

FEDERAL MANAGERS'  
FINANCIAL INTEGRITY ACT OF 1982

**FY 2012**  
**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) mission is to deliver a vital benefit of the military pay system that sells grocery items at cost while enhancing the quality of life and readiness.

#### **Guidelines for the Evaluation**

DeCA's 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 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, financial statistical reports, and to maintain accountability over the assets.

#### **Concept of Reasonable Assurance**

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.

## **Evaluation**

DeCA evaluated the system of internal control 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) 2012, 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 tenth consecutive 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.

### **Determination of Reasonable Assurance**

Using the following process for conducting the evaluation, DeCA evaluated its system of internal accounting and administrative control and maintains documentation to support its evaluation and level of assurance. Additionally, DeCA maintains an audit trail of the evaluation process.

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

DeCA's approach in FY 2012 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 area deputy directors.

## 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. There were 91 ICONO processes identified throughout our Assessable units in 2012 (**Figure 1**).

Policy/System Division - Card Purchases	Human Resources Division - Individual Development Training	Operational Assessment Division - Store Assessments
Policy/System Division - GPC Account Issuance	Resource Management Division - Manpower Utilization Actions	Sales Division - Adding New Items (DeCA)
Acquisition - Support Services	Resource Management Division - Organization Structure and Management	Sales Division - Adding New Items (non DeCA)
Store Services Support Division - Shelf Stocking, Warehouse, NISH	Corporate Planning Division - Suspense and Tasker	Sales Division - Conducting Category Review
Store Services Support Division - Shelf Stocking, Warehouse, Small Business	Corporate Planning Division - Strategic Planning	Sales Division - Customer Concern Response
Facility Sustainment Division - Facilities Recurring Sustainment & Construction Program	Corporate Planning Division - DeCA Performance Management	Sales Division - Monthly Promotional Offers
Equipment Division - Equipment	Corporate Planning Division - Agency Enterprise Portfolio Management	Sales Division - Verifying Category Savings
Equipment Division - Supplies	Corporate Planning Division - Governance	Sales Division - Pricing
Corporate Communications Division - Publications	Corporate Planning Division - IDEAS Program	Sales Division - Brand Name Products
Corporate Communications Division - Audio Visual	Corporate Planning Division - IDEAS Factory	Sales Division - Non Brand Name Products
Corporate Communications Division - Facebook	Process Improvement Division - Black Belt Process	Health and Safety Division - Incident Reporting
Corporate Communications Division - FLICKR	Process Improvement Division - Green Belt Process	Health and Safety Division - Health, Safety (Safety Visits)
Corporate Communications Division - TWITTER	Process Improvement Division - Internal Control Process	Health and Safety Division - Recall Program
Corporate Communications Division - YouTube	Information Technology Division - Information Assurance Vulnerability Management	Equal Employment Opportunity Division - Management Directive 715
Human Resources Division - Unfair Labor Practice Charge	Information Technology Division - Information Assurance Policy Development	Equal Employment Opportunity Division - Reasonable Accommodation
Human Resources Division - Establishing or Reviewing Position Classification	Information Technology Division - Information Assurance Plan of Action Milestones	Equal Employment Opportunity Division - Pre-Complaints Process
Human Resources Division - Hiring (DEU & Merritt)	Information Technology Division - Information Assurance Accreditation and Oversight	Equal Employment Opportunity Division - Complaints Processes
Human Resources Division - Separations	Information Technology Division - Policy Maintenance	Equal Employment Opportunity Division - FAD Process
Human Resources Division - Awards	Information Technology Division - Capital Planning and Investment Management	General Council - Personnel Law Advice and Support
Human Resources Division - OWCP Chargeback Reviews	Information Technology Division - Contract Sourcing Management	General Council - Personnel Law Litigation
Human Resources Division - OFF	Information Technology Division - Scheduling Agency Records	General Council - General Law & Commercial Law Support
Human Resources Division - Suitability Non Sensitive	Information Technology Division - Website Update	General Council - General Law & Commercial Law Litigation Support
Human Resources Division - Suitability Sensitive	Information Technology Division - Agency Requests for Data Reports	Office of Inspector General - Complaints and Inquiries Process
Human Resources Division - OWCP CA-1/CA-2/COP	Information Technology Division - Technology Management	Security - Higher Headquarters Assessments/Security Programs Review
Human Resources Division - OWCP CA-7 LBB	Information Technology Division - Design Phase/Technical Reviews	Office of Internal Audit - Internal Audit
Human Resources Division - CA-7 LWOP	Information Technology Division - Administrative Access/Employee Termination	Planning/Environmental Division - Major Project Prioritization and Approval
Human Resources Division - CA-7 Schedule Awards	Information Technology Division - Ticket Response and Desktop Support Tickets	Planning/Environmental Division - Sustainment & Construction Program
Human Resources Division - Permanent Modified Work Assignment	Information Technology Division - Hand Held Terminal Depot Maintenance	Planning/Environmental Division - Annual Energy Plan
Human Resources Division - Modified Work Assignment	Information Technology Division - Windows Software Updates	Planning/Environmental Division - Energy Conservation Investment Plan
Human Resources Division - Europe Hiring 1144 and Non 144	Information Technology Division - Tech Server Refresh	OP Guidance & Program Standardization Division - Accounting for Losses by Reports of Survey

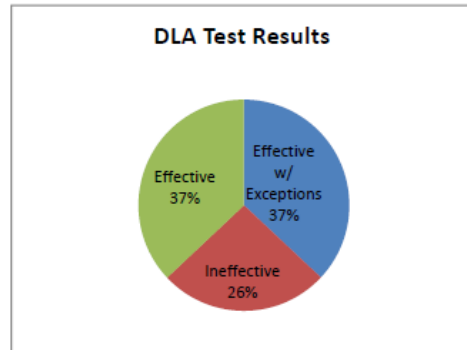
**Figure 1: FY12 ICONO Processes**

## **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 worked to develop narratives, flowcharts, risk analysis, and test plans. Those documents were relooked and refined in FY 2012 and testing of DLA partnering processes was accomplished in April 2012 (**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.

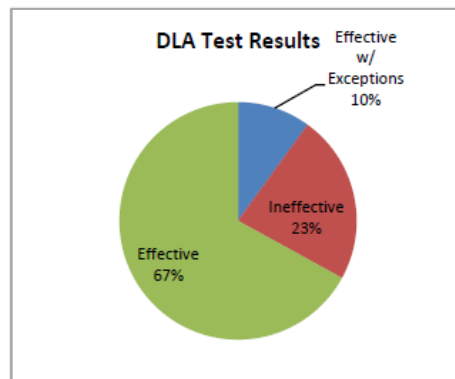
- **FY2010-DLA-HR Processes: Awards, Hiring (DEU,Merit), Separations, OPFs**

- 19 Controls Tested
- 7 Effective (37%)
- 7 Effective with Exceptions (27%)
- 5 Ineffective (26%)



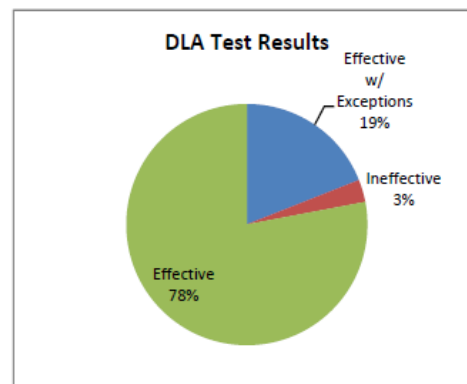
- **FY2011-DLA-HR Processes: Awards, Hiring (DEU, Merit), Separations, OPFs, Suitability (Non Sensitive, Sensitive)**

- 30 Controls Tested
- 20 Effective (67%)
- 3 Effective with Exceptions
- 7 Ineffective (23%)



- **FY2012-DLA-HR Processes: Awards, Hiring (DEU,Merit), Separations, OPFs, Suitability (Non Sensitive, Sensitive)**

- 32 Controls Tested
- 25 Effective (78%)
- 6 Effective with Exceptions (19%)
- 1 Ineffective (3%)



**Figure 2: DLA Partnership Test Results**

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

The MICP follows the same methodology as the OMB Circular A-123 Appendix A process 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, we go beyond examining those controls in a vacuum of operational risk, because our process has matured. 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 Continuous Process Improvement (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 7 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 resolved several ineffective controls using the Lean Six Sigma process as a resolution to open corrective action plans identified during various assessments within the agency. Once ineffective controls are noted, the 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 determined the deficiency qualified as a greenbelt project. If so, a greenbelt 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 a list of all L6S projects completed from June 2011 to June 2012. **Figure 4** is an example of a performance and policy project developed by one of the agency's black belts focusing on Commercial Activities. Through the development of improved data visibility, DeCA has improved its ability to manage the execution of its' Commercial Activities. Agency wide case count data visibility has led to the ability to better understand store requirements and maintain standardized services across similar stores. Data availability has also improved management oversight of contract execution as it can now identify stores whose case count variation is excessive. Specific improvements for this project include:

- Data uniformity
  - Design a standardized and automated Case Count Sheet to replace current Form Finder Form - Drafted
- Data visibility outside of Acquisition Management
  - Develop a database that aggregates all CA case count data - Complete
- Standards and management processes in development
  - Above Store Process to manage CA processes and costs
    - Monthly reports from Store Operations to Zones and Stores
  - Improved management of requirements
    - Identified 60 contracts for standardization
    - Vendor stocking performance insights

The DeCA Lean Six Sigma program recognizes that an organization requires both quality and speed to be successful. The organization needs a balanced process to help it focus on improving service quality, as defined by the customer, within a set time limit. Lean Six Sigma maximizes all stakeholders' value by achieving the fastest rate of improvement in customer satisfaction, cost, quality, process speed and invested capital.

Continuous Process Improvement/Lean Six Sigma Completed Projects 2011/2012
Business Capabilities Lifecycle & Business Process Re-engineering
Analysis of Impact of Minimal Price Changes
Determine the Enterprise Cost of Part-time Employees
5% and 10% Initiatives
Circuit Management
Swipe CAC/ID card at Register
Resale GPC Use: Written Authorization
Central Distribution Center Operational Review
Reduce Store-Level Administrative Tasks
2 <sup>nd</sup> Destination Transportation Process
Chicken Merchandising Program
P & R CPI Awards Program

Figure 3: Lean 6 Sigma Projects 2011-2012

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## Charter & Timeline



### Define Tollgate

Team Members			
Name	Role	Affiliation	RACI
Keith Hagenbuch	Sponsor/Champion	DeCA West	Approver
Jay Hudson	Process Owner	Performance and Policy (DO)	Approver
Jed Smith	Black Belt	Corporate Planning	Responsible
Marc Petit	Master Black Belt	Corporate Planning	Responsible



### Project Charter

<b>Problem Statement:</b>	The Commercial Activities PWS will be reviewed to determine where it can be standardized and identify cost reductions from the FY'10 budgeted amount of \$162M for 170 CONUS Store
<b>Business Case:</b>	DeCA must understand all cost drivers in the Commercial Activities (CA) contracts. Requirements and activities that are not valued by the customer or required by law need to be carefully considered prior to inclusion in the PWS.
<b>Goal Statement:</b>	• Reduce cost of Enterprise CA Contracts by \$5M through improved understanding of how the customer values PWS performance
<b>Unit:</b>	PWS elements by dollars (Custodial, Shelf stocking, RSHA)
<b>Defect/Waste:</b>	Marginal Dollars that do not add value to the customer
<b>Customer Specification (s):</b>	Internal DeCA: Operate store in a safe and efficient manner External: Desired product available when needed
<b>Measure Start/Stop:</b>	FY 10 financial data to be used for Analysis
<b>Scope:</b>	CONUS CA stores, PWS, and QASP

### Project Timeline

Phase	Planned	Actual	Status
Define	10/29/10		●
Measure	12/15/10		○
Analyze	02/16/11		○
Improve	04/15/11		○
Control	06/15/11		○

DoD Lean Six Sigma Program Office

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Figure 4: Lean 6 Sigma Black Belt Project



## Store Level Testing of Internal Controls

DeCA continues to test internal controls over nonfinancial operations (ICONO) within the commissaries in FY 2012. The Assessment team tested 22 internal controls at 12 different locations and reported the results to DeCA MICP. The Assessment Team was created with DeCA's reorganization and began their assessments of the stores in February 2012. The Internal Control Team and the Assessment Team worked together to identify the critical controls in the store assessments. This reduced the key controls being tested for MICP down to 22. When these controls were failed by stores the Assessment Team followed through with a Corrective Action Plan to the zone manager. The zone manager implemented the corrective action immediately and will report the results back to DeCA MICP (**Figure 5**). Operational readiness is impacted by the effectiveness of internal controls. Assessment visits 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. Auditability is a central focus for all of DeCA. Metrics are reported to provide DoD with statistical data that identifies the operational effectiveness and efficiency for DeCA. The Appendix A methodology continues to be the instrument utilized to determine operational readiness, efficiencies and effectiveness.

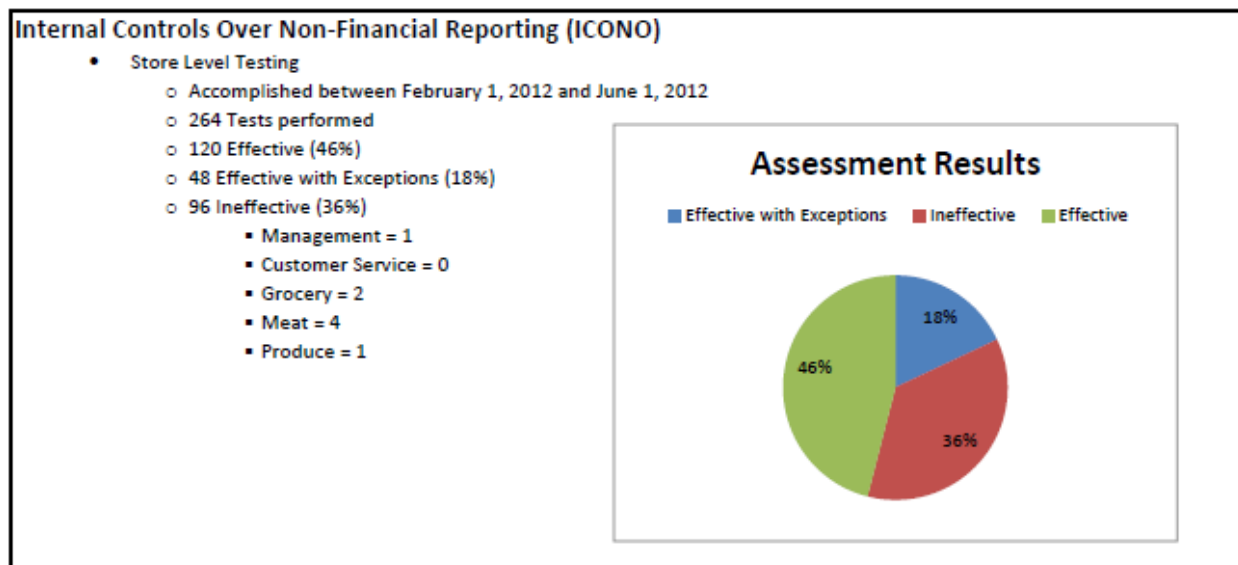
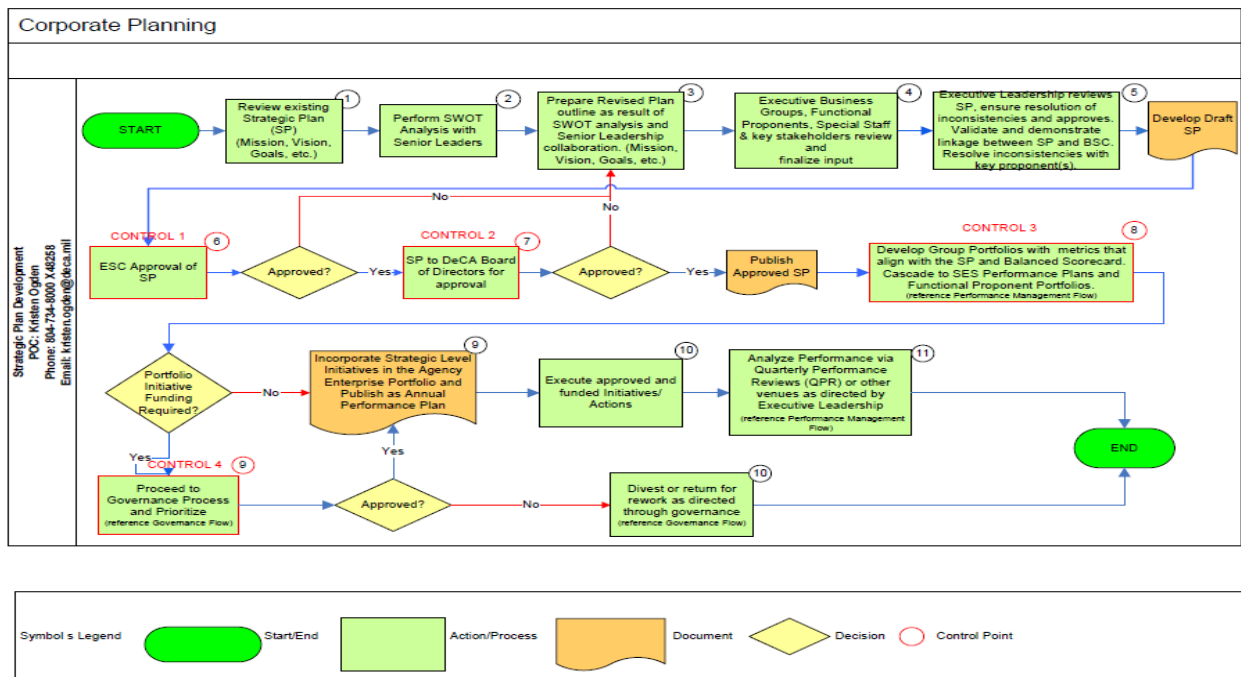


Figure 5: FY 2012 Store Level Testing

## 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. The 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 the 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 tenants of internal control are adhered to. Process owners continue to expand their narratives in FY 2012 to include the identification of reference guidance and a strategic link to our strategic goals. **Figure 6** is an example of the flowchart for the business process Strategic Plan Development followed by a portion of the narrative (**Figure 7**). The Appendix A methodology is utilized to mitigate risk associated with the Agency’s strategic plan development process by ensuring compliance with the Government Performance and Results Act (GPRA) and OMB mandates. Various analyses are performed to identify internal and external environmental factors that may affect the Agency. Once factors are determined they are further analyzed and decisions are made for adjustments to the Agency Strategic Plan. Inputs are then consolidated and the plan and the balanced scorecard are linked. The draft is then submitted through many areas for approval. If funding is required for any initiatives it then has to be submitted through the Agency Governance process. Once funded the Annual Performance Plan is published and the appropriate funding office monitors the initiative performance. Performance Reviews are held to gauge Agency progress and direction. To provide guidance and clarity of the strategic plan development process, Director’s Policy 500-01: Strategic Planning Process and Responsibilities was updated and republished in FY12. The strategic plan development process is mapped against the Appendix A methodology, tested, and evaluated for effectiveness.



**Figure 6: Flowchart Strategic Plan Development**

## FY 2012 INTERNAL CONTROL NARRATIVE

### **Defense Commissary Agency Directorate of Corporate Planning Narrative**

#### **Process: Strategic Plan Development**

**Assessable Unit Manager:** Vicki Archileti

**References:** DeCAD 70-2, Internal Control Program, 2007  
Government Performance and Results Act (GPR) Modernization Act of 2010  
DP 500-01, Strategic Process and Responsibilities (revision in process)

**Strategic Link:** Goal 3

**Date Reviewed:** December 2011

STEP 1: Review existing Agency Strategic Plan at a macro level. Executive and senior leadership meet to assess if current Mission, Vision, Goals and Strategic Objectives are still valid. Evaluate the need for plan updates. Prepare project milestones to conduct planning session(s) with Agency leadership. Reevaluation occurs concurrently with Step 2.

STEP 2: Perform Strengths Weaknesses Opportunities and Threat (SWOT) analysis with senior leadership. This evaluation typically occurs during a series of meetings and/or conferences. It entails identification of any internal and external environmental factors that may affect the Agency. An analysis of these factors should then occur. The resulting analysis then forms the rationale for any decisions by leadership to adjust or realign the Agency Strategic Plan.

STEP 3: Adjust the Strategic Plan based on senior leadership's collaboration and guidance based on their analysis of the Agency's environmental factors (Step 2). Conference discussions are noted and captured as foundational outputs for the updated strategic plan narrative. Concurrent activities occur that support the development of the layout, publication and final details of the resulting document.

STEP 4: The resulting draft narrative of the Agency's plan is then coordinated with all Business Groups, Functional Process Owners and Special Staff Group (SSG) for further adjustments and validation.

STEP 5: Inputs are consolidated, linkage between the plan and balanced scorecard is demonstrated, inconsistencies are resolved and document is refined. This draft Strategic Plan is then submitted to the Agency Executive Leadership (Executive Steering Counsel (ESC) for review and approval.

STEP 6: **Control 1 (internal)**. The draft Strategic Plan is submitted to the Agency Executive Steering Council (ESC) for review and approval. If the ESC does not approve or the plan requires edits, the plan is returned to Corporate Planning for adjustments and additional coordination if required, and resubmitted for approval.

**Figure 7: Narrative Strategic Plan Development**

**Risk Analysis**

Once the flowcharts and the narratives have been completed, we then begin defining the risks and controls at each of the control points. **Figure 8** 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 was 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.

<b>DECA RISK ANALYSIS - FY2012</b>					
1. Entity: DECA		2. Preparer:			
BEX		3. Preparer's Photo			
4	5	6	7	8	9
Control Number	Process	Risk	Likelihood	Impact	Inherent Risk
1	Strategic Planning	Lack of an approved draft plan may result in an ineffective or inefficient resource allocation. May result in a lack of funding for more critical initiatives. The Agency will not be in compliance with the GPRA Modernization Act and DoD mandates.	2	3	High
2	Strategic Planning	If the BOD does not approve the Strategic Plan the Agency will not have a board approved strategic plan. May result in a lack of alignment to executive intent or direction.	2	2	High
3	Strategic Planning	Lack of performance aligned Group portfolios may result in activities being performed that do not support the Agency Strategic Plan. Resources may be inappropriately allocated and not available for more critical requirements.	3	3	High
4	Strategic Planning	Unfunded initiatives that do not proceed to the governance process are at risk of not being implemented. May negatively impact Agency planning and performance measures	3	3	High

**Figure 8: 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, the 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 9**.

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 9: 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) 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 10**.

DECA RISK ANALYSIS - FY2012												
1 Entity: DECA		2. Preparer:							BEX			
4 BEX		3. Preparer's Pt							Corporate Planning			
5	6	7	8	9	10	11	12	13				
Control #	Process	Risk	Likelihood	Impact	Inherent Risk	Internal Control Currently In Place	Does the ICCIP mitigate the stated risk?	Control Risk	Internal Control Test Method to Be Used			
1	Strategic Planning	Lack of an approved draft plan may result in an ineffective or inefficient resource allocation. May result in a lack of funding for more critical initiatives. The Agency will not be in compliance with the GPRA Modernization Act and DoD mandates.	2	3	High	Biennially, planning specialist facilitates meetings with executive and senior leadership to establish a draft strategic plan. The draft plan is prepared, coordinated, and submitted to the Agency executive leadership for approval.	Yes	Low	Inspection of records			
2	Strategic Planning	If the BOD does not approve the Strategic Plan the Agency will not have a board approved strategic plan. May result in a lack of alignment to executive intent or direction.	2	2	High	The Agency executive leadership approved Strategic Plan is submitted to the Commissary Board of Directors for approval.	Yes	Low	Inspection of records			
3	Strategic Planning	Lack of performance aligned Group portfolios may result in activities being performed that do not support the Agency Strategic Plan. Resources may be inappropriately allocated and not available for more critical requirements.	3	3	High	Each executive group develops a Group portfolio demonstrating initiatives that support the Agency's plan and Balanced Scorecard measures. The initiatives provide the basis for executing and tracking Agency performance.	Yes	Low	Inspection of records			
4	Strategic Planning	Unfunded initiatives that do not proceed to the governance process are at risk of not being implemented. May negatively impact Agency planning and performance measures.	3	3	High	The Agency performance portfolio consolidates funded initiatives identified by executive Group portfolios. Unfunded initiatives are directed to proceed through the Governance process for potential prioritization and funding.	Yes	Low	Inspection of records			

**Figure 10: Risk Analysis**

## **Test Plan**

During the test plan phase a detailed test description is formulated before completing the documentation and testing of controls. 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 of 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. Below is a portion of a test plan example of the Strategic Plan Development process (**Figure 11**).



Test Plan for Strategic Planning		
Entity		Strategic Plan
Preparer	Name of person who is completing the test plan	Stephanie M. Faughnan
Acct Line	Implementation area or business cycle	BEX
Control#		1 - ESC Approval of Strategic Plan
Risk		If the executive leadership does not approve the draft external Strategic Plan then the Agency will not have an established vision and direction for managers to execute and prioritize resources. The Agency will not be in compliance with GPRA and OMB mandates.
Internal Control Currently In Place		Biennially, planning specialist hosts collaborative senior leadership meetings to assess trends, and influences through strengths, weaknesses, opportunities and threat (SWOT) analysis. Current plan is analyzed, ideas facilitated, and leadership vision obtained to update and support the development of the strategic plan.
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)	Biennially
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).	Every two years for one year's worth
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 internal controls	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.	BEX shared drive (60-1), XP Directorate
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.	Control occurs until Strategic Plan is approved.

Criteria for Effectiveness/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.	Control may not have exceptions, as inspection is performed on a sample size of one (100%).
Test Description	Describe how the test plan will be performed, where it will be performed and will be performing the testing.	ESC minutes posted in public folders by HSO and/or command approval is recorded in the BEX shared drive (60-1). Maintained by HSO and/or BEX Directorate.
Test Strategy	Describe how the test is intended to validate that the control effectively mitigates identified risk as designed and operated.	If the ESC minutes are posted and/or approved, documentation provided in BEX share drive will reflect whether or not the executive leadership approved or disapproved the draft external Strategic Plan.
Test Results	How many samples passed/failed testing?	

**Figure 11: Strategic Plan Development Test Plan**

### **Control Analysis**

The next step in the Appendix A process is the control analysis, the results from testing of the effectiveness of internal controls. **Figure 12** on the next page is an example of a completed Control Analysis of all ICONO processes tested in FY 2012. The risks and controls from the Risk Analysis are mapped to the Control Analysis. Along with the control analysis an actual testing document with results is submitted. This shows exactly what documents were tested and how they were tested. **Figure 13** shows an example of a portion of a testing document utilized. The control analysis documents the test results and assists the process owner in determining whether the results are a control exception or 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. Once determined the control analysis and testing document with results are posted to the MICP SharePoint. <https://moss.apps.deca.mil/function/administrative/budget/A123/default.aspx>.



DECA CONTROL ANALYSIS FY 2012							Effective Control
ICONO PROCESSES							Effective with Exceptions
							Ineffective Control GAP Needed New Process or Process changes Implemented testing postponed until more data available
Direcorate	Process	# of Process Controls	Inherent Risk	Does the ICCIP mitigate the stated risk?	Control Risk	Test Results	
<b>Logistics and Engineering Division</b>							
Policy/ Systems	GPC Card Purchases	8	High	Yes	Low	all controls effective	
	GPC Account Issuance	9				all controls effective	
Enterprise & Acquisition	Support Services	7	High	Yes	Low	all controls effective	
Store Services Support	Shelf Stocking, Warehouse, NISH	8	High	Yes	Low	all controls effective	
	Shelf Stocking, Warehouse, Small Business	11				all controls effective	
Logistics/ Equipment	Supplies	1	High	Yes	Low	all controls effective	
	Equipment	4				Effective with Exceptions	
Planning/ Environmental	Annual Energy Plan	3	High	Yes	Low	all controls effective	
	Energy Conservation Investment Plan	3				No projects this FY	
	Facilities Major Project Prioritization & Approval	3				all controls effective	
	Facilities Sustainment & Construction Program	1				all controls effective	
Facility Sustainment	Facilities Recurring Sustainment & Construction Program	1	High	Yes	Low	all controls effective	
<b>Business Enterprise Group</b>							
<b>Information Technology</b>							
Information Assurance Branch	Information Assurance Vulnerability Management	23	High	Yes	Low	all controls effective	
	Information Assurance Policy Development	18				Not applicable for FY12	
	Information Assurance Plan of Action Milestones	23				all controls effective	
	Accreditation and Oversight	15				all controls effective	
Governance and Workforce Management Branch	Info Technology Policy Maintenance	5	High	Yes	Low	all controls effective	
	IT Capital Planning and Investment Management	4				all controls effective	
	Contract Sourcing Management	2				all controls effective	
Telecommuni- cation & Network Branch	Technology Management	6	High	Yes	Low	all controls effective	
Business Development	Scheduling Agency Records	5	High	Yes	Low	all controls effective	
	Website Update	5				all controls effective	
	Agency Requests For Data Reports	3				New Process or Process changes Implemented testing postponed until more data available	
Integration	Design Phase	2	High	Yes	Low	all controls effective	
Customer Support Services Branch	Administrative Access/Employee Termination	2	High	Yes	Low	effective with exceptions	
	Ticket Response and Desktop Support Tickets	2				effective with exceptions	
	Hand Held Terminal Depot Maintenance	2				all controls effective	
	Windows Software Updates	1				effective with exceptions	
	BEITC Tech Server Refresh	2				all controls effective	
Process Improvement Division	PI Black Belt Process	7	High	Yes	Low	effective with exceptions	
	PI Green Belt Process	6				all controls effective	
	Internal Control Process	4				all controls effective	

Corporate Planning Directorate							
Strategic Management & Governance	Suspense and Tasker	2	High	Yes	Low	all controls effective	
	Strategic Planning	4				control #3 effective, other controls tested biannually	
	DeCA Performance Management	5				all controls effective	
	Agency Enterprise Portfolio Management	4				all controls effective	
	Governance	5				all controls effective	
	IDEA Factory	5				control #1 effective; process too new for other	
	IDEAS Program	3				controls #1&2 effective; process too new for control #3 testing	
Resource Management Directorate							
Budget & Manpower	Manpower Utilization Actions	3	High	Yes	Low	all controls effective	
	Organization Structure and Management	4				all controls effective	
Human Resources Directorate							
BEH	Unfair Labor Practice Charge	4	High	Yes	Low	all controls effective	
	Establishing or Reviewing Position Classification	4				all controls effective	
	Hiring (DEU & Merritt)	16				effective with exceptions	
	Seperations	3				all controls effective	
	Awards	2				effective with exceptions	
	OPF	1				all controls effective	
	Suitability (Non Sensitive)	6				High	CAP Needed
	Suitability (Sensitive)	4				all controls effective	
	OWCP CA-1/CA-2/COP	8				all controls effective	
	OWCP CA-7 LBB	6				all controls effective	
	OWCP CA-7 LWOP	8				all controls effective	
	OWCP CA-7 Schedule Awards	2				all controls effective	
	OWCP Chargeback Reviews	2				all controls effective	
	OWCP Modified Work Assignment	1				all controls effective	
	OWCP Permanent Mod. Work Assignment	2				all controls effective	
	Europe Hiring 1144	9				all controls effective	
	Europe Hiring Non 1144	12				all controls effective	
Individual Development Training	2	all controls effective					
Corporate Communications Directorate							
BEC	Audio Visual	2	High	Yes	Low	all controls effective	
	Public Affairs	4				Effective with exceptions	
	Facebook	3				all controls effective	
	FLICKR	1				all controls effective	
	TWITTER	3				all controls effective	
	YouTube	3				all controls effective	
Sales Marketing and Policy Group							
OP Guidance & Program Standardizatio	Accounting for Losses by Reports of Survey	6	High	Yes	High	control 1 ineffective CAP needed; all other controls effective	
Operational Assessment	Store Assessments	22	High	Yes	Low	all controls effective; CAP given to ZM for critical failed questions	
Sales Directorate							
Perishable	Adding New Items (DeCA)	4	High	Yes	Low	all controls effective	
	Adding New Items (Non DeCA)	3				all controls effective	
	Conducting Category Review	3				all controls effective	
	Customer Concern Response	2				all controls effective	
	Monthly Promotional Offers	2				all controls effective	
	Verifying Category Savings	2				all controls effective	
Special	Pricing/ Requirements Development & Testing	11	High	Yes	Low	all controls effective	

Semi-Perishable	Brand Name Products	2	High	Yes	High	control 1 ineffective CAP needed; all other controls effective
	Non Brand Name Product Services	3				Low
<b>Health and Safety</b>						
MPHS	Incident Reporting	6	High	Yes	Low	Effective with exceptions
	Health and Safety (Safety Visits)	4				Effective with exceptions
	Recall Program	11				all controls effective
<b>Command Group</b>						
<b>Equal Employment Opportunity</b>						
EEO	Management Directive 715 Process and Report	5	High	Yes	Low	all controls effective
	Reasonable Accommodation	4				all controls effective
	Complaints Processes (includes Pre-complaints & FAD)	25				all controls effective
<b>General Council</b>						
GC	Personnel Law Advice and Support	3	High	Yes	Low	all controls effective
	Personnel Law Litigation	2				all controls effective
	General Law & Commercial Law Support	2				all controls effective
	General Law & Commercial Law Litigation Support	1				all controls effective
<b>Office of Inspector General</b>						
IG	Complaints and Inquiries Process	9	High	Yes	Low	all controls effective
	Higher Headquarters Assessments/Security Programs	7				all controls effective
<b>Office of Internal Audit</b>						
CCA	Internal Audit	9	High	Yes	Low	all controls effective
<b>Total ICONO Controls Tested for FY2012</b>		<b>487</b>				

Figure 12: Control Analysis – DeCA

Control #	Process Name: Strategic Planning	Question	Description of Control Operations Test	Test Question(s) (Delete obsolete answers when specified)	
1	Executive Steering Council (ESC) or Command Approval of Strategic Plan	Has the draft Strategic Plan been approved to forward through Personnel and Readiness (P&R) to DeCA's Board of Directors (BOD) and recorded in the BEX shared drive (60-1)?	Review (1) ESC minutes or command approval posted in BEX shared drive (60-1).	Has the ESC Approval or Minutes with Approval been posted to the BEX shared drive (60-1)?	Yes No
				Write name of approval document sampled	
				No results, step completed every 2 years	
2	P&R and DeCA BOD approval of DeCA's Strategic Plan	Has the BOD approved DeCA's Strategic Plan and this approval documentation recorded in the BEX shared drive (60-1)?	Review (1) BOD approval documentation in the BEX shared drive (60-1)?	Is the BOD approval of DeCA's Strategic Plan recorded in the BEX shared drive (60-1)?	Yes No
				Write name of BOD approval document sampled	
				No results, step completed every 2 years	
3	Facilitate Agency and Group Portfolios that link to the Strategic Plan and includes a gap analysis of outcomes/initiatives with Balanced Scorecard (BSC) measures.	Do any initiatives require funding and is this recorded in DeCA's Sharepoint performance site?	Review (2) Group Portfolios for initiative(s) that require funding in DeCA's sharepoint performance site?	Have the Group Portfolios, initiatives and funding requirements been posted to DeCA's sharepoint performance site?	Yes No
				Write name(s) of Group Portfolios sampled	
				Group 2 dated 1-20-12	
				Group 4 dated 1-30-12	

Figure 13: Strategic Planning Testing Document

For controls that have been tested by another DeCA entity, such as the Inspector General or Internal Audit, or the 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 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 Senior Assessment Team 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.

DeCA ICONO testing resulted in three CAPs for 2012. The first CAP, **Figure 14**, is for Brand Name Products. Control 1 of the process failed because some of the data elements were missing in the documents that were sampled during testing. The process owner is currently updating the Resale Ordering Agreement, by reissuing this in combination with a new software program that electronically fills in key data elements. This control will be retested in six months to ensure its effectiveness.

Internal Controls Over Financial Reporting Corrective Action Plan				
Date Initiated:	June 14, 2012	POC Name:	John Lavinus	Control Number
Date Last Updated:		POC Phone:	734-8000 ext.48547	CAP-MPR-01-12
Process Name:	Brand Name Products			
Risk:	Delay in ordering or payment of goods because contractor was not properly registered			
Internal Control Currently in Place:	Daily, specialists in Brand Name Resale Division use approved DeCAF 40-15 as a control to work with contractor to complete paperwork and necessary registrations			
Test Results:	4 out of 15 passed; 11 out of 15 require updates			
Corrective Action	Milestones w/	Status		
During initial test some information was missing from files	January 1, 2012	ongoing		
Source document "Resale Ordering Agreement" is being revised, and reissued in July 2012. After revision some data will be electronic "ORCA" and all elements will be checked and reviewed for completeness. Process will 6-9 months to complete.				

Figure 14: CAP Brand Name Products

The second CAP, **Figure 15**, is for the Accounting for Losses process. Control 1 failed in this process as well. Due to a lack of review critical information was not completed on the documents sampled during testing. The process owner implemented the following CAP immediately. A step has been added to the process to review the document for completion and return for further information or documentation if necessary in order to ensure completeness.

Internal Controls Over Financial Reporting Corrective Action Plan				
Date Initiated:	June 5, 2012	POC Name:	Rey Andres	Control Number
Date Last Updated:		POC Phone:	734-8000 ext.86229	CAP-MPOS-01-12
Process Name:	Accounting for Losses			
Risk:	Out of tolerance condition created for department suffering the loss.			
Internal Control Currently in Place:	Accounting for losses at losing activity. Upon receipt of a report of Survey from an Area Director's Office, files are reviewed to determine completeness for a decision to approve an inventory adjustment to losing activity account or assessment of financial liability against employee suspected of causing the loss.			
Test Results:	16 passed/9 failed; documents were incomplete			
Corrective Action	Milestones w/	Status		
Addition of another step into Control 1. New control to read - "Upon receipt of a report of Survey from a Region, files are reviewed to determine completeness, if not complete, document returned for further information/documentation for a decision to approve an inventory adjustment to losing activity account or assessment of financial liability against employee suspected of causing the loss." This will ensure completeness of submitted documentation.	6/5/2012- corrective action implemented immediately	ongoing		

Figure 15: CAP Accounting for Losses

The third CAP, **Figure 16**, is for the Suitability (Non-Sensitive) process which is administered through our partner the Defense Logistics Agency (DLA). Control 1 failed when tested. The files sampled were missing required Non-Sensitive Worksheet documentation, which can allow for unnecessary background investigations to be completed. A CAP has been implemented and re-emphasizes the requirement of the appropriate worksheet and prohibits suitability staff from giving the staffers an “ok to hire” without first obtaining the appropriate worksheet.

<b>Internal Controls Over Financial Reporting Corrective Action Plan</b>			
<b>Date Initiated:</b>	June 11, 2012	<b>POC Name:</b>	Lisa Biggers
<b>Date Last Updated:</b>	N/A	<b>POC Phone:</b>	(614) 692-8721
			CAP-BEH-01-2012
<b>Process Name:</b>	Suitability (NonSensitive)		
<b>Risk:</b>	Incorrect or redundant Background Investigation Could be Processed		
<b>Internal Control Currently in Place:</b>	DLA Staffer determines whether the position is sensitive or nonsensitive by referencing the sensitivity level on the PD and completing the appropriate suitability form (Nonsensitive worksheet or DeCA Form 30-110)		
<b>Test Results:</b>	Six exceptions from a test sample of 15.		
<b>Corrective Action</b>	<b>Milestones w/</b>	<b>Status</b>	
Re-emphasize with staffers the requirement.	June 30, 2012	ongoing	
Suitability staff not give "ok to hire" to staffer for any EOD without the appropriate form.	Initiate new process 7/1/12	ongoing	
Maintain appropriate form with the "ok to hire" email (specifically maintain a complete record of individuals on the ok to hire listing along with their appropriate suitability form)	Initiate new process 7/1/12	ongoing	

**Figure 16: CAP DLA Suitability (Non-Sensitive)**

## **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. 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 2012. Employees complete the online training as part of their mandatory training requirements which reemphasizes their role in internal controls. DeCA will be updating their training video along with the training slides in order to remain a current and effective MICP for FY2013.



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 slide shows and posters which provide a point of contact in MICP and serves as a visual reminder to employees of their role in the internal control process. Also a tone-at-the-top letter was developed and sent out to all employees from the Director to stress the importance and Agency support of the Internal Control Program in FY12.

### **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. They also generate audits internally based on:

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

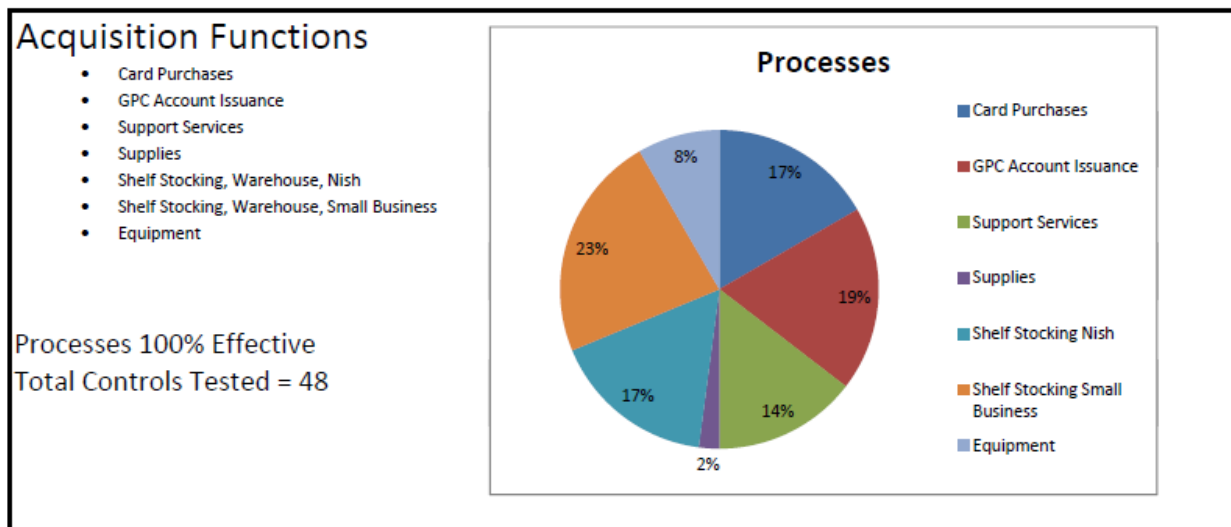
In addition to the audit suggestions and the internally generated audits, the plan includes follow-up audits which are required by the GAO Comptroller General of the United States.

DeCA's Special Staff Group of Internal Audit published two audit reports with five ongoing at the fieldwork phase as of June 2012 (FY 2012), as part of DeCA's Board of Directors approved Audit Plan. These audits continue to target management oversight, regulatory compliance and key internal control areas of Stores' Front-End Operations, Payment Card Industry Compliance, Environmental Management at Stores, Integrated Pest Management at Stores, Force Protection at Off Base Commissary Facilities, and Agency Wide Temporary Duty Travel. Two special audit engagements were also completed directed by DeCA senior management in FY 2012. DeCA's Internal Audit Office provided audit liaison services to one Office of Inspector General, DoD, audit engagement and two Government Accountability Office

engagements. In addition, The Office of Inspector General, DoD conducted a Quality Control Review of DeCA’s Internal Audit function in FY 2012 resulting in pass opinion received.

**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, equipment 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 17**) 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 are among the functional areas that Contracting interacts with daily to mitigate risk and align with DeCA’s strategic goals and objectives.



**Figure 17: ICOAF Testing Results**



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

**Description of Issue:** Users of DeCA Information Technology system problems unresolved and employees experience delays in resolving the issues

### **Accomplishments:**

- During 2011 the Ticket Response process was tested and findings were identified where issues were not properly noted and resolved timely. The proper procedures in accordance with the control had not been followed correctly. After reviewing and re-implementing the control for this process another sample was tested in FY2012. This test resulted in no findings with all incidents properly noted and all issues resolved in a timely manner. The control is now operating effectively.

**Description of Issue:** Delegating Examining Unit (DEU) Checklist in Hiring process not completed which could result in incorrect qualification information which would allow candidates to be referred that are not qualified.

### **Accomplishments:**

- During 2011 testing it was found in the Hiring process that the Delegating Examining Unit (DEU) checklist was not being completed properly which resulted in a control failure. To correct this issue, DLA updated the DEU Checklist to include a Team Lead/Supervisor check at each stage defined on the DEU Checklist. The Team Lead/Supervisor's initials verify that the appropriate actions in that stage are complete, and that the checklist contains the appropriate initials and dates. After implementing the corrective action DLA performed a test 90 days later with a sample of 15 DEU case files to ensure that the corrective action plan improved this control. When tested all samples passed, the control is now operating effectively.

**Description of Issue:** Employee feedback on the 2010-2011 Organizational Assessment indicated a lack of opportunity for employees to demonstrate their leadership skills and their desire for career growth.

### **Accomplishments:**

- A focus group of employees suggested and the agency ultimately implemented a "Shadow day" program where employees were able to request to spend one day with a supervisor in another job area. Over 53 employees participated in the program with very positive feedback received from the employees. Nearly everyone who participated found the experience useful and insightful, rating the program a "10" on a 10 point scale (10 being outstanding). This program provided employees the opportunity to show their desire for leadership roles and gave the leaders the opportunity to demonstrate how they

lead in their organization (which could be different from the employee 'home' organization).

### **Conclusion**

The Agency's ability to deliver the premiere military benefit 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 the Defense Commissary Agency.

**TAB B - Not Applicable**

**OPERATIONAL MATERIAL WEAKNESSES/ CORRECTIVE ACTIONS**

## TAB C

### FINANCIAL SYSTEM ASSESSMENT

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

DeCA's financial management systems do not substantially comply with FFMIA. DeCA received its first Notice of Finding Reported (NFR) from the external auditors in 2011 however; DeCA continues to exceed compliance requirements by implementing a series of compensating controls.

- Each of the various systems are "Fund" specific and do not fully comply with the systems requirements of the OMB Circular A-127, however, highly trained senior accountants prepare JVs for any cross leveling of fund activity not permitted by those systems, they also prepare supported reconciliations for all material balance sheet line items.
- After all consideration is given to the accounting system to record unique transactions, which are caused by various federal accounting standards, a senior accountant prepares a journal voucher (JV) to account for any exceptions. The JV is then reviewed, approved, and manually recorded into the system.
- The Defense Financial Accounting Service (DFAS) crosswalks all the Agency's legacy systems directly to the USSGL through the DDRS-B Trial Balance and the cross walk is based on FMS/Treasury scenarios.

To ensure compliance with FFMIA in the future, DeCA, along with the DoD, is actively working on improving the business system DoD wide in an effort referred to as the Defense Agencies Initiative (DAI). The DAI is a standardized system solution to transform the budget, finance, and accounting operations of Defense Agencies (**Figure 18**).

<b>Compliance with Federal Financial Management Improvement Act</b>			
<b>Substantial Compliance Requirements</b>	<b>Reporting Entity</b>	<b>Auditor</b>	<b>Reason for Non-Compliance</b>
<b>1. System Requirements</b>	<b>FY 2015</b>	<b>No</b>	<b>Unable to integrate multiple financial accounting systems</b>
<b>2. Accounting Standards</b>	<b>FY 2015</b>	<b>No</b>	<b>Unable to adhere to various Federal accounting standards</b>
<b>3. USSGL at Transaction Level</b>	<b>FY 2015</b>	<b>No</b>	<b>Unable to account for transactions using the standard general ledger</b>

# Current DAI Deployment Schedule

(Based on *Business Capability*)

FY11/Prior	FY12	FY13	FY14	FY15	FY16
MDA	DTRA	DARPA*	DFAS	DCAA	DSCA
USU	DTSA*	DAU	DHRA	DCMA	WHS + customers:
DTIC	DPMO*	DSS	DoDIG*	DeCA	PFPA
	TMA-HQ*	NDU	DoDEA*		DLSA
	CDBP (BA-6, JTSO)	OEA*	DISA(3)*		DTRMC
		DMA*			DOT&E
					CCM
FY11 Objective	FY12 Objective	FY13 Objectives	FY14 Objectives	FY15 Objective	FY16 Objectives
1. Program maturation, large entity implementation	1. Maturation of General Fund (GF) capabilities	1. Agencies currently engaged (DARPA, DSS and DMA) 2. Workforce education entities NDU and DAU	1. Working Capital Fund capabilities (WCF) 2. Remaining WAAS agencies	1. Re-sales accounting BUDGET Formulation? Grants Mgt?	1. Foreign Military Sales Accounting 2. WHS and supported entities

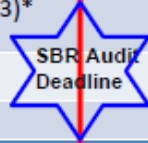


Figure 18: FFMIA Compliance

## TAB D

### FINANCIAL REPORTING MATERIAL WEAKNESSES / CORRECTIVE ACTIONS



IN REPLY  
REFER TO

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

BER

JUN 19 2012

MEMORANDUM FOR THE OFFICE OF THE UNDER SECRETARY OF DEFENSE  
(COMPTROLLER), FINANCIAL IMPROVEMENT AND  
AUDIT READINESS DIRECTORATE

SUBJECT: FY 2012 Statement of Assurance on Internal Controls over Financial Reporting  
(ICOFR) and Internal Controls over Financial Systems

The Defense Commissary Agency (DeCA) conducted an internal review of the effectiveness of the agency's internal controls over financial reporting. The review focused on the following material line items from the balance sheet; funds balance with treasury, store cash deposits (cash on hand), accounts receivable, resale inventory, personal property, real property, accounts payable, FECA liability, FNSP liability, and environmental liability. The review also included an assessment of the time & attendance process.

The assessment was conducted in compliance with the OMB Circular No. A-123, Appendix A, and the December 2011 revision of the Department of Defense (DOD) Financial Improvement and Audit Readiness (FIAR) Guidance, under the oversight of the DeCA Senior Assessment Team (SAT). The DeCA SAT is designated to provide oversight in maintaining complete records of the assessment documentation. Based on the results of this assessment, the DeCA is able to provide an unqualified statement of assurance that the internal controls over financial reporting assessable units as of June 30, 2012, were operating effectively.

The DeCA also conducted an internal review of the effectiveness of the internal controls over the financial systems. The DeCA is able to provide a qualified statement of assurance that the internal controls over the financial systems as of June 30, 2012, are in compliance with the Federal Financial Management Improvement Act (FFMIA) and OMB Circular A-127 with the exception of one material weakness noted below.

- The DeCA does not substantially comply with the requirements of the FFMIA of 1996:

The DeCA also asserts that the material weakness identified below and related corrective action(s) and remediation plan(s) for bringing the system(s) into substantial compliance included in Attachment 1 are supported by the detail included in Financial Improvement Plans(s)(FIPs) as of June 30, 2012, section 2.

- **Material Weaknesses**

Non-compliance of the FFMIA of 1996

The DeCA financial management systems do not substantially comply with Federal financial management systems requirements as stated above. Listed below are the specific compliance requirements:

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## TAB D-2

### FINANCIAL REPORTING MATERIAL WEAKNESSES / CORRECTIVE ACTIONS

- Unable to meet all system requirements
- Unable to comply with all Federal accounting standards
- Unable to account for transactions using the USSGL

Non-Compliance of the FFMIA

September 2011

- Corrected Material Weaknesses

To ensure future compliance with the FFMIA, the DeCA, jointly with the DOD, is actively participating in The Defense Agencies Initiative (DAI). DAI is a DOD effort to modernize the Defense Agencies' financial management capabilities; to improve overall financial management with accurate, timely, and authoritative financial data; and to help to achieve auditable Chief Financial Officer (CFO) financial statements for the DoD by 2017. As the DeCA pursues this effort, the Agency will continue to employ compensating controls that currently mitigate the risks associated with the Non-Compliance of the FFMIA of 1996:

- Each of the various systems are "Fund" specific and do not fully comply with the systems requirements of the OMB Circular A-127, however, highly trained senior accountants prepare JVs for any cross leveling of fund activity not permitted by those systems, they also prepare supported reconciliations for all material balance sheet line items.
- After all consideration is given to the accounting system to record unique transactions, which are caused by various federal accounting standards, a senior accountant prepares a journal voucher (JV) to account for any exceptions. The JV is then reviewed, approved, and manually recorded into the system.
- The Defense Financial Accounting Service (DFAS) crosswalks all the Agency's legacy systems directly to the USSGL through the DDRS-B Trial Balance and the cross walk is based on FMS/Treasury scenarios.

Projected date of FFMIA Compliance

September 2015

If you have any questions, please contact Mr Maurice C. Jenkins at (804) 734-8000, extension 48711, [maurice.jenkins@deca.rhfl](mailto:maurice.jenkins@deca.rhfl)



Lauren P. Bands, CFE  
Chair, Senior Assessment Team



**TAB D-3**

**FINANCIAL REPORTING MATERIAL WEAKNESSES / CORRECTIVE ACTIONS**



Defense Commissary Agency (DeCA)  
Failure to Comply with FFIMIA, Internal Control over Financial Systems  
Corrective Action Plan

FIP Related Assessable Unit: *Compliance with FFIMIA, Internal Controls over Financial Systems, Cir A-127*

First Year Reported: **FY 2011**

Original Target Date: **FY 2015**

Target Date on Prior Year SOA: **FY 2015**

Status: **On Track**

Current Target Date: **FY 2015 as reported on the FY 2011 SOA**

**Description of Weakness:** DeCA's financial management systems do not substantially comply with federal financial management systems requirements, (single accounting system platform) and the United States Standard General ledger at the transaction level (account classification codes).

**Corrective Action Summary:** DeCA continues to exceed compliance requirements by implementing a series of compensating controls that have previously met and exceeded the requirements of the annual audit. (1) DeCA, as part of a DoD initiative, is actively pursuing the possibility of a new accounting system that will function as a sole accounting system and will comply with USSGL accounting classification codes. (2) This will be achieved through replacing all the Legacy Systems with Modules of the new Accounting System, as well as a number of manual tasks being replaced with automation. (3) We continue to test the existing compensating controls and identifying those compensating controls that need to be put in place to facilitate the implementation of the new system when deployed, and (4) Current compensating controls continue to mitigate this material weakness and are expected to continue until deployment.

**Impediments:** None to Date

*Component Update for OSD Governance Board*

Attachment 1



## ACRONYMS

AUM = Assessable Unit Manager  
CA = Commercial Activity  
CAP = Corrective Action Plan  
CPI = Continuous Process Improvement  
CRB = Contract Review Board  
DeCA = Defense Commissary Agency  
DEU = Delegating Examining Unit  
DFAS = Defense Financial Accounting Service  
DLA = Defense Logistics Agency  
DoD = Department of Defense  
FIAR = Financial Improvement and Audit Readiness  
FFMIA = Federal Financial Management Improvement Act  
FY = Fiscal Year  
GAO = Government Accountability Office  
GPC = Government Purchase Card  
GPRA = Government Performance and Results Act  
HR = Human Resources  
ICOAF = Internal Controls Over Acquisition Function  
ICONO = Internal Controls Over Non Financial Operations  
IPA = Independent Public Accounting  
L6S = Lean Six Sigma  
MICP = Managers' Internal Control Program  
OMB = Office of Management and Budget  
OPF = Official Personnel File  
SAT = Senior Assessment Team