



ACQUISITION,  
TECHNOLOGY  
AND LOGISTICS

THE UNDER SECRETARY OF DEFENSE

3010 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3010

APR 19 2013

Lieutenant General Lawrence P. Farrell, Jr., USAF (Ret)  
President and Chief Executive Officer  
National Defense Industrial Association  
2111 Wilson Boulevard, Suite 400  
Arlington, VA 22201

Dear General Farrell:

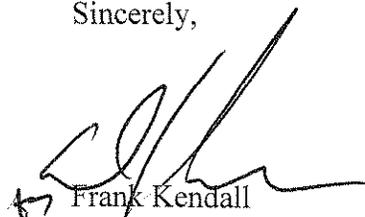
Thank you for your March 11, 2013, letter expressing concern for the recent Department of Defense policy to discontinue providing accelerated payments to all prime contractors by rescinding Class Deviation 2012-00014, "Providing Accelerated Payments to Small Business Subcontractors."

Today, the Department faces enormous budgetary challenges. Even after receiving an appropriation providing additional flexibility and funding for the remainder of the fiscal year, challenges persist that will impact our employees and our industry partners. The implementation of sequester funding levels, along with the need to meet current high-priority mission shortfalls, exacerbates an already difficult situation.

We are working hard to avoid a crisis in our military readiness and disruption in our weapons programs. In the short term, we are forced to take immediate action to reduce spending. This has had a dramatic and negative effect on working capital fund cash liquidity, despite efforts to reduce overhead and lower-priority services. By law, these activities must maintain positive cash levels, and by February these levels were dangerously low. We had few viable alternatives to help mitigate risk of an Anti-Deficiency Act violation and, as a last resort, chose to terminate what we referred to as our "Quickpay" initiative that began last summer. Rescinding this deviation to policy is one of the many unfortunate steps we had to take due to the impact of sequestration. However, the Department was able to provide accelerated payments to contractors from July 2012 to February 2013.

We understand the importance of small businesses to our national security needs and will continue accelerated payments directly to small businesses that began prior to the Office of Management and Budget expansion of this program. We appreciate your input, as well as your continued support for the small business community. We are hopeful that your members who partner with small businesses will do everything possible to assist these firms in making the transition back to payments within existing contract terms.

Sincerely,



Frank Kendall