



# ACQUISITION RESEARCH PROGRAM SPONSORED REPORT SERIES

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## **Management of Canceling Funds**

June 2023

**Brendan A. DeLuca**

Thesis Advisors: Dr. Ryan S. Sullivan, Associate Professor  
Fred Roitz, DCMA

Department of Defense Management

**Naval Postgraduate School**

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Prepared for the Naval Postgraduate School, Monterey, CA 93943.

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## ABSTRACT

This report takes an in-depth look at the Department of Defense's (DOD) management of canceling funds. As the national debt pushes past \$31 trillion, the way and manner in which funds are budgeted and managed will increasingly become more scrutinized. Is the Department of Defense handling canceling funds in the most effective manner to best serve the warfighter, taxpayer, and industry partners? Representing 48.5% of all the federal canceled funds, it is vital for the DOD to understand why so much funding is canceling, the impact of canceled funds, and how to implement a cost-effective strategy to get the best use out of appropriated funds. Analysis includes review of relevant funding laws and regulations, Government Accountability Office and DOD reports, strategies and results broken down by agency, and research and briefings provided by stakeholders across the DOD. Recommendations based on this analysis will ultimately include a push for extending the expired phase to eight years, the establishment of a unified DOD strategy on canceling funds, and implementation of a DOD funds tracking tool.



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## ACKNOWLEDGMENTS

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## LIST OF ACRONYMS AND ABBREVIATIONS

ACC	Army Contracting Command
ACRN	Accounting Classification Reference Number
CAER	Command Accountability and Execution Review
CAMS	Contract Administration Management System
CERMC	Command Enterprise Resource Management Council
DAR-Q	Dormant Account Review-Quarterly
DCMA	Defense Contract Management Agency
DFAS	Defense Finance and Accounting Service
DOD	Department of Defense
FAR	Federal Acquisition Regulation
FMR	Financial Management Regulation
GAO	Government Accountability Office
GFEBs	General Fund Enterprise Business System
MDO	Modification and Delivery Order
MILCON	Military Construction
O&M	Operations and Maintenance
P&FC	Policy and Fiscal Control
PADDS	Procurement Automated Data and Document System
PPBE	Planning, Programming, Budget, and Execution
RDT&E	Research Development Test and Evaluation
SPS	Standard Procurement System
ULO	Unliquidated Obligation
USD	Under Secretary of Defense



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## I. INTRODUCTION

As the national debt pushes past \$31 trillion, the way and manner in which funds are budgeted and managed will increasingly become more scrutinized. A 2021 GAO report found that on average, the federal government allowed \$23.9 billion per year to cancel, ultimately being returned to the Treasury without being used. The DOD represented 48.5% of the total canceled funds (GAO, 2021). In addition, the Section 809 Panel reported in 2019 that the Department of Defense's administrative cost of managing funds that had canceled was an estimated \$56 million per year. It is vital for the DOD to understand why the funds are canceling, the full impact of canceled funds, and implement a cost-effective strategy to get the best use out of its funding. This report will examine if the Department of Defense is managing canceling funds in the most effective manner to best serve the warfighter, taxpayer, and industry partners.

This report contributes to an ongoing discussion on the topic of expired funds. However, this analysis is the first known comprehensive look at the DOD's management of canceling funds. GAO Report 91-156 provides a historical perspective of the expired phase. More recently, GAO report 21-432 provided detailed insight and trends, identifying canceled funds across the federal government as well as the potential root causes. Current strategic approaches were reviewed for the Department of Defense and the individual services to determine if the management of canceling funds were included and the strategy that was ultimately implemented. Previous analysis, briefings, and recommendations were researched and solicited from sources including: the Section 809 panel, DCMA, Army Contracting Command, and DFAS. Finally, in-depth conversations with the Army, Navy, and DCMA stakeholders provided the insight into their current practices and the current understanding of the canceling funds process.

This report consists of four chapters to include an introductory chapter. Chapter II provides the framework for understanding the phases of an appropriated fund, a historical perspective of the expired phase, an overview of how much actually cancels, and an explanation on the use of expired funds. Chapter III provides analysis on the current funds management strategies across the DOD, the factors affecting canceling funds, and the



impact canceling funds has on the warfighter, taxpayer, and industry partners. Finally, Chapter IV summarizes the findings from the analysis, provides specific recommendations to consider, and a conclusion of the report.



## II. BACKGROUND

### A. THREE PHASES OF A FUND

In the federal government there are three distinct phases an appropriation will go through during its life cycle as shown in Figure 1: Period of Availability (Current), Expired, and Canceled. During the first phase, the **Period of Availability**, funds are available to be obligated and disbursed for payment. The type of fund will determine how long this phase lasts, before the funds expire. The most common types of funding include: Operations and Maintenance (O&M) having one year of availability, Research Development Test and Evaluation (RDTE) with two years of availability, Procurement with three years of availability, and Military Construction MILCON with five years of availability. At the end of this phase, funds are considered **Expired** and are no longer able to be obligated. Funds stay in this phase for five years and are able to be recorded, adjusted, and disbursed for payment. Funds in the fourth year of the expired phase are often referred to as **Canceling Funds**, as they are at risk to cancel by the end of the fiscal year. At the conclusion of this phase, funds enter the third and final phase and are now **Canceled**. During this phase, funds may no longer be used for any purpose.

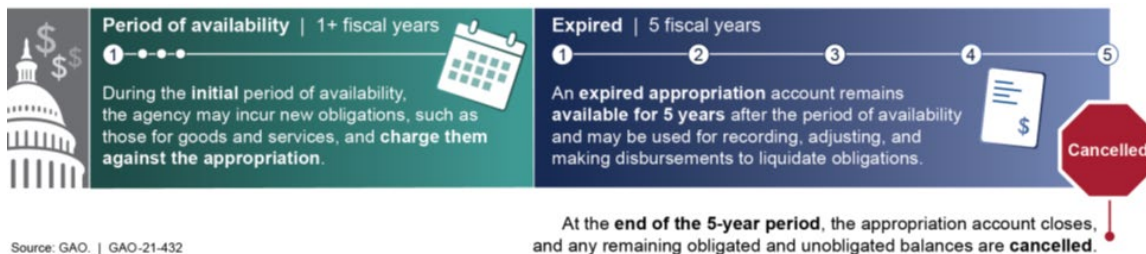


Figure 1. The Three Phases of Appropriated Funds. Source: GAO (2021).

### B. HISTORY OF THE EXPIRED PHASE

In order to give context to the discussion of expired funds it is important understand some of the history of Defense funding. GAO provided insight into this phase of funding when asked by congress to review the DOD's use of expired funds. GAO details its analysis



in its report 91–156, provided to the Chairman of the Subcommittee on Oversight and investigations, dated 18 July 1991 (GAO, 1991). In this report, GAO explains that prior to 1990, funds that expired funds “remained available indefinitely in accounts known as M accounts and merged surplus authority to pay valid obligations incurred during the period of availability, including certain upward adjustments” (GAO, 1991).

The M accounts and merged surplus authority was established in 1956 under Public Law 84-798, with the M account accumulating balances of funds obligated but not yet disbursed and the merged surplus authority accumulating balances of funds not yet obligated. It was the expectation that these balances would remain relatively small. However, as noted by GAO between 1980 and 1990 the combination of the M account and the merged surplus authority grew from \$7.9 billion to \$45.8 billion (GAO, 1991). In addition, GAO noted that “the use of these budget authorities to fund upward adjustments to amounts previously obligated increased dramatically” and the accounts were mostly unaudited as regulation required (GAO, 1991). GAO reviewed 18 cases in which agencies used the funds for upward adjustment, and found that nine were used properly, three improperly, and six upward adjustments were required because of undesirable management practices.

By 1990 the M account would be phased out over a three-year period, the merged surplus authority eliminated, and the availability of expired funds limited to 5 years by Public Law 101-510. Agencies would be required to provide justification for the use of upward adjustments, to explain the circumstances and provide management insight into ongoing trends. GAO in report 91-156 further recommended to the Secretary of Defense to revise their procedures and provide a formal approval process to include “a comprehensive statement concerning the reason for the upward adjustment. This statement should explain the circumstances, contingencies, or management practices the need for the upward adjustments” (GAO, 1991). The DOD agreed with the GAO’s findings and recommendations and would implement the requirements to increase oversight of expired funds.



## **C. MANAGEMENT OF FUNDS**

The Department of Defense strives to manage funds in a meaningful way to best serve the warfighter, taxpayer, and industry partners. In accordance with DOD Instruction 7000.14, the Chief Financial Officer of the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) is responsible to develop, administer, and maintain the financial management statutory and regulatory requirements that must be used by all DOD components for accounting, budgeting, and accounting. The OUSD(C) publishes and maintains the Financial Management Regulation (FMR) consisting of hundreds of chapters and over 7000 pages. Volume 3, Chapter 8 of the FMR, prescribes the standards for reviewing and recording commitments and obligations. The FMR includes requirements, such a performing Dormant Account Review-Quarterly (DAR-Q) reviews. DAR-Q is a quarterly review of obligations, providing the OUSD(c) the oversight of each service, ensuring the Department is executing and fully utilizing its funds. In addition, several services and the fourth estate also publish their own financial management manuals, prescribing additional requirements and instructions specific to their agency.

The process of managing funds is a team effort, led in large part by the Contracting Officer. The Contracting Officer must work with various stakeholders such as contractors, program managers, fund holders, and the Defense Finance Accounting Service (DFAS) to effectively manage funds. This effort includes navigating both the regulations of the FMR as well as the requirements of the Federal Acquisition Regulation (FAR). Ultimately, the goal is to utilize as much of the authorized funds as possible before they cancel. In order to accomplish this goal, Contracting Officers must, promote final billings of the contractor, de-obligation of funds known to be excess, and proper closure within the guidelines of FAR 4.804. By accomplishing this goal, within the regulations prescribed, the funds will be executed in the manner consistent with their original appropriation and will provide the Warfighter the goods and services they need to win.

## **D. HOW MUCH ACTUALLY CANCELS?**

According to GAO report 21-432 published in 2021, the federal government from 2009 through 2019 allowed \$23.9 billion on average to cancel each year (GAO, 2021).



Nearly 86% of those canceled funds came from just four Agencies. It is no surprise, based upon its large share of the budget and complexities that the Department of Defense has the greatest amount of funds cancel, representing 48.5% of the total over the 10-year time period. This was followed by the Department of Agriculture at 16.1%, Department of Health and Human Services at 15.6%, and the Department of the Treasury at 6.2% (GAO, 2021). A comparison of the top four Agencies to all other Agencies can be found in Figure 2.

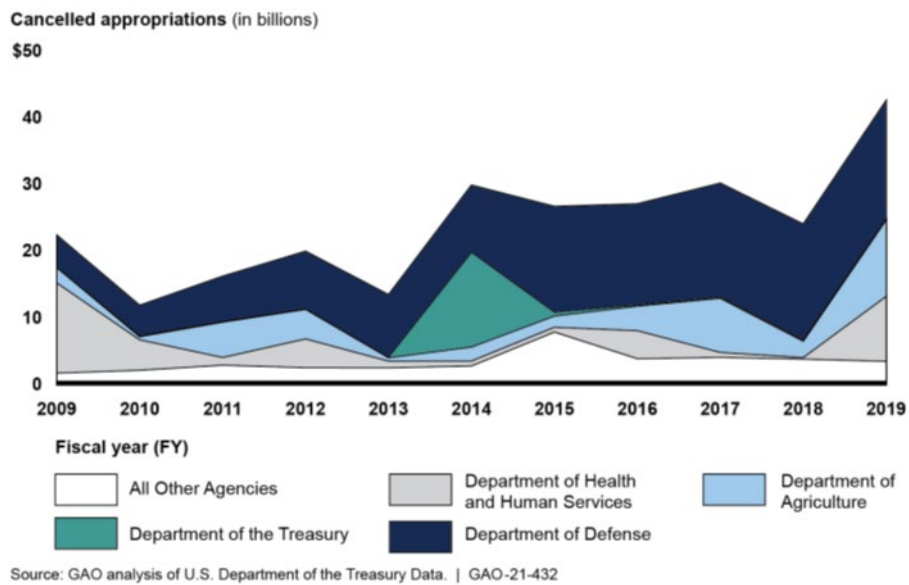


Figure 2. Cancelled Appropriations by Agency. Source: GAO (2021).

### E. DOD CANCELLATION RATE

From 2009 to 2019, the Department of Defense had an average of \$11.6 billion cancel per year with a cancellation rate of 1.8% (GAO, 2021). Cancellation rates across all Government agencies ranged from as low as .5% from the Department of the interior to as high as 6.7% from the Department of Energy as shown in Table 1. On average 1.6% of the budget authority cancels each year, placing the DOD just .2% above the average (GAO, 2021).



Table 1. Cancellation Rates by Agency. Source: GAO (2021).

	Total amount of cancelled appropriations from FY2009–2019a (dollars in billions)	Percent of government-wide cancellations	Total available budget authority for time- limited appropriations from FY2004–2014b (dollars in billions)	Cancellation rate
Department of Defense	127.61	48.5	7,206.84	1.8
Department of Agriculture	42.42	16.1	1,014.92	4.2
Department of Health and Human Services	40.10	15.6	3,845.18	1.1
Department of the Treasury	16.21	6.2	418.18	3.9
Department of Homeland Security	7.73	2.9	391.10	2.0
Department of Veterans Affairs	5.46	2.1	511.51	1.1
Department of Labor	4.40	1.7	149.01	3.0
Department of Education	3.78	1.4	949.24	0.4
Department of Housing And Urban Development	2.71	1.0	208.76	1.3
Department of Energy	2.55	1.0	38.02	6.7
Department of Transportation	1.50	0.6	293.36	0.5
Department of State	1.17	0.5	140.38	0.8
Agency for International Development	0.72	0.3	74.95	1.0
Department of Commerce	0.69	0.3	70.42	1.0
National Science Foundation	0.58	0.2	61.00	1.0
National Aeronautics and Space Administration	0.38	0.1	182.51	0.2
Department of The Interior	0.37	0.1	82.74	0.5
Small Business Administration	0.33	0.1	30.56	1.1
Department of Justice	0.14	0.1	243.86	0.1
Environmental Protection Agency	0.13	0.1	42.97	0.3
Social Security Administration	0.13	0.1	111.80	0.1
Office of Personnel Management	0.08	0.0	342.02	0.0
General Services Administration	0.04	0.0	8.28	0.4
Nuclear Regulatory Commission	0.00	0.0	0.00	0.0
All Other	3.11	1.2	297.62	1.0
<b>Total</b>	<b>263.24</b>	<b>100</b>	<b>16,715.23</b>	<b>1.6</b>

## F. CURRENT USES OF EXPIRED FUNDS

In accordance with 31 U.S. Code 1553 (a) “after the end of the period of availability for obligation of a fixed appropriation account and before the closing of that account under section 1552(s) of this title, the account shall retain its fiscal-year identity and remain available for recording, adjusting, and liquidating obligations properly chargeable to that account.” Funds during this phase of the life cycle are for the most part used to pay bills



and ultimately liquidating those funds. However, the expired period does have some grey areas regarding the use of funds that require further analysis and explanation. The Navy published a memorandum entitled “Guidance for Administration of Appropriations after the Period of Availability.” The memorandum set to resolve some of the complexities and provide the “do’s” and “dont’s” of using funds in the expired phase (Secretary of the Navy (Financial Management and Comptroller, 2010). In addition, the Air Force published Manual 65–605, Volume 1, which provides additional details regarding the proper use of expired funds, and upward adjustments to those funds (Department of the Air Force, 2021)

Adjustments may be made to the expired account, provided they are consistent with the laws and regulations. These adjustments are often referred to upward adjustments, and include within scope changes. Out of scope changes or new obligations are not allowed to use expired funds unless a specific legal authority exists. When using expired funds for upward adjustments, the Navy has established a dollar threshold of 4 million and above, requiring prior approval from the Assistant Secretary of the Navy (Financial Management and Comptroller). The Navy’s memorandum also prescribes the documentation needed when processing an upward adjustment that include within scope changes, requiring details such as: activity comptroller approval, legal opinion, and a description of the circumstances (Secretary of the Navy (Financial Management and Comptroller), 2010).

The Air Force, in its manual provides specific examples of upward adjustments and breaks them down into two categories: ordinary adjustments and adjustments due to contract changes. Ordinary adjustments are those “adjustments that do not meet the definition of contract change in 31 U.S.C 1553 (c)(3)” (DAF, 2021). Examples of ordinary adjustments include award and/or incentive fees, price inflation, and administrative and accounting errors. The manual also details many unique ordinary adjustments and provides how to navigate these scenarios. Some examples of these unique situation include ratifications, foreign currency fluctuations, and claims. Contract change adjustments using expiring funds “involve an increase in contract cost associated with a contractor performing additional work” (DAF, 2021). An example of these contract change adjustments include modifying the contract for increased costs due to differing site conditions. The Air Force manual set the requirement for ordinary adjustments exceeding \$3 million and within-





scope contract changes exceeding \$1 million seek approval from the Policy and Fiscal control (P&FC) office (DAF, 2021).

31 U.S.C. provides additional reviews and approvals for upward adjustments. 31 U.S.C 1553 (C)(1) requires prior approval from the Under Secretary of Defense (Comptroller) for “increases in an expired account resulting from contract changes that require the contractor to perform additional work, regardless of the amount, when cumulative adjustments for contracts in PPA in a fiscal year exceed 4 million.” 31 U.S.C. 1553(c)(2) “requires congressional notification be given for increases in an expired account resulting from contract changes that require the contractor to perform additional work, regardless of amount, when cumulative adjustments in an expired account for contract changes in a PPA in a fiscal year exceed \$25 million.” As the use of expired funds for upward adjustments can be vague and often complex, it is important to review the facts and circumstances of each case with stakeholders such as legal and contracting offices.



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### III. ANALYSIS

#### A. CURRENT STRATEGY, GOALS, AND RESULTS

##### 1. Department of Defense

The Department of Defense released its FY22 through FY26 Strategic Management plan, presented by the Under Secretary of Defense, by the honorable Kathleen Hicks. The plan outlines a way to measure the progress of achieving the National Defense Strategy as well as showing its commitment to the transparency of the Department. Its mission is ultimately “to provide the military forces needed to deter war and protect the nation’s security” (Department of Defense, 2022). The plan includes four strategic goals and objectives as well as performance goals to measure its progress in achievement.

Strategic Goal 4 is to “Address Institutional Management Priorities” (DOD, 2022). Specifically, objective 4.3 and 4.4 touch on the management of funding. Objective 4.3 is to “optimize budget to execution” and objective 4.4 is to “foster a high integrity funds control environment” (DOD, 2022). Under those objectives, the Department is striving to have total visibility of funds “to use every dollar budgeted in the best way possible” (DOD, 2022). The Department of Defense wants the ability to track and report where money is spent and will rely upon Advana software as they way to accomplish this objective. Advana is a data analytics platform currently used by the Department for senior leadership to help make better quicker decisions (DOD, 2022).

In addition to the Strategic Management plan, the Under Secretary of Defense, Comptroller also published its FY22-FY26 Financial Management strategy. The Comptrollers strategy outlines five strategic goals to deliver world class financial management to the DOD. Strategic Goal two is “to optimize taxpayer dollars for the highest value outcomes” (Undersecretary of Defense (Comptroller), 2022). Objectives 2.1 and 2.3 deal with management of funds. Objective 2.1 is “to optimize budget to execution” and objective 2.3 is “to foster a high integrity funds control environment” (USD(c), 2022). The Comptrollers ultimate goal, consistent with the Under Secretary of Defense is to provide visibility and tracking ability of funds across the Department (USD(c), 2022). Neither the



Strategic Management plan nor the Financial Management Strategy provide an actual Department wide strategy to improve the management of canceling funds or set goals to that effect. The DOD leadership is effectively leaving this task up to the services and individual agencies.

## **2. Department of the Army**

The U.S. Army has set a priority in the way they administer and manage unliquidated obligations. Their focus stems from the 2018 National Defense Strategies realization that the United States was losing its competitive military advantage and competitors such as Russia and China were gaining ground (Army Contracting Command, 2018). In order to meet the 2019 ARMY Modernization Strategy's modernization and readiness priorities, it was clear that resources would be needed. As the Army would not be getting additional resources, they would have to figure out how to meet these goals with the current budget allotted to them. The Army would now have to put additional emphasis on the way they managed its funds and awarded its contracts.

The Army had previously set the wheels in motion to address funding issues, through the establishment of the Command Accountability and Execution Review program in 2017, known as the CAER Program. CAER's provided Army leadership with the fiscal tools to monitor and manage obligations, while setting metrics to prevent funds from canceling (ACC, 2018). The program set several priority actions with Offices of Primary Responsibility (OPR's) put in charge to lead different areas of the program. Army Contracting Command (ACC) was made the OPR of the "Contract Closeout Management," led by ACC Commander MG Pardew. ACC sought to find what element of closeout process had the greatest impact on the CAER's Program. ACC identified the most crucial part of a closeout was the "Contract Funds Review" and excess funds de-obligation. In October 2018, MG Pardew made the "Identify and de-obligate excess funds" the number one initiative of his "Pivot to Contract Administration" (ACC, 2018)

In December 2019, GEN Perna, Commander of Army Material Command introduced a challenge to the ACC workforce entitled "Find One Billion Dollars." This initiative set forth specific priorities in order to identify and de-obligate one billion dollars



in usable funds across the agency (ACC, 2018). GEN Perna directed ACC to concentrate on the following priorities in descending order:

- De-obligate current appropriations available to meet new requirements
- De-obligate Army Working Capital Funds
- De-obligate funds entering the first three years of the expiration phase

Analysis conducted by the Army found that funds de-obligated in the 5th year (Canceling year) rarely got utilized. Focusing on the canceling year had been the priority for decades for the Army and contracting communities in general, but it was not leading to many beneficial results, except for payment of final bills (ACC, 2018). Army leadership made the decision to shift its focus to the left of the funding life cycle. By doing so, it would allow the Army to maximize utilization as well as re-utilization of the funds. This prioritization did not mean that funds in year four or five of expiration would not get attention, but given the opportunity to work on the three priorities or to “clean up the books,” leadership’s preference would be the priority funds (ACC, 2018). The long-term goal of this approach would be to better utilize funds early on, which would greatly reduce the ULO’s remaining by the end of the expiration.

Consistent with General Perna’s “Find One Billion Dollars” initiative, Army Contracting Command has met the challenge. In FY 21 ACC totaled \$1,634,052,508 in total priority de-obligations, followed by \$1,739,430,112 in FY22. ACC has set its total priority de-obligation goal for FY23 at \$1,580,745,639. The FY23 goal was based upon a 3-year average of its priority de-obligation from FY19-FY21 (Army Contracting Command [ACC], 2022b). Table 2 provides a breakdown by contracting segment of ACC’s goals and past performance with regards to de-obligating priority funds.



Table 2. Priority De-obligations Goals by Segment. Source: ACC (2022b).

SCO	Total FY 21 Priority Deobs	FY 22 Priority Deobs	Average of FY21 & FY22	Average of FY21 and 22 plus 1%	FY23 GOAL: Average+1% Rounded
APG	\$ 451,252,322	\$ 506,220,000	\$ 357,089,544	\$ 360,660,439	\$ 361,000,000
DTA	\$ 193,626,885	\$ 270,673,972	\$ 232,150,428	\$ 234,471,933	\$ 234,000,000
NJ	\$ 69,491,809	\$ 23,913,269	\$ 46,702,539	\$ 47,169,564	\$ 47,000,000
ORL	\$ 60,754,614	\$ 22,538,783	\$ 41,646,699	\$ 42,063,165	\$ 42,000,000
RI	\$ 342,927,392	\$ 280,495,919	\$ 311,711,655	\$ 314,828,772	\$ 315,000,000
RSA	\$ 290,162,956	\$ 419,166,555	\$ 354,664,756	\$ 358,211,403	\$ 358,000,000
408	\$ 1,627,136	\$ 3,929,758	\$ 2,778,447	\$ 2,806,232	\$ 3,000,000
409	\$ 3,908,369	\$ 15,675,016	\$ 9,791,692	\$ 9,889,609	\$ 10,000,000
410	\$ 3,588,575	\$ 2,050,557	\$ 2,819,566	\$ 2,847,762	\$ 3,000,000
411	\$ 4,671,602	\$ 13,349,677	\$ 9,010,640	\$ 9,100,746	\$ 9,000,000
413	\$ 2,141,048	\$ 5,773,988	\$ 3,957,518	\$ 3,997,093	\$ 4,000,000
414	\$ 274,481	\$ 415,494	\$ 344,988	\$ 348,437	\$ 500,000
418	\$ 30,906,685	\$ 21,655,205	\$ 26,280,945	\$ 26,543,755	\$ 27,000,000
419	\$ 17,063,509	\$ 21,992,116	\$ 19,527,813	\$ 19,723,091	\$ 20,000,000
EUSTIS	\$ 35,593,331	\$ 24,995,290	\$ 30,294,310	\$ 30,597,253	\$ 31,000,000
FSH	\$ 44,780,475	\$ 22,086,054	\$ 33,433,264	\$ 33,767,597	\$ 34,000,000
USAHCA	\$ 81,281,319	\$ 84,498,458	\$ 82,889,889	\$ 83,718,788	\$ 84,000,000
<b>TOTAL</b>	<b>\$ 1,634,052,508</b>	<b>\$ 1,739,430,112</b>	<b>\$ 1,565,094,692</b>	<b>\$ 1,580,745,639</b>	<b>\$ 1,582,500,000</b>

In FY23, the Army Contracting Command did implement metrics related to canceling funds in an effort to help resource managers to reconcile the general ledger and reduce the Army’s liabilities on the books (ACC, 2022a). To avoid 4th quarter conflicting priorities, it is the Army’s goal is to conclude most cancelling funds by the end of the 3rd quarter. This approach is intended to strengthen the relationship with the contracting and resource communities (ACC, 2022a). The Army Contracting Command provided monthly goals per division to ensure this metric is met as shown in Table 3. ACC will track its progress in reaching its goal in its Vantage tool on a monthly basis.



Table 3. Canceling Funds Goals by Month ACC (2022a).

SCO	FY18 ULO \$ as of 18Oct22	Canceling Year Funds Metric - FY18									
		25% of Oct22 ULOs	45% of Oct22 ULOs	60% of Oct22 ULOs	70% of Oct22 ULOs	80% of Oct22 ULOs	90% of Oct22 ULOs	95% of Oct22 ULOs	100% of Oct22 ULOs	0%	0%
		22-Dec	23-Jan	23-Feb	23-Mar	23-Apr	23-May	23-Jun	23-Jul	23-Aug	23-Sep
		GOAL	GOAL	GOAL	GOAL	GOAL	GOAL	GOAL	GOAL	GOAL	GOAL
408TH CSB	\$ 531,074	\$ 398,305	\$ 292,090	\$ 212,429	\$ 159,322	\$ 106,215	\$ 53,107	\$ 26,554	\$ -	\$ -	\$ -
409TH CSB	\$ 73,488,851	\$ 55,116,638	\$ 40,418,868	\$ 29,395,540	\$ 22,046,655	\$ 14,697,770	\$ 7,348,885	\$ 3,674,443	\$ -	\$ -	\$ -
410TH CSB	\$ 200,773	\$ 150,580	\$ 110,425	\$ 80,309	\$ 60,232	\$ 40,155	\$ 20,077	\$ 10,039	\$ -	\$ -	\$ -
411TH CSB	\$ 1,013,592	\$ 760,194	\$ 557,476	\$ 405,437	\$ 304,078	\$ 202,718	\$ 101,359	\$ 50,680	\$ -	\$ -	\$ -
413TH CSB	\$ 632,855	\$ 474,641	\$ 348,070	\$ 253,142	\$ 189,857	\$ 126,571	\$ 63,286	\$ 31,643	\$ -	\$ -	\$ -
414TH CSB	\$ 225,418	\$ 169,064	\$ 123,980	\$ 90,167	\$ 67,625	\$ 45,084	\$ 22,542	\$ 11,271	\$ -	\$ -	\$ -
418TH CSB	\$ 3,667,438	\$ 2,750,578	\$ 2,017,091	\$ 1,466,975	\$ 1,100,231	\$ 733,488	\$ 366,744	\$ 183,372	\$ -	\$ -	\$ -
419TH CSB	\$ 4,149,916	\$ 3,112,437	\$ 2,282,454	\$ 1,659,966	\$ 1,244,975	\$ 829,983	\$ 414,992	\$ 207,496	\$ -	\$ -	\$ -
ACC-APG	\$ 148,275,047	\$ 111,206,285	\$ 81,551,276	\$ 59,310,019	\$ 44,482,514	\$ 29,655,009	\$ 14,827,505	\$ 7,413,752	\$ -	\$ -	\$ -
ACC-DTA	\$ 228,339,390	\$ 171,254,543	\$ 125,586,665	\$ 91,335,756	\$ 68,501,817	\$ 45,667,878	\$ 22,833,939	\$ 11,416,970	\$ -	\$ -	\$ -
ACC-NJ	\$ 25,852,566	\$ 19,389,424	\$ 14,218,911	\$ 10,341,026	\$ 7,755,770	\$ 5,170,513	\$ 2,585,257	\$ 1,292,628	\$ -	\$ -	\$ -
ACC-ORL	\$ 18,840,675	\$ 14,130,506	\$ 10,362,371	\$ 7,536,270	\$ 5,652,202	\$ 3,768,135	\$ 1,884,067	\$ 942,034	\$ -	\$ -	\$ -
ACC-RI	\$ 104,849,779	\$ 78,637,334	\$ 57,667,379	\$ 41,939,912	\$ 31,454,934	\$ 20,969,956	\$ 10,484,978	\$ 5,242,489	\$ -	\$ -	\$ -
ACC-RSA	\$ 327,508,855	\$ 245,631,641	\$ 180,129,870	\$ 131,003,542	\$ 98,252,656	\$ 65,501,771	\$ 32,750,885	\$ 16,375,443	\$ -	\$ -	\$ -
FDO EUSTIS	\$ 14,699,288	\$ 11,024,466	\$ 8,084,608	\$ 5,879,715	\$ 4,409,786	\$ 2,939,858	\$ 1,469,929	\$ 734,964	\$ -	\$ -	\$ -
FDO FSH	\$ 17,829,718	\$ 13,372,288	\$ 9,806,345	\$ 7,131,887	\$ 5,348,915	\$ 3,565,944	\$ 1,782,972	\$ 891,486	\$ -	\$ -	\$ -
USAHCA: HRCO	\$ 2,828,329	\$ 2,121,247	\$ 1,555,581	\$ 1,131,332	\$ 848,499	\$ 565,666	\$ 282,833	\$ 141,416	\$ -	\$ -	\$ -
USAHCA: RHCO-A	\$ 11,667,613	\$ 8,750,709	\$ 6,417,187	\$ 4,667,045	\$ 3,500,284	\$ 2,333,523	\$ 1,166,761	\$ 583,381	\$ -	\$ -	\$ -
USAHCA: RHCO-C	\$ 8,544,690	\$ 6,408,518	\$ 4,699,580	\$ 3,417,876	\$ 2,563,407	\$ 1,708,938	\$ 854,469	\$ 427,235	\$ -	\$ -	\$ -
USAHCA: RHCO-E	\$ 1,907,801	\$ 1,430,850	\$ 1,049,290	\$ 763,120	\$ 572,340	\$ 381,560	\$ 190,780	\$ 95,390	\$ -	\$ -	\$ -
USAHCA: RHCO-P	\$ 6,385,628	\$ 4,789,221	\$ 3,512,095	\$ 2,554,251	\$ 1,915,688	\$ 1,277,126	\$ 638,563	\$ 319,281	\$ -	\$ -	\$ -
TOTALS	\$ 1,001,439,293	\$ 751,079,470	\$ 550,791,611	\$ 400,575,717	\$ 300,431,788	\$ 200,287,859	\$ 100,143,929	\$ 50,071,965	\$ -	\$ -	\$ -

### 3. Department of the Navy

The Department of the Navy published its Financial Management Strategy Implementation plan for FY22 to support the Navy’s priorities of “maintaining maritime dominance in defense of our nation, empowering our people, and strengthen strategic partnerships” (Office of the Assistant Secretary of the Navy, 2022). The plan lays out five strategic goals to improve its financial management operations. Strategic Goal three is “to optimize stewardship and trust in the Department of the Navy’s budget process” (ASN, 2022). In FY22, the Department of Navy “implemented a tri-chaired Commander’s Enterprise Resource Management Council (CERMC) to increase the Navy’s buying power through fiscal discipline, insight into the Navy’s operations, and providing Commanders insight to maximize the value of each dollar available” (ASN, 2022).



Under Objective 3.1 to “reform the Department of the Navy’s PPBE process,” the Navy’s goal is “to enhance both financial and functional insight into funds management and validate obligation balances so that funds are available to meet emerging needs” (ASN, 2022). The implementation goes on to set a requirement for quarterly CERMC reviews and to integrate Budget Execution Validation tool into DAR-Q as well as identifying the root causes of unexpended funds. The strategic plan also put forth a set of goals not only for funds in the period of availability, but also for each year of the expired phase. The Navy’s goal for accounts set to expire is to keep unliquidated balances under 50%. For those funds that have expired the Navy set and unliquidated amount of under 10% for year one, under 4% for year two, under 2% for year three and four, and zero percent for the fifth and final year of the expired phase (ASN, 2022).

#### **4. Defense Contract Management Agency**

The Defense Contract Management Agency was established on 27 March 2000, as an independent organization originally aligned under Defense Logistics Agency (McDonnell, 2020). DCMA’s mission is “to be the independent eyes and ears of DOD and its partners, enhancing warfighter lethality by ensuring timely delivery of quality products, and providing relevant acquisition insight supporting affordability and readiness” (DCMA, 2022b). DCMA “manages 225,000 contracts with a total value in excess of \$3.5 trillion, at 15,000 contractor locations worldwide” (DCMA, 2022b). DCMA has historically made it a priority to effectively manage its customer funds, servicing the Army, Navy, and Air Force. In accordance with DCMA Manual 2501–03 Funds Life cycle, it is DCMA’s policy to manage funds early and throughout the funds life cycle to prevent them from canceling (Defense Contract Management Agency [DCMA], 2022a). DCMA conducts dormant funds reviews, excess fund determinations, and manages funds at risk of canceling.

DCMA, consistent with the Services, has in the past focused a large portion of its funds management in the fifth and final year of expiration. However, DCMA found that this process was not effective: Communication was too late in the process to receive responses back from PCO’s, Contracting and Program offices were too busy at fiscal year-end and had competing priorities, there were limited opportunities to reutilize the funds in





such a short window, customers needed support earlier in the funds life cycle, and the focus was on canceling year funds and not the high risk funding (Brown et al., PowerPoint slides, 2022). In FY 23, DCMA decided to change its management of funding. Specifically, DCMA made the follow changes:

- DCMA would focus on both expired year four (for at risk funds \$50,000 and above) and year five (for at risk funds \$1,000 and above.)
- DCMA would sunset its Canceling funds eTool and make Contract Administration Management System (CAMS) its system of record for managing funding
- DCMA would utilize CAMS to auto-generate Disposition of Funds at Risk of Canceling form and uniformly code its 4th and 5th year expiring funds.

Although DCMA updated its approach to shift its focus to the left on the funds life cycle as well as adding thresholds, its annual timeline has only minor modifications to ensure funds will be properly adjudicated, as shown in Table 4.

Table 4. DCMA Canceling Funds Schedule. Source: Brown et al., PowerPoint slides (2022).

Suspense Date	Who	Action
NLT Oct 7	Agency System of Record	Post initial baseline data in Agency system of record for OUs
NLT Nov 15	ACO/CA	Bundle ACRNs and send letter to contractor advising when funds will cancel
NLT Dec 15	OU Contracts Director (CD)	Prepare annual burn down plan and send to HQ Performance Advocate
NLT Dec 30	HQ Performance Advocate	Consolidate and review burn down plans to verify all at risk dollars will be resolved by September 1st
Monthly	ACO/CA	Update Status and Reason codes and comments as conditions change
Monthly	OU Contracts Director, CMO Contracts Director, and FLS	Track monthly at risk canceling funds in the Agency system of record to the burn down plan
NLT Apr 30	Contracts/Pricing, Policy and Processes Division Director	Issue C-Note identifying the last day DFAS will accept invoices for processing canceling funds to ensure payment by FY end
NLT May 15	ACO/CA	Communicate to contractors the last day DFAS will accept invoices for processing canceling funds to ensure payment by FY end
Monthly	HQ Performance Advocate	Track monthly at risk canceling funds to Agency burn down plan
Sep 1	HQ Performance Advocate	Measure Agency performance and achievement to Agency goal
October	HQ Performance Advocate	Report Agency performance and achievement to Agency goal



An initial baseline of the at-risk funding is established by 7 October each year for the agency. Administrative Contracting Officers and Contract Administrators have until 15 November to send out all of their canceling funds letters, notifying the contractors of the at-risk funding by ACRN. Burn down plans, detailing how each directorate will resolve at-risk funds by 1 September will be reviewed and consolidated by 30 December. On a monthly basis the Administrative Contracting Officer/Contract Administrators will update status and reason codes and Contracting Directors will track at-risk funds compared to the goals of the burn down plan. Contractors will be notified that 1 July will be the last day invoices with canceling funds will be accepted by DFAS ensuring they are paid by the end of the fiscal year. Lastly, on 1 September the agency will measure the agency performance and achievement to the agency goal, and report the results in October.

Consistent with objective 2.3 of DCMA’s FY22-FY26 strategy (DCMA, 2022b), DCMA strives to “ensure prompt and accurate payment and stewardship of Department funds through effective internal controls and fiscal compliance” (DCMA, 2022b). DCMA’s agency goal is that 90 percent of the funds identified as at risk of canceling, do not cancel. This goal only pertains to the 5th year, ACRNS above \$1,000, and within DCMA’s control. Although DCMA will now be focused on and tracking the 4th year expired funds over \$50,000, there is currently not metric or goal in place. DCMA’s metric of 90 percent has been in place for years as the agency’s goal for canceling funds. Figure 3 depicts DCMA’s success at meeting this goal each year since 2016.



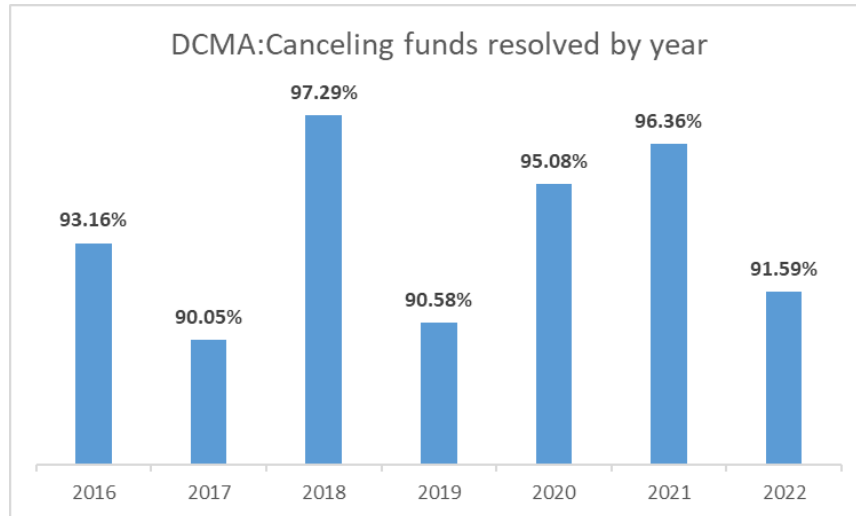


Figure 3. DCMA Resolution of At-Risk Funds FY16-FY22. Source: DCMA (2023).

## B. FACTORS

When reviewing funds in the expired phase there are several factors attributing to the Government’s inability to fully execute and liquidate these funds prior to cancellation. Some factors play a relatively minor role, others a significant role, and some having no impact at all. These factors include: communication, tracking funds, resource management, the length of funds period of availability, length of the period of expiration, and strategy.

### 1. Communication

As in any major corporation, communication is the key to success. Within an organization, communications are not limited to just daily interaction of stakeholders or leaderships communication of their strategic plan, but it also involves the systems used to communicate messages and data across the workforce. With almost a million civilian employees, the DOD communicates on a large scale across its workforce and has thousands of systems that must interact and effectively communicate to get the job done. Unfortunately, the DOD has not been able to master communication and has redundant systems that allow for gaps in the flow of information. The individual services financial management and contract writing systems are both redundant and do not effectively



communicate with one another. This ultimately results in system related issues, preventing the proper administration of funding.

The Defense Finance and Accounting Service (DFAS) since its inception in 1991 has made strides in consolidating the number of financial systems, reducing the amount of systems from 331 to 217 in 1996 and an estimated 110 systems by year 2000 (GAO, 1997). However, there still appears to be a significant amount of financial systems according to a recent GAO report 23-104539. In this 2023 report, GAO found that the DOD had 138 financial systems that must meet new auditing requirements. Of those 138 systems, only 84 systems could meet audit requirements (GAO, 2023). For almost 30 years, the Department of Defense financial management has been the subject of scrutiny and determined to be high risk by GAO (GAO, 2023). Since 2021, GAO has reported the DOD has established the capability to identify duplicative systems, but has yet to show consistency in actually identifying and eliminating these systems.

The DOD has also spent many years trying to improve and consolidate contract writing systems in an effort to improve consistency and the flow of information. Most recently, in 2017 the DOD issued the Strategic Plan for Defense Wide Procurement Capabilities (Department of Defense, 2020). This Strategic Plan identified the current systems being used by each service, determined the characteristics and requirements of a proper system, and laid out a timeline for the services to reduce their current systems to the Next-Gen systems. Version 3 of the strategic plan was released in 2020, and showed the progress being made by each service, and the anticipated migration to Next-Gen. Table 5 shows the 17 different contract writing systems currently being used by the Army, Air Force, Navy, and Forth Estate. All services anticipate transition to Next-Gen Writing systems by FY25, with the exception of the 4th Estate which has yet to determine a time period.



Table 5. Contract Writing Systems by Agency. Source: DOD (2020).

Legacy Contract Writing System	Timeline to Migration →	Next-Gen Contract Writing System
PADDS SNAP SPS (JOINT)	FY2023 - FY2025	ACWS (Army)
eCommerce ITIMP NEST ONR PRISM SeaPort SPS (JOINT)	FY2020 - FY2025	ePS (Navy)
ACPS ConWrite oContrax	FY2019 - FY2025*	CON-IT (Air Force)
COINS (USTC) DHA PRISM (DHA) EBS - eProcurement FedMall (DLA) IDEAS (DISA)** MDO (DCMA) SPS (JOINT)	TBD	4th Estate

Contract writing systems, financial management systems, accounting systems, and administrative systems must all work seamlessly together in order to properly manage appropriated funds. With over 100 financial management systems and 17 contracting writing systems alone, it is nearly impossible to reflect the current status of a fund correctly. For example, a modification to reduce and de-obligate Army funds issued by DCMA using its MDO contract writing systems must flow through to EDA to document the modification, post correctly to the MOCAS payment system, be replicated by Army’s contracting writing system (PADDS or SPS), be validated by GFEBS (Army’s accounting system), and be updated in the individual financial management system. The ability to reflect a proper change to the funding in all systems is unreliable and requires manual entries and checks. In addition, the systems do not notify the next responsible party that an action has taken place, and often requires an email to be sent to the next person for appropriate action. Proper communication plays a significant role in the management of funds.



## 2. Tracking Funds

An important part of managing funds is tracking the funds from start to finish. Effective tracking allows senior leadership and the workforce the ability to gain detailed insight into the current status of funding and to see how they are progressing to reaching their goals. Each service currently has their own way of accomplishing this task, however there does not appear to be an overarching DOD wide system capable of tracking all funds. In addition, a fair amount of tracking is happening via excel spreadsheets, periodically sent out to the workforce within a command or office. Spreadsheets are pulled from the services accounting systems, representing stagnant data, and do not allow for consolidated input from workforce.

DCMA, until recently used its canceling funds eTool, an online system capable of tracking canceling funds across the agency. DCMA now utilizes CAMS, a Microsoft Access database capable of tracking all funds across the agency. CAMS allows DCMA users to track funds, identify current status through coding, and add notes where needed. CAMS also automates the generation of canceling funds letters to be sent to the contractor, which helps efficiently communicate with the contractor and builds consistency throughout the agency. CAMS gives the agency the ability to run reports and export data to help track funds and provide insight to DCMA leadership.

The Army Contracting Command currently uses the Army Vantage ULO tool to track its ULO's and canceling funds. Army Vantage is a cloud based system powered by Amazon Web Services. Vantage is a data driven analytical tool capable of artificial intelligence and machine learning. Army Vantage allows managers to view ULO's, track metrics and goals by department, and export data to be used for reporting.

The Department of Defense has implemented the use of Advana to track funding through its Dormant Account Reviews-Quarterly. Advana is the DOD's new data analytics platform, developed by defense contractor Boos Allen Hamilton. Advana is currently being used by account managers for fund status updates for the DAR-Q. Advana does not appear to be rolled out to contracting workforce as a standardized tool for tracking funds. The lack of a single tracking system utilized by leadership and the workforce alike, makes everyday



tasks more difficult and time consuming. As such, tracking plays a significant role in the management of canceling funds.

### **3. Resource Management**

Management of funds rely heavily upon the Procurement Contracting Officer (PCO) to lead the way and ensure funds are properly adjudicated. However, the PCO's main priority is to conduct market research, analyze proposals, and award contracts. Management of funds is merely an afterthought, if there is enough time in the day. Not to mention, contracting offices historically have been behind in awarding contracts, and push a majority of their awards to the fourth quarter. The services in response have stood up their own dedicated administration offices and relied heavily upon DCMA to manage a large portion of their funding. At the end of the day, progress is being made to properly resource the management of funds, but there is a ways to go. As such, resource management is a moderate factor in the discussion of canceling funds.

### **4. Period of Availability**

As mentioned previously, different appropriations will have shorter or longer periods of availability depending upon which category the funds fall under. Is the cancelation rate higher for one-year Operations and Maintenance, multiple years for funds such as Procurement, or those funds with no limit at all? As detailed in its report GAO-21-432, GAO found that the period of availability did not significantly impact the rate at which funds canceled, when comparing one year to multiple years of availability (GAO, 2021). GAO identified there were 4,252 accounts with one-year period of availability, which had an overall cancelation rate of 1.56% (GAO, 2021). When compared to the 2,736 multiple year accounts with a cancelation rate of 1.61%, the difference was nominal (Table 6). The report did note that funds without a period of availability were less likely to cancel as this required no disbursements over a two-year period, as well as a confirmation from the agency Head that the purpose of the funding has been met. Only 25 accounts from 2009 to 2019 with no year appropriations canceled in the amount of \$508 million (GAO, 2021). The period of availability as a factor of funds canceling appears to have little to no impact.



Table 6. Cancellation by Period of Availability. Source: GAO (2021).

Period of availability	Total cancellations	Number of accounts with cancellations	Percent cancelled of available budget authority
One year	\$194.4	4,252	1.56
Multiple years	\$68.3	2,736	1.61

## 5. Period of Expiration

In 2019, the Section 809 panel made a recommendation to change the number of years funding remained in an expired status. Specifically, Panel recommendation number 57, sought to extend the period of expiration from five years implemented by Public Law 101-510 to eight years to “align program acquisitions with funding periods and prevent putting current funds at risk and support meeting appropriation intent” (Section 809 Panel, 2019). The section 809 Panel was established in 2016 under section 809 of the Nation Defense Authorization Act (Public Law 114-92), and consisted of 16 acquisition and procurement experts charged with transforming the Defense Acquisition System. From 2016 through 2019 the 809 Panel made a total of 98 recommendations as detailed in its published report spanning three volumes (Section 809 Panel, 2019).

Section 809’s discussion regarding canceling funds revolved around evaluating whether current practice of limiting the expired phase to five years added value to the process. The panel found the following through its research:

- A significant amount of funds canceled each year. DCMA alone, provided data from 2010 through 2017 showing that yearly, the agency handled between \$1 billion and \$3 billion in funds that were at risk of canceling.
- Once funds cancel and a contractor invoices, this process becomes an administrative burden that is very costly. According to a 2018 paper by DOD officials and Contractor representatives, the estimated cost of the current process resulted in \$56 million per year in administrative activity by the DOD and its contractors.





- The statutory requirement of five years for expiring funds did not take into consideration the current difficulties to close a contract. Although the requirement for closure of a cost type contract is 36 months after physical completion, it takes 12 months on average just for DCMA to negotiate the final rates. In addition, from a contractor's perspective, closeout requires 78 months in order to settle all subcontracts and ensure all costs have been accounted for through their incurred cost submissions.
- A majority of the canceling funds occurs during the active performance of the contract and not during the closeout process. According to a report gathered by DFAS, 68% of the funds that canceled in 2018 were from active contracts, compared to 26% in process of closing and 6% in litigation.

The 809-panel concluded that both Industry and the Government have been pushing for years to move the expiration phase of funding from five to ten years. Extending to eight years would allow the Government the time needed for contractual complexities, proper closeout activities, and prevent more funds from canceling. In some cases, contractors may be paid earlier and the administrative cost and burden of finding replacement funds would be greatly reduced. This extension would not change the use of the funds, and in fact would better align the disbursements with the original intent of the funding. The panel's case for extending the expiration phase is validated by GAO report 21-432. The GAO report found that over a ten-year period, funds that were given additional time to disburse funding had a cancellation rate of .6 percent compared to the Government-wide average of 1.6 percent (GAO, 2021).

As of 2019, only 15 of the 98 recommendations have been implemented by Congress or the Department of Defense. Recommendation 57 to extend the expiration phase of funds from five to eight years has yet to be implemented. The period of expiration is a significant factor in the cancellation of funds.



## **6. Strategy**

Funds management has been identified through strategic plans by the Department of Defense and the individual services as an area they would like to greatly improve upon, to provide transparency as well as oversight to ensure funds are being executed properly. However, there does not appear to be a unified strategy with an actionable plan to be implemented across the board. The Department of Defense has left it up to services to determine how to effectively manage funds in the expired phase. Each service and agency have taken a different strategic approach, tracked their funds in different systems, and set up metrics to be graded in completely different ways. This inconsistency had led to little improvements for the DOD as a whole in the management of funds. Strategy is very important in any successful plan, and is a significant factor in reducing the amount of funds that cancel.

### **C. IMPACT**

The ineffective management of funds is having significant impacts throughout the Department of Defense. Some impacts such as the added administrative efforts and cost are easier to determine, while other impacts such as that to small business and the morale of the department can be challenging to quantify and often times go overlooked.

#### **1. Time and Money**

When funds cancel and a valid invoice is billed against and approved, replacement funds are needed to pay the contractor. This process requires DFAS to validate the funds have canceled and send a letter to the funding activity asking for current funding. When funds are identified and provided, DFAS must add the new current funding and remove the canceled funds to allow for payment to proceed. Canceled funds waiting for replacement funds to pay an invoice are labeled DMACT. The DMACT process is often very lengthy and an administrative burden for both the Government and the contractor. DFAS as of 2019 had a total of 1553 MOCAS invoices waiting for replacement funds (Defense Finance and Accounting Services [DFAS], 2019). The amount of funds requiring replacement funds has grown over 300% the last 5 years as seen in Figure 4 below.



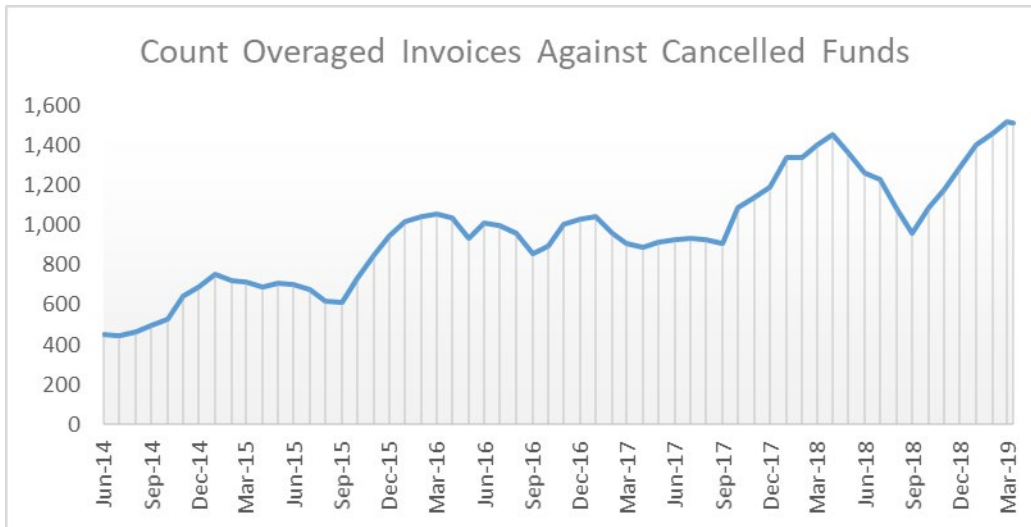


Figure 4. Growth Invoices Against Canceled Funds. Source: DFAS (2019).

Not only is the list of DMACT’s growing, the amount of time it is taking to find the current funds, add the funds, and pay the contractor is substantial. In 2019, the average age of a DMACT invoice was 276 days, counting from the date the funding request was sent to the activity (DFAS, 2019). Of the 1553 invoices in 2019 awaiting replacement funds, a majority were aged between zero and 120 days. However, there were 65 invoices waiting for replacement funds for over three plus years. Figure 5 details the amount of time each DMACT spent waiting for replacement funds.

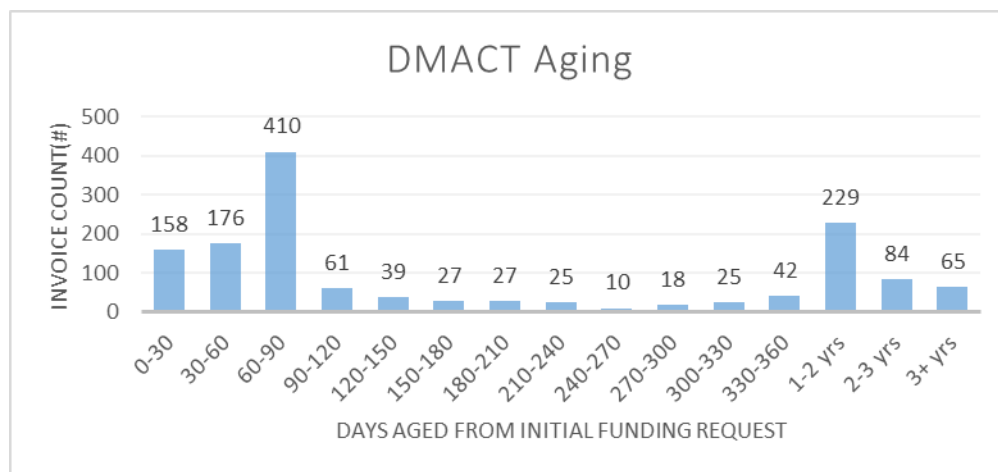


Figure 5. DMACT Invoices by Age. Source: DFAS (2019).



The process of effectively managing funds is also expensive, and takes a great effort from many stakeholders. Contracting offices must identify the funds that are dormant and at risk of cancelling, prepare and send letters to the contractor, review funds status, execute de-obligation modifications, review submitted invoices, conduct contract closeout, and ensure funds are being liquidated as planned. Contractors must review and respond to the Government's canceling funds letters, review costs incurred, pending audits, and subcontracts to determine remaining costs, prepare and submit invoices, and provide status updates to the Government. Program offices and fund managers must ensure their funds are being liquidated, provide fund status, ensure that their accounting systems are properly updated for consistency, and participate in DAR-Q reviews. Finally, DFAS must review and approve invoices in time for payment as well as making corrections to properly reflect funds in its systems. This equates to tens of thousands of hours of labor and millions of dollars dedicated to the management of funds.

The problem is compounded when the funds actually cancel and the contractor has a valid cost they have invoiced for. This requires additional steps, time, and money to find replacement funds. DFAS alone must reach out to the fund manager to obtain current year funds, add those funds in the system, remove the canceled funds, and pay the contractors invoice. The Section 809 panel identified this issue in its 2019 report. The panel found that canceled funds were costing the DOD and its contractors an estimated \$56 million per year in administrative activity. In addition, it was costing \$1.2 million per year to obtain and pay for contractor invoices with canceled funds (Section 809 Panel, 2019).

## **2. Industry partners**

The current canceling funds process is not only an administrative burden, with no apparent benefit to the contractor, but also results in payments that are very late. DOD contractors spend a fair amount of time helping the Government determining the funds needed on contract to pay invoices and those that are excess. Often times, funds may be de-obligated in haste or error, resulting in too much money removed on contract. Contractors for the most part put in a good faith effort during this process. Large contractors devote whole positions and teams just to focus on the management of canceling funds.



Small businesses often juggle this task with various team members and in some cases even the Chief Financial Officer, who is wearing multiple hats. DOD contractors not only want to meet their contractual responsibilities but want to build a good relationship in the hopes of winning future government contracts.

In general, a business expects upon the completion of a service or delivery of a final product to be paid in full. It allows the business to pay its bills, subcontracts, and most importantly its employees. Although working with the federal government comes with added challenges and requirements, it should be the Government's goal to ensure contractors are paid promptly. Prompt payment helps build trust with industry partners and allows businesses to meet their commitments. As mentioned previously, the average age of a DMACT waiting for current funds in 2019 was 276 days from the date DFAS sent the funds request (DFAS, 2019). The average aging of a DMACT for a small business was 82 days longer than for a large business. In addition, the average amount of a DMACT was \$15,600 for small businesses compared to \$23,200 for large businesses (DFAS, 2019). For a small business, operating on small margins, a \$15,000 invoice paid months or years after submission could be make or break for that company.

### **3. Morale**

Inefficient processes take a toll on each and every stakeholder along the way. The lack of a unified strategy and ineffective complex systems are making it tough on employees and leadership to manage funds, and may be leading to a decrease in morale. At the end of the day, employees go into work to follow a set of rules and accomplish a desired outcome established by leadership. When there are so many areas and gaps in efficiency and direction, employees may become frustrated with routine tasks. This frustration is magnified at the leadership level requiring additional resources and steps to get the mission accomplished. Managing funds should not be this difficult and cause for frustration across the Department.



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## IV. FINDINGS, RECOMMENDATIONS, AND CONCLUSION

### A. FINDINGS

- The Department of Defense is the largest leading contributor to federal funds that cancel each year, averaging 11.6 billion per year.
- The Department of Defense cancellation rate is slightly above average amongst other Federal agencies.
- The last major change to expired funds was in 1990 with the elimination of the M account and Merged Surplus Authority and the introduction of a 5-year expiration phase.
- The Department of Defense has identified the management and oversight as important but has yet to set forth a consistent strategy and specific plan to properly manage expired funds.
- The individual services and DCMA have set forth strategies and metrics to grade themselves on expired and canceling funds but they vary widely in goals and actual plan.
- Communication, tracking of funds, length of the period of expiration and strategy play the most significant roles as factors in the discussion of cancelling funds.
- Canceled funds significantly add to administration time and cost, and in addition have an effect on our industry partners as well as the morale of the Department.

### B. RECOMMENDATIONS

Based on the analysis presented above, it is clear that changes need to be made large and small to overhaul the way the Department of Defense handles the management of



canceling funds. Several recommendations can be complete in the near term, while others will require time and effort to coordinate the desired change.

Recommendation 1: Extend the period of expiration, from five years to eight consistent with the 809-panel recommendation. When the five year expired phase was set into law in 1990, the difficulties with DCAA audits and overall closeout delays were not considered. An eight year expiration phase would allow for more billings to occur, overall cleaner books, and will greatly reduce the amount of canceling funds with very limited effort.

Recommendation 2: Develop a Department of Defense strategy on the management of funds. This would include an implementation plan and setting specific goals to reduce the amount of funds that cancel. The preference would be to set canceling funds goals and metrics at the Department of Defense level. However, if this cannot be accomplished, it would be acceptable to have each service brief the Department their canceling funds management plan and their specific goals and metrics that they will report on and be held accountable to. An example would be the Navy's goal of reducing unliquidated obligations during the expired phase of under 10% for year one, under 4% for year two, under 2% for year three and four, and zero percent for the fifth and final year. Having a well-defined strategy and corresponding goals would build consistency across the Department, a deep understanding of the metrics from the floor to leadership, and reduce the amount of funds canceling.

Recommendation 3: Implement a funds tracking tool that can be used across the Department by both leadership and the workforce. Using the Procurement Integrated Enterprise Environment (PIEE) would be an excellent platform for this tool. PIEE is currently used for a wide range of DOD applications such as EDA for documentation as well as WAWF for invoicing. PIEE is able to accept data from various contract writing and financial management systems and is very reliable. A comprehensive tracking tool would bridge the gap in communication and allow insight of the current funding status for all stakeholders to see. This added visibility would also help in tracking goals and metrics, build consistency across the Department, and ultimately reduce the amount of canceling funds.





## C. CONCLUSION

As our nation dives deeper and deeper into debt, it is vital that the Department of Defense at a minimum understands the current status of its funding and does everything in its power to properly manage appropriated funds. The DOD is not currently managing canceling funds in a satisfactory manner, costing the Department tens of millions of dollars annually. The good news is that this problem can be fixed. By extending the period of expiration, developing a comprehensive strategy, and implementing a funds tracking tool, the amount of funds that cancel each year will be significantly reduced.



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