Defense Commissary Agency

Annual Financial Report

Fiscal Year 2023

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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 2023 Annual Financial Report at www.commissaries.com by the end of the 1st Quarter, FY 2024.

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Director’s Annual Financial Report Message Fiscal Year 2023

During FY 2023, the Defense Commissary Agency (DeCA) introduced several new initiatives to help increase patron awareness, convenience and access to the benefit. Some of those initiatives included expanding access to items outside a traditional commissary, adding the Military STAR card as a form of payment for Commissary CLICK2GO orders, and launching the Commissary CLICK2GO App. Altogether, these initiatives helped the Agency grow sales for the second year in a row, increasing sales by over 9 percent and transactions and foot traffic by over 7 percent.

While the Agency was achieving major milestones, it was also working to neutralize threats to patron savings, such as inflation and the lingering disruptions of a post-COVID-19 pandemic environment on the supply chain. Through the Department of Defense’s (DoD) “Taking Care of Our Service Members and Families” initiative helped to boost the economic security of struggling military families. Subsequently, the Agency decreased commissary pricing by 3-5 percent on most grocery items, increasing the overall savings for patrons to above 25 percent for all four quarters. The Agency also invested in improvements to the supply chain by deploying a modernized warehouse management system in Germany and Guam, with later deployment scheduled for Korea and Japan.

Throughout FY2023, the Agency continued to work to attract new patrons and keep prices low to help fuel even more growth.

Major highlights for the Agency over the last year include the following:

Game Plan: In December 2022, our senior leadership team met in an annual strategic planning session to assess progress toward our vision, mission, and the lines of effort (LOE) undertaken to support the commissary benefit. Through our Game Plan, we reaffirmed our primary objective to deliver the benefit to as many eligible patrons as possible and remained committed to fulfilling our vision, mission, and LOEs.

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

Our Mission: Deliver a vital benefit of the military compensation package that improves the quality of life and readiness by providing grocery items at significant savings.

Lines of Effort: The LOEs are managed by specific DeCA directorates who organize movement and actions toward strategic outcomes. LOEs were updated and revolve around the following areas and outcomes:

- **Supply Chain:** Our supply chain is transformed and enables full commissary shelves with the right products delivered at the right time and place at the lowest cost.
- **Omni-Channel:** Our patrons are provided a superior omni-channel shopping capability enabled by our digital shelf, online payment and delivery.

- **Customer Service:** We have earned and maintain the confidence of our patrons that we will deliver their exclusive benefit in a safe and clean, convenient and in an exciting way as "their grocery provider of choice."
- **Demand Creation:** We are delivering more benefit to more patrons and exceeding our savings and revenue goals.
- **Facilities Management and Readiness:** All stores are comfortable, inviting, well-lit and maintained, with functional equipment, up-to-date décor packages and IT enabled amenities.
- **Workforce Investment:** We are an engaged, talent-rich and customer-focused organization encompassing trust, respect, and ownership among DeCA's leaders and employees.
- **Winning on Fresh:** We provide the right assortment of fresh products at the right price and quality that exceeds our patrons' expectations.
- **Data and Analysis:** All Agency decisions are enabled by clear, timely and accurate data, state-of-the-art decision support tools and big data analytics.

Sales: In January 2022, our business started to grow, turning a 10-year, 5 percent per yearly slide into 17 months of true growth. In 2023, DeCA increased sales by 9.6 percent and foot traffic to our commissaries is up over 7 percent.

"Taking Care of Our Service Members and Families" Campaign: On Sep 22, 2022, the Secretary of Defense announced the "Taking Care of Our Service Members and Families" initiative to help improve the economic security and stability of the military community by addressing areas of concern tied to the financial impacts of inflation. This allowed us to reduce grocery prices across our product assortment by 3 - 5 percent, especially on food staples such as bread, eggs, milk, and more. This decision helped DeCA save patrons at least 25 percent on their groceries against local market baskets outside the gate. DeCA has exceeded expectations established in DoD's "Taking Care of Our Service Members and Families" savings mandate of at least 25 percent implemented by Secretary of Defense Austin. DeCA was also to be fully funded and was given relief from offsetting a portion of its appropriations. Customer-funded revenues has provided elevated savings for all quarters: Q1 25.3 percent, Q2 26.3 percent, Q3 25.3 percent, Q4 25.1 percent with an average FY 2023 savings of 25.5 percent. These efforts provided $1.6 billion in savings directly into our customers' pockets through FY 2023.

Expanded Store Hours: We have migrated nearly 80 commissaries from six to seven-day operations and others from five to six days, along with extending hours to better serve our customers. Since commissary store days and hours of operation have expanded, sales and unit movement have increased significantly, showing a sales growth of over 9 percent in 2023 and a unit growth of 1.2 percent.

Commissary Store Brands (CSB): Introduced in 2017, CSBs are an assortment of private-label products that span the entire store. They include Freedom's Choice for food items, Homebase for non-food items, Full Circle Market for organic products, Tippy Toes for baby products, TopCare for health and beauty, Wide Awake Coffee for ready-to-drink coffee products, Cravn' Flavor for refrigerated and frozen appetizers and snacks, Pure Harmony for assorted pet food and Flock's Finest for bird food. Currently, there are 945 items available in the commissary product list. The CSB program introduced Freedom's Choice milks and 87 other items during FY2023, and 50 new items are currently under development. Patrons can expect to see whipped topping, canned beans, frozen shrimp, frozen fruit, frozen potatoes, hot cereal, pickles/peppers/relish items, guacamole dip in produce, canned tomatoes and frozen novelties in the future.

Customer Satisfaction: Our customer service score has increased from 81 to 89. Based on our survey results, our customers are more satisfied with their benefit thanks to lower prices, extended hours, fuller shelves, exceptional customer service, and convenience amenities like Commissary CLICK2GO.

eCommerce Updates: DeCA continues to make strides in the world of eCommerce. The Agency is working on many avenues, to include a proactive "outside the walls" approach, taking the benefit to locations without a commissary. The Commissary CLICK2GO Delivery pilot has been extended through Dec 31. The Agency is currently developing a solicitation to expand CLICK2GO delivery to even more stateside locations. DeCA has also invested in other areas using the CLICK2GO platform, including Army Culinary Outpost and Drop-Off.

Product Drop-Off is an existing option within the Commissary CLICK2GO platform used primarily for bulk orders. This option is used for weekly recurring bulk orders at ten commissaries, some with multiple drop-off locations. There are multiple variations of this option which includes:

- Guard and Reserve Onsite Sales
- Special Orders
- Embassy Support

Commissary CLICK2GO App - Customers can now download a mobile app to access the Commissary CLICK2GO platform which offers, online payment, curbside pickup, digital coupons, the sales flyer, dietitian-approved recipes, and more. This option is available free for download via the Google Play and Apple app stores for Android and Apple devices. The mobile app gives commissary shoppers access to a variety of DeCA online functions on their smartphones and tablets.

Online payment – Nov 22, 2022, marked the first-time patrons worldwide could use their MILITARY STAR card to purchase groceries through the website.

Army Culinary Outpost Program. With the Army Culinary Outpost Program, local dining facilities order from DeCA's online platform and commissaries deliver those items to multiple on-base outposts that contain product kiosks. Currently, 12 installations are participating, and we are planning for more.

Your Everyday Savings (YES!): The campaign is an initiative aimed at ensuring that DeCA provides patrons with greater savings daily for many of the item's shoppers purchase most frequently. DeCA uses an aggressive approach to lower prices across the enterprise to better support our patron base.

Dietitian-Approved Fueling Stations: The lifestyle of young Service Members can be hectic with ongoing deployments and constant training rotations. To help these busy Service Members access to quick, nutritious meals and snacks, DeCA launched its dietitian-approved fueling station program, current 190 operational. The stations offer Service Members nutritious foods to build a meal, enjoy before- or after workout, or on – items they can take on missions or stock in their barracks.

Social Media: DeCA continues to use social media platforms as another avenue for reaching our authorized patrons to help spread the message about the commissary benefit. The Agency also uses the newly launched commercial website, www.shop.commissaries.com, to spread awareness and give patrons access to features like our eCommerce platform. Customers can interact with the Agency through the following social media platforms: Facebook, Senior Enlisted Advisor Facebook, Instagram, X (formerly Twitter), Pinterest, Vimeo; and YouTube.

Patron Outreach: DeCA has increased its outreach efforts to educate and attract more customers. We are spreading the word by using the following: Geofencing marketing within 15 miles of each commissary, targeted marketing at specific commissary locations, billboards near commissaries, paid social media, eBlast communications to veterans stateside, organic social media, grocery TV - in-store promotion in 162 stateside stores, sales flyers, military media veterans' benefits site, Military Times Service magazine monthly full-page advertisement, featured news and events card on shop.commissaries.com, Stripes.com advertisement, and collaboration with military resale partners.

Environmental Program: During FY 2023, we recycled over 96 million pounds of recycled commodities with a diversion rate of over 56 percent, exceeding the DoD diversion rate goal of 50 percent. The recycled commodities include cardboard, plastic, glass, office paper, compost, fats, and bones. In addition, other commodities included fryer and used rotisserie chicken oil, metal, wood, wood pallets, aluminum, and toner cartridges. The sale of cardboard and some plastics generated over $860,499 in surcharge revenue. We have also used a liquidation service to help sell out-of-use equipment items. The Agency has supported the environment by diverting 253,000 pounds of used equipment from landfills. The sale of these items generated over $68,000 in surcharge revenue. DeCA deployed our new Waste Management Reporting System (WMR), which is used to help the Agency track recycling data. The deployment of WMR allows DeCA to meet DoD 4715.23, Integrated Recycling and Solid Waste Management, goals to include the implementation of Executive Order 14057 (Catalyzing Clean Energy Industries and Jobs Through Federal Sustainability). DeCA also works closely with California's Department of Resources and Recycling and installation commanders to implement California's Organics Waste Senate Bill (SB) 1383.

Food Donations: DeCA donates edible food products to help feed those in need. In 2023, commissaries donated over 5.2 million pounds of unsellable but consumable products to 208 foodbanks throughout the U.S. and Puerto Rico, an increase of over 11 percent from last year's 4.7 million pounds. DeCA also participates yearly in the Feds Feed Families Campaign, an annual food donation drive event managed by the U.S. Department of Agriculture. All Federal Agency donations, totaled 9.9 million pounds. Total DoD donations 5.8 million pounds, a 23 percent increase over last year's campaign of 4.7 million pounds. DeCA contributed over 4.1 million pounds, a 28 percent increase over last year's campaign of 3.2 million pounds. The 4.1 million pounds equals 41 percent of total Federal donations and 71 percent of DoD total donations. Estimated dollar value of DeCA donations $4.1 million. DeCA also sold over 71,000 donations bags to date, totaling more than $950,000 in sales.

Product Airlifts: Supplying commissaries at overseas locations can be a challenge. Our distribution channel has to account for significant geographic distances, which can sometimes take weeks when using ocean-bound transportation. Throughout the year, we have airlifted over 3.6 million pounds of product to ensure availability to our customers at a cost of more than $9.6 million dollars.

Alternative transportation options: DeCA has begun working on other processes to ship our products to overseas locations. DeCA received approval from Military Surface Deployment and Distribution Command for Foreign Flag (FF) usage through December 2023, resulting in a seven-day reduction of transit time to South Korea.

Unmodified Audit Opinion: The Agency’s financial statements for FY 2023 resulted in an unmodified opinion from independent auditors. The Agency’s unmodified opinion means CliftonLarsonAllen’s (CLA) examination found no substantial discrepancies in the Agency’s finances. CLA looks at about 500 actions demonstrating the integrity of DeCA’s internal financial processes and controls and its interactions with external partners, the Defense Finance and Accounting Service (DFAS) and the Defense Logistics Agency. DeCA has achieved an unmodified opinion 22 times through independent auditing.

Scholarships for Military Children Program: Fisher House created the program in 2001 in partnership with DeCA to recognize military families' contributions to the fighting force’s readiness and to celebrate the commissaries’ role in enhancing the military’s quality of life. This year, 500 children were each awarded a $2,000 scholarship by the nonprofit foundation for the upcoming 2023-2024 academic year.

Top Women in Grocery: A record number of DeCA female leaders were recognized as Progressive Grocer’s Top Women in Grocery for 2023. Eleven of the Agency’s female leaders were chosen from over 1,000 industry nominees.

Beer and Wine: On April 27, 2018, DoD authorized an initial deployment of beer and wine sales with 12 pilot stores selling a limited assortment of dry beer and wine products. We relaunched the program in January 2022, with a more robust assortment that includes national top sellers by placing beer into our chilled sections. In November 2022, the program expanded again with an additional 14 stores, bringing the program to 26 stores.

Starting in FY 2024, we will focus on working to achieve our next goal - $8 billion in annual sales by 2028 in the upcoming year. We plan to attract more customers, ensure shelves are full, create even more convenience for our patrons with eCommerce options and strengthen our relationships with our industry partners.

John E. Hall
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 Eisenhower Avenue, Fort Gregg-Adams, VA 23801-1800 www.commissaries.com www.facebook.com/YourCommissary www.twitter.com/TheCommissary www.youtube.com/DefenseCommissary
Fiscal 2023 sales:	$ 4.6 billion
Fiscal 2023 total revenue:	$ 4.9 billion
Fiscal 2023 operations cost:	$ 1.5 billion
Total employees:	12,820
Total authorized households:	Approximately 8.3 million
Customer transactions:	64.5 million
Global presence:	12 countries, 2 U.S. territories
Commissaries as of 30 Sep 2023:	235

DeCA MISSION

Deliver a vital benefit of the military compensation package that improves quality of life and readiness by providing grocery items at significant savings.

DeCA VISION

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

DeCA VALUES

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

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

*We **PURSUE** excellence through continuous improvements…*

*We are **ACCOUNTABLE** to our patrons and our workforce…*

*We demonstrate a **SPIRIT** of commitment and urgency…*

*We maintain relevant and high **STANDARDS**…*

*We **INSTILL** trust and confidence…*

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

*We are **NECESSARY** to improve quality of life for military family…*

…as we deliver the benefit!

PART I

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF DeCA

ORGANIZATION AND MISSION:

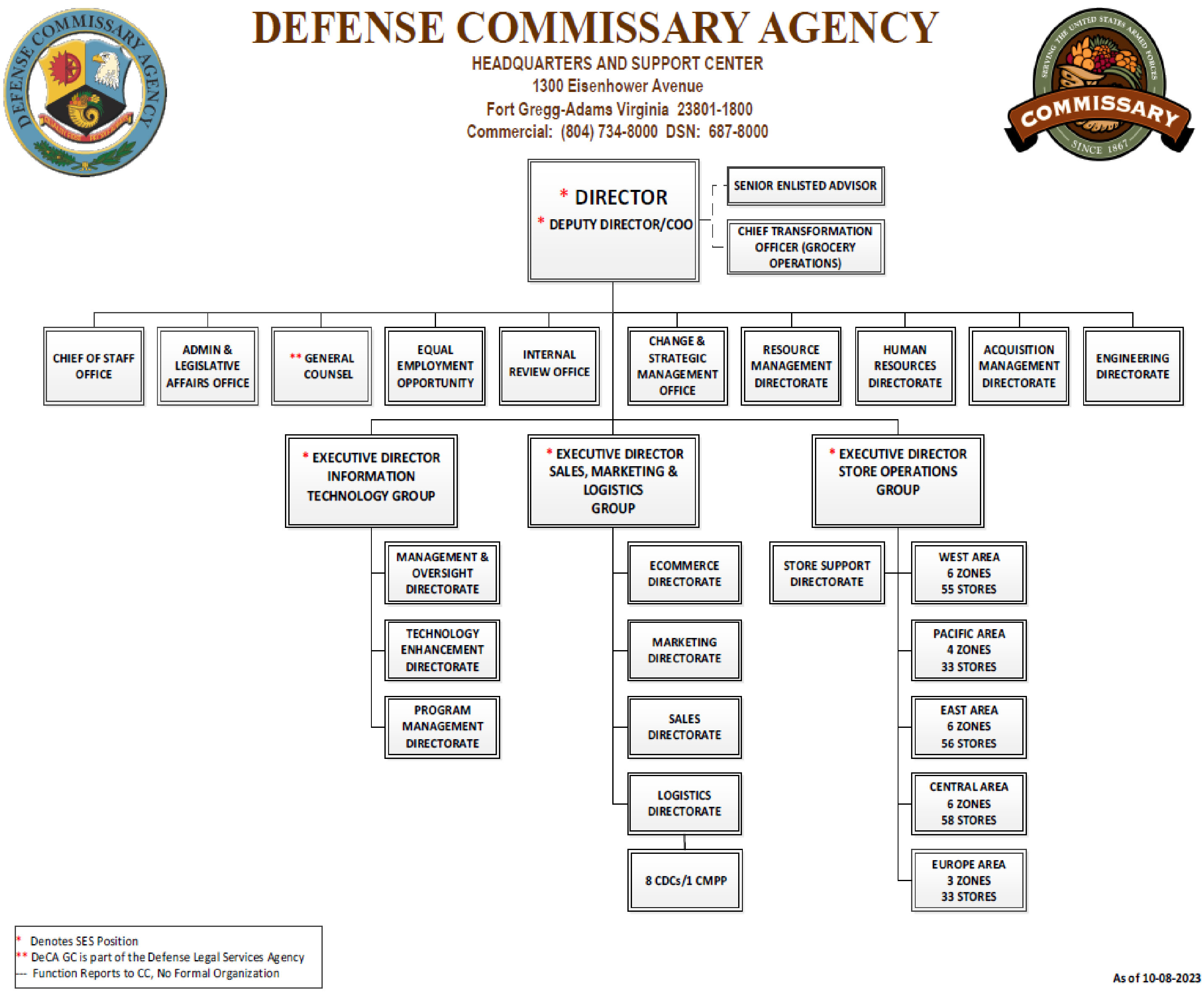
The Defense Commissary Agency (DeCA or the Agency) is a component of the DoD reporting to the Under Secretary of Defense for Personnel and Readiness. In 1989, the House Armed Services Committee appointed the Jones Commission to analyze the commissary systems (i.e., grocery stores or supermarkets) operated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

From its headquarters at Fort Gregg-Adams, Virginia, the Defense Commissary Agency (DeCA) operates a worldwide commissary system that provides quality grocery products at substantial savings to active duty military personnel and retirees, members of the Reserve and National Guard, and their families. The agency employs nearly 13,000 people and its annual sales exceed $4 billion.

Five area offices provide localized management and support for the agency's commissaries. Three of these offices, East, Central, and West, manage stores in the continental United States (US) and Puerto Rico. The other two area offices, Europe and Pacific, manage stores in Europe, Africa and Asia. Within the operational areas, zone managers are responsible for 8 to 12 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) 2023 is shown in the following chart:



2023 HIGHLIGHTS:

DeCA has maintained our unmodified opinion for FY2023. For the first time since COVID 19 began, we were able to perform 235 accountable inventories at both CONUS and OCONUS locations (via contractors). One inventory (Orote, Guam) was postponed due to Typhoon Mawar. We continue to improve cycle counts at store level to ensure our balance on hand is accurate.

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

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

SOURCES OF FUNDS:

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

Commissary Operations finances the operating costs of commissaries, areas, and headquarters activities. The primary revenue source for this activity group is a direct appropriation to the Defense WCF, which in turn, is apportioned to the DeCA WCF. Specific costs include civilian and military labor, service contracts, travel, transportation of commissary goods overseas and other indirect support. DeCA received approximately $1.4 billion in appropriation transfers during FY 2023. Commissary Operations also received limited additional revenues from manufacturers' coupon redemption fees, handling fees for tobacco products, and reimbursements for other support.

DeCA's Surcharge Collections Trust Fund, which is part of the General Fund, is primarily funded from the five percent surcharge applied to patron sales at the checkout counter.

The Surcharge Collections Trust Fund resources are used for store information technology, maintenance and equipment, and the commissary construction program. The Fund does not receive a direct appropriation.


Meat Tray Colors
WHITE for Choice Beef
PINK for Select Beef & Pork
BLACK for Prime & Angus Beef
for Family Pack
REWARDS

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, ongoing process where one activity feeds the next, allowing for continuous feedback and adjustments throughout. Our strategic planning process incorporates multiple planning tools such as Agency Strategic Direction and Performance Plans and Strength, Weakness, Opportunities and Threats (SWOT) analyses. We conduct quarterly data calls and metric reviews for performance management that include 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 and resources.

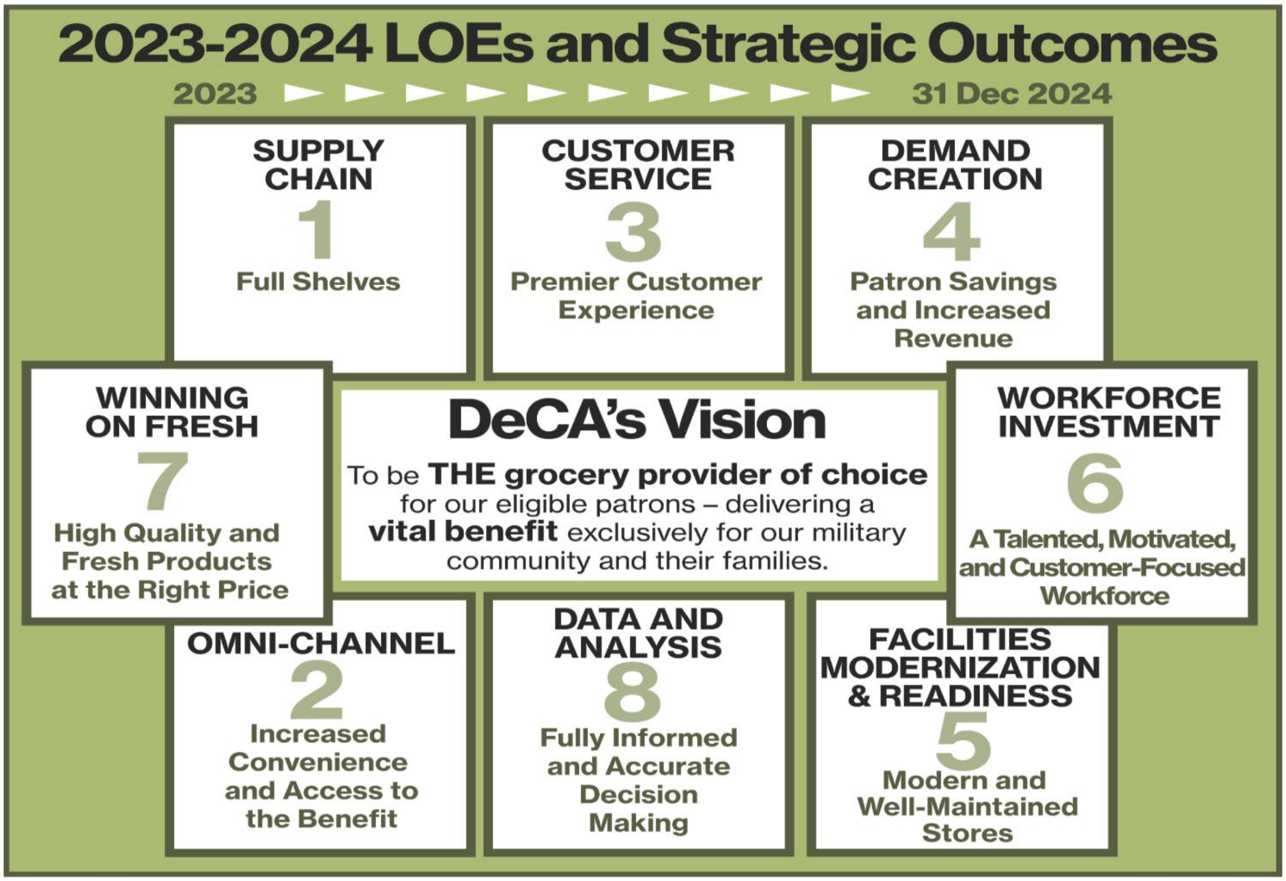
DeCA's Strategic Game Plan lays out the roadmap for the Agency's updated vision and mission for the future. The Vision for the Agency is very clear, elegant, and to the point, as we continue moving forward with a very specific intention **"To be THE grocery provider of choice for our eligible patrons – delivering a vital benefit exclusively for our military community and their families."** We strive to fulfill our mission to **"Deliver a vital benefit of the military compensation package that improves quality of life and readiness by providing grocery items at significant savings."** The commissary benefit supports Service members and their families by providing a safe grocery shopping environment with significant savings compared to civilian supermarkets. The vision and mission are the driving forces behind our goals found in the Agency 2023-2024 Director's Strategic Game Plan 2.0. These goals drive us toward continuous improvement in pursuit of our vision which sets forth a focus to remain relevant to our customers and enable customer service consistent with today's shopping trends.

STRATEGIC PLANNING:

In order to realize our vision, DeCA assessed areas of opportunity for moving the needle to successfully change for the future. We established specific areas that could create positive change, offer more opportunities for our eligible patrons, improve their experience, and make the benefit stronger. DeCA's approach supports: (1) the DoD FY 2022-26 Strategic Management Plan for Goal 4/Objective 4.1 to "Deliver excellent, equitable, and secure DoD services and customer experiences;" and (2) the Under Secretary of Defense for Personnel and Readiness (USD(P&R)) 10-year Strategy for 2030 for Goal 5 – Talent Management Fit for the Times, which calls for P&R to "enable, guide, and assess the DoD's ability to attract, cultivate, retain, and dynamically manage a technologically advanced military and civilian workforce to achieve national security objectives." In order to become "THE grocery provider of choice for our eligible patrons," the DeCA Game Plan identifies eight strategic outcomes along eight Lines of Effort (LOE), as the priority areas for improving the way we deliver the benefit. The Game Plan also documents and continues implementation of the DeCA strategic direction for the future, focusing on fiscal years 2023-2024.

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

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



Strategic Outcomes Sought – By December 31, 2024, our definition and desired end-state for each outcome of the eight LOEs is stated as follows:

Outcome 1: Our supply chain is transformed and enables full commissary shelves with the right products, delivered at the right time and place, at the lowest cost.
Supporting LOE: 1.0 Supply Chain.

Outcome 2: Our Patrons are provided a superior Omni-Channel shopping capability enabled by our digital shelf, online payments, and delivery.
Supporting LOE: 2.0 Omni-Channel.

Outcome 3: We have earned and maintain the confidence of our patrons that we will deliver their exclusive benefit in a safe, clean, convenient, and exciting way as their "grocery provider of choice."
Supporting LOE: 3.0 Customer Service.

Outcome 4: We are delivering more benefit to more Patrons and exceeding our savings and revenue goals.
Supporting LOE: 4.0 Demand Creation.

Outcome 5: All stores are comfortable, inviting, well-lit and maintained, with functional equipment, up-to-date décor packages, and IT enabled amenities.
Supporting LOE: 5.0 Facilities Modernization and Readiness.

Outcome 6: We are an engaged, talent-rich and customer-focused organization encompassing trust, respect, and ownership among DeCA's leaders and employees.
Supporting LOE: 6.0 Workforce Investment.

Outcome 7: We provide the right assortment of fresh products at the right price and quality that exceeds our Patron's expectations.
Supporting LOE: 7.0 Winning on Fresh

Outcome 8: All Agency decisions are enabled by clear, timely, and accurate data, state-of-the-art decision support tools, and big data analytics.
Supporting LOE: 8.0 Data and Analysis

STRATEGIC DIRECTION:

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

DeCA continues to refine efforts to gain shopper insights and be sensitive to the expectations of our patrons. We continue to investigate the rapidly changing technology that is becoming a significant part of the ways that our patrons' shop and communicate. Concepts were evaluated and have been implemented as we partner with the 21st century shopper. Transforming the Agency with innovation is a primary focus, evidenced by recent commissary programs implemented such as online shopping and payment, patron-focused initiatives, piloting of delivery services, etc.

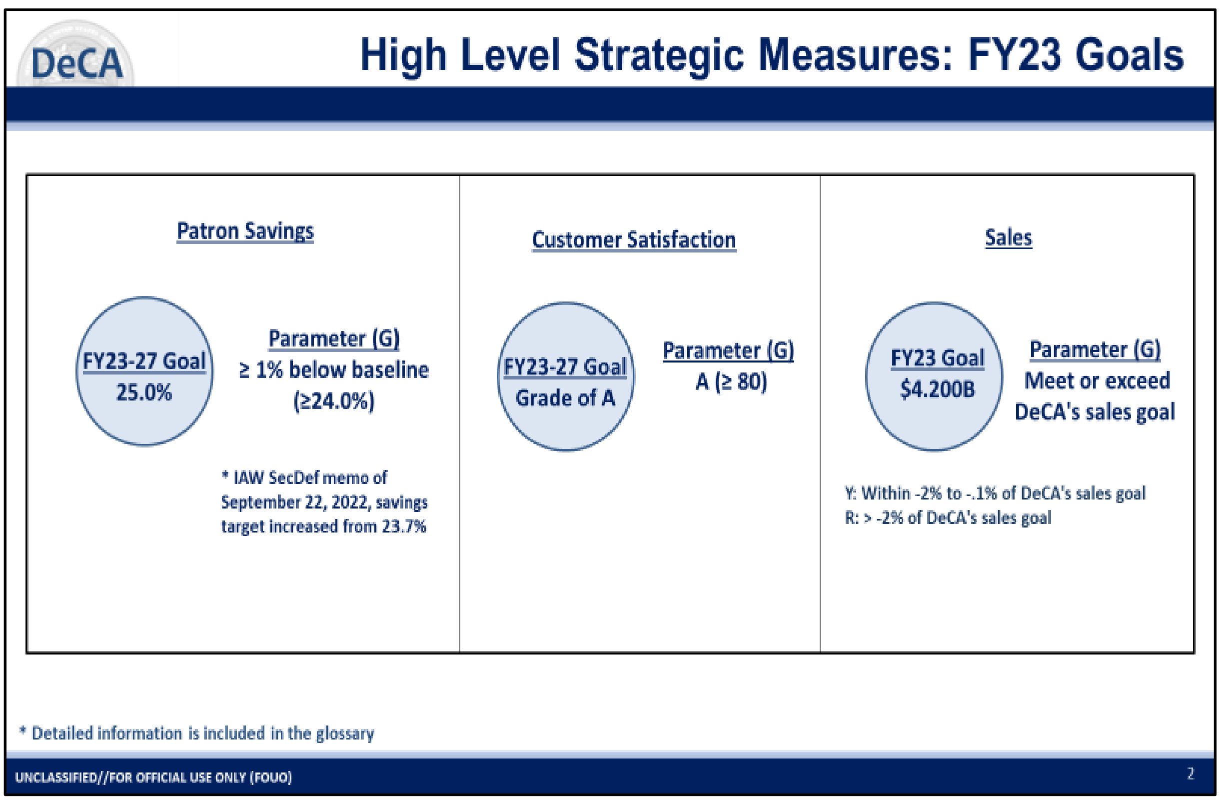
Modernizing DeCA's business systems and retail processes is a continuous process. This modernization is taking place in defined increments over time and has eliminated redundant and costly legacy systems, improved our business performance, and incorporated commercial best practices. This transition is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

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

ALIGNING PLANNING AND PERFORMANCE MANAGEMENT:

DeCA's Strategic Game Plan communicates the Agency's overarching direction, while linking to the Agency Performance Plan to establish performance measures used to assess our progress. The FY 2023 Agency Performance Plan, updated annually, incorporates performance measures and targets across three key perspectives to manage Agency performance from a holistic view and addresses Agency performance in the areas of Patron Savings, Customer Satisfaction, and Sales. The results of the Agency Performance Plan are monitored and assessed quarterly to enable data-based decision-making. The Agency quarterly reviews also allow for executive and senior leadership collaborative discussions, transparency of activities, and opportunities for course adjustments and improved outcomes. The chart below displays the FY 2023 Agency Performance Plan's three areas and associated goals.

DeCA FY23 PERFORMANCE PLAN



The DeCA Performance Plan supports the Agency's 2023-2024 Director's Strategic Game Plan Lines of Effort and outcomes and encompasses the FY 2023 period. The performance goals and measures, assessed and applied on an annual basis, are provided for each performance element above as follows:

- Patron Savings: The left metric depicts the projected percentage of patron savings achieved versus the 25.0 percent savings mandated by Secretary of Defense Memorandum dated September 22, 2022, "Taking Care of Service Members and Families," which raised DeCA's required savings level to 25.0 percent and replaced the previous 23.7 percent savings previously mandated in the FY 2016 NDAA.

- Customer Satisfaction: The middle metric depicts DeCA's current annual Customer Satisfaction (CSAT) score based on ForeSee methodology; an "A" grade is any score above the goal of 80.

- Sales: The right metric depicts DeCA's current year sales results versus the FY 2023 goal.

STRATEGIC PLANNING RISK MITIGATION:

The DeCA strategic planning process is designed to align its planning and performance management processes to ensure the Agency**'s** successful implementation of its goals and objectives for the commissary program and that targeted outcomes are achieved. To mitigate risks in providing the commissary benefit to our authorized patrons, DeCA uses a revolving repetitive performance review process that measures performance in achieving the Agency high-level strategic LOE goals and outcomes. The performance goals and measures are reviewed, progress assessed, and results reported quarterly and annually, including any adjustments as changes in direction occur.

The Agency is making significant progress to further business transformation reforms approved by Congress. The 2016 and 2017 National Defense Authorizations Acts (NDAA) mandated commissaries to operate more like a commercial grocer and become less reliant on appropriated funds. DeCA not only implemented NDAA authorities, it also continues to develop and deploy customer facing programs to bring patrons back to commissaries. The NDAA's direction included:

- In 2016, the current patron savings level was set to be maintained using market basket surveys to re-baseline a savings level of 23.7% globally. On September 22, 2022, the savings level was changed to 25% by Secretary of Defense Memorandum, Subject: Taking Care of Our Service Members and Families.
- Eliminated "at cost" commissary model and authorized variable pricing.
- Indicated business optimization revenues may supplement appropriated funds.
- Provided for developing private label brands.

Previously, commissary sales had declined steadily in the past 10 years, but DeCA began and continues slowing the trend and increasing sales as of FY 2022, and continues to implement and refine programs aimed at bringing customers back to military resale and growing the basket dollar value of existing customers. DeCA's Your Everyday Savings (YES!) program is providing customers with competitive prices on items they most frequently purchase. Baskets containing YES! items are triple the size of baskets that do not contain YES! items and DeCA is also expanding the popular commissary store brands item assortment and CLICK2GO on-line ordering/curbside pickup program. DeCA is focused on the top 50 sales volume stores to increase sales and leverage best practices from those stores to grow sales across the system. These programs are underway and ongoing as we strive to serve and increase our authorized customer base and better educate them on their commissary benefit.

However, commissaries continue to face risks that must continue to be mitigated moving forward. Like all retail grocers, the Agency faces challenges brought about because of inflation, a disrupted supply chain, the residual effects of the pandemic, and a sustainable workforce as we compete for talent to operate our stores. Going forward with the Department's and the Agency's initiatives, we sustained the increased savings through FY 2023 and will continue to achieve the 25 percent benchmark to the extent our resources allow. We continue our ongoing mission to deliver much-needed savings to all our eligible patrons and ultimately achieve our vision: "To be THE grocery provider of choice for our eligible patrons." We must remain steadfast in our commitment to providing them healthy food options, clean and safe stores, expanded operating hours and convenience, and premier customer service. We are their insurance policy to have food security when they need it most, even in disasters, pandemics, or periods of inflation.

FINANCIAL STATEMENT SUMMARY

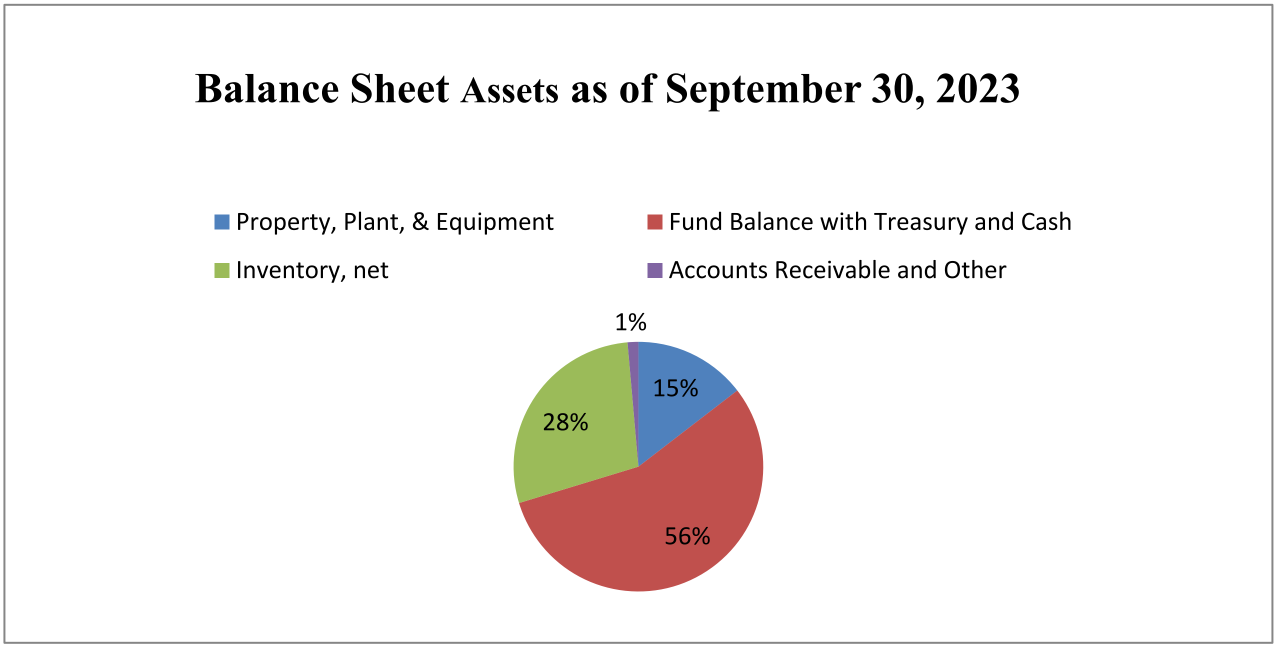
DeCA's Consolidated Balance Sheet, Statements of Net Cost, Changes in Net Position, and Combined Statements of Budgetary Resources (consolidated financial statements) have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of Title 31,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

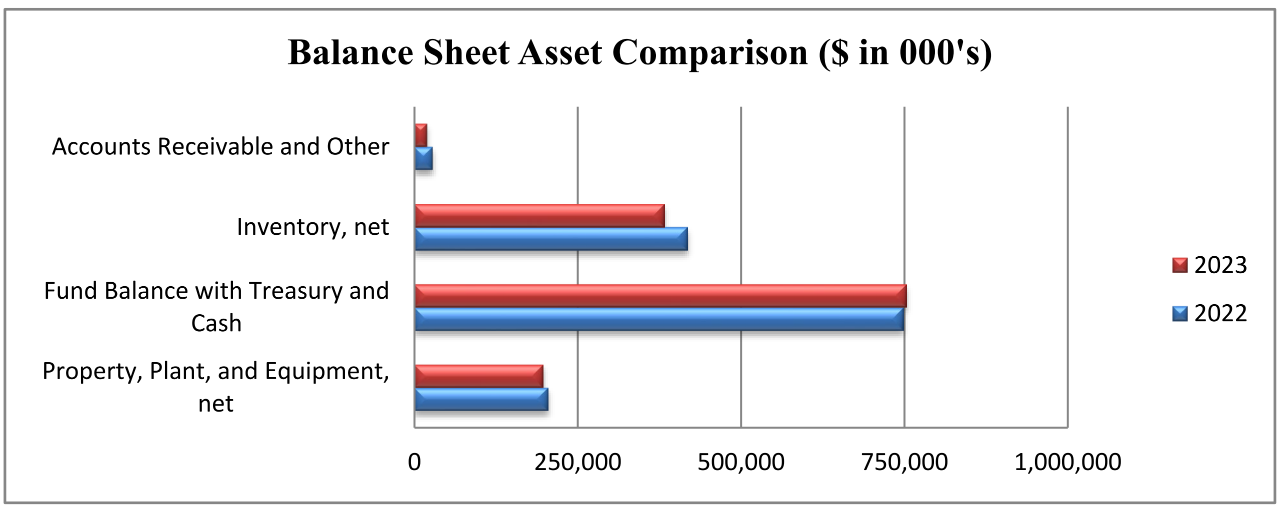
CONSOLIDATED BALANCE SHEETS:

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, 2023, DeCA reported assets of $1.3 billion. Assets are the resources available to pay liabilities or satisfy future service needs of the Agency. DeCA's major categories of assets, as a percentage of total assets, are as follows:



The following chart presents comparative data of major asset balances as of September 30, 2023 and September 30, 2022, along with discussions of significant fluctuations.



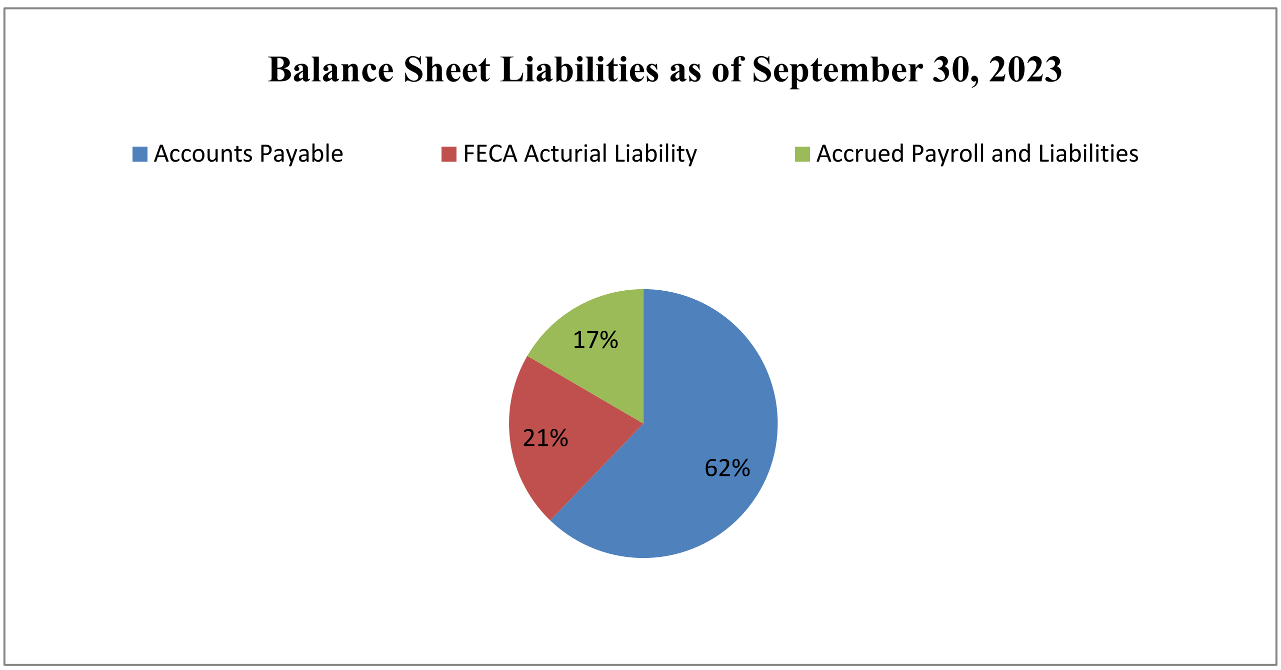
Accounts Receivable and Other comprises 1 percent of DeCA's current year assets. These represent amounts primarily due from DeCA customers. Accounts receivable and other remained relatively consistent when compared to prior year balances.

Inventory, net represents 28 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.

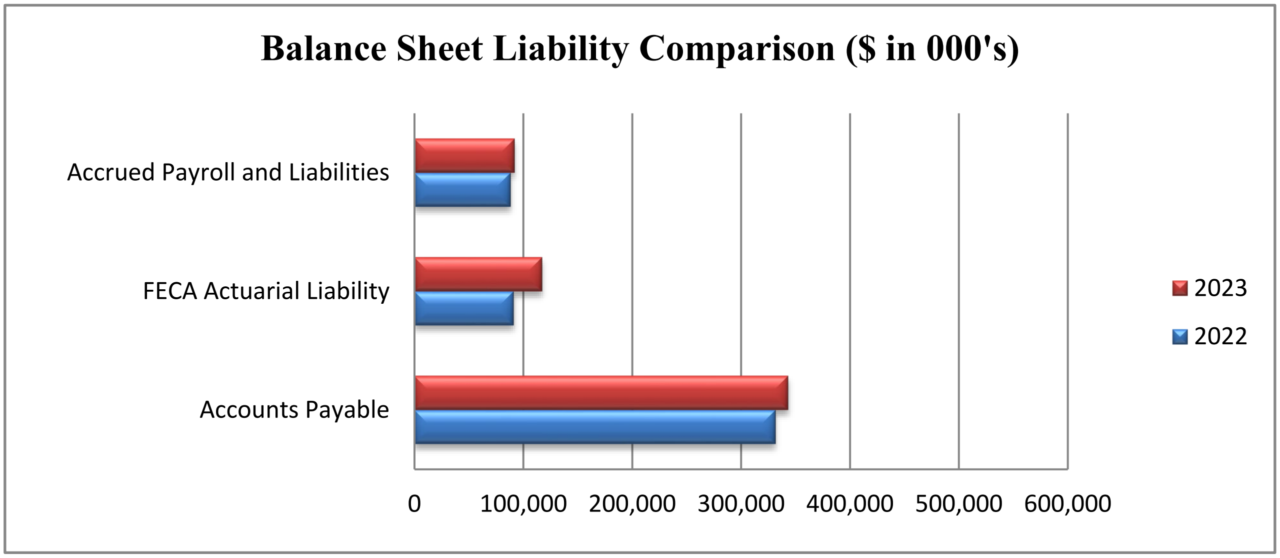
Fund Balance with Treasury (FBWT) and Cash represents 56 percent of DeCA's current year assets. Funding is primarily made available through the U.S. Department of the Treasury accounts from which DeCA makes expenditures to pay liabilities. FBWT also includes monies generated from sales at commissaries that have been deposited to an authorized financial institution. Cash consists 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 increased by $4.5 million when compared to prior year balances.

General Property, Plant and Equipment (PP&E), net represents 15 percent of DeCA's current year assets, and is primarily comprised of capitalized real and personal property held to fulfill DeCA's mission of selling groceries to its patrons. PP&E remained relatively consistent when compared to prior year balances.

Liabilities – On September 30, 2023, DeCA reported liabilities of $551.4 million. Liabilities are probable and measurable future outflows of resources arising from past transactions or events. The following chart displays DeCA's major categories of liabilities as a percentage of total liabilities.



The following chart presents comparative data of major liability balances as of September 30, 2023 and September 30, 2022 along with a discussion of fluctuations.



Accrued Payroll and Liabilities comprises 17 percent of DeCA's current year liabilities and includes liabilities for accrued payroll and benefits, foreign national separation pay and accrued leave. Accrued payroll and liabilities remained relatively consistent when compared to prior year balances.

Federal Employees Compensation Act (FECA) Actuarial Liability comprises 21 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 increased by $26 million when compared to prior year balances.

Accounts Payable comprises 62 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:

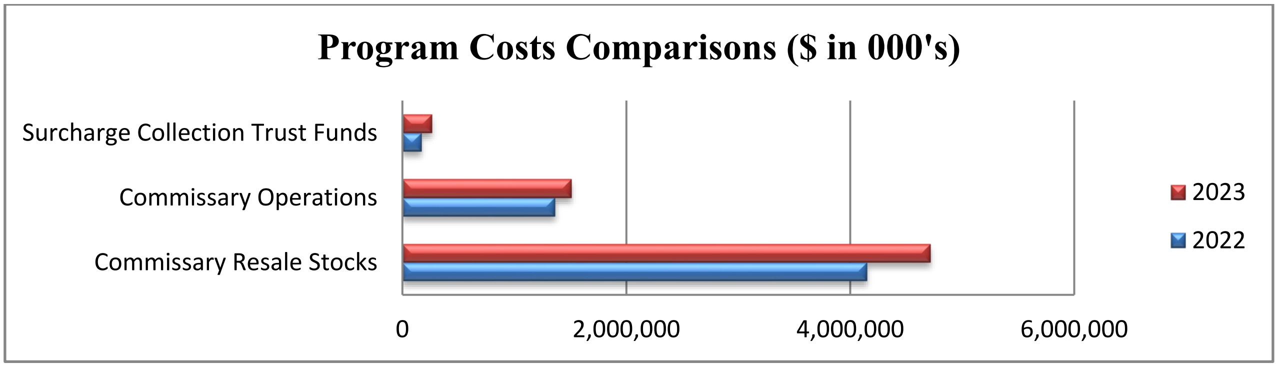
The consolidated Statement of Net Cost represents the annual cost of operating DeCA programs. The gross costs for DeCA less the earned revenue from grocery sales and other revenue sources are used to derive DeCA's net cost of operations. DeCA's gross costs are primarily accounted for in the three major 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 $89 million, 10 percent when compared to prior year balances.

STATEMENTS OF BUDGETARY RESOURCES:

This statement provides information on the budgetary resources available to DeCA for fiscal years 2023 and 2022 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.

ANALYSIS of SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

DeCA utilizes three separate accounting systems: Accounting Information and Management System (AIMS), Defense Agencies Initiative (DAI) and Standard Army Financial System (STANFINS) deemed critical to financial reporting and financial control.

AIMS - AIMS application is used to maintain the physical inventory of groceries/value of sales/ inventory ledger account for each store. It maintains a history of all financial transactions sent electronically to the financial accounting system; Standard Financial System (STANFINS). It also supports our contracting and financial processes. AIMS transmits financial transactions to the DoD accounting system, Standard Finance System (STANFINS) and generates store inventory accounts. AIMS also interfaces with the Defense Finance and Accounting Service (DFAS) systems to facilitate collection of funds and vendor payment. AIMS tracks anything that adjusts the inventory within a store – the total value within a single commissary.

DAI – is an enterprise system dedicated to addressing financial management improvements through standard end-to-end business processes delivered by Commercial Off the Shelf (COTS) software. DeCA relies on DAI for commissary operations and surcharge (non-resale business). Currently, DAI provides Budget-to-Report, Proposal-to-Reward, Cost Management, Order-to-Cash, Procure-to-Pay, Acquire-to-Retire, and Hire-to-Retire (including the DAI-Oracle Time and Labor module) capabilities for Fourth Estate organizations (i.e., Office of the Secretary of Defense (OSD), Defense Agencies, and DoD Field Activities).

STANFINS - The STANFINS is a mainframe computer-based financial management system that processes accounting transactions. DeCA relies on STANFINS for resale business transactions. System-generated financial and statistical reports support the administration and control of the collection and disbursement of appropriations for the Army. STANFINS performs Army accounting transactions and reports it to the offices under the DoD-wide Accounting. STANFINS operates on a mainframe system architecture environment using an IBM Z Operating System. Job Control Language (JCL) is used to process the Common Ordinary Business Oriented Language (COBOL) based software applications. STANFINS mainframe modules are hosted on a DISA platform. STANFINS is DeCA's general ledger for both CONUS and OCONUS locations.

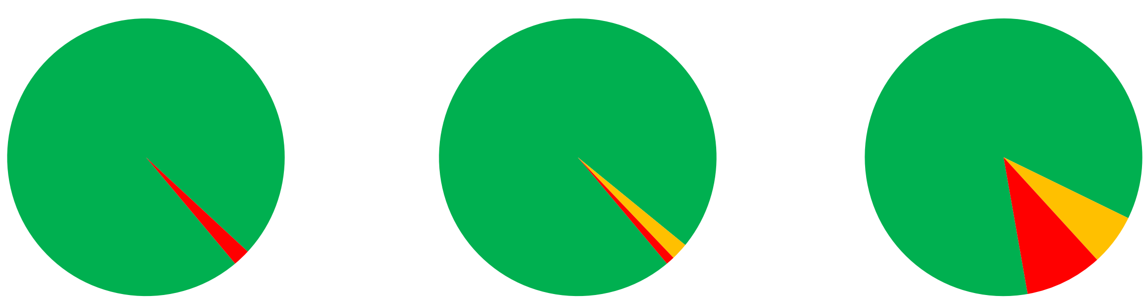
Transformation efforts are underway for new system implementations and are the forefront of DeCA's financial management improvement strategy. These efforts will improve the integration of business processes, systems, and financial reporting to eliminate errors and ensure financial data is secure and auditable.

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. In FY 2023, 163 key controls were evaluated and assessed for effectiveness. Of those key controls, 85 percent were found to be operating effectively; 6 percent of the controls were found effective with exceptions, and the remaining 9 percent were found to be operating ineffectively. 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 deciding what actions, if any, are needed in these areas. In addition to the 163 key controls, there were 152 Complimentary User Entity Controls (CUECs) tested this year. The results found 151 CUECs operating effectively.

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

FY 2021	FY 2022	FY 2023
Testing Results	Testing Results	Testing Results



194 Tests Performed	183 Tests Performed	163 Tests Performed
190 Effective (98%)	177 Effective (97%)	139 Effective (85%)
4 Ineffective (2%)	4 w/ Exceptions (2%)	10 w/ Exceptions (6%)
	2 Ineffective (1%)	14 Ineffective (9%)

MANAGEMENT ASSURANCES:

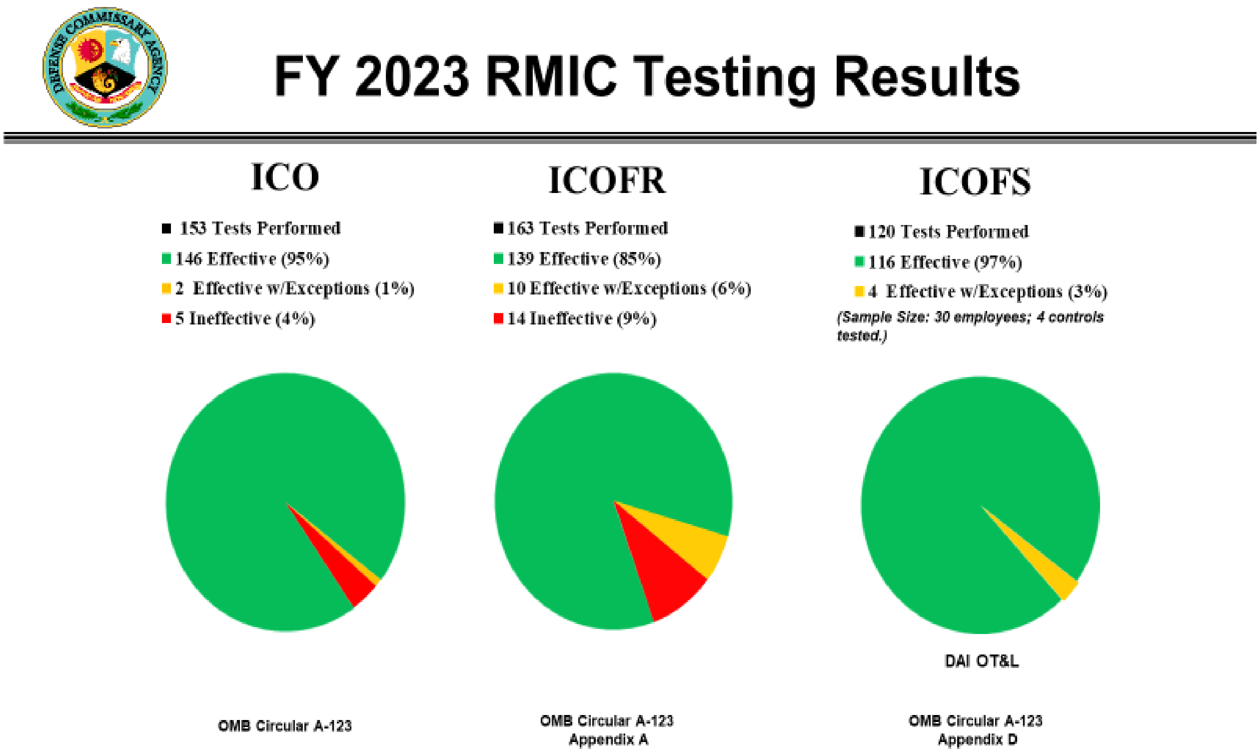
DeCA is committed to ensuring the integrity of their systems and controls as well as compliance with applicable laws and regulations. The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires federal agencies to evaluate and report on the effectiveness of the organization's internal controls to support effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. DeCA conducted its assessment of the effectiveness of internal controls over operations in accordance with OMB Circular No. A-123, the GAO Green Book, and the FMFIA. Based on the results of this assessment, DeCA can provide reasonable assurance that internal controls over operations and compliance are operating effectively as of September 30, 2023.

Additionally, DeCA conducted its assessment of the effectiveness of internal controls over reporting (including internal and external financial reporting) in accordance with OMB Circular No. A-123, Appendix A. Based on the results of the assessment, DeCA can provide assurance, except for the two Significant Deficiencies reported in the Significant Deficiencies and Material Weaknesses Template that internal controls over reporting (including internal and external reporting) and compliance are operating effectively as of September 30, 2023.

DeCA also conducted an internal review of the effectiveness of the internal controls over the integrated financial management systems in accordance with FMFIA and OMB Circular No. A-123, Appendix D. Based on the results of this assessment, can provide assurance, except for the one noncompliance reported in the Significant Deficiencies and Material Weaknesses Template that the internal controls over the financial systems are in compliance with the FMFIA, Section 4; FFMIA, Section 803; and OMB Circular No. A-123, Appendix D, as of September 30, 2023.

FFMIA requires the Department of Defense (DoD or Department) to implement and maintain systems that comply substantially with Federal financial management system requirements, applicable Federal accounting standards, and the United States Standard General Ledger (USSGL) at the transaction level. 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. These remediation activities are underway as DeCA is in the process of implementing a new system allowing for future migration to a fully transparent and integrated financial business resale system. DeCA's proposed timeline for transition to Enterprise Business System, TDD, and DAI GL pass-through is 30 September, 2024. Once these are complete, DeCA will be on two end-to-end business enterprise systems that provide the ability to report within the USSGL and Standard Financial Information Structure (SFIS) compliance requirements.

The chart on the following pages illustrates the results of the FY 2023 Risk Management and Internal Control (RMIC) program. Testing results are outlined for the three areas of internal controls (1) Internal Controls over Operations (ICO); (2) Internal Controls over Financial Reporting (ICOFR); and (3) Internal Controls over Financial Systems (ICOFS):



LEGAL COMPLIANCE:

The Anti-Deficiency Act (ADA), which is codified in *31 U.S.C. §§1341(a) (1)*, *1342*, and *1517(a)*, stipulates that federal agencies may not obligate or expend funds in excess of the amount available in an appropriation, or fund, or in advance of appropriations; accept voluntary services on behalf of the Federal Government or employ personal services in excess of that authorized by law, except as it may be necessary in emergencies involving the safety of human life or the protection of property; or obligate, authorize, or expend funds that exceed an apportionment or amount permitted by a regulation prescribed for the administrative control of an appropriation.

An ADA violation is a serious matter as it represents a violation of a federal statute. A federal employee who violates the ADA may be subject to administrative sanctions (such as suspension from duty without pay or removal from office) and/or penal sanctions (such as fines or imprisonment). Confirmed ADA violations are reported to the President of the United States through the Director of the OMB, Congress, and the Comptroller General of the United States.

During FY 2023, DeCA had no Anti-Deficiency Act violations discovered/identified during our assessments of the applicable processes.

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PART II

PLANNING
AND
PERFORMANCE

PERFORMANCE MANAGEMENT RESULTS

DeCA is using an Agency Performance process that measures performance in achieving the Agency high-level strategic LOE goals and targeted outcomes. This performance approach brings together key management, financial, and nonfinancial performance measures, both external and internal, that allow DeCA to clarify Agency vision and strategic direction. We conduct monthly and quarterly data calls and metric reviews that include an ongoing assessment of results of specific measures aligning to our strategic goals and objectives of our Game Plan and LOE initiatives. The Agency's overall performance for FY 2023 is summarized below.

Performance Element	FY 2023 Goal	FY 2023 Actual
Customer Savings (Global Average)	25.0%	25.5%
Customer Satisfaction (CSAT) Score	$\geq$ 80	87.7
Commissary Customer Service Survey (CCSS)	A (4.5)	A (4.54)
Projected Sales	\$4.20B	\$4.60B
Projected Transactions	69,424,001	69,450,487

Customer Savings: The projected percentage of patron savings was revised to 25.0 percent savings for FY 2023, as mandated by Secretary of Defense Memorandum dated September 22, 2022, "Taking Care of Service Members and Families," which raised DeCA's required savings level to 25.0 percent and replaced the previous 23.7 percent savings mandated in the FY 2016 NDAA as modified by the FY 2017 NDAA. The Customer Savings results were rebase-lined for FY 2023 and beyond, using the revised 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 FY 2023 annual global savings result is 25.5 percent, an increase of 0.5 points over above the baseline goal of 25.0 percent.

Customer Satisfaction (CSAT) Score: Customer Experience Purchaser Surveys provide real-time customer service feedback through the use of the ForeSee survey platform and scoring methodology. The ForeSee framework modeling analysis uses a structural equation algorithm to evaluate customers' post-experience thought processes to examine how well the experience fulfilled the user's needs or desires; met the user's expectations; and compares to a hypothetical ideal experience for the user. This modeling analysis is used to derive an overall customer satisfaction score (CSAT). The results for FY 2023 are 87.7, which is above the target of $\geq$ 80.

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 2023 results are above target with annual results of 4.54 for a grade of A, 0.08 higher than the previous FY 2022 overall score of 4.46 that was on target when rounded to the 4.5 goal.

Projected Sales and Transactions: These measures compare the Agency's projected sales and transactions goals to results. Our efforts are focused on growing the business of the top 30 categories and top 15 suppliers and improving the customer shopping experience to achieve and maintain positive trends and increase sales. Marketing and sales activities to support efforts include: expanding Commissary Store Brand items (private label); the Your Everyday Savings (YES!) program; health and wellness focus and initiatives; 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 2023 sales results are $4.60B, an increase of 9.50% above the target goal of $4.20B, and FY 2023 transaction results are 69,450,487, 3.82% above the target goal of 69,424,001. This positive trend was due to changing consumer behavior with customers shopping more frequently and buying more, although continuing economic conditions, increased supply chain costs, supply chain shortages, labor constraints, and inflationary pressures still impact the positive growth of sales and transactions.

GOVERNANCE AND ACCOUNTABILITY:

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

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

In an effort to increase visibility and transparency of budget information and requirements throughout the Agency, Business Needs Statements are prepared for consideration and prioritization of initiatives. They outline manpower requirements, ensure strategic alignment, clarify purpose, business need, total estimated costs, and business impact if not accomplished; and assess the potential for return on investment for each submission.

CONTINUOUS PROCESS IMPROVEMENT:

DeCA continued its Continuous Process Improvement (CPI) program in FY 2023 through training, mentorship and coaching, and project analysis and execution. During the year, CPI practitioners conducted several mentoring sessions in order to facilitate the certification of three Black Belt candidates and one Lean Leader candidate, and facilitated and coached several teams for various initiatives. These included process improvement efforts comprising category review standardization and efficiencies, item allocation process streamlining, pricing execution improvement as intended, creation of a food traceability process, fresh fruits and vegetables improvements by tiger teams, internal communication process improvement, and EBS 2.0 planning. The FY 2023 Agency CPI process resulted in cost avoidance and reduction in process cycle times for the project area improvements. Additionally, the Agency re-enforced procedures in Director's Policy DP-500-40, Continuous Process Improvement, during project meetings and maintained a project repository of all CPI efforts.

INNOVATION:

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

During FY 2023, DeCA transitioned to a new platform to replace the former enterprise Think Tank. DeCA's "IDEATION" platform is an online social networking forum that facilitates in-depth conversation among Agency employees and allows them to connect from all around the world and collaborate on process improvements, quick wins, and best practices. This internal communication tool gives all DeCA employees a "virtual voice" and a platform to participate in organizational changes. Along with collaborative idea sharing and process improvement suggestions, the forum promotes greater job satisfaction, strengthens culture, and enhances overall organizational effectiveness.

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

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

SUMMARY

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

PART III

FINANCIAL SECTION

Message from the
CHIEF FINANCIAL OFFICER

It is my pleasure to present the Fiscal Year (FY) 2023 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. While we continued to work through supply chain disruptions and staffing shortages, we closed out FY2023 with a number of successes as well. Throughout it all, we diligently focused on delivering the critical benefit to our military families and other authorized shoppers as we remain laser focused on our vision, "to be THE grocery provider of choice".

DeCA completed its 3rd year on the Defense Agency Initiative (DAI) for non- resale activities (Commissary Operations and Surcharge funds) with business process improvements to the research and posting of unmatched disbursements and reporting on Property, Plant and Equipment (PP&E). These enhancements to our business processes have improved our auditability and reporting capabilities.

During FY 2023, the team has been flexible and able to provide the needed expertise and resources to sustain our unmodified opinion. The DeCA Resource Management (RM) team remains committed to supporting a culture of efficiency through patron focused lenses as we look to the upcoming FY. Notable achievements for the RM team this FY include:

- We completed 235 accountable inventories (via contractors) across the DeCA worldwide enterprise. For the first time since the COVID-19 pandemic, we were able to conduct accountable inventories at both CONUS and OCONUS locations.

- We partnered with DHA and the WIC-Overseas office to issue Fulfillment Vouchers, redeemable at any overseas commissary, when staple items are not available on the shelf. This interim process was executed to ensure we met the needs of our military families by providing an additional opportunity to get the authorized items. DHA and DeCA agreed to this alternate process until the WIC- Overseas program is able to migrate to an electronic solution.

- Challenges with DAI systems interfacing and Service Provider participation has delayed G-invoicing deployment by Treasury, however, DeCA was actively engaged reviewing and validating over 64 agreements.

- We received and executed additional appropriated funding supporting the 25% savings efforts identified in the "Taking Care of Our Service Members and Families" memo that was issued by the Secretary of Defense late in September 2022.

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

Cynthia L. Morgan

Cynthia L. Morgan
Chief Financial Officer

DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
BALANCE SHEETS
As of September 30, 2023, and 2022
(amounts in thousands)

	2023	2022
Assets		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 686,650	$ 693,517
Accounts Receivable, Net (Note 1)	3,216	2,915
Total Intragovernmental	689,866	696,432
Other than Intragovernmental:		
Cash and Other Monetary Assets (Note 4)	65,797	54,387
Accounts Receivable, Net (Note 1)	15,454	24,652
Inventory and Related Property, Net (Note 5)	382,185	417,818
General Property, Plant, and Equipment, Net (Note 6)	196,441	204,490
Advances and Prepayments	159	123
Total Other than Intragovernmental	660,036	701,470
Total Assets	$ 1,349,902	$ 1,397,902
Liabilities (Note 7)		
Intragovernmental:		
Accounts Payable	$ 71,646	$ 53,616
Advances from Others and Deferred Revenue	1,864	-
Other Liabilities (Note 7)	24,277	24,002
Total Intragovernmental	97,787	77,618
Other than Intragovernmental:		
Accounts Payable	271,356	277,805
Federal Employee and Veteran Benefits Payable	175,421	148,498
Other Liabilities (Note 7)	6,873	6,391
Total Other than Intragovernmental	453,650	432,694
Total Liabilities	551,437	510,312
Commitments and Contigencies (Note 12)		
Net Position (Note 9)		
Unexpended Appropriations - Funds Other than Dedicated Collections	$ 219,502	$ 153,445
Cumulative Results of Operations - Funds from Dedicated Collections (Note 13)	497,112	482,540
Cumulative Results of Operations - Funds from Other than Dedicated Collections	81,851	251,605
Total Cumulative Results of Operations (Consolidated)	578,963	734,145
Total Net Position	$ 798,465	$ 887,590
Total Liabilities and Net Position	$ 1,349,902	$ 1,397,902

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

DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
STATEMENTS OF NET COST
For the Years Ended September 30, 2023 and 2022

(amounts in thousands)

Program Costs:	**2023**	**2022**
Gross Costs	$ 6,482,545	$ 5,667,435
(Less: Earned Revenue)	(4,858,007)	(4,429,664)
Net Cost of Operations (Note 14)	$ 1,624,538	$ 1,237,771

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

DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2023 and 2022
(amounts in thousands)

	2023			2022		
	Dedicated Collections	**All Other Funds**	**Consolidated Total**	**Dedicated Collections**	**All Other Funds**	**Consolidated Total**
Unexpended Appropriations:						
Beginning Balances	$ -	$ 153,445	$ 153,445	$ -	$ 241,089	$ 241,089
Appropriations Transfer In (Out)	-	1,421,023	1,421,023	-	1,162,071	1,162,071
Appropriations Used	-	(1,354,966)	(1,354,966)	-	(1,249,715)	(1,249,715)
Net Change in Unexpended Appropriations (Note 9):	-	66,057	66,057	-	(87,644)	(87,644)
Total Unexpended Appropriations: Ending (Note 9)	-	219,502	219,502	-	153,445	153,445
Cumulative Results of Operations:						
Beginning Balances	$ 482,540	$ 251,605	$ 734,145	$ 406,353	$ 228,346	$ 634,699
Financiang Sources:						
Appropriations Used	-	1,354,965	1,354,965	-	1,249,715	1,249,715
Non-Exchange Revenue	-	16,890	16,890	-	18,029	18,029
Transfers In (Out) without Reimbursement	12,470	(290)	12,180	53	166	219
Imputed Financing (Note 10)	24,506	60,818	85,324	24,787	44,227	69,014
Other	-	(3)	(3)	-	240	240
Total Financing Sources	36,976	1,432,380	1,469,356	24,840	1,312,377	1,337,217
Net Cost of Operations (Note 9)	22,404	1,602,134	1,624,538	(51,347)	1,289,118	1,237,771
Net Change in Cumulative Results of Operations	14,572	(169,754)	(155,182)	76,187	23,259	99,446
Cumulative Results of Operations: Ending (Notes 9 and 13)	$ 497,112	$ 81,851	$ 578,963	$ 482,540	$ 251,605	$ 734,145
Total Net Position (Note 9)	$ 497,112	$ 301,353	$ 798,465	$ 482,540	$ 405,050	$ 887,590

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

DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
COMBINED STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2023 and 2022
(amounts in thousands)

	2023	2022
Budgetary Resources:		
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)	$ 113,096	$ 194,082
Appropriations (Discretionary and Mandatory) (Note 11)	1,421,023	1,162,071
Contract Authority (Discretionary and Mandatory) (Note 11)	4,685,066	4,217,706
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	253,765	329,620
Total Budgetary Resources	$ 6,472,950	$ 5,903,479
Status of Budgetary Resources:		
New Obligations and Upward Adjustments (Total)	$ 6,333,509	$ 5,833,354
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	139,441	70,125
Unexpired Unobligated Balance, End of Year	139,441	70,125
Unobligated Balance, End of Year (Total)	139,441	70,125
Total Budgetary Resources	$ 6,472,950	$ 5,903,479
Outlays, Net:		
Outlays, Net (Total) (Discretionary and Mandatory)	$ 1,427,890	$ 1,301,747
Agency Outlays, Net (Discretionary and Mandatory)	$ 1,427,890	$ 1,301,747

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Reporting Entity

The Defense Commissary Agency (DeCA) provides grocery, meat, and produce items to members of the U.S. Armed Forces, their dependents, retirees, reservists, Guard members, and other authorized patrons, including other governmental entities. DeCA is a component of the 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 Gregg-Adams (near Petersburg, Virginia), 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 and Asia. DeCA also operates central distribution centers (CDCs) in Europe and the Overseas Pacific. 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 13 – "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, Statements of Federal Financial Accounting Standards (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 accompanying principal financial statements have been prepared to report the financial position, net cost, change in net position, and budgetary resources of DeCA in accordance with United States Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, as revised.

D. Non-Entity Assets

The DeCA has stewardship accountability and reporting responsibility for non-entity assets.

Note 2– "Non-Entity Assets" provides detailed information.

E. Fund Balance with Treasury (FBWT)

The FBWT represents 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 3– "Fund Balance with Treasury" provides detailed information.

F. 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 the DeCA's FBWT.

Note 4– "Cash" provides detailed information.

G. 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. As of 3rd quarter FY 2020, allowance for doubtful accounts is deemed necessary for Federal accounts receivable.

Receivables from the public generally arise from manufacturer-related transactions, which are associated with the sale of grocery, meat, and produce items to authorized patrons. An allowance for doubtful accounts is established for reporting purposes based on past experience in the collection of accounts receivable and analysis of outstanding balances using the percentage of receivables. The allowance is adjusted accordingly at the time of collection or write-off during the fiscal year. Nonfederal accounts receivables are reported net of an allowance of $15,884 and $5,736 as of September 30, 2023, and September 30, 2022, respectively.

H. Inventory, Net

Inventory consists primarily of grocery, meat, and produce items and is held for sale to authorized commissary patrons at the lowest possible cost, it then sells that inventory at retail cost which is inclusive of cost-plus variable pricing.

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

Inventory balances for each store are adjusted based on aggregate purchases and sales, transfers, and other adjustments. Store managers are expected to maintain and update EBS inventory operating system product level balances on hand for accuracy. Proper balances ensure efficient and timely balances for ordering that is in alignment with sales expectations. In addition, these balances are used as part of the deviation assessment when analyzing store inventory valuations on the financial records to the formal inventories performed. In FY 2023, DeCA was able to complete 236 formal inventories, with the exception of one store due to weather-related events. Store level adjustments were performed for these stores.

Note 5 – “Inventory and Related Property Net” provides detailed information.

I. <u>General Property, Plant, and Equipment (PP&E), Net</u>

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

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

At September 30, 2020, DeCA transferred all buildings and improvements to the military service lines and in FY 2023 recorded imputed financing costs related to depreciation and use of buildings in DeCA’s operations. Depreciation related imputed financing cost is described in Note 1.M.

Note 6 “General Property, Plant and Equipment, Net” provides detailed information.

J. <u>Leases</u>

Lease payments for the rental of equipment and operating facilities are classified as either capital or operating leases. When a lease substantially transfers all the benefits and risks of ownership to the DeCA (a capital lease) and the value equals or exceeds the relevant capitalization threshold, the DeCA either records the applicable asset as though purchased, with an offsetting liability, and records depreciation on the asset. The DeCA records the asset and liability at the lesser of the present value of the rental and other minimum lease payments during the lease term (excluding portions representing executory costs paid to the lessor) or the asset’s fair market value. The discount rate for the present value calculation is either the lessor’s implicit interest rate or the government’s incremental borrowing rate at the inception of the lease. The DeCA, as the lessee, receives the use and possession of leased property (e.g., real estate or equipment) from a lessor in exchange for payments of funds.

An operating lease does not substantially transfer all the benefits and risks of ownership to the DeCA. Payments for operating leases are expensed over the lease term. Office space leases entered into by DeCA are the largest component of operating leases.

Note 8 "Leases" provides detailed information.

K. 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.L.

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 7 – "Liabilities" provides specific detailed information.

L. 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.

M. Imputed Financing and Costs

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

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

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

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 U.S. Office of Personnel Management (OPM). DeCA recognizes an imputed financing source for the difference between its contributions to Federal employee pension and other retirement benefits and the estimated actuarial costs as computed by the OPM.

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

Use of Buildings Owned by Other Military Services. The imputed financing costs are based on a 45-year useful life for buildings, structures, and facilities. The actual commencement of depreciation was based on the mid-year convention method for buildings. Under the mid-year convention method, six months of depreciation is computed and expensed in the first and last year of an asset's useful life regardless of the actual month an asset was placed in or removed from service. Imputed financing costs for depreciation of buildings and improvements used by DeCA in operations are calculated based on DeCA's property records for property transferred to the Military Departments. The military departments were provided the imputed cost for buildings and improvements located on their specific installations at the end of FY 2023.

N. Environmental Liabilities

DeCA has clean up requirements for commissaries within the Continental United States (CONUS) and outside the OCONUS. Clean up costs 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.

In March 2022, an update was made to Financial Management Regulation Volume 4, Chapter 13, which updated the reporting of environmental liabilities. Federal Accounting Standards Advisory Board (FASAB) Interpretation 9 clarifies that during the assets useful life, the reporting entity that owns the asset must continue to recognize inter-period operating costs on its Statement of Net Cost and accrue the liability for PP&E on its Balance Sheet until the general PP&E and the associated liability are transferred to the entity designated responsible by law, statute, or policy for cleanup. At that time, the general PP&E and the liability should be de-recognized by the component reporting entity that recognized them during the general PP&E's useful life and recognized by the component reporting entity that will liquidate the liability. De-recognition and recognition of the general PP&E and environmental liability was performed between DeCA and the military departments as of May 30, 2022.

O. 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.

P. 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.

Q. 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.

R. Commitments and Contingencies

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

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

NOTE 2 – NON-ENTITY ASSETS

The DeCA has stewardship accountability and reporting responsibility for non-entity assets. The following table shows the non-entity assets as of September 30, 2023, and 2022.

Other than Intragovernmental Non-Entity Assets:	**2023**	**2022**
Accounts Receivable	$ 8	$ 5
Total Non-Entity Assets	8	5
Total Entity Assets	1,349,894	1,397,897
Total Assets	$ 1,349,902	$ 1,397,902

Accounts Receivables consist of interest, penalties, and administrative fees.

NOTE 3 - 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, 2023, and 2022.

Fund Balances:	**2023**	**2022**
Appropriated Funds		
Working Capital Fund	$ 358,608	$ 320,680
Total	358,608	320,680
Revolving Funds		
Working Capital Fund	(47,516)	48,829
Total	(47,516)	48,829
Trust Fund	375,558	324,008
Total	$ 686,650	$ 693,517

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

The following table shows the status of the fund balances as of September 30, 2023 and 2022:

	2023			
Status of Fund Balances with Treasury:	**Appropriated**	**Revolving**	**Trust**	**Total**
Unobligated Balance Available	$ 57,418	$ -	$ 82,023	$ 139,441
Unobligated Balance Unavailable	-	-	-	-
Obligated Balance Not Yet Disbursed	301,190	(47,516)	293,535	547,209
Totals	$ 358,608	$ (47,516)	$ 375,558	$ 686,650

	2022			
Status of Fund Balances with Treasury:	**Appropriated**	**Revolving**	**Trust**	**Total**
Unobligated Balance Available	$ 48,653	$ -	$ 21,471	$ 70,124
Unobligated Balance Unavailable	-	-	18,815	18,815
Obligated Balance Not Yet Disbursed	272,027	48,829	283,722	604,578
Totals	$ 320,680	$ 48,829	$ 324,008	$ 693,517

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

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

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

NOTE 4 – CASH

The following table summarizes the amount of cash for September 30, 2023 and 2022.

	2023	2022
Cash	$ 65,797	$ 54,387
Total Cash and Other Monetary Assets	$ 65,797	$ 54,387

Cash and other monetary assets reflect uncollected Surcharge deposits of $3.1 million, uncollected deposits of $50.4 million, and $12.2 million recorded as cash on hand. Due to the timing difference between actual deposits and processing by U.S. Treasury, these deposits are not reflected in the DeCA's accounting records. A manual journal voucher is prepared to account for these uncollected deposits during the preparation of the financial statements.

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

NOTE 5 – INVENTORY AND RELATED PROPERTY, NET

The following table summarizes net inventory for September 30, 2023 and 2022:

	2023
Inventory LAC Without Estimate for Losses Incurred	$ 397,341
Estimate for Gains Incurred	(15,551)
Inventory on Hand at LAC	381,790
Unrealized Holding Gain (Loss)	395
Inventory, Net	$ 382,185

	2022
Inventory LAC Without Estimate for Losses Incurred	$ 389,442
Estimate for Gains Incurred	28,429
Inventory on Hand at LAC	417,871
Unrealized Holding Gain (Loss)	(53)
Inventory, Net	$ 417,818

Inventory is restricted, consists of grocery, meat, and produce items and does not have excess, obsolete, or unserviceable inventory, or expected net realizable value.

NOTE 6 – GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

General property, plant and equipment (PP&E) at September 30, 2023 and 2022 is summarized as follows:

	2023		
PP&E Category	**Acquisition Value**	**Accumulated Depreciation**	**Net**
Software	40,182	(19,946)	20,236
Equipment and Other Assets	175,779	(115,157)	60,622
Construction-in-Progress	115,583	-	115,583
Totals	$ 331,544	$ (135,103)	$ 196,441

	2022		
PP&E Category	**Acquisition Value**	**Accumulated Depreciation**	**Net**
Software	60,013	(39,835)	20,178
Equipment and Other Assets	180,660	(103,555)	77,105
Construction-in-Progress	107,207	-	107,207
Totals	$ 347,880	$ (143,390)	$ 204,490

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

The following table summarizes the activity of net PP&E for September 30, 2023 and 2022.

	2023	2022
Balance Beginning of Year	$ 204,489	$ 163,482
Capitalized Acquisitions	11,268	50,240
Transfers In/(Out) Without Reimbursement	12,224	-
Revaluations (+/-)	-	(44)
Depreciation Expense	(31,540)	(9,188)
Balance at End of Year	$ 196,441	$ 204,490

Effective October 1, 2019, Office of the Under Secretary of Defense (OUSD) implemented policy to assign assets to component reporting entities. Title 10 of the US Code Section 2682 states, "a real property facility under the jurisdiction of the DoD 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." The DoD 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. As of September 30, 2020, the transferred financial responsibility of real property and the associated capital improvements to the following military services USMC, USAF, DON, and Army.

NOTE 7 - LIABILITIES

The following table summarizes total liabilities covered and not covered by budgetary resources as of September 30, 2023 and 2022:

	2023	2022
Intragovernmental:		
Other	$ 21,301	$ 21,189
Total Intragovernmental	21,301	21,189
Federal Employee and Benefits Payable	171,721	145,002
Total Liabilities Not Covered by Budgetary Resources	193,022	166,191
Total Liabilities Covered by Budgetary Resources	358,415	344,121
Totals	$ 551,437	$ 510,312

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

The following table summarizes intragovernmental and non-intragovernmental other liabilities as of September 30, 2023 and 2022:

	2023	2022
Intragovernmental:		
Employer Contributions and Payroll Taxes Payable	$ 2,969	$ 2,808
Liabilities for Non-Entity Assets	8	5
Workers' Compensation	21,300	21,189
Total Intragovernmental	24,277	24,002
Other than Intragovernmental/With the Public:		
Accrued Funded Payroll and Benefits	6,873	6,391
Total Other than Intragovernmental/With the Public	6,873	6,391
Total Other Liabilities	$ 31,150	$ 30,393

According to updates to *DoD 7000.14.R Financial Management Regulation (FMR) Volume 4 Chapter 13: Environmental and Disposal Liabilities* authorized DeCA to discontinue reporting estimates of asbestos and lead base paint on the financial reports. The military departments validated they were reporting the necessary cost on their financials.

NOTE 8 – LEASES

The following table summarizes the future payments due for Non-Cancelable Operating Leases as of September 30, 2023.

	2023 Land and Buildings
Fiscal Year:	
2024	$ 1,184
2025	1,184
2026	1,049
2027	1,049
2028	1,049
After 5 Years	1,049
Total Federal Future Lease	$ 6,564

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

NOTE 9 - NET POSITION

The following table summarizes the net position by fund type as of September 30, 2023 and 2022:

	2023		
Net Position:	**General Funds**	**Working Capital Funds**	**Total**
Unexpended Appropriations	$ -	$ 219,502	$ 219,502
Cumulative Results of Operation - Dedicated Collections	497,112	-	497,112
Cumulative Results of Operation - Other Funds	-	81,851	81,851
Total Cumulative Results of Operations	497,112	81,851	578,963
Totals	$ 497,112	$ 301,353	$ 798,465

	2022		
Net Position:	**General Funds**	**Working Capital Funds**	**Total**
Unexpended Appropriations	$ -	$ 153,445	$ 153,445
Cumulative Results of Operation - Dedicated Collections	482,540	-	482,540
Cumulative Results of Operation - Other Funds	-	251,605	251,605
Total Cumulative Results of Operations	482,540	251,605	734,145
Totals	$ 482,540	$ 405,050	$ 887,590

NOTE 10 - IMPUTED FINANCING

The imputed financing and cost for employee benefits and real property as of September 30, 2023 and 2022 is summarized below:

Benefit Category	**2023**	**2022**
CSRS/FERS	$ 15,522	$ 2,339
FEHB	44,503	41,096
FEGLI	103	102
Real Property	25,196	25,477
Totals	$ 85,324	$ 69,014

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

The imputed financing for building depreciation by fund as of September 30, 2023 and 2022 is summarized below:

	2023	
	General Funds	Working Capital Funds
Imputed Financing Building Depreciation	$ 24,506	$ 690

	2022	
	General Funds	Working Capital Funds
Imputed Financing Building Depreciation	$ 24,787	$ 690

NOTE 11 – DISCLOSURE RELATED TO THE STATEMENTS OF BUDGETARY RESOURCES

The SBR is a combined statement and, as such, intra-entity transactions have not been eliminated because the statements are presented as combined.

The Budget of the U.S. Government (also known as the President's Budget) will not be published prior to February 2024. Accordingly, a comparison between the FY 2023 data reflected on the statement of budgetary resources and FY 2022 data in the President's Budget cannot be performed. The Budget with the actual amount for FY 2023 will be available at a later date at https://www.whitehouse.gov/omb/budget.

Total budget authority in FY 2023 and FY 2022 included appropriation transfers in the amounts of $1,421,023 and $1,162,071, respectively, and contract authority in the amounts of $4,685,066 and $4,217,706, 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, 2023, and September 30, 2022, were $444,464 and $443,375, respectively. Working Capital Fund intragovernmental budgetary resources for undelivered orders at September 30, 2023 and September 30, 2022, were $131,851 and $97,514 while nonfederal budgetary resources for undelivered orders were $73,358 and $71,821. General Fund intragovernmental budgetary resources for undelivered orders at September 30, 2023, and September 30, 2022, were $86,806 and $181,489 while nonfederal budgetary resources for undelivered orders were $152,449 and $92,550.

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

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.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

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

NOTE 13 – 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, 2023 and 2022.

Balance Sheet		**2023**		**2022**
Assets:				
Fund Balance with Treasury (Note 3)	$	375,558	$	324,008
Cash and Accounts Receivable		3,173		2,634
Property, Plant, and Equipment		155,016		165,581
Total Assets	$	533,747	$	492,223
Liabilities:				
Accounts Payable	$	35,251	$	9,683
Advances from Others and Deferred Revenue		1,384		-
Total Liabilities		36,635		9,683
Cumulative Results of Operation		497,112		482,540
Total Liabilities and Net Position	$	533,747	$	492,223
Statement of Net Cost				
Program Costs	$	261,887	$	169,216
Earned Revenue		(239,483)		(220,563)
Net Income (Loss) from Operations	$	22,404	$	(51,347)

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

NOTE 14 - 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, 2023.

	2023		
	Intragovernmental	With the Public	Total
Net Cost of Operations	$ 491,066	$ 1,133,472	$ 1,624,538
Components of Net Cost That are Not Part of Net Outlays:			
Property, Plant, and Equipment Depreciation	$ -	$ (8,048)	$ (8,048)
Inventory and Related Property	-	(35,633)	(35,633)
Other	-	-	-
Increase/(Decrease) in Assets:			
Accounts Receivable	301	(9,198)	(8,897)
Other Assets	-	11,446	11,446
(Increase)/Decrease in Liabilities:			
Accounts Payable	(18,030)	6,449	(11,581)
Environmental and Disposable Liabilities	-	-	-
Federal Employee and Veteran Benefits Payable	-	(26,923)	(26,923)
Other Liabilities	(2,139)	(482)	(2,621)
Other Financing Sources:			
Imputed Cost	(85,324)	-	(85,324)
Donated Revenue	-	-	-
Total Components of Net Cost that are not Part of Net Outlays	$ (105,192)	$ (62,389)	$ (167,581)
Miscellaneous Reconciling Difference			
Transfers (In)/Out Without Reimbursements	(12,180)	-	(12,180)
Other	-	(16,887)	(16,887)
Total Other Reconciling Items	(12,180)	(16,887)	(29,067)
Net Outlays	$ 373,694	$ 1,054,196	$ 1,427,890
Agency Outlays, Net, Statement of Budgetary Resources			$ 1,427,890
Reconciling Difference			$ -

DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2023

	Defense Working Capital Funds		General Funds	
Budgetary Resources	**Operations**	**Resale**	**Surcharge**	**Combined**
Unobligated balance brought forward, Oct 1	$ 75,288	$ -	$ 37,808	$ 113,096
Appropriations (discretionary and mandatory (Note 10)	1,421,023	-	-	1,421,023
Contract authority (discretionary and mandatory) (Note 10)	13,063	4,672,003	-	4,685,066
Spending authority from offsetting collections (discretionary and mandatory)	12,796	-	240,969	253,765
Total budgetary resources	$ 1,522,170	$ 4,672,003	$ 278,777	$ 6,472,950
Status of Budgetary Resources:				
New obligations and upward adjustments (total)	$ 1,464,751	$ 4,672,003	$ 196,755	$ 6,333,509
Unobligated balances, end of year:				
Apportioned, unexpired accounts	57,419	-	82,022	139,441
Unexpired unobligated balance, end of year	57,419	-	82,022	139,441
Unobligated balance, end of year (total)	57,419	-	82,022	139,441
Total budgetary resources	1,522,170	4,672,003	278,777	6,472,950
Outlays, Net:				
Outlays, net (total) (discretionary and mandatory)	$ 1,383,094	$ 96,345	$ (51,549)	$ 1,427,890
Agency, outlays, net (discretionary and mandatory)	$ 1,383,094	$ 96,345	$ (51,549)	$ 1,427,890

DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2022

	Defense Working Capital Funds		General Funds	
Budgetary Resources	**Operations**	**Resale**	**Surcharge**	**Combined**
Unobligated balance brought forward, Oct 1	$ 132,021	$ -	$ 62,061	$ 194,082
Appropriations (discretionary and mandatory (Note 10)	1,162,071	-	-	1,162,071
Contract authority (discretionary and mandatory) (Note 10)	505	4,217,201	-	4,217,706
Spending authority from offsetting collections (discretionary and mandatory)	107,622	-	221,998	329,620
Total budgetary resources	$ 1,402,219	$ 4,217,201	$ 284,059	$ 5,903,479
Status of Budgetary Resources:				
New obligations and upward adjustments (total)	$ 1,353,565	$ 4,217,201	$ 262,588	$ 5,833,354
Unobligated balances, end of year:				
Apportioned, unexpired accounts	48,654	-	21,471	70,125
Unexpired unobligated balance, end of year	48,654	-	21,471	70,125
Expired unobligated balance, end of year	-	-	-	-
Unobligated balance, end of year (total)	48,654	-	21,471	70,125
Total budgetary resources	1,402,219	4,217,201	284,059	5,903,479
Outlays, Net:				
Outlays, net (total) (discretionary and mandatory)	$ 1,309,704	$ (11,232)	$ 3,275	$ 1,301,747
Agency, outlays, net (discretionary and mandatory)	$ 1,309,704	$ (11,232)	$ 3,275	$ 1,301,747

DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
DEFERRED MAINTENANCE AND REPARS
For the Years Ended September 30, 2023 and 2022
(amounts in thousands)

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

Independent Auditors' Report

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

In our audits of the fiscal years (FY) 2023 and 2022 financial statements of the Defense Commissary Agency (DeCA), a component of the United States Department of Defense (DoD), we found:

- DeCA's financial statements as of and for the FYs ended September 30, 2023, and 2022, are presented fairly, in all material respects, in accordance with United States of America (U.S.) generally accepted accounting principles;
- No material weaknesses for FY 2023, but two significant deficiencies in internal control over financial reporting based on the limited procedures we performed; and
- One reportable noncompliance for FY 2023 with provisions of applicable laws, regulations, contracts, and grant agreements we tested and no 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 in the Annual Financial Report (AFR); (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 Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of DeCA, which comprise the balance sheets as of September 30, 2023, and 2022; the related statements of net cost, changes in net position, and budgetary resources for the FYs then ended; and the related notes to the financial statements.

In our opinion, DeCA's financial statements referred to above present fairly, in all material respects, DeCA's financial position as of September 30, 2023, and 2022, and its net cost, changes in net position, and budgetary resources for the FYs then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with 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. 24-01, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 24-01) guidance. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of DeCA and to meet our other ethical

[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.

responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements
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 the AFR, and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) designing, implementing, and maintaining effective 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' Responsibilities for the Audit of the Financial Statements
Our objectives are to (1) obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and (2) to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of financial statements conducted in accordance with *Government Auditing Standards* will always detect a material misstatement or a material weakness when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to our audit 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 DeCA's internal control over financial reporting. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Perform other procedures we consider necessary in the circumstances.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the financial statement audit.

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. Such information is the responsibility of management and, although not a part of the

financial statements, is required by FASAB, which considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the RSI in accordance with *Government Auditing Standards*. These procedures consisted of (1) inquiries of management about the methods of preparing the RSI and (2) comparing the RSI for consistency with management's responses to our 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.

Other Information

DeCA's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. Management is responsible for the other information included in the AFR. The other information does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

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' responsibilities discussed below.

Results of Our Consideration of Internal Control over Financial Reporting

Our consideration of internal control was for the limited purpose described below and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies or to express an opinion on the effectiveness of DeCA's internal control over financial reporting and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our FY 2023 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, described below and in Exhibit A.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that even if the control operates as designed the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively. 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 2023 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.

<u>Basis for Results of Our Consideration of Internal Control over Financial Reporting</u>
We performed our procedures related to DeCA's internal control over financial reporting in accordance with *Government Auditing Standards* and OMB audit guidance.

<u>Responsibilities of Management for Internal Control over Financial Reporting</u>
DeCA management is responsible for (1) designing, implementing, and maintaining effective internal control over financial reporting 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 an assurance statement on the overall effectiveness of internal control over financial reporting included in management's discussion and analysis (MD&A).

<u>Auditors' Responsibilities for the Consideration of Internal Control over Financial Reporting</u>
In planning and performing our audit of DeCA's financial statements as of and for the FY ended September 30, 2023, in accordance with *Government Auditing Standards*, we considered DeCA's internal control relevant to the financial statement audit 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 DeCA's internal control over financial reporting or on management's assurance statement on the overall effectiveness on internal control over financial reporting. Accordingly, we do not express an opinion on DeCA's internal control over financial reporting or on management's assurance statement on the overall effectiveness of 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.

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' responsibilities discussed below.

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 instances of noncompliance or other matters for FY 2023, described below and in Exhibit B, that are reportable under *Government Auditing Standards*. However, 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.

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

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

We performed our tests of compliance in accordance with *Government Auditing Standards*.

Responsibilities of Management for Compliance with Laws, Regulations, Contracts, and Grant Agreements

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

Auditors' Responsibilities for Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

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 to perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to DeCA. We caution that noncompliance may occur and not be detected by these tests.

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 and other matters is not suitable for any other purpose.

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 12, 2022. The status of prior year findings is presented in Exhibit C.

DeCA's Response to Audit Findings and Recommendations

Government Auditing Standards requires the auditor to perform limited procedures on DeCA's response to the findings and recommendation identified in our report and 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 the response.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenbelt, Maryland
November 9, 2023

1. Controls over Inventory Need Improvement

The Defense Commissary Agency (DeCA) needs to improve its internal controls over the validation and reconciliation of commissary inventory data. During FY 2018, 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 FY 2019, DeCA resumed contractor inventory counts at the U.S. commissaries on a test basis and hired contractors to perform inventory counts at 92 U.S commissaries in FY 2020. DeCA then continued to perform inventory counts for an increasing number of commissaries in FY 2021 and FY 2022. In FY 2023, DeCA scheduled and completed inventory counts for all 236 stores, with the exception of one store due to weather-related events. Store level adjustments were recorded for these stores. In addition, in FY 2020 and continuing thru FY 2023, DeCA made progress in establishing enhanced standard count procedures for contractors to ensure sound count controls, and consistently used actual costs to value inventory based on the counts. The aggregate results of the formal inventories combined with the fact that overseas (OCONUS) inventories are already on a solid foundation for valuation, meant that DeCA did not record any top-level inventory adjustment in FY 2023 for commissaries not counted in FY 2023. In 2024, DeCA plans to continue to roll out the new inventory system to the remaining commissaries and have contractors perform accountable inventory counts at all commissaries.

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

In our review of these reports, we noted various products with unusually high quantities. In discussions with the store managers, we confirmed that many of these products were recorded together when they should have been recorded separately. In researching this, we also determined that some of the erroneous data was related to frozen grocery items. These items have their own unique product code depending on the weight of the item. We determined that these items were added to the store's inventory when received in bulk under one product code, but when they are sold, the individual frozen grocery items were sold from a different unique product code.

We also noted some shippers, self-contained store displays containing multiple grocery items, were not included inventory quantities, and high turnover items where vendor staff deliver and stock the quantities required (direct store delivery) were not tracked accurately in the legacy system.

In order to evaluate the reliability of the remaining data, we excluded these anomalous data and selected other grocery items for testing. In our testing of non-anomalous data across nine commissaries of varying size, we found 56% of the items selected for testing had actual quantities that differed from the recorded quantities in the inventory management system by over four items and 43% of the items with a variance over four items had variances in excess of 10% from the recorded quantities. Without accurate data on inventory quantities, DeCA is not able to adequately support the balance of its inventory reported in its accounting records without conducting annual inventory counts at the majority of the U.S. commissaries. Accurate inventory data is also critical for effective stock management as inventory on hand is a key determinant in initiating vendor orders.

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

1. Continue to roll out the DAX/IM inventory system.
2. Implement the Warehouse Management Solution and PE FIM (inventory warehouse system and inventory financial accounting system, respectively) to allow for end-to-end automated inventory valuation and accurate balance on hand reporting.
3. Develop standard comprehensive inventory reports that are generated for the review and analysis by store managers.
4. Ensure all shippers are recorded in inventory.
5. Review the policies and procedures for performing and reporting on regular random inventory counts at the product level.
6. Review the process for accounting for direct ship and delivery (DSD) items.
7. 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.
8. Establish procedures for the comparison of product level inventory reports to the general ledger balances, taking into account normal timing differences.

2. Controls over Financial Reporting Need Improvement

DeCA converted to the DAI financial system in early FY 2021. As a result of the change, processes changed and reports previously used to support, age, or analyze data were no longer available. As a result, certain accounting transactions were not recorded or were not reconciled.

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

1. In FY 2022, we noted capitalized not in service assets tested were actually in service and DeCA should have commenced recording depreciation in prior years. We estimated a $23 million understatement of depreciation expense and accumulated depreciation at September 30, 2022. The majority of this depreciation expense related to FY 2020 and prior. DeCA has recorded a temporary journal entry of approximately $21.5 million in estimated accumulated depreciation for 9/30/23; however, this issue has not been fully corrected in FY 2023.
2. Supporting documentation for some controls or transactions could not be located by DeCA. We noted missing support for three of eight Undelivered Orders (UDOs), two of five Undistributed Fund Balance with Treasury (FBWT), six of six Plant, Property and Equipment (PP&E), and 13 of 45 Repairs and Maintenance items selected for testing.

We recommend that DeCA:

1. Improve the review of not in service asset listing monthly to properly identify in service assets and commence depreciation timely, document for each not in use asset the estimated in service date and obtain regular confirmations or updates on the in service date from the equipment managers.
2. Review documentation maintenance procedures to ensure documentation of key controls or transactions is maintained and can be located upon request.
3. Reconcile all accounts monthly and resolve unreconciled differences timely.

Noncompliance with the Federal Financial Management System Requirements

DeCA relies on a large portfolio of DeCA-owned and 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 planned systems implementations including the business processes, current and planned supporting systems, and status of implementation is presented below.

Business Process	Current System	Future System	Status	Comment
Resale supply ordering/cost management	DIBS	DAX (EBS)	Migration in Process	Initial implementation delayed. Expect to be completed in FY2025
Inventory management	DIBS	IM (EBS)	Migration in process	Initial implementation delayed. Expect to be completed in FY2025
Distribution Center Inventory Management	Manhattan WMS	Warehouse Management Solution	Migration in process	Expect to be completed in FY2024
Voucher/coupon management	SAVES	Emerald and RetailOne (EBS)	Migration in process	Initial implementation delayed. Expect to be completed in FY2025
Revenue/sales management	CARTS	Emerald	Migration in process	Completed in FY2023
Financial accounting	STANFINS	PE FIM	In planning	Expect to be completed in FY2025

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

In addition, DeCA has to record many accounting transactions outside its general ledger and related sub-accounting system modules throughout the year, resulting in a high volume of manual journal vouchers (JVs) being prepared prior to the compilation of its financial statements. Specifically, in connection with its preparation of its financial statements for the quarter ended June 30, 2023, DeCA prepared 56 JVs to a variety of accounts with an absolute value of approximately $3 billion. This is a reduction in the number JVs from the prior year. Many of these entries are necessary as a direct result of the noncompliance and limitations of the legacy system STANFINS.

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

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

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

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

Recommendations:

We continue to recommend that DeCA:

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 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 and Recommendations

Prior Findings	Recommendations	Current Status
Controls over Inventory Need Improvement	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 DAX/IM 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 all shippers are recorded in inventory. 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.	Modified Repeat as prior year recommendation 1 was cleared in FY 2023.

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

Prior Findings	Recommendations	Current Status
Controls over Financial Reporting Need Improvement	1. Improve the review of not in service asset listing monthly to properly identify in service assets and commence depreciation timely, document for each not in use asset the estimated in service date and obtain regular confirmations or updates on the in service date from the equipment managers. 2. Review documentation maintenance procedures to ensure documentation of key controls or transactions is maintained and can be located upon request. 3. Reconcile all accounts monthly and resolve unreconciled difference timely.	Modified Repeat as prior year recommendation 4 was cleared in FY 2023.
Noncompliance with the Federal Financial Management Systems Requirements	1. Ensure the design of the business processes and data structure of the new systems to be implemented will meet DeCA's unique business needs, as well as federal system and accounting requirements. 2. Continue to monitor the volume and nature of manual journal entries (JVs) to ensure that JVs are only used for transactions that cannot be handled by the current accounting systems (including relevant modules). 3. Continue to employ compensating control procedures, through additional analytical processes and detailed reconciliations, to ensure period end financial statements are accurately presented. 4. Explore opportunities for all commissaries to report revenues and expenses to DeCA headquarters consistently prior to the new system implementation.	Repeat Finding

DEFENSE COMMISSARY AGENCY
HEADQUARTERS AND SUPPORT CENTER
1300 EISENHOWER AVENUE
FORT GREGG-ADAMS, VIRGINIA 23801-1800

November 9, 2023

Mr. Pat Byer, Principal
CliftonLarsonAllen, LLP
1966 Greenspring Drive, Suite 300
Timonium, MD 21093-4161

Dear Mr. Byer:

In response to the Independent Auditors' Report dated November 9, 2023, of Fiscal Years (FY) 2023 and 2022, financial statements of the Defense Commissary Agency (DeCA), management generally agrees with all the findings in this report. Specifically, DeCA generally agrees with identified significant deficiencies as noted in the areas of Controls over Inventory and Controls over Financial Reporting (exhibit A), and the identified non-compliance related to Federal Financial Systems Requirements (exhibit B). Additionally, we acknowledge the identified status of Recommendations and Findings (exhibit C) to include areas that showed improvement. DeCA is committed to diligently working to improve in the identified areas and will take the appropriate actions to document progress over the next FY.

Over the next reporting period, DeCA anticipates greater work on establishing our financial module to our enterprise business system (EBS) for our Resale business. This includes integration of general ledger data into the designated Department of Defense (DoD) accounting system, Defense Agency Initiative (DAI). Ultimately, with the migration to a financial module of our EBS and its integration to DAI for our Resale business, we expect to eliminate the non-compliance with the Federal Financial Management System requirement.

For additional concerns regarding this response, please address to me or Ms. Rosie Leonard-Greer, Director of Accounting. I can be reached at (804) 734-8000, Extension 48794, Cynthia.Morgan@deca.mil or Ms. Leonard-Greer can be contacted at (804) 734-8000, Extension 48622, Rosie.Leonard-Greer@deca.mil .

Cynthia L. Morgan

Cynthia L. Morgan
Chief Financial Officer

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

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Glossary of Acronyms

ACF – Area Cost Factor

ACM – Asbestos Containing Material

ACSI – American Customer Satisfaction Index

AAFES – Army Air Force Exchange System

AFR – Agency Financial Report

BSF – Buildings, Structures, and Facilities

CCSS – Commissary Customer Service Survey

CDC – Central Distribution Center

CEO – Chief Executive Officer

CFO – Chief Financial Officer

CLA – CliftonLarsonAllen

COG – Cost of Goods

COTS – Commercial Off the Shelf

CPI – Continuous Process Improvement

CSAT – Customer Satisfaction Survey

CSRS – Civilian Service Retirement System

CUEC – Complimentary User Entity Controls

DAI – Defense Agencies Initiative

DeCA – Defense Commissary Agency

DoD – Department of Defense

DOL – Department of Labor

DON – Department of Navy

DSD – Direct Store Delivery

EBS – Enterprise Business Solution

ERP – Enterprise Resource Planning

FBWT – Fund Balance with Treasury

FASAB – Federal Accounting Standards Advisory Board

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

RMIC	–	Risk Management and Internal Control Program
RSI	–	Required Supplemental Information
SAT	–	Senior Assessment Team
SBR	–	Statement of Budgetary Resources
SFIS	–	Standard Financial Information Structure
SWOT	–	Strength, Weakness, Opportunities and Threats
Treasury	–	United States Department of the Treasury
US	–	United States
USAF	–	United States Air Force
USMC	–	United States Marine Corps
USSGL	–	United States Standard General Ledger
WCF	–	Working Capital Fund