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**INFO MEMO**

**FOR: PRINCIPAL DEPUTY UNDER SECRETARY OF DEFENSE (PERSONNEL AND READINESS)**

**THROUGH: Stephanie Barna, Acting Assistant Secretary of Defense (Readiness and Force Management)**

**FROM: Rosemary Williams, Deputy Assistant Secretary of Defense (Military Community and Family Policy)**

**SUBJECT: Calendar Year 2013 Annual Review of Nonappropriated Fund Treasury Management**

- This package summarizes the results of our calendar year 2013 annual review of nonappropriated fund (NAF) treasury management, as required by DoD Instruction 1015.15, “Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources” (TAB A).
- The DoD Components have primary fiduciary responsibility for NAF investments, and each designates an oversight group to review portfolio objectives and results, determine compliance with policy, and address corrective action. Each respective group then submits an annual report of NAF cash and investments, borrowing, and hedging as of December 31, a summary of which appears at TAB B. (Full copies of all 2013 reports are available in the SACCP file associated with this action, but were not included in this hard-copy package due to their volume and the lack of any significant issues.)
- At a meeting on September 19, 2014, representatives from OUSD(P&R) and OUSD(Comptroller)/Chief Financial Officer reviewed these annual reports with designated representatives from the DoD Components and Military Service headquarters, including their respective treasury managers. TAB C contains that meeting’s agenda and the list of attendees.
- In advance of this meeting, a thorough review of detailed report submissions found that there were no serious policy lapses or issues of non-compliance. During 2013, there were no significant occurrences of losses of principal. Two organizations reported total rates of return near or below zero: Marine Corps Community Services (-0.66%) and Air Force Morale, Welfare, and Recreation (0.001%).
  - The total rate of return calculation measures the value of the portfolio if all investments were sold as of the end of the year, and not when they have matured.

- Both organizations have a “hold to maturity” investment philosophy. As a result, their total realized percentage gains were 0.76% and 1.21% respectively. Total realized return percentage measures the actual (or realized) percentage of total gains (or losses) from the sale of investments during the year.
- Circumstances where investments produced no yield (either total or realized), are required to be reported pursuant to DoDI 1015.15 (TAB A). After reviewing the factors causing the two low total rates of return, we do not believe further investigation or corrective action is required.
- In 2013, the combined total NAF cash and investment balances increased by \$250M to \$4.65B. This represents a \$1.65B increase since 2007; trend data is provided at TAB D. Reduced capital construction budgets and conservative NAF financial management in the current constrained appropriated fund (APF) environment has contributed to the increased balances. We expressed concern with maintaining such large cash balances, as the Services may not be reinvesting adequately in quality of life programs; in addition, the large balances may be a target for Service Comptrollers to help relieve APF funding pressures for quality of life programs. The MWR and Resale Policy (M&RP) Directorate will continue to monitor the cash and investment balances closely.
- There were no prior corrective actions pending from 2012.
- The M&RP Directorate will schedule the calendar year 2014 annual meeting and Service Treasury Reports review in May 2015 to provide a more timely assessment of annual performance.

Attachments:

As stated

Prepared by: Justin Hall, MWR and Resale Policy, MC&FP, 703-588-0898, October 20, 2014