

Defense Commissary Agency



Annual Financial Report

Fiscal Year 2022

This page intentionally left blank

TABLE OF CONTENTS

Foreword	2
Director’s Message	4
DeCA-At-A-Glance	10
The DeCA Mission, Values, Vision, Goals	11
Part I Management’s Discussion and Analysis	14
Overview of DeCA	15
Organization and Mission	15
2022 Highlights	17
Sources of Funds	17
Strategic Planning Framework	19
Introduction	19
Strategic Planning	19
Strategic Direction	21
Aligning Planning and Performance	22
Financial Statement Summary	23
Limitations of the Financial Statements	28
Controls and Statement of Financial Assurance	28
Part II Planning and Performance Section	32
Performance Management - Results	33
Governance and Accountability	34
Continuous Process Improvement	35
Innovation	35
Summary	36
Part III Financial Section	38
Message from the Chief Financial Officer	39
Financial Statements	41
Notes to the Financial Statements	45
Required Supplementary Information	60
Independent Auditor’s Report	63
Exhibit A – Significant Deficiencies	69
Exhibit B – Noncompliance	72
Exhibit C – Status of Prior Year Findings	75
Exhibit D - Management’s Response to Auditors’ Report	76
Glossary of Acronyms	77

This page intentionally left blank

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 2022 Annual Financial Report at www.commissaries.com by the end of the 1st Quarter, FY 2023.



This page intentionally left blank

Director's Annual Financial Report Message Fiscal Year 2022

In Fiscal Year (FY) 2022, the Defense Commissary Agency (DeCA) not only dealt with the remnants of the COVID pandemic, but faced supply chain issues and record inflation. In response, DeCA worked closely with our suppliers, distributors, and the Department of Defense (DOD) to improve product levels and ensure savings.

Increased funding from DOD's "Taking Care of Service Members and Families" campaign allowed commissaries to lower prices even more on products across store inventories. Even though the Agency experienced major challenges, we performed some amazing feats which included piloting a delivery option at eight stores for Commissary CLICK2GO with Agency-wide expansion planned in the future, updating and expanding store hours of operation to better meet our patrons' needs, and upgrading payment processes and other technology to enhance our customers' shopping trips to make transactions even easier. For FY 2022 the Agency made over \$4.2 billion in sales with more than 64 million transactions achieving a patron savings of 23 percent.

Highlights for the Agency over the last year include:

- **Game Plan Validation and Implementation.** In December 2021, Senior Agency Leadership met to assess progress made toward our vision, our mission, and our six Lines of Effort (LOE) goals and initiatives undertaken through our Game Plan. The plan documents both DeCA's Strategic Plan and its implementation plan to support each key effort. We reaffirmed our primary objective to deliver the benefit to as many eligible patrons as possible. We remain focused on variable pricing, Commissary Store Brands (CSB) and other business reforms, capturing these goals, deliverables, measures, and outcomes in the ongoing planning efforts. Our Game Plan's strategy continues to focus on positioning the Agency for long-term success in delivering the commissary benefit to our patrons. We continue to create an environment where every eligible patron can use their commissary benefit in a well-stocked, right-priced, customer- centric and inviting store. The DeCA team remains committed to fulfilling our vision and our mission as stated below:
 - **Our Vision:** To be THE grocery provider of choice for our eligible patrons —delivering a vital benefit exclusively for our military community and their families.
 - **Our Mission:** Deliver a vital benefit of the military pay system that provides grocery items at significant savings while enhancing quality of life and readiness.

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

- *Supply Chain: Our supply chain is optimized and enables full commissary shelves with the right products delivered at the right time and place at the lowest cost.*
- *eCommerce: We offer our patrons eCommerce services to include next generation digital shelf, dynamic order fulfillment, a secure and trusted online payment environment, enhanced mobility, and localized pickup or delivery.*

- *Customer Service: We have earned 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".*
- *Demand Creation: We are delivering more benefit to our deserving patrons by exceeding our savings and revenue goals.*
- *Facilities Management: All stores are comfortable, inviting, well-lit and maintained, with functional equipment, up-to-date decor packages and IT enabled amenities.*
- *Workforce Investment: We have developed a leader-driven, customer-focused culture encompassing trust, respect, and ownership among DeCA's leaders and employees.*

● **Taking Care of Service Members and Families Campaign.** On September 22, 2022 Secretary of Defense Austin announced his "Taking Care of Service Members and Families" initiative to help improve the economic security and stability of the military community by addressing areas of concern for military members struggling with the financial impacts of inflation. As part of this effort, the Department will increase our funding, which eliminates the need for commissaries to earn margin — through higher prices — to pay for part of our operating costs. This will allow us to reduce grocery prices across our product assortment, especially on food staples as bread, eggs, milk and more. Overall, this decision will enable DeCA to achieve at least 25 percent savings against local market baskets outside the gate, if our patrons shop their commissary.

● **Food/Economic Security.** The commissary benefit has been identified as a critical asset for DOD as it looks to help support service members and their families who are challenged by the financial impacts of COVID-19, a disrupted supply chain and inflation. The commissary benefit portion of the Department's economic toolkit is spotlighted on the DeCA website, specifically on its "We're Stronger Together" page that links military members to a wealth of patron savings and nutritious options, and other benefits, tools, and resources to help improve economic security.

● **Expanded Store Days/Hours.** We have added sales days to over 55 stores and expanded hours at an additional 40 plus stores to be available for our customers when they need us. The use of self-checkouts has enabled DeCA to increase store hours at little to no additional operating costs.

● **Major Roles Campaigns.** The Agency continued to promote the commissary benefit through the creation of over 500 marketing assets. Major initiatives included:

- Health and Wellness campaign during National Nutrition Month which included a health challenge, resources, and recipe promotion.
- Expansion into external digital print, geotargeting, and sponsored social media advertising through the Stars and Stripes and Military Times.
- Expansion to billboard advertising in key market areas that our eligible shoppers frequent a Modernized sales flyer including the development of regional sales flyers for Europe and Pacific,
- Created Savvy Shopper Super Saver to draw focus to our sales flyer and showcase items with savings beyond the norm, which included regular video production with shopper engagement.
- Expanded the Your Everyday Savings! (YES!) program to commissaries outside

the contiguous U.S. Sales from the 217 items in the program gained over \$168 million. The YES! Program highlights specific, long-term savings on core items that commercial retailers often reduce through periodic sales promotions.

- Collaboration with sister agencies for cross promotion of benefits including benefit promotion in Army & Air Force Exchange Service (AAFES) flyers to promote the recent price initiatives.
- Implementing the "Thrill of Grill" campaign to draw patrons to meat and produce savings during the summer.

- **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, and Pure Harmony for assorted pet food and Flock's Finest for bird food. There are over 950 CSB items on stores shelves, generating over \$136 million in sales, up 30.44 percent, or just over \$32 million, since last year.

- **Commissary Store Brands Price Shield Event.** DeCA worked with our private label supplier Spartan Nash to hold one of the largest CSB sales events in Agency history with over 900 products. During the event, the Agency lowered prices on CSB products, an extra 20-30 percent, increasing sales 22 percent, directly leading to a boost in patron savings during this time of hyperflation. As a result of the sale, there was a 22 percent increase in sales with a 20 percent increase in units. We also increased overall Private Label penetration by 2.4 percent versus Rest of Market penetration growth of 1.2 percent.

- **Customer Satisfaction.** This year's commissary customer service overall score was 4.46, 0.03 points lower than FY 2021. FY 2022 Commissary Customer Service Survey (CCSS) scores for 12 of the 14 elements declined from the previous year. The largest declines were Bakery Quality/Selection (-0.11), Deli Quality/Selection (-0.07), Well-Stocked, Full Shelves (-0.06) and Selection of Other Items (Dry, Frozen & Dairy) (-0.06). The Foresee "brick and mortar" survey for FY 2022 was 87.1, seven points above the 80 percent mark considered as an indicator of being an "excellent" customer service compared to industry standards. The Foresee "Commissary CLICK2GO" survey, new to DeCA, was 88.4 also surpassing the industry standard.

- **Enterprise Business Solution (EBS).** Throughout FY 2022, the Agency continued deploying aspects of our modernized business system — called EBS to replace our outdated legacy systems. EBS will modernize DeCA's entire resale business operations including all processes associated with vendor/ supplier communication, contracting, cataloging, pricing, promotions, planogramming, ordering, receiving, inventory, customer relationship management, point-of-sale, financial, and warehouse management. To date, we have completed Emerald rollout to all CONUS commissaries and 57 commissaries located outside the contiguous U.S., bringing our total completion to 233 stores out of our 236 commissary locations.

- During the year the Agency deployed Demand Analytics to select locations, a cloud-based Warehouse Management System at our European Central Distribution Centers, and SLUNK—a software program that makes logging files into the DeCA used systems easier allowing stores to

meet the enterprise cyber mandate for centralized log management for all IT end-points, and updated transaction standard from Europay/VISA/MasterCard requirements for online transactions making payments more secure.

- **Commissary CLICK2GO Update.** DeCA's online ordering and curbside pick-up program celebrated its one-year anniversary. As of that date, 235 locations worldwide now have eCommerce capability; as well as an online payment option. To date DeCA has achieved over \$30 million in online sales, roughly .053 percent of overall sales.

- **Delivery Update.** The Agency began a new delivery pilot program at eight stores, allowing patrons within a 20-mile radius of the participating commissary to order groceries online via Commissary CLICK2GO, and have them delivered to their front door. The initial pilot period has been a huge success, with sales of over \$860,000 and the eight participating locations, and over a 50 percent increase in eCommerce activity. Due to the success of the pilot, DeCA is developing a strategy to extend delivery services worldwide.

- **Patron Outreach.** In an effort to reach all of our authorized patrons we've engineered a robust marketing and outreach campaign focused on educating eligible patrons on the benefits of saving at the commissary, to include everyday savings and awareness of key U.S. Department of Agriculture (USDA) programs such as Women, Infants and Children (WIC) and Supplemental Nutrition Assistance Program (SNAP). We are also working with Military Service Organizations (MSO) and Veteran Service Organizations (VSO) to reengage with our eligible patrons who do not shop or who are unaware of their eligibility to use the commissary.

- **DeCA Online Patron Outreach.** DeCA is using social media platforms to reach our authorized patrons world-wide to educate them on the value of their commissary benefit. Customers can interact with the Agency through the following social media platforms Facebook, Senior Enlisted Advisor Facebook, Instagram, Twitter, Pinterest, Vimeo, and YouTube. The Agency also uses, www.commissaries.com, to spread awareness and give patrons access to our eCommerce platform.

- **Healthy Options.** During the year, the Dietitian-Approved Thumb mark was officially registered with the U.S. Patent and Trademark Office in line with the official launching of the Dietitian-Approved Fueling Stations (DAFS). There are currently 174 DAFS locations (with 5 additional stores planned) for the coming year designed as alternatives to commercial fast foods. These are healthy alternatives, ready-to-eat and do not require any additional preparation. The average sales for the items located in the Fueling Stations are \$976,000.

- **Environmental Program.** This year DeCA has recycled 79.8 million pounds of paper, cardboard, pallets, plastic, fryer oil, and more, diverting approximately 50 percent of our commodities from the waste stream. The Agency has received approximately \$1.6 million in return for our efforts in the recycling of cardboard. To fulfill its mission and reduce DeCA's carbon footprint, commissaries use heat reclaim technology, designed to achieve 20 percent energy saving for individual facilities, lessening the energy consumption of the refrigeration systems. By capturing and using excess heat from refrigeration systems, DeCA reduces its utility consumption, making our facilities more sustainable. In an effort to further reduce our footprint

we evaluate the geographic area to use the best performing and lowest global warming potential (GWP) refrigerants for that particular location. In fact, DeCA has several locations that use natural refrigerants (CO2 or propane) which are naturally occurring, more sustainable and less regulated by state environmental agencies. Commissaries also use distributed refrigeration systems that use environmentally friendly refrigerants and have a minimum to zero leak rate. As technology changes, DeCA assesses and updates our facilities with refrigerants that are more environmentally friendly.

- **Food Donations.** DeCA has a robust food donation program used to support our state side communities at 177 commissary locations, donating edible but unsellable food to 204 food banks designated by DOD--DeCA totaled more than 4.6 million pounds of food bank donations this FY. DeCA also donates through the USDA's Feds Feed Families campaign, which ran from June 1 through September 31, resulting with 7.8 million pounds of food being donated to food banks across the nation. DOD contributed 4.7 million pounds, or 60 percent, marking an increase of more than 27 percent from 2021. DeCA's share of the 4.7 million was 3.2 million pounds, or 68 percent, an increase of more than 33 percent from last year's total. The estimated number of Feds Feeds Families bags sold was 81,423, totaling approximately \$854,070. Customers can either purchase needed food and personal hygiene products for donation while shopping at their local commissary, or bring items from home and use the donation bin found at their participating commissary; or they can purchase prepackaged donation bags available in commissaries.

- **Product Airlifts.** Over this FY, the Agency airlifted over 2 million pounds of product totaling over \$5 million to our overseas central distribution centers. Airlifts were performed to ensure our commissaries remained in stock for critical chill and freeze items due to missed sailings, equipment shortages at the ports, manufacturer cuts, low fill rates, labor shortages, and manufacturer recalls, such as infant formula and peanut butter.

- **Scholarships for Military Children Program.** The Fisher House Foundation, a nonprofit organization that helps Service members and their families, was created in 2001 in partnership with DeCA. The scholarships recognize the contributions of military families to the readiness of the fighting force and celebrate the commissaries' role in enhancing the military's quality of life. The Fisher House Foundation's awarded \$2,000 scholarships to 500 students for the current 2022 - 2023 school year. The partnership between Fisher House and the Agency has provided over \$22 million in scholarships over 22 years.

- **Unmodified Audit Opinion.** During the FY, DeCA earned another unmodified opinion for the Agency's finances. Independent auditors CliftonLarsonAllen (CLA), reviewed about 500 actions that demonstrate the integrity of DeCA's internal financial processes and controls and its interactions with external partners, the Defense Finance and Accounting Service and the Defense Logistics Agency. CLA auditors test and evaluate the following key areas:

- Ordering and accounting for resale products
- Processing customer transactions at the stores
- Accounting for property, plant and equipment
- Properly certifying time and attendance
- Compliance with laws and regulations

- Funds balance with treasury, payroll, property, revenue/accounts receivable/non-exchange revenue, appropriations, and budgetary accounts
- The financial reporting and compilation process
- Information technology, especially those areas of the Agency's ongoing deployment of its EBS that impact inventory and pricing.

In the next year, DeCA will continue working with suppliers, distributors, and other stakeholders to save our customers money while also introducing advancements that improve their shopping experience. We are committed to providing a safe, well-stocked, right-priced, customer-centric and modern store where our authorized patrons can enjoy the benefit they have earned.



William F. Moore
Director

DECA-AT-A-GLANCE

Established as a Provisional Organization:	May 15, 1990
Formally Established:	Nov. 9, 1990
Officially Activated:	Oct. 1, 1991
Headquarters:	1300 E Avenue, Fort Lee VA 23801-1800 www.commissaries.com www.facebook.com/YourCommissary www.twitter.com/TheCommissary www.youtube.com/DefenseCommissary
Fiscal 2022 sales:	\$ 4.2 billion
Fiscal 2022 total revenue:	\$ 4.4 billion
Fiscal 2022 operations cost:	\$ 1.3 billion
Total employees:	12,775
Total authorized households:	Approximately 8.3 million
Customer transactions:	64.5 million
Global presence:	13 countries, 2 U.S. territories
Commissaries as of 30 Sep 2022:	236

DeCA MISSION

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



DeCA VISION

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

DeCA VALUES

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

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

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

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

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

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

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

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

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

...as we deliver the benefit!



This page intentionally left blank

PART I

MANAGEMENT'S DISCUSSION AND ANALYSIS



OVERVIEW OF DeCA

ORGANIZATION AND MISSION:

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

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

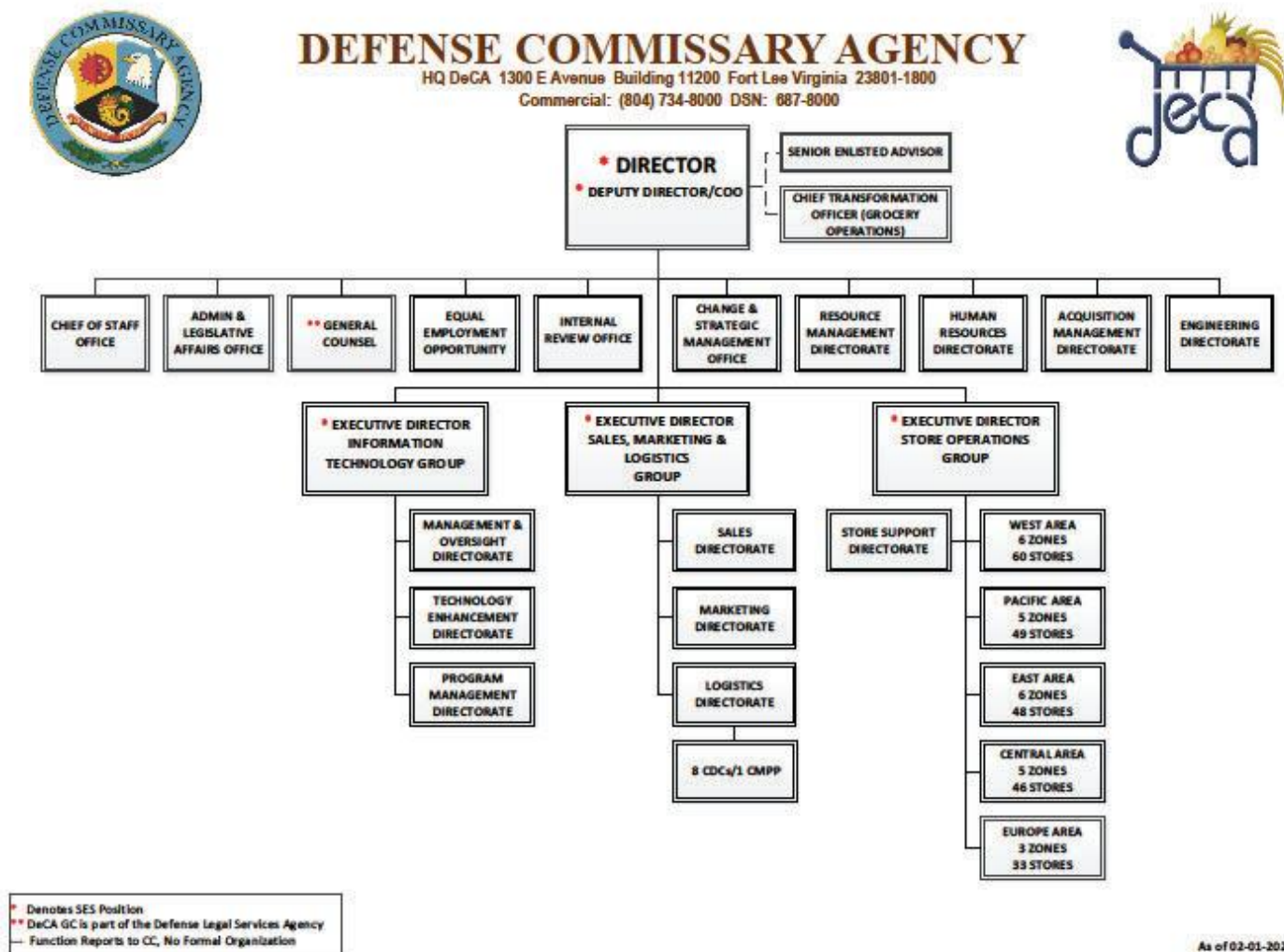


Five area offices provide localized management and support for the agency's commissaries. Three of these offices, East, Central, and West, manage stores in the continental United States (US) and Puerto Rico. Two area offices, Europe and Pacific, manage stores in Europe, Africa and Asia. Within the operational areas, zone managers are responsible for 9 to 10 stores. Zone managers and

assigned store directors jointly provide leadership and direction for their stores, building positive customer service in each commissary.

DeCA also operates CDCs in Europe and the Pacific along with a central meat processing plant in Europe. 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) 2022 is shown in the following chart:



2022 HIGHLIGHTS:

DeCA has maintained our unmodified opinion for FY2022. This year 178 state side stores and our Germersheim CDC had formal perpetual inventories and values on the financial records adjusted. Due to COVID-19 we were not able to perform inventories at our overseas store locations. Our CDC's perform regular perpetual cycle counts so we know that overall our inventory overseas is well controlled. The aggregate results of the formal inventories combined with the fact that our OCONUS inventories are already on a solid foundation for valuation provided DeCA the basis for not recording any top-level inventory adjustment on the financial report. We continue to improve cycle counts at store level to ensure our balance on hand is accurate.

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

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

DeCA conducted an internal control assessment of the effectiveness of our Internal Controls over Financial Reporting (ICOFR) for the following implementation areas: Budgetary Resources (Appropriations Received, Accounts Payable, Accounts Receivable and Civilian Pay); Critical Assets (Inventory, Personal Property, 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 in our 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 \$1.2 billion in appropriation transfers during FY 2022. 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, equipment maintenance and equipment, and the commissary construction program. The Fund does not receive a direct appropriation.



STRATEGIC PLANNING FRAMEWORK

INTRODUCTION:

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

The DeCA Strategic Framework is a cyclical, 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 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.

DeCA's Strategic Game Plan lays out the roadmap for the Agency's updated vision and continuing mission for the future. The Vision for the Agency is very clear, elegant, and to the point as we strive forward with a very specific intention **"To be THE grocery provider of choice for our eligible patrons – delivering a vital benefit exclusively for our military community and their families."** We strive to fulfill our mission to **"Deliver a vital benefit of the military pay system that provides grocery items at significant savings while enhancing quality of life and readiness."** The commissary benefit supports Service members and their families by providing a safe grocery shopping environment with significant savings compared to civilian supermarkets. The vision and mission are the driving forces behind our goals found in the Director's 2022-2023 Strategic Game Plan. These goals drive us toward continuous improvement in pursuit of our vision which sets forth a focus to remain relevant to our customers and enable customer service consistent with today's shopping trends.

STRATEGIC PLANNING:

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

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, 2022, our definition and desired end-state for each outcome of the six LOEs is stated as follows:

Outcome 1: Full Shelves and Fresh Products - Our supply chain is optimized and enables full commissary shelves with the right products delivered at the right time and place at the lowest cost.

Supporting LOE: 1.0 Supply Chain.

Outcome 2: Increased Availability of the Benefit – We offer our patrons eCommerce services to include: next generation digital shelf, dynamic order fulfillment, a secure and trusted online payment environment, enhanced mobility, and localized pickup or delivery.

Supporting LOE: 2.0 eCommerce.

Outcome 3: Premier Patron Experience - We have earned 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: Patron Savings and Increased Revenue - We are delivering more benefit to our deserving Patrons by exceeding our savings and revenue goals.

Supporting LOE: 4.0 Demand Creation.

Outcome 5: Modern Stores - 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 Management.

Outcome 6: Engaged Customer-Centric Workforce - We have developed a leader-driven, customer-focused culture encompassing trust, respect, and ownership among DeCA's leaders and employees.

Supporting LOE: 6.0 Workforce Investment.

STRATEGIC DIRECTION:

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

DeCA continues to refine efforts to gain shopper insights and be sensitive to the expectations of our patrons. We continue to investigate the rapidly changing technology that is becoming a significant part of the way 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.

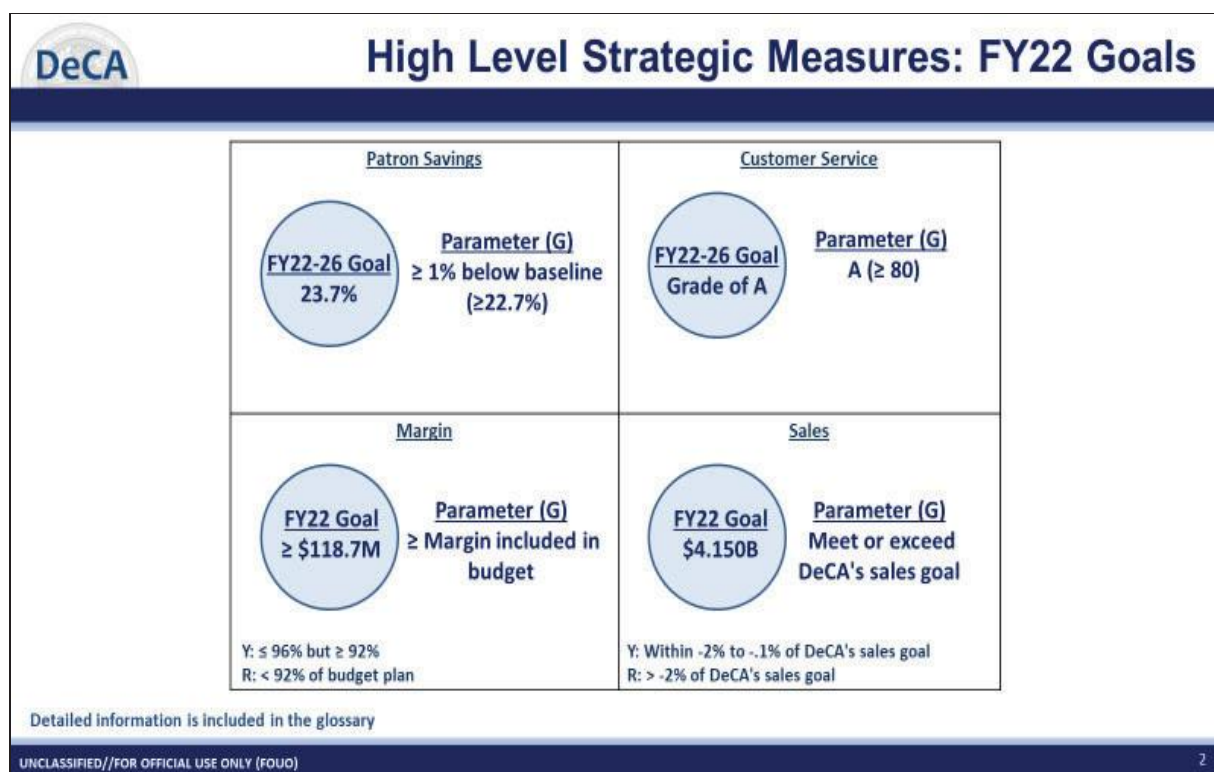
Modernizing DeCA's business systems and retail processes is a continuous process. This modernization is taking place in defined increments over time and has eliminated redundant and costly legacy systems, improved our business performance, and incorporated commercial best practices. This transition is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

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

ALIGNING PLANNING AND PERFORMANCE MANAGEMENT:

DeCA's Strategic Game Plan communicates the Agency's overarching direction, while linking to the Agency Performance Plan to establish performance measures used to assess our progress. The FY 2022 Agency Performance Plan incorporates performance measures and targets across four perspectives to manage Agency performance from a holistic view and addresses Agency performance in the areas of Patron Savings, Customer Service, Margin, and Sales. The results of the Agency Performance Plan are monitored and assessed quarterly to enable data-based decision-making. The Agency quarterly reviews also allow for executive and senior leadership collaborative discussions, transparency of activities, and opportunities for course adjustments and improved outcomes. The chart below displays the FY 2022 Agency Performance Plan's four areas and associated goals.

DeCA FY22 PERFORMANCE PLAN



The DeCA Performance Plan supports the Agency's 2022-2023 Director's Strategic Game Plan Lines of Effort and outcomes and encompasses the FY 2022 period. The performance goals and measures, assessed and applied on an annual basis, are provided for each performance element above as follows:

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

- Lower left quadrant depicts DeCA’s current margin generation versus the current FY goal.
- Lower right quadrant depicts DeCA’s current sales versus the FY goal.

FINANCIAL STATEMENT SUMMARY

DeCA’s Consolidation Balance Sheet, Statement of Net Cost, Changes in Net Position, and Combined Statements of Budgetary Resources 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 financial statements have been prepared from DeCA’s books and records in accordance with the formats prescribed by the OMB. These 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 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.

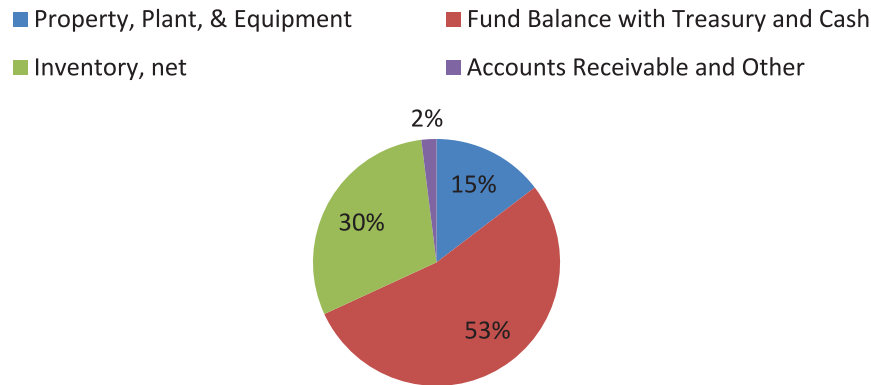
DeCA’s financial statements are presented in a two-year comparative format. The following section provides a brief description of each consolidated financial statement along with relevant information that will aid the reader in understanding the financial components of DeCA.

CONSOLIDATED BALANCE SHEET:

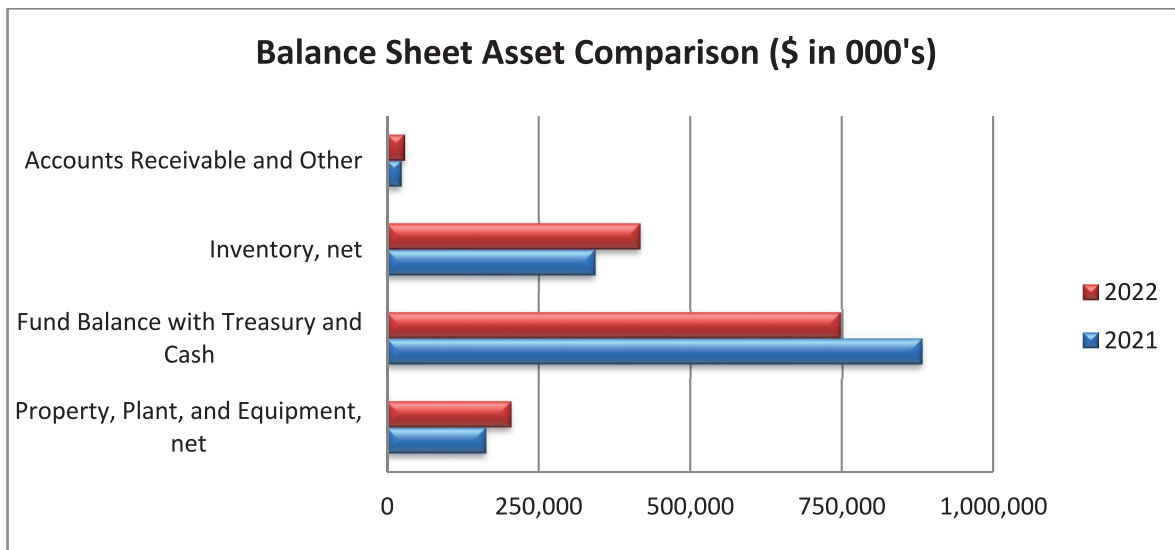
The consolidated Balance Sheet presents the amounts available for use by DeCA (assets) against the amounts owed (liabilities) and amounts that comprise the difference (net position).

Assets – On September 30, 2022, DeCA reported assets of \$1.4 billion. Assets are the resources available to pay liabilities or satisfy future service needs of the Agency. DeCA’s major categories of assets, as a percentage of total assets, are as follows:

Balance Sheet Assets as of September 30, 2022



The following chart presents comparative data of major asset balances as of September 30, 2022 and September 30, 2021, along with discussions of significant fluctuations.



Accounts Receivable and Other comprises two percent of DeCA's current year assets. These represent amounts primarily due from DeCA customers. Accounts receivable and other increased \$5.1 million when compared to prior year balances.

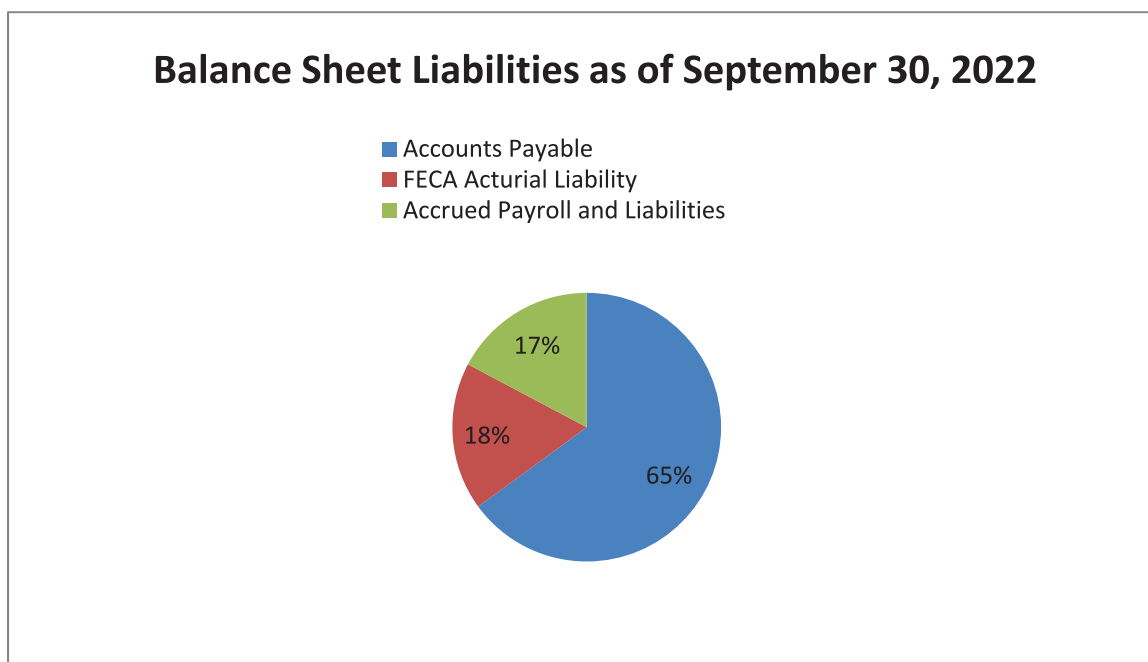
Inventory, net represents 30 percent of DeCA's current year assets and is comprised of grocery, meat, and produce items held for resale to DeCA patrons. Inventory increased by \$74.6 million when compared to prior year balances.

Fund Balance with Treasury (FBWT) and Cash represents 53 percent of DeCA's current year assets. Funding is primarily made available through the U.S. Department of the Treasury

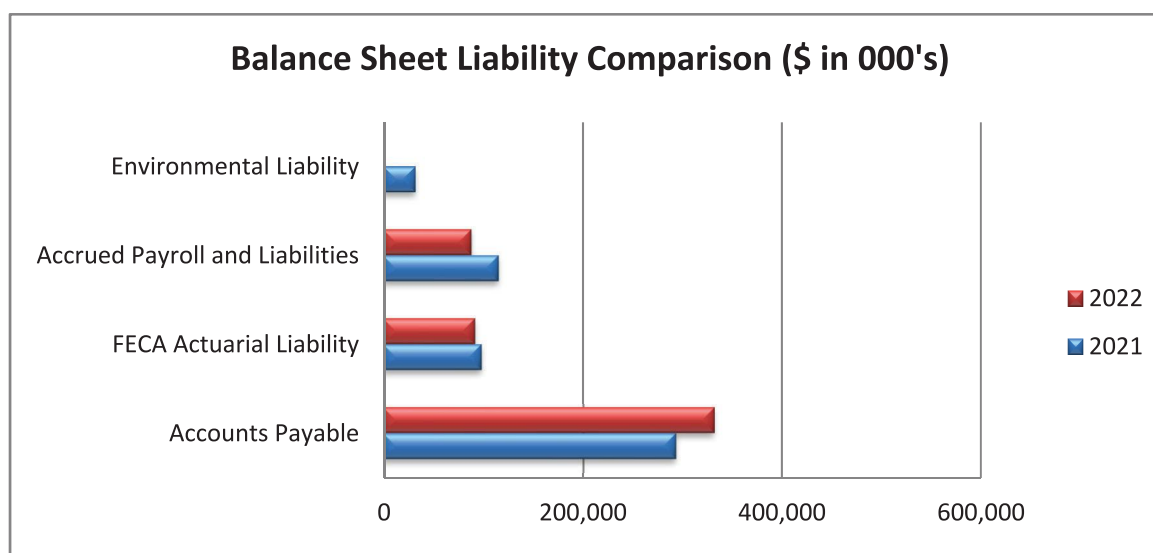
accounts from which DeCA makes expenditures to pay liabilities. FBWT also includes monies generated from sales at commissaries that have been deposited to an authorized financial institution. Cash consist of deposits that have been deposited in the authorized financial institution, but not processed and sales that were not recorded in the accountable period due to end of month cutoffs in the accounting system. FBWT and Cash decreased by \$135 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 increased by \$41 million when compared to prior year balances.

Liabilities – On September 30, 2022, DeCA reported liabilities of \$510.3 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, 2022 and September 30, 2021 along with a discussion of fluctuations.



Environmental Liabilities comprises zero percent of DeCA's current year liabilities and are estimated costs to clean up items such as asbestos, lead paint and other hazardous materials from our commissaries. Environmental liabilities decreased by \$31 million when compared to prior year balances. DeCA derecognized the estimated cleanup cost related to asbestos and lead base paint in May 2022. According to DOD 700.14-R Financial Management Regulation paragraph 3.2.7 clarifies that the liability with the associated asset should be recognized by the component carrying that asset. DeCA transferred financial reporting of buildings and improvements to designated MILDEPS as of September 2020 due to OUSD mandates. DeCA received confirmation from the MILDEPS they were reporting the ED&L prior to removal from our financial records.

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 decreased by \$26.8 million when compared to prior year balances.

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

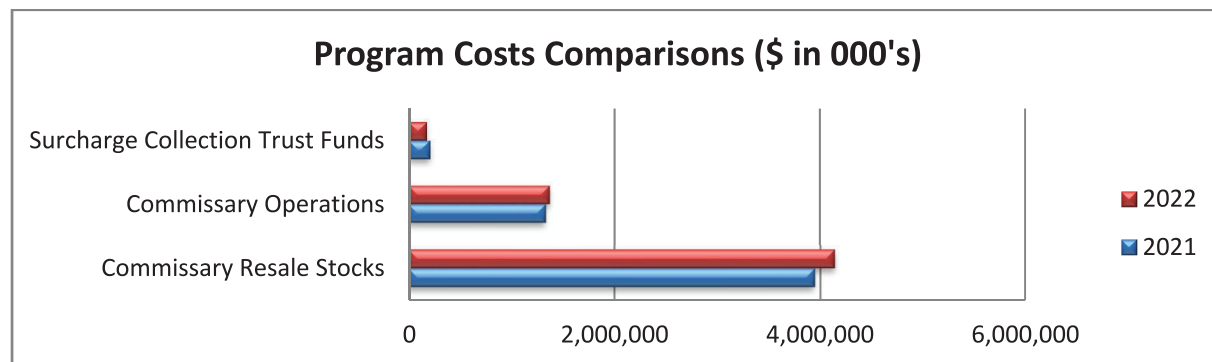
Accounts Payable comprises 65 percent of DeCA's current year liabilities and consists of DeCA's liability for goods and services delivered or received but not paid prior to year-end. Accounts payable increased by \$38.3 million when compared to prior year balances.

STATEMENTS OF NET COST:

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

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

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



STATEMENTS OF CHANGES IN NET POSITION:

The consolidated Statements of Changes in Net Position represents those accounting transactions that caused the net position of the consolidated balance sheet to change from the beginning to the end of the reporting period. Various financing sources increase net position, including appropriations transfers and imputed financing from costs paid by other Federal Agencies. DeCA's net cost of operations serves to reduce net position. DeCA's net position increase by \$11.8 million, 1.35 percent when compared to prior year balances.

STATEMENTS OF BUDGETARY RESOURCES:

This is a combined statement and provides information on the budgetary resources available to DeCA for fiscal years 2022 and 2021 and the status of those budgetary resources at year-end. The outlays reported on this statement reflect the actual cash disbursed for the year by Treasury for DeCA's obligations. The budgetary resources remained relatively consistent when compared to prior year balances.

LIMITATIONS OF THE FINANCIAL STATEMENTS

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

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

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

CONTROLS AND STATEMENT OF FINANCIAL ASSURANCE

OMB CIRCULAR A-123, MANAGEMENT'S RESPONSIBILITY FOR ENTERPRISE RISKS MANAGEMENT AND INTERNAL CONTROL, APPENDIX A:

OMB Circular A-123, Appendix A is fully implemented throughout DeCA. For the past 15 years, all processes material to the financial statements have been documented and tested. In FY 2022, 183 key controls were evaluated and assessed for effectiveness. Of those key controls, 99 percent were found to be operating effectively; and the remaining 1 percent of the controls were ineffective; and although their impact is not material to the financial reports, these controls are currently undergoing review to determine risk and materiality to the Agency before making a determination of what ongoing actions are needed in these areas. In addition to the 183 key controls, there were 152 Complimentary User Entity Controls (CUECs) tested this year. The results found 152 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.



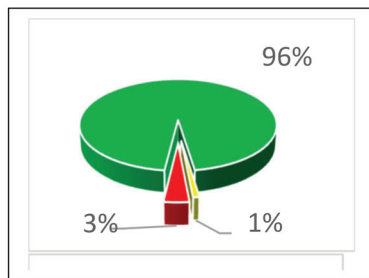
Internal Controls Over Financial Reporting



FY 2020

Testing Results:

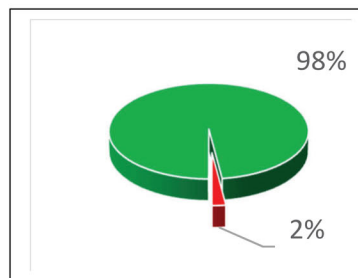
- ☐ 229 Tests Performed
- ☐ 219 Effective (96%)
- ☐ 2 w/Exceptions (1%)
- ☐ 8 Ineffective (3%)



FY 2021

Testing Results:

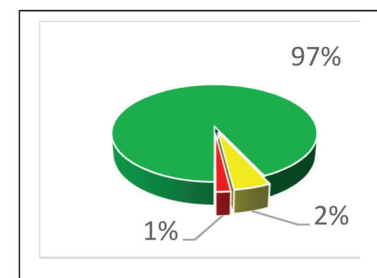
- ☐ 194 Tests Performed
- ☐ 190 Effective (98%)
- ☐ 4 Ineffective (2%)



FY 2022

Testing Results:

- ☐ 183 Tests Performed
- ☐ 177 Effective (97%)
- ☐ 4 w/Exceptions (2%)
- ☐ 2 Ineffective (1%)



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

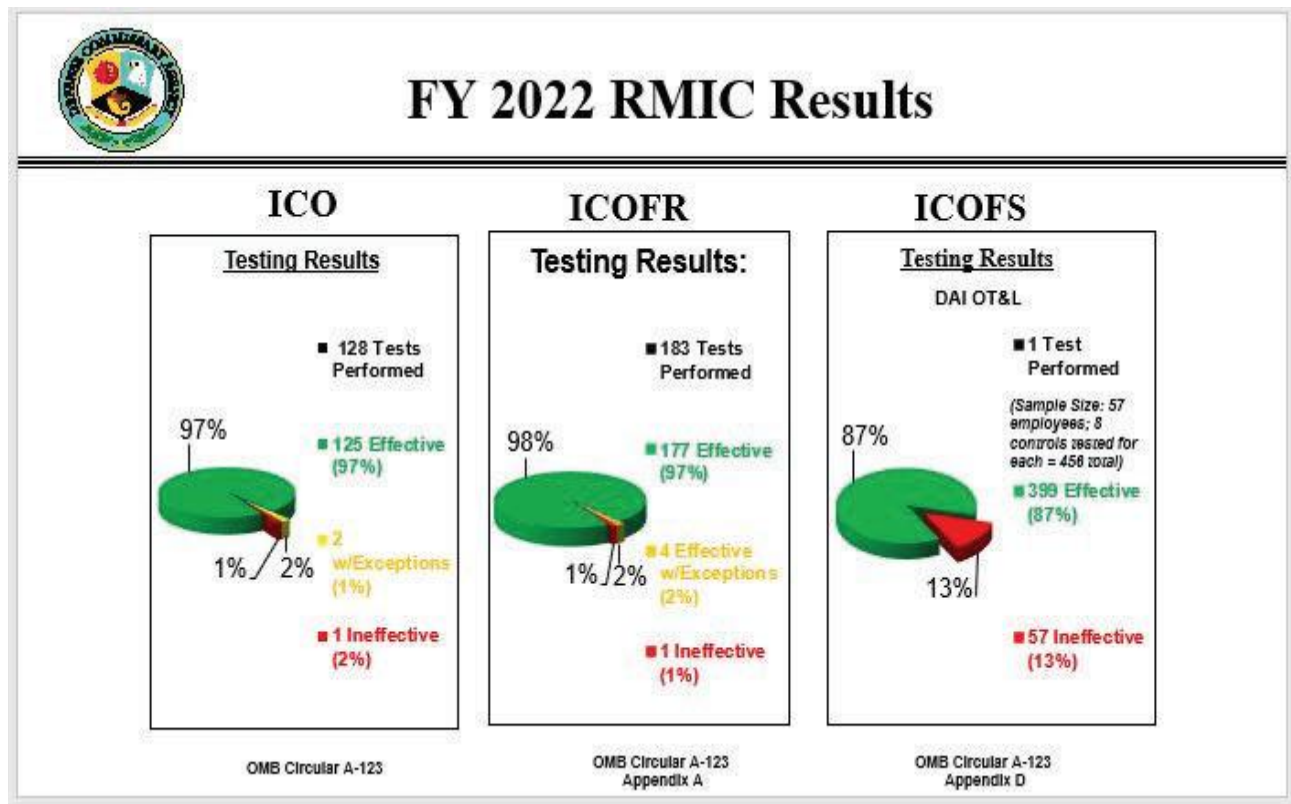
The objectives of the system of internal accounting and administrative controls of DeCA are to provide reasonable assurance that the Agency:

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

In FY 2022, DeCA reported an Unmodified Statement of Assurance related to the effectiveness of internal controls over operations and compliance, and a Modified Statement of Assurance related to the effectiveness of internal controls over financial reporting. However, DeCA's systems do not conform to the financial management systems requirements, and DeCA

was not compliant with FFMIA. In making this determination, the Director considered information from various sources, such as management reviews, Inspector General, and Government Accountability Office reports, the audit of the financial statements, and reviews of financial and administrative systems. The cornerstone of the FY 2022 Statement of Assurance is the Agency's financial improvement plan where we continue to utilize the OMB Circular A-123, Appendix A methodology. Through assessments, discovery, correction and monitoring, we continue to strive for increased efficiency and effectiveness utilizing this well-established tool.

The chart on the following page illustrates the results of the FY 2022 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):



FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT STATEMENT OF ASSURANCE:

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

DeCA's Statement of Assurance for FY 2022 reported on financial and non-financial operations, and financial system compliance. As of September 30, 2022, DeCA's Director was able to provide an unmodified statement of reasonable assurance that DeCA's internal controls met the objectives of the FMFIA and a modified statement of reasonable assurance for FFMIA. Fourteen years into the Agency's Financial Improvement Plan, the methodology continues to aid in effective financial and operational processes. The Agency's embrace of this program, has resulted in cost avoidance, improved business processes, and involved functional leaders from all aspects of the organization.

GOVERNANCE AND ACCOUNTABILITY:

DeCA continues to refine our governance and decision-making processes by improving methods that determine resource allocation and ensuring Agency investments remain strategically aligned. The Agency governance process employs a prioritization model with scoring criteria to guide the evaluation of potential investments. Enterprise-level collaboration and direct involvement of executive and senior leadership is crucial in maintaining an efficient process. Collaborative discussions minimize the layers of review and streamline the decision-making process. Good stewardship requires an agile and fiscally responsible governance process if we are to remain a model government organization.

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

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

PART II

PLANNING AND PERFORMANCE



PERFORMANCE MANAGEMENT RESULTS

DeCA is using an Agency Performance process that measures performance in achieving the Agency high-level strategic LOE goals and targeted outcomes. This performance approach brings together key management, financial, and nonfinancial performance measures, both external and internal, that allow DeCA to clarify Agency vision and strategic direction. We conduct monthly and quarterly data calls and metric reviews that include an ongoing assessment of results of specific measures aligning to our strategic goals and objectives of our Game Plan and LOE initiatives. The Agency's overall performance for FY 2022 is summarized below.

Performance Element	FY 2022 Goal	FY 2022 Actual
Customer Savings (Global Average)	23.7%	23.0%
Customer Satisfaction (CSAT) Score	≥ 80	87.1
Commissary Customer Service Survey (CCSS)	A (4.5)	A (4.5)
Margin Generation	≥ \$118.7M	\$100M / 84.2% execution
Projected Sales	\$4.150B	\$4.2B
Projected Transactions	69,424,001	64,541,403

Customer Savings: In accordance with requirements of the FY 2016 NDAA, as modified by the FY 2017 NDAA, the Customer Savings results were rebase-lined for FY 2016 through development of a new methodology to measure patron savings which builds on DeCA's prior approach by incorporating a market basket component of items with local competitor comparisons of the items. The baseline of 23.7% will be used to determine savings goals for FY 2017 and beyond. The FY 2022 annual global savings result is 23.0%, an increase of 0.5 points over the prior year, but below the baseline goal of 23.7%.

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 2022 are 87.1, which is above the target of ≥ 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 2022 results are 4.46, 0.03 lower than the 2021 overall score of 4.49, but which is on target when rounded to the 4.5 goal.

The **Margin Generation** measure comprises the revenue generation results from expected program implementation and projections. Amounts displayed represent amounts included in the budget to offset appropriations. Revenue estimates were included in DeCA's budget based on margin generation as a result of business reforms per FY 2016 and FY 2017 NDAs. Business reforms include: 1) developing business processes to support a profit and loss (P&L) business model by using Category Performance Improvement (CPI) processes to drive a lower Cost of Goods (COG), and 2) continuing to provide a price value proposition with variable pricing compared to retailers "outside-the-gate" and developing a margin commensurate with the goals. FY 2022 results are below target and are \$100M or 84.2% of the stated goal of $\geq$ \$118.7M due to focused efforts to increase savings to our patrons.

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 2022 sales results are \$4.2B, an increase above the target of \$4.150B. FY2022 transaction results are 64,541,403, or 93.0% of the target goal of 69,424,001, due to changing consumer behavior with customers shopping less often and buying more. Economic conditions following the onset of the global pandemic with increased supply chain costs, supply chain shortages, labor constraints, and inflationary pressures have impacted sales 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. 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 2022 through training, mentorship and coaching, and project execution. During the year, CPI practitioners conducted one Lean Leader course and one Lean Six Sigma Blackbelt course, and facilitated and coached several teams for various initiatives. These included process improvement efforts comprising category review standardization and efficiencies, item allocation process streamlining, Frequent Delivery System (FDS) financial system, and pricing execution improvement as intended. The FY 2022 Agency CPI process resulted in cost avoidance and reduction in process cycle times for the project area improvements. In addition, the Agency published Director's Policy DP-500-40 for CPI 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 2022, DeCA began the transition 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 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 and maintaining the relevance of the commissary benefit for years to come.

This page intentionally left blank

PART III

FINANCIAL SECTION



Message from the CHIEF FINANCIAL OFFICER

It is my pleasure to present the Fiscal Year (FY) 2022 Annual Financial Report (AFR) with accompanying Financial Statements and Footnotes for the Defense Commissary Agency (DeCA). This report reflects DeCA's efforts to be good financial and fiscal stewards. Continued supply chain disruptions and shortages combined with staggering inflation made FY 2022 another challenging year. However, we diligently focused on delivering the critical benefit to our military families and other authorized shoppers as we live out our vision, "to be THE grocery provider of choice".

DeCA completed its second year on the Defense Agency Initiative (DAI) for non-resale activities with business process improvements to the researching 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 FY2022, the team has been flexible and consistent in our ability to provide the needed expertise and resources to maintain our unmodified. The DeCA Resource Management (RM) team continue to remain committed to enhancing our culture of efficiency to ensure success at all levels within the Agency. Notable achievements for the RM team this FY include:

- Completion of 178 accountable inventories (via contractors) within the continental United States allowed DeCA the proper financial leverage to eliminate the need for a top-level adjustment for our inventory. COVID 19 continued to impact our ability to have accountable inventories at our locations overseas.
- Successfully tested MyTravel, a new travel reimbursement program within DAI. DeCA was able to validate that the interfaces allowed for Hybrid travel reimbursement for DeCA employees in both MyTravel and the Defense Travel System (DTS). Full implementation is forthcoming in FY23.
- Provided significant accounting support of Kiosk Operations inside of Army Outpost, providing soldiers alternate locations to purchase healthy food options. We were able to identify a method to expedite reimbursement for goods sold to Army Dining Facility Managers at Commissaries in multiple locations within the continental United States: Fort Bragg North; Joint Base Lewis Main; Fort Hood; Fort Carson and Fort Wainwright. DeCA was able to progress the program from concept to operational within a six-month timeframe as an eCommerce initiative. The program will be expanded to include additional locations in FY23.
- Implemented a new Record of Operations (RO) process for the meat and produce inventories. The process will help the stores capture a clearer picture of their cumulative gains or losses for the mid-month period. Allowing the stores to more accurately determine and report their tolerance established levels for each category.
- Partnered with our CIO and team to execute delivery services at eight pilot delivery locations. Ensuring accurate financial reporting of fees and gratuities associated with delivery have been paramount to the successful pilot and provided data to expand delivery beyond the eight pilot locations.

Taking care of our military members, their families and other authorized shoppers continues to drive us to seek efficiencies in processes and to look for better ways to deliver the benefit. Our deserving patrons, our employees, our leadership and other stakeholders are the pillars to sustaining the long history of the commissary benefit. We remain committed to supporting the benefit by providing sound financial management practices along with reporting quality financial data that can be leveraged in decision making. I am very proud to be a member of such a great team of professionals and truly proud to serve as DeCA's Chief Financial Officer.

MORGAN.CYNTHIA
A.L.1229474231

Digitally signed by
MORGAN.CYNTHIA.L.1229474
231 Date: 2022.11.02
17:06:16 -04'00'

Cynthia L. Morgan
Chief Financial Officer

**DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
BALANCE SHEETS
As of September 30, 2022, and 2021
(amounts in thousands)**

Assets	2022	2021
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 693,517	\$ 833,193
Accounts Receivable, Net (Note 1)	2,915	46
Total Intragovernmental	<u>696,432</u>	<u>833,239</u>
Other than Intragovernmental:		
Cash and Other Monetary Assets (Note 4)	54,387	49,742
Accounts Receivable, Net (Note 1)	24,652	22,344
Inventory and Related Property, Net (Note 5)	417,818	343,173
General Property, Plant, and Equipment, Net (Note 6)	204,490	163,482
Advances and Prepayments	123	177
Total Other than Intragovernmental	<u>701,470</u>	<u>578,918</u>
Total Assets	<u><u>\$ 1,397,902</u></u>	<u><u>\$ 1,412,157</u></u>
Liabilities (Note 7)		
Intragovernmental:		
Accounts Payable	\$ 53,616	\$ 51,643
Other Liabilities (Note 7)	24,002	29,244
Total Intragovernmental	<u>77,618</u>	<u>80,887</u>
Other than Intragovernmental:		
Accounts Payable	277,805	241,462
Federal Employee and Veteran Benefits Payable	148,498	164,334
Environmental and Disposal Liabilities (Note 1)	-	31,077
Other Liabilities (Note 7)	6,391	18,609
Total Other than Intragovernmental	<u>432,694</u>	<u>455,482</u>
Total Liabilities	<u>510,312</u>	<u>536,369</u>
Commitments and Contingencies (Note 11)		
Net Position (Note 8)		
Unexpended Appropriations - Funds Other than Dedicated Collections	\$ 153,445	\$ 241,089
Cumulative Results of Operations - Funds from Dedicated Collections (Note 12)	482,540	406,353
Cumulative Results of Operations - Funds from Other than Dedicated Collections	251,605	228,346
Total Cumulative Results of Operations (Consolidated)	<u>734,145</u>	<u>634,699</u>
Total Net Position	<u>\$ 887,590</u>	<u>\$ 875,788</u>
Total Liabilities and Net Position	<u><u>\$ 1,397,902</u></u>	<u><u>\$ 1,412,157</u></u>

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

**DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
STATEMENTS OF NET COST
For the Years Ended September 30, 2022 and 2021
(amounts in thousands)**

Program Costs:	<u>2022</u>	<u>2021</u>
Gross Costs	\$ 5,667,435	\$ 5,501,766
(Less: Earned Revenue)	<u>(4,429,664)</u>	<u>(4,285,357)</u>
Net Cost of Operations (Note 13)	<u>\$ 1,237,771</u>	<u>\$ 1,216,409</u>

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

**DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2022 and 2021
(amounts in thousands)**

	2022			2021		
	Dedicated Collections	All Other Funds	Consolidated Total	Dedicated Collections	All Other Funds	Consolidated Total
Unexpended Appropriations:						
Beginning Balances	\$ -	\$ 241,089	\$ 241,089	\$ -	\$ 280,686	\$ 280,686
Appropriations Transfer In (Out)	-	1,162,071	1,162,071	-	1,146,660	1,146,660
Appropriations Used	-	(1,249,715)	(1,249,715)	-	(1,186,257)	(1,186,257)
Net Change in Unexpended Appropriations (Note 8):	-	(87,644)	(87,644)	-	(39,597)	(39,597)
Total Unexpended Appropriations: Ending (Note 8)	-	153,445	153,445	-	241,089	241,089
Cumulative Results of Operations:						
Beginning Balances	\$ 406,353	\$ 228,346	\$ 634,699	\$ 410,129	\$ 172,081	\$ 582,210
Financing Sources:						
Appropriations Used	-	1,249,715	1,249,715	-	1,186,256	1,186,256
Non-Exchange Revenue (Note 20)	-	18,029	18,029	-	21,960	21,960
Transfers In (Out) without Reimbursement	53	166	219	(5,669)	231	(5,438)
Imputed Financing (Note 9)	24,787	44,227	69,014	27,545	44,680	72,225
Other	-	240	240	-	(6,105)	(6,105)
Total Financing Sources	24,840	1,312,377	1,337,217	21,876	1,247,022	1,268,898
Net Cost of Operations (Note 8)	(51,347)	1,289,118	1,237,771	25,652	1,190,757	1,216,409
Net Change in Cumulative Results of Operations	76,187	23,259	99,446	(3,776)	56,265	52,489
Cumulative Results of Operations: Ending (Notes 8 and 12)	\$ 482,540	\$ 251,605	\$ 734,145	\$ 406,353	\$ 228,346	\$ 634,699
Total Net Position (Note 8)	\$ 482,540	\$ 405,050	\$ 887,590	\$ 406,353	\$ 469,435	\$ 875,788

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, 2022 and 2021
(amounts in thousands)

	<u>2022</u>	<u>2021</u>
Budgetary Resources:		
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)	\$ 194,082	\$ 183,495
Appropriations (Discretionary and Mandatory) (Note 10)	1,162,071	1,146,660
Contract Authority (Discretionary and Mandatory) (Note 10)	4,217,706	3,975,708
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	329,620	307,093
Total Budgetary Resources	<u>\$ 5,903,479</u>	<u>\$ 5,612,956</u>
Status of Budgetary Resources:		
New Obligations and Upward Adjustments (Total)	\$ 5,833,354	\$ 5,517,799
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	70,125	95,157
Unexpired Unobligated Balance, End of Year	70,125	95,157
Unobligated Balance, End of Year (Total)	70,125	95,157
Total Budgetary Resources	<u>\$ 5,903,479</u>	<u>\$ 5,612,956</u>
Outlays, Net:		
Outlays, Net (Total) (Discretionary and Mandatory)	\$ 1,301,747	\$ 1,193,450
Agency Outlays, Net (Discretionary and Mandatory)	<u>\$ 1,301,747</u>	<u>\$ 1,193,450</u>

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

**DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2022 and 2021
(Except as noted, all dollar amounts are in thousands)**

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

DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2022 and 2021
(Except as noted, all dollar amounts are in thousands)

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 12 – “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 not covered by budgetary resources represent amounts owed in excess of available appropriated funds. The liquidation of liabilities not covered by budgetary resources is dependent on future congressional appropriations.

The 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.

**DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2022 and 2021
(Except as noted, all dollar amounts are in thousands)**

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.

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 \$5,736 and \$7,326 as of September 30, 2022 and September 30, 2021, respectively.

H. Inventory, Net

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

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

Inventory balances for each store are adjusted based on aggregate purchases and sales, transfers, and other adjustments. Store managers are expected to maintain and update EBS inventory operating system product level balances on hand for accuracy. Proper balances ensure efficient and timely balances for ordering that is in alignment with sales expectations. In addition, these balances are used as part of the deviation assessment when analyzing store inventory valuations on the financial records to the formal inventories performed. In FY 2022, DeCA was able to complete 178 formal inventories state side despite travel and access restrictions related to Coronavirus (COVID-19). Store level adjustments were performed for these stores. The aggregate results of the formal inventories combined with the fact that our commissaries Outside the Continental United States (OCONUS) inventories are already on a solid foundation for valuation provided DeCA the basis for not recording any top-level inventory adjustment on the financial reports. Pending COVID-19 travel restrictions, DeCA anticipates all stores to be inventoried in FY 2023.

**DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2022 and 2021
(Except as noted, all dollar amounts are in thousands)**

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

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

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

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

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

At September 30, 2020, DeCA transferred all buildings and improvements to the military service lines and in FY 2022 recorded imputed financing costs related to depreciation and use of buildings in DeCA’s operations. Depreciation related imputed financing cost is described in Note 1L.

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

J. 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.K.

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.

DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2022 and 2021
(Except as noted, all dollar amounts are in thousands)

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.

K. 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.

L. Imputed Financing and Costs

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

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

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

DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2022 and 2021
(Except as noted, all dollar amounts are in thousands)

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 (FGLI) 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 2022.

M. Environmental Liabilities

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

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.

DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2022 and 2021
(Except as noted, all dollar amounts are in thousands)

N. 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.

O. 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.

P. 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.

Q. 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.

R. COVID-19

The DeCA was not issued an appropriation transfer in FY 2022 to support the Coronavirus Aid, Relief and Economic Security Act (CARES Act) (Public Law 116-136). However, the DeCA WCF has incurred costs related to the pandemic in FY 2022 that are not reimbursable from the supplemental funding, but will be paid from DeCA's commissary operation's existing budgetary resources. As of September 30, 2022, the estimated obligations and outlays are \$4.4 million and \$4.4 million, respectively.

**DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2022 and 2021
(Except as noted, all dollar amounts are in thousands)**

Funds are required for non-medical PP&E, cleaning, disinfecting supplies, and to increase core hours for part-time DeCA store employees working worldwide to assist in store level clean-up and shelf stocking. Funds are also for additional air shipments to Europe and the Pacific and truck deliveries from the Central distribution plants to meet surge demand at overseas commissaries due to COVID-19.

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, 2022 and 2021.

Other than Intragovernmental Non-Entity Assets:	2022	2021
Accounts Receivable	\$ 5	\$ 289
Total Non-Entity Assets	5	289
Total Entity Assets	1,397,897	1,411,868
Total Assets	\$ 1,397,902	\$ 1,412,157

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, 2022 and 2021.

Fund Balances:	2022	2021
Appropriated Funds		
Working Capital Fund	\$ 320,680	\$ 368,612
Total	<u>320,680</u>	<u>368,612</u>
Revolving Funds		
Working Capital Fund	48,829	137,297
Total	<u>48,829</u>	<u>137,297</u>
Trust Fund	324,008	327,284
Total	\$ 693,517	\$ 833,193

**DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2022 and 2021
(Except as noted, all dollar amounts are in thousands)**

The following table shows the status of the fund balances as of September 30, 2022 and 2021.

	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

	2021			
Status of Fund Balances with Treasury:	Appropriated	Revolving	Trust	Total
Unobligated Balance Available	\$ 77,818	\$ -	\$ 17,339	\$ 95,157
Obligated Balance Not Yet Disbursed	290,794	137,297	309,945	738,036
Totals	\$ 368,612	\$ 137,297	\$ 327,284	\$ 833,193

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, 2022 and 2021:

	2022	2021
Cash	\$ 54,387	\$ 49,742
Total Cash and Other Monetary Assets	\$ 54,387	\$ 49,742

Cash and other monetary assets reflect uncollected Surcharge deposits of \$2.5 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.

**DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2022 and 2021
(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, 2022 and 2021:

	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

	2021
Inventory LAC Without Estimate for Losses Incurred	\$ 295,604
Estimate for Gains Incurred	47,510
Inventory on Hand at LAC	343,114
Unrealized Holding Gain (Loss)	59
Inventory, Net	\$ 343,173

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, 2022 and 2021, is summarized as follows:

	2022		
<u>PP&E Category</u>	<u>Acquisition</u>	<u>Accumulated</u>	<u>Net</u>
	<u>Value</u>	<u>Depreciation</u>	
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

	2021		
<u>PP&E Category</u>			
	<u>Acquisition</u>	<u>Accumulated</u>	<u>Net</u>
	<u>Value</u>	<u>Depreciation</u>	
Software	60,013	(38,809)	21,204
Equipment and Other Assets	208,514	(125,147)	83,367
Construction-in-Progress	58,911	-	58,911
Totals	\$ 327,438	\$ (163,956)	\$ 163,482

**DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2022 and 2021
(Except as noted, all dollar amounts are in thousands)**

The following table summarizes the activity of net PP&E for September 30, 2022 and 2021:

	2022	2021
Balance Beginning of Year	\$ 163,482	\$ 143,728
Capitalized Acquisitions	50,240	30,296
Transfers In/(Out) Without Reimbursement	-	(5,781)
Revaluations (+/-)	(44)	-
Depreciation Expense	(9,188)	(4,761)
Balance at End of Year	\$ 204,490	\$ 163,482

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, 2022 and 2021:

	2022	2021
Intragovernmental:		
Accounts Payable	\$ -	\$ 40
Other	21,189	22,551
Total Intragovernmental	21,189	22,591
Federal Employee and Benefits Payable	145,002	154,651
Environmental Liabilities	-	31,077
Total Liabilities Not Covered by Budgetary Resources	166,191	208,319
Total Liabilities Covered by Budgetary Resources	344,121	328,050
Totals	\$ 510,312	\$ 536,369

**DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2022 and 2021
(Except as noted, all dollar amounts are in thousands)**

The following table summarizes intragovernmental and non-intragovernmental other liabilities as of September 30, 2022 and 2021:

	2022	2021
Intragovernmental:		
Employer Contributions and Payroll Taxes Payable	\$ 2,808	\$ 6,693
Liabilities for Non-Entity Assets	5	-
Workers' Compensation	21,189	22,551
Total Intragovernmental	24,002	29,244
Other than Intragovernmental/With the Public:		
Accrued Funded Payroll and Benefits	6,391	17,529
Other	-	1,080
Total Other than Intragovernmental/With the Public	6,391	18,609
Total Other Liabilities	\$ 30,393	\$ 47,853

According to updates to *DoD 7000.14.R Financial Management Regulation (FMR) Volume 4 Chapter 13: Environmental and Disposal Liabilities* authorized the 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 - NET POSITION

The following table summarizes the net position by fund type as of September 30, 2022 and 2021:

	2022		
	<u>General Funds</u>	<u>Working Capital</u>	
		<u>Funds</u>	<u>Total</u>
Net Position:			
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

	2021		
	<u>General Funds</u>	<u>Working Capital</u>	
		<u>Funds</u>	<u>Total</u>
Net Position:			
Unexpended Appropriations	\$ -	\$ 241,089	\$ 241,089
Cumulative Results of Operation - Dedicated Collections	406,353	-	406,353
Cumulative Results of Operation - Other Funds	-	228,346	228,346
Total Cumulative Results of Operations	406,353	228,346	634,699
Totals	\$ 406,353	\$ 469,435	\$ 875,788

**DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2022 and 2021
(Except as noted, all dollar amounts are in thousands)**

NOTE 9 - IMPUTED FINANCING

The imputed financing and cost for employee benefits and real property as of September 30, 2022 and 2021, is summarized below:

Benefit Category	2022	2021
CSRS/FERS	\$ 2,339	\$ 2,326
FEHB	41,096	41,003
FEGLI	102	100
Real Property	25,477	28,796
Totals	\$ 69,014	\$ 72,225

The imputed financing for building depreciation by fund as of September 30, 2022 and 2021, is summarized below:

	2022	
	<u>General Funds</u>	<u>Working Capital Funds</u>
Imputed Financing Building Depreciation	\$ 24,787	\$ 690
	2021	
	<u>General Funds</u>	<u>Working Capital Funds</u>
Imputed Financing Building Depreciation	\$ 27,545	\$ 1,251

NOTE 10 – DISCLOSURE RELATED TO THE STATEMENTS OF BUDGETARY RESOURCES (SBR)

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 2023. Accordingly, a comparison between the fiscal year 2022 data reflected on the statement of budgetary resources and fiscal year 2021 data in the President’s Budget cannot be performed. The Budget with the actual amount for fiscal year 2022 will be available at a later date at <https://www.whitehouse.gov/omb/budget>.

**DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2022 and 2021
(Except as noted, all dollar amounts are in thousands)**

Total budget authority in FY 2022 and FY 2021 included appropriation transfers in the amounts of \$1,162,071 and \$1,146,660 respectively, and contract authority in the amounts of \$4,217,706 and \$3,975,708 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, 2022 and September 30, 2021, were \$443,375 and \$459,425 respectively. Working Capital Fund intragovernmental budgetary resources for undelivered orders at September 30, 2022 and September 30, 2021, were \$97,514 and \$98,267 while nonfederal budgetary resources for undelivered orders were \$71,821 and \$89,529. General Fund intragovernmental budgetary resources for undelivered orders at September 30, 2022 and September 30, 2021, were \$181,489 and \$171,033 while nonfederal budgetary resources for undelivered orders were \$92,550 and \$100,596.

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 11 – 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 12 – 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, 2022 and 2021:

Balance Sheet	2022	2021
Assets:		
Fund Balance with Treasury (Note 3)	\$ 324,008	\$ 327,284
Cash and Accounts Receivable	2,590	2,377
Property, Plant, and Equipment	165,581	125,630
Total Assets	<u>\$ 492,179</u>	<u>\$ 455,291</u>
Liabilities:		
Accounts Payable	\$ 9,683	\$ 17,862
Environmental Liabilities	-	31,077
Total Liabilities	<u>9,683</u>	<u>48,939</u>
Cumulative Results of Operation	<u>482,540</u>	<u>406,353</u>
Total Liabilities and Net Position	<u>\$ 492,223</u>	<u>\$ 455,292</u>

**DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2022 and 2021
(Except as noted, all dollar amounts are in thousands)**

NOTE 13 - 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, 2022:

	2022		
	Intragovernmental	With the Public	Total
Net Cost of Operations	\$ 452,579	\$ 785,192	\$ 1,237,771
Components of Net Cost That are Not Part of Net Outlays:			
Property, Plant, and Equipment Depreciation	\$ -	\$ 41,007	\$ 41,007
Inventory and Related Property	-	74,645	74,645
Other	-	-	-
Increase/(Decrease) in Assets:			
Accounts Receivable	2,869	2,308	5,177
Other Assets	-	4,592	4,592
(Increase)/Decrease in Liabilities:			
Accounts Payable	(2,013)	(36,343)	(38,356)
Environmental and Disposable Liabilities	-	31,077	31,077
Federal Employee and Veteran Benefits Payable	-	15,835	15,835
Other Liabilities	5,282	12,219	17,501
Other Financing Sources:			
Imputed Cost	(69,014)	-	(69,014)
Donated Revenue	-	-	-
Total Components of Net Cost that are not Part of Net Outlays	\$ (62,876)	\$ 145,340	\$ 82,464
Miscellaneous Reconciling Difference			
Transfers (In)/Out Without Reimbursements	(219)	-	(219)
Other	-	(18,269)	(18,269)
Total Other Reconciling Items	(219)	(18,269)	(18,488)
Net Outlays	\$ 389,484	\$ 912,263	\$ 1,301,747
Agency Outlays, Net, Statement of Budgetary Resources Reconciling Difference			\$ 1,301,747
			\$ -

**DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
REQUIRED SUPPLEMENT OF BUDGETARY INFORMATION
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2022
(amounts in thousands)**

	Defense Working Capital Funds		General Funds	Combined
	Operations	Resale	Surcharge	
Budgetary Resources				
Unobligated balance brought forward, Oct 1	\$ 132,021	\$ -	\$ 62,061	\$ 194,082
Appropriations (discretionary and mandatory (Note 10) Contract authority (discretionary and mandatory) (Note 10) Spending authority from offsetting collections (discretionary and	1,162,071	-	-	1,162,071
	505	4,217,201	-	4,217,706
	107,622	-	221,998	329,620
Total budgetary resources	<u>\$ 1,402,219</u>	<u>\$ 4,217,201</u>	<u>\$ 284,059</u>	<u>\$ 5,903,479</u>
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:				
Appropriated, 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)	<u>48,654</u>	<u>-</u>	<u>21,471</u>	<u>70,125</u>
	<u>1,402,219</u>	<u>4,217,201</u>	<u>284,059</u>	<u>5,903,479</u>
Total budgetary resources				
Outlays, Net:				
Outlays, net (total) (discretionary and mandatory)	\$ 1,309,704	\$ (11,232)	\$ 3,275	\$ 1,301,747
Agency, outlays, net (discretionary and mandatory)	<u>\$ 1,309,704</u>	<u>\$ (11,232)</u>	<u>\$ 3,275</u>	<u>\$ 1,301,747</u>

DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
REQUIRED SUPPLEMENT OF BUDGETARY INFORMATION
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2021
(amounts in thousands)

	Defense Working Capital Funds		General Funds	
	Operations	Resale	Surcharge	Combined
Budgetary Resources				
Unobligated balance brought forward, Oct 1	\$ 123,858	-	\$ 59,637	\$ 183,495
Appropriations (discretionary and mandatory (Note 10))	1,146,660	-	-	1,146,660
Contract authority (discretionary and mandatory) (Note 10)	4,886	3,970,822	-	3,975,708
Spending authority from offsetting collections (discretionary and mandatory)	104,544	-	202,549	307,093
Total budgetary resources	\$ 1,379,948	\$ 3,970,822	\$ 262,186	\$ 5,612,956
Status of Budgetary Resources:				
New obligations and upward adjustments (total)	\$ 1,302,130	\$ 3,970,822	\$ 244,847	\$ 5,517,799
Unobligated balances, end of year:				
Appropriated, unexpired accounts	77,818	-	17,339	95,157
Unexpired unobligated balance, end of year	77,818	-	17,339	95,157
Expired unobligated balance, end of year	-	-	-	-
Unobligated balance, end of year (total)	77,818	-	17,339	95,157
Total budgetary resources	1,379,948	3,970,822	262,186	5,612,956
Outlays, Net:				
Outlays, net (total) (discretionary and mandatory)	\$ 1,284,112	\$ (108,785)	\$ 18,123	\$ 1,193,450
Agency, outlays, net (discretionary and mandatory)	\$ 1,284,112	\$ (108,785)	\$ 18,123	\$ 1,193,450

**DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
COMBINING STATEMENT OF DEFERED MAINTENANCE
For the Year Ended September 30, 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) 2022 and 2021 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, 2022, and 2021, are presented fairly, in all material respects, in accordance with United States of America (U.S.) generally accepted accounting principles;
- No material weaknesses for FY2022, but two significant deficiencies in internal control over financial reporting based on the limited procedures we performed; and
- One reportable noncompliance for FY2022 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 information² 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, 2022, and 2021; 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, 2022, and 2021, 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 U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 22-01, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 22-01). Our responsibilities under those standards are further described in the Auditors' Responsibilities

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.

Independent Auditors' Report (Continued)

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 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

DeCA management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in 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 obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and 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 in order to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- 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 audit.

Independent Auditors' Report (Continued)

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*, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditors' inquiries, the financial statements, and other knowledge we obtained during the audits of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit, and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

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. DeCA 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 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

Independent Auditors' Report (Continued)

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 2022 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.

Basis for Results of Our Consideration of Internal Control over Financial Reporting

We performed our procedures related to DeCA's internal control over financial reporting in accordance with *Government Auditing Standards*.

Responsibilities of Management for Internal Control over Financial Reporting

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).

Auditors' Responsibilities for the Consideration of Internal Control over Financial Reporting

In planning and performing our audit of DeCA's financial statements as of and for the FY ended September 30, 2022, 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 of 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.

Definition and Inherent Limitations of Internal Control over Financial Reporting

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

Independent Auditors' Report (Continued)

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

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 FY2022, 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*. Our responsibilities under those standards are further described in the Auditors' Responsibilities for Tests of Compliance section below.

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.

Independent Auditors' Report (Continued)

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

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

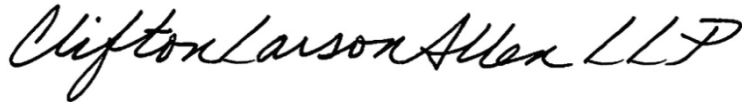
Status of Prior Year's Control Deficiencies and Noncompliance Issues

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, 2021. 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

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

Greenbelt, Maryland
November 12, 2022

Independent Auditors' Report (Continued)
Exhibit A
Significant Deficiencies

1. Controls over Inventory Need Improvement

The Defense Commissary Agency (DeCA) needs to improve its internal controls over the validation and reconciliation of commissary inventory data. During FY2018, DeCA initiated the migration of its inventory business system to a commercial product for grocery ordering and inventory management and in connection with this migration, ceased performing annual physical inventories at its commissaries. These annual physical inventories served as a key control to ensuring the balances of their recorded inventories were complete and accurate. While individual commissary staff do monitor and update inventory quantities reported in the legacy inventory business system, DeCA does not have an established process to validate and reconcile the complete product level inventory data population maintained at each commissary with the recorded inventory balances reported in the general ledger; however, progress has been made. In FY2019, DeCA resumed contractor inventory counts at the U.S. commissaries on a test basis. In FY2020, DeCA hired contractors to perform inventory counts at 92 U.S. commissaries. In FY2021, DeCA hired contractors to perform inventory counts at 164 U.S. commissaries. In FY2022, DeCA hired contractors to perform inventory counts at 178 U.S. commissaries, which was an increase from the 164 commissary counts completed in FY2021. Store level adjustments were recorded for these stores. In addition, in FY2020 and continuing thru FY2022, 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 FY2022 for commissaries not counted in FY2022. In 2023, 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 23% 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 66% of the items with a variance over four items had variances in excess of 10% from the recorded quantities. While DeCA performed inventory counts at 178 U.S. (CONUS)

Independent Auditors' Report (Continued)
Exhibit A
Significant Deficiencies

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

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

1. Complete inventory counts at all commissaries to ensure inventory is properly stated.
2. Continue to roll out the DAXIM inventory system.
3. 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.
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.

Independent Auditors' Report (Continued)
Exhibit A
Significant Deficiencies

2. Controls over Financial Reporting Need Improvement

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

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

1. Six of six capitalized not in service assets tested were actually in service and DeCA should have commenced recording depreciation in prior years. We identified \$20 million in unrecorded depreciation at June 30, 2022, or 33% of total not in service assets tested. If this error rate is extrapolated to the September 30, 2022, population of not in service assets still outstanding from June 30, 2022, there is an estimated \$23 million understatement of depreciation expense and accumulated depreciation at September 30, 2022. The majority of this depreciation expense related to fiscal year 2020 and prior.
2. Supporting documentation for some controls or transactions could not be located by DeCA. We noted no available support for two of 35 vendor credit memos selected for testing, missing commissary cash reconciliations for two of 20 selected for testing, and missing support for two of 18 (20 cash reconciliations less two missing) commissary cash reconciliations reviewed.
3. Two of 18 commissary cash reconciliations reviewed were not properly prepared to identify reconciling items.
4. Financial statement tie-points were not completed fully to verify the proper presentation of the financial statements. DeCA only completed tie points for the unadjusted trial balance not for the final financial statements with all adjustments included. Also, DeCA did not complete tie points for the Commissary Resale Stocks (4K) fund.

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.
4. Complete all appropriate financial statement tie points to ensure the proper presentations of the financial statements.

Independent Auditors' Report (Continued)
Exhibit B
Noncompliance

Noncompliance with the Federal Financial Management System Requirements

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

A summary of 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	Deployment impacted in 2022 due to COVID-19 health and travel restrictions Expect to be completed in FY2024
Inventory management	DIBS	IM (EBS)	Migration in process	Deployment impacted in 2022 due to COVID-19 health and travel restrictions Expect to be completed in FY2024
Distribution Center Inventory Management	Manhattan WMS	Warehouse Management Solution	Migration in process	Deployment impacted in 2022 due to COVID-19 health and travel restrictions Expect to be completed in FY2023
Voucher/coupon management	SAVES	Emerald and RetailOne (EBS)	Migration in process	Deployment impacted in 2022 due to COVID-19 health and travel restrictions Expect to be completed in FY2023

Independent Auditors' Report (Continued)
Exhibit B
Noncompliance

Business Process	Current System	Future System	Status	Comment
Revenue/sales management	CARTS	Emerald	Migration in process	Deployment impacted in 2022 due to COVID-19 health and travel restrictions Expect to be completed in FY2023
Financial accounting	STANFINS	PE FIM	In planning	Planned for FY2023

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, 2022, DeCA prepared 72 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.

Independent Auditors' Report (Continued)
Exhibit B
Noncompliance

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 DAXIM inventory system. 3. Implement PE Warehouse and PE FIM to allow for end-to-end automated inventory valuation and accurate balance on hand reporting. 4. Develop standard comprehensive inventory reports that are generated for the review and analysis by store managers. 5. Ensure pallets and shippers are removed from the inventory system when broken down. 6. Ensure all shippers are recorded in inventory. 7. Ensure inventory quantities are properly adjusted for vendor returns. 8. Ensure inventory balances on hand are not artificially increased to prevent automatic reorders. 9. Review the policies and procedures for performing and reporting on regular random inventory counts at the product level. 10. Review the process for accounting for direct ship and delivery (DSD) items. 11. Review allowable tolerance levels based on store size, and DeCA's guidance for addressing out of tolerance situations based on results of periodic cycle counts. 12. Establish procedures for the comparison of product level inventory reports to the general ledger balances, taking into account normal timing differences.	Modified Repeat as prior year recommendations 5, 7, and 8 were cleared in FY2022

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. Continue to refine DeCA's accrual methodology for two-way match contract services, record the accrual on a timely basis, and develop a validation process to check the accuracy of accrual based on two-way match disbursements in the following periods. 2. Reconcile all accounts monthly and resolve unreconciled differences timely. 3. Continue with corrective action plans to resolve Equipment/Software and Construction in Progress unreconciled differences and assemble a list of not in service Equipment/ Software. 4. Prepare a quarterly rollforward of Equipment/Software and Construction in Progress from prior year to current year to evaluate types of activity, such as additions, disposals, and transfers, to better analyze activity to ensure accuracy.	Modified Repeat as prior year recommendations 1, 3, and 4 were cleared in FY2022.
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

Independent Auditors' Report (Continued)
Exhibit D
DeCA's Response to Audit Findings and Recommendations



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

November 12, 2022

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 12, 2022, of Fiscal Years (FY) 2022 and 2021 financial statements of the Defense Commissary Agency (DeCA), management generally agrees with all findings of this report. Specifically, DeCA generally agree 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 component to our enterprise business system. 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 EBS and 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.

MORGAN.CYNTHIA
A.L.1229474231

Digitally signed by
MORGAN.CYNTHIA.L.12294742
31
Date: 2022.11.12 16:04:00 -0500

Cynthia L. Morgan
Chief Financial Officer

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

Glossary of Acronyms

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

Glossary of Acronyms

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
OUSD	–	Office of the Under Secretary of Defense
PAR	–	Performance and Accountability Report
P&L	–	Profit & Loss
PP&E	–	General Property, Plant & Equipment
P&R	–	Personnel & Readiness
RMIC	–	Risk Management and Internal Control Program
RSI	–	Required Supplemental Information

Glossary of Acronyms

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