

EXECUTIVE SUMMARY

UNCLASSIFIED

February 3, 2012
MC&FP, (703) 588-0179
Mr. Ronald Smith

Subject: Annual Review of Nonappropriated Fund (NAF) Treasury Management

1. Executive Issues:

- Purpose: Request the Acting USD(P&R) sign memorandum to the Assistant Secretary of the Air Force for Manpower and Reserve Affairs requiring corrective action for the Air Force oversight of NAF treasury management to comply with DoD policy, **TAB A**.
- Per DoD Instruction 1015.15, OUSD(P&R) and OUSD(C) representatives with functional responsibility for treasury management policies reviewed the Military Departments calendar year 2010 NAF Treasury Management Reports, portfolios, and compliance with DoD policy, **TAB B**.
- The review concluded there is reasonable assurance that the Military Departments are conforming to policy and procedures prescribed in DoD Instruction 1015.15 and corrective actions are being taken in the following areas:
 - While there were no significant findings for calendar years 2009 and 2010, there were delays in the OSD issuance of the 2009 findings and the OSD conduct of the calendar 2010 review.
 - The Secretary of the Air Force-designated oversight group did not document their review or endorse the 2010 annual report as is required by paragraph E9.7.4.4, **TAB C**.
 - Recommended policy clarifications for the administration of the DoD Component oversight groups, disclosure of management expenses, and terms for operational hedging will be incorporated in the next update of DoDI 1015.15, scheduled for publication in late 2012.
- The calendar year 2011 reports, due from the Components on 1 April, will be reviewed and the results submitted to the PDUSD(P&R) by 15 May 2012.

2. Background:

- Per DoD Instruction 1015.15, the DoD Components have fiduciary responsibility for nonappropriated fund (NAF) investments and designate an oversight group to review portfolio objectives and results, determine compliance with policy, and address corrective action, **TAB D**.
- The DoD Components require the respective NAF treasury management oversight groups to prepare and annual report of NAF cash and investments, borrowing, and hedging as of December 31st of each year and submit the reports to the PDUSD(P&R) by April 1st.
- An annual meeting of representatives of the offices of the PDUSD(P&R) and the USD(C)/CFO review the annual reports with representatives of the DoD Components and Military Service Headquarters treasury managers.
- The OSD review of the calendar year 2010 NAF Treasury Management Reports was conducted January 19, 2012, **TAB E**. While the review found there were no serious policy lapses, the delay in its completion results in less than timely recommended corrective action on new findings.
- The review of the 2009 reports, **TAB F**, was conducted on July 8, 2010. Although the results were not formally transmitted to the Components, the Services corrected the findings in 2010.
- The review of the calendar year 2011 NAF Treasury Management Reports is scheduled for April 23, 2012 and review results will be issued to the Components by May 15, 2012.

3. Discussion:

- Correction of Previous Findings. All prior year findings, identified during the calendar year 2009 review, were corrected in 2010.

- The Army Banking and Investment Fund and the Army and Air Force Exchange Service (AAFES) are meeting requirements for members of their respective oversight groups to be full-or part-time officers or employees of the Federal Government.
- The Commander, Navy Installations Command (CNIC) loan portfolio summary now discloses its line of credit.
- The Air Force Services performance cash and investment balances ownership report now specifically identifies all entries.
- New Finding. In 2010, there was one instance of non-compliance with policy requiring corrective action at Tab A. The Secretary of the Air Force did not identify that its designated treasury management oversight board did not document its review and endorsement of the annual NAF Treasury Management Report.
- Policy Recommendations. The review examined the need for improvements in DoDI 1015.15 policy and procedures.
 - To protect individuals and the NAFI, paragraph E9.7.4, TAB D, requires clarification to prohibit the designation of personnel with fiduciary responsibility for treasury management from serving as the Chair or Recorder of the Component's NAF treasury oversight group. AAFES and Navy CNIC allow this practice.
 - Paragraph E9.2.3, **TAB G**, requires clarification to require more detailed disclosure of portfolio management expenses that are adjustments to portfolio yield.
 - Paragraph 10.2.1, **TAB H**, requires amendment to allow operational hedging requirements for a maximum horizon of 18 months rather than the current 12 month limit, to structure portfolios to meet longer term overseas capital requirements.
 - Paragraph E9.4.7, **TAB I**, limits aggregate investment in institutional government money market funds to \$50 million or 25 percent of the total market value of the NAF investment portfolio.
 - The CNIC requests lifting the limit to the greater of \$50 million or 25 percent of the total portfolio, in order to respond to unplanned receipts of appropriations through the uniform funding and management (UFM) procedure.
 - Due to restrictions concerning the distribution of appropriations under the UFM procedures, more evaluation is needed before considering this change.
 - The paragraph 6.10, **TAB J**, prohibition on loans between the DoD Components is based on direction from the congressional oversight committees. CNIC plans to initiate a FY 14B Unified Legislative Proposal to authorize inter-Component NAFI lending to AAFES to fund the joint in-house credit card program that AAFES administers for the three exchanges.
- Coordinations at **TAB K**.

4. **Date Due:** March 5, 2012 **Due to:** Acting USD(P&R)



PERSONNEL AND
READINESS

OFFICE OF THE UNDER SECRETARY OF DEFENSE

4000 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-4000

ACTION MEMO

FOR: JO ANN ROONEY, ACTING UNDER SECRETARY OF DEFENSE
(PERSONNEL AND READINESS)

THROUGH: Lynn C. Simpson, Chief of Staff, Performing the Duties of the Assistant
Secretary of Defense (Readiness and Force Management)

FROM: Robert L. Gordon III, Deputy Assistant Secretary of Defense (Military Community and
Family Policy)

SUBJECT: Annual Review of Nonappropriated Fund (NAF) Treasury Management

- The memorandum for your signature at **TAB A** requires the Assistant Secretary of the Air Force for Manpower and Reserve Affairs to take corrective action to comply with DoD policy for oversight of NAF treasury management.
- Per DoD Instruction 1015.15, OUSD(P&R) and OUSD(C) representatives annually review the Military Departments NAF Treasury Management Reports, portfolios, and compliance with DoD policy, **TAB B**. The review determined the Secretary of the Air Force-designated oversight group did not document their review or endorse the 2010 annual report as is required by paragraph E9.7.4.4, **TAB C**.
- Per DoD Instruction 1015.15, the DoD Components have fiduciary responsibility for nonappropriated fund (NAF) investments and designate an oversight group to review portfolio objectives and results, determine compliance with policy, and address corrective action, **TAB D**.
- The OSD review of the calendar year 2010 NAF Treasury Management Reports was conducted January 19, 2012 with representatives of the DoD Components and Military Service Headquarters NAF treasury managers, **TAB E**. While the review found there were no serious policy lapses, the delay in its completion results in less than timely recommended corrective action on new findings. The review of the 2009 reports, **TAB F**, was conducted on July 8, 2010. Although the results were not formally transmitted to the Components, the Services corrected the findings in 2010.
 - The Army Banking and Investment Fund and the Army and Air Force Exchange Service (AAFES) are meeting requirements for members of their respective oversight groups to be full-or part-time officers or employees of the Federal Government.
 - The Commander, Navy Installations Command (CNIC) loan portfolio summary now discloses its line of credit.
 - The Air Force Services performance cash and investment balances ownership report now specifically identifies all entries.

- The OSD review of the calendar year 2011 NAF Treasury Management Reports is scheduled for April 23, 2012 and review results will be issued to the Components by May 15, 2012.
- The 2009 and 2010 reviews also examined the need for improvements in DoDI 1015.15 policy and procedures, which will be incorporated in the next update scheduled for publication in late 2012. Paragraph E9.2.3, **TAB G**, requires clarification to require more detailed disclosure of portfolio management expenses that are adjustments to portfolio yield. To protect individuals and the NAFI, paragraph E9.7.4, **TAB D**, requires clarification to prohibit the designation of personnel with fiduciary responsibility for treasury management from serving as the Chair or Recorder of the Component's NAF treasury oversight group. Paragraph 10.2.1, **TAB H**, requires amendment to allow operational hedging requirements for a maximum horizon of 18 months rather than the current 12 month limit, to structure portfolios to meet longer term overseas capital requirements.
- Two Navy requests for policy changes require additional review. Paragraph E9.4.7, **TAB I**, limits aggregate investment in institutional government money market funds to \$50 million or 25 percent of the total market value of the NAF investment portfolio. The CNIC requests lifting the limit to the greater of \$50 million or 25 percent of the total portfolio, in order to respond to unplanned receipts of appropriations through the uniform funding and management (UFM) procedure. Due to restrictions concerning the distribution of appropriations under the UFM procedures, more evaluation is needed before considering this change. The paragraph 6.10, **TAB J**, prohibition on loans between the DoD Components is based on direction from the congressional oversight committees. CNIC plans to initiate a FY 14B Unified Legislative Proposal to authorize inter-Component NAFI lending to AAFES to fund the joint in-house credit card program that AAFES administers for the three exchanges.

RECOMMENDATION: Sign the memorandum at **TAB A**.

COORDINATIONS: **TAB K**

ATTACHMENTS:

As stated

PREPARED BY: Ronald Smith, Resale Activities & NAF Policy, 703 588-0179