FINANCIAL MANAGEMENT IN A MILITARY DEPARTMENT

29 October 1959

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INDUSTRIAL COLLEGE OF THE ARMED FORCES

Washington, D. C.

Honorable George Holmes Roderick, Assistant Secretary of the Army for Financial Management, was born in Indianapolis, Indiana, on 22 February 1900. He attended public schools in Grand Rapids, Michigan and later studied at the University of Michigan and was graduated in 1921 with a B. S. degree in mechanical engineering. He has held various important positions in industry and is keenly interested in community affairs. President Eisenhower nominated Mr. Roderick to be Assistant Secretary of the Army for Financial Management on 20 January 1954. His nomination was confirmed by the Senate on 5 February 1954 and he was sworn into office four days later. On 26 August 1954, Mr. Roderick assumed the duties of the newly authorized office of Assistant Secretary for Civil-Military Affairs. Then again on 1 March 1957 he returned to his original assignment as Assistant Secretary of the Army for Financial Management. This is his first lecture at the Industrial College.

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GENERAL HOUSEMAN: This week we have been discussing the budget of national defense, and, if you remember this morning, in our mind's eye we swept the broad Pacific. If you remember also, in a very fine presentation by the Admiral, he stressed the logistical problem which faces him in solving his many problems today. His budgetary problems must be tremendous.

We have to understand the problems of budget and we have got to understand to some extent how we obtain information to prepare a budget. We've got to obtain information on how to get enough understanding to review a budget, once we have the thing prepared. Then, having the budget, how do you control the expenditures to insure proper execution of that budget?

We have tools which are vital in the control of the budget and in the control of the funds themselves. The auditors and the accountants must have proper tools to effectively control the money.

We are fortunate this morning to have a speaker who has been connected with the financial management programs for some time. We are happy to be able to present to you gentlemen this morning the Assistant Secretary of the Army for Financial Management, Mr. George H. Roderick.

MR. RODERICK: Thank you very much, General Houseman. Members of the Faculty and the School of the Industrial College of the Armed Forces, and Guests: I readily assure you of my pleasure in having the opportunity to talk to the Industrial College of the Armed Forces. The high standard of the Industrial College is well known to me, and, of course, all of the military services recognize it as the top-level school dedicated to the study of the Nation's economic policy as it relates to logistic planning and research. The students who are selected to attend have attained outstanding recognition. I sincerely hope that I can add something to your interesting curriculum.

I am particularly pleased to be able to participate in your course on National Security Objectives and Requirements. Within the Department of the Army my fields of responsibility, assigned by the Secretary

of the Army, include not only the financial management of the Army but also all national and international security matters that concern the Army. Because of this connection I have noted with special interest the organization of this course and the list of distinguished speakers who have addressed you.

In this course you have had presentations and, I know, lengthy discussions on the foundations within our Government for national security policy. You have examined the influences and roles of many of the agencies and bureaus of the Government in both formulation of and in planning for execution of the Nation's security policy. Within the last three days you have explored the Federal budget and the defense budget. To complete the cycle, starting with the development of national policy, I have been asked to discuss the management in a military department of the monies made available to implement the Nation's policy. I will attempt to condense for you the financial management within the Department of the Army--with emphasis on accounting and related management techniques.

In the Army and, I am sure, in the other military departments too, the managers are the commanders--thus the financial management responsibility generally follows our command channel. I say "generally" since command responsibility for detailed administration of the non-tactical programs will normally stop short of the corps and division tactical elements.

Financial management processes in the Army have undergone extensive and fundamental changes in the past 10 years. The background behind the changes which have been introduced is a story itself. Briefly, the expanding scope of requirements to support the post-World War II national security objectives made the then existing programing, budgeting, and accounting practices inadequate to cope with the situation. Fundamental change, in fact development of a completely new system, rather than a patching up of the existing processes was required. Many studies were made, both internal and external, to the Army. The Hoover Commission studies, for example, led to Public Law 216 of 1949. This law, among other things, set forth in general terms the financial management techniques which the Army is now using.

As I mentioned, we have been busy for 10 years in developing and introducing these techniques--the change was too far-reaching to spring forth in full bloom overnight. Even today the improvements have not been fully realized. An example is cost-of-performance budgeting.

Nineteen hundred and sixty is the first fiscal year in which cost-of-performance budgeting, applied to the Army operations and maintenance and construction appropriations, has been accepted for use at Department of Defense and Bureau of the Budget levels.

Besides cost-of-performance budgeting, I shall cover such techniques as integrated accounting, stock funds, industrial funds, and consumer funding. While this might sound pretty grim, especially after Admiral Felt's talk this morning, I plan to discuss these techniques in layman's language--perhaps I'll be guilty of oversimplification. However, there is an underlying concept which is really quite simple, namely, that the planning and direction of missions--missions derived from national security objectives--must be directly and continuously related to the planning and application of resources. This means that financial management can no longer operate separately and independently of program management.

With this background, let us examine the techniques of financial management and see how they fit under this concept.

First let us look at cost-of-performance budgeting as applied to operations and maintenance and construction appropriations. As the name implies, it is the identification of costs or expenses of resources consumed in the performance of a task or mission. In essence, we relate the cost of resources available to the job to be accomplished. In an organization as large as the Army, or any of the services, with such diversified activities, implementation of this concept was not simple. Several supporting techniques had to be introduced.

The obligation type budget under which we formerly operated these appropriations contained features which had to be retained. We obligate Uncle Sam when we order goods and services. Naturally, he wants a control over such obligations. Many of these obligations will remain outstanding for long periods because of production leadtime--and, even after delivery, we may hold the goods for consumption in future periods. Herein lies the problem in straight obligation budgeting. There is no direct relationship of mission performance in a particular period with obligations incurred in that period. The obligations incurred include significant amounts which support mission performance in some subsequent period. We can take a simple, personal illustration. You obligate and expend money to buy food to fill your home freezer. You have merely converted part of your salary into items of food--cost is not incurred until the food is consumed in

future periods. Likewise, in cost-of-performance budgeting, we are not only concerned with expenses during the current period--we also take into consideration orders and inventory carried over from prior periods and requirements for orders and inventory levels for future periods. Where there is a difference, the amount is included in the budget as affecting the fund requirements.

I mentioned that several supporting techniques were required for cost-of-performance budgeting. One of the most important of these was the establishment of a common language for use in programing and budgeting. Many of you probably remember that previously the programers talked in terms of X number of troops to be given basic training, or so many field exercises, while the budget people talked in different terms about lumber, gasoline, hardware, and so forth. As a result we had a Tower of Babel. To enable programs and budgets to be discussed in the same language, we established a sort of dictionary which classifies and defines and gives an identifying number to all of the things we do. We call this the Army management structure.

As an example of how the management structure codifies and defines an Army activity, let us look at the activity "Replacement Training in United States Army Training Centers." The code assigned is 2010.1, meaning the activity is classed as part of the "Operation of Tactical Forces" in the tactical forces program, (2000) of the Army operation and maintenance appropriation. The activity is defined to include operation of training centers for the purpose of training replacements in basic combat, advanced individual, common specialist and unit training--it excludes replacement training in the operating forces units. These are definite inclusions and exclusions. A performance factor, "average training load," is also established and defined. The activity is programed, costed, budgeted, and manpower utilization data is maintained under this uniform classification. You can see how such a structure facilitates management of Army activities in support of national security objectives.

Another technique which supports cost-of-performance budgeting is integrated accounting. Integrated accounting is combined accounting--obligation, cost, and expenditure accounting--under accounting control in direct support of a commander's programs and budget. Under the old system, our accounting had been performed in many unrelated channels, with obligation and expenditure accounting in one channel, and the many different cost accounting systems in other channels. None of this accounting could be reconciled with an acceptable degree of accuracy. That was one of our great problems.

The solution was to integrate all of the accounting in one office within each of our installations and higher command headquarters, and to adopt modern accounting techniques for control and reconciliation. This leads to another technique--accrual accounting.

It is necessary that we identify our costs--resources consumed--with our performance during specific periods. Also, we need to know the dollar value of resources carried forward from prior periods and projected into subsequent periods. This information has to be accurate if it is to be usable for management purposes--and we have found that the more exacting double-entry accrual accounting system is essential to unscramble the information to be portrayed for management use. This is not an original discovery by any means. Business has found it out, too.

Accrued accounting merely means that we record costs as resources are consumed, without regard to when obtained and paid for--while at the same time keeping track of what we have in the form of resources, what we owe, and balancing the items. We don't normally keep such exacting self-balancing records for our personal financial management--but we go through the process mentally--and then we decide to postpone buying that new car. Even though our estates are small, there are nevertheless times--tax times usually--when we wish we did keep better records.

A final word or two about cost--or, more accurately--expense accounting. I mentioned previously that we have standardized our cost accounting and brought it under central accounting control to assure validity of the cost data.

It has long been recognized that management must control costs if it is to accomplish its program within available resources. These resources supporting the Army's missions under national security objectives have been progressively curtailed, primarily for economic considerations, making it necessary to establish priorities in their use. Here is where cost accounting becomes an essential management tool. Detailed costs at the operating levels, and summarized costs at the higher management levels, provide basic information for assuring that resources are applied in order of priority to the tasks at hand. We just can't support everything we'd like to do and think we need to do in the accomplishment of Army missions--so our management system provides for focusing attention on doing those things considered most necessary.

Of course the most accurate and refined program, cost, and resource data, is useless unless it is related, analyzed, and used for management decisions--and decision making is not the sole prerogative of the departmental and higher levels. In fact, real management exists at the operating level, which is the point where economies or extravagances take place in the use of resources. This is when extravagances can usually be traced to important decisions being made at a clerical level instead of by responsible officials, not deliberately; rather, by default.

To provide information in related form for analysis and use by managers, we established cost and performance reporting. This reporting starts out in detailed form at the activity levels of our installations. The performance data gathered within the activity and the cost and resource data provided by the accounting offices are "married" and provided in successively summarized form to the activity directors, the program directors, and then the installation commanders. Each activity head and program director reviews and analyzes the portion covering his area, and an overall review and analysis is made for the commander.

This has an important advantage. The activity and program managers and the commander routinely get up-to-date information covering the current period and the projections for future periods upon which to base operating decisions. The analysis covers what was planned in relation to what was accomplished, and, most important, points up specific areas where changes must be made. This facilitates management by exception, so necessary in any large organization. The commander, not the budget or supply clerk, makes the financial decisions.

This data, in successively summarized form, then flows up through command channels to the department level. And just as was done at the installtion--the commander at each level is provided an analysis on which to base his decisions.

So far I have talked about financial management primarily as it supports the operations and maintenance activities of the Army. I have briefly covered the accounting processes involved. Now let us look at financial management as applied to management of bulk stocks by our technical services. Here we have established the Army Stock Fund to finance the purchase and holding of all common-use standard items. The purpose is quite simple. It provides the means of financing long procurement leadtime and depot bulk stocks, to include mobilization reserve stocks, independently of annual appropriations--it

operates to assure that supplies will be available at the time and places needed for consumption, whether at home or overseas.

The stock fund is in reality a revolving fund through which issues are made to consumers on a purchase basis. The stock fund managers become, in every sense of the word, businessmen engaged in the supply of customers and dependent upon them for their business.

Prior to the establishment of the stock fund, monies from annual appropriations were diverted to the technical services for purchase of supply items and subsequent issue to Army activities. The issues were made on the basis of allowance lists; however, it was difficult if not impossible, to keep the allowances current with the program changes.

With the establishment of the stock fund, the monies to buy supplies for current consumption are given directly to the consuming Army activities. We call this consumer funding. Of course there were problems galore when we started this. For the first year of operation the fund requirement estimates received from the commanders added up to almost $700 million more than was available in the appropriation--and even now, when the commanders are better able to determine their financial needs, the consumer funding and stock funds are criticized for fund shortages. I can only state that the change did not cause, nor will it cure, our problems of fund shortages. No financial system will; it can only show where the resources were applied and where the shortages exist.

Another technique which relates to inventory and stock fund management is financial inventory accounting. This is simply the maintenance of our property accounts on a dollar basis. While item accountability is basic and still retains its importance, it does not provide for a quick look to spot inventory problems. The dollar provides a common denominator for converting the great mass of data of item transactions and balances to be summarized in digestible form.

In the field of readily suppliable items, stock turnover is as important in the Army as it is in the commercial world. The longer an item remains on the shelf, the more is added to its original cost through warehousing, handling, and depreciation. The dollar information now accumulated and reported provides management at successive levels with timely and summarized data for yardstick analysis and effective action in supply management.

It is true that financial inventory accounting requires a considerable outlay in terms of manpower effort devoted to data-gathering, accounting, and reporting--but then we have a considerable logistics problem to overcome. Since World War II, technological developments in weapons and equipment have advanced so rapidly that some items are actually obsolete before they become operational. These items are both complex and expensive. As an example of complexity, let's look at the Army's basic surface-to-air missile, the Nike. The weapon and the system to get it off the ground and to its target, contain approximately 1.5 million parts, 219,000 feet of conductor wire and cable, 2,000 electron tubes, and 17,000 resistors and capacitors. You can see that item management and control were no longer adequate. A common denominator was required--and here we have the basic reason and justification for dollar control and financial inventory accounting and it pays off! I have a report that one command reduced its stock inventory by $500 million as a result of timely financial inventory data, made available for management analysis and decision.

Still another technique is applied to our industrial-type operation, such as conducted by arsenals, research and development facilities, terminals, and, most recently, our depot maintenance facilities. We call it the Army Industrial Fund (AIF) operation. This is a working capital fund for financing the production of goods and services for customers, the customers including a large proportion of other than Army agencies--the Air Force and the Navy, for example.

The Army Industrial Fund technique includes advantages similar to those of the stock fund--and considering that the Army and the non-Army customers are vitally interested in the complete end-item costs, it goes further. That is, it accounts for all plant, production, and overhead costs in the same manner as any wide-awake commercial enterprise.

The system provides the industrial funded installation commander a simplified means of financing operations to fill customers' orders, and, since his customers are not captive, an effective means of determining and controlling his costs.

Thus, we see that the financial management system is also designed to meet the specialized requirements pertaining to our large logistical activities--the bulk-supply area, and the arsenal, research and development--and other industrial-type production activities.

So far I have covered only three of the elements of financial management--budgeting and funding, accounting, and progress reporting, to include interpretation of data for management. There is a fourth element--auditing--which I should mention. In the Army, auditing is effected mainly by the Army Audit Agency, which is centrally controlled at the Department of the Army level. It has grown up from restricted account-type audits to the current comprehensive vertical and lateral examination of the financial aspects of the Army operations. That is to say, it follows selected operations or transactions from the top to the operating levels and concurrently examines common operations across the board. Through this process significant trends in all areas of financial management are disclosed.

Additionally, a certain amount of auditing is accomplished within commands at the local levels through internal review procedures. This is primarily concerned with insuring that proper safeguards exist to prevent the unwise or improper use of resources in the future and with improving the overall effectiveness of the system.

To summarize, let's see how financial management contributes to the five recognized ingredients of management--planning, organization, coordination, direction, and control.

First, it provides for the expression of program plans, both short and long range, in terms of the dollars needed to give them effect. This is cost-of-performance budgeting--the bringing together of programs and budgets.

Second, it is organized as an integral part of the function of command and utilizes for management purposes the existing staff organization.

Third, it provides through the management structure the necessary common language for relating programs and resources. And, through this coordination process, the priorities for performance and resource consumption are established.

Fourth, it provides, by means of the budget a decision-forcing process. Further, an operating budget is used to provide direction to subordinate commands and activities.

Fifth, it provides, through cost of performance and financial reporting control and review and analysis, a means to tell us where we

have been and where we are going, and how well we did in relation to what we said we would do. And this is all important, for we may find it necessary to alter the course if our mission is to be accomplished.

Sixth and finally, through accounting and auditing, it provides for the disclosure of essential financial information for planning, coordination, direction, and control.

In closing, let me review what is accomplished by these current systems emphasizing financial management. Looking back, we find that we have always managed and have done a pretty respectable job of it too. Individual commanders and staff officers have actually planned, controlled, executed, and reviewed accomplishments without any real conscious effort--so too, in business where many truly successful enterprises operated almost exclusively on the intuitive judgments of a few managers. However, as these businesses became larger and more complex, with greater variety in their functions and more widely dispersed geographically, this old personal, intuitive management was not adequate. The manager could no longer reach out and touch or look and see all of it--the result was the growth of systems for control and management that would fill needs over and above the manager's personal contract and control. I think we all recognize how commercial institutions used to be operated many times by one man's intuitive judgment.

The Army--all the Defense services, for that matter--have faced precisely the same problem. We have a "peacetime" organization (and I put the word peacetime in quotes) established vastly larger and decidedly different than ever before known--in fact the largest, most complex, the most widely dispersed single enterprise in the world. The difference actually began to develop with the buildup in 1939 and 1940. The real impact of the complexity, of course, was not felt until 1946--after the war when our old techniques of management were plainly inadequate.

Ladies and gentlemen, herein lies the real accomplishment of our financial management systems--they are keeping us responsive to the new atmosphere in which we find ourselves. They are providing the essential systematic approach to collecting and disseminating information on which to base judgments in implementing national security objectives.

The test of the correctness of these judgments is how well the needs of the country have been met and how efficiently the services have used the resources placed at their disposal. Neither of these tests is subject to any immediate or precise standard of measurement; however, it behooves each of us here to do his utmost to insure that we squeeze the last drop of defense from every dollar entrusted to us.

Thank you.

COLONEL LACKAS: Gentlemen, your questions.

QUESTION: Mr. Secretary, you said the Army was on a cost-based budget. I guess you are far ahead of the Navy in budgeting and decision-making in the financial-management field. We had a distinguished speaker who said that when he set up a task force for an operation to support the national objective in a forward area, he had to put the Marines in. The reason he gave for it was that the Army could not support a division in a forward area. What's wrong with the financial-management system when it permits something like that to happen?

MR. RODERICK: Well, I don't know whether I can satisfactorily answer the question or not, because I don't quite know how financial management ties into that particular question.

STUDENT: They didn't budget in the Army budget for that kind of support.

MR. RODERICK: I would say if that's the case it is not the fault of a financial system. I would say it is the fault--it is a fault, and I don't know the circumstances--of some basic decision rather than the fault of the system itself. When you get all of these reports in, which I described, then somebody has to make decisions from them. I would say if there is a weakness in that, it was using the information for an incorrect decision--or a correct one, depending on what it might be. I don't believe you could quite say it is the fault of the financial system that such a thing happened.

I can say this, I believe that is a problem through all commands. They are not always satisfied with the decisions made somewhere higher up. This is very common, and I don't know whether it will ever be clarified to the point where everybody will be satisfied. I would never

blame any commander for thinking that his job, what he is responsible for, is the most important thing in the world at that time, and for believing that, if he can't get the funds to take care of it, he is being handicapped.

Nevertheless, somebody makes those decisions higher up, and he often suffers from them.

QUESTION: Sir, the general area is machine accounting and machine-run operations. In my limited experience in the Air Force in this area, we have been renting or buying more machines every year, which has been a financial drain, and, of course, it has added people all the time. We have never saved any people in this process. Will you talk a little bit about machine-run accounting in the Army, please?

MR. RODERICK: Nothing could be a better subject than that right now. We have been discussing machine operations this week along the same lines you have been discussing. In fact, the man in particular who was discussing it with me was from Defense. He controls this area. I brought up the very point, Colonel. I see these so-called wonderful savings go over my desk on the way to Defense, the tremendous cost savings that are going to result from these machine installations, but I never see the records come back about how they came out. Now and then we get one, because there is some question, but invariably, the original estimates have not been met.

I think you have to take a rather broad view of it. It is still in its infancy, and these machines are changing just about as fast as are the missiles. By the time they get installed they are probably obsolete because a new design is on the boards right then. I am not saying that we shouldn't put in more of them. We are still asking for more. But you have brought up a very important point. That is: Are we putting them all in in the correct places? Are all of these installations which are recommended as good as we thought they were?

Another thing--and this is a question only in my own mind, although my office backs me up on this and has the same question--after you get these machines and they have available time, which invariably they do, then you start saying, "Wouldn't it be a wonderful thing, because the machine is right here, to get out another report? It would be so easy to get on this type of machine." Now, I think in a case like that you've got to look at that pretty carefully to find out if that new report is going to create more paper work, get more people involved--somewhere else,

maybe not right at the machine--and whether that report should be started just because it was convenient to have and easy to get.

I don't know whether or not that is a satisfactory answer to your question, but I think you have pointed up a very important area. That is, are we going to put in more and more of these machines? This is one of the most rapidly developing areas in our economy. We want it to continue that way, but I think we've got a red flag up showing that maybe we aren't utilizing these machines in the best way in every case.

For instance, some of my friends in industry have told me that industry as a whole is jumping into this the same way as the military services are. In other words, you are out of date if you haven't got data-processing machinery. Sometimes the desire for machines is greater than can be justified by the study that has been made. I am all for data-processing machinery. I think it is one of our great opportunities to get more defense for the dollars we have. But I think we've got to have a red flag up to be sure we are not installing them where they don't pay and also where they may be misused after they are installed.

QUESTION: When these financial management data were first made available to the commanders under this new plan, we found a reluctance on the part of the commanders to either accept or utilize these accounting data. Do you feel that situation has been improved? Are they really utilizing the data the way they were intended to use them?

MR. RODERICK: Colonel, I think I can give you a pretty good example that this is happening. I remember when this first started, most of the commanders thought it was just a nuisance to be added to their already troublesome days. It has been a very difficult thing to sell. We have stuck to it, though, and I think the other services have, too. Now we are finding that the commander is starting to ask for certain comptroller people and he is starting to ask for certain systems. Here is one example of the interest of commanders. The Army has a course at the University of Syracuse, which is a 14-month course, with a master's degree for a limited number of people who are in this business of comptrollership. We are now getting requests from commanders, "Can we have one of the comptrollers from the Syracuse School?" This is in addition, of course, to their regular schooling. It shows that all of a sudden it has become a help in making command decisions. That is, of course, the purpose of the exercise anyhow. I would say yes, we are

now seeing some real signs of acceptance. It is not complete. I think our problem now is how far down it is effective.

We were discussing outside the door this morning that it is effective at the higher levels in the Army and I guess in the other services it is also a great help in making decisions. How far down it goes before it loses its effectiveness is still questionable.

QUESTION: Along these lines, I wonder if you have ever attempted to determine the cost of this. Speaking of industrial-fund installations, in the Ordnance Corps almost every installation has 8 percent of its personnel in comptroller and management office type of operations. In one, with which I am familiar, we in the operating branch utilized 10 percent of our professional personnel to keep the comptroller in line. This means that 10 percent of your professionals were not productive. Could you comment on this?

MR. RODERICK: You need a comptroller for the comptroller. Yes I know the Ordnance feeling on that. General Hendricks has talked to me personally about it. The Ordnance Corps feels very strongly that they would rather use the regular Army command system than an industrial fund. I would say, Colonel, probably both systems will work. Depending on the situation, the personalities involved, the conscientiousness with which it is worked, as with many things, there are different ways of attacking the problem.

I would guess that probably one of the weaknesses you have pointed out, where you use an industrial fund, is perhaps trying to have the control too fine, to the point where it does require too many people. I am very well acquainted with the Ordnance Corps feeling on this, and we are studying just such a situation in our office right now, as to proposed installations, and whether or not they should be placed under an industrial fund.

I think my best answer to the question, if it is an answer, is to say there are two ways of skinning a cat, and that the Ordnance Corps has done a very good job using the standard method. They have been unhappy with some of the industrial funding, due to the circumstances you just cited. I think it bears a lot of study.

QUESTION: I propose a conceptual problem. It seems to me that in the Air Force, in any case, we have been concerned with essentially giving the lowest echelon a balance sheet, essentially trying to portray

all the assets at a particular installation. On the other hand there are certain decisions that are never predicated on dollars--whether to replace an aircraft engine, for example. No one reflects on the cost of an engine. Therefore, it is my contention that you should accumulate dollars only where decisions are made predicated on dollars. Thus you cull out from the financial management system a large number of machinations that we go through and save them for some higher echelon, if needed at all. I wonder if the Army has approached it from this point of view.

MR. RODERICK: I don't think we have, but I think you've got a very important point. You could put too much effort into an operation just trying to control something you can't control. That is really what you are saying, I think. However, if you are going to make this plan work throughout the Army, or the Air Force, you've got to have a similar system. If dollars are going to be the method you use for either management by exception or selection, dollar information would still be helpful to a decision without being the basis for whether you make a new engine replacement or not. I think you could still use those dollar comparisons for management decisions. I certainly agree you cannot use a dollar program to decide when to replace an airplane engine. I assure you that must be part of the overall decision which the dollars will not control.

I agree with your main concept. You can't control everything by dollars.

QUESTION: Sir, I understand that as a result of the Reorganization Act last year they are going to get the Joint Chiefs into the budget picture, the financial management picture, and that the unified commanders will be coming up with their budget submissions in the formulation of the budget. I wonder if you could tell us your impression of the impact on the services of such a system and whether you think it is at all feasible.

MR. RODERICK: Well, it is certainly part of a plan. Here is Roderick speaking--not the Army. I would hope that if the Joint Chiefs do get into the budget review, and I think they will--and maybe properly so--I think they should--I hope it will be in more or less a policy or a checking method rather than a great big staff to go over all the fine details and getting into the budget process. In other words, I hope they can accept the service budgets and review them for certain impact on their problems rather than become another budgeting group. In fact,

I have the strong feeling that the original 1947 Act meant just what it said--that Defense, and now the Joint Chiefs, are supposed to be policy-making. If you duplicate everything the services have and try to go over all the work again, it seems to me you have just another layer in our Government.

I would hope that the Joint Chiefs do get into the budget process, because I think it is most important to their decisions. I don't know how they can escape it. They get into it to some degree now, even before the reorganization. But I hope it will be a policymaking review, rather than another budget process. I think we have enough now.

QUESTION: Mr. Secretary, I was particularly concerned about your remarks relating to the Navy stock fund. I say "Navy stock fund," being in that service.

MR. RODERICK: I meant the Army stock fund. Did I say the Navy stock fund?

STUDENT: No. I am the one who is saying the Navy stock fund. You referred to the flexibility of the fund, particularly relating to the procurement of long leadtime items. Now, as an operating supply manager who has dealt with these stock funds in recent years, I can't see that I am any more flexible than I was when I was buying for end use. I am subject to the same allotment systems that I had before, and, as a matter of fact, the fact that I receive Navy stock fund allotments, in many very real instances, puts me in the position of finding that I have a disparity between the money in my fund and the money in the hands of the customers who buy the material. In other words, we are actually being confronted in this day and age with the fact that we can't buy for stock in order to put an item in the hands of the customer. I'd like you to comment particularly on the business of alloting funds under a stock fund operation, if you would, sir.

MR. RODERICK: Now, I am not too well versed in answering that problem, because I am not acquainted with what the Army's field problems are in that line. Most of the Army people tell me that the stock fund is an advantage to them.

Perhaps you are relating to one of our really serious problems, one on which we hope Defense will give us some relief. I am sure they will, because they feel the same way. In many instances, when we dispense some of our stock off the shelves to other consumers, we can't get the

money to replace it without going back and starting all over again. The man at that level loses the flexibility which you have just referred to. We do have that problem, but I don't believe it is general throughout our stock-fund area.

Maybe some of the Army men here will check me on that statement. That is my thought on it.

STUDENT: The particular area I talked about is clothing, which is under a single manager in the Army.

MR. RODERICK: Clothing? I don't believe I can answer that question, Captain. I'm sorry.

COMMENT FROM THE FLOOR: In the field of stock funds, we have run into the problem the Captain is talking about. That has been particularly true in relation to the field commands, the overseas field commands. They have been given certain allotments and their allotments exceeded the authorization we had for procurement in the stock fund. They actually had money on their books. Customers would come in and say, "We want such and such a thing," but we had no authorization to purchase. As a result we have had to say to the field commander, "We are sorry we can't get it now. Wait two or three months and then we can buy it." And we have had to wait two or three months to buy the materiel on requisition and then they made quota allotments to us under the consumer fund.

MR. RODERICK: With that report, I'd say it is a definite weakness which must be overcome.

COMMENT: There is one other fact, Mr. Secretary, while I am up here. We have gone through the experience of the Treasury Department being short of money. As a result, we have been told to draw down on the stock fund, that we should sell off the shelf and would not be reimbursed so that we could resupply our shelves. Is there any possible way we can get out of the political aspects of this thing and get to a true revolving fund?

MR. RODERICK: I can assure you we would like to. I would also like to confirm what you said. It has been a very easy thing for balancing the books. If you can't cut somewhere else, cut the stock fund. Industry couldn't operate that way. All a stock fund is is money to finance

a shelf-stocking program. If every time you are in trouble you just take some of the money out, there is nothing to do but cut the goods on your shelves, and the first thing you know the supply is inadequate.

This has to be cleared up. I think maybe we will need congressional assistance to do it. They are interested in it. The Appropriations Committee that we work with is interested, and I know it is true also of the Navy subcommittee and the Air Force subcommittee. They are well versed on the stock fund. They know it well. They know the problems. But it has so far still been subject to tampering, to the point where it has been and is a real problem.

One of the problems we have had is with the tremendous stocks following Korea. It got to be a habit each year to say, "Well, you don't need this any more, because fighting in Korea is over." So you start cutting down. And now it has become pretty much a regular thing every year to make adjustments.

It's a very good point. Such actions should be stopped or they might endanger the whole stock fund concept.

QUESTION: Mr. Secretary, four or five years ago the Department of the Army came to the European Command and wanted to push financial management down below the field Army level to the corps and division level. The commanding general over there resisted it. His example that he used to resist it was: "If I have on one hand the division commander, here, who wants to go out and train under rugged conditions, over tough terrain, and at night, his cost for maintenance of parts, and so forth, is going to be high. On the other hand, another division commander, who is aware of these things, will train in the daytime, over easy terrain, and avoid the bad weather. We measure those from a financial point of view, and the first one is no good and should be relieved, and the second one should be promoted to a lieutenant general." We have no way dollarwise to measure their performance. Have we taken measures to prevent this from going down to that level?

MR. RODERICK: I don't think we have taken specific measures, but I think it is just about as simple as you have said. I would say the real answer is either it should not be carried that far, or the situation should be recognized. I can't see why, if it is a valid difference--and I don't question the validity of it--it can't be recognized in the money that is available for that purpose. After all, you can't expect those on the front line not to train in the proper manner. I know we have some

other problems in training, too, but this one should not be a handicap to you. I'd say that the decision there is one of two things. Either you correct it so the training can be performed or it shouldn't be carried to that level. You can't monkey with your frontline defense.

COLONEL LACKAS: Mr. Roderick, I see you have answered their questions.

MR. RODERICK: I don't think I have, but I tried to.

COLONEL LACKAS: I feel that you have provided them in your talk with the basic information concerning financial management. In my experience here yours is the best statement of it. On behalf of these students and of the Commandant, I want to thank you for your talk and for your very frank answers to the questions.

MR. RODERICK: Thank you very much. It has been a great pleasure.

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