

Annex B
ANNUAL REPORT
of the
DEFENSE SUPPLY AGENCY
October 1, 1961, to June 30, 1962

Introduction

The Secretary of Defense on August 31, 1961, announced his intention to establish the Defense Supply Agency (DSA) and on September 12 appointed Lt. Gen. Andrew T. McNamara as first Director, with instructions to make DSA operational as soon as possible. General McNamara returned post-haste from Korea and assumed control of a small planning staff on October 1961. DSA became operational only 3 months later, on January 1, 1962.

In the 6 months since it has become operational, the Defense Supply Agency has taken a firm hold on the task assigned to it. This task, simply stated, is to act as the wholesale supplier of selected common items and related services for the entire Department of Defense (DOD). In performing it, the first objective is to provide effective logistic support to the military Services, in peace and war; the second, to provide that support at the lowest possible cost.

The past fiscal year has been one of transition from single managerships within the military departments to a system of single control under DSA. Much of the accomplishment has been in achieving this transition smoothly, without loss of supply effectiveness. At the same time, DSA has been laying the foundations for more efficient supply to its customers at less cost to the taxpayers in years to come. These accomplishments have been possible only through the wholehearted cooperation of the military Services and the Office of the Secretary of Defense.

Concept

The Defense Supply Agency is the product of a long evolution of the system for handling common supplies and services within the Department of Defense. The announced purpose of the Secretary of Defense in establishing DSA was to bring the principal elements of this system under consolidated management as part of a major action to increase supply efficiency.

By its charter, issued by the Secretary of Defense on November 6, 1961, DSA was assigned responsibility for providing the most effective and economical support of common supplies and related services to the military departments and other DOD components, and charged with the administration and supervision of the Defense Coordinated Procurement Program, the Defense Standardization Program, the Defense Materiel Utilization Program, the Defense Surplus Personal Property Disposal Program, and the Federal Catalog Program.

To carry out these responsibilities, DSA was given control of the following organizations:

—The eight existing commodity single manager agencies: Subsistence, clothing and textiles, general supplies, automotive supplies, and construction supplies previously assigned to the Army, and petroleum, medical supplies, and industrial supplies previously assigned to the Navy.

—The Military Traffic Management Agency, previously assigned to the Army.

—The Armed Forces Supply Support Center charged, under the supervision of the Secretary of Defense, with administration of the cataloging, standardization, and materiel utilization programs, screening of excess property, and conduct of studies of the supply systems of the military Services concerned with common items with a view to optimum integration in the interest of increased military effectiveness and economy. (The latter function was not transferred to DSA, except as the Secretary of Defense might direct DSA to make such studies.)

—Thirty-four consolidated surplus sales offices in various parts of the country operating under the three military departments.

—The Armed Forces Bidders Registration and Information Office operating under the Air Force in San Antonio, Tex.

Moreover, DSA was to establish, direct, and control a new integrated agency for assigned electronics materiel and conduct analyses as directed by the Secretary of Defense of other areas in which integrated management techniques might be applied.

Generally, for the items it manages, DSA will be responsible for that part of the supply line closest to the producer and the military departments for that part closest to the operating forces. Research and development, oversea supply systems, retail distribution of supplies in the continental United States, and, under DOD criteria, the selection of items to be placed under integrated management remain the responsibilities of the military Services. DSA does have an advisory role in research and development for commodities over which it exercises control and in resolution of conflicts in item coding. The Services retain responsibility for determination of their requirements and the computation of special program and mobilization requirements for items assigned to DSA. DSA is assigned responsibility for the computation of wholesale replenishment requirements for items under its management. DSA is also charged with review of mobilization and special program requirements received from the military Services for these items, and computation of these requirements when authorized by the Secretary of the military department concerned. DSA is not authorized to engage in operations outside the United States except as specifically approved by the Secretary of Defense.

DSA is separately organized within the Department of Defense, outside the military departments and the Office of the Secretary of Defense, and its Director is responsible directly to the Secretary of Defense. The Defense Supply Council advises and assists the Secretary of Defense in his direction and control of DSA.

Planning and Assumption of Control

Planning for the assumption of its operational responsibilities by DSA was accomplished during a 3-month planning period, beginning on October 1, 1961, by a planning staff composed of military and civilian personnel on loan from the

military departments and the Office of the Secretary of Defense and by personnel of the Armed Forces Supply Support Center, which passed to the control of the Director of DSA on October 1, 1961. The planning period was marked by the full cooperation and generous support of the military departments.

On January 1, 1962, DSA assumed control of all the other organizations assigned under its charter, save the Industrial and Automotive Centers, where further adjustments were required. The former was placed under the Director's command on April 1, 1962, and the latter on July 1. Meanwhile, plans for the new Electronics Center were developed by a special inter-Service group and that center was also activated on July 1. Thus, by the end of the first 6 months of operation, the structure of field commands consisted of nine Defense Supply Centers, the Defense Traffic Management Service (formerly Military Traffic Management Agency), and the Defense Logistics Service Center (as the Armed Forces Supply Center was renamed).

Meanwhile, certain additional related activities and functions were assigned. In February 1962, DSA was made responsible for management of Civil Defense stockpiles, other than medical, and for procurement of supplies for the Fall-out Shelter Program, other than radiation detection and monitoring equipment. On April 20, the Electronic Production Resources Agency was disestablished and responsibility for advising on electronics production capabilities assigned to DSA. Effective May 1, the Army and Marine Corps clothing factories in Philadelphia were transferred to the Defense Clothing and Textile Supply Center.

In assuming control, DSA's task was not solely one of consolidating management of existing activities but also of planning the future development of several agencies that had not yet assumed the full responsibilities of single management of their areas. Of the Supply Centers, only the four older ones (Subsistence, Clothing and Textile, Medical, and Petroleum) were fully operational on January 1, 1962. Of these, the Petroleum Center was in process of assuming a new function of ownership and consolidated management of packaged petroleum stocks. While the General Supply Center was operational in most respects, the Construction and Industrial Supply Centers were still in process of taking control of the items assigned them for management. The Automotive and Electronics Centers were in the planning stages.

The industrial, construction, automotive, and electronics supply categories all involve items far more technical in character and more closely related to Service-managed end items than those contained in the original single manager assignments.

Phased schedules were drawn up for the progressive assumption of management responsibilities by the centers concerned with these commodities. The Petroleum Center assumed ownership of packaged petroleum stocks on October 1, 1962. The Defense Construction Supply Center will become fully operational on November 1, 1962, and the Industrial Center on June 1, 1963. The Automotive Supply Center began operations by assuming central management of its first commodity increment on October 1, 1962, and will become fully operational on July 1, 1963. The newly established Electronics Center will assume control of assigned items in 15 increments beginning on November 15, 1962, and become fully operational on September 1, 1964.

Figure 1 provides some measure of the status of the Supply Centers at the end of fiscal year 1962 and planned progress in fiscal year 1963:

ITEMS MANAGED AND INVENTORIES SUPPLY CENTERS

Commodity center	Items centrally managed (in thousands)		Inventory value (millions of dollars)	
	June 30, 1962 (actual)	June 30, 1963 (projected)	June 30, 1962 (actual)	June 30, 1963 (projected)
Defense Automotive Supply Center-----		¹ 84. 0	-----	94. 7
Defense Clothing and Textile Supply Center-----	24. 6	25. 0	1, 145. 4	993. 1
Defense Construction Supply Center-----	12. 0	80. 0	7. 6	102. 9
Defense Electronics Supply Center-----		² 429. 0	-----	402. 4
Defense General Supply Center-----	48. 1	48. 0	124. 5	110. 2
Defense Industrial Supply Center-----	115. 6	364. 0	132. 1	213. 6
Defense Medical Supply Center-----	8. 5	9. 0	221. 0	174. 5
Defense Petroleum Supply Center (Pack- aged Only)-----		1. 0	-----	7. 7
Defense Subsistence Supply Center-----	0. 8	1. 0	116. 0	102. 4
Total-----	209. 6	1, 041. 0	1, 746. 6	2, 201. 5

¹ DASC expected to centrally manage 149,000 items when fully operational, July 1, 1963.

² DESC expected to centrally manage 618,000 items when fully operational, September 1, 1964.

Figure 1.

The assumption of control by DSA of single manager operating agencies formerly lodged in the military departments has required careful adjustments of functions, responsibilities, and control of installations in each case. Certain installations at which DSA became the predominant user were, by permit from the owning department, transferred to DSA for operational control. In other instances, DSA activities became tenants at installations under control of the military departments. Pure service functions formerly performed by the centers have been separated, but as far as possible, in order to avoid duplication, they have been co-located to permit performance on an integrated basis under inter-Service support agreements. The most fundamental adjustments of this sort were required in the cases of the Automotive and Construction Centers, where original Army plans provided for integrating single manager agencies into existing Army organizations.

The responsibilities of the former Armed Forces Supply Support Center, now the Defense Logistics Services Center (DLSC), for planning materiel inter-servicing, standardization, and conducting analyses of supply systems (as directed by the Secretary of Defense) have been assumed by Headquarters, DSA. The DLSC retains responsibility for administration of the Federal Catalog System and for detailed management of the materiel utilization program and has been assigned the additional responsibility for operational management of the surplus personal property disposal program. DSA is carrying out a physical consolidation of the Bidders Registration and Information Office in San Antonio, Tex., with the older functional divisions remaining in DLSC by moving the entire organization to a new location in Battle Creek, Mich.

Organization

The organization of DSA is shown in figure 2. This organization has been shaped on the principle that the broadest feasible operating authority should be vested in field commanders subject to firm central direction and control of the organization as a whole. While the Director has assigned the center commanders maximum responsibility within their respective spheres and expects to look to them for prompt decisions and results, he will run DSA as one agency, not as a loose federation of semiautonomous activities.

The headquarters organization provides a mission staff along functional lines composed of an Assistant Director for Plans, Programs, and Systems, three Executive Directors, and a specialist and support staff. The Executive Directorates are assigned responsibility for supervision of performance of all missions within their designated areas of interest. The Assistant Director, Plans, Programs, and Systems exercises supervision over all other staff elements in developing broad objectives and policy, designing systems, and establishing and reviewing programs for their fulfillment.

Cameron Station, Alexandria, Va., is the permanent site of DSA Headquarters. Warehouse space at this site is currently being converted to office space and the consolidation of the headquarters, presently scattered in various locations in the Washington area, will be completed during fiscal year 1963.

Budget and Funding

In accordance with its charter, DSA uses appropriated funds to pay operating costs, except military personnel costs, and a stock fund to finance inventories. Since no appropriations were made to DSA for fiscal year 1962, funds identified in Service budgets covering DSA functions were transferred—\$36.8 million from the Army, \$6 million from the Navy, and \$4 million from the Air Force. Actual obligations in the January–July period amounted to about \$53.5 million, including additional funds received as reimbursements. The breakdown of operating costs by activity was as follows:

OPERATING COSTS

January–July 1962

(Thousands of Dollars of O&M Obligations)

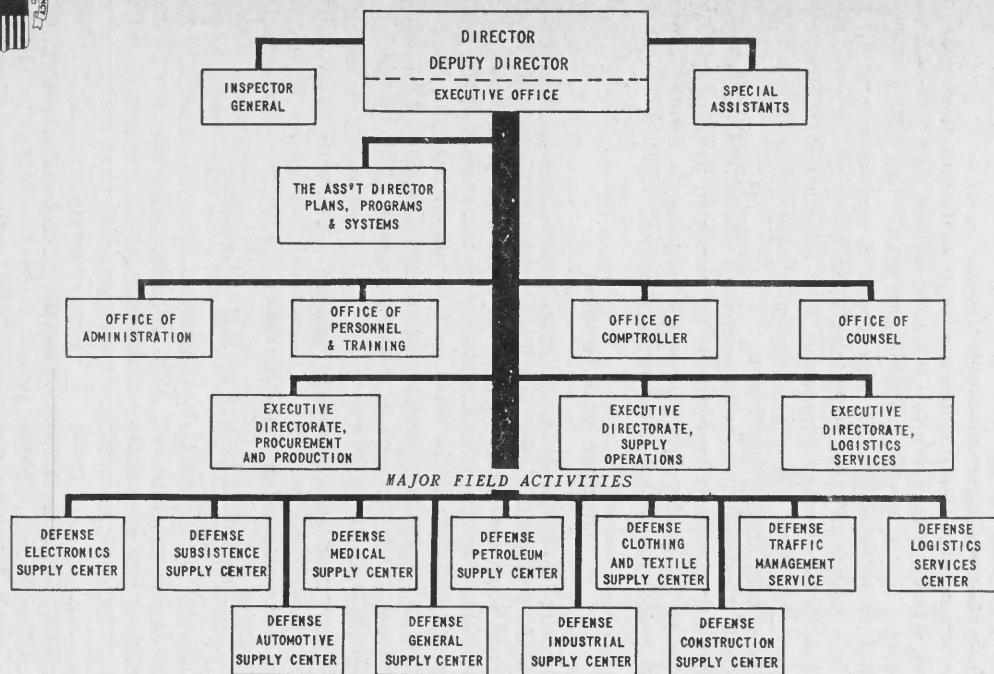
DASC ¹ -----	-----	DSSC -----	7, 228
DCTSC -----	10, 178	DLSC -----	6, 104
DCSC -----	6, 497	DTMS -----	4, 796
DESC -----	937	Administrative	
DGSC -----	9, 534	Support Group -----	49
DISC -----	2, 786	Hq, DSA -----	2, 785
DMSC -----	1, 926		
DPSC -----	684	Total -----	53, 524

¹ DSA assumed command of DASC on July 1, 1962.

Budget estimates for fiscal year 1963 were submitted to the Congress under separate new Defense agencies appropriation titles. The initial DSA estimate for operating costs of \$177.7 million was some \$27.7 million less than estimates submitted independently by the military departments covering performance of the same functions. Since Congress cut \$2.7 million from this operating budget,



DEFENSE SUPPLY AGENCY



APPROVED:

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Director
15 August 1962

Figure 2.

the cost reductions directly attributable to the establishment of DSA may well be as high as \$30.4 million.

DSA is a single procurement and stocking agency with a multiple cost distribution to the appropriations of the military departments, which have to be charged with the cost of material DSA issues. The essential mechanism for this purpose is the Defense Stock Fund, established on November 6, 1961. Initial working capital was created by cash transfer of \$45 million from the Army Stock Fund and \$5 million from the Navy Stock Fund. Meanwhile, inventories of the former single managers are being progressively capitalized in the Defense Stock Fund. Data on stock fund operations during the last 6 months of fiscal year 1962 and projected for fiscal year 1963 are shown in figure 3.

STOCK FUND DATA

(Millions of Dollars)

Center	January 1-June 30, 1962 (actual)			Fiscal year 1963 (projected)			Total inv. capital.
	Obligations	Sales	Inventory capitalization	Obligations	Sales	Inventory capitalization	
DASC ¹ -----				5. 8	19. 3	113. 0	113. 0
DCTSC-----	123. 7	173. 0	1, 113. 6	278. 2	392. 4	-----	1, 113. 6
DCSC ² (2 Mo.)-----	0. 2	0. 5	8. 0	73. 6	71. 0	132. 9	140. 9
DESC ³ -----				80. 0	100. 0	461. 5	461. 5
DGSC-----	65. 7	67. 0	118. 7	120. 0	135. 0	-----	118. 7
DISC ⁴ (3 Mo.)-----	21. 2	25. 0	154. 1	108. 0	124. 0	121. 0	275. 1
DMSC-----	76. 7	49. 2	237. 4	91. 5	117. 0	-----	237. 4
DPSC ⁵ (Packaged POL Only)-----				17. 2	17. 2	11. 0	11. 0
DSSC-----	413. 4	424. 9	122. 0	826. 0	856. 8	-----	122. 0
Total-----	700. 9	739. 6	1, 753. 8	1, 600. 3	1, 832. 7	839. 4	⁶ 2, 593. 2

¹ DSA Command July 1, 1962; initial capitalization, October 1, 1962.

² DSA Command January 1, 1962; initial capitalization, May 1, 1962.

³ DSA Command July 1, 1962; initial capitalization, November 15, 1962.

⁴ DSA Command April 1, 1962; initial capitalization, April 1, 1962.

⁵ DSA Command January 1, 1962; initial capitalization of packaged POL stock, October 1, 1962. DPSC also handles contract awards for bulk petroleum totaling approximately \$1.2 billion annually carried in military department accounts.

⁶ Difference between projected inventory value shown in earlier table (\$2,201.5 million) and capitalization figure explained by anticipated gross inventory reduction of \$391.7 million during first 18 months of DSA operations by sales of materiel without replacement (\$271.1 million), free issues to MAP and HEW (\$66.5 million), excess materiel purged from inventory (\$38.9 million), and other miscellaneous inventory reductions (\$15.2 million).

Figure 3.

As figure 3 shows, net obligations for procurement in fiscal year 1963 are estimated at \$1,600.3 and sales at \$1,832.7 million, representing a prospective economy through inventory drawdown in excess of the goal of \$229 million established when DSA was founded.

Personnel

The over-all DSA staffing plan provides for a total of around 23,600 personnel in headquarters and field activities by the end of fiscal year 1963, of whom about 95 percent will be civilian employees. This represents a reduction of about 3,700 in the estimates made independently by the military Services of personnel requirements to carry out the same functions, and is the principal factor in the prospective annual reduction in operating costs. Summary statistics relating to the end fiscal year 1962 and prospective fiscal year 1963 staffing of various DSA activities are shown in figure 4.

STATUS OF DSA PERSONNEL

Organization	June 30, 1962 (actual on board)			June 30, 1963 (projected)		
	Total	Civilian	Military	Total	Civilian	Military
DASC ¹ -----				964	940	24
DCTSC-----	4, 606	4, 496	110	4, 686	4, 591	95
DCSC-----	1, 860	1, 830	30	2, 663	2, 630	33
DESC-----	433	² 415	18	4, 534	4, 432	102
DGSC-----	2, 878	2, 753	125	2, 840	2, 740	100
DISC-----	1, 532	1, 491	41	2, 253	2, 200	53
DMSC-----	487	451	36	487	450	37
DPSC-----	188	168	20	230	208	22
DSSC-----	1, 665	1, 535	130	1, 714	1, 585	129
DLSC-----	1, 228	1, 210	18	1, 264	1, 257	7
DTMS-----	1, 006	928	78	1, 012	929	83
Administrative Support Center (Field)-----	80	59	21	192	141	51
Industrial Mobilization (Field)-----				77	77	-----
Hq DSA-----	535	435	100	737	628	109
Total-----	16, 498	15, 771	727	23, 653	22, 808	845

¹ DSA assumed control of DASC July 1, 1962; 123 civilians and 12 military personnel on board at this time.

² An additional 4,035 civilian personnel at DESC on DSA rolls but still paid from Air Force funds and charged against Air Force manpower spaces.

Figure 4.

In staffing its headquarters and field activities, DSA has either taken over existing personnel in place or secured them largely by transfer from activities within the military departments performing similar functions. A primary concern has been to see that while DSA is staffed on the leanest and most economical basis possible, it secures the most competent military and civilian personnel. At the same time, in the phasedown of civilian spaces in the military departments and the corresponding buildup of DSA, transfer rights are being universally honored.

The military staffs of the departmental single manager agencies consisted predominantly of members of the managing Service. DSA has developed a plan that will significantly improve the balance in joint staffing over a 3-year period. Meanwhile, such a balance is being established in the staffing of DSA Head-

quarters. DSA is also taking measures, in conjunction with the military departments, to identify reserve personnel with mobilization designations to activities assigned DSA and to develop a joint reserve officer mobilization designee program with a proper balance among the Services.

Commodity Area Studies

In accordance with instructions from the Secretary of Defense, DSA, in conjunction with the military Services, is currently conducting studies of three additional commodity areas—industrial production equipment, chemical supplies, and aeronautical spares—to determine to what extent integrated management concepts may be advantageously applied. The industrial production equipment study involves an inventory of some 400,000 items of machine tooling and other equipment with an acquisition cost of around \$4 billion, the chemical study, 13 FSC classes containing 10,000 items with present wholesale inventories valued at about \$95 million, and the aeronautical spares area, about 750,000 items of supply with inventories in 21 FSC classes valued at roughly \$12 billion. The industrial production equipment and chemical supply studies have been completed and the results are under consideration by the Secretary of Defense and the military departments. The aeronautical spares study is presently confined to a pilot study aimed at defining more precisely the range of items and areas to be studied in depth.

Improvements Through Consolidated Management

DSA is striving to make the most of the unparalleled opportunity to achieve greater efficiency and economy in supply operations afforded by the consolidation of the single managers under its control. One advantage is already apparent. Formerly, heads of the single manager operating agencies reported through multiple departmental chains of command and management levels. At least one and, in some cases, as many as three levels of review have been eliminated by the establishment of a single command headquarters responsible to the Secretary of Defense.

Actions taken and studies under way to reap the benefits of consolidated management in other ways are too numerous to mention individually in all cases. DSA has drawn up a master development plan, covering the priority projects that need to be accomplished in order to enable it to assume its assigned responsibilities. These projects have been individually assigned to staff and command elements, or to teams, and a perpetual check is maintained on their progress.

A headquarters task force is developing a management information system which will efficiently provide information needed to make timely decisions. Another task force, made up of representatives of the centers, is reviewing the organization of the Supply Centers to determine the degree to which uniform organization can be attained. The staff has begun to design a comprehensive and fully integrated Materiel Management System which will encompass, within a single framework, all facets of materiel management for all nine major categories of DSA-assigned materiel. A centrally controlled program system will be in effect early in fiscal year 1963, identifying DSA goals and objectives over a 3-year period and providing for periodic review and analysis.

DSA is also actively pursuing the goal of consolidating facilities and functions where different field activities perform parallel functions in close proximity to each other. Where consolidation is not practicable, DSA will at least pro-

vide common administrative support. For instance, consolidation of the Army and Marine Corps clothing factories in Philadelphia, Pa., was begun in May 1962 and completed ahead of schedule in August, with a resultant reduction of 218 personnel and prospective annual savings of over \$1.5 million.

DSA's management capabilities depend in no small measure on automatic data-processing systems. DSA expects to achieve increased supply efficiency by assuring that all of its major field activities are automated with compatible equipment. On an immediate basis, DSA is providing digital computers to those centers without them and is replacing obsolete or inadequate equipment with the much more flexible current generation equipment. The long-range goal is to develop a completely integrated system embracing all centers by 1965.

In the procurement area, a single Defense Supply Procurement Regulation has been issued, prescribing procedures under the Armed Services Procurement Regulation for DSA centers, to replace some seven different Service regulations governing these activities. DSA is also giving special attention to quality control, value engineering, improvement in procurement practices, and industrial mobilization.

The commodity areas under DSA management lend themselves particularly well to competitive procurement and encouragement of small business enterprise. DSA has established broad gauged programs aimed at surpassing even the fine record previously established by the single managers in these fields. During the first 6 months of its existence, 93.1 percent of DSA contracts were awarded on the basis of competition, 40.4 percent pursuant to formal advertising. Awards to small business in the same period amounted to \$464.6 million or 46.2 percent of the total available. On awards of \$10,000 or above, a total of \$262.2 million was awarded in labor surplus areas.

One of the most promising areas for improvements through consolidation lies in the system for wholesale distribution of commodities under DSA management. A comprehensive study of the distribution system, completed in April and approved in principle by the Secretary of Defense in August, provides for a drastic reduction in the more than 32 major installations currently in use and for the storage of all DSA commodities in a smaller number strategically located in reference to demand and tailored to military Service requirements. This will be combined with a centralized concept for inventory control for each commodity and establishment of a network of routing centers in close proximity to customers to receive all requisitions and route them via high-speed communication lines to the proper inventory managers. Present plans provide that the new distribution system will be implemented gradually as stocks are issued from installations no longer to be used for DSA stocks.

The ultimate purpose of the distribution system is to provide the military Services with what they want, when and where they want it. To assure that DSA is capable of doing this under all circumstances, an Emergency Supply Operations Center has been established in DSA Headquarters. The center will provide a single focal point for receipt and prompt resolution of operational supply support problems of an urgent or immediate nature, ranging from disaster relief to support of military operations. The center has already proved its effectiveness during the Peruvian earthquake and in meeting the supply demands posed by the activation of two new active Army divisions.

Defense-Wide Services

The Defense-wide programs for inter-Service support, materiel utilization, standardization, cataloging, and coordinated procurement are all aimed at the

common objective of achieving economy through elimination of duplication in the Defense procurement and supply systems. Consolidation of these various programs under one agency offers many advantages which DSA is preparing to exploit. In these areas, new regulations have been drafted, some bringing together in one package all present procedures. Further studies are under way to determine the best methods through which greater economy and efficiency can be effected.

Redistribution of materiel excess to local needs or in long supply is a most practical means of avoiding the need for new procurement or satisfying requirements which would otherwise remain unfunded. DSA is pursuing an aggressive program in this field. A system of continuous cyclical match of assets in long supply against inventory control point requirements has been developed. Projects already under way designed to improve item identification data for cross-servicing, such as Project SHAKEDOWN at the San Antonio Air Materiel Area, have been continued and extended under DSA monitorship.

Materiel is disposed of as surplus only after it has been thoroughly screened to determine that there is no need for it in the Department of Defense or other Government agencies. The acquisition value of materiel sold as surplus in fiscal year 1962 amounted to \$1,236.2 million as compared to \$1,771.3 million in fiscal year 1961. The decrease resulted from increased utilization attendant to expansion of the military establishment. Proceeds of \$86.7 million realized from these fiscal year 1962 sales of usable property represented a return of 7 percent, 1 percent higher than the return for the previous fiscal year. In addition, \$52.3 million was received from the sale of various types of scrap, waste, and other products, including ships sold as scrap.

DSA has a dual responsibility for cataloging. It administers the Federal Catalog Program for the entire Federal Government and its commodity centers are the responsible agencies for identification and cataloging of items coded to them for supply management. At the end of fiscal year 1962, DSA Centers had cataloging responsibility for about 16 percent of the total number of items in the DOD Catalog. This percentage is expected to increase as the centers assume complete control of their commodity areas.

There has been no change in the composition or functional coverage of the Federal Catalog system since its assignment to DSA. Since, however, the Federal Catalog is the primary basis on which coding, screening, disposal, procurement and management assignments, and materiel utilization are based, DSA control of the catalog is an indispensable adjunct to all its other operations.

The number of items in the Federal Catalog continues to grow, reflecting the immense complexity of the modern technological environment. On June 30, 1962, the Federal Catalog totaled 4,159,519 item identifications of which DOD activities accounted for 3,966,214. DSA and the military departments are continuing and extending the effort to delete older items for which a requirement no longer exists and to control the entry of new items. The standardization program is one method of achieving these ends. DSA responsibility for standardization is also dual. The agency is charged with administration of the Defense Standardization Program and, like the military departments, it has standardization responsibility for items it manages and those similar to them.

Initially, DSA has placed primary emphasis on identification and elimination of unnecessary items among those assigned to it for supply management. The decision process has been accelerated by virtue of the authority vested in the Director to make standardization decisions for these assigned items, subject to appeal by the military departments to the Secretary of Defense. The Director has not hesitated to use this authority in low-risk areas such as clothing and

general supplies, where the penalty of error would not be operationally serious. In the more technical areas, such as automotive and electronics supplies, where a wrong decision could have grave military consequences, DSA must rely heavily on the advice and cooperation of the military Services.

DSA is also developing, in conjunction with the military Services, plans and programs for improvement in the over-all administration of the Defense-wide Standardization Program.

DSA has made 6,087 deletions of assigned items during the first 6 months of its existence and hopes to make 27,000 more in the next fiscal year. Many of these actions have produced identifiable savings, as for instance the standardization on one grade of aviation gasoline instead of the four formerly in use.

There has been no significant change in the DOD Coordinated Procurement Program since its assignment to DSA. DSA has been engaged in compiling a complete list of items under single department procurement and preparing the necessary procedures to enable it to exercise its assigned function of review and evaluation. Preliminary action has been taken to revise pertinent DOD instructions on the program and to explore with the military Services changes in exception criteria to blanket single purchase assignments.

Similarly, in the exercise of the traffic management function, there has been no change in the mission and functions of the Military Traffic Management Agency in its transformation to Defense Traffic Management Service. During fiscal year 1962, MTMA and DTMS maintained traffic management responsibility and technical guidance over the movement of approximately 24,001,000 short tons of freight within the continental United States at a cost of \$451,200,000 and of 4,198,000 passengers at a cost of \$122,900,000. Some 560,200 short tons of household goods were shipped under their direction within the continental United States for DOD sponsored personnel, and an additional 98,000 on through bills of lading to and from oversea destinations. Transportation economies effected by DTMS totaled an estimated \$44,300,000.

Pursuant to the President's message to the Congress on transportation on April 4, 1962, DTMS has set up a special task force to explore every practicable means of simplifying the staggeringly complex rate structure in transportation.

The incorporation of DTMS into the DSA structure facilitates the integration of transportation implications into DSA's studies of distribution of commodities under its control. DTMS's detailed record and knowledge of transportation rate structure, traffic patterns, and routing aided immeasurably in the development of the DSA distribution system.

DSA is playing a vital role in the area of standardized systems. On January 1, 1962, the agency was assigned responsibility for coordinating the Defense-wide installation of the Military Standard Requisitioning and Issue Procedures (MILSTRIP), a uniform coded system utilizing a single punched card to replace a variety of requisition forms formerly in use. Actions were immediately taken to insure full implementation by all participating elements on the target date, July 1, 1962. DSA is now monitoring and evaluating MILSTRIP with a view toward increased standardization and proficiency. Moreover, MILSTRIP has been recognized as the forerunner of related standard systems and DSA is actively participating in their development.

Requirements and Provisioning

DSA is assuming its functions of calculating replenishment requirements for the items it manages on a phased basis. The Medical and General Supply Centers were already computing them when DSA assumed control, and the Sub-

sistence Center assumed the function on July 1, 1962. The rest of the centers are progressively moving into this area concurrent with the development of supply management responsibility and acquisition of the necessary data-processing systems.

Replenishment requirements are or will be computed or forecasted in the various centers on the basis of experience data on demand and issues and program data furnished by the military Services, i.e. their forecasted troop strength, deployments, organization, etc., and the respective tables that provide the basis of issue. DSA plans to standardize requirements activities at the various centers to the extent feasible and desirable. In addition, a careful review will be made of data needed for requirements calculations to assure valid forecasts.

The DSA charter also provides that the agency will "participate as a supporting inventory manager in the provisioning processes of the military departments." Provisioning involves spares, repair parts, special tools, and test and support equipment required for end items of material such as trucks, tanks, planes, and missiles. While provisioning requirements must continue to be calculated by the Services that control the end items, DSA, working with these Services, will seek to meet these requirements with standard items procured by the centers to the maximum extent possible. The DSA role in this field will expand gradually as the agency moves further into the construction, automotive, and electronics supply areas. During the transition period the effort has been largely confined to an attempt to carefully define this role and make necessary arrangements with the military departments.

Civil Defense Supplies

DSA has assumed a substantial additional management assignment for civil defense supplies. Under the Office of Civil Defense Stockpile Program, the agency has accepted responsibility for and management of the engineering, chemical, biological, and radiological stockpile material formerly under the control of OCD at Battle Creek, Mich. DSA's responsibilities for the Fallout Shelter Program involve the purchase of materials for an estimated 128,000 facilities containing stockable shelters throughout the United States and direction of distribution of these supplies from vendors and assembly points to wholesale storage locations.

Stock management for stockpile materiel was assigned to the Defense General Supply Center on February 28, 1962, and for fallout shelter provisioning on June 5, 1962. Procurement will be divided among the Medical, Subsistence, and General Supply Centers. These programs were well under way by the end of fiscal year 1962, but the major impact will fall into the ensuing fiscal year.

Relations With GSA

DSA provides a new focal point within the Department of Defense for relations with the General Services Administration (GSA) in the many areas in which cooperative arrangements have been worked out over the years, including cataloging, utilization and disposal, standardization, and procurement of common items. Close liaison has been established at both the headquarters and field levels. Under the policy of the Secretary of Defense that GSA procurement facilities should be used to the maximum extent compatible with military supply efficiency, the centers are intensively screening assigned items to determine those that can be furnished by GSA. Some 92,300 items had been offered GSA by the end of June 1962 (allowing for 49,000 later withdrawn for reconsideration), and

many thousands more may be offered as the electronics and automotive categories come under integrated management. In fiscal year 1962, the military Services purchased supplies valued at about \$683 million from GSA.

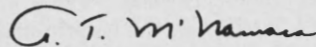
Conclusion

DSA has, since October 1, 1961, made substantial progress toward its goals of providing more effective common supply and service support to the military Services at less cost. An entirely new agency has been created and it has assumed effective command over a large and dispersed organization. In the process, review levels have been reduced, decision-making speeded, procurement regulations simplified, and paperwork cut all along the line. A new electronics center has been added to the structure, and a streamlined distribution system designed. The Army and Marine Corps clothing factories have been consolidated, and other consolidations are in prospect with attendant monetary savings.

This whole transition has been carried out without loss of effectiveness in meeting the demands of DSA's customers, the Army, Navy, Air Force, and Marine Corps.

During the planning period and the first 6 months, DSA has been primarily engaged in working out basic organization, policies, procedures, and goals in the various areas assigned to it. The results, in terms of increased supply effectiveness at less cost, will follow as the centers progressively become fully operational. Economies of at least \$30.4 million annually in the operating budget and a one-time savings of at least \$229 million in the next fiscal year through inventory drawdown are definitely in prospect. Cost reductions in other areas through streamlined distribution, accelerated standardization, increased use of long supply stocks, value engineering, more competitive procurement, and disposal of surplus at better advantage to the Government will make further contributions to realization of the goals of the Defense Cost Reduction Program. The search for economy must, nevertheless, always be subordinate to the higher priority goal of providing effective support to our fighting men.

DSA has many problems remaining and undoubtedly will always have them. As it moves into the more technical areas of supply, the challenge to integrated management increases in magnitude. The Director feels sure that with the dedication to performance of their mission which the personnel in both the headquarters and field commands have demonstrated during the difficult initial period, DSA can successfully meet this challenge and achieve the goals established for it.



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