# DEFENSE COMMISSARY AGENCY

# PERFORMANCE AND ACCOUNTABILITY REPORT

## FISCAL YEAR 2008

# DECA-AT-A-GLANCE

| | |
|---|---|
| Established | 1991 |
| Headquarters | 1300 E Street<br>Fort Lee, VA 23801<br>www.commissaries.com<br>www.deca.mil (for authorized parties) |
| FY 2008 Operations Costs | $1.3 billion |
| FY 2008 Sales | $5.8 billion |
| Total Employees | Approximately 17,600 |
| Regional Offices | 3 (East, West, and Europe) |
| Commissaries | 254 |
| Customers | Approximately 11.9 million |

# DeCA MISSION

**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; and
- 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 VALUES

**L**eadership – **I**ntegrity – **F**lexibility – **E**njoyment

**"LIFE":** These four words comprise the acronym "LIFE" and are the corporate values DeCA wants employees to represent as the agency moves forward. The values are the engine behind a new vision that highlights DeCA's commitment to the people who deliver and receive the commissary benefit.

**L**eadership: We expect passion, courage, and excellence!

**I**ntegrity: We demand honesty, professionalism, and trustworthiness!

**F**lexibility: We cultivate innovation, empowerment, and competence!

**E**njoyment: We foster teamwork, recognition, and opportunity!

# DeCA VISION

Patrons, Workforce and Stakeholders working together to create "RAVING FANS!"

DeCA's VISION will focus on people – all working together to create "Raving Fans."


# DeCA GOALS

**Customers:** Preserve and Deliver a Premier Quality of Life Benefit.

**Workforce:** Transform the Workforce to become more agile, knowledgeable, and motivated to provide exceptional customer service.

**Partners:** Maintain and communicate the relevance of the commissary benefit through constant innovation and by strengthening our internal governance.

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## FOREWARD

The Defense Commissary Agency (DeCA), a part of the Department of Defense (DoD), is required by DoD to prepare annual financial statements. These financial statements must be prepared in accordance with Office of Management (OMB) directives, which implement the *Chief Financial Officers Act of 1990* (CFO Act). The DoD uses the information in DeCA's annual financial statements to prepare the DoD annual financial statements.

To enhance the presentation of performance, management, and financial information, OMB requires DoD and other agencies to incorporate their annual financial statements into a Performance and Accountability Report (PAR). Although DeCA is not required to prepare a separate PAR, we have prepared this document which is closely aligned to the statutory guidance framework to demonstrate accountability.

## DIRECTOR'S MESSAGE

The Performance and Accountability Report for Fiscal Year 2008 once again reflects the Defense Commissary Agency's commitment to maintaining accurate financial reports and overall fiscal responsibility. For the seventh year in a row, we are proud that independent auditors have given our financial statements an unqualified opinion. We have also evaluated our financial management systems as required by the Federal Financial Management Improvement Act of 1996. Again, we acknowledge, as in previous audits and along with most Department of Defense (DoD) agencies, that our systems fall short of integrated system requirements. As a result, our detail-level transactions are not compliant with the U.S. Standard General Ledger. To meet these requirements, the Defense Department, with participation by DeCA and other entities, is working to improve a system-wide architecture for DoD entities that will meet the requirements of both acts.

Accountability is entrenched throughout the organization, not just financially, but operationally as well. We continue to re-evaluate our metrics to better use and prioritize resources, increase support to our stores, and achieve desired outcomes in support of the President's Management Agenda and the Defense Department's Balanced Scorecard. We continue to be a leader in DoD for implementing the requirements of the Office of Management and Budget Circular A-123, *Management's Responsibility for Internal Control*, Appendix A. Results have shown our internal controls to be strong and effective. For the second straight year, DeCA has received the highest score in DoD for its statement of annual assurance. Through our internal control program, fiscal responsibility permeates throughout the Agency from cashier to store director to senior management. Additionally, the Fiscal Year 2008 annual Federal Information Security Management Act report showed the DoD grading DeCA an "A" for its data accreditation and data security metrics.

The U.S. Office of Government Ethics presented its 2008 Ethics Program Award to DeCA – 1 of only 17 government agencies that received such recognition. This award recognizes our continuous obligation, commitment, and adherence to federal guidelines, policies, and ethical standards as DeCA strives to practice honesty, integrity, and fairness in business activities.

Performance data indicates more progress in meeting our established goals and targets. Sales increased for the sixth fiscal year in a row, increasing from $5.5 billion in Fiscal Year 2007 to $5.8 billion in Fiscal Year 2008 (an increase greater than 5 percent), despite the closure of seven overseas commissaries. In Fiscal Year 2008, DeCA opened a new commissary, bringing the benefit to the Fort Worth, Texas, area for the first time since 1993. The Agency continued its initiative to inform all Guard and Reserve members about their unlimited commissary benefits, and in many cases to bring the benefit to them with on-site sales at their unit locations.

In my short tenure here with the Defense Commissary Agency, I am pleased with our initiative to reach out to Guard and Reserve Service members through on-site sales, which brings the commissary benefit to members of the National Guard and Reserve living in areas where DeCA does not have brick and mortar commissaries. Statistics reveal that in the Continental United States (CONUS), 54 percent of Reserve and National Guard units are located more than 20 miles away from a commissary. Making the benefit accessible to them is a top priority, and the response to these sales has been overwhelming. For Fiscal Year 2008, 104 Guard and Reserve sales were held with sales of $4.4 million with over 41,000 patrons served. For Fiscal Year 2009, 150 Guard and Reserve sales are scheduled with sales estimated at $6.5 million with over 60,000 expected patrons.

I am pleased that patron savings continue to exceed the goal of 30 percent by achieving an average of 31.9 percent for Fiscal Year 2007. Thus, the commissary benefit remains a major quality of life benefit for Service members around the world. The military landscape continues to change with troop movements and family relocations, yet patron satisfaction surveys indicate that they are more than satisfied with the quality of their commissary benefit. The overall score was 4.61 (on a scale of 1 to 5) – tied with the highest mark in the Agency's history. These survey results help us stay connected with our customers' perceptions and improve their shopping experience.

We began introducing the Workforce of the Future concept in our stores in January 2005 and expect to complete implementation in all of our stores in CONUS within 5 years. The Workforce of the Future concept was designed to not only provide store management with a tool to achieve greater flexibilities in scheduling work for employees, but also to provide those employees expanded career opportunities within our Agency. While this initiative is still in the midst of deployment, the feedback from managers and employees has been positive, with managers overwhelmingly stating that their Workforce of the Future employees are more knowledgeable and exhibit a greater degree of ownership of the DeCA mission as well as an increased appreciation of the value of the commissary benefit to our customers. From the outset, we expected that this initiative would be a great investment for ensuring that our stores continue to meet the needs of our customers, while at the same time providing greater career opportunities for our employees. So far, those expectations are being realized and we envision a still greater return on investment as this program matures.

The Defense Commissary Agency is facing, like many other organizations, an aging employee pool and we are looking for avenues to address future needs. We have an excellent intern program and are finding ways to expand the program across all disciplines served in the Agency. It starts right from the grass roots with summer hires. I believe we have a talent pool with the summer hires and we just have to nurture it, not only in the stores, but in our headquarters and field operating activities as well. Another aspect to the program is that it works in concert with military family member participation. This is very important to develop, because these employees are also eligible customers; they understand first-hand that the commissary is "worth the trip" and that it is a benefit. We are targeting military family members as potential employees, as it is clearly the right thing to do. The same goes for the wounded warrior project's Warriors to Work program. I am proud of the Agency's efforts in this area and look forward to even bigger possibilities.

Our state-of-the-art, point-of-sale system, the Commissary Advanced Resale Transaction System – known as CARTS, is fully deployed and showing improved customer service levels with self-checkouts, electronic benefit transfers, check truncation, and check imaging. We continue to develop the Virtual Commissary, DeCA's Internet-based shopping alternative designed to reach authorized customers geographically separated from traditional brick and mortar commissaries.

Commissaries are energy intensive facilities; therefore, energy conservation has historically been a primary consideration in the development of DeCA's design criteria – the guidance used to design both new stores and renovate existing ones. Under its "going green" initiative, DeCA has adopted many cost effective, new technologies such as fluorescent lighting, which has replaced high intensity discharge lighting in the typical grocery store. The fluorescent lamps are smaller and use less energy. DeCA updates its design criteria every 6 months, to include lessons learned from ongoing and completed projects, and incorporates appropriate technology and approved changes identified by the Agency's Facilities Standards Review Board.

In addition to reducing energy use in its facilities, DeCA has also encouraged earth-friendly practices among its customers through the promotion and sale of "green clean" products such as compact fluorescent bulbs and reusable, recyclable shopping bags. Commissary shoppers worldwide purchased more than a million of each during Fiscal Year 2008.

Commissaries are an integral part of military life, helping to create a sense of community at military installations worldwide. As an example, in Fiscal Year 2008 the Scholarships for Military Children program administered by the Fisher House Foundation, and available through DeCA commissaries, awarded scholarships, funded by Industry and individual donations, totaling $900,000 to 600 well-deserving recipients. Also, the hiring of military spouses and family members at DeCA locations was 38 percent in Fiscal Year 2008. These factors reflect DeCA's commitment to support our military patrons.

Since arriving at the Defense Commissary Agency in June of this year, I have been most impressed with the Agency's delivery of the premier quality-of-life benefit to our country's most deserving customers and their families around the world. I unveiled my personal motto, "The Commissary - It's Worth the Trip!" to reiterate the value of this benefit to our Service members and their families who are sacrificing every day in support of their noble mission. Their demands are never unreasonable and surely attainable. **"The Commissary"** is a treasured benefit and a formidable tradition in our Armed Services; **"It's Worth…"** recognizes that DeCA team members understand our customers deserve top value for their hard-earned pay; and **"the Trip!"** …reminds us that about 70 percent of our authorized shoppers do not live on an installation. We must make the trip so worthwhile and enjoyable that customers will not pass it up. As we face present and future challenges – base realignment and closure, marketplace changes, organizational realignment, and political initiatives – I remain confident in DeCA's commitment to enhancing our business processes to meet those challenges.

Philip E. Sakowitz, Jr.
Director and Chief Executive Officer

# PART I

# MANAGEMENT'S DISCUSSION AND ANALYSIS

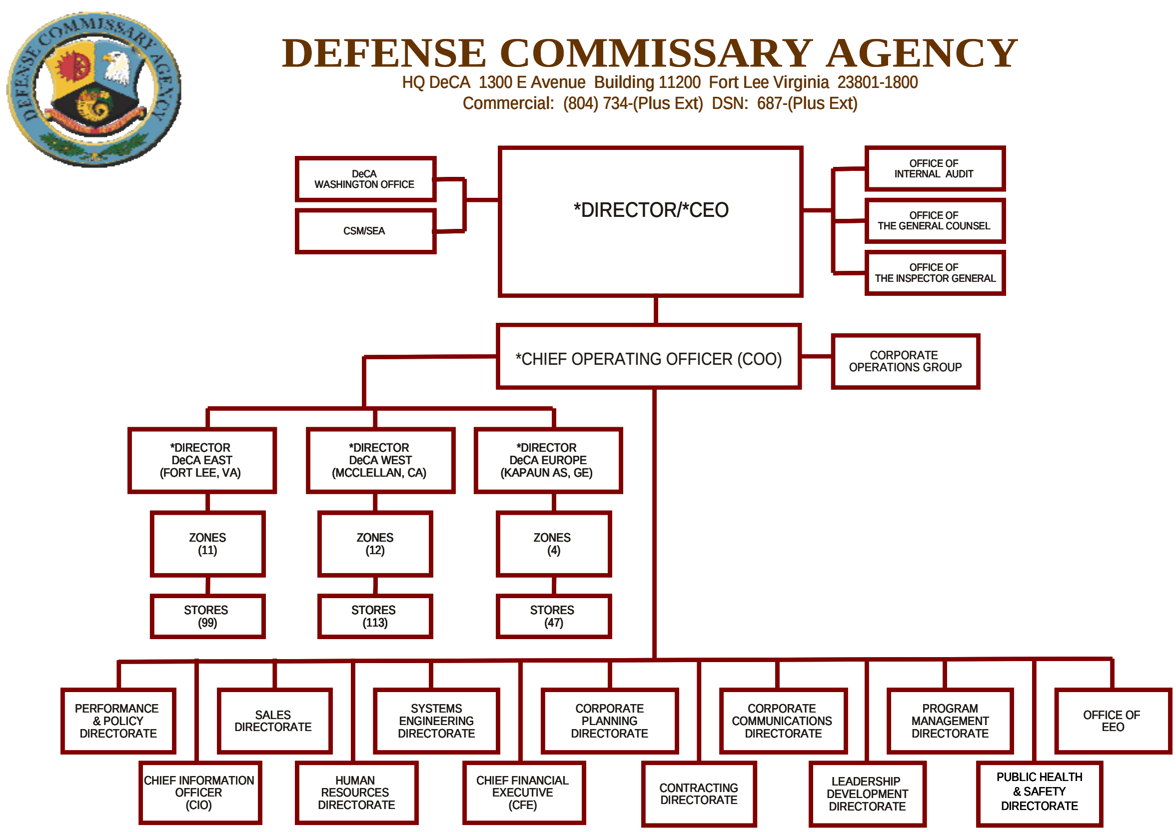
# OVERVIEW OF DeCA

## ORGANIZATION AND MISSION:

The Defense Commissary Agency (DeCA) is a component of the Department of Defense (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. On October 1, 1991, DeCA was established.

DeCA is headquartered at Fort Lee, Virginia and operates a worldwide system of 254 commissaries. Three regional offices, located in Fort Lee, Virginia; Sacramento, California; and Kapaun Air Station, Germany, provide day-to-day management and support. Our commissaries sell food and related household items to active, reserve, and guard members of the Uniformed Services, retirees of these services, authorized family members, and other authorized patrons. Field Operating Activities (FOA) perform services for the regional offices and their commissaries, including centralized purchasing of national brand items and centralized financial management.

The current organizational structure of DeCA is shown in the following chart.




As of August 2008

* Indicates SES position

DeCA's process improvement program is ongoing through the use of Lean Six Sigma to improve performance and resource efficiencies. Process improvement efforts initiated within the past twelve months include determining the best way to collect Vendor Credit Memorandums (VCMs) more timely and efficiently in the Far East; the timely recording and payment of distributor VCMs for overages and shortages; streamlining the receiving process by eliminating one hundred percent case counts through development of a Distributor Discrepancy Rate (DDR); and improvements associated with the MIPR process. DeCA maintains that the use of process improvements tools is critical as the agency continues to centralize processes that were previously performed throughout DeCA with diverse methodologies.

**2008 HIGHLIGHTS:**

During FY 2008, DeCA's operations included commissaries with annual sales of $5.8 billion and approximately 17,600 employees. DeCA operates its commissaries around the world to support the military services. Patrons include approximately 11.9 million active, reserve, and guard members of the Uniformed Services, retirees of these services, authorized family members, and other authorized civilians. Congress authorizes DoD to operate its commissaries as a significant non-pay benefit to supplement military income as an integral part of the overall military pay and benefit package. DeCA sells its groceries and household supplies to the military community at its approximate cost. Patrons also pay a five percent surcharge, which funds construction programs and our stores' equipment, including information management systems. By selling goods at cost, DeCA provides the lowest overall prices and the maximum savings benefit to our customers.

DeCA opened a new commissary in FY 2008, Naval Air Station (NAS) Joint Reserve Base (JRB) Fort Worth, Texas. The store was placed at an existing location previously utilized by the Army Air Force Exchange System (AAFES). The agency closed seven Outside the Continental United States (OCONUS) commissaries in 2008, which are all in Europe – Buedingen, Gelnhausen, Wuerzburg, Darmstadt, Hanau, Idar Oberstein, and Dexheim.

The Defense Commissary Agency continues to strengthen its foundation of budget and performance integration by reviewing and rebuilding processes for validating and testing internal controls for financial management by involving all areas and activities of the commissary system. In FY 2008, DeCA continued its role as a leader in the DoD's compliance with OMB Circular No. A-123, *Management's Responsibility for Internal Controls*. Upon a joint recommendation of the Chief Financial Officers Council and the President's Council on Integrity and Efficiency to strengthen Circular No. A-123, OMB revised the circular in 2004 to incorporate requirements consistent with the Sarbanes-Oxley Act of 2002, P.L. 107-204 (SOX) into federal financial management. The changes were effective beginning with FY 2006 and were set forth in Circular No. A-123, Appendix A. The requirements included in Appendix A strengthened the process for conducting and documenting management's assessment of internal control over financial reporting and provided a separate statement of assurance on the effectiveness of these controls.

In FY 2007, DeCA achieved the highest score in DoD on its annual Statement of Assurance for the second straight year. DeCA was joined "at the top" by the Defense Finance and Accounting Service (DFAS) and the Joint Chiefs of Staff (JCS) with a 3.4 point score. The agency has fully embraced this program, which has resulted in cost avoidance, improved compliance with internal controls and business processes, and involved functional leaders from facilities, sales, and property accountability in the financial reporting process of the Agency.

The last, but certainly not least, of DeCA's FY 2008 highlights is Mr. Philip E. Sakowitz, Jr., who became DeCA's sixth Director in June 2008. Mr. Sakowitz came to the Defense Commissary Agency by way of the Army's Installation Management Command (IMCOM) and immediately embraced the importance of the commissary benefit by coining a new slogan, "The Commissary – It's Worth the Trip!"

**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 finance 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 costs of commissaries, agency and region headquarters, and FOAs. The primary revenue source for this activity group is a direct appropriation to the Defense WCF, which in turn transfers the funds to the DeCA WCF. DeCA received approximately $1.3 billion in appropriation transfers during FY 2008. 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 each customer sale. This fund, established by law, finances DeCA's store-level information systems, equipment and maintenance as well as its construction programs.

## PERFORMANCE GOALS SUMMARY

**CORPORATE OBJECTIVES:**

DeCA's *Corporate Strategic Plan* sets forth the Agency's values, vision, goals, objectives, and strategies to ensure achievement of the entrusted mission. In FY 2007, the strategic plan was revised to reflect changes in our strategies and actions to better lead us into the future. DeCA's goals and strategies remain as follows for FY 2008:

## GOAL 1

**Preserve and deliver a premier quality-of-life benefit.**

The commissary benefit continues to be rated as one of the *most valued benefits* by our military personnel who consider the commissary a much-prized part of their community. As the grocery leader for the military, we believe it is our job to ensure military families get the best grocery deal for their hard-earned dollars along with a satisfying shopping experience. Our goal is to continue to meet or exceed our patrons' expectations while controlling costs.

### STRATEGIES

- **Increase the opportunity for authorized patrons to utilize their commissary benefit.**
- **Customize the benefit to better serve our patrons.**
- **Explore joint ventures and other cooperative efforts to generate efficiencies in the military resale system.**
- **Continue to optimize store and support operations by implementing process improvements and technological advances.**
- **Optimize use of surcharge construction dollars.**

## GOAL 2

**Transform the workforce to become more agile, knowledgeable and motivated to provide exceptional customer service.**

By empowering our people and providing them multi-faceted training and experiences that enhance their skills, they will improve service to our valued patrons. The DeCA workforce is known for its deep commitment to our patrons and the commissary benefit. In turn, DeCA is committed to providing every employee a workplace where they are respected and valued. We are building an environment to support and create a workforce to accomplish our mission more effectively.

## STRATEGIES

- **Implement a productive, flexible workforce at store level that better serves the needs of our stakeholders and is viable in a competitive sourcing environment.**
- **Ensure a fair and equitable work environment that shows we value our employees.**
- **Plan, guide, and support a cultural transformation of the agency that results in more effective support to our stores.**

## GOAL 3

**Maintain and communicate the relevance of the commissary benefit through constant innovation and by strengthening our internal governance.**

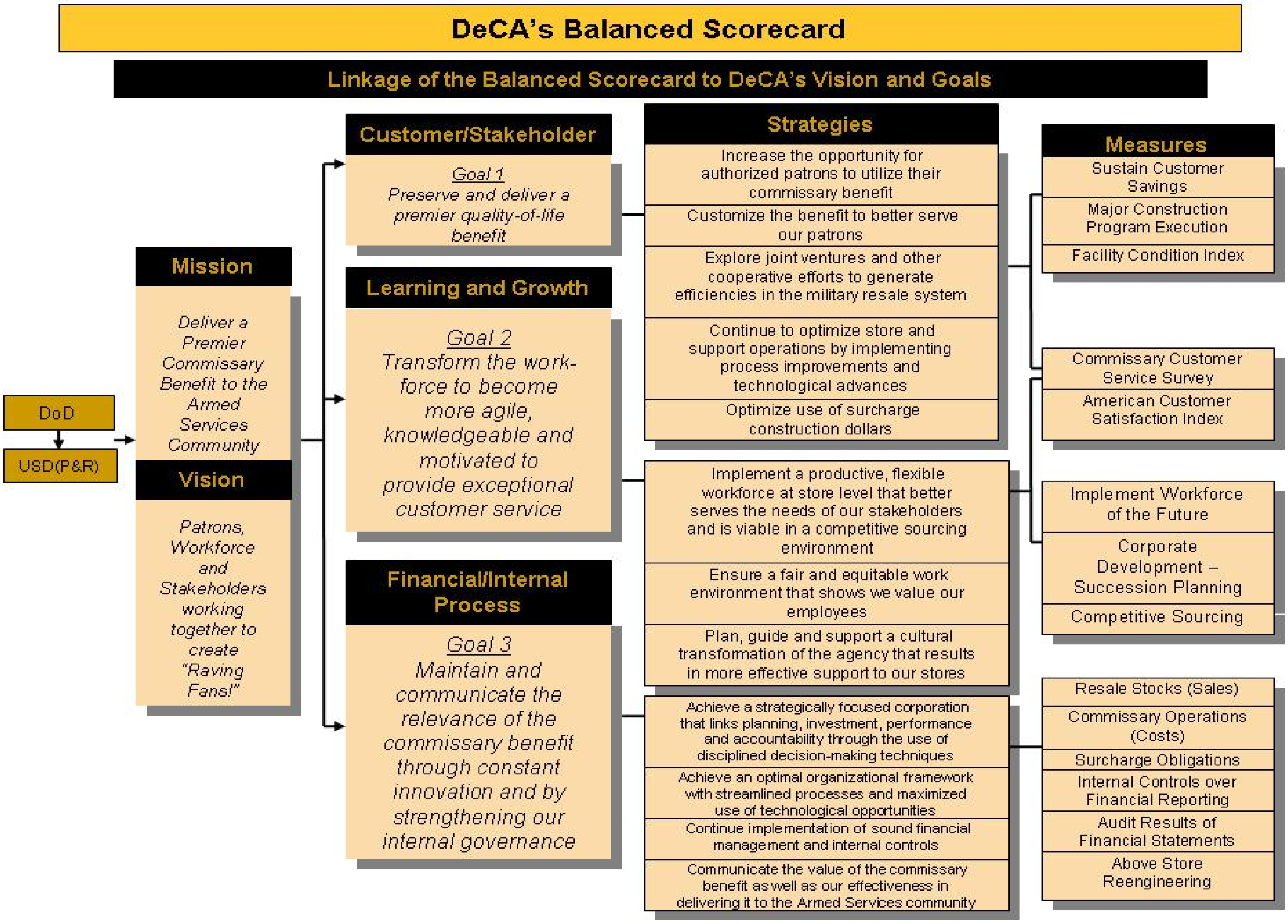
DeCA is committed to working with its stakeholders — the Department of Defense (DoD), the military services, patrons, and the workforce, as well as, manufacturers, distributors, brokers, and exchange partners — to identify and implement business process improvements for more efficient and effective operations, while improving customer service. We will manage the business while being good stewards of the military's premier quality-of-life benefit.

## STRATEGIES

- **Achieve a strategically focused corporation that links planning, investment, performance and accountability through the use of disciplined decision-making techniques.**
- **Achieve an optimal organizational framework with streamlined processes and maximized use of technological opportunities.**
- **Continue implementation of sound financial management and internal controls.**
- **Communicate the value of the commissary benefit as well as our effectiveness in delivering it to the Armed Services community.**

**FISCAL YEAR 2008 PERFORMANCE GOALS AND RESULTS**:

The Defense Commissary Agency implemented the Balanced Scorecard (BSC) at the end of FY 2006. The BSC maps DeCA's performance measures and corporate strategies using the Norton and Kaplan risk management framework, which complements the DoD risk management framework in the DoD BSC. DeCA continues to refine and strengthen these performance metrics to establish linkage between resource requirements and outputs. This effort provides meaningful information for program evaluation and decision making processes. In addition, it articulates the expectations for DeCA's performance during FY 2007 – 2013 by investing in technologies, programs, and product support necessary to provide the commissary benefit to military personnel and their families. The BSC does not alter the basic mission, operations, authority, or reporting channels for the agency, but complements best business strategies to increase business productivity and customer satisfaction by operating effectively and efficiently. BSC maps to our corporate strategies as shown in the following chart.




We use Planning, Programming, Budgeting and Execution (PPBE) to demonstrate our commitment to both performance improvement and cost reduction. DeCA's strategic plan, corporate objectives, and strategies continue to provide an improved road map to further transform and enhance the commissary benefit with a more balanced approach towards achieving our goals and objectives. During the year, we refined our goals and objectives and continually revisit our strategies to better serve our customers, integrate our business processes, and enhance corporate performance. One key performance goal is to achieve an unqualified audit opinion each year from an independent audit firm. DeCA met this performance goal by receiving our seventh unqualified audit opinion on our FY 2008 financial statements.

## PERFORMANCE-AT-A-GLANCE

| *Performance Measure* | *FY 2006 Actual* | *FY 2007 Actual* | *FY 2008 Estimate* | *FY 2008 Actual* |
|---|---|---|---|---|
| Customer Savings | 32.0% | 31.9% | 30.0% | Not available until end of Nov 2008 |
| Commissary Customer Service Survey (CCSS) | 4.61 | 4.60 | 4.55 | 4.61 |
| American Customer Satisfaction Index (ACSI) | 77.00 | 77.00 | 77.00 | 77.00 |
| Facility Condition Index (FCI) | 71.27 | 74.93 | 78.00 | Not available until end of Jan 2009 |

## FINANCIAL STATEMENT SUMMARY

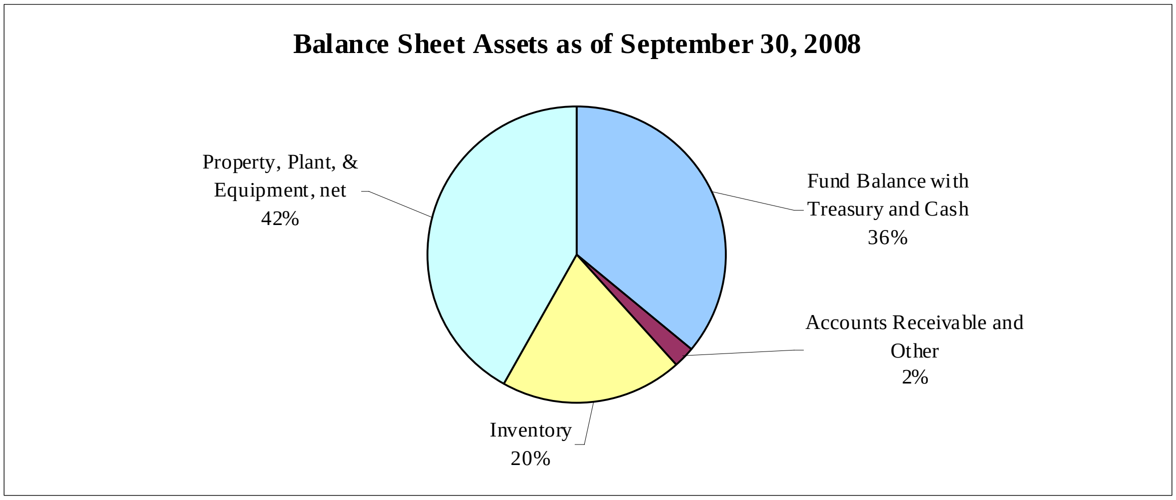
DeCA's financial statements have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of Title 31, U.S.C. 35125 (b). These statements have been prepared from DeCA's books and records in accordance with the formats prescribed by the OMB. These 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 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 Balance Sheets, Statements of Net Cost, Changes in Net Position, and Combined Statements of Budgetary Resources are presented in a two-year comparative format. The following section provides a brief description of each financial statement along with relevant information that will aid the reader in understanding the financial components of DeCA.

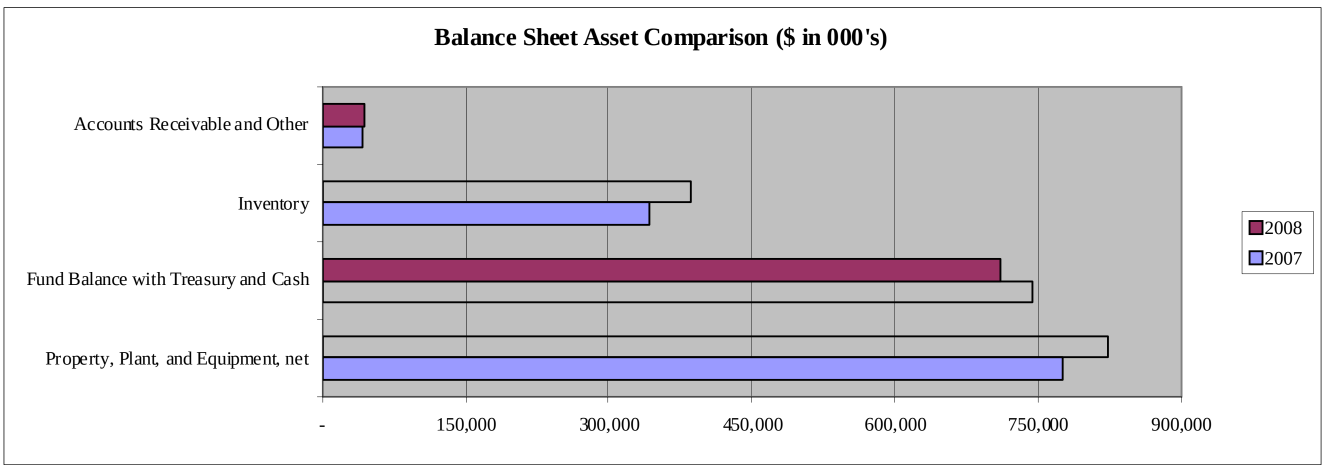
**BALANCE SHEET:**

The 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** – As of September 30, 2008, DeCA's assets totaled $2.0 billion. The assets of DeCA are the resources available to pay liabilities or satisfy future service needs. DeCA's major categories of assets, as a percentage of total assets, are as follows on the next page.




The following chart presents comparative data of major asset balances as of September 30, 2008 and September 30, 2007. A discussion of significant fluctuations follows.



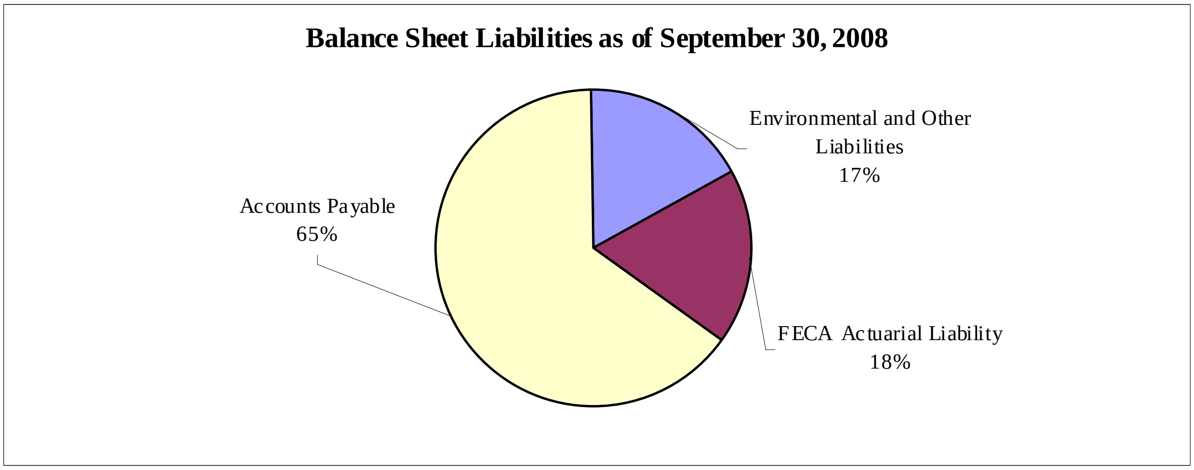

*Accounts Receivable and Other* represents 2 percent of DeCA's current year assets and primarily represents amounts due from DeCA customers. Accounts receivable and other remained relatively consistent when compared to prior year balances.

*Inventory* represents 20 percent of DeCA's current year assets and is comprised of grocery products held for resale to DeCA patrons at DeCA facilities. Inventory increased by $44.5 million, or 13 percent in support of DeCA's 17th Anniversary Sale planned for October 2008.

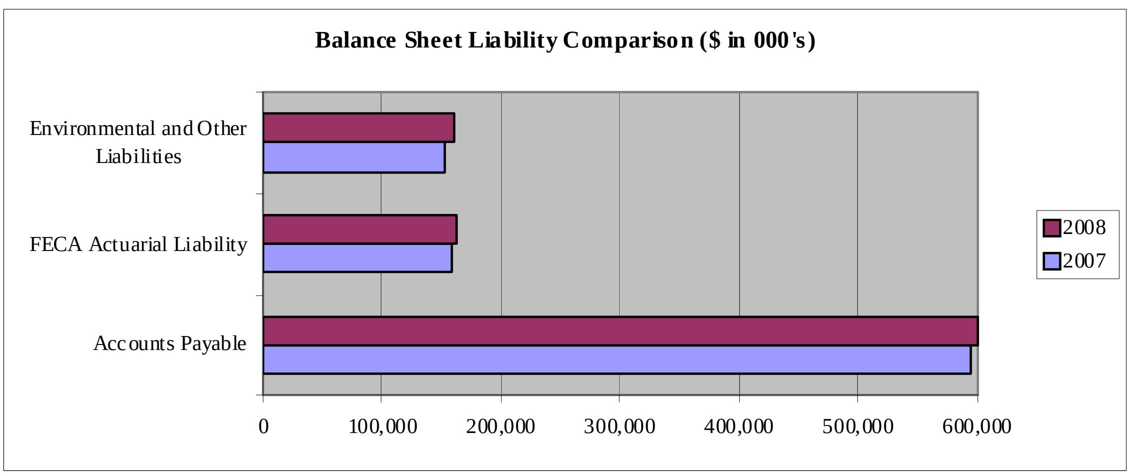
*Fund Balance with Treasury (FBWT) and Cash* is primarily funding available through the U.S. Department of the Treasury accounts from which DeCA makes expenditures to pay liabilities. It also includes monies available at commissaries or those deposits that have been deposited to an authorized financial institution, but not processed in the accounting system due to cutoffs. As of September 30, 2008, DeCA has an overall $709.8 million or 36 percent of its assets in FBWT and cash. This is a decrease of $33 million, or 4.5 percent resulting from a greater amount of disbursements primarily due to the deployment of the Commissary Advanced Resale Transaction System (CARTS).

*General Property, Plant and Equipment (PP&E), net* represents 42 percent of DeCA's current year assets, and is primarily comprised of capitalized real and personal property held to fulfill DeCA's mission of selling groceries to its patrons. PP&E increased by $48.2 million, or 6 percent primarily due to the deployment of CARTS.

**Liabilities** – On September 30, 2008, DeCA reported liabilities of $923 million. Liabilities are probable and measurable future outflows of resources arising from past transactions or events. The following chart depicts 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, 2008 and September 30, 2007. A discussion of significant fluctuations follows.




*Environmental and Other Liabilities* are potential costs to clean up items such as asbestos, lead paint and other hazardous materials from our commissaries. It also includes liabilities for accrued payroll and benefits, foreign national separation pay, accrued leave, and a capital lease liability. These liabilities increased $8.5 million, or 6 percent primarily caused by the accrued payroll and benefits categories, which increased due to a longer accrual period for FY 2008 when compared to FY 2007.

*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 four years. The actuarial liability remained consistent when compared to prior year balance.

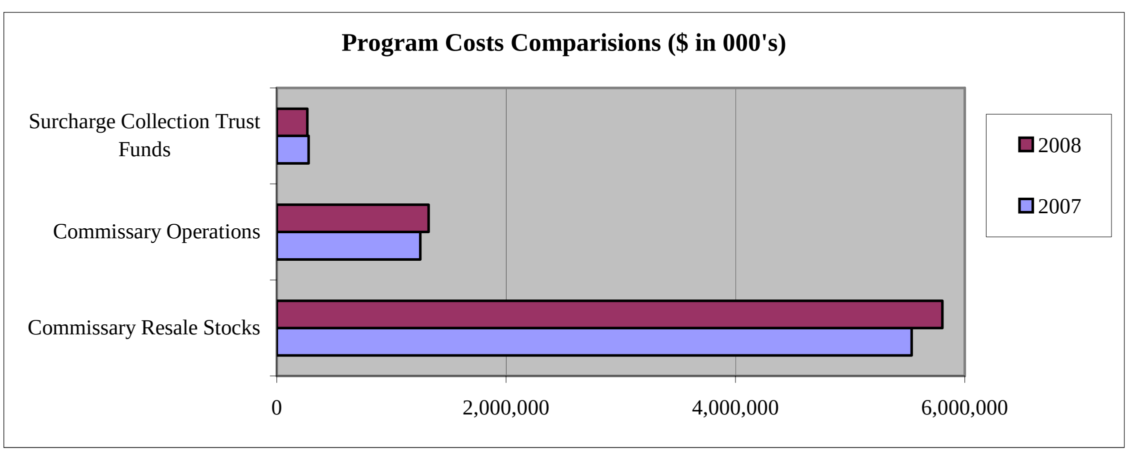
*Accounts Payable* comprises 65 percent of DeCA's current year liabilities, and consists of DeCA's liability for goods and services delivered or received, but not paid prior to year-end. DeCA's accounts payable increased by $5.8 million, less than 1 percent attributable to increased inventory purchases at year-end in support of the DeCA's 17th Anniversary sale.

**STATEMENT OF NET COST:**

The 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 on the following page compares the gross costs between FY 2008 and FY 2007 in the three major DeCA activity groups.




**STATEMENT OF CHANGES IN NET POSITION:**

The Statement of Changes in Net Position represents those accounting transactions that caused the net position of the 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 absorbed by others. DeCA's net cost of operations serves to reduce net position.

DeCA's net position increased by $41.7 million, or 4 percent. The change in net position resulted from a $33 million increase in the cumulative results of operations and an $8.7 million increase in FY 2008 unexpended appropriations.

**STATEMENT OF BUDGETARY RESOURCES:**

This statement provides information on the budgetary resources available to DeCA for fiscal years 2008 and 2007 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 increased by $314 million, or 4 percent. This increase is primarily attributed to increases in contract authority and collections resulting from increased sales during the current fiscal year.

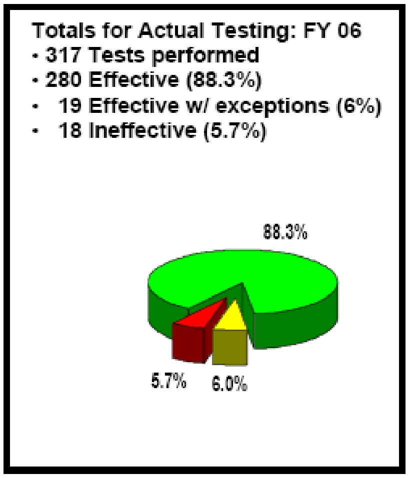
## CONTROLS AND STATEMENT OF FINANCIAL ASSURANCE

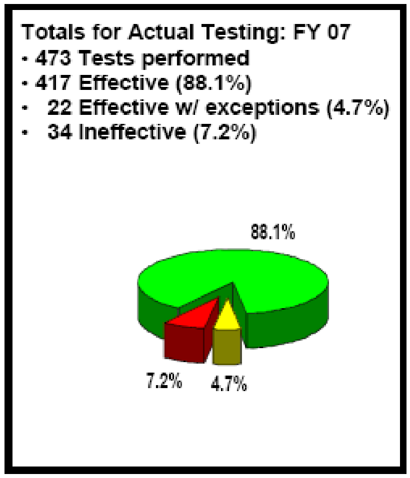
DeCA accepts the responsibility of reporting performance and financial data accurately and reliably with the same vigor as we accept and conduct business and manage commissary operations. All performance data for this report is gathered and reported through a system of rigorous controls and quality checks. Representatives from each directorate or process gather year-end performance data from their respective program and project officers. The process owners and/or directors for each area or office review and validate the data. Accountants and analysts in the Office of the Chief Financial Executive also review this data before it is archived with all pertinent source information. In addition, DeCA uses various management information systems regularly to track and report on performance and financial data. DeCA continues to meet the challenge of producing financial reports within the imposed accelerated timeframes.

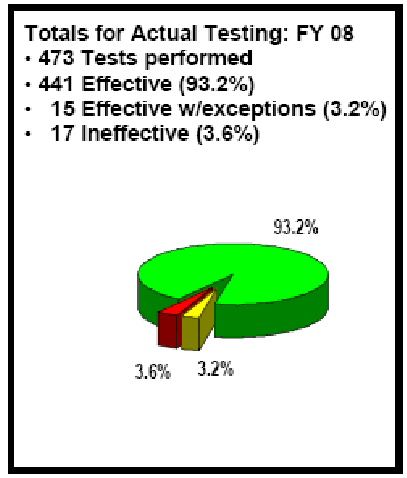
**OMB CIRCULAR A-123, MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTORLS OVER FINANCIAL REPORTING, APPENDIX A:**

OMB Circular A-123, Appendix A is fully implemented throughout DeCA. For the past two years, all processes material to the financial statements have been documented and tested. In FY 2008, 473 key controls were identified and tested. Ninety-three percent of these controls were found to be operating effectively with zero exceptions; three percent were operating effectively with limited exceptions; and the remaining four percent of the controls were ineffective and are currently undergoing corrective action plans to bring them to the required level of effectiveness. None of the ineffective controls were considered to be material weaknesses. The current year results show a significant increase over the effectiveness of the controls from FY 2007. This was mainly due to the correction of sixty-seven percent of the ineffective controls identified in FY 2007. Additionally, the Internal Control Senior Assessment Team (SAT) monitored these controls through formal corrective action plans. As expected, testing results are similar to those of the external auditors indicating that continual internal improvement will translate into reduced findings by the external auditors and more useful financial statements for the Agency.

# Comparison with prior results




Since the onset of the program, DeCA has provided timely submissions to the Under Secretary of Defense (Comptroller), Financial Improvement and Audit Readiness Directorate for the OMB Circular A-123, Appendix A deliverables noted below.

| | | *DELIVERABLES* | | | | |
|---|---|---|---|---|---|---|
| | Focus Areas | 20 Dec 07 Process Narratives/ Flowcharts | 29 Feb Risk Assessments | 20 Mar Control Analysis | 1 May Test Plans | 27 June Controls Testing |
| *PRIOR YEAR FOCUS AREAS* | **Fund Balance With Treasury** | ● | ● | ● | ● | ● |
| | **Environmental Liabilities** | | | | | |
| | Non-DERP | ● | ● | ● | ● | ● |
| | **Real Property** | | | | | |
| | Acquisition & Disposal | ● | ● | ● | ● | ● |
| | Construction-In-Progress | ● | ● | ● | ● | ● |
| | **Appropriations Received** | ● | ● | ● | ● | ● |
| | **FECA** | ● | ● | ● | ● | ● |
| *FY 2008 FOCUS AREAS* | **Accounts Receivable** | ● | ● | ● | ● | ● |
| | **Accounts Payable** | ● | ● | ● | ● | ● |
| | **Inventory** | ● | ● | ● | ● | ● |
| *OTHER FOCUS AREAS* | **Personal Property** | ● | ● | ● | ● | ● |
| | **Other Liabilities** | ● | ● | ● | ● | ● |
| | **Cash and Other Monetary Assets** | ● | ● | ● | ● | ● |

● Delivered on time

● Delivered on time but re-submission was necessary

● Delivered late

The Agency improved in three focus areas:

**<u>Property Accountability:</u>**

- Improved process for supporting documentation for capital assets so that each asset in the Defense Property Accountability System (DPAS) for the $98 million commissary front end replacement project, CARTS (Commissary Advanced Resale Transaction System), was supported by actual invoices from the contractor responsible for deployment.
- Property accountability recognized the full cost of the asset (CARTS) including the site preparation and installation costs for equipment and all software development costs incurred during Acquisition Milestones B and C.

**<u>Accounts Receivable:</u>**

- Reduced the value of aged coupons greater than 60 days awaiting reimbursement from manufacturer by 74 percent. Outstanding debt was reduced by nearly $140 thousand.

**<u>Accounts Payable:</u>**

- Reduced the net number of unliquidated obligation records by 10 percent, from 21,100 records to less than 19,000 records.
- Data cleansing efforts are on track with the Agency's future conversion to Enterprise Architecture, the Defense Agencies Initiative.

## FEDERAL MANAGERS FINANCIAL INTEGRITY ACT (FMFIA) STATEMENT OF ASSURANCE:

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

- Has an efficient and effective operation;
- Provides reliable financial reports; and
- Complies with applicable laws and regulations.

In FY 2008, DeCA reported an unqualified statement of assurance. In making the determination, the Director considered information from various sources, which included management reviews, Inspector General and Government Accountability Office reports, audit of financial statements, reviews of financial and computer systems, and other information provided by committees of jurisdiction. In addition, for FY 2008, DeCA tested key controls using the methodology prescribed in Appendix A, including documentation of processes by assessable unit managers using narrative and flow charts, determination of risk and controls, and testing of controls. The SAT reviewed and approved all test results. DeCA tied with two other Department of Defense Agencies/Offices for the highest score in DoD on the Annual Statement of Assurance for FY 2007.

**FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA) STATEMENT OF ASSURANCE:**

DeCA's legacy financial systems are not compliant with the U.S. Standard General Ledger (USSGL) and fall short of integrated system requirements for FY 2008. As a result, the detailed level transactions are not captured at the USSGL 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. We continue to employ a system of processes and detailed reconciliations that adequately address this issue.

## 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 statements have been prepared from its books and records in accordance with the formats prescribed by OMB, the 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 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.

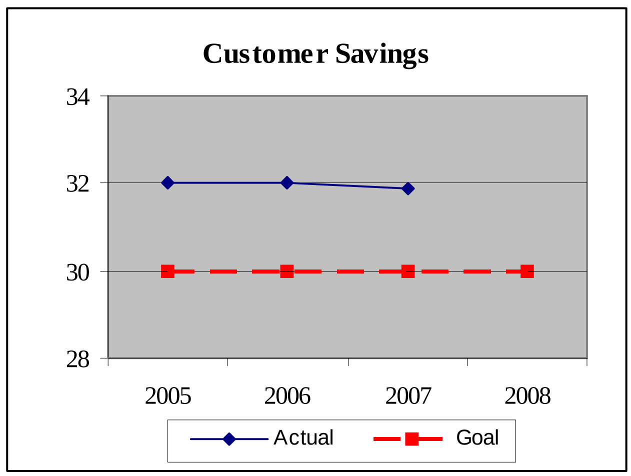
# PART II

# PERFORMANCE SECTION

# PERFORMANCE ANALYSIS

DeCA nurtures a professional rapport with industry and business leaders building a stronger commissary benefit for the customers who depend on it by facilitating agency and industry collaboration. DeCA ensures that customers, employees, industry, Congress and other stakeholders understand the value of the commissary benefit and the need to preserve it as the premier Quality of Life benefit for the men and women who proudly serve our Nation. In directing a worldwide system of 260 commissary stores in the beginning of FY 2008 and ending FY 2008 with 254 commissary stores, annual sales of $5.8 billion, and over 17,600 employees serving 11.9 million authorized patrons, DeCA has once again led the Agency to new highs in sales growth and customer service, while at the same time decreasing constant dollar unit cost and fostering an environment that rewarded innovative and strategic thinking that focused on the Agency's future. The following charts and discussions illustrate how our achievements compare to our targets for the last four years.

**Customer Savings**:

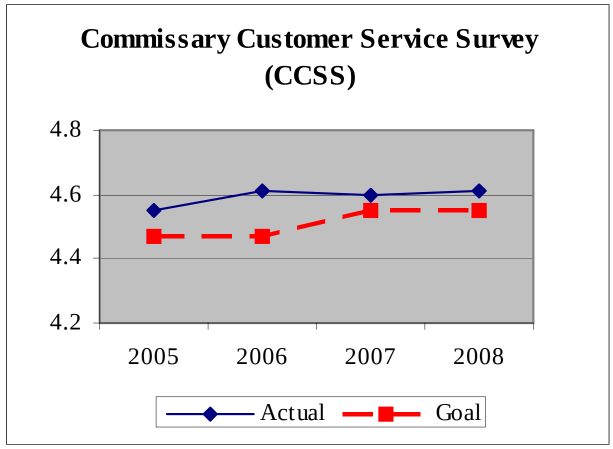



**Background**: The patron savings are calculated in the following manner: CONUS savings for Universal Product Coded (UPC) items are calculated using a comprehensive database of actual prices from commercial grocery stores and commissaries (prices from all major supermarket chains and super centers are included in this over 30,000 item comparison). Since the database contains only items with a UPC, prices for fresh meat and produce are obtained by physical audit at randomly selected commercial stores and commissaries. The patron savings for Alaska and Hawaii commissaries are calculated using a physical audit for a 200 item sample of grocery, meat, and produce items. Separate savings percentages are then derived for each of the 7 major departments comprising the surveys, and each is subsequently weighted by the Bureau of Labor Statistics Consumer Expenditure Survey. Prices for the four overseas areas (Europe, Far East, Guam, and Puerto Rico) in the study are captured via physical audits similar to those used for Alaska and Hawaii. Once the overseas savings numbers are compiled, the data for both CONUS (including Alaska and Hawaii) and overseas savings are weighted using sales percentage ratios to arrive at a worldwide savings number.

**Results:** The validated results of customer savings should be available for public release by the end of November 2008. DeCA's goal for FY 2008 is to maintain savings of at least 30 percent over industry.

## Commissary Customer Service Survey (CCSS):

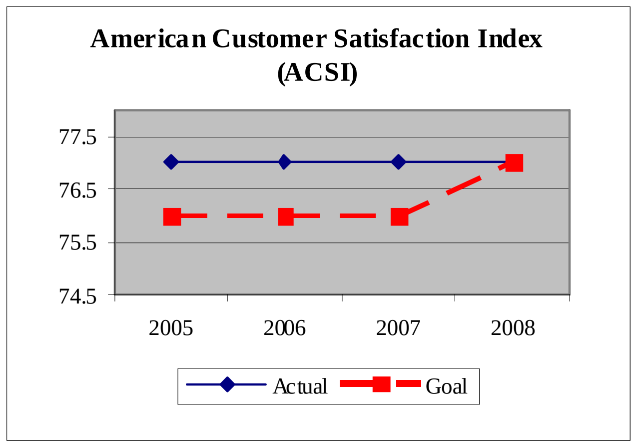
**Background:** Customer satisfaction is evaluated by surveys based on a statistically sound sampling technique and all scores are weighted to account for differences in commissary size.




**Results**: The FY 2008 CCSS resulted in an actual score of 4.61 for a 103.1 percent achievement of the FY 2008 goal of 4.55. The survey was conducted July 14 to July 28, 2008 and was administered to almost 22,000 commissary patrons in CONUS and OCONUS.

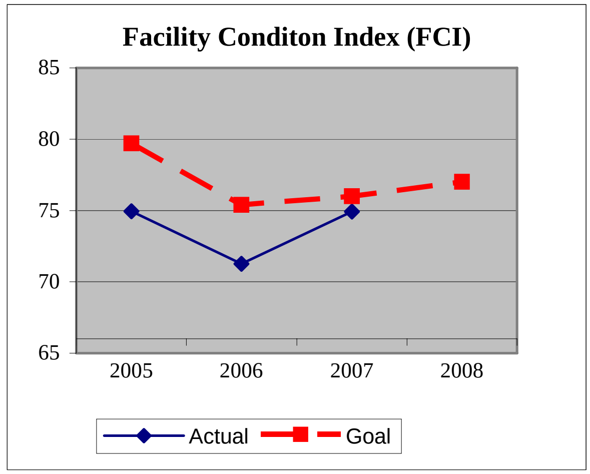
## American Customer Satisfaction Index (ACSI):

**Background**: The ACSI is produced annually through a partnership of the University of Michigan Business School, the American Society for Quality, and the consulting firm, Claes Fornell International Group. The ACSI is a uniform, independent measure that is general enough to be comparable across sectors, industries, and organizations of the U.S. economy. The ACSI measures a multi-variable set of equations and utilizes cause-and-effect relationships to explain customer loyalty and ties that loyalty to customer satisfaction.




**Results:** The FY 2008 goal was a score of 77. In the 2008 ACSI, DeCA once again exceeded the industry average by scoring 77 against the industry average of 76. Customer satisfaction is unchanged for a fourth straight year at 77. Customer expectations are up and perceived quality improved. Perceived value is where DeCA continues to shine brightest. Complaints are low and loyalty significantly increased over last year.

## Facility Condition Index (FCI):




**Background:** The FCI is a numerical expression of the physical state of a commissary store. The FCI is a weighted measure of a commissary's condition, refrigeration system, and energy usage and efficiency. The FCI reflects the overall condition of commissary plants and facilities and is used as a leading indicator in assessing the effectiveness of surcharge-funded building investments. The FCI goals were re-evaluated and realigned in FY 2006 due to changes in technology, decreased budgets, and reduced buying power. In addition, previous Base Realignment and Closures (BRAC) have resulted in the closure of several commissaries and BRAC 2005 and the Global Defense Posture Realignment process will close approximately 30 more. Many of the targeted facilities are modern stores with high FCI scores, which will further reduce our overall score.

**Results:** The revised goal for FY 2008 is a score of 77 with results expected to be verified, tallied, and reportable by the end of January 2009.

# ACCOMPLISHMENTS

DeCA continues to implement initiatives that support the Agency's Balanced Scorecard (BSC), the President's Management Agenda (PMA), and the Program Assessment and Rating Tool (PART). DeCA utilizes a strategic planning and management approach that is used extensively in business and industry, government, and nonprofit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals. These actions have resulted in our commitment to providing dollar savings as a quality of life benefit to our service members, our commitment to providing services that add value to what customers receive, our focus on employee satisfaction, employee retention, and employee productivity culminating in increased accessibility of the commissary benefit without incurring costs.

## STRATEGIC MANAGEMENT OF HUMAN CAPITAL:

The Agency is committed to meeting the Office of Personnel Management's standards for hiring and established internal strategies to further reduce hiring time. The Agency tracks the time it takes to fill positions using the event coding in the Defense Civilian Personnel Data System. Separate standards have been established for an internal commissary store fill rate, an external commissary store fill rate, and a region and headquarters fill rate. The Agency had two Senior Executive Service (SES) positions to fill in FY 2008, which were filled well within the guidelines. The fill rate for non-SES positions was well below the DoD mandate of 45 days for each quarterly reporting period in FY 2008.

## COMPETITIVE SOURCING:

DeCA was on track to meet the goal to review 50 percent of the Federal Activities Inventory Reform Act (FAIR) inventory by the end of FY 2008. However, the National Defense Authorization Act of FY 2006 waived DeCA from having to conduct any cost comparison studies of commissary store functions until December 31, 2008.

DeCA publicly announced the Resale Accounting functions, containing 141 positions, in FedBizOpps on June 13, 2006. ODUSD approved extension until May 2008. However, DeCA submitted a cancellation request based on the fact that DeCA recently signed a statement of intent with DoD to be a full participant in the Defense Agencies Initiatives (DAI). The DAI is anticipated to improve processes and efficiencies of current accounting functions that were to be included in the study thus rendering the Performance Work Statement that would have been used for competition obsolete. DeCA received formal notice of cancellation approval on March 25, 2008. The memorandum was dated March 18, 2008 and signed by the DUSD of Installations and Environment (DUSD(I&E)).

## IMPROVED FINANCIAL PERFORMANCE:

The Agency's financial performance continues to improve. Once again we received an unqualified audit opinion on our consolidated financial statements in FY 2008 - our seventh in a row. The Agency is again in full compliance with the internal controls over financial reporting in accordance with the Office of Management and Budget Revised Circular A-123, Management's Responsibility for Internal Control. DeCA's FY 2008 purchase card delinquency rate was also 0 percent as of September 30, 2008 against the DoD allowable rate mandate of 0 percent.

## EXPANDED ELECTRONIC GOVERNMENT:

DoD mandates that all major information technology (IT) investments have an acceptable business case, which includes security, measures of success linked to the modernization blueprint, program management, risk management as well as cost, schedule, and performance goals. DeCA's new point-of-sale system replacement, Commissary Advanced Resale Transaction System (CARTS) has been completed and was an Acquisition Category 1AC system with the Assistant Secretary Defense (Networks and Information Integration) (ASD(NII)) as the Milestone Decision Authority. This authority was in turn delegated to DeCA.

All mission essential IT systems are properly secured (certified, accredited, or otherwise authorized). System information for Mission Essential and Mission Support systems is recorded in the DoD Information Technology Portfolio Repository (DITPR). DeCA's DITPR portfolio consists of both systems and a network enclave. The breakdown is as follows: 19 systems and the network enclave have Authority to Operate Certification and Accreditation (C&A), 2 systems have Initial Authority to Operate C&A, 2 systems are in pre-deployment stage (C&A not yet required), and 1 legacy system with no C&A. DeCA has a security Plan of Action and Milestone process that includes DeCA IG review. Our C&A renewal program is in accordance with the DoD Information Assurance Certification and Accreditation Process guidance.

As required by DoD, agencies/services must contribute to and participate in E-Gov initiatives, rather than creating redundant or agency unique IT projects. DeCA supports the E-Gov initiatives and has no redundant IT initiatives or Lines of Business (LoB). DeCA has implemented processes supporting: (1) government-to-business transactions (via Electronic Commerce/Electronic Data Interchange) and (2) government-to-citizen transactions (Virtual Commissary and other services available through **www.commissaries.com** that increase the commissary benefit). Additionally, DeCA has realized internal efficiencies and effectiveness by using DoD systems applicable to the Agency, such as Defense Travel System (DTS), Defense Property Accountability System (DPAS), Defense Civilian Personnel Data System (DCPDS), and Defense Civilian Pay System (DCPS). There is no duplication of E-Gov, SmartBuy, or Line of Business products/services. DoD/GSA acquisition vehicles are checked before buying to discern if they can satisfy requirements. DeCA routinely checks with SmartBuy as part of the Agency's acquisition strategy. DeCA purchased the Oracle Enterprise License through DLT Solution, which uses the SmartBuy vehicle.

DeCA has adapted the No FEAR Act web training developed by the Department of Treasury with their consent. The No FEAR training is now available to all DeCA employees via the DeCA training website. DeCA is now linked to the DoD Constitution Day training website making that training available to all employees. DeCA personnel also use the Army's Acquisition Training Application System (ACQTAS) to register at the Defense Acquisition University for an online course (e.g., Government Purchase Card training). In preparation for implementing the National Security Personnel System (NSPS), DeCA placed links to existing e-Learning NSPS courseware to the DeCA training website for access to all transitioning employees.

OMB and DoD mandated a Privacy Impact Assessment (PIA) of 90 percent or greater of applicable systems. DeCA implemented a PIA process to ensure compliance with this guidance and identified only two systems that require a PIA. PIA's for both systems, CARTS and DeCA's web-based Virtual Commissary have been posted to DeCA's public website and forwarded to OMB and DoD as required.

**PERFORMANCE IMPROVEMENT:**

DeCA established a Corporate Governance Board (CGB) that sets the Agency direction and actively oversees execution of the strategic plan and programs. The CGB supports the Director, DeCA, and the Executive Steering Committee (ESC) through decisions, deliberations, and advice related to Agency mission and strategic goals. Through DeCA's Corporate Performance Reviews, we instill financial management disciplines in all of our functional process owners. We expect better accounting of assets and liabilities, accurate tracking of receipts and payments, and strong controls to mitigate waste, fraud, and abuse.

The Fall 2007 Update of DeCA's Program Assessment Rating Tool (PART) of performance measures, resource information, and improvement plan data were documented in the President's FY 2009-2013 Budget. DeCA's PART was included in the budget submission when it went before Congress and was signed on February 4, 2008. The Agency had 12 performance measures documented in the original 2006 PART, with one base lined at FY 2000, six base lined at FY 2001, and two base lined at FY 2002. These nine baselines were revalidated and were found to be reliable and sound. The three new performance measures added in FY 2006, Major Construction Project Execution, Internal Controls over Financial Reporting, and Audited Results of Financial Statements all met or exceeded both the FY 2006 and FY 2007 goals thereby establishing auditable and valid results and the establishment of solid baselines for future trends analysis. Currently, the fall 2008 PART Update is in process.

## NEAR AND LONG-TERM PLANS

### COMMISSARY AS DoD NUTRITIONAL LEADER:

DeCA is providing military families more choices for healthful and nutritional foods and continues to collaborate with military health officials to inform commissary patrons about eating healthier, weight management, special dietary needs, fitness, and "financial fitness" through commissary savings. Since 2005 DeCA has supported the TRICARE "Healthy Choices for Life" initiative with the commissary "It's Your Choice, Make It Healthy" program.

Most significantly, DeCA improved its produce procurement in FY 2007 to deliver higher quality, lower cost fresh fruits and vegetables to commissary shoppers. As a result of outreach and this actual improvement in fresh fruits and vegetables offered, the produce department led all other major departments in percentage of sale increases.

DeCA also increased offerings of organic labeled food from about 600 items in FY 2007, with corresponding sales of $30.2 million, to 1,143 items and corresponding sales of $47.8 million for FY 2008 (not counting fresh meat and produce). Consistent with merchandising found in leading commercial supermarkets, DeCA has integrated organic foods on the shelves throughout the commissary, while grouping together "health food store" items such as gluten-free products and vitamins.

In FY 2007, DeCA partnered with government and industry to distribute a wide variety of healthy eating information and conducted more than 81 health and wellness screenings and healthy shopping tours at commissaries worldwide. In partnership with the DoD Nutrition Committee, DeCA established a health and wellness promotion group of registered dietitians who are working with commissaries conducting continued health events worldwide in FY 2008.

### COOPERATIVE EFFORTS WITH EXCHANGE SYSTEMS:

DeCA and the exchanges are exploring broader joint efforts with potential to improve the military shopping experience while enhancing the resale system. Ideally, cooperative efforts should result in reduced costs, improved customer satisfaction, or increased contributions to the commissary surcharge fund and exchange profits. Examples of specific efforts, either ongoing or feasible for further exploration are listed on the following page.

- Town Center Concept – AAFES is including place holders for commissaries as it develops plans and seeks approval for its Life Style Center, formally known as the Town Center Concept, with the first location at Fort Bliss.

- Joint Outreach – In FY 2007, DeCA began routinely furnishing exchanges with copies of the commissary bi-weekly promotional program to support planning for joint sales and advertising.

DeCA provided 48,000 outreach handouts for use in NEXCOM's welcome kits and AAFES included commissary message space in mailers to 1.2 million patrons. During the 2007 holiday season, DeCA and AAFES jointly shared sales information with customers for Thanksgiving and Black Friday. Teleconferences have been conducted to identify continued opportunities.

- Joint Sales - Initiatives include identifying sites and schedules for joint sales, joint case-lot sales and joint off-site sales. DeCA and the exchanges are discussing how to define optimal product mix and complementary merchandising plans.

- Shared Distribution - DeCA and AAFES are finalizing a memorandum of agreement to identify areas in the respective logistics networks where like processes can be combined resulting in decreased landed cost and/or improved service to customers.

- Virtual Stores (eCommerce Marketing) - DeCA and the exchange organizations provide links to one another's websites. DeCA will consider cross-merchandising with the exchanges as it further develops commissary on-line shopping.

- Shared Planning/Business Intelligence Information - AAFES and DeCA are sharing data via Internet access to determine if this will benefit planning and programming of joint construction. AAFES has provided access to its ConstructWare, while DeCA has provided access to its Facilities Automated Construction Tracking System. AAFES has also provided access to its master plans to include mapping/site information and surrounding retail demographic data.

- Environment/Going Green - Initial discussions have focused on finding joint ways to reduce energy use/costs, maximize recycling and promoting environmentally friendly products. AAFES and DeCA are investigating whether bundling of commissary and exchange recyclables will attract additional bulk purchasers and increase returns.

**EXPANDING BENEFIT ACCESS FOR GUARD AND RESERVE:**

In light of the increased military use of Guard and Reserve units and the impact on families left behind, DeCA looked for ways to enhance these members' use of their commissary benefit, particularly for those who do not have ready access to a commissary store. DeCA explored ways to increase the locations and frequency for off-site sales at Guard and Reserve units without increasing the overall cost of the commissary benefit. Initiatives included identifying demographic areas highly populated with Guard and Reserve personnel to better arrange location and frequency of off-site sales.

DeCA made the commitment to the DoD and expanded outreach beginning in 2007 to Guard and Reserve members who are not located near a commissary. The purpose of the Guard and Reserve On-Site Sales is to expand access to the commissary benefit by providing a select assortment of high-demand products based on customer demographics in a location more convenient to where they live or train. Additional concepts under consideration include off-site sales that would aggregate Internet-based orders from individual Guard and Reserve unit members into a truckload, and conducting joint off-site sales with military exchanges.

During FY 2007, off-site sales were held at 21 Guard and Reserve locations, generating $1.6 million in sales. These sales supported Guard and Reserve units throughout the United States including locations in Vermont, Washington, Georgia, Utah, Indiana, Alaska, South Carolina, Massachusetts, Connecticut, Arkansas, Florida, and Louisiana and generating sales ranging from $6.5 thousand to over $400 thousand at a single event. In FY 2008, off-site sales at 104 Guard and Reserve locations generated $4.4 million in sales while serving approximately 41,347 customers. For the first quarter of FY 2009, DeCA has programmed 57 off-site sales.

**GOING GREEN AND OFFSETTING ENERGY COSTS:**

DeCA continually seeks to improve its impact upon the environment through practices such as energy audits, efficiency training of personnel, and waste management/recycling. As a result, conservation savings have helped offset rising energy costs. Through the third quarter of FY 2008, DeCA's Energy Management Program has cumulatively saved $52 million in utility costs through cost avoidance since 1995. DeCA made Going Green a strategic focus item for FY 2008. Some initiatives to reduce costs, save energy, and help the environment include:

- Energy Demonstration Projects - Exploring various initiatives to reduce energy consumption/cost, such as installation of solar panels, use of motion activated light-emitting diode lighting, and daylight harvesting.

- DeCA Reusable Grocery Bags - Sold over 25,000 reusable bags made of sturdy mesh polypropylene since their introduction in October 2007.

- Compact Fluorescent Light (CFL) Bulbs - In FY 2007, DeCA sold 469,118 CFL package units. DeCA's goal was to sell one million CFL units in FY 2008 and that goal was reached on July 29, 2008.

- Strategic Partnerships with Industry and Exchanges - The Agency is procuring products containing recycled material and encouraging supplier packaging which can be recycled/reused. DeCA and AAFES are jointly exploring the prospects of recycling plastics and other materials.

**INFORMATION OUTREACH TO GUARD AND RESERVE:**

DeCA has specifically targeted outreach and communication programs to enhance understanding of the benefit and encourage its use among members of the Guard and Reserve and their families.

In FY 2007, DeCA representatives and speakers participated in Guard and Reserve professional workshops, public affairs meetings and association conferences such as providing information to approximately 1,000 reservists at the Army Reserve Family Readiness Education for Deployment training in Dallas, Texas, in May 2007. In addition to targeting distribution of press releases, DeCA cooperated with AAFES to print commissary information in exchange mailers sent to Guard and Reserve members. To foster two-way communication, DeCA's annual Patron Council meeting included Guard and Reserve representatives from each of the Military Services. DeCA recognizes outstanding initiative at the store level with its annual Outreach Awards for National Guard and Reservists.

DeCA has increased its efforts in FY 2008 by initiating outreach to senior leaders and seeking their ideas on improving the commissary benefit for their members. The Acting Director of DeCA met with the Assistant Secretary for Reserve Affairs in November of 2007 and the National Guard Bureau chief in December of 2007 and was invited to address the National Guard Adjutant Generals Senior Leadership Day.

**PRODUCE PROCUREMENT:**

In FY 2007, DeCA established contracts directly with commercial companies that resulted in provision of top quality fresh fruit and vegetables to commissaries with significant patron savings and merchandising support. Recapturing patrons' produce shopping has had a positive impact on use of the entire commissary benefit. Since DeCA began implementing the new procurement method, the produce department has led all other major departments in percentage of sale increases.

Patrons' average savings increased on the 70 most popular items, ranging from 40 to 50 percent. The suppliers' records of high standards resulted in unmatched produce quality. Merchandising support from the contractors has created a produce shopping experience that meets or beats that of any other produce retailer. As a bonus, the merchandisers offer excellent training and guidance to DeCA produce personnel.

New produce contracts have been awarded for CONUS locations plus Alaska, Hawaii and Puerto Rico. Contracts have been awarded for the United Kingdom, with awards pending for the remaining European, Pacific and Far East areas. Defense Supply Center - Pennsylvania has provided support during the transition and will continue to do so until the program is fully implemented.

## SUMMARY

In summary, DeCA's past performance and projected FY 2008 performance indicates positive progress. DeCA's investment in human capital, technologies, programs, and product support applied to individual performance is necessary to achieve and provide the commissary benefit to the Total Force personnel and their families.

# PART III

# FINANCIAL SECTION

## CHIEF FINANCIAL EXECUTIVE'S MESSAGE

In Fiscal Year (FY) 2008, the Defense Commissary Agency (DeCA) has, for the seventh straight year, proven itself among the best in the Department of Defense (DoD) in financial accountability. DeCA's Independent Auditor, KPMG, has once again given DeCA's financial statements an unqualified opinion for FY 2008. By continually achieving clean audit opinions, the Agency proves a responsible stewardship of the taxpayers' dollars. As of FY 2007, there were only 3 other agencies that had received 6 consecutive clean opinions. This outstanding accomplishment demonstrates an effective corporate governance process. The DeCA Financial Audit Advisory Committee, with members from OSD (Comptroller), DoD IG (Inspector General), Defense Finance Accounting Service (DFAS), and multiple DeCA offices continues to meet regularly with our independent audit firm, KPMG, to manage the financial statement audit, with a particular focus on process improvements to correct previous audit findings. By maintaining oversight of the audit progress, combined with our "internal controls," our financial processes continue to improve and support the maintenance of a clean audit opinion.

As reported in the previous two Performance and Accountability Reports, DeCA has embraced internal controls over financial reporting, the goal of OMB circular A-123, Appendix A, which was implemented in FY 2006. Redefining and improving processes have resulted in cost avoidance, improved compliance with internal controls and business processes, and engaged functional leaders from facilities, sales, and property accountability in the financial reporting process of the Agency. In fact, we are successfully employing Appendix A methodology across all areas of the Agency, not just financial reporting.

I am proud that for the second straight year, DeCA achieved the highest score in DoD on our annual Statement of Assurance for FY 2007, clearly demonstrating a strong commitment to the agency's overall internal control program. Our leadership understands how important processes and process improvements are to our overall internal control program. From the bottom to the top, from the back door to the front end, we continue to raise the bar in financial stewardship. It's no coincidence that we excel in all areas of financial management, accountability and internal controls.

In FY 2008, DeCA continued progress in meeting established goals and targets such as sales, costs, facility conditions, major construction, customer satisfaction, patron savings, and leadership development. We have maintained focus and leadership emphasis on these and other key balanced scorecard perspectives through our corporate governance processes and business transformation strategies. Strategic planning is our culture now which includes linking our strategic initiatives to our balanced scorecard performance metric.

Another step toward improved accountability and more accurate and compliant financial systems is the Defense Agencies Initiative (DAI). The DAI, an Enterprise Resource Planning (ERP) system represents DoD's effort to streamline financial management capabilities, eliminate material weaknesses, and achieve a clean audit opinions on financial statements. DAI will implement a standardized financial system solution that addresses the requirements in the Federal Financial Management Improvement Act, the Chief Financial Officer Act, and the Business Enterprise

Architecture, while leveraging the out-of-the-box capabilities of the selected commercial-off-the-shelf (COTS) product. For DeCA, DAI is expected to replace the Defense Business Management System, the Standard Finance System, the Computerized Accounts Payable System, the Defense Property Accounting System, and the time and attendance modules of the Defense Civilian Payroll System. DeCA has provided functional representation for this program and during FY 2008, DeCA team members participated in the blueprinting phase of the DAI program. The DAI deployment will be conducted in waves, with DeCA scheduled for Wave 3, starting at the beginning of FY 2011.

The DeCA Enterprise Business System (DEBS) is being designed to replace the DeCA Interim Business System with implementation scheduled for FY 2013. Like DAI, DEBS is an ERP system, which along with DAI, will encompass all of DeCA's business processes. The DEBS Program Management Office has begun Phase I, the Analysis Phase, which focuses on commercial industry software solutions while assisting with efforts such as conducting a thorough analysis of DeCA's business processes, establishing a traceability matrix of the business requirements, analyzing comprehensively against industry best practices, identifying the potential for business process reengineering, performing market research for viable COTS products, and demonstrating COTS functionality against DeCA requirements. The interface between these two ERPs, DAI and DEBS, will allow the agency to provide greater accountability in support of accurate, responsive business decisions.

Finally, in FY 2008, our operations, accountability in particular, are better than ever. We look forward to more financial success as we meet the challenges of future system deployments – both DEBS and DAI – through continued process improvements, internal controls, corporate governance and business transformation. As the Agency welcomed Mr. Philip E. Sakowitz Jr. as DeCA's new Director, Mr. Sakowitz instituted a new slogan, **"The Commissary – It's Worth the Trip!"**. Nothing could be truer for the commissary patron and stakeholders, as the Agency continues to improve the premier commissary benefit without increasing the cost of delivering the benefit.

Pamela F. Conklin
Chief Financial Executive

# DEFENSE COMMISSARY AGENCY
## CONSOLIDATED BALANCE SHEETS
## AS OF SEPTEMBER 30
## (in thousands)

| | 2008 | 2007 |
|---|---|---|
| **Assets** | | |
| Intragovernmental: | | |
| Fund balance with Treasury (Note 2) | $ 601,104 | $ 618,158 |
| Accounts receivable | 27 | 242 |
| Total intragovernmental assets | 601,131 | 618,400 |
| Cash | 108,734 | 125,048 |
| Accounts receivable and other, net | 43,099 | 41,664 |
| Inventory | 386,401 | 341,905 |
| General property, plant, and equipment, net (Note 3) | 822,564 | 774,342 |
| **Total assets** | $ 1,961,929 | $ 1,901,359 |
| **Liabilities (Note 4)** | | |
| Intragovernmental: | | |
| Accounts payable | $ 124,286 | $ 128,426 |
| Other liabilities | 41,130 | 40,195 |
| Total intragovernmental liabilities | 165,416 | 168,621 |
| Accounts payable | 476,126 | 466,135 |
| Federal Employees Compensation Act actuarial liability | 162,455 | 157,870 |
| Environmental liabilities | 31,266 | 32,315 |
| Other liabilities | 87,746 | 79,163 |
| **Total liabilities** | 923,009 | 904,104 |
| **Commitment and Contingencies (Note 11)** | | |
| **Net position (Note 5)** | | |
| Unexpended appropriations | 50,326 | 41,645 |
| Cumulative results of operations - earmarked fund (Note 9) | 1,027,424 | 1,000,569 |
| Cumulative results of operations - other funds | (38,830) | (44,959) |
| Total cumulative results of operations | 988,594 | 955,610 |
| **Total net position** | 1,038,920 | 997,255 |
| **Total liabilities and net position** | $ 1,961,929 | $ 1,901,359 |

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

## DEFENSE COMMISSARY AGENCY
## CONSOLIDATED STATEMENTS OF NET COST
## FOR THE YEAR ENDED SEPTEMBER 30
## (in thousands)

| **Program costs:** | **2008** | **2007** |
|---|---|---|
| Gross costs | $ 7,397,417 | $ 7,069,610 |
| Less: earned revenue | (6,145,262) | (5,858,349) |
| **Net cost of operations (Note 6)** | $ 1,252,155 | $ 1,211,261 |

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

**DEFENSE COMMISSARY AGENCY**
**CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION**
**FOR THE YEAR ENDED SEPTEMBER 30**
**(in thousands)**

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | Earmarked Fund | All Other Funds | Consolidated Total | Earmarked Fund | All Other Funds | Consolidated Total |
| **Cumulative results of operations:** | | | | | | |
| **Beginning balance** | $ 1,000,569 | $ (44,959) | $ 955,610 | $ 990,807 | $ (55,284) | $ 935,523 |
| **Budgetary financing sources** | | | | | | |
| Non-exchange revenue | - | 21,739 | 21,739 | - | 19,583 | 19,583 |
| Appropriations transfers used | - | 1,237,430 | 1,237,430 | - | 1,175,098 | 1,175,098 |
| Transfers in (out) | 3,874 | (3,874) | - | 4,159 | (4,159) | - |
| **Other financing sources (uses)** | | | | | | |
| Imputed financing (Note 7) | - | 31,155 | 31,155 | - | 36,034 | 36,034 |
| Transfers in | - | - | - | 11,373 | - | 11,373 |
| Other - losses in capital assets | (5,060) | (125) | (5,185) | (10,407) | (333) | (10,740) |
| **Total financing sources (uses)** | (1,186) | 1,286,325 | 1,285,139 | 5,125 | 1,226,223 | 1,231,348 |
| **Net cost of (income from) operations** | (28,041) | 1,280,196 | 1,252,155 | 4,637 | (1,215,898) | (1,211,261) |
| **Net change** | 26,855 | 6,129 | 32,984 | 9,762 | 10,325 | 20,087 |
| **Cumulative results of operations** | $ 1,027,424 | $ (38,830) | $ 988,594 | $ 1,000,569 | $ (44,959) | $ 955,610 |

*Continued on the following page.*

## DEFENSE COMMISSARY AGENCY
## CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
## FOR THE YEAR ENDED SEPTEMBER 30
## (in thousands)

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | Earmarked Fund | All Other Funds | Consolidated Total | Earmarked Fund | All Other Funds | Consolidated Total |
| **Unexpended appropriations:** | | | | | | |
| **Beginning balance** | $ - | $ 41,645 | $ 41,645 | $ - | $ 26,346 | $ 26,346 |
| **Budgetary financing sources** | | | | | | |
| Appropriation transfer | - | 1,250,659 | 1,250,659 | - | 1,184,449 | 1,184,449 |
| Appropriations transfers used | - | (1,237,430) | (1,237,430) | - | (1,175,098) | (1,175,098) |
| Transfers in | - | 94 | 94 | - | 10,564 | 10,564 |
| **Other financing sources (uses)** | | | | | | |
| Other adjustments (recissions) | - | (4,642) | (4,642) | - | (4,616) | (4,616) |
| **Total financing sources** | - | 8,681 | 8,681 | - | 15,299 | 15,299 |
| **Unexpended appropriations** | $ - | $ 50,326 | $ 50,326 | $ - | $ 41,645 | $ 41,645 |

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

**DEFENSE COMMISSARY AGENCY**
**COMBINED STATEMENTS OF BUDGETARY RESOURCES**
**FOR THE YEARS ENDED SEPTEMBER 30**
**(in thousands)**

| | 2008 | 2007 |
|---|---|---|
| **Budgetary resources (Note 8)** | | |
| Unobligated balance brought forward | $ 12,912 | $ 19,516 |
| Recoveries of prior year unpaid obligations | 1,108 | 523 |
| Budget authority | 7,108,013 | 6,772,267 |
| Spending authority from offsetting collections | 6,151,741 | 5,853,272 |
| Net transfers and adjustments | 94 | 10,564 |
| Permanently not available | (5,861,303) | (5,557,142) |
| **Total budgetary resources** | $ 7,412,565 | $ 7,099,000 |
| | | |
| **Status of budgetary resources** | | |
| Obligations incurred: | | |
| Direct | $ 1,234,841 | $ 1,177,134 |
| Reimbursable | 6,159,403 | 5,908,954 |
| Total obligations incurred | 7,394,244 | 7,086,088 |
| Unobligated balance - apportioned | 18,316 | 12,897 |
| Unobligated balance - not available | 5 | 15 |
| **Total status of budgetary resources** | $ 7,412,565 | $ 7,099,000 |
| | | |
| **Change in obligated balance** | | |
| Obligated balance, net - beginning of year | $ 846,247 | $ 803,984 |
| Total obligations incurred | 7,394,244 | 7,086,088 |
| Less: gross outlays | (7,424,136) | (7,015,350) |
| Less: recoveries of prior year unpaid obligations | (1,108) | (523) |
| Change in uncollected customer payments from Federal sources | 9,231 | (27,952) |
| **Obligated balance, net - end of year (Note 8)** | $ 824,478 | $ 846,247 |
| | | |
| **Net outlays** | | |
| Gross outlays | $ 7,424,136 | $ 7,015,350 |
| Offsetting collections | (6,160,972) | (5,825,320) |
| **Net outlays** | $ 1,263,164 | $ 1,190,030 |

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

**DEFENSE COMMISSARY AGENCY**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

## *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, and other authorized patrons, including other governmental entities. DeCA is a Department of Defense (DoD) agency under the control of the Under Secretary of Defense for Personnel and Readiness. DeCA was created in 1991 after the House Armed Services Committee-appointed Jones Commission recommended that a single agency be responsible for operating the military commissary system to increase effectiveness and at a lower cost. The Consolidated Statement of Net Cost presents the annual 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; and delivers exceptional savings while enhancing quality of life; fostering recruitment, retention and readiness; and supporting war fighters' peace of mind, knowing their families have secure and affordable access to American products.

DeCA, with its headquarters located at Fort Lee near Petersburg, Virginia, has three regional offices located at Kaiserslautern, Germany; Fort Lee, Virginia; and Sacramento, California. DeCA operations are financed primarily by a working capital fund (WCF) and surcharge collections trust fund. The surcharge collections trust fund is part of DeCA's general fund. The general fund also has a fund used in support of Hurricane Katrina relief efforts and receives certain amounts of military construction and procurement appropriated funds.

DeCA's WCF is considered part of the DoD's WCF, which includes the financial activity 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 fund control purposes. Commissary Resale Stocks finance 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 finance the operating costs of resale stores, agency and region headquarters, field operating activities, and support services. The primary revenue source for this activity group is a direct appropriation 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.

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 an earmarked fund. Earmarked funds are financed by specifically identified revenues and other financing sources that are required by statue to be used for designated purposes and must be accounted for separately from DeCA's general revenues.

**B. <u>Basis of Presentation and Accounting</u>**

These financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and status and availability of budgetary resources. The Chief Financial Officers (CFO) Act of 1990, expanded by the Government Reform Act (GMRA) of 1994, requires DoD to prepare financial statements. DoD, in turn, requires DeCA to prepare audited financial statements. The financial statements have been prepared from the books and records of DeCA in accordance with accounting principles generally accepted in the United States of America and DoD accounting policies, which are summarized in this note. These financial statements, with the exception of the Statement of Budgetary Resources, are therefore different from the financial management reports prepared by DeCA that are used to monitor and control DeCA's use of budgetary resources pursuant to Office of Management and Budget (OMB) directives.

Transactions are recorded on both an accrual accounting basis and budgetary 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. All material intra-agency transactions and balances have been eliminated for presentation on a consolidated basis. However, the Statement of Budgetary Resources is presented on a combined basis in accordance with OMB directives.

All dollar amounts are in thousands.

**C. <u>Fund Balance with Treasury</u>**

Fund balance with Treasury (FBWT) is the aggregate amount of funds in DeCA's accounts with the U.S. Department of Treasury (Treasury). FBWT primarily represents appropriated, revolving, and trust funds that are available to pay current liabilities and finance authorized purchases. Note 2 provides specific, detailed information concerning FBWT.

**D. <u>Cash</u>**

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

**E. Accounts Receivable**

Accounts receivable consists of amounts owed to DeCA by other Federal agencies and the public. Federal accounts receivable arise generally from the provision of goods and services to other federal agencies. No allowance for doubtful accounts is determined 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. Non-Federal accounts receivable are reported net of an allowance of $243 and $302 as of September 30, 2008 and September 30, 2007, respectively.

**F. Inventory**

Inventory consisting primarily of grocery, meat, and produce items held for resale is stated at approximate cost.

**G. General Property, Plant, and Equipment**

General property, plant, and equipment (PP&E) consists of building, structures, and facilities (BSF), software, equipment, and construction-in-progress. PP&E is stated at acquisition cost, less accumulated depreciation. DoD establishes capitalization and depreciation policies for PP&E.

BSF is included in PP&E under DoD's "Preponderance of Use" policy. This policy recognizes that the DoD agencies that gain the most benefit by virtue of space usage should record the asset as general PP&E.

PP&E acquisitions are capitalized if they meet the capitalization threshold of $100 thousand and have a useful life of two or more years. The real property capitalization threshold is currently $20 thousand.

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 generally 40 years for buildings, structures, and facilities, and 5 years for software and equipment.

Base Realignment and Closure (BRAC) funding has been authorized for a Military Construction (MILCON) project to construct an addition to the DeCA headquarters (HQ) at Fort Lee, VA. This action is in accordance with the MILCON and Veteran Affairs and Related Agencies Appropriations Act, 2008 (P.L. 110-161). The Defense Finance & Accounting Service (DFAS) is the DoD component responsible for reporting the associated construction in progress. Once construction is complete and title is transferred, DeCA will record the HQ addition. The addition is expected to be complete by 2011 at a total cost of $24 million. As of September 30, 2008, $1.7 million has been completed.

Note 3 provides specific, detailed information concerning general PP&E.

## H. Other Liabilities

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

***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 below.

***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. DeCA employees can earn compensatory leave in lieu of overtime pay.

***Capital Lease Liability***. The capital lease liability includes the present value of liabilities for assets acquired under a lease agreement that meets the criteria for capitalizing the assets.

Note 4 provides specific, detailed information about other liabilities.

## I. Actuarial Liability

In addition to the liabilities discussed above, DeCA records an actuarial liability for its remaining 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 OMB's economic assumptions for 10-year U.S. Treasury notes and bonds. The assumed interest rate for 10-year U.S. Treasury notes and bonds is 4.770% and 5.078% at September 30, 2008 and 2007, respectively. DoD uses a three-year moving average to distribute the actuarial liability to the various DoD agencies based on actual costs incurred by the respective DoD components.

## J. Imputed Financing and Costs

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

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

Employees hired before January 1, 1984, elected to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which DeCA automatically contributes one percent of pay and matches any employee contribution up to an additional four percent of pay. For most employees hired since December 31, 1983, DeCA also contributes the employer's matching share for Social Security.

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 the Office of Personnel Management (OPM). DeCA recognizes an imputed financing source and a program expense 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.

**K. Environmental Liabilities**

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

**L. Net Position**

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

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

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

Note 5 provides specific, detailed information on Net Position.

**M. Non-Exchange Revenue**

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

**N. Use of Estimates**

DeCA has made certain estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent liabilities, and the reporting of revenue and expenses in the financial statements. Actual results could differ from these estimates.

**O. Reclassifications**

Certain FY 2007 balances have been reclassified, retitled, or combined with other financial statement line items for consistency with current year presentation.

### *NOTE 2 - FUND BALANCE WITH TREASURY*

FBWT consists of three types of funds – appropriated funds, revolving, and trust funds. The revolving fund relates to DeCA's resale stocks fund, the trust fund relates to the surcharge collections fund, and appropriated funds include the commissary operations, military construction and procurement, and Hurricane Katrina funds.

The following table shows the balance for each type of fund as of September 30, 2008 and 2007:

| **Fund balances:** | **2008** | **2007** |
|---|---|---|
| Appropriated funds | $ 284,111 | $ 257,974 |
| Revolving fund | 28,114 | 42,838 |
| Trust fund | 288,879 | 317,346 |
| Total | $ 601,104 | $ 618,158 |

The following table shows the status of the fund balances as of September 30, 2008 and 2007:

| **Status of fund balances:** | **Appropriated** | **Revolving** | **Trust** | **Total** |
|---|---|---|---|---|
| Unobligated balance available | $ 18,316 | $ - | $ - | $ 18,316 |
| Unobligated balance unavailable | 5 | - | - | 5 |
| Obligated balance not yet disbursed, net of contract authority | 265,790 | 28,114 | 288,879 | 582,783 |
| **Total as of September 30, 2008** | $ 284,111 | $ 28,114 | $ 288,879 | $ 601,104 |

| **Status of fund balances:** | **Appropriated** | **Revolving** | **Trust** | **Total** |
|---|---|---|---|---|
| Unobligated balance available | $ 12,897 | $ - | $ - | $ 12,897 |
| Unobligated balance unavailable | 15 | - | - | 15 |
| Obligated balance not yet disbursed, net of contract authority | 245,062 | 42,838 | 317,346 | 605,246 |
| **Total as of September 30, 2007** | $ 257,974 | $ 42,838 | $ 317,346 | $ 618,158 |

### *NOTE 3 - GENERAL PROPERTY, PLANT, AND EQUIPMENT*

General property, plant, and equipment (PP&E) at September 30, 2008 and 2007 is summarized as follows:

| PP&E category | Acquisition Value | Accumulated Depreciation | Net |
|---|---|---|---|
| Buildings, structures, and facilities | $ 1,920,959 | $ (1,280,894) | $ 640,065 |
| Software | 32,501 | (13,078) | 19,423 |
| Equipment | 162,541 | (66,909) | 95,632 |
| Assets under capital lease | 4,396 | (1,465) | 2,931 |
| Construction-in-progress | 64,513 | - | 64,513 |
| **Total as of September 30, 2008** | $ 2,184,910 | $ (1,362,346) | $ 822,564 |

| PP&E category | Acquisition Value | Accumulated Depreciation | Net |
|---|---|---|---|
| Buildings, structures, and facilities | $ 1,924,266 | $ (1,236,828) | $ 687,438 |
| Software | 32,194 | (9,252) | 22,942 |
| Equipment | 171,650 | (135,384) | 36,266 |
| Assets under capital lease | 4,396 | - | 4,396 |
| Construction-in-progress | 23,300 | - | 23,300 |
| **Total as of September 30, 2007** | $ 2,155,806 | $ (1,381,464) | $ 774,342 |

## *NOTE 4 - LIABILITIES*

The following table summarizes total liabilities covered and not covered by budgetary resources as of September 30, 2008 and 2007:

| Intragovernmental: | Covered by Budgetary Resources | Not Covered by Budgetary Resources | Total |
|---|---|---|---|
| Accounts payable | $ 124,286 | $ - | $ 124,286 |
| Other liabilities | 3,391 | 37,739 | 41,130 |
| **Subtotal** | 127,677 | 37,739 | 165,416 |
| | | | |
| **With the public:** | | | |
| Accounts payable | 476,126 | - | 476,126 |
| Federal Employees Compensation Act actuarial liability | - | 162,455 | 162,455 |
| Environmental liability | - | 31,266 | 31,266 |
| Other liabilities | 27,441 | 60,305 | 87,746 |
| **Subtotal** | 503,567 | 254,026 | 757,593 |
| **Total as of September 30, 2008** | $ 631,244 | $ 291,765 | $ 923,009 |

| Intragovernmental: | Covered by Budgetary Resources | Not Covered by Budgetary Resources | Total |
|---|---|---|---|
| Accounts payable | $ 128,426 | $ - | $ 128,426 |
| Other liabilities | 2,768 | 37,427 | 40,195 |
| **Subtotal** | 131,194 | 37,427 | 168,621 |
| | | | |
| **With the public:** | | | |
| Accounts payable | 466,135 | - | 466,135 |
| Federal Employees Compensation Act actuarial liability | - | 157,870 | 157,870 |
| Environmental liability | - | 32,315 | 32,315 |
| Other liabilities | 20,215 | 58,948 | 79,163 |
| **Subtotal** | 486,350 | 249,133 | 735,483 |
| **Total as of September 30, 2007** | $ 617,544 | $ 286,560 | $ 904,104 |

Other liabilities consist primarily of workers' compensation, accrued payroll and benefits, accrued unfunded annual and other leave, and foreign national separation pay. The following table summarizes other liabilities current and non-current as of September 30, 2008 and 2007:

| **Other liabilities** | **Current Liabilities** | **Non-Current Liabilities** | **Total** |
|---|---|---|---|
| **Intragovernmental:** | | | |
| Workers compensation | $ 16,203 | $ 21,536 | $ 37,739 |
| Employer contributions and payroll taxes payroll | 3,391 | - | 3,391 |
| **Subtotal** | 19,594 | 21,536 | 41,130 |
| | | | |
| **With the public:** | | | |
| Accrued funded payroll and benefits | 27,441 | - | 27,441 |
| Foreign national separation pay | 17,068 | - | 17,068 |
| Accrued leave | 41,869 | - | 41,869 |
| Capital lease liability | - | 1,368 | 1,368 |
| **Subtotal** | 86,378 | 1,368 | 87,746 |
| **Total as of September 30, 2008** | $ 105,972 | $ 22,904 | $ 128,876 |

| **Other liabilities** | **Current Liabilities** | **Non-Current Liabilities** | **Total** |
|---|---|---|---|
| **Intragovernmental:** | | | |
| Workers compensation | $ 16,444 | $ 20,983 | $ 37,427 |
| Employer contributions and payroll taxes payroll | 2,768 | - | 2,768 |
| **Subtotal** | 19,212 | 20,983 | 40,195 |
| | | | |
| **With the public:** | | | |
| Accrued funded payroll and benefits | 20,215 | - | 20,215 |
| Foreign national separation pay | 16,095 | - | 16,095 |
| Accrued leave | 40,283 | - | 40,283 |
| Capital lease liability | 2,570 | - | 2,570 |
| **Subtotal** | 79,163 | - | 79,163 |
| **Total as of September 30, 2007** | $ 98,375 | $ 20,983 | $ 119,358 |

# DEFENSE COMMISSARY AGENCY
# NOTES TO THE FINANCIAL STATEMENTS
# FOR YEARS ENDED SEPTEMBER 30, 2008 AND 2007

## *NOTE 5 - NET POSITION*

The following table summarizes the net position by fund type as of September 30, 2008 and 2007:

| **Net position:** | **General Fund** | **Working Capital Fund** | **Total** |
|---|---|---|---|
| Unexpended appropriations | $ 11,358 | $ 38,968 | $ 50,326 |
| Cumulative results of operations - earmarked fund | 1,027,424 | - | 1,027,424 |
| Cumulative results of operations - other funds | - | (38,830) | (38,830) |
| Total cumulative results of operations | 1,027,424 | (38,830) | 988,594 |
| **Total as of September 30, 2008** | $ 1,038,782 | $ 138 | $ 1,038,920 |

| **Net position:** | **General Fund** | **Working Capital Fund** | **Total** |
|---|---|---|---|
| Unexpended appropriations | $ 11,622 | $ 30,023 | $ 41,645 |
| Cumulative results of operations - earmarked fund | 1,000,569 | - | 1,000,569 |
| Cumulative results of operations - other funds | - | (44,959) | (44,959) |
| Total cumulative results of operations | 1,000,569 | (44,959) | 955,610 |
| **Total as of September 30, 2007** | $ 1,012,191 | $ (14,936) | $ 997,255 |

## *NOTE 6 – INTRAGOVERNMENTAL COST*

This statement also reflects intragovernmental and public cost and exchange revenue as summarized in the following table for the years ended September 30, 2008 and 2007:

| | **2008** | **2007** |
|---|---|---|
| Intragovernmental costs | $ 472,733 | $ 437,300 |
| Public costs | 6,924,684 | 6,632,310 |
| Intragovernmental earned revenue | (5,313) | (3,986) |
| Public earned revenue | (6,139,949) | (5,854,363) |
| **Net cost of operations** | $ 1,252,155 | $ 1,211,261 |

Intragovernmental transactions and balances result from exchange transactions made between DeCA and another Federal entity, while those classified as "with the public" result from the exchange transactions between DeCA and non-Federal entities. The purpose of this classification is to enable the Federal government to prepare consolidated financial statements, and not to match public and intragovernmental revenue with costs that are incurred to produce public and intragovernmental revenue.

### *NOTE 7 – IMPUTED FINANCING*

The imputed financing and cost for employee benefits for FY 2008 and 2007 is summarized below:

| Benefit category | 2008 | 2007 |
|---|---|---|
| CSRS/FERS | $ 6,848 | $ 9,263 |
| FEHB | 24,213 | 26,679 |
| FEGLI | 94 | 92 |
| **Total** | $ 31,155 | $ 36,034 |

### *NOTE 8 - STATEMENTS OF CHANGES IN NET POSITION AND BUDGETARY RESOURCES*

The Statement of Budgetary Resources is a combined statement and, as such, intra-entity transactions have not been eliminated. The combined Statement of Budgetary Resources has been prepared to coincide with the amounts shown in the President's Budget (Budget of the United States of America). However, the President's Budget is prepared from the Standard Form (SF) 133, Report on Budget Execution. Due to timing and the need for accelerated reporting at fiscal year end, the SF 133 is prepared using estimates, while the Statement of Budgetary Resources has been adjusted for actual results. As such, the FY 2008 Statement of Budgetary Resources may differ from the amounts in the President's Budget by the differences between estimates used for the SF 133 and the actual results reported in the Statement of Budgetary Resources.

The amounts reported in the FY 2007 Statement of Budgetary Resources are in agreement with the amounts reported for the DeCA Working Capital Fund of the President's Budget. The FY 2008 amounts will be available in the President's Budget during FY 2009. Both documents can be located at the OMB website (http://www.whitehouse.gove/omb).

Total budget authority in FY 2008 and FY 2007 includes an appropriation transfer from the Defense WCF in the amount of $1,250,659 and $1,184,449, respectively, and contract authority in the amount of $5,857,354 and $5,587,818, respectively. The appropriation transfer 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, 2008 and 2007 are $348,108 and $392,649, respectively.

The obligated balance, net - end of period is comprised of the following components for the year ended September 30, 2008 and 2007:

| **Obligated balance, net - beginning of period** | **2008** | **2007** |
|---|---|---|
| Unpaid obligations - brought forward | $ 1,006,534 | $ 936,319 |
| Uncollected customer payments from Federal sources - brought forward | (160,287) | (132,335) |
| Total obligated balance, net - beginning of period | $ 846,247 | $ 803,984 |
| | | |
| **Obligated balance, net - end of period** | | |
| Unpaid obligations | $ 975,533 | $ 1,006,534 |
| Uncollected customer payments from Federal sources | (151,055) | (160,287) |
| Total obligated balance, net - end of period | $ 824,478 | $ 846,247 |

### *NOTE 9 – EARMARKED FUND*

The following table presents condensed data relating to DeCA's earmarked fund, the surcharge collections trust fund, as of and for the year ended September 30, 2008 and 2007:

| **Balance Sheet** | **2008** | **2007** |
|---|---|---|
| **Assets** | | |
| Fund balance with Treasury | $ 288,879 | $ 317,346 |
| Cash and accounts receivable | 5,882 | 7,484 |
| Property, plant, and equipment, net | 799,122 | 752,262 |
| **Total assets** | $ 1,093,883 | $ 1,077,092 |
| | | |
| **Liabilities** | | |
| Accounts payable | $ 35,193 | $ 44,208 |
| Environmental liabilities | 31,266 | 32,315 |
| **Total liabilities** | 66,459 | 76,523 |
| Cumulative results of operations | 1,027,424 | 1,000,569 |
| **Total liabilities and net position** | $ 1,093,883 | $ 1,077,092 |
| | | |
| **Statement of Net Cost** | | |
| Program costs | $ 267,831 | $ 279,983 |
| Less: earned revenue | (295,872) | (284,620) |
| **Net income from operations** | $ (28,041) | $ (4,637) |

### *NOTE 10 – RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET*

The following table presents DeCA's reconciliation of net cost operations to budgetary accounts as of and for the years ended September 30, 2008 and 2007:

| **Resources used to finance activities** | **2008** | **2007** |
|---|---|---|
| Budgetary resources obligated: | | |
| Obligations incurred | $ 7,394,244 | $ 7,086,088 |
| Less: Spending authority from offsetting collections and recoveries | (6,152,849) | (5,853,795) |
| Obligations, net of offsetting collections and recoveries | 1,241,395 | 1,232,293 |
| Other resources: | | |
| Imputed financing from costs absorbed by others (Note 7) | 31,155 | 36,034 |
| Transfers in | - | 11,373 |
| Other - losses in capital assets | (5,185) | (10,740) |
| Net other resources used to finance activities | 25,970 | 36,667 |
| **Total resources used to finance activities** | 1,267,365 | 1,268,960 |
| **Resources used to finance items not part of net costs of operations** | | |
| Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided: | | |
| Undelivered orders | 44,541 | (59,349) |
| Unfilled customer orders | 4,244 | (88) |
| Resources that fund expenses recognized in prior periods | (1,049) | (7,613) |
| Resources that finance the acquisition of assets | (5,977,643) | (5,625,356) |
| Other resources that do not affect net cost of operations | 5,185 | (633) |
| **Total resources used to finance items not part of the net cost of operations** | (5,924,722) | (5,693,039) |
| **Total resources used to finance the net cost of operations** | (4,657,357) | (4,424,079) |
| **Components of the net cost of operations that will not require or generate resources in the current period** | | |
| Components requiring or generating resources in future periods | 3,032 | 111 |
| Components not requiring or generating resources in future periods: | | |
| Cost of goods sold | 5,801,985 | 5,536,522 |
| Depreciation and amortization | 86,461 | 87,442 |
| Revaluation of assets/liabilities | (6,908) | (8,476) |
| Other | 24,942 | 19,741 |
| Total components of net cost of operations that will not require or generate resources in the current period | 5,909,512 | 5,635,340 |
| **Net cost of operations** | $ 1,252,155 | $ 1,211,261 |

## *NOTE 11 – CONTINGENCIES*

DeCA is a party in various administrative proceedings, legal actions, and tort claims which may ultimately result in settlements or decisions adverse to the Federal government. DeCA has not accrued any amounts for contingent liabilities as the potential losses have not been determined to be probable and/or amounts cannot be estimated. The amounts claimed related to the significant cases total approximately $27.8 million as of September 30, 2008.

# DEFENSE COMMISSARY AGENCY
# REQUIRED SUPPLEMENTARY INFORMATION
# COMBINING SCHEDULE OF BUDGETARY RESOURCES
# FOR THE YEAR ENDED SEPTEMBER 30, 2008

| | Defense Working Capital Funds | | | General Funds | | | |
|---|---|---|---|---|---|---|---|
| | Operations | Resale | Other | Surcharge | Military Construction | Katrina - Relief | Combined |
| **Budgetary resources** | | | | | | | |
| Unobligated balance brought forward | $ 2,307 | $ - | $ - | $ - | $ 75 | $ 10,530 | $ 12,912 |
| Recoveries of prior year obligations | - | 1,107 | - | - | 1 | - | 1,108 |
| Budget authority | 1,254,981 | 5,852,712 | - | - | 320 | - | 7,108,013 |
| Spending authority from offsetting collections | 33,819 | 5,816,704 | - | 301,218 | - | - | 6,151,741 |
| Net transfers and adjustments | - | - | - | - | 94 | - | 94 |
| Permanently not available | (19,535) | (5,817,811) | - | (23,942) | (15) | - | (5,861,303) |
| **Total budgetary resources** | $ 1,271,572 | $ 5,852,712 | $ - | $ 277,276 | $ 475 | $ 10,530 | $ 7,412,565 |
| **Status of budgetary resources** | | | | | | | |
| Obligations incurred: | | | | | | | |
| Direct | $ 1,234,449 | $ - | $ - | $ - | $ 392 | $ - | $ 1,234,841 |
| Reimbursable | 29,415 | 5,852,712 | - | 277,276 | - | - | 6,159,403 |
| Total obligations incurred | 1,263,864 | 5,852,712 | - | 277,276 | 392 | - | 7,394,244 |
| Unobligated balances - appropriated | 7,708 | - | - | - | 78 | 10,530 | 18,316 |
| Unobligated balances - not available | - | - | - | - | 5 | - | 5 |
| **Total status of budgetary resources** | $ 1,271,572 | $ 5,852,712 | $ - | $ 277,276 | $ 475 | $ 10,530 | $ 7,412,565 |
| **Change in obligated balance** | | | | | | | |
| Obligated balance, net - beginning of period | $ 279,982 | $ 197,145 | $ 9,262 | $ 358,840 | $ 1,018 | $ - | $ 846,247 |
| Total obligations incurred | 1,263,864 | 5,852,712 | - | 277,276 | 392 | - | 7,394,244 |
| Less: gross outlays | (1,241,460) | (5,852,197) | - | (329,815) | (664) | - | (7,424,136) |
| Less: recoveries of prior year obligations | - | (1,107) | - | - | (1) | - | (1,108) |
| Change in uncollected customer payments from Federal sources | (7,312) | 16,412 | - | 131 | - | - | 9,231 |
| Obligated balance, net - end of period | $ 295,074 | $ 212,965 | $ 9,262 | $ 306,432 | $ 745 | $ - | $ 824,478 |
| **Net Outlays** | | | | | | | |
| Gross outlays | $ 1,241,460 | $ 5,852,197 | $ - | $ 329,815 | $ 664 | $ - | $ 7,424,136 |
| Offsetting collections | (26,507) | (5,833,117) | - | (301,348) | - | - | (6,160,972) |
| **Total net outlays** | $ 1,214,953 | $ 19,080 | $ - | $ 28,467 | $ 664 | $ - | $ 1,263,164 |

# DEFENSE COMMISSARY AGENCY
# REQUIRED SUPPLEMENTARY INFORMATION
# COMBINING SCHEDULE OF BUDGETARY RESOURCES
# FOR THE YEAR ENDED SEPTEMBER 30, 2007

| | Defense Working Capital Funds | | | General Funds | | | |
|---|---|---|---|---|---|---|---|
| | Operations | Resale | Other | Surcharge | Military Construction | Katrina - Relief | Combined |
| **Budgetary resources** | | | | | | | |
| Unobligated balance brought forward | $ 6,401 | $ - | $ - | $ 13,084 | $ 31 | $ - | $ 19,516 |
| Recoveries of prior year obligations | - | 523 | - | - | - | - | 523 |
| Budget authority | 1,190,038 | 5,538,294 | - | 43,525 | 410 | - | 6,772,267 |
| Spending authority from offsetting collections | 27,967 | 5,543,964 | - | 281,341 | - | - | 5,853,272 |
| Net transfers and adjustments | - | - | - | - | 34 | 10,530 | 10,564 |
| Permanently not available | (10,625) | (5,544,487) | - | (2,030) | - | - | (5,557,142) |
| **Total budgetary resources** | $ 1,213,781 | $ 5,538,294 | $ - | $ 335,920 | $ 475 | $ 10,530 | $ 7,099,000 |
| **Status of budgetary resources** | | | | | | | |
| Obligations incurred: | | | | | | | |
| Direct | $ 1,176,734 | $ - | $ - | $ - | $ 400 | $ - | $ 1,177,134 |
| Reimbursable | 34,740 | 5,538,294 | - | 335,920 | - | - | 5,908,954 |
| Total obligations incurred | 1,211,474 | 5,538,294 | - | 335,920 | 400 | - | 7,086,088 |
| Unobligated balances - appropriated | 2,307 | - | - | - | 60 | 10,530 | 12,897 |
| Unobligated balances - not available | - | - | - | - | 15 | - | 15 |
| **Total status of budgetary resources** | $ 1,213,781 | $ 5,538,294 | $ - | $ 335,920 | $ 475 | $ 10,530 | $ 7,099,000 |
| **Change in obligated balance** | | | | | | | |
| Obligated balance, net - beginning of period | $ 269,826 | $ 230,264 | $ 9,262 | $ 293,729 | $ 903 | $ - | $ 803,984 |
| Total obligations incurred | 1,211,474 | 5,538,294 | - | 335,920 | 400 | - | 7,086,088 |
| Less: gross outlays | (1,201,283) | (5,543,616) | - | (270,166) | (285) | - | (7,015,350) |
| Less: recoveries of prior year obligations | - | (523) | - | - | - | - | (523) |
| Change in uncollected customer payments from Federal sources | (35) | (27,274) | - | (643) | - | - | (27,952) |
| Obligated balance, net - end of period | $ 279,982 | $ 197,145 | $ 9,262 | $ 358,840 | $ 1,018 | $ - | $ 846,247 |
| **Net Outlays** | | | | | | | |
| Gross outlays | $ 1,201,283 | $ 5,543,616 | $ - | $ 270,166 | $ 285 | $ - | $ 7,015,350 |
| Offsetting collections | (27,932) | (5,516,690) | - | (280,698) | - | - | (5,825,320) |
| **Total net outlays** | $ 1,173,351 | $ 26,926 | $ - | $ (10,532) | $ 285 | $ - | $ 1,190,030 |

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**KPMG LLP**
2001 M Street, NW
Washington, DC 20036

## Independent Auditors' Report

Audit Committee
Defense Commissary Agency:

We have audited the accompanying consolidated balance sheets of the Defense Commissary Agency (DeCA) as of September 30, 2008 and 2007, and the related consolidated statements of net cost, changes in net position, and the combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our fiscal year 2008 audit, we also considered DeCA's internal controls over financial reporting and tested DeCA's compliance with certain provisions of applicable laws, regulations, and contracts that could have a direct and material effect on these consolidated financial statements.

### Summary

As stated in our opinion on the consolidated financial statements, we concluded that DeCA's consolidated financial statements as of and for the years ended September 30, 2008 and 2007, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Our consideration of internal control over financial reporting resulted in *Information Technology* being identified as a significant deficiency. Continued improvement is needed on the general and application controls associated with DeCA's financial and financial-related systems.

However, the significant deficiency is not believed to be a material weakness.

The results of our tests of compliance with certain provisions of laws, regulations, and contracts, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* and OMB Bulletin No. 07-04.

The results of our tests of FFMIA disclosed instances where DeCA's financial management systems did not substantially comply with Federal financial management systems requirements and the United States Standard General Ledger at the transaction level.

The results of our tests of FFMIA disclosed no instances where DeCA's financial management systems did not substantially comply with the accounting standards applicable to Federal entities as of September 30, 2008.

The following sections discuss our opinion on DeCA's consolidated financial statements; our consideration of DeCA's internal controls over financial reporting; our tests of DeCA's compliance with certain provisions of applicable laws, regulations, and contracts; and management's and our responsibilities.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of the Defense Commissary Agency (DeCA) as of September 30, 2008 and 2007, and the related consolidated statements of net cost, changes in net position, and the combined statements of budgetary resources for the years then ended.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of DeCA as of September 30, 2008 and 2007, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with U.S. generally accepted accounting principles.

The information in the Management's Discussion and Analysis and Required Supplementary Information is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles and OMB Circular No. A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

**Internal Control Over Financial Reporting**

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects DeCA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of DeCA's consolidated financial statements that is more than inconsequential will not be prevented or detected by DeCA's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by DeCA's internal control.

In our fiscal year 2008 audit, we consider the deficiency described in Exhibit I to be a significant deficiency in internal control over financial reporting. However, the significant deficiency is not believed to be a material weakness. Exhibit II presents the status of the prior year significant deficiency.

**Compliance and Other Matters**

The results of our tests of compliance described in the Responsibilities section of this report, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

The results of our tests of FFMIA disclosed instances, described in Exhibit III, where DeCA's financial management systems did not substantially comply with Federal financial management systems requirements and the United States Standard General Ledger at the transaction level.

The results of our tests of FFMIA disclosed no instances where DeCA's financial management systems did not substantially comply with the accounting standards applicable to Federal entities as of September 30, 2008.

* * * * * * *

**Responsibilities**

**Management's Responsibilities.** Management is responsible for the consolidated financial statements; establishing and maintaining effective internal control; and complying with laws, regulations, and contracts applicable to DeCA.

**Auditors' Responsibilities.** Our responsibility is to express an opinion on the fiscal year 2008 and 2007 consolidated financial statements of DeCA based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2008 audit, we considered DeCA's internal control over financial reporting by obtaining an understanding of DeCA's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of DeCA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of DeCA's internal control over financial reporting.

As part of obtaining reasonable assurance about whether DeCA's fiscal year 2008 consolidated financial statements are free of material misstatement, we performed tests of DeCA's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including the provisions referred to in Section 803(a) of FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to DeCA. However, providing an opinion on compliance with laws, regulations, and contracts was not an objective of our audit and, accordingly, we do not express such an opinion.

DeCA's response to the findings identified in our audit are presented in Exhibit I and III. We did not audit DeCA's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of DeCA's management, the Department of Defense, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 3, 2008

**Significant Deficiency**

Under standards issued by the American Institute of Certified Public Accountants, a significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects DeCA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of DeCA's consolidated financial statements that is more than inconsequential will not be prevented or detected by DeCA's internal control over financial reporting.

We consider the following to be a significant deficiency.

**Information Technology**

***Condition***

The information technology (IT) general controls associated with DeCA's financial systems continue to need improvement. Due to the sensitive nature of the issues identified, we will provide DeCA officials with a separate, restricted distribution report, which contains the detailed results of our test of procedures along with specific recommendations.

***Discussion***

As part of our fiscal year 2008 audit of DeCA's financial statements, we tested the design and operating effectiveness of IT general and application controls over the following key DeCA applications that support financial transaction processing and reporting:

- DeCA Interactive Business System (DIBS);
- Standard Automated Voucher Examination System (SAVES);
- Accounting and Inventory Management System (AIMS);
- Commissary Advanced Resale Transaction System (CARTS);
- Point of Sale – Technical Refresh (POS-TR);
- Warehouse Management System (WMS); and
- Enterprises Data Warehouse (EDW).

Our separate report will identify internal control weaknesses for the financial systems noted above that require management attention.

***Cause***

Our separate report will address the cause for each IT related finding.

***Criteria***

The *Federal Information Security Management Act* (FISMA), passed as part of the *Electronic Government Act of 2002*, mandates that Federal entities maintain IT security programs in accordance with OMB and National Institute of Standards and Technology (NIST) guidance. OMB Circular A-130, *Management of Federal Information Resources*, and various NIST guidelines describe specific essential criteria for maintaining effective general IT controls. In addition, OMB Circular A-127, *Financial*

*Management Systems*, prescribes policies and standards for executive departments and agencies to follow in developing, operating, evaluating, and reporting on financial management systems. Below are the OMB, NIST, DoD, and DeCA security guidelines that are referenced in detail in our separate IT report:

- OMB Circular Number A-130, *Management of Federal Information Resources*;
- OMB Circular Number A-123, *Management's Responsibility for Internal Control*;
- NIST Special Publication 800-53, *Recommended Security Controls for Federal Information Systems*;
- NIST Special Publication 800-12, *An Introduction to Computer Security*;
- NIST Special Publication 800-14, *Generally Accepted Principles and Practices for Securing Information Technology Systems;*
- NIST Special Publication 800-18, *Guide for Developing Security Plans for Information Technology Systems*;
- DoD Instruction 8500.2, *Information Assurance Implementation*;
- DoD Directive 5200.28, *Security Requirements for Automated Information Systems*;
- DoD 5200.28-STD, *Department of Defense Trusted Computer System Evaluation Criteria*;
- DoD Instruction 8510.014, *DoD Information Assurance Certification and Accreditation Process (DIACAP) Instruction*;
- DeCA Directive 35-5, *Configuration Management for Automated Information Systems; and*
- DeCA Directive 30-18, *Defense Commissary Agency Security Programs.*

***Recommendation***

Due to the sensitive nature of these findings, our separate report will recommend that DeCA management implement certain procedures to address the general and application control vulnerabilities of its financial systems.

***Management Response***

Management's responses will be included in the separate report.

Exhibit II

***Status of Prior Year Significant Deficiency***

| Area | Status as of September 30, 2007 | Status as of September 30, 2008 |
|---|---|---|
| **Information Technology** | **Significant Deficiency:** The general and application controls associated with DeCA's financial and financial-related systems continue to need improvement. | **Continue as a Significant Deficiency:** Improvements have been made to resolve some weaknesses noted in the prior year. However, significant effort must be made to resolve security, access, and change management control weaknesses over key systems. |

## Compliance with Laws and Regulations

This section discusses issues related to noncompliance with laws and regulations that could have a material impact on DeCA's financial statements.

## Federal Financial Management Improvement Act of 1996 (FFMIA)

***Condition***

We again noted that DeCA was not in substantial compliance with FFMIA.

***Discussion***

The Defense Finance and Accounting Service (DFAS) uses two separate accounting systems to process DeCA transactions. DBMS accounts for transactions associated with the appropriated funds and surcharge collections and STANFINS accounts for all resale inventory transactions. In addition, STANFINS does not interface with DBMS. Thus, there are two core accounting systems that DFAS uses to account for DeCA transactions. Since these systems do not interface, DeCA is not in compliance with Federal financial management system requirements, which call for a single, integrated financial system.

In addition, both STANFINS and DBMS are not compliant with the U.S. Standard General Ledger. Neither system is able to process transactions in accordance with the U.S. Standard General Ledger at the detail level, and extensive manual processes are required to adjust STANFINS and DBMS balances to allow for compilation of DeCA's financial statements. For example, DBMS does not contain a general ledger account to record unexpended appropriation transfers. DFAS-Columbus and DeCA personnel must use a combination of information inside and outside of DBMS to calculate unexpended appropriation transfers at the end of each reporting period.

***Criteria***

FFMIA requires that an agency's financial management systems substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level.

***Recommendation***

We again recommend that DeCA continue to work with DFAS to implement actions to comply with the requirements of FFMIA.

***Management Response***

During fiscal year 2008, DeCA continued to work with DFAS and other Defense Agencies on the Defense Agencies Initiative (DAI). DAI represents the Department of Defense's (DoD) effort to streamline financial management capabilities, eliminate material weaknesses, and achieve financial statement auditability for all Defense agencies through the use of a single standardized system architecture. For DeCA, this single system solution will replace the current legacy accounting systems, DBMS and STANFINS.

We will continue to actively participate in this initiative by providing functional representation that will be involved in the blueprinting of the DAI program. DAI deployment will be accomplished in waves, with DeCA scheduled for Wave 3, which will take place the beginning of fiscal year 2011.

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

REPLY TO
ATTENTION OF

IG

October 28, 2008

MEMORANDUM FOR DIRECTOR, DEFENSE COMMISSARY AGENCY

SUBJECT: Summary of Serious Management and Performance Challenges

OMB Circular A-136 (Revised), "Financial Reporting Requirements," dated June 3, 2008, requires this office provide you with the Inspector General perspective on the most serious management and performance challenges facing DeCA for inclusion in the Agency's annual *Performance and Accountability Report.*

The *Reports Consolidation Act of 2000 (Public Law 106-531)* left the determination and threshold of what constitutes a most serious management challenge to the discretion of the Inspectors General. Therefore, the following definition was applied in preparing this statement for Fiscal Year 2008:

Serious management challenges are mission critical areas or programs that have the potential for a perennial vulnerability that, without management's focused attention, could lead to irregularities that adversely impact agency operations or strategic goals vital to the Agency's mission.

The DeCA Office of the Inspector General (OIG) contacted DeCA's Chief Internal Auditor, read the Office of Internal Audit (IR) reports and included, along with IG inspection and investigation data, audit information involving compliance, accountability, and delivery of services and benefits related to DeCA's mission and this perspective. The OIG also reviewed Government Purchase Card (GPC) Review reports issued by the Agency GPC Coordinator.

The OIG believes that by addressing program performance challenges as they rise and by continuing to test program control points, benefit delivery performance will improve, serious operational and financial problems will decrease, and opportunities for fraud, waste, abuse (FWA) and mismanagement will be reduced.

## Internal Controls and Oversight

*Store Level Inspections*

At the benefit delivery point the OIG tested system internal controls at 16.1 percent (41) of all (254) commissaries in FY 2008. The FY 2008 average compliance score was 82.7 percent compared to 81.1 percent in FY 2007, a 1.8 percent improvement. And 51.6 percent of commissaries tested were at or above the average. Four commissaries scored below 65.0 percent and were subject to the Corrective Action Status Report (CASR) program. All four stores subsequently reported that corrective actions on all findings were taken. The OIG tested regulatory compliance at 9 percent of the Agency's Central Distribution Centers (CDCs) and found the average compliance score of 75.5 percent was an improvement over 73.5 percent in FY 2007.

*Senior Assessment Team (SAT) Process*
DeCA's SAT team met quarterly to ensure the Agency successfully employed the financial and operational control requirements of OMB Circular Number A-123R, Appendix A, and related OSD guidance in mission critical and high risk areas so that acceptable compliance ratings were attained. DeCA's FY 2008 SAT process received high marks from the Department of Defense (DoD).

*Purchase Card Reviews*
The OIG analyzed GPC program reviews that were issued by the Agency GPC Program Coordinator for 17 (or 6.7 percent of all) commissaries in FY 2008. The most common findings, in order of frequency, were not always validating proof of delivery, a need for cardholder and certifying officer training, inconsistent cardholder purchase log maintenance, and lack of an alternate certifying officer assigned.

*Corporate Governance Oversight*
In order to better meet future challenges the Agency restructured its Corporate Governance Board (CGB), Executive Steering Council (ESC), and Strategic Planning Process by improving mechanisms for decision making relative to performance measures and accountability, risk mitigation, business process integration, effective resource management, facility, and human capital planning and the alignment of processes with Agency goals and objectives.

The challenge for FY 2009, in these areas, is to sustain the current level of internal controls, insert new control points into processes, where needed, and provide leadership oversight while facing a likely perspective change from a new Executive Branch administration along with possible decreased appropriations.

## Workforce, Management and Leadership

*Future Commissary Workforce*
At the request of the Acting Chief Operating Officer (COO) the OIG performed an evaluation of the effectiveness of store Workforce of the Future (WOF) training and implementation at selected sites. OIG recommendations offered were combined with DoD guidance that successfully re-directed WOF conversion throughout DeCA from a store-wide one to individual attrition coupled with follow-up WOF training. The FY 2009 challenge for DeCA is how to meet increasing sales demands (Guard, Reserve, case lot, etc.) with limited resources while transitioning to WOF and facing possible outsourcing (A 76 R, etc.) mandates.

*Succession Planning and Leadership Development*
Succession planning and leadership development for critical positions in all career fields will be a significant challenge for the Agency in FY 2009. On September 30 DeCA had approximately 17,583 employees worldwide. There were approximately 109 contractors at Headquarters DeCA. The primary Agency challenge in human capital for 2009 will be resourcing the benefit delivery to more Guard and Reserve centers under budget pressures, as well as succession

planning and preparing for the near term retirement of key leadership personnel. DeCA must ensure its strategic vision focuses on successor development in an integrated, innovative and flexible manner. Approximately 80 percent of the Agency's senior managers, GS-12 and above, or NSPS equivalent, are eligible to retire within the next 5 years. The expected exodus of leadership and experience will create an operating exigency that requires careful planning. DeCA is pushing a Leadership Development and Succession Planning Initiative in response to this challenge.

*Complaints and Investigations*

Personnel issues represented 22.4 percent of all contacts received by the DeCA-IG FWA unit in FY 2008. This was a decrease from 25.3 percent for FY 2007. The OIG database revealed that 35.3 percent of congressional inquiries concerned personnel issues (WOF, workers' compensation, inappropriate personnel action allegations, etc.). While Congressional inquiries decreased 10 percent in FY 2008, when compared to FY 2007, the number of personnel related inquiries increased by 46 percent. The total number of FWA allegations received in FY 2008 increased by 6.9 percent over FY 2007. One DeCA challenge is to ensure that Agency personnel initiatives (future workforce, alternative staffing, successor development, hiring and work assignment flexibilities, etc.) implemented to allow DeCA to better execute benefit delivery while helping to lower operating costs, are accomplished in an ethical manner so that employee and stakeholder faith and trust, critical for FY 2009 mission achievement goals is solidified.

DeCA's other challenge is to focus on intelligent recruitment and succession efforts based on forecasted needs while satisfying the department's desire to adequately consider marginalized groups. There should be a balanced approach towards "polishing" existing potential leaders/ managers with bringing on board or acquiring new talent.

### Information Technology & Security Management

*Federal Information Security Management Act (FISMA) Review*

DeCA's Information Systems Program Management and Control continues to be critical to benefit delivery. DeCA relies strongly on electronic financial and operational reporting accuracy. Our FY 2008 review of the Chief Information Office (CIO) Information Technology Plan of Action and Milestone for Mission Essential System indicated that the Agency's progress is excellent. DeCA is part of the Defense Information Technology Portfolio Registry (DITPR), and through its business process continually updates this registry. DeCA's score in 2008, as measured by the Joint Chief of Staff, increased from a B to an A. This is the third year in a row that DeCA's grade has increased. The OIG believes this area is vital to DeCA and must be regularly tested through the use of internal management controls. The OIG intends to conduct two quarterly reviews in FY 2009. Discussions with the DeCA-CIO and functional process owners, determined that corrective action will be taken on any findings reported.

*Commissary Advanced Resale Transaction System (CARTS)*

Critical to DeCA's FY 2009 mission accomplishment is its ability to reduce the contractor response time to the CARTS remedy tickets. Although CARTS was 99.6 percent deployed by FY 2008 end, some operational problems, especially with the self-checkouts, remained. Primarily, the response time needed by the IBM help desk to clear outstanding remedy tickets appeared somewhat excessive. DeCA IR conducted an audit of the Commissary Advanced Resale Transaction System (CARTS). The audit found that CARTS provides many tools to mitigate front-end risks to ensure sales recording transactions are not compromised. However, changes are required to strengthen controls in unusual situations such as store level fraud detection training and sales transactional data needs to be maintained for a longer period of time at the store and above store level.

*Information Assurance*
Mandatory Information Assurance Awareness Training is required annually for all personnel that have access to the DeCA Network, Internet and E-Mail systems. The OIG tested the compliance of this requirement with a random sample of personnel at 41 stores and one Consolidated Distribution Center (CDC). Three stores (7.3 percent) were non-compliant. A verification of training records of all users identified by IT showed a compliance level of 95 percent. The DeCA OIG will continue to test the compliance of this annual requirement in FY 2009.

### Financial & Resource Management

*Audit Opinion*
DeCA received an unqualified opinion statement from an external auditor for FY 2007 stating that the Agency financial and performance reporting was reliable with no material weaknesses found. FY 2007 was the 6th straight year that DeCA received this outstanding achievement. DeCA's Financial Management Control and Reporting is considered a model within DoD.

*Internal Audits*
DeCA IR published 7 Audit Reports in FY 2008 as part of the DeCA Board of Directors approved Audit Plan. These audits targeted key internal control areas of Capital Equipment Accountability, Accounts Receivable, MOU/MOA Workload Survey, Construction Program, Vendor Stocking, Credit Card Sales for Case Lot Sales, Whidbey Island Meat Department and a follow-up report on implementation status of audit recommendations made in prior fiscal years. DeCA-IR issued another four draft audit reports on Front-End Coupon Transactions, Store Change Fund Accounts, CARTS Front-End Deployment and DeCA Transportation. The Coupon audit found that some store cashiers performed improper and/or potentially fraudulent activity by excessively keying, instead of scanning, coupons into the sales system, redeeming coupons not associated with items purchased, and redeeming more coupons than the number of items purchased. Initially, in FY 2008, stores did not have access to detailed reports that tracked the actions of checkers to identify potential fraudulent activity. Controls over coupons after redemption were not sufficient in all stores. The Change Fund audit found stores could materially reduce the amounts of monies kept on hand for change funds. DeCA-IR developed a guide for estimating the change fund level that helps minimize the potential for theft, fraud and/or loss.

John T. Maffei
Inspector General

## Glossary of Acronyms

ACSI – American Customer Satisfaction Index

BoD – Board of Directors

CARTS – Commissary Advanced Resale Transaction System

CCSS – Commissary Customer Service Survey

COB – Commissary Operating Board

COOP – Contingency Operations Plan

DAI – Defense Agencies Initiative

DeCA – Defense Commissary Agency

DoD – Department of Defense

DOL – Department of Labor

DPAS – Defense Property Accounting System

DWCF – Defense Working Capital Fund

FBWT – Fund Balance with Treasury

FCI – Facility Condition Index

FECA – Federal Employees Compensation Act

FFMIA – Federal Financial Management Improvement Act of 1996

FISMA – Federal Information Security Act

FMFIA – Federal Managers' Financial Integrity Act

FTE – Full Time Equivalent

GAO – Government Accounting Office

LIFE - Leadership – Integrity – Flexibility – Enjoyment

MD&A – Management Discussion and Analysis

OMB – Office of Management and Budget

OSD (P&R) - Office of Secretary of Defense (Personnel & Readiness)

PART – Program Assessment and Rating Tool

PA&E – Program Analysis and Evaluation

PBD – Program Budget Decision

PMA – President Management Agenda

PPBE – Planning, Programming, Budgeting and Execution

PP&E – Property, Plant and Equipment

SES – Senior Executive Service

USD(C) – Under Secretary of Defense (Comptroller)

WCF – Working Capital Fund