Defense Commissary Agency

Annual Financial Report

Fiscal Year 2020

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FOREWORD

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

Under the CFO Act, OMB also requires DoD and other agencies to incorporate their annual financial statements into a Performance and Accountability Report (PAR) or an alternative Agency Financial Report (AFR). Although DeCA is not required to prepare a separate PAR or AFR, this document, which is aligned to the statutory guidance framework, has been prepared to enhance the presentation of performance, management, financial information, and to demonstrate a higher standard of accountability. DeCA will post its FY 2020 Annual Financial Report at www.commissaries.com by the end of the 1st Quarter, FY 2021.

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DIRECTOR'S MESSAGE

To say the least, fiscal year 2020 was a historic year for the Defense Commissary Agency (DeCA). Between the global Coronavirus (COVID-19) pandemic and the expansion of the agency's customer base by up to 4 million new patrons, DeCA had to be more flexible in FY 2020 than any other year since perhaps 1991 when the agency stood up. The magnitude of what this agency has experienced this fiscal year really hits home when you add to the mix the continued deployment of DeCA's Enterprise Business Solution (EBS), complete store resets and new planograms, the ongoing deployment of CLICK2GO, natural disasters, and leadership transitions; but no matter what the situation called for, the agency's employees responded with character, commitment, and competence. Here's a list of the agency's accomplishments:

- **COVID-19 Pandemic.** As the pandemic began to spread worldwide, the Department of Defense designated commissaries, our central distribution centers (CDCs), and central meat processing plant as mission critical to DoD's response. This helped smooth the way for DeCA to become more nimble in responding to COVID-19. DeCA used its critical hire authority to fast-track the hiring of over 1,000 temporary store and CDC employees needed to keep stores properly staffed. At some locations, installations volunteered service members to help stock shelves. As products of all types began flying off the shelves around the world, DeCA's logistic network really began to hum. Inbound shipments jumped 37 percent for the Pacific and 30 percent for Europe, and the agency arranged for 35 airlifts delivering over 4 million pounds of product overseas. In the U.S., the agency's distributors were 1-2 days behind normal delivery schedules during a period when customers were panic-buying, causing empty shelves. In March, the agency posted record-breaking sales numbers. According to Nielson, a global provider of syndicated data, weekly U.S. commissary sales, not including Alaska and Hawaii, peaked during the week ending March 14, skyrocketing 90 percent over the same period in 2019. The week ending March 21 was also huge, with a sales spike of 64.2 percent, year-over- year. On April 14, we announced our participation in the agent shopping program, where installation leaders recruited volunteers and connected them with customers who could not shop for themselves. Meanwhile, to help protect our employees and customers, we began to make changes to our store processes. We installed acrylic shields at checkouts, began disinfecting shopping carts, installed handwashing stations, required face coverings, set purchase limits on certain high-demand products, and instituted social distancing measures, among other safety protocols.

- **Expansion of Authorized Patrons**. On January 1, the commissary benefit welcomed home over 4 million service-connected disabled veterans, Purple Heart recipients, former prisoners of war, and primary veteran caregivers who were granted eligibility by the 2019 National Defense Authorization Act (NDAA). Through the NDAA these newly authorized customers can also shop the military exchanges and use certain morale, welfare, and recreation activities. These new customers have full access to their commissary benefit, including the ability to create an online account on the MyCommissary portal so they can register for their Commissary Rewards Card, view commissary sale flyers with prices and use the curbside CLICK2GO service where available.

- **Leadership Transition.** The last part of the fiscal year brought major leadership transitions. On July 17, DoD announced a new Director. Retired Navy Rear Adm. Robert J. Bianchi, CEO of Navy Exchange Service Command (NEXCOM). RDML Bianchi had led the agency since November 2017, when DoD leadership asked him to act as interim director and then later, as Special Assistant for Commissary Operations to the Assistant Secretary of Defense for Manpower and Reserve Affairs. Other leadership transitions included Marine Sgt.Maj. Michael R. Saucedo replacing Army Command Sgt. Maj. Tomeka N. O'Neal in August as the senior enlisted advisor to the director, and Army Sgt. Maj. Matthew Baller replacing Air Force Chief Master Sgt. Wayne Jones as the senior enlisted advisor for overseas operations.

- **Fiscal Year Sales.** This year's sales number is over $4.5 million, a 1 percent increase from fiscal 2019. As to be expected, the COVID-19 pandemic played a large part in the final number. March's sales numbers were nearly $500 million, a 29.89 percent increase over that same time last year; transactions for March were also up by almost 8 percent, and units sold increased 22 percent over that same period. Three of the top 15 sales days occurred in March to include the top grossing sales day in the last 20 years: March 13 at $34.6 million, followed by March 14 at $28.4 million, and preceded by March 12 at $26.8 million.

- **Patron Savings.** Congress requires that DeCA maintain savings at levels that are reasonably consistent with the fiscal 2016 baseline savings of 23.5 percent. As of the second quarter, commissary patrons worldwide saved 24.2 percent during the timespan between January and March, marking a 0.7 percent increase in global customer savings percentage over the 2016 baseline. The global savings level is a weighted average of both U.S. and overseas regions.

- **Enterprise Business Solution.** The Enterprise Business Solution (EBS) is a modernization of DeCA's entire resale business operations including all processes associated with vendor/supplier communication, contracting, cataloging, pricing, promotions, planogramming, ordering, receiving, inventory, customer relationship management, point of sale, financial, and warehouse management. They are a tightly interconnected suite of applications which share a common operational data store and graphic user interface that helps the agency make decisions. The suite is being deployed incrementally, but retains the integrated characteristics of the entire suite. Stores in zones 8 and 9 stores will receive updates in the different systems before the end of the year. Stores in zones 4, 6, 16, and 27 are next to receive the updates or deployment of the system before the end of CY 2020. Here are some stats on the deployment for the year:

  - Increment 1 – Merchandising Suite
    - Consists of Power HQ Master Catalog, Category Manager, RELEX Planogramming, Clear Demand Price Optimization
    - Deployment has been completed with a planned upgrade in FY 2022

  - Increment 2 – Replenishment Suite
    - Consists of Power Demand Analytics (DAX) and Power Inventory Manager (IM)
    - Deployed to 168 stores and 4 NEXMarts by the end of FY 2020

  - Increment 3 – Sales Channel Suite
    - Consists of Emerald POS, CLICK2GO with Power Picking and RetailOne CRM

        - Deployed Emerald POS to 80 of 236 stores by the end of FY 2020
        - Deployed 3 additional CLICK2GO stores in FY 2020

    - Increment 4 – Warehouse Management/Financial Management Suite
        - Consists of Power Enterprise (PE) and Power Warehouse (PW)
        - Deployment will start in FY 2021 at the Guam CDC due to COVID-19 travel restrictions

- **Collaboration with the Exchanges.** For the first time DeCA and the Army & Air Force Exchange Service (AAFES) began selling each other's gift cards this fiscal year. As of June 22, both organizations' gift cards were open value: AAFES cards sold in commissaries are available in denominations from $5 to $1,500, and commissary cards sold in exchanges are available in amounts from $5 to $300. Authorized customers redeem the gift cards at their namesake's facility or online. We share a similar agreement with NEXCOM for gift card sales; our partnership with the Navy began in May 2018. Our collaborations will continue with the exchanges with sales events like Month of the Military Child, Military Appreciation Month, Veterans Appreciation, and Pay Your Bill, just to name a few.

- **Brunssum Grand Opening.** The agency opened its newest store July 29 at the NATO Industrial Complex (NIC), Brunssum, in the Netherlands. The new store took the place of the Schinnen Commissary and boasts a larger sales floor and produce, meat, and grocery departments. It also offers a wide variety of frozen foods and fresh dairy products, an international delicatessen/bakery, and three regular checkouts and four self-checkouts. Opening day sales were over $7,000.

- **Commissary Store Brands.** Commissary Store Brands were introduced in 2017 and our customers have shown us how much they like them. Store brand sales in fiscal 2020 were over $136 million and the program moved almost 62,000 products. This year, Freedom's Choice enhanced water label was awarded a 2020 Gold Vertex Award for packaging design. The competition included more than 400 entries from 27 countries and 49 retailers. Since the program's inception, we have added almost 1,000 private label products designed to give our customers choices at different price points. Commissary store brands are sold under seven names: Freedom's Choice (food items), HomeBase (non-food items), TopCare (health and beauty), Full Circle Market (natural and organic food options), Tippy Toes (baby products), Flock's Finest (wild bird food), Pure Harmony (pet food), and Wide Awake (coffee beverages). TopCare, Full Circle Market, Tippy Toes, Flock's Finest, Pure Harmony, and Wide Awake are not exclusive to DeCA.

- **CLICK2GO Expansion.** Delivering the benefit to our customers where they are is vitally important to the success of the commissary benefit. We created CLICK2GO, an online ordering and curbside grocery pick up service, to meet customer needs. This fiscal year CLICK2GO was launched at Fort Belvoir, Virginia, October 3, 2019; McGuire Air Force Base, New Jersey, April 6; Fort Lee, Virginia, August 4; Charleston Air Force Base, September 22; and at Offutt Air Force Base, Nebraska, and Minot Air Force Base, North Dakota, October 27. We expect to continue deployment at Naval Air Station Jacksonville, Florida, in November, followed by Fort Polk, Louisiana, and many more stores next year.

- **Health and Wellness.** Our health and wellness program, now called the Dietitian Approved Thumb (DAT), is a multi-tiered program designed to help our patrons cook more meals at home, build a more nutrient-dense shopping basket, position the commissary as a meal destination, and help with meal planning. We are unique in that we, as a grocery store, can provide scientifically credible resources to the military community, and patrons can feel safe shopping with us. This year retooling allowed for more items to qualify for the dietitian-approved designation and the program can now analyze recipes concerning their nutrition information, which will accompany those recipes whenever they are shared in our sales flyer or posted on our website.

- **ProCamps Events.** For the past 8 years Procter and Gamble (P&G) has worked with NFL ProCamps to sponsor 2-day football camps in partnership with the agency and the exchange services. Military bases qualify for a camp based on sales of designated P&G products at their local commissaries and exchanges. The camps, led by NFL football players, are open to first- through eighth-grade children of active duty military, reservists, retirees and DoD civilian employees. This fiscal year winners were Naval Air Station Oceana, Virginia; Camp Pendleton, California; Offutt Air Force Base, Nebraska; Fort Sill, Oklahoma; Barksdale AFB, Louisiana; Fort Riley, Kansas; Okinawa, Japan; and Ramstein Air Base, Germany.

- **Commissary Gift Card.** Throughout the fiscal year our customers purchased just over 90,000 gift cards valued at over $3.2 million. The availability of open value cards in commissaries will grow as the ongoing EBS rollout provides Emerald point of sale systems capable of processing the cards.

- **Unmodified opinion for 2020.** We continue to demonstrate our ability to successfully account for taxpayer funds. DeCA is in its 20th year of being audited by an external auditing firm and received an unmodified opinion for fiscal FY 2020 financial statements, which means a third-party examination found no substantial discrepancies in the agency's finances. However it is noted that we still have some improvements in the areas of inventory internal controls and information systems.

- **Scholarships for Military Children.** Among those most affected by the COVID-19 pandemic precautions were school-aged children. Most schools around the world, including DoD schools, pivoted to online instruction early in 2020. Even so, the Scholarships for Military Children program, administered by the Fisher House Foundation, awarded 500 students from military families a $2,000 scholarship grant for the 2020-2021 school year. In its 20th year, the program's mission is to recognize the contributions of military families to the readiness of the fighting force and celebrate the commissaries' role in enhancing the military's quality of life.

- **Customer Experience Survey.** In July 2019, the agency launched a new customer service tool, ForeSee, which gave us access to more frequent customer feedback, real time data, and automated reports that help determine the key drivers of customer satisfaction. It also allows us to compare our performance to commercial grocers. Customers access the survey using the link https://mydeca.me/receipt, printed at the bottom of their receipt. They have 7 days from their purchase date to log on and complete the survey. We have continued to fine-tune the survey to ensure we are getting as much insight as possible. This year we added three open ended questions that allow customers to describe their shopping experience in their own words. More recently, the agency gained the ability to respond to customers directly when requested. More improvements are planned for the survey including targeted surveys and social media driven surveys.

- **Customer Reach.** The agency is active on multiple social media platforms. In addition, the agency has other avenues of reaching customers to share information about their benefit such as the Commissary Connection and agency website, www.Commissaries.com. As of Oct. 22 the agency reach was:
    - Facebook – 79,314 followers
    - Twitter – 6,960 followers
    - Instagram – 5,520 followers
    - Pinterest – 2,000 followers and 32,000 monthly views
    - YouTube –1,131 subscribers and almost 300,000 page views
    - Vimeo – 22,000 views
    - Commissary Connection – 142,154 email subscribers and 107,625 total unique visits with 258,321 total page views
    - Commissaries.com – total page views 5,699,842, unique users – 1,587,283 and total session - 2,362,449 (figures are from January 16 to September 30)

Fiscal 2020 threw a lot DeCA's way in terms of obstacles. And I'm proud to say that when the time came, our agency pulled together and responded. Our employees were there to answer the call and continued providing the benefit to the most deserving customers in the world: our nation's Service members and their families.

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Michael J. Dowling
Deputy Director

DECA-AT-A-GLANCE

Established as a Provisional Organization:	May 15, 1990
Formally Established:	Nov. 9, 1990
Officially Activated:	Oct. 1, 1991
Headquarters:	1300 E Avenue, Fort Lee VA 23801-1800 www.commissaries.com www.facebook.com/YourCommissary www.twitter.com/TheCommissary www.youtube.com/DefenseCommissary
Fiscal 2020 sales:	$ 4.5 billion
Fiscal 2020 total revenue:	$ 4.6 billion
Fiscal 2020 operations cost:	$ 1.3 billion
Total employees:	14,228
Total authorized households:	Approximately 5.4 million
Customer transactions:	69 million
Global presence:	13 countries, 2 U.S. territories
Commissaries as of 30 Sep 2020:	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

We will remain the Military Community's premier grocery shopping destination for savings, quality and value

DeCA GOALS

Our Customers

Deliver a premier customer experience in every store by providing a relevant and vital benefit

Our Business

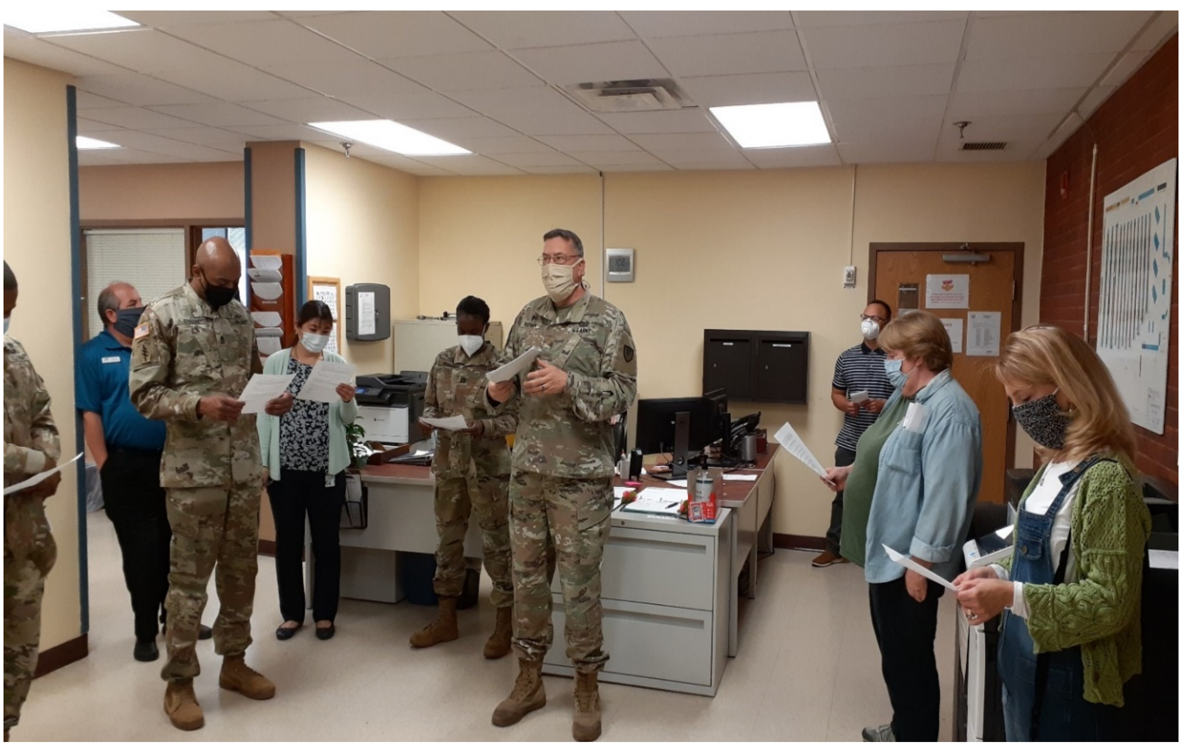
Advance our business model through the transparent management of resources and revenue

Our Workforce

Empower a capable, engaged and responsible workforce

Our Culture

Foster a culture of collaboration and change acceptance through proactive communication and inclusion



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:

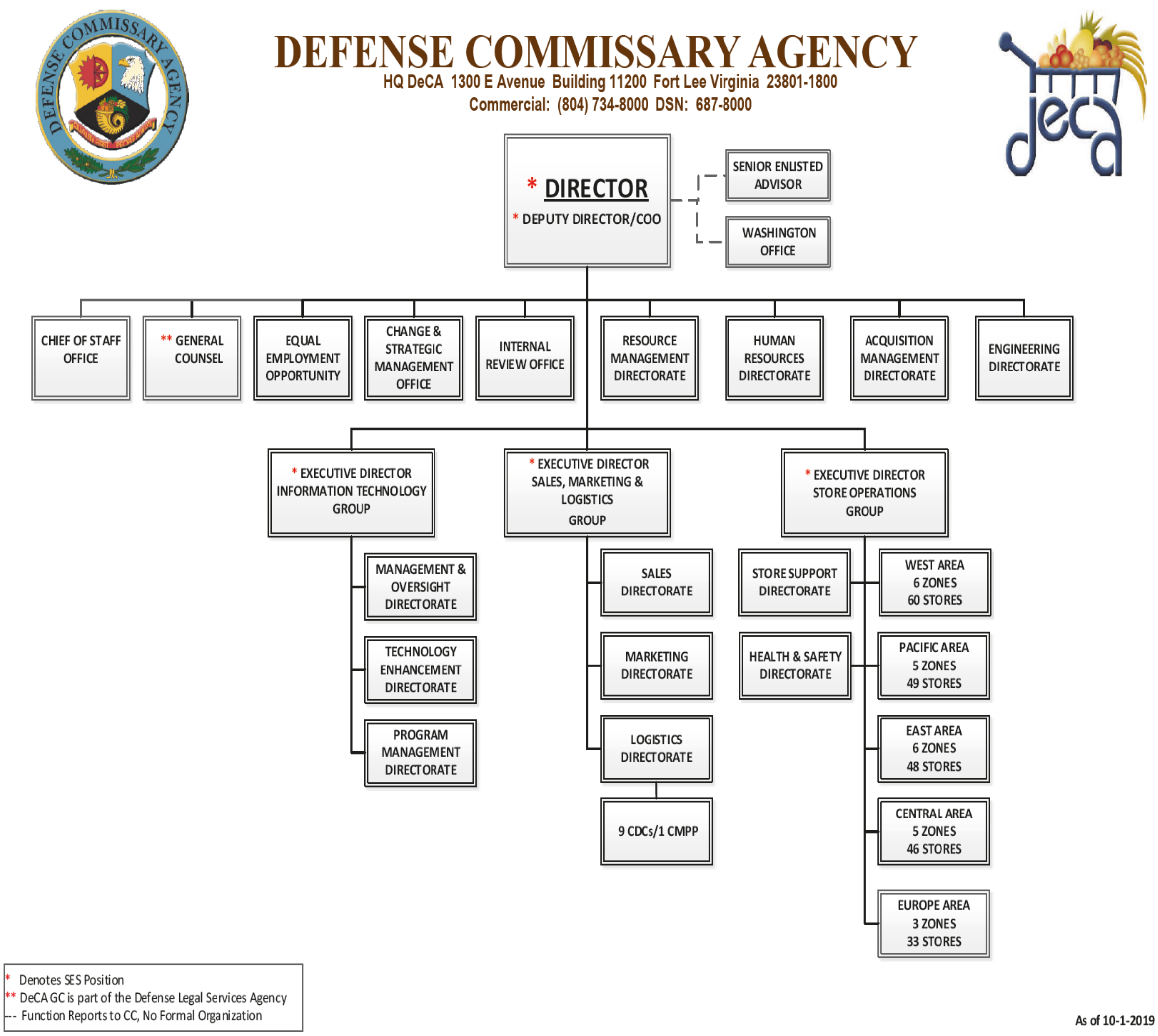
The Defense Commissary Agency (DeCA or the Agency) is a component of the DoD reporting to the Under Secretary of Defense for Personnel and Readiness. In 1989, the House Armed Services Committee appointed the Jones Commission to analyze the commissary systems (i.e., grocery stores or supermarkets) operated 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, East, Central, West, Pacific and Europe. Three area offices (East, Central and West) manage stores only in the continental United States (US) and Puerto Rico. The Pacific area office manages stores and CDCs in Asia as well as a few stores in the continental United States. The Europe area office manages stores and CDCs in Europe and Africa. 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) 2020 is shown in the following chart:



2020 HIGHLIGHTS:

DeCA regained a financial statement unmodified audit opinion in 2019 however, it still identified a material weakness related to inventory. The perpetual inventory contract was awarded in March of 2020 to three awardees. COVID-19 impact started in the latter half of March FY 2020. Physical inventories, originally anticipated to start in April, were cancelled or rescheduled until the June 2020 timeframe. All parties needed to assess their ability to perform under COVID-19 travel restrictions, and how to adapt to health and safety guidelines. The original intent to inventory all stores had to be reduced to 107 potential physical inventories. These inventories were further impacted by contractor failure to perform, COVID-19 access restrictions to the installations, and adverse weather. The final count of store inventories completed by DeCA in FY 2020 was 92 stores. This is over three times as many stores as inventoried in FY 2019, thus allowing for an estimate that is representative of thirty-eight percent of the DeCA global enterprise.

With the continued identification of a material weakness related to inventory in FY 2019 came additional internal control focus, and increased leadership engagement which resulted in a keener eye on decisions that impact the financial position.

DeCA reviewed and updated 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 2020, 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 $995 million in appropriation transfers with an additional $34 million transfer for COVID-19 costs during FY 2020.

Commissary Operations also receives limited additional revenues from manufacturers' coupon redemption fees, handling fees for tobacco products, and reimbursements for other support as well as revenue from margin generated.

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 is the driving force behind our goals found in the Director's 2020 Strategic Guidance as listed below.

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

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

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

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

These goals drive us toward continuous improvement in pursuit of our vision which sets forth a focus to remain relevant to our customers and enable customer service consistent with today's shopping trends. 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 NDAA and DOD guidance, an assessment of significant impacts, ongoing collaborations, 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 2020 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 the 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 chart on the following page displays the FY 2020 Agency Performance Plan four perspectives and their associated elements:

DeCA FY 2020 Performance Plan

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

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

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

ASD(M&RA) approved September 9, 2019

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FINANCIAL STATEMENT SUMMARY

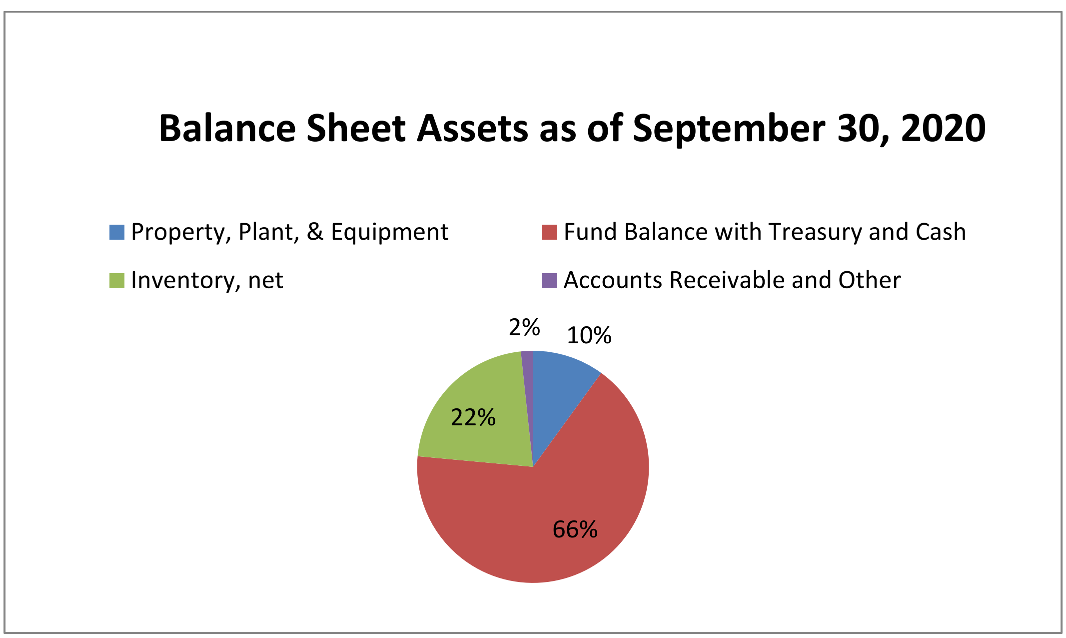
DeCA's Consolidated Balance Sheet, Statements of Net Cost, Changes in Net Position, and Combined Statements of Budgetary Resources (consolidated financial statements) have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of Title 31,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

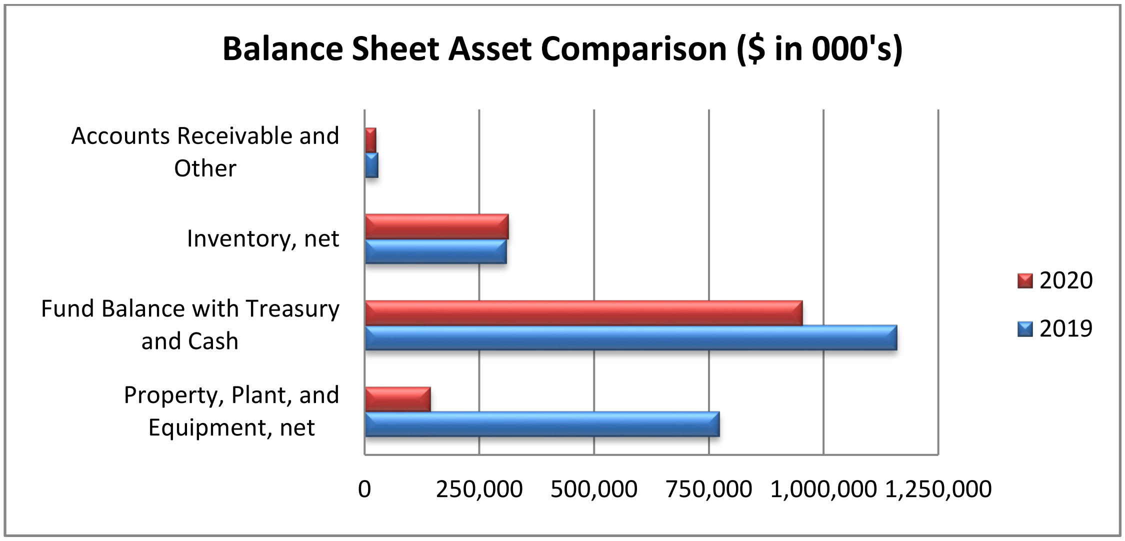
CONSOLIDATED BALANCE SHEETS:

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, 2020, DeCA reported assets of $1.4 billion. Assets are the resources available to pay liabilities or satisfy future service needs of the Agency. DeCA's major categories of assets, as a percentage of total assets, are as follows:



The following chart presents comparative data of major asset balances as of September 30, 2020 and September 30, 2019, along with discussions of significant fluctuations.



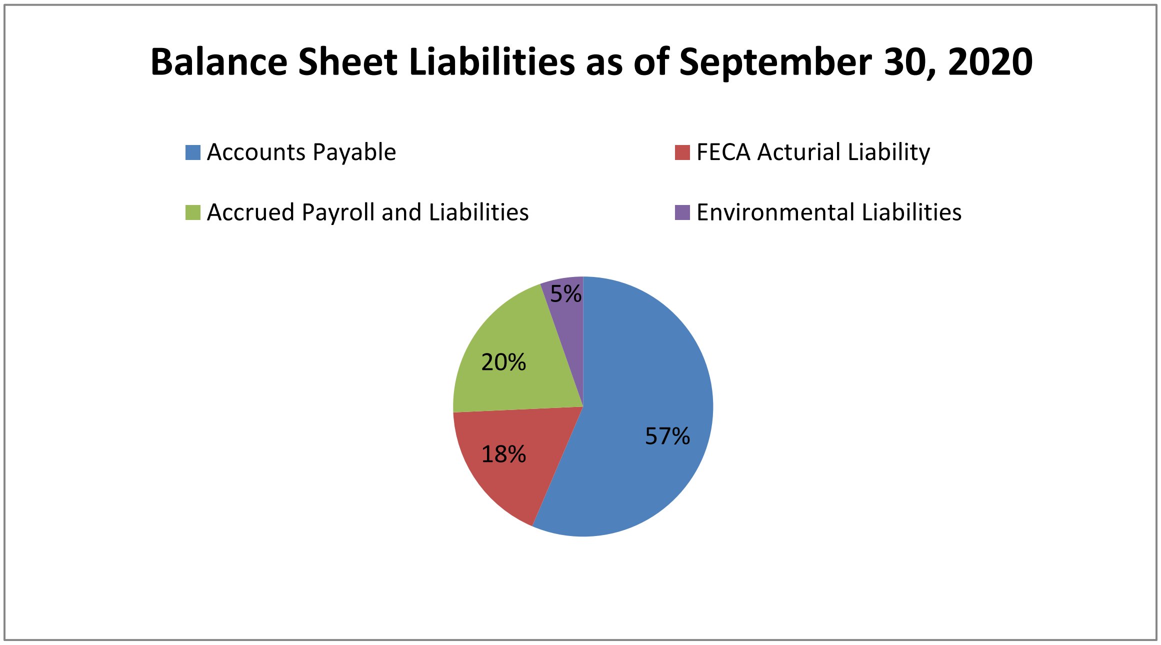
Accounts Receivable and Other comprises 2 percent of DeCA's current year assets. These represent amounts primarily due from DeCA customers. Accounts receivable and other remained relatively consistent when compared to prior year balances.

Inventory, net represents 22 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.

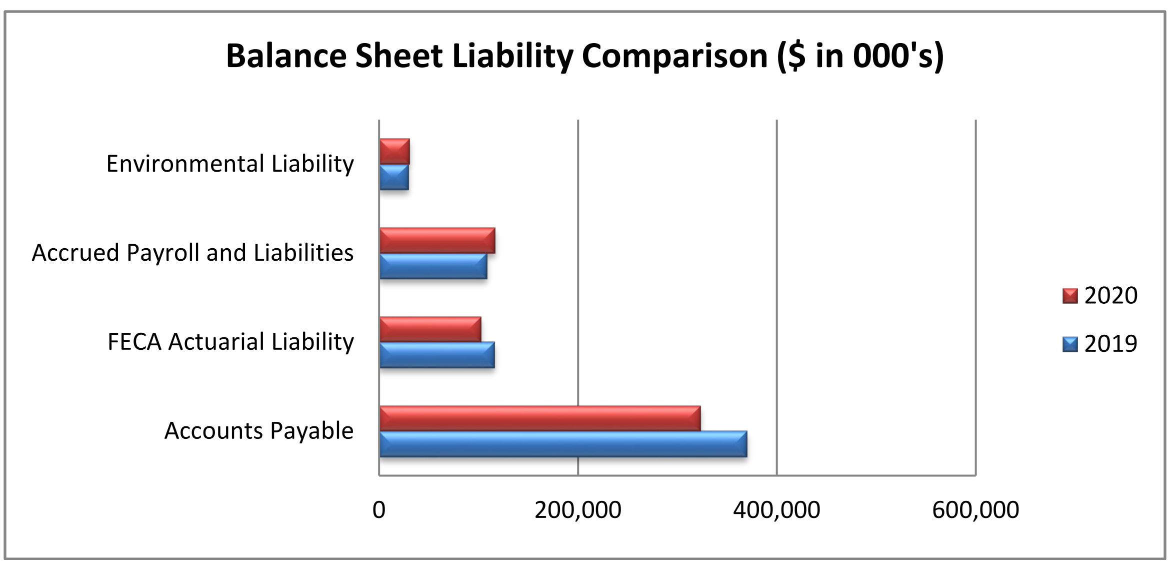
Fund Balance with Treasury (FBWT) and Cash represents 66 percent of DeCA's current year assets. Funding is primarily made available through the U.S. Department of the Treasury accounts from which DeCA makes expenditures to pay liabilities. FBWT also includes monies generated from sales at commissaries that have been deposited to an authorized financial institution. Cash consist of deposits that have been deposited in the authorized financial institution, but not processed and sales that were not recorded in the accountable period due to end of month cutoffs in the accounting system. FBWT and Cash decreased by $205.7 million when compared to prior year balances.

General Property, Plant and Equipment (PP&E), net represents 10 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 decreased by $628.9 million when compared to prior year balances. OSUD determined because the services have jurisdiction over their real property assets, and have existing requirements to manage the asset's related data; it is rational and consistent that those same services carry the financial reporting responsibilities for those assets. As of September 30, 2020, financial responsibility of the capital real property and associated improvements were transferred to the respective military services.

Liabilities – On September 30, 2020, DeCA reported liabilities of $572.8 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, 2020 and September 30, 2019 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 20 percent of DeCA's current year liabilities and includes liabilities for accrued payroll and benefits, foreign national separation pay and accrued leave. Accrued payroll and liabilities remained relatively consistent when compared to prior year balances.

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

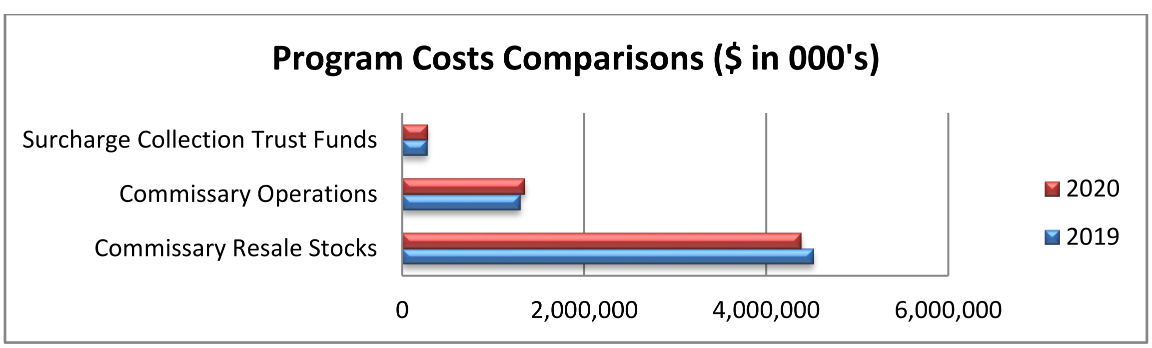
Accounts Payable comprises 56 percent of DeCA's current year liabilities and consists of DeCA's liability for goods and services delivered or received but not paid prior to year-end. Accounts payable remained relatively consistent when compared to prior year balances.

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 $784.2 million, primarily attributable to a $598 million Transfers-out without reimbursement of real property and real property improvements to the military services.

STATEMENTS OF BUDGETARY RESOURCES:

This statement provides information on the budgetary resources available to DeCA for fiscal years 2020 and 2019 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:

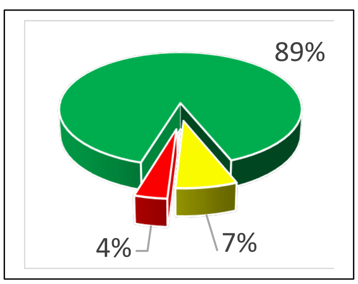
OMB Circular A-123, Appendix A is fully implemented throughout DeCA. For the past 13 years, all processes material to the financial statements have been documented and tested. In FY 2020 229 key controls were evaluated and assessed for effectiveness. Of those key controls, 96 percent were found to be operating effectively; and 1 percent were operating adequately. The remaining 3 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 229 key controls, there were 141 Complimentary User Entity Controls (CUECs) tested this year. The results found 137 operating effectively, and 4 were found to be effective with exceptions.

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 2018

Testing Results:

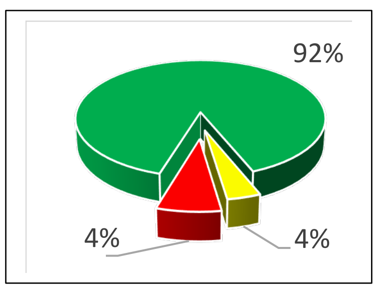
- **238 Tests Performed**
- **212 Effective (89%)**
- **17 w/Exceptions (7%)**
- **9 Ineffective (4%)**



FY 2019

Testing Results:

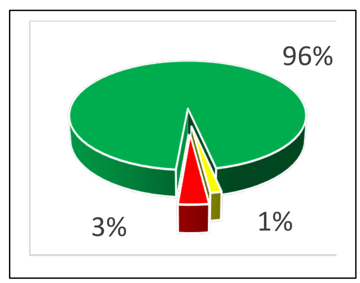
- **225 Tests Performed**
- **207 Effective (89%)**
- **8 w/Exceptions (4%)**
- **10 Ineffective(4%)**



FY 2020

Testing Results:

- **229 Tests Performed**
- **219 Effective (96%)**
- **2 w/Exceptions (1%)**
- **8 Ineffective (3%)**



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.

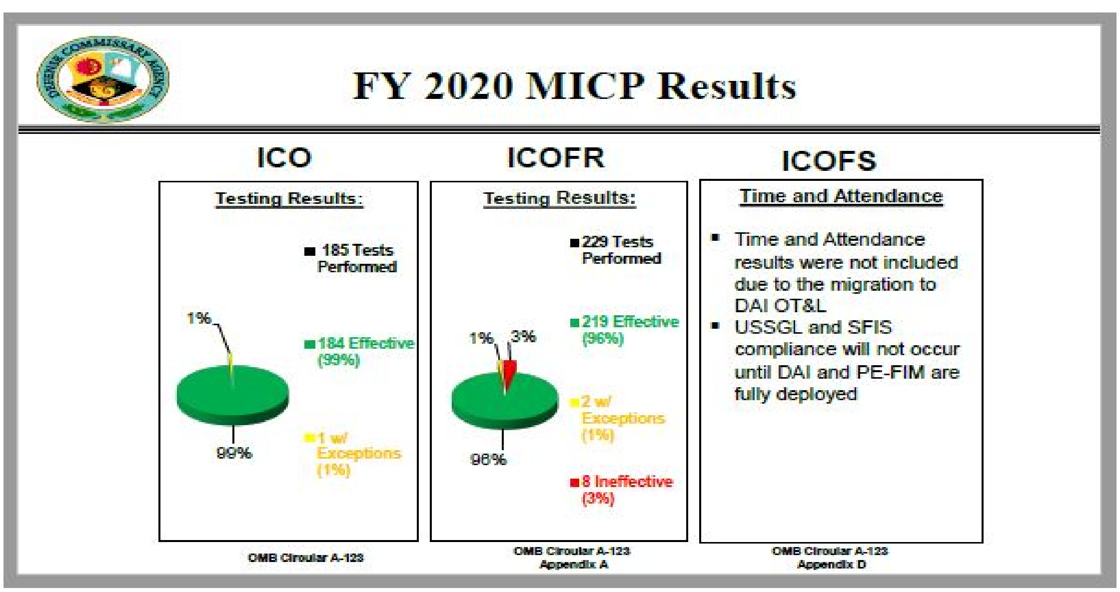
FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT STATEMENT OF ASSURANCE:

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 2020, DeCA reported an Unmodified Statement of Assurance related to the effectiveness of internal controls over operations and compliance, and a Modified Statement of Assurance related to the effectiveness of internal controls over financial reporting. However, DeCA's systems do not conform to the financial management systems requirements, and DeCA was not compliant with FFMIA. In making this determination, the Director considered information from various sources, such as management reviews, Inspector General, and Government Accountability Office reports, the audit of the financial statements, and reviews of financial and administrative systems. The cornerstone of the FY 2020 Statement of Assurance is the Agency's financial improvement plan where we continue to utilize the OMB Circular A-123, Appendix A methodology. Through assessments, discovery, correction and monitoring, we continue to strive for increased efficiency and effectiveness utilizing this well-established tool.

The chart on the following page illustrates the results of the FY 2020 Manager's Internal Controls Program (MICP), which has been rebranded as Risk Management and Internal Control (RMIC) program for FY 2020 to align with DoD's approach to efficiently and effectively obtain assurance through risk-based analysis and remediation. 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:

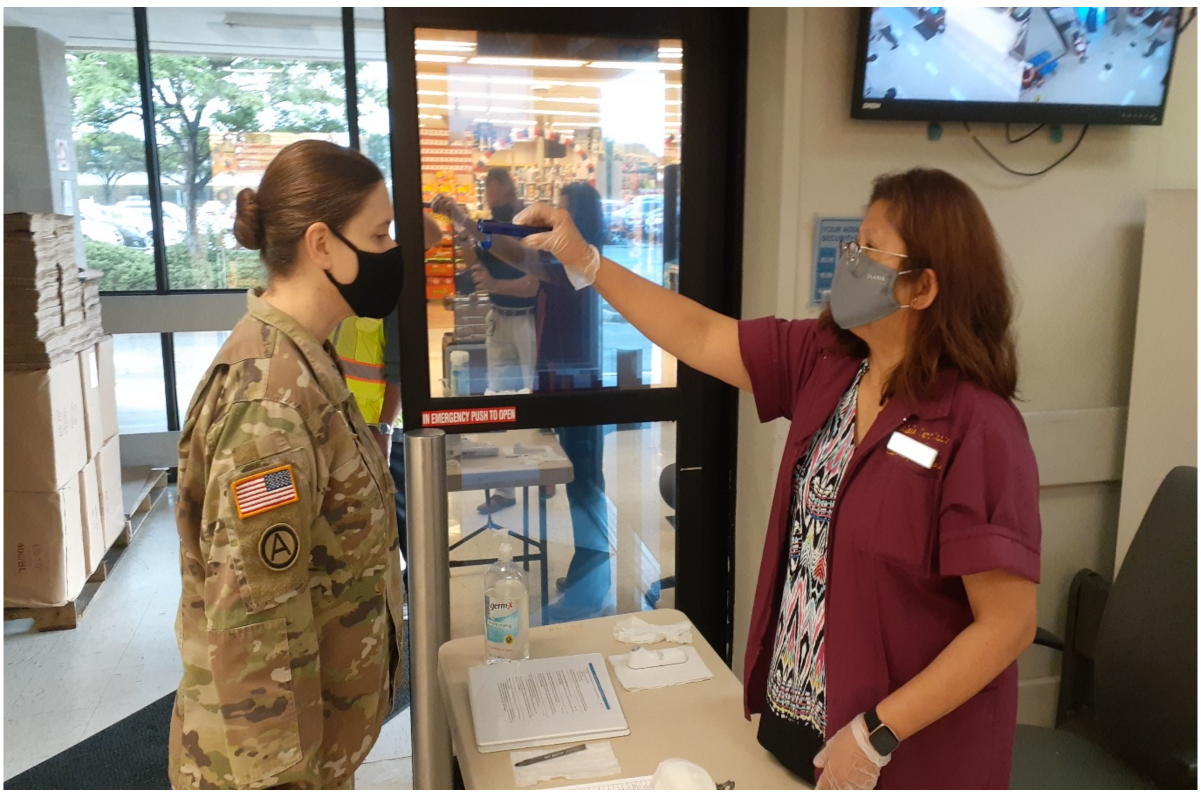
DeCA's legacy financial systems are not compliant with federal financial management system requirements and the USSGL at the transaction level. To meet these requirements, DeCA, jointly with the DoD, is actively working on improving the system-wide architecture in order to be fully compliant with FFMIA. 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 2020 reported on financial and non-financial operations, and financial system compliance. As of October 2020, 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. Twelve 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.

COVID – 19

In response to societal and economic impacts of Coronavirus Disease 2019 (COVID-19), multiple public laws were enacted to soften the impact of this pandemic on individuals, businesses, and federal, state and local government operations.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (*CARES Act*) (Public Law 116-136) was signed into law, which provides FY2020 supplemental appropriations for federal agencies to respond to COVID-19. The supplemental appropriations are designated as emergency spending, which is exempt from discretionary spending limits. DeCA received $34.7 million in CARES Act Funding that was fully executed, tracked and reported in accordance with defined guidelines.



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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 for FY 2020 are summarized below.

FINANCIAL PERSPECTIVE

Performance Element	FY 2020 Goal	FY 2020 Actual
Value of the Benefit (ROI)	ROI ≥ $1.25 Customer Savings to $1.00 Appropriated Costs	Not available yet
Audit Readiness	Unmodified Opinion	Unmodified Opinion
Budget Plan / Execution (All Funds)		
FY costs vs. budget for Surcharge	≥ 96% execution but ≤ 100%	$249.5M/ 99.3% execution
FY sales vs. sales estimate incl. in FY20 President's Budget		$4,508.2M/100.6% execution
FY costs vs. budget for DWCF		$1,300.8M/ 99.8% execution
FY vs. plan for FTEs		12,421.7/ 98.5% execution
Margin Generation	≥ $88.3M	$88.3M

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 2020 results are not available at this time.

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. DeCA received an unmodified opinion for FY 2020.

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). All fund elements for FY 2020 exceeded their respective goals as stated in the chart above.

Margin Generation measure is the revenue generation resulting from expected program implementation and projections. Amounts displayed represent amounts included in the budget to offset appropriations. Revenue estimates were included in DeCA's budget based on margin generation as a result of business reforms per FY 2016 and FY 2017 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) continuing to provide a price value proposition compared to retailers "outside-the-gate" (variable pricing) and developing a margin commensurate with the goals. FY 2020 results are $88.3M, which achieved the stated goal.

CUSTOMER PERSPECTIVE

Performance Element	FY 2020 Goal	FY 2020Actual
Commissary Customer Service Survey (CCSS)	A	Not available yet
American Customer Satisfaction Index (ACSI)	≥ prior year Industry average (78) and DeCA weighted (70)	FY20 survey cancelled by ASD(M&RA)/MC&FP
Customer Savings (Global Average)	23.7%	Not available yet
Category Performance Improvement (CPI): Projected Sales	$4.482B	$4.508B
Category Performance Improvement (CPI): Projected Transactions	79.21M	87.3% 69.15M

The **Commissary Customer Service Survey** (CCSS) is an internal DeCA survey that is conducted annually to assess patrons' overall satisfaction with the commissary system, using a systematic sampling process for selecting participants. The CCSS rating scale is from 1 to 5, with 1 being very poor and 5 being very good. We convert the numerical survey results to letter grades. To achieve a grade of "A", a score of 4.5 or better is required. FY 2020 results are not available at this time.

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 secondly to DeCA's prior year score. ASD (M&RA)/MC&FP cancelled the ACSI process for FY 2020 due to the COVID-19 pandemic.

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 2020 results are not available at this time.

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. FY 2020 sales results are \$4.508B, an increase of \$26.0M above the target of \$4.482B. Transaction results are 69.15M, 87.3% below the target of 79.21M, due to changing consumer behavior with customers shopping less often and buying more.

BUSINESS PERSPECTIVE

Performance Element	FY 2020 Goal	FY 2020 Actual
Facility Readiness	≥ prior year results of 83.6%	79.1%
Demographics – U.S. Households Acquired	≥ prior year results of 66%	59.8%

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, was 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 FY 2014, and established a baseline in FY 2015 of 80.8% for its facilities, with the out-year goals set to reflect improvement each year, using the FY 2015 baseline, based on available sustainment funding. Our goals were since updated based on FY 2016 results of 81.9% and FY 2017 results of 79.8%. FY 2020 results are 79.1%, a slight reduction of the percentage of DeCA facilities that meet the DoD goal of FCI $\geq$ 80, and less than the DeCA prior FY 2019 results of 83.6%. With less and less discretionary Surcharge funds available to execute whole store renovation/upgrade projects, fewer and fewer stores' FCIs are changing appreciably.

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. The FY 2020 result is 59.8% which is below the prior year result of 66%, as a result of changing consumer behaviors, i.e., increased online ordering, fewer shopping trips with higher basket rings, reduced brand loyalty, and shopping trips concentrated on fewer retail locations.

WORKFORCE PERSPECTIVE

Performance Element	FY 2020 Targets	FY 2020 Actual
Organizational Climate (FEVS)	67.5%	OPM survey delay - results expected FY 2021 1st quarter
Recruitment and Retention (Hiring Time)	70 days	62.44 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. OPM survey was delayed to September 2020, due to the COVID-19 pandemic. FY 2020 results are not expected until 1st quarter of FY 2021.

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 70 days for FY 2020. The FY 2020 result is 62.44 days, an outlier reduction to the number of direct hires, now decreasing, who temporarily replaced employees during the 3rd quarter due to the COVID-19 pandemic.

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.

CONTINUOUS PROCESS IMPROVEMENT:

DeCA continued building the foundation of its Continuous Process Improvement (CPI) program in FY 2020 through the published Director's Policy and establishing a project repository. Additionally, CPI practitioners conducted two Lean Leader courses throughout the year and facilitated or coached several teams to project completion for various initiatives. FY 2020 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 various ways to improve commissary operations. The Improve

Defense Commissary Agency's Efficiency and Service (IDEAS) program recognizes and rewards employee's whose suggestions, patents, inventions, or scientific achievements submitted through IDEAS enhance the efficiency and effectiveness of DeCA operations and the Department of Defense (DoD).

In FY 2020, DeCA managed the enterprise Think Tank, an online forum that facilitates in-depth conversation among Agency employees. This internal communication tool gives all DeCA employees a "virtual voice" and a platform to participate in organizational changes. Along with collaborative idea sharing and process improvement suggestions, the forum promotes greater job satisfaction, strengthens culture, and enhances overall organizational effectiveness.

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

It is my pleasure to present the Fiscal Year (FY) 2020 Annual Financial Report (AFR) with accompanying Financial Statements and Footnotes for the Defense Commissary Agency (DeCA). This report reflects the accountability and transparency associated with prudent financial and fiscal stewardship. As with many others, FY 2020 proved to be our most challenging year yet as we diligently worked to continue operations amidst a global pandemic. Nevertheless, we remained laser focused on carrying out efficient operations worldwide, meeting planned cost reductions and staying fully engaged in the conversations surrounding reform and transformation while still delivering the benefit to our growing patronage base.

DeCA continued on its path of system transformation that will ultimately result in better reporting and enhance our ability to support the benefit along with providing some much needed technology advancements. Even amidst COVID-19, we continued to engage in system migration activities that forced us all to look at processes and determine how they could be accomplished efficiently with the maximum flexibility. While navigating the system deployment activities, we were able to accurately track and report on the execution of Agency's budget as planned to include the generation of margin to offset defined requirements. This level of effort culminated with obtaining an unmodified opinion. The DeCA Resource Management (RM) team remains committed to supporting the changes necessary to ensure success at all levels within the Agency. I am excited to share some notable achievements that contributed to our success in FY 2020:

- Completion of 92 accountable inventories (via contractors) that DeCA leveraged to ensure inventory balances reflected on our Balance Sheet was a true representation. DeCA planned to initially kick off the CONUS inventories following award in March, however due to COVID-19, this was delayed until late June and wrapped up mid - September. Our normal store level preparation and observations by our external auditors had to transition to a virtual process due to COVID-19. Nevertheless, we were able to complete 92 of the 107 that were scheduled. As we move into FY 2021 it is our plan to have all stores scheduled for inventories. Along with efforts related to inventory, we are working to support continued deployment of our Enterprise Business System (EBS), which will provide the much needed technology advancements. Having a successful deployment of all increments of EBS is critical for our business (both operations and financially) and it will bring great rewards in the work efficiency area.

- DeCA transitioned to the Defense Agency Initiative (DAI) for time and attendance reporting in July. DAI is the enterprise accounting system for the 4th Estate Agencies. As mention above, DeCA was fully engaged in migration activities to prepare for the non-resale (Commissary Operations and Surcharge) financials in DAI. The entire RM team involved with the non-resale work put forth a great deal of time (long hours) and extended tremendous efforts to maintain the work in our legacy environment and systems while preparing to migrate to DAI.

- Finally, but certainly not the least, we continue to firmly defend our Budget for FY 2021 and out. FY 2020 marked the first time in many years that our funding level (appropriated) was below $1B. We had to rely on PY carryover, our reimbursable programs (coupons, Military Star Card, etc.) and margin generated from sales to meet the identified requirements to operate in our current footprint (236 stores, 8 CDCs, 1 CMPP with over 12K FTEs). We will continue the work to emphasize the importance of full funding as we firmly believe in its need for effective operations and sustainability of the benefit.

Sustained success resulting from combined efforts of our employees, leadership and other stakeholders is paramount to continue the long history of the commissary benefit. We are committed to supporting the benefit by providing sound financial management practices along with reporting quality financial data that can be leveraged in decision-making. The efforts and time expended by our great team of professionals makes me proud to serve as DeCA's Chief Financial Officer. We look forward to furthering our fiscal achievements as we support and 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, 2020 and 2019
(amounts in thousands)

Assets	**9/30/2020**	**9/30/2019**
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 879,983	$ 1,082,015
Accounts receivable and other	79	196
Total intragovernmental assets	880,062	1,082,211
Cash	73,968	77,607
Accounts receivable and other assets, net	24,151	28,826
Inventory, net (Note 3)	313,751	309,447
General property, plant, and equipments, net (Note 4)	143,728	772,675
Total assets	$ 1,435,660	$ 2,270,766
Liabilities (Note 5)		
Intragovernmental:		
Accounts payable	$ 35,077	$ 47,754
Accrued payroll and liabilities	30,268	30,674
Total intragovernmental liabilities	65,345	78,428
Accounts payable	288,019	321,970
Federal Employees Compensation Act actuarial liability	102,404	115,933
Environmental liabilities	30,723	29,584
Accrued payroll and liabilities	86,273	77,739
Total liabilities	572,764	623,654
Commitments and Contigencies (Note 9)		
Net position (Note 6)		
Unexpended appropriations	$ 280,686	$ 535,019
Cumulative results of operations - dedicated collections (Note 10)	410,129	1,052,867
Cumulative results of operations - all other funds (combined totals)	172,081	59,226
Total cumulative results of operation	582,210	1,112,093
Total net position	$ 862,896	$ 1,647,112
Total laibilities and net position	$ 1,435,660	$ 2,270,766

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, 2020 and 2019
(amounts in thousands)

Program Costs:	**9/30/2020**	**9/30/2019**
Gross costs	$ 6,014,158	$ 6,086,847
Less: Earned revenue	(4,752,220)	(4,733,137)
Net cost of operations (Note 11)	$ 1,261,938	$ 1,353,710

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

DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
STATEMENT OF CHANGES IN NET POSITION
For the Years Ended September 30, 2020 and 2019
(amounts in thousands)

	9/30/2020			9/30/2019		
	Dedicated Collections	All Other Funds	Consolidated Total	Dedicated Collections	All Other Funds	Consolidated Total
Unexpended Appropriations:						
Beginning Balance	$ -	$ 535,019	$ 535,019	$ -	$ 387,509	$ 387,509
Budgetary Financing Sources:						
Appropriations transfer in and out	-	1,029,697	1,029,697	-	1,266,200	1,266,200
Other adjustments (recissions)	-	(611)	(611)	-	(317)	(317)
Appropriations transfers used	-	(1,283,419)	(1,283,419)	-	(1,118,373)	(1,118,373)
Total Budgetary Financing Sources:	-	(254,333)	(254,333)	-	147,510	147,510
Total Unexpended Appropriations (Note 6)	-	280,686	280,686	-	535,019	535,019
Cumulative Results of Operations:						
Beginning balance	$ 1,052,867	$ 59,226	$ 1,112,093	$ 1,098,945	$ 177,461	$ 1,276,406
Budgetary Financing Sources						
Appropriations transfers used	-	1,283,419	1,283,419	-	1,118,373	1,118,373
Non-exchange revenue	-	21,894	21,894	-	21,553	21,553
Other Financing Sources (Uses)						
Imputed financing (Note 7)	-	39,097	39,097	-	49,470	49,470
Transfers in (out) without reimbursement	(590,269)	(21,793)	(612,062)	2,170	(2,170)	-
Other Financing Sources (Uses)	-	(293)	(293)	-	1	1
Total Financing Sources	(590,269)	1,322,324	732,055	2,170	1,187,227	1,189,397
Net Cost of Operations	52,469	1,209,469	1,261,938	48,248	1,305,462	1,353,710
Net Change	(642,738)	112,855	(529,883)	(46,078)	(118,235)	(164,313)
Cumulative Results of Operations (Notes 6 and 10)	$ 410,129	$ 172,081	$ 582,210	$ 1,052,867	$ 59,226	$ 1,112,093
Total Net Position (Note 6)	$ 410,129	$ 452,767	$ 862,896	$ 1,052,867	$ 594,245	$ 1,647,112

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

DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
COMBINED STATEMENS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2020 and 2019
(amounts in thousands)

	9/30/2020	9/30/2019
Budgetary Resources:		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ 388,218	$ 310,943
Appropriations (discretionary and mandatory) (Note 8)	1,029,697	1,266,200
Contract authority (discretionary and mandatory) (Note 8)	4,309,599	4,454,263
Spending authority from offsetting collections (discretionary and mandatory)	325,727	287,144
Total budgetary resources	$ 6,053,241	$ 6,318,550
Status of Budgetary Resources:		
New obligations and upward adjustments (total)	$ 5,870,428	$ 5,929,721
Unobligated balances, end of year:		
Apportioned, unexpired accounts	182,813	388,218
Unexpired unobligated balance, end of year	182,813	388,218
Expired unobligatied balance, end of year	-	611
Unobligated balance, end of year (total)	182,813	388,829
Total budgetary resources	$ 6,053,241	$ 6,318,550
Outlays, Net:		
Outlays, net (total) (discretionary and mandatory)	$ 1,231,118	$ 1,219,463
Agency outlays, net (discretionary and mandatory)	$ 1,231,118	$ 1,219,463

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. <u>Description of Reporting Entity</u>

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. Classified Activities

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

C. Basis of Presentation and Accounting

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

Transactions are recorded on both an accrual accounting basis and budgetary accounting basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal requirements on the use of Federal funds. Liabilities notcovered 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.

D. Fund Balance with Treasury (FBWT)

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

Note 2– "Fund Balance with Treasury" provides detailed information.

E. Cash and Other Monetary Assets

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

F. Accounts Receivable, Net

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

Receivables from the public generally arise from manufacturer-related transactions, which are associated with the sale of grocery, meat, and produce items to authorized patrons. An allowance for doubtful accounts is established for reporting purposes based on past experience in the collection of accounts receivable and analysis of outstanding balances using the percentage of receivables. The allowance is adjusted accordingly at the time of collection or write-off during the fiscal year. Nonfederal accounts receivables are reported net of an allowance of $5,903 and $3,987 as of September 30, 2020 and 2019, respectively.

G. Inventory, net

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

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

Inventory balances for each store are adjusted based on aggregate purchases and sales, transfers, and other adjustments. Store managers are expected to maintain and update EBS inventory operating system (DAX) product level balances on hand for accuracy. Proper balances ensure efficient and timely balances for ordering that is in alignment with sales expectations. In addition, these balances are used as part of the deviation assessment when analyzing store inventory valuations on the financial records to the formal inventories performed. In FY 2020 DeCA was able to complete 92 formal inventories despite travel and access restrictions related to COVID-19. Store level adjustments were performed for these stores and the aggregate results formed a basis for a top level adjustment for stores that did not have an inventory performed in FY 2020. DeCA anticipates all stores to be inventoried in FY 2021 completing the store.

Upon adjustment for the unrealized holding gains and losses, the latest acquisition cost results in an approximation of historical cost. The percentage of holding gains and losses that are recognized each month is the ratio of sales to beginning inventory plus purchases. This percentage is usually about 90%.

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

H. 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.

I. Accrued Payroll and Liabilities

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

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

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

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

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

Note 5 – "Liabilities" provides specific detailed information.

J. Actuarial Liability

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

K. Imputed Financing and Costs

DeCA recognizes imputed financing related to Federal retirement plans, health benefits, 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 m costs as computed by the OPM.

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

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

L. Environmental Liabilities

The DeCA has clean up requirements for commissaries within the Continental United States (CONUS) and outside the Continental United States (OCONUS). Clean up cost are based on potentially affected areas and the probability of Asbestos Containing Material (ACM) and /or Lead Base Paint (LBP) contaminates being present. All clean-up efforts are performed in coordination with regulatory agencies, other responsible parties, and current property owners.

DeCA uses an updated Area Cost Factor (ACF) index in calculating the remediation cost. In addition, the baseline remediation cost per square foot for asbestos-containing materials and lead based paint is compiled using R.S. Means "Building Construction Cost Data". Other sources used to measure accounting estimates for environmental liabilities include engineering tools such as architectural drawings to further apply the per square foot rate based on potentially affected areas. DeCA complies with accounting standards to assign costs based on information available at the time the estimates are calculated.

M. Net Position

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

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

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

N. Nonexchange Revenue

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

O. Use of Estimates

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

P. Commitments and Contingencies

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

Q. COVID-19

DeCA received an appropriation transfer of $34.7 million to the Defense Working Capital Fund specifically for the DeCA 4J (97X4930.004) based on an internal reprogramming action FY 20-31 IR (CARES Act – IT Requirements COVID-19). In accordance with section 13001 of Title III of division B of P.L. 116-136, funds are required for non-medical PPE, cleaning and disinfecting supplies, and to increase core hours for part-time DeCA store employees working worldwide to assist in store level clean-up and shelf stocking. Funds are also required for additional air shipments to Europe and the Pacific and truck deliveries from the Central Distribution Plants to meet surge demand at overseas commissaries due to COVID-19. These are CARES Act division B, Title III, requirements.

DoD Appropriations in the (P.L. 116-136)

Appropriation Reprogrammed	*(Amounts in Millions)*
Defense Commissary Agency	$ 34.7
Defense-Wide Total	**34.7**
TOTAL DoD Appropriations	**$ 34.7**

In an effort to quickly respond to pandemic needs, the CARES Act waives certain undefinitized contract restrictions for the Department to authorize contractors to begin work before reaching a final agreement on contract terms, specifications, or price, where it is determined the waiver is necessary due to the national emergency for COVID-19. The CARES Act also allows the DoD to waive certain restrictions on the usage of other transaction authority in contracts related to COVID-19, affording the DoD the authority to enter into certain contracts generally exempt from federal procurement laws and regulations.

As of September 30, 2020, obligations and outlays related to the Defense Commissary Agency reprogrammed supplemental funding were \$34.7 million and \$34.0 million, respectively. Disbursements for COVID-19 prevention, preparation and response include payroll/other personnel costs; training, mobilization and preparedness; operations support programs and base support; personal protective equipment and cleaning/disinfecting supplies; costs incurred to deliver inventory at overseas commissaries, and administrative costs.

Additionally, DeCA incurred costs related to the pandemic that have exceeded the funding received from the CARES Act. These cost are not reimbursable and will be paid from DeCA's existing budgetary resources. As of September 30, 2020, the estimated obligations and outlays are \$7.8 million and \$7.6 million, respectively. The impact on the entity's assets, liabilities, costs, revenues, and net position cannot yet be determined.

(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, 2020 and 2019.

Fund balances:	**9/30/2020**	**9/30/2019**
Appropriated Funds		
General Fund	$ -	$ 611
Working Capital Fund	397,564	655,571
Total	397,564	656,182
Revolving Funds		
General Fund	-	-
Working Capital Fund	137,012	23,542
Total	137,012	23,542
Trust funds	345,407	402,291
Total	$ 879,983	$ 1,082,015

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

The following table shows the status of the fund balances as of September 30, 2020 and 2019.

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

	9/30/2019			
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	280,000	23,542	389,644	693,186
Totals	$ 656,182	$ 23,542	$ 402,291	$ 1,082,015

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. The total activity group remains positive and 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, 2020 and 2019:

	9/30/2020
Inventory LAC without estimate for losses incurred	$ 316,456
Estimate for gains incurred	(2,619)
Inventory on hand at LAC	313,837
Unrealized holding gain (loss)	(86)
Inventory, net	$ 313,751

	9/30/2019
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

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

NOTE 4 – GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

General property, plant and equipment (PP&E) at September 30, 2020 and 2019 is summarized as follows:

	9/30/2020		
PP&E category	**Acquisition Value**	**Accumulated Depreciation**	**Net**
Buildings, structures, and facilities	$ -	$ -	$ -
Software	57,693	(35,926)	21,767
Equipment and other assets	241,464	(157,102)	84,362
Construction-in-progress	37,599	-	37,599
Totals	$ 336,756	$ (193,028)	$ 143,728

	9/30/2019		
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

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

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

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

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

NOTE 5 - LIABILITIES

The following table summarizes total liabilities covered and not covered by budgetary resources as of September 30, 2020 and 2019:

	9/30/2020		
	Covered by Budgetary Resources	**Not Covered by Budgetary Resources**	**Total**
Intragovernmental:			
Accounts Payable	$ 35,077	$ -	$ 35,077
Other Liabilities	5,812	24,456	30,268
Subtotal	40,889	24,456	65,345
With the public:			
Accounts payable	288,019	-	288,019
Federal Employees Compensation Act actuarial liability	-	102,404	102,404
Environmental Liabilities	-	30,723	30,723
Other Liabilities	29,905	56,368	86,273
Subtotal	317,924	189,495	507,419
Totals	$ 358,813	$ 213,951	$ 572,764

	9/30/2019		
	Covered by Budgetary Resources	**Not Covered by Budgetary Resources**	**Total**
Intragovernmental:			
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 Employees Compensation 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

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

The following table summarizes current and noncurrent other liabilities as of September 30, 2020 and 2019:

	9/30/2020		
Other liabilities	**Current Liabilities**	**Non-Current Liabilities**	**Total**
Intragovernmental:			
Workers compensation	$ 11,205	$ 13,251	$ 24,456
Employer contributions and payroll taxes payable	5,812	-	5,812
Subtotal	17,017	13,251	30,268
With the public:			
Accrued funded payroll and benefits	29,905	-	29,905
Foreign national separation pay	8,151	-	8,151
Accrued leave	48,217	-	48,217
Subtotal	86,273	-	86,273
Totals	$ 103,290	$ 13,251	$ 116,541

	9/30/2019		
Other liabilities	**Current Liabilities**	**Non-Current Liabilities**	**Total**
Intragovernmental:			
Workers compensation	$ 12,367	$ 14,059	$ 26,426
Employer contributions and payroll taxes payable	4,248	-	4,248
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

(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, 2020 and 2019:

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

	9/30/2019		
Net position:	**General Funds**	**Working Capital Funds**	**Total**
Unexpended appropriations	$ 611	$ 534,408	$ 535,019
Cumulative results of operation - dedicated collections	1,052,867	-	1,052,867
Cumulative results of operation - 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

NOTE 7 - IMPUTED FINANCING

The imputed financing and cost for employee benefits as of September 30, 2020 and 2019 is summarized below:

Benefit Category	**9/30/2020**	**9/30/2019**
CSRS/FERS	$ 102	$ 12,963
FEHB	38,801	36,409
FEGLI	194	98
Total	$ 39,097	$ 49,470

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 2021 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 2021. Accordingly, a comparison between the fiscal year 2020 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 2020 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 2020 and FY 2019 included appropriation transfers in the amounts of $1,029,697 and $1,266,200 respectively, and contract authority in the amounts of $4,309,599 and $4,454,263 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, 2020 and September 30, 2019 were $415,665 and $493,662 respectively. Working Capital Fund intragovernmental budgetary resources for undelivered orders at September 30, 2020 and September 30, 2019, were $46,323 and $33,925 while nonfederal budgetary resources for undelivered orders were $114,943 and $129,776. General Fund intragovernmental budgetary resources for undelivered orders at September 30, 2020 and September 30, 2019 were $142,159 and $239,077 while nonfederal budgetary resources for undelivered orders were $111,240 and $90,884.

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 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, 2020 and 2019:

Balance Sheet	**9/30/2020**	**9/30/2019**
Assets:		
Fund balance with Treasury (Note 2)	$ 345,407	$ 402,291
Cash and accounts receivable	3,542	3,696
Property, plant and equipment	104,036	707,636
Total assets	$ 452,985	$ 1,113,623
Liabilities:		
Accounts payable	$ 12,133	$ 31,200
Environmental liabilities	30,723	29,584
Total liabilities	42,856	60,784
Cumulative results of operation	410,129	1,052,867
Total liabilities and net position	$ 452,985	$ 1,113,651
Statement of Net Cost		
Program costs	$ 280,508	$ 272,981
Earned revenue	(228,039)	(224,733)
Net income (loss) from operations	$ 52,469	$ 48,248

(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, 2020:

	9/30/2020		
	Intragovernmental	**With the Public**	**Total**
Net Cost of Operations	$ 520,204	$ 741,734	$ 1,261,938
Components of Net Cost That are Not Part of Net Outlays:			
Property, plant and equipment depreciation	$ -	$ (48,375)	$ (48,375)
Property, plant and equipment disposal and revaluation	-	(8,421)	(8,421)
Other	-	(4,377,481)	(4,377,481)
Increase/(decrease) in assets:			-
Accounts receivable	(173)	(3,467)	(3,640)
Other assets	57	(4,847)	(4,790)
(Increase)/decrease in liabilities:			-
Accounts payable	12,676	33,950	46,626
Salaries and benefits	(1,565)	(6,002)	(7,567)
Environmental and disposable liabilities	-	(1,138)	(1,138)
Other liabilities (Unfunded leave, unfunded FECA, Actuarial FECA)	1,971	10,998	12,969
Other financing sources:			-
Federal employee retirement benefits cost paid by OPM and Imputed to the Agency	(39,097)	-	(39,097)
Transfer out (in) without reimbursement	-	-	-
Total components of Net Cost that are not part of Net Outlays	$ (26,131)	$ (4,404,783)	$ (4,430,914)
Components of Net Outlays that are not part of Net Cost:			
Acquisition of capital assets	29,414	6,386	35,800
Acquisition of inventory	3,214	4,383,077	4,386,291
Other	-	(21,894)	(21,894)
Total components of Net Outlays that are not part of Net Cost	32,628	4,367,569	4,400,197
Net Outlays	$ 526,701	$ 704,520	$ 1,231,221
Agency Outlays, Net, Statement of Budgetary Resources			$ 1,231,118
Reconciling Difference			$ 103

DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
COMBINING STATEMENT OF BUDGETARY RESOURCES
FOR THE YEAR ENDED SEPTEMBER 30, 2020
(amounts in thousands)

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

DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
COMBINING STATEMENT OF BUDGETARY RESOURCES
FOR THE YEAR ENDED SEPTEMBER 30, 2019

(amounts in thousands)

	Defense Working Capital Funds		General Funds		
Budgetary Resources	**Operations**	**Resale**	**Surcharge**	**Military Construction**	**Combined**
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 (discretionart 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)	$ 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 unobligated 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
DEFERRED MAINTENANCE AND REPAIRS
For the Year Ended September 30, 2020
(amounts in thousands)

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

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Independent Auditors' Report

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

In our audits of the fiscal years 2020 and 2019 financial statements of the Defense Commissary Agency (DeCA), a component of the United States Department of Defense (DoD), we found:

- DeCA's financial statements as of and for the fiscal years ended September 30, 2020, and 2019, are presented fairly, in all material respects, in accordance with United States of America (U.S.) generally accepted accounting principles;
- One material weaknesses for fiscal year 2020 in internal control over financial reporting based on the limited procedures we performed; and
- One reportable noncompliance for fiscal year 2020 with provisions of applicable laws, regulations, contracts, and grant agreements we tested and other matters.

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

Report on the Financial Statements

We have audited DeCA's financial statements in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 19-03). DeCA's financial statements comprise the balance sheets as of September 30, 2020, and 2019; the related statements of net cost, changes in net position, and combined budgetary resources for the fiscal years then ended; and the related notes to the financial statements.

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

[1]The RSI consists of Management's Discussion and Analysis, the Combining Statement of Budgetary Resources, and Deferred Maintenance and Repairs, which are included with the financial statements.
[2]Other information consists of information included with the financial statements, other than the RSI and the auditors' report

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Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Financial Statements

In our opinion, DeCA's financial statements present fairly, in all material respects, DeCA's financial position as of September 30, 2020, and 2019, and its net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

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

<u>Other Information</u>
DeCA's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. In addition, management has included references to information on websites or other data outside of the Agency Financial Report. We read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements. Our audits were conducted for the purpose of forming an opinion on DeCA's financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

Report on Internal Control over Financial Reporting

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

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

<u>Auditors' Responsibility</u>
In planning and performing our audit of DeCA's financial statements as of and for the year ended September 30, 2020, in accordance with *Government Auditing Standards*, we considered DeCA's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the DeCA's internal control over financial reporting. Accordingly, we do not express an opinion on the DeCA's internal control over financial reporting. We are required to report all deficiencies that are considered to be material weaknesses or significant deficiencies. We did not consider or evaluate all internal controls relevant to operating objectives as broadly established by the FMFIA, such as those controls relevant to preparing performance information and ensuring efficient operations.

<u>Definition and Inherent Limitations of Internal Control over Financial Reporting</u>
An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws,

including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

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

Results of Our Consideration of Internal Control over Financial Reporting

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

- *Controls over Inventory Need Improvement*

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

During our 2020 audit, we identified deficiencies in DeCA's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant DeCA management's attention. We have communicated these matters to DeCA management and, where appropriate, will report on them separately.

Purpose of Report on Internal Control over Financial Reporting

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

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

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

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

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

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements and Other Matters
Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed an instance of noncompliance or other matters for fiscal year 2020 that is reportable under *Government Auditing Standards,* as described below and in Exhibit B.

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

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

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

DeCA's Response to Audit Findings and Recommendations

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

Status of Prior Year's Control Deficiencies and Noncompliance Issues

We have reviewed the status of DeCA's corrective actions with respect to the findings and recommendations included in the prior year's Independent Auditors' Report, dated November 15, 2019. The status of prior year findings is presented in Exhibit C.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenbelt, Maryland
November 5, 2020

Controls over Inventory Need Improvement

The Defense Commissary Agency (DeCA) needs to improve its internal controls over the validation and reconciliation of commissary inventory data. During FY2018, DeCA initiated the migration of its inventory business system to a commercial product for grocery ordering and inventory management and in connection with this migration, ceased performing annual physical inventories at its commissaries. These annual physical inventories served as a key control to ensuring the balances of their recorded inventories were complete and accurate. While individual commissary staff do monitor and update inventory quantities reported in the legacy inventory business system, DeCA does not have an established process to validate and reconcile the complete product level inventory data population maintained at each commissary with the recorded inventory balances reported in the general ledger; however, progress has been made. In FY2019, DeCA resumed contractor inventory counts at the commissaries on a test basis. In FY2020, DeCA hired contractors to perform inventory counts at 92 commissaries which was an increase from the 23 commissary counts completed in FY2019. In addition in FY2020, DeCA made progress in establishing enhanced standard count procedures for contractors to ensure sound count controls, and consistently used actual costs to value inventory based on the counts. Using the results of these counts, DeCA developed a methodology to determine the adjustments to inventory necessary at commissaries not counted. In 2021, DeCA plans to continue to roll out the new inventory system to the remaining commissaries and have contractor(s) perform accountable inventory counts at all commissaries.

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

In our review of these reports, we noted various products with unusually high quantities. In discussions with the store managers, we confirmed that many of these products were no longer in stock and the recorded quantities were in error. In researching this, we determined that 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 anomalies in the inventory data. DeCA has agreements with vendors for the return and refund of certain unsold stock items. The quantities in the inventory system are not always reduced when these items are returned. Other high turnover items where vendor staff deliver and stock the quantities required (direct store delivery) were not tracked in the legacy system at all. In addition, we noted sometimes inventory balances were increased to prevent automatic reorders.

In order to evaluate the reliability of the remaining data, we excluded these anomalous data and selected other grocery items for testing. In our testing of non-anomalous data across 10 commissaries of varying size, we found 45% of the items selected for testing had actual quantities that differed from the recorded quantities in the inventory management system and 63% 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 92 commissaries and on average there was a 3.24% decrease in book value inventory necessary based on the counts. Six of the counts were cancelled and not completed due to issues with contractor staffing and not being able to complete the count in the allotted time. 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. However, we did note that FY2020 adjustments were lower than noted in FY2019 primarily due an inventory reset when stock was depleted from panic buying related to COVID-19. 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. Complete inventory counts at all commissaries; thereby, eliminating the need for top level estimated adjustments for commissaries not counted.
2. Continue to roll out the DAXIM inventory system.
3. Implement PE Warehouse and PE FIM to allow for end to end automated inventory valuation and accurate balance on hand reporting.
4. Develop standard comprehensive inventory reports that are generated for the review and analysis by store managers.
5. Ensure pallets and shippers are removed from the inventory system when broken down.
6. Ensure all shippers are recorded in inventory.
7. Ensure inventory quantities are properly adjusted for vendor returns.
8. Ensure inventory balances on hand are not artificially increased to prevent automatic reorders.
9. Review the policies and procedures for performing and reporting on regular random inventory counts at the product level.
10. Review the process for accounting for direct ship and delivery (DSD) items
11. 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.
12. Establish procedures for the comparison of product level inventory reports to the general ledger balances, taking into account normal timing differences.

Noncompliance with the Federal Financial Management System Requirements

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

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

Business Process	Current System	Future System	Status	Comment
Resale supply ordering/cost management	DIBS	DAX (EBS)	Migration in Process	Deployment impacted in 2020 due to COVID-19 health and travel restrictions Expect to be completed in FY2021
Inventory management	DIBS	IM (EBS)	Migration in process	Deployment impacted in 2020 due to COVID-19 health and travel restrictions Expect to be completed in FY2021
Distribution Center Inventory Management	Manhattan WMS	WMS (EBS)	Migration in process	Deployment impacted in 2020 due to COVID-19 health and travel restrictions Expect to be completed in FY2021
Voucher/coupon management	SAVES	Emerald and RetailOne (EBS)	Migration in process	Deployment impacted in 2020 due to COVID-19 health and travel restrictions Expect to be completed in FY2022
Vendor credit/return management	AVCM	Power HQ (EBS)	Migration completed in FY2019	Automated credits migrated

Business Process	Current System	Future System	Status	Comment
Revenue/sales management	CARTS	Emerald	Migration in process	Deployment impacted in 2020 due to COVID-19 health and travel restrictions Expect to be completed in FY2022
Personnel management	DCPDS	-	-	SOC effective
Timekeeping	TAS	DAI OT&L	Migration completed	Migration completed July 2020
Payroll management	DCPS	-	-	SOC effective
Property Management	DPAS	-	-	SOC effective
Travel Management	DTS	-	-	SOC effective
Procurement/contract management	DBMS	DAI Financial	Migrated in October 2021	Migration completed in early FY2021
Voucher management	iRAPT	-	-	SOC effective
Disbursements	ADS	-	-	SOC effective
Financial accounting	DBMS STANFINS	DAI Financial PE FIM	Migrated in October 2021 In planning	Migration completed in early FY2021 Planned for FY2022
Financial reporting	DDRS	-	-	SOC modified effective with findings

DeCA uses two separate DoD-owned legacy 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 funds and 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, DBMS does not contain a general ledger account to record unexpended appropriation transfers. As a result, DeCA personnel and the Defense Finance and Accounting Service (DFAS) – Columbus Center 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, 2020, DeCA prepared 220 JVs to a variety of accounts with an absolute value of approximately $15 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, 2020, 95 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 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 manual procedures are inefficient and the risk of error in DeCA's financial statements during the year is increased by these manual entries.

Recommendations:

We continue to recommend that DeCA:

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
Status of Prior Year Findings

Prior Finding	Recommendation	Current Status
Controls over Inventory Need Improvement (Material Weakness)	1. Continue to roll out the DAXIM inventory system and complete inventory countsto ensure inventory is accurate. 2. Develop standard comprehensive inventory reports that are generated for the reviewand 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.	Modified Repeat Finding. (Recommendations 1-9 are repeated in FY2020 and recommendations 10 and 11 have been resolved and are closed.)

Exhibit C
Status of Prior Year Findings

Prior Finding	Recommendation	Current Status
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. Implement PE FIM to ensure standardization of revenue and expense reporting across the agency.	Repeat Finding

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

IN REPLY
REFER TO

CCR

November 5, 2020

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

Mr. Byer,

In response to the Independent Auditors' Report dated November 5, 2020, of the fiscal years 2020 and 2019 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 made significant progress in FY 2020 with the completion of 92 accountable inventories. However, we recognize that more work is needed to ensure financial statements reflect inventory data that is fully supported and eliminated the use of estimates. We continue to forge ahead with the deployment of our new integrated commercial grocery inventory ordering and management system within EBS and scheduling of inventories at all commissaries, despite limitations resulting from COVID-19. All recommendations identified will be leveraged to continue to build a strong foundation that will facilitate reliability of our inventory data. We remain committed to putting in place the proper procedures, internal controls and overall governance for inventory management.

Exhibit 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). Tremendous efforts throughout FY 2020 resulted in DeCA's migration of the non-resale financials (Commissary Operations and Surcharge) from DBMS to DAI beginning FY 2021. This effort is our first step in aligning with the FFMIA requirement. We will continue to aggressively work towards migrating the Resale financials from STANFINS to EBS and DAI. While in this state of transition, we will continue to ensure all compensating controls are in place to ensure accurate reporting.

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

For additional concerns regarding these responses, please address to me or Ms. Linda

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

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, ext. 8642 or linda.randall@deca.mil.

MORGAN.CYNTHIA.L.1229474231 Digitally signed by MORGAN.CYNTHIA.L.1229474231 Date: 2020.11.05 08:40:30 -05'00'

Cynthia L. Morgan
Chief Financial Officer

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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