



# DoD NAF Treasury Oversight Committee Meeting Minutes

17 May 2016

## **Meeting Purpose & Objectives**

The DoD Nonappropriated Fund (NAF) Treasury Oversight Committee meets annually in accordance with DoD Instruction (DoDI) 1015.15, “Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources.”

## **Agenda Items**

- 1. Welcome and Overview**
- 2. Discussion of Current Economic and Investment Climate and Challenges**
- 3. Discussion on Steady Increase of Current NAF Investment Balances in Declining Appropriated Fund (APF) Budget Environment**
- 4. Results of DoDI 1015.15 Policy Compliance Review**
- 5. 2016 Open Forum Meeting – Hosted by the Military Services**
- 6. NAF Treasury Management Website**
- 7. MWR and Resale Policy Data Repository and Use of Tableau**
- 8. Status of Revision of DoDI 1015.15**
- 9. Portfolio Review/Annual Cash and Investment Management Reports**
  - a. Air Force**
  - b. Navy MWR CNIC/N9**
  - c. Marine Corps Community Services (MCCS)**
  - d. Navy Exchange Service Command (NEXCOM)**
  - e. Army**
  - f. Army and Air Force Exchange Service (AAFES)**
- 10. Open Discussion/Closing Remarks**
- 11. Wrap-Up**

## Meeting Attendees

- Mr. Michael Kelly, OSD, MC&FP – Committee Co-Chair
- Ms. La Zaleus Leach, DFAS – Committee Co-Chair
- Ms. Paulette Freese, OSD, MC&FP
- Mr. Michael Curtis, OSD, MC&FP
- Ms. Coleen Amstein, Army M&RA
- Mr. Robert Pickering, Army M&RA
- Ms. Valisa Farrington-Lynch, Army FM&C
- Mr. Paul Burk, Army IMCOM G9
- Mr. Will Anderson, Army IMCOM G9
- Mr. Laurent Lant, Army IMCOM G9
- Mr. Robert Ramsey, Army IMCOM G9
- Mr. Samuel Steffanina, Army IMCOM G9
- Mr. George McNamara, Army ACSIM
- Mr. Bill Sewell, Army ACSIM
- Ms. Evonne Carawan, Department of the Navy M&RA
- Mr. Daryl Davis, Navy CNIC
- Mr. Matthew Keathley, Navy CNIC
- Ms. Pyper Brenner, Marine Corps MCCA
- Mr. Fred Stout, Marine Corps MCCA
- Ms. Pat Craddock, Marine Corps MCCA
- Mr. Mark Montgomery, AF/A1SRR
- Mr. Wally Erck, Air Force SAF/FMCEB
- Ms. Teresa Asbury, Air Force SAF/FMCEB
- Ms. Carla Redden-McAnally, Air Force SVA/FM
- Ms. AC Berry, Air Force SVA/FM
- Mr. Cameron Zablocky, Air Force SVA/FM
- Mr. David Curley, Air Force SAF-MRR
- Mr. Jim Jordon, AAFES
- Mr. William Moring, AAFES
- Mr. Andrew Howell, NEXCOM
- Mr. Tom McDonald, NEXCOM

## Meeting Notes

### 1. Welcome and Overview – Mr. Michael Kelly, OSD

- a. Mr. Kelly opened the Committee meeting by expressing his ongoing concerns about the growing NAF cash balances. This has been a repeated topic in the Committee meetings for several years. Total NAF cash and investments have increased \$1.72B since 2008. In calendar year 2015, the total balance increased by \$139.5M to \$4.99B, and there have been increases in total NAF cash six of the last seven years. Mr. Kelly expressed a concern that the high balances may become known to Military Service comptrollers, as they did with the Navy. Careful consideration should be made concerning investments in areas where there is potential for a high return, such as information technology (IT) and other delivery systems that have a more visible and direct benefit to morale, welfare, and recreation (MWR) programs.

### 2. Discussion of Current Economic and Investment Climate and Challenges – Mr. Michael Curtis, OSD

- a. Mr. Curtis opened the discussion by requesting the Committee's thoughts on whether the Federal Reserve may raise interest rates in 2016. In December 2015, the Federal Reserve increased the federal funds rate from a range of 0%-0.25% to a range of 0.25%-0.5%. Before that, the federal funds rate had not changed since December 2008. Mr. Keathley stated that based on the federal funds futures markets at the time, the Federal Reserve was predicting a two rate increases in 2016. Mr. Stout said the Federal Reserve has been very poor at forecasting in the past, calling for inflation to rise for over five years. Consequently, investment professionals have grown weary of their poor forecasts. Mr. Stout suggested that there will be one rate increase at best in 2016.

### 3. Discussion of the Steady Increase of Current NAF Investment Balances in a Declining APF Budget Environment – Mr. Michael Curtis, OSD

- a. Ms. Craddock said Marine Corps Community Services (MCCS) has been setting aside reserves for investments in NAF construction and IT projects. Ms. Brenner seconded that and said there has been a strategic pause at MCCS to ensure that funds are invested wisely.
- b. Mr. Montgomery mentioned that Air Force is planning several initiatives at the enterprise level in the FY17 NAF budget, focusing on MWR Category C program upgrades and entertainment. He said sequestration and construction delays drove conservative spending at the installations and were major factors that caused the increase in Air Force cash.
- c. Mr. Burk noted that while it is obvious that Army's cash balance is high, we must compare this to our liabilities and commitments. Both sides of the coin will need

to be analyzed to have a better picture. As long as the cash/debt ratio is not too high, the Army (and other Services) should be fine.

**4. Results of DoDI 1015.15 Policy Compliance Review – Mr. Michael Curtis, OSD**

- a. Mr. Curtis said there were no significant deficiencies with the CY2015 report submissions. He expressed his appreciation for the quick turnaround from all the Components related to requests for missing documents and/or information.

**5. 2016 Open Forum Meeting – Hosted by the Military Services – Mr. Michael Curtis, OSD**

- a. Mr. Curtis thanked the Committee for the participation in the November 2015 Open Forum meeting, hosted by AAFES. The intent is for the second annual meeting to be a recurring event, as required by DoDI 1015.15. Mr. McDonald said he thought it was Air Force's turn to host the meeting, but would send out a tentative schedule for meetings between the treasury managers over the next few years, including the second meeting of the Committee. Mr. Curtis reminded the Committee that representatives from MWR & Resale Policy Office would join in the meeting and be responsible for the meeting summary, but not set the agenda.

**6. NAF Treasury Management Website**

- a. Mr. Curtis announced the MWR and Resale Policy office created a new CAC-enabled SharePoint website to house the documents from past Committee meetings and allow communication and collaboration between meetings via a discussion board. Permissions to access the website will be created for all Committee members. The website address is as follows:  
[https://prext.osd.mil/RFM/MCFP/MWR-RP/EXT\\_NAF\\_TreInv/Pages/Home.aspx](https://prext.osd.mil/RFM/MCFP/MWR-RP/EXT_NAF_TreInv/Pages/Home.aspx). The website will also contain annual report templates in Excel format to enable better comparability in reporting and faster updates of requested information, as needed.

**7. MWR and Resale Policy Data Repository and Use of Tableau**

- a. Mr. Curtis discussed the data repository created by the MWR and Resale Policy office using Microsoft Access. The repository contains selected financial and program data submitted by the Components over the past five years, to include NAF Treasury Management data. The data submitted with the CY15 reports was recently added to the repository. Tableau software is used to visualize and manipulate the data for analysis and general oversight purposes. Mr. Curtis presented a pie chart created with Tableau that showed the combined Component-wide investment portfolio for CY2010 vs. CY2015. Some significant changes in the five year period were a decrease in Fannie Mae investments from 37% to

17%, an increase in investments in Treasury Notes from nearly zero to over 10%, and an increase in Certificates of Deposit (CDs) from less than 10% to over 20%.

#### **8. Status of Revision to DODI 1015.15 – Mr. Michael Curtis, OSD**

- a. Mr. Curtis informed the Committee the revision of DoDI 1015.15 is still in progress. Mr. Kelly recommended a one-time face-to-face working group meeting of investment subject matter experts from each of the Components, to be hosted by MC&FP, to discuss proposed changes to the DoDI 1015.15. Mr. Curtis said he would work with the Committee members to schedule the meeting before the end of 2016.

#### **9. Portfolio Review/Annual Cash and Investment Management Reports**

- a. Air Force. As of December 31, 2015, Air Force had an investment balance of \$1.4B. Their realized return was 1.247%. Air Force has a \$38M letter of credit with J.P. Morgan Chase. Their audit is ongoing and will be submitted once completed.
- b. Navy/CNIC. Navy's investment balances at December 31, 2015 was \$0.9B. Their realized return was 1.29%. CNIC continues to value a line of credit agreement with NEXCOM that is mutually beneficial, providing lower interest costs for NEXCOM and higher interest income for CNIC than available with any arrangement on the market. CNIC's audit is ongoing and they hope to have it complete by the end of July.
- c. Marine Corps/MCCS. The investment balance for MCCS at the end of 2015 was \$0.4B with a return of 1.01%. Their audit was completed the week before the meeting and they promised to send it OSD shortly.
- d. NEXCOM. The investment balance for NEXCOM at December 31, 2015, was \$0.4B, with a return of 0.38%. The investment balance for Military Sealift Command was \$0.05B with a return of 0.44%.
- e. Army. Army's investment balance was \$1.78B at the end of 2015, with a return of 0.78%. Army has a new Investment Committee charter. In addition, they are changing their benchmark for CY16. Mr. Davis from Navy is joining the Investment Committee as a voting, independent investment professional, and Mr. Jordon from AAFES will be a non-voting advisor to their Committee. Their audit is complete and should be issued within the next 30 days.
- f. AAFES. The investment balance for AAFES was \$0.09B, with a return of 0.22%. The AAFES CFO, Ms. Figge, is retiring, to be replaced by Mr. Jordon. Mr. Brian Poss will take over as Treasurer. Their audit is scheduled to be complete on May 23.

#### **10. Open Discussion**


- a. No additional items were discussed.

**11. Wrap-up – Mr. Michael Curtis, OSD**

- a. Mr. Curtis commended all Components on their reports for CY 2015. The plan will be to schedule next year’s Committee meeting in the early part of May 2017.
- b. Summary of actions and due outs:
  - All Components to provide audit reports when they are complete.
  - MWR & Resale Policy office to schedule the special working group meeting in the fall of 2016.
  - Mr. Tom McDonald to send out a tentative schedule for a second treasury manager meeting to be held within next 6 months.
  - MWR & Resale Policy office to schedule next year’s Committee meeting in early May 2017.

**Next Meeting**

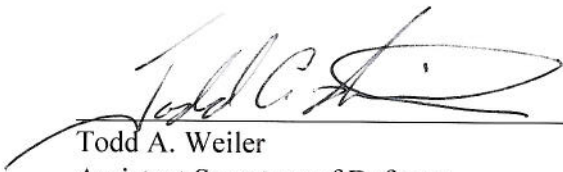
Early/Mid-May 2017

  
 Michael J. Kelly, Committee Co-Chair  
 Date: 4/23/2016

LEACH.LAZALEU Digitally signed by  
LEACH.LAZALEU.S.D.122995493  
 S.D.1229954934 Date: 2016.10.26 16:44:52 -04'00'

\_\_\_\_\_  
 La Zaleus Leach, Committee Co-Chair  
 Date: \_\_\_\_\_

DoD NAF Treasury Oversight Committee Meeting Minutes  
 May 17, 2016  
 Approved:

  
 Todd A. Weiler  
 Assistant Secretary of Defense  
 (Manpower and Reserve Affairs)  
 Date: 11/28/16