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20 MAY 1974

MEMORANDUM FOR: Comptroller  
Director of Finance

SUBJECT : Review of the Property Procurement Allotment  
(PPA) and Property Requisitioning Authority  
(PRA) System and Alternative Systems

1. During the past few months, we have been engaged in an indepth study of the PPA/PRA system for the purposes of ascertaining its current effectiveness and assessing the merits of alternative systems. The study effort was generated by recognition of the many program, philosophical, and physical changes which are occurring in the Agency. Moreover, we saw a need for examining our traditional methods of mangement to confirm their continged relevancy and manpower commitment, or to recommend changes.

2. The results of the Office of Logistics (OL) study are detailed in the attached "Review of the PPA/PRA System and Alternative Systems." The review, prefaced by a summary of the principles, history, procedures and effectiveness of the system, considers four optional systems for the budgeting and funding of centrally procured and controlled materiel inventories. These are:

- a. Current PPA/PRA
- b. Modified PPA/PRA
- c. Direct Funding
- d. Revolving Fund

3. We rejected the Revolving Fund system (paragraph 2d above) because of its impracticality for the Agency; and we are reserving, for a future date, any recommendation for selection among the other three options. Our review has assured us that selection of any one of these systems could be feasible insofar as OL is concerned. However, the review also has sharpened our appreciation of the extent to which the PPA/PRA system

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**SUBJECT: Review of the Property Procurement Allotment (PPA)  
and Property Requisitioning Authority (PRA)  
System and Alternative Systems**

impacts on all components of the Agency in the budgeting, funding, requisitioning, procuring, distributing, accounting, using, and disposing of Agency supplies, materials and equipment. Therefore, selection of the option best suited to current conditions and needs of the Agency can be made only after each of the components concerned has been given an opportunity to gauge the impact of each option on its activities and to make appropriate recommendations.

4. As a first step, we are suggesting that, after your review of the OL study, we convene a working group of O/Compt, O/FIN, and OL representatives for further examination of the subject. Subsequent discussions with other concerned components should be carried on for the purpose of recommending the continued use of the current PPA/PRA system, or for selecting an alternative system. We will be in touch.

/s/ Francis J. Van Damm  
Francis J. Van Damm  
Director of Logistics

Att

cc: ADD/M&S, w/att

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OFFICE OF LOGISTICS  
Review of PPA/PRA System  
and  
Alternative Systems

May 1974

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Review of PPA/PRA System  
and  
Alternative Systems

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Review of PPA/PRA System  
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A. GENERAL

1. Over a period of years the efficiency and value of the existing Property Procurement Allotment (PPA) and the Property Requisitioning Authority (PRA) system for the funding and control of Agency personal property have been subject to question by various quarters. While considerable thought has been given to developing alternatives to that system in the past, more recent events have provided impetus to that thinking.

2. The Director, during the course of reviewing the fiscal years 1974 and 1975 programs, raised questions regarding the current PPA/PRA system and directed the Office of Planning, Programming, and Budgeting (now the Office of the Comptroller) to make a "study of these cross-Directorate problems" (Ref: Memo dtd 5 Sep 73 to D/L fm C-PS/DDM&S, Subject: Follow-on Action to FY 1975 Program Review). Additionally, both the Directorate for Operations (DD/O) and the Directorate for Science and Technology (DD/S&T) have recently raised specific substantive questions.

3. In the face of continuing reductions in manpower and resources, the Agency must explore ways for meeting its administrative and management responsibilities through more efficient and economical use of manpower, and through the adoption of streamlined procedures. One area which offers the potential for achievement of those goals is the PPA/PRA system.

a. The operating principles of the current PPA/PRA system necessitate considerable duplication of budgetary and financial controls. That duplication of effort impacts on the operating components, the Office of the Comptroller (O/Compt), the Office of Logistics (OL), the Office of Finance (O/FIN), and the Office of Joint Computer Support (OJCS).

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b. The PPA/PRA system is pervasive and, due to its complexity, inhibits modification of subsystem procedures which contribute to support of the Agency's materiel program.

c. The PPA/PRA system is simplistic. It recognizes neither the unique characteristics of the Agency's inventory requirements nor the degrees of complexity of procurement support to the various categories of materiel needs. When exceptions to the PPA/PRA system have been made, the result frequently has been merely a transfer of workload to another component, or increased use of manpower, to assure that the exception procedures are carefully monitored and controlled.

4. The near future will see implementation of improved computer support to the supply and procurement systems. An OL computerized system [Inventory Control System (ICS)] is scheduled to be operational in July 1974. This system has the basic capability of producing statistical information, now available in partial form in the PPA/PRA system, with a focus even better suited to the specific needs of OL and the Agency in managing its supply and procurement systems.

5. In review of the current PPA/PRA system, and in the proposal of any alternative systems, it is necessary to observe certain caveats:

a. Any funding and control system adopted must ensure that we meet the materiel needs of the Agency, maintain viable appropriation and allotment controls, and provide for accumulation of statistical data for management purposes.

b. Such a system should not distort nor dilute the respective regulatory roles of the heads of operating components, the Comptroller, the Director of Logistics, or the Director of Finance in budgeting, funding, procuring, distributing, accounting, and disposing of Agency supplies and equipment.

c. Selection of any alternative system should not be based merely on shifting workload from one component to another and, indeed, should ensure that requirements of the system enable reduction of workload to the maximum extent possible.

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B. THE CURRENT PPA/PRA SYSTEM

A review of the PPA/PRA system must be prefaced by a statement of its operating principles, some of its history and evolution, and its current application, in order to provide a backdrop against which other possible alternatives can be examined and compared.

1. Principles

a. The PPA/PRA system, established almost 20 years ago, recognizes certain basic principles:

(1) The nature of Agency materiel requirements [REDACTED] and efficiencies dictates the centralization of management and control over procurement and inventories.

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(2) The wide range of Agency activities dictates the desirability of program budgeting which provides, among other things, that the operating official having the authority to direct the use of Agency materiel assets is also responsible for justifying their need and ensuring that the required funds are available.

b. The contradiction between the two principles is immediately apparent and its reconciliation was achieved through compromise:

(1) The first compromise was to make the basic assumption that, in any given fiscal year, the level of funding required by the central manager for accessions to the inventory (materiel for future needs) is identical to the value of the items to be drawn from the inventory by the operating officials for program use.

(2) The second was the use of indirect costs of materiel issues in the budget system. In other words, the operating official who budgets for appropriated funds requests an amount equal to the estimated indirect costs (not obligations) of materiel

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which he expects to acquire from the centralized procurement and inventory systems. Although the total Agency PRA encumbrances (for inventory issues) are conformed with the total Agency PPA obligations, the past-year program distribution of the Agency's external budget is based on the indirect cost of materiel issued from inventory without regard to either the year in which it was procured or the actual amount of PPA obligations for that materiel.

c. The means whereby program budgeting for materiel requirements could be monitored and controlled was realized in the mid-1950's when legal requirements were levied on each Federal agency to assign and maintain monetary values on its personal property assets. The Agency knows this as Financial Property Accountability (FPA) which encompasses both property in the custody of users and property held in inventory for future use. Records maintained by the Agency's inventory managers include status and transaction information on quantities, condition, sterility, location, accessions, issues, disposals, and the variety of other data required for management of the supply function. With assignment of dollar values to these data, the Agency found in its inventory records, and the FPA, the sources of information needed to identify and control the dollar value of materiel issued to an operating component. Thus, through use of a combination of information from the budget, finance, and supply systems, the PPA/PRA system operates.

## 2. History and Evolution

a. Initially, FPA policy provided that all materiel accessions, disposals, transfers, etc., would be processed through the FPA system. As a result, the PPA/PRA system encompassed all materiel transactions worldwide. All acquisition obligations for materiel, whether procured locally or by Headquarters, were charged against PPA (known as the Local Procurement Allotment at field installations). Issues were charged against PRA.

b. In July 1970 a major change occurred when the Agency's FPA policy and procedures were amended with respect to stations

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designated as Type II or Type III (stations where all materiel in their custody is considered to be held for current consumption needs; and, therefore, no "inventory" is maintained). The effect of the FPA amendment was to eliminate the need for PPA (Local Procurement Allotment) since obligations for all materiel procured locally or by other Type II or Type III installations were recorded as direct charges to the allotment of the operating component. It also reduced the scope and amount of the installation's PRA since PRA is now required only for materiel requisitioned from Headquarters or from Type I (inventory) installations.

c. The modification of the FPA policy and the change in the rules for the use of PPA/PRA had another effect. Under the initial comprehensive FPA and PPA/PRA systems, the operating components could base their conversion of funds to PRA on the amounts budgeted for materiel. The limitations on PPA/PRA, however, now force the operating officials to estimate and control the dollar value of their materiel requirements by source of procurement. Authority for procurement of materiel locally, or from Type II or Type III installations, is controlled by the funds of the operating components. On the other hand, authority for procurement of materiel from OL or Type I installations is controlled by PRA. The result has been an addition to the problems of the operating components in the management and control of their two separate budgetary authorities; i.e., funds and PRA.

d. Although the Agency's policy provides for program (quasi cost-based) budgeting, the desirability of a centralized budgetary responsibility for certain materiel results in exceptions to the basic principle. OL budgets for administrative supplies and equipment in common use throughout the Washington metropolitan area. The Central Reference Service budgets for books and publications. OL budgets for the Agency's use of common forms. A few years ago the Office of Technical Service (OTS) was charged with centralized budget responsibility for cognizant materiel requirements of the DD/O. This exception principle was further extended to Agency communications materiel used by the DD/O with assignment of centralized budget responsibility to the Office of Communications (OC) effective in fiscal year 1974.

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e. Still another significant change occurred in the Agency's budget policy with recognition in the budget of certain inventory (versus use or consumption) requirements. In July 1972 the Executive Director-Comptroller directed that TSD and OC predicate their budget estimates for their cognizant materiel items on inventory accession requirements (Ref: Memo dtd 26 Jul 72 to DD/P and DD/S fm Ex. Dir-Compt, Subject: The Management of Technical Equipment by TSD and OC).

25X1A f. Since the inception of FPA, the number of field  
25X1A stations designated as Type I has steadily decreased as  
25X1A they were converted to Type II or Type III status. With  
the closure of the [redacted] and the conversion  
to Type II procedures of that remaining portion of the  
[redacted] now operating under Type I at  
the beginning of fiscal year 1975, the only two locations  
where inventory FPA procedures will be used are the [redacted] 25X1A  
Depot and the [redacted] both of which are under the  
control of OL. Thus, the use of the current PPA/PRA system  
will be limited to materiel requisitioned from OL.

3. PPA/PRA System Procedures<sup>1</sup>

All components of the Agency are affected to varying degrees by the procedures of the PPA/PRA system. Although this review cannot assume complete, detailed knowledge of their total involvement, there follows a brief description of the responsibilities and some problems of the various components which support the Agency's materiel program to illustrate the complexity and pervasiveness of the system:

(1) Operating Components

(a) Estimate and defend total program materiel requirements.

(b) Estimate, and request of the O/Compt, the amount included in the Operating Budget to be converted to PRA for requisition of materiel from OL (this is not separately identified in the budget).

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(c) Maintains manual PRA control records on the dollar amount of requisitions submitted to OL and reconciles them each month against the reports which list the issues of materiel by OL.

(d) Monitors the use of PRA and, when appropriate, requests the O/Compt for amendment of the PRA and funds allotment.

(e) PRA requires not only the maintenance of a separate control system which is dictated solely by the source of procurement of materiel, but also the use of an accounting system which differs from the system used for the appropriation. Separate controls and differing systems create coordination and reconciliation difficulties in managing the component's total Operating Budget.

(2) Office of the Comptroller

(a) Based on the estimate and request of operating components, issues PRA authorities and reduces funds authorities of the several operating components.

(b) Transfers funds from the operating components to the Director of Logistics through the issuance of PPA.

(c) Monitors the status and use of PRA by operating components, and of PPA by OL.

(d) For external budget presentation purposes, conforms the total of PRA encumbrances (representing indirect cost of materiel issued from the inventory) reported by the operating components with the total obligations against the appropriation incurred by the Director of Logistics for procurement of materiel. This total is used in the past-year column of the budget.

(e) The extent of the workload involved in transferring funds for procurement and the

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issuance of requisitioning authority can be roughly measured by the numbers of individual adjustments to PPA and PRA during fiscal year 1973. During that period 114 adjustments were made against initial PRA issuances to 55 components for a total of 169. A total of 39 allotment actions was made in the PPA account (reflecting consolidation of some PRA actions into one PPA action).

(f) The Office of the Comptroller uses the ABC (Automated Budget Control) system for accumulation of data for purposes of both budget presentation and budget execution. Since the PPA/PRA system is used only in the budget execution phase, that office is faced with the same difficulties as the operating components in coordination and reconciliation of the different approach to materiel procurement used in budget presentation.

(3) Director of Logistics

(a) Upon receipt of initial PPA, and based upon Procurement Plans submitted by operating components and other planning information available to him, estimates the amount to be reserved to meet materiel requirements requiring direct procurement action and the amount which is available for inventory accessions.

(b) Reviews PPA amendments for purposes of adjusting allocation between reserve for direct procurement and amount available for stock, if necessary.

(c) Maintains PPA financial control over commitments (requisitions received by OL which are pending formal procurement obligation through purchase or contract action).

(d) Maintains obligation controls over PPA including submission of detailed obligation

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abstracts to O/FIN, and reconciliation of monthly status reports on obligations and expenditures.

(e) Monitors status of PPA and Director of Logistics' suballocations.

(f) Upon receipt of the PPA, the Director of Logistics simultaneously assumes a liability to honor all requisitions which have been approved and certified as to the availability of PPA. This liability exists whether the materiel requested is available within the Agency supply system or whether action is required to obtain it from other sources. Since information on the Procurement Plans of the operating components is on a relatively short-range basis and without the detail for precise supply and procurement action, a continuing problem for the Director of Logistics is the decision on suballocation of PPA between a reserve for direct procurement action and those amounts available for inventory accessions. This is compounded by the significant changes in the PPA during the year. For example, the initial allotment in fiscal year 1973 totalled [REDACTED] million; the final allotment totalled [REDACTED] million, or an increase of 46 percent.

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(4) Supply Division

(a) Processes all requisitions received by OL including, among other steps, document control, identification of items, determination of procurement source (i.e., inventories, other agencies, commercial procurement), and distribution of requisitions and copies to appropriate components.

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(b) Records, in the inventory records, receipts, issues, materiel items which are due in, due out, etc.

(c) Provides information to O/FIN, Accounts Division, regarding the cost and customer identification of materiel issued.

(d) Provides information to O/FIN, Accounts Division, regarding inventory transactions for incorporation in the Agency's FPA records.

(e) Prepares and forwards copy of receiving reports to O/FIN, Certification and Liaison Division, to support payment of vendor invoices.

(f) The PPA/PRA system relies on the use of the Supply Division/OL inventory records and the FPA records for information on cost of materiel issued against PRA. Therefore, all requisitions received by OL which entail direct procurement of items must be processed through the Supply Division/OL inventory records as if they were stock accessions and issues. The PPA/PRA requirement for processing all direct procurement actions through the inventory/FPA accounts results in a commitment of the same manpower for documenting the acquisition, control, accountability, and issue of the \$15 expendable item as is required for the \$150,000 nonexpendable item. Since procedures and criteria for inventory control and FPA are designed for supply management purposes, very little latitude exists for streamlining procedures to reduce the impact on the inventory system occasioned by the direct procurement of low-cost, high-volume items.

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(5) Procurement Division

(a) Upon receipt of order from Supply Division/OL for procurement action, negotiates a purchase agreement with the vendor.

(b) Assures that the agreement includes a provision for delivery of the item to the point designated by Supply Division/OL for formal receipt of materiel, and for appropriate information on the invoice to be processed by O/FIN, Certification and Liaison Division.

(c) Distributes copies of purchase agreements to appropriate components.

(d) Acts as point of contact between the vendor and the Agency on matters pertaining to shortages, overages, damages or other discrepancies, and on vendor problems pertaining to settlement of invoices.

(e) Although the PPA/PRA system, per se, has little impact on the Procurement Division/OL, the requirement to process all materiel requisitioned from OL through the PPA/PRA system inhibits the adoption of simplified procurement procedures for certain categories of items. The documentation and processing steps necessary to serve the PPA/PRA system discourage adoption of procurement methods and procedures which would provide for more simplified procurement and quick payment of vendor invoices.

(6) Office of Finance

Provides support to the materiel system through certification of procurement expenditures, payment of invoices, maintenance of expenditure records, maintenance of the FPA system, and issuance of appropriation and FPA reports for use by the O/Compt, the operating components, and OL. Since it provides support to all components concerned with the Agency's

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materiel program, the problems of the various components identified above also impact on O/FIN.

(7) Office of Joint Computer Support

Provides computer support to the PPA/PRA system as well as the information requirements of the many other systems affected. These include, but are not limited to, ABC, obligation status reports, PRA encumbrance reports, FPA (including issues against PRA), inventory control, procurement, allotment status reports, etc. To the extent that the PPA, PRA, and FPA systems require maintenance of duplicative or redundant records and reports, the manpower and facilities of OJCS are likewise committed.

C. EFFECTIVENESS OF THE PPA/PRA SYSTEM

1. The PPA/PRA system was established almost 20 years ago as the means whereby central procurement of materiel for the inventories could be funded from the budgets of the program managers (paragraph B.1. above). Since the date of its inception, evolutionary changes have modified the PPA/PRA system to such an extent that it is now applicable only to those requirements levied on OL. This evolutionary period has also seen a change in the character of the materiel support requirements of the Agency. During this time, the DD/S&T, with its need for unique and highly sophisticated supplies and equipment, came into existence. The demands by DD/O for mate-

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riel technology has advanced to the point where many equipment requirements have been superseded by systems requirements such as the OC SKYLINK. Overseas stations have not only decreased in number, but in size as well, and the characteristics of their administrative support have undergone change. Because of their decreased size and their receiving more administrative support from their cover organizations, materiel requirements on OL inventories have decreased accordingly. A review of the PPA/PRA system, therefore, should include an examination of the current inventory and the requirements to which it responds.

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2. Since maintenance of inventories is costly, good supply management dictates that the very minimum number of items be stocked and in reasonable quantities to meet operational inventory requirements. The supply manager must assess the feasibility of carrying a potential item in inventory against several criteria such as availability, leadtime, unit cost, storage cost, estimated demand rate, shelf life, operational necessity, etc. He must also periodically review the levels and demands against current holdings to confirm their continued need or to initiate disposal action. Listed below are illustrations of the types of items maintained in the Agency's inventories:

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- a. Agency peculiar - OTS, Office of Security (OS), OC Agent Communications, [REDACTED] items, etc. 25X1A
  - b. Major in current use - Communications systems end items and spares.
  - c. Ordnance and airborne
  - d. Backup stocks - equipment and spares for backup and maintenance of obsolescent systems currently in use.
  - e. Restricted availability - such as prescription drugs.
  - f. Scarce or long leadtime - for which there is a current demand experience.

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3. As of 30 June 1973, the value of the inventories (excluding materiel earmarked for disposal) under the control of OL totalled approximately [REDACTED] million. An analysis of these holdings, based on the use of the supply system's stock allocation structure, indicates that the inventory responds to three general categories of requirements:

- a. Technical stocks: Those maintained to support the requirements of operating components engaged in technical programs; i.e., OC, OTS, OEL, [REDACTED], and OS. 25X1A
- Requirements for the major portion of such stocks are established by each respective office in coordination with OL. Inventory requirements for each of these

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technical offices is, for the most part, unique to its operations. Therefore, with some exceptions, funds for inventory accessions are included in their program budgets as users budgeting for PRA, and obligations for inventory accessions can be identified by customer component at the time of procurement. Thus, use of the PPA/PRA system to identify customers of this type inventory is redundant.

b. Contingency stocks: Primarily for potential future use in [REDACTED] operations. For the most part, inventory requirements for items and quantities are established by [REDACTED], DD/O, in coordination with OL. Although these were viable [REDACTED]

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issues from these stocks does not justify their being classified as active inventory. From the practical viewpoint, they better fit the category of contingency holdings. Since the PPA/PRA system provides funds for investment in the inventory only to the extent that PRA is budgeted by an operating component for current consumption needs, it would appear that the principles of the system are inoperative with respect to the contingency types of holdings.

c. Common stocks: Requirements for material which is commonly used throughout the Agency. Inventory requirements for items and quantities are established primarily by OL based upon demand experience factors and available information regarding plans which would cause changes in demand. All commodity groups (i.e., ordnance, transportation and airborne, industrial and engineering, communications equipment and components, electrical supplies and equipment, medical, photographic, general, and automatic data processing) are represented in this category of the inventory which is also characterized by high-volume, low-unit cost activity in contrast with technical and contingency inventories.

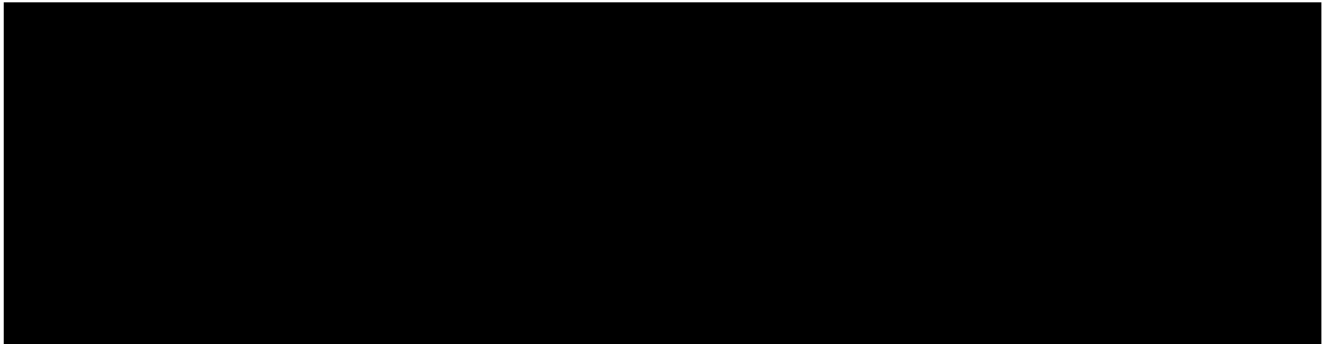
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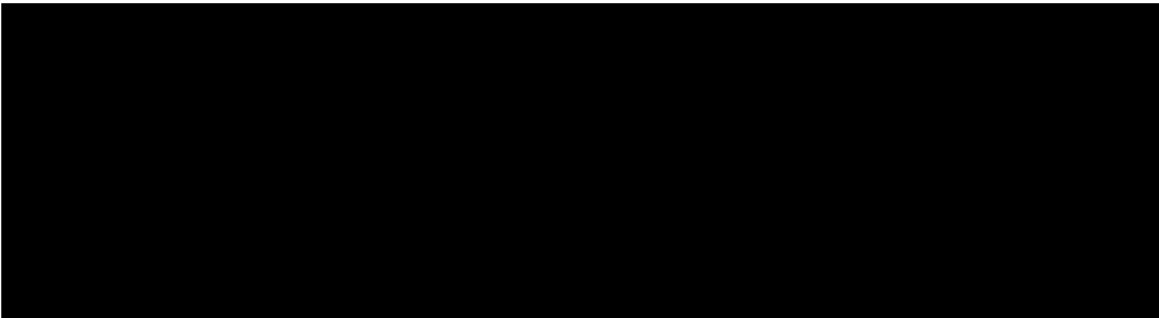
4. A summary of the inventory status (excluding items pending disposal) as of 30 June 1973 is listed below. The dollar amounts are expressed in millions:



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5. Since the goal of supply managers is to hold the inventory to a minimum of items, they should rely to a maximum extent on purchases from commercial vendors or other Government agencies, such as General Services Administration (GSA) or Department of Defense, to meet customer requisitioned requirements. It is anticipated that, with the adoption of innovative procurement procedures particularly in the area of requirements contracts, further reductions can be made in the inventory through the increased use of commercial sources to meet materiel requirements. Since the customer of direct procurement is identified at the time of purchase and issue, use of the PPA/PRA system for identification and costing purposes is redundant and duplicative.

6. Analysis of fiscal year 1973 obligations against the PPA (excluding reimbursable procurement on behalf of other agencies or third parties) reveals that the major portion of procurement actions could be identified to the using customer account at the time of initiation. Dollars are expressed in millions.



<sup>2</sup>Effective fiscal year 1974 OTS and OC were assigned inventory budget responsibility for these cognizant stocks.



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7. In summary, then, use of the PPA/PRA system to identify customer costs of materiel is redundant and duplicative in the cases of direct procurement and the stock procurement of technical items; it is inoperative in the case of contingency stock; and is effective only in the case of stock procurement and issue of common-use items. Effectiveness of the PPA/PRA system, therefore, is realized in the funding and control over less than 10 percent of the value of inventory and less than 10 percent of the value of procurement actions.

D. ALTERNATIVE PROCEDURES

During the course of its review of the efficiencies and values of the current PPA/PRA system, OL has identified three optional procedures for the funding and control of Agency materiel which is procured through OL. For any system as complex and pervasive as is the Agency's materiel system, there is no one option that does not have its advantages and disadvantages. Therefore, selection of one that is best suited to the Agency may involve compromise of requirements which are peculiar to any one part of the total system.

1. Option #1 - Current PPA/PRA System: Retention of the current system represents the alternative of "doing nothing" or status quo. Although the system has been described in considerable detail above, following are some of the advantages and disadvantages which were not specifically spelled out but which should be mentioned:

a. The system has been successful in meeting the requirements of Agency budget policy for centralized procurement of inventory with funds budgeted by the user.

b. Transfer of total funding authority for materiel procurement to OL permits flexibility in adding or dropping items from the inventory based upon current experience and projected needs. It also provides flexibility in timing of inventory procurement. During this period of increasing materiel shortages (e.g., paper products), OL can effect procurement action to compensate for increased leadtime for delivery of items or develop other procurement sources.

c. The system provides highly centralized appropriation controls over procurement which tend to provide for less time-consuming and better coordination of activities among the O/Compt, the office maintaining obligation controls (Budget and Fiscal Branch/OL in this case), the procurement element, and the component of O/FIN concerned with payment of invoices.

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d. Uniformity of procedures for initiating and processing requisitions through the supply system tends to increase efficiency.

e. The external budget presentation of the Agency reflects all materiel (with the recent exception in the cases of OTS and OC) as program "use" requirements. This has precluded external review or action on the Agency's actual inventory requirements and status.

f. The system necessitates duplicative action in those cases where procurement action, resulting in appropriation obligation, can be identified to the using component. Under the two elements--PPA and PRA--the operating component and OL are both concerned with management of the authorities, maintaining obligation/encumbrance records, reconciling expenditure/issue records, maintaining document files, and taking corrective action when appropriate. OL must "wash" all direct procurement through the inventory records. The O/Compt must support a multiplicity of adjustments to the PPA, and must effect comparability adjustments between the external budget presentation and internal Operating Budget. O/FIN must provide accounting support to the PPA, the PRA and FPA actions. OJCS must provide separate reports against the two authorities.

g. The system, with recent exceptions of OTS and Agent communications equipment, does not permit budget recognition of inventory versus use needs of the Agency.

h. The system is oversimplified in contrast with the unique characteristics of the Agency's materiel requirements. The result has been an inhibition of efforts to streamline procedures or to reduce workload in the several systems contributing to the Agency's materiel program.

2. Option #2 - Modified PPA/PRA System: This system contemplates that program managers continue to budget for total materiel needs. However, transfer of appropriation

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authority to OL as PPA, and issuance of PRA, would be limited to items which would be requisitioned from the inventory. Funds for the acquisition of materiel by OL through direct procurement from commercial or other Government agency sources would be retained by the operating component. Obligations for procurement action resulting from requisitions for direct procurement items would be recorded by the operating component against its funds allotment. O/FIN would record the procurement expenditure against the funds of the operating component. The materiel would not be "washed" through the inventory control or FPA records as a quasi stock accession and issue.

- a. As is true in the current PPA/PRA system, the modified PPA/PRA system would meet the requirements of Agency budget policy for centralized procurement of inventory with funds budgeted by the user.
- b. The system would eliminate the duplicate efforts required to process direct procurement actions through the PPA, PRA, and FPA inventory records.
- c. The system would increase the options available to components supporting the materiel program in amending or adopting better procedures.
- d. The modified PPA/PRA system still would not recognize the inventory needs of the Agency, however, and would, in fact, inhibit supply and inventory management. This is due to the fact that, under the current PPA/PRA system, OL has the option of adding or deleting items from the inventory within the total of funds available for procurement in response to current demands. The modified PPA/PRA system would almost eliminate this capability for responsiveness by OL.
- e. At the present time, the operating components are not required to identify, in either their Operating Budgets or on their requisitions, whether the item is in the Agency's inventory or whether it will result in a direct procurement action by OL. The modified PPA/PRA system would require that each of the operating components distinguish between the amount required for PRA

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to support items issued from the inventory, and the amount to be retained as funds for direct procurement action. In the latter instance, components would also have to have a current catalog of inventory items along with their unit prices.

f. Experience with PPA and with Procurement Plans indicates that operating components do not have their materiel budget requirements in the detail necessary for precise determination of supply action, except on a relatively short-range basis. Experience also reveals that the area of materiel procurement offers a wide latitude for reprogramming of funds by operating components during the course of the fiscal year. These factors, taken in conjunction with the need for identification of inventory versus direct procurement items, would result in estimates of PRA needs, and their conversion to PPA, in amounts highly susceptible to frequent amendment. The inventory management function, however, can only operate efficiently under stable funding conditions.

g. The modified PPA/PRA system would not eliminate duplicative identification of OTS and Agent communications materiel accessions and issues. The OTS and OC budgets provide funds for inventory procurement of these respective cognizant needs, separate allotment controls are maintained, and obligations are identified to these inventories. Requisitions for issues from these inventories, however, are controlled by PRA.

h. In summary, the effect of the modified PPA/PRA system would be to merely reduce the scope of PPA/PRA to inventory requirements. Therefore, many of the advantages and disadvantages of the current system, not enumerated above, would be inherent in this option.

3. Option #3 - Direct Funding: An alternative system

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Presently offices are reluctant to return an item to stock since they must cite PRA a second time (with some exceptions), if they have need for the item at a later date.

g. Inventory budgets would provide information to the Director of Logistics, during planning stages, regarding the extent to which he will be required to support inventory holdings.

h. Inhibitions currently placed by the requirements of the PPA/PRA system on the procedures of the various systems supporting the Agency's materiel program would be removed.

i. Manpower now devoted to "washing" direct procurement through the FPA system would no longer be required.

j. The FPA system would continue to provide program and inventory managers with information regarding the cost of materiel issued to using components from the inventory.

k. To the extent that the current PPA/PRA system enables use of indirect costs for common-use stock items (which at present amount to less than 10 percent of the value of procurement funded through OL), the program budgets of the Agency would be understated.

l. Direct Funding would require a higher degree of planning, coordination, and control over the Agency's materiel procurement programs.

m. Inventory budgeting under the Direct Funding option would inhibit flexibility in adding to or deleting items from the inventory, and in the timing of procurement for inventory enjoyed under the current PPA/PRA system.

n. Principles to be established for inventory budgeting of common stock items must recognize and provide for the fact that such items are for common use throughout the Agency and no one central point

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can control the timing, items, quantities of individual requirements, or issues from such stocks. Budget procedures established for assignment of responsibility to designated offices for inventory requirements must also provide a control mechanism to assure that using components do not indiscriminately and irresponsibly draw down from the inventory.

o. As in the case of the modified PPA/PRA option, the Direct Funding system would require identification and distinction between those requirements to be satisfied through direct procurement and those from inventory by all components involved in the Agency's materiel program. Sacrifice of the uniformity of treatment, which is an advantage of the current PPA/PRA system, would entail risks of duplicate budgeting for items, uncertainties in the requisitioning process, greater possibility of errors, and creation of other problems related to management and operation of a materiel system under split funding authority and responsibility.

E. CONCLUSIONS

1. The OL review of the two proposed alternatives to the current PPA/PRA system was limited to their general outline, and discussion in detail is given only to the extent needed to assure that adoption by the Agency of any one of those systems appears feasible and meets the criteria discussed in paragraph A.5.

2. The review group also considered the option of the "Revolving Fund" (Industrial Fund, Capital Fund) used extensively by the Department of Defense at such major installations as shipyards, aircraft rework facilities, ordnance plants, and for stock funds which employ thousands of people and engage in many millions of dollars of business annually. That option was rejected as unworkable within the environment of the Agency for the following reasons:

a. Most revolving funds of the Federal Government generate considerable congressional participation (approval of establishment, funding, and amendments).

b. The relatively small size of our supply system, and its limited number of customers, do not provide a

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sufficiently wide base for effective operation of a revolving fund.

c. A large number of technical and contingency items held in our inventories would have to be excluded from the revolving fund since the inclusion of such restricted-use items would vitiate the effectiveness of the system.

d. Use of a revolving fund with fixed limitations would reduce the flexibility of the Agency to respond to situations requiring large-scale materiel support.

e. Use of a revolving fund would require establishment and maintenance of separate budgetary and financial controls.

3. The proposed computer systems for requisitioning, inventory, and financial controls offer the potential for the production of better management data and automation of PRA records now maintained manually. However, since the availability of those systems is uncertain with respect to time, we suggest that their potential capabilities should not be a fundamental basis, at this time, for decisions concerning the options.

4. OL, in its review of the current PPA/PRA system and its alternatives, has not lost sight of the Agency-wide impact created by any materiel support system. For that reason, a review and preliminary determination of feasibility of any system by O/FIN and O/Compt should be the next step. Upon the conclusion of that review, discussions should be held with each of the Directorates to solicit their reactions. If all components concerned agree that a change is desirable, then the coordination of those components will be required in the details of design and development of implementing procedures of the new system.

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