DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(RESEARCH, DEVELOPMENT AND ACQUISITION)
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18 OCT 2012

MEMORANDUM FOR DISTRIBUTION

SUBJECT: Department of Defense Management of Unobligated Funds; Obligation Rate Tenets

The attached co-signed Under Secretary of Defense (USD) (Comptroller) and USD for Acquisition, Technology and Logistics' memorandum (same subject, dated September 10, 2012) addresses a long-standing problem in the way the Department of Defense (DoD) manages unobligated funds. Further, it provides six tenets that should be adopted and enforced at all levels of the chain of command, and by acquisition and financial managers throughout the Department.

The USD (Comptroller) and USD for Acquisition, Technology and Logistics will begin reviews of Major Defense Acquisition Programs (MDAPs) and other programs that have not obligated funds consistent with normal obligation rates. Guidelines for those reviews will be issued by the USDs soon.

Financial and acquisition managers and the chain of command are urged to begin similar reviews using the guiding principles contained within the memorandum for all programs.

My point of contact for this is Denise Randolph. She can be reached on (703) 614-9767 or via Denise.Randolph@navy.mil .

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OFFICE OF THE SECRETARY OF DEFENSE
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SEP 10 2012

MEMORANDUM FOR: SEE DISTRIBUTION

SUBJECT: Department of Defense Management of Unobligated Funds; Obligation Rate Tenets

The purpose of this memorandum is to address a long-standing Department of Defense (DoD) problem regarding the way we manage unobligated funds.

The acquisition community, starting with the Under Secretary for Acquisition, Technology and Logistics, has been stressing the importance of spending money in a way that maximizes the value the Department and the taxpayer receive. Our policy encourages managers to obligate funds when a satisfactory contract is negotiated or when they can be used most efficiently. The financial management community, starting with the Under Secretary of Defense (Comptroller), has primarily been measuring program execution against established obligation benchmarks as the basis for sourcing funds for higher Department priorities. Obviously, both goals – effective acquisition practices and use of resources for the highest Department priorities – have merit. We must strive to meet both goals while also taking into account two types of risks.

First, there are risks in focusing on obligation benchmarks. The threat that funding will be taken away or that future budgets can be reduced unless funds are obligated on schedule is a strong and perverse motivator. We risk creating incentives to enter into quick but poor business deals or to expend funds primarily to avoid reductions in future budget years. We need to rethink how we approach managing mid-year and end-of-year obligations and to change the types of behavior we reward or punish. We will continue to hold our Program/contracts teams accountable for executing to their planned schedules, but we have to stop measuring only benchmark execution as the dispositive method of determining whether funds are available for higher priorities. Such benchmarks should only be a place to start a discussion of obligation management, not a place to end that discussion.

But there are also risks in ignoring obligation benchmarks. For the past several years, Congress has used unobligated balances as a means to reduce our budgets. To avoid this result, we need to stop thinking of the transfer of funds to higher priorities as something we must avoid at any cost. We need to build a culture where maximizing the Department's buying power for both the taxpayer and the Warfighter as well as meeting the Department's highest priorities become the primary driving force behind obligation decisions. Often, these funds can be better employed elsewhere and individual programs should not fight to avoid "losing" the unobligated funds.

We believe that the following tenets should be adopted and enforced at all levels of the chain of command, and by acquisition and financial managers throughout the Department:

1. Taxpayer funds should be obligated and ultimately expended only in the taxpayers' interest and if best value is received for the money in support of the Warfighter.

2. While they can be useful indicators, obligation rates slower than established benchmarks should not be the determinative measuring stick for program execution and must not be regarded as a failure.

3. Late obligation of funds should not be presumed to imply that the funds are not needed or that future budgets should be reduced unless there is other evidence to support that conclusion.

4. Providing savings to the organization, military service, or DoD component as early in the fiscal year as possible should be encouraged and rewarded, professionally and visibly.

5. Savings will not be reallocated at any higher DoD level than necessary to fulfill shortfalls in priority requirements.

6. Managers who release unobligated funds to higher priorities will not automatically be penalized in their next year's budget with a lower allocation and may be candidates for additional funding to offset prior year reductions.

This year, the undersigned will begin implementation of a deliberate process by reviewing MDAPs and other programs that have not obligated funds consistent with normal obligation rates. We will do this together, co-led by officials designated by the undersigned, and we will follow the tenets we have listed. We will start with guidelines for the review, which will be issued soon.

We urge all financial and acquisition managers and the chain of command in each Component to follow the same guiding principles and to implement similar reviews within their organizations.

Robert F. Hale

Robert F. Hale
Under Secretary of Defense
(Comptroller)

Frank Kendall
Under Secretary of Defense for
Acquisition, Technology and Logistics