



IN REPLY  
REFER TO

**DEFENSE COMMISSARY AGENCY**  
HEADQUARTERS  
1300 E AVENUE  
FORT LEE, VIRGINIA 23801-1800

CC

July 8, 2015


MEMORANDUM FOR PRINCIPAL DEPUTY ASSISTANT SECRETARY OF DEFENSE  
(READINESS AND FORCE MANAGEMENT)

SUBJECT: Annual Statement Required under the Federal Managers' Financial Integrity Act  
for Fiscal Year 2015

As Director of the Defense Commissary Agency (DeCA), I recognize that DeCA is responsible for establishing and maintaining effective internal controls to meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). Tab A-1 provides specific information on how DeCA conducted the assessment of operational internal controls, in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*, and provides a summary of the significant accomplishments and actions taken to improve DeCA's internal controls during the past year. I am able to provide an unqualified statement of assurance that DeCA's operational internal controls meet the objectives of FMFIA.

DeCA conducted its assessment of the effectiveness of internal controls over financial reporting in accordance with OMB Circular A-123, Appendix A, *Internal Control over Financial Reporting*. Tab A-1 of the attachment provides specific information on how DeCA conducted this assessment. Based on the results of this assessment, DeCA is able to provide an unqualified statement of assurance that the internal controls over financial reporting as of July 8, 2015, were operating effectively.

DeCA also conducted an internal review of the effectiveness of the internal controls over the integrated financial management systems. Tab A-1 of the attachment provides specific information on how DeCA conducted this assessment. Based on the results of this assessment, DeCA is able to provide a qualified statement of assurance that the internal controls over the integrated financial management systems as of July 8, 2015, are in compliance with the Federal Financial Management Improvement Act and OMB Circular A-123, Appendix D, with the exception of one nonconformance noted in Tab C.

  
Joseph H. Jett  
Director

Attachment:  
As stated

cc:  
Chairman, DeCA Board of Director

Your Commissary ... It's Worth the Trip!

# Defense Commissary Agency FY 2015 Annual Statement of Assurance

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The Defense Commissary Agency (DeCA), as a component of the Department of Defense (DoD), is responsible for establishing and maintaining an Agency-wide internal control system. The DoD Instruction (DoDI) 5010.40, entitled “Managers’ Internal Control Program Procedures,” implements the requirements of the Federal Managers’ Financial Integrity Act (FMFIA) of 1982 (Public Law 97-255); the Federal Financial Management Improvement Act (FFMIA) of 1996 (Public Law 104-208); and Office of Management and Budget Circular No. A-123, entitled “Management’s Responsibility for Internal Control” provides guidance on that implementation.

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## **TAB A-1**

### **DESCRIPTION OF THE CONCEPT OF REASONABLE ASSURANCE AND HOW THE EVALUATION WAS CONDUCTED**

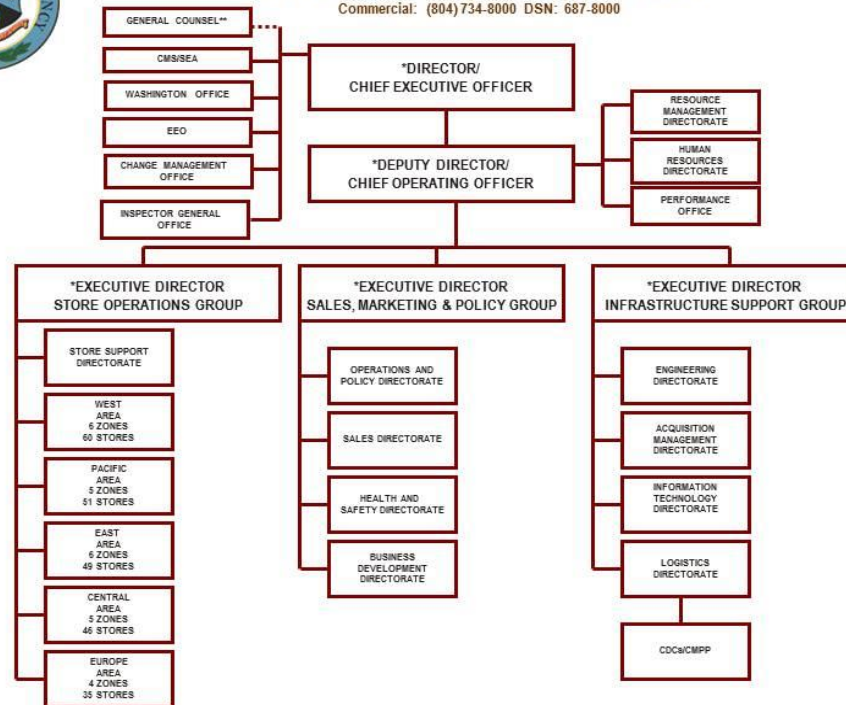
The Defense Commissary Agency's (DeCA) mission is to deliver a vital benefit of the military pay system that sells grocery items at cost while enhancing the quality of life and readiness of the Service members, retirees, and their families. DeCA's vision is to understand those individuals and deliver to them a 21<sup>st</sup> century commissary benefit by: (a) providing the military community with a great shopping experience; (b) sustaining a capable, diverse, and engaged civilian workforce; and (c) being a model organization through agility and governance. DeCA is comprised of the following organizations:

- Office of the Director
  - Senior Enlisted Advisor
  - Office of the Inspector General
  - Equal Employment Office
  - Office of General Counsel
  - DeCA Washington Office
  - Change Management Office
- Office of the Deputy Director
  - Resource Management Directorate
  - Human Resources Directorate
  - Performance Office
- Store Operations Group, Executive
  - Store Support Directorate
  - West Area Stores
  - Pacific Area Stores
  - East Area Stores
  - Central Area Stores
  - Europe Area Stores
- Sales, Marketing, & Policy Group, Executive
  - Operations & Policy Directorate
  - Sales Directorate
  - Health & Safety Directorate
  - Business Development Directorate
- Infrastructure Support Group, Executive
  - Engineering Directorate
  - Acquisition Management Directorate
  - Information Technology Directorate
  - Logistics Directorate



# DEFENSE COMMISSARY AGENCY

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November 16 2014

\*\*DeCA General Counsel is part of the Defense Legal Services Agency

\* Denotes SES position

DeCA’s senior management evaluated the system of internal controls in effect during the fiscal year, as of the date of this memorandum, in accordance with the guidance of the Office of Management and Budget (OMB) Circular No. A-123, *Management’s Responsibility for Internal Control*, December 21, 2004. The OMB guidelines were issued in conjunction with the Comptroller General of the United States, as required by the “Federal Managers’ Financial Integrity Act of 1982.” Included is an evaluation of whether the system of internal controls for DeCA is in compliance with standards prescribed by the Comptroller General. The objectives of DeCA’s system of internal controls are to provide reasonable assurance of:

- Effectiveness and efficiency of operations
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations

The evaluation of internal controls extends to every responsibility and activity undertaken by DeCA and applies to program, administrative, and operational controls. Furthermore, the concept of reasonable assurance recognizes that (1) the cost of internal control should not exceed the benefits expected to be derived, and (2) the benefits include reducing the risk associated with failing to achieve the stated objectives. Moreover, errors or irregularities may occur and not be detected because of inherent limitations in any system of internal controls, including those limitations resulting from resource constraints, Congressional restrictions, and other factors. Finally, projection of any system evaluation to future periods is subject to the risk that procedures

may be inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate. Therefore, this statement of reasonable assurance is provided within the limits of the preceding description.

DeCA evaluated the system of internal controls in accordance with the guidelines identified above. The results indicate that the system of internal controls at DeCA, in effect as of the date of this memorandum, taken as a whole, complies with the requirement to provide reasonable assurance that the above mentioned objectives were achieved. This position on reasonable assurance is within the limits described in the preceding paragraph.

DeCA's success stems from an effective internal control system that is greatly influenced by management's leadership, its financial responsibility, and commitment to the Managers' Internal Control Program (MICP).

**Management's Responsibility:** DeCA's management is responsible for the quality and timeliness of program performance, increasing productivity, controlling costs, mitigating adverse aspects of Agency operations, and assuring that programs are managed with integrity and in compliance with applicable laws. To ensure these responsibilities are always at the forefront of the minds of every employee, management employs a sound system of internal controls to monitor success, mitigate risk, and to help achieve a more effective operation. These responsibilities are coupled with the fiduciary responsibility of financial management.

DeCA's financial managers are focused on the concept of enhancing the reliability of financial reporting data and committed to producing useful financial statements that provide a meaningful representation of the organization's financial condition, current and long-term liabilities, and month-to-month assessments of the effective execution of the budget. The accuracy of this information is paramount to both the success of the organization and to the transparency of its operation. To that end, management monitors the financial internal controls by way of monthly reviews that assess the accuracy of the financial data; consider alternatives in financial decisions; and check for errors and omissions, while producing the quarterly and annual statements.

**Control Assessments:** In accordance with Department of Defense Instruction (DoDI) 5010.40, *Managers' Internal Control Program Procedures*, DeCA is required to report on the effectiveness of financial and operational controls. DeCA continues to accomplish this requirement utilizing the OMB Circular A-123, Appendix A, methodology, whereby self-assessments are used to determine the effectiveness of both the financial and operational risk management programs.

DeCA's management continues to assess and evaluate internal control testing methods to ensure that they are effective and current. By conducting these annual assessments, management can pinpoint problem areas early, fix them, and move on. This year's control assessments provided management the opportunity to establish a clear line of accountability throughout each directorate, while strengthening the Agency's strategic standing as a model 21<sup>st</sup> century organization.

Operational Controls Assessment: DeCA's comprehensive and robust operational assessment was critical to ensuring that the organization's overall assurance was strong and that control activities appropriately addressed key risk areas. Operational and administrative controls were assessed at various times throughout the year using staff personnel as testers who were experts in their areas of operation. The testers conducted self-audits, reviews, and evaluations to assess the Agency's overall operational effectiveness.

Financial Reporting Controls Assessment: DeCA's financial reporting controls are designed as a series of checks and balances, monitored by management and the Board of Directors and validated each year by the external audit. This system of checks and balances is intended to provide reasonable assurance that all monthly financial activities are accurate and complete, resulting in reliable financial reports and statements. Most of the deficiencies identified in previous years have been corrected. None of these deficiencies were determined to be material in relation to the financial statements. The deficiencies still under corrective action plans are: (1) identification and removal of non-capital accountable equipment; (2) timely resolution of minor variances related to bank deposits, debit and credit card reimbursement, and WIC reimbursement from the individual states; (3) closing of store inventory accounts every month on time; (4) controls to prevent Federal Employee Health Benefits advances from extending beyond 1 year; and (5) periodic review of system users accounts for resale activities.

Financial System Controls Assessment: The financial systems control assessments were used to determine if the system owners and operators were meeting the required cyberspace security goals and organizational objectives set by management. Findings provided an indication of the quality of risk mitigation employed within the Agency's program networks, and how those controls have impacted the organization as a whole. By conducting periodic assessments, management was able to capitalize on opportunities to enhance network and system defenses against intrusion and malicious activity.

Periodic assessments also focused on the need for an improved financial management system to replace the Agency's non-compliant legacy systems. Those assessments were mostly focused on the effectiveness of current compensating control methods such as journal vouchers, crosswalks, and reconciliations. These efforts continue to prove to be effective in ensuring transactions are accurately recorded, supported, and reported.

Like DoD, DeCA is fully engaged in the effort to move to a more effective financial management system, with the Agency currently scheduled to transition to the new Defense Agencies Initiative (DAI) system in FY 2018. The DAI is a financial management system designed to provide complete, reliable, consistent, and timely information that is responsive to the financial needs of management.



DeCA's operation is confronted daily by events in any one of the previously mentioned control areas that could affect the execution of the Agency's strategies and objectives. Therefore it is vital that management monitor and assess controls to provide reasonable assurance that they continue to function effectively.



## **ANNUAL ASSESSMENT PROCEDURES:**

### Pre-Test Planning:

MICP coordinators begin the planning phase by evaluating the adequacy of each control's design and by reviewing cycle memos, process flows, and organizational directives. Review of these documents allowed management to determine true control objectives for each of their areas of responsibility. A deficiency in operation could exist when a properly designed control failed to operate as it was intended. A deficiency could also exist when the design or operation of a control did not allow management or employees, in the normal course of business, to prevent, detect, and correct errors, omissions, or misstatements.

This year, DeCA's Assessable Unit Managers (AUM) identified key internal controls that were significant to each directorate's (division, office, etc.) operation. Collectively, the AUMs conducted over 230 control self-assessments on key controls, using various methods, such as: interviews, observations, inspection of documents or records, and direct testing. In all cases, the tester's goal was to determine whether actual actions were consistent with the established process and if the established process was designed effectively. No matter the method, the test plans provided a detailed description of the actions to be taken to determine the effectiveness of each control.

### Designing the Test Plan:

During pre-planning stages, the testers conferred with the MICP coordinator(s), internal auditors, and any fellow employees who had conducted testing in the past, to obtain advice on appropriate testing techniques. Consultation with the MICP coordinator before, during, and after testing was the Agency's way of maintaining quality. Finally, the tester concluded by preparing a written test plan that explained the what, when, where, and how tests were conducted. Test plans are designed to validate controls identified in the Risk Analysis and are updated as often as necessary to ensure accurate steps and audit readiness.

### Gather Testing Results:

Testers also created a Testing Results document and a Control Analysis to capture a sufficient record of the testing results. The Control Analysis document was consistent with the test plan's control numbers and its expected outcomes. The Control Analysis explained the findings and demonstrated how often the key controls were not followed. The test results are designed to capture specific sample data and support management's judgment on whether a control is functioning adequately. If an assessment of ineffectiveness is made, exceptions noted in the testing of properly designed internal controls should support that assessment. Management must consider the extent of a deficiency in such cases. Deficiencies can range from a *simple deficiency* (e.g., missing initials indicating a supervisor's review on 1 of 26 reconciliations sampled) to a *significant deficiency* (e.g., only 8 monthly reconciliations were performed for the

year), which resulted in a loss of resources, to a *material weakness* (e.g., reconciliation of several key accounts were not performed throughout the year), which resulted in a major loss of resources and breaches in security. A simple deficiency is an internal control deficiency that creates minimal exposure for management and is generally considered an anomaly. A significant deficiency usually indicates a history of internal control insufficiencies that, when consolidated, equate to a reportable condition or material weakness. When exceptions are noted, management should assess whether the sample size should be expanded to validate whether an exception that appears to be a simple deficiency, is indeed an anomaly.

### Analyzing Test Results:

DeCA's MICP coordinators analyzed each of their programs based on the results and findings of the control self-assessments to determine their effectiveness. Using these results, the coordinators made judgments on the effectiveness of the controls and the associated programs, such as whether the failure was confined to one part of the process, or one group of staff, or to one period of time. Senior management also reviewed the results to determine if failures had resulted in significant or material operating weaknesses. Management then assessed the cause of the failure and its effect on the overall program. Any findings that resulted from the assessments were summarized into the Control Analysis document and later briefed to the Senior Assessment Team (SAT). The Control Analysis document provides detailed explanations on the cause and effect of the identified ineffective controls (weaknesses).

**Cause:** identifies the responsibility and reason for the deficiencies. A cause could be a continuing practice or a single event. The following are some questions the coordinators used to consider in the analysis:

- What were the circumstances that resulted in the reported problem or condition?
- Would the problem or condition have been identified if the test had not taken place?
- What practices were absent that should have been present?
- Was it an isolated incident or an indication of a continuing operational deficiency?
- Did the problem reflect an operational weakness?

**Effect:** determines the significance of the ineffective control (weakness) identified through testing. It helps to determine the materiality of the weakness by reviewing its effect on the everyday functioning of the operation being tested. Consider the following as some possible effects:

- Determine the revenue losses or unnecessary expenses
- Determine the inefficiency or waste
- Explain failure to achieve stated objectives
- Point out any inability to comply with laws, rules, and regulations
- Point out any physical loss and/or adverse publicity

While analyzing this information, DeCA's operational managers consider the most efficient and effective way to remedy apparent deficiencies as they consider the level of

corrective actions required. Any revision in practice, especially any additional expenses for stronger controls, led to recognizable financial savings or other operating improvements in which the overall value is greater than the increased investment. DeCA's Governance program is designed to vet all new projects, to include possible process improvements that result from corrective action plans.

#### Implementing Corrective Actions (Remediation):

During this year's senior assessment briefing, we discussed one area where controls are being reworked to provide a stronger level of assurance. A tentative corrective action plan was submitted, which identified the weakness and courses of action to resolve and/or correct the problem(s).

- Human Resources Suitability for Non-Sensitive Positions – corrective action plan (CAP) includes four milestones with completion date timelines. These ongoing reviews will be performed to ensure new-hire investigations are released within the 3-day requirement with a goal of 100% compliance by conclusion of plan.

Management is currently considering the tentative corrective action, while decisions are being made to institute new controls, improve existing controls, or accept the risk inherent in current controls. In some instances, the appropriate action was evident and apparent, but in others, further analysis is necessary. The corrective action plan includes all the planned actions, responsibilities, personnel, and target dates for specific actions. A corrective action plan is required to be designed, implemented, and tracked within 6 months of being identified as a resolution to the ineffective control. An effective CAP requires the AUM responsible for the control deficiency to establish feasible and attainable goals that will result in an effective control and successful objective.

#### Directorate-Level Statement of Assurance (DSOA):

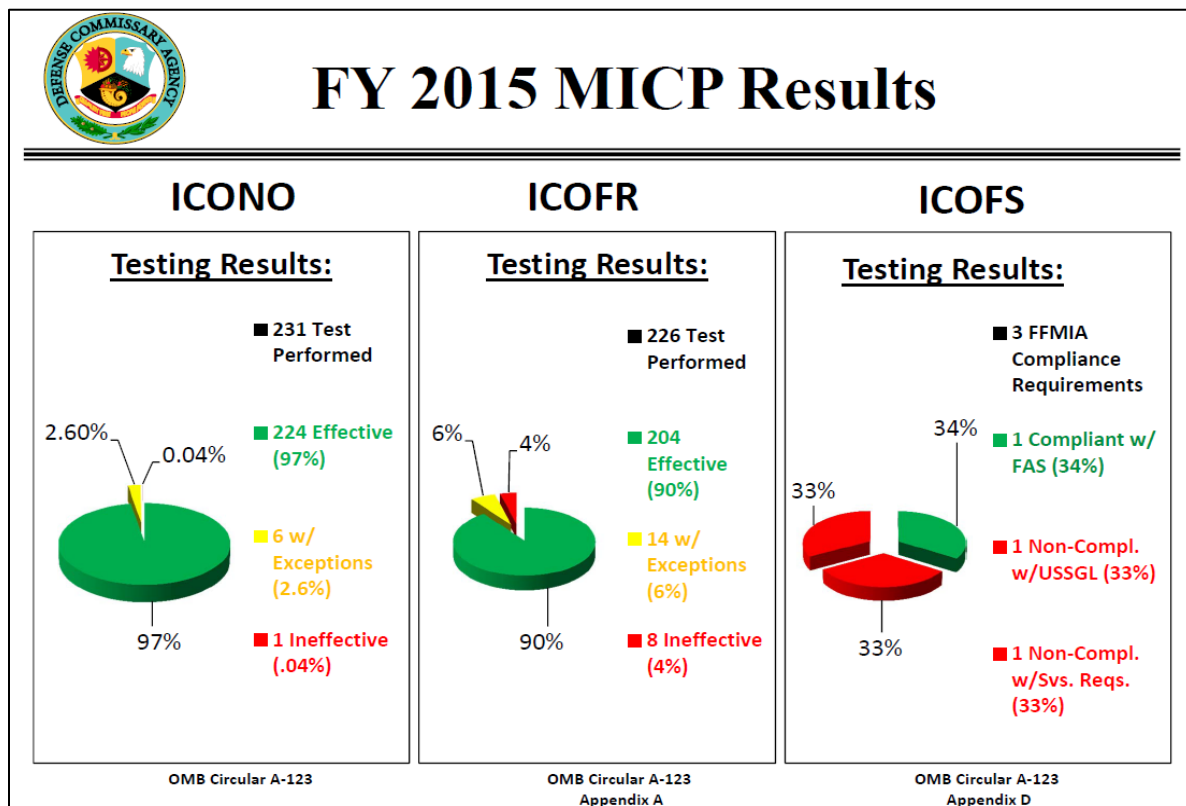
Management concludes the annual control analysis by rolling up assessments, findings, and results into a directorate-level statement of assurance. Each memo provides the directorate's particular level of assurance, identifying key processes and focus areas, such as facility maintenance programs, commissary store operations, health and safety programs, as well as several others. The DSOA also briefly discusses the various plans of action to improve ineffective controls and/or operational processes.

DeCA's management continuously assesses and evaluates internal controls, in this manner, to ensure programs are not only operative, but essential. This year's control assessments provided management the opportunity to establish a clear line of accountability throughout each directorate (further strengthening the Agency's commitment to stakeholders and patrons). Such measures are apparent in every step of DeCA's internal control program. Reviews, audits, and assessments conducted by both internal and external auditors have concluded with similar results.

DeCA continues to lead the way in minimizing risks associated with waste and inefficiency, while maximizing success.

As of FY 2015, control assessments have evolved and been embraced by all facets of the organization. Clearly, implementation of this comprehensive assessment system has gone beyond financial reporting compliance, as it has influenced other aspects of the organization. The program has made major strides in assessing controls associated with contracting, purchasing, acquisition management, environmental management, etc. This effort has proven, without a doubt, that the Agency not only has tone at the top, but throughout all levels of management and the organization. This year's assessment results are attributable to sustained leadership that's committed to identifying ineffective controls and correcting them.

At the conclusion of this year's testing, the testers reviewed a total of 460 controls throughout all three program areas. Management assessed 231 Internal Controls over Non-Financial Operations (ICONO) and found 97% of those controls operating effectively, while 3% had exceptions and/or were ineffective. Internal Controls over Financial Reporting (ICOFR) assessments addressed 226 controls, finding 90% operating effectively, while 10% had exceptions and/or were ineffective. Management also addressed the three major FFMIA compliance requirements for Internal Controls over Financial Systems (ICOFS), identifying two of the three as non-compliant, with associated risks being mitigated by audited compensating controls.



All documentation is gathered by the MICP coordinators and placed in our Agency's Internal Control SharePoint database as a central location for all pertinent process information.

**TAB A-2**  
**SIGNIFICANT MICP ACCOMPLISHMENTS**



**Internal Control Reporting Category:** Comptroller & Resource Management

**Description of the Issue:** Accrued Payroll Liability

**Accomplishment:** Automation of the Collection of Time and Attendance Data with Embedded Controls

For years, DeCA has used manual time and attendance sheets for required timekeeping, along with forms for authorized leave requests and supervisors' requests for approval of planned compensatory time and overtime. This necessitated a series of controls to ensure that time and attendance data was accurate, reliable, properly authorized, and correctly reported. Signatures of the employee, timekeeper, and certifying officer had to be verified; supporting forms had to be matched against the leave taken and compensatory time and overtime worked; input data keyed into DCPS had to be verified against the manual time sheets; and cost accounting data had to be reviewed for accuracy and proper codes.

Beginning this summer, a new easy-to-use time and attendance system, known as TAS, will begin pilot deployments at headquarters and at 12 commissaries. Stores at Fort Lee, Virginia; Joint Base Langley - Fort Eustis, Virginia; San Onofre Annex, California; Vogelweh, Germany; Ramstein Air Base, Germany; Sembach, Germany; Andersen Air Force Base, Guam; Naval Base Guam Orote, Guam; Guam Central Distribution Center; Yongsan Garrison, South Korea; Yokota Air Base, and Commander Fleet Activities Yokosuka, Japan; will test the system as a prelude to Agency-wide use. TAS will eliminate paper timesheets. Store, central distribution center, and central meat processing plant employees will use their Common Access Cards (CAC) to provide time and attendance data through an Electronic Timekeeping CAC Unit. They will also have computer access to a web-based version. Headquarters employees will use their computer to input time and attendance data. Most of the manual controls required now will be embedded into TAS, ensuring that information required by the certifying official is consolidated into a single source. Technology enhancements like TAS contribute greatly to the effectiveness of our internal controls and facilitate the efficiency of their application.

**Internal Control Reporting Category:** Comptroller & Resource Management

**Description of the Issue:** Triannual Reviews Related to Acquisition Management

**Accomplishment:** Timeliness of Closing of Option Years on Contracts

The Financial Management Regulation defines dormant contracts as contracts that are physically complete and for which the period of performance has expired. The unliquidated obligations for these dormant contracts are to be reviewed every 120 days (Triannual Review) and appropriate action must be taken to close the contract. However, nearly all of DeCA's contracts for Commercial Activities (CA) for Shelf Stocking, Custodial Services, and Receiving and Handling at the commissaries are 5-year contracts, with 1 base year and 4 option years funded by annual appropriations. Each of the five 1-year segments has its own period of performance. Unliquidated obligations (ULO) were normally carried for a 5-year period until the contract closeout was required. But, in some cases, individual option years were closed prior to the completion of the contract and excess funds deobligated. The average ULO balance on CA contracts with expired option years greater than 120 days old was \$10M-\$15M.

DeCA's Internal Control over Financial Reporting team identified this as a control weakness. A corrective action plan was put in place to process option year closeouts timely and to reduce the ULO associated with those contract years. After several Triannual Review segments, the average ULO balance was reduced from \$10M-\$15M to \$6M-\$8M. In May 2014, the Resource Management Directorate reported to the SAT that the ULO balance was reduced from \$6.4M in FY 2013 to \$5.7M in FY 2014, but \$1.9M of the \$2.4M ULO aged greater than 1 year had been closed. Then, at the end of August 2014, the Acquisition Management Directorate further reduced the ULO balance, to \$1.6M. For FY 2015, Resource Management briefed the SAT that the Acquisition Management Directorate is now in full compliance with the Triannual Review, with dormant lists being worked every 120 day, and option years closed timely. The SAT approved the closing of the 5-year-old corrective action plan and recognized Acquisition Management Directorate for their sustained efforts.

**Internal Control Reporting Category:** Acquisition Management

**Description of the Issue:** Payment Delinquencies or Late Payment Interest

**Accomplishment:** Government Purchase Card Program

Appendix B of OMB Circular A-123 prescribes policies and procedures to agencies regarding how to maintain internal controls that reduce the risk of fraud, waste, and error in government charge card programs. The benefits of such controls include reducing administrative costs and time for purchasing and paying for goods and services; maximizing refunds where appropriate; using government charge card data to monitor policy compliance and inform management decision-making to drive a more cost effective card program; and mitigating the risk of fraud, misuse, and delinquency.

DeCA's Government Purchase Card (GPC) FY 2014 program was exemplary: no payment delinquencies, no late payment interest, and nearly \$700,000 in rebates earned. The keys to DeCA's success incorporate significant internal controls for the purchase card program, including management's leadership and commitment towards openness, honesty, integrity, and ethical behavior ("Tone at the Top"); the identification of key management officials and their responsibilities; establishing a process for formal appointment of cardholders and approving officials and holding them accountable for their actions; effective formal training; continuous review of all transactions related to the purchase card; and monthly review of available reports and data.

Since 2005, DeCA has been a leader among Defense Agencies in total expenditures, rebate earnings, and delinquency management. Incredibly, DeCA's last 60-day delinquency was in December 2005. DeCA was the first DoD Agency to eliminate delinquencies, even though about 75 percent of Defense Agencies still have delinquencies on an ongoing basis.

DeCA's total GPC expenditures for FY 2014 were \$52.8 million, with more than 80,000 transactions and an average transaction amount of \$677. Even though the Agency has more transactions and dollars spent on the GPC than any other Defense Agency, and there are approximately 525 cardholders in the Agency, it has remained the leader in payment and delinquency management for many years.



**TAB B - Not Applicable**

**OPERATIONAL MATERIAL WEAKNESSES/CORRECTIVE ACTIONS**



**TAB C**

**FINANCIAL REPORTING/FINANCIAL SYSTEM  
MATERIAL WEAKNESSES/CORRECTIVE ACTIONS**



**Uncorrected Material Weaknesses Identified During Prior Periods:**

DeCA’s financial management systems do not substantially comply with FFMIA. DeCA uses two separate accounting systems to process financial transactions – one for appropriated funds and surcharge collections and the other for all resale inventory transactions. These two systems do not interface and, as a result, DeCA is not in compliance with Federal financial management system requirements, which call for a single, integrated financial system.

The Agency received the first Notice of Finding and Recommendation (NFR) during the annual FY 2011 external audit; however, DeCA has been exceeding compliance requirements since FY 2002 by implementing a series of compensating controls and assessing their effectiveness annually. The Agency will continue to implement these same stringent controls until a new financial system is acquired in the future.

DeCA, along with the DoD, is actively working on improving the financial business system for Defense Agencies in an effort referred to as the Defense Agencies Initiative (DAI). The DAI is a standardized system that will replace DeCA’s current legacy accounting systems – Defense Business Management System (DBMS) and Standard Financial System (STANFINS).

DeCA was originally expected to transition to the new system as early as FY 2015, but has since been rescheduled to FY 2018, along with eight other agencies, as part of the DAI Increment 2. As DoD continues to move forward with the deployment of DAI, DeCA continues to prepare its systems, personnel, and resources for the transition.

DeCA’s supply chain enterprise level system, Enterprise Business Solution (EBS), contract award was made in January 2015. The award was for a 5-year base period with five 1-year option periods for a total contract life cycle of 10 years. The period of performance for the base period is January 29, 2015, to January 28, 2020, and each option year follows consecutively through January 28, 2025. EBS will replace 14 legacy systems.

<b>Internal Control Reporting Category</b>	<b>Description of Material Weakness</b>	<b>First Year Reported</b>	<b>Targeted Correction Year</b>	<b>Original Target Date</b>	<b>Corrective Action Summary</b>
Comptroller & Resource Mgmt	Non-compliance with FFMIA	FY 2011	FY 2018	FY 2015	Legacy Systems Replacement

TAB C-2

FINANCIAL REPORTING/FINANCIAL SYSTEM  
CORRECTIVE ACTION PLAN



**Defense Commissary Agency (DeCA)  
Failure to Comply with FFMIA, Internal Control over Financial Systems  
Corrective Action Plan**

**FIP Related Assessable Unit:** Budget to Report (Non-compliant Financial Systems)

**First Year Reported:** FY 2011

**Original Target Date:** FY 2015

**Target Date on Prior Year SOA:** FY 2015

**Status:** On Track

**Current Target Date:** FY 2018

**Description of Weakness:** DeCA's financial management systems do not substantially comply with Federal financial management systems requirements (systems are not interoperable with other Federal accounting systems; systems do not adhere to Federal Accounting Standards; and systems cannot account for transactions at the United States Standard General Ledger (USSGL) level).

**Corrective Action Summary:** Currently, DeCA mitigates risks caused by the non-compliant systems by implementing a series of compensating controls that have previously met and exceeded the requirements of the annual audit. DeCA/DFAS, as part of the DAI, are actively pursuing a new accounting system that will provide: a) interoperability of systems; b) compliance with Federal Accounting Standards; and c) transactions at the USSGL level. This will be achieved by replacing the current legacy systems with an FFMIA-compliant general ledger accounting system that a) facilitates the appropriated fund; b) accepts and generates USSGL transaction level activity from the Agency's business systems; and c) provides optimal interoperability between DeCA's various funds (operations fund, resale fund, surcharge fund, etc.)

**Impediments:** DeCA has been identified as part of Increment 2 and re-scheduled to transition in FY 2018.

**TAB C-3**

**FINANCIAL REPORTING/FINANCIAL SYSTEM  
MATERIAL WEAKNESS**

<b>End-to End Business Process &amp; Material Weakness</b>	<b>OSD Senior Accountable Official</b>
<b>Budget to Report:</b>	
<b>Non-Compliant Financial Systems (w/FFMIA)</b>	<b>Mr. Mark Easton, Deputy Chief Financial Officer, OUSD(Comptroller)</b>
Unable to exchange information between financial systems	
Unable to adhere to Federal Accounting Standards	
Unable to record transaction activity at the USSGL level	
<b>Hire to Retire:</b>	
N/A	
N/A	
N/A	
<b>Order to Cash:</b>	
N/A	
N/A	
N/A	
<b>Procure to Pay:</b>	
N/A	
N/A	
N/A	
<b>Acquire to Retire:</b>	
N/A	
N/A	
N/A	
<b>Plan-to-Stock:</b>	
N/A	
N/A	

**TAB D**  
**DOD ASSESSMENT OF**  
**INTERNAL CONTROL OVER ACQUISITION FUNCTIONS**



**TAB D**

**DOD ASSESSMENT OF INTERNAL CONTROL OVER ACQUISITION FUNCTIONS**

<b>Cornerstones<sup>i</sup></b>	<b>Control Environment</b> <small>(What are the standards or objectives that set the tone or provide the discipline and structure?)</small>	<b>Risk Assessment</b> <small>(What are the relevant risks to properly implementing the standards or objectives?)</small>	<b>Control Activities</b> <small>(What are the policies and procedures that help ensure the necessary actions are taken to address risks?)</small>	<b>Monitoring</b> <small>(What monitoring activities or separate evaluations are in place to assess performance over time?)</small>
<p><b>Organizational Alignment and Leadership</b></p> <ul style="list-style-type: none"> <li>▪ Aligning Acquisition with Agency Mission and Needs</li>   <li>▪ Commitment from Leadership</li> </ul>	<ul style="list-style-type: none"> <li>• The mission of DeCA is to provide an efficient and effective worldwide system of commissaries for the resale of groceries and related household items. DeCA is governed by: a) Title 10, United States Code (USC); b) DoDD 5105.55, Defense Commissary Agency (DeCA), revised March 12, 2008; and c) DoDI 1330.17, revised June 18, 2014, to prescribe policy, assign responsibilities, and set procedures for operating the Defense commissary system.</li> </ul> <p><b><u>Acquisition:</u></b></p> <ul style="list-style-type: none"> <li>• DeCA’s acquisitions are governed by the Federal Acquisition Regulation (FAR), the Defense Federal Acquisition Regulation Supplement (DFARS), and the Defense Commissary Agency Federal Acquisition Regulation Supplement (DeCA FARs); as well as guidance generated from the Office of Defense Procurement &amp; Acquisition Policy (DPAP).</li> </ul> <ul style="list-style-type: none"> <li>• DeCA manages its own worldwide acquisition program in support of the commissary system. It provides acquisition support for supplies, services, equipment, IT systems, revenue generating agreements, architect-engineer services, construction, and resale.</li> </ul> <ul style="list-style-type: none"> <li>• Procurement practices shall promote the lowest possible pricing for resale items. Per sections 2304(c)(5) and 2484(f) of Title 10, USC., the Director, DeCA, may use other than competitive procedures to procure brand-name commercial items.</li> </ul> <p><b><u>Acquisition Governance:</u></b></p> <ul style="list-style-type: none"> <li>• Government Purchase Card – GPC Program Coordinator</li> <li>• Acquisitions &lt; \$150K – Contracting Officer review</li> <li>• Acquisitions &gt; \$150K – multiple review levels</li> </ul>	<ul style="list-style-type: none"> <li>• Accurate funding will not be allocated for the operational and sustainment activities of each store</li>   <li>• Operations could be delayed due to lack of funds for timely purchases</li>   <li>• Construction project design and/or building exceed funding thresholds</li>   <li>• Agency funds an unapproved project or acquisition</li>   <li>• Offering products for resale at prices which do not compare favorably with commercial grocery markets</li>   <li>• Delivery delays</li>   <li>• Spoilage and Shrinkage</li>   <li>• Product doesn’t meet contract requirements</li>   <li>• Possible cost overruns</li> </ul>	<p><b>Budget To Report:</b></p> <ul style="list-style-type: none"> <li>• Budget Analysts allocate funds for the operation and sustainment of each store and manage the execution of funds each year, ensuring against NULOs and ADA violations</li> </ul> <p><b>Contract To Close:</b></p> <ul style="list-style-type: none"> <li>• Acquisition Managers negotiate contracts for operational and sustainment services for each store and manage the execution of those services, ensuring a reconciled close of the contract</li>   <li>• Micro-purchases are managed through the Agency GPC program</li>   <li>• Construction and sustainment projects are modeled and forecast based on historical data using comparable facilities as bench marks</li>   <li>• Acquisitions are reviewed, evaluated, and monitored from initiation to closeout</li> </ul>	<ul style="list-style-type: none"> <li>• Compliance with FAR Part 6.3 – justification for acquisitions for other than full &amp; open competition – DeCA Competition Advocate</li>   <li>• Solicitation reviews for all acquisitions &gt; SAT</li>   <li>• Contract Review Boards (CRB) for all formal contract awards</li>   <li>• Balanced Score Card measures performance goals against DoD, USD P&amp;R, and DeCA’s strategic goals for socio-economic program support on a quarterly basis</li> </ul>

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<b>Policies and Processes</b> <ul style="list-style-type: none"> <li>▪ Planning Strategically</li> <li>▪ Effectively Managing the Acquisition Process</li> <li>▪ Promoting Successful Outcomes of Major Projects</li> </ul>	<ul style="list-style-type: none"> <li>• Managers ensure their staffs are competent, that training is sufficient, and that management styles and philosophies foster accomplishment of the organization’s mission and strategic goals</li> <li>• Acquisition of items for resale is funded by the Resale Fund, which is governed by the requirements of DoDI 1330.17, sections 2304(c)(5) and 2484(f) of Title 10 USC</li> <li>• Acquisition of Construction &amp; A-E services is funded from the Surcharge Fund, which is governed by DoD Instruction 7700.18, “Commissary Surcharge, Nonappropriated Fund (NAF) and Privately Financed Construction Reporting Procedures,” December 15, 2004</li> <li>• Information Technology acquisitions are funded by two funds: the Surcharge Fund, governed by DoD Instruction 7700.18, “Commissary Surcharge, Nonappropriated Fund (NAF) and Privately Financed Construction Reporting Procedures,” December 15, 2004, and the Defense Working Capital Fund (DWCF) guided by the FMR, Vol 11B, Chapter 1, DWCF General Policies &amp; Procedures.</li> </ul>		<ul style="list-style-type: none"> <li>• Automated receiving / receipt process at store level</li> <li>• Title II - Construction Inspection procedures</li> <li>• A-E Design Phase Technical Review Charrette Process</li> </ul>	<ul style="list-style-type: none"> <li>• 3<sup>rd</sup> party review of construction progress for compliance with design specifications</li> <li>• A-E designs are reviewed at multiple stages (e.g., 10%, 35%, &amp; 65% design)</li> </ul>



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<b>Human Capital</b> <ul style="list-style-type: none"> <li>▪ Valuing and Investing in the Acquisition Workforce</li> <li>▪ Strategic Human Capital Planning</li> <li>▪ Acquiring, Developing, and Retaining Talent</li> <li>▪ Creating Results-Oriented Organizational Cultures</li> </ul>	<b>Strong Competent Workforce</b> <ul style="list-style-type: none"> <li>• Directed by the Defense Acquisition Workforce Improvement Act (DAWIA); DoD Directive 5000.52, “Defense Acquisition Education, Training, and Career Development Program”, January 12, 2005; and DODI 5000.66, “Operation of the Defense Acquisition, Technology, and Logistics Workforce Education, Training Implementation Instructions”, December 21, 2005</li> <li>• DeCA’s personnel management support provided by Defense Logistics Agency ensures employees in acquisition management (1102 occupational series) possess a Bachelor’s degree in one of the following: accounting, business, finance, law, contracts, purchasing, economics, industrial management, marketing, quantitative methods, and organization management, to include at least 24 credit hours earned in business, and that they retain or can obtain the proper DAWIA level certification</li> </ul>	<ul style="list-style-type: none"> <li>• Hiring unqualified applicants into the 1102 career field would hamper operations within many directorates and cause the Agency to be in violation of various OPM and DOD directives</li> <li>• Private sector offers better opportunities</li> <li>• Fail to capture the job skills of the acquisition requirements for the Agency</li> </ul>	<b>Hire To Retire Process:</b> <ul style="list-style-type: none"> <li>• DLA uses established criteria and works directly with DeCA management to ensure the correct procedures are used to both identify and hire candidates for 1102 vacancies within DeCA</li> <li>• DLA ensures candidates possess the skill set, time in grade, and education level needed to compete, with the possibility of selection. Once a candidate is selected the necessary QCs are used to validate the selection</li> <li>• Qualified individuals are encouraged to seek advancement opportunities first within the Agency and then within DoD and finally within the Federal Government</li> </ul>	<ul style="list-style-type: none"> <li>• Semi-Annual Performance Reviews</li> <li>• Periodic reviews of certifications for the entire acquisition management workforce</li> <li>• Balanced Score Card Quarterly Reviews</li> <li>• Organizational Climate Surveys</li> </ul>

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<b>Information Management &amp; Stewardship</b> <ul style="list-style-type: none"> <li>▪ Identifying Data and Technology that Support Acquisition Management Decisions</li> <li>▪ Safeguarding the Integrity of Operations and Data</li> </ul>	<b>Information Technology Reliability, Sustainment, &amp; Security</b> <ul style="list-style-type: none"> <li>• Directed by the Defense Acquisition System, DoDI 5000.01, and the interim DoDI 5000.02, Operation of the Defense Acquisition System, DeCA acquires Information Technology</li> <li>• DeCA places the highest priority on key information technology for modernization and future needs, while ensuring access security and confidence the system will maintain the Agency’s information assurance (IA) posture throughout its life cycle</li> <li>• DeCA’s main goal is to provide a controlled environment that facilitates managing information system-related security risks that encompasses the involvement of the entire organization—from senior leaders providing the strategic vision and top-level goals and objectives for the organization, to mid-level leaders planning and managing system projects, to individuals who utilize the information systems and data by developing, implementing, and operating the systems supporting the organization’s core missions and business processes</li> </ul> <b>Acquisition Related IT Initiatives</b> <ul style="list-style-type: none"> <li>• Improving Enterprise Architecture</li> <li>• Strengthening IT Governance</li> <li>• Improving IT Acquisition</li> <li>• Strengthening Cyber security</li> </ul>	<ul style="list-style-type: none"> <li>• Ineffective operational performance due to antiquated IT systems</li> <li>• Failed accreditation and certification due to legacy systems</li> <li>• Costly implementation of Risk Management Tools</li> <li>• Failed Security Controls</li> <li>• Undetected Cost Overruns</li> </ul>	<b>Developmental Life-Cycle Process</b> <ul style="list-style-type: none"> <li>• Initiation Controls</li> <li>• Development &amp; Acquisition Phase</li> <li>• Implementation Phase</li> <li>• Operational &amp; Maintenance Phase</li> <li>• Disposal Phase</li> </ul> <b>Risk Management Framework</b> <ul style="list-style-type: none"> <li>• Annual Certification &amp; Accreditation</li> </ul>	<ul style="list-style-type: none"> <li>• Governance Board Review throughout Life Cycle</li> <li>• Balanced Score Card Quarterly Reviews</li> <li>• DeCA IT Operates as a Computer Network Defense Service Provider (CNDSP) to monitor systems and identify weaknesses in systems and data integrity.</li> <li>• The Defense Information Systems Agency (DISA) performs inspections of DeCA’s systems on a periodic basis and validates that DeCA is performing risk assessments of systems through DIACAP and information assurance vulnerability management reporting.</li> <li>• DeCA systems are evaluated (yearly) by independent auditors.</li> </ul>

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<sup>i</sup> Cornerstone descriptions as described in the U.S. Government Accountability Office report, *Framework for Assessing the Acquisition Function at Federal Agencies*, September 2005:

**Organizational Alignment and Leadership:** Organizational alignment is the appropriate placement of the acquisition function in the Agency, with stakeholders having clearly defined roles and responsibilities. There is no single optimal way to organize an agency's acquisition function. Each agency must assess whether the current placement of its acquisition function is meeting its organizational needs. Committed leadership enables officials to make strategic decisions that achieve agency-wide acquisition outcomes more effectively and efficiently.

**Policies and Processes:** Implementing strategic decisions to achieve desired Agency-wide outcomes requires clear and transparent policies and processes that are implemented consistently. Policies establish expectations about the management of the acquisition function. Processes are the means by which management functions will be performed and implemented in support of agency missions. Effective policies and processes govern the planning, award, administration, and oversight of acquisition efforts, with a focus on assuring that these efforts achieve intended results.

**Human Capital:** The value of an organization and its ability to satisfy customers depends heavily on its people. Successfully acquiring goods and services and executing and monitoring contracts to help the agency meet its missions requires valuing and investing in the acquisition workforce. Agencies must think strategically about attracting, developing, and retaining talent, and creating a results-oriented culture within the acquisition workforce.

**Knowledge and Information Management:** Effective knowledge and information management provides credible, reliable, and timely data to make acquisition decisions. Each stakeholder in the acquisition process – program and acquisition personnel who decide which goods and services to buy; project managers who receive the goods and services from contractors; commodity managers who maintain supplier relationships; contract administrators who oversee compliance with the contracts; and the finance department, which pays for the goods and services – need meaningful data to perform their respective roles and responsibilities.