made progress. The plans and actions listed on the enclosure will bring a report of progress up to the current date. We shall continue to make progress through consolidation of logistical assignments, where feasible. We shall continue our efforts to improve policies, procedures and practices in all areas. We enthusiastically support the objectives of the McCormack Amendment and we intend to press forward to attain a level of efficient and economical management which will fully achieve the intent of the Amendment.

Because of the wide range of activities and the time period (1953-58) in which you expressed an interest, we have not covered in complete detail all of the actions described in the enclosure. However, I would welcome the opportunity to discuss with you the many aspects of our progress to date and to describe in detail our plans for the future.

Recently a number of your colleagues have also expressed an interest in this important subject. As indicated in our interim reply, we will send a copy of this letter and its enclosure to Senators Lausche and Gruening and to Representatives Curtis and McCormack.

Your continuing interest in this important field is greatly appreciated.

Sincerely yours,

PERKINS MCGUIRE,
Assistant Secretary of Defense
(Supply and Logistics).

DEPARTMENT OF DEFENSE SUPPLY AND SERVICE FUNCTIONS

ACTIONS TAKEN, IN PROCESS, OR PLANNED IN IMPLEMENTATION OF SECTION 3(2)(6) OF PUBLIC LAW 85-599 (SINCE AUGUST 6, 1958)

I. INVENTORY MANAGEMENT AND DISTRIBUTION

1. Criteria were published on October 30, 1958, for the selection of commodities amenable to the single-manager technique and for the selection of the most qualified military department to administer a single-manager assignment.

2. A comprehensive study is underway of the general supplies area. The purpose is to determine the feasibility of managing these types of items under a single-manager system. Included in this commodity range are household and office furniture, household and commercial furnishings and appliances, office machines, office supplies, cleaning equipment and supplies, containers and packing supplies, toiletries, paper and paperboard, food preparation and sewing equipment, musical instruments, recreational and athletic equipment, and other related administrative and housekeeping supplies as well as hand tools. Additional commodity areas will be studied subsequent to the completion of the "General Supplies" study.

3. Action is underway to eliminate large segments of the Navy retail subsistence stocks by their consolidation within the single-manager system. In February 1959, such action was directed for the largest Navy tidewater depots at Norfolk and Oakland.

4. A Commodity Management Center has been established for clothing. The Department of the Navy physically moved its retail clothing supply operation to the Military Clothing and Textile Supply Agency in February 1959. This completed the actions required to establish this commodity management center, since the Air Force had taken similar action during the summer of 1958.

5. The supply stockrooms and inventory control of departmental office supplies in the Navy are being phased out and integrated with the existing GSA distribution system for similar stocks.

6. Based on published Department of Defense policy, uniform factors for determining stock levels based on economic considerations, for all items of non-combat essentiality are under development for use by all military services.

7. A major policy directive covering interservice support is in preparation. This policy will delineate the scope, responsibilities, and the resources for Inter-servicing and is a prerequisite to making significant single service assignments.

8. An analysis has been initiated of the Department of Defense local purchase practices. The purpose of this study will be to analyze the Department of Defense's local purchase programs with the objective of establishing and installing uniform purchase policies throughout all military supply systems.

9. Basic agreements with the GSA are being developed and implemented. These agreements will be directed toward the greater utilization of GSA facilities in support of Department of Defense supply requirements.

10. A study will be initiated to extend the single-manager distribution system for medical and dental material to Hawaii and to eliminate separate service retail depot systems. Other applicable overseas areas will subsequently be reviewed for the same purpose.

11. A comprehensive review of policies and criteria covering the stockage of items for mobilization reserve is well under way. Revised criteria restricting the range of items authorized for mobilization reserve stockage will be published.

12. A joint study is being conducted for the purpose of revising and making uniform the factors for computing the mobilization materiel pipeline.

II. UTILIZATION

1. On September 25, 1958, a policy was issued governing the screening of excess personal property under the control of the Department of Defense worldwide. Developed with the coordination of the GSA, this revised policy should result in the utilization of military property at an increased rate by civil agencies.

2. The Secretary of Defense has issued a directive which makes all inventories above a uniform retention level available to meet all valid requirements of the Department of Defense without charge. Implementation of this policy will provide for integrated matching of requirements against along supply assets and will assure the optimum utilization of long supply stocks.

3. Under development is an improved program for expediting the screening and utilization of local long supply stocks.

III. TRANSPORTATION

1. Consolidation through organizational assignment of certain port terminal functions in the New York-New Jersey area was completed on November 1, 1958. As a result of this action, one military installation was eliminated. In addition, certain port terminal operations in the San Francisco area were consolidated by January 1959.

2. Studies are in process in the Hampton Roads and Honolulu areas with a view toward establishing single-service assignments for port terminal operations in those areas.

3. A study was launched to evaluate Department of Defense transportation and traffic management. The first phase has been completed and an evaluation, in conjunction with the military departments, of the surveys, comments, and accompanying recommendations has been initiated. The purpose is to determine what, if any, changes should be made that would improve Department of Defense transportation.

IV. INSPECTION

1. On September 25, 1958, the Department of the Army was assigned responsibility for performing food inspection for all military departments, and for making maximum use of the Department of Agriculture.

2. A series of major Department of Defense policies is being developed and issued which sets forth uniform Department of Defense inspection and quality control policies for the three military departments. The overall effect will be to prevent defective products from being manufactured, eliminating duplication between Government and industry, and making Government inspection operations more uniform and economical.

3. A Department of Defense inspection training plan has been agreed upon by the three military departments. Under the aegis of OASD (S. & L.) this training will be conducted by the Department of the Army for all departmental inspectors. This will not only cut training costs, but will also be a big step forward in standardizing inspection procedures.

4. Plans are currently being discussed with GSA to increase inspection cross-servicing between the Department of Defense and with other Federal agencies. Presently, the Department of the Navy is using services of the AEC in training inspectors responsible for the inspection and acceptance of equipment related to nuclear devices.

5. A policy is under development which will require cross-servicing between the military departments of laboratory facilities for procurement inspection and testing.

V. WAREHOUSING

1. A cross-servicing agreement has been made between the Department of Defense and the General Services Administration whereby storage space operated by the Federal agency can be used by any other Federal agency. A Department of Defense instruction to the military departments implementing this agreement has been issued.

2. An analysis has been made of the ammunition outloading terminals and storage facilities to determine the relationship between present capacity and anticipated requirements. A further study will be made to determine what specific facilities should be inactivated as well as the specific measures required to eliminate the terminal deficiency on the west coast.

3. Twenty-seven million square feet of covered storage space has been inactivated by the Department of Defense between September 1954 and December 1958. This is a continuing program and additional analyses are being made to determine the possibility of further contraction of storage space.

4. The OSD has assigned responsibility to the Department of the Army for developing a related series of unit loads, with all-weather characteristics, to be used and adopted by all military services. The unit load is a consolidated pack which can be handled by mechanical means as a single unit.

VI. STANDARDIZATION

1. An accelerated item reduction program (AIR) was initiated during 1958 and is scheduled for completion on December 31, 1961. This program is designed to achieve a rapid reduction in the number of different sizes and varieties of items in the military supply systems while, at the same time, increasing the use of the remaining items by more than one service.

2. A reevaluation is underway of the standardization program, including the development and utilization of specifications to analyze critically the methods, procedures, and projects followed with a view toward program adjustments which will concentrate more of the Department of Defense available resources on high payoff areas.

3. A system of defensewide controls is being developed to prevent the unjustified entry of nonstandard items into the military supply systems.

VII. PROCUREMENT

1. Provision has been made for Government property in the possession of contractors to be administered by one military department at each facility performing contracts for more than one procuring activity. Proposed Department of Defense procedures are being reviewed for the interchange of property administration and for uniform submissions by the contractor of data required by the services.

2. A determination is being made on the feasibility of having a single-service assignment for all common electron tubes.

VIII. CATALOGING

1. Decentralization of catalog operations is underway in the Navy. In lieu thereof, direct communication will be established with the AFSSC. This will result in the disestablishment of the Navy Materiel Catalog Office.

IX. SURPLUS PROPERTY

1. Action is underway to make single-service assignments for all surplus property sales offices, thereby reducing some 300 such current offices to an optimum number under 40.

2. Work is proceeding on establishing a centrally controlled National Bidders' List for uniform use by all military services. This will streamline operations, reduce costs, and provide a focal point for all those interested in buying surplus personal property.

3. A single-service assignment to the Department of the Army is in process for the instruction and training of all personnel of all services engaged in military surplus personal property work.

X. TELECOMMUNICATIONS

1. The military departments' communication program requirements are constantly under scrutiny to obtain the maximum use of existing facilities and the

maximum consolidation of the worldwide long-haul circuits. A Department of Defense policy directed toward the attainment of a common integrated Department of Defense worldwide system was promulgated in March 1959.

2. Congressional action has been requested for enactment of legislation to authorize the disposal of Government-owned long-lines communication facilities in Alaska.

XI. PRODUCTION

1. On April 14, 1959, a management consultant firm under contract to OSD completed its study of the functions of both the Electronics Production Resources Agency (EPRA) and the Aircraft Production Resources Agency (APRA). As a result, APRA will be discontinued as of June 30, 1959, thus saving approximately \$200,000 per year. EPRA will be continued but with certain changes in its management organization and in its regularly published reports. It is anticipated that these latter changes will result in a savings of some \$50,000 per year, including man hour costs for collection and compilation of data, as well as printing and distribution.

2. A document is under development which will provide a common procedure leading to a single thoroughly documented report and position on all national security impairment studies undertaken for the Director of Civil and Defense Mobilization under section 8 of the Trade Agreements Extension Act of 1958

XII. FINANCIAL MANAGEMENT, INCLUDING BUDGETING, DISBURSING, AND ACCOUNTING

1. A study is now under way to determine the merits of consolidating the contract audit activities of the three military departments into a single audit agency to fulfill all contract audit requirements of the Department.

2. Simplified methods for the use of intra and inter department reimbursements are being developed. These improvements include automatic apportionment and funding of work or services to make reimbursements locally available at the activity that earns them. The Department of Defense has proposed reimbursement regulations which are currently being discussed with the Bureau of the Budget. In fiscal year 1960, reimbursable methods will be extended to cover cross-servicing between activities financed under the same appropriations.

3. Directives are now being developed to comply with recent legislation and to assist coordinated programing and budgeting for capital and operating requirements.

4. A Department of Defense directive recently has been issued which establishes a defensewide program for improving financial management of operations and maintenance in the Department of Defense. The directive establishes the policies, principles, and guidelines to be observed by the military departments and requires each department to set up a program in accordance therewith. The directive deals comprehensively with cost-based budgeting, integrated accounting structure, bases of budgeting and accounting, operating budgets, funding, accounting records and financial reporting in the operations and maintenance area. Similar directives will be completed for programs financed under appropriations for military construction, procurement, and production, research and development and military personnel costs. Navy has reduced its 10 appropriations for operations and maintenance to 2: 1 Navy and 1 Marine Corps. A major forward step made on a defensewide basis was the separation of the costs of research and development and procurement and production.

5. An additional 61 industrial and commercial-type activities are programed for industrial funding to augment the 55 charters for industrial funds which finance the operations of 138 activities.

6. An organized cooperative effort with the Department of the Army and the Department of the Navy has been initiated to establish an intensified industrial fund improvements program for systematic improvement of the management and financial control of industrially funded activities. Survey teams have visited pilot installations to measure our attained progress, identified areas which offer opportunity for further improvement, and a program is under way which will consolidate and extend improvement throughout these industrially funded activities.

7. A study is currently being made of operation and maintenance costs. It is believed that this study will isolate those functions and operations which account for the significant differences in operating costs as between military departments and will develop tighter standards for the performance of installation support functions.

8. An integrated audit, worldwide, of the military assistance program is now substantially completed and represents the first Departmentwide coordinated audit performed under the direct supervision of the Office of the Secretary of Defense. In contract audit the system of plant cognizance by one military department has been recently broadened to companywide cognizance.

9. Additional use of stock fund financing is either programed or under consideration by Army, Navy, and Marine Corps. The Army is considering the bulk of its retail stocks; the Navy is considering ordnance and aircraft spare parts, wholesale and retail. Extension of the Air Force stock fund to include the bulk of its consumption-type material, including spare parts, both wholesale and retail, is still subject to the Office of the Secretary of Defense-Air Force agreement.

XIII. MEDICAL AND HOSPITAL SERVICES

1. A study will be undertaken of the effectiveness and operation of the joint coordination group, which is responsible for the deletion and addition of items to the stock list and the establishment of military and essential characteristics.

2. A study is being undertaken of the joint blood group, which provides for joint policies and cross utilization of collection facilities and distribution necessary to make the operations of the joint blood group more effective.

3. A catalog has been developed of essential survival items keyed to electrical and electronics systems coded to the Office of Civilian and Defense Mobilization survival list for use in the event of nuclear disaster by the medical supply elements of the Department of Defense. It is expected that this catalog, after some experience has been gained in its usage, will be extended and improved.

XIV. INTELLIGENCE

1. There is currently under development a comprehensive proposal which, if successful in a pilot test, should result within a year or 18 months in thorough integration of all attaché administrative and logistical functions.

2. All possible efforts are being made to make maximum effective use of resources of technological intelligence techniques and to reduce the total resources needed by presentation of a single coordinated defensewide budget and by use of various versions of the executive agency principle including collocation of units and joint processing centers. These fields are governed by recent National Security Council decisions based on formal investigations and continuing close scrutiny of the President's Scientific Advisers.

XV. MILITARY POLICE

1. A joint review of the offpost police activities recently has been conducted. The purpose of the review was to assure compliance with Department of Defense policies and with joint regulations of the military departments pursuant thereto. The review disclosed that the services are in fact conducting joint operations, that patrols are used only where necessary, and that some reductions in patrols and personnel have been effected at the local level.

2. The establishment of an armed services police detachment, with reduced personnel and equipment, is contemplated for San Antonio, Tex.

XVI. TRAINING

1. Consideration is being given to further consolidation of schools in food service, military justice, music, and administration. Specifically, consideration is being given to the Navy assuming responsibility for the training of all enlisted court reports; the Navy providing training for Air Force advanced bandmen, and the Army extending food services training for Air Force Reserve components.

2. A study is currently under way of the language-training facilities of the Department of Defense to determine the most efficient and economical method of conducting language training.

3. Logistics training has received special emphasis during the past several years. Procurement training and quality control training are several of the occupational areas currently being studied.

XVII. ENGINEERING CONSTRUCTION SERVICES

1. The issuance of Department of Defense design standard and uniform criteria has been strengthened and is being extended to assure that the construction requirements of all three military departments are accomplished under comparable cost and quality criteria.

JANUARY 19, 1959.

Hon. NEIL H. McELROY,
Secretary of Defense,
Department of Defense,
Washington, D.C.

DEAR MR. McELROY: I received a copy of a letter addressed to you by Senator Paul H. Douglas on January 15, making inquiry about the identity of the different supply and service activities within the Department of Defense common to more than one military department; and then a statement as to what plans or actions have been taken or are contemplated to bring about necessary effectiveness, economy or efficiency with respect to them.

I am constantly getting letters and inquiries from interested citizens and agencies concerning the extent to which the Department of Defense has coordinated its procurement activities to insure the elimination of duplicated and unneeded spending and the adoption of efficient purchase practices.

I was a member of the Government Operations Committee, and in that capacity received letters, especially from one source, urging that there be established under the Government Operations Committee one subcommittee, the sole responsibility of which would be to keep in contact with the Department of Defense, and to learn from it what progress is being made to carry into effect the Hoover Commission recommendations.

The O'Mahoney amendment of 1952, of course, also deals with the identical subject. You did discuss the item briefly in your appearance before the Foreign Relations Committee on Friday, January 16, impressing the members of the attention that you are giving to the matter.

My own opinion is that the general public still substantially believes that the needed efficiency has not yet been achieved. That state of mind creates frequently an antipathy on the part of the public, even with respect to the legitimate and needed appropriations required for the maintenance of an adequate national defense.

I would be pleased very much if you would send me a copy of the report that you will make to the request of Senator Douglas.

With personal regards and best wishes, I am
 Sincerely yours,

FRANK J. LAUSCHE.

NOVEMBER 12, 1959.

Hon. RAYMOND J. SAULNIER,
Council of Economic Advisers,
Washington, D.C.

DEAR MR. SAULNIER: Further reference is made to my letter of May 22, 1959, and to related correspondence concerning the approach to take to bring about economy and efficiency in the supply management activities of the Department of Defense.

I have recently been gratified to learn that the Armed Services Supply Center which operates under the aegis of Assistant Secretary of Defense, the Honorable Perkins McGuire, has made a very worthwhile study, report, and recommendation concerning the management of certain classes of common supplies. This report on the management of general supplies is a step toward the implementation of the McCormack-Curtis amendment to the Defense Reorganization Act of 1958, to which I referred in my letter to you of May 22, 1959. By coincidence the report, though made independently, supports strongly most of the points which were listed in my letter to you of May 22 as a basis for an action program.

I hope that you request a copy of the study and report from Secretary McGuire. It embraces seven separate volumes and it would be worth your while to read them and especially the two summary sections. I make the suggestion to you since the measures taken or proposed, though important, are only token of the possibilities of integration in the supply systems of the Department of Defense and in numerous service functions which are now more or less independently conducted by the agencies of the Department of Defense.

Any encouragement and other support that you can give to those in the Department of Defense who are conscientiously carrying on this endeavor would be most helpful.

Sincerely,

THOMAS B. CURTIS.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., May 22, 1959.

HON. RAYMOND J. SAULNIER,
Council of Economic Advisers,
Washington, D.C.

DEAR DR. SAULNIER: Reference is made to your letter of May 5, 1959, in response to mine of April 8, 1959.

I am in complete agreement with the implication of your question, "How do we get hold of this problem?" In other words, this matter has been studied and restudied and what is needed now is a program of positive action.

As I stated in my previous letter, the McCormack-Curtis amendment to the DOD Reorganization Act, 1958, gives the Secretary of Defense broad authority "for the carrying out of any supply or service activity common to more than one military department by a single agency or such other organizational entities as he deems appropriate."

It has been estimated that the supply and service activities or support activities take the major portion of the annual budget and besides this, we have the enormous inventories and facilities of the various military services all over the world.

When the DOD Reorganization Act, Public Law 85-599, was before the House of Representatives on June 12, 1958, Congressman McCormack listed a number of supply and service activities which fall within the scope of the amendment. Some months ago I wrote to the Secretary of Defense and asked that he list all the activities which would fall within the scope of the amendment and to advise with respect to each just what action had been taken or was contemplated. I understand that Senators Douglas, Lausche, and perhaps others have written similar letters but have had no response to date.

It is my firm conviction that a topside action committee should be constituted to operate at the presidential level to set up time schedules for the fulfillment of a number of programs which have been on dead center for a long time. I would include the following as a start:

1. Schedule the transfer of common-use administrative or commercial-type supply and services to GSA as contemplated by the General Services Administration Act which is now 10 years old. This will involve the transfer of facilities and personnel with the activities.

2. Evaluate the present single-manager plans for (a) subsistence and clothing, (b) petroleum products, (c) medical supply and, if basically successful, streamline them and extend the plans to other classes of items. Also determine if they should be combined into a system of general military supply depots.

3. Consolidate and streamline surplus-property disposal including the donable program.

4. Make provision for a property inventory control system which will permit a review of existing common items in all the military inventories before additional orders are placed.

5. Institute a genuine action program to develop to the maximum standardization of supply items, forms, procedures, systems, reporting, accounting, etc. (For example there should be a discontinuance of special "service" insignia on blankets and other items of common supply which prevent excesses from being transferred to other agencies. Recently, the Marine Corps declared 260,000 blankets excess but as they bore special insignia, the other services did not want them.)

6. Make a speedy determination as to when stock funds should and should not be used.

In order to get a running start on the overall program, I recommend that the Hoover Task Force committee be utilized as an advisory committee to assist a special action Task Force. The Hoover Task Force members, as you know, have spent long periods of time studying these matters, are wholly objective in their views, and were carefully chosen in the first place because of their competence in the respective fields.

The importance of these matters in their economic impact on the country is related to there being in effective existence a streamlined, efficient and economical supply system. Little or no use has apparently been made of the Defense Reorganization Act of 1958, which was designed to provide all necessary legislative authority. Real action thus is an executive responsibility.

Since the Department of Defense is making such unsatisfactory progress under its own volition, I suggest the appropriateness of the Bureau of the Budget, in its capacity as the management arm for the President, being directed to establish such internal organization in the Bureau as is necessary to really take hold of this matter and accomplish the results, and benefits, which have so clearly been blueprinted as attainable.

Sincerely,

THOMAS B. CURTIS.

HOUSE OF REPRESENTATIVES,
COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D.C., May 5, 1959.

HON. THOMAS B. CURTIS,
House of Representatives, Washington, D.C.

DEAR TOM: I have read with special interest the copy of your letter to Mr. Saulnier that you sent to me.

I think your letter is an excellent one and I will appreciate it if you will keep me advised of any further developments.

With kind regards, I am

Sincerely yours,

JOHN W. McCORMACK

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., April 28, 1959.

HON. RAYMOND J. SAULNIER,
*Chairman, Council of Economic Advisers,
Washington, D.C.*

DEAR DR. SAULNIER: I am sure that you recall the recent discussion at the hearings of the Joint Economic Committee concerning the impact of military supply and service programs on the national economy.

It has been my strong belief for many years that the enormity of the military supply activities has a tremendous effect on the entire economy. Furthermore, from my personal knowledge of the overlapping, duplication, and waste in and amongst the many military supply systems there is an urgent need to bring about corrective measures at the earliest possible date.

Enclosed is a report of the House Government Operations Committee which, at page 65 and following, details the extent of the military supply inventories. When one considers that the inventory of personal property is almost \$120 billion, and that in the "supply systems" alone there is \$47 billion, it is no wonder that annual declarations of surpluses run at \$8 to \$10 billion and will continue to do so. I am sure that the attached monthly list of excess military property I am enclosing as a sample is convincing that factors other than obsolescence are responsible for generating much of the excess military property. If you will analyze the reported inventories of the individual departments and services, I am sure that you will agree that much needs to be done to integrate common supply activities. But despite a long history of efforts to do just that, the military bureaucracies have always managed to remain intact.

The proponents of the National Security Act of 1947 intended that the Air Force would continue to obtain supply and service support from the Army. Despite this, the Air Force has worked diligently to become completely independent. In 1951-52, the Bonner committee, of which I was a member, held extensive hearings on military supply management and, as a result of the hearings and reports, the O'Mahoney amendment to the 1953 Military Appropriations Act called for the establishment of "an integrated military supply system." Some steps were taken by Secretary Lovett, particularly in setting up a coordinated medical supply activity known as the "Alameda medical-supply test."

This test, though successful, was discontinued despite the recommendations of the Hoover Commission and others who had studied it. More recently, the Department of Defense has set up "single-manager systems" for subsistence, clothing, medical supply, and petroleum products. This effort though apparently successful is being stubbornly resisted by the military departments who fear loss of autonomy through any steps that tend toward unification.

The last Congress passed the Department of Defense Reorganization Act of 1958, and included the so-called McCormack-Curtis amendment which gives the Secretary of Defense wide authority to operate supply and service activities

through such an entity or entities as he deems appropriate to bring about economy and efficiency. Despite this broad authority, there has been but small progress in accomplishing what to me is one of the most fruitful areas for economy. I know of no one who has objectively studied this matter who has a different opinion.

It seems to me that the time is long past when the common inventories and operations of the military services should be brought under unified control so that existing stores are taken in account before additional purchases are made. As a matter of fact, we have expended at least \$150 million in developing a catalog system in order that this could be done.

I am sure you are aware that each military department spends hundreds of millions of dollars annually for the operation and maintenance of its own supply and depot system. Furthermore, the services compete against each other in many ways in the procurement of supplies, equipment, and personnel. Since most of the procurement is by negotiation the net effect of these methods is to accelerate an inflationary spiral in my opinion.

It seems to me that some forceful actions toward unification must be taken not only for the sake of defense itself but to relieve the economy of the inflationary pressures which are now being exerted upon it. Since the legislative framework appears to be adequate, I think that the executive branch is vulnerable in not vigorously pushing this matter. I cannot understand why the Budget Bureau condones this situation while it is simultaneously the management arm of the President, is responsible for reorganizational plans, and has the primary duty of screening the various appropriation estimates within the framework of a balanced budget. It is the belief of many people on "the Hill" that the Bureau has become a prisoner of the Pentagon and that the joint hearings on the military budget does not give the Bureau the control status it should have.

From what I can learn, the Budget Director is doing an excellent job and has the fortitude to do what is necessary. However, it is impossible for anyone to grasp the complexities of the Federal budget within a period of several years and he must rely upon his assistants. I think, however, that time is running swiftly and that some topside decisions must be taken in this area.

I am sending a copy of this letter to Mr. Stans and will appreciate any comments you or he may have with respect to this letter.

Sincerely,

THOMAS B. CURTIS.

DECEMBER 13, 1955.

HON. CHARLES E. WILSON,
*Secretary of Defense,
Department of Defense,
Washington, D.C.*

DEAR MR. SECRETARY: I have read with interest and considerable surprise the letter dated November 9, 1955, from the Deputy Assistant Secretary of Defense (S. & L.), Mr. R. C. Lanphier, Jr., in response to my letter of October 24, 1955.

My surprise comes from the fact that I have also reviewed Mr. C. S. Thomas' memorandum of November 13, 1953, Mr. T. P. Pike's communication (Supply and Logistics-DN) of July 27, 1954 to Congressman Riehlman, his letters of September 3 and 20, 1954, to Congressman George P. Miller, those of November 18, 1954, and January 4, 1955, to Congresswoman Harden, and your press releases No. 1140-54 and 1094-55.

I am sure that a personal review of these and related documents will convince you of the absence of an overall plan and that your Office has adopted opposite positions within a year as to the method of handling two categories of common supply items—medical and subsistence for the military services.

It appears to me that the Department of Defense has retrogressed to where it was on July 17, 1951, when your predecessor's directive stated:

"Priority study shall be given to the feasibility of assigning to a single military department the responsibility for procurement, distribution, including depot storage and issue for classes of common items of supply and equipment, and depot maintenance of such equipment. Medical supply items shall be the first category to be studied."

After 4½ years, subsistence has been substituted for medical supply for another testing, and in Mr. Lanphier's words, paraphrasing the 1951 directive:

"We are also currently considering the feasibility of applying this concept to other commodity areas."

It would seem to me that the inevitable result must be that medical supply will either be assigned to Navy which did not support this concept before, or again to

the Army. As there will eventually be a number of common supply categories to be assigned, it seems necessary that an integrated plan be developed as contemplated by the O'Mahoney amendment. Please advise me on this point at your earliest convenience.

As indicated in my letter of October 24, 1955, I am sending copies of this and Mr. Lanphier's letter, with related correspondence to those intimately concerned and to the press.

Sincerely yours,

JOHN W. McCORMACK.

ASSISTANT SECRETARY OF DEFENSE,
SUPPLY AND LOGISTICS,
November 9, 1955.

HON. JOHN W. McCORMACK,
House of Representatives.

DEAR MR. McCORMACK: Secretary Wilson has asked me to reply to your letter of October 24, 1955, in which you expressed concern about our administration and management of the military supply system.

While it is true that our surplus property program generates \$2 billion annually, a tremendous quantity of that property consists of materiel which has been made obsolete through technical advances or changes in design; additionally, much of this property represents scrap from military-type items having a high acquisition value which have served their purpose. Usable surplus items are given a thorough screening by the services for possible utilization. During fiscal year 1955, 14.6 percent of all surplus property, based on original cost, was utilized by the services. Over and above this use, the civilian agencies of the Government also used Surplus Department of Defense property, after screening by the General Services Administration.

Donations of surplus property are also made to schools and other public institutions through the Department of Health, Education, and Welfare, pursuant to Public Law 152 of the 81st Congress, as amended by Public Law 61 of the 84th Congress. The full potential of the donation program was not fully realized until passage of Public Law 61. This donation program is being vigorously pursued throughout the Department of Defense.

You have also commented on the actions taken by the Department of Defense pursuant to the National Security Act of 1947, as amended, and the O'Mahoney amendment to the Department of Defense Appropriation Act, 1953. You referred to the fact that this subject was raised in a letter to the Secretary of Defense from Congressman Curtis earlier this year.

After receipt of Congressman Curtis' letter, the Department of Defense extensively reviewed the entire subject. We recognize that while Congress has expressed its desire that the Secretary of Defense eliminate unnecessary duplication and overlapping and establish a practical, integrated supply system, it has never directed the establishment of any specific type of supply or distribution system. Instead, Congress has specifically entrusted to the discretion of the Secretary of Defense the power to determine the best methods for meeting the supply and distribution problems of the Department of Defense.

The basic Department of Defense implementation of the O'Mahoney amendment is our Directive 4000.8. It is upon this directive that our entire program of supply management is based, and it is my express intention to maintain the policies set forth in this directive.

Pursuant to the discretion invested in the Secretary of Defense by Congress to determine the best methods of eliminating unnecessary overlapping and duplication in the supply field and of establishing a practical, integrated supply system, the Alameda medical supply test was established and subsequently discontinued. The establishment of the test and its discontinuance were both acts clearly within the discretion vested in the Secretary of Defense by the Congress.

The basis for this interpretation of the National Security Act of 1947, as amended, and the O'Mahoney amendment is set forth in greater detail in a memorandum to the Secretary of Defense from then General Counsel Wilber M. Brucker of June 20, 1955. A copy of that legal memorandum is attached for your information.

In proceeding to eliminate unnecessary overlapping and duplication in the supply field, I must bear in mind at all times that our fundamental objective in that field is the establishment of the most effective and economical logistic support for our worldwide military forces. This Department has adopted aggressive measures designed specifically to accomplish this fundamental objective. During the last year Department of Defense directives and instructions have been

developed and issued which provide for even greater cross-servicing, interservice supply and positioning of materiel within and among the military departments.

These policy issuances are representative and indicative of our sincere and continued efforts to implement Department of Defense Directive 4000.8. They have provided common guide lines to the military services to achieve our objectives, and joint implementation of these issuances by the services has been achieved. The Department of Defense and the Nation as a whole have realized measurable benefits of considerable proportion from this singleness of purpose and coordinated support on the part of the services. It will interest you to know that in the areas of interservice supply support and cross-servicing alone, we can point to specific transactions involving approximately \$1.4 billions in goods and services interchanged within and among the military departments in fiscal year 1954. I look for an even greater volume of business in interservice supply support and cross-servicing in the future.

You may be further interested to know that in our efforts to eliminate unnecessary overlapping and duplication in the supply-management field we have evolved and are putting into action a new concept. This concept was formally adopted in the area of subsistence on November 4, 1955, through the issuance of Department of Defense Directive 5160.11, "Single Manager Commodity Assignment for Subsistence." This directive, a copy of which was forwarded to you on November 7, and an additional copy of which is enclosed herewith, assigns to the Secretary of the Army the authority and responsibility of providing for the needs of all the military services, using the facilities and services of the other military departments where necessary and desirable. This assignment encompasses the entire supply field, from research and development through issue or disposal, including cataloging, standardization, requirements determination, procurement, production, inspection, storage, distribution, transportation, and maintenance.

Under this concept, stocks will be distributed through a single system whereby, for each distribution area, one military service, whether Army, Navy, Air Force, or Marine Corps, will administer a single area distribution depot from which all military installations in that area will requisition and receive subsistence. Items will be carried in a stock fund, which the Secretary of the Army will administer and control, from which suppliers will be paid and to which the military services will reimburse on the basis of withdrawals. The Department of the Army will initiate all procurement in this area and authorize local procurement. It will screen all excesses and redistribute as necessary, authorizing property to be declared excess to Department of Defense needs. The Department of the Army's responsibility for distribution is such that backhauls and crosshauls as well as duplicate items are eliminated.

We are also currently considering the feasibility of applying this concept to other commodity areas.

I hope that the foregoing discussion will illustrate the efforts which the Department of Defense is making to achieve the most effective and economical logistic support for the military forces. I am sure you will appreciate that objective is not one which may be reached without profound and detailed study of possible methods of attaining the desired goal.

On behalf of Secretary Wilson, I should like to thank you very sincerely for your advocacy of a strong national defense. The strengthening in every possible way of our national defense and our basic institutions will, in my opinion, be promoted by our continued progress in the logistics field. I have appreciated this opportunity to acquaint you more fully with our program.

Sincerely yours,

R. C. LANPHIER, JR.,
Deputy Assistant Secretary of Defense
(Supply and Logistics).

[Press release, Thursday morning, October 27, 1955]

CONGRESS OF THE UNITED STATES,
OFFICE OF THE MAJORITY LEADER,
Washington, D.C., October 24, 1955.

HON. CHARLES E. WILSON,
Secretary of Defense,
Department of Defense,
Washington, D.C.

DEAR MR. SECRETARY: I have read with great interest and appreciation your memorandum of September 2, 1955, to the three service Secretaries and Assistant Secretary of Defense (M. & P.) on the subject of "Implementation of Department of Defense Directives."

The first paragraph of the memorandum states:

"I am increasingly concerned over the growing criticism in the Congress and elsewhere of the lack of consistency in the manner in which the military departments carry out the purpose and intent of Department of Defense directives. Some of the Hoover Commission reports are quite explicit on this point."

Your concern with respect to Department of Defense directives is similar to mine with respect also to congressional statutes. I am sure we both agree that our constitutional form of government is in jeopardy whenever the executive agencies, regardless of motives, good intentions, or even greater wisdom in a given instance, choose the laws they will execute and those they will disregard.

My growing concern was further aroused a year ago when the Department of Defense decided to bypass the clear intent of law with respect to the transfer of surplus property needed by our grossly inadequate educational and health institutions.

More recently, the issue is raised again by the decision of the Comptroller General of the United States with respect to the important SAGE program.

One of the most disturbing examples is that involving the so-called O'Mahoney amendment to the Department of Defense Appropriations Act, 1953. The amendment, which is permanent law and as such is actually an amendment to the National Security Act (Unification Act) of 1947, calls upon the Secretary of Defense to develop an "Integrated Supply System" and the Senate Report No. 1861 spells the intent out in detail.

It should be stated that the O'Mahoney amendment was predicated to a great extent upon comprehensive hearings and reports of the Bonner and Hardy Subcommittees of the House and the Preparedness Subcommittee of the Senate, which pointed out the excessive overlapping, duplication, and waste within and among the services with respect to common supply and related matters.

Department of Defense Directive 4000.8 of November 19, 1952, constituted a good attempt to carry out the statute although it was limited to an intraservice basis generally rather than the intended integrated interservice basis. The directive did add some strength to the Alameda medical-supply test which had been directed a year prior by the Secretary's order of July 17, 1951. Unfortunately, the service pressure became too great and the Alameda operation was broken up last spring though it was generally acclaimed a success.

The whole story of the Alameda test was detailed to you in Congressman Thomas B. Curtis' 13-page letter of January 19, 1955. Certain of the Hoover reports confirm the conclusions of the congressional reports and enactments as to the need for more integration among the military services with respect to common supplies and services and as to the necessity of following applicable laws and regulations.

As I view the situation, Mr. Secretary, not only is the basic problem of constitutional government involved but many other issues of real concern to the American people. I will comment briefly on some of them.

The facts are conclusive that our educational facilities—though basic to defense—need great assistance. Large sums are required for the development and conservation of basic natural resources. Billions are needed for highways and public works. Costly outlays for fundamental and applied research are "a must" if we are to keep ahead in the technological race. Our health institutions are not in the state we desire. Oppressive taxes should be reduced, especially for the low-income groups. The budget requires balancing in its turn and the ever-growing national debt reduced.

As you know, I am, and have always been an advocate for the strong national defense upon which to support a foreign policy. It is also essential to our survival. I will not be beguiled into laxity by the palliative tactics now emanating from the Kremlin. No one dares be. I believe that our defenses and basic institutions should be strengthened in every possible way for the long pull ahead.

But the evidence is conclusive that the overlapping, duplication, and waste is of such magnitude in and among the military services as to make possible enormous savings, with no loss of efficiency or military effectiveness, and thus release funds badly needed for the objectives listed above.

Presently, the stock funds for essentially common supply items in the four services (Army, Navy, Air Force, and Marines) have an unallotted cash reserve of \$45,300,000, cash of \$1,870,500,000, and inventories of \$8,103,000,000, or a total of \$10,018,800,000. This total, large though it is, is only a fractional part of the total personal property inventories in the services. Competent testimony before congressional committees points to the long supply in many of these items, to their duplication and triplication in the separate depot systems embracing millions of square feet of valuable space.

The current surplus property disposal program which involves an estimated \$2 billion annually, plainly shows that there is not integration among the services as to procurement, storage, utilization, or disposal of the numerous items. On the contrary, the daily lists of proposed purchases and sales which come to my attention show the evident need for common control and management of these common items.

I should appreciate learning of any plans underway which are designed to carry out the full intent of the O'Mahoney amendment.

It is my purpose to furnish copies of this letter and your reply to Members of the Congress in both Houses who are intimately concerned with this matter, and to keep the public advised.

Sincerely yours,

JOHN W. MCCORMACK.

DEPARTMENT OF DEFENSE,
OFFICE OF PUBLIC INFORMATION,
Washington, D.C., November 7, 1955.

[News release]

NEW UNIFIED FOOD SUPPLY SYSTEM ANNOUNCED BY DEFENSE DEPARTMENT

A new method for the unified supply of common-use commercial-type items to all military services was announced today by Mr. Reuben B. Robertson, Jr., Deputy Secretary of Defense.

This system, developed over the past year in the Office of the Secretary of Defense, is called the single-manager commodity assignment, and places all supply responsibilities for a given commodity under a single military department which will supply the needs of all services. "This system is a product of our never-ending search for improved efficiency and economy," Mr. Robertson said, "and I am sure the American public will be gratified to learn of unification progress in this area. Although the broad recommendations made by the Hoover Commission in this area are still under review in the Department of Defense, the adoption of this single-manager supply system for subsistence items is in line with some of the objectives of the Hoover Commission reports."

Mr. Robertson also stated in his announcement that the system was being applied immediately to all Army, Navy, Air Force, and Marine depot stocks of food held in the United States, with the Secretary of the Army designated as single manager, and that other commodity areas were being studied for future application.

The single-manager commodity assignment is a process whereby the Secretary of one military department, designated by the Secretary of Defense, is made responsible for the performance of all supply-management functions related to a specified commodity, for all military services. This assignment encompasses the entire supply field, from research and development through issue or disposal, including cataloging, standardization, requirements determination, procurement, production, inspection, storage, distribution, transportation, and maintenance.

Its purpose is to reduce inventories and eliminate unnecessary duplication and overlapping of functions within the Department of Defense supply system, provide the highest degree of effectiveness in supply at the least possible cost, and to provide a single management control of wholesale stocks of a single commodity category or type for the Department of Defense as a whole.

The secretary of a Military Department is assigned to act as single manager for a particular commodity. All of the other military services then provide him with basic data for computation of requirements. Ownership of all service wholesale depot stocks in the United States is then transferred to the single manager. After developing all requirements and matching them against what he now owns to meet total demand, the single manager then initiates procurement for the net deficit. He will carry all stocks in a revolving fund, and as the services require stock, they will purchase from him.

Once given the assignment, the single manager then surveys the location of military stations within a geographical area and selects the most desirably located depot to support all services in the area. This selection is done without regard to the service which owns the depot. That depot then stores the depot stocks for the single manager, acting as his agent, and issues as required to all services. It is possible for the Army to be the single manager for a commodity category and to have stocks in Army, Navy, Air Force, and Marine Corps depots. Only one depot will serve a given area, however, and the stocks would belong to the single manager, in this case the Army.

As noted above, the authorities given the single manager are broad and cover the complete gamut of introduction of items into the system through their consumption. The single manager will direct and coordinate all research and development, standardization, and cataloging activities. He will be the only buyer of depot stock items, and he will be the only seller. As well, he will designate those items to be bought locally. Since he has knowledge of all assets, there should be no concurrent buying and selling, and he is in a position to shift depot stocks to meet varying area needs. Greatest possible use of stocks is assured, and only that which is truly surplus will find its way to disposal, since only he can determine that it is no longer required.

Operation of this system will provide a responsible single management for requirements and distribution, purchase, storage space, inventory records and standardization. It eliminates duplicate pipelines, duplicate depot storage facilities and costly cross and back-hauling; makes interservice supply automatic; provides for effective rotation of mobilization reserves; and insures effective utilization of stocks, services, and facilities.

The evolution of the single manager system has been progressive. It is also the result of considerable study of several existing joint-service operations, and avails itself of the lessons learned from these.

Joint-service operations, because of their very basic construction, permit no single ownership of stocks. As a consequence, very costly equity accounts have to be maintained to show what belongs to each service. The joint agency is largely a service organization, able to provide for certain functional tasks such as procurement and contract administration. The agency can only perform at the call of the stock owner, and cannot provide single direction since there is no single head. This is not the case in the single-manager plan. There is only one whole-sale stock, effectively positioned, and centrally controlled, yet designed for the total Department of Defense requirements, with the single manager reporting only to the Secretary of Defense.

Deputy Secretary of Defense Robertson stated, "I consider this new unified approach to Department of Defense supply management another significant management improvement for obtaining more defense per dollar."

HOUSE OF REPRESENTATIVES,
OFFICE OF THE MAJORITY LEADER,
Washington, D.C., May 21, 1959.

Hon. MAURICE STANS,
Director, Bureau of the Budget,
Washington, D.C.

DEAR MR. STANS: I am in receipt of your letter of May 19, 1959, concerning the McCormack amendment to the Department of Defense Reorganization Act of 1958 and its implementation.

I shall appreciate receiving detailed information as to your program as your studies progress. There is widespread interest in this subject both in the Congress and throughout the country, and I shall place this exchange of correspondence in the Congressional Record and give your response the same forum unless you believe there are reasons for not so doing.

Sincerely yours,

JOHN W. McCORMACK,
Majority Leader.

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., May 19, 1959.

Hon. JOHN W. McCORMACK,
House of Representatives,
Washington, D.C.

MY DEAR MR. McCORMACK: Thank you for your letter of May 6, calling attention to the fact that the McCormack amendment not only authorizes centralized management of common-use items of supply but also authorizes the Secretary of Defense to take appropriate action with respect to other supply problems.

We recognize that the McCormack amendment is closely related to the points raised by Congressman Brown in his thoughtful letter of February 21, to which we are giving a great deal of attention.

Sincerely yours,

MAURICE H. STANS, Director.

HOUSE OF REPRESENTATIVES,
OFFICE OF THE MAJORITY LEADER,
Washington, D.C., May 6, 1959.

HON. MAURICE H. STANS,
Director, Bureau of the Budget,
Washington, D.C.

DEAR MR. STANS: Congressman Clarence J. Brown has kindly furnished me a copy of your letter of March 17, 1959, which was in response to his letter of February 21, 1959, concerning the possibility of improved management with respect to supply and service activities in the Department of Defense.

I note that you make reference to the so-called McCormack amendment to the Department of Defense Reorganization Act of 1958 (sec. 202(c)(6)) and state that the amendment "authorizes the Secretary of Defense to centralize the procurement of common use items whenever he determines that such action would be 'advantageous to the Government in terms of effectiveness, economy, or efficiency.'"

While the above statement is correct I wish to call to your attention the fact that the amendment which I introduced authorizes the Secretary of Defense to take effective action with respect to "any supply or service activity common to more than one military department by a single agency or such other organizational entities as he deems appropriate."

I bring this matter to your attention since there are a number of service activities in addition to common supply activities which, in the opinion of a great many people including myself, should be thoroughly studied and appropriate action taken thereon to bring about more economy, effectiveness, and efficiency in their operation.

In this connection I refer you to the statement I made on the floor of the House when the Department of Defense Reorganization Act was considered. (See Congressional Record of June 12, 1958, p. 9927.)

Sincerely yours,

JOHN W. MCCORMACK.

APRIL 28, 1959.

HON. MAURICE H. STANS,
Director, Bureau of the Budget
Washington, D.C.

DEAR MR. STANS: I am in receipt of your letter of March 17, 1959, and have given it careful study, and do not believe that it responds properly to my letter of February 21, 1959, as to content or spirit.

I am sure that you know, or at least your staff knows, of the interest I have had for many, many years in improving the supply-management activities of the Government and, particularly, in the Department of Defense, where so many billions of dollars are expended. Partly because of this long and intense interest, I was prompted to sponsor both Hoover Commissions, and have spent a great amount of time and effort in this area which I consider lends itself more than any other to economy and efficiency.

When former Director Brundage indicated to the Government Operations Subcommittee on May 28, 1957, that the Bureau of the Budget recognized the importance of this area of management and "was working on it," I was pleased, though it was immaterial to me whether the approach to improvement was through a reorganization plan, or pursuant to the Budget and Accounting Act of 1921, or through the Federal Property and Administrative Services Act of 1949, or through the general authority of the President of the United States, or otherwise.

I was interested in results and, quite frankly, I have seen small evidence of substantial accomplishments in this most important area. Certainly, I have seen no recent evidence that the Bureau of the Budget, which is the overall management arm of the President in these matters, has taken vigorous action with respect thereto.

Your letter of March 17 correctly indicates that I have opposed the concept of establishing still another supply service which would operate over and above the numerous existing supply services in the Department of Defense. What I think should be done is to merge or integrate, rather than create still more services. I think we need one effective supply service, rather than many separate and competing services.

It is also true that I have advocated that GSA should be given the tasks which were contemplated with the passage of Public Law 152, and also the means of redeeming them. This action was strongly advocated by the first Hoover Commission. GSA is now 10 years old, and I am sure that you are aware of the fact

that it will never operate as planned unless it has the strong backing of the Bureau of the Budget. Specifically, GSA can never operate successfully in the large supply and service areas unless it is organized, staffed, and equipped to take over some of the large common supply and service activities now performed by the military agencies. Here, again, I do not favor building up GSA and leaving the military agencies intact. There must be a transfer of stock, buildings, personnel, etc., if there is to be more efficiency, and this is a top management matter affecting organization.

I would suggest, Mr. Director, that the Bureau immediately try to delineate areas of common supply, particularly administrative-type items which can be turned over to GSA from the military agencies.

As a start, why not give it all types of office supplies, equipment, furniture, furnishings, etc., which are used not only by the military, but by numerous civilian agencies? I understand that GSA is serving the Air Force in this field, so why not extend the program to the Army and Navy also? In such a program I would expect, of course, that there would be less organization after transfers were made, than under current operations.

I also note from your letter that you tend to support the single-manager systems which have been developed for a few classes of items in the Department of Defense. I am sure you realize that there are only 44,000 items in the single-manager systems and, though some of these items are large in volume, the program is relatively small compared to the sum total of common items in the Department of Defense. For example, the "General stores" items in the services include 100,000 items or more, and even a cursory inventory analysis indicates there is a large duplication in these items in the military services. What has the Bureau done, or what does it plan to do to place these items under a single manager? I note from the Department of Defense appropriations hearings for 1960, part I, page 993, that criteria have been developed for the expansion of the single-manager program, and also for the designation of the managers to operate the new plans. If this is so, why should there be long delays in starting other single-manager categories? Certainly, with a vigorous standardization program there could be even more commonality with respect to these items.

I have made some inquiry concerning the unity in the military systems in the so-called theaters of joint command and find that a great amount of work needs to be done in the development of standard forms, procedures, regulations, etc., in order that there may be effective and responsive supply systems to back up the unified commands.

I presume that you are aware that the Air Force has started a study as to its communication requirements in the space age. Many people, including myself, wonder why such a study was not directed to the communications needs of the Department of Defense at this time when the idea of joint commands is commonly accepted.

Within the last few days I have noted that the Navy is contemplating a rather important reorganization of some of its ordnance activities involving two or more services. Newspaper articles indicate that legislative action will be required in this respect. I wonder what overall studies are in contemplation at the Department of Defense with respect to ordnance requirements among the three services?

I have also noted that the Army is currently developing a worldwide surplus property program. To what extent is this being geared to the entire program? And what is being done to stop the creation of needless surpluses? You stated in a recent "Face the Nation" program that "We have consultations going on with the Department of Defense even now, currently, on that subject." This has been a live problem since 1942, and something more than consultations are required to make progress. Now, I am not unmindful of the factor of technological change and obsolescence in this picture. But, frankly, there are too many military services buying, storing, and distributing the 3½ or more million items in the Department of Defense supply system. This is particularly so for common-type items.

Frankly, I think that we must solve the organizational and other problems which help cause the annual generation of \$8 to \$10 billion in surpluses. If you think that the McCormack amendment, section 202(c)(6) of the National Security Act, as amended, is the correct basis to get the job done, may I inquire what is being done with the Bureau's support in developing an overall program to accomplish the objective? Here, again, I am not unaware that good accounting is "a tool" to good management, but good tools are not enough by themselves.

I have written this letter at some length to indicate the scope and nature of some of the problems which confront us in the supply and service field as I have

viewed them over a long period of time. The General Accounting Office has issued approximately 200 reports in the last year dealing with some of these matters, though they have not as yet, so far as I know, studied and reported on the organizational weaknesses in the supply and service systems themselves.

It seems to me that the Bureau of the Budget which represents the executive branch topside in management matters, including reorganization, and which has the responsibility for presenting the budget, should be extremely active at this time in an area where the stakes are the national defense and the national economy. If this is not a management and organizational problem of the highest order, then there is none.

Sincerely yours,

CLARENCE J. BROWN,
Member of Congress, Seventh Ohio District.

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., March 17, 1959.

HON. CLARENCE J. BROWN,
House of Representatives,
Washington, D.C.

MY DEAR MR. BROWN: Thank you for your letter of February 21, 1959, calling my attention to a discussion which you had with Mr. Brundage when he appeared before a subcommittee of the House Committee on Government Operations in support of legislation to extend the Reorganization Act. Your letter is timely because we are now seeking extension of the Reorganization Act on a permanent basis and Congressman Dawson has introduced, by request, a bill (H.R. 5140) which would accomplish that objective. We hope to have an opportunity to appear in support of the bill and to discuss it with you during the hearings.

For more than a quarter century the Congress has provided authority in various forms for the President to transmit reorganization plans which take effect unless disapproved by the Congress during a waiting period specified in the statute. The 1949 act was enacted largely as a result of the work and recommendations of the first Hoover Commission, in which you had an active role. Under that act 57 plans have been submitted to the Congress and 43 have gone into effect. The procedure has been thoroughly tested and found to be a sensible and efficient way to get changes in organization actually accomplished. It is a device by which the Congress retains the ultimate control over the actions taken, while the President assumes responsibility for initiating the detailed preparatory work, and the time-consuming staff work which is usually entailed. The idea has worked mainly because it saves time. It is especially needed in accomplishing organizational changes which primarily improve operating methods and procedures.

Although the Reorganization Act has been helpful it does not replace congressional consideration of organizational issues included in bills which are introduced in the usual manner. We believe it is especially important to the success of the Reorganization Act for the Congress to find through experience that each plan transmitted has been carefully investigated and that it represents an objective evaluation of the issues involved. But a supporter of an organizational change which has not been included in a reorganization plan may, of course, introduce a bill which will bring the matter to the attention of the Congress.

As stated in your letter to me, and in your discussion in 1957 with Mr. Brundage, military procurement is a major element in the Federal budget. The Bureau of the Budget is concerned with these programs and the various proposals to centralize military procurement for "common use" supplies including the recommendations of the second Hoover Commission's Committee on Business Organization of the Department of Defense. The Congress also has had many opportunities to consider and act upon these proposals for a "fourth service of supply." For example many bills have been introduced to establish a central supply agency in the Department of Defense, such as H.R. 5790, H.R. 6048, H.R. 7429, H.R. 7612, H.R. 7639, H.R. 8604, and H.R. 8650 of the 85th Congress. Also, an amendment was proposed to H.R. 7665, the Defense appropriation bill for fiscal year 1958, which would have required the President to submit recommendations for a central supply organization reporting to the Secretary of Defense. That amendment was not accepted by the Congress, but the matter was considered in connection with the Department of Defense Reorganization Act of 1958. As a result, section 202(c)(6) of the National Security Act was enacted. That amend-

ment does not require establishment of a "fourth service" but authorizes the Secretary of Defense to centralize the procurement of common use items whenever he determines that such action would be "advantageous to the Government in terms of effectiveness, economy or efficiency."

In view of the new authority contained in section 202(c)(6) of the National Security Act, further action by legislation or reorganization plan does not appear necessary at this time. We would not favor action to establish a "fourth service" on a mandatory basis, at least until existing arrangements for unified procurement of common use supplies have been thoroughly tested. The "fourth service" concept would create another agency to deal in common use supplies, paralleling in part the responsibilities of the General Services Administration. It would establish another organizational layer without eliminating the supply structures in the military services which would still be responsible for the bulk of military procurement not considered "common use." The separate statement which you submitted with the Hoover Commission's report on business organization in the Department of Defense contained similar conclusions. You may recall that when the Hoover Commission's report was published, you included a separate statement objecting to the recommendations for a central supply service and concluded that "the suggestions for establishing a 'fourth service of supply' * * * are not new. They have been proposed and rejected on several previous occasions. In my opinion, they should be rejected again" (p. 104 of the report).

Progress is being made in accomplishing unified procurement and inventory control of "common use" supplies. There is unified procurement and supply management for all subsistence, textiles, clothing, petroleum, and medical supplies. Extension to other areas is under study. The volume of common use supplies furnished to the military services by the General Services Administration is steadily increasing until the quantity furnished this year will be more than double the volume handled in 1955 when the Hoover Commission prepared its report.

While I would like to see greater progress, we believe the current efforts, including the single-manager system and related arrangements, are in the right direction and that we should work for the fastest possible accomplishment of these measures. Further action now by legislation or reorganization plan appears unnecessary.

Sincerely yours,

MAURICE H. STANS, *Director.*

FEBRUARY 21, 1959.

HON. MAURICE H. STANS,
*Director, Bureau of the Budget,
Washington, D.C.*

DEAR MR. STANS: On May 28, 1957, Director Brundage appeared before a subcommittee of the Committee on Government Operations to press for the extension of the Reorganization Act of 1949, as amended.

At that time I had some doubt that the Bureau's request for the extension of the act on the basis of urgent need was warranted since little action had been taken in important areas under the existing legislation.

Please refer to my statement and Mr. Brundage's on pages 15-16 of the hearings on H.R. 6711 above referred to. Specifically, I said:

"Mr. BROWN. We have that trouble on the Hill, both among ourselves and with our constituents.

"As a perfect example of what I am talking about, I would like to see some sort of reorganization plan set up here that would go further toward actually unifying the military services. We have not gone so far, under the Unification Act. Certainly I would like to see a plan submitted that would provide for central procurement, for at least common-use items in the Defense Department, and perhaps in other parts of the Government—a matter we have had before this committee and a situation which we have found not to be good. There is too much separate buying and bidding against each other.

"The Hoover Commission, incidentally, has recommended better procurement procedures for the armed services. Every bit of evidence the Commission has had points to the need, and I think much has come before this committee in the past, to indicate great savings could be made for the benefit of the taxpayers through centralized purchasing.

"Mr. BRUNDAGE. That is right. It is one of the big problems that we are working on.

"Mr. Brown. The procurement field is where the money is spent, you know."

As you know, I sponsored both Hoover Commissions in the House, served on both Commissions, and helped prepare numerous reports of both groups, after careful study, which showed conclusively that the big area for saving in the Government is in more unification in supply and related matters in the Department of Defense. Certainly, Mr. Director, you must be aware of the stocks in the services that are valued at nearly \$50 billions in the supply systems inventories only. And a glance at the breakdown of inventories held by the many services should be enough evidence for the Bureau which is striving for a balanced budget, as am I, to go to work.

However, I fail to find in the 1960 budget or actions under the Reorganization Act, anything to support the statement of your predecessor that, "It is one of the big problems that we are working on."

Since this subject is sure to be raised if there is ever another request for extension of the Reorganization Act, and because it is most important at this time, I would appreciate a full explanation from you as to what has been done or is planned in this matter.

Sincerely yours,

CLARENCE J. BROWN,
Member of Congress, Seventh Ohio District.

DEPARTMENT OF DEFENSE,
September 3, 1954.

HON. GEORGE P. MILLER,
House of Representatives.

DEAR MR. MILLER: Thank you for your thoughtful letter of August 20, 1954, concerning the matter of the Army Alameda Medical Supply Depot.

The Army has taken an overall new look at its existing depot system in the United States and has determined that certain adjustments and consolidations are necessary in the interest of economy and efficiency in its supply system. On this basis it appears that the transfer of the Alameda Medical Mission from Alameda to the Sharp General Depot is indicated, due to a prospective reduction in receipts and shipments and attendant excessive overhead costs at the present location.

Both the Air Force and the Navy, however, are studying the Alameda Depot facilities with respect to their requirements with a view to its continued use in one or the other of their supply systems. A decision on this has not yet been reached.

The best operation which has been going on at the Alameda Depot in connection with the distribution of medical supplies is still under study and evaluation.

Let me assure you that we intend to take properly into account all benefits derived from the Alameda operation in our continuing program for improving the effectiveness and economy of the military supply system. We shall earnestly strive at all times to deal with these matters openly and in full coordination, not only with the appropriate committees of the Congress but with the individual Members who are concerned with seeing improvement in the military supply systems.

Respecting the present matter in connection with the Army Alameda Medical Depot, I shall appreciate an early opportunity to discuss this personally with you.

Sincerely yours,

T. P. PIKE.

DEPARTMENT OF DEFENSE,
September 20, 1954.

HON. GEORGE P. MILLER,
House of Representatives.

DEAR MR. MILLER: I have your letter of September 3, 1954, and the one of the same date to Mr. Anderson, Deputy Secretary of Defense, which has been referred to me for reply. Under the same date of September 3, I had sent you a reply to your previous letter.

It appears that there must be some unfortunate misunderstanding with respect to a discussion which Congressman Brown indicates was held between Mr. Hoover and Secretary of Defense Wilson. Mr. Wilson advises me that, to the best of his knowledge and recollection, he has never held a discussion with Mr. Hoover on the subject of the Alameda depot or the supply test there.

The facts of the case are still as related to you in my memorandum of September 3, 1954. However, I am happy to report to you that as of the moment it appears fairly certain that the Navy Department has a valid requirement for the Alameda Depot facilities and will make profitable use of the installation in their supply system. Certainly this facility, being immediately adjacent to the Alameda Naval Air Station as well as very near the Oakland Navy Supply Center would be very valuable to the Navy, providing their requirements justified its use.

If you wish, I shall be happy to advise you immediately upon final decision in this matter in case you might like to make a public release in your district.

Sincerely yours,

T. P. PIKE.

ASSISTANT SECRETARY OF DEFENSE
SUPPLY AND LOGISTICS, Washington, D. C., July 27, 1954.

HON. R. WALTER RIEHLMAN,
*Chairman of the Military Operations, Subcommittee,
Committee on Government Operations,
House of Representatives.*

DEAR MR. RIEHLMAN: Through our conversations in the past and through appreciation of what has been accomplished by you and your committee, I have recognized your sincere interest and the efforts you have made to provide guidance for the development of a comprehensive program for correcting deficiencies in supply and stock management practices of the military departments. As a result of this fact, I feel it is appropriate to advise you at this time of the course of action which we have developed in this area.

We are greatly encouraged by the progress made in the field of supply and logistics to assure the accomplishment of the most effective and economical administration and management of the respective military supply systems.

To permit you to evaluate our program objectives, it is necessary to discuss some of the history and background which resulted in the development of our current program. Specifically, I have reference to the concept which provided for separate supply systems studies in the area of common-use-type items of supply. These studies were carried on under the jurisdiction of the former Munitions Board. They were based on the premise that by combining like inventories of all military stocks, economies in the total inventory held by the Department of Defense would result. Further, that different types of items of supply required different organizations and methods of receipt, storage, and issue of supply. In the method of approach, these studies were made for the services rather than by them for the purpose of insuring that "unification" of supply systems would thus be achieved. In general, it was then thought that centralization of supply-management functions by commodity segments would result in economy by such centralization.

The formulation of such premises under which the studies were conducted did not, however, take into consideration the basic principles governing military supply support. It did not give recognition to the basic fact that each military supply system is maintained solely to provide supplies as needed by the tactical force that they were called upon to support, and that such tactical force—Army, Navy, Marines, and Air Force—must develop its own requirements; further, that these requirements must be provided for at all times.

When engaged in operations, the tactical commander cannot rely solely on resources which his service cannot control. He can rely on support of other services only to the extent that such support is available.

Taking due cognizance of the philosophy and approach established by these earlier supply-systems studies and by giving recognition to the basic principles governing military supply support, an ad hoc committee on supply systems studies was established by this Office with representation by the three top military supply managers and representatives of the Office of the Secretary of Defense; specifically, the Directorate of Storage, Distribution, and Disposal. The mission of this committee was to reevaluate the supply-systems studies of medical-dental subsistence and automotive materiel for the purpose of determining those recommendations which had already been adopted by the military departments, those which could be adopted, or those which could not be adopted in the form contained in the separate supply-systems studies.

The committee arrived at several basic conclusions. Primarily, the supply-systems studies, if all had been completed and implemented, would have established far more diversification in organization, methods, and forms than now exists.

Secondly, the combining of stocks of similar supply classes in a single but separate distributive system would not reduce the total volume of requirements of the four military services.

Thirdly, the use of stock funds within each service facilitates cross supply support and permits the use of judgment in total quantities to be on hand to support the service affected since the stock-fund manager is responsible command-wise to that service.

Fourthly, and of equal importance, is recognition of the fact that the original studies recommended jointly administered systems, each basically different. If the 14 studies had been carried out as planned, there would likely be 14 different and separate systems where 4 now exist. Because of the joint-management concept of the proposed systems there would be no agency except the Office of the Secretary of Defense to administer them. If the Office of the Secretary of Defense administered them, the responsiveness of the three military departments would be lost. Thus, the departments would not be separately administered, as required by statute, and the Office of the Secretary of Defense would become an operating agency and yet not tactically responsible for tactical operations. This would be a violation of fundamental military doctrine of proven worth.

The Alameda test was also a subject considered by the ad hoc committee. It is believed that this test has been much misunderstood. At a depot on the west coast, it had been decided to position all stocks for the Pacific coast and the Far East, regardless of whether it was necessary or advantageous. The total stock remained under control of the services represented. Total stocks for each service were established by each service and, as a result, there was no reduction of stock. This test resulted, for example, in backhauling from Alameda to the Naval Supply Center, Oakland, for all Navy ships. In the warehousing area, the criteria established were inflexible and often, where good supply management decision dictated delivery to user direct from producer, such action was set aside and delivery made to the central warehousing point.

The final and unanimous report of the ad hoc committee recognized the operational deficiency disclosed by the supply-systems studies and approved the implementation of the original study recommendations which were directly concerned with operating deficiencies. It recommended that those recommendations included in the studies which required the establishment of separate distribution systems for different commodity types, each different from one another, be disapproved. Finally, it recommended that no further studies using the commodity segment approach be made.

The original study recommendations covering subsistence, medical-dental, and automotive equipment totaled 147. Of these, 104 have been implemented or await implementation, indicating that the substantive value of the studies has been gained. However, it must be clearly recognized that the large number of recommendations indicated as already implemented by the military supply systems is not a direct result of the Munitions Board studies. Many of the features that were the subject of the recommendations were actually in effect prior to the conclusion of these studies and others were effected in the normal course of improving inventory management.

The continued existence of the supply-systems-study project precluded the treatment of basic supply problems across the board. Our present programs, now well established and advanced, require that basic supply policies applicable to all supply areas be developed and published; that receipt, storage, and issue of supply, subject to control of the service owning the supplies, be treated as a common function within each service, and the utmost standardization which is practicable and desirable be achieved in this area. Further, real economies in total volume of inventories will be achieved by shortening the length and volume of the pipeline; by storing high turnover items near the point of consumption and not at each stage in the pipeline; by improving (speedier) transportation; by use of financial data pertaining to inventories; by improving valid and accurate records upon which requirements and procurement are based.

Since the establishment of the Office of the Secretary of Defense, we now for the first time have within the Department of Defense, a constructive and comprehensive program governing the military supply systems mutually established and unanimously supported. It is under the immediate direction and administration of Mr. Albert B. Drake, my Director of Storage, Distribution, and Disposal. Mr. Drake is singularly qualified. He is the founder and former president of the Lehigh Warehouse & Transportation Co., Inc., of Newark, N.J. He is experienced and well grounded in handling all phases of storage and distribution of many different types of materiel produced and utilized by our national industrial companies. This has fitted him exceptionally well as Director of this all-

important component of the Office of the Assistant Secretary of Defense (Supply and Logistics). He also founded in 1945 and served as president until 1949, the firm of Drake, Startzman, Sheahan, Barclay, Inc., materials handling and warehousing consultants. During World War II he gained broad experience in the field of military-supply systems as Director of Depot Operations, Army Forces, Western Pacific, and as Director of the Storage Division, Army Services Forces.

Under Mr. Drake's immediate supervision and coordination, the top military supply managers—Maj. Gen. G. W. Mundy, USAF, Rear Adm. Murrey L. Royar, SC, USN, and Brig. Gen. A. T. McNamara, USA—meet regularly and for the first time have succeeded in burying service interests and developing among themselves a fine operating climate within which the remaining and much more important logistics problems are now being studied and solved objectively in the common good.

For your information, I am enclosing concrete evidence of the progress being made and which I am confident will continue to be made toward achieving the most effective and economical administration and management of the military-supply systems. The program speaks for itself. In addition to the "Statement of Programs," there are included copies of four directives, some already issued and others soon to be published. These directives are entitled, "Inventory Management," which establishes basic Department of Defense policy for the management of inventories of materiel; "Materiel Pipeline—Military Supply System," which prescribed the Department of Defense policies governing the requirements for, determination, establishment, and administration of the elements in the complete materiel pipeline of the military supply systems; "Administration of Mobilization Reserve Stocks," which prescribes Department of Defense policies governing the administration of mobilization reserve stocks by the military departments and other military agencies with specific reference to retention, storage, and care and preservation of all material available or to become available for application against the Mobilization Reserve Materiel Requirement; "Management of Materiel in Long Supply," which establishes policies and criteria governing the management throughout the Department of Defense of materiel in long supply.

The "Statement of Programs" has received the full concurrence of the military departments and all elements of my Office. The fundamental difference between the new approach used in this program and that previously established by the supply-systems project is that a commodity approach only solves commodity problems whereas the functional approach covers all problems inclusive of the commodity treatment.

Please be assured of my appreciation of your interest and cooperation in these vital matters.

Sincerely,

T. P. PIKE.

DEPARTMENT OF DEFENSE,
OFFICE OF PUBLIC INFORMATION,
Washington, D.C., November 23, 1954.

[News Release]

ARMY ALAMEDA MEDICAL DEPOT TRANSFERS TO NAVY; MEDICAL TEST CEASES

The proposed transfer of facilities at the Alameda Medical Depot from the Army to the Navy, pending congressional approval by the Armed Services Committees, was announced today by the Department of Defense. Arrangements for the transfer are underway, Thomas P. Pike, Assistant Secretary of Defense (Supply and Logistics), said, and it is planned that it will be accomplished prior to July 1, 1955.

The Depot contains 1,178,000 square feet of warehouse space, and existing medical supplies in storage will be issued or transferred prior to the transfer of the depot. The Navy will utilize the installation to augment the storage facilities of the adjoining naval air station. It is not now known how many of the civilian employees currently employed by Army will be required by the Navy. However, in accordance with civil-service regulations, civilian employees will be offered opportunities for employment by the Army at Sharpe General Depot and by the Navy at Alameda, as required.

Mr. Pike also announced the discontinuance of the medical supply test, which has been in operation at the Army's Alameda Medical Depot, Alameda, Calif.,

since April 1952. The test was an experiment to determine the feasibility of distributing and storing medical supplies for all three military departments through one regional distribution point for the support of the services in that area.

The test is being discontinued, Mr. Pike stated, only after a thorough analysis and evaluation of the factors involved in this military supply support area. Its results, he said, have materially assisted the Department of Defense to develop a comprehensive program for eliminating unnecessary duplication and overlapping in supply and stock management practices of the military departments.

Experience gained from the Alameda medical-supply test, Mr. Pike said, has clearly demonstrated the efficiency and economy attendant with the utilization of military items of supply on a cross-servicing basis by all military services, regardless of the ownership of the stock. This principle forms an important part of the Department of Defense program.

The Alameda Cold Storage Plant, of the Oakland Quartermaster Market Center, and the 6022d ASU, Central Dental Laboratory, will continue as tenants of the Navy at the installation as will the 49th Infantry Division, National Guard.

Common storage and issue functions performed at the Alameda Depot have proven satisfactory to the Army and Air Force, and are being transferred intact to the Army's Sharpe General Depot, Lathrop, Calif. Factors and conditions set up for the test made the operation uneconomical for the Navy. The Navy's storage and issue functions and the partial stock of medical supplies involved will be returned to the Naval Supply Center at Oakland, Calif.

DEPARTMENT OF DEFENSE,
January 4, 1955.

HON. CECIL M. HARDEN,
House of Representatives.

DEAR MRS. HARDEN: Reference is made to your letter of December 1, 1954, in which you raised some questions regarding the decision that was made to discontinue the Alameda medical-supply test. You also requested information as to which medical-supply depots will be continued in operation throughout the United States and what territories will be served by each. I appreciate your sincere interest in our program for the development of policies governing the military-supply systems' operations.

The Alameda medical-supply test, which has been in operation at the Army Alameda Medical Depot, Alameda, Calif., since April 1952, was as you know an experiment to determine the feasibility of distributing and storing medical supplies for all three military departments through one regional distribution point for the support of the services in that area. The test was discontinued only after thorough analysis and evaluation of the factors involved in this military supply support area. Factors and conditions which were set up for the test made the operation uneconomical for the Navy inasmuch as the medical supplies for support of Navy units and installations were of necessity backhauled, increasing the cost of this supply support. Further, it was uneconomical for the Army to maintain a specialized depot for a single special category of materiel proximate to the Army General Depot at Sharpe. The Army Medical Depot at Alameda was also experiencing a reduction of receipts and shipments and attendant excessive overhead costs at this location. Economies could be effected by closing the Alameda Depot and integrating medical supplies with other supplies at the Sharpe General Depot. Another factor which assisted in reaching a decision was the fact that the Navy required additional storage space to augment the facilities of the adjoining naval air station. Rather than construct or lease new facilities, they are acquiring, by transfer, the storage facilities of the Army Alameda Medical Depot. All facets of the situation in the Alameda area were evaluated and our course of action was concurred in by the military departments and interested agencies within the Office of the Secretary of Defense.

The principles involved in the Alameda medical test and the experience gained from the test have demonstrated the efficiency and economy attendant upon the utilization of military items of supply on a cross-servicing basis by all military services. This principle now forms an important part of the Department of Defense program.

Addressing myself to the second point which you raised in your letter, concerning the question as to how our decision could be considered in consonance with the O'Mahoney amendment to the Department of Defense Appropriation Act of 1953, I have taken this opportunity to forward as enclosure 1 our "Statement of Programs," which we feel gives full cognizance to this amendment and

in reality, we believe, goes even further toward accomplishment of the objective of Congress in enacting this legislation. I had the opportunity on July 27, 1954, to forward a letter to the Honorable R. Walter Riehlman, Chairman of the Military Operations Subcommittee, Committee on Government Operations of the House of Representatives. In this letter an analysis was made of previous actions taken by the Department of Defense for correcting deficiencies in supply and stock management practices of the military departments and our proposed comprehensive program which we feel is an active positive approach for the progressive improvement of the military supply systems. I am taking the liberty of forwarding a copy of this letter to you for your evaluation as enclosure 2. I believe that a review of this letter will indicate that we are conforming with the intent and desire of Congress.

The information which you requested regarding the medical-supply depots which are still in operation and the territories that they serve within the United States is forwarded as enclosure 3.

Please be assured of my appreciation of your interest in these vital matters. It is my policy to keep interested Members of Congress, congressional committees, and the press apprised of the decisions we have made and the actions going forward in this matter.

Sincerely yours,

T. P. PIKE.

DEPARTMENT OF DEFENSE

November 18, 1954.

Hon. CECIL M. HARDEN,
House of Representatives.

DEAR MRS. HARDEN: Knowing of your interest in the Army's Alameda Medical Depot and in the medical-supply test which has been going on there, I wish to advise you at this time of certain decisions we have made, and the actions going forward in this matter.

The medical-supply test, which has been going on at Alameda, has been continued in operation for an extended period of time in order that we might be perfectly sure as to the results. We have fully evaluated the test and have analyzed the reports made thereon. In addition, I have personally visited the Alameda facility, inspecting the complete operation, and have discussed the subject of the test in its entirety, and have corresponded with numerous individuals on all the aspects, not only of the test operation itself, but of the entire Alameda Depot situation.

As a result, it has been decided that the test operation at the Alameda Depot be discontinued. The experience gained from the operation of this test is being incorporated in our continuing program for the overall improvement of the military-supply systems on a systemwide and functional basis. The responsible assistant secretaries of the military departments have concurred fully with me in this action.

Two other important facts, with respect to the Alameda Depot itself, are related to this matter. The Department of Army, within the overall improvement program, is realigning and reducing its existing depot system and increasing its flexibility by largely incorporating medical supplies into its general supply depot system. Accordingly, the Army has decided, with our full approval, to transfer the Army and Air Force medical-supply mission to the Sharpe General Depot. This transfer will be accomplished by July 1, 1955. The second important fact is that the Navy Department has a valid requirement for the Alameda Depot facilities, and arrangements for the transfer of these facilities between the two Departments are currently underway.

Please be assured that our decisions have been made and action taken only after most earnest and careful consideration and upon a complete conviction of their soundness.

Sincerely yours,

T. P. PIKE.

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