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ORGANIZATION FOR FEDERAL PROCUREMENT

17 December 1947

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COLONEL NEIS: Gentlemen, in the final phase of the course you will be preparing an economic mobilization plan. You will also be making a critique of the plan that has been developed by the Munitions Board.

In the past, many of the students have felt we should utilize, in any planning program we achieve, the established agencies of government to much better advantage than we did during World War II. We have a very definite example with respect to the use that was made of the Agriculture Department in the procurement of food for the Armed Services. We have another very excellent example of the participation by the Department of Justice in internal security matters. I believe all of you were impressed with the most excellent job done by the F. B. I. There were practically no internal sabotage in this country as the result of its effective work.

By the same token, we feel we have a great deal to learn in the matter of procurement. We are extremely fortunate this morning to have with us Mr. Mack of the Bureau of Federal Supply. That agency, you know, procures all items of a commercial nature common to more than one department of the Federal Government. The experience of the Bureau of Federal Supply, I think, would be extremely interesting to you in your future considerations of the type of procurement organization you want to consider in any plan for economic mobilization we develop.

I say we are extremely fortunate to have Mr. Mack, Director of the Bureau of Federal Supply, with us this morning. Mr. Mack has been very generous in the past. This is the third time he has appeared on this platform. Today he is going to discuss for our benefit the matter of organization for Federal procurement.

Mr. Mack has brought along with him his two assistants, Mr. MacLeod, who is going to discuss the subject of "Standardization" as it applies to Federal procurement, and Mr. Freeman, who is going to discuss the subject of "Purchase Policy."

Mr. Mack, we will be delighted if you will come to the platform at this time and discuss your subject. Mr. Mack, gentlemen.

MR. MACK: Gentlemen, this morning I thought I might discuss the organization that the Bureau of Federal Supply has for procurement. First of all,

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I suppose it is important to emphasize that the Bureau of Federal Supply is a central supply organization. Organizationally, that is a relatively significant point. In other words, our customers are the Federal agencies. We buy against their requisitions. We use their appropriations for the purchase. So, we are buying requirements for other departments and agencies with their funds. That is the working relationship we have in so far as the buying job is concerned. It relates also to certain other supply activities.

Beyond that, and perhaps I should have mentioned this point first but I reversed them for a purpose, we have certain responsibilities. Those responsibilities are to do particular things. I will try to cover those as I go along. So there are two broad phases: one, operational; the other, policy responsibilities.

The name "Bureau of Federal Supply" is one we have had a very short time, in fact since the first of January this year. It is more than a change in name. It is a change in the concept of the job we have to do. We have worked with this job for quite a little while. We have lived with it. We have had an opportunity to study it a good bit and we have made certain changes. We have not, as yet, reached the stopping point for there are many more things to be done.

This supply job is pretty important. I just want to emphasize that point. The most recent survey by the Bureau of the Census of industrial firms—not a recent one but it is the last one that was made—based on a check of some 200,000 industrial firms throughout this country and a cross section of those industrial activities, showed that approximately 54 percent of their expenditures for production were for materials, supplies, and equipment.

That fact has had a great deal to do in stepping up the responsibility of the supply function in industry. That has a significance, I think, in government. Too many times fellows think of the supply job as a matter of getting a requisition, copying those specifications and making the purchase. If they do, they certainly have missed the boat and they are not doing the job because the job of supply in government, as I see it, while we do not have quite that same proportion of expenditures to the total for supplies, materials, and equipment, it nevertheless is still the second largest expenditure in the Government. Except for personal services this government spends the next largest amount for its supply programs. It is tremendous. I think it calls for every bit of thought and coordination, in carrying out those plans, that can be accomplished. For a number of years we have been trying to determine what might be the best organization for a central supply organization. I do not say we have the complete answer now, but we feel there is quite an improvement, or at least it is a trend toward the way it should be for the job.

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The sort of organization we now have, for the kind of job we have to do, is well-balanced, in our opinion. Before, the emphasis was on purchase. True, purchase is a primary responsibility; it is pretty important. But purchase, standing alone, is not the supply job. So we have tried to go back to what we consider to be a proper balance. We feel that, starting of course with the determination of requirements, next standards— and standards as related to the determining of requirement is so important I cannot overemphasize it.

You fellows have handled the supply job, I know. You know that you get requisitions for specific requirements and you are expected to do a good buying job. What I am saying is that there needs to be the utmost coordination and cooperation, the closest working relationship between standards and the determination of requirements that there can be. We do not have it. You know it and I know it. But, we are working toward what we consider will be a very much improved relationship along those lines.

To those who are not familiar with standards, those who are not familiar with the development of purchase specifications, those who do not know the significance of commodity classification, it is pretty hard to sell a bill of goods.

I remember, when I first went to the Bureau of Federal Supply— it was then the Procurement Division, Treasury Department (Treasury Procurement, as you know it)—one of the things that impressed me as being practically useless was this tremendous cataloging activity they had. I very frankly say that my impression was based on the fact that we did not know the significance of it and what could be done with it.

So I want to emphasize these two phases of standardization: first, the purchase specifications; and, second, the commodity classification—the importance of these to the basic job of determining requirements.

The philosophy of public buying is perhaps twofold. We have basic laws 3709 and 3710. They concern, of course, the Federal Government generally. Then we have the War Powers Act which has not been completely repealed as yet. We have certain specific authorizations in particular legislation. However, when you get behind the statutes, executive orders, rules and regulations, all of which are important—don't misunderstand me; they are all important—there is the philosophy of public buying. That philosophy, as I see it, is twofold: first, competition; second, accountability. Competition, because in public purchasing it is basic that when you go out to buy something with taxpayer's funds you should have adequate supplier coverage. There is a lot of improvement to be done there.

First of all, these mailing lists sometimes get to be in the category of, well, just another part of the mechanism. That is one of the most

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serious mistakes, I think, that can be made in public purchasing. I think the principal job that the public purchasing officer has to do (Federal, state, county, and city) in spending these vast amounts of money—and they are large amounts of money—is to make sure he has a current, up-to-date, and adequate mailing list. In other words, where to go to buy the things you need. If you have that kind of information then you get competition in fact. On the other hand, if you have some dusty old list, some list that is changed periodically once a year, or some list that is changed at intervals that are much too long, you are not doing the job. Too often that is the case.

I have gone out to a great many of the offices in the field. One of the first things I say is, "Let me see your mailing list. Let me see how current it is. What have you in the way of new suppliers? How recently has this list been changed?" They always try to impress one with the fact that their mailing list contains twenty thousand names or thirty thousand names. That, in itself, is not a very impressive fact. But if the information they have, properly broken down as to commodities, locations, and so on, is maintained currently, it can be a much smaller list and can be a much more useful list. That is the only way to get adequate competition in public purchasing. I think it is a tremendous responsibility on the public purchasing officer to keep mailing lists current.

Then, purchasing is also accountability. I consider the job of spending public funds the highest trust one can possibly have. I know you fellows have had experience. I know you have been all through this, but I am emphasizing things that impress me. I would just like to cover them generally. I know you know all these things but they can stand emphasis.

When one makes a purchase, I think it is a "must" that that file which relates to the purchase transaction by itself should speak for the transaction; that the file should explain whatever needs to be known about the transaction; that within the four corners of that file is the complete story.

That is not always the case. We have tried to watch that pretty carefully. During the war we missed occasionally, because we had new and untrained employees. They put in telephone calls and they did various other things but they just didn't take the time to make that little memorandum and stick it in the file. That is accountability, which shows by documentation just what was done and why it was done.

That does not mean a big file is essential. I think I am as opposed to unnecessary paper work as anyone can be; I have spent a lot of time trying to avoid it. Nor does it mean that we need a whole lot of documentation. It means there should be adequate documentation to show why we did what was done.

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So those two points, I think are rather important: First, the current mailing list, the up-to-date mailing list, is the actual way of getting real competition and it is our responsibility to get competition. Second, that the file relating to the purchase transaction will, in itself, explain what was done and why it was done, in effect, the accountability.

I have spoken of standards. It is related to the determination of requirements. Mr. MacLeod, who is the Deputy Director in charge of the Standards Branch, will cover certain phases of standards work.

I have spoken about competition, the need for current mailing lists; in other words, that is a pretty big field.

Which of these old suppliers are making new products? A lot of them. What new concerns are making products? That is new information. Along those lines we have that relationship to standards—standards with relation to the determination of requirements and standards with relation to the product itself—and it is this: If we have new products, if we have old products with certain revisions and production changes, I think it is pretty important that we have a working relationship with industry whereby those who are responsible for standards will have that information in order that they can currently and constantly bring up to date the information as to changes in specifications.

There is nothing quite so unsatisfactory as to go out to make a purchase on the basis of a specification that is not up to date. If you know materials, you are bound to know that that is the case and you know from the industrial viewpoint that is not satisfactory; they, after all, are the taxpayers.

In the organization we now have, we are placing increasing emphasis upon transportation. We feel that transportation is very closely related to the purchase job. As a matter of fact, the traffic organization is under the direction of the Deputy Director in charge of the Purchase Branch. We feel it is that closely related to the supply job. In industry they are beginning to recognize that. They are bringing the traffic man right into the purchase organization, or under the same supervision. After all, the cost of goods is not the purchase price or the cost of the materials. It is the delivered cost, with all of these related charges, that add up to the final figure with which the appropriation is charged. That brings in, to a very high degree, transportation.

Then we come to distribution. We have done a lot of work with the civilian agencies of government in so far as distribution is concerned. We made a survey—that has been going on for a while and we hope to complete it by the end of the present year—of the civilian warehouses throughout

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the country. We found there were 406 of them. We have been studying them, liquidating them, consolidating them, and so forth. We have 60 left to survey.

We are bringing those warehouse activities within twelve supply centers of the Bureau of Federal Supply. The objective is, of course, to bring the consolidated requirements for all of the agencies, that heretofore supplied their own requirements from their own warehouses, into a central supply agency. That is pretty important because when you are serving various agencies of government you think in terms of the kinds of things that central supply agency is best able to do on the purchasing job. You think in terms of term contracting because, there, you make term contracts for a number of items that are used commonly throughout the government service. You think in terms of consolidated purchase requirements. And, you also think of the stores operations.

It is on the latter phase that I have just started to explain what has been done. We carry in these supply centers the supplies that are in common use by all agencies that heretofore were distributed from the warehouses maintained by themselves. In other words, we hope by the end of this year, instead of having 406 independent warehouses operated by a number of agencies throughout the country, to have twelve warehouses, one here in Washington and others located throughout the country.

The buying advantage there is to be able to buy in bulk; get the advantage of quantity price; to get the benefit of transportation saving; and to distribute according to any day-to-day needs that may be required by the agencies so they do not have to stock beyond a minimum amount.

Those are the three principal operations we feel today are very closely related: First, standards; the relationship to determination of requirements; second, the purchase activities and transportation related to the purchase activities; and, third, the distribution activities relating to civilian requirements.

We do supply some military needs from the warehouses, but that now represents a very small part, of course, of the needs you have.

The administrative and fiscal requirements, we think, are important considerations. While they are not operating functions they, nevertheless, have a lot to do with the operating job. In that respect, while I am now speaking about our organization, I feel that to do an adequate supply job, to do a proper supply job, we need to have a very close relationship with the administrative people—I am speaking now of the Government, generally—and with the fiscal people (the Budget people). Once you get into procurement planning, you might decide, for example, from a supply viewpoint,

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that thus and so would be a good procedure, thinking exclusively in terms of supply. Then you get in touch with the fiscal people and you say, "Here's a proposed plan. What do you think of it?" Right then you start to run into an entirely new field of considerations. They say, "Well thus and such is the procedure with regard to the allocation of funds. This has to be done from a fiscal viewpoint. Thus and such is a major consideration with us."

Consequently, we found, after going through that procedure a good many times, that it saved us a lot of time to work from the inception of a plan with those responsible for the fiscal operation; also with those who are in top administrative positions. We have made it a practice to bring into our organization, at the meetings we have periodically—they are luncheon-staff meetings—fellows who are in top administrative positions. For example, just recently we had Under Secretary of Commerce Foster who, by the way, spent several years during the war period with the Army. He is a top man in so far as knowing anything about supply, and administration as well, is concerned. We felt that that was rather important.

We have talked generally about the organization. Now I might try to give you somewhat of a summarization of what I have said.

We have our three operating branches. They are the Standards Branch, the Purchase Branch, and the Stores Branch. Under our Standards Branch we have our Specifications Division, Catalog Division, Research and Technical Services Division, and Inspection.

I did not speak of inspection. That is a phase of the work we have been trying to do a good bit with; we still have a long way to go. We have been trying to get out, for general distribution throughout the Government, a manual for receiving clerks. We are now working on a manual for inspectors. That is a whale of a job. The thought is to make that available, throughout government service, to the civilian agencies. I know the military have gone into inspection pretty thoroughly.

In the Purchase Branch we have our Contract Division and Strategic and Critical Materials Division. We also have our Central Traffic Service Division, which I spoke about, and Public Utilities.

The Strategic and Critical Materials Division has to do with the purchase of strategic and critical materials for the Munitions Board. While the purchase activities relating to that program are within the Purchase Branch, inspection is over there and it is under the appropriate function.

Public utility studies is a new operation. We have been very much pleased with the results they have been able to come up with. It is a small

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group of utility engineers. They have been reviewing proposed utility contracts. They have been keeping in touch with any proposed rate changes, any petitions filed by utility companies for changes in the rates, and where the Government has a substantial interest they and their attorneys appear; they really have come up with some pretty substantial savings.

In the Stores Branch there is a Management Analysis Division, Merchandising Division, Storage and Handling Division, Washington Warehouse Division; the fuel yards for supplying fuel for the Washington, D. C. central heating plants, and so forth. We also have shops for furniture repair, typewriter repair, and so on.

On the administrative side we have the Fiscal Branch and the Administrative Branch. On the fiscal side we think that, in so far as its contribution to the purchasing job is concerned, that can help materially. When we enter into a purchase contract, or issue a purchase order, we have a good many conditions, many of which are imposed by law; others may be special conditions. But we say to the supplier, "You must do these things. One of the things we do for the supplier, if he has met all of these conditions, is to give him his money when it is due. A little while ago, a fellow came to see me. He is with one of the credit associations. He claims his members had a tremendous amount of trouble with the government agencies because they take discounts after the time is past; or they delay payment of bills. Their claim is—and it is a justifiable claim—"If we do everything we are supposed to do, why don't you do that part of your job and pay us when we are entitled to be paid? We know the credit is good but we also have to use money."

In connection with the Administrative Branch, there is one point I want to mention—our Supply Centers; we have twelve of them. They are located at Boston; New York City; here of course; Atlanta, Georgia; Cleveland; Chicago; Fort Worth; Kansas City; Denver; Seattle, which handles the Alaskan Railroad, the Indian Service, and so forth; San Francisco, and Los Angeles.

I would like to speak a bit about the administrative setup. But, before I do that I will speak about an Advisory Committee on Procurement Policy. It has membership from all agencies of the Government, including the military. We have monthly meetings. The purpose of those meetings is to bring together the fellows concerned with supply, exchange ideas, find out what might be done to do a better job.

One of the things we are starting to work on now is scheduling. Throughout the service generally there is a tremendous job to be done on that. You see, we operate on an expenditure basis, as you well know. We go to the Hill; they give us an appropriation. That appropriation is for expenditures for the next fiscal year. Consequently, the entire operation

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is expenditure. We have the money for that year. As a result, it handicaps some of the things that are done in industry and supply, some of the forward buying, because we are limited to the money we have for the year. Nevertheless, within that limitation, there is a whale of a job to be done and we are trying to coordinate that.

The General Counsel and his staff (Legal Division) is a part of the Treasury Department setup.

The Government Requirements Division, which reports directly to me, is a recent setup.

We have had all kinds of planning groups over there. I am very much interested in planning because when we stop planning we are in trouble. Planning is the means of knowing what is going on and what can be done to improve. It helps to contemplate what further might be done to do a better job.

Well, we had administrative planners and all kinds of other planners. We had economists and fellows with various qualifications to try to determine what types of qualification in employees could give us the best supply planning results. This may be the personalities involved. But we feel the best results we have been able to get are from the fellows in a planning group who know the supply job. Some of these fellows, having qualifications as set forth in the Civil Service Commission's classification sheets, are experts in all phases of economics and fiscal management and procedures, and they can write up a beautiful directive. But getting right down to brass tacks, we have come up with more results, quicker, by having fellows in our so-called Government Requirements group that have actually done the operation job and know what the consequences of their planning would be working with the economists and planners. That seems to give a better balanced group for planning.

You know, many times a planning group will go ahead and plan something, an order is issued and they hand it on to the operations group and say, "Here it is." Well, we have gotten away from that. We used to do that. Our thought is that the operating people need to be brought in with the planning people periodically, as the planning program goes along, to find out, from their point of view, whether it is workable.

For example, the head of the group in charge of the field office was head of the Contract Division. He is an engineer and top-flight supply man. He worked up from a purchase officer. The fellows with him have been top men in the purchasing job and in other phases of supply work. You see, we purposely have shifted them around so they would get pretty broad training.

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It is a very small group. They do a pretty big job for the size of organization. I think there are about a dozen fellows who make surveys of Federal agencies in addition to planning studies within the bureau. We have today a survey going on by that group in the State Department and in the Department of the Interior. I have a date to see the Postmaster General this week to start one in the Post Office Department. The idea is to keep making surveys of agencies currently to find out what kind of job they are doing in so far as procedure and operations are concerned so we can standardize. If there are certain things being done that are pretty good, we want to make that information available to the government service, generally. From our point of view, we do not want to have a tremendous organization. What we want to do is try to keep the job as near to the point where the supply is needed. We want to keep our activities within that field where there is a very definite showing of an advantage.

The Planning group considers, for example, reports of Federal purchases. We get copies of all purchase orders from the civilian agencies and the military agencies, except for strictly military items. That information is consolidated by spot-check and by particular commodity. Then it is determined from that whether certain items should be brought into a consolidated purchase program; whether they should be brought into term contracts; whether they should be cut out, and so forth and so on. We do feel that that group is pretty productive.

Now I mentioned administration. There is just one thought I want to leave with you before I close. It is this: We have tried to emphasize training of personnel. We have emphasized purchase training. We have emphasized training in traffic. We have emphasized other phases of training activity. We developed courses for use within our own organization. Some of the other agencies of the Government asked if they could have representatives attend the classes, which, of course, is agreeable. But we specify they should send people who could go back to their own organization and, in effect, pass along the information there that they had received while they are with our groups. This course runs for perhaps a two-weeks' period.

Then the state, county, and city people asked if they could be brought into the program. Well, we gave that a lot of thought. This is just an estimate, but I rather imagine that about two billion dollars go, in appropriated funds, to states, counties, and cities for Federal-aid programs. A good part of that money is spent by these public purchasing agents in the states, counties, cities, and so on.

So we finally decided we would go ahead with that program. There has been established what is known as a National Academy of Public Purchasing.

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We are having our first seminar meeting the early part of next year, perhaps during February. We plan to bring in as group discussion leaders the top purchasing men in state, county and city purchasing activities. For example, Al Pleydell, a former Commissioner of Purchases of New York City, who has done a marvelous job. Then there's Joe Nicholson of Milwaukee, one of the top men in public purchasing. He has some splendid ideas that ought to be made available, generally. Al Holm, city purchasing agent of Los Angeles, a very excellent man who knows his job thoroughly; Betts, the Director of Purchases for the State of North Carolina, and so on. We are going to bring in those fellows and have them lead discussions of this group. The group will not be large. There will be about forty. We hope Colonel Neis will talk to the group on Standards. We have asked Commodore Watts to talk to the group and he indicated he would be able to do so. We think it will be a helpful thing both ways: We can get a lot from them and we hope some of the things we are doing will be helpful, too.

The important thing is, the interchange of information should be of some general benefit.

Those are the highlights. I think Mr. MacLeod can give you more detailed information on standards and Mr. Freeman on purchase.

Thank you.

MR. MacLEOD: Colonel Neis, gentlemen: I think that perhaps in talking about standards and standardization I might attempt to avoid some detail that you might like to include in any questions you would direct after the discussion and cover the subject, as it strikes me in the Government, rather broadly.

Standardization, a much-maligned and badly used word, perhaps should be taken out of our vocabulary for this discussion for the simple reason that it has to be interpreted very specifically on every case in point. The word "standards" is far better from our viewpoint, I think, because it encompasses the whole field of engineering in supply.

As Mr. Mack has indicated to you, he has set up in the Bureau a coordinating group of technical people handling the complete phase of commodity standards work as related to purchase, distribution, estimating requirements, and so on. In consequence we deal, with specifications, cataloging, inspection, and the information aspects of these operations.

I do not think, and never have been convinced, that you can very easily divorce specification operations from cataloging because the specification deals with, essentially, a group of items or a category of commodities, by setting up the measurable values that have to be met in

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producing the items: the test methods, the inspection procedures, and the sampling; whereas the cataloging is an identity process that includes the characteristics of the individual item, even down to the actual size that is to be supplied, along with a related grouping of that item with other items that are in close association.

The inspection organization is the service function that ascertains very definitely that you have received the item you set out to specify and describe and that it will, in fact, perform the function specified.

Those operations are, essentially, service. Their development occurs as the result of purchase, warehousing and distribution operations.

In the Federal Government it would be impossible, it seems to me, ever to establish a single organization that could do a specifications or standards catalog job across the board.

I have always felt that inspection must be a considerably decentralized operation, which can never be done solely through an area of coordination. We certainly have a tremendous number of technical people throughout the government agencies and in the Military Establishment, and we get down to the technical services of the Army and the bureaus of the Navy, that are devoting vast amounts of time to closely related problems without adequate coordination.

At the present moment—I think it will be of concern and interest to the College—in the specifications field we have reached a degree of coordination that, I think, is quite astounding. The Federal Specifications Board, as you know, has become very active. It meets regularly once a month. It is in continual contact and is a very virile group. Its members are carefully canvassing specifications both in the Federal area of the coverage and in the military area. Colonel Neis, I am grateful to say, had a great deal to do with the initiation of that activity in the form that it now goes forward. We are not at all current in our work and indications are that it will be a long time before we will be current. But we have a degree of coordination between the civilian-item specification and the military-item specification; a coordination we were not able to achieve previously.

To give you some indication of the status of the work, the Federal Specifications group has before it, in its technical committees, something in the neighborhood of twelve hundred specification projects. We are operating at the rate of something above two hundred completions a year. In so doing, we have found it essential and urgent that in our specification projects we do as much standardization as possible so that we eliminate uneconomical types of material and unnecessary, wasteful sizes, varieties, and types. That is a continuing process and, again, a part of the

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standards job. In the past, there were tendencies, I am sure, for individuals to have personal likes and dislikes for items. That crept into specifications to the point that some of them had very unnecessary and duplicative types and varieties of items.

The JAN Board is devoting more and more time to military items. I think that is proper. However, I think the military organization must devote a tremendous amount of time to civilian items because of its great concern in those items. About eighty-five percent, or so, of the volume of purchases rests in the military. Probably it also uses a proportionate percentage of items—somewhere between eighty-five and ninety percent—used in the Federal Establishment. Now that means that while there is strong indication that the greatest problem rests with the military, from the viewpoint of standards, the civilian area, which is very essential to the military operation, must be taken into account, especially in connection with any specification or standards development. Therefore, I think it would be very unwise for the military to concentrate its energies exclusively in the field of so-called military items—even civilian items that are of military urgency.

The relationship between the specification and the cataloging of items is very direct. When you have developed a specification, it follows that that item must be identified in explicit, individual terms so that you can estimate requirements, distribute the item, introduce the proper controls as to inventory and replacement, and so on. It is necessary to analyze the specification in terms of the individual items which could be covered. So that, if you were developing a specification for rubber hose, there might be any number of sizes, constructions, and individual coupling attachments on the hose contained in that specification.

Taking the general coverage of the specification through the cataloging, it becomes very important and also introduces the opportunity for further standardization because at that stage you can then know the individual items being dealt with, the service conditions under which they are used, and determine their degree of interchangeability and substitutability.

The cataloging problem cannot be dissociated, it seems to me, from the specification activity. These people must work closely together, both within their own technical field and in collaboration with purchasing, warehousing, and supply personnel.

Inspection, the follow-up aspect of the problem, is more than just ascertaining that you get what you bought, it seems to me, because that is the only area where you can ascertain the competence of the supplier to produce the goods. The inspector is in the manufacturer's plant. He

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becomes very aware of production processes and the comparable abilities and facilities of the various sources of supply. We look to those people to tell us more and more of the adequacy and competence of the supplier producing the goods in addition to the specific function of determining that a particular order is met.

In addition, to the problem of serviceability offers an opportunity for the inspector to reflect to the standards man, on the developmental end, the adequacy of the product. We get, also, from the inspector a great deal of help on new products, new developments, new processes, that are brought to his attention as the result of his being in the field, in the manufacturer's plant.

Research and Technical Services is not, in our opinion, exactly what the name implies. We established a small group in the Branch for the purpose of assisting our technicians to learn about new developments, new ideas that are occurring in the literature, in other agencies of the Government, and in industry so that their work could be improved as they went along.

There is a strong tendency quite frequently for technicians—technical committees, if you will—to get into a groove and lose sight of new developments and new products and just tend to keep the current specification rocking along at the very same rate it has for a number of years.

Research and Technical Services in our shop is performing a very good function of bringing to the attention of our technical people information that is available in other agencies of the Government as the result of research, tests, new-product development, and so on. They develop a package for the specification writer, when he starts out to write a specification, which contains all of the available specifications, including those of technical societies,—manufacturers—if you will, and any other information in the literature that might bear upon the commodities for which the specification is being developed. That eliminates the necessity for each technician to take a lot of time to bring together the information that the technical committee ultimately must have in order to draft a proposed specification.

In addition, of course, the Technical Services group handles all of the technical editing of the specifications for uniformity, the distribution of the specifications, and inquiries regarding them.

The problem of getting the job done becomes increasingly difficult in the face of our budget situation. Let me tell you something of the status of the Federal Catalog Project. I think that will be very interesting to you and will indicate a problem that will be of concern to you.

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The United States Standard Commodity Catalog Board, as you know, developed a plan for the Federal Catalog System which was to be put into force, by an appropriation which was requested in the last Deficiency Bill. The Congress thought well of the plan for the project and the project itself but were rather reluctant to appropriate money at that time. It asked that we do further planning and further coordinating work and, subsequently, submit legislation for the project.

Well, that was not at all satisfactory to the military because of the urgency and need for a system of identification of all of the items which are being used. As a matter of fact, this central group under the Catalog Board estimated that on the present basis there were some 12 million individual items being used in the supply system of the Federal Government. And that, if you were able through a catalog system with uniform identification to identify individually each of those items, you would discover that the net number of individual items would be only three million. In other words, a contraction of about four-to-one.

I believe that to be reasonably true because I am sure that each of you, if you have looked at the lists of items which are being procured and used, will find there is a tremendous duplication of the same item throughout the whole structure. I believe it was the Navy that estimated out of 225,000 antifriction bearings there were only, actually, something in the neighborhood of 8,500 individual items. Since I have gotten that figure, I think there has been a further reduction as a result of additional identification work.

Now, to get back to the point, the military had to go ahead. Its people could not wait for the Federal Catalog Board to be established and for the Central Coordinating staff to get under way. That work is going forward very intensely and I think very well. Every attempt is being made for it to adhere to the over-all plan and principle of the Federal Catalog System. It is planned that eventually the Congress will have this proposed legislation to act upon. In due course, the Federal Catalog System can be gotten under way.

As a result of this delay in establishing the central operation, it seems to us that there may have to be some change in the plan for the Federal Catalog System, if and when a central coordinating organization is established. The fact that so much work will have been done by the Munitions Board Cataloging Agency that work can be utilized directly and without serious additional screening or processing into the Federal system.

There is a real problem here. It is going to be extremely difficult for the military to coordinate its cataloging work with that of the civilian agencies. When you bear in mind that about fifty percent of the items used

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by the military are civilian in character and of great concern to the civilian agencies, you have some indication of the importance of reflecting this area in the military cataloging work. You just cannot separate it.

Furthermore, analysis will probably show that some considerable additional percentage of items will fall in the general-use category when you analyze components and assemblies that are now categorized as parts peculiar or special military items.

The significance of such a project becomes extremely important when you think that it is the only real approach to an effective, practical standardization, or standards, venture. In other words, we must know the items we are dealing with and the applications concerned before we can set up a reasonable and practical standards process. I do not mean necessarily a stereotyped design. I am thinking of items which can be used interchangeably as to performance but are not necessarily interchangeable mechanically or by design.

I am thinking of adopting the most economical item for the service conditions to be met. I do not think we should have, except for highly specialized military items, the straightaway, totally interchangeable type of standard or standardization. I think of it largely in terms of things like—well, take compressed gas cylinder valves; the threading of the various types of valves for specific gases being totally interchangeable but not interchangeable one to the other so that the connecting thread for a cylinder for nitrogen would differ from the one for oxygen, but each manufacturer would supply you a valve threaded universally the same for nitrogen and for oxygen, and so on.

A great deal of work has been done in that field, but it is rather interesting to note that the Government is only just now reaching the point where it is going to apply those industrial standards developments to its procurement.

A problem that was with us during the war and caused us great difficulty, as it did industry, was where people erroneously connected the wrong compressed gas, causing explosions.

I think that, gentlemen, is essentially the status of things. I would like just to mention that our "standards" organization in the bureau is built largely on a hard-hitting basis. We do not have a large staff. As Mr. Mack has pointed out, he doesn't have one either. We do not have in mind a colossal type of organization to centralize standards activities. It isn't practical; it doesn't work that way. But it seems to me to be a problem of an organization requiring highly competent and highly specialized commodity technicians who have the facility to pitch in and help coordinate the standards work which is being done throughout the Government.

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COLONEL NEIS: Mr. Freeman will now discuss purchase policy. Mr. Freeman, gentlemen.

MR. FREEMAN: Colonel Neis and gentlemen: Purchase policy is, of course, the most important part of my job as head of the Purchase Branch. It is particularly interesting because it is never static. One reason for that is we have a number of different purchase programs. Our basic program is what we term our regular purchase program. Then, in addition to that, we have, as Mr. Mack mentioned, the program of purchase of strategic and critical materials. We have, at the present time, the Greek-aid program and other foreign aid. We have been through the UNRRA program and, prior to that, Lend-Lease. On each of these programs, naturally, the policies varied.

First of all, I would like to speak about the policy in connection with our basic regular program. In government, it is very definitely the case that our policy is limited by statutes, regulations, and the policies of the agencies for whom we are buying. In the regular program we are naturally subject to Revised Statutes 3709 and 3710, so that the purchase policies we establish and carry out must be in conformity with those laws, with the decisions of the Comptroller General based on those laws, and various regulations.

Purchasing in the regular program falls into the accomplishment of term contracts, known as Federal Supply Schedule Contracts, with which I think you are all familiar; purchases for our own warehouse stocks in our twelve supply centers, which are for reissue; purchases, on a consolidated basis, of those items which lend themselves to consolidation; and, then, a certain amount of individual, direct purchases for various agencies and ourselves.

The determination as to which category of purchase an item should fall in requires extensive consideration. As has been brought out previously, it requires coordination and cooperation between all of the different operating parts of the Bureau of Federal Supply.

I think a large number of elements enter into a consideration of the way in which you will buy and handle an item. First of all, what are the government requirements? What is their extent? Where are they located? Are they, even if extensive, located in only one or two places where delivery will be required, or are they, more or less, uniformly scattered throughout the country? Are they occurring frequently, with regular repetition, or only occasionally?

Then, what is the situation of the industry? Is it a type of item where industry customarily has warehouses conveniently located all over the

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country so that industry has an efficient and effective distribution system? Or is it the industry's practice not to have such a thing is that but to have relatively few points where the item is available?

Again, is it a type of item where quantity will give a progressive price advantage as the quantity increases, thereby making it very obvious that the thing to do is to buy directly from the manufacturing source in the largest quantity you can accumulate. Or is it an item that will show a price advantage on quantity up to a certain point but when you reach that point you have reached saturation, so that regardless of the additional quantity you will not get any reflection in a better price?

Then you must consider if it is an item that deteriorates rapidly. Or is it a type of item where you do not have to worry about deterioration?

Is it an item which lends itself conveniently to warehousing? Can it be stacked easily? Does it not occupy too much space in comparison to its value, or is it an item which is very unwieldy and expensive to handle in a storehouse?

Those are some of the elements which must be taken into account, along with various others, in order to reach a correct determination as to whether an item should be handled in one of these ways about which I have spoken.

If it is determined it is to be handled as a Federal Supply Schedule item we then, having made that first determination, which is a policy determination, have a second major policy determination: Shall we accomplish contracts which are on a nationwide scale, with one ultimate contractor, or shall we break the country into zones of one kind and another so that we may wind up with a number of different contractors involved? Sometimes a zone may be a city; sometimes it may be several states. It all depends upon the item. The determination of that is very important.

The best result, I believe, is obtained, so far as the type of item I am talking about now (Federal Supply Schedule) is concerned, when we break the country into zones so that we allow the smaller manufacturer, or supplier, an equal opportunity to compete, within his limits, with the large nationwide manufacturer or supplier. At the same time we do not, and we cannot by law, restrict the nationwide supplier to a limited scope. He must have the right, if he so desires, to submit a bid for everyone of the zones. The smaller supplier can limit his bid to one zone only. In that way, to my mind, we are accomplishing a uniform competition between all kinds of suppliers.

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There are very many other determinations but I do not think I should take the time to go into them now. I could discuss this one subject for probably a couple of hours, at least. We have the problem of whether to set up contracts on a six-month basis, nine-month basis, or a twelve-month basis. What we will do about delivery points; whether they will be f.o.b. manufacturer's point or f.o.b. any place in the zone, or something of that kind.

If it is an item which, from considering the various factors I first spoke about, it is decided will go into the Stores Replenishment program, then a major policy determination comes into the picture: Whether it should be bought on a consolidated basis, at a central point (such as our shop in Washington), or whether it is an item that could better be bought by each supply center on its own. The frequency of use, the trade practices involved, the location of the points of manufacture--those are some of the things that enter into this determination.

If, as a result of that, we determine it will be bought on a consolidated basis, at the present time it is our practice to have all those requirements submitted by the supply centers, at definitely scheduled times, to Washington. At definitely scheduled times we go into the market to fill those replenishment requirements on a consolidated basis.

If it is determined it is an item that will be bought by the supply centers themselves, then it is up to them to go into the market on their own, under instructions which are a result of policy determination as to the factors they will consider, so they are not going out and buying a bag of peanuts every day in the week.

If the item proves to fall in neither of these two categories I have mentioned, either Federal Supply Schedule or Stores Replenishment, but is an item of very extensive use in the Government--the best example I can cite is automotive vehicles--then the obvious thing is to deal directly with the manufacturers. The manufacturers want to deal that way. They are interested in dealing with the Government as an individual as much as possible; that is, as one point of contact. The requirements are large; they can be scheduled. There is, so far as I have been able to determine--and I have made a good many investigations in the matter--no saturation point on quantity. In other words, given reasonable conditions in the industry, the more quantity you have, the more bargaining you can do with the automotive industry. In an item of that kind, we buy on a schedule basis. We advise the agencies of Government we are going into the market at definite, periodic times; that the requirements submitted to us will be accumulated in the interim period and will be consolidated in the invitations. At the present time we are going into the market regularly about every two months.

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At times we have to change our determinations and our policies. But, I might say, I think the basic over-all plan is the same one that any purchase organization has: to get the right thing, in the right quantity, at the right time, at the right price, and at the right place. Certainly, if you satisfy those conditions in any purchase you make, you haven't very much to worry about.

When we get to some of our other programs, for instance, the Strategic and Critical Materials program, the over-all considerations are different. We have, in many ways, quite different policies involved. In the first place, we are buying raw materials, generally speaking; we are buying manufactured items. We are buying in large quantities. The sources of supply are relatively few as compared to those for the manufactured articles. In a majority of our buying, we will find the items come from foreign sources. We have the import practices that come into the picture. We have many considerations that are entirely different from the basic regular purchase program. One big difference is that we are not subject to Revised Statute 3709. Immediately that enables us to have more latitude than we would have otherwise. We can negotiate purchases; we can make informal purchases; we can do, as all of you know, many things that we cannot do when subject to Revised Statute 3709.

Now that does not mean, by any manner of means, that we do not use just as much care, just as much thought, and just as much—I might say even more—control as where we would have the control of a statute to rely on. But the policy is different. Therefore, the whole thinking and program has to be based on that policy. There has to be a different train of thought. When I turn my attention from the Contract Division to the Strategic and Critical Materials Division, in a sense I sort of have to put on another suit of clothes. I have to change my whole policy thinking when I go from one floor to the other.

I spoke about the Greek-aid program and the UNRRA and Lend-Lease programs. Limitations as to what can be done and what cannot be done are different in all of them. The expert element comes into the picture.

Naturally, the policy determinations are different in all of those programs—what we call our "special programs." In the first place, we do not have the determination to make as to whether it is going to be a consolidated purchase, a stores-issue purchase, or a Federal Schedule purchase because they all involve purchases of a definite quantity for as immediate delivery as possible. There is no resale involved to other government agencies and no use of the contracts by other government agencies. So that, in some ways, it is simpler in that it is more of a straight cut-and-out buying job. But it is more complicated because of the import and export picture. Relations with other agencies in the program are still there. In the Greek-aid program we purchased as agents for the State Department.

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Policy determination as to what will go into the program and what we will buy is not ours. That has been decided upon when we get the request to make the purchase. But how we will buy, whether we will buy on a definite competitive basis, or whether the item is not adaptable to that on account of the urgency of the need (the lack of time), or whether it is something that should be bought as a proprietary item, these are policy determinations which we have to make.

I think that gives you an idea of the scope of policy determinations we have to make. I have only sketched it very lightly. To my mind, it is what makes a purchasing job for the Government a very facinating endeavor.

Thank you very much.

COLONEL NEIS: Gentlemen, we will have five minutes for questioning. Mr. Mack has kindly consented either to answer them himself or pass them on to his assistants.

Are there any questions from the house?

QUESTION: How is the Bureau of Federal Supply financed? In other words, do you charge an overhead to the government agencies for whom you purchase, or do you have a separate appropriation?

MR. MACK: I think we have just about every arrangement that is known in government financing. We have a direct appropriation to cover salaries and expenses. We operate by allocations from agency appropriations, for whom we carry on purchasing programs; for example, the State Department in connection with the Marshall plan, if and when it is enacted, and so on.

Then we have a Supply Fund which has to do with certain operations, such as the distribution of stock items and the purchase of materials against requisitions. That is used for the purchase of goods for stores and for the payment of materials bought for other agencies. For those kinds of operations there is a surcharge. That surcharge is three percent for direct-delivery purchases with a maximum charge of \$150.00 and a minimum charge of \$1.50. The stores surcharge, generally is twelve percent. We have a surcharge for fuel. We have a surcharge for shop operations, and so on.

So, you see, there is just about every kind of fiscal arrangement that there is.

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QUESTION: To what extent do you go to the basic part manufacturer for your automobile spare parts rather than buy them from the manufacturer of the automobile; that is, for such things as carburetors, bearings, and so forth?

MR. FREEMAN: I will answer that in this way. It is our policy, on automotive parts, to set up parts contracts with the automotive manufacturers. It is rather interesting that the one very real reason I, personally, have for advocating that policy ties in with what Mr. MacLeod said about cataloging: On these parts we have contracts with the automobile manufacturers themselves. If a fellow has to have a part that goes into a Plymouth car, without any difficulty—even without knowing it on his part—the part he needs can be identified and can be gotten immediately and that's that. If, however, we have contracts with individual parts manufacturers, it has been our experience that each has his own way of indicating, his own nomenclature and numbering. Ten chances to one it is an awful job to try to identify which part is what we really need.

At the same time we have given opportunity to the independent manufacturers to take part in our contracts and many of them have done so. And there are some cases where this difficulty I speak of does not occur. We have no contracts with independent people, that I recall, on items like carburetors. We do have on brake linings, fan belts, hose connections, and various things of that kind.

COLONEL NEIS: Mr. Mack, you, Mr. Freeman, and Mr. MacLeod have given us a very comprehensive insight into Federal procurement. We want to take this occasion to thank you very much.

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