

CONCURRENT PLANNING BY GOVERNMENT AGENCIES
OTHER THAN THE NATIONAL MILITARY ESTABLISHMENT

29 November 1948

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COMMANDER HUDSON: General Holman, gentlemen: In our studies of material requirements we have investigated concurrent planning in the National Military Establishment and in industry. This morning we will learn something of concurrent planning in governmental agencies other than the National Military Establishment.

Our speaker, Mr. Howard Gammon, comes to us from the Division of Administrative Management, Bureau of the Budget, and will give us the benefit of fifteen months of investigating the manner in which material controls and requirements are handled in other governmental agencies.

Mr. Gammon, it is a pleasure to welcome you to this platform.
Mr. Gammon.

MR. GAMMON: Thank you, Commander Hudson. General Holman and gentlemen: It is a privilege and an honor to be here to discuss with you some of the problems in determining material requirements for Federal civilian agencies.

I am reminded somewhat of the picture I saw on the cover of "Time" magazine about three weeks ago of Dr. J. Robert Oppenheimer, who is, as I am sure all of you know, the present Director of the Institute of Advanced Studies at Princeton. The caption which the editors of "Time" magazine put under Dr. Oppenheimer's picture said, "The things we don't understand we explain to each other." Well, I feel perhaps I may be in that position here this morning.

As most of you know, the reason I was invited to speak to you was the fact that I have been serving since July 1947, as the representative of the Bureau of the Budget on a three-man joint staff studying problems incident to property controls and accounting for the Government's inventories. The other two members of this joint staff are Mr. Leon Leeper, representing the Treasury Department, and Mr. Milton V. Boone, representing the General Accounting Office. I am sorry they could not be here with me this morning.

Our joint report of findings and recommendations, a copy of which you have in your library--the June 1948 preliminary clearance draft--is now awaiting the approval of the heads of our three offices, namely, the Comptroller General of the United States, the Secretary of the Treasury, and the Director of the Bureau of the Budget.

Although my two colleagues and I have worked very closely and happily together for the last nearly a year and a half, so that on many subjects we are in agreement and our report was a unanimous one, of course they are not necessarily committed to any of the personal opinions I may express here today.

In the brief time available, it is not possible for me to tell you all the things we learned about inventory control, or the lack of it, in the Federal Government. So I shall limit my remarks to three general headings: First the size and scope of the problem; secondly, a general impression of the methods used and the results obtained in dealing with the problem; and, thirdly, the status of some current legislative and administrative proposals for improvement in the Government's supply and inventory control operations.

Lest you be oversold on what I can bring to you, I should like you to know some of the limitations of our survey so that you will know how much of what we found can be applied to your problems.

First, I would mention that although we made an effort to secure representative coverage of Federal agencies--the draft report which you have in your library as No. 108 in your bibliography lists the agencies which we visited--we made intensive studies in only a fairly small sample of the total number of agencies. I believe there are about 2,000 Federal bureaus and quite obviously they could not be covered in detail in the time we had. Only a very limited coverage was made of the field installations, although we did go to some of the field offices.

We did not include in our survey any of the Federal corporations. For the same reason we excluded all the procurement operations of civilian agencies which are carrying on price-support operations, which are not in the same sense procurement or material control operations. For example, we did not consider at all the work of the Commodity Credit Corporation in the Department of Agriculture which, as you may know, is buying potatoes and other farm products under a price-support arrangement.

It was not our intention to collect a detailed case-story on each agency. Rather, our assignment was to secure a general picture of the policies and principles and the results obtained. Our concern was with the permanent peacetime supply operating policies and not at all with the planning for economic mobilization. Of course, the procurement requirements of many civilian agencies would be greatly expanded and others would be curtailed in the event of M-day, but the amounts by which such requirements would be expanded depend on program judgments which we had, and have now, no basis for predicting.

We were not in any way concerned with the determination of material requirements for use by the civilian population, which is the greater part of what you think of when you think of "civilian requirements"--I noticed you had a paper in your course last year which a student committee worked up on "Civilian requirements"--but only with the material to be used by and in each of the Federal agencies.

Now let us consider the size and scope of the problem of material control in the civilian Federal agencies.

The gross national product for the entire United States--sometimes referred to as the national income, although there is a slight difference between the two, not important for our discussion this morning--during the first six months of 1948 was running at the rate of 247.7 billion dollars a year. Of this total, the combined cash receipts of State, local and Federal governments, together, account for an annual rate of 63.2 billion dollars, of which approximately two thirds, or 42 billion dollars, was the Federal Government's share. In other words, out of each four dollars which our national economy produces, one dollar goes to the Government. Out of each four days we work, one day's pay goes to the tax collector. It may be of interest to note that the combined Federal, State, and local cash receipts from the public are now, in 1948, approximately equal to the total United States national income in 1938, only ten years ago.

No doubt many of you saw in "The New York Times" last week this story which the Hoover Commission put out, dated 23 November, reflecting the cream off the study which the task force headed by Russell Forbes, former Commissioner of Purchases of New York City, had been making for the last year. The release from the Hoover Commission said, and I quote--

"Half of the three million purchase orders issued each year by government agencies are for \$10.00 or less."

"The paperwork cost of an average purchase order exceeds \$10.00."

"So, for half the procurement transactions," says the Hoover Commission, "the cost of the transaction exceeds the value of the material procured."

Continuing to quote--

"No comprehensive government-wide supply system exists."

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"Over-regulation encourages routine buying, prevents economy and the exercise of initiative."

"Although purchasing," and I am still quoting, "is a highly-skilled profession that requires intimate knowledge of trade conditions and markets, salaries paid in Government are inadequate of professional competence."

"Advance schedules of buying are inadequate. Purchasing officers do not participate to the necessary degree in budget and 'operations planning'."

"Nearly 150,000 employees in the Federal Government are engaged in procurement and supply operations."

"Government has in storage inventories valued at about 27 billion dollars."

I will interrupt the quotation for a moment to say I don't know where they got that figure. I haven't been able to get any figures, that I put much faith in, on what the Government's total inventory is. I hope the full report when published will disclose that source.

Continuing to quote--

"Simplified and coordinated procedures for the buying of military and civilian supplies would reduce Federal inventories by two and a half billion, or approximately 10 percent, besides cutting the purchasing costs."

"If the Hoover Commission's recommendations were adopted, the Commission estimated that Federal agencies could save 250 million dollars annually in buying supplies and equipment."

Current annual procurement by the Federal Government amounts to approximately one billion dollars for civilian agencies and, as you probably know already, five billion dollars for the three Armed Services taken together.

The distribution among the major Federal civilian agencies for this current fiscal year (1949) for supplies, materials, and equipment is shown by the first of the charts to which I now invite your attention.

Chart 1, page 23--The Bureau of Federal Supply, which is the central supply and procurement control agency of the Federal Government, spends more for supplies and materials than any other Federal

civilian agency. These estimates taken from the 1949 Budget of the United States are what they expect to spend and are not a legal limitation as to the amounts actually spent. An agency which has some vacant budgeted positions which it could not fill will have built up some dollar reserves during the year, and is very likely, with the present annual-appropriation practice, to take the \$10,000 or \$100,000 or \$50,000, or whatever it has in unspent money balances on the first of June and put it on the shelf in some more inventory. So, the actual spending for material is likely to be greater than is estimated with an offsetting reduction in payroll expenditures. These estimates are conservative figures, accordingly.

The Bureau of Federal Supply spends, of the one billion dollar civilian total, 284 million dollars for supplies and materials not for its own use, I should say, but as a central warehousing organization for the Government as a whole. The expenditures for equipment are principally for its own use and, as shown here, are negligible in relation to the total. (Expenditures for equipment, \$74,000.)

The Veterans Administration is second in order of magnitude, spending 169 million dollars for supplies and materials and 52 million dollars for equipment.

The Atomic Energy Commission, with 75 million dollars for supplies and materials and 16 million dollars for equipment, is third.

And so on down with the Interior Department, Post Office Department, Treasury Department (excluding the BFS), Tennessee Valley Authority, Federal Security Agency, Agriculture Department, Commerce Department, and All Other Executive Agencies, making a combined total of 753 million dollars for supplies and materials and 223 million dollars for equipment.

I should say parenthetically that the definition of "equipment" which is presently contained in Budget-Treasury Regulation No. 1 is an elastic definition and the figures on equipment are not strictly comparable. For example, one of the Federal agencies we visited classified as "equipment" a pocket flashlight. I saw in this agency, and questioned the cost of, an airmail letter going to Cairo, Egypt, asking a man what had happened to a flashlight, valued at one dollar, which had been issued to him six years ago. In that case, the cost of preparing, typing, filing and mailing the airmail letter exceeded the one-dollar value of the flashlight.

Yet, in another Federal agency, nothing is classified as "equipment" unless it costs a thousand dollars or more. So that there is not complete uniformity in the definition of "What is equipment?"

Chart 2, page 24, shows the location of the twelve regional warehouses (Supply Centers, as they are called), operated by the Treasury's Bureau of Federal Supply as a service to all Federal agencies in stocking and issuing pencils and paper, carbon paper, rubber bands, paper clips, and other items of common use. With a revolving stock fund of 8 million dollars, the Bureau of Federal Supply does an annual business of around 40 or 50 million dollars, which accounts for approximately 5 percent of civilian procurement operations.

This chart shows the location of the twelve Supply Centers. I may say that an individual Federal agency is not necessarily restricted to purchasing from the nearest BFS warehouse. Until the first of November of this year, there has been a price differential between the respective warehouses. So that a man in, say, Tacoma, Washington, would be expected normally to buy from Seattle; but he might find that the price of the item he wanted was 25, 30 or 40 percent less in Boston. So he might order it from Boston and get it transshipped across the country. BFS has now, however, effective 1 November 1948, instituted firm price schedules. I assume that if schedules work out as planned, there will be less transshipment of materials across the country, where a customer is buying other than from the nearest warehouse.

As the chart says, "Each area can generally be served more quickly or more economically from the Supply Center within the area than from any of the other Supply Centers."

Chart 3, page 25--Our next question is, "What does the Government buy?" The Government buys millions of different articles, ranging from anchor chains to xylophones, but the lack of a uniform cataloging system often leads to buying items unnecessarily because they are on the shelf under another name or another number.

We have been following with much interest the cataloging program of the National Military Establishment. We are looking forward to the completion of this program. The active collaboration of the Bureau of Federal Supply with the work of the Munitions Board Catalog Agency should be a very material benefit to the entire civilian establishment by insuring that the joint Armed Services catalog now being prepared will also meet the needs of the civilian agencies as to those items which are cataloged by military agencies.

Supply cataloging, as we think of it, answers these questions:

What is it? It gives each article a unique name and number.

How is it made? It states its chemical and physical properties.

What is it used for? It states its functional use, including the equipment, if any, for which this is a replacement part.

And, finally, What else can be substituted for this item? The interchangeability data also can be substituted for this item.

Each agency that performs storage and issue operations needs to have stock catalogs. But we found, to our surprise, that many of the agencies do not have any list or catalog of what is in stock for issue. In one of the agencies, for example, we asked the stock-room keeper about the list. He said, "If you put out a list, it will encourage people to want more. If they don't know what we've got, they won't want to buy."

At this point, I would call your attention to our third chart, "What does the U. S. Government buy?", from which you will note that building or construction materials constitute the commodity group that accounts for the largest share of the Government's procurement dollar. I should say that no up-to-date figures on this commodity distribution are available. The figures I have shown here are 1940 figures taken from T.N.E.C. Monograph No. 19--"Government Purchasing, An Economic Commentary". They are, however, as good as any that exist in the Government now since there is no central data-collecting source from which you can obtain more recent figures. Construction materials accounted for 19.4 percent of the total dollar volume of Federal procurement in 1939. These figures were published in 1940. Food and feed accounted for 14.6 percent; contractual services (gas, water, electricity, telephone, telegraph, drayage) accounted for 9.8 percent; machines and equipment, 8 percent; textiles and drygoods, 6.5 percent; motor vehicles, accessories and parts, 6.3 percent; fuel (coal, oil, and other fuels), 5.8 percent; electric and radio apparatus, parts and accessories, 5.4 percent; printed matter, stationery, and office supplies, 2.9 percent; furniture and office equipment, 1.9 percent. That doesn't add up to 100 percent, I know, but I didn't have room on the chart for all the other categories. These were the major items.

Whether in the Federal Government or elsewhere, the purpose of inventory control, as we see it, is to prevent waste and to lower costs. Outside the government organization, instead of saying "lower costs," we would say "increase profits." Additional purposes of inventory controls are to force the most effective turnover of stock, to balance the inventory with the demand, to avoid obsolescence losses, and to prevent overstocks or understocks.

In order to accomplish these purposes, we need to know what we have, where it is, how many units we have, how much these cost us, how long the supply will last, and how long it will take to replenish

the supply. All these questions need to be answered in any agency, be it Government or private, if we are to provide the right quantity of the right article, when needed, without avoidable surpluses. The determination of the amount of a particular item which is to be kept on hand is the keystone of all supply operations.

So we turn next to "How are requirements determined?"

Stock levels in some Federal agencies are based unduly on past experience (frequently on unrecorded past experience), or on the memory of "Joe." We asked them, "How can you tell how much you should buy?" They said, "Joe knows. He's been working on it for a long time."

Frequently, reordering is done without any relation as to the agency's future work program. As an example, in one agency which has field offices all over the country, we found in the warehouse a very large stock of pink carbon paper, an item which, so far as I know, very few other agencies use. We asked the supply officer, "How did you get this overstock?" He said, "It's very simple. The experts who change our technical procedures dreamed up a machine which replaces the use of pencil and carbon paper. But they neglected to tell the supply officer and his last reorder for the usual quantity came in on schedule. The usual replenishment order was placed after the change in methods had occurred. We don't use any of the pink carbon paper any more."

Chart 4, page 26--That little sphere on the left-hand side of this chart is intended to represent a crystal ball; the poor supply officer has his nose to that crystal ball, wondering how much he will want, when, and where, and trying to balance supply and demand. The result, shown on the right-hand side is too often too much at the wrong places, or the wrong items, with a supply which is greatly in excess of demand.

I think it would be unfair if I left the impression that all of the agencies do the wrong thing all the time. I do not intend to imply that. But the supply officer, frequently is in not much better position than a man looking through a crystal ball with a fog hanging over it.

In most Federal agencies there is no counterpart to the Army, Navy, or Air Force "supply programs", with which I know some of you are already familiar, either from your previous work assignments or from the lectures in the Industrial College. In many agencies there is little or no evidence of long-range material planning. This situation is in contrast with the three or four-year mobilization requirements program, which I am sure you have become acquainted with,

as described in the Munitions Board's Requirements Manual. In the civilian agencies, generally, material planning is on a short-range basis--two, three, six, twelve months, or maybe only one month ahead.

As between the various departments, and sometimes even within the same department, we find no uniformity of methods for planning material requirements. There is relatively less central supply control in a typical civilian agency--if there is such a thing as a "typical civilian agency"--than there is in the National Military Establishment. The ordering frequency varies widely. Some agencies place one order for a whole year's needs. Other agencies order once a quarter. Other agencies order twice a year; others, monthly.

There is no general agreement among civilian agencies on stock levels. Even those agencies which have established policies on stock levels do not always conform to their own policies. At this point I will turn to chart 5, which is an example that we found of overstocking in an agency which had a policy of stocking three months ahead on each item on the shelf.

Chart 5, page 27--For obvious reasons, I am not identifying any of these agencies, since we are not pinning blue ribbons on them.

In this agency, 25 percent of the items on the shelf were in an amount which, on the basis of past use, and, so far as we could tell, taking account of anticipated future program changes, represented one or more years' supply. Fifteen percent of the stock was either obsolete or obsolescent. This did not, of course, cover all of the items in stock because we did not have the time. But a spot check was made of one-fourth of the stock items and it is reasonable to believe that the overstocked condition of the other items was not materially different.

In another agency it was found that the total stock on hand of 46 million dollars in value (at the current market price) included 32 million dollars in excess of the established and authorized agency stock level of six months. The excess stocks in this agency, the second one, included such things as 44 months' supply of tea, nine years' supply of hand tools, and up to 86 years' supply of certain drugs and chemicals.

At this point I should say that requirements, under whatever system, as you all know, are ultimately founded on human judgment. Consequently, perfection of requirements determinations, whether under concurrent planning or any other system, is not going to occur.

To continue with our discussion of how requirements are determined: In the civilian agencies, particularly outside the Federal

corporations, which have continuing funds, appropriations are usually made on an annual basis. This encourages spending all your money in the last month. This wide prevalence of year-end or June buying among Federal agencies is, as I indicated, partly a result of the system of annual appropriations.

For a number of years there have been suggestions that material purchases might well be made under stock funds, such as your Navy Supply fund, so that you would take away the inducement for year-end buying. Heretofore, the Bureau of the Budget and Congress have often taken no account of supply inventories in making appropriations. In a recent year, purchases by all civilian agencies during the month of June averaged slightly over twice the rate of purchases for any other month in the year. In other words, an agency that spent \$100 in August would, on the average, spend \$200 in June. Some agencies bought in June as much as ten times their lowest month in the year. Conspicuous exceptions to this June-buying practice were the Post Office Department and the Treasury Department, which had purchases more evenly phased throughout the year.

Ordinarily, the supply function is established at a relatively lower level of salary and prestige in the civilian agencies than in military agencies. The operating executive in a civilian agency usually determines the requirements. The supply officer often merely buys what he is told to buy and when he is told to buy it. Not infrequently the supply officer has little or no access to program information. As a result, many of the Federal agencies are presently overstocked on a large number of common supply items. Some of the agencies, especially those with numerous field offices, have no centrally available information on what they have in stock, nor how long it will last.

In summary, there is no presently adequate method of collecting quantitative information on purchases and inventories of Federal agencies Linnenburg and Barbour, in their 1940 study (from which I have taken the expenditure figures shown on an earlier chart), which was submitted to the Temporary National Economic Committee, headed by Senator O'Mahoney, recommended the establishment of a system for periodic reporting to a single Federal agency of selected quantitative information on purchases and inventories by all other Federal agencies.

They said, in 1940, "In general, there is very little procurement planning for the Federal Government as a whole, either by way of estimating needs for periods in advance, consolidation of purchases on the basis of such estimates, or timing of purchases."

In my opinion, so far as our survey of the situation goes, (which does not cover all of the agencies), this statement is still true in 1948. There is no comprehensive and reliable information yet available on inventories for the Federal Government as a whole,

although some of the agencies, especially, I should say, the Federal corporations, do keep excellent and comprehensive inventory records and accounts. There are also a few examples of civilian noncorporate agencies which do a reasonably thorough job of procurement planning, such as the Post Office Department, the Forest Service, and the National Advisory Committee for Aeronautics.

One of the results of inadequate procurement planning in civilian agencies is excessive costs of warehousing. For example, this year we found in one agency that the cost of operating a storage and issue system, with depots covering the country, was 23.4 percent of the value of all the issued material. Some of the material in those warehouses has been there for as long as four years. So, with a little mental arithmetic you can see that in four years' time you have approximately doubled the cost of your material. With an original purchase cost of \$1, after four years it represents nearly \$2, to you now, with four years' storage charges at nearly 25 percent a year.

Chart 6, page 28, indicates some of the probable causes of high space requirements for the storage of materials in civilian agencies, including, among other things, the failure to make full use of the warehousing facilities provided by the Bureau of Federal Supply for common supply items.

The problem of obsolescent or slow-moving items is one, of course, which is not peculiar to the civilian agencies; nor is the problem of disposal of surplus supplies, which hinges on the policy question of, "When is there a surplus?" If your inventory is more than you need this year, if you think the Congress next year will change in its political complexion and be more generous to you, what do you do? Do you base your declaration of surplus on your present budget authorization, or do you hope for the best and hang on to all the supplies you can? Presently, there is no government-wide requirement determining what will be treated as surplus.

Chart 7, page 29, illustrates some of the evidence of lack of planning in ordering. Of 10,580 requisitions submitted by 191 different Federal agencies to the District of Columbia warehouse in four months--that D. C. warehouse is the BFS Federal Supply center in the Washington area--52 percent of these requisitions were for less than \$25 in value; 34 percent were for less than \$10 in value. The estimated personnel costs only (excluding warehouse space and other expenses) for processing one requisition through this warehouse were \$5.40. It was estimated that 90 percent, or more, of these requisitions could have been eliminated by proper agency planning and consolidating of stock-replenishment orders.

Chart 8, page 30, presents in a very summary fashion what, in general, we found out about the control of materials and supplies in most civilian agencies.

First, a lack of adequate records and procedures.

Second, confusion resulting from the combination of allotment and cost accounting. I, probably, should explain that second item a little bit. In one agency, for example, which has, I think, about 200,000 people, they have about 25,000 allotment accounts, and they are attempting to do a cost-accounting job with the more expensive and cumbersome machinery of allotment accounting.

And, third, lack of adequate reports from management, which has been implied by some of the things we said before.

Chart 9, page 31, covers in similar summary fashion the control of equipment. These generalizations are necessarily subject to qualification; as all generalizations are.

First, we find a wide variation as to the definition of "equipment."

Second, a wide variety of types of records, ranging from no records at all to voluminous records.

Third, a lack of integration of the equipment records into the agency's accounting system, so that the records of what was on hand were not subject to checking or auditing in many of the agencies.

Fourth, an incomplete utilization of equipment due to the lack of information on what was available for use.

Fifth, the lack of a system of determining requirements for equipment on a uniform basis, either using replacement factors, with which you are all familiar in the Armed Services, or any other planned basis for determining requirements.

Sixth, the lack of a system of formal authorizations which would bring up for top-level review the phasing of replacement of major items of equipment.

Seventh, the lack of physical inventories and accountability for equipment. I think I should mention, however, that in some of the agencies, such as the one where I saw the airmail letter going to Cairo, Egypt, about a dollar flashlight, accountability is over-emphasized, in our opinion.

Eighth, a failure to dispose of excesses and surpluses.

Chart 10, page 32, recapitulates some of the differences between business practices and government practices in the treatment of inventories. I should say, of course, that the problem of determining requirements and of controlling inventories is not peculiar to the

Government. And some of the agencies outside the Government, so we are told by the management engineering firms, are in no better shape than the Government, but at least they do have some incentives to be in better shape, which we lack in Government.

The title of this chart is "Inventory Equals Dollars on the Shelf." In order to be technically accurate, I footnoted that, "Inventory also includes goods on order."

In the Government we find that dollars on the shelf constitute hidden assets, providing reserves for lean budget years. If the Appropriations Committee does not ask you what is on your shelf and you have a large overstock, then you can estimate for material and spend it for personal services and come out ahead of the game--unless they catch you! They don't always catch you!

In business, on the other hand, the accounting statements disclose to the management and to the stockholders--if they take the trouble to read and analyze them--inadequate turnover or too much on the shelf that is not moving.

Second, the carrying costs on overstocks in the Government add to salary and space expenses. Correspondingly, in business a slow turnover of material on the shelf eats up the profits and the stockholders begin to complain if they don't receive their dividends.

Third, inventories in the Government, which are not required presently by law to be a part of the accounting system or accounting statements are, consequently, not required to be audited. I should say that there is an exception to that. In the independent offices, those agencies which are now covered by the Independent Offices Appropriation Act, their inventories are required to be included in their accounting statements. So that, for those agencies, this statement, as shown on the chart, is not strictly accurate. Those independent agencies are just a fraction of the total Federal Government.

In business, on the contrary, we find that there are annual audits of inventories.

Fourth, consumption records are often lacking. Lacking consumption records, there is not a basis for applying past issue experience to your future program, even when you know what the future program will be, which agencies don't always know.

On the business side of the economy, and in some of the better-managed Federal Agencies, we find that stock levels match production or sales programs.

Fifth, the annual-appropriation device in the Government generally encourages spending all the money so that you will get that much, or more, next year. Not all agencies, of course, have annual appropriations. Particularly appropriations for the construction of buildings are usually on a continuing basis. All of the appropriations to the Public Roads Administration, for the construction of roads, are on a continuing basis. In those cases where the appropriation is on a continuing basis, of course, you have a different situation as regards the encouragement to hoarding and year-end buying.

In business, frequently, but not always, we find that the funds which are used to purchase supplies, materials, and equipment are available until spent. The "June-buying" practice we have spoken of is very common in the Government, but not true of all agencies. In business, without the incentive to spend all your money at the end of a fiscal year, the supply officer can buy when the price is right, and not necessarily when other people are in the market for the same commodities.

In Government we frequently find--it also exists outside the Government--unjustified, unnecessary storage and issue operations. In business, perhaps because of the profit incentive, we more often find that scheduled deliveries of materials are used in place of unjustified storage. As an example of that, you can imagine the amount of storage space Chevrolet would have to have if it didn't get the component assemblies for Chevrolets delivered on a scheduled basis from subcontractors. They would never get enough storage space to make automobiles if they didn't use scheduled deliveries.

Returning to chart 7, frequent small "rush" orders, which are all too common in the Federal Service, as the Hoover Commission reports, and as we knew from our own studies before their findings were made public, add to the expense and the overhead of Federal procurement operation.

In contrast, in those businesses in which materials, particularly, are a large part of the cost of doing business, there is top-level procurement planning. We need more top-level procurement planning in the Federal Service.

I am afraid some of you will be thinking I have presented perhaps too black a picture of the inventory-control practices in civilian agencies. Consequently, I think we should turn now to some of the activities which are under way looking towards improvement in the situation.

As you know, the entire text of the Hoover Commission's Report will be made public when it is submitted to Congress in March 1949. This Report will, of course, deal with many other needed improvements in the Government's organization and methods in addition to dealing with supply operations.

The report of the Joint Property Accounting Staff entitled, "A Federal Inventory Control System," to which I referred earlier, is now awaiting the approval of the Comptroller General, the Secretary of the Treasury, and the Director of the Bureau of the Budget. In our report we not only make findings of fact but we also make recommendations, which I haven't the time to go into here. But the general intent of our recommendations is to try to correct the situation.

After approving the report, we hope the three agency heads will send it to all the other Federal agency heads and ask each one of these agencies to put into effect immediately those portions of the report which do not require legislation. Some parts of the report will require new legislation to carry out what we have recommended. I assume that you already know of the legal requirement (Act of July 15, 1870, 5 U. S. Code 109, R. S. 197) that each Federal Department keep a complete inventory of its property.

There are a number of legislative developments which indicate that we may expect further congressional interest in the subject of determination of material requirements and accounting control of inventories, not only in the civilian agencies, I may say, but also in the military agencies which have, in terms of magnitude, much greater quantities. There are many more dollars on the shelf in our military agencies than in our civilian agencies.

I mentioned earlier that the Independent Offices Appropriation Act for this year, as for last year, requires current accounting control of inventories in all the independent agencies covered by that act. There are many members of Congress who have said they favor extending that requirement to all the government agencies, not just to the small number presently included in this one appropriation bill.

One of the things which the Appropriations Committee has had in mind in delaying its action in extending that requirement to all agencies is the question, What methods, what standards, or policies, would be applied if such a requirement were made government-wide? One of the reasons why the Bureau of the Budget, the General Accounting Office, and the Treasury Department invested my time and the time of my two colleagues for nearly eighteen months was to try to develop standards and policies and more detailed methods and procedures which could be applied government-wide if such requirement were made government-wide.

In March, 1947, Congressman Weichel, of Ohio, introduced a bill, H.R. 2847, which would require all Federal agencies to furnish annually to the Comptroller General statements of annual purchases and year-end supply inventories.

The proposed Federal Property Act of 1948, S. 2754, was reported favorably to the Senate by Senator Aiken's Committee on Expenditures in the Executive Departments on 26 May 1948. This bill was submitted to Congress by the Federal Works Administrator with the stated purpose of reorganizing and simplifying the procurement, utilization, and disposal of government property, generally. The draft of this bill, S. 2754, was based on a special message sent to Congress by President Truman on 5 March 1948.

This draft bill, the so-called Federal Property Act of 1948, had been cleared, through the Bureau of the Budget, with other interested agencies, and had the approval of the National Military Establishment. The Executive Departments and the Comptroller General have endorsed this bill in substantially the form in which Senator Aiken's Committee reported it in May 1948.

Even before this bill was introduced, the need for an efficient, businesslike system of property management in the Federal Government had long been recognized. As early as 1943 the House of Representatives passed, and the Senate Expenditures Committee reported favorably, another bill designed to fill that need.

In the House Committee Report on that bill we find this statement:

"Efficient executive management of government's great and growing investment in equipment, materials, and supplies, and the control of Congress over the use and disposition of such property, are seriously handicapped by the lack of comprehensive legislation. The essential foundation of management standards in determining what and what quantities should be bought, and similar standards to govern utilization of property, are conspicuous by their absence. Although the accrual of surpluses is an inevitable feature of the active operations of government, the determination and release of such surpluses is entirely within the discretion of thousands of widely scattered executives."

The proposed Federal Property Act of 1948, which I have mentioned, presumably will be reintroduced in the Eighty-first Congress, in January. It may, however, be modified in form as the result of the Hoover Commission Report and Recommendations. Only a part of the Hoover Commission's supply recommendations has so far been revealed.

Briefly, this bill, the Federal Property Act, would merge the Public Buildings Administration, which is the space agency of the Government, the Bureau of Federal Supply, which is the central procurement agency of the Government, and the War Assets Administration, which is the central surplus-disposal agency of the Government. These three agencies would be included under the Federal Works Administrator.

Also, in this bill there was the authority for the establishment of a uniform Federal supply catalog system, the need for which we have pointed out earlier.

The then majority party in the Congress was not, as you know, in agreement with the Administration on the Federal Property Act, as proposed, and an alternative bill, H.R. 6965, was drafted and introduced in the House of Representatives on 16 June 1948, by Congressman Walter Riehlman, of New York.

This Riehlman Bill would create a new General Property Office, modeled on the General Accounting Office, independent in status, with an officer at the head of the office who would be called General Property Officer; he would not be removable by the President and would, in effect, be a dictator of the acquisition, custody, and disposal of Federal property.

A more detailed discussion of some of these legislative proposals is contained in the mimeographed "Selected Readings on Inventory Control," which Commander Hudson has arranged to distribute to those of you who wish to receive it after this lecture. I may say that this compilation of readings on inventory control (as well as my remarks here today) does not reflect the official position of the Bureau of the Budget on the matter since the Bureau of the Budget has not yet taken an official position on some of the items discussed therein.

You will also receive a release (which does reflect the official position of the Bureau of the Budget), entitled "Appraisal of Staffing Requirements for Property Management Activities, Fiscal Year 1950," meaning procurement, storage, and issue activities.

This release, dated 1 October 1948, was given to each agency throughout the Government by the individual budget examiners in our Estimates Division. The leaflet indicates the work-load factors and the performance ratios selected for use this year in appraising fiscal year 1950 estimates for procurement, storage, and issue activities. These factors are, briefly:

First, the cost of buying and supplying to users a dollar's worth of materials. I may say that we found at least one agency in which the cost of buying and supplying to the user a dollar's worth of material exceeded a dollar.

Secondly, the value of stores inventories in relation to the average monthly value of issues from stores, which is another way of saying what the stock level is in terms of use.

We have briefly considered together the size and scope of the problem of determining material requirements in civilian agencies, the general lack of adequate and systematic methods for relating material needs to operating programs, and the current status of some legislative and executive efforts to remedy the present unsatisfactory situation. We have not attempted to say--and I am sure I could not say--how the principles of concurrent planning may apply in civilian agencies. I shall be glad to answer any questions which any of the audience may wish to propose, within the time available.

When my remarks are reproduced, I shall also include, as an appendix thereto, a list of additional references not already included in your bibliography, which might be of value to the student committees dealing with this subject.

In closing, I would like to give you a quotation from an address by Jerome Frank, who was the former Chairman of the Securities and Exchange Commission and who is now a Federal Circuit Judge in New York City.

"Every man is likely to overemphasize and treat as fundamental those aspects of life which are his personal, peculiar daily concern. To most dentists, you and I are basically but teeth surrounded by bodies. To most undertakers we are incipient corpses. To most actors, parts of a potential audience. To most policemen we are possible criminals. To most taxi drivers we are possible fares. We make life in the image of our own activities."

I have told you this little story because, although inventory control has been my bread and butter for the past eighteen months, I recognize that for most of you it is only one of many subjects competing for your attention in a crowded curriculum.

Thank you.

QUESTION: Mr. Gammon, you barely touched, in your reference to June buying, on the idea that some improvement could be made in the budget system. However, you did not touch on that point any

further. There are a good many government agencies not in the Military Establishment that feel a lot of changes could be made.

I was wondering, did the report of your group contain any specific recommendations as to improving the budget system at all to aid in this and other matters?

MR. GAMMON: Our recommendations do contain specific recommendations for tightening up in some cases and making more flexible in others the budgeting for supplies, materials, and equipment. Specifically, we recommended the use of stock funds, revolving stock funds, such as the Naval Supply Fund, in those agencies which need to purchase materials in considerable quantity from a number of different appropriations, and store and issue such things over a period of time longer than a single fiscal year. That recommendation, of course, requires legislation to carry it out.

One of the items which I have included in the supplemental list of readings on inventory control is a reference to one of the National Military Establishment studies, which has just been made this month, or at least completed this month. It is called "Revolving Stock Funds in the National Military Establishment." The author is R. D. Snow, of the Office of Accounting Policy, in the Office of the Secretary of Defense. The mimeographed report is dated 16 November 1948.

Briefly, that report, without referring to our earlier inventory control report, which is government-wide, recommends the establishment of a revolving stock fund for the Army and for the Air Force paralleling the present Navy revolving stock fund. Such a recommendation is likely to be much discussed pro and con before action occurs. I may say that such a recommendation is consistent with the recommendations contained in our Joint Staff report on inventory control.

QUESTION: If, by legislation, we say, "Make the necessary inventory systems," what assurance is there that they will be any more efficient in carrying out those inventory systems than they are now, with their lack of proper purchasing procedures? I mean, simply passing a law is not going to make an efficient purchasing system.

MR. GAMMON: That is a very true statement, which no one will deny. I, personally, have no great faith in the efficacy of laws, as such, unless there is a desire to carry out the purpose of the law. In other words, we need to offer incentives, so that it really pays to carry out the purpose of the law.

I think there is need for both the carrot and the stick. At the present time, the carrot, the incentive, is, as was pointed out on the chart, not towards good management, but towards hoarding. It

pays to hoard when nobody asks you what you have. But we could change the incentives, so that it would pay NOT to hoard.

You could provide, although they may not always be applied, punishments, the stick, for those who do not carry out what your proposed law or regulation requires. I think the stick should be used sparingly. I have to spank my little boy some, even though I don't like to spank him.

I think one "stick" depends on some system of internal audit and inspection in each agency, such as you are thoroughly familiar with in the military agencies but such as exists almost not at all in the civilian agencies. So our report on inventory control recommends not only an improved system but also internal audits and inspections in each agency, as a part of the regular management operations of the agency, so that top level is currently informed of deficiencies, if any, and they don't wait until some outside gumshoe person goes through here.

And, second, we recommend that the Comptroller General of the United States make (on the same basis that an outside auditor would make in private business) an outside, commercial-type audit of property transactions and property accounts. We think such outside audits should be made annually. Such outside, commercial-type audit would have the same purpose as in business, primarily of checking to see that the internal audit system is sufficiently effective to protect the interests of the management and of the stockholders. In the case you are talking about, the "stockholders" are you and I, as taxpayers, who are paying to the three levels of Government one dollar out of every four we make.

QUESTION: In 1947, the Forest Service instituted a new system of inventory control of equipment. I wondered if you looked at that and how it compared with the systems in the other civilian agencies?

MR. GAMMON: We did not look at that, but we have a favorable impression generally of the management practices in the Forest Service. I may say that my supervisor, Ray Ward, who is in charge of the Property Management Program in the Bureau of the Budget, spent about seventeen years in the Forest Service.

QUESTION: Both you and the Hoover Commission concur in the tremendous cost of small purchases. Since the Hoover Commission is not here and you are, what is your recommendation as to the elimination of these small purchases? Is it contained in your report?

MR. GAMMON: That's another lecture. Among other things in our report is a recommendation that you determine the requirements for an agency's supply, material, and equipment needs on the basis of relating

what you buy to what you are going to do. If you do that, there will be fewer small purchases for the reason that small purchases are purchases, as a rule, for the needs of one particular person or unit in an agency and are not usually--at least in civilian agencies--purchases of the total requirements of the agency even for a fairly short period of time.

The small-purchase problem in the civilian agencies I saw--which are not all of the agencies--was principally a lack of pooling of needs and planning the placing of orders to meet those needs within that agency.

There is no simple solution for that problem.

As you may know, the problem of needlessly expensive small purchases is not peculiar to the Government. I probably overemphasized that fact here in the text. Some of the commercial concerns are presently getting full-column stories in "The New York Times" for recommending in their own agencies and business firms the elimination of small purchases.

If I left the impression that I have any panacea for that, I had not intended to do so.

QUESTION: I do not understand how the revolving stock fund is going to eliminate the "June buying." It will eliminate it in money, yes; but then we will get the June requisitions.

In other words, even if we have a stock account and have the material actually in stock, still we have individual offices that have allotments from the appropriation of each agency. As the thirtieth of June approaches, they are going to see that allotment not being expended and instead of putting in orders they will put in requisitions, which will amount to the same thing, so far as the individual agency is concerned.

MR. GAMMON: I am glad you asked that because I don't think there is any panacea for the problem of June buying either.

But one of the other things we have also recommended and which is controversial--it is among other things being considered by the Hoover Commission task force which has the whole of our report--is that the accounting system be changed so that you account for material and supplies on the basis of when used and not when purchased.

For example, on that basis your office, which has money available at the end of the year, would show an excess of consumption in that year in contrast with the present system where consumption and

usage figures are not generally available to the Congress or to the Bureau of the Budget.

That is not a panacea either; but if the accounts of materials in each agency were on a usage basis rather than on an actual cash expenditure basis, there would tend to be less June buying.

GENERAL HOLMAN: Mr. Gammon, at every opportunity, here in the College, we try to examine the responsibilities of management, and to look at the tools which are available to management solving its problems and discharging its responsibilities more efficiently. I am sure that in your splendid talk this morning you contributed greatly to our knowledge in that direction.

The faculty and student body join me in expressing appreciation for your coming here today.

MR. GAMMON: Thank you, General Holman.

(9 February 1949--750)S.

CHART NO. 1

CIVILIAN FEDERAL AGENCIES SPEND

FOR SUPPLIES, MATERIALS AND EQUIPMENT \$1 BILLION PER YEAR

AGENCY • SUPPLIES AND MATERIALS • EQUIPMENT

	284 MILLIONS	(\$74 THOUSANDS)	RESTRICTED
1. BUREAU OF FEDERAL SUPPLY	169	52	MILLIONS
2. VETERANS ADMINISTRATION	75	16	
3. ATOMIC ENERGY COMMISSION	48	29	
4. INTERIOR DEPARTMENT	32	10	
5. POST OFFICE DEPARTMENT	23	5	
6. TREASURY DEPARTMENT (EXCLUDING BFS)	21	16	
7. TENNESSEE VALLEY AUTHORITY	16	4	
8. FEDERAL SECURITY AGENCY	14	10	
9. AGRICULTURE DEPARTMENT	12	22	
10. COMMERCE DEPARTMENT	59	59	
11. ALL OTHER EXECUTIVE AGENCIES	<u>59</u>	<u>59</u>	

TOTALS FOR FISCAL 1949 \$753 MILLIONS \$223 MILLIONS

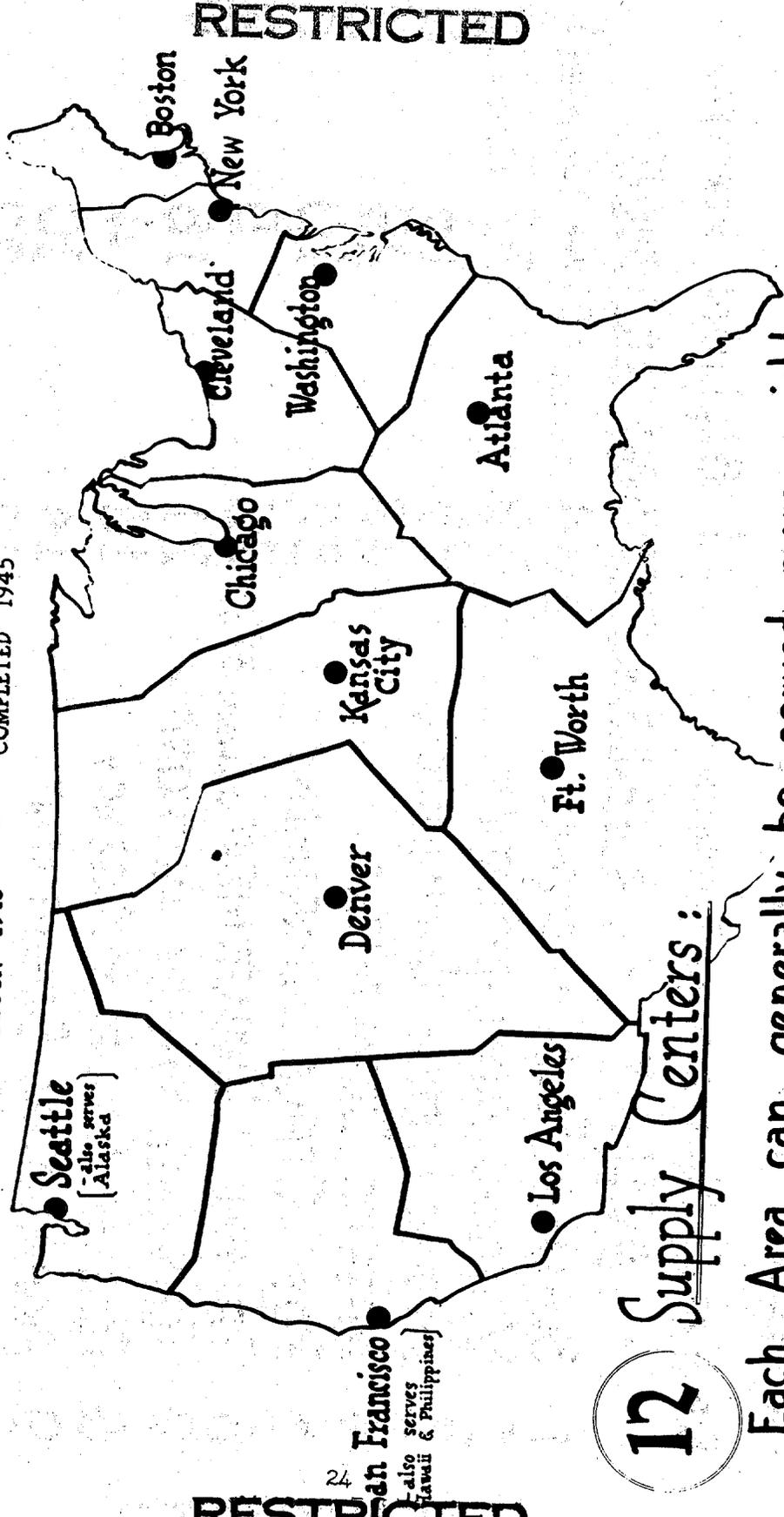
893

RESTRICTED

The FEDERAL SUPPLY SYSTEM

834

BEGUN 1943 - COMPLETED 1945



RESTRICTED

RESTRICTED

12 Supply Centers:

Each Area can generally be served more quickly or more economically from the Supply Center within the Area than from any of the other Supply Centers.

WHAT DOES THE U.S. GOV'T BUY?

<u>COMMODITY OR SERVICE</u>	<u>% OF TOTAL \$ VOLUME PROCURED</u>
1. CONSTRUCTION MATERIALS	19.4
2. FOOD AND FEED	14.6
3. CONTRACTUAL SERVICES (GAS, WATER, ELECTRIC, ETC.)	9.8
4. MACHINERY AND EQUIPMENT	8.0
5. TEXTILES AND DRY GOODS	6.5
6. MOTOR VEHICLES, ACCESSORIES, AND PARTS	6.3
7. FUEL	5.8
8. ELECTRIC AND RADIO APPARATUS AND PARTS	5.4
9. PRINTED MATTER STAT'Y AND OFFICE SUPPLIES	2.9
10. FURNITURE AND OFFICE EQUIPMENT	1.9

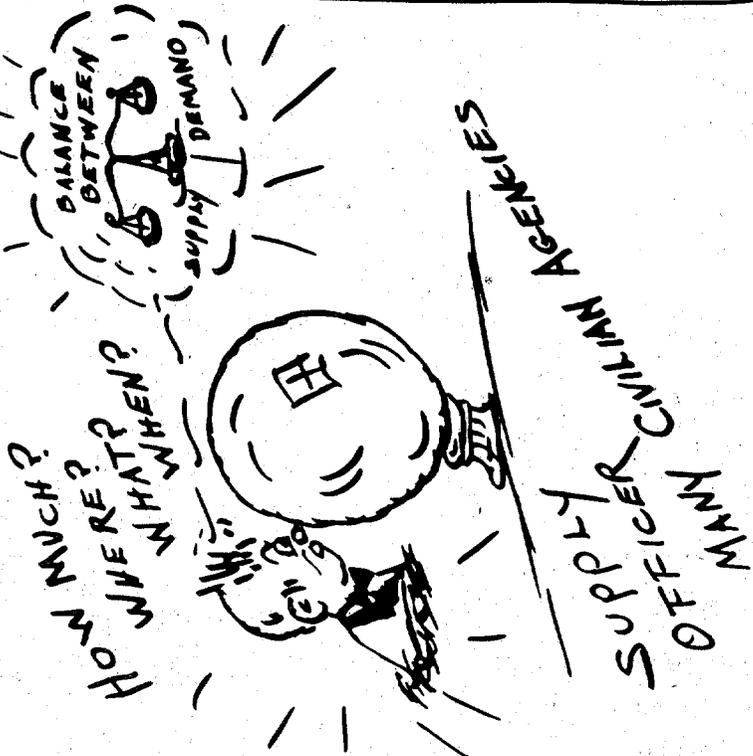
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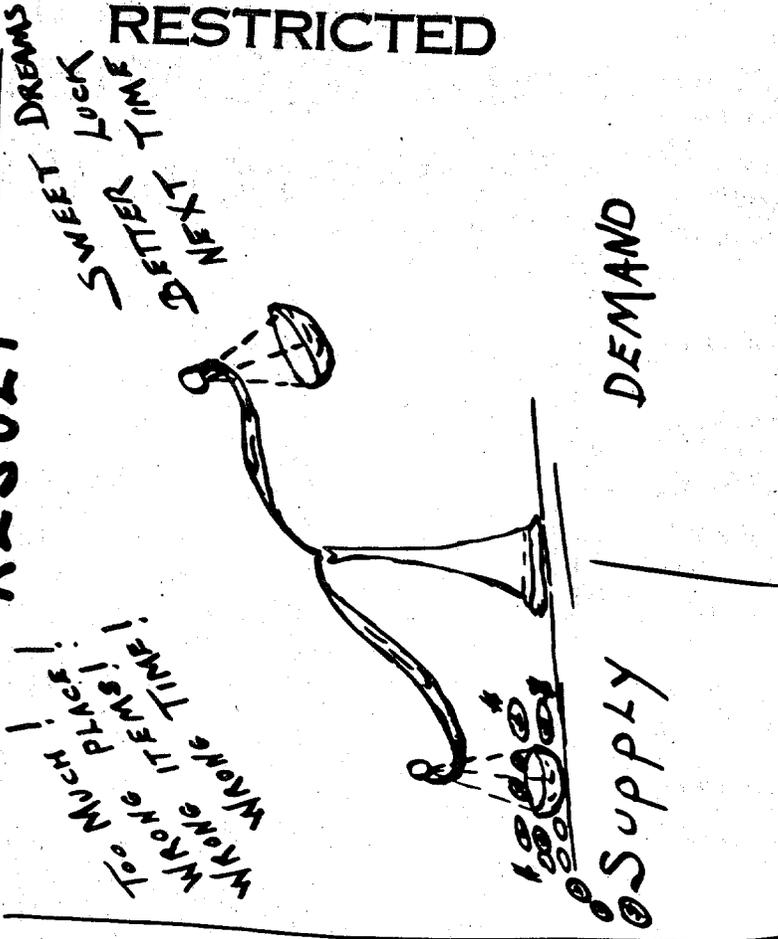
DETERMINING REQUIREMENTS PRESENT SITUATION

886

ACTION



RESULT



EXCESSIVE STOCKING

AGENCY "A"

25%

OF STOCK ITEMS REPRESENTED
ONE OR MORE YEARS SUPPLY

15%

OF STOCK WAS OBSOLESCECENT

NOTE : BASED UPON SPOT CHECK OF MORE
THAN 1/4 OF STOCK

RESTRICTED

RESTRICTED

PROBABLE CAUSES OF
HIGH SPACE REQUIREMENTS

1. FAILURE TO UTILIZE FULLY BFS
FIELD SUPPLY CENTERS
2. OVERSTOCKING
3. POOR STOCKING AND WAREHOUSING
PRACTICES
4. FAILURE TO WEED OUT OBSOLESCE
AND SLOW MOVING ITEMS
5. FAILURE TO DISPOSE OF SURPLUS SUPPLIES

LACK OF PLANNING IN ORDERING

{ REQUISITIONS SUBMITTED BY 191 AGENCIES
TO D.C. WAREHOUSE IN 4 MONTHS
RESTRICTED

10,580

52% - LESS THAN \$25⁰⁰ VALUE

34% - LESS THAN \$10⁰⁰ VALUE

\$5.40

{ PERSONNEL COSTS ONLY OF PROCESSING
A REQUISITION THRU D.C. WAREHOUSE

90%
OR MORE

{ REQUISITIONS THAT COULD HAVE BEEN
ELIMINATED BY PROPER AGENCY PLANNING
AND CONSOLIDATING OF STOCK
REPLENISHMENT ORDERS

INVENTORY OF CONTROL MATERIALS ^{AND} SUPPLIES



30
RESTRICTED

RESTRICTED

1. LACK OF ADEQUATE RECORDS AND PROCEDURES!
2. CONFUSION RESULTING FROM COMBINATION OF ALLOTMENT ^{AND} COST ACCOUNTING!
3. LACK OF ADEQUATE REPORTS FOR MANAGEMENT!

CONTROL OF EQUIPMENT

1. WIDE VARIATION AS TO DEFINITION
2. WIDE VARIETY OF TYPES OF RECORDS
3. LACK OF INTEGRATION OF EQUIPMENT RECORDS
 INTO AGENCY ACCOUNTING SYSTEM
4. INCOMPLETE UTILIZATION DUE TO LACK OF INFORMATION
5. LACK OF A SYSTEM OF REQUIREMENTS DETERMINATION
6. LACK OF A SYSTEM OF FORMAL AUTHORIZATION
7. LACK OF PHYSICAL INVENTORIES AND ACCOUNTABILITY
8. FAILURE TO DISPOSE OF EXCESS AND SURPLUS

INVENTORY = \$ ON THE SHELF *²⁰

IN GOVERNMENT

1. HIDDEN ASSETS PROVIDE RESERVES FOR LEAN BUDGET YEARS
2. CARRYING COSTS ON OVERSTOCKS ADD TO SALARY AND SPACE EXPENSES
3. INVENTORIES NOT AUDITED
4. CONSUMPTION RECORDS OFTEN LACKING
5. ANNUAL APPROPRIATIONS
6. "JUNE" BUYING
7. UNJUSTIFIED STORAGE
8. FREQUENT SMALL "RUSH" ORDERS

IN BUSINESS

1. ACCOUNTING STATEMENTS DISCLOSE INADEQUATE TURNOVER
2. SLOW TURNOVER EATS UP PROFITS
3. ANNUAL AUDITS OF INVENTORIES
4. STOCK LEVELS MATCH PRODUCTION OR SALES PROGRAM
5. FUNDS INDEFINITELY AVAILABLE
6. BUY WHEN PRICE IS RIGHT
7. SCHEDULED DELIVERIES
8. TOP LEVEL PROCUREMENT PLANNING

* INVENTORY ALSO INCLUDES GOODS ON ORDER

APPENDIX

Suggested references for further information on determination of requirements for material, supplies, and equipment in Federal civilian agencies.

1. Copeland, M. A.; Clem C. Linnenberg, Jr.; and Dana M. Barbour. "Government Purchasing, An Economic Commentary." Monograph No. 19 of the Temporary National Economic Committee. (76th Congress, 3d Session, 1940.)
2. Office of Secretary of Defense, Office of Accounting Policy. Revolving Stock Funds in the National Military Establishment. 16 November 1948.
3. Congress. House. Proposing an improved permanent system for the procurement, use and disposal of government property; President Truman's message, 5 Mar. 1948. (80th Congress, 2d Session, House Document 558.)
4. -- -- To create a General Property Office; introduced by Mr. Riehlman, 16 June 1948, and referred to the House Expenditures Committee. (80th Congress, H.R. 6965.)
5. -- -- Surplus Personal Property Act of 1943; Report to accompany H.R. 2795, reported favorably 27 May 1943 by Mr. Whittington from the Committee on Expenditures in the Executive Departments. (78th Congress, 1st Session, Report No. 507.)
6. -- -- Senate. The proposed Federal Property Act of 1948, and Senate Report No. 1413 dated 26 May 1948; submitted by Mr. Aiken, Committee on Expenditures in the Executive Departments.

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