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DEPARTMENT OF DEFENSE SUPPLY SYSTEM

Mr. Paul H. Riley

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Reviewed by: Colonel Thomas C. Keach, USAF

Date: 3 February 1961

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9 December 1960

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CAPTAIN BASKETT: General Mundy, Gentlemen:

Two days ago we heard Secretary McGuire describe the functions of his office in the area of material management. These functions largely fall under his Director for Supply Management, who is one of the nine directors listed by Mr. McGuire as comprising the echelon under him in the Department of Defense.

This Director for Supply Management is with us here this morning. He will discuss the Department of Defense Supply System.

It is a pleasure to welcome back for his third lecture, Mr. Paul H. Riley.

Gentlemen, Mr. Riley.

MR. RILEY: Thank you, Captain. I always like to come here and have the opportunity to talk to this class, not because I like to give speeches--as a matter of fact, I dread them. But I am always fond of the question-and-answer period which we have after the talk. I found the period a very stimulating one in the past. Your questions, to say the least, always stimulate me, but, more important, they indicate to me that your thinking here at the school is being stimulated. I think that is the purpose of your schooling here. It is very good, and

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I am always pleased to parry with you the questions and answers.

Looking into some of our supply systems and recognizing that computers are more and more coming into play--we have about 170 large ones now installed in our inventory control points and depots--this reminds me of a story.

A group of people at La Guardia Field got aboard an airplane. As soon as they were aboard, the door closed swiftly. Within the matter of a minute or so they were up at 30,000 feet, flying at about 900 miles an hour. A voice came over the loud speaker and said, "Ladies and gentlemen, welcome aboard American Airlines Flight No. 67. This aircraft in which you are flying is the new DC-2121. It will go three times as fast as the DC-7 and will fly three times as high, and you will find that it is at least three times as comfortable. The two stewardesses you see on board are here for your comfort and to make your trip pleasant. Other than those two there is no crew aboard. This aircraft is entirely controlled by computers. The flight has been programmed at 30,000 feet, at a speed of 900 miles an hour, and we will land at London, England, at 6:16 sharp. You have nothing to worry about. All the equipment on this aircraft is the latest electronic equipment known to man, and every piece of it has been thoroughly tested, thoroughly tested, thoroughly tested, thoroughly tested."

Well, I don't think it is necessary before a group like this to elaborate on how important supply and logistics or the whole field of

logistics is as a decisive factor to military missions. I think we are all aware of the fact that modern warfare, the kind of war that we might be susceptible to, has become terribly complicated because of changes in technology and the impact of these changes on our weapons.

Our logistics concepts are working under some very critical strains. We need now, more than ever before, to have logistics systems in a good basic organization in the Department of Defense, one that can respond instantly, and our logistics systems must be able to respond with the right material.

Since my subject today is supply management, I think it would be desirable to begin with a quick look at the size of this job. First, the Department of Defense inventory is not large--it is huge. In our central supply systems the military services are attempting to manage about \$44 billion worth of material. This does not include the material in the hands of troops.

Not only is this inventory large but it is not stagnant. We continue to move into our inventories and into our systems about \$15 billion worth of material each year. We have been disposing of between \$8 and \$10 billion worth each year, and we have been consuming, by actual consumption, about \$5 billion. We have had a difficult job in the last 3 or 4 years trying to get the inventory down. We know that its make-up is not good in all cases. Our inventories are not balanced as they should be.

We have made some progress in this area. Our figures show us that in the last three years this pile of inventory has been decreased by about \$10 billion. It takes more than 200,000 people to man our systems, and at the moment it is costing us about \$2 billion to run it.

In addition to size there has been the problem of the continuous changes due to new technological developments, new items obsoleting the old, and changes in strategy and tactics, which in effect change the requirements. And of course the Department of Defense worldwide defense commitments also have a bearing on our problem.

The supply management organization of the Department of Defense is big and it is complex. The Office of Supply Management Policy, which I represent, is the supply policy-making element of the Office of the Assistant Secretary of Defense for Supply and Logistics, and this office is only one, little, small piece of the total logistics organization.

We operate on the basis that it is our job to give the military services policy guidance on what they must do to insure overall efficiency, effectiveness, and economy of Department of Defense supply systems. We do not feel that it is necessary or desirable for us to tell the services how they will accomplish this, unless there is some compelling reason for insuring uniformity in methods of implementation.

Basically our job can be divided into three essential parts:

First, to determine a proper policy; second, to clearly enunciate

it; and, third, to follow up on the policy.

One of the most important aspects of our operational philosophy is that we do everything possible to avoid the danger of making ivory-tower decisions. Each and every policy decision we make is checked and double checked with the military service involved, to make certain that we have considered all the possible implications of our actions. This has paid dividends. It has established a close working relationship with the military services and it has obtained a great deal of cooperation in Department of Defense projects. And I am convinced that it is preventing costly mistakes.

I don't want to mislead you here. Everything is not rosy. One of our biggest problems in the Department of Defense is the coordination procedure. But, in the three years that I have been in the Pentagon I have noticed a definite change. People are beginning to get together. They are beginning to think about things and to talk about things that they have not thought about or talked about before. I think the record will show that the Department of Defense has accomplished a number of things in the logistics field which, without an increase in the cooperative feeling, could not have been done.

I think it would be helpful if I outlined briefly our basic DOD policies and objectives, and the principal factors which we consider in formulating logistics policy and in establishing logistics systems. I can cover our general policy and objectives in three simple statements.

First, we must have a universal supply language. The dictionary for that common supply language is our Federal Supply Catalog which lists each and every item used by the military services, and in some cases other government agencies. It provides a common identifying number and nomenclature for each item that we buy and store and issue to our customers.

Second, we must have an integrated supply system to reduce to a minimum duplication in items of supply handled, supply facilities, staffing, and transportation.

Third, we must have an efficient, effective, and economical supply system which will be responsive to the needs of the military forces of the United States and of our allies, and which will, in proper balance with the economic capabilities of the United States in peace and war, be something that we can all live with.

To accomplish these objectives we have developed and established certain basic policy directives. Under the first objective, for example, a common supply language, all military services are required to use the Federal Catalog System of item identification. Conversion to the Federal stock numbers through the wholesale level of military supply systems was completed on December 31, 1958.

For all practical purposes, then, we now have a single name, a single classification, and a single number for every item in our supply system. Thus, we are now able to exchange information on items

which are in short supply or in excess or under procurement in the Army, Navy, Air Force, and Marine Corps. We are also pleased that the NATO nations have selected our catalog system for their use.

With regard to the second objective, an integrated supply system, I would like to discuss in some detail our current policy and efforts in this direction.

This is one subject on which we have spent a great deal of time and have had a great deal of outside help. It seems that everyone is an expert when it comes to the organization of logistics systems in the Department of Defense. Consequently, we have had the benefit of a great many ideas on the subject, from the self-styled experts who write postcards almost daily to the Secretary of Defense to the real experts in Congress and in organizations such as the Hoover Commission. In any event, we have given a great deal of thought to all the possible means of achieving further integration of our supply systems without losing our military effectiveness.

With respect to the Reorganization Act of 1958, it must be recognized that the primary purpose of this legislation was to establish command channels through the JCS and the Secretary of Defense for unified commands. Therefore, this Act has not of itself had any substantial effect upon us. The most important effect of the Act lies in the so-called McCormack Amendment.

This Amendment makes it abundantly clear that the Secretary of

Defense has both the authority and a mandate from Congress to integrate common logistics functions of the Department of Defense wherever such actions will achieve efficiency and economy without loss of effectiveness.

Let me discuss a few things which we have done and things that have taken place in the Department of Defense which are consistent with this so-called McCormack Amendment.

First, the Armed Forces Supply Support Center was established by the Secretary of Defense as a joint supply support agency of the military services on 14 July 1958. The Center operates as a joint organization of the military departments under the policy direction and control of the Secretary of Defense.

The Assistant Secretary of Defense for Supply and Logistics , however, has been delegated this authority by the Secretary of Defense. The purpose of the Center is to bring into one organization all of the liaison and authority necessary to assure proper interservice coordination in supply management. In this capacity it is responsible for operating the Federal Catalog Program and the Defense Material Utilization Program and also for administering the Standardization Program.

In short, the Center was established to provide a clearing house for the exchange of information and a vehicle for coordinating common supply actions. Properly operated, this organization should do much to eliminate many of the problems in the common supply areas which

have received critical appraisal and comment during the past 10 years. It should also do much to standardize common supply procedures.

The Center has already provided a vehicle for extending the scope of integrated supply systems, such as the single manager concept. I believe the Center has proven its worth, not only in day-to-day operations but also through studies which have led to the extension of the Commodity Single Manager Program in those commodity areas where it is considered feasible. Additional studies of this type are now under way and eventually we hope that the entire DOD supply area will be covered to insure that integrated supply systems are established wherever they prove to be feasible.

The second thing we have done I have already mentioned, and that is the Federal Catalog Program. As you know, it is under the monitoring of the Armed Forces Supply Support Center. It has proven to be the answer to our need for a common supply language. Without it we could have done little toward integrating supply operations.

The Standardization Program has been divided into two separate actions, one called the Accelerated Item Reduction Program, which, as the name implies, is a short-cut approach to expedite the elimination of unnecessary items, which can be made through nonengineering supply-type decisions. The balance of the Standardization Program then becomes one of utilizing engineering talent to make further reductions based on

design performance and maintenance needs.

The AIR Program is producing good results. Approximately 231,000 items have been eliminated either from the catalog system or from inventories. For example, in 24 Federal supply classes for housekeeping-type items, such as office supplies and equipment, and what not, approximately 9,000 items are being discontinued out of a total of 13,900, or an approximate reduction of 70 percent. We expect to complete this short-cut Standardization Program by December 1962.

The next step I will address myself to is the elimination of overlapping duplication in the supply of items commonly used by more than one of the military services. We call this single management. This is done by assigning commodities having a high proportion of such common items to the most qualified military department, which is then charged with supplying the wholesale needs of all military departments in the Defense structure.

Examples of such assignments are to be found in the food and clothing and medical commodities handled at present by single managers. We have four Commodity Single Managers in full operation now. The Army has been assigned the single manager responsibility for food, which covers about 1350 items, and for clothing, which covers about 30,000 items. The Navy is the single manager for petroleum. There are about 1,000 items in that assignment. The Navy is the single

manager also for medical supplies, where there are about 8,300 items. The Navy's petroleum assignment differs from the others in that the Military Petroleum Supply Agency owns no inventory. It buys petroleum products and coordinates the distribution of these products.

In November 1959 the Secretary of Defense, upon our recommendation, established two additional Commodity Single Managers. The Military General Supply Agency was assigned to Army, and has been activated at the Richmond Quartermaster Depot. The Military Industrial Supply Agency was assigned to Navy, and has been activated at the General Stores Supply Office in Philadelphia.

These recommendations that we made to the Secretary of Defense to establish these two single managers were based on a very comprehensive study which was conducted by the Armed Forces Supply Support Center. It was the findings of this study which led us to recommend to the Secretary that he make these two additional assignments.

More recently, in May of this year, Secretary Gates assigned the single managership responsibility for automotive and construction supplies to the Secretary of the Army. Recommendations for the establishment of these two additional assignments to the single managers were made after a thorough evaluation of the first two years of operation of our fully implemented single managers. Only after we found that the single manager systems were working effectively, were saving money, and were as good as the service operated inventory control

points did we decide to go ahead with the extension of the concept into other areas.

We estimate that the single manager assignments already approved will cover about 700,000 items of the 3-1/2 million items in our system.

The Armed Forces Supply Support Center is now in the process of making a comprehensive study of the electrical-electronic commodity area to ascertain the proper management technique for this material.

The next program we have which we think is consistent with the McCormack Amendment is the Interservice Supply Support Program, which <sup>is</sup> also under the monitorship of the Armed Forces Supply Support Center. It is designed to provide for an exchange of asset information and inventories of those items which are commonly used by more than one military service and which are not assigned to a single manager.

An example of such an item might be airplane parts, automobile parts, and other similar items. In short, interservice supply support is the method which we use to back-stop the gaps which might exist between common classes of materials not under fully integrated supply management.

Although the Single Manager System is designed to cover commodity classes which embody a high proportion of common-use items, there are obviously going to be some common-use items which, for one reason or another, are not under a single-manager control. The Interservice

Supply Support Program is designed to fill this gap.

Under this system, each inventory control point of the Army, Navy, Air Force, and Marine Corps exchanges information with its counterpart to indicate whether there is another military service that uses the item. Where more than one user is indicated, the inventory control point must query all other users before purchasing or disposing of the item, to make certain that there is no excess available.

The Armed Forces Supply Support Center monitors and records interservice supply progress and acts for the OSD to insure compliance with interservice support policy.

I would like to touch briefly on our basic DOD policies which are designed to provide the framework for an effective Department of Defense supply operation. To give you an idea of the scope and nature of some of the most important policies, let me cite just a few examples.

We require uniform accounting for wholesale inventories showing composition of inventory on a quantitative and monetary basis, and showing the condition, serviceable or unserviceable, and the purpose for which the stock is held, such as peacetime operating stock, mobilization reserve, contingency retention stock, and so on.

Don't let me mislead you by this statement. When I say we require uniform accounting, this means that we have policies out which require that item and financial accounting be performed for our inventory.

I'll discuss with you later some of the problems we have in our so-called financial management area.

We require physical inventories not less than once a year. We require that each item of supply shall be under the cognizance of only one military control point within a military service. We require maximum use of straight-line distribution systems between producer, depot, and customers, to eliminate unnecessary crosshauling and backhauling and to minimize inventory requirements. We require establishment of supply levels based on current requirement studies. We have established policies for determination and declaration of excesses for disposal action. We establish policy for management of material in long supply, including procedures for interservice transfer of such materials.

With regard to the third objective, having a supply system in being which will be responsive to the needs of the military services in peace and war, we are constantly examining our system and policy in the light of this objective. We are providing for mobilization reserve stocks to permit instant deployment of fully equipped forces and to allow for the replenishment of our military forces until industry is able to deliver sufficient materials to meet wartime requirements.

We are constantly studying the range and scope of items which we have authorized to be held as mobilization reserves, and we are also endeavoring to reach decisions with the Joint Chiefs of Staff as to the

relative priorities assigned within our economic capabilities for the procurement of such requirements.

Now, we have taken a look at the past history and the present-day policy. Let's take a look into the future. To set the course for the future, we have found it necessary to develop a comprehensive program of supply management improvement which could be the basis for the direction of a joint effort by the four military services and our office.

In December last year we issued what we refer to as the Defense Material Management Program. This program contains 26 specific projects which are designed to make significant improvements in the management of Department of Defense supplies. I have selected 8 of these projects just to illustrate the scope and intent of some of them.

We wanted to develop criteria to provide a proper basis for determining the method of supply management which is most efficient for each item of supply in the DOD. Uniform criteria have been developed and approved which provide the basis for determining for each item of supply that supply management technique which is most efficient in terms of military effectiveness and overall economy.

The supply management techniques that are being considered are: Whether the item should be managed by the military service; whether it should be under integrated supply management control; or whether it should be decentralized, offered to the General Services Administration

first, if they are interested in the item, or be bought through the local commerce.

The second project we have is to classify all DOD items and assign management for each of them in accordance with the criteria that I just mentioned. At the present time we are in the process of coding and classifying under these criteria, and making a determination as to how best to manage the items, about 1,200,000 items.

Another project we have is to determine the item range needed for the support of mobilization or war readiness. Under this project current policies and practices of the military services for the acquisition and stockage of items to meet mobilization and war readiness requirements will be reviewed by a joint working group, including representatives of the JCS, the military departments, and OSD. Based on this review, uniform criteria will be developed and issued to provide guidance to the military departments for the acquisition and retention of items of supply to meet the mobilization or war readiness requirements in support of our U. S. forces.

Another project was to develop policies governing items procured locally. Under this project policies will be developed in coordination with the Armed Forces Supply Support Center and the military departments which will provide for uniform definitions and uniform guidance in local procurement policy, to include procurement from regional excess screening lists, long-supply listing for interservice support,

and interservice supply support agreements, and also the GSA stores and depots, their Federal supply schedules, or their national buying programs.

Another project is to develop policies for supply of common items to unified commands overseas. The objective of this project is to determine the best method of supplying common items to overseas commands. All existing and alternate methods of supply are being considered. The initial study is completed and the group is now in the process of preparing recommendations.

We need to improve the Coordinated Procurement Program. The objective of this project is to improve it by revising and modernizing the regulations and by refining and extending the program assignments.

We also need very badly to develop an optimum depot system within the military services, particularly in our single manager areas. The objective of this project is to eliminate unneeded duplication in depot organization, administration, and operation. An analysis has been made of our existing depot systems which now store single manager commodities.

I might touch on this briefly to tell you that sometimes this is where the coordination process gets a little sticky. Each of the services, of course, is extremely interested in maintaining its own depot system.

We have a critical problem in front of us, and that is that with the establishment of single managers--and we have eight of them now--

the life of the customer whom we are in business to serve is beginning to get a little complicated. If he wants trousers he goes to one depot and uses one form and is supplied by a set of procedures. If he wants subsistence he has to do it some other way and go somewhere else to get resupplied. Now, if he wants general supplies he might have to do it yet a third way. And when you get into construction and automotives the problem becomes complicated.

So we need to get together and decide on a unified distribution system for single manager commodities, and we need also to standardize to the extent we can the inventory control and depot procedures in these commodity areas. It is a sensitive project. It has problems in it that are difficult to resolve. But we still hope that we will get some major benefits out of it.

I might point out to you that, for a number of years now, the single manager concept has been the Department of Defense answer to the fourth service. But people on the outside are becoming aware of this problem I just mentioned to you, and they are beginning to throw it at us and ask what we are going to do about it. Wouldn't a fourth service solve this problem? Well, it might, for this kind of material. But it behooves us to get together and resolve this problem ourselves.

Now, with respect to our financial policy, we have a project going to take a look at our financial policies and try to improve and integrate

supply and comptroller procedures where they can be integrated. Our purpose here is to determine whether we need retail stock funds, and if so to what extent we need them. Our objective is to simplify and streamline physical accounting procedures at the retail level and to eliminate any handicap to effective supply operations.

Those are just some of the projects in the Defense Material Management Program. We are now in the process of updating that program for the fiscal year 1961, and it will include completion of those projects not yet completed and there will be several additional ones added to it.

We have now covered the past, present, and future programs in DOD supply management. I have endeavored to give you a brief picture of our basic philosophy of supply management, our objectives, and the reasoning which lies behind some of our most important supply policies and programs.

In recent years supply and logistics have come to be recognized as a science as well as an art. The science consists of designing, developing, and refining and polishing each of the bits and pieces of policy procedure which must go into the creation of an efficient supply machinery. The art consists of having sufficient knowledge of the capabilities and limitations of this supply machine to make it work properly and to derive the maximum performance.

We have tried to use science in designing an efficient DOD supply system. We are confident that you, with your knowledge and experience

broadened by the course of study in which you are now engaged, can and will make our DOD supply machine work as it is intended to work.

The pressures on us continues. There is no reason to believe that they will cease. The pressures are for change. You people ought to be thinking about change and how changes should be made.

Thank you.

CAPTAIN BASKETT: Mr. Riley is ready for your questions.

QUESTION: At the beginning of your talk, sir, you indicated that there is considerable difficulty in determining the quantity requirements. <sup>idea</sup> Could you give us some/of the formula of the system you use?

MR. RILEY: Would you like a complete description of the Form 764? Our problem really is one of balancing our requirements so that we can get together and, if somebody has material on the one hand-- the Navy, for example--the Army, if it needs the same material, needs to check its requirements with the Navy to make sure it doesn't buy more than we need in terms of the total Department of Defense.

STUDENT: My question was directed to the determination you made when you made your original purchase--not to the balancing thing afterward. Do you have some system formula or guide to use?

MR. RILEY: I am not quite sure that I really understand your question. The system for determining requirements is, if you take secondary items, for example, there is a rather uniform formula used for all of our ICP's, in determining the peacetime level requirement,

your safety levels, your reorder cycle quantity, any outstanding obligations you have, unless your assets on hand will do. This gives you a requirement for buying.

Am I still not answering your question?

STUDENT: I don't think so. You have to accumulate requirements of certain different activities in order to determine the overall requirements. Let's take for example single service management. Let's say you got a new item in the system. What formula would you use there to determine how many of item X you are going to supply originally to put into the system?

MR. RILEY: This is determined in provisioning procedures. Actually, all the services have provisioning procedures, where the manufacture supply people, the maintenance people, sit around and determine what items they ought to bring into the system and what quantity. At this stage of the game it is primarily an engineering estimate as to what is needed. Once the item is brought into the system through this procedure and gets on the shelf, and once the usage data or demand experience becomes accumulated, then you go to the more or less mechanical type of formula of computing the requirement.

But provisioning is the method and procedure used to enter new items into the system.

QUESTION: Before the Congress the Department of Defense has taken a position against the fourth service of supply, yet the actions

that you described to us under the integrated supply system, such as the establishment of the Armed Forces Supply Support Center, Single Managers, Standard Procedures, and Standard Distribution System, would make it appear that we are moving into or backing into a fourth service of supply. If you agree to this approach and development as indicating such movement or trend, could you give us any idea how such an organization might shape up within the Department of Defense, how it might be organized, how the service systems would be used, and the role of the military?

MR. RILEY: That's all one question, I guess. I'll address myself to the first part of your question, the implication there that we are backing into a fourth service. We considered this at some length before we started to push for more single managers. It was discussed by many people at great length, I'll assure you. Many people in the military services had this view, that if we went any further we would just back into this thing. But, after much consideration, we all agreed generally, I think, that if we didn't want the fourth service the best thing we could do would be to make some progress. But, if we wanted a fourth service very quick the best thing to do would be to just sit. So we decided to move ahead.

Any action you take in the Department of Defense that tends to bring things together, whether supply, research and development, or anything else, could be looked upon as getting you thoroughly integrated and

unified. Personally I don't see anything particularly wrong with this if these actions can be taken in areas where they ought to be taken.

We've been against the fourth service, I think for good reasons. As far as I am concerned, I don't think the present structure of the Department of Defense, the way we are organized now, could adapt itself to a fourth service without creating a lot of real problems. You could do it. We could take the single manager operating agencies that we have now and just pull them all together and set them up under the Armed Forces Supply Support Center. We could reorganize the Supply Support Center into a directorate of a common supply agency. But you would still have problems in coordination and in working between this agency and the four military services, who would still have to retain a logistics capability and a logistics organization. We would still have the problems to solve of getting unified, standardized procedures, of getting a unified depot system, and things like that. We wouldn't solve any problems by just moving the boxes together under another head.

QUESTION: Sir, in view of the recent directive on slowing the drainage of gold, could you tell us what effect this will have on overseas procurement of military goods and services?

MR. RILEY: You are getting a little bit out of my field, now. I think just common sense will tell you what is going to happen. The military budget is going to go up. This is my personal view.

STUDENT: Will we continue to procure the same quantity of foreign goods and services ?

MR. RILEY: The way they are talking now, as I understand it, is that the things we buy overseas are now going to be bought back here, and we'll ship them over. They are even talking about some of the services performed over there being pulled back here. We are going to be in a hell of a spot if we have to start moving tanks back here to this country to overhaul them and send them back.

QUESTION: Mr. Riley, the Air Force has for the past few years run through several different systems of supply accounting. I assume that the Army and Navy have done likewise to one degree or another. You touched briefly on standardizing inventory control procedures between the services. But what has the Department of Defense done in trying to standardize the overall supply accounting procedures between the services ?

MR. RILEY: You are getting into the comptroller's area now. I am acquainted with what has been done. As a matter of fact, there has been very little effort to standardize accounting systems within the Department of Defense. There has been little effort to even begin to get people to think alike in their concepts of financial management. They differ between the military services.

There are some good basic policies put out by the Comptroller's Office on financial accounting, stock funding, the accounting for O&M

funds, and budgeting, and what not. But it has been my experience, and if you really want to get a good look at how people do things differently, you can go down to one of our single manager agencies that is just now getting under way, and get the supply management and financial management information that is coming in on the items, and you will find that the location codes are different, the financial <sup>accounting</sup> codes for various transactions differ, and there are almost no two things alike.

You will even find differences among the tech services in the Army.

It's a field where a lot of work needs to be done. The first thing we need to do is make up our minds about what financial management concepts we are going to have in the Department of Defense. Right now I think we've got too many.

QUESTION: Sir, to go back to an earlier question, has anyone run a tab on the possible cost of this so-called fourth <sup>of</sup> service/supply? In other words, how much is it going to cost us to save that much?

MR. RILEY: I guess it was in November and December of 1958 when we had what we called a Logistics System Study Project going on over in the Pentagon. We had a group of people representing the four military services who had the job of setting up this fourth service and analyzing it and telling us how it would work, what it would cost, and so forth, and they came out with a figure of about \$6 million additional cost to operate a fourth service. I can't vouch for the figures.

You would have to assume, I think, in talking about additional costs, that you just set up an organization and didn't take anything away from anybody else. I don't know how good the figure is. Offhand I would say it's questionable.

Nobody has ever really sat down and tried to thoroughly cost out an operation like that. In the first place, there are so many various ideas about how a fourth service would be organized.

QUESTION: In our study of the Joint Chiefs of Staff system we have run into the question that the specified or unified commander has authority, directed authority, in the field of logistics. Can you tell us what that means? Does that mean he can direct any item? Or is he limited to common, expendable items, or combat expendable items? Just what does it mean?

MR. RILEY: I think you can take the words literally. For any material in the hands of forces in a unified commander's area, he is the boy to call the shots. He can move it and do anything he wants with it, to support his mission.

STUDENT: Does that include his weapons?

MR. RILEY: Yes, sir. You will find, though, that interpretations of this may differ, depending on which unified commander you are talking to.

QUESTION: Mr. Riley, my question is addressed to this inter-service supply support system. It has been my experience under a single service supply support to be at the end of a pipeline and request

six widgets for 60 days, in a normal way, and have the inventory control point diligently search various stocking points for these items which the records show they are supposed to have. However, someone else has gotten them in the meantime. The net result in such a case is that the operation at the end of the pipeline is shut down, or an emergency purchase has to be made and the widgets shipped by air. If we have to go <sup>to</sup> the Army, the Air Force, and the Marines it seems to me that this is compounding a problem. Is there any flexibility or exception built into this system so that the supply system will supply?

MR. RILEY: This is one of the problems with the Interservice Support Program. Years ago we used to brag about the program over on the Hill and say this was our answer to the fourth service, but problems like the one you are talking about were brought to our attention. Of course we knew they existed, too.

The Interservice Supply Support Program is really nothing more than a stop gap, to try to prevent recurrent buying and selling. We have recently changed the procedures in this program so that we have tightened up the control part of it, to eliminate any possible chance of recurrent buying and selling. Recurrent buying and selling still slips through. We still have cases of it.

But, any system where you have to rely on query and where we have so many inventory control points storing the same items, you are just going to have this problem. In a single manager agency, where

you take items that are used by all four military services and put them under one manager and one inventory control point, you tend to avoid this sort of thing.

STUDENT: That's not the problem. The problem is that there are several stocking points and the records show that these items are supposed to be there, but they haven't caught up with the latest transaction. In other words, I think when you get this thing so big it becomes unmanageable. If it is big, why try to make it so simple as to put it all in one place?

MR. RILEY: You don't have to store all your material in one place. When people talk about a fourth service and an integrated system it doesn't mean that you pile everything up at the top. We <sup>would</sup> still have to be centralized, the way we are now, and operate the inventory control points through a depot system. The problem you are talking about seems to me to be one of communication.

STUDENT: It is.

MR. RILEY: I think this is partially being overcome today. We are beginning to tie our supply systems in with depots and inventory control points on a transceiver, where you can very rapidly determine where your stock is.

STUDENT: Actually, what I was asking is, will there be any flexibility on the part of the people who are supplying these things, or will they be rigidly required to check with the other services before they can buy? I can see where it might be desirable for a large purchase,

but how about the small operating things?

MR. RILEY: I believe in the detailed procedures that there are some floors put in so that you won't be checking out in this nick of time.

QUESTION: We have heard previous speakers speak of the close relationship between R&D and procurement, and the fact that in order to cut down the lead time they go right from development into procurement, and actually cut out some testing. My question is: In your opinion, would it enhance the single manager system if R&D were assigned to the same services that have the supply and procurement policies?

MR. RILEY: In my opinion the answer is yes.

QUESTION: My question relates to the question asked earlier about the increased cost of a fourth service. Has the single manager system resulted in an increased cost to administer it?

MR. RILEY: Colonel Case, who is on my staff, is going to be here some time next week, and he is going to give you a very thorough detailed briefing on the single manager system. He will bring you up to date on the results of our review of the system and determine whether it is effective and economic or not.

He had a difficult time in getting figures so that we could take a look at this question that you have asked. But we were able to in clothing, subsistence, petroleum, and medical. We were able after much digging to get a nose count or a head count of the people involved in the inventory

control point functions, for example, before and after the single managers. We could get a fix on inspection locations that were closed, and the reduction in people there. We could get a reduction in people from procurement and requirements and distribution, and so on.

We added all those up, just for those small single manager operations, and we found that there were about \$19.5 million dollars saved. These are annual savings, each year. Including all savings, the total for those same single manager operations is about \$425 million.

QUESTION: My question has to do with the relation of the single manager to the small business man. . I am under the impression that the small business man is in a less competitive position in dealing with the single manager. If we create additional single managers, are we not putting additional small businesses in less competitive positions?

MR. RILEY: I don't think so. We have discussed this with several industry associations, as a matter of fact. When we gave the assignment for electronic tube procurement to the Air Force the tube industry representatives were in the office shouting about our killing the small business men. There are ways to overcome this. In the first place, you have set-asides, provided by law. Secondly, when you get a requirement you don't have to buy the total requirement at one point. You can buy it in pieces. You can spread the buy. I don't think that any procurement or contracting officer or any agency would want to deliberately dry up a source of supply.

In the agencies for subsistence and medical, for example, we always, for years, even before we had single managers, had a coordinated procurement program. If anything happened to us in medical we drove the prices up.

We have had no complaints from small business in the areas where we are operating single managers. The clothing industry, for example, traditionally has been a small business as far as our program is concerned. None of the bigger and better clothing manufacturers deal with our clothing agency. They are interested in the manufacture of women's clothes.

QUESTION: Mr. Riley, has the department come up yet with a firm policy on reimbursement for interservice transfers of supplies? I ask this in particular reference to the recently disclosed squabble between the Air Force and the Army over certain specialized supplies.

MR. RILEY: I wish you hadn't brought that one up. Yes, we have resolved it, after a great deal of argument. The reimbursement policy is a comptroller policy, you appreciate, not a supply policy. At least, that's the way it's written up now. But we were successful in getting the Comptroller to do away with the reimbursement for excess material, not only within DOD but also within the Government. The Bureau of the Budget has now agreed to extend this to foreign excess.

Our policies right now provide that I can give you material for free

if it's above my mobilization reserve requirements. We can transfer between inventory control points in the services, and we can also transfer at local levels. What we can't do yet is, if an Army supply system, such as Ordnance, has <sup>an</sup> excess quantity of material--it may not be technically excess, but he's within his potential level and still has a lot--he cannot let another Army agency have that material, if it is stock funded, in other words. I can give it to my neighbor.

STUDENT: Is this what happened in the vehicle problem between the Army and the Air Force? The Army held out for reimbursement and the Air Force refused to reimburse?

MR. RILEY: A lot of things happened in that case. The Air Force knew that the Army had the vehicles. They didn't want to take them because they have a commercial vehicle policy. They didn't want to get into this type of vehicle, and they were going out to buy. Their reason for that was, first, the policy I just cited, and second, they maintained that over a 5-year period it would cost the Air Force more to obtain the vehicles from the interservice agency because they were unserviceable. The Army said they weren't unserviceable. We had to send three people up there to find out whether they were or weren't. So we found out that the repair cost estimated was a bit high. Then the Air Force rechecked their requirement and found out that this year they don't need the vehicles at all.

QUESTION: Mr. Riley, you said that everybody is an expert in the business of inventory control. We have many stock fund types of controls and quantitative controls. In which area are the tools of control making improvement in the area of supplies?

MR. RILEY: The first thing I think we have to do is knock off the retail stock funds. It never made any sense to me to buy a pill 2 or 3 times and sell it 2 or 3 times before you got it to the patient. I think we've got items in stock funds that shouldn't be in stock funds. I'll give you a good example.

The Army puts an item on a TOE. It's required. You've got to have it. If you don't have it, your IG will burn you for not having it. You're talking about a combat unit, ready to go, to move out, to take care of an emergency. Why should you stock fund a TOE. What possible financial discipline are you going to get from putting that item into stock? You have a soldier who has to have the item and he needs it to fight with. So you charge it to him.

I believe we have tank engines in the stock fund. If you don't have and O&M money or consumer funds to buy some of the parts that are also in the stock fund, then you are in real trouble.

You have other cases where the major component is not in the stock fund but the parts are. If you are short of money, what you do is, you requisition the component instead of the part that you don't have money to buy.

We've got some really bad situations. This project I mentioned to you is designed to try to clean up some of these areas and to come up with a pretty good, sound conclusion on what we ought to do.

I don't want to leave you with the wrong impression. I am not against stock funds. Stock funds for wholesale inventories have several values. They're good, but we need to clean these situations up.

QUESTION: You mentioned earlier in your address that we were getting items in the supply system for other than the Department of Defense. Will you explain this, please?

MR. RILEY: I believe I said we were doing cataloging for other services. On a reimbursable basis, we handle item identification for the General Services Administration. In the subsistence area we are actually supplying some agencies, not from our distribution system, but we are letting them buy at our contractors much smaller quantities of subsistence items.

There have been several proposals to have the Department of Defense buy and store several commodities that are used by civil agencies. The most recent one was petroleum. Some of our warehouses have been in effect leased out and turned over to other civil agencies. But, in terms of our total volume of business, there is not a whole lot of this. It does exist in some areas.

QUESTION: I would interpret your remarks regarding retail stock funds and the difficulties with national managers as probably being that

you are not current with 70.1. Is this a correct assumption?

MR. RILEY: I didn't get a chance to comment on it.

STUDENT: In other words, it was published strictly as a financial directive, without coordination with the supply system people?

MR. RILEY: That's what happened on that one.

QUESTION: I refer to your remarks about items in the stock fund and your objective as concerns the stock fund. Has DOD given any thought to giving some relief to the ICP's on getting item review and approval for the secondary items that are taken out of the stock fund handled in the field?

MR. RILEY: Are we going to get approval?

STUDENT: Has there been any consideration given to getting any relief on item by item review and approval above the level of the ICP's?

MR. RILEY: Is this the budget hassle you are talking about, the shopping list?

STUDENT: No, it refers to the whole supply cycle.

MR. RILEY: In the secondary item field I am not aware that at the OSD level we require item-by-item review. To my knowledge there are certain items sent in with requirements computations and budget estimates to give the budget reviewer an idea of how the calculations are made. But once it gets up to OSD, the Comptroller, and BOB, we are talking about total numbers there and total dollars. When you get into the principal items then you go through the 764 procedure.

There's no plan that I know of for the requirements people to discontinue that.

STUDENT: My point is that we have some principal items that may be \$300 or \$400 mechanical end items. On the other hand, we have repair parts in the stock fund that amount to several thousand dollars in value. The \$100 item goes to DOD for a receipt out on item basis, but the ICP is given authority on the repair part to take off thousands. I think this is inconsistent.

MR. RILEY: Mr. Gibson is our Director for Planning Requirements. As you know, in his shop they have a requirement to look at only a relatively small number of items. I forget what the number is now. It's something like 100 or something of the total range of so-called key items. It may be your own service that requires at the top budget level a look at the items.

To my knowledge, our requirements people do not require a look at \$100 items.

QUESTION: Would you comment on the possibilities of extending the producer-to-user system of supply to shorten the pipelines and some of the problems involved?

MR. RILEY: The Air Force has gone quite a bit into this concept, probably more so, I believe, than the other services. The problem here I think is one of a different approach to supply management. The Air Force has been trying to get out of the supply business for those

items which they consider nonessential. They want to let somebody else manage them, or go to GSA. They like to have contracts to buy in quantities so that they can go to the large consuming points and get a direct shipment and not through the depots.

I think the other services use this concept to a degree also. But the Army, having a worldwide troop mission to support, has to have a depot system. So there you get into the question that, as long as you have to have a depot, you want to maintain it and use it economically, and you have to weigh the quantity of buy with which you have to support the whole Army. Is it more economical to move it into the depot system and keep it replenished for shipment to customers? Are your support points big enough and do you have big enough consumers so that you can order large quantities and drop shipments and make this worth while?

Several of the Army's larger posts, camps, and stations may make it worth while to drop shipments. Several of its large maintenance establishments may make it worth while to ship direct from producers. But, for the average support of posts, camps, and stations, I believe they consider it more economical to wash these items through the depot system.

CAPTAIN BASKETT: Thank you very much, Mr. Riley.