Defense Commissary Agency Annual Financial Report

Fiscal Year 2019

TABLE OF CONTENTS

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 2019 Annual Financial Report at www.commissaries.com by the end of the 1st Quarter, FY 2020.

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DIRECTOR'S MESSAGE

Fiscal year 2019 again brought a new set of challenges for the Defense Commissary Agency (DeCA) and its employees. Those challenges ranged from Mother Nature causing billions of dollars in damage to installation facilities, to the continued deployment of the Enterprise Business System throughout the agency's universe. The agency, however, kept the benefit flowing for the service men and women of the United States Armed Forces. Here's a list of the agency's accomplishments:

- **Commissary Store Brands.** DeCA has continued to add new products to its commissary store brands (CSB) lineup. Flock's Finest bird food and Pure Harmony pet food are two of the newest private brands added to DeCA's brand family. DeCA's other private brand assortment include Freedom's Choice food items, HomeBase nonfood items, TopCare health and beauty items, TippyToes baby food and care items, and Full Circle Market organic food items. Customers can find over 800 CSB items including shrimp, ice cream, coffee pods, spices, microwave popcorn, macaroni and cheese, diapers, baby wipes, pediatric electrolyte beverages, and dry dog and cat food and many other items. Customers are opening their wallets to how much they like the brands. Cumulative sales total more than $172 million in FY 2019, a 146 percent growth over last year.

- **Enterprise Business Solution.** The agency continued developing and implementing its Enterprise Business Solution (EBS). EBS is a fully integrated solution that will modernize our resale business operations including all processes associated with a vendor and supplier portal: contracting, cataloging, pricing, promotions, planogramming, ordering, receiving and inventory, customer relations management, point-of-sale with electronic and mobile commerce, financial management and warehouse management. The year marked deployment of Increment 1 capabilities highlighted by Relex, an integrated store-specific planogramming application, and Bill Back Manager, the replacement of DeCA's AVCM (automated vendor credit memo) process. This year's deployments also included Increment 2 Capabilities: Power DAX and Power IM (Inventory Management). Under development are Increment 3 Capabilities: POS (Point of Sale) and CRM (Customer Relations Module) to be deployed in early FY 2019, and Increment 4 Capabilities: FIM (Financial Information Module) and WMS (Warehouse Management System) to be deployed in late FY 2019.

- **Your Everyday Savings! (YES!).** YES! was created to combat pricing misperception and effectively communicate our everyday low prices on popular items. The program started in June 2018, and since then the agency has launched three waves of program products. The most recent wave, on Aug. 29, added 913 more items for customers to choose from. Due to sales performance, some items from the first and second waves were removed. The agency reviews YES! items periodically to ensure the products are still popular, the price is correct and to make sure there is enough product on hand. Also, included in the latest wave, were products from the agency's CSB product lines. The agency is expanding YES! wave 3 products to stores in Alaska and Hawaii in the future.

- **Agency response to natural disasters.** This fiscal year, the weather's effects were felt across the entire agency. Stores were affected from the continental United States to Alaska to the Pacific theater. One of our hardest hit locations was the Tyndall Air Force Base Commissary in Florida. Hurricane Michael tore through the base, in October 2018, causing $25 billion in damage to facilities including the store. Overall, the agency has recorded a loss of $67,652.02 due to natural disasters and has funded in excess of $11 million for natural disaster repairs.

- **Customer Experience Survey.** DeCA launched the ForeSee customer experience survey platform for patrons on July 21, following a month long pilot. Customers access the survey by entering the URL, https://mydeca.me/receipt, which is displayed at the bottom of their receipt. The survey platform allows DeCA to continuously gain data, helping drive decisions for improving customer satisfaction and loyalty.

- **Gift Cards.** The sale of DeCA gift cards are on the rise with the expansion of store distribution at Navy Exchange Service Command (NEXCOM) retailers which began May 2018. The expansion started at Naval Air Station Oceana's Navy Exchange in Virginia. DeCA gift cards sold at NEXCOM retailers provide an open value option of $5 -$300. Open value card availability will be phased in as the new point of sale system is deployed in commissary stores. At the end of FY 2019, Navy Exchange retailers had sold over 1,711 DeCA gift cards totaling more than $85,375. DeCA is now selling NEXCOM gift cards at 44 select Navy commissaries around the world. Navy Exchange gift cards can only be redeemed at military exchange locations, they cannot be redeemed at DeCA commissaries. Plans are in place to expand gift card sales to AAFES locations in FY 2020.

- **Exchange joint promotions.** DeCA continued collaborating with our exchange partners throughout the year. The exchanges and DeCA worked together on the following promotions: "We Care" Deployed Recognition Event; Turkey Promotion; Home for the Holidays Sweepstakes; Family Fit Month; Coca Cola Share Your Service Story; Month of the Military Child; and Back-to-School. In addition, the agency conducted joint "bounce-back" coupon promotions with the Navy Exchange for the Fourth of July and Labor Day**.**

- **Military Star Card.** Commissaries began accepting the Military Star Card on Oct. 3, 2017. It was used in over 3.7 million transactions worldwide during FY 2019, with sales of $269.5 million. In addition, DeCA has earned over $2 million in revenue share income. The average Military Star Card user also spent about 30 percent more on each visit to their commissary.

- **Unmodified Audit Opinion**. FY 2019 was the 18th year of being audited by an external auditing firm. Even with changes to our business model and other inventory transformation efforts still ongoing, our FY 2019 financial statements received an unmodified opinion. DeCA continues its long history of being good stewards of the taxpayers' dollars. Our dedicated financial teams, stringent internal controls, comprehensive reconciliations and our partnership with DFAS have each played a role in the sustainment of our financial accomplishments.

- **Scholarships for Military Children.** Administered by the Fisher House Foundation, the program awards scholarships to eligible military children. This year, 700 students from military families received a $2,000 scholarship courtesy of the Scholarships for Military Children program. In the past 18 years over $18.1 million have been awarded to 10,814 recipients.

- **Planogram Reset.** The Reset and Planogram team reset eight stores, six full shelving replacements and one partial shelving replacement. The team was able to successfully test resetting a store at night, which could mean not having to close during business hours, with no shelving replacement due to the tremendous support from the store, zone, and industry. The team is evaluating the reset process and procedures to identify areas to increase operational and cost efficiencies while minimizing patron impact.

- **Commissary Rewards Card.** Since the 2012 launch of the Commissary Rewards Card, patrons have enjoyed access to digital coupons worth millions of dollars, saving them even more on their groceries. Through the end of September, over 1.1 million cards have been registered and our patrons have saved almost $17 million, while redeeming nearly 14 million coupons.

- **DeCA's Online Presence**. 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. Customers can interact with the agency on the following platforms:

    - YouTube: 912 subscribers
    - Facebook: 66,759 followers
    - Twitter: 6,150 followers
    - Pinterest: 1,300 followers
    - Instagram: 2,290 followers

No matter the challenges faced by DeCA employees, they work hard to overcome them. Serving the best customers in the world is our mission and we are proud to serve them, committed to protecting their benefit; we know we are more than just a grocery store!

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Robert J. Bianchi
By Direction

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 www.commissaries.com www.facebook.com/YourCommissary www.twitter.com/TheCommissary www.youtube.com/DefenseCommissary
Fiscal 2019 sales:	$ 4.5 billion
Fiscal 2019 total revenue:	$ 4.5 billion
Fiscal 2019 operations cost:	$ 1.3 billion
Total employees:	13,000 +
Total authorized households:	Approximately 5.4 million
Customer transactions:	77 million
Global presence:	13 countries, 2 U.S. territories
Commissaries as of 30 Sep 2019:	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

Understand our Customers and Deliver a 21st Century Commissary Benefit

DeCA GOALS

<u>Our Customers:</u> Deliver a premier customer experience in every store by providing a relevant and vital benefit.

<u>Our Business:</u> Advance our business model through the transparent management of resources and revenue.

<u>Our Workforce:</u> Empower a capable, engaged and responsible workforce.

<u>Our Culture:</u> Foster a culture of collaboration and change acceptance through proactive communication and inclusion.

DeCA VALUES

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

- **P:** We **Pursue** excellence
  We pursue excellence and are motivated to be the best we can be every day. We work together integrating our values, moving toward one vision. We go the extra mile to satisfy our customers, both internal and external.
- **A:** We are **Accountable** and fiscally responsible
  We are accountable and fiscally responsible, which is shown through our daily actions as we perform our jobs. We are accountable for the results of our actions. We work together in a collaborative fashion and treat our customers (internal and external), fellow coworkers, and stakeholders with integrity, respect, and honesty. We make the right decisions and are held accountable for them, keeping our values in mind when making them.
- **S:** We have a **Sense** of urgency
  We have a sense of urgency to quickly and efficiently accomplish the expectations of those who rely on us. In critical times we are responsive by providing support for those who need it most. This urgency extends to providing a taste of home and a sense of community to deployed military members and their families.
- **S:** We set high **Standards**
  We are committed to setting high standards at all levels within the organization, ensuring we excel in our ultimate goal – providing our patrons outstanding customer service, quality products at great prices, and an excellent atmosphere in which to shop. We work collaboratively in all areas of the organization to make this happen.
- **I:** We value **Innovation**
  We encourage innovation in order to progress the Agency towards greater efficiencies and effectiveness. We promote collaboration to initiate change that allows us to do our jobs more proficiently. We maintain the mindset that we can always do better and look for ways to make that happen.
- **O:** We take **Ownership** of our performance
  We take ownership of our performance by knowing what our expectations are and setting targets to exceed them. We, as individuals, ensure what we do on a daily basis supports and aligns with the Agency mission.
- **N:** We are **Necessary**
  We are necessary to the well-being and quality of life of our military families. We provide a tangible value through the benefit of savings, which benefits our patrons financially. We also provide a community value through the various community support endeavors... scholarships, spousal employment, exchange partnerships with family fitness festivals, and others. A sense of community is critical during the stressful times of spousal deployment and unfamiliar settings. We are the link in supporting our patrons for products and services that are familiar, valued, and represent their choices.

One Vision, One Team, One DeCA!

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PART I

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF DeCA

ORGANIZATION AND MISSION:

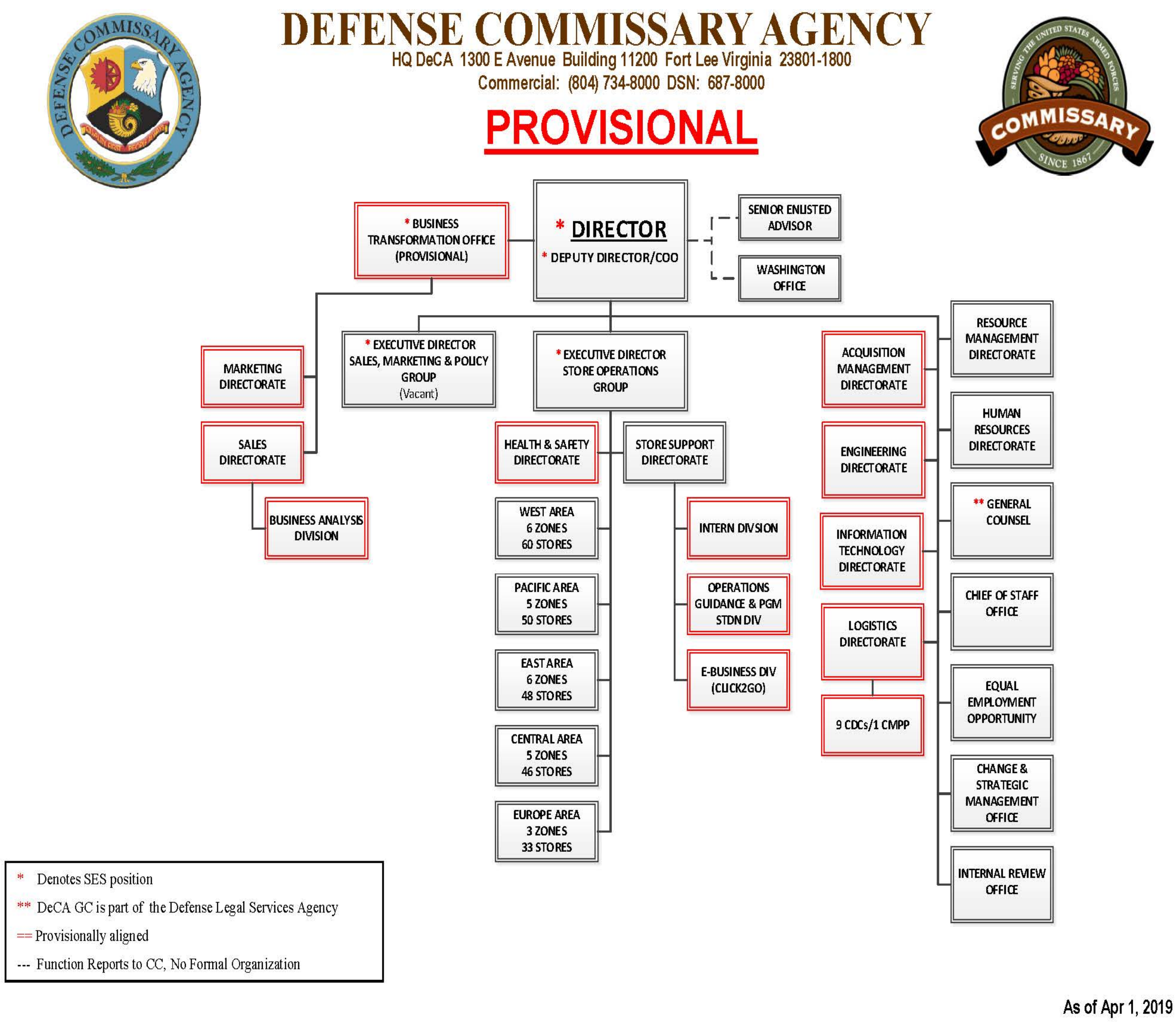
The Defense Commissary Agency (DeCA or the Agency) is a component of the DoD reporting to the Under Secretary of Defense for Personnel and Readiness. In 1989, the House Armed Services Committee appointed the Jones Commission to analyze the commissary systems (i.e., grocery stores or supermarkets) operated 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. 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. 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) 2019 is shown in the following chart:



2019 HIGHLIGHTS:

DeCA's audited Financial Statements identified a material weakness in 2018 citing "Internal Controls over Inventory need improvement". In FY 2019 in spite of having a contractual protest that precluded the award of a long term formal inventory performance contract, DeCA used this opportunity to further industry research efforts and build upon internal DeCA business processes required to perform perpetual inventories. We awarded a small individual requirements contracts based on 27 store locations to 4 different contractors which enabled DeCA to gain a better understanding of what is needed to transition to a perpetual inventory method and further document capabilities and risks associated with multiple contractors having various degrees of experience, technical capability and resources to perform at multiple locations. Twenty-three of the 27 inventories were finalized which allowed DeCA to adjust inventory book values at those locations. This alternate plan also presented an opportunity for improved communication among stakeholders as well as our auditors

With the identified FY 2018 material weakness came additional internal control focus and increased leadership engagement which resulted in a keener eye on decisions that impact the financial position.

DeCA is reviewing and updating all Internal Control processes and identified risk areas to align with business transformation initiatives that have been deployed within the Agency. This continued improvement model for Internal Control keeps DeCA in the forefront of DoD Agencies as being auditable and fiscally responsible.

In FY 2019, DeCA conducted an internal control assessment of the effectiveness of our 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 $1.27 billion in appropriation transfers during FY 2019. Commissary Operations also receives 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 Plan lays out the roadmap for the Agency's mission and vision for the future. We strive to fulfill our mission to **"Deliver a vital benefit of the military pay system that sells 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. This mission serves as the driving force behind our goals found in the Director's 2019 Strategic Guidance as listed below.

- **Our Customers:** Deliver a premier customer experience in every store by providing a relevant and vital benefit.

- **Our Business:** Advance our business model through the transparent management of resources and revenue.

- **Our Workforce:** Empower a capable, engaged and responsible workforce

- **Our Culture:** Foster a culture of collaboration and change acceptance through proactive communication and inclusion.

These goals drive us towards 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. Our vision is to **"Understand Our Customers and Deliver a 21st Century Commissary Benefit."**

STRATEGIC PLANNING:

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 the 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 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 are investigating the rapidly changing technology that is becoming a significant part of how patrons shop and communicate. Concepts are being evaluated and tested as we partner with the 21st 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 will eliminate redundant and costly legacy systems, improve our business performance and incorporate 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 may 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:

DeCA's Strategic 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 2019 Agency Performance Plan incorporates performance measures and targets across four perspectives to manage Agency performance from a holistic viewpoint. These perspectives address Agency performance in the areas of Financial, Customer, Business, and Workforce. The results of Agency Performance Plan are monitored and assessed quarterly to enable data-based decision making. The quarterly reviews allow for executive and senior leadership collaborative discussions, transparency of activities, and opportunities for course adjustments and improved outcomes.

The following chart displays the FY 2019 Agency Performance Plan four perspectives and their associated elements:

DeCA FY 2019 Performance Plan

FINANCIAL
- Value of the Benefit (ROI)
- Audit Readiness
- Budget Plan/Execution (All Funds)
- Margin Generation

CUSTOMER
- Commissary Customer Service Survey
- American Customer Satisfaction Index
- Customer Savings
- Category Performance Improvement – Sales and Transactions – e.g., these sub-activities will not have individual metrics but should contribute to increases in this measure:
  - Focus on Top 30 Categories and Top 15 Suppliers and Marketing Activities
  - Commissary Store Brand
  - Your Everyday Savings (YES) Program
  - Health and Wellness
  - Joint Efforts with Exchanges

BUSINESS
- Facility Readiness
- Demographics – U.S. Households Acquired

WORKFORCE
- Organizational Climate
- Recruitment and Retention (Hiring Time)

ASD(M&RA) approved September 27, 2018

FINANCIAL STATEMENT SUMMARY

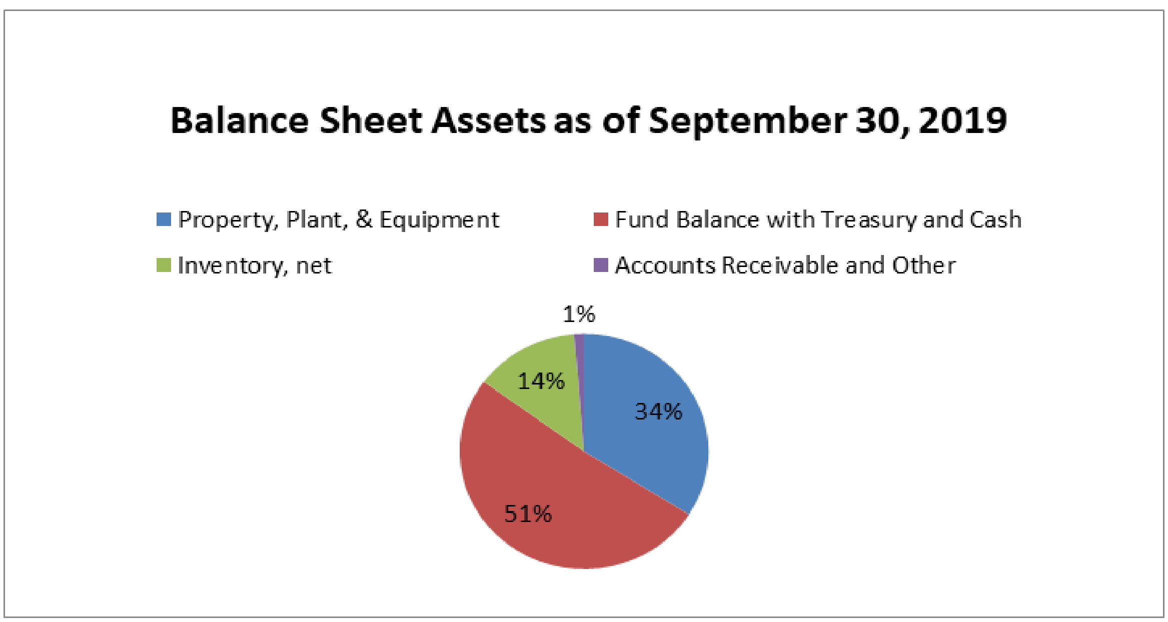
DeCA's Consolidated Balance Sheet, Statements of Net Cost, Changes in Net Position, and Combined Statements of Budgetary Resources (consolidated financial statements) have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of Title 31, 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.

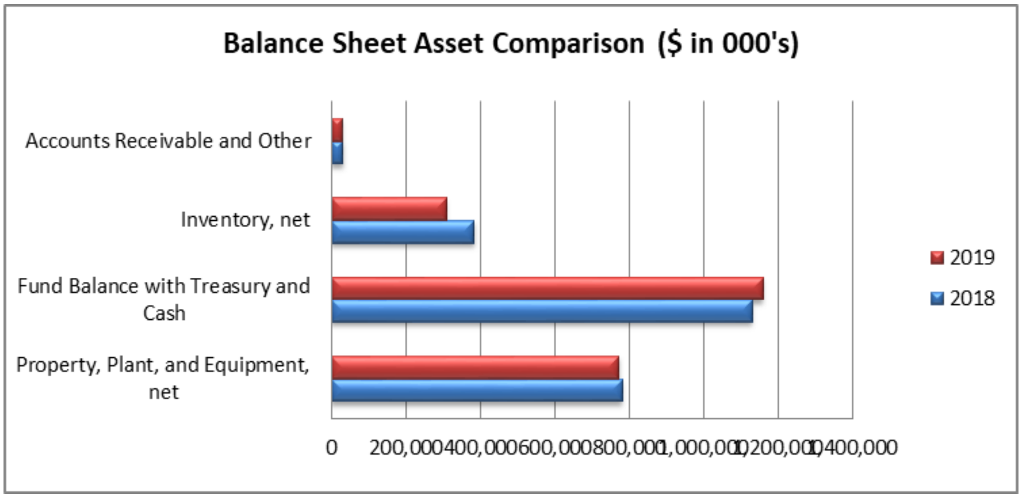
CONSOLIDATED BALANCE SHEETS:

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, 2019, DeCA reported assets of $2.3 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, 2019 and September 30, 2018, along with discussions of significant fluctuations.



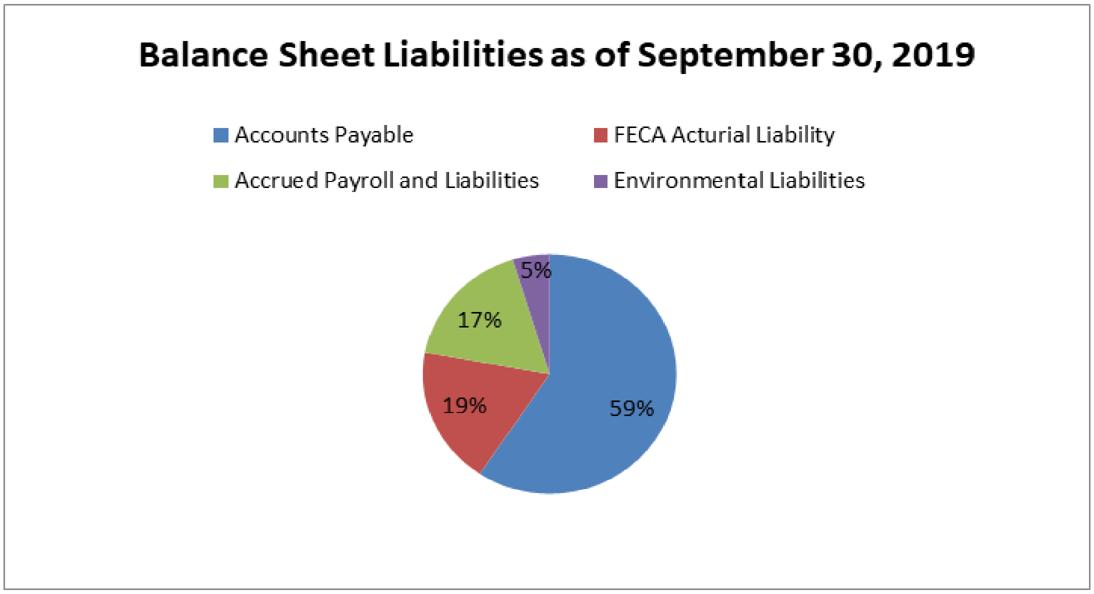
Accounts Receivable and Other comprises 1 percent of DeCA's current year assets. These represent amounts primarily due from DeCA customers. Accounts receivable and other remained relatively consistent when compared to prior year balances.

Inventory, net represents 14 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.

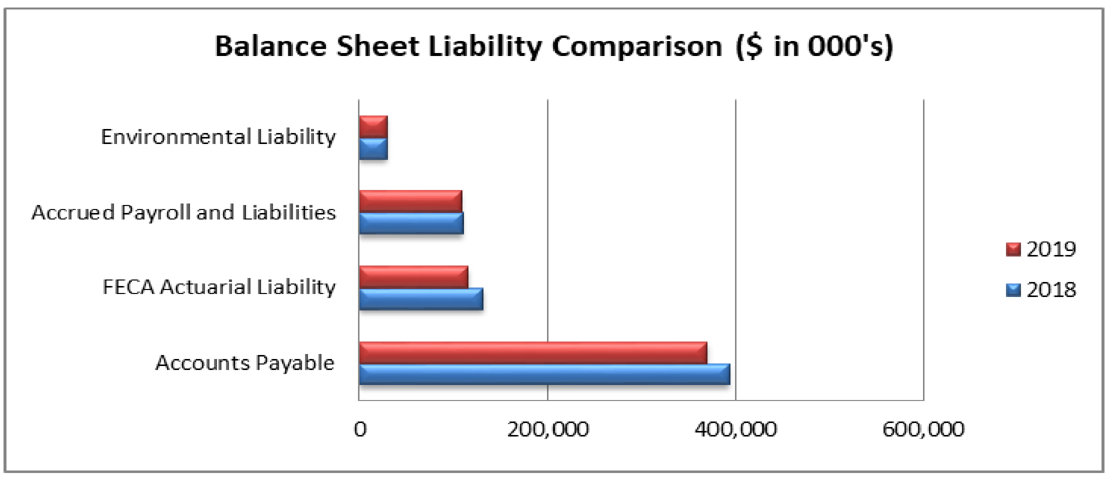
Fund Balance with Treasury (FBWT) and Cash represents 51 percent of DeCA's current year assets. Funding is primarily made available through the U.S. Department of the Treasury accounts from which DeCA makes expenditures to pay liabilities. FBWT also includes monies generated from sales at commissaries 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 remained relatively consistent when compared to prior year balances.

General Property, Plant, and Equipment (PP&E), net represents *34* 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 remained relatively consistent when compared to prior year balances.

Liabilities – On September 30, 2019, DeCA reported liabilities of $623.7 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.



The following chart presents comparative data of major liability balances as of September 30, 2019 and September 30, 2018, along with a discussion of fluctuations.



Environmental Liabilities comprises 5 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 17 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 19 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.

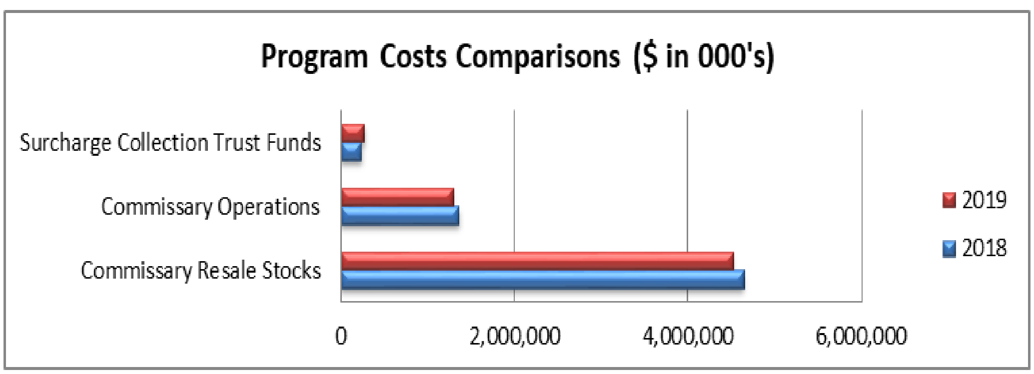
Accounts Payable comprises 59 percent of DeCA's current year liabilities, and consists of DeCA's liability for goods and services delivered or received, but not paid prior to year-end. Accounts payable remained relatively consistent when compared to prior year balances.

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 decreased by $16.8 million, 1 percent, primarily attributable to a reduction in Cumulative Results of Operation.

STATEMENTS OF BUDGETARY RESOURCES:

This statement provides information on the budgetary resources available to DeCA for fiscal years 2019 and 2018 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:

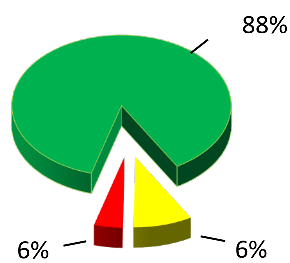
OMB Circular A-123, Appendix A is fully implemented throughout DeCA. For the past 12 years, all processes material to the financial statements have been documented and tested. In FY 2019, 233 key controls were evaluated and assessed for effectiveness. Of those key controls, 89 percent were found to be operating effectively; and 4 percent were operating adequately. The remaining 7 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 233 key controls, there were 156 Complimentary User Entity Controls (CUECs) tested this year. The results found 156 operating effectively. There were none found to be ineffective.

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 2017

Testing Results:

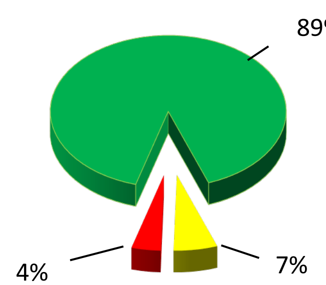
- **238 Tests Performed**
- **209 Effective (88%)**
- **14 w/Exceptions (6%)**
- **15 Ineffective (6%)**



FY 2018

Testing Results:

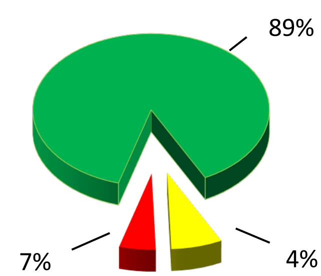
- **238 Tests Performed**
- **212 Effective (89%)**
- **17 w/Exceptions (7%)**
- **9 Ineffective (4%)**



FY 2019

Testing Results:

- **233 Tests Performed**
- **207 Effective (89%)**
- **8 w/Exceptions (4%)**
- **10 Ineffective (7%)**



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:

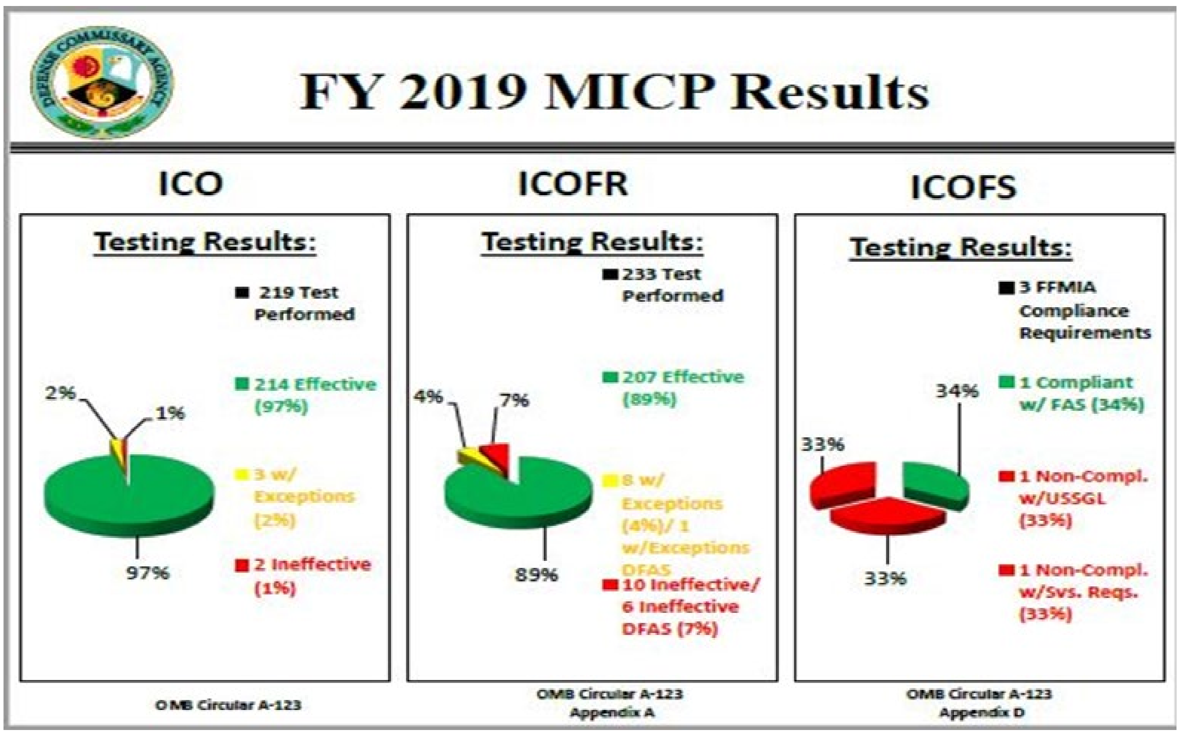
Although DeCA is not required to submit a Statement of Assurance, the DoD is required to do so; therefore, DeCA performs work to support the Department. The objectives of the system of internal accounting and administrative control of DeCA are to provide reasonable assurance that the Agency:

- Has an efficient and effective operation.
- Provides reliable financial reports.

- Complies with applicable laws and regulations.

In FY 2019, DeCA reported a Modified Statement of Assurance related to the effectiveness of internal controls over financial reporting and operations; however DeCA's systems do not conform to the financial management systems requirements and DeCA was not compliant with FFMIA. In making the 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 2019 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 following chart illustrates the results of the FY 2019 Manager's Internal Controls Program (MICP). 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).



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 FFMIA. 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 FFMIA.

DeCA's Statement of Assurance for FY 2019 reported on financial and non-financial operations, and financial system compliance. As of October 2019, DeCA's Director was able to provide an unmodified statement of reasonable assurance that DeCA's internal controls met the objectives of the FMFIA and a modified statement of reasonable assurance for FFMIA. Eleven 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.

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PART II

PLANNING AND PERFORMANCE

PERFORMANCE MANAGEMENT - RESULTS

DeCA is using an Agency Performance Plan to measure performance in meeting our strategic goals and objectives. The Performance Plan brings together, on a single management report, key financial and nonfinancial performance measures that allow DeCA to clarify our vision and strategic objectives. DeCA's performance in the four perspectives of Financial, Customer, Business, and Workforce FY 2019 are summarized below.

FINANCIAL PERSPECTIVE

Performance Element	FY 2019 Goal	FY 2019 Actual
Value of the Benefit (ROI)	ROI ≥ \$1.25 Customer Savings to \$1.00 Appropriated Costs	Not available at time of publishing
Audit Readiness	Unmodified Opinion	Unmodified Opinion
Budget Plan / Execution (All Funds)		
FY costs vs. budget for Surcharge	≥ 96% execution but ≤ 100%	99%
FY sales vs. sales estimate incl. in FY18 President's Budget		94%
FY costs vs. budget for DWCF		96%
FY vs. plan for FTEs		93%
Margin Generation	≥ \$65.4M	\$74.3M

The Value of the Benefit (i.e., return on investment or ROI) is expressed as the value received by the patron in commissary dollar savings for shopping and obtaining food and other merchandise at significant savings in the commissary, divided by the taxpayer dollar cost of providing the benefit. FY 2019 results are not available at time of publishing but will be available on website.

Audit Readiness is the ability of an organization to attest with confidence that it is ready for an independent review of its internal accounting processes, financial statements, and other non-financial documents, and that it has all the required documents available. Budget Plan/Execution (All Funds) is a comparison between the planned actual costs versus execution. 1) actual versus budget for surcharge; 2) actual versus sales estimate in the President's budget; 3) actual versus budget for DeCA Working Capital Fund; and 4) actual versus budget for Full Time Equivalents (FTE).

Margin Generation measure is the revenue generation results from expected program implementation/projections. Amounts displayed represent amounts included in the budget to offset appropriation. Revenue estimates were included in DeCA's budget based on margin generation as a result of business reforms per FY 2016 and FY 2017 NDAAs. 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 lower cost of goods (COG), 2) continue to provide a price value proposition compared to retailers "outside-the-gate" (variable pricing) and develop a margin commensurate with goals.

CUSTOMER PERSPECTIVE

Performance Element	FY 2019 Goal	FY 2019 Actual
Commissary Customer Service Survey (CCSS)	A	A
American Customer Satisfaction Index (ACSI)	≥ prior year Industry Average (79) and DeCA score (71)	Industry: 78 DeCA: 66
Customer Savings (Global Average)	23.7%	Not available at time of publishing
Category Performance Improvement (CPI): Projected Sales	$4.673B	$4.429B
Category Performance Improvement (CPI): Projected Transactions	79.90M	77.02M

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.

American Customer Satisfaction Index (ACSI): The ACSI is an independent scientific effort model, developed at the University of Michigan's Ross School of Business, to measure customer satisfaction for retail business and is general enough to be comparable across sectors, industries, and organizations of the U.S. economy. The ACSI survey is conducted November-December of each year and reported to the Agency during February of the following calendar year, for the fiscal year. In FY 2018, DeCA updated the scoring process comparison to a two-facet measure for the ACSI. The revised measure continues to compare DeCA's score directly to the industry average and then secondly to DeCA's prior year score. DeCA's FY 2019 ACSI score of 66 is lower than our goal of 71 and lower than the FY 2019 industry average of 78.

Customer Savings: In accordance with requirements of the FY 2016 National Defense Authorization Act (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 2019 results are not available at time of publishing but will be available on website.

Category Performance Improvement (CPI) – Sales and Transactions: This measure compares the Agency's projected sales and transactions goals to results. Our CPI 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.

BUSINESS PERSPECTIVE

Performance Element	FY 2019 Goal	FY 2019 Actual
Facility Readiness	≥ prior year results of 84%	83.6%
Demographics – U.S. Households Acquired	≥ prior year results of 70%	66%

Facility Readiness: The Facility Readiness metric indicates the percentage of DeCA facilities with a Facility Condition Index (FCI) of 80% or higher. The FCI is a composite metric that indicates the physical condition of a facility and the impact of facility investment programs. A Government-developed software program, BUILDER, has been implemented to replace DeCA's previous assessment methodology. In April 2014, OSD established a Facility Sustainment and Recapitalization Policy, setting the FCI goal of 80% for all DoD facilities. DeCA successfully implemented BUILDER during 2014, and established a baseline in FY 2015 of 80.8% for its facilities, with goals for the out-years set to reflect a 1% improvement each year, utilizing the FY 2015 baseline, based on available sustainment funding. Our goals were revised based on FY 2016 results of 81.9% and FY 2017 results of 79.8%.

Demographics – U.S. Households Acquired: This measure gauges progress of market penetration of authorized U.S. households acquired by maximizing item movement data and leveraging customer relationship management. Total market penetration is the total number of acquired households in the U.S., within 20 miles of the installation, compared to the number of potential households.

WORKFORCE PERSPECTIVE

Performance Element	FY 2019 Targets	FY 2019 Actual
Organizational Climate (FEVS)	67%	60%
Recruitment and Retention (Hiring Time)	71 days	69 days

Organizational Climate (FEVS): The Office of Personnel Management (OPM) Federal Employee Viewpoint Survey (FEVS) provides a comprehensive platform for Federal employees to share their opinions and perceptions of their work experience. It measures employees' perceptions of whether, and to what extent, conditions characteristic of successful organizations are present in their agencies. The OPM FEVS provides results at lower levels allowing managers to see where improvements within their work unit are necessary. The results provide agency leaders insight into areas where improvements have been made, as well as areas where improvements are needed.

Recruitment and Retention (Hiring Time): This metric measures the end-to-end hiring process by number of days. With the DoD goal of 85 days and OPM goal of 80 days, DeCA established an aggressive goal of 71 days for FY 2019.

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.

DeCA's Statement of Assurance for FY 2019 reported on financial and non- financial operations, and financial system compliance. As of October 2019, DeCA's Director was able to provide an unqualified statement of reasonable assurance that DeCA's internal controls met the objectives of the FMFIA and a qualified statement of reasonable assurance for FFMIA. Eleven 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.

CONTINUOUS PROCESS IMPROVEMENT:

DeCA continued building the foundation of its Continuous Process Improvement (CPI) program in FY 2019 by publishing a Director's Policy and establishing a project repository. Additionally, CPI practitioners conducted five Lean Leader courses throughout the year and facilitated or coached several teams to project completion for various initiatives. FY 2019 Agency CPI initiatives resulted in cost avoidance and reduction in process cycle time for multiple projects.

INNOVATION:

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

In FY 2019 DeCA implemented the enterprise Think Tank, an online forum that facilitates in-depth conversation between Agency employees. This internal communication tool gives all DeCA employees a "virtual voice" and a means 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.

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.

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PART III

FINANCIAL SECTION

Message from the
CHIEF FINANCIAL OFFICER (CFO)

I am extremely pleased to present the Fiscal Year (FY) 2019 Annual Financial Report (AFR) with accompanying Financial Statements and Footnotes. FY 2019 presented another year ofchallenges for DeCA with the continued focus on being more efficient, identifying cost reductions and addressing numerous reform efforts while still delivering the benefit to our growing patronage base. Our commitment to our loyal patrons remains at the forefront even amidst these complex and untraveled roads for the Agency.

DeCA continues its path of business and system transformation that will enhance our ability to serve our customers and provide us the much needed technology advancements. Our leadership has driven home the need for a cost conscious culture which leads to better decisions and sound financial stewardship of the taxpayers' dollar. We have also increased accountability and made great strides in re-evaluating business practices to support movement towards a profit/loss organization while deploying new business systems.

Specifically, within the Resource Management (RM) community, we are very proud of the efforts demonstrated to ensure the Agency's financial records remained consistent and representative of the highest levels of financial integrity. Below provides several notable accomplishments and initiatives that contributed to our successful year:

- During FY2019, two major business changes have been put into motion: the move to a UPC perpetual count inventory and the decision to start daily accounts payable payments for resale accounting in April of 2020. As we transition to more commercial best practices and the new Enterprise Business System being deployed within the DeCA for resale will utilize a UPC based inventory management process. Initial efforts in FY 2019 will be the catalyst to begin remediation of DeCA's FY2018 material weakness related to Inventory.

- In addition, in order to maximize the new Enterprise Business Solution, DeCA is realigning our accounts payable process from a roll up period to a daily net due process. The rollup process based on payments to the vendor twice monthly will be replaced by daily payments based on due dates (effective April of FY20). In order to make this change, the RM and Information Technology teams worked directly with our industry partners in FY 2019 to ensure business processes and systemic compliance would be in place for our distributors and manufacturers. Many joint sessions were held to ensure transparency of changes in business flows and systemic capability.

- In an effort to protect financial assets, fraud prevention measures at the Central Meat Processing Plant (overseas) were implemented to include surveillance capabilities which were a first time approval from Host Nation authorities. This decreased the risk for financial losses significantly and increased the reasonable assurance over accurate inventoryreporting.

- Routine and recurring reporting on the Agency's overall budget, revenue generation and profit/loss status has provided transparency across the Agency with senior leaders and has established a heightened awareness on execution leading to streamlined requirements.

DeCA has a long standing history of being an audited Agency. For FY2019, DeCA's unmodified opinion demonstrates our commitment to financial excellence. We take great pride in achieving this level of financial review by an independent public accounting (IPA) firm. With each new FY, DeCA continues to improve and enhance our financial management processes to ensure sustainment of our business and to efficiently deliver the benefit. The efforts and time expended by our great team of professionals makes me proud to serve as DeCA's Chief Financial Officer. We will continue the pursuit of excellence within our financial management community and Agency in order to serve the most deserving patrons – our service members, their families and the growing group of authorized shoppers.

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Cynthia L. Morgan
Chief Financial Officer

DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
BALANCE SHEETS
As of September 30, 2019 and 2018
(amounts in thousands)

	2019	2018
Assets		
Intragovernmental:		
Fund balance with Treasury (Note 2)	$ 1,082,015	$ 1,035,595
Accounts receivable and other	196	117
Total intragovernmental assets	1,082,211	1,035,712
Cash	77,607	95,375
Accounts receivable and other assets, net	28,826	31,454
Inventory and related property, net (Note 3)	309,447	384,190
General property, plant, and equipment, net (Note 4)	772,675	781,967
Total assets	$ 2,270,766	$ 2,328,698
Liabilities (Note 5)		
Intragovernmental:		
Accounts payable	$ 47,754	$ 41,146
Accrued Payroll and Liabilities	30,674	32,046
Total intragovernmental liabilities	78,428	73,192
Accounts payable	321,970	352,141
Federal Employees Compensation Act actuarial liability	115,933	131,602
Environmental liabilities	29,584	30,023
Accrued Payroll and Liabilities	77,739	77,825
Total liabilities	$ 623,654	$ 664,783
Commitments and Contingencies (Note 9)		
Net Position (Note 6)		
Unexpended appropriations	$ 535,019	$ 387,509
Cumulative results of operations - dedicated collections (Note 10)	1,052,867	1,098,945
Cumulative results of operations - all other funds (combined totals)	59,226	177,461
Total cumulative results of operations	1,112,093	1,276,406
Total net position	$ 1,647,112	$ 1,663,915
Total liabilities and net position	$ 2,270,766	$ 2,328,698

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

DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
STATEMENT OF NET COST
For the Years Ended September 30, 2019 and 2018
(amounts in thousands)

Program costs:	**2019**	**2018**
Gross costs	$ 6,086,847	$ 6,247,015
Less: Earned revenue	(4,733,137)	(4,960,211)
Net cost of operations (Note 11)	$ 1,353,710	$ 1,286,804

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, 2019 and 2018
(amounts in thousands)

	2019			2018		
	Dedicated Collections	All Other Funds	Consolidated Total	Dedicated Collections	All Other Funds	Consolidated Total
Unexpended Appropriations:						
Beginning Balance	$ -	$ 387,509	$ 387,509	$ -	$ 278,929	$ 278,929
Budgetary Financing Sources:						
Appropriation transfer in/out	-	1,266,200	1,266,200	-	1,389,340	1,389,340
Other adjustments (recissions)	-	(317)	(317)	-	(47)	(47)
Appropriations transfers used	-	(1,118,373)	(1,118,373)	-	(1,280,713)	(1,280,713)
Total Budgetary Financing Sources:	-	147,510	147,510	-	108,580	108,580
Total Unexpended Appropriations (Note 6)	-	$ 535,019	$ 535,019	-	387,509	387,509
Cumulative Results of Operations:						
Beginning balance	$ 1,098,945	$177,461	$ 1,276,406	$ 1,093,585	$120,183	$ 1,213,768
Budgetary Financing Sources						
Appropriations transfers used	-	1,118,373	1,118,373	-	1,280,713	1,280,713
Non-exchange revenue	-	21,553	21,553	-	21,222	21,222
Other Financing Sources (Uses)						
Imputed financing (Note 7)	-	49,470	49,470	-	47,505	47,505
Transfers in (out) without reimbursement	2,170	(2,170)	-	2,397	(2,397)	-
Other Financing Sources (Uses)	-	1	1	-	2	2
Total Financing Sources	2,170	1,187,227	1,189,397	2,397	1,347,045	1,349,442
Net Cost of Operations	48,248	1,305,462	1,353,710	(2,963)	1,289,767	1,286,804
Net Change	(46,078)	(118,235)	(164,313)	5,360	57,278	62,638
Cumulative Results of Operations (Note 6 amd 10)	$ 1,052,867	$ 59,226	$ 1,112,093	$ 1,098,945	$ 177,461	$ 1,276,406
Total Net Position (Note 6)	$ 1,052,867	$ 594,245	$ 1,647,112	$ 1,098,945	$ 564,970	$ 1,663,915

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, 2019 and 2018
(amounts in thousands)

	2019	2018
Budgetary Resources:		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ 310,943	$ 230,844
Appropriations (discretionary and mandatory) (Note 8)	1,266,200	1,389,340
Contract authority (discretionary and mandatory) (Note 8)	4,454,263	4,689,687
Spending authority from offsetting collections (discretionary and mandatory)	287,144	248,027
Total budgetary resources	$ 6,318,550	$ 6,557,898
Status of Budgetary Resources:		
New obligations and upward adjustments (total)	$ 5,929,721	$ 6,246,638
Unobligated balances, end of year:		
Apportioned, unexpired accounts	388,218	310,332
Unexpired unobligated balance, end of year	388,218	310,332
Expired unobligatied balance, end of year	611	928
Unobligated balance, end of year (total)	388,829	311,260
Total budgetary resources	$ 6,318,550	$ 6,557,898
Outlays, Net:		
Outlays, net (discretionary and mandatory) (Note 11)	$ 1,219,463	$ 1,190,771
Agency outlays, net (discretionary and mandatory) (Note 11)	$ 1,219,463	$ 1,190,771

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

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. 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. 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 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.

C. 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.

D. 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.

E. 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. No allowance for doubtful accounts is deemed necessary for Federal accounts receivable.

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 $3,987 and $3,425 as of September 30, 2019 and 2018, respectively.

F. Inventory, net

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

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 operating system data of product level inventories. Balance on hand information as we move towards our final phases of deployment of EBS will be the basis for valuation of our inventory, however, this information was not used to support reported balances in FY 2019. Since FY 2018, DeCA has been migrating its legacy inventory business system to a fully integrated grocery ordering and inventory management system, called Enterprise Business Solution, or EBS. This system is continuing to move DeCA in the direction of utilizing a true perpetual inventory methodology. In FY 2019 DeCA contracted for 27 perpetual SKU based inventories to develop the proper perpetual requirements via inventory testing models at specified stores, as well as overcome technical constraints from bridging legacy and new systems in the inventory valuation process. All stores have maintained their monthly cyclical counts and recording of adjustments for estimated shrinkage. The results from the 27 stores of which 4 were failed inventories by the contractor, provided a basis for a weighted average adjustment by sales band and at Agency level.

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

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

General PP&E consists of buildings, structures, and facilities (BSF), 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.

DoD Financial Management Regulation accounting policy requires assets to be reported on the financial statement of the entity which controls access to the economic benefit of the asset. Since DeCA controls access to the economic benefit of the commissaries in which it operates, such buildings and equipment financed or otherwise obtained by other DoD agencies, are transferred to DeCA upon construction completion. Such transfer shall be recorded as Transfer In, in the Statement of Net Position.

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 and $20 for real property).

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 forty-five years for BSF and five to ten years for software and equipment. The actual commencement of depreciation is based on the midyear convention method for buildings. Under the midyear convention method, six months of depreciation is computed and expensed in the first and last year of an assets useful life regardless of the actual month an asset was placed in or removed from service. The month available for service method is used for all other capital assets.

When DeCA funds the acquisition of real property in a host nation or in the United States, and meets the DoD Financial Management Regulation accounting policy outlined above, it reports the asset in its financial statements. If DeCA buildings, structures or facilities are eventually closed, losses are recorded for the net book value of the assets at the time of closure.

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

H. 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.I.

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.

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.

I. 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.

J. Imputed Financing and Costs

DeCA recognizes imputed financing related to Federal retirement plans, health benefits, and life insurance.

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.

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 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.

Note 11 – "Reconciliation of the Net Cost of Operations to Net Outlays" provides specific detailed information.

K. Environmental Liabilities

DeCA's environmental liabilities reflect the potential liability associated with the clean-up and removal of environmentally hazardous materials, primarily asbestos and lead based paints in DeCA's facilities. DeCA estimates its environmental liability based on the number of facilities constructed before 1988 that have not been remediated. The estimate is periodically adjusted upon completion of scheduled renovation projects. Actual costs may differ from the estimate due to possible changes resulting from inflation, deflation, technology, and/or applicable laws and regulations.

The environmental liabilities for the DeCA are based on accounting estimates which require certain judgments and assumptions that are reasonably based upon information available at the time the estimates are calculated.

L. Net Position

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

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.

M. 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.

N. 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.

O. 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.

(Except as noted, all dollar amounts are in thousands)

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, 2019 and 2018.

Fund balances:	**2019**	**2018**
Appropriated Funds		
General Fund	$ 611	$ 928
Working Capital Fund	655,571	571,134
Total	656,182	572,062
Revolving Funds		
General Fund	-	-
Working Capital Fund	23,542	33,828
Total	23,542	33,828
Trust funds	402,291	429,705
Total	$ 1,082,015	$ 1,035,595

(Except as noted, all dollar amounts are in thousands)

The following table shows the status of the fund balances as of September 30, 2019 and, 2018.

		2019						
Status of fund balances:		**Appropriated**		**Revolving**		**Trust**		**Total**
Unobligated balance available	$	375,571			$	12,647	$	388,218
Unobligated balance unavailable		611		-		-	$	611
Obligated balance not yet disbursed, net of contract authority		280,000		23,542		389,644	$	693,186
Totals	$	656,182	$	23,542	$	402,291	$	1,082,015

		2018						
Status of fund balances:		**Appropriated**		**Revolving**		**Trust**		**Total**
Unobligated balance available	$	282,093	$	-	$	28,239	$	310,332
Unobligated balance unavailable		928		-		-		928
Obligated balance not yet disbursed, net of contract authority		289,041		33,828		401,466		724,335
Totals	$	572,062	$	33,828	$	429,705	$	1,035,595

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.

(Except as noted, all dollar amounts are in thousands)

NOTE 3 – INVENTORY AND RELATED PROPERTY, NET

The following table summarizes net inventory for September 30, 2019 and 2018:

	2019
Inventory LAC without estimate for losses incurred	$ 309,342
Estimate for gains incurred	561
Inventory on hand at LAC	309,903
Unrealized holding gain (loss)	(456)
Inventory, net	$ 309,447

	2018
Inventory LAC without estimate for losses incurred	$ 411,520
Estimate for losses incurred	(24,911)
Inventory on hand at LAC	386,609
Unrealized holding gain (loss)	(2,419)
Inventory, net	$ 384,190

NOTE 4 – GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

General property, plant and equipment (PP&E) at September 30, 2019 and 2018 is summarized as follows:

	2019		
PP&E category	**Acquisition Value**	**Accumulated Depreciation**	**Net**
Buildings, structures, and facilities	$ 2,272,145	$ (1,624,562)	$ 647,583
Software	54,388	(33,052)	21,336
Equipment and other assets	234,781	(169,556)	65,225
Construction-in-progress	38,531	-	38,531
Totals	$ 2,599,845	$ (1,827,170)	$ 772,675

	2018		
PP&E category	**Acquisition Value**	**Accumulated Depreciation**	**Net**
Buildings, structures, and facilities	$ 2,268,846	$ (1,590,787)	$ 678,059
Software	42,181	(30,982)	11,199
Equipment and other assets	214,546	(168,926)	45,620
Construction-in-progress	47,089	-	47,089
Totals	$ 2,572,662	$ (1,790,695)	$ 781,967

In July 2016, a new Commissary was built and funded by a non-Federal entity; however ownership of such commissary is expected to be transferred to DoD's United States Marine Corp (USMC). Once the transfer from the non-Federal entity to the USMC is complete, that ownership will then be transferred to DeCA, as required by DoD policy. Until the transactions are complete, DeCA cannot record the commissary building as an asset in its financial statements.

Based on Generally Accepted Accounting Principles (GAAP), DeCA has determined that once the transaction is complete, the asset would be recorded on its financial statements. This decision is based on a two-fold criteria stated as follows: The financial reporting entity will be the entity which derives the primary economic benefit from utilization of the Real Property Asset in the achievement of the entity's mission and who is also responsible for programming, budgeting, and executing (directly or through reimbursement) the sustainment requirements for that Real Property Asset.

In addition, with respect to the use of the commissary, DeCA has evaluated the need to record imputed cost based on SFFAS No. 4 which addresses imputed cost between federal agencies but does not extend to entities outside of the federal context. Therefore, the concept of imputed costs does not apply to this facility since it represents activity between a DoD component and a foreign government/host nation.

(Except as noted, all dollar amounts are in thousands)

NOTE 5 - LIABILITIES

The following table summarizes total liabilities covered and not covered by budgetary resources as of September 30, 2019 and 2018:

	2019		
Intragovernmental:	**Covered by Budgetary Resources**	**Not Covered by Budgetary Resources**	**Total**
Accounts Payable	$ 47,754	$ -	$ 47,754
Other Liabilities	4,248	26,426	30,674
Subtotal	52,002	26,426	78,428
With the public:			
Accounts payable	321,970	-	321,970
Federal Empoyees Compenstion Act actuarial liability	-	115,933	115,933
Environmental liabilities	-	29,584	29,584
Other Liabilities	23,902	53,837	77,739
Subtotal	345,872	199,354	545,226
Totals	$ 397,874	$ 225,780	$ 623,654

	2018		
Intragovernmental:	**Covered by Budgetary Resources**	**Not Covered by Budgetary Resources**	**Total**
Accounts Payable	$ 41,146	$ -	$ 41,146
Other Liabilities	4,060	27,986	32,046
Subtotal	45,206	27,986	73,192
With the public:			-
Accounts payable	352,141	-	352,141
Federal Empoyees Compenstion Act actuarial liability	-	131,602	131,602
Environmental liabilities	-	30,023	30,023
Other Liabilities	24,210	53,615	77,825
Subtotal	376,351	215,240	591,591
Totals	$ 421,557	$ 243,226	$ 664,783

(Except as noted, all dollar amounts are in thousands)

The following table summarizes current and noncurrent other liabilities as of September 30, 2019 and 2018:

Other liabilities	2019 Current Liabilities	2019 Non-Current Liabilities	2019 Total
Intragovernmental:			
Workers compensation	$ 12,368	$ 14,059	$ 26,427
Employer contributions and payroll taxes payable	4,247	-	4,247
Subtotal	16,615	14,059	30,674
With the public:			
Accrued funded payroll and benefits	23,902	-	23,902
Foreign national separation pay	10,649	-	10,649
Accrued leave	43,188	-	43,188
Subtotal	77,739	-	77,739
Totals	$ 94,354	$ 14,059	$ 108,413

Other liabilities	2018 Current Liabilities	2018 Non-Current Liabilities	2018 Total
Intragovernmental:			
Workers compensation	$ 12,249	$ 15,737	$ 27,986
Employer contributions and payroll taxes payable	4,060	-	4,060
Subtotal	16,309	15,737	32,046
With the public:			
Accrued funded payroll and benefits	24,210	-	24,210
Foreign national separation pay	10,106	-	10,106
Accrued leave	43,509	-	43,509
Subtotal	77,825	-	77,825
Totals	$ 94,134	$ 15,737	$ 109,871

(Except as noted, all dollar amounts are in thousands)

NOTE 6 - NET POSITION

The following table summarizes the net position by fund type as of September 30, 2019 and 2018:

	2019		
Net position:	**General Funds**	**Working Capital Funds**	**Total**
Unexpended appropriations	$ 611	$ 534,408	$ 535,019
Cumulative results of operations - dedicated collections	1,052,867	-	$ 1,052,867
Cumulative results of operations - other funds	-	59,226	$ 59,226
Total cumulative results of operations	1,052,867	59,226	1,112,093
Totals	$ 1,053,478	$ 593,634	$ 1,647,112

	2018		
Net position:	**General Funds**	**Working Capital Funds**	**Total**
Unexpended appropriations	$ 928	$ 386,581	$ 387,509
Cumulative results of operations - dedicated collections	1,098,945	-	1,098,945
Cumulative results of operations - other funds	-	177,461	177,461
Total cumulative results of operations	1,098,945	177,461	1,276,406
Totals	$ 1,099,873	$ 564,042	$ 1,663,915

NOTE 7 - IMPUTED FINANCING

The imputed financing and cost for employee benefits as of September 30, 2019 and 2018 is summarized below:

Benefit Category	**2019**	**2018**
CSRS/FERS	$ 12,963	$ 10,779
FEHB	36,409	36,595
FEGLI	98	105
Judgement Fund	-	26
Total	$ 49,470	$ 47,505

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 2019 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 2020. Accordingly, a comparison between the fiscal year 2019 data reflected on the statement of budgetary resources and fiscal year 2019 data in the President's Budget cannot be performed. The Budget with the actual amount for fiscal year 2019 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 2019 and FY 2018 included appropriation transfers in the amounts of $1,266,200 and $1,389,340 respectively, and contract authority in the amounts of $4,454,263 and $4,689,687 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, 2019 and September 30, 2018 were $493,662 and $516,633 respectively. Working Capital Fund intragovernmental budgetary resources for undelivered orders at September 30, 2019 and September 30, 2018, were $33,925 and $37,133 while nonfederal budgetary resources for undelivered orders were $129,776 and $123,722. General Fund intragovernmental budgetary resources for undelivered orders at September 30, 2019 and September 30, 2018 were $239,077 and $192,378 while nonfederal budgetary resources for undelivered orders were $90,884 and $163,400.

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.

(Except as noted, all dollar amounts are in thousands)

NOTE 9– COMMITMENTS AND CONTINGENCIES

DeCA has no capital leases, and future non-cancelable lease payments for operating leases are not material to DeCA's financial statements.

DeCA is a party in various administrative proceeding and legal actions related to claims for environmental damage, equal opportunity matters, and 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, 2019 and 2018:

Balance Sheet		**2019**		**2018**
Assets:				
Fund balance with Treasury (Note 2)	$	402,291	$	429,705
Cash and accounts receivable		3,696		4,568
Property, plant, and equipment		707,636		711,729
Total assets	$	1,113,623	$	1,146,002
Liabilities:				
Accounts payable	$	31,200	$	17,034
Environmental liabilities		29,584		30,023
Total liabilities		60,784		47,057
Cumulative results of operations		1,052,867		1,098,945
Total liabilities and net position	$	1,113,651	$	1,146,002
Statement of Net Cost				
Program costs	$	272,981	$	238,629
Earned revenue		(224,733)		(241,592)
Net income (loss) from operations	$	48,248	$	(2,963)

(Except as noted, all dollar amounts are in thousands)

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, 2019:

	2019		
	Intragovernmental	**With the Public**	**Total**
Net Cost of Operations	$ 495,044	$ 858,666	$ 1,353,710
Components of Net Cost That are Not Part of Net Outlays:			
Property, Plant, and Equipment Depreciation	$ -	$ (52,514)	(52,514)
Property, Plant, and Equipment Disposal & Revaluation	-	(1,441)	(1,441)
Other	-	(4,517,175)	(4,517,175)
Increase/(decrease) in assets:			
Accounts Receivable	80	(2,849)	(2,769)
Other Assets	-	(17,547)	(17,547)
(Increase)/decrease in liabilities:			
Accounts Payable	(6,608)	30,171	23,563
Salaries and Benefits	(189)	308	119
Environmental and Disposable Liabilities	-	439	439
Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)	1,560	15,446	17,006
Other financing sources:			
Federal employee retirement benefits costs paid by OPM and Imputed to the Agency	(49,470)	-	(49,470)
Transfer out (in) without reimbursement	-	-	-
Total Components of Net Cost That Are Not Part of Net Outlays	(54,627)	(4,545,162)	(4,599,789)
Components of Net Outlays That Are Not Part of Net Cost			
Acquisition of capital assets	32,513	12,150	44,663
Acquisition of inventory	321	4,444,629	4,444,950
Other	-	(21,553)	(21,553)
Total Components of Net Outlays That Are Not Part of Net Cost	32,834	4,435,226	4,468,060
Net Outlays	473,251	748,730	1,221,981
Agency Outlays, Net, Statement of Budgetary Resources			1,219,463
Reconciling Difference			2,518

DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
COMBINED SCHEDULE OF BUDGETARY RESOURCES
For the Year Ended September 30, 2019
(amounts in thousands)

	Defense Working Capital Funds		General Funds		
	Operations	Resale	Surcharge	Military Construction	Combined
Budgetary Resources:					
Unobligated balance brought forward, Oct 1	$ 282,093	$ -	$ 28,239	$ 611	$ 310,943
Appropriations (discretionary and mandatory) (Note 8)	1,266,200	-	-	-	1,266,200
Contract authority (discretionary and mandatory) (Note 8)	3,179	4,451,084	-	-	4,454,263
Spending authority from offsetting collections (discretionary and mandatory)	59,007	-	228,137	-	287,144
Total budgetary resources	$ 1,610,479	$ 4,451,084	$256,376	$ 611	$6,318,550
Status of Budgetary Resources:					
New obligations and upward adjustments (total) (Note 11)	$ 1,234,908	$ 4,451,084	$243,729	$ -	$5,929,721
Unobligated balances, end of year:					
Apportioned, unexpired accounts	375,571	-	12,647	-	388,218
Unexpired unobligationed balance, end of year	375,571	-	12,647	-	388,218
Expired unobligated balance, end of year	-	-	-	611	611
Unobligated balance, end of year (total)	375,571	-	12,647	611	$ 388,829
Total budgetary resources	$ 1,610,479	$ 4,451,084	$256,376	$ 611	$6,318,550
Outlays, Net:					
Outlays, net (total) (discretionary and mandatory)	$ 1,231,763	$ (39,714)	$ 27,414	$ -	$1,219,463
Agency outlays, net (discretionary and mandatory)	$ 1,231,763	$ (39,714)	$ 27,414	$ -	$1,219,463

DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
COMBINED SCHEDULE OF BUDGETARY RESOURCES
For the Year Ended September 30, 2018 *(amounts in thousands)*

	Defense Working Capital Funds		General Funds		
	Operations	**Resale**	**Surcharge**	**Military Construction**	**Combined**
Budgetary Resources:					
Unobligated balance brought forward, Oct 1	$ 176,479	$ -	$ 53,437	$ 928	$ 230,844
Appropriations (discretionary and mandatory) (Note 8)	1,389,340	-	-	-	1,389,340
Contract authority (discretionary and mandatory) (Note 8)	9,773	4,679,914	-	-	4,689,687
Spending authority from offsetting collections (discretionary and mandatory)	9,077	-	238,950	-	248,027
Total budgetary resources	$ 1,584,669	$ 4,679,914	$ 292,387	$ 928	$ 6,557,898
Status of Budgetary Resources:					
New obligations and upward adjustments (total) (Note 11)	$ 1,302,576	$ 4,679,914	$ 264,148	$ -	$ 6,246,638
Unobligated balances, end of year:					
Apportioned, unexpired accounts	282,093	-	28,239	-	310,332
Unexpired unobligationed balance, end of year	282,093	-	28,239	-	310,332
Expired unobligated balance, end of year	-	-	-	928	928
Unobligated balance, end of year (total)	282,093	-	28,239	928	$ 311,260
Total budgetary resources	$ 1,584,669	$ 4,679,914	$ 292,387	$ 928	$ 6,557,898
Outlays, net:					
Outlays, net (total) (discretionary and mandatory)	$ 1,306,795	$ (89,248)	$ (26,776)	$ -	$ 1,190,771
Agency outlays, net (discretionary and mandatory)	$ 1,306,795	$ (89,248)	$ (26,776)	$ -	$ 1,190,771

DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
DEFERRED MAINTENANCE AND REPAIRS
For the Year Ended September 30, 2019
(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.

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INDEPENDENT AUDITORS' REPORT

Defense Commissary Agency
Special Assistant for Commissary Operations
Chair, Financial Audit Advisory Committee

Report on the Financial Statements

We have audited the accompanying financial statements of the Defense Commissary Agency (DeCA), a component of the United States Department of Defense (DoD), which comprise the balance sheets as of September 30, 2019 and 2018, and the related statements of net cost and changes in net position, and the combined statements of budgetary resources for the years then ended, and the related notes to the financial statements. (Collectively referred to as financial statements).

Management's Responsibility for the Financial Statements

DeCA management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America (U.S.); this includes 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. We conducted our audits in accordance with auditing standards generally accepted in the U.S.; 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. 19-03*, Audit Requirements for Federal Financial Statements* (OMB Bulletin 19-03). Those standards and OMB Bulletin 19-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit 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 assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Modified (Qualified) Opinion in FY2018 and Unmodified Opinion in FY2019

DeCA initiated the migration of its legacy 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 for FY2018, which were used to support, and the basis for adjustments to, recorded inventory values for each commissary. In lieu of this key control, DeCA is developing store level perpetual inventory requirements in conjunction with this implementation.

As a result, during FY2018, DeCA did not have an established process to validate and reconcile a comprehensive set of product level inventory data maintained at each commissary with the recorded inventory balances. Quantification of the effect of this matter was not practical in FY2018.

In FY2019, DeCA hired a contractor to perform inventory counts at 23 commissaries. Using the results of these counts, DeCA developed a methodology to determine the adjustments to inventory necessary at other commissaries not counted. Through these efforts in FY2019 DeCA was able to quantify the adjustment to inventory and record adjustments in the general ledger.

Opinion on the Financial Statements

In our opinion, except for the possible effects of the matter described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Defense Commissary Agency as of September 30, 2019 and 2018, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the U.S.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the U.S. require that the information in DeCA's Management Discussion and Analysis (MD&A) and other Required Supplementary Information (RSI) (Combining Schedule of Budgetary Resources and Deferred Maintenance and Repairs) in DeCA's Annual Financial Report, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Federal Accounting Standards Advisory Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the MD&A and other RSI in accordance with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on this supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

<u>*Other Information*</u>
Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The other information, as noted in the table of contents of DeCA's Fiscal Year 2019 Financial Report (pages 2 through 11, 30 through 36, and the Chief Financial Officer's Message on page 38), is presented for purposes of additional analysis and is not a required part of the financial statements. In addition, management has included references to information on websites or other data outside of the Agency Financial Report. This information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on the other information.

Report on Internal Control over Financial Reporting and on Compliance Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered DeCA's internal control over financial reporting (internal control) to determine the 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 DeCA's internal control or on management's statement of assurance on internal control included in the MD&A. Accordingly, we do not express an opinion on the effectiveness of DeCA's internal control or on management's statement of assurance on internal control included in the MD&A.

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, such that there is a reasonable possibility that a material misstatement of DeCA's financial statements will not be prevented, or detected and corrected on a timely basis. A s*ignificant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described below and in Appendix A that we consider to be a material weakness.

<u>Controls over Inventory Need Improvement</u>

As described in Note 1 to the financial statements, DeCA initiated the migration of its legacy inventory business system to a new ordering and inventory management system and, in connection with this migration, ceased performing annual physical inventories at its commissaries in FY2018, which were used to support, and the basis for adjustments to the recorded inventory balances. In lieu of this key control, DeCA does not have an established process to reconcile a comprehensive set of product level inventory data maintained at each commissary with the recorded inventory balances.

In addition, our testing of inventory quantities identified erroneous data and significant variances between actual product quantities and the quantities recorded in the legacy inventory business system. Although stores do perform monthly cycle counts, DeCA does not have a structured process for stores to perform, track and monitor all product level quantities maintained within the inventory business system to ensure the accuracy of all inventory data for each store.

We noted DeCA made progress in the current year to ensure the inventory balance was materially correct. In FY2019, DeCA hired contractors to perform inventory counts at 23 commissaries. Using the results of these counts, DeCA developed a methodology to determine the adjustments to inventory necessary at commissaries not counted. In 2020, DeCA plans to continue to roll out the new inventory system to the remaining commissaries and have contractor(s) perform accountable inventory counts.

We made recommendations to DeCA management to ensure these controls are properly designed in connection with its inventory system migration efforts.

Compliance

As part of obtaining reasonable assurance about whether the DeCA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct effect on the determination of material financial statement amounts and disclosures. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance, described below and in Appendix B, which is required to be reported under *Government Auditing Standards* or OMB Bulletin 19-03.

<u>DeCA's Financial Management Systems Do Not Comply with Federal Requirements</u>

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.

DeCA also uses two separate DoD-owned accounting systems to process financial transactions. Neither system is able to process transactions in accordance with the United States Standard General Ledger (USSGL) at the transaction level, resulting in the need to apply extensive manual processes (journal entries outside feeder systems) to adjust balances in those systems prior to DeCA preparing its consolidated financial statements.

DeCA is currently working to migrate to the DoD compliant system, Defense Agency Initiative (DAI). While migration efforts are now underway, this process is expected to take several years to complete. DeCA's complete migration to a new compliant DoD-owned accounting system is currently scheduled for FY2021.

Management's Responsibility for Internal Control and Compliance

Management is responsible for (1) evaluating the effectiveness of internal control over financial reporting based on criteria established under the Federal Managers' Financial Integrity Act of 1982 (FMFIA), (2) providing a statement of assurance on the overall effectiveness on internal control over financial reporting, and (3) complying with laws, regulations, contracts and grant agreements.

Auditors' Responsibility

We are responsible for obtaining a sufficient understanding of internal controls over financial reporting to plan the audit and testing compliance with certain provisions of laws, regulations, contracts, and grant agreements.

We did not evaluate all internal controls relevant to operating objectives as broadly established by FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our audit results to future periods is subject to risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws, regulations, and contracts applicable to DeCA. We limited our tests to certain provisions of laws, regulations, contracts and grants noncompliance with which could have a direct effect on the determination of material financial statement amounts and disclosures. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

Management's Response to Findings

Management's response to the findings identified in our report is presented in Exhibit D. We did not audit DeCA's response and, accordingly, we express no opinion on it.

Status of Prior Year Control Deficiencies and Noncompliance Issues

We have reviewed the status of DeCA's corrective actions with respect to the findings included in the prior year's Independent Auditors' Report, dated November 8, 2018. The status of prior year findings is presented in Exhibit C.

Purpose of the Report on Internal Control over Financial Reporting and on Compliance

The purpose of the Report on Internal Control over Financial Reporting and on Compliance is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of DeCA's internal control or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering DeCA's internal control and compliance. Accordingly, these reports are not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenbelt, Maryland
November 15, 2019

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Material Weakness
September 30, 2019

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, some progress was made in the current year. In FY2019, DeCA hired contractors to perform inventory counts at 23 commissaries. Using the results of these counts, DeCA developed a methodology to determine the adjustments to inventory necessary at commissaries not counted. In 2020, DeCA plans to continue to roll out the new inventory system to the remaining commissaries and have contractor(s) perform accountable inventory counts.

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 most of the erroneous data related to pallets of grocery items, and shippers, which are 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 anomalous data with seasonal and bulk items, such as loose candy. 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 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 8 commissaries of varying size, we found 72% of the items selected for testing had actual quantities that differed from the recorded quantities in the inventory management system and 18% of the items with variances had variances in excess of 10% from the recorded quantities. We noted instances where shippers were not recorded in inventory.

In addition, DeCA performed inventory counts at 23 commissaries and on average there was a 58% decrease in book value inventory necessary based on the counts. Also, for example, there was inconsistency in how multiple contractors interpreted requirements, incomplete inventory certifications (not signed or missing items), and adjustments necessary for unscanable products. We noted that on average 13% of the items in inventory at the 23 commissaries were valued at estimated costs rates rather than actual costs and for six commissaries the contractor did not provide a detail list of quantity counted for each product but rather a dollar amount counted overall. The detailed lists of quantity by product were only viewable the day of the count. Without accurate data on inventory quantities, DeCA is not able to adequately support the balance of its inventory reported in its accounting records without large on top adjustments. 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:

1. Continue to roll out the DAXIM inventory system and complete inventory counts to ensure inventory is accurate.
2. Develop standard comprehensive inventory reports that are generated for the review and analysis by store managers.
3. Ensure pallets and shippers are removed from the inventory system when broken down.
4. Ensure all shippers are recorded in inventory.
5. Ensure inventory quantities are properly adjusted for vendor returns.
6. Review the policies and procedures for performing and reporting on regular random inventory counts at the product level.
7. Review the process for accounting for direct ship and delivery (DSD) items
8. 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.
9. Establish procedures for the comparison of product level inventory reports to the general ledger balances, taking into account normal timing differences and shrinkage adjustments.
10. Ensure consistent contractor count business practices, enhance standardize count procedures and ensure sound count internal controls.
11. Resolve count issues for inventory valued by weight or not scanable.

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	Expect to be completed in 2020
Inventory management	DIBS	IM (EBS)	Migration in process	Expect to be completed in 2020
Distribution Center Inventory Management	Manhattan WMS	WMS (EBS)	Migration in process	Expect to be completed in 2020
Voucher/coupon management	SAVES	Emerald and RetailOne (EBS)	Migration in process	Expect to be completed in 2022
Vendor credit/return management	AVCM	Power HQ (EBS)	Migration completed	Automated credits migrated
Revenue/sales management	CARTS	CARTS R/M	Migration in process	Expect to be completed in 2022
Personnel management	DCPDS	-	-	SOC effective
Timekeeping	TAS	-	-	Testing at stores
Payroll management	DCPS	-	-	SOC effective
Property Management	DPAS	-	-	SOC effective
Travel Management	DTS	-	-	SOC effective
Procurement/contract management	DBMS	DAI	-	Expect to be completed in 2021
Voucher management	iRAPT	-	-	SOC effective
Disbursements	ADS	-	-	SOC effective
Financial accounting	DBMS/ STANFINS	DAI	In planning	Planned for 2021
Financial reporting	DDRS	-	-	SOC modified effective with findings

DeCA uses two separate DoD-owned accounting systems (DBMS and STANFINS) to process financial transactions that were developed and implemented prior to the establishment of current federal financial management system requirements. DBMS accounts for transactions associated with the appropriated funds and surcharge collections and STANFINS accounts for all resale inventory transactions. These systems are not interfaced, and do not comply with Federal financial management systems requirements or the application of the United States Standard General Ledger (USSGL) at the transaction level. These limitations affect the manner in which certain accounting transactions are recorded by DeCA.

For example, one system does not contain a general ledger account to record unexpended appropriation transfers. As a result, DeCA and its Defense Finance and Accounting Service (DFAS) – Columbus Center and DeCA personnel must use a combination of information inside and outside of that system to calculate unexpended appropriation transfers at the end of each reporting period. Also, neither system is able to process transactions in accordance with the USSGL at the detail level, resulting in the need to apply extensive manual processes to adjust balances in those systems prior to DeCA preparing its financial statements.

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, 2019, DeCA prepared 167 JVs to a variety of accounts with an absolute value of approximately $22 billion. Many of these entries are necessary as a direct result of the noncompliance and limitations of the systems.

DeCA's inventory accounts also require significant manual intervention to record a variety of accounting events, including allowances for losses relating to physical changes to inventory during the year. Through September 30, 2019, 104 inventory-related JVs were processed with an absolute value of $3 billion. The volume and complexity of the JVs processed in the inventory general ledger accounts increases the risk that the composition of the inventory value (cost, shrinkage and valuation adjustments) at year end is incorrectly reported in DeCA's financial statements.

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 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.

Even though we found that the dollar impact of certain vendor transactions being recorded inconsistently was immaterial to the financial statements, JVs (including those for inventory) processed during the year were materially correct, and DeCA has compensating controls to monitor the use of these JVs, these 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:

1. 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.
2. 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).
3. Continue to employ compensating control procedures, through additional analytical processes and detailed reconciliations, to ensure period end financial statements are accurately presented.
4. 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
Summary of Prior Year Findings
September 30, 2019

Prior Finding	Recommendation	Current Status
Controls over Inventory Need Improvement	1. Develop standard comprehensive inventory reports that are generated for the review and analysis by store managers. 2. Ensure pallets and shippers are removed from the inventory system when broken down. 3. Ensure inventory quantities are properly adjusted for vendor returns. 4. Review the policies and procedures for performing and reporting on regular random inventory counts at the product level. 5. Review the process for accounting for direct ship and delivery (DSD) items. 6. 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. 7. Establish procedures for the comparison of product level inventory reports to the general ledger balances, taking into account normal timing differences and shrinkage adjustments.	Repeat Finding
Noncompliance with the Federal Financial Management Systems Requirements	1. 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. 2. 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). 3. Continue to employ compensating control procedures, through additional analytical processes and detailed reconciliations, to ensure period end financial statements are accurately presented. 4. Explore opportunities for all commissaries to report revenues and expenses to DeCA headquarters consistently prior to the new system implementation.	Repeat Finding

EXHIBIT D
Management's Response to Auditors' Report
September 30, 2019

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

November 14, 2019

Mr. Pat Byer, Principal
CliftonLarsonAllen, LLP
901 N. Glebe Road, Suite 200
Arlington, VA 22203-1853

Mr. Pat Byer,

In response to the Independent Auditors' Report dated November 15, 2019, of the fiscal years 2019 and 2018 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 material weakness over internal controls identified in Exhibit A and non-compliance identified in Exhibit B of the report.

Exhibit A, Controls over Inventory Needs Improvement: DeCA continues its business transformation, particularly as it relates to our resale operations. We continue to deploy the new integrated commercial grocery inventory ordering and management system within EBS and will be making the shift in fiscal year 2020 to Power Financials for resale. During FY19, DeCA was not successful in awarding a long term perpetual contractor. This delay prevented the agency from being able to adjust each stores inventory's value based on a formal count. However, an alternate plan was put into place that resulted in twenty seven small individual store awards to four different contractors to perform inventories between July and September, 2019. DeCA was able to capture lessons learned to use as a basis for developing a new performance work statement that will go forward to meet our Agency wide inventory contractor needs. DeCA is anticipating an award for a long term contract around April of 2020. In addition, the inventories that were accomplished allowed DeCA to develop a methodology for estimating inventory adjustments by sales band for the other stores in the agency. This estimate was used to adjust the agency level inventory values to provide a more accurate reflection of value in the financial reports which was a catalyst for regaining our unmodified opinion. A focused effort continues and deepens the Agency's commitment to put in place the proper procedures, internal controls and overall governance for inventory management as described in the recommendations by the auditors.

Exhibit B Noncompliance with the Federal Financial Management System Requirements: DeCA's Federal Financial Management systems requirements and use of the U.S. Standard General Ledger (USSGL) at the transaction level are not in compliance with the FFMIA of 1996. DeCA acknowledges this non-compliance as a result of aging and outdated technology from two key legacy systems, the Defense Business Management System (DBMS) and the Standard Finance System (STANFINS). The need to consolidate two legacy systems for consolidated reporting creates the need for a higher than normal level of manually processed journal vouchers (JVs) to ensure accurate reporting. DeCA has numerous compensating controls in place to include systems reconciliation, JV reviews, JV approvals and USSGL crosswalks to ensure accurate financial reporting. DeCA works closely with our service provider, DFAS, to employ controls on their end of the JV process to ensure accuracy, nature and necessity.

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

Additionally, DeCA is currently in the process of deploying a new resale business system that will ultimately feed summary level general ledger data into the Defense Agency Initiative (DAI). DeCA's non-resale accounts (Commissary Operations and Surcharge) is scheduled for deployment in FY2021. This integration into DAI is the corrective action plan for the noncompliance with the Federal Financial Management System requirement.

For additional concerns regarding these responses, please address those to me or Ms. Linda Randall, Director of Accounting. I can be reached at 804.734.8000, ext. 48794, Cynthia.morgan@deca.mil or Ms. Randall can be contacted at (804) 734- 8000 X 8642 or linda.randall@deca.mil.

MORGAN.CYNTHIA.L.1229474231 Digitally signed by MORGAN.CYNTHIA.L.1229474231 Date: 2019.11.14 17:14:49 -05'00'
Cynthia L. Morgan
Chief Financial Officer
Defense Commissary Agency

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Glossary of Acronyms

ACM	–	Asbestos Containing Material
ACSI	–	American Customer Satisfaction Index
AFR	–	Agency Financial Report
BSF	–	Buildings, Structures, and Facilities
CCSS	–	Commissary Customer Service Survey
CDC	–	Central Distribution Center
CFO	–	Chief Financial Officer
CLA	–	CliftonLarsonAllen
CPI	–	Continuous Process Improvement
CUEC	–	Complimentary User Entity Controls
CSRS	–	Civilian Service Retirement System
DeCA	–	Defense Commissary Agency
DFAS	–	Defense Finance and Accounting Service
DoD	–	Department of Defense
DOL	–	Department of Labor
DWCF	–	Defense Working Capital Fund
EBS	–	Enterprise Business Solution
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
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

Glossary of Acronyms

GAAP – Generally Accepted Accounting Principles

GF – General Funds

GPRAMA – Government Performance and Results Modernization Act

ICOFR – Internal Controls over Financial Reporting

ICOFS – Internal Controls over Financial Systems

ICONO – Internal Controls over Non-Financial Operations

IDEAS – Improve Defense Commissary Agency’s Efficiency and Service

LAC – Latest Acquisition Cost

M&RA – Manpower and Reserve Affairs

MICP – Manager’s Internal Controls Program

NDAA – National Defense Authorization Act

OASD – Office of the Assistant Secretary of Defense

OMB – Office of Management and Budget

OPM – Office of Personnel Management

PAR – Performance and Accountability Report

SAT – Senior Assessment Team

SB – Small Business

SBR – Statement of Budgetary Resources

SCNP – Statement of Changes in Net Position

SF – Square Feet

Treasury – United States Department of the Treasury

US – United States

USMC – United States Marine Corps

USSGL – United States Standard General Ledger

WCF – Working Capital Fund