Defense Commissary Agency

Agency Financial Report
Fiscal Year 2024

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FOREWORD

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

Under the CFO Act, OMB also requires DoD and other agencies to incorporate their annual financial statements into a Performance and Accountability Report (PAR) or an alternative Agency Financial Report (AFR). Although DeCA is not required to prepare a separate PAR or AFR, this document, which is aligned to the statutory guidance framework, has been prepared to enhance the presentation of performance, management, financial information, and to demonstrate a higher standard of accountability. DeCA will post its FY 2024 Annual Financial Report at www.commissaries.com by the end of the 1st Quarter, FY 2025.

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2024 Annual Financial Report – Director's Message

Fiscal Year (FY) 2024 brought true change and significant improvements to the Defense Commissary Agency (DeCA) and its mission to provide the commissary benefit. Throughout the year there have been many successes. The Agency began accepting Supplemental Nutrition/ Electronic Benefits Transfer Assistance Program (SNAP/EBT) payments online. Our online shopping and curbside pickup service, Commissary CLICK2GO, reached $100 million in sales. The Agency also provided support to the Army Culinary Outpost Program ensuring our Service members had access to healthy and nutritious foods, in locations where no food options were available. Over the year, the Agency increased the average number of monthly households to 1.73 million, the highest since FY 2019. Commissary transactions were up nearly 7 percent, and sales were up almost 12 percent for active-duty enlisted Service members in grades E1 - E3. For officers (O1 - O3) transactions were up almost 14 percent, and sales were up nearly 17 percent.

Despite the supply chain challenges and external factors like increased inflation we faced in FY 2024, the Agency demonstrated remarkable resilience. Our employees' hard work, determination, and ingenuity were instrumental in ensuring the commissary benefit continued to flourish, emphasizing the Agency's unwavering commitment to deliver a vital benefit of the military compensation package that improves quality of life and readiness by providing grocery items at significant savings.

Major highlights for the Agency over the last year include:

- **FY 2025-2029 Strategic Plan.** During FY 2024, our senior leadership team assessed the Agency's progress toward our vision, mission goals, and initiatives to support the commissary benefit. We reaffirmed our primary objective to deliver the benefit to as many of our over 15 million eligible patrons as possible. With this in mind, we created and published our FY 2025-2029 strategic plan which identified the long-term strategies to effectively and efficiently provide an enhanced commissary benefit to our authorized patrons, improving Service member and family quality of life, and attracting and retaining Service members in ways that exceed their expectations.

- **Our Strategic Goals.** These updated goals revolve around the following areas and outcomes:
  - *Grow Sales:* Deliver more savings by growing sales.
  - *Develop Leaders – Build the Bench:* Develop leaders to run a patron-delighting grocery business.
  - *Drive Accountability:* Accountability for results and fiscal responsibility.
  - *Lower Costs:* Improve our efficiency and effectiveness so we can reinvest in savings and the patron experience.
  - *Modernize Business:* Transform business infrastructure and the patrons' shopping environment and access (Infrastructure).

- **Sales.** In year-over-year comparisons, the Agency increased sales by 2.96 percent. FY 2024-unit sales were 1.3 billion, down 1.3 percent from FY 2023. FY 2024 sales were $4.755 billion, an increase of 2.96 percent over FY 2023, and transactions were 72.1 million, an increase of 3.9 percent over FY 2023. Foot traffic increased by 1.3 percent over FY 2023, and patron savings was 25 percent. This year, the Agency focused on multiple strategic building blocks to help grow sales to $8 billion by FY 2028:

- **Sustaining the Game Plan 2023-2024 - Maintain 5 Percent Per Year Growth.**
  - “**Winning on Fresh**, “FY 2024 sales for this strategy was $1.02 billion, an increase of 3.88 percent over the previous year. The product group’s share of total sales in FY 2024 was 21.84 percent, an increase of 0.26 points over its share in FY 2023.
  - Commissary Store Brands (CSB), introduced in 2017, are an assortment of private-label products that span the entire store. They include Freedom’s Choice for food items, Homebase for non-food items, Full Circle Market for organic products, Tippy Toes for baby products, TopCare for health and beauty, Wide Awake Coffee for ready-to-drink coffee products, Cravn’ Flavor for refrigerated and frozen appetizers and snacks, Pure Harmony for assorted pet food and Flock’s Finest for bird food. There are 810 products available for purchase in store and online. Sales for the CSB category increased by more than $12 million, or 7.4 percent, while the number of units sold increased by over 3 million or 5.89 percent. The Agency introduced 82 new products in FY 2024 across all lines, and look forward to the addition of 13 new products hitting shelves in the next year.

- **Building Commissary CLICK2GO to 10 Percent.**
  - The Agency continues to push the envelope on the technologies available to help add convenience to the shopping experience. In June, the Agency surpassed $100 million in sales for our curbside pickup option, Commissary CLICK2GO (CC2G), since its inception. In FY 2024, the program generated $54.7 million in sales. The average basket size for our patrons was $126 for CC2G curbside and $187 for CC2G delivery (available at eight pilot locations) for patrons shopping online.

- **DeCA Outside the Walls – Kiosks, Guard, and Reserve Drop-off.**
  - The Army Center of Excellence, Subsistence and DeCA have joined forces to provide healthy and nutritious food alternatives to soldiers in areas on Army installations where available food options are limited or non-existent. As part of the program, DeCA has committed to supplying food items through local purchases selected by the Army to stock Army-owned food kiosks. These kiosks offer time-saving convenience to soldiers and accept meal card payments for various prepared healthy alternatives, including fresh sandwiches, fruits, salads, sushi, frozen entrees, and individual serving-sized items. Nineteen Army Outposts supplied by 15 DeCA commissaries reached $10.4 million in sales in FY 2024. An additional 11 outposts planned in FY 2025.

- **Bringing in-stock levels from 95 Percent to 98 Percent.**
  - The Agency has established a goal to drive in-stock levels to 98 percent by 2028, one of our main building blocks. We have made great progress in that area, raising our percentage from 95.1 percent in October 2023, to an in-stock rate of 96.6 percent as of August of this calendar year—out pacing commercial grocery stores outside the gate. In FY 2024, we exceeded the Agency’s goal by 1 percent, with focused efforts on collaboration with commercial distributors to drive in-stock levels across the enterprise. To help make data-driven decisions in the future, the Supply Chain Directorate is working with our Information Technology (IT) Directorate to create a supply chain data analytic platform. This effort will allow the Agency to uncover patterns and generate insights to improve the quality, delivery, and profitability of products, which ultimately will drive the customer experience.

- Working to keep overseas commissary shelves stocked remains a top priority for DeCA. There are many issues that can impact our ability to deliver products, especially disruptions in supply chains caused by labor strikes, port delays, and extreme weather events. Over the FY, the Agency sealifted 9,600 shipping containers worth $2.6 million, emergency airlifted 207,000 pounds of product worth $2.6 million, and airlifted $5.4 million worth of product to keep commissaries shelves full during times of unforeseen disruptions

- **Entering Prepared Food.**
  - A new line of Chef-Inspired Freedom's Choice prepared foods is now on commissary shelves offering patrons a significant boost in their quick ready to eat meal options. FY 2024 sales for the prepared foods category reached $118.9 million, an increase of 6.24 percent over the year before. The product group's share of total sales in FY 2024 was 2.54 percent, an increase of 0.09 points over its share in FY 2023.

- **"Taking Care of Our People" Campaign.**
  - On September 22, 2022, the Secretary of Defense announced the Taking Care of Our People (TCoP) initiative to help improve the economic security and stability of the military community by addressing areas of concern tied to the financial impacts of inflation and good insecurity. This campaign continued into FY 2024, where DeCA achieved a global savings of 25 percent, meeting the goal outlined in the TCoP memorandum.

- **Environmental Program.**
  - DeCA takes pride in protecting our communities through our environmental program, which includes recycling or liquidating items, diverting items out of our waste stream, and donating edible but unsellable food to food banks and pantries. In FY 2024, the Agency recycled over 123.4 million pounds with a diversion rate of 65.9 percent.
  - The Agency recycles several types of items including cardboard, plastic, wood pallets, and others. The Agency recouped over $1.4 million from recycling efforts including cardboard, plastic, wood pallets, and others; with another almost $160,000 obtained from equipment liquidation.

- **Food Donations.**
  - In 2012, DeCA began donating edible but unsellable food to local food banks located around commissaries. The food bank program helps remove unsellable products from commissaries without sending them to a landfill, while helping feed those struggling to put food on their table in the local communities around our commissaries. In FY 2024, the Agency donated 5.2 million pounds of edible product to 220 food banks from 182 participating commissaries.

- **Feds Feed Families**
  - June 2024 marked the kickoff for the U.S. Department of Agriculture's (USDA) 15th annual Feds Feed Families campaign, which encouraged employees from across the Federal government to give in-kind contributions, whether food, services and/or time, to food banks and pantries. This year's campaign ran through September 30. It was the fifth year the Department of Defense (DoD) designated DeCA to lead its portion of the food donation effort. This year's Feds Feed Families campaign broke records, bringing in over 12.1 million pounds of goods donated to food banks across the nation, an increase of more than 21 percent from 2022. Of the

12.1 million pounds donated, DoD contributed 6.1 million pounds or 51 percent, an increase of more than 3.4 percent from last year. DeCA's share of DoD's total was 4.3 million pounds or 71 percent, which equates to a total increase of more than 4.9 percent from FY 2023. Since Feds Feed Families launched in 2009, more than 129 million pounds of food has been collected for donation.

- **Information Technology (IT).**
  - Throughout FY 2024, the Agency's wireless network at our Headquarters and Support Center, areas, central distribution centers, and commissaries were analyzed to ensure appropriate support of the Agency's business systems. DeCA IT adjusted coverages to ensure both on-site and remote monitoring, allowing easier and greater sustainment across the DeCA portfolio. DeCA migrated email capabilities and SharePoint sites to the DoD365-J tenant, aligning the goal to migrate DeCA's enterprise to the cloud by the fourth quarter of FY 2025 which provides mature collaboration solutions, such as Microsoft Teams, across the Agency and all store locations.

- **Sales Growth.**
  - The Agency reached $9 million in sales growth by integrating DeCA's eCommerce CC2G solution with the Army, enabling 17 Army outposts to order products from 15 commissaries seamlessly, with an additional 11 outposts planned to open in FY 2025.
  - Established a bulk delivery program that saw an additional $225,000 in sales, currently servicing 38 locations, such as installation day care facilities, through 18 commissaries. We continue to work with installations, meeting with commanders monthly to highlight our capabilities and identify ways to contribute to fulfilling sustenance requirements.
  - Working with the USDA and Treasury, we have empowered our SNAP/EBT eligible patrons to realize their benefits in store and online. Through this impactful update to our eCommerce offerings, we have seen SNAP/EBT month-over-month sales increase on average over 60 percent in the last seven months.

- **CARTS-RM Infrastructure Upgrade.**
  - As DeCA's point-of-sale system, CARTS-RM is the final and arguably the most crucial interaction between the customer and the Agency during their shopping experience. DeCA was faced with the challenge of conducting an extremely costly $2.2 million life cycle replacement of the back-end infrastructure for our point-of-sale system. Diligent efforts by IT allowed the Agency to successfully avoid this cost completely and improved the level of service to our patrons by standing up a virtual environment in the DeCA Data Center to house this capability. This modernized environment allows the Agency to more responsive and agile, while lowering all future sustainment costs.

- **Unmodified opinion.** DeCA delivered millions of dollars in patron savings annually while accurately accounting for every dollar received and spent. The following is a snapshot of DeCA's financial highlights for FY 2024:
  - DeCA met the goal of 25 percent patron savings as established by the TCoP, which returned $1.58 billion to shoppers.
  - Commissaries generated more than $4.75 billion in annual sales and $5 billion in total revenue.
  - DeCA increased sales by 2.96 percent, and foot traffic in commissaries surged by over 1.3 percent compared to FY 2023.

- DeCA generated $238 million in surcharge revenue. The congressionally mandated 5 percent surcharge pays for construction, equipment, and maintenance of commissaries around the world.
- The Agency also processed 64.5 million transactions at the point of sale.

- **Scholarships for Military Children.**
  - The Scholarships for Military Children program was created in 2001by Fisher House Foundation, in partnership with DeCA, to recognize military families' contributions to the fighting force's readiness and to celebrate the commissaries' role in enhancing the military's quality of life. This year the nonprofit foundation awarded 500 children a $2,000 scholarship each for the upcoming 2024 - 2025 academic year.

- **2023 Best Commissary Awards.**
  - Awards are given in five categories determined by store location and size. The awards are named in honor of government officials who protected the commissary benefit and championed quality-of-life issues for the military and their families. Each winner surpassed DeCA's accountability, customer satisfaction, unit cost, sales, accident rates and photo portfolio submission. DeCA area directors selected up to two stores per award category to represent the area. Nominations were judged on tangible and intangible qualities such as a friendly environment, a well-run store, a good work ethic and a sense of a cohesive team.

  - The 2023 winners are:
    - U.S. Best Small Commissary – Richard Paget Award
1st place – Marine Corps Air Station Yuma, Arizona
2nd place – U.S. Army Yuma Proving Ground, Arizona
    - Overseas Best Small Commissary – L. Mendel Rivers Award
1st place – Lajes Field, Portugal
2nd place – Marine Corp Base Camp Kinser, Okinawa, Japan
    - U.S. Best Large Commissary – Bill Nichols Award
1st place – Naval Station Norfolk, Virginia
2nd place – Fort Wainwright, Alaska
    - Overseas Best Large Commissary – Dan Daniel Award
1st place – Camp Humphreys, South Korea
2nd place – Grafenwoehr, Germany
    - U.S. Best Super Commissary – Director's Award
1st place – Peterson Space Force Base, Colorado
2nd place – Keesler Air Force Base, Mississippi

- **Dietitian-Approved Fueling Stations.**
  - The lifestyle of young Service members can be hectic with ongoing deployments and constant training rotations. To help these busy Service members access quick, nutritious meals and snacks, DeCA launched its dietitian-approved fueling station program. The stations offer Service members nutritious foods to build a meal or enjoy a before- or-after work out snack – items they can take on missions or stock in their barracks. Sales and units for the fueling station assortment were growth-neutral in FY 2024. At all stores, sales were $14 million in FY 2024 and FY 2023, and units were 8 million for both FYs. At the subset of 179 stores with a fueling station, sales were $12 million in FY 2024 and FY 2023, and units were 7 million for both FYs.

- **Social Media**.
  - DeCA continues to use social media platforms as another avenue for reaching our authorized patrons to help spread the message about the commissary benefit. Customers can interact with the Agency through the following social media platforms:
    Facebook
    - Agency: 92,000
    - Senior Enlisted Advisor: 717
    - Instagram: 10,800
    - Twitter: 8,000
    - Pinterest: 2,000
    - YouTube: 1,590

As we look forward, we will set our path to $8 billion in five years to provide an even better benefit to the most deserving customers in the world.

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John E. Hall
Director

John E. Hall
Director

DECA-AT-A-GLANCE

Established as a Provisional Organization:	May 15, 1990
Formally Established:	Nov. 9, 1990
Officially Activated:	Oct. 1, 1991
Headquarters:	1300 Eisenhower Avenue, Fort Gregg-Adams, VA 23801-1800 www.commissaries.com www.facebook.com/YourCommissary www.twitter.com/TheCommissary www.youtube.com/DefenseCommissary
Fiscal 2024 sales:	$ 4.8 billion
Fiscal 2024 total revenue:	$ 5.0 billion
Fiscal 2024 operations cost:	$ 1.7 billion
Total employees:	12,963
Total authorized households:	Approximately 8.3 million
Customer transactions:	72.1 million
Global presence:	13 countries, 2 U.S. territories
Commissaries as of 30 Sep 2024:	235

DeCA MISSION

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

DeCA VISION

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

DeCA VALUES

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

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

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

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

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

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

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

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

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

…as we deliver the benefit!

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PART I

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF DeCA

ORGANIZATION AND MISSION:

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

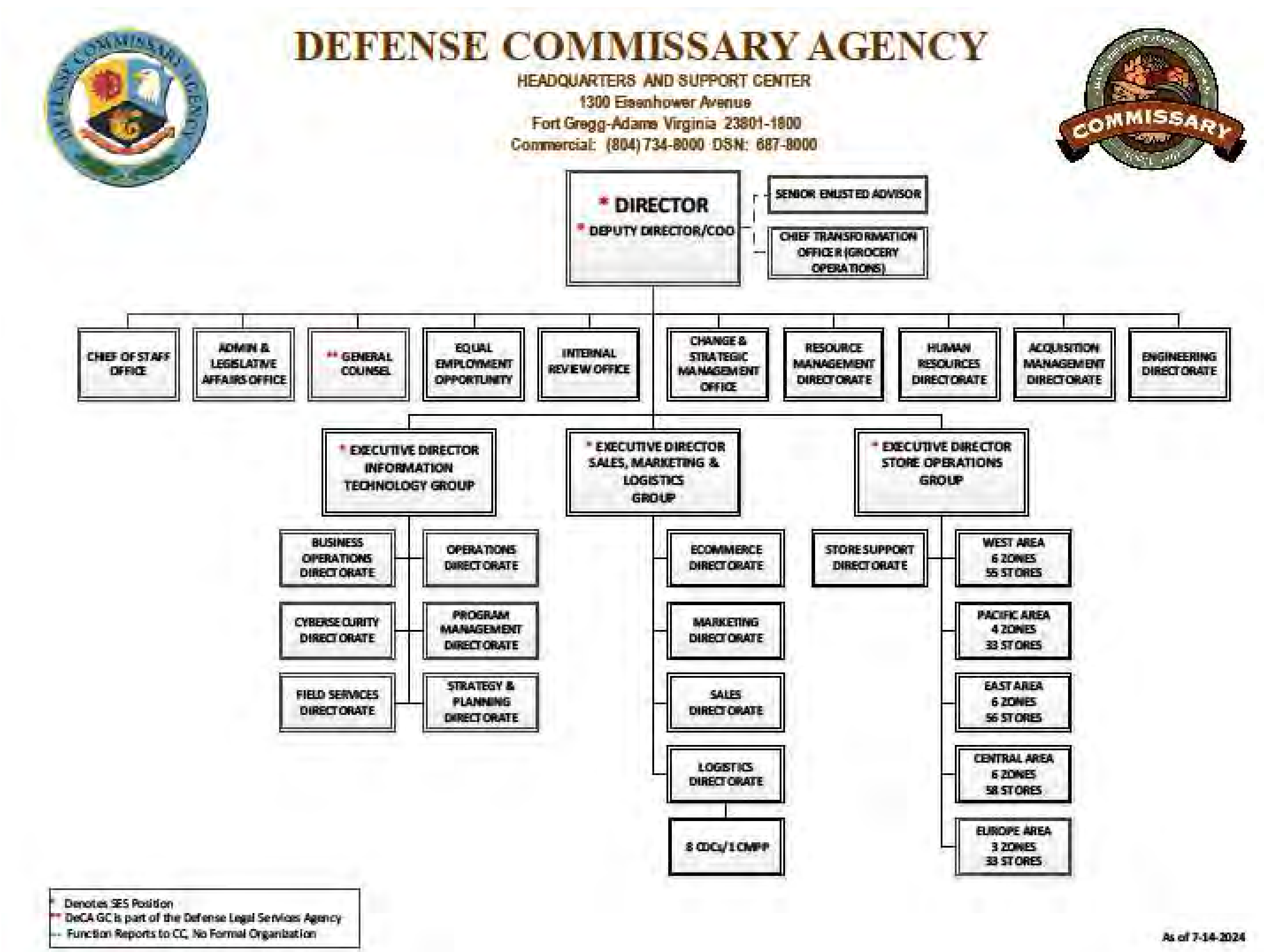
From its headquarters at Fort Gregg-Adams, Virginia, the Defense Commissary Agency operates a worldwide commissary system that provides quality grocery products at substantial savings to active-duty military personnel and retirees, members of the Reserve and National Guard, and their families. The agency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

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

Asia. Within the operational areas, zone managers are responsible for 8 to 12 stores. Zone managers and assigned store directors jointly provide leadership and direction for their stores, building positive customer service in each commissary.

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

The organizational structure of DeCA for fiscal year (FY) 2024 is shown in the following chart:



2024 HIGHLIGHTS:

DeCA has maintained our unmodified opinion for FY2024. We were able to perform accountable inventories at all 235 of our commissaries both in CONUS and OCONUS (via contractors). We continue to improve cycle counts at store level to ensure our balance on hand is accurate.

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

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

SOURCES OF FUNDS:

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

Commissary Operations finances the operating costs of commissaries, areas, and headquarters activities. The primary revenue source for this activity group is a direct appropriation to the Defense WCF, which in turn, is apportioned to the DeCA WCF. Specific costs include civilian and military labor, service contracts, travel, transportation of commissary goods overseas and other indirect support. DeCA received approximately $1.5 billion in appropriation transfers during FY 2024. Commissary Operations also received limited additional revenues from manufacturers' coupon redemption fees, handling fees for tobacco products, and reimbursements for other support.

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

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

STRATEGIC PLANNING FRAMEWORK

INTRODUCTION:

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

The DeCA Strategic Framework is a cyclical, ongoing process where one activity feeds the next, allowing for continuous feedback and adjustments throughout. Our strategic planning process incorporates multiple planning tools such as Agency Strategic Direction and Performance Plans and Strength, Weakness, Opportunities and Threats (SWOT) analyses. We conduct quarterly data calls and metric reviews for performance management that include an ongoing assessment of results of specific measures aligning to strategic goals and objectives. Our governance process links planning, performance, accountability, and budgeting to performance management, while prioritizing investments and resources.

DeCA's Strategic Plan lays out the roadmap for the Agency's validated vision and mission for the future. The Vision for the Agency is very clear, elegant, and to the point, as we continue moving forward with a very specific intention **"To be THE grocery provider of choice for our eligible patrons – delivering a vital benefit exclusively for our military community and their families."** We strive to fulfill our mission to **"Deliver a vital benefit of the military compensation package that improves quality of life and readiness by providing grocery items at significant savings."** The commissary benefit supports Service members and their families by providing a safe grocery shopping environment with significant savings compared to civilian supermarkets. The vision and mission are the driving forces behind our goals found in the Agency 2025-2029 Strategic 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 for the future. We established specific areas that could create positive change, offer more opportunities for our eligible patrons, improve their experience, and make the benefit stronger. DeCA's approach supports: (1) the DoD FY 2022-26 DoD Strategic Management Plan, updated April 2024, for Strategic Priority 1: "Take care of our people and cultivate the workforce we need," and (2) Under Secretary of Defense for Personnel and Readiness (USD(P&R)) 10-year Strategy for 2030, dated October 2020, for Strategy Goal 4: "A resilient and adaptive total force." In order to become "THE grocery provider of choice for our eligible patrons," the DeCA Strategic Plan identifies five strategic goals, supported by strategic objectives and outcomes, as the priority areas for improving the way we deliver the benefit. The Plan also documents and continues implementation of the DeCA strategic direction for the future, focusing on fiscal years 2025-2029.

The following chart indicates those goals and correlates the appropriate objectives and outcomes:

- **Our Vision**: "To be THE grocery provider of choice for our eligible patrons – delivering a vital benefit exclusively for our military community and their families."
- **Our Mission**: "Deliver a vital benefit of the military compensation package that improves quality of life and readiness by providing grocery items at significant savings."

DeCA's 5-Year FY 2025-2029 Strategic Plan – Our Strategic Goals. The goals are managed by specific DeCA directorates responsible for movement and actions toward strategic outcomes. These updated goals revolve around the following areas and outcomes:

- *Grow Sales*: Deliver more savings by growing sales.
  Task: To grow sales.
  Purpose: To deliver more savings benefit, amplifying the appropriation 2X.
- *Develop Leaders – Build the Bench*: Build leaders to run a Patron delighting grocery business.
  Task: To develop leaders and build the bench to run a Patron delighting grocery business inside the DoD.
  Purpose: Broaden our workforce to become more skilled and experienced.
- *Drive Accountability*: Accountability for results and fiscal responsibility.
  Task: Establish a culture of personal accountability and fiscal responsibility.
  Purpose: Hold ourselves, our suppliers, our distributors, and our contractors more accountable for results.
- *Lower Costs*: Improve our efficiency and effectiveness so we can reinvest in savings and the Patron experience.
  Task: Improve our efficiency and effectiveness.
  Purpose: Hold costs to inflation, lower the cost of doing business with DeCA so money can be reinvested in savings and the Patron experience.
- *Modernize Business*: Transform business infrastructure and the Patron's shopping environment and access (Infrastructure).
  Task: Improve our business operations.
  Purpose: Industry scaled solutions first, tailored to DeCA only when required by law. Transform business infrastructure and the Patron's shopping environment and access (Infrastructure)

STRATEGIC DIRECTION:

The Agency's senior executives maintain a strategic thinking process that considers impacts to DeCA in the near and long term. They have determined the Agency's direction based on National Defense Authorization Act (NDAA) and DoD guidance, an assessment of significant impacts, ongoing collaboration, discussions, and analysis. The Agency's goals are achievements that reflect the top performance improvement priorities of leadership. Our strategic goals are reevaluated annually to ensure they remain relevant to our environment, stay consistent with the Agency mission, and continue to support the DoD strategic priorities. Each strategic 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 investigate the rapidly changing technology that is becoming a significant part of the ways that our patron's shop and communicate. Concepts were evaluated and have been implemented as we partner with the 21st century shopper. Transforming the agency with innovation is a primary focus, evidenced by recent commissary programs implemented such as online shopping and payment, patron-focused initiatives, piloting of delivery services, etc.

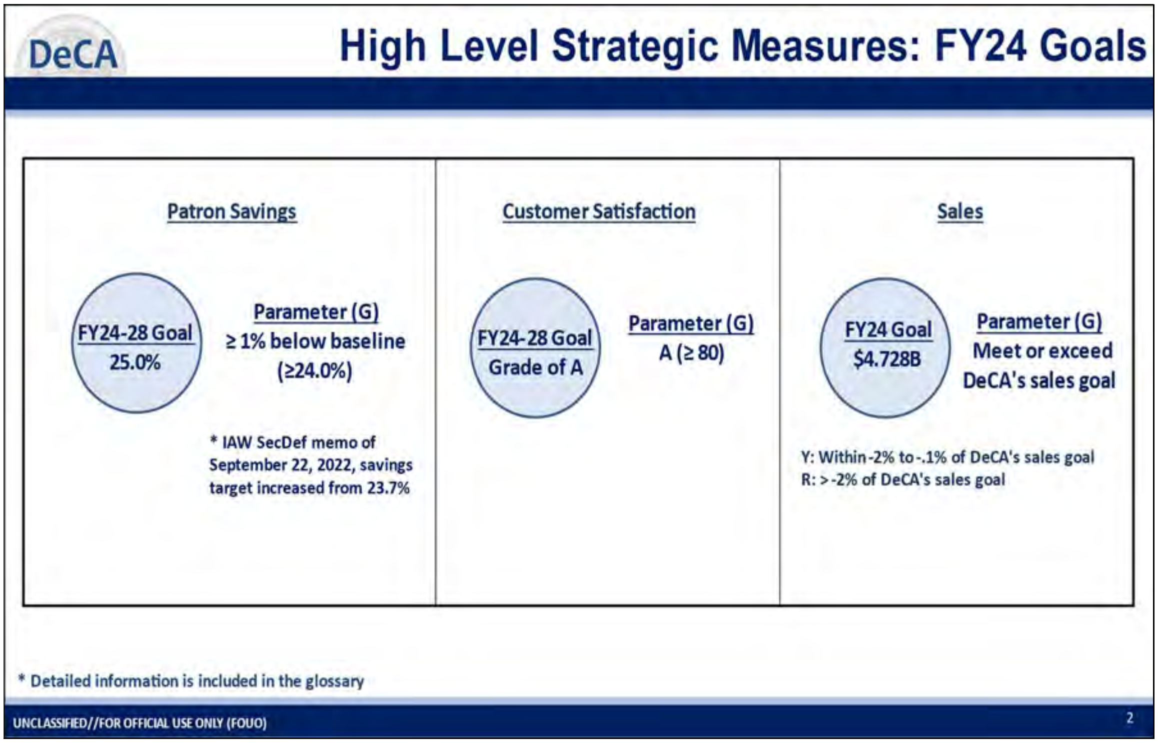
Modernizing DeCA's business systems and retail processes is a continuous process. This modernization is taking place in defined increments over time and has eliminated redundant and costly legacy systems, improved our business performance, and incorporated commercial best practices. This transition is critical to the Agency's future to ensure important capabilities such as customer relationship management, multi-channel retailing and marketing, enhanced e-Commerce capabilities, inventory optimization, and data accuracy and analytics that 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 document, 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 Agency 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 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 2024 Agency Performance Plan, updated annually, incorporates performance measures and targets across three key perspectives to manage Agency performance from a holistic view and addresses Agency performance in the areas of Patron Savings, Customer Satisfaction, and Sales. The results of the Agency Performance Plan are monitored and assessed quarterly to enable data-based decision-making. The Agency quarterly reviews also allow for executive and senior leadership collaborative discussions, transparency of activities, and opportunities for course adjustments and improved outcomes. The chart on the next page displays the FY 2024 Agency Performance Plan's three areas and associated goals.

DeCA FY24 PERFORMANCE PLAN



The DeCA Performance Plan supports the Agency's 2025-2029 Director's Strategic Plan goals and outcomes and encompasses the FY 2024 results. The performance goals and measures, assessed and applied on an annual basis, are provided for each performance element as follows:

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

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

- Sales: The right metric depicts DeCA's current year sales results versus the FY 2024 goal.

STRATEGIC PLANNING RISK MITIGATION:

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

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

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

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

However, commissaries continue to face risks that must continue to be mitigated moving forward. Like all retail grocers, the Agency faces challenges brought about because of inflation, a disrupted supply chain, the residual effects of the pandemic, and a sustainable workforce as we compete for talent to operate our stores. Going forward with the Department's and the Agency's initiatives, we sustained the increased savings through FY 2024 and will continue to achieve the 25 percent benchmark to the extent our resources allow. We continue our ongoing mission to deliver much-needed savings to all our eligible patrons and ultimately achieve our vision: "To be THE grocery provider of choice for our eligible patrons." We must remain steadfast in our commitment to providing them healthy food options, clean and safe stores, expanded operating hours and convenience, and premier customer service. We are their insurance policy to have food security when they need it most, even in disasters, pandemics, or periods of inflation.

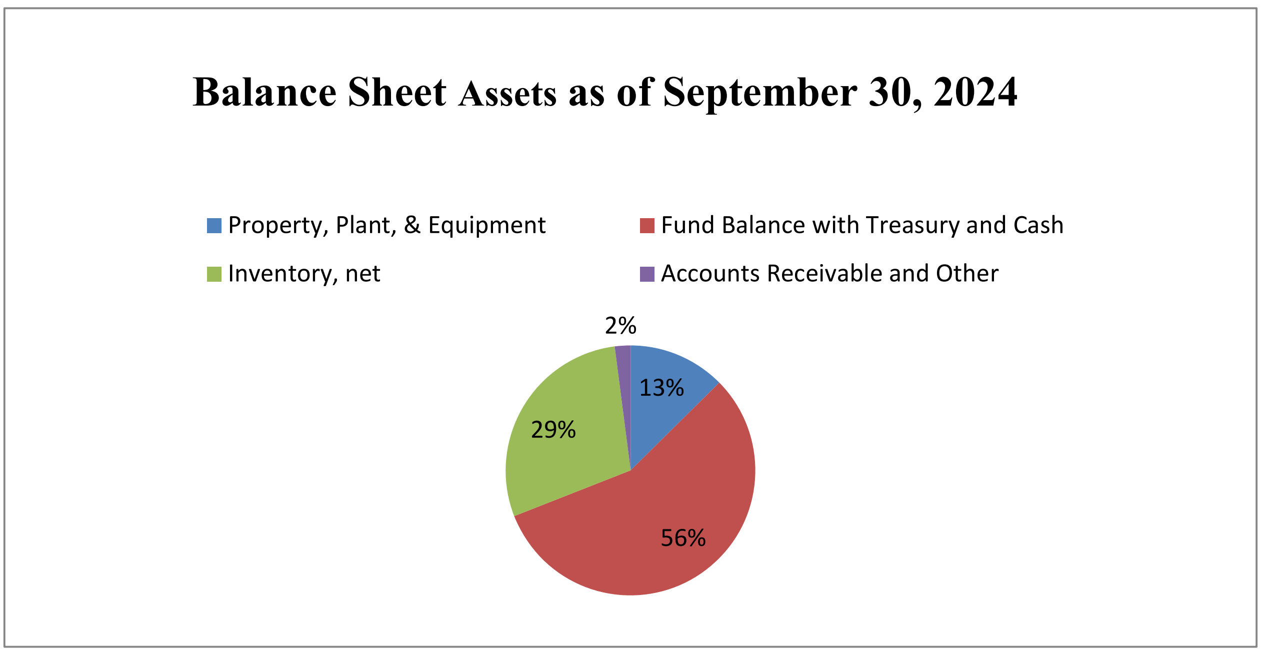
FINANCIAL STATEMENT SUMMARY

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

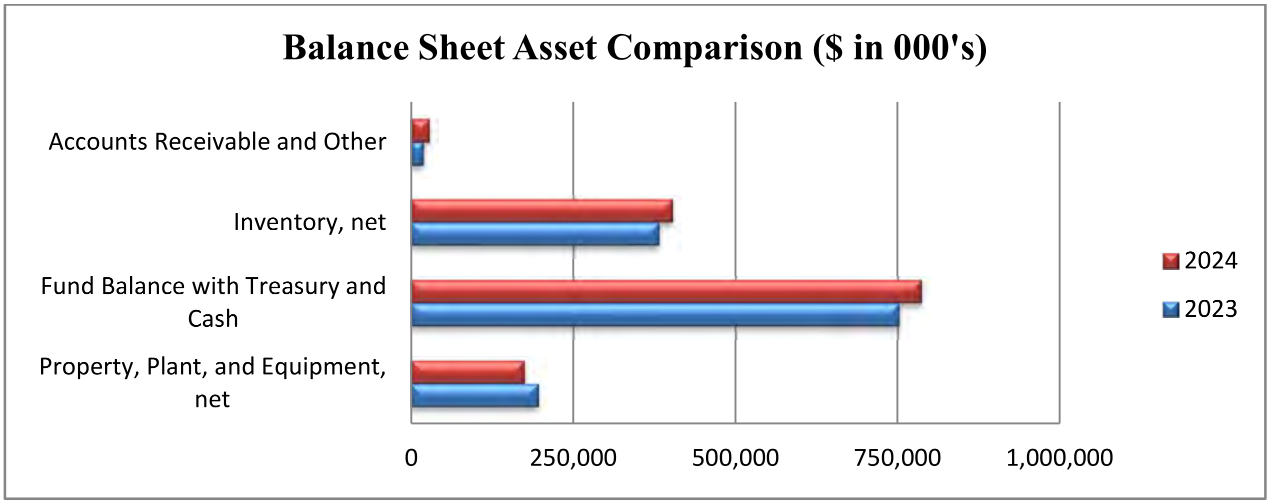
DeCA's consolidated financial statements are presented in a two-year comparative format. The following section provides a brief description of each consolidated financial statement along with relevant information that will aid the reader in understanding the financial components of DeCA.

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, 2024, DeCA reported assets of $1.4 billion. Assets are the resources available to pay liabilities or satisfy future service needs of the Agency. DeCA's major categories of assets, as a percentage of total assets, are as follows:



The following chart presents comparative data of major asset balances as of September 30, 2024 and September 30, 2023, along with discussions of significant fluctuations.



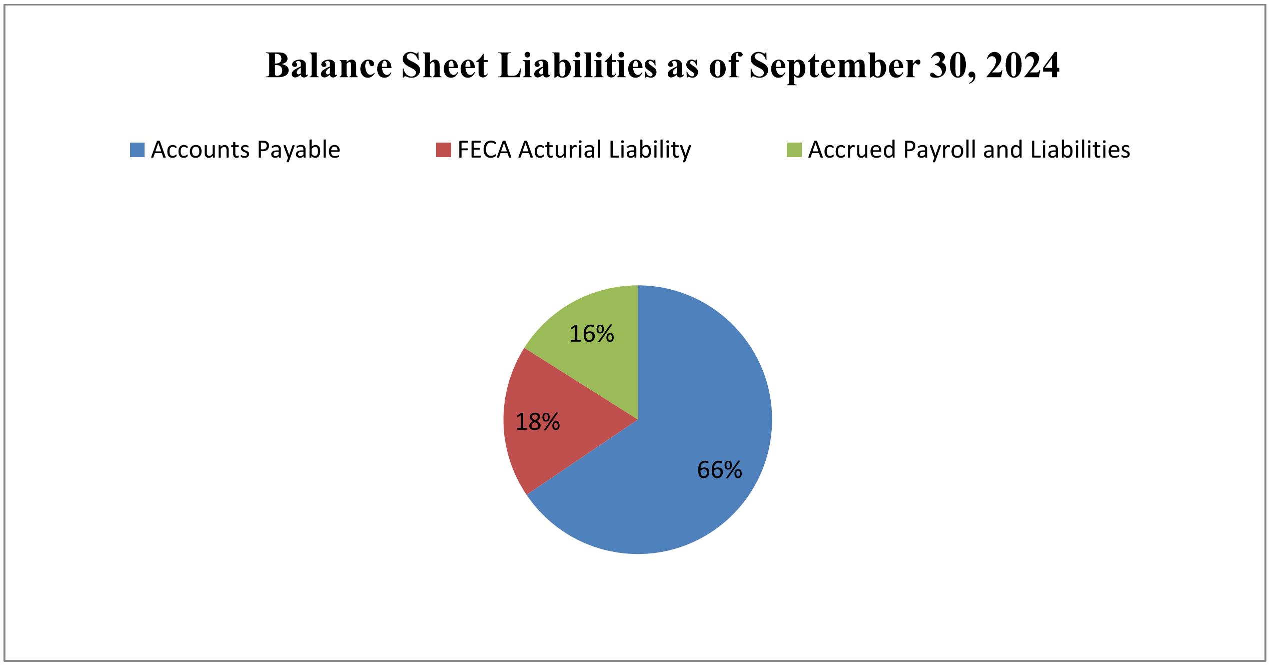
Accounts Receivable and Other comprises 2 percent of DeCA's current year assets. These represent amounts primarily due from DeCA customers. Accounts receivable and other remained relatively consistent when compared to prior year balances.

Inventory, net represents 29 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 $21 million when compared to prior year balances.

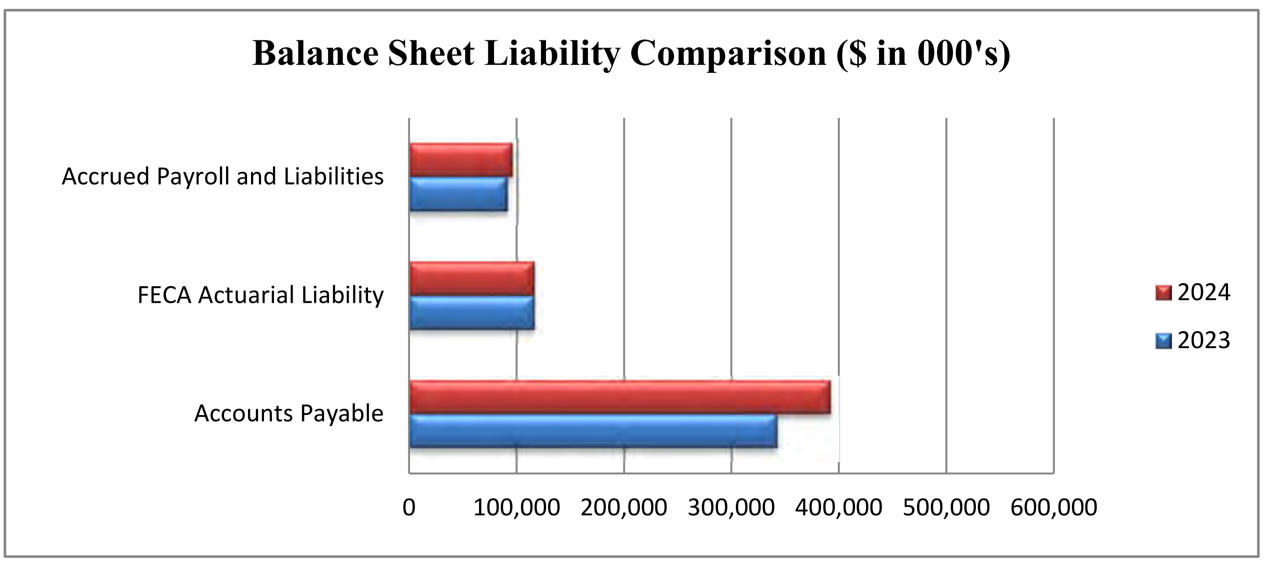
Fund Balance with Treasury (FBWT) and Cash represents 56 percent of DeCA's current year assets. Funding is primarily made available through the U.S. Department of the Treasury accounts from which DeCA makes expenditures to pay liabilities. FBWT also includes monies generated from sales at commissaries that have been deposited to an authorized financial institution. Cash consists of deposits that have been deposited in the authorized financial institution, but not processed and sales that were not recorded in the accountable period due to end of month cutoffs in the accounting system. FBWT and Cash increased by $34 million when compared to prior year balances.

General Property, Plant and Equipment (PP&E), net represents 13 percent of DeCA's current year assets, and is primarily comprised of capitalized real and personal property held to fulfill DeCA's mission of selling groceries to its patrons. PP&E decreased by $21 million when compared to prior year balances.

Liabilities – On September 30, 2024, DeCA reported liabilities of $598 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, 2024 and September 30, 2023 along with a discussion of fluctuations.



Accrued Payroll and Liabilities comprises 16 percent of DeCA's current year liabilities and includes liabilities for accrued payroll and benefits, foreign national separation pay and accrued leave. Accrued payroll and liabilities remained relatively consistent when compared to prior year balances.

Federal Employees Compensation Act (FECA) Actuarial Liability comprises 18 percent of DeCA's current year liabilities and consists of DeCA's expected liability for death, disability and medical costs for approved workers compensation cases as well as a component for incurred, but not reported claims. The

Department of Labor (DOL) calculates the liability for the DoD, who in turn allocates a proportionate amount to DeCA based upon actual workers' compensation payments to DeCA employees over the preceding three years. The actuarial liability remained relatively consistent when compared to prior year balances.

Accounts Payable comprises 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 $49 million when compared to prior year balances.

STATEMENTS OF NET COST:

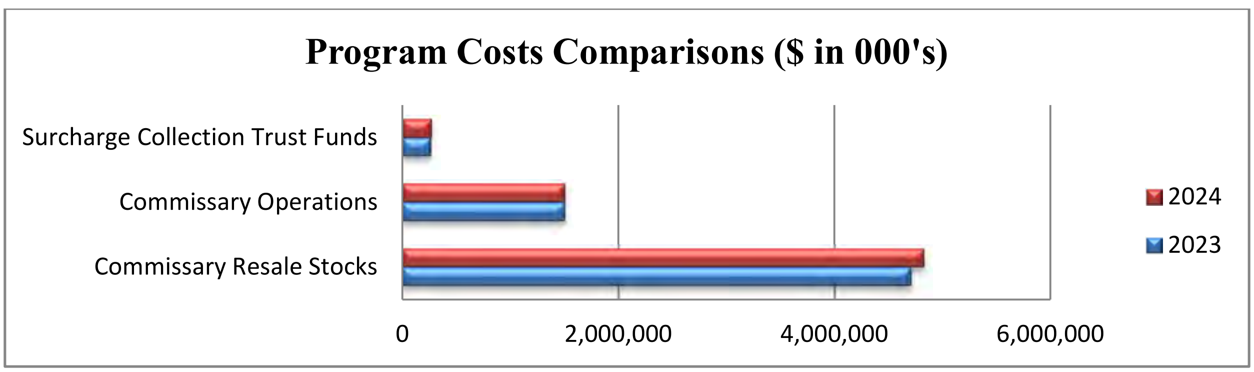
The consolidated Statement of Net Cost represents the annual cost of operating DeCA programs. The gross costs for DeCA less the earned revenue from grocery sales and other revenue sources are used to derive DeCA's net cost of operations. DeCA's gross costs are primarily accounted for in the three major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

- *Surcharge Collections Trust Fund* includes the costs to construct and remodel commissary facilities and to purchase and maintain computer systems and equipment at the store level;

- *Commissary Operations* includes the associated payroll and operational costs necessary to operate the commissary system; and

- *Commissary Resale Stocks* includes the costs to purchase resale inventory.

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



STATEMENTS OF CHANGES IN NET POSITION:

The consolidated Statements of Changes in Net Position represents those accounting transactions that caused the net position of the consolidated balance sheet to change from the beginning to the end of the reporting period. Various financing sources increase net position, including appropriations transfers and imputed financing from costs paid by other Federal Agencies. DeCA's net cost of operations serves to reduce net position. DeCA's net position decreased by $3 million, less than 1 percent when compared to prior year balances.

STATEMENTS OF BUDGETARY RESOURCES:

This statement provides information on the budgetary resources available to DeCA for fiscal years 2024 and 2023 and the status of those budgetary resources at year-end. The outlays reported on this statement reflect the actual cash disbursed for the year by Treasury for DeCA's obligations. The budgetary resources remained relatively consistent when compared to prior year balances.

LIMITATIONS OF THE FINANCIAL STATEMENTS

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

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

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

ANALYSIS of SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

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

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

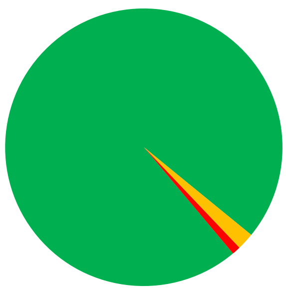
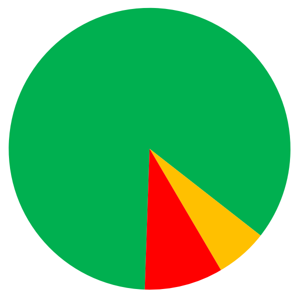
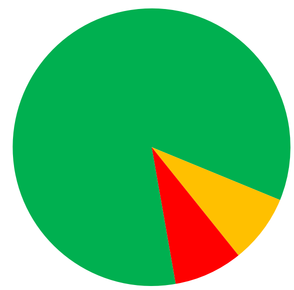
DAI – is an enterprise system dedicated to addressing financial management improvements through standard end-to-end business processes delivered by Commercial Off the Shelf (COTS) software. DeCA relies on DAI for commissary operations and surcharge (non-resale business). Currently, DAI provides Budget-to-Report,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

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

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

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

OMB Circular A-123, Appendix A is fully implemented throughout DeCA. In FY 2024, 146 key controls were evaluated and assessed for effectiveness. Of those key controls, 84 percent were found to be operating effectively; 8 percent of the controls were found effective with exceptions, and the remaining 8 percent were found to be operating ineffectively. Although their impact is not material to the financial reports; these controls are currently undergoing review to determine risk and materiality to the Agency before deciding what actions, if any, are needed in these areas. In addition to the 146 key controls, there were 151 Complimentary User Entity Controls (CUECs) tested this year. The results found 123 CUEC controls operating effectively.

FY 2022	FY 2023	FY 2024
Testing Results	**Testing Results**	**Testing Results**
		
183 Tests Performed	**163 Tests Performed**	**146 Tests Performed**
177 Effective (97%)	**139 Effective (85%)**	**122 Effective (84%)**
4 w/Exceptions (2%)	**10 w/ Exceptions (6%)**	**12 w/ Exceptions (8%)**
2 Ineffective (1%)	**14 Ineffective (9%)**	**12 Ineffective (8%)**

MANAGEMENT ASSURANCES:

DeCA is committed to ensuring the integrity of their systems and controls as well as compliance with applicable laws and regulations. The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires federal agencies to evaluate and report on the effectiveness of the organization's internal controls to support effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. DeCA conducted its assessment of the effectiveness of internal controls over operations in accordance with OMB Circular No. A-123, the GAO Green Book, and the FMFIA. Based on the results of this assessment, DeCA can provide reasonable assurance that internal controls over operations and compliance are operating effectively as of September 30, 2024.

Additionally, DeCA conducted its assessment of the effectiveness of internal controls over reporting (including internal and external financial reporting) in accordance with OMB Circular No. A-123, Appendix A. Based on the results of the assessment, DeCA can provide assurance, except for the two Significant Deficiencies reported in the Significant Deficiencies and Material Weaknesses Template that internal controls over reporting (including internal and external reporting) and compliance are operating effectively as of September 30, 2024.

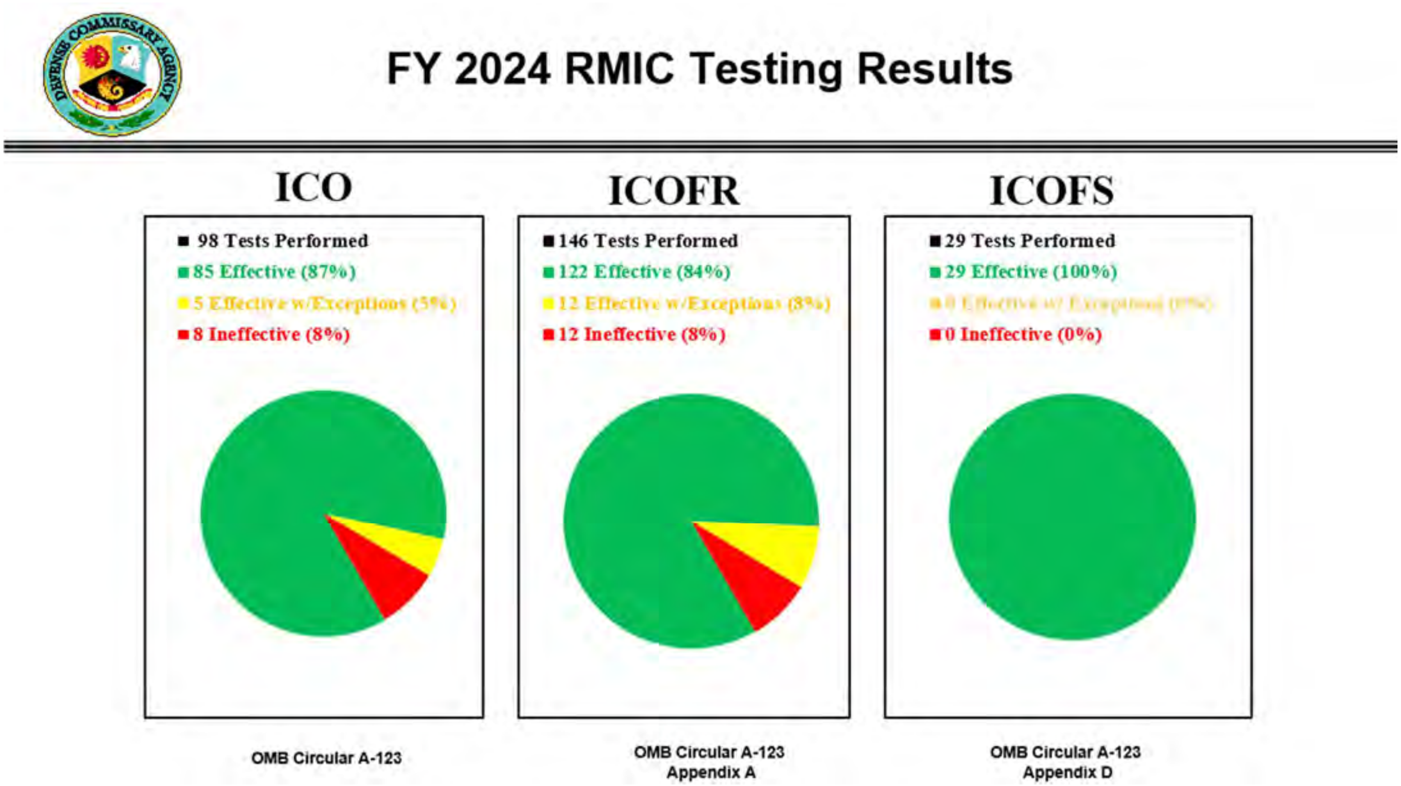
DeCA also conducted an internal review of the effectiveness of the internal controls over the integrated financial management systems in accordance with FMFIA and OMB Circular No. A-123,

Appendix D. Based on the results of this assessment, can provide assurance, except for the one nonconformance reported in the Significant Deficiencies and Material Weaknesses Template that the internal controls over the financial systems are in compliance with the FMFIA, Section 4; FFMIA, Section 803; and OMB Circular No. A-123, Appendix D, as of September 30, 2024.

DeCA has conducted an assessment of entity-level controls including fraud controls IAW the Green Book, OMB Circular No. A-123, the Payment Integrity Information Act of 2019, and GAO Fraud Risk Management Framework. Based on the results of the assessment, DeCA can provide reasonable assurance that entity-level controls, including fraud controls, are operating effectively as of September 30, 2024.

FFMIA requires the Department of Defense (DoD or Department) to implement and maintain systems that comply substantially with Federal financial management system requirements, applicable Federal accounting standards, and the United States Standard General Ledger (USSGL) at the transaction level. DeCA's legacy financial systems are not compliant with federal financial management system requirements and the USSGL at the transaction level. To meet these requirements, DeCA, jointly with the DoD, is actively working on improving the system-wide architecture in order to be fully compliant with FFMIA. These remediation activities are underway as DeCA is in the process of implementing a new system allowing for future migration to a fully transparent and integrated financial business resale system. DeCA's proposed timeline for transition to Enterprise Business System, TDD, and DAI GL pass-through is 30 September, 2025. Once these are complete, DeCA will be on two end-to-end business enterprise systems that provide the ability to report within the USSGL and Standard Financial Information Structure (SFIS) compliance requirements.

The chart on the following pages illustrates the results of the FY 2024 Risk Management and Internal Control (RMIC) program. Testing results are outlined for the three areas of internal controls (1) Internal Controls over Operations (ICO); (2) Internal Controls over Financial Reporting (ICOFR); and (3) Internal Controls over Financial Systems (ICOFS):



LEGAL COMPLIANCE:

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

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

During FY 2024, DeCA had no Anti-Deficiency Act violations discovered/identified during our assessments of the applicable processes.

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 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 Strategic Plan, objectives, and initiatives. The Agency's overall performance for FY 2024 is summarized below.

Performance Element	FY 2024 Goal	FY 2024 Actual
Customer Savings (Global Average)	25.0%	25.0%
Customer Satisfaction (CSAT) Score	≥ 80	88.3
Projected Sales	$4.728B	$4.729B
Projected Transactions	69,450,487	72,132,746

Customer Savings: The projected percentage of patron savings was revised to 25.0 percent savings as of FY 2023, as mandated by Secretary of Defense Memorandum dated September 22, 2022, "Taking Care of Service Members and Families," which raised DeCA's required savings level to 25.0 percent and replaced the previous 23.7 percent savings mandated in the FY 2016 NDAA as modified by the FY 2017 NDAA. The Customer Savings results were rebase-lined for FY 2023 and beyond, using the revised methodology to measure patron savings which builds on DeCA's prior approach by incorporating a market basket component of items with local competitor comparisons of the items. The FY 2024 annual global savings result is 25.0 percent, which met the baseline goal of 25.0 percent.

Customer Satisfaction (CSAT) Score: Customer Experience Purchaser Surveys provide real-time customer service feedback through the use of the ForeSee survey platform and scoring methodology. The ForeSee framework modeling analysis uses a structural equation algorithm to evaluate customers' post-experience thought processes to examine how well the experience fulfilled the user's needs or desires; met the user's expectations; and compares to a hypothetical ideal experience for the user. This modeling analysis is used to derive an overall customer satisfaction score (CSAT) and replaced the former annual Commissary Customer Service Survey (CCSS) after FY 2023. The CSAT results for FY 2024 are 88.3, which is above the target of > 80.

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 2024 sales results are $4.755B, an increase of 0.0057% above the target goal of $4.728B, and the FY 2024 customer transaction results are 72,132,746, 3.9% above the prior year results of 69,450,487. This positive trend was due to changing consumer behavior as customers shopped more frequently, although economic conditions and inflationary pressures, increased supply chain costs, supply chain shortages, and labor constraints continue to challenge the growth of sales and transactions.

GOVERNANCE AND ACCOUNTABILITY:

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

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

In an effort to increase visibility and transparency of budget information and requirements throughout the Agency, Business Needs Statements are prepared for consideration and prioritization of proposed initiatives, based on available funding. 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 & CHANGE MANAGEMENT:

DeCA continued its Continuous Process Improvement (CPI) program in FY 2024 through training, mentorship and coaching, and project analysis and execution. During the year, CPI practitioners conducted several mentoring sessions in order to facilitate the certification of Black Belt and Lean Leader candidate topics for facilitating and coaching CPI teams for various initiatives. The FY 2024 Agency CPI process identified cost avoidance areas and reduction of process cycle times for various project areas and process improvement efforts comprising the following areas: working with MP to highlight Joint Business Planning tasks within the category review process for more standardization and efficiencies; item allocation process streamlining; pricing execution improvements; creation of a food traceability process; fresh fruits and vegetables improvements by tiger teams; internal communication process improvements within the Agency; identifying safety and engineering improvements for further action; and EBS 2.0 planning. Additionally, the Agency re-enforced procedures in Director's Policy DP-500-40, Continuous Process Improvement, during project meetings and maintained a project repository of all CPI efforts.

DeCA's Change management (CM) strategies assist in articulating the rationale behind process improvements, linking them to strategic objectives, and gaining leadership support and commitment. Aligning with strategic objectives emphasizes the importance of aligning CPI efforts with broader organizational goals and strategies to maximize impact and ensure sustainability. Understanding CM within the context of CPI refers to the structured approach used to plan, communicate, and implement changes in processes, systems, and behaviors. It focuses on minimizing resistance, maximizing employee engagement, and ensuring improvements are embraced throughout the organization. Effective CM is crucial in overcoming resistance to change, a common barrier in CPI initiatives. By involving stakeholders early, communicating transparently, and addressing concerns proactively, organizations can foster a culture of acceptance and readiness for change.

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.

DeCA's "IDEATION" platform, which replaced the former enterprise Think Tank, 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 Innovation Challenge is a merit-based program so winners are rewarded for their adopted ideas.

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

ADVANCED RESEARCH:

DeCA conducts advanced research in support of "DeCA's Strategic Thinking and Research Opportunities for Navigating Growth" program. This effort, managed by the Agency Change and Strategic Management Office, provides summaries of information collected to identify trends, future capabilities, opportunities, needs assessments, and best practice approaches of other organizations and related areas. This includes conceptual studies that may emphasize various areas for Agency consideration including external and internal analyses, organization and oversight of planning efforts, and making recommendations to executive leadership on strategic options. Information collected is summarized into a monthly "white paper" based on the selected topic, which is then disseminated to the DeCA workforce, the intended audience, for their information and further use.

SUMMARY

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

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PART III

FINANCIAL SECTION

Message from the
CHIEF FINANCIAL OFFICER

It is my pleasure to present the Fiscal Year (FY) 2024 Annual Financial Report (AFR) with accompanying Financial Statements and Footnotes for the Defense Commissary Agency (DeCA). This report reflects the accountability and transparency associated with prudent financial and fiscal stewardship. While we continued to work through supply chain disruptions, we closed out FY 2024 with a number of successes. Throughout it all, we remained focused on delivering the benefit to our military families and other authorized patrons as we remained focused on our vision, “to be THE grocery provider of choice”.

During FY 2024, the Resource Management (RM) team remained agile, providing the needed expertise and resources to sustain our unmodified opinion. The DeCA RM team remained committed to supporting a culture of efficiency through the lens of our patrons we look to the upcoming FY. Notable achievements for the RM team this FY include:

- Entered into agreements with the Army to provide DeCA Gift Cards (Roughly $2.5 million in value) to Fort Cavazos and with the Air Force to provide DeCA Gift Cards (roughly $2.1 million in value) for distribution to Service members identified with food insecurities.

- Continued to partner and supplement with further support to the Defense Health Agency in the Womens, Infants, and Children supplement overseas process by manually issuing vouchers with a 30-day extension. This benefit will continue to be worked manually, until Electronic Banking Transfer is available in September 2025.

- Progressed toward full G-Invoicing implementation. DeCA RM completed 61 agreements, with 108 still pending. 61 percent (107 of 176) of the overseas Interagency Support agreements are already within the G-invoicing system in preparation of the October 2025 deployment. Coordination has begun with Service Level representatives for advanced testing.

- Improved turn-around time for processing SF-1190s by 85 percent, ensuring DeCA employees received their entitlements of advance payments, post allowance, and living quarters allowance within the established 3-day standard.

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

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Stephan T. Davis
Chief Financial Officer

DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
BALANCE SHEETS
As of September 30, 2024 and 2023
(amounts in thousands)

Assets	**2024**	**2023**
Intragovernmental Assets		
Fund Balance with Treasury (Note 3)	$ 699,836	$ 686,650
Accounts Receivable, Net (Note 1)	6,390	3,216
Total Intragovernmental Assets	706,226	689,866
Other than Intragovernmental Assets		
Cash and Other Monetary Assets (Note 4)	87,087	65,797
Accounts Receivable, Net (Note 1)	21,438	15,454
Inventory and Related Property, Net (Note 5)	403,311	382,185
General Property, Plant, and Equipment, Net (Note 6)	175,268	196,441
Advances and Prepayments	185	159
Total Other than Intragovernmental Assets	687,289	660,036
Total Assets	$ 1,393,515	$ 1,349,902
Liabilities (Note 7)		
Intragovernmental Liabilities		
Accounts Payable	$ 71,814	$ 71,646
Advances from Others and Deferred Revenue	-	1,864
Other Liabilities (Note 7)	24,679	24,277
Total Intragovernmental Liabilities	96,493	97,787
Other than Intragovernmental Liabilities		
Accounts Payable	320,259	271,356
Federal Employee Salary, Leave and Benefits Payable	71,141	65,403
Pension, Post-Employment, and Veterans Benefits Payable	110,176	116,891
Total Other than Intragovernmental Liabilities	501,576	453,650
Total Liabilities	$ 598,069	$ 551,437
Commitments and Contigencies (Note 11)		
Net Position (Note 8)		
Unexpended Appropriations - Funds Other than Dedicated Collections	$ 302,368	$ 219,502
Cumulative Results of Operations - Funds from Dedicated Collections (Note 13)	500,988	497,112
Cumulative Results of Operations - Funds from Other than Dedicated Collections	(7,910)	81,851
Total Cumulative Results of Operations (Consolidated)	493,078	578,963
Total Net Position	$ 795,446	$ 798,465
Total Liabilities and Net Position	$ 1,393,515	$ 1,349,902

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

DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
STATEMENTS OF NET COST
For the Fiscal Years Ended September 30, 2024 and 2023
(amounts in thousands)

Program Costs:	**2024**	**2023**
Gross Costs	$ 6,673,873	$ 6,482,545
(Less: Earned Revenue)	(4,992,494)	(4,858,007)
Net Cost of Operations (Note 14)	$ 1,681,379	$ 1,624,538

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 Fiscal Years Ended September 30, 2024 and 2023
(amounts in thousands)

	2024			2023		
	Dedicated Collections	All Other Funds	Consolidated Total	Dedicated Collections	All Other Funds	Consolidated Total
Unexpended Appropriations:						
Beginning Balances	$ -	$ 219,502	$ 219,502	$ -	$ 153,445	$ 153,445
Appropriations Transfer In (Out)	-	1,553,112	1,553,112	-	1,421,023	1,421,023
Appropriations Used	-	(1,470,246)	(1,470,246)	-	(1,354,966)	(1,354,966)
Net Change in Unexpended Appropriations (Note 9):	-	82,866	82,866	-	66,057	66,057
Total Unexpended Appropriations: Ending (Note 9)	-	302,368	302,368	-	219,502	219,502
Cumulative Results of Operations:						
Beginning Balances	$ 497,112	$ 81,851	$ 578,963	$ 482,540	$ 251,605	$ 734,145
Financiang Sources:						
Appropriations Used	-	1,470,246	1,470,246	-	1,354,965	1,354,965
Non-Exchange Revenue (Note 1)	-	15,858	15,858	-	16,890	16,890
Transfers In (Out) without Reimbursement	11,069	215	11,284	12,470	(290)	12,180
Imputed Financing (Note 10)	24,499	73,607	98,106	24,506	60,818	85,324
Other	-	-	-	-	(3)	(3)
Total Financing Sources	35,568	1,559,926	1,595,494	36,976	1,432,380	1,469,356
Net Cost of Operations (Note 9)	31,691	1,649,688	1,681,379	22,404	1,602,134	1,624,538
Net Change in Cumulative Results of Operations	3,877	(89,762)	(85,885)	14,572	(169,754)	(155,182)
Cumulative Results of Operations: Ending (Notes 9 and 14)	$ 500,989	$ (7,911)	$ 493,078	$ 497,112	$ 81,851	$ 578,963
Total Net Position (Note 9)	$ 500,989	$ 294,457	$ 795,446	$ 497,112	$ 301,353	$ 798,465

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

DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
COMBINED STATEMENTS OF BUDGETARY RESOURCES
For the Fiscal Years Ended September 30, 2024 and 2023
(amounts in thousands)

	2024	2023
Budgetary Resources:		
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)	$ 182,825	$ 113,096
Appropriations (Discretionary and Mandatory) (Note 11)	1,553,112	1,421,023
Contract Authority (Discretionary and Mandatory) (Note 11)	4,876,749	4,685,066
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	245,661	253,765
Total Budgetary Resources	$ 6,858,347	$ 6,472,950
Status of Budgetary Resources:		
New Obligations and Upward Adjustments (Total)	$ 6,594,863	$ 6,333,509
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	263,484	139,441
Unexpired Unobligated Balance, End of Year	263,484	139,441
Unobligated Balance, End of Year (Total)	263,484	139,441
Total Budgetary Resources	$ 6,858,347	$ 6,472,950
Outlays, Net:		
Outlays, Net (Total) (Discretionary and Mandatory)	$ 1,539,926	$ 1,427,890
Agency Outlays, Net (Discretionary and Mandatory)	$ 1,539,926	$ 1,427,890

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Reporting Entity

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

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

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

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

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

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

Note 13 – "Funds from Dedicated Collections" provides detailed information.

B. Classified Activities

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

C. Basis of Presentation and Accounting

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

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

Note 3 – "Fund Balance with Treasury" provides detailed information.

F. Cash and Other Monetary Assets

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

Note 4 – "Cash" provides detailed information.

G. Accounts Receivable, Net

Accounts receivable consists of amounts owed to DeCA by other Federal agencies and the public. Federal accounts receivable arise generally from the provision of goods and services to other Federal agencies. As of 3rd quarter FY 2020 allowance for doubtful accounts is deemed necessary for Federal accounts receivable.

Receivables from the public generally arise from manufacturer-related transactions, which are associated with the sale of grocery, meat, and produce items to authorized patrons. An allowance for doubtful accounts is established for reporting purposes based on past experience in the collection of accounts receivable and analysis of outstanding balances using the percentage of receivables. The allowance is adjusted accordingly at the time of collection or write-off during the fiscal year. Nonfederal accounts receivables are reported net of an allowance of $12,630 and $15,884 as of September 30, 2024 and 2023, respectively.

H. Inventory, Net

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

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

Inventory balances for each store are adjusted based on aggregate purchases and sales, transfers, and other adjustments. Store managers are expected to maintain and update EBS inventory operating system product level balances on hand for accuracy. Proper balances ensure efficient and timely balances for ordering that is in alignment with sales expectations. In addition, these balances are used as part of the deviation assessment when analyzing store inventory valuations on the financial records to the formal inventories performed. In FY 2024, DeCA was able to complete 235 formal inventories. Upon adjustment for the unrealized holding gains and losses, the latest acquisition cost results in an approximation of historical cost. The percentage of holding gains and losses that are recognized each month is the ratio of sales to beginning inventory plus purchases. This percentage is usually about 90%.

Note 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 2024 recorded imputed financing costs related to depreciation and use of buildings in DeCA's operations. Depreciation related imputed financing cost is described in Note 10.

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

J. Leases

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

An intragovernmental lease is a contract or agreement occurring within a consolidation entity or between two or more consolidation entities as defined in SFFAS 47, Reporting Entity whereby one entity (lessor) conveys the right to control the use of PP&E (the underlying asset) to another entity (lessee) for a period of time as specified in the contract or agreement in exchange for consideration.

A right to use lease asset deemed "operating leases" for budgetary treatment does not substantially transfer all the benefits and risks of ownership to the DeCA. Payments for right to use lease asset deemed operating leases are expensed over the lease term. Office space leases entered into by the DeCA are the largest component of leases. For additional information, see Note 8 Leases.

K. Accrued Payroll and Liabilities

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

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

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

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

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

Note 7 – "Liabilities" provides specific detailed information.

L. Actuarial Liability

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

M. Imputed Financing and Costs

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

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

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

Use of Buildings Owned by Other Military Services. The imputed financing costs are based on a 45-year useful life for buildings, structures, and facilities. The actual commencement of depreciation was based on the mid-year convention method for buildings. Under the mid-year convention method, six months of depreciation is computed and expensed in the first and last year of an asset's useful life regardless of the actual month an asset was placed in or removed from service. Imputed financing costs for depreciation of buildings and improvements used by DeCA in operations are calculated based on DeCA's property records for property transferred to the Military Departments. The military departments were provided the imputed cost for buildings and improvements located on their specific installations at the end of FY 2022.

N. 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.

O. Net Position

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

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

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

P. Nonexchange Revenue

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

Q. Use of Estimates

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

R. Commitments and Contingencies

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

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

NOTE 2 – NON-ENTITY ASSETS

The DeCA has stewardship accountability and reporting responsibility for non-entity assets. The following table shows the non-entity assets as of September 30, 2024 and 2023.

Other than Intragovernmental Non-Entity Assets:	**2024**	**2023**
Accounts Receivable	$ -	$ 8
Total Non-Entity Assets	-	8
Total Entity Assets	1,393,514	1,349,894
Total Assets	$ 1,393,514	$ 1,349,902

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

NOTE 3 - FUND BALANCE WITH TREASURY

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

The following table shows the balance for each type of fund as of September 30, 2024 and 2023.

Fund Balances:	**2024**	**2023**
Appropriated Funds		
Working Capital Fund	$ 425,545	$ 358,608
Total	425,545	358,608
Revolving Funds		
Working Capital Fund	(131,173)	(47,516)
Total	(131,173)	(47,516)
Trust Fund	405,464	375,558
Total	$ 699,836	$ 686,650

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

The following table shows the status of the fund balances as of September 30, 2024 and 2023.

	2024			
Status of Fund Balances with Treasury:	**Appropriated**	**Revolving**	**Trust**	**Total**
Unobligated Balance Available	$ 156,665	$ -	$ 106,819	$ 263,484
Obligated Balance Not Yet Disbursed, Net of Contract Authority	268,880	(131,173)	298,645	436,352
Totals	$ 425,545	$ (131,173)	$ 405,464	$ 699,836

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

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, 2024 and 2023:

	2024	2023
Cash	$ 87,087	$ 65,797
Total Cash and Other Monetary Assets	$ 87,087	$ 65,797

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

Cash and other monetary assets reflect uncollected Surcharge deposits of $4.1 million recorded as cash on hand also reflected uncollected deposits of $61.6 million and additional sales transactions of $21.4 million recorded as cash on hand for the Working Capital Funds. This account is used to accommodate processing limitations for cash sales and sales transactions deposits that were made to the bank. 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 as collections and are shown as receivables until they are processed by the U.S. Treasury. To accurately reflect the Defense Commissary Agency's cash and receivables position, manual journal vouchers are prepared to account for these uncollected deposits during the preparation of the financial statements to move these deposits from the proprietary receivables to cash on hand during the preparation of the financial statements.

NOTE 5 – INVENTORY AND RELATED PROPERTY, NET

The following table summarizes net inventory for September 30, 2024 and 2023:

	2024
Inventory LAC Without Estimate for Losses Incurred	$ 425,318
Estimate for Gains Incurred	(20,854)
Inventory on Hand at LAC	404,464
Unrealized Holding Gain (Loss)	(1,153)
Inventory, Net	$ 403,311

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

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

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

NOTE 6 – GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

General property, plant and equipment (PP&E) at September 30, 2024 and 2023, is summarized as follows:

	2024		
PP&E Category	**Acquisition Value**	**Accumulated Depreciation**	**Net**
Software	34,774	(16,292)	18,482
Equipment and Other Assets	145,293	(125,823)	19,470
Construction-in-Progress	137,316	-	137,316
Totals	$ 317,383	$ (142,115)	$ 175,268

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

The following table summarizes the activity of net PP&E for September 30, 2024 and 2023:

	2024	2023
Balance Beginning of Year	$ 196,441	$ 204,489
Capitalized Acquisitions	22,087	11,268
Dispositions	(37,973)	-
Transfers In/(Out) Without Reimbursement	11,255	12,224
Revaluations (+/-)	-	-
Depreciation Expense	(16,542)	(31,540)
Balance at End of Year	$ 175,268	$ 196,441

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

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, 2024 and 2023:

	2024	2023
Intragovernmental:		
Accounts Payable	$ -	$ -
Other	20,998	21,301
Total Intragovernmental	20,998	21,301
Federal Employee and Benefits Payable	166,876	171,721
Environmental Liabilities	-	-
Total Liabilities Not Covered by Budgetary Resources	187,874	193,022
Total Liabilities Covered by Budgetary Resources	410,194	358,415
Totals	$ 598,068	$ 551,437

The following table summarizes intragovernmental and non-intragovernmental other liabilities as of September 30, 2024 and 2023:

	2024	2023
Intragovernmental:		
Employer Contributions and Payroll Taxes Payable	$ 3,681	$ 2,969
Liabilities for Non-Entity Assets	-	8
Unfunded FECA Liability	20,998	21,300
Total Intragovernmental	24,679	24,277
Total Other Liabilities	$ 24,679	$ 24,277

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

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 – LEASES

The following table summarizes the future payments due for Non-Cancelable Operating Leases as of September 30, 2024.

	2024 Land and Buildings
Fiscal Year:	
2025	1,185
2026	1,048
2027	1,048
2028	1,048
After 4 Years	2,098
Total Federal Future Lease	$ 6,427

NOTE 9 - NET POSITION

The following table summarizes the net position by fund type as of September 30, 2024 and 2023:

	2024		
Net Position:	**General Funds**	**Working Capital Funds**	**Total**
Unexpended Appropriations	$ -	$ 302,368	$ 302,368
Cumulative Results of Operation - Dedicated Collections	500,988	-	500,988
Cumulative Results of Operation - Other Funds	-	(7,910)	(7,910)
Total Cumulative Results of Operations	500,988	(7,910)	493,078
Totals	$ 500,988	$ 294,458	$ 795,446

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

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

NOTE 10 - IMPUTED FINANCING

The imputed financing and cost for employee benefits and real property as of September 30, 2024 and 2023, is summarized below:

Benefit Category	**2024**	**2023**
CSRS/FERS	$ 28,844	$ 15,522
FEHB	43,964	44,503
FEGLI	109	103
Real Property	25,189	25,196
Totals	$ 98,106	$ 85,324

The imputed financing for building depreciation by fund as of September 30, 2024 and 2023, is summarized below:

	2024	
	General Funds	**Working Capital Funds**
Imputed Financing Building Depreciation	$ 24,499	$ 690

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

NOTE 11 – 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 2024 Accordingly, a comparison between the FY 2023 data reflected on the statement of budgetary resources and FY 2022 data in the President's Budget cannot be performed. The Budget with the actual amount for FY 2023 will be available at a later date at https://www.whitehouse.gov/omb/budget.

Total budget authority in FY 2024 and FY 2023 included appropriation transfers in the amounts of $1,553,112 and $1,421,023, respectively, and contract authority in the amounts of $4,876,749 and $4,685,066, 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, 2024 and 2023, were $440,260 and $444,464, respectively. Working Capital Fund intragovernmental budgetary resources for undelivered orders at September 30, 2024 and 2023, were $118,137 and $131,851 while nonfederal budgetary resources for undelivered orders were $75,478 and $73,358. General Fund intragovernmental budgetary resources for undelivered orders at September 30, 2024 and 2023, were $92,170 and $86,806 while nonfederal budgetary resources for undelivered orders were $154,475 and $152,449.

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

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

NOTE 12 – COMMITMENTS AND CONTINGENCIES

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

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

NOTE 13 – FUNDS FROM DEDICATED COLLECTIONS

The following table presents condensed data relating to DeCA's Dedicated Collections, the Surcharge Collections Trust Fund, as of and for the years ended September 30, 2024 and 2023:

Balance Sheet	**2024**	**2023**
Assets:		
Fund Balance with Treasury (Note 3)	$ 405,464	$ 375,558
Cash and Accounts Receivable	4,197	3,173
Property, Plant, and Equipment	125,083	155,016
Total Assets	$ 534,744	$ 533,747
Liabilities:		
Accounts Payable	$ 33,756	$ 35,251
Environmental Liabilities	-	1,384
Total Liabilities	33,756	36,635
Cumulative Results of Operation	500,988	497,112
Total Liabilities and Net Position	$ 534,744	$ 533,747
Statement of Net Cost		
Program Costs	$ 269,318	$ 261,887
Earned Revenue	(237,627)	(239,483)
Net Income (Loss) from Operations	$ 31,691	$ 22,404

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

NOTE 14 - RECONCILIATION OF NET COST OF OPERATIONS TO NET OUTLAYS

The following table presents DeCA's reconciliation of net cost of operations to net outlays as of and for the year ended September 30, 2024:

	2024		
	Intragovernmental	**With the Public**	**Total**
Net Cost of Operations	$ 514,441	$ 1,166,938	$ 1,681,379
Components of Net Cost That are Not Part of Net Outlays:			
Property, Plant, and Equipment Depreciation	$ -	$ (16,542)	$ (16,542)
Property, Plant, and Equipment Disposals and Revaluations	-	(26,719)	(26,719)
Cost of Goods Sold	-	(4,835,481)	(4,835,481)
Applied Overhead/Cost Capitalization Offset:			
Property, Plant, and Equipment	-	7,392	7,392
Increase/(Decrease) in Assets Not Affecting Net Outlays:			
Accounts Receivable, Net	3,174	5,985	9,159
Advances and Prepayments	-	26	26
Other Assets	-	21,290	21,290
(Increase)/Decrease in Liabilities Not Affecting Net Outlays:			
Accounts Payable	(168)	(48,904)	(49,072)
Environmental and Disposable Liabilities	-	-	-
Federal Employee Salary, Leave, and Benefits Payable	-	(5,738)	(5,738)
Veterans, Pensions, and Post Employment-Related Benefits	-	6,715	6,715
Advances from Others and Deferred Revenue	1,864	-	1,864
Other Liabilities	(409)	-	(409)
Other Financing Sources:			
Imputed Cost	(98,106)	-	(98,106)
Donated Revenue	-	-	-
Total Components of Net Cost that are not Part of Net Outlays	$ (93,645)	$ (4,891,976)	$ (4,985,621)
Components of the Net Outlays that are not Part of Net Operating Cost:			
Acquisition of Capital Assets	9,754	4,941	14,695
Acquisition of Inventory	2,564	4,854,044	4,856,608
Financing Sources:			
Transfers Out (In) Without Reimbursements	(11,284)	-	(11,284)
Total Components of the Net Outlays that are not Part of Net Operating Cost	$ 1,034	$ 4,858,985	$ 4,860,019
Miscellaneous:			
Custodial/Non-Exchange Revenue	$ -	$ (15,858)	(15,858)
Total Net Outlays	$ 421,830	$ 1,118,089	$ 1,539,919
Agency Outlays, Net, Statement of Budgetary Resources			$ 1,539,926
Unreconciled Difference			$ (7)

DEPARTMENT OF DEFENSE
DEFENSE COMMISSARY AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2024
(amounts in thousands)

	Defense Working Capital Funds		General Funds	
Budgetary Resources	**Operations**	**Resale**	**Surcharge**	**Combined**
Unobligated balance brought forward, Oct 1	$ 90,883	$ -	$ 91,942	$ 182,825
Appropriations (discretionary and mandatory) (Note 10)	1,553,112	-	-	1,553,112
Contract authority (discretionary and mandatory) (Note 10)	6,549	4,870,200	-	4,876,749
Spending authority from offsetting collections (discretionary and	10,494	-	235,167	245,661
Total Budgetary Resources	$ 1,661,038	$ 4,870,200	$ 327,109	$ 6,858,347
Status of Budgetary Resources:				
New obligations and upward adjustments (total)	$ 1,504,374	$ 4,870,200	$ 220,289	$ 6,594,863
Unobligated balances, end of year:				
Apportioned, unexpired accounts	156,664	-	106,820	263,484
Unexpired unobligated balance, end of year	156,664	-	106,820	263,484
Expired unobligated balance, end of year	-	-	-	-
Unobligated balance, end of year (total)	156,664	-	106,820	263,484
Total Status of Budgetary Resources	1,661,038	4,870,200	327,109	6,858,347
Outlays, Net:				
Outlays, net (total) (discretionary and mandatory)	$ 1,486,176	$ 83,657	$ (29,907)	$ 1,539,926
Agency, outlays, net (discretionary and mandatory)	$ 1,486,176	$ 83,657	$ (29,907)	$ 1,539,926

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

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

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

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INDEPENDENT AUDITORS' REPORT

Director and Chief Executive Officer
Defense Commissary Agency

Chair, Financial Audit Advisory Committee
Defense Commissary Agency

In our audit of the fiscal year 2024 financial statements of the Defense Commissary Agency (DeCA), we found:

- The financial statements as of and for the fiscal year ended September 30, 2024, are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America;
- No material weaknesses in internal control over financial reporting based on the limited procedures we performed, although internal controls could be improved;
- Two significant deficiencies in internal control over financial reporting as of September 30, 2024; and
- One reportable instance of noncompliance for fiscal year 2024 with provisions of applicable laws, regulations, contracts, and grant agreements that we tested.

The following sections contain:

1. Our report on DeCA's financial statements, including an other-matter paragraph related to the prior-period financial statements having been audited by a predecessor auditor, required supplementary information (RSI), and other information included with the financial statements; and
2. Other reporting required by *Government Auditing Standards*, which is our report on DeCA's (a) internal control over financial reporting and (b) compliance and other matters. This section also includes a summary of DeCA's comments on our report.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of DeCA, which comprise the balance sheet as of September 30, 2024, and the related statement of net cost, statement of changes in net position, and combined statement of budgetary resources for the fiscal years then ended, and the related notes to the financial statements (collectively, the basic financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of DeCA as of September 30, 2024, and its net cost of operations, changes in net position, and budgetary resources for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion
We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS); standards applicable to financial statement audits contained in Generally Accepted Government Auditing Standards (GAGAS), issued by the Comptroller General of the United States; and guidance contained in Office of Management and Budget (OMB) Bulletin 24-02, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards and OMB Bulletin 24-02 are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* subsection 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.

Other Matter
DeCA's financial statements as of and for the year ended September 30, 2023, were audited by other auditors, whose Independent Auditors' Report thereon dated November 9, 2023, expressed an unmodified opinion on those financial statements. We were not engaged to audit, review, or apply any procedures to DeCA's fiscal year 2023 financial statements and, accordingly, we do not express an opinion or any other form of assurance on the fiscal year 2023 financial statements.

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 conducted in accordance with GAAS, GAGAS, and OMB guidance will always detect a material misstatement 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 material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgments made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, GAGAS, and OMB guidance, 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 the 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. 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.

Required Supplementary Information
Accounting principles generally accepted in the United States of America and OMB Circular No. A-136, *Financial Reporting Requirements,* require that the Management's Discussion and Analysis (MD&A) and other RSI be presented to supplement the basic financial statements. Such RSI is the responsibility of management and, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board (FASAB) and OMB, who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, and historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America. These procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We did not audit and we do not express an opinion or provide any assurance on the information because the limited procedures we applied do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
DeCA's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. Management is responsible for the other information included in DeCA's Agency Financial Report. The other information comprises the Performance Management – Results, Governance and Accountability, Continuous Process Improvement, and Innovation sections of the Agency Financial Report but does not include the financial statements and our auditor's 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.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Internal Control over Financial Reporting
In connection with our audit 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 over financial reporting 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. 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. However, material weaknesses or significant deficiencies may exist that have not been identified. As described in Appendix A, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or 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 fiscal year 2024 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 GAGAS.

Responsibilities of Management for Internal Control over Financial Reporting
DeCA management is responsible for 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.

Auditors' Responsibilities for Internal Control over Financial Reporting
In planning and performing our audit of DeCA's financial statements as of and for the fiscal year ended September 30, 2024, in accordance with GAGAS, 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. Accordingly, we do not express an opinion on DeCA's internal control over financial reporting. We are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses. We did not consider all internal controls relevant to operating objectives broadly defined by the criteria established by 31 U.S.C § 3512(c) and (d), commonly referred to as the Federal Managers' Financial Integrity Act (FMFIA).

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.

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

Intended 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 GAGAS in considering internal control over financial reporting. Accordingly, this report on internal control over financial reporting is not suitable for any other purpose.

Compliance 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.

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Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements
Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed an instance of noncompliance that is required to be reported under GAGAS and OMB Bulletin 24-02. Specifically, we noted noncompliance with the Federal Financial Management Improvement Act of 1996 (FFMIA), discussed further in Appendix B. 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.

Basis for Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements
We performed our tests of compliance in accordance with GAGAS. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for Tests of Compliance with Laws, Regulations, Contracts, and Grant Agreements* subsection below. Our tests included testing whether DeCA's financial management systems substantially comply with the requirements of FFMIA. These requirements are: (1) federal financial management systems requirements, (2) federal accounting standards, and (3) the U.S. Government Standard General Ledger (USSGL) at the transaction level.

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 of 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 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.

Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements
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 GAGAS in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

DeCA's Comments
DeCA's comments on this report are included in Appendix C. DeCA concurred with the findings in our report.

Sikich CPA LLC

Alexandria, VA
November 11, 2024

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APPENDIX A: SIGNIFICANT DEFICIENCIES

During our engagement to audit the fiscal year (FY) 2024 Defense Commissary Agency (DeCA) financial statements, we identified deficiencies in internal control over financial reporting. These deficiencies include two significant deficiencies, as described in this appendix. DeCA management was aware of these deficiencies and had already begun implementing corrective action plans (CAPs). For brevity and clarity, we have not provided all the details related to specific programs, systems, or account balances in this appendix. We provided those details separately to DeCA management and other stakeholders through Notices of Findings and Recommendations.

SIGNIFICANT DEFICIENCY 1: INVENTORY (*REPEAT FINDING*)

Condition: DeCA's internal controls are not effectively designed to ensure that its inventory records (1) reflect quantities that exist, and (2) are complete and accurate. Specifically, we observed third-party inventory counts, performed test counts, and performed relevant reconciliation procedures for a sample of 12 of the 235 commissaries. As a result of our testing, we observed the following errors in DeCA's inventory records:

- DeCA erroneously recorded inventory products together when it should have recorded the products separately, thereby reducing the reliability of its inventory records.
- DeCA's inventory records did not include display inventory products from vendors and shippers. Display inventory products are inventory products that are enclosed in store displays and contain multiple grocery items.
- DeCA either did not include high-sale inventory products in its inventory records or did not record these products accurately. High-sale inventory products are inventory products that vendors/shippers directly deliver and stock at DeCA's commissary stores.
- Of the sampled Universal Product Codes (UPCs), 74 percent had actual quantities that differed from the quantities DeCA reported in its inventory records by more than 10 percent.

DeCA has implemented a compensating control by contracting third parties to perform interim inventory counts. However, the contractors perform the inventory counts at various times across commissary locations, and they do not always perform inventory counts at or near year-end, in time for financial reporting.

Criteria: Recognition and valuation requirements set forth in SFFAS 3, *Accounting for Inventory and Related Property*.

Department of Defense, Federal Management Regulation (FMR), Volume 4, Chapter 4, 4.3 *Valuation of Inventory*, states, "The Department's policy is that inventory must be valued at historical cost using the MAC flow assumption. However, the Department has also approved the specific identification method for use with serially managed items, and the LAC[1] flow assumption for the valuation of DeCA grocery and household product inventories. (Note: When LAC valuation is used, the inventory is revalued periodically and an allowance account is established for the unrealized holding gains and losses so that the LAC method approximates historical cost.)."

Cause: DeCA is in the process of implementing a perpetual inventory system and therefore does not currently track inventory accurately on a perpetual basis.

DeCA has 235 commissaries located on military bases worldwide. Given the size and scope of these locations, it is impractical for DeCA to perform inventory counts across all of its locations at year end.

[1] Latest Acquisition Cost.

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Effect: DeCA's ongoing transformation from a periodic inventory system to a perpetual inventory system and the time lapse between the interim inventory counts and year-end financial reporting elevates the risk of undetected errors in commissary inventories and in the accuracy of reported balances on its financial statements.

Recommendations: We recommend that DeCA:

- Implement an inventory warehouse system and an inventory financial accounting system to allow for end-to-end automated inventory valuation and accurate balance-on-hand reporting, respectively.
- Develop standard comprehensive inventory reports that store managers can generate for review and analysis.
- Ensure that it records all shippers in its inventory.
- Review its policies and procedures for performing and reporting on regular random inventory counts at the product level.
- Review its process for accounting for direct ship and delivery (DSD) items.
- Review its allowable tolerance levels based on store size and its guidance for addressing out-of-tolerance situations based on the results of periodic cycle counts.
- Establish procedures for comparing product-level inventory reports to general ledger balances, taking into account normal timing differences.

SIGNIFICANT DEFICIENCY 2: FUND BALANCE WITH TREASURY

Condition: DeCA has Fund Balance with Treasury (FBWT) control deficiencies around its collections and disbursements, statements of differences (SODs), and suspense accounts.

Specifically, during our review of DeCA's FBWT reconciliation, we noted a significant number of unmatched disbursements and collections that were older than 60 days, as well as a lack of documented policies and procedures over FBWT.

In addition, DeCA, in coordination with its service organization, has not implemented sufficient internal control activities to ensure that transactions recorded in suspense accounts do not contain DeCA collections and disbursements that DeCA should recognize in its accounting records. Suspense accounts are designed to temporarily hold unidentified transactions until the organization classifies the transaction under the proper receipt or expenditure account. Although DeCA's service organization prepares quarterly suspense materiality assessments to identify the total number and amount of suspense account transactions attributable to DeCA and other Defense agencies, the uncleared suspense transactions included in the assessment are material, and DeCA does not perform an independent analysis comparing its unresolved suspense transactions to the Department of Defense's (DoD's) overall universe of suspense transactions. Additionally, DeCA cannot rely on its current processes to ensure that it prevents, or detects and corrects, misstatements in time for quarterly and year-end reporting.

Finally, DeCA does not perform an independent analysis to determine the potential portion of unresolved SOD transactions that may be attributable to it. SODs arise from differences between the actual amounts disbursed and collected and the corresponding amounts reported to the U.S. Department of the Treasury (Treasury). DeCA, in coordination with its service organization, has not implemented monitoring controls to ensure that the transactions that compose the SOD balances in DeCA's primary Disbursing Station Symbol Number (DSSN) do not contain DeCA collections and disbursements that DeCA should recognize in its accounting records. We noted that DeCA's service organization prepares a quarterly SOD materiality assessment at the DSSN level to identify the total count and dollar value of the SOD transactions attributable to DeCA and other Defense agencies. However, DeCA cannot rely on the current processes to ensure that it prevents, or detects and corrects, misstatements in time for quarterly and year-end financial reporting.

Criteria: Treasury Financial Manual (TFM) Volume 1, Part 2, Chapter 5100: *Reconciling FBWT Accounts*, states: "...Agencies must compare their USSGL account 101000 transactions in their internal ledgers with the Fiscal Service report and must reconcile any differences..."

DoD FMR Volume 4, Chapter 2, Section 2.7: *FBWT Reconciliation*, states:

> *Reconciliation is not complete until all differences are identified, aged, accountability is assigned, and differences are explained. Once reconciliations are complete, appropriate actions must be documented and any necessary adjustments must be recorded. The corrective action must address the root cause of the difference in order to prevent recurrence.*

DoD FMR Volume 4, Chapter 2, Section 8.3: *Treasury Reconciliation Requirements*, states:

> *Treasury requires reconciling FBWT accounts to the Treasury reported amounts by Department, Period of Availability, and Main Account (i.e., [Treasury Index], fiscal year, and fund symbol) monthly. During reconciliation, DFAS and their Component customers must:*
>
> *8.3.1. Research and resolve the underlying causes of differences reported by the Treasury on the SOD (FMS 6652) each month and make corrections to monthly Treasury reports and agency accounting records.*
>
> *8.3.2. Reconcile general ledger balances by Department, period of availability, and main account with the balances reported by Treasury.*
>
> *8.3.3. Ensure that all adjustments are researched and traceable to supporting documents in accordance with I TFM 2-5100.*
>
> *8.3.4. Document detailed reconciliations and make available to auditors and Treasury if requested, as instructed in I TFM 2-5100.*
>
> *8.3.5. Ensure differences recorded in Treasury budget clearing accounts (suspense accounts) are reconciled monthly as instructed in I TFM 2-5100, and moved to the appropriate [Line of Accounting (LOA)] within 60 business days from the date of transaction. In accordance with TFM Volume I, Bulletin 2020-05, the agency Chief Financial Officer (CFO) must annually certify that the ages of the balances in the suspense accounts are no more than 60 business days old with clear explanations of exceptions.*

DoD FMR Volume 4, Chapter 2, Section 8.4: *Other Defense Organizations Reconciliation Requirement*, states:

> *8.4.5. DFAS and DoD Components must also demonstrate they have controls in place to ensure that amounts reported daily or monthly to Treasury reconcile to collections and disbursements processed through the disbursing systems and recorded accurately and timely in the accounting systems. Monthly Treasury reporting includes SF 224 or SF 1219 and SF 1220 by DFAS or other federal agencies (e.g., Department of State and General Services Administration). Components who are the [Agency Location Code (ALC)] Designated Agents and submit information to Treasury on the SF 224, SF 1219, or SF 1220 must ensure that the information matches what is submitted to DFAS. Any differences between what was submitted to Treasury and what was submitted to DFAS must be corrected by the ALC Designated Agent (either DFAS or the Components) in 15 business days after identification by DFAS.*

DoD FMR Volume 4, Chapter 2, Section 8.5: *Reconciliation of FBWT for Comparison of Transactions*, states, "8.5.2. Components must comply with certain operational requirements and deadlines when performing reconciliations to compare transactions."

DoD FMR Volume 4, Chapter 2, Section 8.7: *Treasury Budget Clearing (Suspense) Accounts*, states:

> *8.7.2. Effective FBWT reconciliations include clearing transactions recorded in Treasury budget clearing accounts (suspense accounts) in a timely manner (see paragraph 020806). On behalf of the Components, DFAS must be able to provide:*
>
> > *8.7.2.1. A list of individual vouchers and dollar amounts that comprise/equal the difference between Treasury, disbursing system activity and accounting system trial balance amounts for monthly reconciliations;*
> >
> > *8.7.2.2. Vouchers, records, reports, disposition and supporting documentation for all transactions posted to the suspense accounts for auditor-selected sample items for monthly reconciliations. Components with key supporting documents must provide it as requested.*
> >
> > *8.7.2.3. A monthly list of journal vouchers and dollar amounts (by Component) that comprise/equal suspense account amounts at year-end; and*
> >
> > *8.7.2.4. Journal vouchers and supporting voucher documentation that demonstrates the voucher was recorded to the appropriate Component. DoD Components must maintain records for transactions input into their general ledger.*

Cause: DeCA, in coordination with its service organization, has not implemented sufficient and effective policies and procedures for monitoring the FBWT source data it uses in its monthly Advancing Analytics (Advana) reconciliations.

In addition, DeCA and its service organization have not designed and implemented a methodology for determining the full financial reporting impact of DoD suspense account and SOD balances on DeCA's financial statements.

Finally, the method that DeCA's service organization uses to create the universe of transactions (UoT) for DeCA's SODs is a time-intensive and manual process that requires the consolidation of multiple files from various sources. Further, these SOD UoTs contain a high volume of collections and disbursements that require manual research and resolution. A significant number of the transactions making up the SOD balances—at a significant dollar amount—have not been attributed to an entity and are listed in the UoTs as "TBD [To Be Determined]." Although DeCA's service organization has continued its efforts to identify the root causes of the issues by DSSN to reduce the SOD balances and attribute suspense transactions to DoD entities timely, shared ALCs and lack of LOA information continue to cause issues in resolving differences timely.

Effect: Control deficiencies related to collections and disbursements, SODs, and suspense accounts may increase the risk of misstatement of the FBWT line item on the financial statements.

Recommendations: We recommend that DeCA, in coordination with its service provider:

- Develop, implement, and document sufficient and effective policies and procedures to ensure the completeness and accuracy of the FBWT source data that DeCA uses in its monthly Advana FBWT reconciliation.
- Develop, implement, and document an effective reconciliation process for identifying and resolving the unmatched disbursements and collections impacting DeCA and ensuring that all resulting adjustments are fully supported within the Advana FBWT reconciliation tool.
- Review its service organization's cash management reconciliation process and perform an independent analysis to project an estimate of how many of the "TBD" transactions contained within the UoTs are likely to be attributable to DeCA; consider the impact of this projection on the financial statements.

- Identify the root causes of differences and implement corrective actions to reduce future FBWT reconciliation differences. Corrective actions should also include actions to resolve overaged transactions.
- Continue developing procedures to timely determine what portion of the suspense balances, if any, should be attributed to DeCA for financial reporting.
- Implement monitoring controls over its accounts receivable and accounts payable recording processes to reduce the risk that amounts of disbursements and collections are not reflected within its financial statements.
- Review its service organization's suspense and SOD reconciliation process and perform an independent analysis to project an estimate of how many of the "TBD" transactions contained within the UoTs are likely to be attributable to DeCA; consider the impact of this projection on the financial statements.
- Continue developing procedures to timely determine what portion of the SOD balances, if any, should be attributed to DeCA for financial reporting.
- Monitor and track the resolution of suspense and SOD balances attributed to DeCA, perform root-cause analyses, and develop compensating controls for financial reporting purposes.

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APPENDIX B: NONCOMPLIANCE AND OTHER MATTERS

During our engagement to audit the fiscal year (FY) 2024 Defense Commissary Agency (DeCA) financial statements, we identified one instance of noncompliance, as described in this appendix.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT OF 1996 (*REPEAT FINDING*)

Under the Federal Financial Management Improvement Act of 1996 (FFMIA), we are required to report whether the DeCA financial management systems substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Government Standard General Ledger (USSGL) at the transaction level. During FY 2024, we identified instances in which the DeCA financial management systems did not substantially comply with each of the three elements required by FFMIA Section 803(a).

Condition:

1. Federal Financial Management Systems Requirements

DeCA relies on a large portfolio of systems that it and the Department of Defense (DoD) own and operate. 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, reporting, and system interface issues.

Below, we present a summary of planned systems implementations, including relevant key business processes, current and planned future systems, and the status of the implementation.

Business Process	Current System	Future System	Implementation Status	DeCA Comment
Resale Supply Ordering/Cost Management	DeCA Integrated Business System (DIBS)	EBS-DAX	Migration in process	Expect to be completed in FY 2025
Inventory Management	DIBS	EBS-IM	Migration in process	Expect to be completed in FY 2025
Distribution Center Inventory Management	Manhattan WMS	Warehouse Management Solution	Migration in process	Initial implementation started; however, it has been delayed and will be incorporated into EBS Expect to be completed in FY 2026
Voucher/Coupon Management	Standard Automated Voucher Examining System (SAVES)	EBS-Emerald and RetailOne	Migration in process	Initial implementation delayed. Expect to be completed in FY 2026
Financial Accounting	Standard Financial System (STANFINS)	PE FIM	Migration in process	Expect to be completed in FY 2025
Inventory Management	AIMS (Applicable Financial Functionality)	PE FIM	Migration in process	Expect to be completed in FY 2025

DeCA uses two separate accounting systems—STANFINS and the Defense Agencies Initiative (DAI)—to process financial transactions. Specifically, DeCA uses STANFINS to record resale funds and inventory transactions and DAI to record transactions associated with the appropriated funds and surcharge collections. STANFINS was developed and implemented prior to the establishment of the federal financial management system requirements (specifically, FFMIA Section 803[a]), and it does not comply with federal financial management systems requirements.

The Enterprise Business System (EBS) is DeCA's replacement system for inventory purchasing and management, and—through planned systems implementation—it is expected to contain integrated modules for DeCA's various resale business activities.

2. Federal Accounting Standards

We identified instances of noncompliance with federal accounting standards, as communicated in Appendix A under Significant Deficiencies 1 and 2. We have provided conditions, criteria, causes, effects, and specific recommendations for corrective actions necessary to help ensure compliance with federal accounting standards as part of Appendix A.

3. USSGL at the Transaction Level

STANFINS is a legacy system that does not record transactions in accordance with the standard general ledger accounting requirements at the transaction level. As such, DeCA is required to apply extensive manual processes and execute a large number of journal vouchers when preparing its financial statements.

Criteria:

- FFMIA
- Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, Appendix D, *Management of Financial Management Systems – Risk and Compliance*
- GAO's *Standards for Internal Control in the Federal Government*
- DoD Financial Management Regulation (FMR), Volume 1, Chapter 3, *Federal Financial Management Improvement Act Compliance*

Cause: The DeCA financial statements are comprised of balances and activities of two accounting systems and dozens of feeder systems. Many of the systems in use were not designed to record and report activity in a manner that would allow for the preparation of financial statements in accordance with standard general ledger accounting requirements at the transaction level. The abundance of information systems (IS), compounded by the legacy nature of the IS in use, has created a complex financial reporting environment, necessitating manual journal vouchers (JVs) to prepare financial statements.

DeCA is currently performing remediation efforts to correct these matters.

Effect: DeCA is not compliant with FFMIA requirements related to applicable federal financial management systems requirements, federal accounting standards, and the USSGL at the transaction level.

Recommendation: We recommend that DeCA:

- Ensure the design of the business processes and data structure of the systems planned to be implemented is sufficient to meet DeCA's unique business needs, as well as federal system and accounting requirements.

- Continue to monitor the volume and nature of manual JVs to ensure that JVs are used only for transactions that cannot be handled by the current accounting systems (including relevant modules).

- Continue to employ compensating control procedures, through additional analytical processes and detailed reconciliations, to ensure period-end financial statements are accurately presented.

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- Explore opportunities for all commissaries to report revenues and expenses to DeCA headquarters consistently prior to the new system implementation.

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APPENDIX C: DECA's COMMENTS

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

November 11, 2024

Mr. Scott Ing, Principal
Sikich CPA LLC
333 John Carlyle Street, Suite 500
Alexandria, VA 22314

Dear Mr. Ing:

In response to the Independent Auditors' Report dated November 11, 2024, of Fiscal Years (FY) 2024 and 2023, financial statements of the Defense Commissary Agency (DeCA), management generally agrees with all the findings in this report. Specifically, DeCA generally agrees with identified significant deficiencies as noted in the areas of Controls over Inventory and Fund Balance with Treasury (Appendix A), and the identified non-compliance related to Federal Financial Systems Requirements (Appendix B).

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

For additional concerns regarding this response, please address to me or Ms. Rosie Leonard-Greer, Director of Accounting. I can be reached at (804) 734-8000, Extension 48691, Stephan.Davis@deca.mil or Ms. Leonard-Greer can be contacted at (804) 734-8000, Extension 48622, Rosie.Leonard-Greer@deca.mil .

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Stephan T. Davis
Chief Financial Officer

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

Glossary of Acronyms

ACM	–	Asbestos Containing Material
ADA	–	Anti-Deficiency Act
AFR	–	Agency Financial Report
CCSS	–	Commissary Customer Service Survey
CDC	–	Central Distribution Center
CEO	–	Chief Executive Officer
CFO	–	Chief Financial Officer
COTS	–	Commercial Off the Shelf
CPI	–	Continuous Process Improvement
CSAT	–	Customer Satisfaction Survey
CSRS	–	Civilian Service Retirement System
CUEC	–	Complimentary User Entity Controls
DAI	–	Defense Agencies Initiative
DeCA	–	Defense Commissary Agency
DoD	–	Department of Defense
DOL	–	Department of Labor
DON	–	Department of Navy
DSD	–	Direct Store Delivery
EBS	–	Enterprise Business Solution
FBWT	–	Fund Balance with Treasury
FASAB	–	Federal Accounting Standards Advisory Board
FECA	–	Federal Employees Compensation Act
FEGLI	–	Federal Employees Group Life Insurance
FEHB	–	Federal Employee Health Benefits
FERS	–	Federal Employees Retirement System
FFMIA	–	Federal Financial Management Improvement Act of 1996

FIM	–	Financial Integration Module
FMFIA	–	Federal Managers' Financial Integrity Act
FY	–	Fiscal Year
GAO	–	Government Accountability Office
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
NDAA	–	National Defense Authorization Act
OMB	–	Office of Management and Budget
OPM	–	Office of Personnel Management
OSD	–	Office of the Secretary of Defense
OUSD	–	Office of the Under Secretary of Defense
PAR	–	Performance and Accountability Report
PP&E	–	General Property, Plant & Equipment
P&R	–	Personnel & Readiness
RMIC	–	Risk Management and Internal Control Program
RSI	–	Required Supplemental Information
SAT	–	Senior Assessment Team
SBR	–	Statement of Budgetary Resources
SFIS	–	Standard Financial Information Structure
SFFAS	–	Statements of Federal Financial Accounting Standards
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