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THE INDUSTRIAL COLLEGE OF THE ARMED FORCES
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Industrial Mobilization Course

Coordination of Procurement

Lecture III - "Coordination of Purchase
Policies and Procedures"

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I INTRODUCTION

This is the fourth discussion of "Coordination of Procurement between the War and Navy Departments" and is entitled "Coordination of Purchase Policies and Procedures". The Purchase Policy Committee would probably consider this a subject not adaptable to the use of pretty colored charts, but I have brought along the charts you see here to avoid disappointing our chart enthusiasts from other committees, or being considered a shiftless cribbage player.

We have now been fortunate in having one lecture on this subject by a Rear Admiral, Admiral Strauss, who is indicated by the first bar on this chart (indicating). This was followed by a talk given by Colonel Neis, indicated by the second bar (indicating). Next, we were favored with a lecture on this subject by Brigadier General Rawlings (indicating), and now, to descend from the sublime to the ridiculous, we are to have one by me (indicating). In order to bolster the self-respect and aplomb of the present speaker, I had hoped that the fifth and last speaker might be accurately indicated by this last bar on the chart (indicating). Unfortunately, however, an exhaustive search throughout the Pentagon

failed to disclose a single PFC. We found another Rear Admiral, who will speak on Monday (indicating). However, nothing could prevail upon me to remove from the chart "the little man who wasn't there".

At this time we will give attention to coordination of procurement between the War and Navy Departments in the fields of purchasing and contracting policy and procedure. Emphasis should be placed upon the term "contracting", inasmuch as some functions covered, such as contract termination and property disposal, seem best characterized as contracting functions rather than purchasing functions. We shall give attention to those purchasing and contracting functions beginning with contract placement and ending with termination and property disposal, as indicated on the list upon this other chart (indicating). We are excluding from this discussion those functions related to design, specifications and requirements, already covered by Colonel Neis, and those functions related to production, being covered, at least in part, by the Production Committee. Obviously the list is so long that no attempt will be made to do more than cover the high spots. For the same reason no one, not even Admiral Strauss or General Draper, would pretend to be an expert in all these fields. It is hoped, therefore, that any questions from the floor may be answered by other members of the audience having specialized knowledge.

Before going ahead it should be mentioned that the words "coordination" and "integration" are often used rather loosely and interchangeably and seem to require definition. The Winston Collegiate Dictionary defines coordination as "the act or state of working together or functioning in

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harmony" and integration as "the process of making whole, or bringing together the parts of".

Earlier lectures and committee presentations have brought out clearly the fact that despite the division of Navy bureaus and War Department services along commodity lines, there are a great many procurement functions which are common to all bureaus and services. Admiral Strauss and General Draper covered twenty-three (23) distinct functions which are common not only to the bureaus and services within each Department but also are common to both Departments.

It is well-known that a very large proportion of all military production procurement by the armed forces is accounted for by large contractors selling to several bureaus and services of the two Departments. It, therefore, should be obvious that uniformity in purchasing and contracting policy and procedure of the two Departments within these functional areas would make for greater fairness, simplicity and efficiency and economy in the procurement field than has yet been obtained. During World War II great strides toward more uniformity and greater coordination was effected in those functional areas with which we are now concerned. This positive achievement should not be overlooked or minimized. We shall see, however, that much remained to be done.

In the recent depression years there was much talk of a "forgotten man". While the war contractor is by far the most vital cog in the procurement machine, too often during World War II he tended to be a "forgotten man". The need for greater coordination and uniformity and less duplication and overlapping between and within procurement agencies

has been plead earnestly by numerous contractors themselves. Many have complained bitterly that the so-called production "miracle" of the last war was accomplished not because, but in spite, of the procurement organizations then existent and the confusion, inefficiency, and unfairness resulting from inadequate coordination between and within services.

Much attention has been given to the organization of the top coordinating echelons involved in procurement. Inadequate attention appears to have been given to the relationship of contractor with Government, the most important link in the procurement chain. Apparently, few persons in authority have taken a contractor's-eye view of this relationship in its many aspects. That is a field for investigation and constructive action which can use leaders and statesmen and do without cynics, mental fogies, isolationists and ostriches!

These were some of the reasons for what the Navy usually calls the "Strauss Report", the Army usually calls the "Draper Report" and the Industrial College of the Armed Forces, in its lofty impartiality, calls the "Strauss-Draper" or the "Draper-Strauss" Report. As many in the audience will immediately realize, much of what is said here is based upon this well-known report, hereafter referred to as "the report". This might be called a report on a report. Any substantial originality in this discussion is purely accidental. It was thought that members of the audience who are not in the Organization and Administration Committee might not have had the opportunity to read this important study.

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II CONTRACT PLACEMENT

The first major function in the field of purchasing is the placement of contracts, that is, the selection of contractors and the timing of placements.

A previous lecture has pointed out that policy in this field has been largely coordinated because it is prescribed by higher authority; for example, the First and Second War Powers Acts covered purchase policies applicable to both War and Navy Departments. Again, WPB Directive No. 2 set forth the relative importance of the so-called "factors in contract placement" used by both Departments. The War Manpower Commission determined "labor areas" used as a guide in contract placement by both Departments. The Smaller War Plants Corporation worked with both Departments in encouraging placement of contracts with smaller concerns, thereby implementing policies set forth in WPB Directive No. 2. Finally, the Office of War Mobilization and Reconversion issued directives applicable to both Departments; for example, directives relating to contract placement during the reconversion phase.

Throughout the war the Purchases Division, ASF, and the Procurement Branch, OP&M, consulted informally to coordinate placement policies. War Department Procurement Regulation 2 and Navy Department Procurement Directive No. 2 indicate clearly the extent of the coordination effected. Nevertheless, efforts to coordinate interpretation or implementation of policy were spasmodic and informal. This, plus organizational differences, resulted in slightly different methods of approach. Both Departments issued directives regarding the timing of contract placement with the

object of shortening commitments without sacrificing necessary lead time but there was no evidence of effort at uniform implementation or application.

The subject report recommended a joint board appointed by the two Secretaries to coordinate all procurement policy for the two Departments.

III PRICING

What about contract pricing - another purchasing function which occurs early in the contracting process? Both Departments emphasize use of fixed-price contracts and close pricing through cost analysis to encourage efficient use of manpower, material and money, and as a substitute for peacetime competition.

Pricing operations, of course, were decentralized in the War Department and relatively centralized in the Navy's OP&M and Bureau Headquarters located in Washington. However, in the field of company pricing coordination was effected by joint agreements between the Departments. The coordination of individual contract pricing depended upon less formal arrangement at the operating level and upon individual initiative.

The study showed that there was inadequate coordination at the staff or policy level regarding contingency allowances, rebates from subcontractors, exemptions from renegotiation, "target price" incentive contracts and exemption from OPA price control. At the operating level, according to the report, there was a lack of systematic procedures for exchange of information on prices and costs which could and did prevent the best pricing and caused duplication of effort. Question: Is it entirely fair to contractors to receive different pricing treatment from the two

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Departments on similar items?

As a result of their analysis, the specialists on contract pricing recommended a joint Pricing Policy Board at the staff level and a sub-committee of the Board to effect coordination at the operating level. The War Department favored allowing the chairman to cast the deciding vote in case of disagreement, and the Navy favored action by agreement only. It preferred to maintain a "veto power".

IV CONTRACT FORMS

So much for pricing. What has been done to coordinate as to the forms and articles or clauses used for contracts of the two Departments? The report indicated that except for special isolated instances "the two Departments have promulgated and approved contract provisions and forms with little or no regard to those issued by the other". In some exceptional cases there has been a conscious effort at unification. In other cases contractors who have obtained special forms or articles from one Department have requested and obtained the same or a similar article from the other Department. Legal personnel in the procurement coordinating organizations of the two Departments have coordinated to some extent, but whereas the War Department uses certain standard forms which may be varied within limits, the Navy Department has no formally prescribed standard forms. It has certain approved clauses and each bureau has more or less standard forms for its own use but big contracts are tailor-made and the bureaus have much discretion in working out contract provisions. A few forms have been prepared jointly, for example, forms covering training units, CPFF storage contracts for termination inventory

and the contract articles used in termination pursuant to the Joint Termination Regulation. Joint consultation has taken place regarding clauses covering patents, escalation after OPA ceiling changes, renegotiation, and repricing.

Inadequate coordination as to forms has handicapped both contractors and the Government. Many contractors have been forced to make detailed study of at least two different forms of long and complicated contracts covering identical or similar items of materiel. It is obvious that the adoption of identical contract clauses and forms would greatly assist the War and Navy Departments in dealing with contractors and would lead to greater uniformity, fairness, simplicity, speed and efficiency.

V CONTRACT FINANCING

The next important purchasing function during World War II was that of providing working capital to contractors (indicate). The two Departments followed substantially similar practices in providing financing to contractors, although different in some respects. In making guaranteed V and T-Loans the Departments agreed on common policies and forms and issued instructions to the Federal Reserve System Banks jointly. They allocated contractors to the agencies having major interest to guarantee such financing and worked together through joint committees.

With respect to advance payments, however, the coordination was less close because of differences in internal organization of the two Departments. Nevertheless, termination financing for both Departments was covered in the Joint Termination Regulation. In spite of joint efforts certain differences remained at the time of preparation of the report.

The report, therefore, recommended that the Departments seek greater uniformity as to policy and jointly codify regulations on production financing, along with other procurement regulations. It was suggested that a joint Army-Navy Finance Board be created to establish common policies and procedures, with a unified operating financial agency under it.

VI INSURANCE

Regarding insurance related to procurement the study showed that the Departments have now attained substantial uniformity of policy and that "one staff could easily perform functions for both Departments if procurement for both were under one authority". However, since differences were largely in method rather than policy, no immediate changes were recommended.

VII CONTRACT AUDITING

The next function listed on the chart is contract auditing. The report points out that various steps have been taken to coordinate auditing activities of the two Departments. For example, thirty (30) CPFF contractors working for both Departments were assigned to the one with the major interest for auditing purposes. To simplify termination accounting work the Departments assigned thirty-one (31) of the major contractors to individual offices which performed for both Departments. The JTR included a joint termination accounting manual which established uniform termination accounting practices. In a number of large industrial areas, Audit Coordinating Committees worked to coordinate termination accounting and exchange of data.

Despite such efforts important divergencies continued, including special auditing manuals containing different policies and principles as to allowable costs. Furthermore, the two Departments had no joint official channel to coordinate their relations with the General Accounting Office.

The study, therefore, recommended a joint board to issue cost rulings, study existing manuals in order to prescribe uniform procedures and instructions, and to deal jointly with the GAO.

VIII CONTRACT RENEGOTIATION

How well have the Departments coordinated in regard to their responsibilities under the Renegotiation Acts for recovery of so-called "excessive profits"? In this field there has been a very notable success in coordination as to policy, procedure and even in the details of forms.

The high degree of uniformity and coordination resulted from a series of successive steps. Even in 1942, when the Renegotiation Act was first passed, informal coordination was effected by assignment of each contractor subject to renegotiation to the Department and to the service having predominant monetary interest in the contractor's total business for a previous year. Informal meetings between the Under Secretaries and Price Adjustment Boards of the two Departments and the adoption of a joint statement of principles carried coordination further. Statutory authority and responsibility for coordination of renegotiation policy and procedure resulted from the creation, in February 1944, by Congress of a War Contracts Price Adjustment Board. The Price Adjustment Boards of each Department also included a member from the Board of the

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other Department. The results of such measures was so good that the authors of the report felt that no recommendations were necessary for achievement of substantial uniformity of renegotiation policy and procedure.

IX CONTRACT TERMINATION

What about coordination as to contract termination policies and procedures? It is well-known that in this field coordination has been highly developed. In 1943 Mr. Bernard Baruch and Mr. John Hancock gave attention to the large number of different contract articles or clauses used by the various contracting agencies. This multiplicity of clauses created confusion for the many contractors dealing with a number of procurement agencies and threatened to delay postwar readjustment and reconversion. The Joint Contract Termination Board under Mr. Hancock developed a uniform termination article and a number of uniform policies and procedures which were issued under the authority of the Office of War Mobilization and Reconversion. In July 1944, the Joint Board was superseded by the Office of Contract Settlement provided for in the Contract Settlement Act of 1944. This Office of Contract Settlement was charged with responsibility for policies and procedures aimed at achievement of uniform and efficient administration.

Along about this same time the War and Navy Departments decided to adopt a single set of instructions applying both to Army services and Navy bureaus involved in contract termination. In November 1944 the Joint Termination Regulations and the Joint Termination Accounting Manual were, therefore, issued and efforts were made to insure uniform

interpretation of the Joint Regulations. The regulation provides for a consolidated termination program whereby selected contractors are assigned to a particular War Department service or Navy bureau for field accounting review and for disposition of termination inventory. Local termination coordination committees were set up in some sixteen (16) large industrial areas having a number of local procurement offices.

Joint training of personnel to be assigned to termination activities was carried out here at the Industrial College. Several thousand officers and civilians of both Departments suffered side by side through the Re-adjustment courses conducted from January 1944 until the fall of 1945.

The experience in termination, like that in renegotiation, showed just how far policies, procedures and detailed regulations of the two Departments could be consolidated without any change in the organizations of the two Departments. The success in these fields makes clear the fact that the word "coordination" need not be confused with "integration" of operating organizations. The advantage of having a single document for regulation of termination activities, with the resulting saving of time, simplicity and fairness, are obvious. The idea could be copied to good purpose in other functional areas without any substantial changes in organization. This field could use some missionaries in the years ahead.

X SURPLUS PROPERTY

In the field of surplus property disposal which we may next consider, both Departments have been subject to the Surplus Property Act of 1944, and the regulations of the War Assets Administration and its several predecessors in the surplus property policy-making field. As a result, the Departments follow the same price policy and report their surpluses

to the same disposal agencies according to the same regulations. Coordination as to foreign property, real estate, and termination inventories was considered adequate. However, coordination as redistribution of domestic personal property other than termination inventories was considered capable of improvement.

The report recommended that a joint committee be created to consider uniform Army-Navy regulations and a joint organization for redistribution or disposal of surplus property.

XI MISCELLANEOUS

Regarding contract appeals, patents related to contracts, and mandatory procurement powers the Draper-Strauss Report indicated that coordination had been carried out in certain aspects but that much more could be done through joint boards operating in each of these fields.

XII SUMMARY AND CONCLUSION

We have seen that in the field of purchasing and contracting a vast amount had been done to effect coordination between the War and Navy Departments by February 1945, when the Strauss-Draper Report was born. Much remained to be done except in coordination of contract placement policy, insurance policy, and renegotiation and termination policy and procedure.

To effectuate the necessary additions to coordination, we have seen that a number of joint committees or boards operating in various functional areas were recommended by the individual specialists responsible for parts of the coordination report. As the Committee on Organization and Administration is investigating the extent to which these recommended

joint agencies have materialized I shall not discuss that question.

The two main co-authors point out, however, that creation of a host of committees and boards in addition to the large number already existing (560 odd, per Niklason) would lead to overlapping and duplication between these new coordinating organizations themselves and further "fragmentation" of procurement organization, policy and procedure. It would be necessary to "coordinate the coordinating agencies".

For these reasons, as Admiral Strauss pointed out, an organization to be called the Joint Materiel Chiefs (from Army, Navy and Air Forces) and a Joint Director of Materiel were recommended. They would formulate uniform policy in all the fields covered previously in this lecture and indicated on the chart (except contract auditing) and see that the policy was carried out. Besides this activity at the staff level, a Joint Procurement Assignment Board would work to eliminate duplication and overlapping between bureaus and services at the operating level. The chart here (indicating) shows the relationship of the recommended joint organization to the procurement organizations of the two separate Departments. In the event either of a unification, a merger, or a division into three separate Departments, a similar organization would still be needed to effect coordination between the Director of Common Supply and Hospitalization proposed by the War Department, who would procure common items, and the three procurement organizations responsible for items peculiar to the ground, sea, and air forces. In other words, as Admiral Strauss pointed out, the question of unification has little to do with the need for a single joint organization for coordination of procurement policy, procedure and operations.

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The report contemplated transfer of some functions and personnel from the separate Departments to the policy and supervisory organization under the Joint Director of Materiel. The procurement operating organization, that is, the bureaus and technical services, could, however, remain organized as before. Of course, there is a body of thought to the effect that in the atomic age it would be unwise for Navy procurement operations to remain centralized in Washington. Some also think that if Navy procurement operations should be decentralized, an actual integration of Army-Navy procurement at the operating level but divided along commodity lines might be practicable.

One other final word, if you will pardon a personal reference. Since I married an officer in the WAVES thirteen (13) months and nine (9) days ago, unlike most speakers on this subject I am in a position to speak as a living experiment, an Exhibit A, in Army-Navy coordination. For over a year in my private procurement organization the Navy has determined purchase requirements and either made purchases or had the Army make purchases of subsistence and other common and uncommon items through "cross procurement". You can readily see that no malnutrition has resulted.

I can even assure our friends from the Navy that their fears to the effect that under a "single command" the Navy would be "swallowed up", ignored, or minimized are not borne out by my own experiment in coordination during the past year. In fact, the Navy may exercise the "single command"!