Annex B

ANNUAL REPORT

of the

DEFENSE SUPPLY AGENCY

July 1, 1962, to June 30, 1963

This report covers the first full fiscal year of Defense Supply Agency (DSA) operations. During the year, DSA made substantial progress in the assumption of responsibilities as integrated manager of assigned supplies and services for the Department of Defense. Items centrally managed increased five-fold and inventory by more than 40 percent.

Most of the missions and organizations initially assigned DSA had by the end of the fiscal year been successfully absorbed. In addition, a wholesale distribution system for assigned supplies was instituted; new management responsibilities for chemical supplies, packaged petroleum, and industrial production equipment were undertaken; and a major study of selected classes of aeronautical materiel was launched. Realization of all potential benefits of consolidated management was enhanced by the continued introduction of management improvements and the conduct of systems studies.

This major forward step in integrated Defense supply and service management has been taken without impairment of support to the military Services, as attested by DSA's high standard of performance during the Cuban crisis. Moreover, it has resulted in numerous economies in the Defense logistical establishment. All of these accomplishments have been due in no small measure to the cooperation of the military departments and the Office of the Secretary of Defense in working out the many difficult adjustments involved.

Assumption of Item Management Responsibility

DSA centers generally have met phased schedules established last year for the assumption of item management responsibilities. The Defense Petroleum Supply Center assumed management of packaged petroleum stocks on October 1, 1962; the Defense Construction Supply Center became fully operational on November 1, 1962; and the Defense Automotive Supply Center on July 1, 1963. The Electronics Center capitalized its first increment on December 1, 1962, and by the end of the fiscal year was centrally managing 389,000 items. Under an accelerated schedule, it will become fully operational on April 1, 1964. Certain classes of electrical supplies included in the original electronics package are being shifted to the General and Industrial Centers, with the former assuming the predominant share in phased increments July 1–December 31, 1963. The Industrial Center, which became fully operational in its originally assigned classes on July 1, 1963, will assume a single add-on class (electric wire and cable) by September 1, 1963.

Meanwhile, as an outgrowth of one of the three commodity area studies the Secretary of Defense assigned DSA on its establishment, the agency was assigned management of some 6000 items in 12 classes of chemical supplies in November 1962. The Petroleum Center assumed management of 10 of these classes (chemicals and solid fuels) and the Medical Center of 2 classes (laboratory apparatus and equipment) on July 1, 1963.

Thus, DSA starts fiscal 1964 with nine supply centers fully operational in all assigned classes of supply except for electrical/electronic supplies. However, in the continuing search for management improvements, the Secretary of Defense decided, following an over-all review, that a consolidation of certain functions of Army and DSA inventory control points handling automotive and construction supplies would produce savings in personnel, overhead, and automatic data-processing facilities. As a result, the Defense Automotive Supply Center in Detroit, Mich., will be phased out by January 1, 1964. The Army's Tank-Automotive Center in that city has been designated DOD Integrated Supply Manager for combat and tactical vehicles of Army design, with its responsibilities broadened to include supply support to the other military Services for all parts peculiar thereto. It will assume management of all combat and tactical vehicle peculiar parts now managed by the Automotive Center. The rest of the items centrally managed by the Automotive Center will be transferred to the Defense Construction Supply Center in Columbus, Ohio. Simultaneously, the Army's Mobility Support Center in Columbus will also be phased out and the Construction Center will assume part of its item management responsibilities. The remainder will be transferred to Army installations elsewhere.

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 (actual)	June 30, 1964 (projected)	June 30, 1962 (actual)	June 30, 1963 (actual)	June 30, 1964 (projected)
Automotive		103. 5			88. 0	
Clothing and Textile	20. 0	22. 6	22. 0	1, 145. 4	1, 037. 6	898. 1
Construction	12. 0	121. 8	277. 0	7. 6	109. 1	206. 5
Electronics		388. 5	533. 0		412. 8	479. 7
General	50. 0	44. 6	88. 0	124. 5	146. 6	113. 1
Industrial	116. 0	337. 6	444. 0	132. 1	306. 7	302. 7
Medical	9. 0	8. 9	12. 0	221. 0	207. 3	193. 6
Petroleum		0. 6	2. 0		9. 3	37. 8
Subsistence	1. 0	0. 9	1. 0	116. 0	94. 8	99. 4
Total	208. 0	1, 029. 0	1, 379. 0	1, 746. 6	2, 412. 2	2, 330. 9

Figure 1

DSA Distribution System

Another long step toward full realization of the benefits of integrated management has been the fulfillment of DSA's charter responsibility for "a wholesale distribution system for assigned supplies." A DSA distribution system, based upon a high priority study, was approved by the Secretary of Defense in December 1962, after coordination with the military departments.

The new system replaces the variety of distribution systems operated by the departmental single managers and inherited by DSA. It provides for an integrated network of distribution facilities for all DSA commodities to be operated under uniform procedures. Requisitioning and supply control functions are centralized in the DSA supply centers. The depot storage pattern positions stock in selected depots close to concentrations of military posts and ocean transport terminals in the United States.

Seven principal depots stock a wide range of DSA commodities. Four specialized support depots have similar functions but the scope of support for customers and the type of material stored is more limited in range and depth. In addition, selected DSA stocks are being positioned at a number of direct supply support points (DSSPs) within the military Services. The points selected for this purpose are Service facilities at which the volume of demand is sufficiently high and predictable to permit direct shipment of replenishment supplies from manufacturing sources to the user. Eighteen Navy DSSPs are already operating for one commodity and other commodities are being considered for support. The number of activities will vary by commodity and be expanded whenever it is determined that more effective support or reduced costs can be expected.

The transition to complete centralized requisition processing and accounting systems at Defense supply centers was accomplished on July 1, 1963. Relocation of stocks from other military Service installations to the depots in the DSA system and stock attrition at those sites was begun during the last half of fiscal year 1963 and will continue over an approximate 2-year period. Savings of an estimated $11.5 million in annual operating costs will be realized when the system is fully in effect.

Industrial Plant Equipment

On December 7, 1962, as an outgrowth of the second of DSA's commodity area studies, the Secretary of Defense assigned the agency certain management responsibilities for the multibillion dollar DOD inventory of industrial plant equipment—that is machine tools, metal-working machinery, test equipment, and the like. To carry out these management functions, DSA established the Defense Industrial Plant Equipment Center (DIPEC) at Memphis, Tenn., on April 1, 1963. Permanent staffing began on July 1, 1963, and the center is scheduled to attain full operational status by the end of fiscal year 1964.

DIPEC will furnish common inventory management services to the military departments for the idle portion of the Defense inventory and maintain a master inventory of all such equipment, idle and in use, throughout the Department of Defense. It will operate central storage sites for idle inventory, assure maximum utilization in lieu of new purchases, procure general purpose plant equipment as agreed upon by the military departments, and perform other functions. The military departments will continue to determine their requirements in both type and quantity, manage equipment in use, and buy special and general purpose equipment not approved for central purchase.

The establishment of DIPEC will result in better utilization of existing plant equipment assets, in reduction of the possibility of concurrent buying and selling, in better service to contractors eligible to use this equipment, in more economical movement, repair, and rebuild at central storage sites, and in more efficient determination and subsequent disposal of surplus.

Aeronautical Materiel Study

Aeronautical materiel was the third and largest commodity area designated for study by DSA to determine the optimum method of management. Initially a pilot study was conducted to define more precisely the range of items and areas

to be studied in depth. After a review of this pilot study by the Defense Supply Council in December 1962, the Secretary of Defense directed DSA to study in depth 11 Federal supply classes containing about 150,000 items with an inventory value of about $5.1 billion, as part of the Aeronautical Materiel Management Improvement Program sponsored by his office. The items under study represent more than 60 percent of the dollar value of materiel directly related to aircraft support.

The study was initiated on January 9, 1963, and the field research phase was completed on August 1. The study team is now analyzing the results of its research and the final report will be forwarded to the Secretary of Defense for review in January 1964.

Organization, Direction, and Control

Some adjustments were made in DSA organization in fiscal year 1963. The Commander of the Defense Traffic Management Service was given additional duty in DSA headquarters as Executive Director for Transportation and the number of major field activities rose from 11 to 14 as a result of expansion of missions. The entire headquarters was assembled in its permanent home at Cameron Station, Alexandria, Va., by early June 1963. The Defense Logistics Services Center completed its move to Battle Creek, Mich., in January 1963.

DIPEC was one of the three additional major field activities. Two others—the Tracy Defense Depot Command and the Mechanicsburg Defense Depot Activity—were established as part of the DSA distribution system. Other depots in the system are located at existing centers or remain under Army or Navy control.

Below the level of major field activities, 19 industrial mobilization and procurement support offices were consolidated into 8 procurement support offices. The consolidation of the Army and Marine Corps clothing factories in Philadelphia was completed with a savings of $900,000 and 218 personnel. Consolidation and consequent reduction of 34 surplus sales offices to 18 is under way with a prospective annual monetary savings of $1.2 million, and personnel savings in excess of 200.

A new regulation has been promulgated providing for a standard organizational structure at each center for the performance of common functions to replace variant structures inherited from the military departments. This step is expected to produce more clearly defined lines of responsibility, to facilitate comparative reporting and cost analysis, and to provide a base for expansion or contraction without major reorganization.

For control of DSA's extensive and geographically dispersed operations, the Director's basic management concept continues to be that of centralized policy control and decentralized operations. Goals and objectives are established within a program system with a 3-year forward projection. To measure progress against goals, the Director holds staff reviews and analyses quarterly and command reviews semiannually. Other selective devices provide monthly data on progress in key areas.

To reduce the formal reporting load while at the same time providing all DSA management levels with the information they need for timely decisions, a complete management information system, incorporating some 3,566 separate data elements, has been designed and is being placed in effect. The system will be progressively automated.

Budget and Funding

Generally, DSA uses appropriated Operations and Maintenance (O&M) funds to pay operating costs, except military personnel costs, and a stock fund to

finance its inventories. It funds certain surplus disposal activities out of the proceeds of sales.

DSA's O&M appropriation for fiscal year 1963 amounted to $175 million. Various adjustments with the military departments and in other areas resulted in a total net O&M direct obligational authority of $178.4 million. Additional funds were received from the military departments as reimbursement; total DSA operating costs in fiscal year 1963 amounted to $195.2 million.

DSA's O&M budget for fiscal year 1964 provides for $255.6 million in direct obligational authority. The increase of $77.2 million over the previous year derives mainly from transfers of appropriations from the military Services. These transferred funds are required to finance new management responsibilities assumed over the course of the past year, including particularly those for the new distribution system. Since in each case larger deductions have been made from the budgets of the military departments as a result of the transfer of these functions, the end result will be a greater net economy in operating expenses. The fiscal year 1964 budget does not provide for the operation of DIPEC or for the assumption of any additional missions that the Secretary of Defense may assign. These will be financed, as the DSA distribution system was initially, by transfer of funds included in military department budgets for functions transferred.

DSA used Military Construction funds totaling $8.0 million during fiscal year 1963 to provide space for new administrative functions, and a total of $620,000 under the appropriation title "Procurement, Defense Agencies" to purchase necessary administrative vehicles, materials-handling equipment, and special production facilities. Military Construction funds requested for fiscal year 1964 total $1,761,000 and Procurement funds $627,000.

The following data in figure 2, reflect, by center, operations of the Defense Stock Fund in fiscal year 1963:

STOCK FUND DATA

(In Millions of Dollars)

Center	Obligations	Sales net	Inventory capitalization	Inventory drawdown
Automotive	7.6	9.5	103.0	1.9
Clothing and Textile	217.7	359.4	----------	141.7
Construction	45.7	30.5	114.0	(+15.2)
Electronics	40.0	57.0	467.0	17.0
General	105.5	115.7	10.0	10.2
Industrial	85.1	107.9	202.0	22.8
Medical	69.6	111.8	----------	42.1
Petroleum	15.5	17.2	13.0	1.8
Subsistence	790.1	829.4	----------	39.3
Total	1,376.8	1,638.4	909.0	261.6

Figure 2

This inventory drawdown of $261.6 million exceeds the goal of $229 million established when DSA was founded. Projections for fiscal year 1964 provide for $1,863 million in sales and $1,740 million in obligations, and an inventory drawdown of $123 million. These inventory drawdowns represent, in each

case, sales without replacement of long supplies and excess, and do not involve stocks needed to satisfy normal peacetime needs of the military Services or mobilization reserves.

Personnel

The increase in DSA personnel strength from 16,501 to 25,970 during the course of the past fiscal year has been directly related to the absorption of additional functions from the military departments. It has involved a reduction of approximately 3,700 in the total DOD personnel required to perform the functions now assigned to DSA. Summary statistics on the growth and distribution of DSA personnel strength are shown in figure 3:

STATUS OF DSA PERSONNEL

Organization	June 30, 1962			June 30, 1963		
	Total	Civilian	Military	Total	Civilian	Military
DASC	--------	--------	--------	692	670	22
DCTSC	4, 609	4, 496	113	4, 020	3, 934	86
DCSC	1, 860	1, 830	30	3, 874	3, 790	84
DESC	433	415	18	4, 292	4, 176	116
DGSC	2, 877	2, 753	124	2, 691	2, 585	106
DISC	1, 533	1, 491	42	2, 448	2, 403	45
DLSC	1, 228	1, 210	18	1, 203	1, 190	13
DMSC	487	451	36	608	572	36
DPSC	188	168	20	301	281	20
DSSC	1, 665	1, 535	130	1, 646	1, 507	139
DTMS	1, 006	926	80	1, 026	935	91
Procurement Support Offices	--------	--------	--------	549	540	9
Mechanicsburg Defense Depot Activity	--------	--------	--------	771	764	7
Tracy Defense Depot	--------	--------	--------	941	926	15
Administrative Support Center	80	59	21	188	138	50
Headquarters, DSA	535	435	100	720	621	99
Total	16, 501	15, 769	732	25, 970	25, 032	938

Figure 3

Further transfers of spaces from the military departments during fiscal year 1964, estimated at around 5,000, will be mainly in connection with full implementation of the distribution system and the gradual assumption of management functions by DIPEC.

The staffing of DSA has involved innumerable difficult personnel adjustments. DSA has made every effort to ease the economic and psychological impact on the individuals involved, and to provide for personnel transferred or assigned to DSA ample opportunity for growth and development. A comprehensive civilian career management program has been established.

In the military personnel area, one of DSA's most important goals is a genuinely jointly staffed organization. The organization DSA initially inherited was

staffed with 60 percent Army personnel, 19 percent Navy, 18 percent Air Force, and 3 percent Marine Corps. The ultimate plan provides for 39 percent Army, 27 percent Navy, 29 percent Air Force, and 5 percent Marine Corps. The present rate of progress indicates this goal will be achieved by June 1964.

To provide for emergency or war, a total of 977 mobilization designation positions, authorized by the military Services for DSA activities, has been incorporated in DSA Joint Mobilization Tables of Distribution. Assignments of qualified reservists to these positions are being effected.

The Procurement Area

Procurement awards by DSA centers during the year totaled $2.67 billion. The planned procurement rate for fiscal year 1964 is $3.0 billion. Three commodities—food, clothing, and petroleum—comprise more than two-thirds of the total procurement program, with the balance divided among the remaining six commodities purchased by DSA.

DSA seeks to reduce administrative procurement leadtime to a minimum through standardization and simplification of procedures and, through increased competition, reduce procurement cost of those items for which it has procurement responsibility.

In the past fiscal year, 91.3 percent of the dollar value of DSA procurement was on a competitive basis. Awards to small business firms totaled $943 million, equivalent to 40.5 percent of dollar awards to all U.S. firms and exceeding the established goal. Of domestic awards over $10,000, contracts totaling $415.1 million were let in labor surplus areas.

DSA will continue to expand its efforts toward improvement in these programs during fiscal year 1964 by further broadening of the base of competition, emphasizing the opportunities the DSA market offers to industry, and increasing use of formal advertising.

In an effort to cut the time and costs of procurement administration, DSA is testing the use of computers in the complete cycle of the procurement process. The high volume of small purchases has been the subject of intensive study with a view to reduction and more expeditious processing.

To improve the U.S. balance of payments position and reduce the outflow of gold, 328 out of 458 proposed purchases valued at $6.2 million that normally would have been awarded for items of foreign origin were directed to be awarded for items of domestic origin at a premium of $1.3 million or 21 percent over foreign prices.

In the field of industrial mobilization planning, programs were established at six centers in fiscal year 1963 and these will be extended to the other centers during fiscal year 1964. A field staff has been set up to accomplish detailed readiness planning for about 500 key items with 5,500 potential producers with plans for expansion during the coming year.

DSA is continually implementing and refining an integrated quality and reliability program. This program, in addition to establishing a manageable system for assuring the quality and reliability of procured materiel, stresses the preventive role of the quality discipline through liaison with developing, retailing, and using agencies.

Materiel Management Systems

One of DSA's primary goals is the establishment of uniform systems and procedures for all of its centers to follow in the many facets of materiel management. Design of a complete materiel management system must, however, proceed concurrently with operations under variant systems inherited from the military departments. Improvements in these existing systems cannot await the ultimate

complete design. The approach has, therefore, been to proceed by individual segments while making interim improvements in other areas. For instance, the Distribution System and the Management Information System are segments for which design has been completed and implementation begun. During fiscal year 1963, some progress was also made in the areas of requirements, provisioning, and technical data.

All DSA commodity centers are now computing replenishment requirements, thereby eliminating the necessity for dual forecasting of these requirements by the military Services. Improvements have been made in computing procedures and techniques. Meanwhile, after a year of field research, a DSA study team has defined a base for development of a uniform system for application to all DSA commodity centers. A uniform system throughout DSA will improve requirements management on a broader basis. The study is currently being staffed and implementation is expected to commence during the next fiscal year.

A thorough study has also been made in the closely related functional area of provisioning—that is, the furnishing of spare parts, repair parts, special tools, and test and support equipment required for end items. The major result of the provisioning study has been a draft regulation, to be issued during the coming year, defining the relationships between DSA and the military Services in the provisioning process and prescribing standard procedures and formats for provisioning data.

In provisioning, as well as in procurement, cataloging, standardization, inter-Service supply support, maintenance, and inventory control, technical data provide the foundation essential to keeping pace with rapid technological progress. Technical data consist of engineering drawings, data sheets, test reports, technical manuals, specifications, standards, purchase descriptions, and similar documentation. DSA must assure that technical data on the items it manages are readily available in usable form if it is to function properly.

The Technical Data Study Team is developing a system to satisfy DSA requirements in this area. It will entail the use of sophisticated automatic data-processing equipment for the storage, retrieval, and distribution of data. The study phase of the project will be completed in the first half of calendar year of 1965 with the system to be placed in effect in calendar years 1965 and 1966. Coordination with the military departments is being effected to take advantage of data already available there, but it will also entail acquisition of data by DSA from other sources.

The advantages of uniform systems for management of common supplies and related services can only be realized through efficient use of the most advanced automatic data-processing equipment. During the past fiscal year, the primary effort was directed toward augmenting equipment inherited from departmental single managers as required to realign workload, centralize requisition processing, and improve reaction time to meet the requirements of the Military Standard Requisitioning and Issue Procedure (MILSTRIP). In the next 2 fiscal years, the major effort will shift toward development of greater uniformity of data systems and equipment among the centers in phase with the development of other uniform systems for handling DSA functions.

An important development of the year was the establishment of an active program, in accord with recent General Accounting Office recommendations, to reduce the cost of data processing through the purchase of selected equipment in lieu of rental.

Defense-Wide Services

DSA administers Defense-wide programs for cataloging, standardization, materiel utilization, surplus disposal, and coordinated procurement. It provides traffic management in the continental United States. It monitors MILSTRIP

and related standard Defense procedures. In several of these areas, the agency has special responsibilities for the commodities it manages as well as general responsibility for Defense-wide administration. In cooperation with the military Services, DSA has made significant advances in improving these programs. More far-reaching measures, involving major new concepts, are under study or development.

A primary problem in the Defense supply system in recent years has been the rapid growth in the number of items in the Defense Catalog. In exercising its standardization and cataloging responsibilities, DSA is attacking this problem through two approaches, first by reduction of items in the existing catalog and second, by controlling the entry of new items.

In item reduction, DSA continued to place primary emphasis on items assigned to it for management. Supply centers reached agreement with the military Services on the elimination of 28,000 DSA-assigned items during the year, plus 9,000 related Service-managed items. This exceeded the established goal. A goal of eliminating at least twice this number of unnecessary items has been set for fiscal year 1964.

Steady progress has also been made toward improving Defense-wide standardization. Both the Logistics Management Institute and DSA have undertaken analyses of the program, and major new concepts are evolving out of these studies. Concurrently, actions have been taken to improve the program within present concepts. Among these are initiation of a program to accomplish effective standardization of guided missile components, identification and acceleration of other significant standardization projects with Defense-wide impact, development of new procedures to expedite the completion and revision of specifications, and increased use of industry standards through negotiation of agreements with industrial associations and similar organizations.

Development of an effective "front screen" to prevent the entry of unnecessary new items is a primary DSA goal. Full development of the "front screen" depends on accumulation of adequate technical data on existing items to provide a basis for comparing them with proposed new ones. The primary initial effort is being concentrated in this area. However, the Defense Logistics Services Center (DLSC) now provides mechanized screening of manufacturers' part numbers of new items on request to determine whether they match items already assigned Federal stock numbers. With the accumulation of technical data, new techniques have been or will be introduced at the supply centers to supplement normal catalog screening by screening against item characteristics.

Whether as a result of these efforts or not, the DOD section of the Federal Catalog in fiscal year 1963 for the first time showed a net reduction—a decline from 3,966,000 to 3,942,000 items. (Net growth in the entire Federal Catalog from 4,160,000 to 4,222,000 is explained by an increase in the number of civilian agency items cataloged.)

At the same time, DSA is seeking to improve catalog service to customers. A standard format for catalogs prepared by DSA centers has been developed. In response to General Accounting Office recommendations, a DSA task force is studying how best to clarify the scope of items cataloged, introduce interchangeability and substitutability data into the central file, and minimize the assignment of multiple Federal stock numbers to the same item. These efforts, of course, closely mesh with those involved in item reduction and the establishment of an effective "front screen."

The Materiel Utilization Program is also being accelerated and strengthened along several lines. Procedures have been revised and codified and a new reporting system is being instituted. As a result of the success of a service test of automated matching of service requirements against a central inventory of long supply and excess items at the Defense Logistics Service Center (Project

PLUS), this centralized matching system will be expanded to all items on October 1, 1963. Similarly, Project SHAKEDOWN, initiated as a test of joint Service review of item identification data for cross-servicing in Federal Supply Class 2915 (Engine Fuel System Components, Aircraft), was extended to eight additional classes of aeronautical material. Technical personnel have been employed to search out all potential uses of parts of weapons systems being phased out, such as NIKE-AJAX. As a result, use of these parts has substantially increased. DSA is also undertaking to optimize interservicing of supplies and services at the retail level between installations of the Army, Navy, and Air Force.

The value of long supplies and excess utilized through the interservicing program in fiscal year 1963 totaled $531 million, an increase of $56 million over fiscal year 1962.

Increased utilization of materiel within Department of Defense or by other Government agencies is more economical than disposal as surplus where the return is at best likely to be only a few cents on the dollar. Increased utilization has resulted in a smaller amount of property, in less desirable condition, available for sale. Thus in fiscal year 1963 the acquisition value of materiel sold as surplus usable property amounted to $892 million as compared to $1,236.2 million in fiscal year 1962. Proceeds of $59.4 million represented a return of 6.7 percent of acquisition value as compared to a 7 percent return the previous year.

Surplus disposal by DOD remains, nevertheless, a large-scale enterprise. A study of the entire program within the United States was conducted by DSA during the year at the direction of the Secretary of Defense. Some 33 recommendations emerged from the study, many of which are now being carried out with a view to making substantial improvements in marketing and handling to increase returns while cutting the costs of disposition.

In administering the Coordinated Procurement Program, DSA's main effort has been toward developing improved policies and procedures and preparing a list of existing coordinated procurement assignments. This will be followed by a review and up-dating of existing assignments in conjunction with the military Services and a study of additional areas for possible inclusion in the program.

In exercising DSA's traffic management functions during fiscal year 1963, the Defense Traffic Management Service (DTMS) quoted 967,000 freight rates and 28,400 passenger rates on behalf of various Defense elements, issued 146,000 freight route orders, and arranged 14,661 group movements. Some 23 million short tons of freight and 4.3 million passengers were moved under DTMS cognizance at a cost of $463.5 million and $126 million, respectively. DTMS estimated economies under the DOD Cost Reduction Program, accruing to the military departments, of $16.4 million as a result of increased use of less than first class air accommodations, through-bill movement of household goods, and use of Great Lakes ports.

Moreover, DTMS' ability to respond to an emergency was more than amply demonstrated during the Cuban crisis, when arrangements for large scale movements of men and materiel to the southeastern United States had to be made on short notice. Close teamwork between DTMS, the Interstate Commerce Commission, and rail and motor officials vastly expedited these movements and assured that the men and supplies would be in place to execute whatever action the President decided upon.

The end of fiscal year 1963 marked the first anniversary of operations under MILSTRIP, the new standard requisitioning and issue procedures now used by all elements of the Department of Defense. MILSTRIP, essentially a means of automating these processes, has proved to be an efficient and successful

peacetime system, and during the Cuban crisis it was especially effective. In keeping with its assigned responsibilities, DSA has maintained monitorship of MILSTRIP operations and procedures, including coordination of changes and improvements recommended by users.

MILSTRIP techniques have established a precedent with unlimited potential for application in other areas. A Military Standard Transportation and Movement Procedures (MILSTAMP) will be placed in effect worldwide October 1, 1963, and DSA has been assigned a role of monitor similar to that it performs for MILSTRIP. DSA is also furnishing the chairman for a task force charged with developing a similar system for standardization of inventory management data called MILSTRAP (Military Standard Reporting and Accounting Procedure).

Civil Defense Supplies

DSA continued support of the Office of Civil Defense Fallout Shelter Program through procurement, distribution, storage, and supply of specially designed shelter items of food, water containers, sanitation kits, and medical kits. Procurement during fiscal year 1963 approximated $100 million representing supplies for an estimated 50 million shelter spaces. The materiel management aspects of this program, with stocks supplied to local Civil Defense customers through a network of 86 wholesale storage locations, are effected by the Defense General Supply Center, which also handles stock management for Civil Defense stockpile materiel.

Relations With GSA

DSA continues its close relationship with the General Services Administration in effecting cooperative arrangements for cataloging, disposal, standardization, procurement, and supply of common items. The area of most active interest during the past year has been that of supply management. The established policy of the Secretary of Defense in this area is that GSA should be used as a source of supply for the DOD whenever it is more economical and there is no loss in capability to support military requirements. During the fiscal year, total GSA sales to DOD components were valued at $778 million, representing an increase over fiscal year 1962 of $108 million.

Of major import during the latter part of the year were discussions participated in by the Bureau of the Budget, the Office of the Secretary of Defense, DSA, and GSA which resulted in agreement on assignment of all hand tool and paint items to GSA, except those retained for management by the DOD as weapons related. The ensuing transfer, scheduled for fiscal year 1964, will increase the number of items accepted by GSA by approximately 20,000. In accordance with a recommendation of the Joint Economic Committee of the Congress, a moratorium has been declared on any further substantial transfers pending the results of a study, to be conducted under the auspices of the Bureau of the Budget, aimed at the development of a "genuine Federal supply system."

Supply Effectiveness

While carrying out a reorganization of major proportions, DSA has successfully maintained a record of supply effectiveness at least equal to that under arrangements existing previous to its establishment, and in some cases has improved on it. Exact statistical comparison is difficult, both because systems employed by the several departments to measure supply effectiveness differed and because the JCS-approved priorities system under MILSTRIP significantly shortens the time period allowed for filling requisitions. DSA has established its own standard system to measure supply effectiveness in two ways. One

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measure—stock availability—reflects the stock position of centrally stocked items at the time a requisition is received and edited. The other—on-time shipments—reflects the proportion of centrally stocked items which are offered a carrier within the time period allowed under MILSTRIP procedures.

Measured in these terms, over-all stock availability for DSA in fiscal year 1963 was 89.8 percent and on-time fill 80.3 percent. The degree of effectiveness varied between centers from month to month. Variations were caused by implementation of MILSTRIP, establishment of new supply centers, a capitalization of large blocks of items with insufficient pipelines, and differences in the reporting systems and data utilized in computing supply performance.

The real test of any military supply system is its performance in an emergency. During the Cuban crisis, when high priority requisitions increased ninefold and the total volume of requisitions doubled over a 5-week emergency period, DSA proved its ability to function effectively in such a situation. The short duration of the crisis and the absence of significant resupply requirements precluded a full test of mobilization readiness, but DSA's immediate responsiveness, procedures, and relationships with the Services and the Joint Chiefs of Staff were realistically and fully tested. Close liaison with Service and joint planning staffs made it possible for DSA to promptly alert the supply centers, to activate the DSA Emergency Supply Operations Center, and to dispatch supply expediters to major user locations. The procedures for referral of priority allocation problems to the Joint Chiefs of Staff were effective and responsive. The performance of all DSA centers resulted in numerous expressions of appreciation by Service commanders.

A Logistics Readiness Center, established during the Cuban crisis, has been continued as a permanent part of the Headquarters organization to provide an over-all focal point within DSA for efficient, economical, and responsive support of the military Services and unified commands' emergency and contingency operations.

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Cost Reduction Program

While maintaining or improving supply effectiveness, DSA is also proving that it can do so at less cost to the taxpayer. The Director has assigned the task of meeting DSA's goals in the DOD Cost Reduction Program a priority second only to that of efficient service to the armed forces. DSA's contributions to cost reduction are both direct and indirect. Direct participation is limited to those goals which are directly associated with DSA's own operational functions and inventories. Indirect contributions result from DSA's efforts in administering Defense-wide programs and performing Defense-wide services—for instance, from materiel interservicing and traffic management—and are reflected in economies achieved and reported by the military departments.

During fiscal year 1963, DSA accomplished direct cost reductions totaling $61.8 million, exceeding its established goal of $51 million by 21 percent. The largest single item, reduction in operating costs, accounted for $31.3 million, this being, in large part, the difference between military Service estimates of the cost of performing DSA functions and the amount actually budgeted and spent by DSA for these purposes. Refinement of secondary item requirements and savings achieved in initial spare provisioning accounted for $24 million. Value engineering accounted for an additional $2.1 million, item reduction decisions on DSA-assigned materiel, $2.8 million, increased competitive procurement, $1.0 million, and shift from cost-plus-fixed-fee to firm-price or incentive-type contracts, $0.6 million.

In addition to these recurrent annual savings, the inventory drawdown of $261.6 million produced a one-time savings, some $142.7 million of which has

been transferred to Service accounts to meet military personnel costs; $40 million has been returned to the Navy Stock Fund.

Cost reduction goals for fiscal years 1964 and 1965 have been set at $80.8 million and $123 million, respectively. These expanded goals reflect anticipated increases in operating expense savings as the DSA Distribution System becomes fully effective, and such other management improvements as an enhanced effort in reducing secondary item requirements and promotion of value engineering and competitive procurement. New goals have also been added in the areas of packaging and preserving and controlling the entry of new items.

Conclusion

DSA has achieved substantial sound progress in the integrated management of assigned supplies and services in fiscal year 1963. The initial obstacles that confront any new organization have now been largely overcome. The agency is moving forward to establish those uniform, efficient systems for handling its responsibilities, the lack of which was a primary reason for its establishment.

The future holds many challenges. Some parts of the DSA structure are yet to be completed. Difficult adjustments, like those involved in the rearrangements for handling automotive and construction supplies, hand tools and paint, will have to be made. Supply effectiveness rates in some areas must be improved. Better ways must be found to accelerate standardization, and control the entry of new items into the supply system. New missions may be assigned. DSA moves forward to meet its future challenges, confident that it is building on sound foundations established during the initial phase of its operations, and that its objectives will be met:

—First, and foremost, to provide effective logistic support to the operating forces of all the military Services in war, peace, and emergency.

—Second, to provide that support at the lowest possible cost to the taxpayer.

A. T. McNAMARA,
Lieutenant General, USA,
Director, Defense Supply Agency.

Table 34

DEFENSE-WIDE SUPPLY

	Line items centrally managed	Personnel on board	Net inventory investment (millions of dollars)	Annual sales (millions of dollars)	Annual obligations (millions of dollars)
SUPPLY CENTERS					
June 30, 1962	208,000	13,649	1,747	1,542	1,556
June 30, 1963	1,029,000	20,572	2,446	1,639	1,377
Automotive Supplies [1]					
June 30, 1962	----------	-------	--------	--------	--------
June 30, 1963	103,000	692	89	10	8
Clothing & Textiles [2]					
June 30, 1962	20,000	4,606	1,145	439	368
June 30, 1963	23,000	4,020	1,041	358	218
Construction Supplies [3]					
June 30, 1962	12,000	1,860	8	1	(4)
June 30, 1963	122,000	3,874	109	35	46
Electronics Supplies [5]					
June 30, 1962	----------	433	--------	--------	--------
June 30, 1963	389,000	4,292	413	57	40
General Supplies [6]					
June 30, 1962	50,000	2,878	125	105	119
June 30, 1963	45,000	2,691	149	120	105
Industrial Supplies [6]					
June 30, 1962	116,000	1,532	132	104	113
June 30, 1963	338,000	2,448	322	108	85
Medical Supplies [2]					
June 30, 1962	9,000	487	221	94	106
June 30, 1963	9,000	608	212	109	69
Petroleum [7]					
June 30, 1962	----------	188	--------	--------	(8)
June 30, 1963	1,000	301	10	16	[9] 16
Subsistence [2]					
June 30, 1962	1,000	1,665	116	800	850
June 30, 1963	1,000	1,646	102	827	790

[1] Department-wide responsibility for automotive supplies was established on April 13, 1961; center was partially operational during fiscal year 1963 and became fully operational on July 1, 1963.

[2] Operated as Single Manager agencies until transferred to Defense Supply Agency during the second half of fiscal year 1962.

[3] Department-wide responsibility for construction supplies was established on April 13, 1961; center was partially operational during the closing months of fiscal year 1962 and became fully operational on November 1, 1962.

[4] Less than $500,000.

[5] Department-wide responsibility for electronic supplies was established on December 27, 1961; center was partially operational during fiscal year 1963 and is scheduled to become fully operational on April 1, 1964.

[6] Partially operational as Single Manager agencies when transferred to Defense Supply Agency during the second half of fiscal year 1962.

[7] The Defense Petroleum Supply Center differs from the other centers in that the military Services retain ownership of their wholesale stocks of petroleum supplies except for packaged petroleum products transferred to DSA ownership on October 1, 1962. DPSC does, however, procure petroleum products, bulk as well as packaged, for the military Services.

[8] Obligations of Departmental petroleum stock fund divisions totaled $1,179 million.

[9] Procurement awards by DPSC for petroleum totaled $1,182 million.

Table 35

DEFENSE-WIDE TRANSPORTATION SERVICES

	Military Air Transport Service [1]	Military Sea Transportation Service [2]	Defense Traffic Management Service [3]
PASSENGERS CARRIED			
Fiscal Year 1962	1, 171, 000	440, 000	4, 198, 000
Fiscal Year 1963	1, 360, 000	412, 000	4, 260, 000
CARGO CARRIED (In Short Tons)			
Fiscal Year 1962	182, 000	25, 810, 000	24, 001, 000
Fiscal Year 1963	184, 000	25, 613, 000	[4] 22, 904, 000
Dry Cargo Tonnage			
Fiscal Year 1962	182, 000	[5] 6, 667, 000	9, 338, 000
Fiscal Year 1963	184, 000	[5] 6, 608, 000	[4] 9, 268, 000
Petroleum Tonnage			
Fiscal Year 1962	----------	[6] 19,143,000	14, 663, 000
Fiscal Year 1963	----------	[6] 19,005,000	13, 636, 000
EXPENSES (In Millions of Dollars)			
Fiscal Year 1962	389	425	[7] 582
Fiscal Year 1963	412	444	[7] [8] 598
Payments for Commercial Services			
Fiscal Year 1962	185	331	574
Fiscal Year 1963	212	341	[8] 590

[1] Responsible to the Single Manager for Airlift Service, the Secretary of the Air Force.

[2] Responsible to the Single Manager for Ocean Transportation, the Secretary of the Navy.

[3] Established in 1956 as the Military Traffic Management Agency (MTMA) responsible to the Single Manager for Traffic Management within the United States, the Secretary of the Army. Responsibility for this function was assigned to the Director, Defense Supply Agency, on August 31, 1961, and was assumed on January 1, 1962, on which date MTMA was redesignated the Defense Traffic Management Service (DTMS).

[4] Excludes 137,300 tons of uncrated household goods moved on Government bills of lading to oversea destinations from the continental United States.

[5] Reported by MSTS in measurement tons—12,667,000 M.T. in 1962 and 12,555,000 M.T. in 1963—and converted to short tons on an estimated ratio of 1.9 to 1.

[6] Reported by MSTS in long tons—17,092,000 in 1962 and 16,969,000 in 1963—and converted to short tons on a ratio of 1 to 1.12.

[7] Includes payments made by the military Services to commercial carriers for transportation and the administrative costs of DMTS.

[8] Excludes costs of $98 million for uncrated household goods moved on Government bills of lading to oversea destinations from the continental United States.

Table 36

FEDERAL CATALOG SYSTEM

	Fiscal year 1962		Fiscal year 1963	
FEDERAL CATALOG				
Number of Items at Beginning of Year	3, 914, 120		4, 159, 519	
Number of Items Added	638, 542		[1] 689, 652	
Number of Items Deleted	393, 143		626, 647	
Net Increase	245, 399		[1] 63, 005	
Number of Items at End of Year	4, 159, 519		4, 222, 524	
Department of Defense Items	3, 966, 214		3, 942, 218	
Other Agency Items	193, 305		280, 306	
	June 30, 1962		June 30, 1963	
	Number	Percent	Number	Percent
INTER-SERVICE USE				
Army				
Items in Use	1, 038, 895	------	1, 081, 828	------
Items Also Used by other Services	426, 846	41. 1	378, 231	35. 0
Navy				
Items in Use	1, 240, 276	------	1, 367, 067	------
Items Also Used by Other Services	283, 919	22. 9	347, 758	25. 4
Marine Corps				
Items in Use	278, 362	------	274, 909	------
Items Also Used by Other Services	179, 863	64. 6	182, 073	66. 2
Air Force				
Items in Use	2, 130, 843	------	1, 866, 785	------
Items Also Used by Other Services	445, 378	20. 9	387, 246	20. 7

[1] Includes 45,859 items added to total through correction and improvement of reporting procedures.

Table 38

EXCESS AND SURPLUS PROPERTY [1]

(In Millions of Dollars)

	Fiscal year 1962	Fiscal year 1963
GROSS REUTILIZATION AND DISPOSALS [2]	5, 173	5, 098
REUTILIZATION WITHIN DEPARTMENT OF DEFENSE	1, 112	1, 157
Wholesale Inter-Service Supply Support	353	420
Intra-Service	637	626
Inter-Service	122	111
OTHER REUTILIZATION AND DISPOSALS	4, 061	3, 941
Military Assistance Program	68	11
Reutilization by Other Federal Agencies	203	177
Donations	258	233
Sold as Usable Property	1, 236	892
Designated for Sale as Scrap	2, 233	2, 538
Other Dispositions	13	16
Destroyed or Abandoned	50	74
CASH PROCEEDS REALIZED	135	99

[1] Data have been adjusted to conform with new reporting requirements that were prescribed on May 6, 1963, and with audit reports prepared for the Cost Reduction Program. The principal effect of these adjustments was to eliminate intra-Service transfers of property by property officers, amounting to about $1.1 billion per year in fiscal years 1962 and 1963.

[2] Does not include disposition of surplus combatant ships—$145 million and $193 million, respectively, for fiscal years 1962 and 1963.