Testimony

of

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Mr. Chairman, and distinguished members of the subcommittee, I welcome the opportunity to testify on the Department of Defense unobligated balances, their treatment, and how they affect our budgeting and programming.

As you are aware, the Department of Defense budget is large and complex. In FY 2006, we are executing programs from 110 different military accounts. Of this number, 80 are funded by appropriations from the Congress, and 30 are funded from other sources, such as permanent indefinite appropriations (such as the Health Care Trust Fund payments for Medicare-Eligible Military Retirees), receipts (such as gift funds), or revolving funds sales.

These accounts vary as to purpose and obligation life. Approximately 39 percent are available for incurring new obligations for only one year. The majority of these are military personnel and operation and maintenance accounts. Investment accounts are available for new obligations for multiple years, ranging from two years (Research, Development, Test and Evaluation) to five years (Military Construction and Shipbuilding and Construction, Navy). For the most part, the Congress appropriates the total funding for a given quantity of items or a program activity, even though the funding will obligate over a number of years.

Lastly, a few of our accounts (such as the Defense Working Capital Fund and the Base Realignment and Closure account) are "no year" accounts, meaning that the funds are available for new obligations for an indefinite time period.

Accounts "expire" for new obligations at the end of the period of obligation availability stated in the relevant appropriations act. Any unobligated balance remaining after the account expires can only be used to adjust previously recorded obligations – we cannot write new contracts or start new projects after the account expires. For example:

A contract amendment for cost growth (price redetermination) or claims that are within the scope of the original contract are chargeable to the same account that originally funded the contract. Adjustments up to $4 million may be approved by the component requesting the change, and adjustments between $4 million and $25 million may be approved by the Defense Comptroller. Any adjustment over $25 million requires congressional notification in accordance with 31 USC 1553.

Accounts “cancel” five years after they expire for new obligations. When an account is cancelled, all remaining balances (unobligated balances and obligated balances not yet paid) are written off Treasury’s books. No obligation adjustments and no further payments can be made from the account. In certain cases, this process prevents us from making payments on valid obligations of the Federal government. In these cases, the Congress has provided us with special authority which allows the use of up to 1 percent of our current year funds to pay these bills.

The Department monitors obligations and unobligated balances carefully. Obligation rates are one of our key financial metrics – are programs utilizing the funding provided in accordance with their plan? During the active life of an appropriation, unobligated balances not required for their original purpose can be shifted to other programs in accordance with established reprogramming procedures and statutory transfer authorities.

Flexibilities – Unexpired Accounts

The Congress has long recognized that the Department needs some flexibility to move funds among these 80 accounts and the several thousand individual programs contained in our budget in order to satisfy urgent requirements, and to accommodate fact-of-life changes after appropriation action is complete. We can group these flexibilities into two categories: reprogramming and transfers.

Reprogramming actions move funds between different programs within an appropriation account. We control programs at the "Program, Project, and Activity", or line item level, as specified in the relevant oversight committee reports.

Transfers move funds between appropriation accounts. For example, the Congress provides us with General Transfer Authority. General Transfer Authority allows us to move funds between accounts up to a certain aggregate dollar limit. Transfers under this authority must be for higher priority purposes, based on unforeseen military requirements, when determined to be necessary in the national interest. If the transfer changes the purpose for which the funds were originally appropriated, we obtain Congressional approval. All transfers under this authority require the approval of the Office of Management and Budget.

Flexibilities – Expired Accounts

Once funds have expired, it is important note that, except in very limited cases, the Department has no authority to transfer funds, nor can we transfer funds between different fiscal years. The major exception is our authority to transfer unobligated balances to accommodate fluctuations in foreign currency rates. The Department does have standing authority to transfer expired funds in the Operation and Maintenance, Military Personnel, and Construction accounts to the foreign currency transfer accounts to fund foreign currency variances.

Conclusion

Unobligated balances are part of the federal financial management process. The Department is very conscious of its accountability responsibilities. As good stewards of taxpayer funds, the Department manages unobligated balances carefully to maximize the utility of the funding provided by the Congress and to ensure that all relevant policy and procedures are properly followed.

Thank you.