

413

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THE FUNCTIONS OF THE BUREAU OF SUPPLIES AND ACCOUNTS
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The Bureau of Supplies and Accounts as at present organized is the result of a series of modifications which took place over a period of years, during which the demands of the naval service have been studied and conformed to as they have been recognized and adopted as part of the general naval policy. This progressive development is still going on, and it is doubted that the phase of static completion will ever be reached. Therefore, in listening to the description I am about to give you of the scope and methods of the Bureau you will please bear in mind that constant change and, we hope, improvement is still underway.

The Bureau of Supplies and Accounts was formerly the Bureau of Provisions and Clothing, having been constituted as such in 1842, along with four other Bureaus provided for in that year, namely, "Navy Yards and Docks; Construction, Equipment and Repair; Ordnance and Hydrography; and Medicine and Surgery". Some of the original bureaus have been subdivided, changes of names adopted, and new bureaus instituted. Later, I will give you the present arrangement, but for the moment let us follow the fortunes of Provisions and Clothing.

In matters of procurement and supply, each bureau originally acted independently of the others, making all contracts for its own materials, receiving storing and issuing them, and in general conducting its business affairs without attempting coordination with similar affairs of other bureaus. This situation attracted the attention of Secretary of Navy William C. Whitney, who commented upon it at length in his annual report for 1885. After considerable study of the problem the solution was finally found by transferring to the Bureau of Provisions and Clothing the custody and records of all stores pertaining to the Navy, except those of the Bureaus of Medicine and Surgery, and the Marine Corps. Congress, in 1889, provided for maintaining in the Bureau of Provisions and Clothing property accounts of all supplies pertaining to the naval establishment; for the rendering of an annual report thereon to Congress; and for the transfer between bureaus without reimbursement of supplies brought in prior fiscal years. During the following two years (1890 and 1891) it was provided: "that all supplies purchased with moneys appropriated for any branch of the naval establishment shall be deemed to be purchased for the Navy and not for any bureau thereof, and that these supplies, together with all supplies on hand, shall be arranged, classified, consolidated, catalogued

and issued for consumption or use under such regulations as the Secretary may prescribe, without regard to the bureau for which they were purchased". Although this law is very comprehensive, it has been necessary to construe it in relation to other laws governing the use of appropriated funds, which conflict to some extent with the purpose of the act just quoted. The general intent of Congress in making appropriations covering operations of the Government for a fiscal year is, of course, that the various sums specified shall control the expenditures made during that fiscal year for the purposes authorized by each appropriation. Consequently, if all supplies purchased with moneys appropriated for the naval service were used indiscriminately without regard to the bureau for which they were purchased, it could easily happen that supplies purchased under an appropriation of one bureau could be used for the purposes covered by an appropriation of another bureau; and thus, to the extent that this was done, defeat the intention of Congress when it established the limiting amount of the appropriation thus favored. Fortunately, the incorporation in the 1890 Act of the words "under such regulations as the Secretary may prescribe" made possible a logical solution of this difficulty. However, it took quite a long time before a satisfactory working system was achieved. After the supplies had been classified and consolidated as directed by the law, some time passed before they were effectively catalogued. The immediate problem was to control in an efficient manner their issue for consumption or use. Before going further into that subject, let me complete the description of the Bureau.

The Act of July 19, 1892, changed the name of the Bureau of Provisions and Clothing to the Bureau of Supplies and Accounts. This Bureau is concerned with all that relates to the purchase, reception, storage, care, custody, transfer, shipment, issue of and accounting for all supplies and property of the naval establishment, except medical supplies (but including their purchase) and supplies for the Marine Corps. It still carries on the old functions which relate to provisions and clothing, being especially concerned with the rationing and clothing of enlisted men. It is directly in charge of all fuel for navy use, of the chartering of merchant vessels, the loading of supply ships, and the operation of fueling plants.

As a financial agency the Bureau of Supplies and Accounts is concerned with all that relates to the supply of funds for disbursing officers and the payment for articles and services.

As an accounting bureau, the Bureau of Supplies and Accounts is concerned with the keeping of the appropriation and property accounts of the naval establishment, including accounts of all manufacturing and operating expenses at navy yards and stations, the direction of naval cost accounting and the audit of property returns from ships and stations. It conducts an administrative examination of the fiscal accounts of disbursing officers.

At the present time, there are seven other Bureaus of the Navy Department, namely: Yards and Docks, Navigation (primarily the personnel bureau); Ordnance; Construction and Repair (of naval vessels); Engineering (of naval vessels); Medicine and Surgery; and Aeronautics. In addition, the Chief of Naval Operations, who is charged with the operation of the Fleet, and its preparation for war use, acts as a coordinator of effort, through whom major plans affecting the Fleet are put in final shape. The Judge Advocate General has cognizance of legal matters, while the General Board acts in an advisory capacity in matters of major policy.

Each of the bureaus has its own distinct functions or field of operations in which it is responsible for the maintenance and upkeep of the Navy, that is, of the Fleet. This functional plan of administration is one which the Navy adheres to very closely throughout the entire establishment; seeking thus to avoid all duplication of effort and to insure the performance of all duties by those best qualified by training and experience.

Each bureau specifies the material of a technical nature required by it and, after procurement by Supplies and Accounts, controls the inspection of deliveries. Each bureau estimates for the funds required to carry on its duties. The Bureau of Supplies and Accounts, under the direction of the Paymaster General of the Navy, is organized into four groups - administrative, supply, finance, and accounting.

THE ADMINISTRATIVE GROUP, headed by the Executive Assistant to the Assistant Chief of the Bureau, includes:

The War Plans Division, which, in conjunction with the representatives of other bureaus and of the office of Naval Operations, assembles data in connection with war plans logistics.

The Appropriations Estimating Division, which deals with Budgetary questions of all kinds involving the appropriations of the Bureau.

The Field Service Division, which deals with equipment and civilian personnel, apportioning funds to carry on the supply, accounting, disbursing, and purchasing activities in navy yards and stations, and to maintain ships' equipment for those purposes.

The Officer Personnel Division, which prepares recommendations to the Bureau of Navigation in connection with assignments to duty of officers of the Supply Corps and pay clerks.

The Civilian Assistant's Division, which supervises the civilian force of the Bureau, and handles the mail and files.

The Planning Division, through which is cleared all matters affecting policies, their establishment or change, modifications or explanations of procedures, legal matters and legislation. It also maintains contact with the General Accounting Office, Bureaus of the Navy and other departments and generally acts in an advisory capacity.

THE SUPPLY GROUP includes:

The Stock Division, which handles all matters relating to storage of the general stock of the Navy, its inflow and distribution, proper storage facilities, replenishment, and specifications.

The Purchase Division, which is concerned with the central purchasing of stock in quantity and of special technical articles of large value. This

division prepares the schedules for advertising, makes awards and contracts, keeps in touch with the commercial world generally, and cooperates with other procurement agencies of the Government.

The Clothing Division, which is responsible for the procurement, inspection, storage and distribution of clothing required by Uniform Regulations for the enlisted men of the Navy. Financial control is exercised through administration of the Clothing and Small Stores Fund. It should be remembered that navy enlisted men pay for the clothing issued to them through checkages of their accounts, except for the first outfit on original enlistment.

The Subsistence Division, which controls the procurement, storage and issue of provisions for rationing the enlisted men of the Navy.

The Fuel and the Transportation Division, which administers the procurement, storage and issue of fuel for ships and other purposes, and also handles all questions relating to freight transportation.

THE FINANCE GROUP includes the Certification Division and the Disbursing Division.

The Certification Division reviews all financial questions and problems arising in connection with claims and vouchers and prepares vouchers for settlement in those cases where payment is not made in the field. Its work is so voluminous that it would be impracticable to detail it further. The Disbursing Division pays vouchers arising through the central naval administration, though many heavy payments are made through field offices. These two divisions of the Finance Group work in close connection and cover a very wide range of business.

THE ACCOUNTING GROUP includes:

The Administrative Examination Division, which handles all matters pertaining to administrative examination of fiscal accounts of Navy disbursing officers. This audit is preliminary, and supplemental, to the work of the General Accounting Office.

The Appropriation Division, which maintains appropriation ledgers and keeps exact records of all obligations and expenditures pertaining to each appropriation and fund of the Navy.

The Audit Division, which audits all property returns.

The Cost Division, which controls the expenditure records of the Navy, particularly industrial cost accounting.

The Cost Inspection Division, which conducts audits of plant records and books of contractors who are legally subject to naval supervision.

The Property Accounting Division, which conducts transactions in property relating to other departments and to outside parties, including sales of Navy material, and clears all property transfers among various custodians; and

The Emergency Statistical Division, which prepares statistical reports relating to funds and work under the Recovery Program.

This very brief description of the Bureau's duties will give a general idea of its scope and functions, although it has been necessary to omit many important features which time will not permit mentioning.

Before proceeding further in describing the work of the Bureau, it will be well to call your attention to two accounting features of the naval establishment which have had considerable influence in the development of naval business methods. These are the General Account of Advances and the Naval Supply Account Fund.

First, the General Account of Advances:

Following the common practice in our governmental system controlling the expenditures of appropriated funds, our procedure prior to establishment of this account in 1878, required that when funds were needed for a given purpose, a requisition was submitted to the Treasury Department naming the amount desired and the appropriation from which to be

drawn. A warrant was then issued covering the establishment of a deposit of the amount in question in the Treasury to the credit of the proper disbursing officer. Where a disbursing officer has payment to make under several appropriations, he had separate accounts for each. This system did not work very well aboard ship, especially on foreign stations. Consequently in 1878 Congress enacted a law which authorized the advancement to naval disbursing officers of sums not drawn directly from specified appropriations. This law provided for a "General Account of Advances", an intermediate account, in which were recorded the amounts passed to the credit of disbursing officers on naval ships and foreign stations. As these disbursing officers rendered their accounts current showing the appropriations chargeable with expenditures, the necessary book entries were made to adjust the relation between General Account of Advances and the appropriations concerned. The only restriction on this method was the provision that the amount carried in General Account of Advances could never exceed the total of the available naval appropriation.

This system, adopted for ships (and for foreign stations as acquired), continued for 30 years and worked so well that in 1908, it was decided to adopt it for all naval disbursements. Since then, all money for the Navy is first transferred to the G.A.A., and on the basis of expenditure returns, in which the proper appropriations are specified and vouchered, the correct adjustments are made on the books of the Treasury.

A naval disbursing officer supplies himself with funds by submitting requisitions based upon his past disbursements, without the necessity of stating under what appropriations or for what purposes the money is to be expended. Thus there is avoided the possibility of having money available for some expenditures but not for others. The total amount on deposit, being available for any payment, need not be as great as if it were made up of separate amounts each ear-marked for a special purpose. This procedure greatly facilitates the business of the Navy Department in handling the large number of appropriations with which it is concerned. It is a development of the Navy Department not being found elsewhere in our Federal Government accounting, except for a partial adoption by the Army. The advantages of the one account with the Treasury

embracing all funds to be disbursed are very great, particularly where a single disbursing officer, as in the naval service, makes payments chargeable to a large number of separate and distinct appropriations.

Next, the Naval Supply Account Fund:

I have already quoted the law relating to naval stores enacted just prior to 1892 when the Bureau of Provisions and Clothing was renamed the Bureau of Supplies and Accounts. I also mentioned that some difficulties were incurred in controlling the issue and use of stores.

At first, this was done by providing that supplies purchased under a given appropriation should be available during the fiscal year in which procured only for the purposes covered by that appropriation. Such supplies, when received into store, were designated "Special General Stock". After the expiration of the current fiscal year, these supplies became "Common General Stock"; could then be drawn from store, and used for any suitable purpose by an activity of any bureau without charge to the appropriation thus benefited. The bad feature of this arrangement was the lack of balance between the cash expended for supplies and the supplies actually used. Some appropriations expended more for supplies than they used, while others used more supplies than they paid for. The difficulty is apparent and needs no further elaboration.

This situation continued for a considerable time causing much discussion and some recriminations. Bureaus, whose appropriations were inadequate for work in hand or contemplated, were prone to take advantage of the opportunity which presented itself at the commencement of a new fiscal year, and to draw from store supplies which had just become common general stock, applying them to their own purposes, although the stores had been purchased from appropriations of other bureaus. After some years, a system was evolved which eliminated this difficulty. A revolving fund was established by Congressional action, entitled "The Naval Supply Account Fund". Under this system supplies are purchased, paid for from the fund, and taken into store. When issued from store for consumption or use, their value is charged to the appropriation concerned and credited to the fund. These credits are then used for the procurement of new stores. Thus, each appropriation is charged with the exact value of supplies applied to work in hand.

There are certain exceptions to this practice, however. Stores of a highly technical nature, applicable to the purposes of a single bureau, are frequently (though not invariably) purchased as a direct charge to the appropriation concerned. Thus, ordnance and ammunition are procured directly under appropriations of the Bureau of Ordnance. Aircraft and technical aeronautical material are procured under appropriations of the Bureau of Aeronautics. There are also certain other technical articles and materials which are not included within the scope of the Naval Supply Account Fund. On the other hand, a good deal of highly technical material, which could just as reasonably be excluded from the fund operations as ordnance and aviation materials, is actually procured and handled under the fund. There is no hard and fast rule about it, custom and convenience being largely in control.

There are thus two main accounts of supplies in store - the Naval Supply Account, which embraces supplies purchased under the Naval Supply Account Fund; and the Appropriation Purchases Account, which, as its name implies, embraces supplies purchased directly under the various appropriations.

It is obvious that the introduction of the Naval Supply Account Fund has greatly improved our stores accounts. All supplies, with certain technical exceptions mentioned above, are procured under this revolving fund, and their values are not charged to the appropriations concerned until the material is actually issued for use. Were this system universal, the correct accounting for supplies would be much simplified. Unfortunately, the exceptions prevent completely satisfactory results. These exceptions are not arbitrary, however, but are based on sound reasons. Primarily, the values of ordnance, aviation and certain other technical supplies not handled through the funds are enormous, and the danger of wrecking the fund by attempting to finance these technical supplies is considerable.

While on this subject of stores management, let me recall to you the Standard Stock Catalogue.

The law of 1890, quoted above, provided among other things that the supplies on hand should be catalogued. As soon as practicable thereafter this was accomplished by the

issuance of a classified index listing the names of articles carried, alphabetically arranged, the class to which each pertained, the bureau or bureaus interested in its use, and the purpose, or charge account to which it was intended to be issued. This served for twenty years or so as fulfilling the cataloguing mandate of the law. However, it was felt that this index was insufficient, and there was subsequently developed the Navy Standard Stock Catalogue, the forerunner of the Federal Stock Catalogue, which now is in use by the Government services generally.

This catalogue lists all items of government stores which are of a standard character. Not only the name of the article, but the various sizes and kinds are itemized, followed by a description and the standard specification, if any, under which each is procured, and the Departments of the Government interested in its use. The items are grouped in classes, and each item has its individual Standard Stock Number. By an ingenious system of numbering, the items are arranged both alphabetically and numerically. The classification is such that items can be stored in the same order as listed. Consequently, by simple reference to a card index one unacquainted with an item can obtain its stock number, and with that as a guide can proceed to the storage bin or area and locate the item at once. There is not time available to describe this catalogue in full, but I wish to emphasize that it has made possible the proper custody and inventorying of stock to a degree which was undreamed of before its adoption. The Navy, and the Government generally, owe a debt of gratitude to its inventor, Rear Admiral T. H. Hicks, S.C., U. S. Navy, now retired, whose unceasing energy and wise foresight make its adoption possible.

One of the most difficult problems with which the Bureau deals is Cost Accounting, which can be touched upon only very briefly.

The Navy is perhaps more largely occupied with industrial work than any other Department of the Government. The repair and maintenance of the Fleet is almost wholly conducted at our navy yards. Many of the vessels composing the Fleet are constructed in the Navy's own plants. Nearly all of the naval ordnance is manufactured at the Washington Gun Factory, the rough forgings only being procured from steel

plants. Thus the problem of correct cost of production is a real one to the Navy. Prior to 1909, it was customary for the Navy Yard representative of each bureau to prepare and forward to the Bureau of Supplies and Accounts returns of cost of work under their cognizance. In the year mentioned, central accounting offices were started in the various yards, thereby coordinating and improving the work of cost accounting.

A firm of accountants was employed to aid in setting up a well designed system as it was the desire to follow the best industrial practice in cost accounting. After considerable study, this firm found that the complexity of our system markedly differentiated us from commercial establishments, and with the aid of our own experts, evolved a basic plan conforming to our necessities. This plan was adopted and its fundamental principles have been adhered to. However, many modifications have been incorporated since then, all tending to simplification of the routine work, and in many cases to greater clarity in results. The diversity of work done in our navy yards, ranging from the construction of ships to all sorts of repair jobs of non-recurring character, made it impracticable to adopt some of the refinements of cost accounting suitable to plants turning out standard articles involving constant repetitive operations. Thus, while the influence of such pioneers as Frederick W. Taylor and others has exerted its effect on our methods of management, so that central planning, functional foremanship and routing of work are all parts of our system, we have gone only a little way in the development of piece work or standard tasks. Indeed, such attempts as have been made along that line have been discouraged by Congress, which forbids the use of any appropriations in payment of salary or pay where stop-watches or other time measuring devices are employed for time studies, and denies the right to pay a bonus for speed in performance.

Under these circumstances, we adhere to the old-fashioned plan of distributing overhead by prorating in accordance with the direct labor applied. Each shop is charged with maintenance and operating expenses, power, and its proportion of general expense for the determination of actual shop expense. Depreciation and disabilities of employees are taken into due account, so that the recorded cost of output is in general comparable to that of commercial establishments.

Having described for you the general organization of the Bureau of Supplies and Accounts and having indicated the scope of its activities, it is believed that the description can be aided by giving a few examples of the practical operations of the Bureau.

Stock Upkeep. Naval materials and articles are either standard or non-standard. Standard items are maintained in stock in the various navy yards and stations through a carefully administered replenishment system, based on recorded issues and expected demands.

The establishment of standard stocks at navy yards, the assignment of distributing points, the procedure for stock maintenance, and review of stock requests and requisitions received from the yards must be carefully and thoroughly administered. If stores required afloat are not in stock for ready issue to the Fleet, delays in repairs and upkeep result. Consequently, the maintenance of a stock of all standard materials ashore is of vital importance in the operation of the Fleet. The navy yards and stations are the main source of supply for all equipment necessary to make a ship habitable, materials required for repairs and alterations, and consumable supplies required for operation and cleanliness. The specifications covering materials required for use in the various departments are prepared by the technical bureaus, due consideration being given to the special requirements for shipboard use. Many items carried in stock require manufacture by the Navy or special manufacture by commercial concerns, since the regular commercial article, readily obtainable in the market, will not fulfill the requirements.

The Stock Division reviews all requisitions received from shore establishments and vessels of the Fleet for non-standard materials, after approval by the technical bureaus, such as Engineering, Construction and Repair, and Navigation. The technical bureau having cognizance gives particular attention to the purpose for which the material is required and the specifications given in the requisition. The Stock Division scrutinizes the requisitions with particular reference to the appropriations ultimately chargeable, the delivery terms, and the stores account and class in which the material shall be carried ashore or afloat pending its issue for use.

The Bureau takes considerable pride in the system of storage which has been developed under its supervision, and the methods which have been adopted for prompt and efficient supply of stores. It is believed that the storehouses in the various navy yards and bases compare favorably with any maintained in or outside the Government service. You are urged to take advantage of the first opportunity to inspect one of these establishments.

Purchasing. The Bureau of Supplies and Accounts is the principal purchasing agency of the Navy. There are certain exceptions, which are as follows:

The Office of the Secretary of the Navy purchases land and ships.

The Bureau of Yards and Docks makes construction contracts involving both labor and material.

The Bureau of Ordnance is authorized to purchase certain items of arms, ammunition and gun forgings, though ordinarily the majority of these purchases are made for the Bureau of Ordnance by Supplies and Accounts.

The Marine Corps performs all its own purchase functions.

With these exceptions, all purchases for the Navy are made by the Bureau of Supplies and Accounts or under its direction by the Supply Officers of navy yards and stations, Supply Officers of ships and the Navy Purchasing Offices located at New York, N. Y., San Francisco, California, and Shanghai, China.

To obtain better quantity prices, the needs of all yards and supply depots for stock materials are consolidated and purchase made on a Bureau schedule when the quantity warrants. This is accomplished by the assignment of the several classes of material to specific replenishment periods, occurring for each class twice a year.

A carefully compiled and classified bidders' list is maintained in the Bureau. The materials required are advertised in accordance with the law and invitations to bid are sent to all firms on the bidders' list for the particular material under procurement.

Materials such as copper, tin, flour and other commodities subject to market fluctuations are purchased on telegraphic bids. Every effort is exerted to make award by telegraph or telephone before the closing of the market on the day the bids are opened.

When purchases are made in the field on requisitions submitted to Supplies and Accounts, the Purchase Division designates the point of purchase. Certain emergency purchases and small quantity purchases are authorized to be made by field activities and ships without reference to the Bureau. While wide discretion is allowed field purchasing officers, controversial cases are referred to the Bureau of decision. The Bureau exercises a certain amount of supervision over these field purchases and endeavors to see that the same principles are used in determining awards throughout the Service.

A good example of the procedure followed and the coordination of effort effected under the Navy Department methods is found in the process of supplying the Fleet with fuel oil.

The technical characteristics of fuel oil are determined by the Bureau of Engineering, which maintains a constant study of the burning efficiency and other qualities of available oils, varying the specifications from time to time to meet the requirements of the service and the changing conditions of the market. Thus, the quality of the oil is fixed upon. The Office of Naval Operations, from its estimate of the situation, determines upon the Fleet operating plan for the coming year. This plan controls the number of miles to be steamed by each unit of the Fleet, the speed, number of days in port, and other factors necessary to approximate the number of barrels of oil to be consumed by the unit. A summation of these results gives the quantity of oil which will be required.

With these data in hand, the Bureau of Supplies and Accounts proceeds with the awarding of contracts in the various ports of the eastern and western seaboard, usually for six-months periods. Owing to the large quantities of fuel oil consumed per year - about eight million barrels - a number of oil suppliers participate in these contracts. Only a comparatively small part of this oil is bought for storage and issue at the various navy yards, the bulk of it being taken by the Fleet direct from the suppliers as

needed. The Bureau of Supplies and Accounts makes very detailed monthly reports to the Chief of Naval Operations and to the Commander-in-Chief of the Fleet, showing the fuel consumption records of each fleet unit, arranged by divisions and forces, thus keeping them informed at all times as to the Fleet's record in this respect.

The method used for controlling the funds expended for the pay, subsistence, and transportation of commissioned and enlisted forces of the Navy is another good example of coordinated effort. The Bureau of Navigation and the Bureau of Supplies and Accounts work in close touch with each other in this connection. Again we revert to the Fleet maintenance plan of the Chief of Naval Operations for our basic facts. The number of ships of each type that will be in commission, and those that will go out of commission are all considered. Congress fixes the number of officers and men to be employed, based on these operations data. The Bureau of Navigation sets up a schedule showing the distribution of men in each pay grade, and the Bureau of Supplies and Accounts calculates the pay and allowances for all grades.

The subsistence costs of the men in the many varying conditions under which they serve, the cost of recruiting and transportation, and all the incidental expenses involved in maintaining a large body of men are determined in consultation between the two bureaus. This affords a constant check on the costs of the operating personnel and the financial resources available for that purpose.

An example of the handling of an emergency procurement problem by the Bureau and its field activities may be of interest. On 1 February 1932, the Bureau, learning of the movement of Marines and the Twenty-first Infantry from Manila to Shanghai as a result of the Japanese military activities, radioed the Commander-in-Chief, Asiatic Fleet, for information as to what additional fresh and dry provisions were required. A reply was received the following morning, stating that fresh and dry provisions for 6,000 men for three weeks should be shipped by the steamer PRESIDENT TAFT, sailing from Seattle four days later. Instructions were immediately issued by radio to the Navy Yard, Puget Sound, to make purchase and shipment of 250 tons of fresh provisions and to ship from store some 330 tons of dry provisions. The articles of fresh provisions were advertised and contracts therefor awarded by Puget Sound

the same day. By working three shifts the contractors made satisfactory deliveries and all articles were loaded aboard the PRESIDENT TAFT by 2:30 p.m. on February 5th. This was a little more than three days from receipt of radio instructions in Washington, and only four days from the time the Bureau first started to investigate the necessity for provisions for the armed forces in Shanghai. Incidentally, the priced invoices accompanied the shipment.

In the foregoing resume of the functions of the Bureau of Supplies and Accounts, effort has been made to avoid detailed descriptions of sections and divisions pertaining to the various classes of work. Necessarily, some mention of them has been made in order to lay before you the fact that such sections and divisions do exist. It is not considered necessary, however, to explain their functions to you in detail, as the salient fact of their existence is sufficient to give the picture desired.

As has been frequently stated, the primary function of the whole Navy Department is to maintain the Fleet in readiness for war. At the risk of seeming to be trite in this respect I must repeat that this thought is actually the controlling motive throughout the administration of the Department. The fact is continually borne in mind that the Fleet must be capable of operating in any part of the ocean quite remote from sources of material supply, and often for extended periods of time. Since any modern war vessel is a very complex machine, there exists a very wide variety of material needs to maintain it. As it has not been practicable to provide extensive space within the hull, for the storage of materials, it is highly essential that efficient use be made of the limited space available. Consequently, it is evident that the function of storage, stock upkeep, and issue is best handled when centralized in a single department known as the "Ship Supply Department", officered by specialists in supply problems.

Quick and efficient replenishment of the stock of materials aboard is necessary in order that the units of the Fleet may move in and out of port promptly. This requirement can only be met by having available, at strategically located points, supply bases that maintain at all times a complete stock of the materials which may be required. The shore part of naval supply, then, is organized to consist of supply bases where complete, or

nearly complete, reservoirs of all articles and materials are constantly maintained. These supply points are located in the navy yards along the Atlantic and Pacific Coasts, as well as in Honolulu and Cavite.

These stocks of supplies so maintained are not solely for the purpose of direct issue to ships but serve also for the industrial shore establishments and such miscellaneous shore activities as training stations, radio stations, etc. Nevertheless, the activities of all such stations are directed to the sole purpose of maintaining the Fleet in operation, and the prompt delivery to them of the needed materials is of parallel importance with the direct issues to the Fleet. However, the direct demands of the Fleet itself always take priority where precedence is needed.

The Bureau of Supplies and Accounts endeavors to coordinate and control the even flow of materials to all these activities, and each part of the problem is handled according to the decisions made from time to time regarding the most efficient and economical method. Thus, we have centralized purchasing and distribution in those cases where the nature of the business indicates the wisdom of that method. On the other hand, decentralized methods are followed when the nature of the materials to be procured - for example, fresh provisions for immediate consumption - indicates the advisability of other procedure. Consideration is given to every phase of the problem before decision is made as to the mode of procedure to be adopted. This is exemplified in connection with the latest in the field of naval activities, - the Bureau of Aeronautics - which has brought with it a great many problems somewhat new to the service. The prompt and efficient procuring of aeronautical supplies, including aeroplanes, as well as the proper storing, issuing and accounting for aircraft supplies, furnish problems which require the constant study of those assigned to that work. The procurement of aircraft is guarded by special legislation, and the Secretary of the Navy is solicitous that these matters should be strictly and creditably handled. Owing to the complex legal situation surrounding this question, the Judge Advocate General of the Navy necessarily passes upon many of the problems involved before their solution is attained. The tendency, of course, has been to require the aircraft business to conform to the standards previously set up in connection with other technical matters. However, the fact has not been lost sight of that the solving of aircraft problems affords examples and lessons which are useful to us

and can be applied to general naval business.

The constant aim of the Bureau is to conduct its affairs so as to accord with the business principles found in commercial life. It is true that the statutes provide many formalities for the conduct of Government business and set up certain restrictions which are commonly referred to as "red tape". Nevertheless, whenever the needs of the service require immediate action, it is always possible to move with rapidity and to accomplish the desired results within very brief spaces of time. Thus, in an emergency it would be quite possible to place orders for large amounts of material by telephone, without formal competitive bids, to order shipments of large quantities of stock from point to point, and to take steps necessary to accomplish a given object. This is not ordinarily done due to the fact that restrictive statutes are considered wise in their purpose, and while possibly causing some inconvenience in a given instance, yet in the long run they enhance the efficiency and capacity of the Navy for important transactions.

As the Bureau of Supplies and Accounts comes in close contact with the commercial affairs of the country, it has always been anxious to forward the business interests of the Navy in its relations with the commercial world. At the same time, it endeavors to protect the interests of the bureaus of the Department so far as assisting in the economical expenditure of their funds and in securing the best service where contractual relations are concerned.

The Bureau of Supplies and Accounts is largely a service bureau, assisting the technical bureaus by affording the necessary machinery for carrying on what might be denoted as their commercial affairs. It is also a technical bureau itself in relation to its handling of provisions and clothing, fuel, and other details for the naval service of a somewhat miscellaneous character.

In conclusion, I would ask you to bear in mind that the Navy, which might be denoted as a "going concern", would, in time of war, be expanded as fast as conditions permitted, and that in the course of this expansion it is contemplated the same methods and principles utilized in times of peace would be carried on. The Bureau of Supplies and Accounts, therefore, in the adoption of its plans and policies is constantly confronted with the question of

whether its procedure would be practicable in war-time and seeks to adopt only those systems which would stand the test of war conditions. It is true that peace-time economy requires certain methods which might have to be discarded in war, but such methods are restricted to a minimum. Constant study is given such practices with the view of supplanting them with routines intended to endure under any and all conditions.

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Admiral Conard: I would be very glad to answer any questions that any of you have to put on the operations of the Bureau of Supplies and Accounts and allied matters.

Q. I would like to ask, sir, of the procurement that is done by the Bureau of Supplies and Accounts what per cent of it is done here in Washington and what per cent is done in other places?

A. About 50% is done centrally and 50% locally.

Q. And of the total procurement done about what per cent is done, sir, by the Bureau of Supplies and Accounts and what per cent is done by other agencies?

A. Well, my previous answer relating to the purchases that were handled by the Bureau of Supplies and Accounts alone, 50% central and 50% in the field. The total purchases made by the Navy of course include the contracts for ship building, ships themselves and large public works contracts, and some of the Bureau of Ordnance contracts which I have mentioned. I should say that perhaps 25% of the money spent by the Navy is the result of contracts made by the Bureau of Supplies and Accounts. You have to bear in mind that a large amount of money is spent without any contracts at all, of course, the pay of the commissioned and enlisted force, and things of that nature that are simply expenditures of funds without contracts.

Q. We read something of the duty of the Director of Procurement in the Treasury Division, who, I believe, is an

admiral of the Navy. May I ask, sir, something of the nature of the contact between your Bureau and that of the Treasury Department?

A. Well, his business relates largely to procurement for all other departments of the Government, without inclusion of the Army and Navy, as I recall the situation. In other words, he has recognized the military character of the Army and Navy business and deals with those two departments on the basis of a common procedure but leaving to the departments the actual conduct of the business. I don't know whether that covers your question or not.

Q. Admiral, there is one question I would like to ask, if you could please explain it to us. How do you get people on this approved list of bidders? What do they have to do, and do you remove concerns from this list, and if you do remove them is it a disgrace to that concern to be taken off? What do you use as a mode of punishment?

A. Of course in the first place the list is held in a confidential status and if a firm fails to maintain its character of a member of the chosen family, so to speak, I don't know that it would be considered a disgrace. It wouldn't be published generally. I don't know that many occasions of that sort have arisen, where a name has been eliminated after once going on the list.

Q. If I were bidding on some particular material, how could I get on that list? Have I got to submit my material without any chance of bids being opened, say for six months? What is the mode?

A. The procedure is about as follows: I have a memorandum on the subject. The purpose of this acceptable list is to facilitate purchase of satisfactory materials under the following circumstances:

- a. When, detailed specifications being available or not, the time duration of complete tests to determine suitability is such as to cause too great delay in delivery or too great expense of specifications of material, for example, steam traps, dry cells, insulated materials, lubricating oil, etc.

- b. When the necessary tests to determine suitability are such as to require the use of apparatus or testing equipment of a complicated or expensive nature which is not in common industrial use, for example, rolling platforms, shock testing stands, etc.
- c. When technical requirements cannot be fully covered by specifications. As an example, several brands or even types of apparatus or material all differing in essential details may be satisfactory for a given purpose. In such a case a complete specification, which would fully protect the government's interests, could not be drawn without unduly limiting competition.
- d. When the apparatus or material is of an experimental nature, for example, radio material.
Now you asked how they get on this list?

Q. Yes, sir.

A. Originally the list was compiled by the various technical bureaus of the Department from their experiences, indicating that the names listed had submitted for test material which had been found acceptable. Then the lists were consolidated and put in one complete list in the Bureau of Supplies and Accounts. The proposed forms for items on the acceptable list of approved materials are distributed, not only to the manufacturers listed, but also to other prospective sources of supply. Bids from regular dealers for acceptable brands are considered on the same basis as the bids for manufacturers. Every effort is made to enlarge the number of approved brands and the number of bidders on each brand and any product subject to the acceptable list requirements. A schedule or specification inviting bids contains one or more of the acceptable list clauses. The point of that is that even though we have the acceptable list established and even though it is added to from time to time with names of manufacturers who submit their samples for test under the conditions which I have just described, when we go into the market for that material we invite bids from other dealers and inform them of the situation in regard to getting on the acceptable list. It is probable that in that particular purchase the dealer

would not be able to compete because there would not be time to have sample tested, but it informs him of the situations regarding the acceptable list and allows him to take up the problem of getting on the list for future purchases.

Colonel Jordan: The Navy is able to buy things from this list without having to run a series of tests. A man submits material, as I understand it, and the material is tested at his expense. He gets on this list and then the Navy can buy immediately, just as soon as the bids are opened. I have often thought of what a fine thing that would be if we could just do it in the Army. I don't know where the Navy has the pull but they seem to get things pulled off that we can't in the Army.

Admiral Conard: We lined this thing up and took it over to the General Accounting Office and had them pass on the plan and we got an approval of the system.

Colonel Jordan: I want to extend my sincere congratulations, sir.

Q. I would like to ask a question about advertising, say for cement. Now do you have to send this advertisement to the National Advertiser and all those eight or ten people that the Army has to, including Dodge reports?

A. We have to advertise in the newspapers.

Q. Do you have to advertise in the post offices? Now I am a cement dealer and my plant has a bureau of standard inspectors. I am not on your list but I submitted a bid.

A. Whether cement is one of the items carried on the acceptable list I don't remember. Ordinarily materials are simply submitted for tests at the time of that particular purchase. It is only articles which it would be impracticable to test out for the particular purchase that we have the acceptable system. I imagine that cement probably is one of our long time testing materials. It would probably be on the list.

Q. What is the history of any effort that has been made to merge or coordinate the supply organizations of the Navy and Marine Corps? Has there been any such?

425-
433

A. No very extensive effort. The Marine Corps being a self-contained mobile body, with the necessity for being able to move promptly and without any restriction, they simply have been left to work out their own salvation. They have done it very well.

Q. I understood you to say you bought a certain subsistence supplies by bid in accordance with the market of the moment. Did I hear correctly?

A. Some of the material has to be decided upon at once. Had you any particular thing in mind?

Q. No, sir. The reason I asked is do you have any such thing as procurement of subsistence for a month's time or do you buy for immediate needs?

A. Fresh provisions are the materials that are taken off the market and consumed at once. We make contracts in all of our ports for a period of time from one to three months ahead and then allowed the ships to purchase this material as needed. This is the regular plan.

Colonel Jordan: Captain Baker, we would like to hear from you, sir. We don't very often get a distinguished fellow instructor and we would like very much to have you say something, sir.

Captain Baker: Colonel, what can I say?

Colonel Jordan: He has been in charge of one of the Naval schools and is instructing men along lines very similar to what we are doing, but of course not as wide a scope. I would like him to tell us something of his work.

Captain Baker: At the Naval Finance and Supply School we give young line officers who are graduates of the Naval Academy and a certain number of reserve officer students post-graduate instruction to enable them to carry on the junior duty of officers of the Supply Corps and the Navy. We give them a nine months' course starting with government and organization so as to be logical, and then we have some seventy days of practical instruction in all forms of work. They have courses in subsistence matters and things of that sort as well. They visit all important enterprises in the neighborhood. They make two or three

visits to both the Army and Marine Corps depots there in Philadelphia, and most of the prominent people in purchasing and business talk to the school during the year. In addition to that, they have a number of famous professors from both Princeton and Pennsylvania who lecture either on governmental and historical subjects connected, of course, largely with the Navy, and on business practices and economics. In addition to that we have a long series of lectures, as well as studies, on economics, and we wind up during the year with a week's course in wartime supply which we ourselves largely handle, with the assistance of at least one officer from your organization. That, I think, Colonel, gives you in brief what we attempt to do and that fits the officers, as near as we can do it in nine months' time, to go to sea and perform their junior duties, and it has been pleasant to realize that we have been quite successful. Not long ago we got a letter from one of the commanding officers of a big ship in which he said that this young reserve officer who had had nine months' experience was phenominally competent. Whereas we realize that they are not all like that, occasionally we can turn out those people and that is justification for a continued enthusiasm.

Colonel Jordan: Thank you very much. You are to be congratulated. Admiral, I want to tell you, sir, how much we appreciate your taking the time off to come here and talk to the College.

Admiral Conard: It is a real pleasure to be here.