

# Defense Commissary Agency



## Annual Financial Report

Fiscal Year 2021

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## **FOREWORD**

The Defense Commissary Agency (DeCA) is a reporting entity of the Department of Defense (DoD). The Office of Management and Budget (OMB), which implements the Chief Financial Officers (CFO) Act of 1990, accordingly requires the DoD to use DeCA's financial statement information to prepare the annual DoD financial statements.

Under the CFO Act, OMB also requires DoD and other agencies to incorporate their annual financial statements into a Performance and Accountability Report (PAR) or an alternative Agency Financial Report (AFR). Although DeCA is not required to prepare a separate PAR or AFR, this document, which is aligned to the statutory guidance framework, has been prepared to enhance the presentation of performance, management, financial information, and to demonstrate a higher standard of accountability. DeCA will post its FY 2021 Annual Financial Report at [www.commissaries.com](http://www.commissaries.com) by the end of the 1<sup>st</sup> Quarter, FY 2022.



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## Director's Annual Financial Report Message Fiscal Year 2021

As the second year of the COVID-19 pandemic rolled around, the Defense Commissary Agency (DeCA) continued to provide the commissary benefit to military members around the world, with over \$4B in sales in Fiscal Year 2021, in spite of supply chain issues and base access restrictions. The Agency spent \$21.8 million to implement COVID-19 safety protocols while effectively responding to increased product demands, supply chain challenges, and natural disasters. DeCA's elevated performance in 2021 was on full display as it completed the rollout of the Commissary CLICK2GO, the Agency's online ordering - curbside pickup program, to every commissary along with the continued deployment of the Agency's Enterprise Business Solution (EBS). DeCA celebrated its 30th anniversary on October 1, acknowledging three decades of being the military's focal point for the commissary benefit. Through it all, the Agency's dedicated and proficient employees helped DeCA perform its critical mission of delivering a vital benefit to the Service members and families, retirees, and disabled veterans who have earned it.

Highlights for the Agency from the last year include:

- **Game Plan Implementation.** In December 2020, DeCA senior leaders attended and participated in a strategic session to develop a new blueprint for the commissary's future, focused on the patron and their shopping experiences. Agency leaders were determined to create an environment where every eligible patron could use their commissary benefit in a well-stocked, right-priced, customer-centric, and inviting store. The ultimate goal involves effectively and efficiently providing the commissary benefit, which improves Service member and family quality of life, as well as attracting and retaining Service members. Together, they created a new Game Plan to chart the Agency's way forward, which documented a new DeCA vision, refined DeCA's mission/values, and established six strategic Lines of Effort (LOEs) and outcomes for the Agency's future. The updated vision and mission are:
  - **Our Vision:** To be *THE* grocery provider of choice for our eligible patrons – delivering a vital benefit exclusively for our military community and their families.
  - **Our Mission:** Deliver a vital benefit of the military pay system that provides grocery items at significant savings while enhancing quality of life and readiness.

The LOEs are managed by specific DeCA directorates who organize movement and actions toward strategic outcomes. These LOEs revolve around the following areas and outcomes:

- *Supply Chain:* The Agency supply chain is optimized and enables full commissary shelves with the right products delivered at the right time and at the lowest cost that meets the demands of patrons at all times.
- *E-commerce:* DeCA's 21st century grocery operation offers patrons e-commerce services to include: next generation digital shelf labels, dynamic order fulfillment, a secure and trusted online payment environment, enhanced mobility, and localized pickup or delivery.
- *Patron Focus:* We have earned the confidence of our patrons that we will deliver our exclusive benefit in a safe, convenient, exciting way and have earned their trust as "the grocery provider of choice."
- *Demand Creation:* Met or exceeded sales goals and achieved margin, while delivering savings and increasing shopper share of wallet, customer perception, and benefit usage.

- *Facilities Management:* All stores are comfortable, clean, inviting, well-lit and maintained, with functional equipment, up-to-date décor packages, and modern amenities.
  - *Workforce Investment:* A leader-driven, customer-focused culture encompassing trust, respect, and ownership among DeCA’s managers and employees.
- **Customer Satisfaction.** DeCA is working diligently to fulfill our new Vision. We are, at our core, a customer-centric benefit. In FY 2021, DeCA placed renewed interest in raising our overall customer service level. In achieving our Vision, our Agency Game Plan identified six strategic outcomes along six LOEs as the priority areas for improving the way we deliver the benefit. Specifically, our LOE 3, Patron Focus, and LOE 6, Workforce Investment, further delineate our activities for improvements and our desire for achieving a premier customer service experience. Our ForeSee customer survey results indicate that this strategy is working as indicated by our survey results which have increased throughout the year, while we continued to provide the benefit with increased COVID-19 precautionary measures and restrictions at installation levels across the enterprise. DeCA increased its overall customer service satisfaction score from 83.2 percent at the end of FY 2020, to 85.9 percent at the end of FY 2021, five points above 80 percent, which is considered a result received by a superior customer service provider. As we continue to deliver the benefit and better serve our patrons, we are also making great strides in our major transformation efforts in:
    - Improving outreach and education of our eligible patrons.
    - Ensuring we have the right products at the right price on well-stocked shelves that our patrons can buy in a convenient way.
    - Focusing on meeting our patrons’ evolving expectations and improving our capabilities to meet those needs.
    - Emphasizing a patron focus and building trust with our workforce, while treating all with dignity and respect.
  - **DeCA Outreach.** DeCA, in partnership with local installation assets and the Department of the **Army Better Opportunities for Single Soldiers (BOSS)** program, conducted cooking competitions at various installations with key involvement and participation of installation leadership. The outreach included teaching Service members how to cook without recipes using “survival skills” for cooking in the barracks with limited equipment and ingredients. At Fort Bragg, North Carolina, the Agency worked with the Holistic Health and Fitness System to conduct a 30-day challenge where participants ate only at the dining facilities, choosing meals with the green tag, and the Dietitian-Approved Thumb, or dietitian-approved recipes at the commissaries. The Agency also entered a partnership with Navy Morale, Welfare, and Recreation (MWR) in support of Fruit and Veggie Month. Through this partnership, coupons for fresh fruits and vegetables were given to MWR representatives to hand out to Service members. This coupon event occurred at 40 Navy locations. DeCA has also begun coordination with all Service levels and secured training for new recruits at Marine Corps and Air Force Initial Military Training schools to educate the recruits on the commissary benefit. The Agency is also working with both the Army and Navy to ensure it educates their trainees as well.



- **Virtual Focus Groups.** DeCA hosted several virtual focus groups in 2<sup>nd</sup> Qtr FY21, that centered on young, single enlisted Service members living in the barracks, seeking their opinions and knowledge of their commissary benefit as well as their shopping habits. Some of the key lessons learned were that Service members are looking for healthy options when buying food and enjoy preparing it in their living spaces when possible. The majority found their commissary to be convenient to shop and competitive as far as selection of food items available in commercial grocery stores. As DeCA looks for more ways to better serve their deserving patrons, additional focus groups using different categories of shoppers are in the Agency’s future.
- **Come Home to Savings Marketing Campaign.** DeCA and its industry partners joined forces in July and August to welcome back past commissary patrons and entice new ones into their local commissaries. The partnership integrated the slogan “Come Home to Savings – Shop Your Commissary” into their promotional materials and social media outreach. DeCA created an awareness campaign throughout its stores with posters, banners and buttons for the employees. Industry joined together to offer samples, giveaways, and high-value coupons to all stateside stores. They created social media buzz about their products and the exceptional pricing during this promotional period.
- **Your Everyday Savings (YES!) program.** From January 15 through August 30, the YES! program achieved over \$92,413,000 in sales. The program was created to combat pricing misconceptions about commissary products and effectively communicate the commissaries’ everyday low prices on popular items. The Agency reviews YES! items periodically to ensure the products are still popular, the price is the lowest it can be, and to make sure there is enough product on hand. For the current period the Agency has 918 products in the program.
- **Dietitian-Approved Fueling Stations.** The Dietitian-Approved Fueling Stations provide patrons with quick dietitian-approved healthy meals or snacks. They showcase items that can be a substitute for fast food options or used to stock a mini fridge for someone living in the barracks. From January to September, DeCA rolled out the fueling stations to 174 stores worldwide over three phases. Phase 3 included overseas stores and provided sandwich and salad recipes for the deli to create. Since introducing the program, DeCA has seen a 200-percent increase in sales of the fueling station items from January through August. The stations, conveniently located in the front of the store, vary in size and makeup based on available space.
- **Enterprise Business Solution (EBS).** One of the most critical tasks for the Agency during FY 2021 was the continued deployment of our modernized business system - EBS. EBS is the modernization of DeCA’s entire resale business operations including all processes associated with vendor/supplier communication, contracting, cataloging, pricing, promotions, planogramming, ordering, receiving, inventory, customer relationship management, point-of-sale, and financial and warehouse management. EBS replaces the Agency’s aging legacy business systems and is a fully integrated, grocery specific, retail business suite based on commercial best practices. EBS has been deployed over four separate and distinct phases or increments. With the deployment of this system comes a new system that includes major upgrades for store systems. For example, DeCA is upgrading to Emerald in all stores. It is a comprehensive suite of retail solutions designed to provide robust point of sale and enhanced checkout capabilities, mobile shopping, expanded

reporting of sales operations and cashier activities, powerful cash office capabilities, and integrated patron loyalty management and e-commerce options that will allow patrons to access digital coupons, receipts, and register for loyalty programs. Emerald phase one has deployed to 159 locations and deployments will continue into the next FY until complete. Additionally, phase two is scheduled to be completed in early FY 2022. Power Enterprise-D, a manual warehouse management system, was deployed to the first CDC; however, further deployment was delayed due to COVID travel restrictions.

- **Commissary CLICK2GO.** Part of DeCA's e-commerce suite is Commissary CLICK2GO. This online-ordering, curbside pickup service started at 18 pilot stores and is now deployed across the entire Agency, including overseas. Customers are now able to shop and pay online and pickup groceries curbside at their designated time. As an added incentive for customers to try it, the Agency is continuing to waive the \$4.95 service fee previously assessed per order. Orders can be placed easily using a computer, tablet, or cellphone, and shoppers can view important product details to help make their decisions. They can also access recipe features and information on sales and promotions. The next step is providing customers the convenience of delivering directly to customers' homes. The Agency is currently working to secure a partner to deliver customers' orders.
- **Shelf Management Optimization (SMO)** - With DAX deployments coming to an end, the Agency has initiated the Shelf Management Optimization (SMO) effort. Zone Tiger teams were trained at Area Hub locations by the Store Operations Support Division team. Zone Tiger teams are deploying the SMO effort to stores within their Zone. Progress is being monitored so assistance can be provided as needed. This effort, in line with the Supply Chain LOE 1.2, is to focus on identifying points of improvement; with the priority being getting existing in-store product stocked to the shelf for the Patrons.
- **Commissary Store Brands (CSB).** CSBs comprise an assortment of items spanning the entire store and include Freedom's Choice food, HomeBase non-food, TopCare health and beauty, Full Circle Market natural and organic food, Wide Awake ready-to-drink coffee products, Tippy Toes baby products, Flock's Finest wild bird food, and Pure Harmony pet food. Over 1,000 CSB items generated \$85,450,487 in sales, about a \$2 million increase from FY 2020. The Agency has introduced CSBs in 20 categories including pancake and waffle syrups, frozen pizza bites, frozen cookie doughs, organic health and beauty care products, pregnancy tests, and prepared boxed dinners. DeCA plans to introduce new items such as frozen waffles, seasonings, gravy packets, guacamole, salt grinders, specialized cannisters, and spice and extract expansion.
- **Consolidation of Commissaries and Exchanges.** After another review of the plans to consolidate the commissary and exchanges systems, DoD decided not to move forward with consolidation. According to DoD's report, the plan would have cost \$1.5 billion more than originally forecasted. Those increases in costs would have likely been shifted to customers and reduced contributions to installation quality-of-life programs. The original consolidation plan also underestimated merger costs, the costs for integrating the individual exchange and commissary IT systems, and it didn't address the cost of merging and relocating all the headquarters of the resale organizations. The DoD report also found that the previous report overestimated savings. DoD has instead decided to pursue other savings and efficiencies like the Joint

Buying Alliance where commissary and exchange partnerships have saved military customers \$75 million since 2019.

- **Joint Buying Alliance.** In 2019, the Army & Air Force Exchange Service (AAFES), Navy Exchange Service Command (NEXCOM), Marine Corps Community Services (MCX), Coast Guard Exchange (CGX), and DeCA formed the buying alliance to reduce the cost of goods to save customers money. The joint buying power of the military exchanges and commissary enables these organizations to offer lower prices and negotiate vendor reduced prices on the products they sell. Since its creation, the alliance has saved the military community more than \$75 million. To accomplish the savings, the alliance leveraged its buying intelligence to lower prices by \$45 million on goods in several departments including health and beauty, and electronics. Another \$30 million savings on goods was achieved by identifying special buys with vendors. The joint buying alliance was critical during the coronavirus pandemic as shipments of essential items were prioritized. As a result, the military resale community had a higher in-stock rate on vital merchandise such as paper products and cleaning supplies than many commercial retailers.
- **Agency response to natural disasters.** As a global agency, DeCA responds to emergency events as needed worldwide. The Agency response to natural disasters cost \$2.9 million in FY 2021. Some of the disasters the Agency responded to include hurricanes Delta, Ida and Zeta; tropical storms Eta, Elsa, Nicholas, and Henri, winter storms Viola and Uri; the California earthquake; Typhoon IN-FA and Chanthu; and the California wildfires.
- **Product Airlifts.** The demand for product increased significantly as a consequence of the COVID-19 pandemic. To meet the increased demand, maintain safety levels, and overcome apparent obstacles at ports, such as congestion and labor issues, airlifting product to Agency Central Distribution Centers (CDCs) in Europe, the Pacific, Guantanamo, and Alaska became a requirement. In total, 77 military airlifts delivered 5,186,553 pounds of product at a cost of \$10,762,657. Commissary distributors were instructed to give first priority for all overseas orders. As a result, the Agency was able to maintain product “on the shelf” availability rates of 90 percent or better throughout FY 2021.
- **Afghan War Withdrawal.** In support of the Afghan troop withdrawal mission in August 2021, DeCA airlifted 49,676 pounds of product from agency CDCs in Europe to warfighters totaling \$90,453.05.
- **Military Star Card.** From October 1, 2020 to September 18, 2021, there were 3,419,769 MILITARY STAR card transactions in commissaries around the globe. Commissary patrons spent over \$278,500,000 using their MILITARY STAR cards. At this time, the revenue shares value collected by DeCA is \$2,374,972.27 with an anticipated total of \$222,907.25 for revenue from August MILITARY STAR card transactions
- **Unmodified Audit Opinion.** Through the engagement of independent auditors DeCA has received an unmodified opinion for FY 2021. This represents twenty-one years of being able to provide reliable financial statements and being one of the few agencies within the Department of Defense (DoD) to have a positive audit opinion. Our efforts to maintain accountability provide a positive foundation for the overall DoD audit objectives. An unmodified opinion for DeCA formally states to taxpayers and the Office of the Secretary’s

Comptroller that the Agency takes their fiduciary and compliance responsibilities seriously. It portrays trust in the Agency's ability to be transparent with DeCA stakeholders in how, when, and on what the Agency spends its taxpayer dollars. In addition, DeCA has been able to reduce our material weakness regarding "Internal Controls over Inventory need Improvement" to a significant deficiency based on our ability to perform our annual formal perpetual inventories in most of the stateside stores. This was possible due to additional flexibilities store operations and our Patrons took on to have the inventories performed while the stores were open. DeCA provides a valuable benefit to the military community and the clean audit opinion instills trust in its patrons that the Agency has their best interests at heart and that it is performing its mission effectively, efficiently, and in a financially sound manner to ensure their benefit is maximized.

- **Environmental Program.** About 113,550,180 pounds of material were diverted from landfills and through store execution, the Agency achieved a 61 percent diversion rate exceeding the DoD goal of 50 percent. The commodities diverted include cardboard, plastic, office paper, organic compost, meat scraps, kitchen grease, metal, toner cartridges, wood, and grocery pallets. Recycled commodities generated \$793,254.89 in surcharge revenue. In addition, there were 90,128 pounds of used equipment sold through Liquidity Services, generating \$86,000 in surcharge revenue. To reduce DeCA's carbon footprint, some commissaries use heat reclaim technology to reduce the energy consumption of refrigeration systems. The heat reclaim systems work by reducing load and reclaiming waste heat for use in Domestic Hot Water (DHW) and Heating, Ventilation, and Air-Conditioning (HVAC) systems. Heat reclaim systems are designed to achieve 20 percent energy saving for individual facilities. By capturing and using rejected heat from refrigeration systems, DeCA reduces its utility consumption and makes its facilities more sustainable. When DeCA replaces refrigeration systems, DeCA evaluates the geographic area to use and design the best performing lowest Global Warming Potential (GWP) refrigerants. DeCA has several locations that use natural refrigerants, such as CO<sub>2</sub>, which has a GWP of one (1) and ammonia as a refrigerant. Commissaries also use distributed refrigeration systems that use environmentally friendly refrigerants and have a minimum to zero leak rate. DeCA also converted existing refrigeration systems in Europe from 404A to 448A or 449A refrigerants to reduce the GWP of existing refrigeration systems. 404A refrigerant has an approximate GWP value of 3,922. 448A has a GWP of 1,387 and 449A has a GWP of 1,396. DeCA also has 31 locations that use 407A refrigerant that has a GWP value of 2,107. DeCA continues to use refrigerants that are more environmentally friendly as technology changes.
- **Food Donations.** As the rate of food bank usage has increased in recent years, so has the military commissaries' support of these institutions. Over a 6-year period, DeCA has donated more than 21 million pounds of edible but unsellable food to local food banks – most recently 4.1 million pounds in 2020. DeCA's support comes at a critical time for food banks with the impact of the COVID-19 outbreak. The virus placed a heavier burden on food banks and significantly increased usage in 2020. Currently, 174 stateside commissaries support 198 food banks designated by DoD to receive donated items certified by food inspectors as being edible but unsellable. DeCA's support to food banks is also manifested through the annual United States Department of Agriculture (USDA)-sponsored Feds Feed Families campaign that runs June through October. Through Feds Feed Families, commissaries serve as collection points for their installations with all donations coming from DeCA customers and DoD civilians. Under the Feds Feed Families program, the local installation commander can decide which local food banks receive the collected donations during the length of the campaign. For the past 11 years, commissary customers and employees have traditionally set the pace for DoD donations. To date DeCA has collected about 13.5 million pounds.

In 2021 alone, DeCA patrons and employees led DoD contributions by collecting nearly 3.7 million pounds of food and personal hygiene items.

- **Scholarships for Military Children program.** The Scholarships for Military Children program awarded 500 students from military families a \$2,000 scholarship grant for the upcoming 2021 - 2022 school year. The program, created in 2001, recognizes the contributions of military families to the readiness of the fighting force and celebrates the commissaries' role in enhancing the military's quality of life. It is administered by the Fisher House Foundation, a nonprofit organization that helps Service members and their families.
- **DeCA's Online Patron Outreach.** DeCA is using social media platforms as another avenue for reaching out to our patrons, as well as the Agency's commercial site, [www.commissaries.com](http://www.commissaries.com). Customers can interact with the Agency on the following platforms:
  - Facebook: 82,293 o Twitter: 7,144 o Instagram: 7,502
  - Pinterest: 1,900 followers; 146,200 monthly views

DeCA works to ensure that Service Members and their families can save money while shopping in a clean, safe and fully stocked store no matter where they happen to be located. Whether it's upgrading our systems to provide curbside pickup, or donating edible but unsellable items to food banks, or working with Service Members and their families to find out what they really want from their commissary, our overall goal is "To be THE grocery provider of choice for our eligible patrons – delivering a vital benefit exclusively for our military community and their families.



William F. Moore  
Director

## DECA-AT-A-GLANCE

Established as a Provisional Organization:	May 15, 1990
Formally Established:	Nov. 9, 1990
Officially Activated:	Oct. 1, 1991
Headquarters:	1300 E Avenue, Fort Lee VA 23801-1800 <a href="http://www.commissaries.com">www.commissaries.com</a> <a href="https://www.facebook.com/YourCommissary">www.facebook.com/YourCommissary</a> <a href="https://www.twitter.com/TheCommissary">www.twitter.com/TheCommissary</a> <a href="https://www.youtube.com/DefenseCommissary">www.youtube.com/DefenseCommissary</a>
Fiscal 2021 sales:	\$ 4.0 billion
Fiscal 2021 total revenue:	\$ 4.3 billion
Fiscal 2021 operations cost:	\$ 1.3 billion
Total employees:	13,139
Total authorized households:	Approximately 8.4 million
Customer transactions:	62 million
Global presence:	13 countries, 2 U.S. territories
Commissaries as of 30 Sep 2021:	236

# DeCA MISSION

Deliver a vital benefit of the military pay system that sells grocery items at significant savings while enhancing quality of life and readiness



# DeCA VISION

To be THE grocery provider of choice for our eligible patrons – delivering a vital benefit exclusively for our military community and their families.

# DeCA VALUES

DeCA's values are defined by the concepts captured in the acronym "PASSION" and represent guiding principles intended to inspire us to take ownership of our performance and behavior, make the right decisions, and ultimately define our culture and work behaviors.

We have **PASSION** for what we do!

*We **PURSUE** excellence through innovation...*

*We are **ACCOUNTABLE** to our patrons...*

*We demonstrate a **SENSE** of commitment and urgency...*

*We set relevant and high **STANDARDS**...*

*We **INSPIRE** trust and confidence...*

*We take **OWNERSHIP** of our performance and behavior...*

*We are **NECESSARY** to support our patrons...*

...as we deliver the benefit!





# PART I

## MANAGEMENT'S DISCUSSION AND ANALYSIS



## OVERVIEW OF DeCA

### **ORGANIZATION AND MISSION:**

The Defense Commissary Agency (DeCA or the Agency) is a component of the DoD reporting to the Under Secretary of Defense for Personnel and Readiness. In 1989, the House Armed Services Committee appointed the Jones Commission to analyze the commissary systems (i.e., grocery stores or supermarkets) operated by the four military services. In order to provide better service to military patrons at a lower cost, the Commission recommended consolidation of the four separate commissary systems, which established DeCA on October 1, 1991.

DeCA is headquartered at Fort Lee, Virginia and operates a worldwide system of 236 commissaries. Our commissaries sell food and related household items to active, Reserve, and Guard members of the Uniformed Services, retirees of these services, authorized family members, and other authorized patrons.

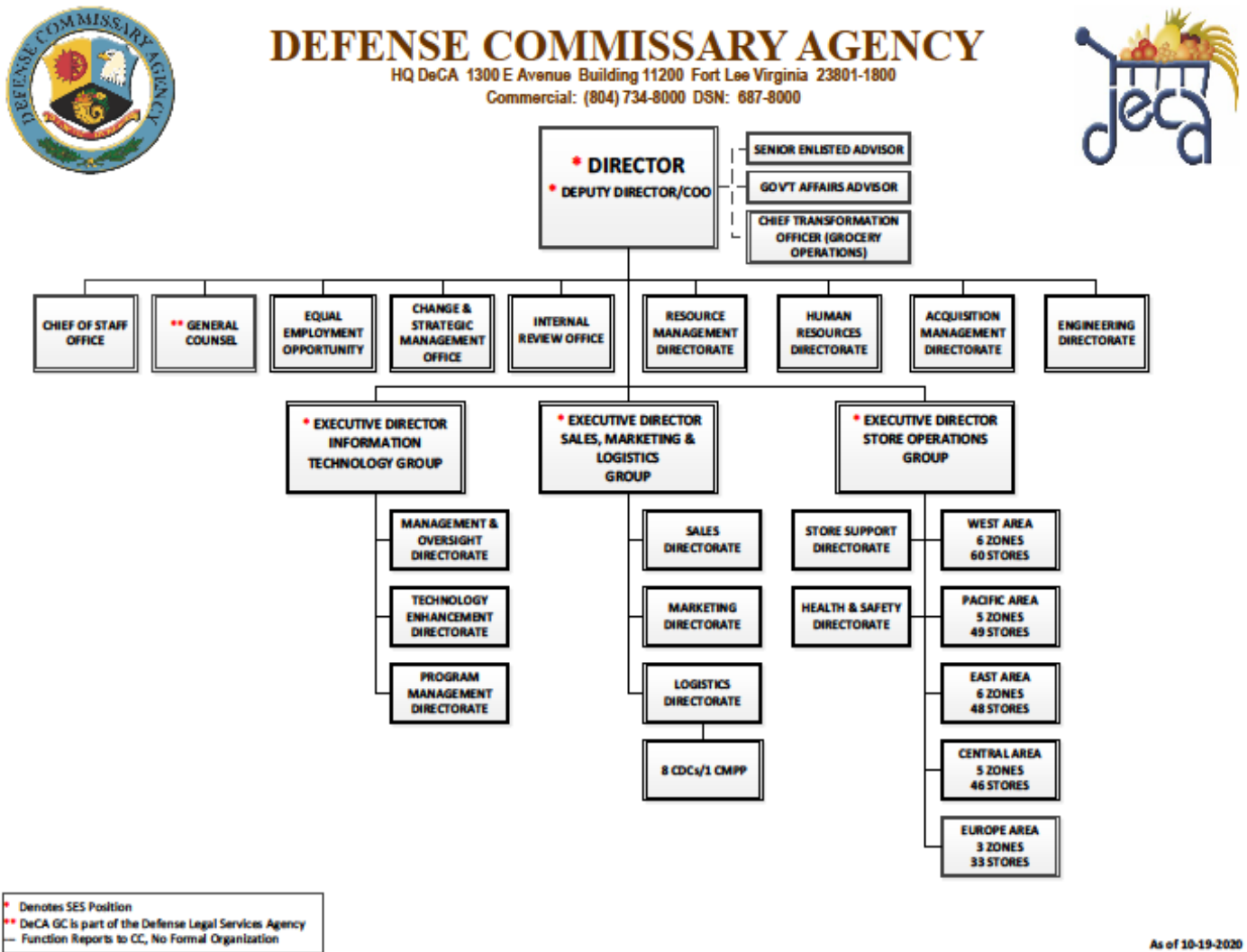


Five area offices provide localized management and support for the agency's commissaries. Three of these offices, East, Central, and West, manage stores in the continental United States (US) and Puerto Rico. Two area offices, Europe and Pacific, manage stores in Europe, Africa

and Asia. Within the operational areas, zone managers are responsible for 9 to 10 stores. Zone managers and assigned store directors jointly provide leadership and direction for their stores, building positive customer service in each commissary.

DeCA also operates central distribution centers (CDCs) in Europe and the Pacific. Field operating activities perform services for area operating elements and their commissaries, including centralized purchasing of national-brand sales items.

The organizational structure of DeCA for fiscal year (FY) 2021 is shown in the following chart:



## **2021 HIGHLIGHTS:**

DeCA has maintained our unmodified opinion for FY2021. We also were able to downgrade our material weakness “Internal Controls over Inventory need Improvement” to a significant deficiency. This year 164 state side stores had a formal contractor performed perpetual inventories and values on the financial records adjusted. Due to COVID-19 we were not able to perform inventories at our overseas store locations. Our CDC’s perform regular perpetual cycle counts so we know that overall our inventory overseas is well controlled. Given this and the fact that our stateside variance was within our accepted tolerance level DeCA did not have to apply any agency top level adjustment to ensure a proper estimate of inventory on our financial records. We continue to improve cycle counts at store level to ensure our balance on hand is accurate.

The balance on hand issue is also key to our ability to be successful with our roll out of our E-Commerce platform. DeCA revamped our Commissary CLICK2GO Program to allow patrons to pay on line via pay.gov. This in conjunction with business process changes at store level allowed the expansion of on-line ordering and pick up to our entire DeCA enterprise. DeCA received the Office of Secretary Defense Computer Information Officer Team Award for this initiative.

DeCA is continually revising our Risk Management and Internal Control Program (RMIC) to align with the yearly changes in the DoD priorities, as well, as our internal changes in business processes. Changes have been put into place in the areas of payroll accountability, property, plant and equipment and imputed cost reconciliation. The continued review and revision of our internal controls allows DeCA to remain at the forefront of potential issues and sustaining an unmodified opinion.

DeCA conducted an internal control assessment of the effectiveness of our Internal Controls over Financial Reporting (ICOFR) for the following implementation areas: Budgetary Resources (Appropriations Received, Accounts Payable, Accounts Receivable and Civilian Pay); Critical Assets (Inventory, Personal Property, Real Property, and Cash and other Monetary Assets); and Other Long-Term Liabilities (Environmental Liability, Federal Employee Compensation Act Liability and Foreign National Separation Pay Liability). The assessment of the implementation areas was conducted in strict compliance with the OMB Circular A-123, Appendix A, as directed by DoD guidance under the oversight of the DeCA SAT.

## **SOURCES OF FUNDS:**

Within DeCA’s working capital fund (WCF), there are two activity groups - Commissary Resale Stocks and Commissary Operations. DoD defines these two activity groups as business areas for fund control purposes. Commissary Resale Stocks reflect the revenues from the sale of products by the commissary stores. Products offered include groceries, meat, produce, dairy, health and beauty aids, household products and pet supplies.

Commissary Operations finances the operating costs of commissaries, areas, and headquarters activities. The primary revenue source for this activity group is a direct appropriation to the Defense WCF, which in turn, is apportioned to the DeCA WCF. Specific costs include civilian and military labor, service contracts, travel, transportation of commissary goods overseas and other indirect support. DeCA received approximately \$1.1 billion in appropriation transfers during FY 2021. Commissary Operations also received limited additional revenues from manufacturers’ coupon

redemption fees, handling fees for tobacco products, and reimbursements for other support.

DeCA's Surcharge Collections Trust Fund, which is part of the General Fund, is primarily funded from the five percent surcharge applied to patron sales at the checkout counter. The Surcharge Collections Trust Fund resources are used for store information technology, maintenance and equipment, and the commissary construction program. The Fund does not receive a direct appropriation.



## STRATEGIC PLANNING FRAMEWORK

### INTRODUCTION:

DeCA develops and structures its planning and performance process using the framework provided in the Government Performance and Results Modernization Act (GPRAMA) (Public Law 111-352) and the associated guidance in OMB Circular No. A-11, Part 6.

The DeCA Strategic Framework is a cyclical, never ending process where one activity feeds the next, allowing for continuous feedback and adjustments throughout. Our strategic planning process incorporates multiple planning tools such as an Agency Performance Plan and Strength, Weakness, Opportunities and Threats (SWOT) analysis. We conduct quarterly data calls and metric reviews for performance management that includes an ongoing assessment of results of specific measures aligning to strategic goals and objectives. Our governance process links planning, performance, accountability and budgeting to performance management, while prioritizing investments.

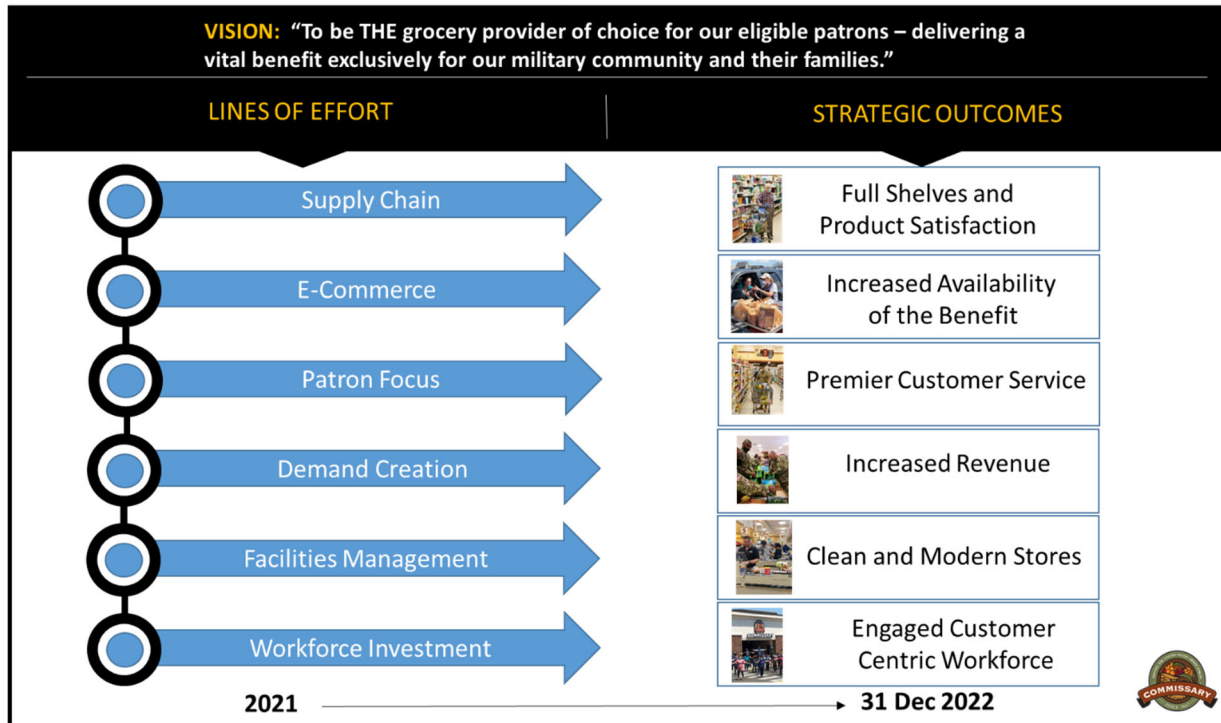
DeCA's Strategic Game Plan lays out the roadmap for the Agency's new vision and updated mission for the future. The Vision for the Agency is very clear, elegant, and to the point as we strive forward with a very specific intention **"To be THE grocery provider of choice for our eligible patrons – delivering a vital benefit exclusively for our military community and their families."** We strive to fulfill our mission to **"Deliver a vital benefit of the military pay system that provides grocery items at significant savings while enhancing quality of life and readiness."** The commissary benefit supports Service members and their families by providing a safe grocery shopping environment with significant savings compared to civilian supermarkets. The vision and mission are the driving forces behind our goals found in the Director's 2021-2022 Strategic Game Plan. These goals drive us toward continuous improvement in pursuit of our vision which sets forth a focus to remain relevant to our customers and enable customer service consistent with today's shopping trends.

### STRATEGIC PLANNING:

In order to realize our vision, DeCA assessed areas of opportunity for moving the needle to successfully change. We established specific areas that could create positive change, offer more opportunities for our eligible patrons, improve their experience, and make the benefit stronger. DeCA's approach supports the Under Secretary of Defense for Personnel and Readiness (USD(P&R)) ten-year Strategy for 2030, Goal 5 - Talent Management Fit for the Times, which calls for P&R to "enable, guide, and assess the Department of Defense's ability to attract, cultivate, retain, and dynamically manage a technologically advanced military and civilian workforce to achieve national security objectives." In order to become "THE grocery provider of choice for our eligible patrons," the Agency Game Plan identifies six strategic outcomes along six Lines of Effort (LOE) as the priority areas for improving the way we deliver the benefit. The Game Plan documents and begins implementation of the DeCA strategic direction for the future, focusing on fiscal years 2021-2022.

The following chart indicates those outcomes and correlates the appropriate LOEs:

## The Defense Commissary Agency - The Game Plan for 2021-22



**Strategic Outcomes Sought** – By December 31, 2022, our definition and desired end-state for each outcome of the six LOEs is stated as follows:

- Outcome 1: Full Shelves and Product Satisfaction** - Our supply chain is optimized and enables full commissary shelves with the right products delivered at the right time and place at the lowest cost that meets the demands of our patrons at all times.  
Supporting LOE: 1.0 Supply Chain.
- Outcome 2: Increased Availability of the Benefit** - DeCA 21st century grocery operation offers our patrons eCommerce services to include: next generation digital shelf, dynamic order fulfillment, a secure and trusting online payment environment, enhanced mobility, and localized pickup or delivery.  
Supporting LOE: 2.0 eCommerce.
- Outcome 3: Premier Customer Service** - We have earned the confidence of our patrons that we will deliver our exclusive benefit in a safe, convenient, exciting way and have earned their trust as “the grocery provider of choice.”  
Supporting LOE: 3.0 Patron Focus.
- Outcome 4: Increased Revenue (Sales)** - Met or exceeded sales goals and achieved margin, while delivering savings and increasing shopper share of wallet, customer perception, and benefit usage.  
Supporting LOE: 4.0 Demand Creation.

**Outcome 5: Clean and Modern Stores** - All stores are comfortable, clean, inviting, well-lit and maintained, with functional equipment, up-to-date décor packages, and modern amenities. Supporting LOE: 5.0 Facilities Management.

**Outcome 6: Engaged, Customer-Centric Workforce** - A leader driven, customer-focused culture encompassing trust, respect, and ownership among DeCA’s managers and employees. Supporting LOE: 6.0 Workforce Investment.

## **STRATEGIC DIRECTION:**

The Agency’s senior executives maintain a strategic thinking process that considers impacts to DeCA in the near and long term. They have determined the Agency’s direction based on National Defense Authorization Act (NDAA) and DoD guidance, an assessment of significant impacts, ongoing collaboration, discussions, and analysis. The Agency’s goals are achievements that reflect the top performance improvement priorities of leadership. Our strategic goals are reevaluated annually to ensure they remain relevant to our environment, stay consistent with Agency mission, and continue to support the DoD strategic priorities. Each strategic LOE goal has supporting objectives with performance measures to track progress of success toward the desired end state.

DeCA continues to refine efforts to gain shopper insights and be sensitive to the expectations of our patrons. We continue to investigate the rapidly changing technology that is becoming a significant part of the ways our patrons shop and communicate. Concepts have been evaluated and implemented as we partner with the 21<sup>st</sup> century shopper.

Modernizing DeCA’s business systems and retail processes is a continuous process. This modernization is taking place in defined increments over time and has eliminated redundant and costly legacy systems, improved our business performance, and incorporated commercial best practices. This transition is critical to the Agency’s future to ensure important capabilities such as customer relationship management, multi-channel retailing and marketing, enhanced e-commerce, inventory optimization, data accuracy, and analytics are available to ensure ongoing relevancy.

In today’s uncertain fiscal environment, the Agency continues to carefully govern how resources are expended. The governance process, described further in this section, addresses how funding decisions are made. As the cost of doing business increases, there continues to be a need to realign, adjust, or divest to become more efficient and appropriately resource the priorities. The formal governance process ensures transparency and a structured method of determining how funds are expended. The Agency’s quarterly performance reviews and other forums ensure further analysis of investments and their data-based results to support subsequent decision-making.

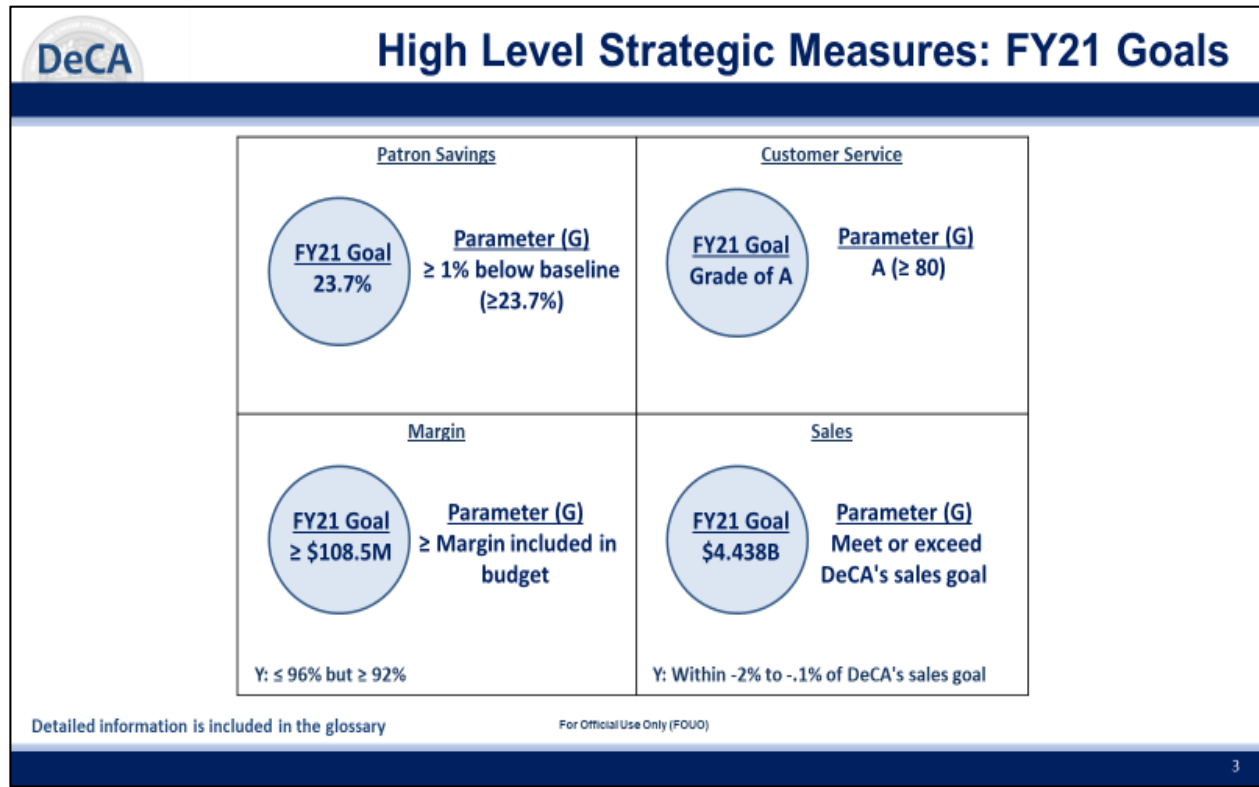
## **ALIGNING PLANNING AND PERFORMANCE MANAGEMENT:**

DeCA’s Strategic Game Plan communicates the Agency’s overarching direction, while linking to the Agency Performance Plan to establish performance measures used to assess our progress. The FY 2021 Agency Performance Plan incorporates performance measures and targets across four perspectives to manage Agency performance from a holistic view and addresses Agency performance in the areas of Patron



Savings, Customer Service, Margin, and Sales. The results of the Agency Performance Plan are monitored and assessed quarterly to enable data-based decision-making. The Agency quarterly reviews also allow for executive and senior leadership collaborative discussions, transparency of activities, and opportunities for course adjustments and improved outcomes. The chart below displays the FY 2021 Agency Performance Plan four areas and associated goals.

### DeCA FY21 PERFORMANCE PLAN



The DeCA Performance Plan supports the Agency’s 2021-2022 Director’s Strategic Game Plan lines of effort and outcomes and encompasses the FY 2021 time period. The performance goals and measures, assessed and applied on an annual basis, are provided for each performance element above as follows:

- Upper left quadrant depicts the projected percentage of savings achieved versus the 23.7% savings mandated in the FY 2016 NDAA.
- Upper right quadrant depicts DeCA’s current Customer Satisfaction (CSAT) score based on ForeSee methodology; an ‘A’ grade is any score above 80.
- Lower left quadrant depicts DeCA’s current margin generation versus the current FY goal.
- Lower right quadrant depicts DeCA’s current sales versus the FY goal.

## FINANCIAL STATEMENT SUMMARY

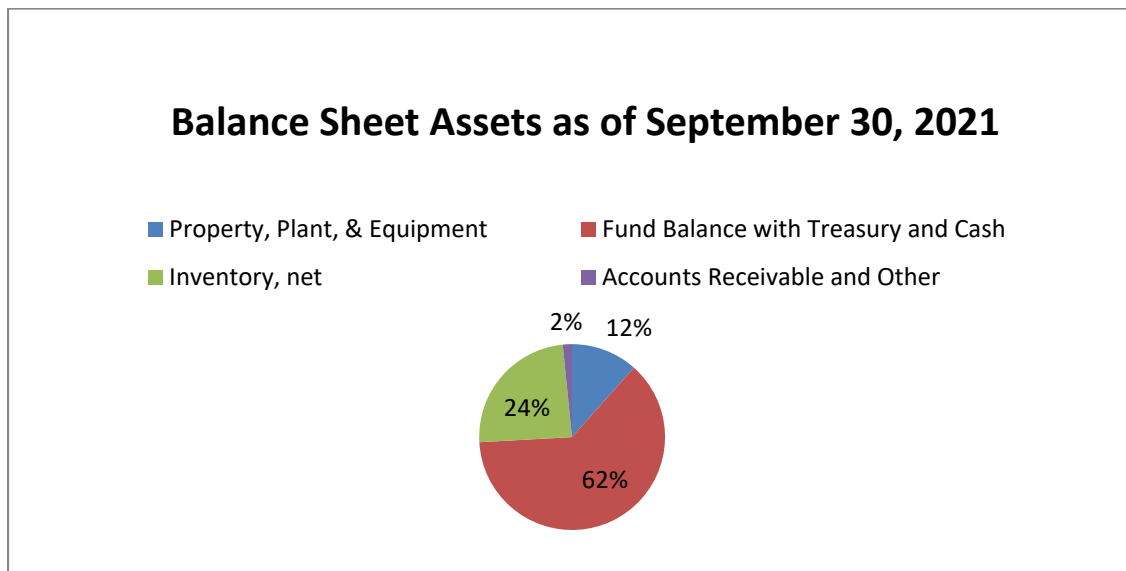
DeCA’s Consolidated Balance Sheet, Statements of Net Cost, Changes in Net Position, and Combined Statements of Budgetary Resources (consolidated financial statements) have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of Title 31, United States Code (U.S.C.) 3515 (b). These consolidated financial statements have been prepared from DeCA’s books and records in accordance with the formats prescribed by the OMB. These consolidated financial statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The consolidated financial statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. As such, some liabilities cannot be liquidated without legislation that provides resources to do so.

DeCA’s consolidated financial statements are presented in a two-year comparative format. The following section provides a brief description of each consolidated financial statement along with relevant information that will aid the reader in understanding the financial components of DeCA.

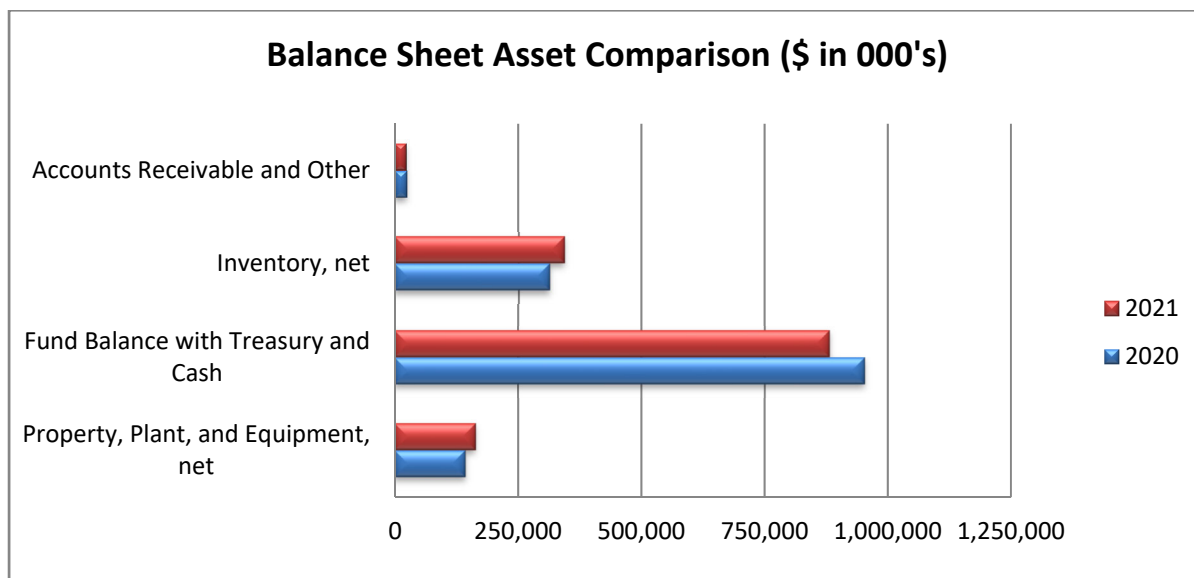
### **CONSOLIDATED BALANCE SHEETS:**

The consolidated Balance Sheet presents the amounts available for use by DeCA (assets) against the amounts owed (liabilities) and amounts that comprise the difference (net position).

**Assets** – On September 30, 2021, DeCA reported assets of \$1.4 billion. Assets are the resources available to pay liabilities or satisfy future service needs of the Agency. DeCA’s major categories of assets, as a percentage of total assets, are as follows:



The following chart presents comparative data of major asset balances as of September 30, 2021 and September 30, 2020, along with discussions of significant fluctuations.



*Accounts Receivable and Other* comprises 2 percent of DeCA’s current year assets. These represent amounts primarily due from DeCA customers. Accounts receivable and other remained relatively consistent when compared to prior year balances.

*Inventory, net* represents 24 percent of DeCA’s current year assets and is comprised of grocery, meat, and produce items held for resale to DeCA patrons. Inventory remained relatively consistent when compared to prior year balances.

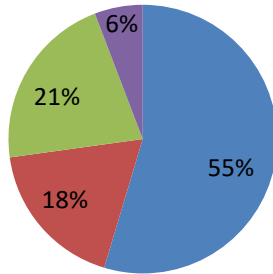
*Fund Balance with Treasury (FBWT) and Cash* represents 62 percent of DeCA’s current year assets. Funding is primarily made available through the U.S. Department of the Treasury accounts from which DeCA makes expenditures to pay liabilities. FBWT also includes monies generated from sales at commissaries that have been deposited to an authorized financial institution. Cash consist of deposits that have been deposited in the authorized financial institution, but not processed and sales that were not recorded in the accountable period due to end of month cutoffs in the accounting system. FBWT and Cash decreased by \$71 million when compared to prior year balances.

*General Property, Plant and Equipment (PP&E), net* represents 12 percent of DeCA’s current year assets, and is primarily comprised of capitalized real and personal property held to fulfill DeCA’s mission of selling groceries to its patrons. PP&E increased by \$19.8 million when compared to prior year balances.

**Liabilities** – On September 30, 2021, DeCA reported liabilities of \$536.4 million. Liabilities are probable and measurable future outflows of resources arising from past transactions or events. The following chart displays DeCA’s major categories of liabilities as a percentage of total liabilities.

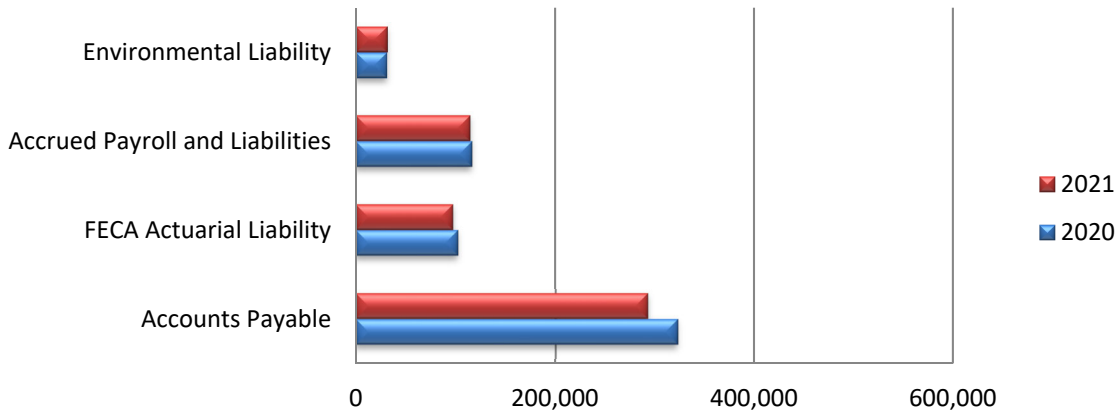
## Balance Sheet Liabilities as of September 30, 2021

■ Accounts Payable  
■ FECA Actuarial Liability  
■ Accrued Payroll and Liabilities



The following chart presents comparative data of major liability balances as of September 30, 2021 and September 30, 2020 along with a discussion of fluctuations.

## Balance Sheet Liability Comparison (\$ in 000's)



*Environmental Liabilities* comprises 6 percent of DeCA's current year liabilities and are estimated costs to clean up items such as asbestos, lead paint and other hazardous materials from our commissaries. Environmental liabilities remained relatively consistent when compared to prior year balances.

*Accrued Payroll and Liabilities* comprises 21 percent of DeCA’s current year liabilities and includes liabilities for accrued payroll and benefits, foreign national separation pay and accrued leave. Accrued payroll and liabilities remained relatively consistent when compared to prior year balances.

*Federal Employees Compensation Act (FECA) Actuarial Liability* comprises 18 percent of DeCA’s current year liabilities and consists of DeCA’s expected liability for death, disability and medical costs for approved workers compensation cases as well as a component for incurred, but not reported claims. The Department of Labor (DOL) calculates the liability for the DoD, who in turn allocates a proportionate amount to DeCA based upon actual workers’ compensation payments to DeCA employees over the preceding three years. The actuarial liability remained relatively consistent when compared to prior year balances.

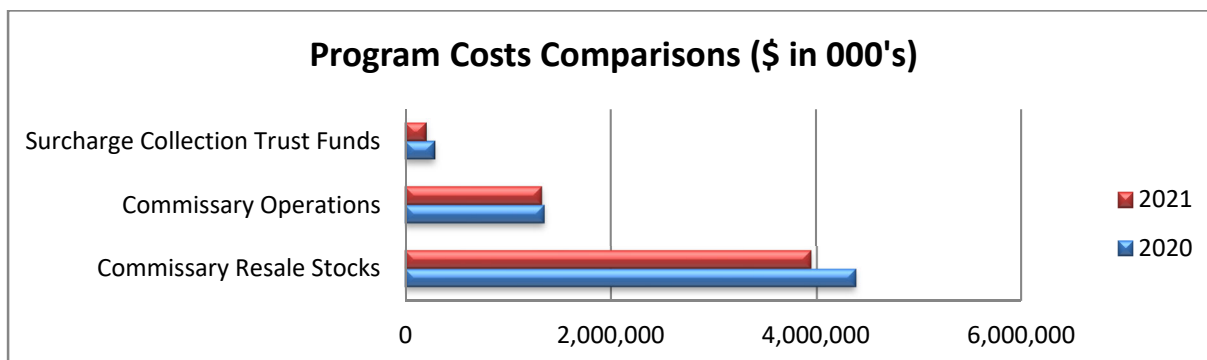
*Accounts Payable* comprises 55 percent of DeCA’s current year liabilities and consists of DeCA’s liability for goods and services delivered or received but not paid prior to year-end. Accounts payable decreased by \$30 million when compared to prior year balances.

**STATEMENTS OF NET COST:**

The consolidated Statement of Net Cost represents the annual cost of operating DeCA programs. The gross costs for DeCA less the earned revenue from grocery sales and other revenue sources are used to derive DeCA’s net cost of operations. DeCA’s gross costs are primarily accounted for in the three major activity groups of DeCA:

- *Surcharge Collections Trust Fund* includes the costs to construct and remodel commissary facilities and to purchase and maintain computer systems and equipment at the store level;
- *Commissary Operations* includes the associated payroll and operational costs necessary to operate the commissary system; and
- *Commissary Resale Stocks* includes the costs to purchase resale inventory.

The chart below compares the gross costs between the three major DeCA activity groups.



## **STATEMENTS OF CHANGES IN NET POSITION:**

The consolidated Statements of Changes in Net Position represents those accounting transactions that caused the net position of the consolidated balance sheet to change from the beginning to the end of the reporting period. Various financing sources increase net position, including appropriations transfers and imputed financing from costs paid by other Federal Agencies. DeCA's net cost of operations serves to reduce net position. DeCA's net position increase by \$12.9 million, 2 percent when compared to prior year balances.

## **STATEMENTS OF BUDGETARY RESOURCES:**

This statement provides information on the budgetary resources available to DeCA for fiscal years 2021 and 2020 and the status of those budgetary resources at year-end. The outlays reported on this statement reflect the actual cash disbursed for the year by Treasury for DeCA's obligations. The budgetary resources remained relatively consistent when compared to prior year balances.

## **LIMITATIONS OF THE FINANCIAL STATEMENTS**

DeCA prepared its financial statements to report its financial position and results of operations, pursuant to the requirements established by the DoD to comply with the *Chief Financial Officers Act of 1990* and the *Government Management Reform Act of 1994*.

While DeCA's financial statements have been prepared from its books and records in accordance with U.S. generally accepted accounting principles, the financial statements are, in addition to the financial reports, used to monitor and control budgetary resources, which are prepared from the same books and records.

These financial statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity. The U.S. Congress cannot liquidate liabilities not covered by budgetary resources without the enactment of an appropriation, and the Federal Government, other than for contracts, can abrogate payment of all liabilities.

## **CONTROLS AND STATEMENT OF FINANCIAL ASSURANCE**

### **OMB CIRCULAR A-123, MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL OVER FINANCIAL REPORTING, APPENDIX A:**

OMB Circular A-123, Appendix A is fully implemented throughout DeCA. For the past 14 years, all processes material to the financial statements have been documented and tested. In FY 2021, 194 key controls were evaluated and assessed for effectiveness. Of those key controls, 98 percent were found to be operating effectively; and the remaining 2 percent of the controls were ineffective; and although their impact is not material to the financial reports, these controls are currently undergoing review to determine risk and materiality to the Agency before making a

determination of what ongoing actions are needed in these areas. In addition to the 194 key controls, there were 168 Complimentary User Entity Controls (CUECs) tested this year. The results found 168 operating effectively.

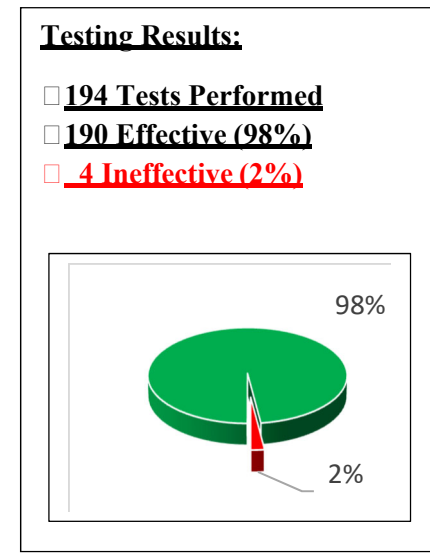
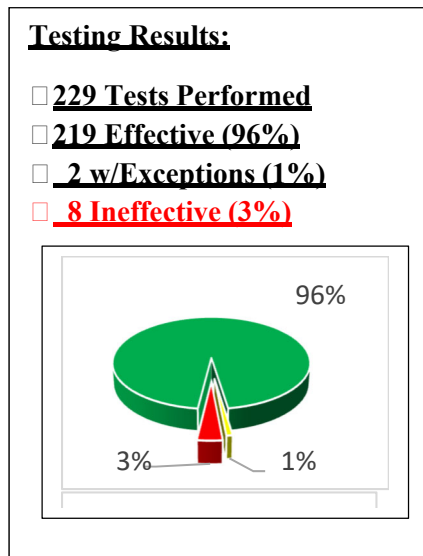
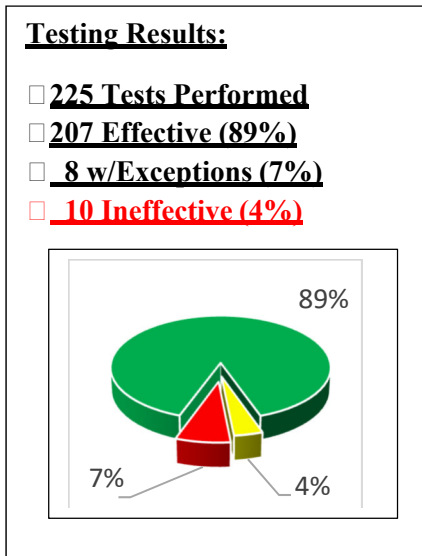
The Internal Control Senior Assessment Team (SAT) also monitors the control assessments. The SAT found that both the quarterly control assessments and the financial process improvements continue to reduce annual findings by the external auditors. It also monitored the progress of the ineffective controls through formal corrective action plans, reported quarterly. All of these practices have produced more efficient operations and increased savings for the Agency.



**FY 2019**

**FY 2020**

**FY 2021**



Since the onset of the program, DeCA has provided timely submissions through the Office of the Assistant Secretary of Defense, Manpower & Reserve Affairs (OASD (M&RA)), to the Under Secretary of Defense (Comptroller), Financial Improvement and Audit Readiness Directorate, for the OMB Circular A-123, Appendix A Deliverables and Annual Statement of Assurance.

## **FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT STATEMENT OF ASSURANCE:**

The objectives of the system of internal accounting and administrative controls of DeCA are to provide reasonable assurance that the Agency:

- Has efficient and effective operations.
- Provides reliable financial reports.
- Complies with applicable laws and regulations.

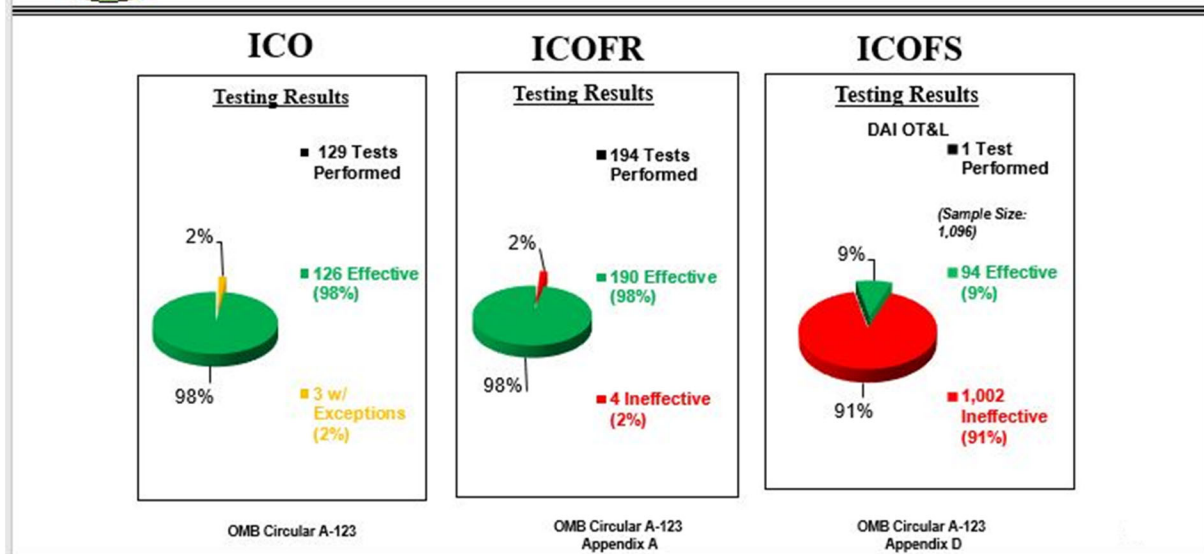
In FY 2021, DeCA reported an Unmodified Statement of Assurance related to the effectiveness of internal controls over operations and compliance, and a Modified Statement of Assurance related to the effectiveness of internal controls over financial reporting. DeCA has made significant progress in FY 2021 in addressing the FY 2020 material weakness related to controls over inventory but has not fully implemented all of the planned corrective actions so DeCA reported the controls over inventory as a material weakness in FY 2021. Our FY 2021 auditors recognized our progress in addressing the corrective actions related to controls over inventory and have downgraded the finding from a material weakness in FY 2020 to a significant deficiency in their FY 2021 audit report. However, DeCA's systems do not conform to the financial management systems requirements, and DeCA was not compliant with FFMIA. In making this determination, the Director considered information from various sources, such as management reviews, Inspector General, and Government Accountability Office reports, the audit of the financial statements, and reviews of financial and administrative systems. The cornerstone of the FY 2021 Statement of Assurance is the Agency's financial improvement plan where we continue to utilize the OMB Circular A-123, Appendix A methodology. Through assessments, discovery, correction and monitoring, we continue to strive for increased efficiency and effectiveness utilizing this well-established tool.

The chart on the following page illustrates the results of the FY 2021 Risk Management and Internal Control (RMIC) program. Testing results are outlined for the three areas of internal controls (1) Internal Controls over Operations (ICO); (2) Internal Controls over Financial Reporting (ICOFR); and (3) Internal Controls over Financial Systems (ICOFS).





## FY 2021 RMIC Results



### FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT STATEMENT OF ASSURANCE:

DeCA's legacy financial systems are not compliant with federal financial management system requirements and the USSGL at the transaction level. To meet these requirements, DeCA, jointly with the DoD, is actively working on improving the system-wide architecture in order to be fully compliant with FFMA. DeCA continues to employ a system of processes and controls that adequately mitigate the risks associated with this issue. Therefore, DeCA reported a modified Statement of Assurance for noncompliance of the FFMA.

DeCA's Statement of Assurance for FY 2021 reported on financial and non-financial operations, and financial system compliance. DeCA's Director was able to provide an unmodified statement of reasonable assurance that DeCA's internal controls met the objectives of the FMFIA; however, there was noncompliance with FFMA.

Thirteen years into the Agency's Financial Improvement Plan, the methodology continues to aid in effective financial and operational processes. The Agency's embrace of this program, has resulted in cost avoidance, improved business processes, and involved functional leaders from all aspects of the organization.

### GOVERNANCE AND ACCOUNTABILITY:

DeCA continues to refine our governance and decision-making processes by improving methods that determine resource allocation and ensuring Agency investments remain strategically aligned. The Agency governance process employs a prioritization model with

scoring criteria to guide the evaluation of potential investments. Enterprise-level collaboration and direct involvement of executive and senior leadership is crucial in maintaining an efficient process. Collaborative discussions minimize the layers of review and streamline the decision-making process. Good stewardship requires an agile and fiscally responsible governance process if we are to remain a model government organization.

In an effort to increase visibility and transparency of budget information and requirements throughout the Agency, Business Needs Statements are prepared to outline manpower requirements, ensure strategic alignment, and clarify purpose, business need, and the potential for return on investment for each submission.

The Agency continued its role as a leader in the DoD's compliance with OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," and Appendix A: "Internal Control over Financial Reporting." The Appendix A methodology continues to be the basis for conducting and documenting management's assessment of internal controls for all aspects of the Agency's operation. DeCA has strengthened its foundation of budget and performance integration by reviewing and rebuilding processes for validation and testing of internal controls related to financial management by involving all areas and activities of the commissary system, to include trading partners.

# PART II

## PLANNING AND PERFORMANCE



## PERFORMANCE MANAGEMENT RESULTS

DeCA is using an Agency Performance process that measures performance in achieving the Agency high-level strategic LOE goals and targeted outcomes. This performance approach brings together key management, financial, and nonfinancial performance measures, both external and internal, that allow DeCA to clarify Agency vision and strategic direction. We conduct monthly and quarterly data calls and metric reviews that include an ongoing assessment of results of specific measures aligning to our strategic goals and objectives of our Game Plan and LOE initiatives. The Agency’s overall performance for FY 2021 is summarized below.

Performance Element	FY 2021 Goal	FY 2021 Actual
<b>Customer Savings (Global Average)</b>	23.7%	Not yet available
<b>Customer Satisfaction (CSAT) score</b>	≥ 80	85.9
<b>Commissary Customer Service Survey (CCSS)</b>	A	Not yet available
<b>Margin Generation</b>	≥ \$108.5M	\$108.5M / 100% execution
<b>Projected Sales</b>	\$4.438B	\$4.0B
<b>Projected Transactions</b>	70.53M	88.0% 62.10M

**Customer Savings:** In accordance with requirements of the FY 2016 NDAA, as modified by the FY 2017 NDAA, the Customer Savings results were rebase-lined for FY 2016 through development of a new methodology to measure patron savings which builds on DeCA’s prior approach by incorporating a market basket component of items with local competitor comparisons of the items. The baseline of 23.7% will be used to determine savings goals for FY 2017 and beyond. FY 2021 results are not yet available.

**Customer Satisfaction (CSAT) Score:** The Customer Experience Purchaser Survey provides real-time customer service feedback through the use of the ForeSee survey platform and scoring methodology. The ForeSee framework modeling analysis uses a structural equation algorithm to evaluate customers' post-experience thought processes to examine how well the experience fulfilled the user's needs or desires; met the user's expectations; and compared to a hypothetical ideal experience for the user. This modeling analysis is used to derive an overall customer satisfaction score (CSAT). The results for FY 2021 are 85.9, above target.

The **Commissary Customer Service Survey (CCSS)** is an internal DeCA survey that is conducted annually to assess patrons’ overall satisfaction with the commissary system, using a systematic sampling

process for selecting participants. The CCSS rating scale is from 1 to 5, with 1 being very poor and 5 being very good. We convert the numerical survey results to letter grades. To achieve a grade of “A”, a score of 4.5 or better is required. **FY 2021 results are not yet available.**

The **Margin Generation** measure is the revenue generation results from expected program implementation and projections. Amounts displayed represent amounts included in the budget to offset appropriations. Revenue estimates were included in DeCA's budget based on margin generation as a result of business reforms per FY 2016 and FY 2017 NDAA's. Business reforms underway include: 1) developing business processes to support a profit and loss (P&L) business model by using Category Performance Improvement (CPI) to drive a lower Cost of Goods (COG), 2) continuing to provide a price value proposition with variable pricing compared to retailers "outside-the-gate" and developing a margin commensurate with the goals. FY 2021 results are \$108.5M, which achieved the stated goal.

**Sales and Transactions:** These measures compare the Agency's projected sales and transactions goals to results. Our efforts are focused on growing the business of the top 30 categories and top 15 suppliers and improving the customer shopping experience to achieve and maintain positive trends and increase sales. Marketing and sales activities to support efforts include: expanding Commissary Store Brand items (private label); the Your Everyday Savings (YES) program; health and wellness focus; improved item availability; expansion of prepared meals; collaboration and joint efforts with Exchanges; and increased marketing of the benefit through all social media channels to enable increased transactions. FY 2021 sales results are \$4.0B, a decrease of \$408M below the target of \$4.438B. Transaction results are 62.10M or 88.0% of the target goal of 70.53M, due to changing consumer behavior with customers shopping less often and buying more. Economic conditions following the onset of the global pandemic with increased supply chain costs, supply chain shortages, labor constraints, and inflationary pressures have impacted sales.

## **GOVERNANCE AND ACCOUNTABILITY:**

DeCA continues to work to refine our governance and decision-making processes by improving methods that determine resource allocation and ensuring Agency investments remain strategically aligned. The Agency governance process employs a prioritization model with scoring criteria to guide the evaluation of potential investments. Enterprise-level collaboration and direct involvement of executive and senior leadership are crucial in maintaining an efficient process.

Collaborative discussions are held via e-mail, in-person communication, and via MS Teams in an effort to minimize the layers of review and streamline the decision-making process. Good stewardship requires an agile and fiscally responsible governance process if we are to remain an efficient government organization.

In an effort to increase visibility and transparency of budget information and requirements throughout the Agency, Business Needs Statements are prepared to outline manpower requirements, ensure strategic alignment, and clarify purpose, business need, and the potential for return on investment for each submission.

## **CONTINUOUS PROCESS IMPROVEMENT:**

DeCA continued building the foundation of its Continuous Process Improvement (CPI) program in FY 2021, through the published Director's Policy DP-500-40 for CPI and establishing a project repository.

Additionally, CPI practitioners conducted one Lean Leader course during the year and facilitated and coached several teams for various initiatives. These included DeCA Europe Plano-o-Gram (POG) setup reduction, last chance item warehouse space reduction, category review standardization and efficiencies, POG creation-time reduction. and item allocation process streamlining. The FY 2021 Agency CPI process resulted in cost avoidance and reduction in process cycle times for the project area improvements.

## **INNOVATION:**

DeCA’s Innovation Program provides employees with multiple opportunities to share ideas, present solutions, and collaborate on various ways to improve commissary operations. The Improve Defense Commissary Agency's Efficiency and Service (IDEAS) program recognizes and rewards employee's whose suggestions, patents, inventions, or scientific achievements submitted through IDEAS enhance the efficiency and effectiveness of DeCA operations and the DoD.

During FY 2021, DeCA began the transition to a new platform for the enterprise Think Tank, an online social networking forum that facilitates in-depth conversation among Agency employees and allows them to connect from all around the world and collaborate on process improvements, quick wins, and best practices. This internal communication tool gives all DeCA employees a “virtual voice” and a platform to participate in organizational changes. Along with collaborative idea sharing and process improvement suggestions, the forum promotes greater job satisfaction, strengthens culture, and enhances overall organizational effectiveness.

DeCA holds periodic Director’s Innovation Challenges, wherein the DeCA Director chooses a specific topic or top challenge for the Agency and solicits input directly from employees. Once the challenge is complete, the Director reviews all eligible submissions and chooses a winner. The Director’s Innovation Challenge is a merit-based program so winners are rewarded for their adopted ideas.

DeCA also publishes periodic editions of its digital newsletter, *In Sight*, that is aimed at highlighting and sharing information with the workforce about innovation initiatives throughout the Agency.

## **SUMMARY**

DeCA values its role in providing a benefit that enhances the quality of life and readiness of our military community. Embedded in our goals is the focus on building sales and offering savings while collaborating with the entire military resale community. We continue to step up our technology capabilities to ensure we have the right products at the right price at the right time on well-stocked shelves. As a good steward of this core readiness support element and valued part of the military benefit, it is essential to strengthen a performance-driven, results-focused, agile, and accountable Agency. Efforts to continually refine our processes and culture will translate to improved results and continued relevance for our stakeholders. We are “laser focused” on offering the best savings possible and maintaining the relevance of the commissary benefit for years to come.

# PART III

## FINANCIAL SECTION



## **Message from the CHIEF FINANCIAL OFFICER**

It is my pleasure to present the Fiscal Year (FY) 2021 Annual Financial Report (AFR) with accompanying Financial Statements and Footnotes for the Defense Commissary Agency (DeCA). This report reflects the accountability and transparency associated with prudent financial and fiscal stewardship. FY 2021 proved to be a challenging year as we continued to face patron and employee safety concerns, supply chain disruptions and shortages as a result of the continued global pandemic. Throughout it all, we diligently focused on delivering the critical benefit to our military families and other authorized shoppers as we charge towards our vision, “to be THE grocery provider of choice”.

DeCA completed our first full year on the Defense Agency Initiative (DAI) for our non-resale financial activities. We had to adjust some business processes, develop new internal controls and restructure some workload to properly align with the expected workflow within the automated financial system. In addition, our work continues on the deployment of our Power Enterprise /Warehouse management module and for the integration of the Power Enterprise Financial Module which we are expecting to deploy early in FY23. These changes as well as navigating the lines of effort (LOE) outlined in our 2021-2022 GAME PLAN has kept the Resource Management Directorate at the forefront. Specifically, our eCommerce LOE has been critical to expanding how we provide the benefit to our patrons in a safer more convenient manner.

During FY21, the team has been flexible and able to provide the needed expertise and resources to maintain our unmodified opinion. The DeCA Resource Management (RM) team remains committed to supporting a culture of efficiency and transformational changes in FY22 that will ensure success at all levels within the Agency. Notable achievements for the RM team this FY include:

- Completion of 164 accountable inventories (via contractors) within the continental United States allowed DeCA the proper financial leverage to eliminate the need for a top-level adjustment for our inventory. The aggregate variance for all inventories completed was within our expected normal one percent variance. COVID-19 continued to impact our ability to have accountable inventories at our locations overseas.
- DeCA successfully completed financial reporting for FY21 in the Defense Agency Initiative (DAI) for our non-resale financial activities with few issues. DeCA had to make modifications in timelines within our various functional areas in order to align with the hard stops in DAI. This was a team effort that started early, so that all stakeholders understood expectations and questions could be properly addressed.



- Leveraging the eCommerce solution within the Resale business system and Pay.gov capabilities allowed DeCA to deploy an enterprise wide on-line ordering and payment solution at 236 commissary locations. This has brought DeCA more in line with commercial grocer capabilities and provides an enhanced Patron experience.

Our employees, our leadership and other stake holders are paramount to sustain the long history of the commissary benefit. We are committed to supporting the benefit by providing sound financial management practices along with reporting quality financial data that can be leveraged in decision making. The efforts and time expended by our great team of professionals makes me proud to serve as DeCA's Chief Financial Officer. As we drive forward to the aim point of our GAME PLAN, we will always provide the highest levels of support to ensure our patrons are able utilize the benefit they deserve.

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Cynthia L. Morgan  
Chief Financial Officer

**DEPARTMENT OF DEFENSE  
DEFENSE COMMISSARY AGENCY  
BALANCE SHEETS  
As of September 30, 2021 and 2020  
(amounts in thousands)**

<b>Assets</b>	<u>9/30/2021</u>	<u>Reclassified 9/30/2020</u>
Intragovernmental:		
Fund Balance with Treasury (Note 2)	\$ 833,193	\$ 879,983
Accounts receivable and other	46	79
Total intragovernmental assets	<u>833,239</u>	<u>880,062</u>
Cash	49,742	73,968
Accounts receivable and other assets, net	22,521	24,151
Inventory, net (Note 3)	343,173	313,751
General property, plant, and equipments, net (Note 4)	163,482	<u>143,728</u>
Total other than intragovernmental	<u>578,918</u>	<u>555,598</u>
<b>Total assets</b>	<u>\$ 1,412,157</u>	<u>\$ 1,435,660</u>
<b>Liabilities (Note 5)</b>		
Intragovernmental:		
Accounts payable	\$ 51,643	\$ 35,077
Other liabilities	29,244	30,268
Total intragovernmental liabilities	<u>80,887</u>	<u>65,345</u>
Accounts payable	241,462	288,019
Federal employee and benefits payable	164,334	158,772
Environmental liabilities	31,077	30,723
Other liabilities	18,609	<u>29,905</u>
Total other than intragovernmental	<u>455,482</u>	<u>507,419</u>
<b>Total liabilities</b>	<u>536,369</u>	<u>572,764</u>
<b>Commitments and Contingencies (Note 9)</b>		
<b>Net position (Note 6)</b>		
Unexpended appropriations	\$ 241,089	\$ 280,686
Cumulative results of operations - dedicated collections (Note 10)	406,353	410,129
Cumulative results of operations - all other funds (combined totals)	228,346	172,081
Total cumulative results of operation	<u>634,699</u>	<u>582,210</u>
<b>Total net position</b>	<u>\$ 875,788</u>	<u>\$ 862,896</u>
<b>Total liabilities and net position</b>	<u>\$ 1,412,157</u>	<u>\$ 1,435,660</u>

*The accompanying notes are an integral part of the financial statements.*

**DEPARTMENT OF DEFENSE  
DEFENSE COMMISSARY AGENCY  
STATEMENTS OF NET COST  
For the Years Ended September 30, 2021 and 2020  
(amounts in thousands)**

<b>Program Costs:</b>	<u>9/30/2021</u>	<u>9/30/2020</u>
Gross costs	\$ 5,501,766	\$ 6,014,158
Less: Earned revenue	<u>(4,285,357)</u>	<u>(4,752,220)</u>
<b>Net cost of operations (Note 11)</b>	<u>\$ 1,216,409</u>	<u>\$ 1,261,938</u>

*The accompanying notes are an integral part of the financial statements.*

**DEPARTMENT OF DEFENSE  
DEFENSE COMMISSARY AGENCY  
STATEMENTS OF CHANGES IN NET POSITION  
For the Years Ended September 30, 2021 and 2020  
(amounts in thousands)**

	9/30/2021			9/30/2020		
	Dedicated Collections	All Other Funds	Consolidated Total	Dedicated Collections	All Other Funds	Consolidated Total
<b>Unexpended Appropriations:</b>						
<b>Beginning Balance</b>	\$ -	\$ 280,686	\$ 280,686	\$ -	\$ 535,019	\$ 535,019
<b>Budgetary Financing Sources:</b>						
Appropriations transfer in and out	-	1,146,660	1,146,660	-	1,029,697	1,029,697
Other adjustments (recissions)	-	-	-	-	(611)	(611)
Appropriations transfers used	-	(1,186,257)	(1,186,257)	-	(1,283,419)	(1,283,419)
<b>Total Budgetary Financing Sources:</b>	-	(39,597)	(39,597)	-	(254,333)	(254,333)
<b>Total Unexpended Appropriations (Note 6)</b>	-	241,089	241,089	-	280,686	280,686
<b>Cumulative Results of Operations:</b>						
<b>Beginning balance</b>	\$ 410,129	\$ 172,081	\$ 582,210	\$ 1,052,867	\$ 59,226	\$ 1,112,093
<b>Budgetary Financing Sources</b>						
Appropriations transfers used	-	1,186,256	1,186,256	-	1,283,419	1,283,419
Non-exchange revenue	-	21,960	21,960	-	21,894	21,894
Transfers in (out) without reimbursement	(5,669)	231	(5,438)	-	-	-
<b>Other Financing Sources (Uses)</b>						
Imputed financing (Note 7)	27,545	44,680	72,225	-	39,097	39,097
Transfers in (out) without reimbursement	-	-	-	(590,269)	(21,793)	(612,062)
Other Financing Sources (Uses)	-	(6,105)	(6,105)	-	(293)	(293)
<b>Total Financing Sources</b>	21,876	1,247,022	1,268,898	(590,269)	1,322,324	732,055
<b>Net Cost of Operations</b>	25,652	1,190,757	1,216,409	52,469	1,209,469	1,261,938
<b>Net Change</b>	(3,776)	56,265	52,489	(642,738)	112,855	(529,883)
<b>Cumulative Results of Operations (Notes 6 and 10)</b>	\$ 406,353	\$ 228,346	\$ 634,699	\$ 410,129	\$ 172,081	\$ 582,210
<b>Total Net Position (Note 6)</b>	\$ 406,353	\$ 469,435	\$ 875,788	\$ 410,129	\$ 452,767	\$ 862,896

*The accompanying notes are an integral part of the financial statements.*

**DEPARTMENT OF DEFENSE  
DEFENSE COMMISSARY AGENCY  
COMBINED STATEMENTS OF BUDGETARY RESOURCES  
For the Years Ended September 30, 2021 and 2020  
(amounts in thousands)**

	9/30/2021	9/30/2020
<b>Budgetary Resources:</b>		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	\$ 183,495	\$ 388,218
Appropriations (discretionary and mandatory) (Note 8)	1,146,660	1,029,697
Contract authority (discretionary and mandatory) (Note 8)	3,975,708	4,309,599
Spending authority from offsetting collections (discretionary and mandatory)	307,093	325,727
<b>Total budgetary resources</b>	<b>\$ 5,612,956</b>	<b>\$ 6,053,241</b>
<b>Status of Budgetary Resources:</b>		
New obligations and upward adjustments (total)	\$ 5,517,799	\$ 5,870,428
Unobligated balances, end of year:		
Apportioned, unexpired accounts	95,157	182,813
Unexpired unobligated balance, end of year	95,157	182,813
Expired unobligated balance, end of year	-	-
Unobligated balance, end of year (total)	95,157	182,813
<b>Total budgetary resources</b>	<b>\$ 5,612,956</b>	<b>\$ 6,053,241</b>
<b>Outlays, Net:</b>		
Outlays, net (total) (discretionary and mandatory)	\$ 1,193,450	\$ 1,231,118
Agency outlays, net (discretionary and mandatory)	<b>\$ 1,193,450</b>	<b>\$ 1,231,118</b>

*The accompanying notes are an integral part of the financial statements.*

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***NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

**A. Description of Reporting Entity**

The Defense Commissary Agency (DeCA) provides grocery, meat, and produce items to members of the U.S. Armed Forces, their dependents, retirees, reservists, Guard members, and other authorized patrons, including other governmental entities. DeCA is a Department of Defense (DoD) agency under the control of the Under Secretary of Defense for Personnel and Readiness. DeCA was created in 1991 after the House Armed Services Committee-appointed Jones Commission recommended that a single agency be responsible for operating the military commissary system to increase effectiveness at a lower cost. The Statements of Net Cost presents the cost of DeCA's mission to deliver a premier commissary benefit to the armed services community that encourages an exciting shopping experience; satisfies customer demand for quality grocery and household products; delivers exceptional savings while enhancing quality of life; fostering recruitment, retention and readiness; and supporting war fighters' peace of mind, knowing their families have secure and affordable access to American products.

DeCA, with its headquarters located at Fort Lee (near Petersburg), has five area offices that provide localized management and support for the agency's commissaries. Four of these offices, East, Central, Pacific and West, manage stores in the continental United States (US) and Puerto Rico. Two area offices, Europe and Pacific, manage stores in Europe, Africa, and Asia. DeCA operations are financed primarily by a Working Capital Fund (WCF) and Surcharge Collections Trust Fund.

DeCA's WCF is considered part of the DoD's Defense-wide WCF, which includes the financial activities of several Defense Agencies. Within DeCA's WCF, there are two activity groups, Commissary Resale Stocks and Commissary Operations. DoD defines these two activity groups as business areas for funds control purposes. Commissary Resale Stocks finances the purchase of grocery, meat, and produce items for resale to authorized patrons. The primary revenue source for this activity group is the sale of inventory to commissary patrons. Commissary Operations finances the operating cost of retail stores, agency and region headquarters, field operating activities, and support services. The primary revenue source for this activity group is a direct appropriation from Congress to the Defense WCF, which in turn transfers the funds to the DeCA WCF. Commissary Operations also receives additional revenues from manufacturers' coupon redemption fees, handling fees for tobacco products, and reimbursements for other support. DeCA receives an annual operating budget from DoD that establishes limitations for annual cost authority and annual capital expenditures for the two business areas.

The Surcharge Collections Trust Fund is part of DeCA's general funds (GF).

DeCA's Surcharge Collections Trust Fund is funded primarily by a five percent surcharge applied to each sale. This fund, established by law as the repository for the surcharge collected on the cost of commissary goods paid for by authorized patrons, primarily finances DeCA's store-level information management equipment and support, and construction programs.

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As the use of resources associated with the Surcharge Collections Trust Fund is limited by public law, this fund has been identified as a fund from dedicated collections.

Note 10 – “Funds from Dedicated Collections” provides detailed information.

**B. Classified Activities**

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information. Reference, SFFAS 56, *Classified Activities*.

**C. Basis of Presentation and Accounting**

These financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and sources and availability of budgetary resources. The financial statements have been prepared from the books and records of DeCA in accordance with accounting principles generally accepted in the United States (U.S.) and DoD accounting policies, which are summarized in this note.

Transactions are recorded on both an accrual accounting basis and budgetary accounting basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal requirements on the use of Federal funds. Liabilities not covered by budgetary resources represent amounts owed in excess of available appropriated funds. The liquidation of liabilities not covered by budgetary resources is dependent on future congressional appropriations.

The format of the Balance Sheet has changed to conform to OMB Circular A-136. This change does not affect totals for assets, liabilities, or net position and is intended to allow readers of this Report to see how the amounts shown on the Balance Sheet are reflected on the Government-wide Balance Sheet, thereby supporting the preparation and audit of the Financial Report of the United States Government. The presentation of the FY 2020 Balance Sheet was modified to be consistent with the FY 2021 presentation

The presentation of the Status of Budgetary Resources was streamlined pursuant to revisions in Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements.

**D. Fund Balance with Treasury (FBWT)**

The FBWT is the aggregate amount of funds in DeCA’s accounts with Treasury. FBWT primarily represents appropriated, revolving, and trust funds that are available to pay current liabilities and finance authorized purchases.

Note 2– “Fund Balance with Treasury” provides detailed information.

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**E. Cash and Other Monetary Assets**

Cash primarily consists of collections from sales occurring during the last several days of the reporting period that have been deposited into financial institutions, but are not yet credited to DeCA's FBWT.

**F. Accounts Receivable, Net**

Accounts receivable consists of amounts owed to DeCA by other Federal agencies and the public. Federal accounts receivable arise generally from the provision of goods and services to other Federal agencies.

Receivables from the public generally arise from manufacturer-related transactions, which are associated with the sale of grocery, meat, and produce items to authorized patrons. An allowance for doubtful accounts is established for reporting purposes based on past experience in the collection of accounts receivable and analysis of outstanding balances using the percentage of receivables. The allowance is adjusted accordingly at the time of collection or write-off during the fiscal year. Nonfederal accounts receivables are reported net of an allowance of \$7,326 and \$5,903 as of September 30, 2021 and 2020, respectively.

**G. Inventory, net**

Inventory consists primarily of grocery, meat, and produce items and is held for sale to authorized commissary patrons.

Currently, inventory is valued at the latest acquisition cost with an allowance account established for holding gains and losses. Holding gains and losses are recognized monthly and the unrealized holding gains and losses are included in the ending inventory value.

Inventory balances for each store are adjusted based on aggregate purchases and sales, transfers, and other adjustments. Store managers are expected to maintain and update EBS inventory operating system product level balances on hand for accuracy. Proper balances ensure efficient and timely balances for ordering that is in alignment with sales expectations. In addition, these balances are used as part of the deviation assessment when analyzing store inventory valuations on the financial records to the formal inventories performed. In FY 2021 DeCA was able to complete 164 formal inventories state side despite travel and access restrictions related to COVID-19. Store level adjustments were performed for these stores. The aggregate results of the formal inventories combined with the fact that our OCONUS inventories are already on a solid foundation for valuation provided DeCA the basis for not recording any top-level inventory adjustment on the financial reports. Pending COVID-19 travel restrictions, DeCA anticipates all stores to be inventoried in FY 2022.

Note 3 – "Inventory and Related Property Net" provides detailed information.



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**H. General Property, Plant, and Equipment (PP&E), Net**

General PP&E consists of software, equipment and construction-in-progress. PP&E is stated at acquisition cost, less accumulated depreciation/ amortization. DoD establishes capitalization and depreciation policies for PP&E.

PP&E acquisitions are capitalized if they have an estimated useful life of two or more years, are not intended for sale in the ordinary course of operations, are acquired or constructed with the intention of being used or being available for use by the entity, and meet the capitalization threshold of \$250. This capitalization threshold applies to asset acquisitions and modifications/improvements placed into service after September 30, 2013. PP&E acquired prior to October 1, 2013 were capitalized at prior threshold levels (\$100 for equipment).

Depreciation is recognized on all PP&E, except construction-in-progress, on the straight-line basis over the estimated useful life of the asset. The useful lives are currently five to ten years for software and equipment. The month available for service method is used for all capital assets.

At September 30, 2020, DeCA transferred all buildings and improvements to the military service lines and in FY 2021 recorded imputed financing costs related to depreciation and use of buildings in DeCA's operations. Depreciation related imputed financing cost is described in Note 1K.

Note 4 "General Property, Plant and Equipment, Net" provides detailed information.

**I. Accrued Payroll and Liabilities**

Accrued payroll and liabilities consist of payments DeCA owes to the Department of Labor (DOL) for workers' compensation paid under Federal Employees Compensation Act (FECA), accrued payroll and benefits (including employer contributions and payroll taxes), foreign national separation pay, and accrued leave.

***Workers' Compensation.*** FECA provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. DOL is responsible for administering the program and making payments for claims from eligible individuals. Subsequently, DOL bills the respective Federal agencies for those claims. The actuarially determined liability related to workers' compensation is described in Note 1.J.

***Accrued Payroll and Benefits.*** Accrued payroll and benefits includes the portion of employee compensation earned, but not paid, at the end of the reporting period along with DeCA's share of associated taxes, benefits, and retirement plan contributions.

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***Foreign National Separation Pay.*** DeCA operates in numerous foreign countries. These countries establish tariff agreements that outline certain employment terms and conditions related to its citizens. Under these tariff agreements, citizens for certain countries are entitled to special pay in the event their employment is terminated.

***Accrued Leave.*** Federal employees' annual leave is accrued as it is earned. The accrual is reduced annually for actual leave taken and increased for leave earned. Each year, the accrued annual leave balance is also adjusted to reflect the latest pay rates. To the extent current or prior year appropriations are not available to fund accrued leave earned, but not taken, funding will be obtained from future financing sources.

Note 5 – “Liabilities” provides specific detailed information.

**J. Actuarial Liability**

In addition to the liabilities discussed above, DeCA records an actuarial liability for its workers' compensation benefits. This liability, which is developed by DOL and provided to DoD after the end of each fiscal year, includes the expected future costs associated with death, disability, medical, and miscellaneous items for approved compensation cases. DOL determines the liability using a method that employs historical benefit payment patterns to predict the ultimate payments. The projected annual benefit payments are then discounted to the present value using the OMB's economic assumptions for 10-year U.S. Treasury notes and bonds. DoD uses a three-year moving average to distribute the actuarial liability to the various DoD agencies based on actual costs incurred by the respective DoD components.

**K. Imputed Financing and Costs**

DeCA recognizes imputed financing related to Federal retirement plans, health benefits, life insurance, and buildings and improvements used in operations.

***Retirement Plans.*** There are two primary retirement systems for Federal employees. Employees hired before January 1, 1984, may participate in the Civil Service Retirement System (CSRS). On January 1, 1984, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security.

Employees hired before January 1, 1984, elected to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which DeCA automatically contributes one percent of pay and matches any employee contribution up to an additional four percent of pay.

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DeCA does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of OPM. DeCA recognizes an imputed financing source for the difference between its contributions to Federal employee pension and other retirement benefits and the estimated actuarial m costs as computed by the OPM.

***Health Benefits and Life Insurance.*** The majority of DeCA employees are authorized to participate in the Federal Employees' Health Benefit (FEHB) program and the Federal Employees Group Life Insurance (FEGLI) program, which are administered by OPM. DeCA recognizes an imputed financing source and a program expense for these benefits.

***Use of Buildings Owned by Other Military Services.*** The imputed financing costs are based on a 45-year useful life for buildings, structures, and facilities. The actual commencement of depreciation was based on the mid-year convention method for buildings. Under the mid-year convention method, six months of depreciation is computed and expensed in the first and last year of an asset's useful life regardless of the actual month an asset was placed in or removed from service. Imputed financing costs for building depreciation is calculated based on DeCA's property records before property was transferred to the Military Departments. The military departments were provided the imputed cost for buildings located on their specific installations at end of FY 2021.

**L. Environmental Liabilities**

The DeCA has clean up requirements for commissaries within the Continental United States (CONUS) and outside the Continental United States (OCONUS). Clean up cost are based on potentially affected areas and the probability of Asbestos Containing Material (ACM) and /or Lead Base Paint (LBP) contaminates being present. All clean-up efforts are performed in coordination with regulatory agencies, other responsible parties, and current property owners. DeCA uses an updated Area Cost Factor (ACF) index in calculating the remediation cost. In addition, the baseline remediation cost per square foot for asbestos-containing materials and lead based paint is compiled using R.S. Means "Building Construction Cost Data." Other sources used to measure accounting estimates for environmental liabilities include engineering tools such as architectural drawings to further apply the per square foot rate based on potentially affected areas. DeCA complies with accounting standards to assign costs based on information available at the time the estimates are calculated.

**M. Net Position**

Net position is the residual difference between assets and liabilities and comprises unexpended appropriations and cumulative results of operations.

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Unexpended appropriations represent the amount of unobligated and unexpended budget authority. Unexpended appropriations are reduced for appropriations used and adjusted for other changes in budgetary resources, such as transfers and rescissions.

Cumulative results of operations represent the difference between revenues over expenses and transfers to Treasury in the WCF and GF since inception.

**N. Nonexchange Revenue**

DeCA recognizes nonexchange revenue for the labor received at no cost for local nationals working in the country of Japan. The Government of Japan pays the salaries for local national employees up to a specified annual ceiling amount. Payroll over this ceiling is charged to DeCA.

**O. Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, and the amount of revenues and costs reported during the period. Actual results could differ from those estimates, and the difference will be adjusted for and included in the financial statements in the year such differences are determined.

**P. Commitments and Contingencies**

DeCA is a party in various administrative proceedings, legal actions, and potential claims. In the opinion of DeCA management and legal counsel, the ultimate resolution of these proceedings, actions, and claims will not materially affect the financial position or results of operations of DeCA. Contingent liabilities are recognized when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

**Q. COVID-19**

While DeCA continued to obligate funding received in FY20 in response to the COVID 19 pandemic, no additional funding was provided. Funds were required for non-medical PPE, cleaning, and disinfecting supplies, and to increase core hours for part-time DeCA store employees working worldwide to assist in store level clean-up and shelf stocking. Funds were also required for additional air shipments to Europe and the Pacific and truck deliveries from the Central Distribution Plants to meet surge demand at overseas commissaries due to COVID-19. The DeCA has incurred costs related to the pandemic that are not reimbursable from the supplemental funding, but will be paid from DeCA's Commissary Operation's existing budgetary resources. As of September 30, 2021, the estimated obligations and outlays are \$21.8 million and \$21.3 million, respectively. The impact on the entity's assets, liabilities, costs, revenues, and net position cannot yet be determined.

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**NOTE 2 - FUND BALANCE WITH TREASURY**

FBWT consists of three types of funds – appropriated funds, revolving funds, and trust funds. The appropriated funds include commissary operations, military construction and military construction recovery act; the revolving fund relates to DeCA’s commissary resale stocks fund, and the trust fund relates to the Surcharge Collections Trust Fund.

The following table shows the balance for each type of fund as of September 30, 2021 and 2020:

<b>Fund balances:</b>	<u><b>9/30/2021</b></u>	<u><b>9/30/2020</b></u>
Appropriated Funds		
General Fund	\$ -	\$ -
Working Capital Fund	<u>368,612</u>	<u>397,564</u>
Total	<u><u>368,612</u></u>	<u><u>397,564</u></u>
Revolving Funds		
General Fund	-	-
Working Capital Fund	<u>137,297</u>	<u>137,012</u>
Total	<u>137,297</u>	<u>137,012</u>
Trust funds	<u>327,284</u>	<u>345,407</u>
<b>Total</b>	<u><u>\$ 833,193</u></u>	<u><u>\$ 879,983</u></u>

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The following table shows the status of the fund balances as of September 30, 2021 and 2020:

	<b>9/30/2021</b>			
<b>Status of fund balances:</b>	<b>Appropriated</b>	<b>Revolving</b>	<b>Trust</b>	<b>Total</b>
Unobligated balance available	\$ 77,818	\$ -	\$ 17,339	\$ 95,157
Unobligated balance unavailable	-	-	-	-
Obligated balance not yet disbursed	290,794	137,297	309,945	738,036
<b>Totals</b>	<b>\$ 368,612</b>	<b>\$ 137,297</b>	<b>\$ 327,284</b>	<b>\$ 833,193</b>

	<b>9/30/2020</b>			
<b>Status of fund balances:</b>	<b>Appropriated</b>	<b>Revolving</b>	<b>Trust</b>	<b>Total</b>
Unobligated balance available	\$ 123,509	\$ -	\$ 59,304	\$ 182,813
Unobligated balance unavailable	-	-	-	-
Obligated balance not yet disbursed	274,055	137,012	286,103	697,170
<b>Totals</b>	<b>\$ 397,564</b>	<b>\$ 137,012</b>	<b>\$ 345,407</b>	<b>\$ 879,983</b>

Unobligated balance is classified as available or unavailable and represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. The unavailable balance consists primarily of funds invested in Treasury securities that are temporarily precluded from obligation by law. Certain unobligated balances are restricted for future use and are not apportioned for current use. Unobligated balances for trust fund accounts are restricted for use by public law that established the funds.

Obligated balance not yet disbursed generally represents funds that have been obligated for goods and services not received, and those received but not paid.

DeCA is a revolving fund activity and because the total activity group remains positive, the negative balance remains within statutory compliance.

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**NOTE 3 – INVENTORY AND RELATED PROPERTY, NET**

The following table summarizes net inventory for September 30, 2021 and 2020:

	<u>9/30/2021</u>
Inventory LAC without estimate for losses incurred	\$ 295,604
Estimate for gains incurred	47,510
Inventory on hand at LAC	<u>343,114</u>
Unrealized holding gain (loss)	59
<b>Inventory, net</b>	<b><u>\$ 343,173</u></b>
	<u>9/30/2020</u>
Inventory LAC without estimate for losses incurred	\$ 316,456
Estimate for gains incurred	(2,619)
Inventory on hand at LAC	<u>313,837</u>
Unrealized holding gain (loss)	(86)
<b>Inventory, net</b>	<b><u>\$ 313,751</u></b>

**NOTE 4 – GENERAL PROPERTY, PLANT AND EQUIPMENT, NET**

General property, plant and equipment (PP&E) at September 30, 2021 and 2020 is summarized as follows:

	<u>9/30/2021</u>		
<u>PP&amp;E category</u>	<u>Acquisition</u>	<u>Accumulated</u>	
	<u>Value</u>	<u>Depreciation</u>	<u>Net</u>
Software	60,013	(38,809)	21,204
Equipment and other assets	208,514	(125,147)	83,367
Construction-in-progress	58,911	-	58,911
<b>Totals</b>	<b><u>\$ 327,438</u></b>	<b><u>\$ (163,956)</u></b>	<b><u>\$ 163,482</u></b>
	<u>9/30/2020</u>		
<u>PP&amp;E category</u>	<u>Acquisition</u>	<u>Accumulated</u>	
	<u>Value</u>	<u>Depreciation</u>	<u>Net</u>
Software	57,693	(35,926)	21,767
Equipment and other assets	241,464	(157,102)	84,362
Construction-in-progress	37,599	-	37,599
<b>Totals</b>	<b><u>\$ 336,756</u></b>	<b><u>\$ (193,028)</u></b>	<b><u>\$ 143,728</u></b>

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Office of the Under Secretary of Defense (OUSD) revised the accountability and financial reporting requirements for real property assets based on implementation of the Federal Accounting Standards Advisory Board Technical Bulletin 2017-2 “Assigning Assets to Component Reporting Entities.” Due to the changes the Department of Defense has determined that because the entities with jurisdiction over real property assets have existing requirements to manage the asset related data required for financial reporting, it is rational and consistent that those same entities carry the financial reporting responsibility for those assets. (Reference Title 10 of the US Code § 2682 which states “a real property facility under the jurisdiction of the Department of Defense which is used by an activity or agency of Department of Defense (other than a military department) shall be under the jurisdiction of a military department designated by the Secretary of Defense.”) As of September 30, 2020, the Defense Commissary Agency transferred financial reporting responsibility of real property and the associated capital improvements to the following military services USMC, USAF, DON, and Army.

In FY 2020, the total amount transferred from DeCA General Fund Buildings and Improvements for all four services is \$2.2 billion acquisition value minus \$1.6 billion accumulated depreciation for a net book value of \$.6 million. In addition, DeCA transferred real property related to Other Structures for a total \$238 thousand in acquisition value minus \$162 thousand accumulated depreciation for a net book value of \$75 thousand.

The total amount transferred for DeCA Working Capital Fund Buildings and Improvements for all four services is \$49.8 million acquisition value minus \$30.2 million accumulated depreciation for a net book value of \$19.6 million.

In FY 2021, DeCA began recording imputed financing costs related to depreciation and DeCA’s use of buildings and improvements owned by the military services.

Note 7 “Imputed Financing Costs” provides further details.



**DEPARTMENT OF DEFENSE  
DEFENSE COMMISSARY AGENCY  
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**NOTE 5 - LIABILITIES**

The following table summarizes total liabilities covered and not covered by budgetary resources as of September 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
<b>Intragovernmental:</b>		
Accounts payable	\$ 40	\$ -
Other	22,551	24,456
<b>Total Intragovernmental</b>	<u>22,591</u>	<u>24,456</u>
<b>Federal employee and benefits payable</b>	154,651	158,772
<b>Environmental liabilities</b>	31,077	30,723
<b>Total liabilities not covered by budgetary resources</b>	<u>\$ 208,319</u>	<u>\$ 213,951</u>
<b>Total liabilities covered by budgetary resources</b>	<u>\$ 328,050</u>	<u>\$ 358,813</u>
<b>Totals</b>	<u>\$ 536,369</u>	<u>\$ 572,764</u>

The following table summarizes intragovernmental and non-intragovernmental other liabilities as of September 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
<b>Intragovernmental:</b>		
Employer Contributions and Payroll Taxes Payable	\$ 6,693	\$ 5,812
Workers' Compensation	22,551	24,456
<b>Total Intragovernmental</b>	<u>29,244</u>	<u>30,268</u>
<b>Other than Intragovernmental/With the Public:</b>		
Accrued Funded Payroll and Benefits	17,529	29,905
Other	1,080	-
<b>Total Other than Intragovernmental/With the Public</b>	<u>18,609</u>	<u>29,905</u>
<b>Total Other Liabilities</b>	<u>\$ 47,853</u>	<u>\$ 60,173</u>

**DEPARTMENT OF DEFENSE  
DEFENSE COMMISSARY AGENCY  
NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 6 - NET POSITION**

The following table summarizes the net position by fund type as of September 30, 2021 and 2020:

	<u>9/30/2021</u>		
	<u>General</u>	<u>Working</u>	<u>Total</u>
	<u>Funds</u>	<u>Capital</u>	
<b>Net position:</b>			
Unexpended appropriations	\$ -	\$ 241,089	\$ 241,089
Cumulative results of operation - dedicated collections	406,353	-	406,353
Cumulative results of operation - other funds	-	228,346	228,346
Total cumulative results of operations	406,353	228,346	634,699
<b>Totals</b>	<b>\$ 406,353</b>	<b>\$ 469,435</b>	<b>\$ 875,788</b>

	<u>9/30/2020</u>		
	<u>General</u>	<u>Working</u>	<u>Total</u>
	<u>Funds</u>	<u>Capital</u>	
<b>Net position:</b>			
Unexpended appropriations	\$ -	\$ 280,686	\$ 280,686
Cumulative results of operation - dedicated collections	410,129	-	410,129
Cumulative results of operation - other funds	-	172,081	172,081
Total cumulative results of operations	410,129	172,081	582,210
<b>Totals</b>	<b>\$ 410,129</b>	<b>\$ 452,767</b>	<b>\$ 862,896</b>

**NOTE 7 - IMPUTED FINANCING**

The imputed financing and cost for employee benefits and real property as of September 30, 2021 and 2020 is summarized below:

<u>Benefit Category</u>	<u>9/30/2021</u>	<u>9/30/2020</u>
CSRS/FERS	\$ 2,326	\$ 102
FEHB	41,003	38,801
FEGLI	100	194
Real Property	28,796	-
<b>Total</b>	<b>\$ 72,225</b>	<b>\$ 39,097</b>

The imputed financing for building depreciation by fund as of September 30, 2021 and 2020 is summarized below:

	<u>9/30/2021</u>	
	<u>General Funds</u>	<u>Working Capital Fund</u>
<b>Imputed Financing Building Depreciation</b>	\$ 27,545	\$ 1,251

	<u>9/30/2020</u>	
	<u>General Funds</u>	<u>Working Capital Fund</u>
<b>Imputed Financing Building Depreciation</b>	\$ -	\$ -

**DEPARTMENT OF DEFENSE**  
**DEFENSE COMMISSARY AGENCY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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***NOTE 8 – DISCLOSURE RELATED TO THE STATEMENTS OF BUDGETARY RESOURCES***

The SBR is a combined statement and, as such, intra-entity transactions have not been eliminated. The combined SBR has been prepared to coincide with the amounts shown in the President’s Budget (Budget of the United States of America). However, the President’s Budget is prepared from the SF 133, Report on Budget Execution. Due to timing and the need for accelerated reporting at fiscal year end, the SF 133 is prepared using estimates, while the SBR has been adjusted for actual results. As such, the FY 2020 SBR may differ from the amounts in the President’s Budget by the differences between estimates used for the SF 133 and the actual results reporting in the SBR.

The Budget of the U.S. Government (also known as the President’s Budget) will not be published prior to February 2022. Accordingly, a comparison between the fiscal year 2021 data reflected on the statement of budgetary resources and fiscal year 2020 data in the President’s Budget cannot be performed. The Budget with the actual amount for fiscal year 2021 will be available at a later date at <https://www.whitehouse.gov/omb/budget>.

The differences reported are due to differing reporting requirements for expired and unexpired appropriations between the Treasury guidance used to prepare the SBR and the OMB guidance to prepare the President’s Budget. The SBR includes both expired and unexpired appropriations, while the President’s Budget presents only unexpired budgetary resources that are available for new obligations.

Total budget authority in FY 2021 and FY 2020 included appropriation transfers in the amounts of \$1,146,660 and \$1,029,697 respectively, and contract authority in the amounts of \$3,975,708 and \$4,309,599 respectively. The appropriation transfer is offset by the contract authority liquidation and is available indefinitely. Contract authority primarily provides DeCA the ability to purchase grocery, meat, and produce items for resale to authorized commissary patrons. Spending authority from offsetting collections results primarily from the sale of grocery, meat, and produce items.

Undelivered orders as of September 30, 2021 and September 30, 2020 were \$459,425 and \$415,665 respectively. Working Capital Fund intragovernmental budgetary resources for undelivered orders at September 30, 2021 and 2020, were \$98,267 and \$46,323 while nonfederal budgetary resources for undelivered orders were \$89,529 and \$114,943. General Fund intragovernmental budgetary resources for undelivered orders at September 30, 2021 and 2020 were \$171,033 and \$142,159 while nonfederal budgetary resources for undelivered orders were \$100,596 and \$111,240.

The SBR includes intra-entity transactions which are not eliminated because the statements are presented as combined.

There are no legal arrangements affecting the use of unobligated balances.

**DEPARTMENT OF DEFENSE  
DEFENSE COMMISSARY AGENCY  
NOTES TO THE FINANCIAL STATEMENTS  
For the Years Ended September 30, 2021 and 2020  
(Except as noted, all dollar amounts are in thousands)**

**NOTE 9– COMMITMENTS AND CONTINGENCIES**

DeCA is a party in various administrative proceeding and legal actions related to contractual claims and protests. DeCA has not accrued or disclosed any amounts for contingent liabilities as potential losses have not been determined to be probable or reasonably possible.

**NOTE 10 – FUNDS FROM DEDICATED COLLECTIONS**

The following table presents condensed data relating to DeCA’s Dedicated Collections, the Surcharge Collections Trust Fund, as of and for the years ended September 30, 2021 and 2020:

<u>Balance Sheet</u>	<u>9/30/2021</u>	<u>9/30/2020</u>
Assets:		
Fund balance with Treasury (Note 2)	\$ 327,284	\$ 345,407
Cash and accounts receivable	2,377	3,542
Property, plant and equipment	125,630	104,036
Total assets	<u>\$ 455,291</u>	<u>\$ 452,985</u>
Liabilities:		
Accounts payable	\$ 17,862	\$ 12,133
Environmental liabilities	31,077	30,723
Total liabilities	48,939	42,856
Cumulative results of operation	406,353	410,129
Total liabilities and net position	<u>\$ 455,292</u>	<u>\$ 452,985</u>
<u>Statement of Net Cost</u>		
Program costs	\$ 226,807	\$ 280,508
Earned revenue	(201,155)	(228,039)
Net income (loss) from operations	<u>\$ 25,652</u>	<u>\$ 52,469</u>

**DEPARTMENT OF DEFENSE  
DEFENSE COMMISSARY AGENCY  
NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 11 - RECONCILIATION OF NET COST OF OPERATIONS TO NET OUTLAYS**

The following table presents DeCA's reconciliation of net cost of operations to net outlays as of and for the year ended September 30, 2021:

	9/30/2021		
	Intragovernmental	With the Public	Total
<b>Net Cost of Operations</b>	\$ 481,705	\$ 734,704	\$ 1,216,409
<b>Components of Net Cost That are Not Part of Net Outlays:</b>			
Property, plant and equipment depreciation	\$ -	\$ 19,754	\$ 19,754
Increase (decrease) in assets:			
Accounts receivable	24	(1,717)	(1,693)
Other assets	(57)	(24,140)	(24,197)
(Increase)/decrease in liabilities:			
Accounts payable	(16,566)	46,557	29,991
Environmental and disposable liabilities	-	(354)	(354)
Federal employee and veteran benefits payable	-	(5,562)	(5,562)
Other liabilities	1,024	11,296	12,320
Other financing sources:			
Imputed cost	(72,225)	-	(72,225)
<b>Total components of Net Cost that are not part of Net Outlays</b>	\$ (87,800)	\$ 45,834	\$ (41,966)
<b>Components of Net Outlays that are not part of Net Cost:</b>			
Inventories and related properties	-	29,423	29,423
<b>Total components of Net Outlays that are not part of Net Cost</b>	-	29,423	29,423
<b>Miscellaneous Reconciling Difference</b>			
Other	5,438	-	5,438
<b>Total Other Reconciling Items</b>	5,438	-	5,438
<b>Net Outlays</b>	<u>\$ 399,343</u>	<u>\$ 809,961</u>	<u>\$ 1,209,304</u>
<b>Agency Outlays, net, Statement of Budgetary Resources</b>			\$ 1,193,450
<b>Reconciling difference</b>			\$ 15,854

**DEPARTMENT OF DEFENSE  
DEFENSE COMMISSARY AGENCY  
REQUIRED SUPPLEMENTARY INFORMATION  
COMBINING STATEMENT OF BUDGETARY RESOURCES**

	<u>Defense Working Capital Funds</u>		<u>General Funds</u>	<u>Combined</u>
	<u>Operations</u>	<u>Resale</u>	<u>Surcharge</u>	
<b>Budgetary Resources</b>				
Unobligated balance brought forward, Oct 1	\$ 123,857	\$ -	\$ 59,637	\$ 183,494
Appropriations (discretionary and mandatory (Note 8))	1,146,660	-	-	1,146,660
Contract authority (discretionary and mandatory) (Note 8)	4,886	3,970,822	-	3,975,708
Spending authority from offsetting collections (discretionary and mandatory)	104,545	-	202,549	307,094
<b>Total budgetary resources</b>	<u>\$ 1,379,948</u>	<u>\$ 3,970,822</u>	<u>\$ 262,186</u>	<u>\$ 5,612,956</u>
<b>Status of Budgetary Resources:</b>				
New obligations and upward adjustments (total)	\$ 1,302,130	\$ 3,970,822	\$ 244,847	\$ 5,517,799
Unobligated balances, end of year:				
Apportioned, unexpired accounts	77,818	-	17,339	95,157
Unexpired unobligated balance, end of year	77,818	-	17,339	95,157
Expired unobligated balance, end of year	-	-	-	-
Unobligated balance, end of year (total)	<u>77,818</u>	<u>-</u>	<u>17,339</u>	<u>95,157</u>
<b>Total budgetary resources</b>	<u>1,379,948</u>	<u>3,970,822</u>	<u>262,186</u>	<u>5,612,956</u>
<b>Outlays, Net:</b>				
Outlays, net (total) (discretionary and mandatory)	\$ 1,284,112	\$ (108,784)	\$ 18,123	\$ 1,193,451
Agency, outlays, net (discretionary and mandatory)	<u>\$ 1,284,112</u>	<u>\$ (108,784)</u>	<u>\$ 18,123</u>	<u>\$ 1,193,451</u>

**DEPARTMENT OF DEFENSE  
DEFENSE COMMISSARY AGENCY  
REQUIRED SUPPLEMENTARY INFORMATION  
COMBINING STATEMENT OF BUDGETARY RESOURCES  
For the Year Ended September 30, 2020  
(amounts in thousands)**

	<u>Defense Working Capital Funds</u>		<u>General Funds</u>	
	<u>Operations</u>	<u>Resale</u>	<u>Surcharge</u>	<u>Combined</u>
<b>Budgetary Resources</b>				
Unobligated balance brought forward, Oct 1	\$ 375,571	\$ -	\$ 12,647	\$ 388,218
Appropriations (discretionary and mandatory (Note 8))	949,697	80,000	-	1,029,697
Contract authority (discretionary and mandatory) (Note 8)	1,958	4,307,641	-	4,309,599
Spending authority from offsetting collections (discretionary and mandatory)	91,808	-	233,919	325,727
<b>Total budgetary resources</b>	<u>\$ 1,419,034</u>	<u>\$ 4,387,641</u>	<u>\$ 246,566</u>	<u>\$ 6,053,241</u>
<b>Status of Budgetary Resources:</b>				
New obligations and upward adjustments (total)	\$ 1,295,525	\$ 4,387,641	\$ 187,262	\$ 5,870,428
Unobligated balances, end of year:				
Apportioned, unexpired accounts	123,509	-	59,304	182,813
Unexpired unobligated balance, end of year	123,509	-	59,304	182,813
Expired unobligated balance, end of year	-	-	-	-
Unobligated balance, end of year (total)	<u>123,509</u>	<u>-</u>	<u>59,304</u>	<u>182,813</u>
<b>Total budgetary resources</b>	<u>1,419,034</u>	<u>4,387,641</u>	<u>246,566</u>	<u>6,053,241</u>
<b>Outlays, Net:</b>				
Outlays, net (total) (discretionary and mandatory)	\$ 1,296,004	\$ (121,771)	\$ 56,885	\$ 1,231,118
Agency, outlays, net (discretionary and mandatory)	<u>\$ 1,296,004</u>	<u>\$ (121,771)</u>	<u>\$ 56,885</u>	<u>\$ 1,231,118</u>

**DEPARTMENT OF DEFENSE  
DEFENSE COMMISSARY AGENCY  
REQUIRED SUPPLEMENTARY INFORMATION  
DEFERRED MAINTENANCE AND REPAIRS  
For the Year Ended September 30, 2020  
*(amounts in thousands)***

DeCA's PP&E is under various forms of maintenance contracts. DeCA has an equipment replacement plan that schedules replacement of equipment based on its useful life. The flexibility in the Surcharge program allows DeCA to address any out of cycle maintenance or repair. DeCA engineers use a variety of tools to constantly access facility conditions and plan for replacement or repair of any component in a facility that may be approaching the end of its useful life. Due to the nature of DeCA's maintenance cycles and funding, DeCA does not have deferred maintenance.







## Independent Auditors' Report

Defense Commissary Agency  
Director and Chief Executive Officer  
Chair, Financial Audit Advisory Committee

In our audits of the fiscal years (FY) 2021 and 2020 financial statements of the Defense Commissary Agency (DeCA), a component of the United States Department of Defense (DoD), we found:

- DeCA's financial statements as of and for the FYs ended September 30, 2021, and 2020, are presented fairly, in all material respects, in accordance with United States of America (U.S.) generally accepted accounting principles;
- No material weaknesses for FY2021, but two significant deficiencies in internal control over financial reporting based on the limited procedures we performed; and
- One reportable noncompliance for FY2021 with provisions of applicable laws, regulations, contracts, and grant agreements we tested and other matters.

The following sections discuss in more detail (1) our report on the financial statements, which includes required supplementary information (RSI)<sup>1</sup> and other information<sup>2</sup> included with the financial statements; (2) our report on internal control over financial reporting; (3) our report on compliance with laws, regulations, contracts, and grant agreements and other matters; and (4) DeCA's response to our findings and recommendations.

### Report on the Financial Statements

We have audited the accompanying financial statements of DeCA, which comprise the balance sheets as of September 30, 2021, and 2020; the related statements of net cost, changes in net position, and budgetary resources for the FYs then ended; and the related notes to the financial statements.

We conducted our audits in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 21-04).

We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

<sup>1</sup>The RSI consists of Management's Discussion and Analysis, the Combining Statement of Budgetary Resources, and Deferred Maintenance and Repairs, which are included with the financial statements.

<sup>2</sup>Other information consists of information included with the financial statements, other than the RSI and the auditors' report.

## Independent Auditors' Report (Continued)

### Management's Responsibility

DeCA management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the audited financial statements and auditors' report, and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. *Government Auditing Standards* require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. We are also responsible for applying certain limited procedures to RSI and other information included with the financial statements.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the auditors' assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audits also included performing such other procedures as we considered necessary in the circumstances.

### Opinion on Financial Statements

In our opinion, DeCA's financial statements present fairly, in all material respects, DeCA's financial position as of September 30, 2021, and 2020, and its net cost of operations, changes in net position, and budgetary resources for the FYs then ended in accordance with U.S. generally accepted accounting principles.

### Other Matters

#### Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Although the RSI is not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with *Government Auditing Standards*, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditors' inquiries, the financial statements, and other knowledge we obtained during the audits of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit

## Independent Auditors' Report (Continued)

and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

### Other Information

DeCA's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. We read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements. Our audits were conducted for the purpose of forming an opinion on DeCA's financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

### **Report on Internal Control over Financial Reporting**

In connection with our audits of DeCA's financial statements, we considered DeCA's internal control over financial reporting, consistent with our auditors' responsibility discussed below. We performed our procedures related to DeCA's internal control over financial reporting in accordance with *Government Auditing Standards*.

### Management's Responsibility

DeCA management is responsible for (1) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; (2) evaluating the effectiveness of internal control over financial reporting based on the criteria established under 31 U.S.C. 3512 (c), (d) (commonly known as the Federal Managers' Financial Integrity Act (FMFIA)); and (3) providing assurance statement on the overall effectiveness on internal control over financial reporting included in management's discussion and analysis (MD&A).

### Auditors' Responsibility

In planning and performing our audit of DeCA's financial statements as of and for the year ended September 30, 2021, in accordance with *Government Auditing Standards*, we considered DeCA's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the DeCA's internal control over financial reporting. Accordingly, we do not express an opinion on the DeCA's internal control over financial reporting. We are required to report all deficiencies that are considered to be material weaknesses or significant deficiencies. We did not consider or evaluate all internal controls relevant to operating objectives as broadly established by the FMFIA, such as those controls relevant to preparing performance information and ensuring efficient operations.

### Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

## Independent Auditors' Report (Continued)

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error.

### Results of Our Consideration of Internal Control over Financial Reporting

Our consideration of internal control was for the limited purpose described above, and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies or to express an opinion on the effectiveness of DeCA's internal control over financial reporting and therefore, material weaknesses and/or significant deficiencies may exist that have not been identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did identify deficiencies in internal control over financial reporting that we consider to be significant deficiencies described below and in Exhibit A.

- *Controls over Inventory Need Improvement*
- *Controls over Financial Reporting Need Improvement*

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

During our 2021 audit, we identified deficiencies in DeCA's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant DeCA management's attention. We have communicated these matters to DeCA management and, where appropriate, will report on them separately.

### Purpose of Report on Internal Control over Financial Reporting

The purpose of this report is solely to describe the scope of our consideration of DeCA's internal control over financial reporting and the results of our procedures, and not to provide an opinion on the effectiveness of DeCA's internal control over financial reporting. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting. Accordingly, this report on internal control over financial reporting is not suitable for any other purpose.

### **Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements and Other Matters**

In connection with our audits of DeCA's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditors' responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance in accordance with *Government Auditing Standards*.

### Management's Responsibility

DeCA management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to DeCA.

## Independent Auditors' Report (Continued)

### Auditors' Responsibility

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements applicable to DeCA that have a direct effect on the determination of material amounts and disclosures in DeCA's financial statements, and perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to DeCA.

### Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements and Other Matters

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed an instance of noncompliance or other matters for FY2021 that is reportable under *Government Auditing Standards*, as described below and in Exhibit B.

- *DeCA's Financial Management Systems Do Not Comply with Federal Requirements.*

The objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to DeCA. Accordingly, we do not express such an opinion.

### Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements and Other Matters

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

### **DeCA's Response to Audit Findings and Recommendations**

DeCA's response to the findings and recommendation identified in our report is described in Exhibit D. DeCA's response was not subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on it.

### **Status of Prior Year's Control Deficiencies and Noncompliance Issues**

We have reviewed the status of DeCA's corrective actions with respect to the findings and recommendations included in the prior year's Independent Auditors' Report, dated November 5, 2020. The status of prior year findings is presented in Exhibit C.

**CliftonLarsonAllen LLP**



Greenbelt, Maryland  
November 12, 2021

**Independent Auditors' Report (Continued)**  
**Exhibit A**  
**Significant Deficiencies**

**1. Controls over Inventory Need Improvement**

The Defense Commissary Agency (DeCA) needs to improve its internal controls over the validation and reconciliation of commissary inventory data. During FY2018, DeCA initiated the migration of its inventory business system to a commercial product for grocery ordering and inventory management and in connection with this migration, ceased performing annual physical inventories at its commissaries. These annual physical inventories served as a key control to ensuring the balances of their recorded inventories were complete and accurate. While individual commissary staff do monitor and update inventory quantities reported in the legacy inventory business system, DeCA does not have an established process to validate and reconcile the complete product level inventory data population maintained at each commissary with the recorded inventory balances reported in the general ledger; however, progress has been made. In FY2019, DeCA resumed contractor inventory counts at the U.S. commissaries on a test basis. In FY2020, DeCA hired contractors to perform inventory counts at 92 U.S. commissaries. In FY2021, DeCA hired contractors to perform inventory counts at 164 U.S. commissaries which was an increase from the 92 commissary counts completed in FY2020. Store level adjustments were recorded for these stores. In addition, in FY2020 and continuing in FY2021, DeCA made progress in establishing enhanced standard count procedures for contractors to ensure sound count controls, and consistently used actual costs to value inventory based on the counts. The aggregate results of the formal inventories combined with the fact that overseas (OCONUS) inventories are already on a solid foundation for valuation, meant that DeCA did not record any top-level inventory adjustment in FY2021 for commissaries not counted in FY2021. In 2022, DeCA plans to continue to roll out the new inventory system to the remaining commissaries and have contractors perform accountable inventory counts at all commissaries.

In connection with our testing of the product level inventory data at a sample of commissaries, DeCA generated custom reports from their inventory management system that integrated current inventory quantities with product level unit cost data for each selected commissary.

In our review of these reports, we noted various products with unusually high quantities. In discussions with the store managers, we confirmed that many of these products were no longer in stock and the recorded quantities were in error. In researching this, we determined that some of the erroneous data related to pallets of grocery items, and shippers, self-contained store displays containing multiple grocery items. These bulk items have their own unique product code. We determined that these pallets and shippers were added to the store's inventory when received, but when the stock is broken down and moved to the store floor, the individual grocery items were added to the store's inventory; however, the quantity of the pallet or shipper in the store's inventory was not correspondingly reduced.

We also found other anomalies in the inventory data. DeCA has agreements with vendors for the return and refund of certain unsold stock items. The quantities in the inventory system are not always reduced when these items are returned. Other high turnover items where vendor staff deliver and stock the quantities required (direct store delivery) were not tracked in the legacy system at all. In addition, we noted sometimes inventory balances were increased to prevent automatic reorders.

In order to evaluate the reliability of the remaining data, we excluded these anomalous data and selected other grocery items for testing. In our testing of non-anomalous data across nine commissaries of varying size, we found 31% of the items selected for testing had actual quantities that differed from the recorded quantities in the inventory management system by over four items.

**Independent Auditors' Report (Continued)**  
**Exhibit A**  
**Significant Deficiencies**

and 93% of the items with a variance over four items had variances in excess of 10% from the recorded quantities. While DeCA performed inventory counts at 164 U.S. (CONUS) commissaries, fifteen U.S. commissary counts were cancelled and not completed due to issues with contractor staffing and not being able to complete the count in the allotted time; however, estimated adjustments for these locations (based on average results of counts performed) were not significant and not recorded. Without accurate data on inventory quantities, DeCA is not able to adequately support the balance of its inventory reported in its accounting records without conducting annual inventory counts at the majority of the U.S. commissaries. Accurate inventory data is also critical for effective stock management as inventory on hand is a key determinant in initiating vendor orders.

In connection with its migration to its new ordering and inventory management system, we recommend DeCA:

- Complete inventory counts at all commissaries; thereby, eliminating the need for top level estimated adjustments for commissaries not counted.
- Continue to roll out the DAXIM inventory system.
- Implement PE Warehouse and PE FIM (inventory warehouse system and inventory financial accounting system, respectively) to allow for end-to-end automated inventory valuation and accurate balance on hand reporting.
- Develop standard comprehensive inventory reports that are generated for the review and analysis by store managers.
- Ensure pallets and shippers are removed from the inventory system when broken down.
- Ensure all shippers are recorded in inventory.
- Ensure inventory quantities are properly adjusted for vendor returns.
- Ensure inventory balances on hand are not artificially increased to prevent automatic reorders.
- Review the policies and procedures for performing and reporting on regular random inventory counts at the product level.
- Review the process for accounting for direct ship and delivery (DSD) items.
- Review allowable tolerance levels based on store size, and DeCA's guidance for addressing out of tolerance situations based on results of periodic cycle counts.
- Establish procedures for the comparison of product level inventory reports to the general ledger balances, taking into account normal timing differences.

**Independent Auditors' Report (Continued)**  
**Exhibit A**  
**Significant Deficiencies**

• **Controls over Financial Reporting Need Improvement**

DeCA converted to the DAI financial system in early FY2021. As a result of the change, processes changed and reports previously used to support, age, or analyze data were no longer available. As a result, certain accounting transactions were not recorded or were not reconciled.

DeCA has corrective action plans in place to address issues related to the conversion. CLA noted the following:

- The DAI system does not allow for automated accruals for two-way match service contracts like DeCA's legacy system. DeCA did not develop an accrual methodology until after yearend so approximately \$17 million was not accrued in FY2021 related to contract services.
- Beginning in FY2021 Construction in Progress detail records are now maintained in DAI; however, the beginning balance Construction in Progress detail records were maintained outside of the system. At September 30, 2021, there was approximately \$18 million in unreconciled differences between the detail records and general ledger. DeCA has a corrective action plan in place to research the possible understatement of Construction in Progress in the financial statements and general ledger.
- At September 30, 2021, there is approximately a \$17 million unreconciled difference between the Equipment/Software subledger and the general ledger. DeCA has a corrective action plan in place to research the possible understatement of Equipment/Software in the financial statements and general ledger which may relate to Equipment/Software not in service. DeCA is in the process of assembling the list of Equipment/Software not in service.

We recommend that DeCA:

- Continue to refine DeCA's accrual methodology for two-way match contract services, record the accrual on a timely basis, and develop a validation process to check the accuracy of accrual based on actual two-way match disbursements in the following periods.
- Reconcile all accounts monthly and resolve unreconciled differences timely.
- Continue with corrective action plans to resolve Equipment/ Software and Construction in Progress unreconciled differences and assemble a list of not in-service Equipment/Software.
- Prepare a quarterly rollforward of Equipment/ Software and Construction in Progress from prior year to current year to evaluate types of activity, such as additions, disposals, and transfers, to better analyze activity to ensure accuracy.



**Independent Auditors' Report (Continued)**  
**Exhibit B**  
**Noncompliance**

**Noncompliance with the Federal Financial Management System Requirements**

The Defense Commissary Agency (DeCA) relies on a large portfolio of DeCA-owned and Department of Defense (DoD)-owned and operated systems. Most of DeCA's proprietary mission critical business and financial systems are supported by aging and outdated technology, and are in need of replacement to address performance, flexibility, and system interface issues. While transformation efforts are now underway, this process is expected to take several years to complete. The Enterprise Business System (EBS) is DeCA's replacement system for inventory purchasing and management, which will contain various integrated modules for various resale business activities of DeCA.

A summary of the various business processes, current and planned supporting systems, and status of their implementation is presented below.

Business Process	Current System	Future System	Status	Comment
Resale supply ordering/cost management	DIBS	DAX (EBS)	Migration in Process	Deployment impacted in 2021 due to COVID-19 health and travel restrictions  Expect to be completed in FY2022
Inventory management	DIBS	IM (EBS)	Migration in process	Deployment impacted in 2021 due to COVID-19 health and travel restrictions  Expect to be completed in FY2022
Distribution Center Inventory Management	Manhattan WMS	PE/Warehouse (EBS)	Migration in process	Deployment impacted in 2021 due to COVID-19 health and travel restrictions  Expect to be completed in FY2022
Voucher/coupon management	SAVES	Emerald and RetailOne (EBS)	Migration in process	Deployment impacted in 2021 due to COVID-19 health and travel restrictions  Expect to be completed in FY2022
Vendor credit/return management	AVCM	Power HQ (EBS)	Migration completed in FY2019	Automated credits migrated

**Independent Auditors' Report (Continued)**  
**Exhibit B**  
**Noncompliance**

Business Process	Current System	Future System	Status	Comment
Revenue/sales management	CARTS	Emerald	Migration in process	Deployment impacted in 2021 due to COVID-19 health and travel restrictions  Expect to be completed in FY2022
Personnel management	DCPDS	-	-	SOC effective
Timekeeping	DAI OT&L	-	-	SOC effective
Payroll management	DCPS	-	-	SOC effective
Property Management	DPAS	-	-	SOC effective
Travel Management	DTS	-	-	SOC effective
Procurement/contract management	DAI	-	-	SOC effective
Voucher management	iRAPT	-	-	SOC effective
Disbursements	ADS	-	-	SOC effective
Financial accounting	DAI	-	-	SOC effective
	STANFINS	PE FIM	In planning	Planned for FY2022
Financial reporting	DDRS	-	-	SOC modified effective with findings

DeCA uses two separate accounting systems (DAI and STANFINS) to process financial transactions. STANFINS was developed and implemented prior to the establishment of current federal financial management system requirements. DAI accounts for transactions associated with the appropriated funds and surcharge collections and STANFINS accounts for all resale funds and inventory transactions. These systems are not interfaced and do not comply with Federal financial management systems requirements for consolidated financial reporting. STANFINS does not comply with the United States Standard General Ledger (USSGL) at the transaction level resulting in the need to apply extensive manual processes to adjust balances in those systems prior to DeCA preparing its financial statements. These limitations affect the manner in which certain accounting transactions are recorded by DeCA.

In addition, DeCA has to record many accounting transactions outside its general ledger and related sub-accounting system modules throughout the year, resulting in a high volume of manual journal vouchers (JVs) being prepared prior to the compilation of its financial statements. Specifically, in connection with its preparation of its financial statements for the quarter ended June 30, 2021, DeCA prepared 140 JVs to a variety of accounts with an absolute value of approximately \$18 billion. This is a reduction in the number JVs from the prior year. Many of these entries are necessary as a direct result of the noncompliance and limitations of the legacy system STANFINS.

**Independent Auditors' Report (Continued)**  
**Exhibit B**  
**Noncompliance**

System limitations have also indirectly affected DeCA's recording of certain vendor transactions, resulting in inconsistent reporting of revenues and expenses by certain commissaries.

The Federal Financial Management Improvement Act (FFMIA) of 1990 Section 803(a) requires that "each agency shall implement and maintain financial management systems that comply substantially with Federal financial management systems requirements...and the USSGL at the transaction level."

Chapter 9500 of the Treasury Financial Manual provides detailed guidance for evaluating compliance with the requirements of FFMIA.

We found that the dollar impact of JVs (including those for inventory) processed during the year were materially correct, and DeCA has compensating controls to monitor the use of these JVs; however, these manual procedures are inefficient and the risk of error in DeCA's financial statements during the year is increased by these manual entries.

**Recommendations:**

We continue to recommend that DeCA:

- Ensure the design of the business processes and data structure of the new systems to be implemented will meet DeCA's unique business needs, as well as federal system and accounting requirements.
- Continue to monitor the volume and nature of manual JVs to ensure that JVs are only used for transactions that cannot be handled by the current accounting systems (including relevant modules).
- Continue to employ compensating control procedures, through additional analytical processes and detailed reconciliations, to ensure period end financial statements are accurately presented.
- Explore opportunities for all commissaries to report revenues and expenses to DeCA headquarters consistently prior to the new system implementation.

**Independent Auditors' Report (Continued)**  
**Exhibit C**  
**Status of Prior Year Findings**

Prior Finding	Recommendation	Current Status
<p>Controls over Inventory Need Improvement (Material Weakness)</p>	<ul style="list-style-type: none"> <li>• Complete inventory counts at all commissaries; thereby, eliminating the need for top level estimated adjustments for commissaries not counted.</li> <li>• Continue to roll out the DAXIM inventory system.</li> <li>• Implement PE Warehouse and PE FIM to allow for end-to-end automated inventory valuation and accurate balance on hand reporting.</li> <li>• Develop standard comprehensive inventory reports that are generated for the review and analysis by store managers.</li> <li>• Ensure pallets and shippers are removed from the inventory system when broken down.</li> <li>• Ensure all shippers are recorded in inventory.</li> <li>• Ensure inventory quantities are properly adjusted for vendor returns.</li> <li>• Ensure inventory balances on hand are not artificially increased to prevent automatic reorders.</li> <li>• Review the policies and procedures for performing and reporting on regular random inventory counts at the product level.</li> <li>• Review the process for accounting for direct ship and delivery (DSD) items.</li> <li>• Review allowable tolerance levels based on store size, and DeCA's guidance for addressing out of tolerance situations based on results of periodic cycle counts.</li> <li>• Establish procedures for the comparison of product level inventory reports to the general ledger balances, taking into account normal timing differences.</li> </ul>	<p>Modified Repeat as a significant deficiency based on DeCA performing more inventory counts and reducing the number of estimated adjustments.</p>

**Independent Auditors' Report (Continued)**  
**Exhibit C**  
**Status of Prior Year Findings**

<b>Prior Finding</b>	<b>Recommendation</b>	<b>Current Status</b>
<p>Noncompliance with the Federal Financial Management Systems Requirements</p>	<ul style="list-style-type: none"> <li>• Ensure the design of the business processes and data structure of the new systems to be implemented will meet DeCA's unique business needs, as well as federal system and accounting requirements.</li> <li>• Continue to monitor the volume and nature of manual journal entries (JVs) to ensure that JVs are only used for transactions that cannot be handled by the current accounting systems (including relevant modules).</li> <li>• Continue to employ compensating control procedures, through additional analytical processes and detailed reconciliations, to ensure period end financial statements are accurately presented.</li> <li>• Explore opportunities for all commissaries to report revenues and expenses to DeCA headquarters consistently prior to the new system implementation.</li> </ul>	<p>Repeat Finding.</p>

**Independent Auditors' Report (Continued)**  
**Exhibit D**  
**Management's Response to Auditors' Report**



IN REPLY  
REFER TO

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

CCR

November 12, 2021

Mr. Pat Byer, Principal  
CliftonLarsonAllen, LLP  
1966 Greenspring Drive, Suite 300  
Timonium, MD 21093

Mr. Byer,

In response to the Independent Auditors' Report dated November 12, 2021, of the fiscal years 2021 and 2020 financial statements of the Defense Commissary Agency (DeCA), management generally agrees with all findings of this report. Specifically, DeCA provides the following comments related to the Significant Deficiencies over internal controls identified in Exhibit A and non-compliance identified in Exhibit B of the report.

**Exhibit A #1, Controls over Inventory Needs Improvement:** We continued making significant progress in FY 2021. We completed inventory counts at 164 US commissaries—up from 92 in FY 2020. Additionally, we implemented enhanced counting procedures for contractors to ensure sound count controls, and consistently used actual costs to value inventory based on those counts. As a result of our progress, and with our overseas (OCONUS) inventories being on sound footing, we did not rely on estimates and did not record any top-level inventory adjustments for FY 2021. In FY 22, we will continue deploying our new integrated commercial grocery inventory ordering and management system within EBS and scheduling inventories at all commissaries. All recommendations identified will be leveraged to continue strengthening the foundation that will facilitate reliability of our inventory data. We remain committed to putting in place the proper procedures, internal controls and overall governance for inventory management.

**Exhibit A #2, Controls over Financial Reporting Needs Improvement:** In early FY 2021, DeCA converted to the DAI, DoD's ERP financial system. As with any conversion, many processes and procedures changed and the reports previously used for reconciling were no longer available. DeCA is still learning all of the tools that are available within the new system. We recognize the importance of reconciling these conversion anomalies and have developed plans to do so during FY 2022. All recommendations identified will be leveraged to correct and maintain accurate financial reporting controls.

**Exhibit B Noncompliance with the Federal Financial Management System Requirements:** DeCA's Federal Financial Management system requirements and use of the U.S. Standard General Ledger (USSGL) at the transaction level are not in compliance with the FFMA of 1996. In FY 2021, we converted our non-resale financials (Commissary Operations and Surcharge) to DAI which is USSGL compliant. We will continue to aggressively work towards migrating the legacy resale financials from STANFINS to EBS PE/FIM which is USSGL compliant and consolidate the USSGL within DAI. While in this state of transition, we will continue to ensure all compensating controls are in place to ensure accurate reporting.

## Independent Auditors' Report (Continued) Exhibit D Management's Response to Auditors' Report

Ultimately, with the migration to EBS and DAI for our Resale business, we expect to eliminate the noncompliance with the Federal Financial Management System requirement.

For additional concerns regarding these responses, please address to me or Ms. Linda Randall, Director of Accounting. I can be reached at (804) 734-8000, ext. 48794, [cynthia.morgan@deca.mil](mailto:cynthia.morgan@deca.mil) or Ms. Randall can be contacted at (804) 734-8000, ext. 8642 or [linda.randall@deca.mil](mailto:linda.randall@deca.mil).

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Cynthia L. Morgan  
Chief Financial Officer

## Glossary of Acronyms

ACF	–	Area Cost Factor
ACM	–	Asbestos Containing Material
ACSI	–	American Customer Satisfaction Index
AAFES	–	Army Air Force Exchange System
AFR	–	Agency Financial Report
BSF	–	Buildings, Structures, and Facilities
CCSS	–	Commissary Customer Service Survey
CDC	–	Central Distribution Center
CEO	–	Chief Executive Officer
CFO	–	Chief Financial Officer
CLA	–	CliftonLarsonAllen
COG	–	Cost of Goods
CPI	–	Continuous Process Improvement
CSAT	–	Customer Satisfaction Survey
CSRS	–	Civilian Service Retirement System
CUEC	–	Complimentary User Entity Controls
DeCA	–	Defense Commissary Agency
DoD	–	Department of Defense
DOL	–	Department of Labor
DON	–	Department of Navy
DSD	–	Direct Store Delivery
EBS	–	Enterprise Business Solution
ERP	–	Enterprise Resource Planning
FBWT	–	Fund Balance with Treasury
FASAB	–	Federal Accounting Standards Advisory Board
FCI	–	Facility Condition Index
FECA	–	Federal Employees Compensation Act
FEGLI	–	Federal Employees Group Life Insurance



## Glossary of Acronyms

FEHB	–	Federal Employee Health Benefits
FERS	–	Federal Employees Retirement System
FFMIA	–	Federal Financial Management Improvement Act of 1996
FMFIA	–	Federal Managers’ Financial Integrity Act
FY	–	Fiscal Year
GF	–	General Funds
GPRAMA	–	Government Performance and Results Modernization Act
ICOFR	–	Internal Controls over Financial Reporting
ICOFS	–	Internal Controls over Financial Systems
IDEAS	–	Improve Defense Commissary Agency’s Efficiency and Service
JV	–	Journal Voucher
LBP	–	Lead Based Paint
LOE	–	Line of Effort
M&RA	–	Manpower and Reserve Affairs
NDAA	–	National Defense Authorization Act
NEXCOM	–	Navy Exchange Service Command
NIC	–	NATO Industrial Complex
OASD	–	Office of the Assistant Secretary of Defense
OMB	–	Office of Management and Budget
OPM	–	Office of Personnel Management
OUSD	–	Office of the Under Secretary of Defense
PAR	–	Performance and Accountability Report
P&L	–	Profit & Loss
PP&E	–	General Property, Plant & Equipment
P&R	–	Personnel & Readiness
RMIC	–	Risk Management and Internal Control Program
RSI	–	Required Supplemental Information

## Glossary of Acronyms

SAT	–	Senior Assessment Team
SBR	–	Statement of Budgetary Resources
SWOT	–	Strength, Weakness, Opportunities and Threats
Treasury	–	United States Department of the Treasury
US	–	United States
USAF	–	United States Air Force
USMC	–	United States Marine Corps
USSGL	–	United States Standard General Ledger
WCF	–	Working Capital Fund