

ANNEX B

ANNUAL REPORT OF THE DEFENSE SUPPLY AGENCY

July 1, 1963 - June 30 1964

This is the third annual report of the Defense Supply Agency. In fiscal year 1964, DSA achieved most of its original operating goals for integrated management of assigned supplies and services. The whole-sale distribution system successfully met increased customer demands -- 62 percent more requisitions were filled without loss in supply effectiveness. The number of items centrally managed increased by 29 percent, and there was a slight net decrease in supply inventory value.

New management responsibilities were undertaken for documentation and retrieval of scientific research information. DSA was also assigned the missions of world-wide traffic management for transportation and storage of household goods, providing Defense-wide commercial warehouse service, and supporting the Army overseas with DSA decentralized and noncataloged items. At the end of the fiscal year, the agency received a major new assignment to provide national level management of consolidated contract administration services. This added function will result in a 65 percent increase in DSA field personnel over the next two

years, and will require restructuring DSA headquarters.

The potential benefits of consolidated management were sought through continued introduction of management improvements and the conduct of systems studies. Major studies initiated during the year concern a reappraisal of item management coding criteria, an improved inter-Service system of materiel utilization, and a Federal Item Identification Guide improvement project, which is expected to enhance the utility of the Federal Catalog. A study of the desirability of DSA assuming responsibility for supplying all Federal civil agencies with food, fuel, clothing, electronic and medical supplies, will be based, at least in part, on recent feasibility tests involving most of these commodities.

The first Director of DSA, Lt. Gen. Andrew T. McNamara, USA, retired on 1 July 1964. He was replaced by his Deputy, Vice Admiral Joseph M. Lyle, MC, USN.

CHANGES IN ITEM MANAGEMENT RESPONSIBILITY

DSA began fiscal 1964 with nine supply centers fully operational in the management of 229 federal supply classes. In August 1963, the Secretary of Defense ^{determined} / that merging certain functions of Army and DSA inventory control points handling automotive and construction supplies would generate personnel and overhead savings. As a result, the Defense Automotive Supply Center (DASC) in Detroit, Michigan, was phased out by 1 January 1964. The Army Tank-Automotive Center (ATAC) in that city became the DoD integrated supply manager for Army-designed combat and tactical vehicles and peculiar parts. Items which previously had been centrally managed by DASC and which were not assigned to ATAC were transferred to the Defense Construction Supply Center (DCSC) in Columbus, Ohio. Concurrently, the Army's Mobility Support Center in Columbus was phased out and DCSC assumed part of its item management responsibilities. This responsibility included inventory management, for the Army only, of some 67,000 items in 46 nonintegrated supply classes. The Secretary of Defense formally assigned 45 of these classes to DSA for integrated management for all the military services in June 1964. Implementation of the new assignment is scheduled to be completed in fiscal year 1966.

At the end of the year the Defense General Supply Center (DGSC) was capitalizing 4 classes of electrical supplies and 6 classes of lighting fixtures. The Defense Industrial Supply Center (DISC) had added the single class of electrical wire and cable. The Defense Electronics Supply Center (DESC) gained 8 classes of electronics supplies during the year, and 14 classes of automotive supplies were transferred to DCSC. DSA ended fiscal 1964 with 8 operating supply centers managing 230 supply classes for all military services and 45 classes for the Army only. The 1,328,000 centrally managed items involved were distributed as follows:

CENTRALLY MANAGED ITEMS IN DSA ASSIGNED SUPPLY CLASSES

Commodity Center	Items Managed (in thousands)			Inventory Value (millions of dollars)		
	30 June 63 (Actual)	30 June 64 (Actual)	30 June 65 (Projected)	30 Jun 63 (Actual)	30 Jun 64 (Actual)	30 Jun 65 (Projected)
Automotive	103.5	Disestablished		88.0	0.1	0
Clothing & Textile	22.6	22.7	22.0	1,037.6	842.3	712.7
Construction	121.8	263.3	287.0	109.1	223.6	183.8
Electronics	388.5	507.7	544.0	412.8	419.3	331.4
General	44.6	87.3	143.0	146.6	126.9	115.5
Industrial	337.6	433.6	414.0	306.7	301.2	222.3
Medical	8.9	10.9	12.0	207.3	178.3	174.2
Fuel	0.6	1.6	2.0	9.3	27.6	30.3
Subsistence	0.9	0.9	1.0	94.8	112.6	120.6
TOTALS	1,029.0	1,328.0	1,425.0	\$2,412.2	\$2,231.9	\$1,890.8

Figure 1

DSA DISTRIBUTION SYSTEM

After its first full fiscal year of operations, the DSA Distribution System had fulfilled most of the expectations of its designers. Administrative control was enhanced by transfer to DSA, management of Army depots at Memphis, Tennessee and Ogden, Utah. The geographical pattern of eighteen Direct Supply Support Points serving the Navy remained unchanged. Original plans for elimination of temporary storage locations, which DSA inherited along with the supplies transferred by the Military Services, were modified. When the distribution system was implemented in January 1963, the best information available foresaw the elimination of all attrition sites by June 1964. However, because of continued capitalizations of materiel stored at such locations, and a decision not to "bulk move" supplies for reason of over-all economy, this target was set back to June 1965. Moreover, projections of resources available for fiscal year 1965 and plans for additional materiel capitalizations by DSA made a firm goal unfeasible. The agency will continue to store materiel at attrition sites for an indefinite time. DSA-owned materiel totaled 268,000 tons at 58 attrition sites in June 1963, and 135,000 tons at 47 sites in June 1964.

Idle industrial plant equipment (IPE) was stored at 11 sites which were under 4 different types of management; 3 were contractor-operated, 3 cross-service (Army) operated, 2 common-service (Navy) operated, and 3 operated by DSA. Long range planning for a uniform IPE storage system was complicated by the need to maintain equipment

as well as to store it, and the Services desire to phase out some of these locations. DSA completed a distribution and facility survey, and planned consolidations in its IPE storage and maintenance system.

A DSA-wide program for modernizing depot operations, initiated during the fiscal year, was expected to increase operating efficiency, provide more timely service, and reduce costs of receiving, storing, and shipping supplies. These improvements are to be obtained through mechanization and combination of various functions into a completely integrated system for each depot. During fiscal year 1965, DSA will monitor the progress made in modernizing depot operations with the assistance of a task group comprised of industrial engineers from each depot involved. Defense Depot Ogden was selected for the pilot installation, and procurement of the system will be initiated in fiscal year 1965. Installation of equipment at Ogden was programmed for fiscal year 1966.

INDUSTRIAL PLANT EQUIPMENT

The Defense Industrial Plant Equipment Center (DIPEC), began operations in September 1963 and became fully operational on 30 June 1964. Charged with primary responsibility for development and maintenance of central records of the DOD inventory of industrial plant equipment (IPE), and the management of idle equipment, DIPEC recorded descriptive data for approximately 434,000 items with an acquisition cost of \$3.55 billion. From the idle inventory, which exceeded 35,000 units of equipment, DIPEC screened an average of 3,700 requisitions per month. Reutilization of items valued at \$82.9 million resulted from this screening. Included in this sum were \$54.3 million which qualified as cost reduction savings of the military departments. DIPEC ended fiscal year 1964 with an idle equipment inventory valued at \$334.6 million. Among those using idle IPE were the military departments, friendly foreign governments, the Atomic Energy Commission, National Aeronautics and Space Administration, Department of the Treasury, and vocational training schools throughout the United States.

DIPEC inherited differing IPE inventory management systems when the functions of the separate equipment control offices of the military departments were transferred. These systems are to be standardized and adapted to modern data processing methods, to provide better service and support to the military departments.

DEFENSE DOCUMENTATION CENTER

The Defense Documentation Center for Scientific and Technical Information (DDC) was transferred to DSA from the Air Force in November 1963. The Director of Defense Research and Engineering continued to furnish policy direction. DDC was made a primary level field activity under the direction and operational control of the Director, DSA. The center received, stored, announced, and accomplished secondary distribution of scientific and technical documents, in consonance with the DoD Scientific and Technical Information Program. Technical report services were furnished to all DoD components, contractors and other Government agencies, their contractors and potential contractors and grantees, and foreign governments as authorized.

During fiscal year 1964, the center provided the DoD research and development (R&D) community with more than one million scientific and technical documents, 7,643 bibliographies, 1,669 data summaries concerning the DoD research projects, and 44,919 announcements describing R&D documents added to the DDC collection.

In December 1963, a large scale computer replaced two medium scale computers which DDC had outgrown. A working agreement by which the Office of Technical Services of the Department of Commerce would process the unclassified documents without restrictions on distribution was signed in March 1964. It is expected that inter-Agency collaboration and the use of the new computer will materially reduce the processing time for publication of announcements and providing other services.

CONTRACT ADMINISTRATION SERVICES

In June 1964, as the culmination of a DOD study known as Project 60, the Secretary of Defense assigned the management of certain contract administration services (CAS) functions to DSA. This responsibility involved a national merger of existing geographic type organizations, comprising some 20,000 people working in over 150 separate offices of the military departments. Buying functions, and administration of contracts in certain plants associated primarily with major weapons systems contracts, were excluded from the assignment.

A CAS National Planning Group was established under the Director, DSA, to develop a detailed implementation plan for submission to the Secretary of Defense by 1 January 1965. The plan will include the organization and resources required to implement nationwide consolidation of centrally managed CAS functions. Subject to Secretary of Defense approval, it is anticipated that field consolidation will begin about 1 April 1965. Field conversion will be patterned after the Philadelphia Pilot Test Region. Concurrent with consolidation of the field organization, the National Planning Group will be phased into a permanent headquarters organization which will provide over-all policy guidance and control. Maximum operational responsibility will be delegated to the field.

Central CAS management under uniform procedures will serve to eliminate duplication and overlap which ~~xx~~ existed among the military departments. Defense contractors should therefore be able to deal with the Department of Defense more effectively, and at less cost.

Such contractor savings should be reflected in lower direct procurement costs to the government. Direct savings through consolidation will be substantial and are expected to result ultimately in annual savings of approximately \$19 million.

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ORGANIZATION, DIRECTION AND CONTROL

To control DSA's extensive and geographically dispersed operations, the Director's basic management concept continued to be that of centralized policy control and decentralized operational control. DSA goals and objectives were established as a 3-year forward projection within and consonant with the Department of Defense Five-Year Force Structure and Financial Program. In March 1964, DSA field activities were directed to prepare and submit integrated 3-year program-budget-manpower (IPBM) documents of a new type. The initial responses received will permit the correlation of specified objectives with required workloads, management reporting and cost accounting data, and performance in a single integrated submission.

To appraise performance, the Director held two semiannual headquarters staff reviews and two field command reviews during the year. These reviews analyzed and emphasized problem areas and future operations. They enabled the Director to take corrective and preventive actions to assure accomplishment of programmed objectives.

Additional mission assignments and organizational changes to improve mission accomplishment modified the DSA structure during the fiscal year. They are listed in chronological order:

On 1 July 1963, the mission of the DSA Administrative Support Center (DSASC) was expanded to include responsibility for providing electronic computer and data services to DSA activities in the Washington, D. C. Area. On 15 August 1963, DSASC was designated a primary level field activity. On 17 April 1964, DSASC was assigned responsibility for civilian payroll accounting and

installation level accounting and disbursing services for all DSA activities located in the Washington area.

On September 1, 1963 eight DSA Equal Employment Opportunity Offices were established to survey contractor compliance with the requirements of the President's Committee on Equal Employment Opportunity.

In September 1963 DSA was assigned responsibility for the DoD Household Goods Moving and Storage Program on a world-wide basis. Technical direction and operational responsibility were delegated to the Defense Traffic Management Service (DTMS), which assumed control of 18 DoD Household Goods Field Offices on January 1, 1964. Five of these offices were assigned additional responsibilities for operating general merchandise warehouses under the DoD Commercial Warehouse Service Plan. The administration of general merchandise warehouses was transferred from the Army to DSA in October 1963.

Reduction in the number of Defense Surplus Sales Offices from 34 to 18 was completed in November 1963. Annual savings in operating costs were estimated at \$1.7 million, and improved service is expected through application of automated data processes at the remaining locations.

The DSA Data Systems Automation Office (DSAO) was established in February 1964 on the site of the Defense Construction Supply Center at Columbus, Ohio, to perform centralized data systems flow charting and detailed computer programming of all automatic data processing applications included in the DSA uniform ADP systems program.

Staffing of DSAO will be accomplished within current personnel resources, and significant personnel savings in ^{field} programmers will be effected through this consolidation.

On 21 May 1964 the Assistant Secretary of Defense (I&L) authorized the establishment of an Automatic Data Processing Equipment (ADPE) Reutilization Screening Office in DSA. This office will become the focal point in the DoD to assure maximum use of ADPE no longer required by the original user.

Progress has been made in the automation of the DSA management information system, which provides for the identification of basic management data elements and the operation of a centralized automated data bank. Selected recurring statistical and accounting reports containing 4,426 basic data elements were mechanized to provide input. Operation of the data bank released operating personnel from time consuming manual compilation, thereby permitting timely in-depth analysis of data.

An integrated performance standards program was instituted at all major DSA field activities. This was designed to assess effectiveness, efficiency and economy in the utilization of manpower and funds. The program established criteria for management to appraise the current relationship of workload to manpower, and to evaluate personnel productivity in the operating functions on a continuous basis. Performance standards established under this program will be employed in the development and execution of DSA operating budgets.

BUDGETING AND FUNDING

Generally DSA uses appropriated Operations and Maintenance (O&M) and Research, Development, Test and Evaluation (RDT&E) funds to pay operating costs (except military personnel costs), and a stock fund to finance supply inventories. It funds certain surplus disposal activities out of the proceeds of sales.

DSA's share of the O&M Defense Agencies appropriation for Fiscal Year 1964 was \$256.7 million. Additional funds were received from the military departments as reimbursement; total DSA operating costs in Fiscal Year 1964 amounted to \$278.6 million. DSA's O&M budget for Fiscal Year 1965 provides for \$263.5 million in direct obligational authority.

On 1 November 1963, the Defense Documentation Center (DDC) was transferred from the Department of the Air Force to DSA with \$5.9 million in appropriated RDT&E funds. An additional \$0.6 million was transferred to DSA during fiscal 1964 for DoD support of other governmental R&D activities. The 1965 RDT&E budget requested \$11.4 million in direct obligational authority for DDC and associated administrative support costs.

DSA used Military Construction funds totaling \$1.0 million during fiscal 1964 to provide for administrative and logistical facilities,

including minor construction and planning. Procurement, Defense Agencies funds in the amount of \$0.9 million (including fiscal year 1963 carryover) were used principally for materials handling equipment and administrative vehicles. The FY 1965 budget includes \$2.0 million and \$2.5 million appropriated for Military Construction and Procurement requirements, respectively.

Under the appropriation Family Housing, Defense, \$39,000 was obligated by DSA during fiscal year 1964 to operate 33 family housing units. For fiscal 1965, \$193,000 was requested to operate, maintain, and improve 118 units.

The following data reflect, by center, operations of the Defense Stock Fund in fiscal year 1964:

STOCK FUND SUMMARY, FISCAL YEAR 1964
(Millions of Dollars)

<u>Center</u>	<u>Obligations</u>	<u>Sales (Net)</u>	<u>Net Invest- ment Change</u>
Automotive *	15.8	21.9	(6.1)
Clothing & Textile	246.7	376.9	(130.2)
Construction	99.9	82.9	+17.0
Electronics	112.2	112.8	(0.6)
Fuel	34.8	34.1	+0.7
General	100.3	105.4	(5.1)
Industrial	84.5	102.8	(18.3)
Medical	82.9	97.3	(14.4)
Subsistence	800.7	804.1	(3.4)
Surplus Sales Proceeds & other income	-	.8	(0.8)
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Total	1,577.8	1,739.0	(161.2)
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*Deactivated on 1 January 1964.

Figure 2

The net investment change resulted in an inventory drawdown of \$161.2 million, exceeding the approved program by \$46.6 million. Projections for fiscal 1965 provide for \$1,808.0 million in net sales and \$1,697.4 million in obligations, and an inventory drawdown of \$110.6 million. These net reductions represent sales of items in long supply or excess without replacement and do not involve stocks required for support of current operations or mobilization reserves.

PERSONNEL

Personnel strength increased from 25,970 to 31,141 during the year, due primarily to the transfer to DSA of the Army depots at Memphis and Ogden, the Defense Documentation Center, and the industrial plant equipment mission. Personnel savings attributable to the consolidation of missions and functions in DSA totaled approximately 5,700 as of 30 June 1964.

Summary statistics on the growth and distribution of DSA personnel strength are shown in Figure 3. Further transfers of manpower spaces from the military departments expected during fiscal year 1965 will approximate 700. This excludes spaces identified with contract administration services, for which resources must be identified.

The personnel adjustments which characterized the previous fiscal year have continued. These involved the transfer of employees from the military departments, as well as some intra-agency movement associated with internal realignment of management responsibilities. Arrangements were made to minimize personal hardships and management disruptions in the interrelated actions of closing DASC and expanding functions at DCSC.

STATUS OF DSA PERSONNEL

Activity	June 30, 1963			June 30, 1964		
	Total	Civ.	Mil.	Total	Civ.	Mil.
Automotive	692	670	22	Disestablished		
Clothing & Textile	4,820	3,934	86	3,762	3,696	66
Construction	3,874	3,790	84	4,656	4,587	69
Documentation	-	-	-	486	484	2
Electronic	4,292	4,176	116	3,708	3,653	55
Fuel	301	281	20	348	325	23
General	2,691	2,585	106	2,474	2,404	70
Industrial Plant Equipment	-	-	-	448	446	2
Industrial	2,448	2,403	45	2,754	2,706	48
Logistic Services	1,203	1,190	13	1,131	1,122	9
Medical	608	572	36	724	693	31
Subsistence	1,646	1,507	139	1,870	1,732	138
Traffic Management	1,026	935	91	1,090	996	94
Data Systems Automation Office	-	-	-	48	48	-
Procurement Support Offices	549	540	9	597	588	9
Mechanicsburg Depot	771	764	7	1,391	1,357	34
Memphis Depot	-	-	-	1,796	1,771	25
Ogden Depot	-	-	-	1,691	1,660	31
Tracy Depot	941	926	15	1,128	1,111	17
Administrative Support Center	188	138	50	296	254	42
Headquarters, Defense Supply Agency	720	621	99	743	641	102
TOTALS	25,970	25,032	938	31,141	30,274	867

Figure 3

In the military personnel area some progress was made toward a more balanced staffing of DSA. As of 30 June 1964, service distribution was Army: 49 percent, Navy: 23 percent, Air Force: 25 percent, and Marine Corps: 3 percent. Authorized distribution ^{was} ~~is~~ Army: 41 percent, Navy: 27 percent, Air Force: 28 percent, and Marine Corps: 4 percent. Goals were not met due to the transfer of the Army depots at Memphis and Ogden, which were over 96 percent Army staffed as the fiscal year ended. Staffing of these depots will be adjusted toward the authorized percentages as current tours of duty are terminated.

PROCUREMENT AND PRODUCTION PROGRAM

Procurement awards during the year totaled \$2.7 billion. Purchases by the Subsistence, Clothing & Textile, and Fuel centers constituted more than three-fourths of the total. DSA made 91.5 percent of all purchases on a competitive basis, including 37.8 percent procured through formal advertising. Small business firms received awards of \$1.01 billion, or 43 percent of all dollar awards to U. S. firms - ~~five~~ five and a half percent over the annual goal. DSA's small business and labor surplus area programs provided procurement counseling to more than 3,600 firms, both small and large. Of the 3,000 firms added to the bidders lists, over 2,400 were obtained as a result of participating in 44 industrial assistance events. Awards made to these bidders accounted for a significant portion of the \$3.73 million in audited savings achieved through broadening of the competitive base.

Procurement lead time averaged 39.7 days, substantially under the DoD objective of 45 days. To further reduce lead time and costs of procurement administration, DSA developed and tested a uniform automated system for small purchases. The system, covering all assigned Federal Supply Classes, is expected to be fully operable by the end of fiscal year 1965.

Significant progress was made in standardizing and simplifying procurement procedures in such areas as solicitations, internal

reviews, commodity buy lists, contract provisions, and fast buy procedures for small purchases. Continued improvements in procurement management will be stressed to assure that purchases are made at the lowest sound price.

Market analyses and evaluations of industry's production cycles were exploited to achieve the optimum interrelationship of requirements forecasting, procurement scheduling, and fund availability. Varying guidelines are needed for the individual centers; e. g., most food procurements are tied to crop harvests; the best time to buy clothing is when seasonal civilian demands are minimal; and centers which procure technical-type hardware cannot utilize truly cyclical forecasts. DSA will continue to expand its efforts to identify and exploit the "best time to buy" during fiscal year 1965.

Arrangements have been made with about 7,000 potential producers for emergency production of critical combat essential items procured by DSA. Substantial increases in industrial mobilization agreements are expected, as the Services complete transfer of item cognizance. Increasing industrial base capacity, through industrial readiness planning, was established as an element of the Cost Reduction Program with a goal of \$3.03 million for fiscal year 1965. Savings will be obtained from the reduction in fund requirements for mobilization reserve stock resulting from the agreements.

DSA realized substantial savings by using materials declared excess to the National Stockpile. Waterfowl feathers and down valued at nearly \$1.1 million were used in a procurement of sleeping bags; mercury valued at \$800,000 was used for medical equipment, and sizeable quantities of quebracho were used for tanning leather for military footwear. Serious production difficulties were alleviated by the utilization of excess cadmium, antimony, and crude rubber from the stockpile. These materials were essential to production of fire-retardant shipboard items, tires, and aircraft parts. By keeping our supply centers advised of available materials, similar or greater savings are expected during fiscal year 1965.

DSA implemented and will continue to refine an integrated quality and reliability program, stressing the preventative role of quality discipline through liaison with developing, retailing and using agencies. An example was the Quality Check Program consisting of discussions with actual users to determine attitudes toward the quality of the commodities we buy. Another example was the Intra-Governmental Procurement Advisory Council on Drugs (IPAD), a DSA-sponsored agency which will maintain a central pool of information on drug procurement methods and standards, The qualifications of drug

manufacturers, and a common Government-wide system of reporting adverse reactions to drugs. The transfer of quality control functions to the contractors progressed during the year. In the field of subsistence alone, this procedure saved nearly \$400,000, and savings of over \$1 million are forecast for the coming year.

Commencing 1 January 1964, Defense Supply Centers assumed responsibility for direct support of DSA centralized items to Army overseas forces. In March 1964, DSA also began to supply Army overseas forces with decentralized and noncataloged DSA items previously furnished by Army overseas supply agencies. With respect to the latter, the Subsistence regional headquarters at Alameda and New York will procure the items during a six months' test. These procedures, and the feasibility of extending such support to the Navy and the Air Force, are to be evaluated by DoD during fiscal year 1965.

AUTOMATION OF DSA OPERATIONS

A primary consideration in the establishment of DSA was that an agency directly under the Secretary of Defense could develop and install a single set of uniform supply procedures to replace the varied systems evolved by the separate military departments. This concept is being implemented progressively through DSA's uniform automated data processing system (UADPS) program. Results of completed segments of the program, such as the Distribution System and the Management Information System, have been discussed above. A uniform system for the mechanization of warehousing and shipping procedures (MOWASP), for installation at all DSA depots, progressed to the point that a request for proposals was forwarded to all interested manufacturers of automated data processing equipment. It is expected that selection and test of equipment and pilot installation at the Data Systems Automation Office, the testing installation, can be completed by September 1965.

A uniform system for material management at all DSA centers, including integrated systems in the functional areas of cataloging, distribution, requirements, financial control, and procurement, was still in the planning stage. Task groups in each area, in coordination with data systems personnel, were developing criteria for these systems.

During fiscal year 1964 DSA implemented the first system linking

the automatic digital network of DoD data communications (AUTODIN) with a computer programmed to perform logistical functions by activation of the AUTODIN computer interface terminal at the Defense Industrial Supply Center, Philadelphia, in June 1964. Similar terminals were also installed at Defense Depot Ogden and at the Defense Logistics Services Center, Battle Creek. Following operational evaluation of these prototypes, it is expected that this automated system will be installed in all major DSA activities.

MILITARY STANDARD LOGISTICS DATA SYSTEMS

An entire family of military standard data systems has been produced jointly by DSA and the military services to meet current logistics requirements. The development of these data systems eliminated many of the varied procedures, codes, data elements, and formats existing throughout DoD, and provided the base for expeditious processing of logistics information through greater reliance on high speed data processing equipment, communications systems, common code languages, and machine processable formats. These systems have affected all elements of DoD, and, in some instances, GSA and the Coast Guard. Because of an increasing trend toward supply support crossing military service lines, it was essential that a single monitoring agency assure uniform systems application among users. DSA has been designated as the single focal point in DoD for system supervision, after the design and implementation phases. The agency monitors DoD-wide application of the standard data systems described below, and coordinates all changes and improvements recommended by users.

The Military Standard Requisitioning and Issue Procedures (MILSTRIP) have been used by all DoD elements since July 1962 in ordering and issuing supplies. Also supervised by DSA are the Military Standard Transportation and Movements Procedures (MILSTAMP) which were implemented DoD-wide in October 1963 to control shipments

of materiel from supply source to user. Inasmuch as commercial contractors and vendors are also affected by these data systems, companion MILSTRIP and MILSTAMP procedures for contractors are published.

A third data system--Military Supply and Transportation Evaluation Procedures (MILSTEP)--was under development for implementation with a target date of January 1966. This procedure will prescribe the means for measuring the time intervals from date of submission of a requisition until receipt of materiel by user. Thus the operational effectiveness, of all links of the logistics chain, can be gauged for materiel movements under MILSTRIP and MILSTAMP.

Procedures, codes, and punched card formats for recording receipt, due in, inventory count, and adjustment supply transactions, and also for maintaining stock records, were fully automated. They were being provided to DoD storage depots, stock control activities, and inventory control points in the Military Standard Transaction Reporting and Accounting Procedures (MILSTRAP). This newly designed system will furnish the remaining standard transactions which complement the issue procedures of MILSTRIP. This system is to be effective throughout DoD on 1 July 1965.

It is anticipated that additional benefits in machine operations, shipment planning, and movement control will accrue from adoption of standard procedures for coding and publishing the address of installations and

activities as contained in the Military Standard Activity Address Directory (MILSTAAD). Systems design is awaiting approval. Implementation is scheduled for July 1965.

DEFENSE-WIDE SERVICES

During FY 1964, DSA administered Defense-wide programs for cataloging, materiel utilization, surplus disposal, coordinated procurement, and traffic management. In several of these areas, the agency was also charged with special responsibilities for the commodities it managed. During most of the fiscal year, DSA administered the Defense-wide standardization program, which was transferred to a new DOD Office of Technical Data and Standardization Policy in June 1964. As standardization assignee for nearly half of the classes in the Federal Catalog, DSA has retained a major interest in this activity.

Continued efforts were made to improve the operation and utilization of the Federal Catalog System. An important aspect of the UADPS program already mentioned is a complete reorientation and automation of the cataloging process, scheduled for completion in calendar year 1965. Facilitated interchange of cataloging data with the Services and GSA has resulted and automation is expected to effect major improvements in processing and controlling catalog submissions. Increased use of descriptive-method item identifications was stressed to supplant reference-type identifications. This step was an essential prerequisite for improvements in item entry control, item reduction, and competitive procurement actions. A goal was established to increase descriptive-type item identifications to 60 percent of the Federal Catalog as compared with a level of 53 percent at the end of the fiscal year.

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Reduction of the items assigned to DSA for management continued to be a high priority objective. One related program, established in July 1963, seeks to identify and eliminate inactive items. During the year a total of 55,861 items, which were managed by DSA for at least 24 months with no demands, were brought under review. By agreement with potential customers 13,494 of these were designated for deletion. In the coming year, review of items will be accelerated by the use of simplified criteria and the decision to review items after 21 months with no demand. It is expected that 75,000 zero-demand items will be deleted. Through the use of this and other techniques for item reduction, DSA centers reached agreement with the military services on eliminating 56,809 DSA-managed items and 23,844 related service-managed items.

In spite of the number of items that were deleted from those assigned to DSA and the Services, however, it was believed that greater success would be achieved in reducing the number of items in the Federal Catalog if procedures were established to control the entry of new items into the system. Accordingly, two separate projects with this objective were begun during the fiscal year.

DSA has embarked on a four-year development program which will eventually result in a "front screen". The dual purpose of purging the system of duplicate items, and barring the entry of nonessential items will be served by use of the newly developed program. Federal supply classes with the greatest item population and growth will be

the first to be reviewed. Development of automated techniques for classifying and indexing items in accordance with characteristics will be a primary objective.

The DOD Item Entry Control Office, established as an activity of DSA, developed a pilot test to determine the feasibility of performing a technical review prior to assignment of catalog numbers to proposed new items. The test will begin on 1 July 1964 at five activities, and a characteristic screening of new item proposals in seven Federal supply classes will be made. This office also engaged in studies to foster the use of existing standard items in the design development of new Military equipment.

Full-scale provisioning screening capability was attained by DSA's Defense Logistics Services Center (DLSC) in February 1964. The military services and many civil agencies have used this service to determine whether manufacturers' part numbers for new items match identical items already assigned Federal stock numbers. During fiscal 1964 \$1.97 million was credited as cost avoidance savings in the DoD Cost Reduction Program. These savings were based on elimination of unnecessary cataloging through the screening process.

Continuous emphasis was placed on the Defense Utilization Program, particularly in view of its cost reduction significance. Procedures were implemented at DLSC for centralized, mechanized matching of Military Service requirements against available assets, including acceptable substitutes, on a DOD-wide basis. As of 30 June 1964,

requirements valued at \$8.4 billion and assets of \$3.8 billion were recorded in the DLSC computer file.

The obsolescence and replacement of major weapons systems, such as NIKE AJAX and REDSTONE, resulted in many highly complex and expensive components being phased out of active inventory. Finding new uses for such equipment, which would otherwise be disposed of as surplus at a fraction of its cost, involved preparing illustrated brochures to describe these components and offer them to potential users. Seven brochures produced through fiscal year 1964 have resulted in utilization of materiel worth more than \$227 million, and during fiscal year 1964 alone the reutilization of weapons systems within DOD exceeded \$103 million.

The Defense Utilization Manual, which consolidates utilization procedures in a single reference, was completely rewritten. Integrated, cyclic screening of releasable assets against requirements, and a uniform Defense-wide reporting system for the utilization program were provided for in the revision. Procedures for retail inter-servicing at post, camp, and station level were also prepared and are being staffed with the Military Services. The value of materiel, including excess, utilized through the Defense Utilization Program in fiscal year 1964 totaled \$1,325 million, an increase of \$168 million over the preceding year.

DOD efforts to reduce supply inventory accelerated declarations of property as excess or surplus. The total acquisition value of DOD materiel utilizations and disposals in fiscal year 1964 was

\$6,828 million. Proceeds from sale of usable property amounted to \$60.7 million, a return of 6.2 percent of acquisition costs. Further details regarding these programs are given in Table 38, page .*

Centralized management of certain aspects of the DoD surplus disposal program permitted reduced operating costs and increased productivity. At the end of the year all Defense disposal operations were governed by a single DoD manual which incorporated all related policies and procedures applicable to the DSA and to military services worldwide. Mechanization of both the Defense Surplus Bidders List of potential buyers and of sales reporting operations provided a number of benefits. Examples of these are more selective sales coverage and distribution of sales catalogs, machine preparation of contracts and release documents, and continuous automatic purging from the list of nonparticipating bidders. There now exists a research and analysis capability which involves product analysis of selected surplus commodities and development of new merchandising techniques, geared to changing market conditions.

Managing the DoD-wide coordinated procurement program, whereby one military department or agency performs central purchasing of certain items for all, is also a DSA responsibility. In its entirety, this program currently accounts for annual expenditures of some \$9 billion.

* This is a DoD Table, and will not be part of the DSA Annex.
Copy attached at end of this draft is for information only.

A revised DOD instruction setting forth policies and procedures for the commodity aspects of the program was issued late in the fiscal year, and a project was started to update implementing procedures covering each assignment. A concentrated effort was made to accelerate the purchase by DSA of service-managed items which met the criteria for DSA procurement. During the fiscal year, DSA acted as buyer of about \$55 million worth of such service-managed items.

DEFENSE TRAFFIC MANAGEMENT

Two additional missions were added to the traffic management functions performed for DSA by the Defense Traffic Management Service (DTMS). In January 1964 DTMS was given responsibility for the traffic management aspects of the DoD household goods movement and storage program on a worldwide basis. Additionally, property accountability for the Defense Freight Railway Interchange Fleet was assigned to DSA effective 1 July 1964. From that date DTMS will exercise ownership and operational control over some 5,300 military-owned freight cars used to haul specialized items of defense materiel.

During fiscal year 1964, DTMS quoted 710,500 freight rates and 26,300 passenger rates on behalf of various Defense elements, issued 144,800 freight route orders and arranged 18,300 group movements. Some 22.4 million short tons of freight, 0.8 million short tons of household goods and 4.5 million passengers were moved under DTMS cognizance at a cost of \$308.8 million, \$237.7 million, and \$126.9 million respectively. DTMS estimated economies of \$19.7 million under the DoD Cost Reduction Program, accruing to the military departments as a result of use of air transportation (passenger), through-bill movement of household goods, and use of Great Lakes ports.

CIVIL DEFENSE SUPPORT

DSA continued support of the Civil Defense Fallout Shelter Supply Program through procurement, storage, and issue of shelter supplies; food, water containers, sanitation kits, and medical kits. Approximately 56 percent of shelter supplies procured for 63 million shelter spaces were stored at 67 locations occupying 4.2 million net square feet of storage space. Civil Defense Chemical, Biological, Radiological, and Engineering Program operations at four locations (three GSA and one Army) were consolidated at two DSA activities.

RELATIONSHIPS WITH FEDERAL CIVIL AGENCIES

OK Recognizing the increased role that could be played by the General Services Administration (GSA) in supply support to military activities, the Assistant Secretary of Defense (I&L) in September 1963 assigned the Director, DSA, the duty of monitoring all DoD relationships with GSA in respect to procurements and supply services. This included maintaining a review of GSA performance under approved arrangements and, in collaboration with the military departments, taking steps to assure efficient use of GSA services.

OK GSA support to the Department of Defense during the fiscal year 1964 involved sales of \$976 million, an increase of \$198 million from the previous year. A large part of the increase in sales resulted from the transfer of management responsibility for hand tools and paint from DSA to GSA. Items in these categories worth \$58 million were transferred to GSA, and \$7 million worth were turned back to the military departments. Some 23,800 centrally managed items were involved, for which DSA retains cataloging and standardization responsibilities. The value of all transfers from DSA to GSA in fiscal 1964 was \$64 million. Sales appear to be continuing at the same rate for FY 1965.

The Administrator of the GSA and the Assistant Secretary of Defense (I&L) developed a tentative agreement which identified, clarified, and stabilized the respective supply ~~supply~~ management roles of DSA and GSA. If proved feasible in practical application, the agreement, including

the criteria and other provisions embodied therein, will fulfill the DoD and GSA obligations to the Joint Economic Committee of the Congress for development of a plan for a Government-wide Supply System. To test the practicality of the agreement, DSA began studies of the feasibility, and desirability, of DSA providing supply support, on a Government-wide basis, for subsistence, medical, clothing and textile, petroleum, and electronic supplies. These studies involve an analysis of civil agency requirements in terms of range and nature of support to be provided, systems compatibility, impact on DoD, and the economic considerations that would result from consolidations incident to such support. The commodity support test results and final evaluation reports will be available late in fiscal year 1965. The DoD/GSA agreement also involved criteria for determining DSA items susceptible for management by GSA for the DoD. These criteria were under test for their feasibility in application, with the results to be available during fiscal year 1965.

In April 1964, DSA and the Federal Aviation Agency (FAA) signed an agreement whereby FAA would requisition materiel from the Defense Electronics Supply Center on a reimbursable basis. Support began in June. Initially, FAA asked for support on about 500 items of electron tubes, but this number is expected to increase. On 19 June 1964, DSA and the Coast Guard signed an agreement whereby Coast Guard units

may requisition DSA centrally managed items of supply directly from Defense supply centers. The Defense Medical Supply Center continued to provide medical materiel from DSA stocks and procurement services for nonstocked items for the Veterans Administration and the Public Health Service. Agreements with these two Federal civil agencies were made by the Military Medical Supply Agency prior to the establishment of DSA.

SUPPLY EFFECTIVENESS

DSA has established a standard system to measure supply effectiveness in two ways. One measurement--stock availability--reflects the performance of centers as inventory managers in having stock on hand to satisfy customer requisitions at the time they are received and edited. The other--on-time shipments--reflects the over-all performance of the DSA supply system in processing requisitions and shipping materiel within the time period allowed under MILSTRIP procedures. Goals were established against which actual performance could be compared.

Measured in these terms, over-all stock availability was 89.2 percent, which was above the goal of 85 percent, and on-time fill 72.4 percent compared to a goal of 83 percent. Those percentages were achieved in spite of an increase of 62 percent in the number of DSA customer requisitions from the previous year.

The degree of effectiveness varied between Centers from month to month, and while not all factors unfavorable to performance could be identified, changes in item management responsibility already described had a temporary disrupting effect. A considerable number of back-orders were transferred to DSA along with inventory capitalizations. In some cases, too, there were delays in processing requisitions at DSA depots, and particularly at temporary storage sites. This last factor has, of course, been aggravated by efforts to phase out such sites through attrition.

Improvements in supply effectiveness reporting were instituted which will make possible closer surveillance of field operations from the Headquarters. A major addition to the system was the report on depot supply performance. Plans for still more far-reaching improvements in effectiveness reporting are an essential part of the program for automating DSA operations, already described.

COST REDUCTION PROGRAM

DSA participation in cost reduction bears a priority second only to that of effective support to the armed forces. DSA's contributions to cost reduction are both direct and indirect. All of DSA's operational elements participate directly in meeting DOD cost reduction goals. DSA activities search out additional sources of savings outside the formal DOD Cost Reduction Program. Indirect contributions result from DSA activity in administering Defense-wide programs and performing Defense-wide services, such as material interservicing, item reduction and traffic management. These efforts are reflected in savings largely accruing to, and reported by the military departments.

During fiscal year 1964 DSA accomplished direct cost reductions totaling \$99 million, 14 percent over its established goal of \$87 million. The largest single item, operating expense savings, accounted for \$42 million. Operating savings were derived in large part from a redesigned distribution system and a consolidation of service functions formerly performed by the military departments. Refinement of secondary item requirements, including initial provisioning, was the second largest area and accounted for \$35 million. Value engineering contributed \$5 million, item withdrawals \$9 million, and increased competitive procurement \$3 million. An inventory drawdown of \$161.2 million, already mentioned in connection with stock funds, was credited as a one-time saving.

/Cost reduction goals for fiscal years 1965 and 1966 were set at \$170 million and \$248 million, respectively. These expanded goals reflect anticipated management improvements in all areas, but especially in the reduction of secondary item requirements and in the promotion of value engineering. Potential savings to result from the consolidation of contract administration services are being explored. New goals, internal to DDA, were also added in the areas of broadening the competitive base and in reduction of mobilization reserve requirements by broadening their industrial production base.

SUMMARY

After three years of operation, DSA was well down the road toward accomplishment of all its original objectives. Of the projected family of military standard logistics data systems, two were in operation, two others were being implemented, and the rest were entering the final phases of design. Insofar as the originally assigned functions of DSA were concerned, relationships with the military services and the Federal civil agencies were clarified and stabilized. Cooperation was close and increasingly effective.

During the last year the agency undertook new areas of activity or responsibilities not anticipated in the original DSA charter. Custody of idle industrial plant equipment was in itself a responsibility of considerable size. Moreover, it carried the responsibility for working with the military services to insure that industrial plant equipment no longer required for the purpose for which originally authorized was promptly reported for reuse. Assumption of responsibilities in the scientific and technical documentation field brought DSA into the new and rapidly expanding area of automated research information retrieval systems.

Supply of DSA decentralized noncataloged items to the Army overseas increased DSA's support activity for overseas military forces. Expansion of DSA support for Federal civil agencies likewise expanded its supply support mission.

DSA's newly assigned contract administration function was the largest new assignment since establishment of the agency. New

assignments usually involve obstacles, and the contract administration services function was no exception. Considerable facilities alteration and construction will be required for consolidation of dispersed contract administration activities of the military departments. In most cases interim minimal facilities will have to be made available through urgent minor construction projects. This will be followed by planned military construction on a long-range basis for permanent facilities. The functional and geographical realignments of personnel accompanying these installation changes will also require long-range planning to minimize personal hardships and management disruptions.

The end of fiscal year 1964 found DCA close to the fulfillment of its original management assignment, and embarking upon a second assignment of almost equal magnitude. Tentative plans were being made for still further assignments, some of them in previously unexplored functional areas. All these activities and accomplishments were in conformance with DCA's original and unchanged basic mission:

- First and foremost, to provide effective logistical support to the operating forces of all the military services in war or peace.
- Second, to provide that support at the lowest possible cost to the taxpayer.

Table 38

EXCESS AND SURPLUS PROPERTY ¹

(In Millions of Dollars)

	Fiscal year 1962	Fiscal year 1963	Fiscal year 1964
GROSS REUTILIZATION AND DISPOSALS ²	5,173	5,098	6,894
REUTILIZATION WITHIN DEPARTMENT OF DEFENSE	1,112	1,157	1,325
Wholesale Inter-Service Supply Support	353	420	396
Intra-Service	637	626	769 ^{3/}
Inter-Service	122	111	160
OTHER REUTILIZATION AND DISPOSALS	4,061	3,941	5,569
Military Assistance Program	68	11	4
Reutilization by Other Federal Agencies	203	177	190
Donations	258	233	273
Sold as Usable Property	1,236	892	980
Designated for Sale as Scrap	2,233	2,538	3,818
Other Dispositions ^{4/}	13	16	187
Destroyed or Abandoned	50	74	117
CASH PROCEEDS REALIZED	135	110	111

1/ This title retained to permit ready comparison with reports submitted in previous years. Current DOD comptroller and auditor reports list the above information under the heading: DOD MATERIEL UTILIZATION AND DISPOSAL PROGRAM. Note that the item "Wholesale inter-Service Supply Support" represents various categories of supply reserves, some of them neither excess nor surplus.

2/ Data conform with reporting requirements prescribed on 6 May 1943, and with auditor reports prepared for the Cost Reduction Program. Totals exclude intra-Service transfers of property by property officers.

3/ Includes \$66 million special conversions of major end items.

4/ Prior to fiscal year 1964 disposition of surplus combatant ships was excluded from disposal total -- \$193 million for fiscal year 1963. Fiscal year 1964 data include disposition of \$170 million surplus combatant ships.

(This is a DoD Table for FY 1963; data for FY 1964 added by DSAH-CM)