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PERFORMANCE BUDGET

30 November 1950

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COLONEL WILLIAMS: Because of a sudden illness, General Christmas had to cancel a lecture this morning. He will be with us shortly after the holiday period.

We are looking forward today to hearing from Colonel Tom McCulloch, who, among his many other attributes, is able to speak five weeks earlier than scheduled, without having it bother him a bit.

Colonel McCulloch is quite at home in these surroundings because, until last June, he was Chief of the Procurement Branch of the Industrial College. From here he went to an important post as head of the Accounting Policy Division of the Army Comptroller's Office. He is, therefore, eminently qualified to speak to us today on the "Performance Budget," a subject which most of us know very little about.

As a matter of fact, there are many other people who know too little about it, and his qualifications to explain it are best shown by the fact that when he left here, during the first week or two, he talked to his group over there on the performance budget. That resulted in his talking to General McLain, the Comptroller, on the performance budget. That resulted in his talking to the Secretary of the Army and all the Under and Assistant Secretaries. That resulted in his explaining it, in his terms at least, to the Secretary of Defense and all his staff. So you will realize that, if anyone can explain it to us, he can.

Without taking further from his time, and without explaining why last year he was affectionately known throughout the student body as "Hard Dollar" McCulloch, I will simply introduce a grand guy and engaging lecturer--Colonel McCulloch.

COLONEL McCULLOCH: Thank you.

General Holman, gentlemen: It is a pleasure to come back. The only question I asked Captain Miller at the time he asked me to move this talk forward four or five weeks was, "Who is going to introduce me?" I was particularly interested in that because, in three years' experience at this place, I found it was very good policy to build up the ability of the speaker. I was wondering who was going to undertake that rather difficult job this morning.

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You people are entitled to hear experts. But I want to warn you that the talk you are going to hear this morning is not on the plane of the expert. I want to establish my amateur status immediately.

Seven months ago today I was a member of the staff and faculty of this school. I had received my orders to report to the Comptroller's Office for duty, and I thought it would be nice to go over and meet the Lieutenant General heading up that office. So I did. The first question he asked was, "When are you coming to work?" I said, "Well, my reporting date is the first of July." His comment was, "Well, Monday is May the first, and I want you her on May the first." So tomorrow begins the first day of my eighth month of duty. And, in the last seven months, I have acquired whatever adeptness at this subject I may be able to display this morning. I did find that this project was primarily a pioneering effort. There were very few people who knew a whole lot about it, and it became necessary, almost at once, to develop some sort of orientation talk for the purpose of acquainting people in the Comptroller's shop, and other interested staff agencies, with the objectives and missions of the new division that was being established. This presentation I am about to give you this morning is one that was prepared for the purpose of briefing the personnel of the Department of Defense, the Secretary of the Army, the Chief of Staff, and other interested people.

In my approach to the presentation, I would like to divide it into three parts: (1) background material; (2) a statement of the organization and functions of the Accounting Policy Division; and (3) a statement as to motivation, or the importance of the job.

I am not going into any great detail and I am going to try to cover the subject within the next 30 to 35 minutes.

First, with respect to background: Prior to 1920 we had no real system of fiscal control exercised by the United States Government, and the same condition applied to the military services. The then War Department and the Navy Department--as a matter of fact, each agency, each little group, and each little division--established and set up its own budget estimates and accounting procedures and handled its own disbursing. That meant, for example, if the Quartermaster General of the Army or the Chief of the Bureau of Supplies and Accounts of the Navy had some particular quirk as to information that he felt he needed to properly operate his department, he would have his accounting slanted in that direction. The result was that there were accountants all over the lot and each was accounting for some little particular segment without any concept in mind whatsoever as to the over-all objectives they hoped to achieve.

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Our country managed to stagger along until World War I with an antiquated fiscal procedure such as this. But, World War I emphasized the fact that we must adopt modern business procedures in government, and Congress passed two pieces of legislation to correct the situation.

The first was the Reorganization Act of 4 June 1920, which set up the General Staff concept in the Department of the Army as we know it today and, second, established the Finance Department. The Finance Department had four jobs: budget and fiscal, accounting, disbursing, and auditing. The Finance Department, in fact, performed all the operational functions that are now being performed in the various comptrollers' shops at Defense level and at the military service level.

The second piece of legislation passed by the Congress was the Budget and Accounting Act, signed on 10 June 1921; that act set up two agencies: (1) the General Accounting Office, under and reporting directly to the Congress and (2) the Bureau of the Budget, under the Treasury Department.

As is always the case when we have two competing agencies essentially doing the same thing in the same organization, there was immediately struggle for power, both at the governmental level and within the military services. For example, at the governmental level the struggle was between the Bureau of the Budget and the General Accounting Office as to who did what; who reported to whom; and, who was boss in any procedure or policy that might be established. This struggle came to a head in a hurry; it became necessary for the President to pull the Bureau of the Budget out from under the Treasury Department and establish it as a part of the Executive Office of the President. Since that time the authority and prestige of the Bureau of the Budget have increased by leaps and bounds. On the other hand, the General Accounting Office assumed a role that I think is best portrayed by the good old faithful government servant with the green eyeshade, who sits at the same desk day after day, checking the same sort of routine information.

Within the military services the struggle was between the General Staff and the Finance Department as to who controlled financial policy. As a matter of fact, although the Chief of Finance was designated as the Budget Officer for the War Department, policy control was exercised by the Budget and Legislative Planning Branch of the General Staff. Believe me, the War Department took care to insure that the best brains available were put in that agency. For example, at the beginning of the last war, General Haislip, who is now the Vice Chief of Staff of the Army, was then a lieutenant colonel and the chief of the Budget and Legislative Planning Branch of the General Staff.

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These struggles, as a matter of fact, did not mean much. The military were taking only a small percentage of the national income to operate the establishments. The public didn't care much. We had just fought a war to end wars and everybody was going to remain at peace from then on.

Then World War II came along and spoiled it all. Even at the beginning of World War II it became immediately apparent that the business side of the military was set up in such a way that it could not operate effectively, and it was necessary, at a time of rapid expansion, to set up Army Service Forces. Although the Air Forces were not separate, it became necessary to establish a separate Air Materiel Command. In the Navy Department, the job of Chief of Naval Material was established for over-all direction.

Even though we won the war, it became quite evident to the public that something was wrong with the business methods of the military. If you will recall, following World War II, it was almost impossible to pick up a magazine or a newspaper without reading some criticism of wasteful military methods.

I previously had the effrontery to quote the following article in a lecture before the Industrial College of the Armed Forces, so I suppose I can repeat it. This appeared in a national magazine at that time:

"One of the most farcical functions of the Appropriations Committee is in appropriating funds for the military. Perhaps one cannot expect the Army to be a thrifty institution, since its function is that of destruction. It is almost a hopeless task for our committee to cross-examine military witnesses in an appropriations hearing. The military is pretty much of a closed corporation and, as one of the oldest departments of government, has a long tradition of successful fund-wangling. The army people know all of the dodges, and, if cornered, can always cry, 'Top secret!' in the interests of national defense. They will ask for appropriations for new shirts, when they have a surplus of old shirts..."

And on, and on, and on, and on.

As a result of public clamor of that sort, you will recall, the Hoover Commission was set up, and Mr. Ferdinand Eberstadt was detailed to write the report on the military. I would like to refer to one or two lines from his report. The following is from a statement in the press concerning the report:

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"Turning to budget problems, the Eberstadt committee urged the establishment of a controller in the Secretary's Secretary of Defense's office and uniform accounting and classification procedures for all three services. It described the budget as the most important single instrument of control in the hands of the Secretary and a possible potent instrument for economy."

One of the lines from the report that I think is of interest to the school is this:

"A sense of economy and cost consciousness, instilled from above by strong cost-control and accounting methods and injected from below by teachings in our service schools, is needed in the armed forces."

As a result of the work of the Hoover Commission, and of the Eberstadt Report from which I have just quoted, Congress, in its wisdom, did exactly the same thing following World War II that it did following World War I--it passed two pieces of legislation and exactly the same types of legislation. The first was the National Security Act of 1947--later amended by Public Law 216 on 10 August 1949. The second was the Budget and Accounting Procedures Act of 1950. The purposes of both pieces of legislation were essentially the same: (1) to delimit authority and (2) to cut out some of the wrangling by definitely assigning responsibility.

I would like to say a word or two about the Budget and Accounting Procedures Act of 1950. It requires full disclosure of accounting information and adequate financial information for purposes of budget and management. It requires effective control over income and expenditures, property, and other assets. It demands "orderly improvements." It demands simplified and more effective accounting, financial reporting, budgeting, and auditing. It requires "the elimination of duplicate and expensive accounting." It authorizes the General Accounting Office to adopt modern auditing systems when the governmental agencies have their accounts in such shape that they can accommodate such an audit. It makes the Treasury definitely the financial reporting agency of the Government and it prescribes that the Bureau of the Budget will be the top management agency.

On the other hand, Title IV of Public Law 216 set up the comptroller concept through combining existing functions under one directing head at an appropriate level--in the case of the Department of Defense, at the Assistant-Secretary level, and in the case of the military departments, at what is comparable to the Deputy Chief of Staff level in the Army.

Public Law 216 also defines areas of authority and responsibility for functions. Further, it makes provision, by indirection in a way, for appropriate ranks and grades.

Unfortunately, the legislation does not define areas of interest as between civilian and military--I want to emphasize that fact--as to who controls the business responsibilities of the military departments, and the issue is being fought out along that line at the moment, most unfortunately, from my point of view. Specific definition is required, in my humble opinion, as to the area of responsibility of command functions as distinct from that of technical functions.

That brings me down to the Accounting Policy Division. This division is set up administratively with an office of the chief and several special assistants. Technical direction is achieved through the Property Accounting Branch, the Fiscal Accounting Branch, and the Cost Accounting Branch. Before the division had been in operation more than a month, the Comptroller of the Army decided that financial policy, as such, should be developed in the Accounting Policy Division, inasmuch as the first question that occurs to one, when he is considering financial policy is, "How can we account for the eventual developments under this policy?" So we have now set up a fourth branch, the Financial Policy Branch. As I will indicate later, being an empire builder by nature, I have in mind two additional branches.

First, I would like to cover, briefly, the responsibilities of the Property Accounting Branch. In order to set up a type of accounting system that will permit proper budget administration, it is necessary to have unit accounting for property--so many pairs of socks, so many shirts, and so many of this and that--but in "performance type budget" it must be also accounted for by money value.

How can one achieve this objective easily and economically? The way we proceeded is this: We first set up a system of procedures, which we define in these books (exhibiting), as to how it can be done at depot level, at station level, and at national level. Then, in the Department of the Army, we selected the stock control point of the Engineers at the Granite City Depot in Granite City, Illinois, as the testing medium.

This depot supply system--it is essentially the same in the Navy and Air Force as it is in the Army--is more or less routine. Each military service handles it by means of requisitions, issues, and transfers, and if the account is large enough, it is maintained on electric accounting machine records. Our objective in bringing this under financial control was to take the item cards that had been produced on accounting machines and, by consolidating them on a stock availability basis and a national distribution basis, to get out a price index. Then, simply by multiplying prices

and items, we were able to arrive at some sort of financial statement for the total Engineer property availability in the United States at the stock control point.

After we got that, how could it be used for purposes of management? We had published the station financial statement, the depot financial statement, and the national financial statement, and we attempted to analyze them to find out how we could use financial information for purposes of budget administration and for purposes of management. At the same time we encouraged G-4 to do the same thing and the technical services to follow exactly the same procedure.

But we kept emphasizing to the technical services that it is their responsibility to come up with a really comprehensive analysis of these figures. Each project is so complex that we cannot set detailed objectives. If we could set an objective, then establish a procedure, and then dictate the procedure, it would be very simple. But there are so many angles peculiar to each technical service that all we can do is lay down broad policy. Implementation of policy and the development of detailed procedures must be conducted by each technical service. Upon completion of each such accounting test the results are analyzed for purposes of management and budget administration. Then we can really begin to make it pay off. The Corps of Engineers has found it paid off.

We followed that initial test immediately by going into the Chemical Corps. They were quite cooperative and have come up with their national statement of the value of chemical property.

We are now going into clothing and equipage in the Quartermaster Corps and at the same time establishing a stock fund.

The next thing is the Financial Policy Branch--the new one--and how it ties in with accounting. I have picked the Korean won procedure as an example. When the war originally broke out in Korea, some of the problems that we were immediately faced with were--How are we going to handle the accounts on the Korean won? Who is going to set the rates of exchange in the absence of government? Who is going to be responsible for insuring that the government of the Republic of Korea is repaid for anything that we take out of the indigenous economy?

We established a general procedure in anticipation that there might be a long-range continuation of the effort. We did not confine it necessarily to Korea--the plan that was developed can be applied anywhere in the world where there is a United Nations effort. We set up a United Nations funding officer and under him we have provided for funding officers of the United Kingdom, Korea, Australia--whoever it might happen to be. By setting up this relatively simple procedure, from an accounting point of view, we are able to provide funds not only for the Department

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of the Army but, inasmuch as we are the executive agency on this sort of thing, for the Navy and for the Air Force, with a single system of accounting for all types of funds.

The third branch is the Fiscal Accounting Branch. There is nothing particularly new about it. All the services have been doing fiscal accounting for a long, long time. They expend money and account for the expenditures. In fact, they make funds available and they account for the commitments and obligations.

But there is one little trick in connection with this right now. If you will recall, I said that up until the time Public Law 216 was passed, we had the Finance Department, a single department, performing this function, and that department had organizational concepts in mind that do not accord with the organizational concepts that are inherent in this comptroller scheme.

Fiscal accounting in the Army involves four agencies. The operating agency is involved--there must be field fiscal stations--the Budget Office in the Department of the Army is involved; then there must be some central accounting office. In the case of the Army, central accounting is performed at the Army Finance Center in St. Louis.

Under this new comptroller concept, one of the deficiencies, at the moment, is our inability to secure agreement on a regulation which we can issue to the field that will indicate the type of organizational setup that is desired in the field. I believe the other military services are faced essentially with the same problem.

The last one is the most complicated of all--the cost accounting operation. The objective of this is to get accounting on an accrual basis. One of the deficiencies that has existed in the military setup up to the present time is the fact that we secure appropriations in any one fiscal year; we effect expenditures in that same fiscal year; we put the material in storage; and, we have no records as to when it is actually used. So everything we buy is now carried under the fiscal system as an expense of the current fiscal year, which, of course, does not make sense. The objective of this cost accounting operation is to adopt an accrual basis, so that you charge out not only the funds that you expend, but also the material and manpower that you expend on any project. This is the heart of the performance type budget.

I hope none of you thought I was going to get up here this morning and define clearly just what a performance type budget is. But I can tell you, at least, what my concepts of it are at the moment.

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There are concepts at all levels, but the end objective is to give a sum of money, for example, to the Commandant of the Industrial College of the Armed Forces, and to assign him commensurate authority to spend that money as he sees fit, measuring his accomplishments on the basis of performance.

We hope, in due course, under this cost accounting system, to be able to compare one type of performance with another. For example, What does it cost to obtain a recruit in the First Army Area as compared to, say, the Sixth Army Area? And, if there is a differential, Why is there a differential? Or, Why would it cost one shipyard more to repair a certain type of ship, or outfit it, than it would cost another shipyard? The same thing would apply to aircraft.

That is the over-all objective. But there is one terrible hooker in it. We can handle contracts, services, supplies, and material, but when we get down to labor we run into difficulty. Inasmuch as all military personnel are paid from a single appropriation, Military Pay and Allowances, in each of the services, it is extremely difficult to split military personnel time up as between one job and another job. We must establish our cost accounting system without the necessity of having each military person prepare a daily diary of his activities, in order that he might be properly costed out on training, instruction, repairs, or whatever his various jobs might happen to be.

The first item contained in the performance type budget structure, that the Department of the Army has sent up to the Bureau of the Budget for consideration, is military pay and allowances. The Bureau of the Budget said, "No, military pay and allowances is not a performance. We want performance. Put it under the head of training, or maintenance and operations, or some other intelligent performance head that we can understand." If we have to do that, it may be necessary, in the long run, to have military personnel paid from a variety of appropriations rather than from a single appropriation. How that will work out, I don't know.

The over-all objective of this accounting job is to secure integrated accounting. Our ultimate objective is to have these accounts prepared in such shape that we can enter everything into a central ledger, and from a single central ledger, produce the variety of reports that are now being required by the Department of the Army, the Department of Defense, the Congress, or the Executive

There are two other branches I have in mind and hope to set up. The first one is Industrial Funds. At the present time the Army has a group at Picatinny Arsenal which is setting up an industrial fund control

for an ordnance installation and, if it is acceptable, we hope to extend it to all ordnance installations. The Navy is doing exactly the same thing in the shipyards. The objective of this is to provide the installation commander with the money he requires to operate for any one year. He can conduct his operations in line with the "project orders" that he receives for the work to be done. He will maintain cost records in such shape that he can sell his product to the using services at cost and, at the same time, he will be required to conduct his operation within the limitation of the funds that are made available to him or that he can recover from the services to whom he is selling his product. This Industrial Fund concept will apply only to the commercial-type organizations within the military services--the Quartermaster Clothing Depot at Philadelphia, the manufacturing ordnance installations, or the ship-building facilities of the Navy.

The last branch which I propose to organize is a sort of fetish, so far as I am concerned. It seems utterly ridiculous to me to develop comprehensive reports like the financial statements we are now turning out without engaging in an effective analysis of these reports.

Upon receipt of a financial report the natural disposition is to look at it and say, "Well, the figures are essentially correct," and put it in file. It has seemed to me, since I have been on this job, that we must take the initiative in the Comptroller's shop of setting up an analytical group that will not only analyze the accounts at top level for the Department of the Army and the Department of Defense, but will go into the field to do two things: (1) to pick the brains of the fellow who is in the field--and there are good analysts in the field who are using these reports and (2) to encourage them to do that very thing. We have a responsibility for assuming the initiative on this job, but I am having a difficult time getting analysis started. I simply see no sense in wasting money doing all this accounting work unless we can finally reduce it to some sort of charts or other control forms that make a definite contribution to budget administration and to management.

I might say one other word about analysis. I do not believe that anybody can analyze effectively after the fact. In an analysis of these accounts, we are going to have to begin analysis at the time the accounts are being set up. Then, while the accounts are being produced, analysis must continue. And, after the receipt of field accounts, detailed evaluation and improvement must be studied. Unless they can be analyzed and be used definitely for purposes of effective management, there is no sense in producing accounting reports.

Over-all coordination is being done in a number of ways. I have very able technical assistants, and every procedure that is worked up and every policy that is considered are referred to a special assistant

who has the primary job of insuring that one type of policy is completely coordinated with another type of policy and there are no loose ends.

Second, in order to bring the accounting under control--if you remember, I said everybody all over the lot was accounting--we have now set up a Control List of Projects; the theory being that we will not allot funds or space to anybody to engage in any accounting procedure unless that project is entered on the approved master list, which is maintained in our office.

Next, we have civilian advisory panels. I have a little book here that lists the biography of each of these people. They are some of the best accountants in the country. They have been organized in small sub-panels, so that any time a knotty problem comes up, we have available for consultation the best brains in the United States, without charge. They will meet anywhere, at any time, on request. They have been exceedingly helpful.

Lastly, the way the Department of Defense exercises control is by setting up a series of interlocking committees. There are committees on pricing, committees on this, committees on that, and everybody who is concerned with one of these projects is a member of one of these committees. So, when we finally develop some acceptable accounting technique, we are required to sell it to the appropriate committee at Department of Defense level, as a matter of coordination. It is time-consuming, but if one is only patient enough, he is not going to make many technical mistakes.

That completes the second part of this presentation. The third part will take just a few moments. It relates to motivation.

Although Public Law 216 prescribes this routine I have just gone through, or some variation of it, and although the Department of Defense has directed that it be done, it is primarily a salesmanship effort. We have to secure the cooperation of the Chief of Engineers, of the Quartermaster General, of G-4--of everybody who is connected with each project. We must secure the willing cooperation of every person who is interested in any phase of this work down to include the post or operational level.

We in the military have a responsibility, to a limited degree, of insuring, no matter what the emergent condition might be, that we conduct our operations, at least on a long-range basis, with the objective in mind of reducing our expenses to the point where total receipts of the Federal Government will not be so deficient as to increase a public debt which has become, in the opinion of some people, unmanageable.

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Up until the present time I have never read a claim that Russia is going to take us in a shooting war. That may have changed in the last 48 hours; I don't know. I have read, however, that the Russians have iterated and reiterated that they are going to take us because we are going to collapse economically. And they may have a good point. It is interesting to note that the largest, single, most carefully guarded office, in Moscow is the Office of Economic Warfare.

Perhaps, I can illustrate the point by means of a few exhibits. I have here a 10,000 kronen note--repudiated! I have here 1,000 Polish marks--repudiated! Here is 10,000 German marks--repudiated! Here is 50 million German marks--repudiated! Here are all the pieces of currency, from 1 to 100 billion, that were utilized in the Greek devaluation under German occupation from 1941 to 1944.

That is interesting, but, of course, it can't happen here. Well, it did happen here! I have here a Confederate bond for \$1,000. This bond was purchased by my grandfather, who is now dead.

I am not too much concerned about that bond. But I have here a \$1,000 bond that my wife and I bought, and I am concerned about the value of that bond today, tomorrow, a year from now, and 10 years from now. And I am in favor of anything the Comptroller or anybody else can do to preserve the value of this piece of paper--which, incidentally, is not on such excellent stock as is this German note.

It may be possible that economic disruption can wreak more havoc than the atomic bomb--although, at least, it would be slower--and starving today, I presume, is just as uncomfortable as being blasted today.

You are going to listen to a lot of experts this year; you probably have already. Mr. Snyder, Secretary of the Treasury, when he was asked about the current national fiscal situation said, "Gentlemen, we are pioneering."

Dr. Edwin Nourse--although he is a philosopher and does not very often descend to the political field said, in the course of his last lecture before this College, that he firmly believed if the Republican Party ran on a platform of balancing the budget and did not talk about anything else it would win.

Or Mr. Bernard Baruch who has been pleading with governmental authorities to set up a "general staff for peace"---a group of people who don't have to rush from conference to conference and who can sit down and figure out the long-range answers to these problems.

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Or the piece in a recent copy of the "Washington Times-Herald," which succinctly described it in this way:

"It is only a question of a few more billions until the one who is going to need Federal aid the most will be Uncle Sam."

I don't believe that the comptroller concept, as such, can do everything necessary to save the country, but I do believe that it can, at least, make the military dollar-conscious. Certainly, any organization that spends 82 cents of every appropriated dollar has a responsibility to spend it efficiently.

To get back to accounting: Can accounting make any contribution to the war effort? Mr. Hoover put it in pretty good English in the chapter opening the accounting section of this Report. He states:

"The conduct of the accounting system of the Government affects all other administrative problems.

"The financial operations of the Government must be controlled even more rigorously than those of private business. Maintenance of financial integrity affects the confidence of the Nation in itself and the moral standards of all the people. A failure of such integrity in private business affects the pocketbooks and slackens the morals of a few, but its failure in public business affects the morals of all."

Thank you.

COLONEL WILLIAMS: Gentlemen, as you can judge from the talk, questions on the comptroller setup, which, of course, is new, as well as on the performance budget, are in order.

QUESTION: My question is at a little lower level, sir. I will have to cite an example to explain what I am going to try to get across.

Let us say that, at the Army level, the budget is formed, and you are passing out the money to the commanding officer of a post. Under the performance type budget, as I understand it, he gets that money more or less in a lump sum, with an estimate from the various services at the Army level as to what they think he should allocate to each service. Using my own service, I will say that the Transportation Corps was allocated \$50,000, under our figures, and the Engineers were allocated \$100,000. Then he comes back to us, after he does his calculations, and says, "No, I don't want it that way. I want the Engineers to have \$125,000. I am going to get a bunch of GI's to run the trucks around, back them into trees and break off bumpers, and so on, but maybe I

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won't be here next year and it won't matter; I will get them to run the rest of the year. So I can get along with \$25,000 for Transportation."

Then at about the end of the year he says, "Oh, boy, I've missed! I need another \$20,000 in Transportation. I've used all the money on the Engineers. I painted a lot of buildings." So he comes back to the Army level again and says, "I'm short \$20,000 of Transportation money." And the Comptroller of the Army says to Transportation, "You had a little in your sock the last time I looked. How about giving?"

Has anything been brought up to try to correct that or develop a little better and more realistic way of coming up with those figures?

COLONEL McCULLOCH: The fact is, if I understand your question, that there is not going to be any Transportation money, as such. It will not be a matter of putting the funds in little sacks and saying, "This is Engineer; this is Signal; this is Quartermaster; and, this is Transportation." The money is going to be put under general appropriation titles, such as Maintenance and Operation or Training. So the Chief of the Technical Service loses responsibility for the administration of funds relating to any particular appropriation.

How would you like to handle your own personal account that way? How would you like it if you received your pay broken up into \$50 lots, so that you could only spend \$50 for food, \$50 for rent, \$50 for drink, and so on? It would not make sense. If you didn't drink, you might want to spend more money for something else.

QUESTION: The small posts, camps, and stations sometimes do not have qualified personnel to figure these things. What happens if they get close to the end of the year and run out of money? We can't close them up.

COLONEL McCULLOCH: One of the objectives of the comptroller setup is to provide the commander with qualified technical advice in the operation of his fiscal activities on the post. For that reason, management is included as one of the jobs in the comptroller concept.

Let us consider for a moment the standard argument advanced against the comptroller concept. A commanding officer may say, "What in the world do I want with a management setup? My managers are G-1, 2, 3, and 4. They tell me what to do, and I do what they say, after the Chief of Staff coordinates it." Well, yes, they do, from an operational point of view. But this comptroller we are going to get, and his little group, will look at everything from the point of view of, what does it cost?

There are certainly many places where a great deal can be done, without affecting efficiency, to reduce costs--and we all know it. That is the objective. We are going to have to think in terms of dollars.

QUESTION: Sir, how will depreciation and obsolescence be taken into account in pricing?

COLONEL McCULLOCH: That is a very good question. At the present time the Corps of Engineers has in its warehouses several million dollars' worth of searchlights, carried at a standard cost. I am told that, with the new airplanes, the searchlight is just about as obsolete as the dodo bird; the planes can move faster than the light can pick them up. Radar has to be used. As a result we have several warehouses full of searchlights, and the Engineers don't know what to do with them and how to depreciate them in their accounts. We are setting up depreciation policies that will permit a gradual reduction in the value of that inventory over a period of years, the same as commercial business does it.

QUESTION: Are we going to capitalize all our stocks?

COLONEL McCULLOCH: Every nickel's worth.

COMMENT: I would like to go back to your example in which you cut my wages up into \$50 portions and allocated them for certain things. We have a comptroller section in the Air Force. I am now referring to the Maintenance Division, with which I am acquainted. The comptrollers came in and told me that I spent too much money for supervision in certain fields of endeavor that we have in the Maintenance Division. They came up with a solution, saying that if I had a master sergeant whose specialty primarily fitted him for propeller overhaul or machine-shop supervisory work, as against a civilian, I should fire the civilian, because I am paying the civilian more and I would save money by having the enlisted man take over.

My rebuttal to that was that an enlisted man is not qualified to take the position of the civilian. I contend that if the comptrollers do not get qualified people with know-how to come in and investigate a shop, they cannot come in and tell me how to run it.

I do it on the basis of profit--profit from output--which the commanding general wants. He wants things done. It may cost me more for the intelligent person to run the shop, as against a nincompoop who may have stripes on his shoulder, but I get the job done. Because at various places somebody might have promoted an enlisted man to get rid of him, I may get him, and he does not pay off, so far as I am concerned. I want the civilian who knows how to do the job.

COLONEL McCULLOCH: Why does a commercial business elect to pay salaries up to \$150,000 or \$200,000 a year to get high-priced executive talent? It does it with one objective in mind--it wants to get someone there who has the managerial know-how and the organizational ability to set up procedures and operations that will permit the more effective conduct of the business, with a continuing reduction in costs of operation. That can be achieved in a number of ways. It can be achieved either by getting eminently qualified personnel and specialists to do all sorts of complicated things, or it can be done by getting a low type of personnel who have to do nothing but punch a few key-punches and the operation is done mechanically.

I quite agree with you that there are certain situations where eminently qualified personnel and specialists are required in order to conduct routine operations. But this is also true: The thing that has made this country great is the improvement of technological procedures to the end that every operational job is made simple. Some fellow making \$15 a day sitting at a machine and pulling a lever every once in a while can turn out a gimmick, a thousand of them a day, a whole lot better than some fellow could have carved them out by hand 50 years ago.

I cannot subscribe to the theory that the only solution to a problem is getting more eminently qualified personnel at operational levels. If you do that, you are lost. As a matter of fact, I think it is rather a tenet of good management that, if you get a fellow working for you who, as standard operating procedure, adopts a policy of saying, every time he gets a job, "Give me more people," there is something wrong with the way he has his activity set up.

The objective is to cut costs. I don't claim that the people who operate in the comptroller business can or should be qualified to go out and inspect a business and tell somebody how he should operate. Once they do that, they necessarily must assume the responsibility. But I do think they have the duty of picking out critical points and indicating the problem. Then there should be some suggestions for improvement on the part of qualified experts, under the command control of the responsible commanding officers.

COLONEL WILLIAMS: We welcome questions from our guests, as well as the student body, if they have any.

QUESTION: Sir, I would like to have you discuss for a moment the cost of all the people involved and the mechanism set up in order to obtain these "look sees" at what people are doing and how efficiently they are operating, as compared to the total amount of money that you might save by cutting down here and there in a few instances.

COLONEL McCULLOCH: We have had some 170-odd years to test that theory in the United States, at least in the military, and it just does not work.

The main way to arouse initiative and interest on the part of people is by assuming a position of leadership and having your information irrefutably in hand so that you can point out advantages to be gained by effecting certain changes. That is the whole basis of organization. Decentralization of operational activities under definite policy guidance is desirable, and it is necessary as business gets larger and larger, but in the end there has to be some one fellow who sets the over-all policies and objectives.

The over-all objective in this case is to reduce the costs of the military. We cannot afford the military at the present time. We are actually pricing ourselves out of national defense. We have the most expensive military establishment that has ever been known in the history of man, and we just can't afford it.

QUESTION: Colonel, to what extent is the current fiscal and budget structure, as backed up by legislation, a deterrent factor in setting up this revolving fund or performance budget?

COLONEL McCULLOCH: Each of the military services is developing, at the present time, a program structure for the performance type budget. As I recall, General White gave a talk here a year or so ago in which he outlined the proposed program structure for the Department of the Air Force. I refer you to his talk.

From the Department of the Army point of view, we set up a proposal and submitted it to the Department of Defense; the DOD then submitted it to the Bureau of the Budget. That is not yet firmed. Until we get a definite idea as to exactly how the money is going to be appropriated so that we can prepare the fiscal code and then establish work measures and the other odds and ends that are necessary for cost accounting, we are just sort of experimenting here and there, and trying to set up some sort of offices and organizations that will meet the problem when it is finally thrown into our laps.

As to our revolving fund, we have already used it. For reasons that were more obvious to other people than they were to me, before the last election it was decided that the submission of another supplemental request from the military would not be permitted but that we would wait until after the elections. We had only the regular bill and one supplemental.

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The Quartermaster, unhappily, ran out of money for clothing and equipage. He came around and said, "May I have 200 million dollars from other appropriations that are available, to buy clothing and equipage?" "Yes," we said, "you may." How are we going to account for it? To bring it under control right now, we are employing the "stock fund," the old Navy concept, simply to keep the Quartermaster in business.

At the moment, the way we are utilizing accounting, in view of the war effort, is to adopt a series of expedients to meet the requirements of the current problem, but we are keeping a long-range objective in mind and hoping that the system we are setting up will fit into the over-all picture when it is finally developed. Until we get a definite performance type budget and know exactly what it is going to be, we will be in no position to prescribe, beyond broad policy.

QUESTION: I would like to know what percentage of your people in the comptroller establishment that is being set up is military and what percentage is civilian.

COLONEL McCULLOCH: In the Comptroller's Office of the Department of the Army there are 87 officers and 389 civilians, and about that same ratio applies through the operating echelon in each of the services.

COLONEL WILLIAMS: Tom, you have certainly done your selling job today admirably, and in the name of all those required, thanks a lot.

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