TAB

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The Information Systems Analysis Staff has been involved in several activities where savings have occurred this fiscal year.

Although the Staff has been involved in studying the use of office copiers/duplicators in the Agency for over 18 months, a concerted effort to reduce costs began on 1 July 1974 with the assignment of DCI Objective A57002 to ISAS which, among other things, called for an 8% reduction in expenditures this fiscal year measured in FY-74 dollars. Although it is unlikely that we will achieve the 8% goal, the attention given to this project throughout the Agency has made people more conscious of copying costs. We anticipated an FY-75 savings of approximately 2.5 - 3.0% and an annual savings rate of 4-5%. The inventory of copiers/duplicators in the Headquarters area has decreased from 341 to 314 since 1 July 1974.

ISAS has been involved to a lesser degree in the word processing program than in copying. Efforts have been devoted to familiarization with the concept and equipment on the market and developing a handbook for use in evaluating the need for word processing equipment. Numerous equipment demonstrations have been arranged in-house and at vendor's offices for Agency personnel. We have been involved to a small degree with the OTR Word Processing Center and have had discussions with other components regarding possible Centers.

We have also been involved in a program to reduce the number of Agency forms in use by 5%. So far, we have eliminated 8.9% of those on hand 1 July 1974. Printing costs saved are available for only half of these forms at this time and amounts to approximately $15,000.

We are also involved in reviewing requests for filing equipment and supplies to ensure that the most effective and economical items are purchased.

One major program sponsored by ISAS is an effort to ensure that Agency Records Management Officers provide a return on investment equal to their salaries during FY-75. These Officers are encouraged to look for more economical methods and equipment for use in their offices. For example, if office record holdings can be reduced by destruction or transfer to the Agency Records Center, perhaps the filing equipment storing this material can be returned to stock for re-issue. They can look for and recommend less expensive filing equipment, file folders, copiers, supplies, etc. For the past eight months of the fiscal year, the return equals about 96% of the RMO salaries.

This office also conducts records management surveys in Agency components to identify where more efficient and economical procedures can be implemented.

The results of much our activity cannot be directly measured in dollars and cents, particularly when certain procedural improvements are recommended. Nevertheless, they can result in manpower savings.

TRANSMITTAL SLIP DATE 7 April 75

TO: C/RAB

ROOM NO. BUILDING

REMARKS:

Chuck -

I take full responsibility for content and typing!

FROM: Larry

ROOM NO. BUILDING EXTENSION

FORM NO. 241
1 FEB 55 REPLACES FORM 36-8 WHICH MAY BE USED. (47)

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OFFICE OF COMMUNICATIONS

A. BACKGROUND

1. The Office of Communications budgets shown in this Annex reflect adjustments from the actual OC budgets for the years shown. The reason for these adjustments is to permit comparability from year to year by eliminating items from the budgets which were not common to all budget years shown. Briefly, the following items are excluded:

a. Covert collection, Covert R&D, and Communications R&D have been deleted for FY-1967 through 1973. All of these functions were transferred from OC to DD/O and DD/S&T beginning in FY-1974.

b. Cable dissemination has been deleted for FY-1972 through FY-1975. This function was transferred to OC beginning in FY-1972.

c. Telephone facilities has been deleted for FY-1974 and FY-1975. This function was transferred to OC beginning in FY-1974. (A separate paragraph discussing telephone costs is included in para B.2.c.)

d. DD/O Agent Support has been deleted for FY-1974 and FY-1975. Responsibility for budgeting this function was initiated by OC in FY-1974.

2. After the above adjustments, it will be seen that the OC budget has increased from [redacted] in FY-1967 to [redacted] in FY-1975. However, these dollar statistics are in current dollars. In constant dollars, after considering the deflation of the dollar over this period, OC's budget has actually declined considerably. OC's FY-1967 budget of [redacted] current dollars equates to only [redacted] in FY-1975 constant dollars, which is considerably less [redacted] than the 1967 budget in terms of buying power.

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3. As can be seen from the display of OC budgets, OC's buying power remained fairly level from FY-1967 through FY-1971, rose in FY-1972, and then declined considerably to its present level. There are two principal reasons why OC has been able to expand and improve its services over these years despite a significant decline in constant dollars, without inflation causing serious problems, until recently. First, OC has received accumulative current dollar budget increases of 59% from 1967 through 1975. However, most importantly, improvements in management and productivity have yielded excellent results - OC gets much more for its dollar than in past years. Productivity has increased 50% since 1967. The productivity increases are due mainly to automation and technoligical advances which have permitted

economical improvements in performing certain functions.

4. Productivity improvements over the years 1967-1975 25X9A2 have resulted in the deletion of [redacted] OC positions formerly devoted solely to the operation of the Agency communications 25X9A2 network. The [redacted] positions eliminated through FY-1975 rep- 25X1A1A resent a savings of approximately [redacted] per year at today's costs. Unfortunately, this savings is not visible in today's budget because the average cost per OC employee 25X1A1A has risen from [redacted] in FY-1967 to [redacted] in FY-1975, 25X1A1A attributable mostly to increases in the Federal pay scale. 25X9A2 (The above [redacted] positions should not be confused with the 25X9A2 [redacted] positions transferred to DD/O and [redacted] positions trans- 25X9A2 ferred to DD/S&T in FY-1974). It should also be noted that the ratio of OC personnel costs to costs of goods and services has remained fairly constant because of personnel reductions/productivity improvements.

5. The above illustrates how OC has maintained operations and expanded services despite a reduction of [redacted] 25X1A1A constant dollars between 1967 and 1975. Unfortunately, although productivity continues to increase, the rapid escalation of inflation since FY-1973 has created serious problems. OC projects further decreases in positions over future years, but the cost savings can no longer offset the

declining value of the dollar at the higher inflation rates. Programs for new and expanded services have been cut or delayed in recent years.

B. DISCUSSION

1. OC is now in the position of not being able to respond favorably to all new requirements as it did in earlier years. The costs of initiating programs for expanded secure voice, data, facsimile, and imagery handling are extremely high and OC is having difficulty funding for these programs, despite customer requests. Increases in costs run the gamut from small items such as wire and tools to computer and transmission systems, leased lines, etc. Further, the cost of supporting personnel overseas has risen over 19% in FY-1975 over FY-1974. Overseas fuel, education, utilities, travel, and indigenous labor costs have risen similarly. FY-1976 will see another large rise in overseas costs in many categories. The decline in the value of the dollar also affects the buying power of the dollar abroad. Thus, OC, being heavily engaged in overseas operations, is finding overseas expenses in some areas rising more rapidly than in the CONUS.

2. Some specific cost increases over the past two fiscal years affecting OC are shown below:

a. Equipment

	Previous Cost	Present Cost	% Increa
(1) 50 Kilowatt Generator	$6,700	$9,100	36%
(2) Radio Transmitter Exciter	7,302	9,660	32%
(3) Radio Transmit Antenna	1,890	2,794	47%
(4) Installation Rack/Crypto	3,715	4,830	30%
(5) Crypto Control Unit	3,558	4,501	26%
(6) Radio Receiver	4,650	4,984	7%
(7) Frequency Shift Converter	1,153	1,246	8%
(8) Test Message Generator Set	936	1,025	9%
(9) Crypto Equipment Safe	1,640	1,887	15%
(10) Patch Panel	660	757	14%
(11) Low-level Power Supply	620	1,500	141%
(12) 700 Kilowatt Generator	215,000	265,000	23%
(13) 2/3 Kilowatt Generator	265	450	69%
(14) Voltage Regulator	1,732	1,865	7%
(15) Power Switch	1,013	1,226	21%
(16) Telephone Cable	.14 per ft.	.27 per ft.	92%
(17) Coax Cable	2.65 per ft.	3.12 per ft.	17%
(18) Loop Antenna	3,965	5,320	34%

(19) Antenna Patch Panel	203	411	102%
(20) Equipment Rack	300	404	34%
(21) Rack Assembly	5,531	7,000	26%

b. Expendables

In addition to the above, a survey of costs for 100 line items of expendables, i.e., transistors, capacitors, resistors, switches, vacuum tubes, etc., show an average of 30% increase in cost.

c. Telephones

The Agency black and red telephone costs (excluding personnel services) have increased from $1,865K in FY-1967 to $2,947K in FY-1975. Costs of at least $3,036K are projected for FY-1976. This amounts to a 62% increase in 10 years, most of it occurring since FY-1971. Most of this increase is attributable to rising costs of rates, surcharges, etc., and not to expansion of services. The number of black lines has increased only 15%, red lines have increased only 12%, and the total number of instruments has increased only 8%. A number of additional rate increase requests are presently under consideration. Undoubtedly, some will be

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FY		
1967	[redacted]	
1968		
1969		
1970		
1971		
1972		
1973		
1974		
1975		increase

25X1C

(2) In a memorandum dated 18 March 1975, the

25X1C4C [redacted] Agency Office of Finance of the reasons for the recent escalation of costs. Depending upon geographic area, 1975 global increases for rents and transportation ran anywhere from 25% to 65%; increases for fuels and electricity range from 25% to 100%; in one year.

25X1C4C [redacted] similar increases can be expected for 1976 and 1977. Thus, not only is the DD/A a victim of domestic inflation, which is not specifically visible, per se, in Office budgets by line item, it is also a major victim of the almost unbelievable high overseas inflation rates. These latter inflation rates are visible in the Office of Communications yearly budget increases for funds used [redacted] 25X1C

25X1C4A [redacted] for support costs. By not budgeting in advance for inflation overseas, OC, which has a vast majority of the DD/A personnel assigned overseas, has experienced consistently large shortages in its budget [redacted] 25X1C4A as each year OC budgets for inflation already experienced, and not for inflation which is anticipated. Yearly deficits in this area must then be made up by reprogramming Agency funds originally intended for other purposes.

C. CONCLUSIONS

1. The Office has accomplished much in fighting inflation, mostly by reducing operating costs and increasing productivity. As stated earlier, significant personnel reductions have reduced costs considerably, but in recent years our ability to reduce personnel and simultaneously continue essential services has not kept pace with inflation. Indeed, OC is doing "much more, with less" in terms of constant dollars. In addition to personnel reductions, the

closure of three Major Relay Stations in recent years has reduced costs considerably, and many other steps taken have kept costs to a minimum. However, it is a fact of life that implementation and continued use of modern technology is expensive, and there is no alternative to our employment of this technology if we are to provide transmission services for secure voice, facsimile, data, imagery, ELINT, etc.

2. On a daily basis the Office, including overseas activities, strives to keep costs to a minimum. These efforts help, but it must be recognized that the larger dollar amounts in the OC budget are prices for technology, hardware and software beyond our control. Contracts for new systems are negotiated to what are considered minimum levels, and high equipment costs are virtually impossible to negotiate downwards.

3. In summary, it is fair to say that OC has done much to offset inflation, and we will do more. However, the costs of large, new systems can only be offset partially by productivity increases. If the Agency is to continue its progress in handling more volume and variety of information electronically, additional funds must be made available, at least in quantities sufficient to offset inflationary pressures.

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SECRET

THE IMPACT OF INFLATION ON THE OFFICE OF MEDICAL SERVICES

I. Background

a. The problem is to assess the impact of inflation on the Office of Medical Services over the period FY 1967 - FY 1974, and to estimate the impact of continued or future inflation.

b. Attached is a tabulation of Obligations, Current and Constant Dollars for the OMS, with an added column showing the number of OMS personnel paid each year in the series. Also attached is a graph of this tabulation. Since FY 1970 the OMS authorized (staff) personnel ceiling has been reduced each year. Personnel compensation rates, supergrade personnel excepted, have been increased steadily over this period.

II. Discussion

a. OMS, as an office, has not been seriously directly affected by inflation except in one area, the area of physician recruitment. Our ability to attract physicians has been somewhat compromised as the incomes of physicians in the private sector have forged ahead of salaries of Government physicians. For example, whereas salaries of our medical officers may not exceed $36,000, the median salary for general practitioners in the United States is

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$46,750, and salaries for emergency room physicians are well over $50,000 (Medical Economics, November 1974).

b. The impact of inflation has been recognized by the US military services. In October 1974 the pay and special allowances for military medical officers were substantially increased (Executive Order 11812) so that the compensation, particularly in the higher grades, greatly exceeds the compensation of their civilian counterparts in the Federal Government.

c. Recent serious shortages of physicians in the Veterans Administration have led to the submission in January 1975 of a bill (HR 1545) which, if enacted, will provide a flat 25% increase in VA medical officer salaries.

d. There has been an indirect impact of inflation on the OMS. As the OMS ceiling authorization has decreased and more funds have been required to pay the same or fewer employees, justifiable requests for additional personnel needed for additional requirements have had to be denied. For example, current new requirements from the Science and Technology Directorate levied on our Psychological Services Staff for Human Factors research, require four (4) additional full-time psychologists. The inability, because of ceiling restraints, to provide appropriate professional response to such requirements has had a deleterious effect on program development.

e. There is also a real and direct personal impact of inflation on individual OMS employees, and particularly on senior supergrade personnel, some of whom are receiving the same compensation they received in 1968.

f. There is currently no provision of course for compensating for inflation in our budget requests. Our current practice in physician recruitment, when we cannot meet the salary demands of an applicant, is to seek out another applicant in the hope that whatever advantages Agency employment may offer will attract a physician despite our inability to compete with salaries in the private sector.

g. In the area of physician recruitment no alternative to our present procedures is apparent. Over the long run, Federal salaries for physicians must, in our judgment, be raised if competent physicians are to be attracted and retained.

h. With regard to not being able to accept apparently genuine new requirements because of personnel/funds limitations, a theoretical alternative might be the adoption of a policy whereby the requester of such assistance involving significant additional resources be required to provide for or in some way pay directly for the costs of undertaking the requirements. This however would amount to shifting the burden and would not be an economically rational solution for the Agency as a whole. It would also be inconsistent with our traditional service philosophy.

III. Conclusions

a. The direct impact of inflation on the OMS has not been serious. Over the long run, however, we are concerned about the implications of inflation on (1) physician recruitment, and (2) program development.

b. Our recommendations are:

(1) The Agency make appropriate representation, along with other Federal agencies, toward increasing the salaries of Federal physicians.

(2) Some means be provided whereby OMS may continue to accept requirements in areas such as Human Factors research.

Attachments

25X1A

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OFFICE OF FINANCE

THE PROBLEM OF INFLATION

I. Focusing on Inflation

II. Impact of Inflation on Financial Services

III. Effect of Personnel Reduction to Obtain Level Budget

IV. Dealing with Inflation through Restraints and Program Postponement

OFFICE OF FINANCE

THE PROBLEM OF INFLATION

I. Focusing on Inflation

A. Inflation can be identified in the Office of Finance as a condition of generally rising personnel costs due primarily to pay act adjustments for cost of living increases. While the manpower resources have been decreasing over the past ten years,

a high of [redacted] A.E. in FY 1967 to a projected low of [redacted] in FY 1977, there has been a net increase of 34% in personal services dollars.

STATINTL

B. The major portion of the Office of Finance Budget, approximately 95% provides for personal services. In this one area the greatest impact of inflation from wage increases is visible to all, recognizing that goods and services generally rise more rapidly than personal services.

C. Inflation fighting requires considerable planning to obtain maximum utilization of reduced manpower resources. From this utilization we expected productivity gains which could partially offset the rising costs of wages.

II. Impact of Inflation on Finance Services

A. Productivity gains, however, have been more than offset by new and one-time requirements levied on our Compensation and Tax Division (retroactive pay adjustments; FLSA procedure for payment to employees retroactive to May 1974) and delays in processing of claims in Certification and Liaison Division.

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B. Full impact of inflation on financial services becomes apparent to management when functions are reduced or eliminated due to a reduction in personnel in an effort to decrease personal services costs. Our concern would then be the proper manning of those jobs required to maintain the integrity of financial operations in the Agency in accordance with Federal Statutes. Further reduction in personnel to combat inflation without reduction in workloads would seriously jeopardize our ability to carry out the statutory requirements.

C. Illustrations of financial services affected by inflation fighting are:

1. Delay in implementation of further work saving computer systems.
2. Claims and vendor invoices backlogged with a delay in payment.
3. Reduced number of field positions providing professional finance employee in direct support of operations.

III. <u>Effect of Personnel Reduction to Obtain Level Budget</u>

A. In keeping with the Agency policy of fighting inflation by maintaining a level budget through adjusting programs and reducing the personnel ceiling, the Office of Finance has already reached a personnel level which is too low. The current personnel ceiling is not adequate to meet all work requirements satisfactorily.

B. By reducing positions in those areas where new computer systems were to reduce workloads, we have found added requirements and/or delays in systems development thereby causing a shortage of qualified personnel to perform basic tasks. This shortage has created backlogs in voucher processing and requires the added cost of overtime to maintain an acceptable workload level. Approximate four (4) man years were required in FY 1974 and a projected six (6) man years will be required in FY 1975. Temporary personnel are being hired to perform mandatory staff work and will increase the Budget level thereby defeating the purpose of personnel reduction. We have also seen the increase in the offices' budget level to provide for TDY assistance at the field stations due to a heavy volume of work.

C. Another illustration of the overall effect of personnel reduction was the requirement for detail assignment of finance careerist involving 13 man years in calendar 1974 to provide support to Agency operations.

IV. <u>Dealing with Inflation Through Restraints and Program Postponements</u>

A. Our contribution to dealing with inflation is limited to the restraints placed on procurement of goods and services and the postponement of certain programs. With high cost of supplies and the use of available manpower on high priority programs, we have asked the office managers to delay purchasing certain equipment and to hold the time on development of future computer programs.

B. An increased use of Temporary Employees may be less costly than payment of overtime rates to permanent staff employees and a method we recommend. Further personnel reduction is not the way out of the dilemma and would seriously affect the capability of this office to effectively support the statutory requirements for which the Director is accountable.

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Approved For Release 2003/08/26 : CIA-RDP85-00988R000600150001-0

DRAFT

09 APR 1975

Inflation and the Office of Joint Computer Support

1. Background

a. OJCS activities are directed at the operation of a central computer facility to satisfy the needs of the Agency for computer services for scientific, intelligence, and administrative functions. The technology that one finds in the computer field has a considerable bearing on how inflation affects OJCS and other computer organizations, both industrial and governmental. The computer is relatively new and its growth has been dynamic over the past fifteen years. The effects of inflation in this type of situation are far more subtle and complex to assess than in more established industries such as the automobile industry and public utilities. In the latter industries, long records of costs for relatively standard products and services can be used to track changes in cost.

b. The computer industry, perhaps more than any other new industry, has been able to tap advanced science and technology to improve the capacity and function of computers, at the same time reducing the cost per unit of capacity or function. On the other hand. electric utilities, for example, have been slow (for legal, environmental, and social reasons) in putting to use new technology, such as nuclear energy, to increase capacity and reduce unit costs.

c. One asks, "If computers are providing more for less cost, why are the budgets for computer activities increasing each year in the Agency and elsewhere?" The answer lies in the fact that another phenomenon has evolved in parallel with the development of computers. This phenomenon has been called "the information explosion." The demand for storing, analyzing and retrieving information of all kinds has grown at a tremendous rate during the past fifteen years. Whether the demand has led to the development of computers or computers have led to the demand may be argued. Although the cost per unit of computer service has gone down, the workloads have increased and produced rising OJCS budgets. Organizational changes, i.e., the merger of CRS and ISG computer activities and budgets into OJCS, are ~~another factor in~~ also contributing to the growth of the OJCS budget. ~~per se~~. In addition, budgets have risen because some elements in the OJCS budget, for example, personnel costs, travel, and certain supplies and materials, are subject to the same impact from inflation as they would ~~be~~ suffer in any organization.

Discussion 2. As a starting point for discussing specific areas of inflation in OJCS, the OJCS budget for FY-73 through FY-76 is attached. The major elements in this budget are discussed below:

a. <u>Personnel</u>

STATINTL

Since personnel costs account for approximately one-third of the OJCS budget (an average of over [redacted] per year during the period FY-73 through FY-76, inflation in personnel costs results in a significant increase in the total funds that must be programmed to carry out Office functions. The facts are clear and unassailable. Federal government pay raises have inflated the cost of personnel since 1967 ~~as follows~~: by 71%.

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Year	Average Annual Salary Increa[redacted]
1967	3.8%
1968	3.4%
1969	6.6%
1970	12.1%
1971	6.2%
1972	5.6%
1973	5.4%
1974	6.0%
1975	5.3%
Total	54.4%

It is interesting to note that for philosophical reasons we do not plan or budget for these increases. Instead, by direction, we plan for a 1% increase in personnel costs each year, and then make up for the inevitable shortages in funds by reprogramming funds from goods and services, eliminating projects, or reducing manpower.

b. Equipment Rental and Equipment Purchases

Equipment accounts for over 45% of the OJCS budget

STATINTL

--over [redacted] in FY 1975. While inflation is unquestionably having an effect on the price we pay for equipment, it is impossible to gauge the full impact. This is because new models of computer equipment are frequently introduced which provide a new range of functions, increased speed, and increased capacity that makes it difficult to identify the inflation factor in the new models. OJCS cannot determine how much of the increased price is the direct result of the additional performance specifications built into the system and how much is the result of increased manufacturing costs from inflation. Normally, the productivity of the new models is less expensive in terms of unit cost per function performed than the older models. In FY 1968 ~~1976~~ IBM, our largest equipment vendor, (in what is believed to have been an unprecedented action for this company) raised rental prices for existing equipment models by 3%. IBM equipment prices were raised another 2% in FY 1975. An 8% price increase was also announced for IBM's commercial customers in September 1974, and we can expect this price increase to be applied to the Federal Government beginning 1 July 1975. This increase would normally have increased equipment funding by $150,000 in FY 1975 and $350,000 in FY 1976, but OJCS is ~~expects to~~ entering ILLEGIB ILLEGIB into long-term equipment leasing contracts that will reduce the funding impact substantially in FY 1975 and ~~completely~~ annual costs for the same equipment thereafter. ~~offset the price increases in FY 1976.~~ These long-term contracts not only offer protection against price increases, but also eliminate extra use rental charges. Thus the IBM marketing and pricing strategy has had the effect of driving some users to long-term contracts to avoid price increases. These long-term contracts protect installed IBM equipment from replacement by competitive equipment which enables IBM to offer lower prices. IBM competitors, bent on getting a larger share of the computer market, have not followed suit with price increases for equipment.

c. Contract Services

Contract services account for 15% of the OJCS budget

STATINTL

--[redacted] in FY 1975. These contracts are generally related to ADP systems analysis and programming activities. The main elements of cost in these contracts are labor costs and management and administrative overhead. On the average the cost for a manyear of contractor support has risen from $30,000 in FY 1967 to $55,000 in FY 1975, an 83% increase.

d. Maintenance and Repairs

Maintenance and repairs account for 2% of the OJCS

STATINTL

budget--less than [redacted] in FY 1975. A number of vendors provide maintenance service for various types of computer equipment. IBM has increased its charges 2% in FY 1975 and an increase of 8% is anticipated for FY 1976. Increases by other vendors have also occurred. The average increase during the period FY 1975 through FY 1976 is estimated at 10%.

e. Supplies and Materials

Supplies and materials account for 2% of the OJCS bud-

STATINTL

get--less than [redacted] Prices for paper products, IBM cards and continuous form paper, have increased because of the paper shortage and increased manufacturing costs. For example:

Continuous Forms Stock No.	Parts	Forms Per Box	Price Per Box FY 1973	FY 1974	FY 1975
7530-HO2-8602	1	2500	$ 7.70	$14.58	$19.62
7530-HO5-4038	1	5000	9.91	14.17	14.17
7530-943-7083	2	1500	13.81	27.22	27.22
7530-944-4159	1	3900	8.56	13.98	14.2[illegible]
7530-944-4160	2	1800	11.57	11.57	20.58
7530-944-4161	3	1100	14.27	18.28	22.27
7530-944-4162	4	800	13.82	13.82	17.91
Tabulating Cards					
7530-205-2195	(Salmon)		11.23	18.75	20.67
7530-HO5-1866	(Yellow)		10.19	10.19	18.76

Paper prices in FY 1974 were 41% higher than in FY-73 and 23% higher in FY 1975 than in FY 1974.

During FY 1974 through FY 1975 magnetic tape prices have risen 25%, from $9.03 each to $11.25.

3. Summary

The ~~input~~ IMPACT from inflation is most recognizable in personnel and contract services where the costs have increased by ~~5%~~ 71% and 83%, respectively, since 1967. While there have been significant increases during the last several years in the prices for equipment rentals, purchases, and maintenance, OJCS has been able to offset these increases by greater use of long-term leases and purchases to reduce equipment costs. Paper products (IBM cards and continuous forms) and magnetic tapes have risen in price, but since supplies account for such a small portion of the OJCS budget, 2%, the overall impact on OJCS funds is minor.

For OJCS, the greatest improvement in programming procedures would come from a new policy which would allow us to budget for the anticipated annual increases in salary costs (5% to 6%) instead of the 1% currently allowed.

Prepared By: [redacted] OJCS

STATINTL

Problem:

The Office of Logistics (OL), like other components of the Agency and most segments of our society, has been sorely straitened by the inflationary trend that has advanced in our economy over the past 2 years. Fortunately, our requests for budget increases to meet rampantly rising costs have been awarded, and our internal innovations have helped to offset many of the deleterious effects of price increases on our operations. Together, these actions to date have allowed OL to maintain its level of services. As a practical matter, though, continuing after-the-fact funding for inflation is inadequate and contrary to modern programming techniques. In order to remain a viable service organization, the time is ripe for our reassessing the traditional constraint on budgeting for inflation, exploring past methods of reducing costs and extending cost-reduction techniques in the future, and considering curtailing some services if warranted by future, long-range inflationary trends.

Background:

According to the deflator schedule developed for Agency use by OER, FY 1974 saw a general inflation rate of approximately 50 percent from the FY 1967 base period; nearly half of this price skyrocketing has occurred within the past 2 years. Such a sudden and drastic reduction in purchasing power obviously could not be completely ignored or absorbed without effect. The following graphs compare Congressional budget dollars and constant dollars for the Office of Logistics as a whole and then illustrate the same comparison from the standpoints

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3 Graphs still to be added:

Goods and services

Personal services

Average employment

Although these graphs are helpful in forming a framework, a straight mathematical comparison of constant dollars over the years to the base FY 1967 period will not reflect the true picture of inflation's impact on OL operations. A myriad of factors have impacted on our budget over the past several years; quite simply, the Office has not necessarily been performing the same functions in the same ways over the past 8 years. For instance:

a. Following Agency payment in FY 1967 of a full-year's rent on

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Agency-occupied [redacted] Rosslyn buildings, GSA absorbed these rental fees for the next several years. Then, in FY 1974, SLUC was instituted by GSA, and the Agency is now paying rent on all space it occupies, Government-owned and -leased buildings alike.

b. In the period FY 1969-70, substantial amounts of funds were required for the Agency-wide replacement of obsolete telephone key-box sets by modern call directors. Now, the entire Telephone Facilities Branch which carried out the replacement program has been transferred to the Office of Communications and is no longer a consideration in our programming.

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[redacted]

d. Since FY 1970 and the total blackout of the Headquarters Building, sizeable amounts of funds have been spent in increasing the capacity and improving the reliability of our Headquarters power systems. The early 1970's also saw mammouth renovation projects and chain-reaction space moves in our Headquarters buildings. A new garage facility on the Headquarters compound has even been erected. In addition, many differing nonrecurring, capital-equipment expenditures have been made (printing and photographic equipment, warehousing and motor pool equipment, etc.).

The above examples of our response to changing requirements and modernization of support operations over the past 8 years clearly indicate the difficulty of strict comparison of Congressional budget figures. Lengthy comparisons of the past 8 years would not prove particularly useful in meeting our present challenge of beating or at least alleviating the effects of inflation on our current and future operations, especially since the earliest of those years do not reflect significant rates of inflation. Therefore, we are limiting our detailed cost comparisions to the past 2 to 3 years, the period during which it is almost universally agreed that inflation has had its greatest impact.

Discussion:

As a consumer of goods and services in the American economy, OL is subject to the trends of American industry. Our experience in the recent past has been closely related to the periodic shortages, both real and artificial, which have struck the economy in general. Along that same line, our expectations for the next few years are based on forecasts for a continuing high (though somewhat lesser than the past year), overall inflationary rate in the economy.

Many of the products and services provided by this Office are of the kind which are basic to the smooth operation of the Agency's physical environment, are highly visible, and are easily taken for granted. Many of these same products are those which have been hit hardest by inflation, i.e., paper, fuel, utilities costs, etc. In some instances, we have been able to absorb increased costs with few outward signs of their impact on our budget and operations. At other times, however, we have been the victim of short-term, real and artificial shortages and concomitant exploding costs. At one point in the past 2 years, a 40-percent inflation factor was experienced in purchasing consumable supplies. Some major areas in which the OL has severely suffered from the effects of inflation are discussed below:

Paper Products:

In January 1974, we investigated the increasing cost and difficulty being encountered in purchasing common stocks of paper. We concluded that, for a number of reasons beyond our control, a serious shortage of paper and the raw materials from which it is made would affect procurement and supply for at least 3 years. We decided upon two simultaneous courses of action--increasing our leadtimes and stock levels of needed paper products (including, of course, increasing our funding for this surge buying), and encouraging paper saving and acceptance of suitable substitute paper items throughout the Agency. For several months the paper crunch remained intense. The paper industry and GSA both placed allocation limitations on purchases, many suppliers would not respond in bidding for Government contracts, firm delivery dates or prices would not be quoted by vendors, some products simply disappeared from the market, and prices jumped by staggering proportions. Our paper-saving campaign and innovations were reasonably successful during this time, and we found that Agency customers were fairly receptive to the need for conserving paper and accepting substitute items.

In the latter part of 1974, though, the current suddenly reversed, and many types of paper products became available in almost unlimited quantities. By this time, of course, our shift to increased stockage and longer leadtimes was running smoothly; we then found ourselves with a warehouse abounding in paper and creating a storage problem. At the same time, demands for paper from [redacted] had diminished as a result of both the paper-saving campaign and increased paper stockage at individual office levels. Still, we feel we are in a reasonably good position. GSA is in a similar paper-abundant stance and has circulated a paper-sale bulletin; in many cases, the paper products we were able to buy on the open market during the paper crunch are still less expensive than the GSA sale prices for those items. We have, though, paid drastically higher prices for paper products in the past 2 years, resulting in serious budgetary repercussions. For instance, the cost of paper used in the printing operation (purchased both through GPO and commercial sources) jumped an average of 53.9 percent from FY 1973 to FY 1974 and another 9.8 percent from FY 1974 to FY 1975. Cost comparisions for some common supply-room paper items are shown below:

Item and Unit of Issue	FY 1973 Price	FY 1974 Price	Percent of Inc. FY 73-74	FY 1975 Price	Percent of Inc. FY 74-75	Percentage of Total Increase
Stenographic notebook, package of 12	$1.62	$2.75	69.8	$ 4.20	52.7	159.3
White ruled pad, package of 12	1.70	3.94	131.8	5.66	43.7	232.9
Yellow ruled pad, package of 12	1.90	3.75	97.4	5.08	35.5	167.4
Yellow unruled pad, each	.25	1.17	368.0	1.17	0	368.0
White letterex, box of 500 sheets	1.10	1.84	67.3	2.00	14.5	81.8
Xerox bond, 8 x 10-1/2 ream	.87	1.16	33.3	1.61	38.8	85.1
Kraft file folders, legal size, without fasteners, hundred	1.63	1.75	7.4	12.03	587.4	638.0

Our experience in purchasing paper products over the past few months indicates that prices are starting to level off and, in a very few instances, have even decreased. The end result of the entire paper-crunch exercise, then, is likely to be a stabilization of prices at an extremely high plane. For that reason alone, we are continuing our efforts at paper conservation. The conversion from sheet to roll paper in the printing operation substantially reduces paper waste and results in sizeable cost savings. The increased printing of forms by the Agency is also contributing to considerable cost reductions.

Administrative Office Supplies:

Continuing with consumable office-type supplies, our experience generally indicates that the most drastic price increases have occurred within the past year. Some examples are:

Binder clip, box	$ .29	$ .31	6.9	$ .50	61.3	72.4
Paper clip, box of 1,000	.50	.66	32.0	4.00	506.1	700.0
Rubber band, box	.16	.19	18.8	.30	57.9	87.5
Cheesecloth, roll	1.15	1.15	0	2.50	117.4	117.4

As a means of combating the increased costs in administrative office supplies, we are discontinuing approximately 90 items from the supply-room selection when present stocks are depleted; on-hand stocks of about half these items have been exhausted thus far. Discontinuance of these articles from issue in our supply rooms will not materially affect any office operations but will merely reduce some selections. Savings are being realized through substitution of walnut-based for onyx-based executive desk-pen sets as a standard item of issue. The double pen set in onyx currently costs $37.80 while the walnut-based set costs $20.70. In the single pen set, the prices are $19.50 and $12.60 respectively for the onyx- and walnut-based sets. We expect to save nearly $1,000 per year by this substitution alone. Similarly, cost reductions will be realized by standardizing our stock to a less expensive carafe set. Innovations such as these, while seemingly insignificant in themselves, collectively constitute remarkable cost reductions.

Printing and Photographic Supplies:

This is an area in which there are few options open to us for varying the products we use. We must satisfy customer requirements with high-quality printing and photographic work; we must, therefore, use high-quality products and pay the going market price for them. From FY 1973, average chemical costs rose 7.6 percent in FY 1974 and another 16.6 percent in FY 1975. Similarly, film increased in cost by an average of 8.4 percent in FY 1974 and again by 19.1 percent in FY 1975. The average cost of printing inks rose in nearly like amounts in both years, i.e., 19.7 percent in FY 1974 and another 17.0 percent in FY 1975. Since quality must not be compromised in the printing and photographic fields, real savings could be accomplished only through a reduction in the quantity of customer requirements for these services.

Packing and Crating Supplies:

Another area in which the amounts and kinds of materials are determined by customer requirements is the preparation of supplies and equipment for shipment to overseas stations. Here, costs of packing and crating supplies have escalated sensationally:

Item and Unit of Issue	FY 1973 Price	FY 1974 Price	Percent of Inc. FY 73-74	FY 1975 Price	Percent of Inc. FY 74-75	Percentage of Total Increase
Plywood, 4'x8'x1/4" (skid)	$366.00	$584.00	59.6	$643.00	10.1	75.5
Plywood, 4'x8'x3/8" (skid)	351.00	553.00	57.5	608.00	9.9	73.2
Lumber, 1"x12"x16' (bundle)	334.88	644.80	92.5	644.88	0	92.6
Lumber, 2"x4"x16' (bundle)	352.00	806.40	129.1	714.24	(11.4)	102.9
Nails (thousand)	3.10	3.25	4.8	3.25	0	4.8
Strapping (thousand pounds)	148.00	197.60	33.5	242.90	22.9	64.1
Air-cap cushioning, 3/16" (roll)	6.90	6.90	0	41.40	500.0	500.0
Air-cap cushioning, 1/2" (roll)	21.40	-	-	54.20	-	153.3

Polyurethene, 1" (sheet)	.58	.65	12.1	.95	46.2	63.8
Polyurethene, 2" (sheet)	1.15	1.36	18.3	1.89	39.0	64.3
Polyurethene, 3" (sheet)	1.42	1.66	16.9	2.84	71.1	100.0
Vermiculite (bag)	2.80	3.00	7.1	6.50	116.7	132.1

Transportation Costs:

25X1A Cargo shipments [redacted] have increased in cost quite dramatically over the past 2 years. The cost was $519 per short ton in FY 1973, rose to $943 in FY 1974, and is $1,135 in FY 1975. These costs are still less expensive THAN via 25X1A

25X1A [redacted] so some savings can be made by taking advantage of [redacted]

25X1A [redacted] shipments for orders with short leadtimes. All air shipments consitute a premium mode of transportation, though, and our greatest savings in the area of transportation can be made through increased usage of sea transportation, which increased in cost by 25 percent in FY 1973 but has remained but has remained relatively constant since that time because of the greater use of containerization in sea

25X1A2D2 shipments. During the past year, the cost of running [redacted] has jumped by approximately 100 percent.

Postage Rates:

Postage rates were last increased in March 1974; although the increase in first-class mail was about 25 percent, the overall effect of the increase on our mailing operations was approximately 15 percent. We have managed to economize in the mail and courier service through some substantive changes in operation:

STATSPEC [redacted] formerly mailed to selected US Government agencies and foreign embassies in the Washington metropolitan area, are now carried by couriers on their regular trips to these addressees. Although mailing costs have decreased as a result of this procedure, total savings have, unfortunately, been offset by the increased postage use we are reporting to the US Postal Service as a result of our more accurate mail-counting procedures. Still, mailing costs would have increased by a far greater amount were it not for the substantial reduction in bulk mailings.

The consolidation of the Agency's mail and courier operations within OL (now nearly completed) will result in considerable savings for the Agency as a whole. Approximately 10 personnel positions will be reduced Agency wide as a result of this consolidation; six to eight vehicles will be eliminated from the courier fleet.

These actions, designed to increase efficiency and economy, constitute major accomplishments in the mail and courier service. However, postage constitutes the largest single budgetary item for mail and courier operations, and that is an inflexible cost. We understand from the US Postal Service that rates for all classes of mail are likely to increase by approximately 30 percent in FY 1976, and we have read that an additional 20 percent increase is expected in FY 1977.

Petroleum Products and Vehicle Parts:

Understandably, the operation of motor vehicles, with its heavy usage of petroleum products, has been severly affected by inflation. The recent history of some vehicle-related costs is shown below:

Item and Unit of Issue	FY 1973 Price	FY 1974 Price	Percent of Inc. FY 73-74	FY 1975 Price	Percent of Inc. FY 74-75	Percentage of Total Increase
Gasoline (gallon)	$ .194	$ .215	10.8	$ .355	65.1	83.0
Diesel Fuel (gallon)	.138	.222	60.9	.372	67.6	169.6
Tire, 8:74 x 16.5 (each)	--	37.75	-	63.24	67.5	67.5
Tire, 10:00 x 20 (each)	--	102.71	-	138.22	34.6	34.6
Radial tire, FR 78-14 (each)	--	39.43	-	56.80	44.1	44.1
Motor oil (gallon)	1.12	1.12	0	1.50	33.9	33.9
Battery (each)	17.80	21.08	18.4	25.25	19.8	41.9
Prestone antifreeze (gallon)	2.00	2.50	25.0	8.00	220.0	300.0
Bus tire, 9:00 x 20 (each)	--	70.55	-	99.81	41.5	41.5
Spark plug (each)	.188	.21	11.7	.29	38.1	.543

In addition to the normally accepted methods of reducing fuel consumption (maintaining 55-mile-per-hour speed limits, encouraging shuttle usage by restricting reimbursement for use of privately owned vehicles on official business, etc.), we are reducing fuel consumption and, thereby, fuel costs, by other means:

All newer automobiles in the motor pool have been equipped with radial tires, an action which reduces fuel usage by 5 to 10 percent. (Nonradials will continue to be used on older vehicles in the fleet until it is necessary to replace these tires.) In order to implement the tire conversion, we purchased 442 radial tires for our fleet in April 1974; our timiing in this quantity purchase represents another example of cost effectiveness. As an example, one type of radial tire purchashed at a cost of $39.43, 1 year ago now costs $56.80 (both excluding Federal excise tax).

A pilot program which began in March using a 10-percent mixture of methanol in two motor pool vehicles will, hopefully, prove effective in increasing gasoline mileage and improving engine performance. The cost of methanol itself, although increased from $.14 to $.99 per gallon in the past few years, is not a primary consideration to our objectives. We expect the cost of methanol will stabilize or eventually decrease since the product (essentially wood alcohol) can be made from nearly any organic substance (wood, garbage, etc.). Unfortunately, one of the vehicles being used in our experiment has been disqualified from the research results for the first barrel of the 10-percent methanol mixture because its ignition time-advance mechanism malfunctioned. The other vehicle in the experiment showed an increase in gasoline mileage from 10.86 to 13.60 miles per gallon. The performance of this vehicle in the first phase of the pilot program shows promise and, having repaired the malfunctioning vehicle, the experiment is continuing.

Completion of the new Headquarters garage has in itself resulted in increased efficiency, less wasted mileage, and cost savings:

a. A wheel-alignment machine installed in the new garage at a capital cost of about $5,000 now allows a staff mechanic (whose salary is $6.48 per hour) to carry out the wheel-alignment task in about one-half hour per vehicle. Formerly, this maintenance was accomplished at a commercial garage in Falls Church at a cost of $12.50 per vehicle. In addition to the cost of the alignment itself, then, the efficiencies now being realized in lessened mileage and time wasting are incalcuable.

b. A car-wash and -wax installation (costing approximately $6,000) at the new Headquarters garage has also resulted in incalculable savings. Since its installation, as many as 29 Agency vehicles have been washed in 1 day, with each driver responsible for his own vehicle. Previously, a car wash and wax at a commercial station (again involving wasted mileage and waiting time) cost $1.65.

Vehicles and Heavy Equipment:

As an average, the prices for vehicles purchased in the past 2 years have increased as follows:

Item and Unit of Issue	FY 1973 Price	FY 1974 Price	Percent of Inc. FY 73-74	FY 1975 Price	Percent of Inc. FY 74-75	Percentage of Total Increase
Sedans	$2,870	$3,084	7.5	$4,000	29.7	39.4
Station Wagons	3,346	3,448	3.0	4,500	30.5	34.5

Even considering these prices, however, we believe it would be more effective in the long run to replace several gas-burning vehicles in the Agency fleet with more compact, operationally economical vehicles. Vehicle-replacement constraints placed by GSA and lack of funding prevent our taking such action though.

Two replacement shuttle buses are being purchased this year; these buses will cost $66,000 instead of the initially programmed $50,000. Incidentally, these buses will use diesel fuel, resulting in more economical operation.

A recent effort at vehcile rehabilitation merits mentioning as a successful cost saving. An open-backed truck driven approximately 10,000 miles was declared excess [redacted] and was scheduled for turn-in to GSA. Instead, the truck was painted and tuned up at the Headquarters garage, and an enclosure purchased for $2,000 was permanently emplaced on the open back. The truck is now used for daily mail deliveries [redacted] Failure to take advantage of the presence of that truck would have necessitated the purchase of a new truck for the mail and courier operation.

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During FY 1975, we are deferring procurement of two pieces of material-handling equipment for the Headquarters supply-room operation because of unexpectedly high costs.

Skilled and Unskilled Labor Rates:

GSA rates for both skilled and unskilled laborers involved in renovations, mechanical and engineering tasks, and cleaning and moving have fluctuated over the past 2 years. Quite unexpectedly, some of these hourly rates have declined recently:

	Aug 73	Oct 74	Percent	Feb 75	Percent	Total Percent
Mechanic	$8.41	$11.54	37.2	$9.23	(20.0)	9.8
Laborer	5.65	6.56	16.1	6.42	(2.1)	13.6

Significantly, the 8.4 percent administrative fee previously added to all GSA projects was discontinued in February 1975. Not all GSA labor rates have declined. The charge for GSA movers ($7.10 per hour in FY1974) remains at $8.62 so far in FY 1975.

Like those in GSA, some reimbursement rates for technicians who accomplish secure-voice and other engineering projects in our metropolitan area buildings under our contract [redacted] have been reduced of late:

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	FY 1973	FY 1974	Percent	FY 1975	Percent	Total Percent
Level I	$8.53	$9.01	5.6	$10.16	12.8	19.1
Level II	8.25	8.89	7.8	7.96	(10.5)	(3.5)
Level III	7.70	7.98	3.6	6.02	(24.6)	(21.8)

No Level I technicians (the level which has seen a continued hourly increase) are presently assigned under the contract.

We are not certain of the meaning of the unexpected reductions in charges for labor in the mechanical and technical crafts and in one unskilled category of labor. Conservatively, we feel it is too soon to draw any conclusions from these fairly isolated reductions. In other instances, costs continue to rise. Our service agreement with GSA for electrician monitoring of the NPIC utilities systems has significantly risen in cost. This service, which was charged at $106,000 in FY 1971, rose to $136,000 in FY 1973, $156,000 in FY 1974, nearly $159,000 for FY 1975, and is projected at nearly $175,000 for FY 1976. SLUC charges for the buildings we occupy in the Washington area have continued to increase but, since much of the increase is caused by GSA's upgrading of the valuation of the space, we are not able to isolate stright inflationary trends.

Building Construction:

Our future construction (within 5 to 10 years) of a new building on the Headquarters compound will surely be affected by annual inflation. For planning purposes, the construction industry uses an average of 10 percent per year as an inflationary factor.

Service Contracts:

Contracts for services such as office machine repair have consistently risen in the past year. Remington Rand's labor charge for calculator repair increased from $18 in FY 1974 to $19 per hour in FY 1975. The IBM typewriter repair contract for the Agency increased from $127,000 in FY 1974 to $135,000 this fiscal year. We understand informally that the contract cost will remain at $135,000 in FY 1976 but that routine typewriter maintenance service will be reduced from two inspections to one inspection per year. Service under the A. B. Dick contract for repair of mimeograph machines has increased from $22.50 in FY 1974 to $27 per hour this fiscal year; under contract with that same firm, offset repair has risen from $27 in FY 1974 to $32.25 per hour in FY 1975. Flexowriter repair, $22.50 per hour in FY 1974, is now $29 per hour. Even the costs for refurbishing class A furniture at Lorton has increased approximately 100 percent in the past two fiscal years.

Personnel:

In the area of our own personnel costs, the graph shown on page ___ indicates that OL has taken substantial cuts in ceiling over the years and is rapidly reaching core level. The increase in average-salary costs for GS employees is a problem shared with other Offices and other Directorates. However, the average-salary levels for non-GS personnel have increased within a range of 19-29 percent in the past two years, while GS personnel average-salary increases have been held to about 5 percent per year.

Conclusions:

Because the services provided by OL are so basic in nature and are primarily reactions to customer requirements, our requests for budgetary relief to meet the demands of inflation have largely been met.

Many internal Office innovations have partially offset price increases and have held our requests for aid to a minimum.

Some costs appear to be stabilizing or at least increasing at lower rates.

Nonetheless, the inflationary trend will likely continue for the next few years.

For our planning purposes, a reasonable rate of inflation for the next few years is 12 percent annually. This figure constitutes a noticeable reduction from the average 40 percent inflation factor we were previously experiencing for many items.

Though costs for many of the goods and services provided by OL are inflexible, there is still room for exercising some leverage in their provision, admittedly with possible negative customer reaction.

Though it is entirely possible that requests for budgetary relief occasioned by inflation would continue to be met on an ad hoc basis, the tradition of ignoring inflation in the budget exercise is an outdated concept and constitutes a choice to live in fantasyland. Realistically, modern programming techniques do not allow head-in-the-sand, after-the-fact funding for situations which can be foreseen and at least estimated.

Recommendations:

A 12-percent inflation factor be acknowledged and used in our planning and budgetary estimates for the next few years. This rate can be modified as necessary in subsequent budget exercises as dictated by future economic forecasts.

OL will continue to actively seek and implement methods of improving efficiency and reducing costs through internal innovation. Initially, some areas for further cost reductions are still possible:

Further paper conservation and acceptance of substitutes for standard but expensive paper products and administrative office supplies.

Choice of less than premium modes of cargo transportation. (This recommendation implies the need for longer customer leadtimes.)

Office-space renovations be held to an absolute minimum.

It is noted that many potential areas for holding down costs require an Agency-wide commitment and cannot be unilaterally instituted by this Office. Ideally, many cost-reduction programs (in order to insure full participation) require policy directives from the Agency's executive level.

In the inflation event again takes off in a skyward direction at a higher annual rate than our anticipated 12 percent, we identify and consider implementing drastic moratoriums or permanent reductions in the level of services provided by this Office.

Approved For Release 2003/08/26 : CIA-RDP85-00988R000600150001-0

OFFICE OF PERSONNEL

Background:

Since FY 1967, the budget for personal services in the Office of Personnel, as measured in constant dollars, has been reduced by 20 percent and the ceiling by the same amount. Budgetary constraints on the Office have impacted on ceiling, for more than 90 percent of the Office's budget is for personal services.

The Agency's Invitee Travel Program, which is administered by the Office of Personnel, is another major area where the effects of inflation are noticeable. Travel costs in this program have been sky-rocketting in the last eighteen months. The FY 1975 operating budget for this

25X1 program [redacted] represents a 31% increase over the amount in the FY 1974 operating budget. Even with this increase the program is still not adequately funded. Extreme selectivity is being exercised regarding whom is brought to Washington and some delays have occurred due to budgetary restraints. The inflationary factors involved in this increase are a 25% increase in airline fares in the last eighteen months; the imposition of a security charge for each aircraft boarding; and a 10 to 25% increase in taxi fares in the D.C. metropolitan area in the last year.

Inflation has also affected the Agency's Overseas Medical Program. This program, which is administered by the Office of Personnel, has experienced a similar increase in foreign air fares for medical patient 25X1C

[redacted]

25X1C

and the charge for [redacted] medical evacuation flights has also been increased. Inflated costs are also felt in field recruiters' travel and telephone charges; acquisition of equipment and furnishings; and external training.

Discussion:

Some of the personnel reductions have been accommodated because of lower activity levels in recruiting and other personnel functions--as would be expected in a shrinking Agency--and some because of personnel functions being performed at the component level. Also there has been some reduction in the staffing of such personnel services as the processing of insurance claims.

In the future there will be less prospect of offsetting future increases in pay costs by additional cuts in ceiling. We now are experiencing some increase in recruiting in order to replace a higher percentage of those who separate and are being required to maintain the present level of other personnel functions.

Conclusions:

1. The Office of Personnel will not be able to achieve significant reductions of personnel in the future and will require supplementary funds to offset Pay Act increases.

2. The Invitee Travel Program is vulnerable to future increases in travel costs and will require augmentation of funding as such increases occur.

Approved For Release 2003/08/26 : CIA-RDP85-00988R000600150001-0

ILLEGIB

15 April 1975

OS SPEAKS ABOUT INFLATION

PERSONAL SERVICES

1. Personnel costs are a major portion of the Office of Security budget, representing approximately 62% of total annual expenditures. During the period from FY 1967 through FY 1975, inflation has increased salary costs by 71% whereas funds available to defray these costs have increased by only 47%. This disparity has significantly reduced the number of personnel we are able to employ from available funds. Accordingly, during the eight years after FY 1967, it was necessary to reduce our average employment by a total of 24%, with a reduction of 20% in the last four years alone.

2. Our personnel strength is now at the minimum level essential to carry out the functions and responsibilities assigned to the Office of Security. If the divergence between salary increases and funding increases is allowed to expand further, the ability of the Office of Security to function effectively may be seriously eroded. If we are to avoid a general deterioriation of the Agency's security posture and prevent a substantial increase in security case processing time, it is imperative, therefore, that any further increases in salary costs be accompanied by proportionate increases in available funds.

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GOODS AND SERVICES

3. Even though the cost of goods and services represents a full 38% of the total Office of Security budget, there is actually little flexibility available in managing or reallocating funds within this category. Guard salaries reimbursable to the General Services Administration account for more than one-half of total expenditures for goods and services. Travel costs in connection with field investigations, physical security surveys and counteraudio inspections, as well as payments to Confidential Correspondents and contract stenographers, are necessarily dependent upon externally generated requirements and cannot, therefore, be readily reduced. Because the procurement and replacement of supplies and equipment offer the greatest discretionary latitude with respect to the postponement of expenditures, it is the procurement of audio countermeasure and physical security equipment which has been most directly affected by the inflationary shrinkage of funds available for goods and services.

4. During the FY 67 through 75 period, the rate of inflation has significantly exceeded the availability of additional funds for goods and services, resulting in major decreases in our net purchasing power. Since FY 72 alone, the cost of goods and services has increased by 38% while available funds have increased by only 10%. Absorbing the resulting dimunition of purchasing

power within a narrow area of the OS budget has created significant long-range problems for the Office. When the replacement of outmoded equipment is deferred or the procurement of new equipment if foregone, not only do higher ultimate costs result, but the quality of associated work suffers. Funds have not been available to develop and stock audio countermeasures equipment which is both precisely suited to our needs and consistent with the most modern technology. In too many instances, purchases have been postponed, quantities reduced and suitability approximated. As a result, we are now several years behind in the development, purchase and use of several types of audio countermeasures equipment. We have, for example, been unable in recent years to replace our outdated portable audio countermeasures receivers. These replacements have now been reprogrammed for FY 1976, yet it is already questionable whether, in view of continuing inflation, FY 1976 funds will be adequate to accomplish this objective.

5. The effects of inflation on the Secure Access Control System or badge machine program have been disastrous. This major program included fiscal years 1974 to 1976 and was intended to provide secure access to all major Agency buildings in the Headquarters area. Costs in FY 1975 are now approximately double our original estimates, primarily because of price inflation. Costs estimates for FY 1976 are already double our earlier

projections and may well increase further. As a result, this much needed program is being totally re-evaluated and is in serious jeopardy.

6. It is essential that future inflation be fully compensated for by increased funding. Otherwise, the large and relatively inflexible portion of our goods and services budget will soon absorb all available funds and our already inadequate capability not only to institute needed improvements, but to purchase and replace equipment may be eliminated entirely.

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10 April 1975

[redacted]

Problem

The impact of inflation on the Office of Training.

Background

Agency training falls into three categories: OTR conducted or sponsored, external training and component training. This report focuses on OTR-conducted training with a few comments about external training and a table related to component-conducted training. All training expenditures have increased during the period FY 67 to FY 75.

The FY 75 ceiling is [redacted] contract. This represents a [redacted] reduction since June of 1968 (see Table 1). During this period, more students have attended OTR courses than at any time in the past (see Table 2).

OTR's budget has remained essentially level during this period (see Table 3). This has been achieved by reducing personnel expenditures and deferring maintenance expenditures.

Discussion

The longer term consequences of inflation have been hidden in OTR until recently by a more dramatic impact of a sizable ceiling reduction and by the fact that personnel services are not in the strict sense budgeted by OTR. The past year, of course, has been a different story. The sudden increase in cost of fuel and electrical services at the [redacted] has resulted in the need to request additional funds. At the same time the requirement to train and house military officers at the Station has highlighted the significant increase in cost for goods and services. Required renovations to classroom space and housing have been significantly higher than had been originally [redacted]

Over the years budget proposals for maintenance activities [redacted] have been regularly deferred. With each succeeding year, the maintenance costs have increased. Most dramatic have been the cost of road maintenance which used petroleum-based products. A reduced maintenance work force at the Station has led to the need for acquiring these

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Conclusions

Training is an activity that can be reduced or even eliminated with no immediate impact on the organization. Historically, training programs are among the first to go during periods of retrenchment. Following this course ignores the significant role training programs play in improving productivity, maintaining employee morale during periods of organizational stress and serving as a communications mechanism between management and employees. Inflationary periods call for the most careful review of program effectiveness and productivity. Training programs should be reviewed using the same criteria as any other program. In the case of training, however, failure to pass the review should lead to redirection and revitalization, not reduction or elimination. OTR as a case in point has undergone a significant reduction in size since FY 1967. That reduction continues through FY 1976. The ability of the office to redirect and revitalize its programs becomes more and more difficult. Ongoing training programs which are productive are in competition with the need for new programs.

Essentially the same rules must apply to the Agency's external and component training programs. As external training programs increase in cost, it is possible that increased pressure will be placed on OTR to provide equivalent and cheaper internal programs. As indicated above, OTR's capability for providing these services is limited.

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Approved For Release 2003/08/26 : CIA-RDP85-00988R000600150001-0