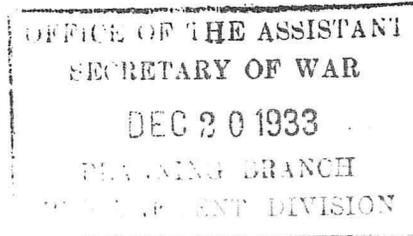


THE ARMY INDUSTRIAL COLLEGE
WASHINGTON, D. C.

Course 1933-1934



ACTIVITIES OF THE ASSISTANT SECRETARY OF
WAR IN CURRENT PROCUREMENT

Lecture by

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December 8, 1933.

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IN CURRENT PROCUREMENT

Colonel McCain - Gentlemen:

I regret that I am not a graduate of this important and excellent Army school. I have been educated in strategy, tactics, and logistics; in civil and military engineering, in staff and command duties, but my industrial education has been sadly neglected. To an officer in a supply arm or service, training in procurement is as essential as any other military training. If graduates of the Army Industrial College and a war procurement plan had been in existence prior to the World War, we might have gotten enough airplanes, field artillery, and ammunition overseas in time to have made a showing at the Armistice celebration; we probably would not have had the industries of the United States tied up in a hard knot within a few months after we entered the World War; and we probably would not have paid ridiculous prices for millions of dollars worth of supplies that did not meet requirements and we could not, or did not, use.

Prior to the World War the supply arms and services functioned directly under the Secretary of War. Each operated as a separate and almost wholly independent procurement agency, purchasing with little interference from higher authority about everything it needed for its own use. There existed no central agency specifically charged with supervision over the procurement activities of these services. Came our entrance into the World War. Without central coordination or control the supply services rushed their procurement forces into action to buy all available supplies in the markets. Results - competitive bidding up of prices by services vying with each other and with other government agencies in getting a corner on the same article; improper apportionment of available supplies; paralyzing of domestic markets; chaos.

The War Industries Board was set up to coordinate and control all production activities and to allocate orders to industry. This was a great relief to industry, as it had been pretty well immobilized by the heavy barrage of purchase orders poured into it from all sides by the various and sundry purchasing agencies of the government.

With the hope of bringing order out of chaos, the Purchase, Storage, and Traffic Division was set up in the War Department. This agency went to the other extreme and took over all purchasing and storage. It purchased and stored everything, but no one knew what had been bought, where it was stored, or how to get it. Fortunately, the Germans decided to quit about that time.

During the fifteen years which have elapsed since then, we have been able to find out what was bought, where it was dumped or stored, and have managed to sell some of it, give some of it away to the poor and other government departments, and more recently we have issued a lot of the clothing to the Civilian Conservation Corps, but there are millions of dollars worth of it still reposing in the various Army depots. As a result of our costly procurement experiences of the World War, Congress wrote into the National Defense Act that The Assistant Secretary of War is "charged with supervision over the procurement of all military supplies and other business of the War Department pertaining thereto, and the assurance of adequate provision for the mobilization of materiel and industrial organizations essential to war-time needs."

These statutory duties are divided into two main categories - War Procurement and Current Procurement, each handled by a separate branch of The Assistant Secretary's office.

I shall attempt to give you an outline of the activities of the Current Procurement Branch and how it functions. Please bear in mind that we are not an operating agency. We do not procure any supplies. They are procured by the eight supply arms and services and the National Guard Bureau. The law limits the supervision of The Assistant Secretary of War to the procurement of military supplies, but the Chief of Engineers voluntarily placed the procurement activities of his Rivers and Harbors Division under our supervision. We have no supervision over the procurement activities of the Panama Canal, Panama Railroad, Inland Waterways Corporation, or other civil agencies under the War Department.

In order to explain just when and where we get into the supply picture, I shall mention each stage of the Army's supply system and our functions, if any, in connection therewith. The first stage is a most important one, namely, the procuring of funds. Each year the supply Arms and services prepare their estimates for funds needed for the next fiscal year. Itemized statements of what supplies and equipment they think they will need, why they will need them, and the estimated cost thereof are prepared for the Budget Officer of the War Department, who is the Chief of Finance. He has a Budget Advisory Committee, which sits as a jury before which the representatives of the supply arms, services, and bureaus appear and attempt to justify their estimates - item by item. The Current Procurement Branch has a representative on the Budget Advisory Committee.

One of the sections of our office - the Statistical Section - prepares charts and data for the Budget Advisory Committee showing current prices and probable future price trends for the important supplies included in the estimates. This is a valuable check upon the figures presented by the Supply Services in their estimate for funds.

After the budget has been approved by the War Department Budget Officer, the Secretary of War, the Director of the Bureau of the Budget, the Appropriations Committee of the House, and the Military Affairs Committee of the Senate; has been passed by the House and Senate and approved by the President, the War Department has funds available for procurement. The Annual Appropriation Act then becomes a general expenditure program. The supply services next prepare more detailed expenditure programs, which are reviewed by the General Staff and approved by the Chief of Staff. Note that the Current Procurement Branch has no supervision over this phase of the supply program. The General Staff decides the quantities, types, kinds, and standards of supplies and equipment to be procured. Of course, the estimates for many of the items of routine supplies are automatically determined by tables of allowances, experience tables, and the strength of the Army.

Once these procurement programs are approved by the Staff, the Current Procurement Branch again enters the picture and supervises the execution of these programs. After the supplies are procured and issued we pass out of the picture again and the General Staff is in charge. At any future time, should the Staff determine that any of the supplies on hand are surplus to the military needs, and the Secretary of War declares them so to be, we again take charge and determine their disposition. We authorize their transfer to other government departments, their sale or their exchange in part payment for new supplies.

I shall now attempt to explain just how we supervise, coordinate, and control procurement. Briefly, we exercise such supervision and control as will insure that supplies are procured efficiently and economically and in accordance with laws, regulations, and existing policies. This means that requirements must be properly specified and properly advertised; contracts properly awarded and executed; and supplies properly inspected, tested, and accepted. Proper relations must be maintained with the business world. Supplies of suitable kind and quality must be procured in time so that they will be available when and where required by the using agencies.

To accomplish our supervisory and control functions, and to establish our policies, we promulgate basic regulations which are published in the 5-Series of the Army Regulations and in War Department Circulars. We also issue procurement instructions through the media of Procurement Circulars sent direct to chiefs of supply arms and services and the purchasing and contracting officers in the field. Our regulations and instructions are based upon laws; decisions of the Comptroller General, and the courts; justifiable protests, complaints, and criticisms received from bidders, contractors, and the

various industries interested in War Department business; and in the experience which we have gained from the past mistakes of purchasing and contracting officers. Our regulations and policies are continually changing. New laws affecting procurement, such as The National Industrial Recovery Act, the Agricultural Adjustment Act, and the Buy-American Law are enacted. New decisions are continually being made by the Comptroller General, and purchasing and contracting officers are continually finding new ways to make mistakes which lead to trouble and require corrective action to prevent future similar occurrences. We are also constantly endeavoring, by studies and observations, to improve our procurement methods.

Copies of all invitations for bids issued, the abstracts of bids received, and the awards made are furnished the Procurement Control Section of our office. This information is open to inspection by the public, and representatives of interested firms visit this office daily and obtain information on past or future purchases. Reports of all Open Market Purchases are sent to this office where they are reviewed and approved in accordance with law.

With the foregoing information available to us, we are able to scrutinize all purchase transactions of the Army and see whether laws, regulations, policies, and proper procedure are being followed. We then take any corrective action which may be indicated. Complaints from bidders and contractors received direct or from the Comptroller General are investigated. The cardinal requirements of the Comptroller General are that "the advertised specifications must be such as to state the government's needs in such terms as to permit full and free competition in bidding thereon, and the contract must be awarded to the lowest responsible bidder whose bid conforms to the invitation." Any deviation from this rule leads to trouble.

In order to see that proper progress is being made in executing the procurement programs, the Procurement Control Section receives progress reports from the supply services covering the more important items of supplies. Based on this information we can do whatever prodding appears to be necessary. If the program is too far behind schedule it cannot be completed before the end of the fiscal year, the unexpended portion of available funds lapses and the using services are deprived of their requirements.

In addition to our regular duties of supervising the activities of the procurement agencies, we have many and varied miscellaneous activities because of the fact that The Assistant Secretary's office is the business office of the War Department. To it come daily innumerable business representatives and

business letters seeking information or bearing requests, protests, complaints, or grievances, all of which must be given patient consideration. Those letters and callers have been especially numerous since the depression when all industry is striving to get government business. Every bidder thinks he is entitled to the award or at least a part of the business. Dealers and manufacturers exert pressure to have their products specified to the exclusion of those of competitors. Local residents in the vicinity of posts, Civilian Conservation Corps camps, or construction projects contend that they should be given the business of furnishing all the supplies, materials, and labor required, and that their more distant fellow-Americans should be excluded from the bidding. This is particularly true with reference to supplies for the Civilian Conservation Corps. Contractors urge that they be permitted to deviate from the terms of their contracts. Zealous protectors of American industry bombard us with telegrams, letters and Congressional delegations when bidders offer foreign products in competition with domestic products. These are but a few of the many kinds of cases which are daily handled in our office.

Now a word as to how we transmit our procurement control orders to the procurement agencies. We are authorized by the National Defense Act to correspond directly with the chiefs of the supply services on matters pertaining to procurement. They in turn have direct control over their purchasing depots, arsenals, and manufacturing establishments. Instructions pertaining generally to all purchasing agencies or to procurement functions under corps area or department control are sent to The Adjutant General for issuance. Any contemplated procurement orders or regulations which may affect matters controlled by the General Staff are sent to the Staff sections concerned for concurrence before issue to ascertain if there are military objections to the action proposed. Similarly Staff directives which might affect our interests are sent to us for concurrence before they are approved by the Chief of Staff and sent to The Adjutant General for publication.

Now I shall discuss briefly that most important procurement question - centralized, or consolidated procurement, versus decentralized procurement. This is another matter which has come to the fore since the depression. The Administration and Congress are seeking ways and means for effecting greater economies in the cost of government. The United States Chamber of Commerce and the business world in general are also much more critical of government purchasing methods today due to their increased efforts to participate in government business and to their interest in reducing the cost of government with corresponding relief to the taxpayers. Before the depression, when business was plentiful, they cared little for government business and paid little attention to the government's methods of doing business. But now that Uncle Sam is about the only buyer in the markets, their

interest is keen and their efforts to compete successfully for this business are marked. They keep us on our metal by criticising our business methods, our specifications, our awards, and everything connected with our buying. They complain of duplication of work in the government departments, and particularly of the number of different government agencies purchasing supplies. It has been suggested by Congress and patriotic citizens that millions of dollars could be saved annually if the supply requirements of all the government departments and establishments were consolidated and procured by a single super-procurement agency. There has been great agitation for the consolidation of the procurement functions of the War and Navy Departments. We have to fight continually to maintain our procurement independence, which is so vital if we are to insure our maximum war efficiency of supply, and our unhampered development of more efficient weapons and equipment. The Economy Act passed in March of this year authorized the President to reorganize the government departments by re-grouping, consolidations, transfers, and abolition of agencies. Pursuant to this authority, the President has transferred to a procurement division in the Treasury Department the function of determination of policies and methods of procurement, warehousing, distribution of property, facilities, structures, improvements, machinery, equipment, stores and supplies exercised by all agencies. A Director of Procurement heads this division. Admiral Peoples, the Chief of the Bureau of Supplies and Accounts of the Navy Department, has recently been appointed to this position. There is no disposition at the present time on the part of this new super-procurement agency to take over the procurement functions of the War and Navy Departments. It will bear the same relation to the government departments and independent establishments as does The Assistant Secretary of War to the supply arms and services. In other words, it will not operate - it will merely supervise, control, and coordinate the procurement, storage, and distribution activities of all the government departments and independent establishments,

It is natural that each government department should desire to do all its own shopping. It is natural that each of our supply services should desire to be independent and to procure all its own requirements. Each corps area commander would probably like to have authority to buy all his requirements of commercially available supplies, and each post commander would undoubtedly like to be given the funds and told that he could buy everything he needed for his post. The Medical Department would like to continue, as it formerly did, to buy all the linen, china, refrigerators, furniture, and kitchen equipment which it uses. The Engineers would like to buy their explosives: The Air Corps would like to buy its own stationary, railroad ties, radio equipment, tractors, and other articles which it now has to procure from other supply services, and so on. But we believe that centralized procurement to

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a certain degree is desirable. Better supplies can be procured for less money when procured by that agency which has purchasing personnel trained in buying that particular kind of supplies. They know the markets; know the tricks of the trade; know quality; know whether reasonable prices are quoted; know how to write proper specifications, and know how to inspect and test the articles they buy. Also, up to a certain limit, the larger the quantity bought the better the price. We are, therefore, continually striving for greater and greater centralization, but it is a slow, up-hill fight, as there is continual opposition from the supply services to further curtailment of their independence. Authorized procurement lists have been established for each supply service, and any item needed by a supply service which is not on its authorized procurement list must be procured through the service authorized to buy that item. You will observe in your studies in connection with this course that procurement is well centralized within some of the supply services. For example; The Engineers (Military), Air Corps, Chemical Warfare Service, Signal Corps, and Medical Corps buy all or a large part of their supplies at a single procurement center. Within some of the other supply services procurement of total Army requirements of certain supplies is centralized. For example: Coal, clothing, stoves, refrigerators, furniture, automobiles and accessories, and other quartermaster supplies, are each bought at a single designated depot. Other items are being added to this list as time goes on. Some items must continue to be purchased locally by the using agencies, such as perishable subsistence supplies, and certain miscellaneous commercial articles which can be procured as cheaply locally as by a central agency.

Decentralized procurement has the disadvantages of small quantity buying, a limited market field, and buying by untrained and inexperienced purchasing officers. We cannot hope to have buying specialists in the field for all of the many kinds of articles required by the Army, and if a man does not know his onions; does not know how to write specifications for and inspect the items he has to buy, he will get gypped by clever, unscrupulous, high-pressure salesmen. We know this to be a fact from experience. How many men of this College feel that they are qualified to buy lumber, mechanical refrigerations, motor vehicles, electrical equipment, paint, or coal, of proper quality at proper prices?

While centralized procurement is more economical and efficient from the point of view of the best and most supplies for the money, it also has its disadvantages which off-set to some extent the advantages, and a correct degree of centralization must be found and maintained. This is important. The needs of the troops in the field must receive first consideration; they must be supplied with the proper kind, quality, and quantity of material at the right time and at the right place. Any deviation from these requirements result in loss of military efficiency. This is particularly true in war, where time is all-important and delay or failure to supply cannot be condoned. Centralized procurement, to fulfill these

necessary requirements, requires careful advance planning. Supply officers in the field must anticipate supply requirements sufficiently in advance of the time they are needed to enable the designated procurement agencies to procure the supplies and get them to their destinations. In advance planning the needs as to kind and quantity must also be accurately estimated. If more than is needed, or the wrong kind of supplies are requisitioned, the wastage off-sets the economy of centralized purchasing. If too little is requisitioned, local procurement becomes necessary. Centralized procurement also requires that depot stocks of articles not readily available in the commercial markets be maintained in the supply depots in the higher echelons of supply. Also, to avoid purchasing as and when requisitions are received - and this is something purchasing officers are prone to do - in other words, to avoid hand-to-mouth purchasing and to gain the saving due to large quantity purchases, quarterly or periodic requirements of certain items must be contracted for future deliveries on call as needed or bought outright and stocked for issue. But stocks in depots cost money because of deterioration, storage, handling, and ware-housing charges, and obsolescence. This also off-sets economies gained by centralized procurement. So you see what a difficult problem it is to try to balance the advantages and disadvantages of centralized procurement.

The system of supply that is to be used in an emergency must be tested in peace. There must not be any sudden or radical change at the outbreak of war that would disrupt the organization and methods of use. We recently were afforded a good opportunity to test our peace-time procurement organization and methods under war conditions when the War Department was suddenly given the task of providing food, clothing, shelter, medical and hospital care for 275,000 men of the Civilian Conservation Corps. Within a brief space of time we had a supply job equal to that which would confront the War Department on sudden mobilization for a minor emergency. We had some advantage in that we had on hand a stock of war-time clothing and equipment which could be utilized for the first-term men. Just before the expiration of the term of enrollment of the first-term men we were informed that a second 325,000 would be enrolled, and, due to the short time available for preparation, our procurement services were hard pressed. These men are scattered over the United States in some 1,500 camps, many of which are in localities remote from cities and good markets.

And how has our supply system worked out in this emergency? Very well, considering all the adverse conditions.

All subsistence supply is decentralized to the corps area commanders. Each camp commander is authorized to buy locally his perishable subsistence items and such items of non-perishable subsistence supplies as can be bought as cheaply locally as centrally- quality and cost of transportation considered. Most of the items of non-perishable supplies are supplied through the nearest post commissaries by the Regular Army supply system. Non-perishable supplies for camps too far from posts to use this method are procured by a district quartermaster who supplies all the camps in his district. We have also authorized the local procurement of coal, wood, gasoline, and oil. Corps area commanders were given full responsibility for constructing the winter quarters. They are procuring under our general supervision all the building materials and labor necessary for this construction. But the procurement of all other supplies, such as clothing, equipage, medical supplies, stoves, electrical light plants, and fire extinguishers, is centralized in the appropriate purchasing depot. Clothing and equipage are procured at the Philadelphia Quartermaster Depot; electric generator sets are being procured at the Washington Quartermaster Depot; stoves at the Jeffersonville Depot; fire extinguishers and automotive equipment at the Holabird Depot. At first the procurement of clothing and equipage was decentralized to the regional quartermaster depots which normally supply certain corps areas, but it was found that clothing and equipage of better quality at better prices could be bought by the Philadelphia Depot - the depot trained in that kind of buying; also competitive purchasing as between five depots was eliminated.

Complaints have been received from some of the corps areas that their fire hazards are great because fire extinguishers have not arrived; that because they have not received their electric generating sets and have to use candles in the camps the fire hazard is very much increased; that the Civilian Conservation Corps men are suffering with the cold because stoves have not arrived and certain necessary heavy winter clothing has not been furnished. They press for authority to step out into the local market and get these things. They say they can get them at once and just as good and just as cheap as the central agency can procure them. However, we do not believe this to be the case. Centralized procurement of one item alone, electric generator sets, has not only resulted in the purchase of more suitable equipment, but in a saving of \$50,000. Why? Because the purchasing officers in the field did not know how to buy this kind of equipment. We know this from experience, as in some corps areas some of these sets were bought before we issued

instructions that procurement of this item would be centralized. If the emergency is great we give authority to make a few local purchases in order that there may not be any real suffering, but we are holding out for our principle that better supplies at better prices can be obtained by centralized procurement.

And why has centralized procurement failed to some extent to give the camps all the things they need when they want them? The answer is - faulty advance planning. Had their requirements been anticipated with some degree of accuracy and their wants made known sufficiently in advance of the time the actual need developed, they would have had their supplies and equipment. Due to the depression, manufacturers' and dealers' inventories have been reduced to the minimum. Commercial supplies formerly available in plentiful quantities are no longer available at a moment's notice. They have to be manufactured on order. This makes advance planning still more important to insure the success of centralized procurement.

However, in fairness to corps area commanders, I must say that they were not entirely to blame for delays in procurement. It was not until toward the end of the first six months enrollment that they were definitely informed that they would have a second contingent to provide for. The supply services were also delayed in initiating their procurement programs to take care of this second contingent due to the fact that necessary funds were not made available to the War Department until a late date. In addition, the War Department has never had independent control of the supply problem. The Director, Emergency Conservation Work, was authorized by Executive Order to require that prior authority for all contemplated purchases of supplies amounting to more than \$2,500 be obtained from him. At first, at our request, he exempted from this requirement everything except clothing and equipage, but later required prior authority for everything over \$2,500 except subsistence and building materials for camps. This means that requisitions from the field for all but the excepted items must come to Washington for prior approval by the Director, Emergency Conservation Work, before authorizations for the purchases can be sent out to the procurement agencies. This causes delay. In the construction of winter camps the Director stipulated certain requirements for lumber - the kind to be used, and the prerequisites for acceptance. This has somewhat delayed the purchase of lumber and consequently the construction of the winter camps. The Director has also prohibited the use of Civilian Conservation Corps men on the construction of these camps and has reserved the right to decide the rate of wages paid to labor in case

there is a dispute as to the correct rate. In the large majority of the cases there has been a dispute. But in spite of their many bosses and other handicaps, corps area commanders are doing a good job, and when the smoke of battle clears away and the history of the Civilian Conservation Corps is written, it will be found that the Regular Army has done this job, just as it has done all other jobs given to it to do, honestly, faithfully, and efficiently, without fear or favor, always endeavoring to do that which appears to be in the best interests of the country.

Gentlemen, I hope these rambling remarks may have given you a general idea of the many and varied activities of The Assistant Secretary of War in Current Procurement. More detailed information as to our activities can be obtained at any time from our office, and from our representatives who will be here at the School on four days of next week for the purpose of assisting you on your current procurement problem.