

FEDERAL MANAGERS'  
FINANCIAL INTEGRITY ACT OF 1982

**FY 2011**  
**STATEMENT OF ASSURANCE**



Defense Commissary Agency

## TAB A

### **DESCRIPTION OF THE CONCEPT OF REASONABLE ASSURANCE AND HOW THE EVALUATION WAS CONDUCTED**

The Defense Commissary Agency (DeCA) senior management evaluated the system of internal accounting and administrative controls in effect during the fiscal year as of the date of this memorandum, according to the guidance in Office of Management and Budget (OMB) Circular No. A-123, "Management's Responsibility for Internal Control," December 21, 2004. The OMB guidelines were issued in conjunction with the Comptroller General of the United States as required by the Federal Managers' Financial Integrity Act (FMFIA) of 1982. Included is an evaluation of whether the system of internal accounting and administrative control for DeCA is in compliance with standards prescribed by the Comptroller General.

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

- The obligations and costs are in compliance with applicable law;
- Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- Revenues and expenditures applicable to Agency operations are properly recorded and accounted for to permit the preparation of reliable accounting and financial statistical reports, and to maintain accountability over the assets.

The evaluation of internal controls extends to every responsibility and activity undertaken by DeCA and applies to program, administrative, and operational controls. Furthermore, the concept of reasonable assurance recognizes that: (1) the cost of internal controls should not exceed the benefits expected to be derived and (2) the benefits include reducing the risk associated with failing to achieve the stated objectives. Moreover, errors or irregularities may occur and not be detected because of inherent limitations in any system of internal accounting and administrative control, including those limitations resulting from resource constraints, Congressional restrictions, and other factors. Finally, projection of any system evaluation to future periods is subject to risk that procedures may be inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate. Therefore, this statement of reasonable assurance is provided within the limits of the preceding description.

DeCA evaluated the system of internal management controls in accordance with the guidelines identified above. The results indicate that the system of internal accounting and administrative control of DeCA in effect during the Fiscal Year (FY) 2011 as of the date of this memorandum, taken as a whole, complies with the requirement to provide reasonable assurance that the above mentioned objectives were achieved. This position on reasonable assurance is within the limits described in the preceding paragraph.

For the ninth straight year, DeCA received a clean opinion on its financial statements from an independent public accounting (IPA) firm. The consolidated financial statements were, in the auditor's opinion, fairly presented, free of material misstatements, and prepared in accordance with generally accepted accounting principles, consistently applied. In connection with their audit, the IPA considered DeCA's internal control over financial reporting and performance measures and tested DeCA's compliance with certain provisions of applicable laws, regulations, and contracts that could have had a direct and material effect on the financial statements being audited.

DeCA evaluated its system of internal accounting and administrative control using the following process for conducting the evaluation.

### **Managers' Internal Control Program (MICP) Execution**

DeCA's approach in FY 2011 has been to continue building on our successful implementation of the OMB A-123, Appendix A. We leveraged common business process management and aligned the financial and nonfinancial processes to mirror one another adopting the Appendix A deliverable model to fit our overall organizational needs. DeCA is able to give the same level of reasonable assurance to the Secretary of Defense with greater specificity, management involvement, and accuracy.

Our results continue to be extremely satisfying as we expand documentation of our key business processes. We have 14 Assessable Unit Managers (AUM) who have implemented the methodology for their respective business operations.

Our engaged Senior Assessment Team's (SAT) oversight ensures the appropriate amount of attention to the program and its goals. The SAT is chaired by the Chief Financial Executive, and staffed by functional process owners from each of our directorates and deputy directors from each of our three regions.

### **New Assessable Units**

Our assessable units are aligned with our corporate organization. Since our primary goal has been to emulate the Appendix A process, for internal controls over nonfinancial operations (ICONO) we needed a system focused on an end product or key output in place of the Appendix A method, where key processes are defined by a financial statements materiality threshold. Assessable units are identified at **Figure 1**.

**DECA CONTROL ANALYSIS FY 2011**

DECA CONTROL ANALYSIS FY 2011							Effective Control			
							Effective with Exceptions			
							Ineffective Control/CAP Needed			
ICONO PROCESSES							New Process or Process changes implemented testing postponed until more data available			
Directorate	Process	# of Process Controls	Inherent Risk	Does the IOCCF mitigate the stated risk?	Control Risk	Test Results:				
AM	Card Purchases	5	High	Yes	Low	Effective Control				
	GPC Account Issuance	9				Effective Control				
	Support Services and Supplies	7				Effective Control				
	Shelf Stocking, Warehouse, NISH	8				Effective Control				
	Shelf Stocking, Warehouse, Small Business	11				Effective Control				
CIO	Information Assurance Audits	1	High	Yes	Low	Effective Control				
	Information Assurance Vulnerability Management	1				Effective Control				
	Information Assurance Policy Development	1				Effective Control				
	Accreditation and Oversight	1				Effective Control				
	Info Technology Policy Maintenance	5				Effective Control				
	IT Capital Planning and Investment Management	3				Effective Control				
	Technology Management	6				New Process or Process changes implemented testing postponed until more data available				
	Scheduling Agency Records	4				Effective Control				
	Design Phase	3				Effective Control				
	Requirements Phase	4				New Process or Process changes implemented testing postponed until more data available				
	Administrative Access	3				Effective Control				
	Employee Termination	2				1 finding under control #1				
	Hardware Tech Refresh	2				Effective Control				
	Ticket Response and Desktop Support Tickets	2				CAP needed control #1				
	Hand Held Terminal Depot Maintenance	2				New Process or Process changes implemented testing postponed until more data available				
	Windows Software Updates	1				Effective Control				
	CITCD Tech Server Refresh	5				Effective Control				
	Website Update	4				Effective Control				
	COS	Operations Training				4	High	Yes	Low	Effective Control
		Individual Development Training				2				Effective Control
DO	Accounting for Lossesby Reports of Survey Equipment	6	High	Yes	Low	Effective Control				
	Facilities Major Project Prioritization & Approval	6				Effective Control				
	Facilities Major Project Prioritization & Approval	3				Effective Control				
	Facilities Recurring Sustainment & Construction Program	1				Effective Control				
	Facilities Sustainment & Construction Program	2				Effective Control				
	Higher Headquarters Assessments/Security Programs Review	3				Effective Control				
	Store Level Policy & Procedures	5				Effective Control				
	Annual Energy Plan	4				Effective Control				
	Energy Conservation Investment Plan	4				Effective Control				
EEO	Management Directive 715 Process and Report	5	High	Yes	Low	Effective Control				
	Reasonable Accommodation	3				Effective Control				
	Pre-complaints Process	4				Effective Control				
	Complaints Processes	1				Effective Control				
GC	FAD Processes	1	High	Yes	Low	Effective Control				
	Personnel Law Advice and Support	3				Effective Control				
	Personnel Law Litigation	2				Effective Control				
HR	General Law & Commercial Law Support	2	High	Yes	Low	Effective Control				
	Unfair Labor Practice Charge	4				Effective Control				
	Establishing or Reviewing Position Classification	4				Effective Control				
	Hiring (DEU & Merritt)	14				7 controls failed, CAPs needed				
	Separations	3				Effective Control				
	Awards	2				Effective Control				
	OPF	1				Effective Control				
	Suitability (Non Sensitive)	6				Effective Control				
	Suitability (Sensitive)	4				Effective Control				
	OWCP CA-1/CA-2/COP	10				Effective Control				
	OWCP CA-7 LBB	6				Effective Control				
	OWCP CA-7 LWOP	8				Effective Control				
	OWCP CA-7 Schedule Awards	2				Effective Control				
	OWCP Chargeback Reviews	2				Effective Control				
	OWCP Modified Work Assignment	1				Effective Control				
	OWCP Permanent Mod. Work Assignment	2				Effective Control				
	Europe Hiring 1144	7				Effective Control				
	Europe Hiring Non 1144	14				Effective Control				

HS	Incident Reporting	6	High	Yes	Low	Effective Control	
	Health and Safety (Safety Visits)	4				5 findings under Control #2	
	Recall Program	5				Effective Control	
IG	Complaints and Inquiries Process	7	High	Yes	Low	Effective Control	
	IG Inspection Process	9				Effective Control	
	Respond to Congressional Inquiries	6				Effective Control	
IR	Internal Audit	9	High	Yes	Low	Effective Control	
OC	Marketing	2	High	Yes	Low	Effective Control	
	Publications/Communications	4				Effective Control	
	Facebook	5				Effective Control	
	FLICKR	2				Effective Control	
	TWITTER	1				Effective Control	
	YouTube	2				Effective Control	
PS	Adding New Items (DeCA)	3	High	Yes	Low	Effective Control	
	Adding New Items (Non DeCA)	2				Effective Control	
	Conducting Category Review	2				Effective Control	
	Customer Concern Response	1				Effective Control	
	Monthly Promotional Offers	2				Effective Control	
	Verifying Category Savings	4				Effective Control	
	Pricing	2				Effective Control	
	Remedy	2				Effective Control	
	Requirements Development and Testing	7				Effective Control	
	Brand Name Products	2				Effective Control	
	Non Brand Name Product Services	3				Effective Control	
	RM	Competitive Sourcing Competition Process				4	High
Inventory of Commercial & Inherently Governmental Activities Data Call		5	Effective Control				
	Manpower Staffing Standards	7				New Process or Process changes implemented testing postponed until more data available	
	Statistical Database Process	3				Effective Control	
	Manpower Utilization Actions	3				Effective Control	
	Organization Structure and Management	4				Effective Control	
							Effective Control
XP	CPI Black Belt Process	6	High	Yes	Low	Effective Control	
	Strategic Plan Development	4				Effective Control	
	CPI Green Belt Process	5				Effective Control	
	Governance	6				Effective Control	
	IDEAS Program	3				Effective Control	
	Agency Business Plan Management	4				Effective Control	
	Studies and White Papers	5				Effective Control	
	Balance Score Card	6				Effective Control	
							New Process or Process changes implemented testing postponed until more data available
	Performance Management	5				New Process or Process changes implemented testing postponed until more data available	

Figure 1 – Business Processes Mapped Utilizing Appendix A Methodology

### DFAS and DLA Partnerships

DeCA works with Agency external partners to identify and resolve internal control weaknesses throughout the year. Defense Financial Accounting Service (DFAS) and Defense Logistics Agency (DLA) both are key partnerships for DeCA. DFAS pays our bills and DLA provides personnel services. DFAS has been engaged in our internal control program since Appendix A was implemented. A DFAS representative sits on our SAT and coordinates on DFAS internal control issues. DFAS internal control testing data is communicated to DeCA and is submitted as part of DeCA's Financial Improvement and Audit Readiness (FIAR) reporting. DLA began providing human resource (HR) services to DeCA in FY 2009. DeCA partnered with DLA to implement the Appendix A methodology at DLA for the following business processes: hiring (Delegated Examining Unit and Merit), separations, Official Personnel Files (OPF), suitability (sensitive), suitability (non-sensitive), and awards. The MICP staff, working with DeCA HR and DLA HR staff, developed narratives, flowcharts, risk analysis, and test plans in FY 2010. Those documents were refined in FY 2011 and testing of DLA partnering processes was accomplished in May 2011 (**Figure 2**). DLA test results were correlated to audit readiness because DLA's

processes are also tested by DeCA's external auditor to determine compliance with applicable laws and regulations as part of our financial statement audit.

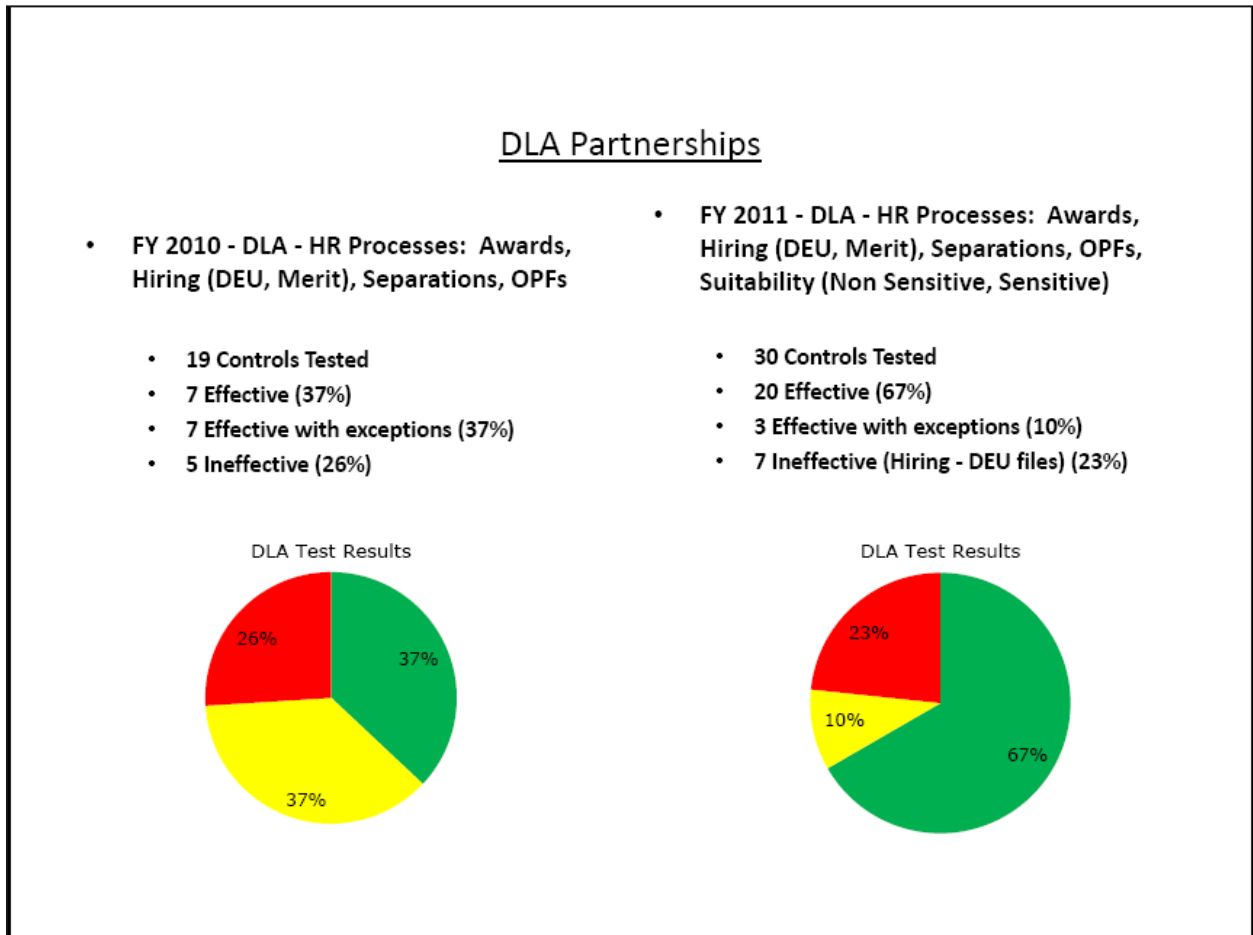


Figure 2: DLA Partnership Test Results

**Assessment Process/Continuous Process Improvement (CPI)**

The MIC program follows the same methodology as Appendix A with the Flowchart and Narrative, the Risk Analysis, the Test Plan, the Control Analysis, and the Corrective Action Plan (CAP) of each process. Each deliverable is progressive, building upon the previous one to create one comprehensive body of documentation. Once a process is defined, our process has matured beyond examining those controls in a vacuum of operational risk. We firmly believe that to clearly understand the role and effectiveness of any given internal control, an organization must be able to view those controls in the larger context of CPI, which allows each AUM to assess controls within the larger framework of accomplishing their mission more efficiently and effectively. The Appendix A methodology was implemented 6 years ago and each year AUMs reevaluate each business process to determine if clarifications or corrections are needed. This methodology is a continuous process improvement for DeCA. DeCA has taken the next evolutionary step to utilize Lean Six Sigma (L6S) help to correct ineffective controls.

**DeCA's Continuous Process Improvement/Lean Six Sigma (CPI/L6S) Program and Managers' Internal Controls Program (MICP)**

DeCA has taken strides to integrate the CPI/L6S program with the MIC program. Once ineffective controls are noted, managers are required to develop a corrective action plan and report progress to the SAT. At this point, the manager in coordination with the CPI/L6S and MICP manager should determine if this deficiency would qualify as a Green Belt project. If so, a Green Belt in the functional area would be assigned. The belts are trained to find the root cause of the problem and utilize the L6S tools to ensure a solution is developed, implemented, and sustained. At **Figure 3** is an example of a resource management project developed by one of the RM Green Belts focusing on Reconciliation of Annual Surcharge Accounts. The team evaluated several categories of surcharge maintenance accounts from FY 2007-2009, including facility maintenance, equipment maintenance, and HVAC servicing, repairs, and upgrades. Using Pareto chart analysis, the HVAC category was selected due to the high value (\$5M), short duration of the typical maintenance involved, and the likelihood of recovery of funds. To remedy the situation, the team identified four root causes, including not following established rules, GSA response time, ownership of accounts, and program manager communications. Selected solutions to these issues included developing a defined escalation reporting process for account technicians, publishing points of contact listings, adding an Outlook reminder to ensure consistent review of unliquidated obligations (ULOs), and additional training on the Tri-Annual Review timelines. The team reduced the unliquidated obligations in HVAC from 78 accounts valued at \$3.4M to 38 accounts valued at \$1.8M, a net reduction of \$1.6M which was returned to surcharge accounts. Successful L6S projects correlating to ineffective controls in FY2010 and FY 2011 include:

GreenBelt Projects
Improve data gathering process
Define agency historical documents and prevent redundant storage
Recycling program report submission rates
Tracking process for HR documents and policies
Reconciliation of annual surcharge accounts
Establishing file plans and scanning records
Black Belt Projects
Enterprise Recycling Process Improvement
Enterprise Circuit Management
Enterprise Above Store Organizational Review
Enterprise CA PWS Shelf Stocking

UNCLASSIFIED



## Charter & Timeline



### Define Tollgate

Team Members			
Name	Role	Affiliation	RACI
Lauren P. Bands	Sponsor/Champion	RM	Approver
	Process Owner		Approver
Thomas Niles (BB) Ideth Latimer (GB)	(Black/Green) Belt	XPP RMBI	Responsible
Marc Petit	Master Black Belt	XP	Responsible

**\$4.7M in HVAC  
ULO from FY 07-  
FY 09 still exist,  
this may be too  
high**

### Project Charter

<b>Problem Statement:</b>	Past Fiscal Years Surcharge funds obligated unnecessarily tied up and have not been reconciled
<b>Business Case:</b>	<ul style="list-style-type: none"> <li>Recoup un-expensed Surcharge funds</li> <li>Set up guidance on when start de-obligation of Surcharge funds</li> </ul>
<b>Goal Statement:</b>	Reduce surcharge accounts ULOs by 50%
<b>Unit:</b>	HVAC (104 docs) ULO
<b>Defect:</b>	Not De-obligated Surcharge funds in HVAC
<b>Customer Specification (s):</b>	12-18 Months after period of performance ULO should be liquidated.
<b>Measure Start:</b>	Disbursement of the Surcharge funds at the end of Fiscal Year obligation
<b>Measure Stop:</b>	Funds released back to the Surcharge fund
<b>Scope:</b>	ULO Surcharge Funds

### Project Timeline

Phase	Planned	Actual	Status
Define	11/30/10	12/13/10	●
Measure	12/1/10	12/13/10	●
Analyze	12/7/10	12/13/10	●
Improve	1/14/11		○
Control	1/28/11		○

**Required Deliverable**

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## Updated Benefits Estimate



### Control Tollgate

Metric	Baseline	Objective	Achieved
# of ULOs	78	39	38
\$ of ULOs	\$3.4M	\$1.7M	\$1.8M

#### Additional Benefits/Comments:

- More savings are underway; however, our Business Partner, GSA, is still working these items.
- These processes can be translated to other categories of Surcharge besides HVAC.

**Required Deliverable**



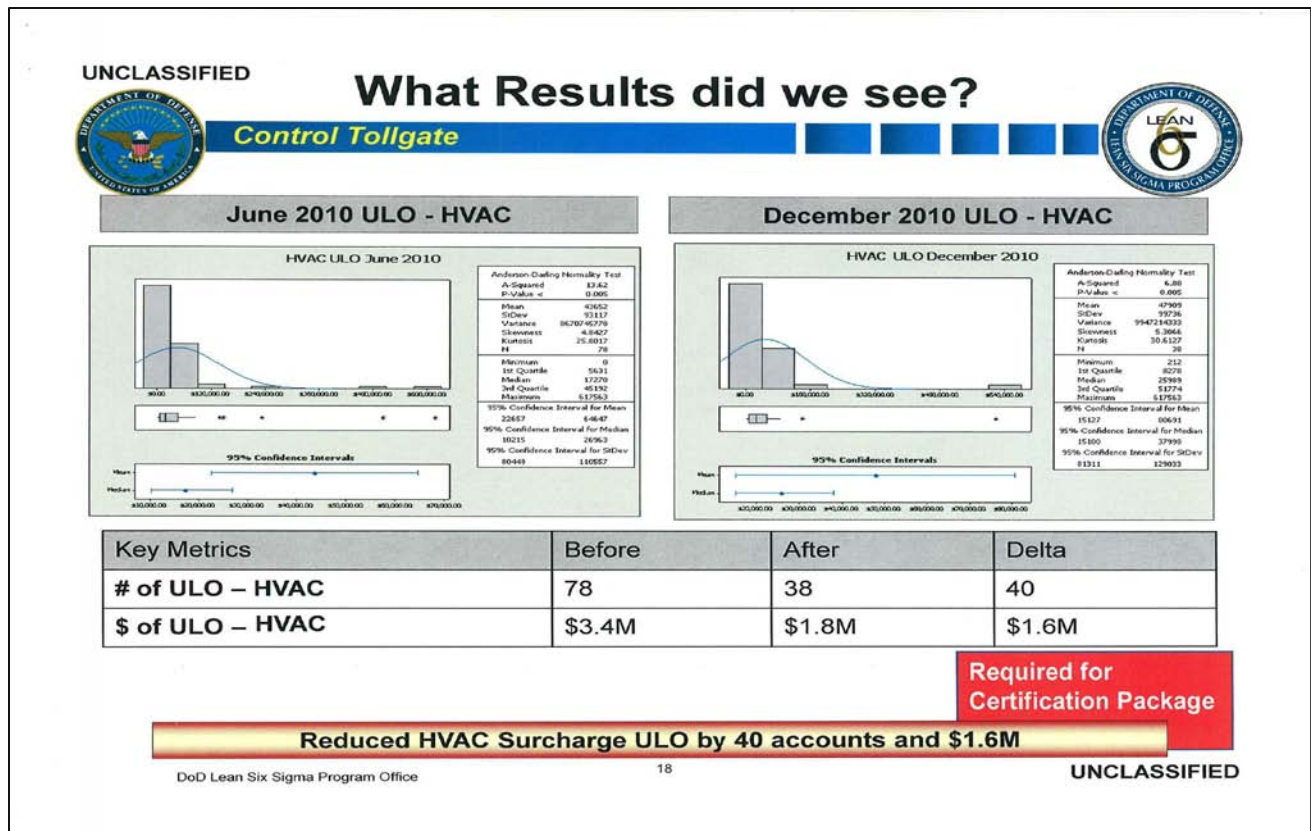


Figure 3 – Lean Six Sigma Greenbelt Deck

### DeCA’s Assessment of Internal Controls Over Acquisition Functions (ICOAF)

DeCA’s Contracting Directorate manages a worldwide contracting program in support of the DeCA commissary system. They provide contracting support for supplies, services and revenue generating agreements, and automation support for all contracting systems. Further, the Contracting Directorate provides guidance and oversight for all DeCA contracting offices using delegated authorities and develops procedures and policy implementation guidance. The contracting program utilizes the Appendix A methodology to mitigate risk (**Figure 4**) in its key business processes. The Contracting Directorate reviewed the Guidance on the Assessment of Acquisition Functions under Office of Management and Budget (OMB) Circular A-123, dated April 6, 2009, to determine how this guidance was to be integrated in the internal control review of contracting with the existing internal control assessment managed through the Appendix A methodology. The Contracting team reviewed the template and focused on the following cornerstones for risk mitigation: Organizational Alignment and Leadership, Policies and Processes, Human Capital, and Management and Stewardship. They evaluated their control environment, completed risk assessments for control activities, and established monitoring priorities to mitigate risk within the DeCA contracting community. DeCA’s Contracting Directorate continues to revisit that guidance annually and update as necessary to mitigate risk. Critical to risk mitigation in the contracting process is peer review via Internal Annual Procurement Management Review and Contract Review Board (CRB) checklist of evaluation. Coordination with Resource Management Directorate, Chief Information Officer, Directorate of Performance and Policy, and Human Resources Directorate are among the functional areas that

Contracting interacts with daily to mitigate risk and align with DeCA's strategic goals and objectives.

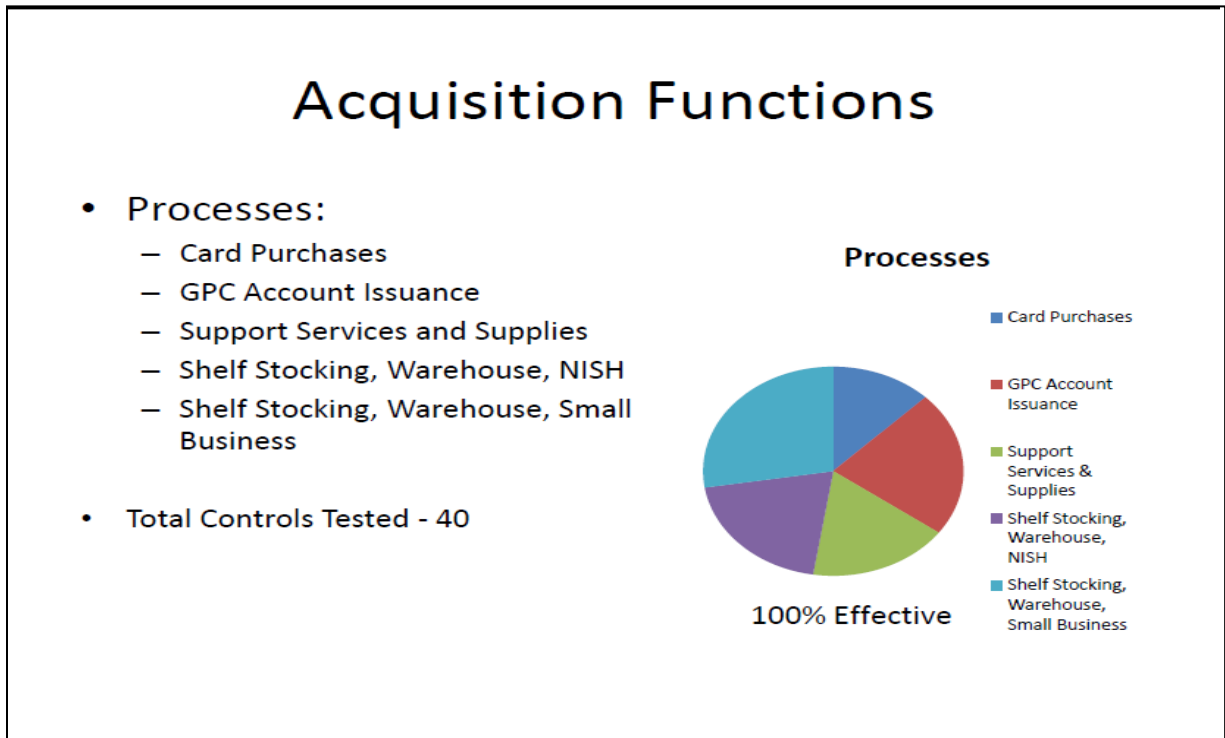


Figure 4: ICOAF Testing Results

### Federal Financial Management Improvement Act (FFMIA), Internal Control over Financial Systems (ICOFS)

DeCA's financial management systems do not substantially comply with Federal financial management systems requirements and the United States Standard General Ledger at the transaction level. To ensure compliance with FFMIA, DeCA, jointly with DoD, is actively working on improving the business system DoD wide, as shown in **Figure 5**. The Defense Agencies Initiative (DAI) is a standardized system solution to transform the budget, finance, and accounting operations of defense agencies. DAI is an Oracle-based Enterprise Resource Planning (ERP) system that will consist of common processes and data standards for business functions with budget execution: procure to pay, order to fulfill, acquire to retire, budget to report, cost accounting, grants accounting, time and attendance, and resale accounting. Deployment plans are to implement this Global Model to 27 defense agencies over a phased approach through FY 2015.

## Compliance with Federal Financial Management Improvement Act

Substantial Compliance Requirements	Reporting Entity	Auditor	Reason for Non-Compliance
1. System Requirements	FY 2015	No	IFMS has been defined, but has not been fully implemented
2. Accounting Standards	FY 2015	No	IFMS has been defined, but has not been fully implemented
3. USSGL at Transaction Level	FY 2015	No	IFMS has been defined, but has not been fully implemented



## DAI Scope



- Deployed Agencies
- FY12 Deploying Agencies
- T&L Only Deployed Agencies

\* Budget Formulation is part of the Final Operational Capability (FOC) of DAI



# DAI Implementation Life Cycle

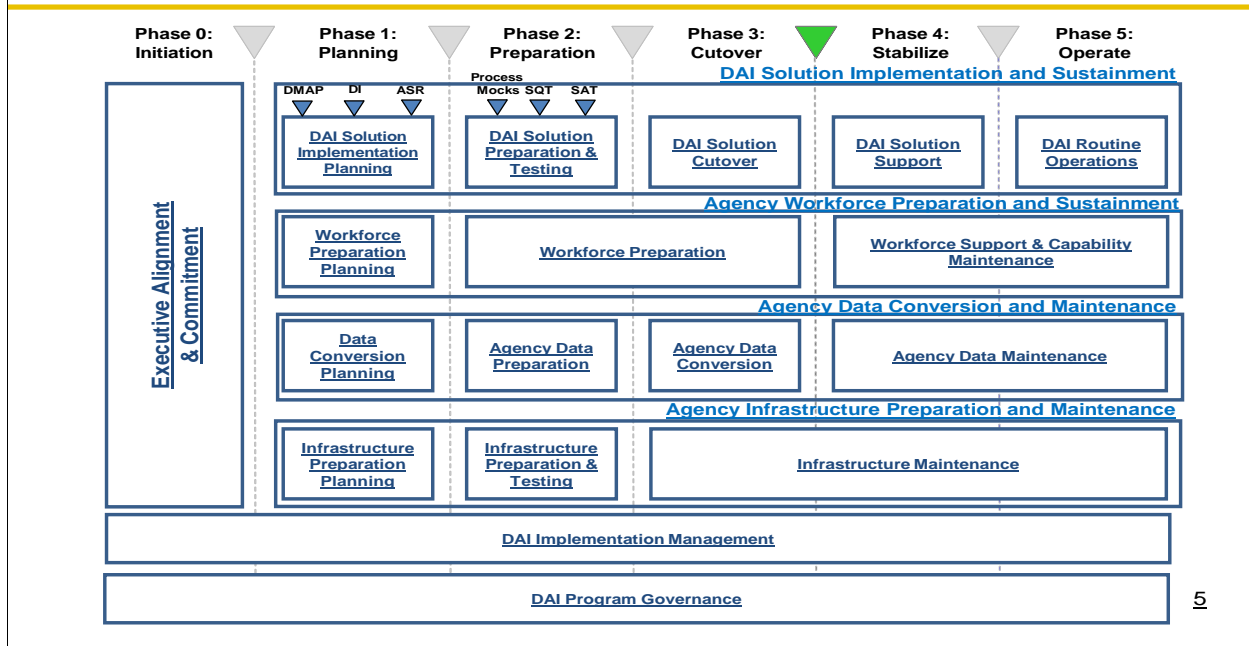


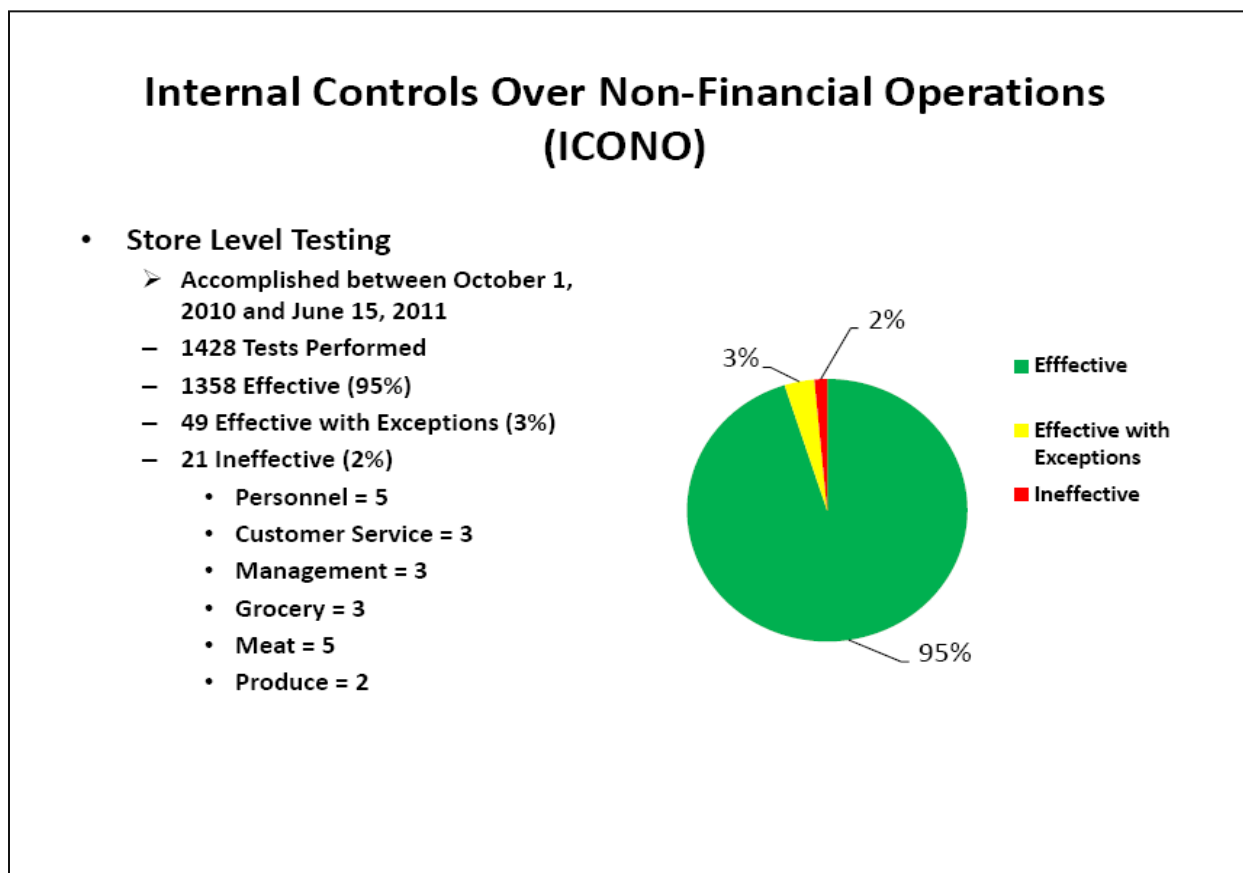
Figure 5: FFMIA Compliance

**American Recovery and Reinvestment Act (ARRA) Reporting:** The American Recovery and Reinvestment Act of 2009 (Pub. L. No. 111-5) imposes transparency and accountability requirements on Federal awarding agencies and their recipients (contractors and recipients of grants and cooperative agreements). As required by Section 1512 of the Recovery Act, recipients are required to submit reports on the use of Recovery Act funding through an electronic data collection process ([www.federalreporting.gov](http://www.federalreporting.gov)), to include estimates on the number of jobs created and retained. Timely, complete, and effective reporting under Section 1512 is a term and condition of receiving Recovery Act funds. DeCA has completed quarterly reporting for risk mitigation since November 29, 2009, through Office of Under Secretary of Defense Comptroller (C), MICP. Risk mitigation for ARRA funding has been accomplished through the MIPR process identified under the Appendix A methodology as part of the internal controls over financial reporting (ICOFR). ARRA funding dollars supported a contract for facility energy improvements at the United States Air Force Academy Commissary. The contract was awarded and is administered by the U.S. Army Corps of Engineers (USACE). USACE is reporting the ARRA data requirements. The facility energy improvement project was completed in May 2011; however, final billing of \$14,540.15 has not been disbursed as of the writing of this document.

## **Store Level Testing of Internal Controls**

DeCA continues to test internal controls over nonfinancial operations (ICONO) within the commissaries in FY 2011. Zone managers tested 34 internal controls at 27 different locations and self reported to DeCA MICP. Between July 1, 2010, and June 30, 2011, 1,428 tests were accomplished and 21 corrective actions were implemented and presented to the SAT referenced

at **Figure 6**. Questions were drawn from the Commissary Compliance Inspection (CCI) checklist and were chosen to represent the key controls in each store. The IG performs approximately 15 percent to 20 percent inspections at store level during the fiscal year. In FY 2011, operational effectiveness was a standalone performance metric for the Balanced Scorecard (BSC) (**Figure 7**). Operational readiness is impacted by the effectiveness of internal controls. Unannounced CCIs are intended for stores where risk assessment indicators show that the activity would benefit from an inspection or follow-up inspection based on prior inspection results or recent events such as change in store leadership. Accountability is a central focus for all of DeCA. Zone Managers (ZM) and IG CCIs evaluate internal controls at store level. Metrics are reported to provide DoD with statistical data that identifies the operational effectiveness and efficiency for DeCA. Appendix A methodology continues to be the instrument utilized to determine operational readiness, efficiencies, and effectiveness.



**Figure 6: FY 2011 Store Level Testing**



# DeCA Balanced Scorecard

FY 2011

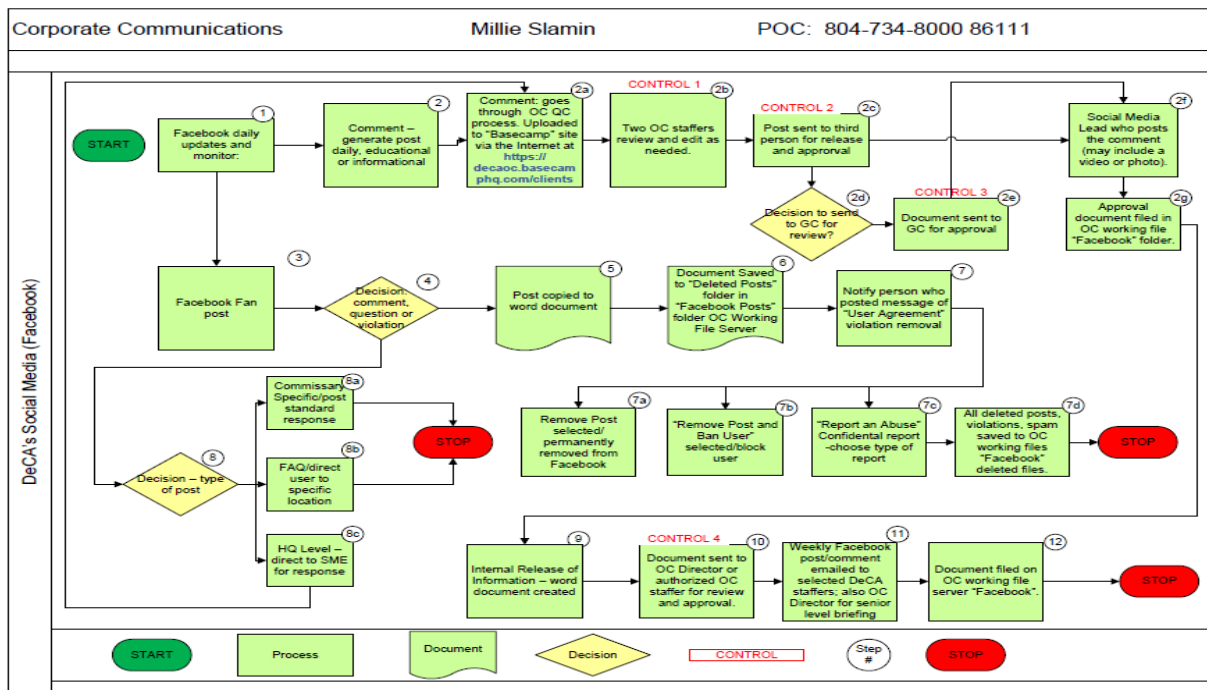
<b>Financial Perspective</b> Value of the Benefit Cost Control Audit Readiness Surcharge Obligations	<b>Internal Business/Process Perspective</b> Operational Readiness Internal Controls Energy Use Reduction Water Use Reduction Solid Waste Disposal Reduction and Recycling Enhancement
<b>Customer Perspective</b> Commissary Customer Service Survey (CCSS) American Customer Satisfaction Index (ACSI) Sustain Customer Savings	<b>Human Capital Perspective</b> Workforce Development Organizational Climate Targeted Disabilities Diversity

Figure 7: FY 2011 Balanced Scorecard

## Flowcharts and Narratives

In order to effectively define the key controls within a process, you must have a clear picture of that process, at least at a high functional level. Flowcharts document the key steps and decisions in each process and clearly define each of the steps that are key control points. Accompanying each flowchart is a process narrative. The narrative process draws a parallel from the bullets contained in the process steps of the flowchart. Taken together, the flowcharts and narratives give us an unprecedented view not only of the key business processes, but the key controls within those processes that help to ensure the tenets of internal control are adhered to. Process owners continue to expand their narratives in FY 2011 to include the identification of reference guidance and a strategic link to our strategic goals. It was felt that providing reference source would allow for greater clarity for compliance issues and a strategic link would help strategically align and prioritize our mission objectives. **Figure 8** is an example of the flowchart for the **business process Social Media Facebook** followed by a portion of the narrative. The Agency assesses risk in defending against malicious activity in social media affecting DeCA networks and taking immediate and commensurate actions to safeguard missions. Social media forums are used to increase and enhance DeCA's opportunities to communicate the value of the benefit to authorized customers, stakeholders, agency partners, and other interested persons, in accordance with the provisions of DeCA Directive (DeCAD) 100-1, Defense Commissary Agency Public Affairs Program, February 26, 1993, and The Freedom of Information Act, as amended, Section 552 of Title 5, United States Code. Feedback from DeCA's social media forums are used to gauge customer satisfaction and as a tool to improve their shopping experience. DeCA's social media includes Facebook, Twitter, Flickr, and YouTube. To provide guidance and clarity of the social media process, DeCAD 100-4 has been developed and is in review for publication. Each

social media process is mapped against the Appendix A methodology, tested, and evaluated for effectiveness.



FY 2011 INTERNAL CONTROL NARRATIVE

Defense Commissary Agency Corporate Communications Narrative

**Process:** Social Media (Facebook)

**Assessable Unit Manager:** James Frost

**Process Owner:** Millie Slamin

**References:** DoD Instruction 5400.13, "Public Affairs (PA) Operations," October 15, 2008, DoD 5500.7-R, "Joint Ethics Regulation," August 1, 1993, DoD Directive 8500.01E, "Information Assurance (IA)," October 24, 2002, DoD Instruction 8500.2, "Information Assurance (IA) Implementation," February 6, 2003, DoD Directive 5400.11, "DoD Privacy Program," May 8, 2007, DoD Directive 5230.09, "Clearance of DoD Information for Public Release," August 22, 2008, DoD Manual 5205.02-M, "DoD Operations Security (OPSEC) Program Manual," November 3, 2008, DoD Directive 5015.2, "DoD Records Management Program," March 6, 2000, DoD 5200.1-R, "Information Security Program," January 14, 1997, DoD 5240.1-R, "Procedures Governing the Activities of DoD Intelligence Components That Affect United States Persons," December 1, 1982, DoD Instruction O-8530.2, "Support to Computer Network Defense (CND)," March 9, 2001 Unified Command Plan, "Unified Command Plan 2008 (UCP)," December 17, 2008 and Deputy Secretary of Defense Memorandum dated February 2, 2011, Subject: Directive-Type Memorandum (DTM) 09-026 - Responsible and Effective Use of Internet-based Capabilities.

**Strategic Link:** Goals 1 and 3

**Date Reviewed:** May 23, 2011

**Background:** Facebook is a social networking website that is operated and privately owned by Facebook, Inc. Since September 2006, anyone over the age of 13 with a valid e-mail address (and not residing in one of the countries where it is banned) can become a Facebook user. DeCA initiated its Facebook page September 2009 for the purpose of establishing a forum from which it could promote the commissary benefit and enhance the relationship between its commissaries and its patrons.

STEP 1: Monitor DeCA's Facebook page each work day.

STEP 2: Generate post each work day and include a photo or video, as appropriate

STEP 2a: Send post through the OC QC workflow process, beginning by uploading the post to: <https://decaoc.basecamp.com/projects/4565748/writeboards>.

STEP 2b: CONTROL 1 Two OC staffers review/edited the post, as needed.

Figure 8: Social Media

## Risk Analysis

Once the flowcharts and narratives have been completed, we then begin defining the risks and controls at each of the control points. **Figure 9** shows the first part of the analysis, which evaluates the risk absent the controls or inherent risk. This evaluation uses two very distinct measures, likelihood and impact. Both measures are evaluated on a scale of 1 to 5, with 1 being the lowest, 5 the highest. A mathematical combination of these two numbers automatically populates the field defining the inherent risk level. In the DeCA system, we evaluate risk in a purely binary system of either high or low risk. Under the old checklist system, significant time and energy were expended on the evaluation of internal controls that were not central to ensuring the efficiency and effectiveness of DeCA operations and were rarely specific to a business process.

Under the new system, managers must identify the most significant risks to the successful completion of that unit's mission at each of the control points defined on their flowcharts. This has had the effect of both reducing the scope of the activities that had to be investigated and focusing our efforts and resources on the most significant of our operational risks.

DECA RISK ANALYSIS - FY2011					
1 Entity:	DECA Social Media		2. Preparer: Millie Slamin		
			3. Preparer's Phone #: (804) 734-8000 extension 8-6111		
4 Control Number	5 Process	6 Risk	7 Likelihood	8 Impact	9 Inherent Risk
1	Facebook	Dissemination of information could be damaging to the Agency.	2	5	High
2	Facebook	Dissemination of information could be damaging to the Agency.	2	5	High
1	Twitter	Dissemination of information could be damaging to the Agency.	2	5	High
1	YouTube	Dissemination of information could be damaging to the Agency.	2	5	High
2	YouTube	Dissemination of information could be damaging to the Agency.	2	5	High
1	Flickr	Dissemination of information could be damaging to the Agency (News Media release).	2	5	High

**Figure 9: Evaluating Inherent Risk**

This process has also had the added benefit of forcing managers to think very critically about their operations and what events can cause their efficiency or effectiveness to break down. Once the inherent risk level is evaluated, managers must then identify the key internal controls that mitigate those risks. We have established a formula for the definition of an internal control, shown in **Figure 10**.



HOW OFTEN (daily, weekly, etc.)  
 WHO (position title?)  
 DOES WHAT (compares, reviews, etc.)  
 TO WHAT (document, checklist, etc.)  
 TO ENSURE (accuracy, proper authorization, etc.)

Figure 10: Internal Control Formula

Defining the internal controls currently in place is one of the most important parts of the evaluation system. In **Figure 11** you will see several examples of how the internal control template is applied to different controls. The managers then evaluate whether the internal control is adequately designed or adequately mitigates the stated risk, establishing a control risk level (either high or low). If the manager knows that a particular control is not working, the manager will state that the internal control currently in place has a high control risk. If a high control risk is found during the evaluation, the manager will be responsible for initiating a Corrective Action Plan (CAP) (see **Figure 14**) instead of testing the control. This process eliminates the need for excessive testing when the manager already knows there is a control deficiency. For those controls that management rates with a low control risk, they will then identify the test method they will employ to verify that the control is working effectively. A completed risk analysis for the control points listed in the flowchart on page 15 can be seen in **Figure 11**.

DECA RISK ANALYSIS - FY2011									
1. Entity:	DECA		2. Preparer:			Mills Sample			
	Social Media		3. Preparer's Photo #:						
4. Control Number	5. Process	6. Risk	7. Likelihood	8. Impact	9. Internal Risk	10. Internal Control Currently In Place	11. Does the ICCIP mitigate the stated risk?	12. Control Risk	
1	Facebook	Dissemination of information could be damaging to the Agency.	2	5	High	Two OC staffers reviewed/edited the post, as needed.	Yes	Low	
2	Facebook	Dissemination of information could be damaging to the Agency.	2	5	High	Post reviewed/approved by third person with release authority.	Yes	Low	
1	Twitter	Dissemination of information could be damaging to the Agency.	2	5	High	Post a response that has been through the OC QC workflow process, reviewed and approved.	Yes	Low	
1	YouTube	Dissemination of information could be damaging to the Agency.	2	5	High	The video script goes through the OC quality control workflow process for review and approval (Refer the Facebook narrative and flowchart).	Yes	Low	
2	YouTube	Dissemination of information could be damaging to the Agency.	2	5	High	The completed video goes through the OC QC workflow process for review and approval.	Yes	Low	
1	Flickr	Dissemination of information could be damaging to the Agency (News Media release).	2	5	High	OC staffers who take these photographs place their approved images on the OC Working Files Server in a folder for that calendar year it was taken. They may also choose to upload their photographs to FLICKR to be shared with a variety of audiences on the World Wide Web.	Yes	Low	

Figure 11: Complete Risk Analysis

## Test Plan

During the test plan phase a detailed test description is formulated before completing the documentation and testing of controls (**Figure 12**). Testing specifically addresses the design of the test plan, performing the testing, and documenting the testing. It also includes the methodology for selecting test samples and performance. Documentation of test plans provides evidence to support the operating effectiveness of each key control and identity if the control is in place. Testing methods that are used to validate a control is operating effectively are 1) inquiry, 2) walkthrough/observation, 3) examination, and 4) re-performance. Test plans are reviewed and revised as the testing phase progresses and new information becomes available. The test plan sets the parameters for how tests are accomplished. The social media example below was revised as testing was accomplished. The process owner identified improved processes as she tested and made corrections to the testing phase, to provide the most accurate and current information available for decisions to be made that impacted the creation of new policy and procedures associated with the social media processes within DeCA.

Test Plan		
Entity		DeCA - Social Media - Facebook
Preparer	Name of person who is completing the test plan	Mille Slamin
Acct Line	Implementation area or business cycle	Funds Balance with Treasury
Control#		#1
Risk		Dissemination of information could be damaging to the Agency.
Internal Control Currently In Place		Two OC staffers reviewed/edited the post, as needed.
Control Type	Identify whether the control is <b>Manual</b> or <b>Automated</b>	Manual
Control Frequency	How often the control is performed (e.g. Continuous, Daily/Weekly, Biweekly, Monthly, Quarterly, Annually)	Quarterly
Testing Period	The timeframe when the test samples are being reviewed (1 year's worth, 1 week's worth, 1 day's worth/4th work day, 2nd quarter).	1st, 2nd, 3rd, 4th quarters
Test Method	Identify the basic control test that is performed on the key control. The four basic types of tests include <b>Inquiry/Interview, Inspection, Observation, and Re-performing</b> a given control procedure. <b>External Assurance</b> is also acceptable for <b>Internal Control</b> .	Inspection
Documentation Location	If applicable to the testing, cite the location of the documents to be sampled and the office responsible for maintaining the documentation.	OC Working File Server
Population and Sample Size	A population is the total number of times the control is performed within the given time period, from which you wish to describe or draw conclusions. A sample is a group of units selected from the population. By studying the sample it is hoped to draw valid conclusions about the larger group. The sample size is the number of items selected for review.	Population 240 yearly Sample 10 quarterly
Criteria for Effectiveness/Tolerance Rate	State the tolerance rate: How many exceptions are acceptable for the test to still be successful? Provide the decision basis for establishing your tolerance rate. The tolerance rate is the maximum allowable number of deviations from the prescribed control. Give sample size and number of allowable exceptions.	10% Incorrect
Test Description	Describe how the test plan will be performed, where it will be performed and will be performing the testing.	A sample will be pulled from the Facebook post/Tweet and reviewed for approvals and errors.
Test Strategy	Describe how the test is intended to validate that the control effectively mitigates identified risk as designed and operated.	No information will be released without review and approval.
Test Results	How many samples passed/failed testing?	

**Figure 12– Social Media - Facebook Test Plan**

## Control Analysis

The next step in the Appendix A process is control analysis, the results from testing of the effectiveness of internal controls. **Figure 13** on the next page is an example of a completed Control Analysis by Office of Cooperate Communications accomplished in FY 2011. The risks and controls from the Risk Analysis are mapped to the Control Analysis. The Control Analysis documents the test results and assists the process owner in determining whether the results are a control exception or deficiency indicating a deficiency in the design or operating effectiveness of

the control. The process owner must initiate a significant degree of judgment in evaluating whether an internal control deficiency is a reportable condition. The control analysis is posted to the MICP SharePoint to provide a central data repository for all MICP documentation <https://moss.apps.deca.mil/function/administrative/budget/A123/default.aspx>.

DECA CONTROL ANALYSIS - FY 2011											
1 Entity:	DECA							2. Preparer:	MELISSA		
	Social Media							3. Preparer's Phone #:	80111		
									Effective		
									Effective w/Exceptions		
									Ineffective		
4	5	6	7	8	9	10	11				
Facebook	Process	Risk	Internal Control Currently in Place (ICPIP)	Description of Control Operation Test	Control Operation Effective?	New Risk Level	Test Results				
1	Facebook	Dissemination of Information could be damaging to the Agency.	Two OC staffers reviewed/edited the post, as needed.	A sample will be pulled from the Facebook post/Tweet and reviewed for approvals and errors.	Yes	Low	15 posts sampled. No failures.				
2	Facebook	Dissemination of Information could be damaging to the Agency.	Post reviewed/approved by third person with release authority.	A sample will be pulled from the Facebook post/Tweet and reviewed for approvals and errors.	Yes	Low	15 posts sampled. No failures.				
1	Twitter	Dissemination of Information could be damaging to the Agency.	Post a response that has been through the OC QC workflow process, reviewed and approved.	A sample will be pulled from the Facebook post/Tweet and reviewed for approvals and errors.	Yes	Low	15 "Tweets" sampled. No failures.				
1	YouTube	Dissemination of Information could be damaging to the Agency.	The video script goes through the OC quality control workflow process for review and approval (Refer the Facebook narrative and flowchart).	A sample will be pulled from the YouTube post and reviewed for approvals and errors.	Yes	Low	All posts sampled for 2nd and 3rd Quarter FY 2011. No failures.				
2	YouTube	Dissemination of Information could be damaging to the Agency.	The completed video goes through the OC QC workflow process for review and approval.	A sample will be pulled from the YouTube post and reviewed for approvals and errors.	Yes	Low	All posts sampled for 2nd and 3rd Quarter FY 2011. No failures.				
1	Flickr	Dissemination of Information could be damaging to the Agency.	OC staffers who take these photographs place their approved images on the OC Working Files Server in a folder for that calendar year it was taken. They may also choose to upload their photographs to FLICKR to be shared with a variety of audiences on the World Wide Web.	A sample will be pulled from the Flickr post and reviewed for approvals and errors.	Yes	Low	All photo posts sampled for 2nd and 3rd Quarter FY 2011. No failures.				

Figure 13: Control Analysis – OC/Social Media

For controls that have been tested by another DeCA entity, such as the IG, Internal Audit, or our external auditors, the results from those findings may be used instead of having to complete a redundant test. The goal of the templates provided is to integrate all information available from entities conducting testing in the Agency, augmented by the additional tests conducted by management, to give a comprehensive picture of the state of each assessable unit's internal controls and self reporting.

### Corrective Action Plans (CAP)

Once a control deficiency has been discovered, either in the risk analysis phase or as the result of a control failing its operation test, the implementation of a CAP is mandatory. In our experience, the solution of a problem can often take on a life of its own absent strict standards for resolution. DeCA uses precisely the same CAP format for our overall program as we use in Appendix A. The example provided (see **Figure 14**) is one of the corrective actions we implemented for Accounts Receivable.

The CAP requires the AUM responsible for the control deficiency to establish:

- An individual responsible for the area where the deficiencies were found;
- A detailed plan to correct the deficiency;
- Milestones and a projected completion date; and
- Status of the solution at each milestone.

The absence of one of these four factors leads to failure when attempting to correct problems. In addition to the responsible manager reporting the status of the solution to the AUM, the AUM must also keep the SAT apprised of their progress. This level of reporting and accountability creates visibility of an issue to our senior managers that was often lacking in the former paradigm.

Internal Controls Over Financial Reporting Corrective Action Plan				
Date Initiated:	August 1, 2009	POC Name:	DeCA	Control Number
Date Last Updated:	July 13, 2011	POC Phone:	DSN 687-XXXX	CAP-AR-5-3-10
Process Name:	Accounts Receivable			
Risk:	Collections could be untimely or not made at all if aggressive and timely collection action is not taken using established collection procedures.			
Internal Control Currently in Place:	Monthly, accountant reviews all outstanding VCMs for Pacific Theatre to ensure that bills are sent out monthly and payment is being received promptly.			
Test Results:	Test work resulted in the majority of sampled VCMs for the Pacific Theatre being on the aged receivable list for more than 90 days without a corresponding bill or payment.			
Corrective Action		Milestones w/ Completion Date	Status	
DeCA-PT received assistance from DeCA Europe to reduce aged VCM payables. One recommendation already implemented was to reduce APC codes from 430 to 15 (one per broker). Also, brokers were asked to pay by credit card or EFT and most have complied.		October 28, 2009	Complete	
Since project began, aged debt (> 60 days) has been reduced from \$3.1M to \$2.4M. One broker owns 67% of remaining aged debt and another 21.5%. The outstanding debt for the other 13 brokers is about \$250K.		October 15, 2010	Complete	
Involve DeCA senior Region management in debt collection as remaining two brokers with 88.5% of debt are active suppliers of DeCA and presumably want to be in good standing.		February 9, 2011	Complete	
With management's involvement, aged debt (> 60 days) has been reduced from \$2.4M to \$218K. One broker owns 99% of remaining aged debt. The Region is continuing collection action with that broker to fully satisfy debt. Controls are in place to keep debt collection actions current.		April 20, 2011	Complete	
Recommended for closure on July 13, 2011.		July 13, 2011	Approved for closure	
Stakeholders	Accounting technicians at DFAS-CO VCM Section, DeCA Region Management, brokers, staff from DeCA Europe to consult.			
Comments	Closed by SAT 7/13/2011			

Figure 14: Corrective Action Plan

### Training

MICP staff facilitated a paradigm shift in thinking about the impact of internal controls in the Agency through video training, face-to-face communication, classroom instruction, and the creation of DeCA guidance in directive DeCAD 70-2, Managers' Internal Control Program; DeCAM 70-2.1, Manager's Guide to Completing the DeCA Managers' Internal Control Program;

Risk Mitigation; DeCAM 70-2.2, Internal Control Responsibilities at Store Level; and DeCAM 70-2.2, Internal Control Responsibilities at Store Level for Zone Managers. The training of managers and the Agency as a whole is extremely important to DeCA's MICP. In order to reach all employees, the MICP manager, in coordination with the Office of Corporate Communications, developed a training video that facilitated a greater understanding of the program and led the way for a new culture of thinking. The Agency continues to utilize the training video established in 2009 as part of the MICP training for all DeCA employees in FY 2011. Employees complete the online training as part of their mandatory training requirements, which reemphasizes their role in internal controls. DeCA is adopting the same slogan as the Financial Improvement and Audit Readiness (FIAR) – "Know Your Business, Control Your Future" in their MICP training for FY 2012.

MICP staff designed and instructed DeCA's store directors training module in FY 2010 and continue that training module today. The learning objective for this module is for store directors to "know their role in internal controls." Performance steps include: (1) Introduction to Appendix A methodology, (2) define how this methodology may be used in process improvement, (3) identify what role the store director has in providing leadership to department managers and store employees concerning internal controls identification and testing, and (4) assist staff in testing and documenting compliance. The store director training is offered by the Workforce Development Directorate three to five times a year. This training has reached over 125 store managers in FY 2011.

Face-to-face training and communication is available for all process owners at any time, but especially after receipt of the new fiscal year's guidance from DoD and prior to each deliverable phase. Understanding Appendix A methodology and how it adds value to every process is a key element of our successful internal control program. We continue to use rack cards, posters, and bookmarks which provide a point of contact in MICP and serve as a visual reminder to employees of their role in the internal control process.

### **Inspector General**

The IG plays a vital role in the validation of the effectiveness of internal controls within the Agency. They are the front line investigators responsible for verifying that the internal controls at store level are adequately implemented and monitored. The IG conducts two types of inspections, the unannounced CCI and the Staff Assistance Compliance Inspections (SACI).

The CCIs are performed where risk assessment indicators show that the commissary would benefit from an inspection; where a follow-up inspection is needed based on prior inspection results or recent events; or when nominated by the DeCA leadership. The CCI checklist that assesses a commissary's internal controls is reviewed and updated annually. The CCI Checklist Working Group: ZMs, store directors, and other subject matter experts, along with MICP staff, provided suggestions on improving the effectiveness of the CCI program. The inspectors will complete 37 store inspections by the end of FY 2011 (**Figure 15**).

Total DeCA Commissaries - FY 2011					250
DeCA Agency Inspection Goal 15% of Overall Universe					37
	Scheduled	East	West	Europe	Actual
October Inspection					
January Inspections	3	2	1		3
February Inspections	4	4			4
March Inspections	5	3	2		5
April Inspections	2	2			2
May Inspections	4		4		4
June Inspections	6	2			2
July Inspections	6				0
August Inspections*	10				0
September Inspections *	6				0
Total Projected	46				
Total Inspected		13	7	0	20
Percentage	18%				8%
*1 CDC scheduled in Aug and in Sep					
KRA SUMMARY					
FY	OVERALL	PS	LI	PA	
2011	82.7	79.7	83.7	87.3	
2010	84.8	84.9	86.3	89.9	
2009	85.5	86.6	85.0	89.8	
2008	82.8	84.0	80.0	86.5	
2007	81.1	79.9	77.5	82.9	
2006	86.0	87.3	79.4	88.9	
2005	81.1	78.8	79.3	83.5	
2004	79.7	77.9	78.5	81.1	
2003	77.6	75.4	78.9	86.1	

Figure 15: IG CCI Schedule

The SACIs are announced or unannounced, based on requests by management when a new store director is scheduled to report or has recently reported to a commissary. The SACI helps the new manager baseline their commissary, central distribution center, or central meat processing plant and establish goals and priorities. SACIs are also conducted when specific or systemic issues, generally narrower in focus, require site visits to collect, research, and analyze data. These evaluations target potential problems with high risk processes such as the government purchase card or property accountability.

IG inspectors and evaluators adhere to the Quality Standards for Inspections issued by the Council of Inspectors General on Integrity and Efficiency for all inspections and evaluations.

### **Internal Audit**

The Office of Internal Audit performs a multitude of professional audit services at headquarters, region, and store level. Their focus is to perform audit services that:

- Improve the commissary benefit;
- Decrease costs without diminishing the benefit; and
- Evaluate the significant, long-term, or systemic issues that are crucial to mission performance or that pose a risk for fraud, waste, or abuse.

In addition to providing internal audit services, they serve as the primary liaison for all external audits conducted by the Government Accountability Office (GAO) and the Department of Defense Inspector General.

To develop their internal audit plan, they solicit audit topics and suggestions from DeCA directors and staff office chiefs, regions, stores, and the Audit Committee of the Board of Directors (**Figure 16**). They also generate audits internally based on:

- DeCA’s strategic plan and direction;
- Management-identified control risk;
- Emerging issues; and
- Audit entity files.

In addition to the audit suggestions and the internally generated audits, the plan includes follow-up audits which are required by the GAO Comptroller General of the United States.

<b>FY 2011 Office of Internal Audit Planned Audits - Summary</b>	
<b>FINANCIAL RELATED AUDITS</b>	(1) Control Environment for Managing System Problems and Resolutions (Help Desk) Control Environment for Managing System Problems and Resolutions (Help Desk) (2) Lean Six Sigma (L6S) Savings Validation (3) Government Purchase Card (GPC) Program ( <b>Alternate</b> )
<b>INVENTORY AUDITS</b>	(1) Audit of Resale Accounting Division (RAD) Inventory Process (2) Audit of Accountable Inventory (Store) ( <b>Alternate</b> )
<b>OTHER PERFORMANCE TYPE AUDITS</b>	(1) Evaluating Weaknesses in Current Internal Controls (2) Peer Review Support
<b>STORE OPERATIONS AUDITS</b>	(1) Front End – CARTS Audit (2) Worldwide Pricing in Grocery, Meat, and Produce Departments
<b>SPECIAL REQUEST AUDITS</b>	(1) Leadership Requested Audits

**Figure 16: Internal Audit Plan**

## **Evidence of Control Issues Discovered or Resolved During Reporting Period**

**Description of Issue:** Reports from Safety Visits Testing were Out of Tolerance

### **Accomplishments:**

- There are four types of store safety visits that are performed by safety inspectors. The purpose of region safety support managers (RSSM) visits to stores varies. Safety Program Assistance and Review (SPAR) is a form of specified evaluations on over 100 safety program elements and provide a color code rating. Target of Opportunities is additional assistance visits to sites identified by the prior year accident statistics for having a higher count of total accidents compared to the Agency average of total accidents. Target of Interest is an additional assistance visit to sites identified by the current period accident statistics for having a higher count of total accidents. Accident Investigations are visits to conduct a more in-depth review of a class A or B accident (e.g., fatality, amputation, total disability) by a professional safety individual vice conducted by store personnel. Staff assistance visit (SAV) is a visit to conduct a compliance inspection/special purpose visit, like training, and SAV may be rolled into a SPAR.
- Although this business process did not have a process failure, it did, however, have an exception. There is a zero tolerance for safety process procedure failures. The program manager used the test results to make improvements to the process and identified a weakness that could have an impact on safety evaluations and the accessibility of information for decision making. Through testing and self reporting, it was revealed that DeCA needed to make changes to the process for posting reports on SHAREPOINT to include the distribution of correspondence. Therefore, a new procedure was initiated for each site visit. Prior methodology did not post the reports, but the reports were often an attachment to an e-mail; therefore, dates and routing information were not readily available. This business process impacts the utilization of all pertinent information storage and a historical data gathering methodology that impacts current, future and trend information analysis utilized in decision making for employee training, target areas for reemphasis, and improvement in safety procedures in mitigating risk in store accidents.

**Description of Issue:** Reduction of Advances for Federal Employees Health Benefits

- A review was performed of the outstanding advances for Federal Employee Health Benefits (FEHB). Monthly analysis noted that this category steadily aged/increased without liquidation. DeCA and DFAS-CO collaborated to ensure that aged, unsupported, or uncollectable claims were adjusted or written off. The advance account was reduced by \$563,000 in September 2010. To limit the risk of reoccurrence, HR reviewed DCPDS procedures to ensure that personnel records were properly updated and they issued LWOP and FEHB guidance to reduce the potential of erroneous FEHB payments. DFAS is currently reclassifying inactive advances to refunds receivables, which ensure the issuance of demand letters and the performance of applicable collection actions to recover DeCA funds. Finally, DeCA accounting is monitoring all variances on



a monthly basis, validating the accuracy of high risk claims and reducing the write-off of over aged receivables.

**Description of Issue:** Outstanding Debt for Aged Vendor Credit Memos

**Accomplishments:**

- In the Pacific Theater, brokers owed DeCA \$3.1M in outstanding vendor credit memos (VCMs) for items sold as a promotion or special offer. The debt was held in 430 different account codes. Agency staff in the Pacific Theater sought the help of the region office for DeCA Europe, who had little or no debt associated with VCMs. Two initial recommendations were made: the accounts were reduced from 430 to 15, one for each broker who provides goods to DeCA in the Pacific Theater; and brokers were asked to pay all past and future debts by credit card or EFT. Then reconciliation was performed with each broker and collections made, reducing the debt by nearly \$800,000 to \$2.4M. Nearly 90 percent of the remaining debt was attributed to two brokers. When collections were not forthcoming, senior management from the DeCA West Region got involved to work with the two brokers who presumably had a vested interest in remaining in good standing with the Agency. Over the next year, all but \$215,000 of the \$2.4M debt was collected, with the Agency working with the final broker to resolve the difference. Payments for current VCMs are made by the agreed upon method and controls are in place to ensure that the aged debt is promptly resolved.

**Description of Issue:** Increase in IG CCI Scoring

**Accomplishments:**

- Nineteen percent of the stores tested that implemented corrective actions as a result of ZM testing of internal controls showed an increase in IG CCI scores from their last inspection and a cumulative sales increase of \$5M. Through self reporting and corrective action, stores were able to show an average increase in their IG CCI score from 77 percent to 89 percent. Improvements in the operation of business processes had a direct relationship to store efficiency and customer satisfaction in delivery of products and services.

**Conclusion**

The Agency's ability to deliver a vital benefit of the military pay system that sells grocery items at cost while enhancing quality of life and readiness depends on our efforts to recognize opportunities for improvement and to implement them as fully as possible, as soon as possible. Our wholehearted commitment to the military community compels us to continue to look for new and innovative methods to conduct our business. Our program is an acknowledgment that internal controls and our systems for testing their effectiveness and efficiency will continue to be a top priority for DeCA.

**TAB B – Not Applicable**

**Description of Material Weakness (ICONO)**

**TAB B-1 Not Applicable**

**List of All Uncorrected and Corrected Material Weaknesses (ICONO)**

**TAB B-2 – Not Applicable**

**Uncorrected Material Weakness Status of Correctives (ICONO)**

**TAB B-3 – Not Applicable**

**Material Weakness(es) Corrected This Period (ICONO)**

**Tab C – Not Applicable**

**USED ONLY BY THE DIRECTOR OF ADMINISTRATION AND MANAGEMENT IN  
REPORTING NONFINANCIAL SYSTEMIC WEAKNESSES FOR THE OFFICE OF THE  
SECRETARY OF DEFENSE SOA.**

**TAB D**

**Description of Material Weakness (ICOFS)**

During FY 2010, DeCA was not in substantial compliance with the Federal Financial Management Improvement Act (FFMIA) of 1996. DeCA uses two separate accounting systems – Defense Business Management System (DBMS) and Standard Financial System (STANFINS) to process financial transactions. DBMS accounts for transactions associated with appropriated funds and surcharge collections, and STANFINS accounts for all resale inventory transactions. STANFINS and DBMS do not interface; therefore, DeCA is not compliant with FFMIA system requirements, which call for a single, integrated financial system. Neither system is able to process transactions in accordance with the USSGL at the detail level, and extensive manual processes are required to adjust DBMS and STANFINS balances to allow for compilation of DeCA’s consolidated financial statements.

**TAB D-1**

**LIST OF ALL UNCORRECTED AND CORRECTED MATERIAL WEAKNESSES  
(ICOFS)**

**Uncorrected Weaknesses Identified During the Period:**

<b><u>Title</u></b>	<b>Quarter (QTR) and Fiscal Year (FY) <u>Targeted Correction Date</u></b>	<b><u>Page #</u></b>
Financial System Conformance	FY 2015	TAB D-2



**TAB D-2**

**UNCORRECTED MATERIAL WEAKNESS STATUS OF CORRECTIVE ACTIONS  
(ICOFs)**

**Title and Description of Issue:** Financial System Conformance

During FY 2010, DeCA was not in substantial compliance with the Federal Financial Management Improvement Act (FFMIA) of 1996. DeCA uses two separate accounting systems – Defense Business Management System (DBMS) and Standard Financial System (STANFINS) to process financial transactions. DBMS accounts for transactions associated with the appropriated funds and surcharge collections, and STANFINS accounts for all resale inventory transactions. STANFINS and DBMS do not interface; therefore, DeCA is not compliant with FFMIA system requirements, which call for a single, integrated financial system. Neither system is able to process transactions in accordance with the USSGL at the detail level, and extensive manual processes are required to adjust DBMS and STANFINS balances to allow for compilation of DeCA’s consolidated financial statements.

**Functional Category:** Financial System Conformance. Integrated financial system conformance with the Federal requirements of the Federal Financial Management Improvement Act of 1996 and OMB Circular No. A-127, and as prescribed by DoD 7000.14-R, Volume 1, Chapter 2, Federal Financial Management Improvement Act of 1996 Compliance, Evaluation, and Reporting, October, 2008.

**Component:** DeCA is reporting a material weakness for the FMFIA Over Financial Systems.

**Senior Official In Charge:** Joseph H. Jeu, Director, Defense Commissary Agency

**Pace of Corrective Action:**

**Year Identified:** FY 2011, DeCA first reported the weakness in SOA to the Secretary of Defense.

**Original Targeted Correction Date:** FY 2015 targeted correction date

**Targeted Correction Date in Last Year’s Report:** Not Applicable

**Current Target Date:** FY 2015 is targeted correction date per this report

**Reason for Change in Date:** Not Applicable

**Validation Indicator:** FFMIA compliance shall be determined through testing and evaluation by an IPA firm as part of the ongoing consolidated financial statement audit.

**Results Indicator:** The primary goal is to deploy a standardized system solution to improve overall financial management and comply with the Department’s Business Enterprise

Architecture, including Standard Financial Information Structure (SFIS), and Office of Federal Financial Management (OFFM) requirements. DAI benefits will include:

- ***Address financial management material weaknesses and deficiencies*** – DAI is a single OFFM compliant solution for the defense agencies
- ***Streamline interagency accounting*** – Through common use of USSGL Chart of Accounts, SFIS, standardized business processes, and data standards
- ***Enhance financial analysis and timely decision making*** – DAI provides real time access to accurate, timely, and authoritative financial data
- ***Reduce data reconciliation requirements*** – DAI allows agencies to free up scarce agency resources to perform more value added activities
- ***Improve financial management business processes*** – By automating labor intensive manual tasks

**Source(s) Identifying Weakness:** Notification of Finding and Recommendations, N-10-H9, Federal Financial Management Improvement Act (FFMIA) of 1996, Non-Compliance, September 28, 2010

**Major Milestones to Include Progress to Date:**

Compliance with Federal Financial Management Improvement Act		
Completed Milestones	Planned Milestones for FY 2012	Planned Milestones Beyond FY 2012
	Data Cleansing/ Data Consolidation - Ongoing	FY 2014 - DAI Deployment Preparation
		FY 2015 - DAI DBMS Deployment
		FY 2016 - DAI STANFINS Deployment

**TAB D-3 – Not Applicable**

**Material Weakness(es) Corrected This Period (ICOFS)**