



# DoD NAF Treasury Oversight Committee Meeting Minutes

21 May 2015

## **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. Second Annual Meeting of the DoD NAF Treasury Oversight Committee – Hosted by the Military Services
6. Status of Revision of DoDI 1015.15
7. Portfolio Review/Annual Cash and Investment Management Reports
  - a. Air Force
  - b. Navy
  - c. Marine Corps
  - d. Navy Exchange Service Command (NEXCOM)
  - e. Army
  - f. Army and Air Force Exchange Service (AAFES)
8. Open Discussion/Closing Remarks
9. Wrap-Up

## Meeting Attendees

- Mr. Michael Kelly, OSD, MC&FP – Committee Chair
- Mr. Tony Wisdom, OSD, Comptroller
- Mr. Justin Hall, OSD, MC&FP
- Mr. Michael Curtis, OSD, MC&FP
- Ms. Coleen Amstein, Army M&RA
- Mr. Walter Best, Army FM&C
- Mr. Paul Burk, Army IMCOM G9
- Mr. Will Anderson, Army IMCOM G9
- Mr. Laurent Lantonkpode, Army IMCOM G9
- Mr. Robert Ramsey, Army IMCOM G9
- Mr. Samuel Steffanina, Army IMCOM G9
- Mr. George McNamara, Army ACSIM
- Ms. Paulette Freese, Army ACSIM
- Mr. James Matthews, Army ACSIM
- Ms. Evonne Carawan, Navy M&RA
- Ms. Annie Fowler, Navy N46
- CDR Cindy Rhodes, Navy
- Mr. Daryl Davis, Navy CNIC
- Mr. Matthew Keathley, Navy CNIC
- Ms. Pyper Brenner, Marine Corp MCCS
- Mr. Fred Stout, Marine Corps MCCS
- Col Edward Brown, Air Force A1SR
- Mr. Mark Montgomery, Air Force A1SRR
- Lt Col Alisa Ricks, Air Force AFSVA/FM
- Mr. Michael Coltrin, Air Force AFSVA/FMN
- Mr. Scott Howard, Air Force AFSVA/FMNT
- Ms. AC Berry, Air Force AFSVA/FMNTP
- Mr. Cameron Zablocky, Air Force AFSVA/FMNTP
- Mr. Jim Jordon, AAFES
- Mr. Tommy Ward, AAFES
- Mr. Gerald Outar, NEXCOM
- Mr. Tom McDonald, NEXCOM

## Meeting Notes

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

- a. Mr. Kelly opened the Committee meeting by expressing concern about the ongoing and growing NAF cash trend. Since 2008, total NAF cash and investments have increased \$1.53B. In calendar year 2014, the total balance increased by \$141M to \$4.80B. Mr. Kelly expressed concern that large cash balances above our working capital needs could be construed as improper use of funds. External scrutiny may cause the NAFs to be used in lieu of APF support.

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

- a. Mr. Curtis opened the discussion with the recent news that the Federal Reserve may raise interest rates. The federal funds rate has not changed from near zero since December 2008. Federal Reserve Chairwoman Janet Yellen said the central bank is “on track” to raise interest rates in 2015, but will likely proceed cautiously because the job market has not fully healed, inflation is low and growth has been sluggish. Mr. Keathley said that an increase of 1/2 to 5/8 percent is hoped for by September 2015.

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

- a. Following up on Mr. Kelly’s opening remarks, Mr. Burk said that the Army has traditionally been very conservative in its cash management. In most years, they receive the majority of their Uniform Funding and Management (UFM) dollars at the end of the fiscal year, making it difficult to spend the funds by the end of the calendar year. Sequestration has fostered fear that APF support of morale, welfare, and recreation (MWR) may decrease significantly. In FY15, the Army (IMCOM G9) has changed its approach for budgeting NAF to be more optimistic about APF support. To encourage investment, but maintain financial solvency, the Army garrisons are being told to execute their minor construction projects to the fullest extent and spend cash balances to just above the 1:1 ratio of current assets to current liabilities.
- b. Mr. Hall said the Navy may have suffered the most from their conservative approach with their APF resource sponsor requiring they reduce NAF cash balances by reducing APF support provided. Ms. Fowler said that their relationship with Navy Facilities Command (NAVFAC) has improved recently. Mr. Davis agreed and said there has been a build-up of approved major construction projects that were held up in the bureaucracy at NAVFAC.
- c. Ms. Brenner said the Marine Corps Community Services (MCCS) is a combined organization (MWR and Exchange) and most of their NAF major construction projects have been on the Exchange side. There have been delays, however,

waiting for Congress to review and release the annual DoD NAF major construction portfolio and environmental studies required for many of their projects. Ms. Brenner said that MCCA performs quarterly installation cash reviews and any installation with excess cash must create a plan to spend down the excess. MCCA has been maintaining their cash balances below the 1:1 standard because of very low debt on the books. Pursuant to paragraphs 070403 B of DoD 7000.14.R “Financial Management Regulation” Volume 13, Chapter 7 (TAB D/Attachment 2), the minimum standard for the Acid-Test Ratio is 1:1, calculated as quick assets divided by current liabilities. The ratio measures the ability NAFIs have to use quick assets to immediately liquidate current liabilities. Quick assets include cash, receivables, and marketable securities. A ratio of 1:1 shows that there are sufficient quick assets to meet all current liabilities.

- d. Mr. McDonald said that NEXCOM traditionally has high cash balances at December 31<sup>st</sup> due to a buildup of cash from the holiday shopping season. NEXCOM benefited from a borrowing arrangement with Navy Commander, Navy Installations Command (CNIC). NEXCOM’s cash balance is usually at its lowest level in November.
- e. Mr. Hall mentioned that MWR & Resale Policy office will be sending out a data call similar to last year requesting NAF cash and investment balances as of June 30. The data call will most likely be sent out in July for a response by August.

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

- a. Mr. Curtis said there were no significant deficiencies with the CY2014 report submissions. He appreciates the quick turnaround from all related to requests for missing documents and/or information.

#### **5. Second Annual Meeting of the DoD NAF Treasury Oversight Committee – Hosted by the Military Services – Mr. Michael Curtis, OSD**

- a. Mr. Curtis reminded the Committee that DoDI 1015.15 requires a second annual meeting of the Committee, to be hosted by one of the Military Services, as a “forum for the free exchange of information...” Despite being required, this second meeting has not been held in many years. Representatives from MWR & Resale Policy Office would just join in the meeting and not set the agenda. Mr. McDonald said he would send out a tentative schedule for meetings between the treasury managers over the next year, including the second meeting of the Committee.

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

- a. Mr. Curtis informed the Committee the MWR and Resale Policy Directorate will send out a draft revision of DoDI 1015.15 to all Components for informal inputs in June or July.
- b. Mr. Hall said that one change to look for is the removal of operational documents and tables from the DoDI that will be moved to a website for faster updating in the future. An example is the listing of portfolio benchmark indices (Attachment 2 to Enclosure 9 of the DoDI). In addition, MWR & Resale Policy is working with OSD Comptroller and Defense Finance and Accounting Service (DFAS) in revising Volume 13 of the Financial Management Regulation (FMR). The plan is to move any accounting policy in DoDI 1015.15 to the FMR so that all NAF accounting policy is in one document.

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

- a. Air Force. Mr. Curtis had one question about Air Force's briefing. What is the purpose of the \$38M letter of credit with JP Morgan Chase? Mr. Zablocky explained that the letter of credit is required by the Department of Labor (DOL) in the event the Air Force Insurance Fund does not have sufficient funds to cover workers' compensation claims. Note: Title 20, Code of Federal Regulations, Part 703.205 (Subpart C) requires insurance carriers to provide a "security deposit", to cover any future workers' compensation claims, in one of three ways: 1) an indemnity (surety) bond, 2) a letter of credit, or 3) a deposit of negotiable securities with a Federal Reserve Bank or the US Treasury. Since NAFIs must self-insure, they are considered insurance carriers for the purposes of this statute.
- b. Navy. Mr. Davis reiterated their efforts to reduce the NAF cash balances. The line of credit agreement that CNIC has with NEXCOM is mutually beneficial, providing lower interest costs for NEXCOM and higher interest income for CNIC than available with any arrangement on the market.
- c. Marine Corps. No questions/comments regarding MCCA briefing.
- d. NEXCOM. Vice President and Controller Mr. Tom Burke is retiring in the summer. Mr. Outar will be taking his place.
- e. Army. Army is investing in Certificates of Deposit (CDs) for the first time. CDs made up 14% of the Army's total investment portfolio as of December 31<sup>st</sup>, 2014.
- f. AAFES. Mr. Ward said AAFES changed their portfolio benchmark in calendar year 2015. AAFES has a indemnity/surety bond to cover any excessive workers' compensation claims. AAFES use of commercial paper and other measures for its borrowing has reduced their interest expense from \$50M to \$16M in the past two years.

## **8. Open Discussion**

- a. Mr. Hall asked when audits would be complete. Mr. Burk said the Army's audit was completed in Feb 2015. AAFES said their audit should be done in May or

very soon thereafter. MCCA, NEXCOM, and Air Force expect their audits to be done by end of May. CNIC said their audit would be complete in August.

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

- a. Mr. Curtis commended all Components on their reports for CY 2014.
- b. Mr. Hall said the plan will be to schedule next year’s Committee meeting no later than May 15, 2016.
- c. Summary of actions and due outs:
  - All Components to provide audit reports when they are complete.
  - MWR & Resale Policy office to provide a draft revision of DoDI 1015.15 in June or July for informal comment.
  - Mr. Tom McDonald to send out a tentative schedule for a second treasury manager meeting to be held within next 12 months.
  - MWR & Resale Policy office to send out a request for June 30, 2015 NAF cash and investment balances for all Components in August.
  - MWR & Resale Policy office to schedule next year’s Committee meeting no later than May 15, 2016.

**Next Meeting**

Early/Mid-May 2016

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Michael J. Kelly, Committee Chair

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Approved:

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Stephanie Barna

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