

CONGRESS AND MILITARY PROCUREMENT

6 February 1956

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Honorable R. Walter Riehlman, Congressman from New York, was born in Otisco, New York, 26 August 1899. He graduated from Manlius Military Academy, Manlius, New York, and Central City Business School, Syracuse, New York. He was director of the Industrial Bank of Central, New York; member of the Advisory Board of the Tully Branch of the Syracuse Trust Company; member of Congress since January 1947; member of Committee on Government Operations, and its Subcommittee on Military Operations.

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GENERAL HOLLIS: This will be a very brief introduction because you want to listen to the speaker far more than you want to listen to me.

Our speaker was here last year and I have read his lecture and the discussion period. I noted there was a great deal of parrying and riposte during the question period. I am sure we can duplicate that this morning.

In the event you are not familiar with our speaker's background, I assure you that he probably has a broader overall knowledge of the logistic system of the three services than any one of us does, unless that individual in the audience has had an exceptional assignment. His duties have carried him about the world. He has seen the military installations of all the services and has delved into them deeply. I am sure you can listen to his talk this morning with much profit.

It is a pleasure and a privilege to present to you the Honorable R. Walter Riehlman of the House of Representatives. Mr. Riehlman.

MR. RIEHLMAN: General Hollis, Distinguished Members of the Services: I guess that includes all of you. Are there any ladies in the audience this morning? Last year I think we had the honor of having one or two ladies present.

I am delighted to be back here a second time. Sometimes I question the thinking of those who are in charge of this college in inviting me back a second time. May I say to you that I deeply appreciate the kind remarks that have been made by the General with respect to my interest in the subject that you certainly are interested in or you wouldn't be in this college today.

Also, although I have had broad experience in this field and have had a deep interest in it, I don't know that anyone can be proficient in it today because of the changing times that we are living in and the change of many, many of the items of procurement that we have. Those, however, that I am going to deal with this morning are not so technical but what I think some things can be suggested. Certainly

things can be accomplished that will make us all better and happier with this program of procurement in the services of our great defense organization.

Now I know that my experience in the past would be on the other side of the curtain and that this opportunity doesn't always come to members of the armed services to get the second shot. I get the first; you can prepare the ammunition and then work on the old target after I have finished.

We will give you that opportunity this morning. In the approach to every phase of the question that I have or any comments I make that you are questioning, you can rest assured about one thing--I will be as honest as I can. If I don't know the answer, I will be frank to say so.

I am going to approach this subject this morning in two different phases. One of them, of course, will be to discuss this program in respect to the interest Congress has and the reasons for having an interest in it; secondly, I would like to discuss with you then my evaluation and the evaluation of the Members of Congress of the programs that we have had in the past and those that we are approaching right now in the immediate future.

To start off with, I must ask this question: Where does the responsibility for military procurement rest? In a direct sense the executive branch of our Government is charged with the responsibility for our national defense. The Chief Executive, under the Constitution and by the authority of acts of Congress, delegates to the military departments certain functions and, among others, the function of supplying our Armed Forces.

In the procurement of supplies and services for our Military Establishment, to whom are you accountable? Under our system of Government you are accountable in a special sense to the people of the United States. More directly, you are answerable to your various superiors in the Department of Defense. This means that ultimately you are accountable to the civilian Secretaries appointed by the President, who, along with the Vice President, is the only elected representative of the people in the executive branch of our Government. But, in addition to the President's role as Chief Executive, the Constitution assigns to the President the powers and duties of the Commander-in-Chief of our Armed Forces. In a realistic sense, therefore,

through the direction of the President, you have the primary responsibility for military procurement.

I am sure that many of you have either asked yourselves the question, or have heard the question posed, Why is the Congress interested in military procurement?

First of all, the Congress is interested in military procurement because our Constitution provides in Article I, Section 1, that: "All legislative powers herein granted shall be vested in a Congress of the United States, which shall consist of a Senate and a House of Representatives." Without repeating the exact language, Congress, as you know, is responsible for raising revenue, making appropriations, providing for the common defense, declaring war, raising and supporting armies and a Navy, and providing for the general welfare. These are but a few of the injunctions laid upon the Congress by the Constitution. Of course, there are other duties and responsibilities which the Congress must assume under our form of Government. Hence, there is no way that we, as Members of Congress, can put aside the responsibility of interesting ourselves in military procurement.

In addition to the basic responsibility which the Congress has with regard to military procurement, there are, of course, many collateral reasons which spark congressional interest.

It is also necessary for Congress to make sure that its Acts are not administered capriciously and that all persons having dealings with the Government are accorded impartial and equal consideration. While it is the direct responsibility of the executive branch, it may be even more than a collateral responsibility of the Congress to correct injustices, and to call attention to defections, irregularities, favoritism, or other matters of misfeasance or malfeasance on the part of any person charged with the responsibility of carrying on the business of our Government.

We must also examine the tax burden on our economy in relation to the requirements of our national defense. We should make certain that not a single dollar of our tax money for national defense is wasted and, by the same token, we should be equally certain that we levy sufficient taxes to make our national defense invulnerable.

Now, may I say that Congressmen, for the most part, would prefer not, and in fact should not have to become involved or interested

in the details of a particular military procurement. Congressmen may legislate, but they are not charged nor empowered, in an executive or administrative sense, to make preparations for our national defense.

Why, then, do Congressmen as individuals become interested in specific problems relating to military procurement? This interest is unavoidable. Let me give you an example.

Laundry "A" in Syracuse, New York, the District I represent, was asked to bid on services to be performed for a nearby Army base. The invitation for bidding called for laundering linen and dry-cleaning blankets. In due course, Laundry "A" succeeded in bidding low and in being awarded a contract. Then the headaches began!

I will not attempt to enumerate all the problems this contractor incurred. He became involved in a maze of absurd situations which probably would have been amusing had it not been for the deadly seriousness of his position.

The contractor found, for instance, that to pick up and deliver the quantities of linen and blankets would require the use of a large truck in addition to several smaller ones. On his first trip to the base, at a prearranged time, he was told that the military personnel were not ready. He was given several hundred pounds of laundry instead of several tons and the contractor thus had to haul several small sacks of laundry 50 miles in his large truck. In the end, the Army claimed that he owed 3,000 dollars for shortages in the delivery of laundered sheets and cleaned blankets. By this time, the contractor had become hopelessly involved with the Finance Officer, the Legal Officer, the Quartermaster representative, the First Army Commander, and even the Pentagon.

You ask why Congressmen become interested in procurement! Did I seek this involvement? Should I have become interested?

This example is not unique. In much the same way, I am sure, the 434 other Congressmen and 96 Senators have had procurement problems called to their attention. This interest in the details of military procurement was developed in their efforts to solve problems which were besetting their constituents.

Now may I turn to another phase, the investigative activities of the Congress. While the Committee on Armed Services and the

Committee on Appropriations in both the House of Representatives and in the Senate, have a direct concern and interest in your problems and your activities, including procurement, I would like to turn briefly to the work of another House Committee with which I have had some familiarity. It is the Government Operations Committee, which acts as a service organization for the Congress.

During the 83d Congress I was Chairman of the Military Operations Subcommittee which investigates and reports on military activities. Some of you may recall the work of that Subcommittee during the 81st, the 82d, 83d, and during this 84th Congress which reported on investigations of numerous procurement situations, all of them bad procurements, of course. The good procurements you make are not brought specifically to our attention. In all probability, both you and I take them for granted.

May I at this point inject this thought and I want it indelibly registered upon your minds that the Members of Congress have no intention of indicting the services along the lines that all of their procurement programs are bad. They are not and we know it. But I must immediately inject this thought, that it is our duty to call your attention to the bad ones because that is where we gain ground and where we learn by our mistakes, and I hope you will understand my approach to this important matter.

During my tenure as Chairman of the House Military Operations Subcommittee, it was my policy to investigate and report on military operations, not only from the point of view of procurement misadventures, but also from the point of view of program analysis. Examples of the latter are Military Supply Management; Disposition of Surplus Military Property; and the Organization and Administration of Research and Development in the Military Departments, a subject of which I am keenly aware, that needs to do promotion, and one of the most important programs that we have today to consider if we are going to keep abreast with the problems we are confronted with in this modern age.

Up to this point, I have spoken descriptively of congressional interest without applying a judgment to the value of that interest. I have tried to show that Congress has the responsibility as well as a deep concern for, and an abiding interest in, procurement.

Congressmen feel accountable for what their party in the executive branch does. Moreover, this accountability is an integral part

of the operation of our two-party system. Political opponents are seldom modest about attributing procurement blunders to the party in power in the executive branch. The interest of individual Members of Congress follows quite naturally. This interest, in my opinion, is worthwhile and salutary.

Congressional interest, through its investigative powers, produces a wholesome effect upon administrative activities. Whether a department head likes it or not, he is constantly reminded that his activities and his decisions are subject to review by the Congress and its committees. In this way, an official in an Executive Department becomes acutely aware of the fact that his official business is synonymous with the public's business. The investigative process and powers of the Congress are such that detailed and minute actions of previous years are reconstructed, analyzed, justified, and reported to the Congress. In a great many instances improved administrative practices have resulted. Therefore, I am sure that we would all agree that appropriate and constructive investigations by committees of the Congress are an additional, as well as a necessary, function under our system of Government. You will note that I have said appropriate and constructive investigation!

Let us turn to the effectiveness of committee recommendations. What are the effects of the recommendations of congressional committees on military procurement procedures and practices? Our experience on the Hill has not been a disappointing one. Evidences of progress in effectuating our recommendations are observable each year.

As most of you know, reports of committee studies serve many purposes. Recommendations which call for administrative remedy are called to the attention of the Secretaries in the military departments. Certain other recommendations are directed to the General Accounting Office for further study, or for audit, or to assist in improving accounting methods. Each report is transmitted to the Chairman of the Committee on Appropriations, the Committee on Armed Services, in both the House and in the Senate. Some of the reports contain information and make recommendations which are considered in subsequent legislation affecting the Military Establishment.

Occasionally committee reports contain recommendations which have resulted directly in a proposal for remedial legislation. I recall a recent instance in connection with the Navy procurement of TACAN which resulted in the introduction of several resolutions.

Although not passed in the first session of the 84th Congress, the resolutions conveyed to the executive branch the concern Congress had regarding a particular procurement.

I am frequently informed of the effect of our recommendations. Recently, the Subcommittee held hearings and reported on a situation involving an excessive procurement of a flavored fruit drink. Some of you may recall this particular case involving a procurement by the Seattle Naval Supply Depot for Military Sea Transport Service, Seattle subarea. (This report is entitled, Navy Procurement of Beverage Base for Military Sea Transportation Service Report, and is identified as House Report No. 1471, the Fourth Intermediate Report of the Committee on Government Operations, 84th Congress, 1st Session).

In order to illustrate an example of the good effects of the work of a congressional committee on procurement practices, may I request your indulgence while I read some of the committee's observations and recommendations regarding this particular Navy procurement.

"1. The Subcommittee is constrained to repeat its observation on the character of the Navy investigation. It was strikingly inadequate.

"2. The Subcommittee therefore recommends a change in regulations which would enable a supply depot and its Board of Contract Review to exert stronger control over requirements from activities which they service.

"3. The Subcommittee recommends that the Navy Department take steps to improve the manner of selecting the members of the Board of Contract Review in order to make this device an effective independent check on procurements."

The report was transmitted to the Secretary of the Navy on 27 July 1955, calling to his attention the recommendations and observations of the committee and asking for a report on his actions to correct the situations described. On 2 December 1955, the Honorable R. H. Fogler, Assistant Secretary of the Navy (Material) replied to the Chairman of the Military Operations Subcommittee in a manner which indicates concretely how congressional interest affects military procurement.

I shall read only portions from this Navy letter, but the entire letter will be made a part of my presentation (page 27).

"This case troubled me for several reasons, and seemed to indicate that the Navy needed to take several corrective actions. Your interesting report has been very helpful as I have pursued the matter with those Navy officials who were concerned with its various phases.

"I believe we can now conscientiously report that appropriate action has been taken in every direction which seemed to be indicated by this case. More specifically we have taken the actions enumerated below.

"In accordance with the recommendation of the Subcommittee we have revised the regulations governing the conduct of Contract Review Boards. The Bureau of Supplies and Accounts' instructions have been changed so as to require that the senior member disassociate himself from the Contract Review Board when the purchase under consideration is one where the senior member has been responsible for the principal elements of the proposed purchase. Further action has been taken to modify Contract Review Board organization and procedures as follows:

"a. Whenever practicable, members of the Contract Review Board will be individuals who are not under the direct supervision of the senior member of the Board.

"b. The Commanding Officer, Officer in Charge, or Supply Officer as the case may be, of the activity concerned will take appropriate measures to insure that important or controversial cases will be referred after Contract Review Board action to a superior echelon within the activity for final decision prior to making award.

"c. Adequate documentation will be made of the Contract Review Board actions so that the written record will indicate whether prescribed procedures were complied with."

You gentlemen must realize, of course, that sometimes our reports do not get such wonderful concurrence as this. I want, however, to congratulate our leadership in the Navy Department for a forthright letter.

During the 83d Congress, I instituted a policy, which was at least unique for this committee, of following up committee studies

and reports thereon. I am pleased to say that the present chairman is following the same policy.

The failure to follow up committee reports has been, at least from my experience, one of the great weaknesses of congressional work. The policy has produced some tangible results. I am assured, furthermore, by the Secretaries, that this procedure is of considerable help in keeping the departments aware that our work is not promptly to be forgotten.

In summary, I should say, first, that the chief responsibility or duty for procurement is yours.

Second, the Congress' responsibility is not restricted solely to legislation. The congressional interest does spill over into administrative operations.

Third, congressional interest is worthwhile and salutary.

And, finally, Congress has the ways and means to enforce its recommendations, though sometimes not as direct as we in Congress might desire.

I want now to turn to the other part of my assignment. You have asked for an evaluation of the effectiveness of present procurement practices. This is not a small task if I were to do justice to the topic. You are no doubt familiar with the recent directive which is intended to improve procurement practices. This involves a more definite break from both past and present practices. I am referring particularly to Department of Defense Directive 5160.11, dated 4 November 1955, assigning to the Department of the Army responsibility for single manager control of subsistence supply. More recently, on 31 January 1956, Department of Defense Directive 5160.12 was issued to establish a basic pattern of organization and procedures for single manager assignments.

These two directives are the most recent manifestations of the Department of Defense's continued search for an improvement in the management of military supply of which, of course, procurement is an integrated function. However, there is no assurance that these directives will quiet the persistent opposition which has been aimed at efforts to develop an integrated program of procurement.

In my analysis I want to cover (1) some of the history of various procurement plans; (2) some of the controversy which revolves about the various plans which have been considered; (3) the elements of this program; (4) the criteria which I, as a Congressman, will want to use in judging the effectiveness of this new program; (5) some of the pitfalls which I can see in the new concept; and (6) a general evaluation of this most recent approach to supply management.

As a result of World War II experience in supply management, several plans for improvement have been offered and some have been tested. In 1944, before the 78th Congress, General Joseph T. McNarney, Deputy Chief of Staff, outlined a single department organization with a Director of Common Supplies Service, who would hold a rank equal to the Secretaries of the Army and the Navy and who would report directly to the proposed Secretary of the Armed Forces. This was among the first of the proposals for a pure "fourth service" of supply.

At about this time General Brehon B. Somervell emphasized the importance and necessity of unification, particularly with respect to supply management. General Somervell's experience as the commanding general of Army's service forces during World War II made him a competent authority for advancing the "fourth service" concept.

In April 1945, the Joint Chiefs of Staff, reporting on a statement of the special JCS committee on the Reorganization of National Defense, concurred generally in the idea of a single agency of supply for the Armed Forces, but demurred on the timing of such a move as a first step for the reorganization of the military departments.

In later statements, General J. Lawton Collins, Chief of Staff, Department of the Army, similarly expressed a need for such a different method of operating service activities for the military departments but declared such a step would not be feasible. General Dwight D. Eisenhower, then Chief of Staff for the Army, also expressed before a Committee of the Congress his views on the need for a more integrated approach to supply management. At a later time, in a statement to a Committee of Congress which visited him while he was Commander of NATO forces, he modified his views by saying that he felt a "fourth service of supply" should not be pushed at the time.

After the establishment of the Department of Defense, interest in improving methods for integrating procurement continued. The most noteworthy of these is found in what is now known as the single

service procurement assignments. A broad range of items of supply were studied to determine the feasibility of assigning procurement responsibility to one service. This principle was expressed, in a Department of Defense directive of 17 July 1951, issued by the Honorable Robert A. Lovett, Acting Secretary of Defense, as a basic policy to govern the Department of Defense supply system. I am sure that many of you are familiar with this directive which, in my estimation, unfortunately developed into kind of a New Year's Resolution rather than an implemented course of action insofar as any great change in procurement practices were developed.

This directive led to what is now already known as the famous Alameda Medical Study. Without attempting to comment on the difficulties experienced in the operations of the Munitions Board, the case history of that study is well known to many of you.

At about this time the Munitions Board identified 17 commodity classes for study to determine how each might be organized for integrated management. These studies were assigned by contracts to various universities and to several committees of the Munitions Board. So far as I have been able to determine, two of these studies were published, the Medical Services Report and the Subsistence Report. Both of these reports received detailed analysis by each of the service departments, by the Joint Chiefs of Staff, and the Munitions Board. Although the Munitions Board proposal for medical supply management was broader in scope than the operation existing under the Armed Services Medical Procurement Agency, its acceptance by the Department of the Navy was bitterly fought. The Department of the Navy strongly objected to the recommendations of the study, stating that it was:

"Fundamentally . . . a thinly disguised single service medical supply system, purported to be a joint operation by virtue of joint staffing. It leads directly toward a different type of supply service organized along commodity lines and it advances one step nearer a single supply service. If such a service is being advocated, it should be approached directly and on its own merits. In no case should the services enter upon a single supply service by the back door route of commodity supply systems."

The Army agreed with the proposed concept of joint medical supply management. It endorsed the concept of single service operated distribution depots for medical material and believed that the

system of single service operated distribution depots should be extended throughout the continental United States. Although the Air Force concurred in general with the plan, it was definitely against the proposed division of responsibility for determining requirements. The Air Force considered the determination of requirements to be entirely a departmental function.

The subsistence study which was reported out early in 1953 had the same reception with the military departments. In fact, it appeared as though the concept of the fourth service of supply or any integrated system was doomed by the statement of the Assistant Secretary of Defense for Supply and Logistics in the fall of 1953, when Mr. Thomas stated that under no circumstances would the Defense Department entertain any programs which approached the concept of an independent fourth service of supply.^{1/}

During the 83d Congress the Subcommittee of which I was Chairman investigated and reported on several case studies of procurement under a single service assignment. One of these will be familiar to you as the Navy Procurement of Forklifts, the famous Gibson forklifts. Incidentally, I understand from a recent hearing by this Subcommittee that the Navy has already sold at auction all of the Gibson forklifts which it procured for itself. The fate of the 600 forklifts which the Navy procured for the Army is not yet known to me. Am I correct in my feeling that the Army was very unhappy with the Navy's administration of this particular procurement?

If, under the single service assignment program for procurement, it is the policy to limit this program to advertising, awarding, and contract administration, I do not believe it will be very effective. Such a limited procurement concept disregards entirely the challenge of requirements, standardization, and assigning accountability for the purchases. As I see the program of single service assignment, it is simply one of taking a departmental purchase order, placing it on the spindle with other orders, and going through the paperwork of seeing that a contract is awarded.

In 1952, the Congress included in the Defense Appropriation Act of 1953, Section 638, commonly referred to as the O'Mahoney Amendment.

^{1/} See memorandum of 13 November 1953 from Assistant Secretary of Defense (Supply and Logistics) to the Departments of the Army, Navy, and Air Force.

This amendment listed all the sins of alleged procurement problems against which the Congress had declared itself. As a means of fighting the sins against which Congress was opposed, the Department of Defense came out with the famous Directive 4000.8. It was clearly stated in its preamble that the purpose of the directive was to establish basic regulations designed to achieve an efficient and practical operation of an integrated supply system.

After an ill-fated attempt to draft anew a whole code military supply system regulations, the directive lost force and was relegated to that morgue where a great many directives are scheduled to rest.

As in the 17 July 1951 directive, the Department of Defense, in 4000.8, stated that single procurement in the form of single department, joint agency, or plant cognizance shall be effected whenever it will result in net advantages to the Department of Defense as a whole, except insofar as it can be demonstrated that such procurement will adversely affect military operations. It soon became obvious that the military departments believed that any great departures from the departmental method of procurement affected military operations adversely.

Up to the present time there have been two and possibly three attempts at joint service procurement. One of these was the now defunct ASTAPA, the Armed Services Textile and Apparel Procurement Agency, which met an early demise in the Halls of Congress over requests for appropriations. This organization did not stay in existence long enough to afford any experience for a judgment on its own merits of joint procurement of textiles and apparel. Based on the information which I have available to me, ASTAPA's early death was due to the presence in the joint agency of an unwilling partner, or partners.

Since a joint service agency can succeed only if each of the departments desires to conduct an operation designed to fulfill the objectives for which it was created, a similar fate can be expected of any other organization imposed by the civilian Secretariat upon any unwilling group of partners joined to carry out a specialized mission. I hope the single manager assignment program does not meet with these difficulties.

The Armed Services Medical Procurement Agency, commonly known as ASMAPA, received some attention by my Subcommittee in

the 83d Congress. This case is written up in the report of the procurement of blood-shipping containers. While the Subcommittee's investigation could not exactly be called a survey analysis of the agency, the inquiry did give us an insight into some of the problems of joint operation. The operation appears to suffer from the restriction placed upon it of dealing solely with the paperwork of procurement

On the positive side of joint service purchasing, I believe this system does permit an opportunity for voluntary exchange of information among the three departments on the amounts and kinds of materials which should be bought to minimize preclusive buying. This system also has the advantage of providing one office in the Department of Defense to which suppliers and vendors can come to discuss procurements. In addition, this system affords means for making more uniform the mechanical process of military purchasing. Although the problem of coordinated review of requirements and of standardizing specifications is placed in a better climate for the resolution of differences, there is no assurance that the voluntary arrangements of this agency has brought this about.

Military procurement received much attention from the Hoover Commission Task Forces. The most prominent proposal discussed was the one concerned with the establishment of a Defense Supply and Service Administration with an administrator who would have the same status and compensation as the heads of the military departments. On 13 July 1953 a Senate bill was introduced to establish such an administration, and was referred to the Committee on Government Operations. In the House, H. R. 7316 was introduced on the same day and referred to the Committee on Armed Services. No action was taken on these bills.

As it might have been expected, this particular Hoover Commission recommendation has been the subject of considerable controversy. The Commissioners themselves were not agreed on the wisdom of this course of action. Commissioner Clarence Brown's criticism of the recommendation is shared by many Members of Congress. In the main, he said the Congress has provided for the establishment of the GSA for buying, stocking, and distributing items of common supply to the various departments of the United States Government. It appeared to Mr. Brown that the Hoover Commission recommendation would be a step in setting up a military GSA. He could see no economy in setting up another bureaucracy to handle this function.

Commissioner Holifield, although he was generally in favor with the objectives to be accomplished by the type of organization recommended by the Hoover Commission, believed that neither the Task Force nor the Commission had made an adequate study of the proposal. Furthermore, Mr. Holifield also raised several other questions which he believed would make the proposal the center of considerable controversy. I heartily agree with my colleagues on many of the questions they have raised.

In the United States Chamber of Commerce bulletin of November 1955, the Pentagon's statement concerning the acceptance and rejection of the Hoover Commission recommendations was strongly criticized. Much was made, the bulletin states, of the fact that 15 Commission and Task Force reports had been studied and that 203 recommendations had strong Pentagon support. Thirty other recommendations in these 15 reports were either rejected or received only qualified concurrence. The Chamber of Commerce correctly pointed out that this analysis did not include some of the very important ones, especially the ones dealing with "Business Organizations of the Department of Defense," "Food and Clothing," and "Transportation." Nor did this analysis include the Task Force reports on "Procurement" and on "Special Personnel Problems in the Department of Defense." The latter reports contain nearly 100 additional recommendations.

Furthermore, according to this bulletin, the remaining reports contain most of the recommendations which would account for the greatest amount of savings that are known to be possible in Defense Department operations. In the press conference held by Secretary Charles E. Wilson, and Charles A. Coolidge, Special Assistant to the Secretary on Hoover Commission Reports, on 16 November 1955, the Department of Defense was frank in admitting: "I think it is fair to say that we decided, we started maybe with the more non-controversial ones and in some of these later reports you will have some tough problems in them."

As early as July 1953, the Military Operations Subcommittee urged that the final recommendations of the Munitions Board for effective and integrated supply management in the areas of medical and dental supplies, and of subsistence, be implemented immediately, for a minimum period of two years. While the Subcommittee realized the many problems which would attend such an operation, it was felt that the commodity-class approach to integrated supply management

was the best way to gain experience which might ultimately be extended to a wider range of commodities. I, for one, am deeply gratified at this step which the Department of Defense has taken, primarily for the experience which it should gain from this type of operation.

The single-manager system for subsistence differs only in minor details with the proposals of the Munitions Board for integrated supply management along commodity-class lines. Basically, this proposal, as spelled out in 5160.11 and in the basic pattern policy statement in 5160.12, contains elements from some of the experiences acquired under the single service assignment program, and from the joint agency operations. In addition, this plan is based upon the introduction of a single stock fund concept superimposed over the departmental stock funds.

Another basic element of the subsistence plan calls for the creation of a subsistence stock fund division for the procurement, financing, distribution, and sale of all wholesale stocks. This is to me a significant development. Prior to June of 1953, such a move as this would have been almost impossible. In 1953, only the Department of the Navy was operating under a stock fund charter for its items of general supply. Since that time each of the services has instituted programs for monetary inventory control of all supplies as well as stock funds for certain commodity classes, namely, subsistence, medical supplies, and clothing. Even if not achieved to the degree desirable, cross-servicing was made possible by virtue of the stock fund operation alone. Moreover, the extension of stock funds to each of the services, under charters from the Office of the Secretary of Defense, made it possible to achieve a transition to any proposal for more integrated supply management and procurement whether it be a fourth service or a single manager concept.

Again, as early as 1953, the Military Operations Subcommittee recommended that an experiment be made with a single stock fund within a program for single service distribution to support three services for a given category of supply in order to determine its practicability and applicability to common-use standard-stock categories of supply.

Some of the elements of the joint agency concept are incorporated which may give this program some trouble. I am referring to the existence of the subsistence advisory group which is a committee composed of a representative from each military service and the single

manager. I notice that Directive 5160.12 calls this an Administrative Committee. This group was established for the purpose of providing cooperation in the solution of operating problems. So long as this committee does not take on a dominant role which would lead to compromises stemming from back-scratching, its function and objective is a legitimate one. Again, I note 5160.12 has wisely ordered that "this Committee is neither a policy board nor an executive directorate."

The single manager proposal is better than the plan under which the joint agency for medical procurement operates in that the issue of joint ownership is met head-on. Under the single-manager system, I am given to understand, all stocks at the wholesale level will be owned and managed by the manager.

At this point, I would like to suggest a compromise which appears to overcome some of the disadvantages of the fourth department concept. I would propose to place the Office of the Secretary of Defense directly in the operational task of supply management. I realize that this is a departure from the present policy. However, I do not believe that there is any administrative principle that is so inviolate that a consideration to making an exception cannot be entertained in order to provide for a strong defense department with the greatest economy and effectiveness. Such an arrangement would not only prevent the development of a rival fourth organization, but would also place the function of supply management in an authoritative position in the hierarchy of the organization of the Department of Defense. The authority and responsibility for supply management would rest directly and operationally with the Secretary of Defense himself, who could effectively provide a strong leadership in the face of interdepartmental bickerings.

As this program is implemented, I, for one, and I am sure that other Members of the Congress as well as certain committees of Congress, will follow closely the operations of this new program. What kinds of things will be watched and looked for during the next six to nine months?

The amount of support given to this program by each service will be closely analyzed. Since everyone knows that any one service can effectively sabotage a program, either administratively in the Department of Defense or even before the Congress, a watchfulness will be maintained to determine whether the tactics which resulted in the demise of the Armed Services Textile and Apparel Procurement Agency will be repeated.

The Congress will want to be assured that the establishment of a single manager for subsistence at first, and later for four other commodity classes will not become merely a token advance in the improvement of procurement and of supply management. Since the subsistence program will not be in full operation for several months, it will take at least another six months, I suppose, before the Department of Defense will say that it has gained enough experience to institute another commodity class for operation under a single manager. It is conceivable, as you can see, that such a lengthy trial and error would take another ten years to bring about a significant change in our supply organization if some 17 commodity classes of common-use items are eventually to be covered.

I will be especially alert to progress made in the simplification of purchasing procedures. This is the one area where the military activity impinges directly upon the public.

Another area which will be watched is the progress made in the development of standards and specifications. While this may not necessarily be true of subsistence procurement today, each service may feel that it needs a special color, packaging, design, and standards. The complexity in drafting specifications is understandable but the existence of onerous differences in these specifications has become intolerable. I do not believe that the standardization program has made as much progress as was hoped, or as is physically possible, had the program been sincerely tackled by each department.

Improvement in the utilization of warehousing and storage facilities is never more greatly needed than it is today. I would like to have the Department of Defense report to the public and to the Congress as soon as is possible on the savings which will have been achieved through a more efficient utilization of warehousing and storage facilities under a single-manager system.

The single manager approach to supply management by commodity classes is, in my opinion, a sound interim program. I am quite concerned that each commodity class with its single manager may require a large overhead organization which will be duplicated 17 times. I am not sure, however, how much savings will accrue from this type of operation or whether it can offset the added cost of such duplicating overhead organizations. However, I am inclined to believe that the savings will outweigh the cumbersome system of the independent service approach to supply management and procurement.

I fear also that in this process that the General Services Administration will be left out in the cold. While I am not proposing it at this time, it is an interesting thought that no one has suggested placing the present GSA under a fourth service of supply. This is not an unreasonable suggestion considering the fact that the procurement of services and of common items of supply by the Department of Defense exceeds by a factor probably as large as 10 that of procurement for all the other agencies of the Government. Please note that I am not advocating this proposal.

I am not too greatly impressed with the magnitude of the task for setting up a single manager program in subsistence. Nor will I be too impressed with the additional assignments of petroleum, medical-dental, clothing-textiles, and photographic equipment to the single manager control, if that is where we stop. After all, subsistence is the one commodity area on which there is probably the least disagreement as to the commonness of the item to each of the departments. While navy beans may not suit Army fare, I am sure that the great State of New York could easily develop a bean suitable to both soldiers, airmen, and sailors. Seriously though, this area should offer the least obstacles. This is the one area for which, three years ago, all items of supply had been identified according to the Federal Catalog. (This is equally true of the medical items and clothing-textile classes. Medical items along with subsistence are completely identified according to the Federal Stock Catalog. Also, all of these areas are operating under stock fund charters).

While the amount of money spent on subsistence out of the military budget is not insignificant, it remains only one fractional part of the total procurement outlay in common-use item expenditures.

This project should, therefore, be regarded by no means as a substantial revision of military supply management or procurement but as an experiment or a study of procedures and feasibility. In this connection, I might add that there has been no dearth of feasibility studies by the Department of Defense. If the military departments are sincere in bringing about a more economical and efficient supply management organization, the other commodity classes of common-use standard-stock items must be placed under similar programs as soon as possible in order not to delay reaping the benefits from such programs.

I believe we are definitely headed in the right direction. I am convinced that it is inevitable that the day will come when some type of single organization operation for supply will have to be met head-on.

I differ with the Navy in the evaluation of this trend. Obviously the Navy was against both the trend and the fact that it was a back door or indirect approach. I would always advocate a direct approach to any problem. However, if the opposition used tactics which would doom progress, I might advise another course. Progress and improvement we must have if we are to achieve our National Defense goal.

I do not wish to be understood that I am necessarily a proponent of a fourth service of supply which would establish a fourth independent department in the Department of Defense. I make the distinction that I am clearly in favor of a single organization management of the business activities of the Department of Defense. Whether a fourth service in the DOD is the only way to accomplish this, I am not prepared to say. I don't believe anyone is. I am inclined to believe that some system or organization can be evolved from the persistent desire by the departments to overcome weaknesses of the independent approach. The commodity class approach appears at the present time to be the best immediate and intermediate step which has been developed provided we expand rapidly enough into a significant number of commodity classes.

QUESTION: I would like to ask the reason for making this fourth service, and so on, all civilian. We have a great many officers, in fact many thousands of enlisted men, who have a great deal of experience in logistics and who need to keep that experience when they come to the States because they have to operate these facilities overseas. But why is there so much of an effort to put all that in the trash can and put in nothing but civilians in the fourth service?

MR. RIEHLMAN: A very good question. I hope we will never dump any of these boys in the trash can. They are very important to the program.

May I say that I do not propose to put civilians into our overall program. We have got to depend on the military people to evaluate their needs. It will be in the upper echelons that civilians will make decisions.

I think this decision is well founded because I can very easily understand how partial we can get to the Congress's side of an issue and forget all about the military. So the civilian would have to take a very broad and careful look at all aspects. I think there is a good balance that we must maintain. That is the only reason I would advocate it, but we would never advocate that civilians go down into the services and help make all the decisions. They would make the final decision. The military people have to be depended upon in the first instance to understand their needs and their requirements, and we have faith that they do know. They make mistakes, honest mistakes, many, many times, but the final evaluation rests with the civilian. I think it is a good balance.

QUESTION: It seems to me that we are messing around with trying to marry a functional approach and an organizational approach, and the handwriting you have put on the wall for us is something we have to live with and accept. I would like to suggest and get your reaction to a solution of this Gordian knot requirements for national security by dividing the Department of Defense into three parts: the combat functions, where the military have charge of making up requirements; the service functions, which would be the business end of the defense activities and which would include some of the technicians in uniform; and, third, the political functions which would be the appointees and electees who would have the sole responsibility of dealing with all fiscal, financial, and congressional investigations. That would leave the military combat forces--which could very well be composed of land, sea, and air elements--free to do their job of conducting wars.

MR. RIEHLMAN: You have suggested a very interesting study. It is very interesting for this reason, that just this weekend past, one of our greatest generals in this Nation said pretty nearly the same thing to me that you have just said this morning. I would be more than unfair to this distinguished group of men to try on this short notice to comment constructively on your approach. I think it is one that might be studied very carefully because we in Congress all the time hear of the interference into the defense phases of the Military Establishment, particularly the political phase of the thing, where Congress and other people harass the department and draw on these people to answer some political problem.

I think it is a constructive approach and one that has merit. I would like to study it before I try answering the question.

QUESTION: In the light of the possibility of nuclear attack wiping out most of our big cities and communications facilities and transportation facilities and thereby our centralized control, wouldn't it be wiser to allow the three services to develop duplicates in the various areas of the country in the hope that maybe one of those would remain after the fallout had drifted away?

MR. RIEHLMAN: You are talking about subsistence?

QUESTION: I am talking about any of it.

MR. RIEHLMAN: If I understand the approach to it correctly, the items that we would be procuring through the single manager would be stored all across the country in all types of warehouses. They would not be confined to Army, Navy or Air Force. You might have one commodity stored in New York City, one in Georgia, one in the Midwest in St. Louis. They would not be stockpiled in one area where one blast would eliminate many of the common-use items. I think my understanding of that is correct. Therefore, should what we hope never will happen, happens, if New York were wiped out, we could draw on Georgia or St. Louis. It would be spread out wherever the single manager felt was the proper place to warehouse it, and it would be shipped from that warehouse to the other services.

QUESTION: I apparently didn't make myself clear. I was referring to the manager of that stock. There will have to be a shifting of these stocks from one area to another. If we haven't the facilities for centralized control to shift supplies and stores to where they are needed, who is going to do that? The storehouse in Norfolk won't be of interest to Newport or any other activity. Somebody will have to direct them to shift supplies to areas where they are needed. In other words, if you have one central manager and he is wiped out, you have no control. Then who would direct the shift?

MR. RIEHLMAN: I would think this, sir, that it would be practically impossible to have that happen for this simple reason, that I am sure the single manager would delegate authority to all of the areas where these supplies are now housed, that in case of emergency whoever was in charge would have authority to immediately move out any item that was needed by any of the three services. I would hope we would never allow this program to get into a position where delegation of authority in case of emergency would never take effect. That would be a drastic position to be in and I don't think it would ever happen.

QUESTION: I don't want this question to be taken as impertinent, sir, but I would like to suggest that perhaps as well as the military doing something to bring about a single manager, it would be helpful if perhaps the Hill would, too, so we would not get diverse interests and crossfires. A good example is one I got on construction in Spain stating I went too much or not enough into mass planning of facilities. Within the same week another committee criticized just the reverse thing. Is there any way we can be protected by having some better coordination or single-manager concept on the Hill?

MR. RIEHLMAN: A very good question, sir. I will take it seriously because I think you have a point. I agree with you 100 percent that our committees should not go into the field of activity that another committee has already made an investigation of and issued a report. I think it is most unfortunate.

Let us just look briefly at the program, the one that deals with the problem you mentioned. You have the Armed Services Committee and the Committee on Appropriations. One authorizes and the other appropriates. Both have legitimate interests in what the Department of Defense does with the authorization and what they do with the appropriation, and the way they administer them.

Largely those people are promoting and fostering a program, which is proper. On the other side, largely you have a committee which I have been a member of ever since I have been in Congress and which we might call the "watchdog" committee. We are always wanting to know if proper consideration has been given to construction programs, procurement programs, and many other operations, which is proper and which is correct. I think we have to have that balance.

But I go back to your suggestions that there should not be a duplication and it is one thing we are fighting today. The chairman of the committee I am on--and I say this with all respect for my chairman--today is asking for seven or eight hundred thousand dollars with 10 or 12 subcommittees working and I am sure there will be duplication. I am criticizing my own committee. I think it is wrong. I do think it is wrong to take Colonels, Generals, Captains, and Admirals from their jobs to answer two or three different committees on the same subject. I agree with you 100 percent on this point. Something should be done, I had that brought to my attention at breakfast because a subcommittee is going into a foreign affairs activity which this person felt it has no background for.

By and large, the men on the Hill want to be fair. We have two different approaches, but you get an enthusiastic leader and you get people sometimes--and I say this very seriously--who are more interested in headlines than anything else. I may have gotten headlines while I have been in Congress, but I didn't seek headlines. I don't object to headlines if the fruits of my efforts are worthwhile. I am absolutely in accord with the suggestion you have made, in that we not be allowed to go all over the field in the military organization with four or five committees and not have any general direction in our program of investigations. I thank you for asking the question, and my observation and my feelings are soundly on the record.

GENERAL HOLLIS: I am breaching a convention that we leave this period for the students. I would like to make one observation and then ask a question. I think individuals in the military service who look at a fourth service of supply as undesirable have one real basic fear about the fourth service, that is its responsiveness to the needs of the troops or forces in the field for a given item. There is a legend--I am sure it is true--that General Somervell early in the war made the statement that either we are going to have this number of tanks in the hands of Field Marshal Montgomery in North Africa by the first of the month or we will have some new Major Generals, and he did get them.

I think the cause of debate is occasioned by the difficulties inherent in procurement. There might be a tendency for the single manager or the fourth service to say, "You can't have that extra speed in that tank. You can't have that extra range in this tank or missile. You have to be satisfied with what we think is feasible for that particular weapon." The combat forces do not have the last word on that. I think the only way that can be done is by direct military command authority which exerts that force.

I would like to ask first if you would comment on how that could be achieved and, secondly, I would like to ask whether you think the fourth service should look after that point, which I think is an important one.

MR. RIEHLMAN: I think you are exactly right, General, in your approach to that problem. I know there must be fear in the minds of our people as to what will happen. But the items which will come under the fourth service of supply will never be of strategic value such as a tank, an airplane, or a missile. This service deals in common-use items which should be stockpiled in areas

convenient to all services. When a request comes from the Navy to the Army for subsistence, that should go through rapidly, and someone should have complete direction, and immediate decisions can be made to move it out. They will have to depend, of course, on the integrity and the responsibility that this man carries in asking for whatever subsistence he wants for a certain area. We have to rely on the military to do that. The only thing that the single manager will know--and I will get to the last part of your question--the single manager will know what we have in our warehouses. He is always buying to fill those warehouses from these receipts that come from the three services from their supply funds. So he should never be in a position where he couldn't supply any service with any common-use item which they request. Now the decision as to who is going to direct it is the direct responsibility of the Secretary of the Army who has this responsibility for procurement, as I understand it, and he should be in a position to respond, through any one of his officers that he delegates authority to, immediately to any request from the services. Maybe I haven't answered your question satisfactorily.

GENERAL HOLLIS: I think you have, sir. Perhaps I was under a misapprehension. You mentioned 17 categories, and there was implicit in your remarks the thought that, if we did go to a fourth service, it would embrace all four services' procurement. At the present time we have the Marine Corps, so you would have a fifth service and it would really become a fifth service of supply. Yet that is running its procurement side by side with each of the other four services which are involved with weapons and technical equipment. So it would appear that that doesn't constitute economy in the utilization of personnel.

MR. RIEHLMAN: I am fearful of that very failing, but I don't think we will ever be able to answer that question. It is being pushed by many people to try it, and if we try it with certain commodities--subsistence, medical, dental--and it is successful, it will let us expand to try others. Petroleum, I guess the Navy has been handling practically all petroleum procurements for years. We will then have experience to judge whether we should expand any further or not on these other commodities.

I have a feeling we should let the Secretary of Defense handle it. You know what kind of scrambling there will be when you get 17 different commodities assigned to three services. Two of them, if we stick to 17, would have six supply item categories to buy and the other

would have five. Each one of them, remember, would have the authority to set up this revolving fund, and they would be buying from all these different services.

If the Army had six supply categories, it would have six funds and it would have to furnish to all of the services out of these six different funds. Can you envision what he is going to have in the way of personnel to take care of it?

I have suggested we consider having one overall fund from which every one of the services would buy, and then send their requisitions and their checks or vouchers to this special service. I could suggest Mr. McNeil, who is the comptroller in the Department of Defense. Something like that is going to happen because I can't believe and I don't think any one of you can believe we can have 17 different operations going, 17 stock funds, 17 different purchasing groups handling all these items, crossing each other all over the field. You could do it under one and have them set up separately, as I understand it.

I have my fears and doubts but I am definitely in favor of trying it. If we don't, we won't have the answers. If we try it and have failures, we can try something else. Congress wants to see something done; the Department wants to have it done. Let us take one item, try it for a year or two and see how good or bad it is going to be. We can decide where to go from there.

COLONEL SMITH: I am awfully sorry but the time has run out. Thank you very much for taking yourself from the Hill at a time when you are extremely busy to talk to us. On behalf of the College, I thank you very much.

(6 Apr 1956--250)K/feb

DEPARTMENT OF THE NAVY

Office of the Secretary
Washington

2 December 1955

My dear Mr. Chairman:

This is in response to your letter of 27 July 1955, enclosing a copy of the report by the Military Operations Subcommittee of the Committee on Government Operations entitled "Navy Procurement of Beverage Base for Military Sea Transportation Service." We have not been as prompt as I should like in furnishing the comments which you requested concerning various aspects of this matter. My extended absence from the city and my desire to examine the matter thoroughly have resulted in a considerable delay in answering.

This case troubled me for several reasons, and seemed to indicate that the Navy needed to take several corrective actions. Your interesting report has been very helpful as I have pursued the matter with those Navy officials who were concerned with its various phases.

I believe we can now conscientiously report that appropriate action has been taken in every direction which seemed to be indicated by this case. More specifically we have taken the actions enumerated below.

In accordance with the recommendations of the Subcommittee we have revised the regulations governing the conduct of Contract Review Boards. The Bureau of Supplies and Accounts' instructions have been changed so as to require that the senior member disassociate himself from the Contract Review Board when the purchase under consideration is one where the senior member has been responsible for the principal elements of the proposed purchase. Further action has been taken to modify Contract Review Board organization and procedures as follows:

- a. Whenever practicable, members of the Contract Review Board will be individuals who are not under the direct supervision of the senior member of the Board.

b. The Commanding Officer, Officer in Charge, or Supply Officer as the case may be, of the activity concerned will take appropriate measures to insure that important or controversial cases will be referred after Contract Review Board action to a superior echelon within the activity for final decision prior to making award.

c. Adequate documentation will be made of the Contract Review Board actions so that the written record will indicate whether prescribed procedures were complied with.

We have also centralized at the Navy Ships Stores Office control over purchases of those brands of beverage base which are not already known to be acceptable and on which the ships are consequently unable to forecast their requirements accurately. Navy Ships Stores Office Notice of 30 June 1955 provided centralized control over these purchases for ships stores ashore and afloat, for commissary stores and for Navy exchanges. This Notice replaced the Navy Ships Stores Office Notice of 14 April, which had applied this control only to shore activities. Purchases of the brands of beverage base with which the committee report dealt would thus be brought under centralized control. Inasmuch as this procedure involves disadvantages as well as advantages, it has so far been made applicable only to beverage base and similar products.

The Bureau of Supplies and Accounts is reviewing the situation with respect to other comparable items on an item-by-item basis, with a view to making a similar change wherever it is warranted.

I have asked that a study be made of the procedures whereunder requirements for such items are established, in order to insure that requirements stated to purchase activities are uniformly sound and valid. I believe it unsound from a military standpoint to charge Naval Supply Depots with the responsibility of making final determination of requirements for a requisitioning command, because to do so would deny to operational commanders the prerogative of determining requirements and hence the material necessary for accomplishment of their mission. However, commanding officers of Naval Supply Depots have been reminded of their responsibility to question any unreasonable requisition and to bring such matters to the attention of the appropriate organizational level of the requisitioning or higher command, thereby insuring a bona fide review of the requirement.

We have placed Apex Distributing Company, Inc., Wilshire Sales Associates, Inc., and Albert A. Finer, President and principal stockholder of both firms, on the Consolidated List of Debarred, Ineligible and Suspended Contractors for the Department of Defense. We are also ascertaining if any other firms are so closely affiliated with Apex as to warrant suspension.

Finally, not as a result of this case, but in order to have a specialized group to deal particularly with matters of purchasing efficiency, Admiral Royar, the Chief of Naval Material, has recently established a Procurement Review Group. This Group is staffed with able men with specialized procurement experience, and will recommend improvements in our purchase procedures wherever practicable throughout the Navy.

With respect to the requisitioning and purchase procedures discussed in the report, I asked the Chief of Naval Material to review the situation to insure that corrective actions had been taken to guard against recurrences of this type of case. The Chief of Naval Material in a recent memorandum assured me that the above-listed remedial measures will be adequate. He further advised that "more detailed or highly centralized controls are not considered practicable. While it is possible to impose multiple restrictions, controls and checks, bottlenecks and delays would be created which would seriously jeopardize the effectiveness of Navy procurement and supply." Under all the circumstances I have concluded that the actions summarized above have given us the best control practicable.

With respect to your request that I comment on the Navy Department's organization and policies for conducting investigations, I believe that a chronological resume will be helpful.

The beverage base in question was procured in May and June, 1952. In July, 1952, the matter was brought to the attention of the Commander, Military Sea Transportation Service, North Pacific Area. The situation then appeared to be one of excessive purchase. The Commanding officer of the Supply Depot gave assurance that nothing was amiss in the purchase procedures and that while the quantity procured was excessive, it could be consumed within a reasonable time. The stock was not consumed as rapidly as anticipated, partly, no doubt, because of the fact that three of the thirteen ships operated by Commander, Military Sea Transportation Service, North Pacific Area, were ordered deactivated.

In May, 1953, representatives of the General Accounting Office brought the matter to the attention of Commander, Military Sea Transportation Service, who directed, in accordance with the procedures of the Naval Supplement to the Manual for Courts-Martial, that a formal investigation be held to "inquire into the circumstances surrounding the purchase of excessive quantities of Beverage Base during May and June, 1952."

For this purpose a Navy Board of Investigation was held. It took sworn testimony which revealed certain irregularities in the award of the beverage base contracts. These matters were commented on by the Board, and cognizance thereof was taken by the convening and reviewing authorities, and steps were taken to prevent recurrence. The Board found, however, no evidence of fraud or graft.

As stated in the report of the Subcommittee, General Accounting Office continued its field investigation which was completed in July, 1954, and on 5 May 1955, the Comptroller General transmitted his report of the investigation to the Department of Justice. The Federal Bureau of Investigation is, I believe, still conducting its investigation into this matter. I have not yet been informed of the institution of any criminal action by the Department of Justice against any of the parties who are mentioned as being involved in the letting of these contracts.

The Navy Board of Investigation and the more formal Court of Inquiry are not intended to substitute for the police type of criminal investigation. When such a criminal investigation is necessary, it generally precedes the formal Board of Investigation or Court of Inquiry. These fact-finding bodies perform an important function for the naval service in that their purpose is to bring to command attention all the pertinent facts bearing upon the situation under investigation to the end "that the Naval Establishment may be more efficiently administered." (Sec. 0201, Naval Supplement to the Manual for Courts-Martial).

It now seems clear that this matter could have been more effectively investigated if full use had been made of the investigational facilities available within the Navy Department. I also concur with the Subcommittee observations that this matter should have been investigated and referred to the Department of Justice more expeditiously than was done. However, I believe that the inability to ferret out certain of the circumstances which were later developed and laid before the Subcommittee was occasioned not by ineptitude on the part of the Navy Board of Investigation which inquired into this matter,

but was, rather, occasioned by the failure to utilize detective-like investigatory means which were available within the Navy Department. Either the Office of the Naval Inspector General or the Director of Naval Intelligence could have furnished personnel skilled in that type of investigation. No doubt the fact the General Accounting Office was already conducting its own investigation into this matter was a prime consideration in not calling additional investigators into the case.

In summary, and to answer your question directly, the Navy has a thoroughly competent organization able to carry out the sort of investigation which proves to have been needed in this case, and it is Navy policy to uncover and pursue vigorously any sort of wrong-doing.

With respect to disciplinary aspects of this case, the Navy's initial appraisal of the situation was naturally based on the findings of the Board of Investigation. The information available to the Chief of Naval Personnel afforded no basis for the recall of Lieutenant Halstead and Commander Fauntz to active service for purposes of trial by Courts-Martial. Because they were already retired, it was considered that a letter of censure would serve no useful purpose. At the time this matter was brought to the attention of naval authorities, Moeller was, of course, a civilian and hence no longer subject to the Uniform Code of Military Justice. When evidence of possible fraud was uncovered the matter then fell under the jurisdiction of, and was referred to, the Department of Justice. The case is still being investigated by that Department which, as recently as 19 October 1955, informed us that the matters were "currently under investigation." When I receive their report, I shall inform you of any further developments.

When your Subcommittee report was published, the period of limitations had already expired and no disciplinary action was possible at that time, and, of course, is not now. It is unfortunate that the evidence of possible fraud was not discovered before the Statute of Limitations barred action by the Navy.

It seems apparent that the long delay in referring this matter to the Department of Justice could have been avoided by closer liaison among the Navy Department, the General Accounting Office, and the Department of Justice. Steps have been taken to effectuate a much closer interdepartmental exchange of information which will, I hope, avoid such a situation as this. I can assure the Subcommittee that the Navy Department is continuously aware of its responsibilities for insuring both that we make prudent use of the money which

Congress has appropriated for this Department, and also that those persons guilty of offenses are promptly and justly punished.

I trust that the foregoing information is helpful to you. If I can be of further assistance please feel free to call on me.

Sincerely yours,

/s/ R. H. Fogler

R. H. Fogler
Assistant Secretary of the Navy
(Material)

Honorable Chet Holifield
Chairman, Military Operations Subcommittee
Committee on Government Operations
1611 House Office Building
Washington, D. C.