Defense Commissary Agency

PERFORMANCE AND ACCOUNTABILITY REPORT

FISCAL YEAR 2011

DECA-AT-A-GLANCE

Established	1991
Headquarters	1300 E Avenue Fort Lee, VA 23801 www.commissaries.com
FY 2011 Operations Costs	$1.4 billion
FY 2011 Sales	$5.9 billion
Total Employees	Over 17,000
Regional Offices	3 (East, West, and Europe)
Commissaries	248
Customer Transactions	96.2 million

THE DeCA MISSION

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

DeCA VALUES

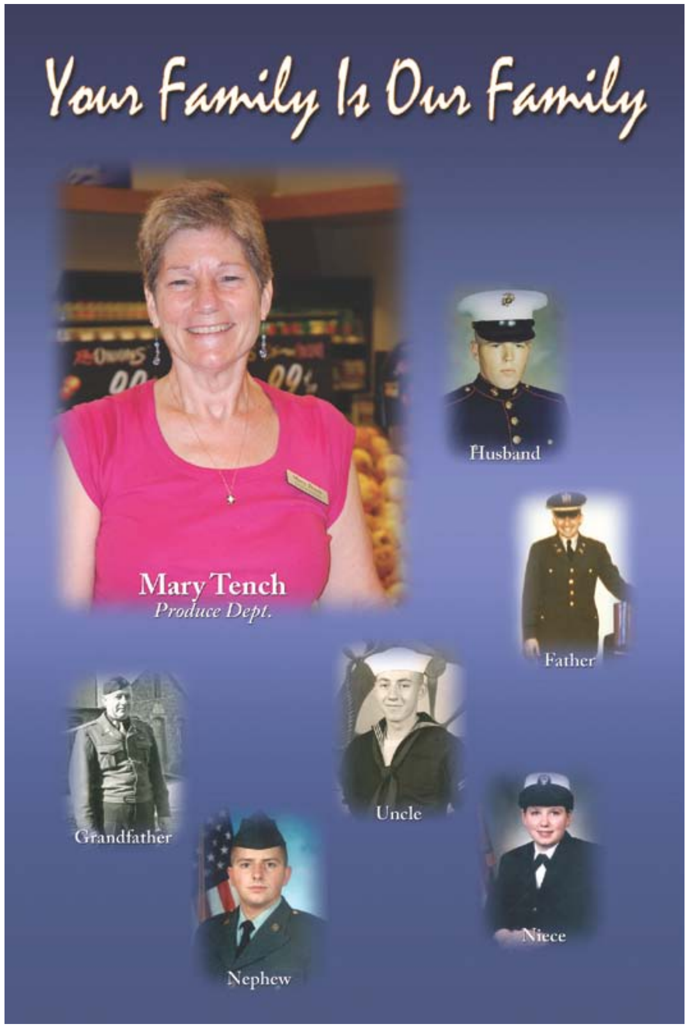
We have passion for what we do!

- P: We **Pursue** excellence
- A: We are **Accountable** and fiscally responsible
- S: We have a **Sense** of urgency
- S: We set high **Standards**
- I: We value **Innovation**
- O: We take **Ownership** of our performance
- N: We are **Necessary**

One Vision, One Team, One DeCA!

DeCA VISION

A model government organization providing a valued commissary benefit.



DeCA GOALS

Goal 1: Provide the military community with a great shopping experience.

Goal 2: Sustain a capable, diverse and engaged civilian workforce.

Goal 3: Be a model organization through agility and governance.

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FOREWORD

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

Under the CFO Act, OMB also requires DoD and other agencies to incorporate their annual financial statements into a Performance and Accountability Report (PAR) or an alternative Agency Financial Report (AFR). Although DeCA is not required to prepare a separate PAR, this document, which is aligned to the statutory guidance framework, has been prepared to enhance the presentation of performance, management, financial information, and to demonstrate a higher standard of accountability.

DIRECTOR'S MESSAGE

As the result of strategic vision and focused leadership direction during fiscal year (FY) 2011, the Defense Commissary Agency (DeCA) achieved record highs in key business perspectives set forth in the Agency's Strategic Plan goals and initiatives and Balanced Score Card (BSC). This Performance and Accountability Report documents our accomplishments, which include making operational improvements and remaining a careful steward of taxpayer and surcharge resources. Since 2002, we have maintained an unblemished record of achieving unqualified audit opinions on our consolidated financial statements. Additionally, we remain a leader within the Department of Defense (DoD) for implementing the requirements of the Office of Management and Budget Circular A-123, Management's Responsibility for Internal Control, Appendix A.

DeCA operates a worldwide system of nearly 250 commissary stores with annual sales exceeding $5.9 billion and over 17,000 employees serving approximately 12 million authorized patrons, inclusive of family members. DeCA actively executed its mission to deliver the commissary benefit more efficiently, while ensuring full accountability and stewardship of funds. We also actively promoted the value of the commissary benefit and its important impact on contributing to DoD's ability to recruit, retain, and maintain the best and strongest military force in the world.

Beyond all the facts and statistics reflecting our success, the greatest accomplishment of all comes down to the dedicated service of all of our employees. One of DeCA's proudest moments occurred in Japan in the aftermath of the March 11, 2011 earthquake, tsunami, and other subsequent events. Within hours of the disaster, all of our 15 stores and 3 central distribution centers in Japan opened and began working with their local military commanders to adjust operating hours as needed and meet the needs of the military community. This provides testimony to DeCA's team culture, along with our industry suppliers and vendors – all pitching in to keep the shelves in our Japan commissaries stocked with the critical items service members and their families needed.

As the fiscal year came to a close, DeCA prepared to implement the most significant reorganization since the establishment of the Agency. This restructuring responds to the DoD initiatives intended to reduce duplication, overhead, and excess, and to instill a culture of savings and cost accountability across the Department. The new shape of this performance-driven organization will better position us to provide and communicate the value of the commissary benefit to our patrons as we support store-level needs more efficiently.

On October 1, 2011, DeCA celebrated 20 years of delivering the commissary benefit and we are looking ahead to our 150th anniversary of modern commissaries in 2017. We continue our mission of delivering a vital benefit of the military pay system that sells grocery items at cost while enhancing quality of life and readiness. We have one vision: serving as a model government organization providing a valued commissary benefit. These ongoing efforts, historically rooted in commissary practices for nearly a century and a half, will help protect and preserve the benefit far into the future.

Joseph H. Jeu
Director and Chief Executive Officer

PART I

MANAGEMENT'S DISCUSSION AND ANALYSIS

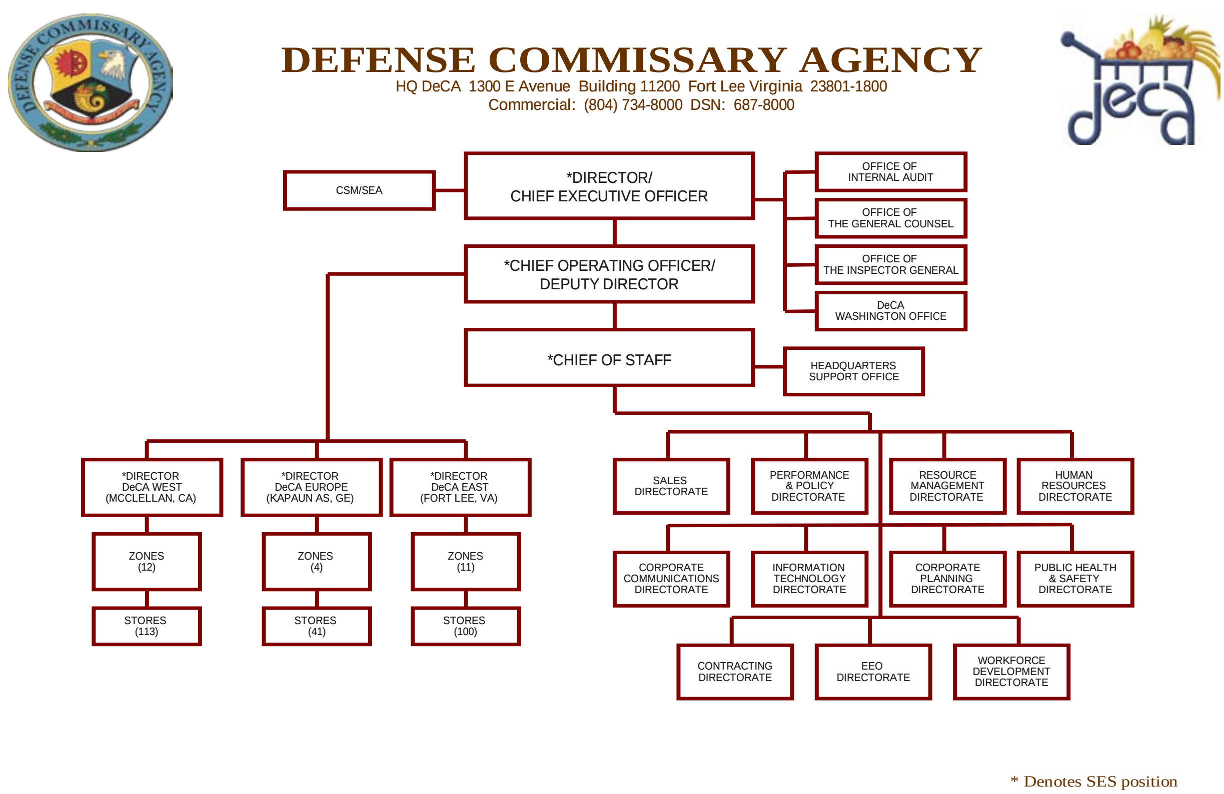
OVERVIEW OF DeCA

ORGANIZATION AND MISSION:

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

DeCA is headquartered at Fort Lee, Virginia and operates a worldwide system of 248 commissaries. Three regional offices, located in Fort Lee, Virginia; Sacramento, California; and Kapaun Air Station, Germany, provide day-to-day management and support. Our commissaries sell food and related household items to active, reserve, and guard members of the Uniformed Services, retirees of these services, authorized family members, and other authorized patrons.

The organizational structure of DeCA through fiscal year 2011 is shown in the following chart.



2011 HIGHLIGHTS:

During FY 2011, DeCA's operations included commissaries with annual sales of approximately $5.9 billion and approximately 96.2 million customer transactions. DeCA operates its commissaries around the world to support the military services. Patrons include active, reserve, and guard members of the Uniformed Services, retirees of these services, authorized family members, DoD civilian employees overseas, and other authorized categories. Congress authorizes DoD to operate its commissaries as a significant non-pay benefit to supplement military income as an integral part of the overall military pay and benefit package. DeCA sells its groceries and household supplies to the military community at its approximate cost. Patrons also pay a five percent surcharge, which funds construction programs, and store equipment, including information management systems. By selling goods at cost, DeCA provides the lowest overall prices and the maximum savings benefit to our customers.

DeCA continues to strengthen its foundation of budget and performance integration by reviewing and rebuilding processes for validation and testing internal controls related to financial management by involving all areas and activities of the commissary system. In FY 2011, DeCA continued its role as a leader in the DoD's compliance with OMB Circular No. A-123, Management's Responsibility for Internal Controls, Appendix A, Internal Controls over Financial Reporting. The requirements included in Appendix A strengthened the process for conducting and documenting management's assessment of internal control over financial reporting and provided a separate Statement of Assurance on the effectiveness of these controls.

In FY 2011, DeCA's Statement of Assurance reported on financial and non-financial operations, and financial system compliance. DeCA's Director was able to provide an unqualified statement of reasonable assurance that DeCA's internal controls met the objectives of the Federal Managers' Financial Integrity Act (FMFIA) and a qualified statement of reasonable assurance for Federal Financial Management Improvement Act (FFMIA). The Agency has fully embraced this program, which has resulted in cost avoidance, improved compliance with internal controls and business processes, and involved functional leaders from facilities, sales, and property accountability in the financial reporting process of the Agency.

SOURCES OF FUNDS:

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

Commissary Operations finances the operating costs of commissaries, region, and headquarters activities. The primary revenue source for this activity group is a direct appropriation to the Defense WCF, which in turn is apportioned to the DeCA WCF. Specific costs include civilian and military labor, service contracts, travel, transportation of commissary goods overseas, and other indirect support. DeCA received approximately $1.3 billion in appropriation transfers during FY 2011. Commissary

Operations also receives limited additional revenues from manufacturers' coupon redemption fees, handling fees for tobacco products, and reimbursements for other support.

DeCA's Surcharge Collections Trust Fund, which is part of the General Fund, is primarily funded from the five percent surcharge applied to patron sales at the checkout counter. The Surcharge Collections Trust Fund resources are used for store information technology, maintenance, and equipment, and the commissary construction program. The Fund does not receive appropriated fund support.

STRATEGIC PLAN AND PERFORMANCE GOAL SUMMARY

INTRODUCTION:

DeCA's Strategic Plan sets forth a framework for cross-functional business priorities and establishes common management goals for business operations. In 2010, the strategic plan was revised to reflect changes in our strategies and actions to better lead us to our vision of being a model government organization providing a valued commissary benefit. The Plan outlines Agency goals, strategic objectives, and targets to provide the commissary benefit for Fiscal Years (FY) 2012-2016.

***GOAL 1* -- Provide the military community with a great shopping experience**

The commissary benefit is a critical part of the military compensation package that supports the military and their families by providing a safe grocery shopping environment with savings of at least 30 percent compared to civilian supermarkets. Military personnel and their families consistently rate the commissary among their most highly valued non-pay benefits. Our mission is to "Deliver a vital benefit of the military pay system that sells grocery items at cost while enhancing quality of life and readiness." This mission supports the DoD strategic goal to "Preserve and enhance the All-Volunteer Force" and the DoD Personnel and Readiness goal to "Strengthen individual and mission readiness and family support, and promote well-being."

STRATEGIC OBJECTIVES

- **Meet the needs of the customer base now and in the future**
- **Enhance customer value through price**
- **Enhance customer value through quality products and quality service**
- **Provide a shopping venue that meets Department of Defense energy goals**
- **Optimize store operations**

__GOAL 2__ -- Sustain a capable, diverse, and engaged civilian workforce

The foundation for success of the Defense Commissary Agency's mission is our people. The Agency must prepare for tomorrow and beyond by building a stronger, multi-generational workforce to meet mission requirements and challenges that lay ahead. An engaged, diverse workforce brings passion into their work, resulting in outstanding customer service for our patrons. We strive for a work environment of world-class enterprise leaders and a highly motivated and capable workforce with a results-oriented performance culture.

STRATEGIC OBJECTIVES

- **Manage the pipeline of future leaders**
- **Manage, develop, and train a diverse workforce**
- **Identify and develop key leaders**

__GOAL 3__ -- Be a model organization through agility and governance

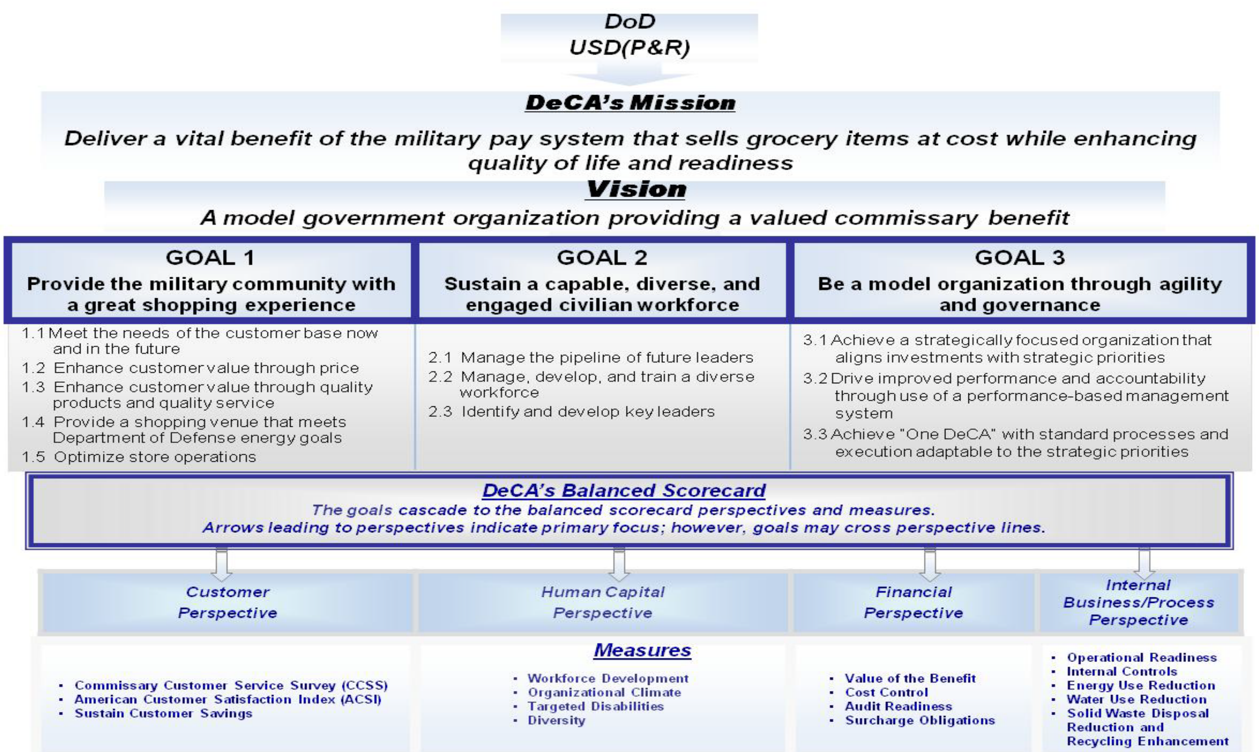
As DeCA provides a valued benefit to military warfighters and their families, we must ensure we are good stewards of the benefit and taxpayer dollars. We enable Goals 1 and 2 by exercising due diligence in our decision-making. We set forth to be a model organization through implementing a culture of continuous improvement and constantly analyzing and reviewing our business plans. We are responsive to changes in an unpredictable environment while instilling a planning discipline throughout all levels of the Agency. We seek to be a great organization doing the right things, investing in the right things, and divesting when activities no longer align with our strategic plan.

STRATEGIC OBJECTIVES

- **Achieve a strategically focused organization that aligns investments with strategic priorities**
- **Drive improved performance and accountability through use of a performance-based management system**
- **Achieve "One DeCA" with standard processes and execution adaptable to the strategic priorities**

FISCAL YEAR 2011 PERFORMANCE GOALS AND RESULTS:

DeCA implemented the Balanced Scorecard (BSC) at the end of FY 2006. The BSC is a management tool that channels the energy, the abilities, and the specific knowledge held by employees throughout the Agency toward achieving long-term strategic goals. DeCA leverages the BSC to measure execution of its strategy. This effort provides valuable information for program evaluation and decision-making. Moreover, it specifies expectations for DeCA's performance during FY 2011-2015 by utilization of a focused and balanced investment approach that preserves the commissary benefit for our military personnel and their families. The BSC does not alter the basic mission, operations, authority, or reporting channels for the Agency, but it does complement the Strategic Plan which optimizes customer satisfaction and business productivity. The BSC aligns with DeCA's corporate strategies as shown in the following chart:



We use the Integrated Program and Budget Submission (IPBS) to demonstrate our commitment to both performance improvement and cost reduction. The IPBS provides direct linkage of the Agency's budget to its performance relative to the Department of Defense's strategic goals, objectives, and performance targets. DeCA's strategic plan, goals, and objectives continue to act as beacons that provide transformational direction. During the year, we refine our goals and objectives as we continually revisit our strategies to better serve our customers, integrate our business processes, and enhance corporate performance. As stewards of taxpayer dollars, DeCA strives to be fiscally responsible. One of DeCA's key performance goals is to achieve unqualified audit opinions each year from an independent audit firm. DeCA met this performance goal by receiving our tenth unqualified audit opinion on our FY 2011 consolidated financial statements.

PERFORMANCE-AT-A-GLANCE

Performance Measure	*FY 2009 Actual*	*FY 2010 Actual*	*FY 2011 Estimate/Goal*	*FY 2011 Actual*
Customer Savings	31.7%	31.5%	30.0%	32.0%
Commissary Customer Service Survey (CCSS)	4.67	4.68	4.67	4.72
American Customer Satisfaction Index (ACSI)	76.00	80.00	77.00	80.00
Facility Condition Index (FCI)	76.76	78.34	80.00	Not available until 1st Qtr, FY 2012

FINANCIAL STATEMENT SUMMARY

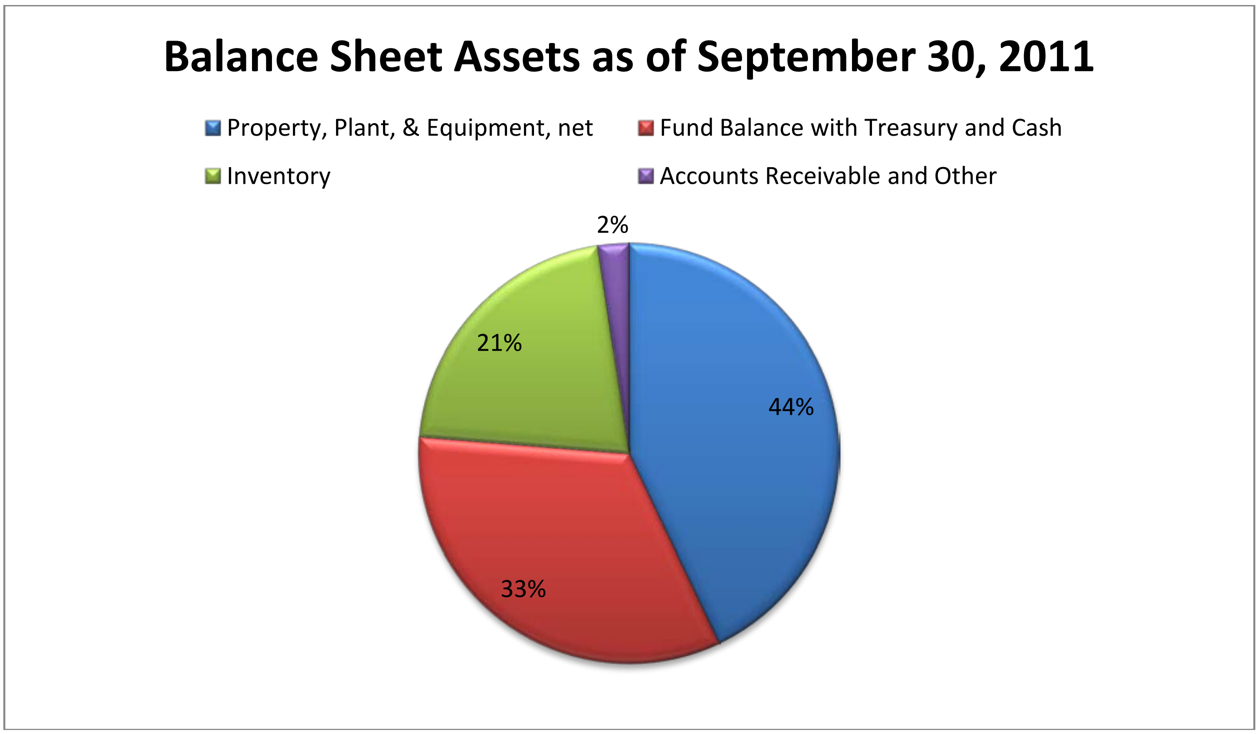
DeCA's Consolidated Balance Sheets, Statements of Net Cost, Changes in Net Position, and Combined Statements of Budgetary Resources (consolidated financial statements) have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of Title 31,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

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

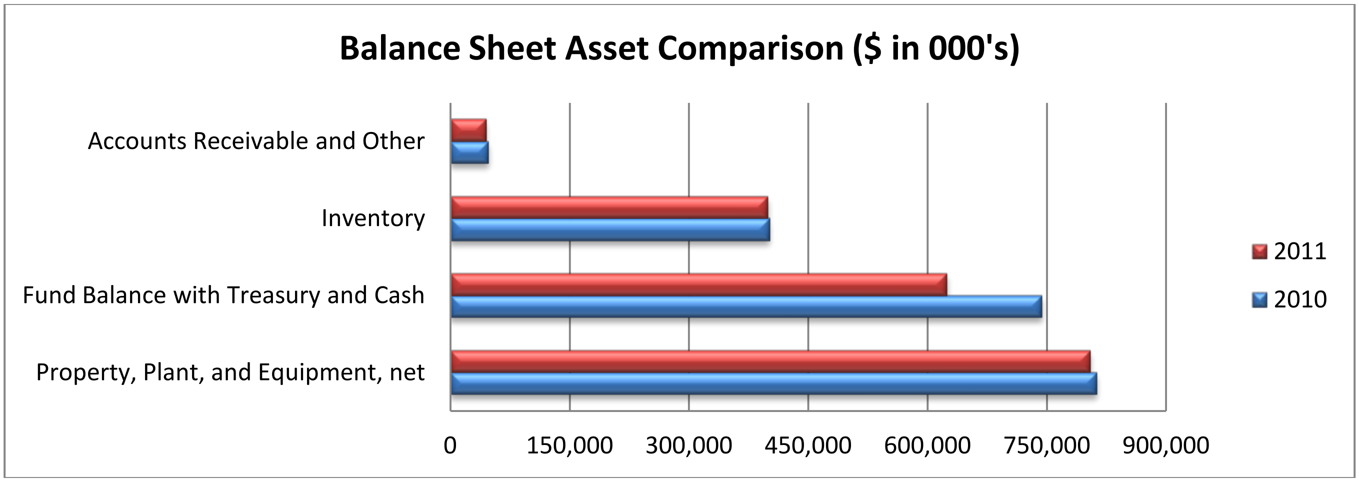
BALANCE SHEET:

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

Assets – As of September 30, 2011, DeCA's assets totaled \$1.9 billion. The assets of DeCA are the resources available to pay liabilities or satisfy future service needs. DeCA's major categories of assets, as a percentage of total assets, are as follows:



The following chart presents comparative data of major asset balances as of September 30, 2011 and September 30, 2010 along with discussions of fluctuations.



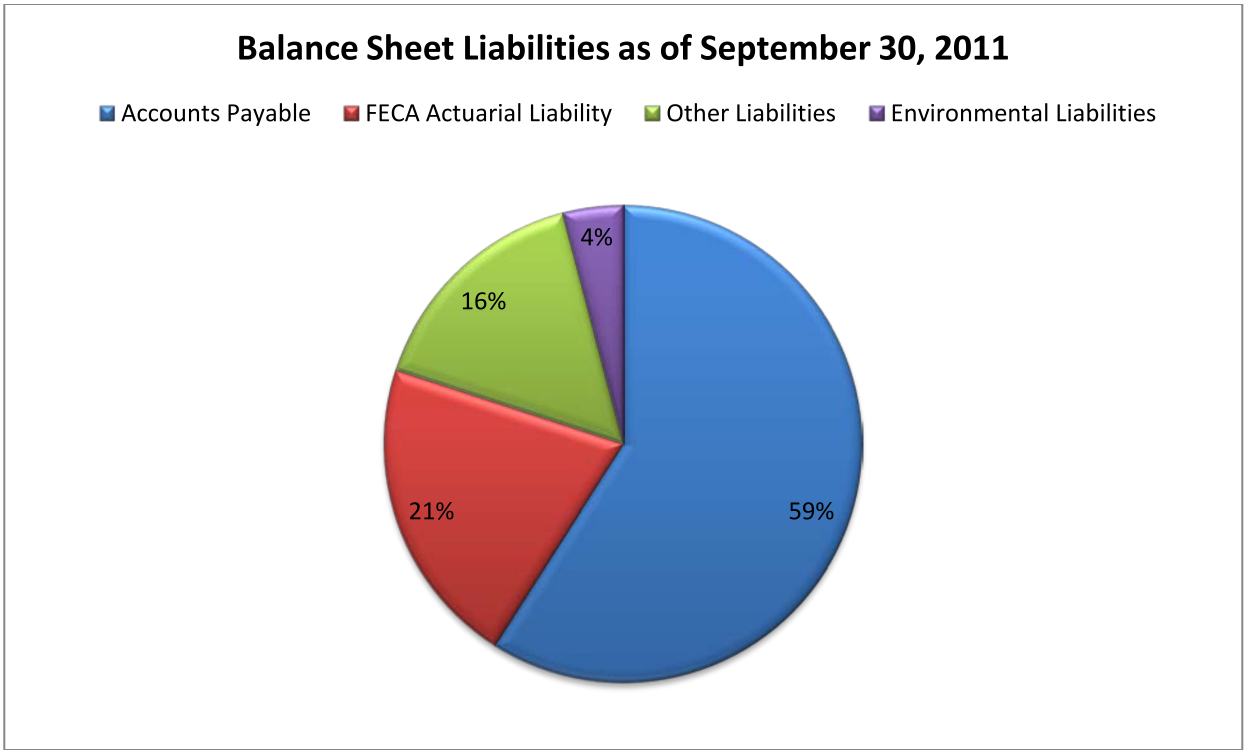
Accounts Receivable and Other comprises 2 percent of DeCA's current year assets. These represent amounts primarily due from DeCA customers. Accounts receivable and other remained relatively consistent when compared to prior year balances.

Inventory represents 21 percent of DeCA's current year assets and is comprised of grocery, meat, and produce items held for resale to DeCA patrons. Inventory remained relatively consistent when compared to prior year balances.

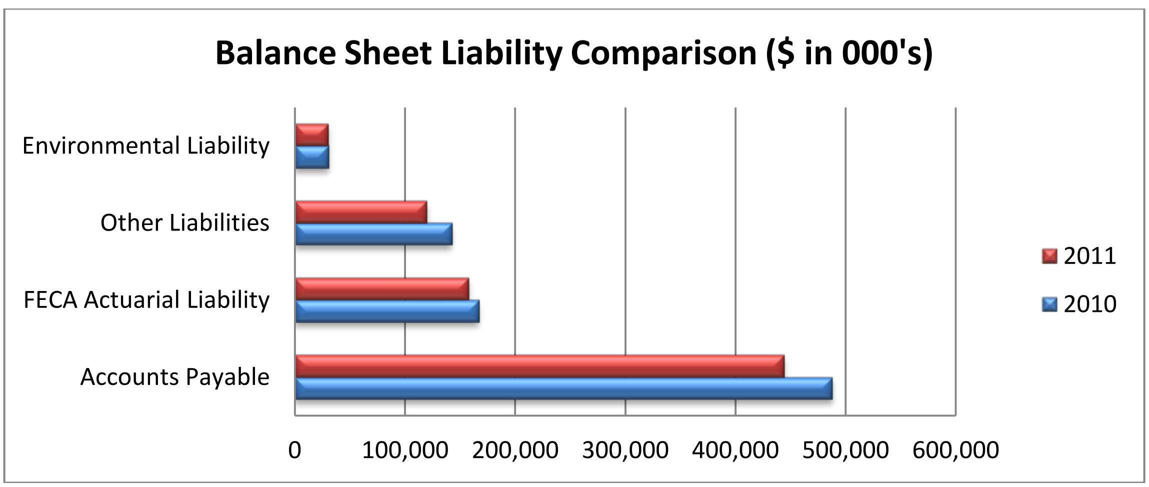
Fund Balance with Treasury (FBWT) and Cash represents 33 percent of DeCA's current year assets and is primarily funding available through the U.S. Department of the Treasury accounts from which DeCA makes expenditures to pay liabilities. It also includes monies available at commissaries or those deposits that have been deposited to an authorized financial institution, but not processed in the accounting system due to cutoffs. FBWT and Cash decreased by $119.0 million or 16% resulting from increased disbursements and decreased appropriations transfers received.

General Property, Plant, and Equipment (PP&E), net represents 44 percent of DeCA's current year assets, and is primarily comprised of capitalized real and personal property held to fulfill DeCA's mission of selling groceries to its patrons. PP&E remained relatively consistent when compared to prior year balances.

Liabilities – On September 30, 2011, DeCA reported liabilities of $753.5 million. Liabilities are probable and measurable future outflows of resources arising from past transactions or events. The following chart displays DeCA's major categories of liabilities as a percentage of total liabilities.



The following chart presents comparative data of major liability balances as of September 30, 2011 and September 30, 2010 along with a discussion of fluctuations.



Environmental Liabilities comprises 4 percent of DeCA's current year liabilities and are estimated costs to clean up items such as asbestos, lead paint, and other hazardous materials from our commissaries. Environmental liabilities remained relatively consistent when compared to prior year balances.

Other Liabilities comprises 16 percent of DeCA's current year liabilities and includes liabilities for accrued payroll and benefits, foreign national separation pay, and accrued leave. These liabilities decreased $23 million, or 16 percent primarily caused by the change in the accrued payroll and benefits categories resulting from a reduced number of days to accrue when compared to FY 2010.

Federal Employees Compensation Act (FECA) Actuarial Liability comprises 21 percent of DeCA's current year liabilities and consists of DeCA's expected liability for death, disability, and medical costs for approved workers compensation cases as well as a component for incurred, but not reported claims. The Department of Labor (DOL) calculates the liability for the DoD, who in turn allocates a proportionate amount to DeCA based upon actual workers' compensation payments to DeCA employees over the preceding three years. The actuarial liability remained relatively consistent when compared to prior year balance.

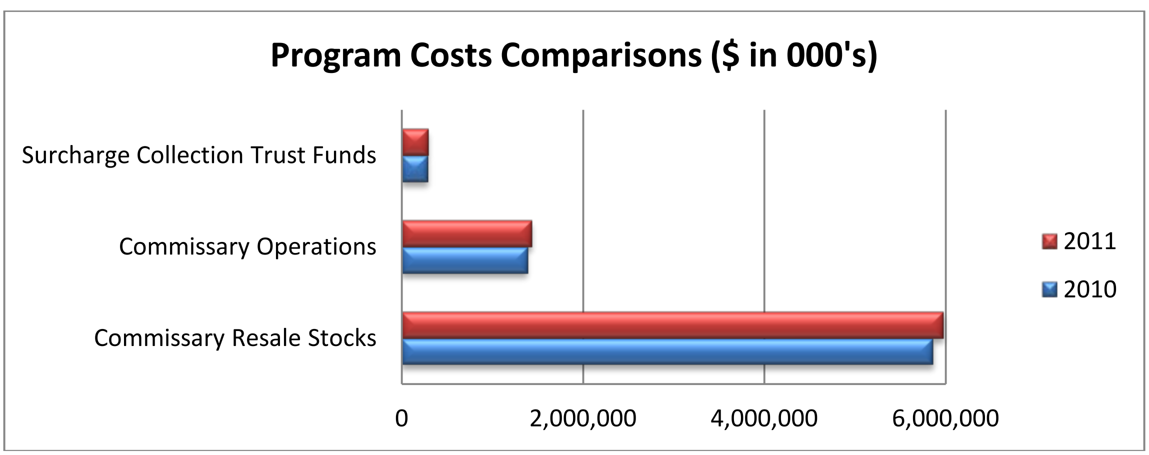
Accounts Payable comprises 59 percent of DeCA's current year liabilities, and consists of DeCA's liability for goods and services delivered or received, but not paid prior to year-end. DeCA's accounts payable decreased by $43.4 million, 9 percent resulting from increased disbursements and on-going reconciliations of aged accounts.

CONSOLIDATED STATEMENT OF NET COST:

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

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

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



CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION:

The consolidated Statement of Changes in Net Position represents those accounting transactions that caused the net position of the consolidated balance sheet to change from the beginning to the end of the reporting period. Various financing sources increase net position, including appropriations transfers and imputed financing from costs paid by other Federal Agencies. DeCA's net cost of operations serves to reduce net position.

DeCA's net position decreased by $56.5 million, or 5 percent. The change in net position resulted from a $68.1 million decrease in FY 2011 unexpended appropriations, primarily driven by decreased appropriation transfers received, and an $11.6 million increase in the cumulative results of operations.

COMBINED STATEMENT OF BUDGETARY RESOURCES:

This statement provides information on the budgetary resources available to DeCA for fiscal years 2011 and 2010 and the status of those budgetary resources at year-end. The outlays reported on this statement reflect the actual cash disbursed for the year by Treasury for DeCA's obligations. The budgetary resources increased by $88.3 million, or 1.2 percent. This increase is primarily attributed to increases in contract authority and collections related to sales.

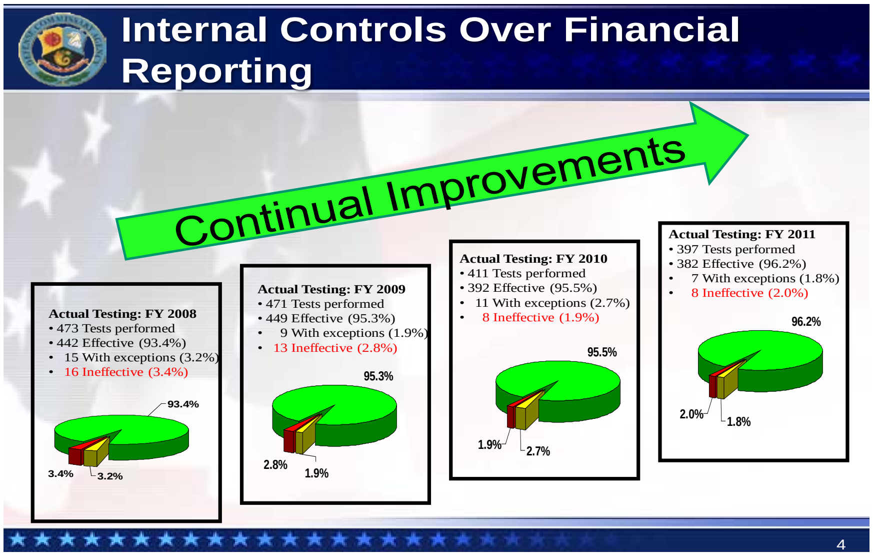
CONTROLS AND STATEMENT OF FINANCIAL ASSURANCE

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

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

OMB Circular A-123, Appendix A is fully implemented throughout DeCA. For the past five years, all processes material to the consolidated financial statements have been documented and tested. In FY 2011, 397 key controls were identified and tested: 96.2 percent of these controls were found to be operating effectively with seven exceptions; 1.8 percent were operating effectively with limited exceptions; and the remaining 2.0 percent of the controls were ineffective and are currently undergoing corrective action plans to bring them to the required level of effectiveness. None of the ineffective controls were considered to be material weaknesses. The current year results show an increase over the effectiveness of the controls from FY 2011, which can be attributed to the investment in human capital.

Additionally, the Internal Control Senior Assessment Team (SAT) monitored these exceptions through formal corrective action plans. As expected, testing results are similar to those of the external auditors indicating that continual internal improvement will translate into reduced findings by the external auditors, more efficient operations, and increased savings for the Agency.



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

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

Although DeCA is not required to submit a statement of assurance, the DoD is required to do so; therefore, DeCA performs work to support the Department. The objectives of the system of internal accounting and administrative control of DeCA are to provide reasonable assurance that the Agency:

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

In FY 2011, DeCA reported an unqualified statement of assurance. In making the determination, the Director considered information from various sources, such as management reviews, Inspector General and Government Accountability Office reports, the audit of the consolidated financial statements, and reviews of financial and computer systems. In addition, for FY 2011, DeCA tested key controls using the methodology prescribed in OMB Circular A-123, Appendix A, including documentation of processes by assessable unit managers using narrative and flow charts, determination of risk and controls, and testing of controls. The SAT reviewed and approved all test results.

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

DeCA's legacy financial systems are not compliant with federal financial management system requirements and the USSGL at the transaction level. To meet these requirements, DeCA, jointly with the DoD, is actively working on improving the system-wide architecture in order to be fully compliant with FFMIA. We continue to employ a system of processes and detailed reconciliations that adequately address this issue. DeCA's financial management systems do substantially comply with the accounting standards applicable to Federal entities for FY 2011. DeCA reported a qualified statement of assurance for FFMIA.

LIMITATIONS OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

PART II

PERFORMANCE SECTION

PERFORMANCE ANALYSIS

Commissaries have been a quality of life benefit serving America's military community for 144 years. July 1, 1867, marked the establishment of the modern commissary system, when Army officers and enlisted men became eligible to purchase items "at cost" from the Army's subsistence department.

Commissaries existed at every major Army installation in the country. Sales were permitted at posts near large cities as well as those on the frontier. The benefit was meant to allow a soldier to supplement official rations with purchases of non-ration goods at affordable prices, regardless of his duty station's location. The Navy and Marine corps opened their first commissaries in 1910, and the Air Force did the same in 1948.

The benefit was gradually extended to retirees, spouses and immediate family members, and the amount and types of goods sold in the commissaries expanded as well. Commissaries reflected retail grocery sales in the civilian sector, so when civilian grocers offered more products for sales, commissaries did the same. Today, commissaries carry thousands of items on their shelves. They also bustle with community events, health awareness activities and social interchanges, in addition to delivering a vital benefit of the military pay system that sells grocery items at cost while enhancing quality of life and readiness.

DeCA directed a worldwide system of 251 commissaries in the beginning of FY 2011 and ended FY 2011 directing 248 commissary stores. Annual sales as of the end of FY 2011 were $5,957.7 million, with sales being $113.3 million more than FY 2010 sales of $5,844.4 million. Customer transactions for FY 2011 were 96.2 million and the dollar amount on average per transaction was $61.96.

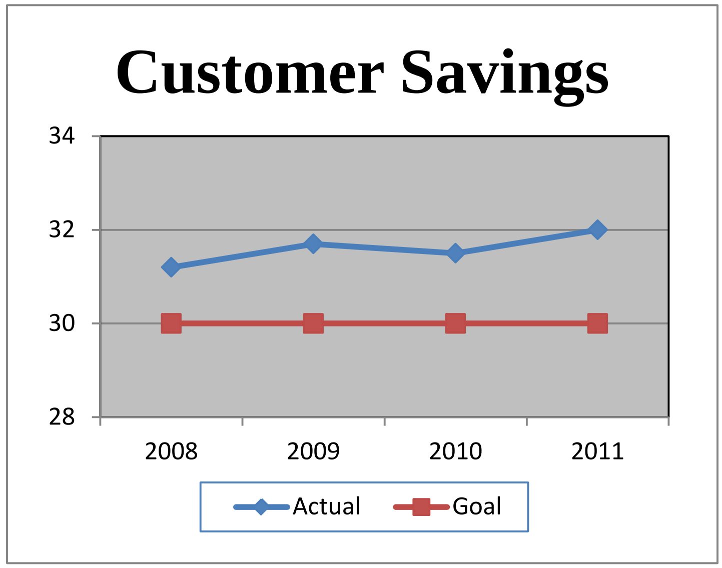
Previously, Guard and Reserve members were authorized only 24 commissary shopping days per year. With the signing of the 2004 Defense Authorization Act in the fall of 2003, members of the Guard and Reserve, authorized family members, and "gray area" retirees (those under the age of 60) were granted unlimited commissary shopping privileges. Despite the full time benefit designation, many Guard and Reserve families were so far removed from military installation and commissaries, they were unable to make regular, everyday use of the benefit (and gain average market basket savings of 30 percent or more.)

In 2007, DeCA made the commitment to the DoD to increase outreach and access of the benefit to geographically remote Guard and Reserve service members through special "on-site" sales, offering a select assortment of high-demand products based on customer demographics in locations more convenient to where they live or train. In 2008, DeCA was granted the funding to establish an official Guard and Reserve on-site sale program. Since then, DeCA commissaries have hosted 568 events with sales in excess of $29 million, serving more than 251,000 geographically remote service members and their families.

At the start of FY 2012, DeCA will operate 248 stores, 5 joint venture locations with the Navy Exchange Service Command (NEXCOM), 10 Central Distribution Centers (CDCs), and 1 central meat processing plant (CMPP). The workforce will consist of over 17,000 employees.

DeCA is focused on the value of the benefit, controlling costs, being operationally and financially ready, strategically providing the quality of life benefit, and preparing and preserving DeCA's force structure for the present and the future. The following charts and discussions illustrate how our achievements compare to our targets for the last four years.

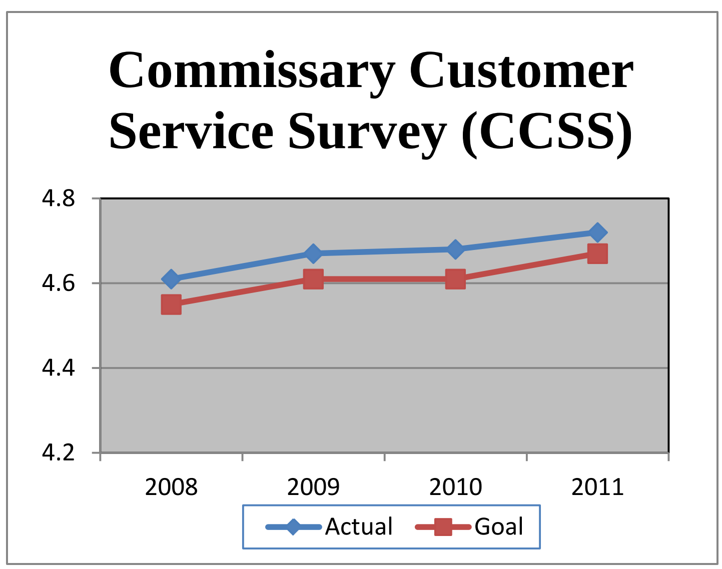
Customer Savings:



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

Results: **Customer savings continue to be targeted at 30 percent in accordance with the Office of the Secretary of Defense (OSD) guidance. The actual FY 2011 customer savings are 32.0 percent, which exceed the goal of 30 percent.**

Commissary Customer Service Survey (CCSS):



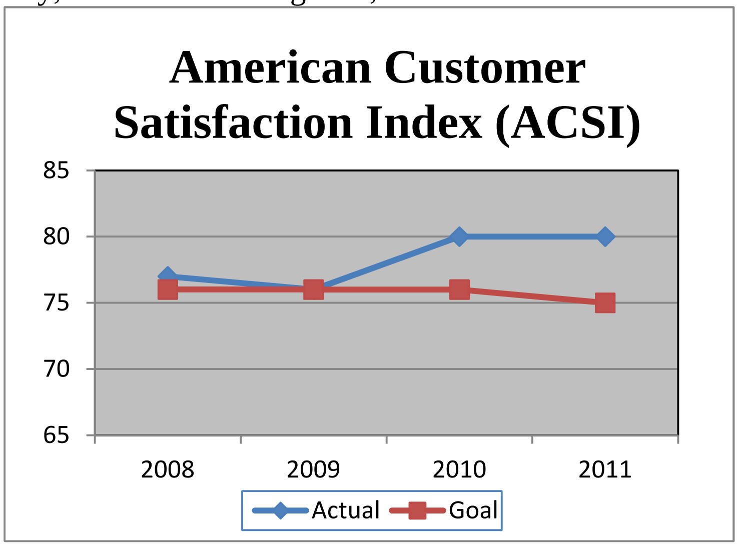
Background: Customer satisfaction is evaluated by surveys based on a statistically sound sampling technique and all scores are weighted to account for differences in commissary size.

Results: With the FY 2011 CCSS score of 4.72, DeCA maintained the positive trend that it has achieved for the last six years. The report validated that DeCA continues to provide its customers a quality

shopping experience with deep savings.

American Customer Satisfaction Index (ACSI):

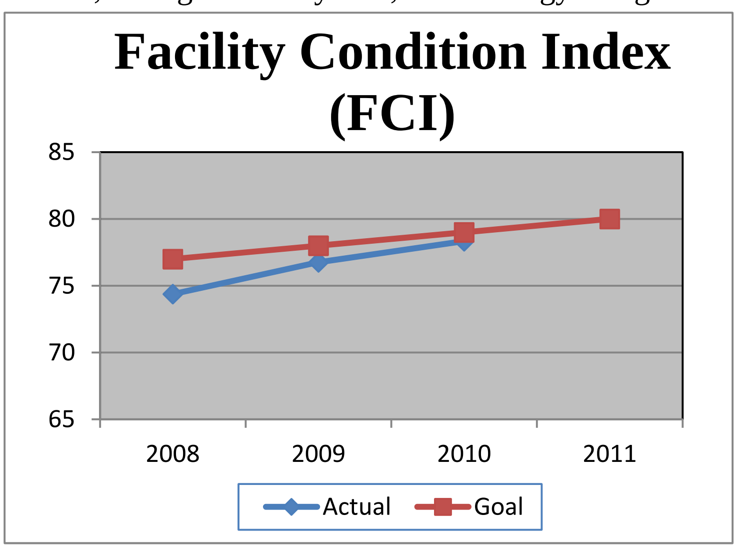
Background: The ACSI is produced annually through a partnership with the University of Michigan Business School, the American Society for Quality, and the consulting firm, Claes Fornell International Group. The ACSI is a uniform, independent measure that is general enough to be comparable across sectors,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



Results: The FY 2011 industry score was 75 and DeCA's score was 80, which exceeded our goal of 77. DeCA has matched or exceeded the supermarket industry ACSI score since its inclusion in 2002.

Facility Condition Index (FCI):

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



Results: The revised goal for FY 2011 is a score of 80. The FY 2011 FCI results will be verified, tallied, and reportable during the first quarter of FY 2012.

ACCOMPLISHMENTS

BALANCED SCORECARD:

This is DeCA's sixth fiscal year utilizing the Balanced Scorecard concept for measuring performance in meeting our strategic goals and objectives. It brings together on a single management report key financial and nonfinancial performance measures that allow DeCA to clarify their vision and strategy. As of September 2011, DeCA's accomplishments in the four perspectives of Financial, Internal Business/Process, Customer, and Human Capital are summarized below.

FINANCIAL PERSPECTIVE:

Resale Stocks (sales) for FY 2011 were $5,957.7 million (97.4 percent) against FY 2011 projected sales of $6,118.1 million. Commissary Operations expenses were $1,433.2 million in FY 2011 compared to $1,388.7 million in FY 2010. Surcharge Obligations executed at $295.4 million, or 98.8 percent of the FY 2011 goal of $299.1 million. The original Surcharge plan was revised downward to allow for carry forward of funding for the Coraopolis commissary project that was not awarded in FY 2011 and the unused Katrina supplemental funding from construction of the Keesler commissary. The FY 2011 Major Construction Program did not get approved by Congress. The Ansbach commissary, congressionally approved in FY 2010, was the only major construction project awarded during FY 2011. The following Sustainment Projects were also awarded in FY 2011: Aberdeen PG, MD; Anchorage Area, AK; Beale AFB,CA; Fort Bragg South, NC; March ARB, CA; Patuxent River NAS, MD; Walter Reed AMC, DC; and Wright Patterson AFB, OH.

INTERNAL BUSINESS/PROCESS PERSPECTIVE:

For 2011, DeCA implemented an operational readiness metric that is composed of three components: the Facility Condition Index (FCI), which is calculated using a weight of 30 percent; the Commissary Compliance Inspection (CCI), which is calculated using a weight of 40 percent; and the Commissary Advanced Resale Transaction System, which measures percentage of availability of operational in-lane and self-check registers, is weighted at 30 percent. This metric will not be available until the Facility Condition Index is published in November 2011.

DeCA's approach for FY 2011 has been to continue building on our successful implementation of the Office of Management and Budget Circular A-123, Appendix A (Internal Control Over Financial Reporting) (ICOFR) methodology. 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 due to this implementation.

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. 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. DeCA provided an unqualified statement of reasonable assurance that DeCA's internal controls meet the objectives of FMFIA ICONO.

DeCA conducted an internal control assessment of the effectiveness of our ICOFR for the following implementation areas: Budgetary Resources (Appropriations Received, Accounts Payable, Accounts Receivable, Payroll, Store Cash Deposits); Critical Assets (Personal Property, Real Property, Inventory); and Other Balance Sheet Line Items (Environmental Liability, Federal Employee Compensation Act Liability, and Foreign National Separation Pay Liability). The assessment of the implementation areas was conducted in strict compliance with the OMB Circular A-123, Appendix A, as directed by Department of Defense (DoD) guidance under the oversight of the DeCA Senior Assessment Team. Based on the results of this evaluation, DeCA was able to provide an unqualified statement of assurance that DeCA's ICOFR implementation areas as of June 30, 2011 were operating effectively.

DeCA works with external partners to identify and resolve internal control weaknesses throughout the year. Defense Finance and Accounting Service (DFAS) and Defense Logistics Agency (DLA) both are key partnerships for DeCA. DFAS provides financial and accounting services 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 our 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 and non-sensitive), and awards. The Managers' Internal Control Program staff worked with DeCA HR and DLA HR staff and 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.

CUSTOMER PERSPECTIVE:

The 2011 CCSS was conducted in July 2011 and ran for 10 operating days at each commissary. Results are based on 20,814 completed surveys. The overall score, 4.72 in FY 2011, exceeded the FY 2010 score of 4.68. Improvements were reported in all areas of customer service. Major contributors to the 4.72 score are satisfaction with "Courteous, friendly and helpful employees" at 4.84 and "Overall satisfaction" at 4.82. Highest positive changes occurred in Well Stocked Shelves (Q2) and Selection of Products (Q9), both increasing by 1.1%. CCSS customer satisfaction has improved by 7.5% since 2002.

In the FY 2011 ACSI conducted in November – December of 2010, DeCA achieved an ACSI Customer Satisfaction Index of 80. This matches last year's index, which was the highest since DeCA's inclusion in 2002. This is significantly above the supermarket industry average of 75. With the exception of Publix, who traditionally leads the industry, DeCA's ACSI exceeded all participating supermarket chains including: Kroger, Safeway, SuperValu, Wal-Mart Stores Inc., Winn Dixie and Whole Foods Market Inc.

Patron savings continue to be targeted at 30 percent in accordance with OSD guidance. The FY 2011 customer savings is 32 percent and meets the mandated OSD goal. Geographic breakout is as follows: CONUS – 28.7 percent; Alaska – 35.5 percent; Hawaii – 48.5 percent; 50 States – 29.8 percent; and Overseas – 44.4 percent. All savings include taxes and surcharge.

HUMAN CAPITAL PERSPECTIVE:

DeCA has identified the telework eligibility status of over 16,000 positions and provided training to eligible individuals in support of a telework pilot conducted this past summer. The pilot involved 250 personnel and provided a framework to evaluate mission readiness, giving insight into procedures, methodologies, and best practices, and helped identify our ability to continue operations during emergency situations. Surveys were developed for pilot participants and their supervisors to assess their experiences and lessons learned. We will continue to evaluate how best to enhance telework operations and improve efficiencies through telework programs, while meeting the requirements of the Telework Enhancement Act of 2010.

This marks DeCA's third year of partnership with other DoD agencies in health-and wellness-focused campaigns. The Employee Wellness, Satisfaction and Engagement campaign is a DoD campaign that explores and promotes monthly health topics. The President's Challenge is a program that helps people of all ages and abilities increase their physical activity and improve their fitness through research-based information, easy-to-use tools, and friendly motivation.

NEAR AND LONG-TERM PLANS

DECA HEADQUARTERS PROJECT:

The DeCA headquarters Base Realignment and Closure (BRAC) project, totaling $25.5 million, which involved a wing addition and further renovation to the existing facility, was completed in FY 2010. Final construction and renovation was accomplished in early FY 2011, and allowed DeCA to move more than 200 employees back into a single location at Fort Lee from a leased commercial facility. The four-story addition provides more than 90,000 square feet of space that includes offices, a cafeteria, several multipurpose rooms, and a warehouse.

STRATEGIC PLANNING AND PERFORMANCE:

We evaluated our Strategic Plan and ensured alignment with DoD's strategic goals and initiatives. We established DeCA's performance framework and restructured our performance management process, refining the BSC and developing firm metrics to measure our progress through Quarterly Performance Reviews (QPR). This process ensures compliance with the Administration's Accountable Government Initiative and implementation of the 2010 Government Performance and Results Act - Modernization Act. The results-focused QPRs are more effectively evaluating our performance and outcomes, assessing accountability, and identifying priorities for commissary improvement opportunities and efficiencies.

This is DeCA's sixth fiscal year using the BSC to measure performance in meeting strategic goals and objectives. For fiscal year 2011, leadership focused on stretch goals that are moving the Agency to the next level and developing portfolios of key initiatives that support implementation of our strategic objectives. We effectively communicated strategic planning guidance and the responsibilities of Agency leaders to cascade corporate goals, objectives, and metrics to every level of the Agency, ensuring they were incorporated into the performance standards of the leadership and the workforce at their respective levels of responsibility.

GOVERNANCE AND ACCOUNTABILITY:

DeCA continued to refine our governance and decision making processes by improving methods to prioritize investments and ensure objectives were aligned to the Agency's strategic activities. We increased enterprise level collaboration and direct involvement of SES executive leaders and senior functional owner leadership in key decisions and initiatives, thus reducing management layers through streamlining processes to respond more quickly and efficiently to our priorities. The governance model has produced a prioritization methodology for alignment of initiatives and budget resources.

CONTINUOUS PROCESS IMPROVEMENT AND INNOVATION:

DeCA continued the refinement of business processes supporting the DoD-wide initiative, utilizing Lean Six Sigma (LSS) methodology, completing 11 key LSS projects in FY 2011. A key process improvement involves the centralized reorganization of DeCA's support functions, focusing on the functional processes to ensure the organizational structure is aligned with DoD goals and strategies. This restructuring, effective in October 2011 for FY 2012, eliminates 90 positions by reducing overhead and supervision and widening the ratio of supervisors to employees. It also eliminates areas of service overlap and HQ and region areas of duplication, resulting in reengineered processes, which increase the value of the benefit without increasing its cost. The process bench-marked state-of-the art business practices with major national manufacturers, brokers, and distributors and improves DeCA's internal governance posture, while streamlining business processes and providing maximum support to store operations.

DeCA expanded its innovation venues to better leverage employee ideas and increase feedback for inclusion in DeCA's decision making process. Venues included: 1) revitalizing the Agency's Improve Defense Commissary Agency's Efficiency and Service (IDEAS) program as a Web-based vs. paper system, resulting in increased submissions over the previous year; 2) implementing the Idea Factory Program, a social networking cross-collaboration site for workforce innovation submissions; and 3) the first Director's Innovation Challenge initiative, which resulted in 190 idea submissions for consideration and vetting by an internal review team.

Using employee feedback from DeCA's Organizational Assessment Survey to improve in several key areas, we are committed to focusing on improving manager/employee relationships and identifying ways to improve the overall organizational climate at DeCA. Work groups, comprised of employees from a wide cross-section of DeCA, were established to address issues and devised action plans to remedy identified areas for improvement.

OPERATIONS SUCCESS AND INNOVATION:

The civilian grocery industry is more dynamic than ever before and we continue to change and innovate in order to keep pace. In fact, commissaries strive to set the standard in areas such as customer service, food safety, and protecting the environment. In the 2011 Commissary Customer Service Survey (CCSS), which measures customer satisfaction, we scored 4.72 out of a possible 5, which was our highest score in history. In fiscal 2011, DeCA also achieved a score of 80 in the American Customer Satisfaction Index (ACSI), exceeding the supermarket industry average score of 75.

We enriched our partnerships with exchanges, service fitness programs, and Morale, Welfare and Recreation (MWR) via numerous joint events, including the 2nd Annual Family Fun Fitness Festival. The festival combines DeCA's May case lot sales with exchange sidewalk sales and other fun-and-fitness activities. It was so popular that we expanded event dates beyond the month of May to begin in mid-April and run through mid-June. Another major joint sales event was our first worldwide Farmers Market, held during the July 4 weekend. Our goal is to maximize all opportunities to work with our installation partners to deliver the best savings possible to our men and women in uniform and their families.

Commissaries also stepped up as a rallying point for the federal government's third annual Feds Feed Families campaign, as the program matured from a localized Washington, D.C., initiative to a national one. DeCA proudly served as a catalyst for donations of 723,337 pounds – 37 percent of DoD donations, and nearly all of the DoD goal of 733,800. The event generates desperately needed items for local community food banks.

Protecting the infrastructure remains a top priority, especially in view of significant troop restationing under BRAC actions. Two newly constructed commissaries opened in fiscal 2011 at Naval Air Station New Orleans, LA, and Fort Bliss, TX; and a small commissary opened at Robinson Barracks, Germany. Construction continues on six new commissaries: Fort Campbell, KY; Norfolk Navy Shipyard Portsmouth, VA; Fort Carson, CO; Ansbach, Germany; and two stores in South Korea, at Command Fleet Activities Chinhae and K-16 Air Base in Seoul. Major renovations wrapped up this year at Eglin Air Force Base, FL, and some continued into the new FY 2012 at Fort Riley, KS; Moody Air Force Base, MS; Marine Corps Base Quantico, VA; and Ramstein Air Base, Germany.

Case Lot Sales

During FY 2011, DeCA offered a three-fold partnership opportunity to the local military community through the Family Fun Fitness Festival. Family Fun Fitness Festival consists of a commissary case lot, mix/match, and club pack sale; an exchange sidewalk sale; and a Morale, Welfare, and Recreation (MWR) fitness/outreach event. The shared parking lot is lined with rows and rows of products in cases sometimes covered with a huge festival tent. Smaller commissaries may carry only one-third the volume of products offered at larger stores, but customers still benefit from the huge savings offered at these events.

For two years now, DeCA has invited the exchanges and MWR to participate in this very popular event making this a special sales bonanza for the entire community. This year's Family Fun Fitness Festival was the biggest spring sale ever, exceeding the 2010 worldwide sales figures, resulting in a 3.5% increase over last year. In addition to the bulk-sized products authorized patrons purchased from the commissaries, they also enjoyed sidewalk sales from the nearby exchanges and fitness events and outreach programs from their various MWR programs.

For the September 2011 case lot sale, all regional offices did an exceptional job of preparing for and executing our efforts to exceed the sales target by the end of the fiscal year. Top selling food items are canned vegetables, macaroni and cheese, ramen noodles, drinks, juices, and snack items. Top selling nonfood items were paper products such as bath tissue and paper towels. Many vendors offered additional discounts and coupons when commissaries purchased truckload quantities with the savings passed onto the customers.

Electronic Shelf Labels

Ongoing deployment of the electronic shelf label (ESL) program continues to eliminate manual price labels. Besides a reduction in man-hours required to update shelf labels for each price change, this automated system provides better price accuracy, thereby increasing customer satisfaction. As of September 30, 2011, 82 stores have had ESLs installed.

DeCA Gift Cards

During the third quarter of fiscal 2011, DeCA unveiled its very own gift card for worldwide use, similar to those found in the commercial sector. Our new card is available in our stores and via the Internet. They are also popular with organizations that give the gift of groceries to military families in need.

Commissary Levels of Authorized Standard Services (CLASS) Program

We are excited to be implementing the CLASS program. CLASS will establish a benchmark of service levels for our stores. It is a complex program designed to deliver leadership, an in-depth knowledge of the budgetary program, and the ability to apply that knowledge to prioritizing the budget and service levels. With CLASS implementation, customers will know the level of service to expect at every commissary they visit; employees will know the level of service they are expected to provide; and management will know that funding is adequate to provide those services.

CLASS provides an opportunity to standardize employee training. Standard training will produce better overall operational execution and standardize customer service. CLASS will also ensure equitable distribution of resources for store support services and help focus resources that drive the quality, consistency, and predictability of programs and services.

EXPANDING BENEFIT ACCESS FOR GUARD AND RESERVE:

The Guard and Reserve On-Site Sale Program is currently funded through fiscal year 2017 with $3.9 million annually. The average unit cost is 22 cents, which falls well below the recommended maximum of 40 cents. The average unit cost is calculated by dividing the operational costs by the total sales incurred for the Guard and Reserve On-Site Sales Program. DeCA will look for ways to drive unit cost even lower, allowing commissaries to reach more customers with less money. The most notable cost-reducing step will be to implement internet ordering capabilities. This will allow customers to order and pay for product online and pick up their orders at the designated on-site location. Once this process is in place, it's expected to significantly decrease operating costs, specifically labor, travel and transportation. Additional cost-saving measures include better planning and coordination with guard and reserve units to negotiate the use of unit assets, for example, troop labor, material handling equipment and facilities, and early and more aggressive marketing to boost customer transactions and sales.

COMMISSARY COMMANDO:

DeCA turned to social media and video to help promote the 2011 Commissary Commando Competition to military organizations representing single soldiers, sailors, airmen, Marines and Coast Guardsmen. The competition moved from May to September, with commissaries worldwide hosting single service members for Commando events to learn more about their commissary benefit while competing for cash prizes worth up to $1,500 from DeCA's industry partners.

This year's competition theme was "Recruiting Lifetime Customers." Single service member groups partnered with store directors to attract as many single service members as possible to the commissary to learn about their benefit. The first group at each commissary to complete a tour and trivia questions and submit its participant roster won a $100 incentive check from DeCA's industry partners. Groups then competed for larger cash prizes by finding creative ways to get the word out about the commissary via social media and making their own video to teach their peers what they're missing by not shopping the commissary.

A team of industry representatives and DeCA headquarters staff members will judge the final submissions and determine the six winning groups, based on use of social media, knowledge of commissary trivia, the total number of touring attendees weighted by single service member population, and creativity of videos with major use of the competition's theme. Winners will be announced via DeCA's Facebook page and a subsequent news release.

COMMISSARY CUSTOMER SERVICE SURVEY (CCSS):

The CCSS has provided a vast amount of information over the years, which has been helpful to all management levels. In addition to measuring customer service, the survey provided detailed demographic information teaching us more about our customers as well as their shopping patterns. The 2011 CCSS included new questions and analysis methods that provide insight as to what is important to the commissary shopper. Also, new reports are included that allows management to quickly identify improvement opportunities. We also have included analysis that gives us a better understanding of how different segments of our commissary patron population feel about different areas of the commissary operation. For the long term, we will continue to look for new items to include in the survey and to investigate new way to efficiently administer the survey.

SUMMARY

DeCA's performance for FY 2011 reflects a commitment to excellence. This excellence is achieved through synergies created by all DeCA employees working as one to deliver a vital benefit to our Service members. Moving forward, DeCA will continue to optimize and innovate our processes with the goal of providing superior customer value.

PART III

FINANCIAL SECTION

CHIEF FINANCIAL EXECUTIVE'S MESSAGE

As Chief Financial Executive for the Defense Commissary Agency (DeCA), I am pleased to present the fiscal year (FY) 2011 Financial Statements and accompanying notes. This fiscal year has been filled with financial uncertainty within the Department of Defense (DoD), as we have had to operate under Continuing Resolution Authority, which threatened government shutdown, while meeting the demands of identifying and implementing required efficiencies. In the midst of this we welcomed new leadership, Mr. Joseph E. Jeu, as our Director and Chief Executive Officer in early January 2011.

For the first six months of FY 2011 we received six continuing resolutions, which provided funding incrementally for DeCA to continue commissary operations. Additionally, DeCA's FY 2011 budget reflected the initiative put forth in a Secretary of Defense memorandum directing cost-cutting efficiencies across DoD. This resulted in a budget reduction of $9.8M within DeCA. One of the major efficiencies identified was our reorganization to be implemented at the beginning of FY 2012. The reorganization will streamline our organization and provide improved service to our customers while reducing the cost of the commissary benefit.

Our patrons' savings of 32 percent versus commercial grocery stores continue to exceed the DoD-mandated target of 30 percent. This speaks strongly for the commissary benefit, especially in a troubled economy. For taxpayers, the return on investment reflects the value of the benefit. With $1.27 billion appropriated for commissary operations, our military service members and their families received nearly $2.8 billion in savings. Specifically, for every dollar spent in appropriated funds for commissary operations, authorized shoppers received $2.08 in savings. Additionally, the latest Commissary Customer Satisfaction Survey surpassed its previous overall highest mark of 4.68 with a new mark of 4.72 (on a scale of 1 to 5).

In FY 2011, sales ($5.957B) surpassed the FY 2010 level ($5.844B), showing an increase of 1.9% in spite of unusually severe weather in many locations, store closures, and troop draw downs. DeCA is proud that we opened four new stores in FY 2011: Keesler AFB, MS; NSA New Orleans, LA; and Robinson Barracks and Fort Bliss, TX. Although the economy has not made significant improvements, DeCA was able to meet patron requirements and continue support of the Agency's initiative to reach out to Guard and Reserve members through on-site sales.

Although we faced a multitude of challenges in FY 2011, the entire DeCA team – stores, zone managers, regions, and headquarters staff – remained committed to accountability and accurate reporting of government funds. The dedication of all levels within the Agency, coupled with our belief in providing the benefit, is the common thread in maintaining operational excellence. We have also enjoyed the rewards of a strong partnership with the Defense Finance and Accounting Service, which is an integral part of our continued efforts to demonstrate the highest levels of financial responsibility. This is further supported by the agency's independent auditor, KPMG, rendering an unqualified opinion on our FY 2011 financial statements for the 10th consecutive year.

We stand united in our quest to be a model organization with defined goals and an indefinite PASSION for what we do as the Defense Commissary Agency. Our financial focus will remain on managing taxpayer dollars efficiently and providing quality financial information as we move into the new fiscal year.

Lauren P. Bands Jr.

Chief Financial Executive

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

	2011	2010
Assets		
Intragovernmental:		
Fund balance with Treasury (Note 2)	$ 558,076	$ 680,814
Accounts receivable and other	384	97
Total intragovernmental assets	558,460	680,911
Cash	66,934	63,206
Accounts receivable and other assets, net	44,547	47,908
Inventory	399,658	401,913
General property, plant, and equipment, net (Note 3)	805,243	813,056
Total assets	$ 1,874,842	$ 2,006,994
Liabilities (Note 4)		
Intragovernmental:		
Accounts payable	$ 33,542	$ 40,827
Other liabilities	39,343	42,046
Total intragovernmental liabilities	72,885	82,873
Accounts payable	411,192	447,317
Federal Employees Compensation Act actuarial liability	158,319	167,221
Environmental liabilities	30,549	31,018
Other liabilities	80,591	100,757
Total liabilities	753,536	829,186
Contingencies (Note 9)		
Net position (Note 5)		
Unexpended appropriations	66,975	135,037
Cumulative results of operations - earmarked fund (Note 10)	1,083,478	1,077,440
Cumulative results of operations - other funds	(29,147)	(34,669)
Total cumulative results of operations	1,054,331	1,042,771
Total net position	1,121,306	1,177,808
Total liabilities and net position	$ 1,874,842	$ 2,006,994

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

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

Program costs:	**2011**	**2010**
Gross costs	$ 7,707,561	$ 7,540,809
Less: Earned revenue	(6,307,386)	(6,192,123)
Net cost of operations (Note 6)	$ 1,400,175	$ 1,348,686

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

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

	2011			2010		
	Earmarked Fund	All Other Funds	Consolidated Total	Earmarked Fund	All Other Funds	Consolidated Total
Cumulative Results of Operations:						
Beginning balance	$ 1,077,440	(34,669)	$ 1,042,771	$ 1,057,105	$ (52,056)	$ 1,005,049
Budgetary financing sources						
Appropriations transfers used	-	1,342,295	1,342,295	-	1,287,016	1,287,016
Non-exchange revenue	-	28,908	28,908	-	26,222	26,222
Transfers in (out)	3,803	(3,803)	-	4,745	(4,745)	-
Other budgetary financial sources (uses)	(1,811)	-	(1,811)	1,435	-	1,435
Other financing sources (uses)						
Transfers in, building	-	-	-	-	25,247	25,247
Imputed financing (Note 7)	-	42,338	42,338	-	44,819	44,819
Other	-	5	5	1,476	193	1,669
Total financing sources	1,992	1,409,743	1,411,735	7,656	1,378,752	1,386,408
Net cost of (income from) operations	(4,046)	1,404,221	1,400,175	(12,679)	1,361,365	1,348,686
Net Change	6,038	5,522	11,560	20,335	17,387	37,722
Cumulative Results of Operations	1,083,478	(29,147)	1,054,331	$ 1,077,440	$ (34,669)	$ 1,042,771

Continued on the following page.

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

	2011			2010		
	Earmarked Fund	**All Other Funds**	**Consolidated Total**	**Earmarked Fund**	**All Other Funds**	**Consolidated Total**
Unexpended Appropriations:						
Beginning balance	$ -	$ 135,037	$ 135,037	$ -	$ 111,697	$ 111,697
Budgetary financing sources						
Appropriation transfer	-	1,274,233	1,274,233	-	1,314,136	1,314,136
Appropriations transfers used	-	(1,342,295)	(1,342,295)	-	(1,287,016)	(1,287,016)
Other adjustments (recissions)	-	-	-	-	(3,780)	(3,780)
Total Financing sources (uses)	-	(68,062)	(68,062)	-	23,340	23,340
Unexpended Appropriations	$ -	$ 66,975	66,975	$ -	$ 135,037	$ 135,037

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

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

	2011	2010
Budgetary resources (Note 8)		
Unobligated balance brought forward	$ 109,072	$ 82,625
Recoveries of prior year obligations	2,871	586
Budget authority	7,248,135	7,188,516
Spending authority from offsetting collections	6,304,851	6,087,140
Permanently not available	(5,979,933)	(5,762,126)
Total budgetary resources	$ 7,684,996	$ 7,596,741
Status of budgetary resources		
Obligations incurred:		
Direct	$ 1,338,926	$ 1,290,372
Reimbursable	6,293,164	6,197,297
Total obligations incurred	7,632,090	7,487,669
Unobligated balance - apportioned	42,358	109,054
Unobligated balance - not available	10,548	18
Total status of budgetary resources	$ 7,684,996	$ 7,596,741
Change in obligated balance		
Obligated balance, net - beginning of period	$ 929,540	$ 827,431
Total obligations incurred	7,632,090	7,487,669
Less: gross outlays	(7,701,681)	(7,500,900)
Less: recoveries of prior year obligations	(2,871)	(586)
Change in uncollected customer payments from Federal sources	(141)	115,926
Obligated balance, net - end of period	$ 856,937	$ 929,540
Net Outlays		
Gross outlays	$ 7,701,681	$ 7,500,900
Offsetting collections	(6,304,710)	(6,203,066)
Total net outlays	$ 1,396,971	$ 1,297,834

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

DEFENSE COMMISSARY AGENCY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Reporting Entity

Except as noted, all dollar amounts are in thousands.

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

DeCA, with its headquarters located at Fort Lee near Petersburg, Virginia, has three regional offices located in Kaiserslautern, Germany; Fort Lee, Virginia; and Sacramento, California. DeCA operations are financed primarily by a working capital fund (WCF) and Surcharge Collections Trust Fund.

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

The Surcharge Collections Trust Fund is part of DeCA's general funds (GF). The GF also has a fund used in support of Hurricane Katrina relief efforts and two that receive certain amounts of military construction appropriated funds. In FY 2009, DeCA was authorized Military Construction, Defense-Wide Recovery Act Funds of $110 in accordance with the American Recovery and Reinvestment Act of 2009 (Public Law 111-5) for Energy Conservation Investment Program projects at the Air Force Academy Commissary. These funds are available for five years and expire at the end of FY 2013.

DeCA's Surcharge Collections Trust Fund is funded primarily by a five percent surcharge applied to each sale. This fund, established by law as the repository for the surcharge collected on the cost of commissary goods paid for by authorized patrons, primarily finances DeCA's store-level information management equipment and support, and construction programs. As the use of resources associated with the Surcharge Collections Trust Fund is limited by public law, this fund has been identified as an earmarked fund. Earmarked funds are financed by specifically identified revenues and other financing sources that are required by statute to be used for designated purposes and must be accounted for separately from the DeCA's general revenues.

Note 10 provides detailed information concerning Earmarked Funds.

B. Basis of Presentation and Accounting

These consolidated financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and status and availability of budgetary resources. The consolidated financial statements have been prepared from the books and records of DeCA in accordance with U.S. generally accepted accounting principles and DoD accounting policies, which are summarized in this note. These consolidated financial statements, with the exception of the Statement of Budgetary Resources, are different from the financial management reports prepared by DeCA that are used to monitor and control DeCA's use of budgetary resources pursuant to Office of Management and Budget (OMB) directives.

Transactions are recorded on both an accrual accounting basis and budgetary accounting basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal requirements on the use of Federal funds. Liabilities not covered by budgetary resources represent amounts owed in excess of available appropriated funds. The liquidation of liabilities not covered by budgetary resources is dependent on future congressional appropriations. All material intra-agency transactions and balances have been eliminated for presentation on a consolidated basis. However, the Statement of Budgetary Resources is presented on a combined basis in accordance with OMB directive.

C. Fund Balance with Treasury

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

D. Cash

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

E. Accounts Receivable

Accounts receivable consists of amounts owed to DeCA by other Federal agencies and the public. Federal accounts receivable arise generally from the provision of goods and services to other Federal agencies. No allowance for doubtful accounts is deemed necessary for Federal accounts receivable.

Receivables from the public generally arise from manufacturer-related transactions, which are associated with the sale of grocery, meat, and produce items to authorized patrons. An allowance for doubtful accounts is established for reporting purposes based on past experience in the collection of accounts receivable and analysis of outstanding balances using the percentage of receivables. The allowance is adjusted accordingly at the time of collection or write-off during the fiscal year. Non-Federal accounts receivables are reported net of an allowance of $5,922 and $945 as of September 30, 2011 and September 30, 2010, respectively.

F. Inventory

Inventory consisting primarily of grocery, meat, and produce items held for sale is stated at latest acquisition cost.

G. General Property, Plant, and Equipment

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

PP&E acquisitions are capitalized if they have an estimated useful life of two or more years, are not intended for sale in the ordinary course of operations, are acquired or constructed with the intention of being used or being available for use by the entity, and meet the capitalization threshold of $100 with the exception of real property, which currently has a capitalization threshold of $20.

Depreciation is recognized on all PP&E, except construction-in-progress, on the straight-line basis over the estimated useful life of the asset. The useful lives are generally 40 years for BSF and 5 to 10 years for software and equipment.

Base Realignment and Closure (BRAC) funding has been authorized for a Military Construction (MILCON) project to construct an addition to the DeCA headquarters (HQ). This action is in accordance with the MILCON and Veteran Affairs and Related Agencies Appropriations Act, 2008 (P.L. 110-161). The Defense Financial & Accounting Service (DFAS) is the DoD component responsible for reporting the associated construction in progress. The project was completed during the first quarter of 2010 and the asset was transferred to DeCA and recognized as general PP&E on the consolidated balance sheet and a transfer-in building on the consolidated statement of changes in net position.

Note 3 provides detailed information concerning general PP&E.

H. <u>Other Liabilities</u>

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

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

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

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

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

Note 4 provides detailed information about other liabilities.

I. Actuarial Liability

In addition to the liabilities discussed above, DeCA records an actuarial liability for its workers' compensation benefits. This liability, which is developed by DOL and provided to DoD after the end of each fiscal year, includes the expected future costs associated with death, disability, medical, and miscellaneous items for approved compensation cases. DOL determines the liability using a method that employs historical benefit payment patterns to predict the ultimate payments. The projected annual benefit payments are then discounted to the present value using the OMB's economic assumptions for 10-year U.S. Treasury notes and bonds. The assumed interest rate for 10-year U.S. Treasury notes and bonds was 3.535% and 3.653% at September 30, 2011 and 2010, respectively. DoD uses a three-year moving average to distribute the actuarial liability to the various DoD agencies based on actual costs incurred by the respective DoD components.

J. Imputed Financing and Costs

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

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

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

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

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

K. Environmental Liabilities

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

L. Net Position

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

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

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

Note 5 provides detailed information on Net Position.

M. Non-Exchange Revenue

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

N. Use of Estimates

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

NOTE 2 - FUND BALANCE WITH TREASURY

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

The following table shows the balance for each type of fund as of September 30, 2011 and 2010:

Fund balances:	**2011**	**2010**
Appropriated funds	$ 188,459	$ 298,497
Revolving funds	8,092	30,370
Trust funds	361,525	351,947
Total	$ 558,076	$ 680,814

The following table shows the status of the fund balances as of September 30, 2011 and 2010:

Status of fund balances:	**Appropriated**	**Revolving**	**Trust**	**Total**
Unobligated balance available	$ 8,984	$ -	$ 33,374	$ 42,358
Unobligated balance unavailable	10,548	-	-	10,548
Obligated balance not yet disbursed, net of contract authority	168,927	8,092	328,151	505,170
Total as of September 30, 2011	$ 188,459	$ 8,092	$ 361,525	$ 558,076

Status of fund balances:	**Appropriated**	**Revolving**	**Trust**	**Total**
Unobligated balance available	$ 87,124	$ -	$ 21,930	$ 109,054
Unobligated balance unavailable	18	-	-	18
Obligated balance not yet disbursed, net of contract authority	211,355	30,370	330,017	571,742
Total as of September 30, 2010	$ 298,497	$ 30,370	$ 351,947	$ 680,814

NOTE 3 - GENERAL PROPERTY, PLANT, AND EQUIPMENT

General property, plant, and equipment (PP&E) at September 30, 2011 and 2010 is summarized as follows:

PP&E category	Acquisition Value	Accumulated Depreciation	Net
Buildings, structures, and facilities	$ 2,065,006	$ (1,430,065)	$ 634,941
Software	30,166	(20,395)	9,771
Equipment and other assets	165,024	(72,519)	92,505
Assets under capital lease	-	-	-
Construction-in-progress	68,026	-	68,026
Total as of September 30, 2011	$ 2,328,222	$ (1,522,979)	$ 805,243

PP&E category	Acquisition Value	Accumulated Depreciation	Net
Buildings, structures, and facilities	$ 2,046,484	$ (1,387,293)	$ 659,191
Software	33,397	(20,620)	12,777
Equipment and other assets	146,538	(57,229)	89,309
Assets under capital lease	4,396	(4,396)	-
Construction-in-progress	51,779	-	51,779
Total as of September 30, 2010	$ 2,282,594	$ (1,469,538)	$ 813,056

NOTE 4 - LIABILITIES

The following table summarizes total liabilities covered and not covered by budgetary resources as of September 30, 2011 and 2010:

Intragovernmental:	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Accounts payable	$ 33,542	$ -	$ 33,542
Other liabilities	1,986	37,357	39,343
Subtotal	35,528	37,357	72,885
With the public:			
Accounts payable	411,192	-	411,192
Federal Employees Compensation Act actuarial liability	-	158,319	158,319
Environmental liabilities	-	30,549	30,549
Other liabilities	15,254	65,337	80,591
Subtotal	426,446	254,205	680,651
Total as of September 30, 2011	$ 461,974	$ 291,562	$ 753,536

Intragovernmental:	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Accounts payable	$ 40,827	$ -	$ 40,827
Other liabilities	4,358	37,688	42,046
Subtotal	45,185	37,688	82,873
With the public:			
Accounts payable	447,317	-	447,317
Federal Employees Compensation Act actuarial liability	-	167,221	167,221
Environmental liabilities	-	31,018	31,018
Other liabilities	36,273	64,484	100,757
Subtotal	483,590	262,723	746,313
Total as of September 30, 2010	$ 528,775	$ 300,411	$ 829,186

The following table summarizes current and non-current other liabilities as of September 30, 2011 and 2010.

Other liabilities	Current Liabilities	Non-Current Liabilities	Total
Intragovernmental:			
Workers compensation	$ 16,125	$ 21,232	$ 37,357
Employer contributions and payroll taxes payable	1,986	-	1,986
Subtotal	18,111	21,232	39,343
With the public:			
Accrued funded payroll and benefits	15,254	-	15,254
Foreign national separation pay	17,129	-	17,129
Accrued leave	48,208	-	48,208
Subtotal	80,591	-	80,591
Total as of September 30, 2011	$ 98,702	$ 21,232	$ 119,934

Other liabilities	Current Liabilities	Non-Current Liabilities	Total
Intragovernmental:			
Workers compensation	$ 16,692	$ 20,996	$ 37,688
Employer contributions and payroll taxes payable	4,358	-	4,358
Subtotal	21,050	20,996	42,046
With the public:			
Accrued funded payroll and benefits	36,273	-	36,273
Foreign national separation pay	16,532	-	16,532
Accrued leave	47,952	-	47,952
Subtotal	100,757	-	100,757
Total as of September 30, 2010	$ 121,807	$ 20,996	$ 142,803

NOTE 5 - NET POSITION

The following table summarizes the net position by fund type as of September 30, 2011 and 2010:

Net position:	General Funds	Working Capital Funds	Total
Unexpended appropriations	$ 12,160	$ 54,815	$ 66,975
Cumulative results of operations - earmarked fund	1,083,478	-	1,083,478
Cumulative results of operations - other funds	-	(29,147)	(29,147)
Total cumulative results of operations	1,083,478	(29,147)	1,054,331
Total as of September 30, 2011	$ 1,095,638	$ 25,668	$ 1,121,306

Net position:	General Funds	Working Capital Funds	Total
Unexpended appropriations	$ 12,313	$ 122,724	$ 135,037
Cumulative results of operations - earmarked fund	1,077,440	-	1,077,440
Cumulative results of operations - other funds	-	(34,669)	(34,669)
Total cumulative results of operations	1,077,440	(34,669)	1,042,771
Total as of September 30, 2010	$ 1,089,753	$ 88,055	$ 1,177,808

NOTE 6 – CONSOLIDATED STATEMENT OF NET COST

The Consolidated Statement of Net Cost includes intragovernmental and public cost and earned revenue as summarized in the following table as of September 30, 2011 and 2010:

	2011	2010
Intragovernmental costs	$ 405,483	$ 412,557
Public costs	7,302,078	7,128,252
Intragovernmental earned revenue	(5,185)	(5,482)
Public earned revenue	(6,302,201)	(6,186,641)
Net cost of operations	$ 1,400,175	$ 1,348,686

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

NOTE 7 – IMPUTED FINANCING

The imputed financing and cost for employee benefits as of September 30, 2011 and 2010 is summarized below:

Benefit category	**2011**	**2010**
CSRS/FERS	$ 13,386	$ 16,231
FEHB	28,851	28,488
FEGLI	101	100
Total	$ 42,338	$ 44,819

NOTE 8 – STATEMENT OF BUDGETARY RESOURCES

The Statement of Budgetary Resources is a combined statement and, as such, intra-entity transactions have not been eliminated. The combined Statement of Budgetary Resources has been prepared to coincide with the amounts shown in the President's Budget (Budget of the United States of America). However, the President's Budget is prepared from the Standard Form (SF) 133, Report on Budget Execution. Due to timing and the need for accelerated reporting at fiscal year end, the SF 133 is prepared using estimates, while the Statement of Budgetary Resources has been adjusted for actual results. As such, the FY 2011 Statement of Budgetary Resources may differ from the amounts in the President's Budget by the differences between estimates used for the SF 133 and the actual results reporting in the Statement of Budgetary Resources.

The FY 2011 actual amounts as shown on the FY 2013 President's Budget were not available at the time the consolidated financial statements were prepared. The FY 2013 President's Budget is expected to be available in February 2012. Both documents can be located at the OMB website (http://www.whitehouse.gov/omb). The actual amounts reported in the FY 2010 Statement of Budgetary Resources are in agreement with the actual amounts reported for the DeCA Working Capital Fund in the President's FY 2011 budget request.

Total budget authority in FY 2011 and 2010 includes appropriation transfers in the amounts of $1,274,233 and $1,314,136, respectively, and contract authority in the amounts of $5,973,902 and $5,874,380, respectively. The appropriation transfer is available indefinitely. Contract authority primarily provides DeCA the ability to purchase grocery, meat, and produce items for resale to authorized commissary patrons. Spending authority from offsetting collections results primarily from the sale of grocery, meat, and produce items.

Undelivered orders as of September 30, 2011 and 2010 were $397,382 and $403,375, respectively.

The obligated balances, net – beginning and end of period are comprised of the following components:

Obligated balance, net - beginning of period	**2011**	**2010**
Unpaid obligations - brought forward	$ 931,206	$ 945,023
Uncollected customer payments from Federal sources brought forward	(1,666)	(117,592)
Total obligated balance, net - beginning of period	$ 929,540	$ 827,431
Obligated balance, net - end of period		
Unpaid obligations	$ 858,744	$ 931,206
Uncollected customer payments from Federal sources	(1,807)	(1,666)
Total obligated balance, net - end of period	$ 856,937	$ 929,540

NOTE 9 – Contingencies

The Defense Commissary Agency is a party in various administrative proceeding and legal actions related to claims for environmental damage, equal opportunity matters and contractual bid protests. DeCA has not accrued or disclosed any amounts for contingent liabilities as potential losses have not been determined to be probable or reasonably possible.

In addition, unasserted claims for Sunday Premium pay pursuant to the decision in the Fathauer vs. United States, which established Sunday Premium pay for part-time employees, exist as of September 30, 2011. DeCA is responsible for Sunday Premium back-pay up to the past 6 years for part-time employees once claims are made. During FY 2011, DeCA paid approximately $16 million in back-pay amounts. To date, DeCA has not accrued or disclosed any amounts related to unasserted claims as the amounts are not measurable.

NOTE 10 – EARMARKED FUND

The following table presents condensed data relating to DeCA's earmarked fund, the Surcharge Collections Trust Fund, as of and for the years ended September 30, 2011 and 2010:

Balance Sheet	**2011**	**2010**
Assets		
Fund balance with Treasury	$ 361,525	$ 351,947
Cash and accounts receivable	3,400	3,343
Property, plant, and equipment	761,579	770,109
Total assets	$ 1,126,504	$ 1,125,399
Liabilities		
Accounts payable	$ 12,477	$ 16,941
Environmental liabilities	30,549	31,018
Total liabilities	43,026	47,959
Cumulative results of operations	1,083,478	1,077,440
Total liabilities and net position	$ 1,126,504	$ 1,125,399
Earmarked Fund - Statement of Net Cost		
Program costs	$ 299,153	$ 288,088
Earned revenue	(303,199)	(300,767)
Net income from operations	$ (4,046)	$ (12,679)

NOTE 11 – RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

The following table presents DeCA's reconciliation of net cost of operations to budgetary resources as of and for the years ended September 30, 2011 and 2010:

Resources used to finance activities	**2011**	**2010**
Budgetary resources obligated:		
Obligations incurred	$ 7,632,090	$ 7,487,669
Less: Spending authority from offsetting collections and recoveries	(6,307,722)	(6,087,726)
Obligations, net of offsetting collections and recoveries	1,324,368	1,399,943
Other resources:		
Transfers in, building	-	25,247
Imputed financing from costs absorbed by others (Note 7)	42,338	44,819
Other - Gain (losses) in capital assets	5	1,669
Net other resources used to finance activities	42,343	71,735
Total resources used to finance activities	1,366,711	1,471,678
Resources used to finance items not part of net costs of operations		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:		
Undelivered orders	5,993	(25,369)
Unfilled customer orders	(146)	(41)
Resources that fund expenses recognized in prior periods	(9,701)	(1,752)
Resources that finance the acquisition of assets	(6,020,580)	(5,917,444)
Other resources that do not affect net cost of operations	(5)	(26,915)
Total resources used to finance items not part of the net cost of operations	(6,024,439)	(5,971,521)
Total resources used to finance the net cost of operations	(4,657,728)	(4,499,843)
Components of the net cost of operations that will not require or generate resources in the current period		
Components requiring or generating resources in future periods	(5,136)	(106,667)
Components not requiring or generating resources in future periods:		
Cost of goods sold	5,968,888	5,860,707
Depreciation and amortization	76,592	80,328
Revaluation of assets/liabilities	(17,212)	(15,546)
Non-exchange revenue and other	34,771	29,707
Total components of net cost of operations that will not require or generate resources in the current period	6,057,903	5,848,529
Net cost of operations	$ 1,400,175	$ 1,348,686

DEFENSE COMMISSARY AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
COMBINING SCHEDULE OF BUDGETARY RESOURCES
FOR THE YEAR ENDED SEPTEMBER 30, 2011

(Unaudited – See Accompanying Independent Auditor's Report)

	Defense Working Capital Funds		General Funds				
	Operations	Resale	Surcharge	Military Construction	Military Construction Recovery Act	Katrina - Relief	Combined
Budgetary resources							
Unobligated balance brought forward	$ 75,644	$ -	$ 21,930	$ 965	$ 3	$ 10,530	$ 109,072
Recoveries of prior year obligations	68	2,803	-	-	-	-	2,871
Budget authority	1,276,707	5,970,766	-	662	-	-	7,248,135
Spending authority from offsetting collections	29,133	5,968,848	306,870	-	-	-	6,304,851
Permanently not available	(8,282)	(5,971,651)	-	-	-	-	(5,979,933)
Total budgetary resources	$ 1,373,270	$ 5,970,766	$ 328,800	$ 1,627	$ 3	$ 10,530	$ 7,684,996
Status of budgetary resources							
Obligations incurred:							
Direct	$ 1,338,622	$ -	$ -	$ 304	$ -	$ -	$ 1,338,926
Reimbursable	26,972	5,970,766	295,426	-	-	-	6,293,164
Total obligations incurred	1,365,594	5,970,766	295,426	304	-	-	7,632,090
Unobligated balances - appropriated	7,676	-	33,374	1,305	3	-	42,358
Unobligated balances - not available	-	-	-	18	-	10,530	10,548
Total status of budgetary resources	$ 1,373,270	$ 5,970,766	$ 328,800	$ 1,627	$ 3	$ 10,530	$ 7,684,996
Change in obligated balance							
Obligated balance, net - beginning of period	$ 237,418	$ 361,286	$ 330,017	$ 717	$ 102	$ -	$ 929,540
Total obligations incurred	1,365,594	5,970,766	295,426	304	-	-	7,632,090
Less: gross outlays	(1,412,450)	(5,991,120)	(297,292)	(717)	(102)	-	(7,701,681)
Less: recoveries of prior year obligations	(68)	(2,803)	-	-	-	-	(2,871)
Change in uncollected customer payments from Federal sources	(136)	(5)	-	-	-	-	(141)
Obligated balance, net - end of period	$ 190,358	$ 338,124	$ 328,151	$ 304	$ -	$ -	$ 856,937
Net Outlays							
Gross outlays	$ 1,412,450	$ 5,991,120	$ 297,292	$ 717	$ 102	$ -	$ 7,701,681
Offsetting collections	(28,998)	(5,968,842)	(306,870)	-	-	-	(6,304,710)
Total net outlays	$ 1,383,452	$ 22,278	$ (9,578)	$ 717	$ 102	$ -	$ 1,396,971

DEFENSE COMMISSARY AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
COMBINING SCHEDULE OF BUDGETARY RESOURCES
FOR THE YEAR ENDED SEPTEMBER 30, 2010
(Unaudited – See Accompanying Independent Auditor's Report)

	Defense Working Capital Funds		General Funds				
	Operations	Resale	Surcharge	Military Construction	Military Construction Recovery Act	Katrina - Relief	Combined
Budgetary resources							
Unobligated balance brought forward	$ 57,215	$ -	$ 14,331	$ 439	$ 110	$ 10,530	$ 82,625
Recoveries of prior year obligations	34	546	-	6	-	-	586
Budget authority	1,320,071	5,867,925	-	520	-	-	7,188,516
Spending authority from offsetting collections	29,536	5,751,306	306,298	-	-	-	6,087,140
Permanently not available	(10,274)	(5,751,852)	-	-	-	-	(5,762,126)
Total budgetary resources	$ 1,396,582	$ 5,867,925	$ 320,629	$ 965	$ 110	$ 10,530	$ 7,596,741
Status of budgetary resources							
Obligations incurred:							
Direct	$ 1,290,265	$ -	$ -	$ -	$ 107	$ -	$ 1,290,372
Reimbursable	30,673	5,867,925	298,699	-	-	-	6,197,297
Total obligations incurred	1,320,938	5,867,925	298,699	-	107	-	7,487,669
Unobligated balances - appropriated	75,644	-	21,930	947	3	10,530	109,054
Unobligated balances - not available	-	-	-	18	-	-	18
Total status of budgetary resources	$ 1,396,582	$ 5,867,925	$ 320,629	$ 965	$ 110	$ 10,530	$ 7,596,741
Change in obligated balance							
Obligated balance, net - beginning of period	$ 260,378	$ 256,348	$ 309,491	$ 1,214	$ -	$ -	$ 827,431
Total obligations incurred	1,320,938	5,867,925	298,699	-	107	-	7,487,669
Less: gross outlays	(1,343,813)	(5,878,450)	(278,140)	(491)	(6)	-	(7,500,900)
Less: recoveries of prior year obligations	(34)	(546)	-	(6)	-	-	(586)
Change in uncollected customer payments from Federal sources	(51)	116,009	(33)	-	1	-	115,926
Obligated balance, net - end of period	$ 237,418	$ 361,286	$ 330,017	$ 717	$ 102	$ -	$ 929,540
Net Outlays							
Gross outlays	$ 1,343,813	$ 5,878,450	$ 278,140	$ 491	$ 6	$ -	$ 7,500,900
Offsetting collections	(29,486)	(5,867,315)	(306,265)	-	-	-	(6,203,066)
Total net outlays	$ 1,314,327	$ 11,135	$ (28,125)	$ 491	$ 6	$ -	$ 1,297,834

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report

Financial Audit Advisory Committee
Defense Commissary Agency:

We have audited the accompanying consolidated balance sheets of the Defense Commissary Agency (DeCA) as of September 30, 2011 and 2010, and the related consolidated statements of net cost, changes in net position, and combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our fiscal year 2011 audit, we also considered DeCA's internal control over financial reporting and tested DeCA's compliance with certain provisions of applicable laws, regulations, and contract agreements that could have a direct and material effect on these consolidated financial statements.

Summary

As stated in our opinion on the consolidated financial statements, we concluded that DeCA's consolidated financial statements as of and for the years ended September 30, 2011 and 2010, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined in the Internal Controls Over Financial Reporting section of this report.

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

The results of our tests of FFMIA disclosed instances where DeCA's financial management systems did not substantially comply with Federal financial system requirements and the United States Standard General Ledger at the transaction level. The results of our tests of FFMIA disclosed no instances in which DeCA's financial management systems did not substantially comply with accounting standards applicable to Federal entities as of September 30, 2011.

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of the Defense Commissary Agency (DeCA) as of September 30, 2011 and 2010, and the related consolidated statements of net cost, changes in net position, and the combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Defense Commissary Agency as of September 30, 2011 and 2010, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with U.S. generally accepted accounting principles.

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

The information in DeCA-At-A-Glance, DeCA Mission, DeCA Values, DeCA Vision, DeCA Goals, Foreword, Director's Message, Performance Section, Chief Financial Executive's Message, Summary of Serious Management and Performance Challenges, and Glossary of Acronyms, as reflected in the Performance and Accountability Report Fiscal Year 2011 are presented for purposes of additional analysis and are not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

Internal Control Over Financial Reporting

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2011 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

We noted certain additional matters that we have reported to management of DeCA in separate letters dated November 10, 2011.

Compliance and Other Matters

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

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

The results of our tests of FFMIA disclosed no instances in which DeCA's financial management systems did not substantially comply with accounting standards applicable to Federal entities as of September 30, 2011.

* * * * * * *

Responsibilities

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

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2011 and 2010 consolidated financial statements of DeCA based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of DeCA's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

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

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

In planning and performing our fiscal year 2011 audit, we considered DeCA's internal control over financial reporting by obtaining an understanding of DeCA's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of DeCA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of DeCA's internal control over financial reporting. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

As part of obtaining reasonable assurance about whether DeCA's fiscal year 2011 consolidated financial statements are free of material misstatement, we performed tests of DeCA's compliance with certain provisions of laws, regulations, and contract agreements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including the provisions referred to in Section 803(a) of FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contract agreements applicable to DeCA. However, providing an opinion on compliance with laws, regulations, and contract agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

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

This report is intended solely for the information and use of DeCA's management, the Financial Audit Advisory Committee, the DeCA Office of Inspector General (OIG), the Department of Defense (DoD) OIG, DoD's Comptroller, OMB, and the U.S. Government Accountability Office and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 10, 2011

Compliance with Laws and Regulations

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

Federal Financial Management Improvement Act of 1996 (FFMIA)

Condition

We noted in FY 2011 that DeCA was not in substantial compliance with FFMIA.

Discussion

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

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

Criteria

FFMIA, Section 803(a) requires that "each agency shall implement and maintain financial management systems that comply substantially with Federal financial management systems requirements... and the United States Government Standard General Ledger at the transaction level."

Recommendation

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

Management Response

As is true with most defense agencies, DeCA's legacy financial systems are not compliant with the United States Standard General Ledger (USSGL) and fall short of the integrated system requirements for FY 2011. As a result, the detailed transactions are not captured at the USSGL level. However, to meet these requirements, DeCA, jointly with the Department of Defense, is actively and aggressively working on improving the system-wide architecture in order to be fully compliant with the Federal Financial Management Improvement Act of 1996. Additionally, DeCA continues to employ compensating controls, along with process and detailed reconciliations to ensure no data integrity is compromised in the non-compliant systems.

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

REPLY TO
ATTENTION OF

CCI

November 8, 2011

MEMORANDUM FOR DIRECTOR, DEFENSE COMMISSARY AGENCY (DeCA)

SUBJECT: FY 2011 Summary of Serious Management and Performance Challenges

The DeCA Office of the Inspector General (OIG) is providing you our enclosed perspective on the most serious management and performance challenges facing DeCA for inclusion in the Agency's annual *Performance and Accountability Report.*

The *Reports Consolidation Act of 2000 (Public Law 106-531)* left the determination and threshold of what constitutes a most serious management challenge to the discretion of the Inspectors General. Therefore, the following definition was applied in preparing this statement for Fiscal Year 2011:

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

This summary covers (1) Internal Controls and Oversight; (2) Customer Focus; (3) Leadership, Management and Workforce; (4) Information Technology & Security Management; and (5) Financial & Resource Management Audits.

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

John T. Maffei
Inspector General

Enclosure:
As stated

Fiscal Year 2011

Inspector General Summary
of the
Defense Commissary Agency's
Major Management and
Performance Challenges

November 8, 2011

INTERNAL CONTROLS AND OVERSIGHT

Store Level Commissary Compliance Inspections (CCI)

At the benefit delivery point, the Office of the Inspector General (OIG) tested system internal controls at 17 percent (42 of 248) of commissaries, and 2 Central Distribution Centers (CDC) during Fiscal Year (FY) 2011. The FY 2011 average compliance score was 87.8 percent compared to 84.8 percent in FY 2010, a compliance increase of 3 percent, and the second highest compliance rating achieved in DeCA's history. Statistically, 22.5 percent of commissaries and CDCs tested were above the average for FY 2011. The FY 2011 CCI scores were a portion, at 40 percent, of the Operational Readiness component of DeCA's Balanced Scorecard (BSC) rating. The challenge for FY 2012 is to define an acceptable level of benefit delivery, and internal control testing in the face of resource challenges.

Senior Assessment Team (SAT) Process

In FY 2011, DeCA's SAT met quarterly to ensure the Agency successfully employed the financial and operational control requirements of Office of Management and Budget (OMB) Circular Number A-123, Appendix A, and related Office of the Secretary of Defense (OSD) guidance in mission critical and high risk areas, so that acceptable compliance ratings were attained.

The SAT's Managers Internal Control Program (MICP) reviewed, evaluated, and reported on the effectiveness of systems and process of internal controls throughout the Agency. As ineffective controls were identified, corrective action plans were initiated to address deficiencies. These corrective actions were assessed and reported quarterly until approved for closure by the SAT. DeCA tested the effectiveness of the Internal Controls Over Financial Reporting (ICOFR) for *Budgetary Resources* (Appropriations Received, Accounts Payable, Accounts Receivable, Payroll, Store Cash Deposits); *Critical Assets* (Personal Property, Real Property, Inventory); and *Other Balance Sheet Line Items* (Environmental Liability, Federal Employee Compensation Act Liability, and Foreign National Separation Pay Liability).

Assessments were also conducted on the effectiveness of the information technology general and application controls over key DeCA applications that support our financial processes and reporting for the following applications: DeCA Interactive Business System, Commissary Advanced Resale Transaction System, Standard Automated Voucher Examination System, Accounting and Inventory Management System, Warehouse Management System, and Enterprise Data Warehouse. The SAT also tested the reliability of DeCA's input into the Defense Business Management System, Defense Property Accountability System, Standard Financial System, Defense Civilian Payroll System, and Defense Civilian Personnel Data System. This assessment of the applications were conducted in strict compliance with the OMB Circular A-127, as directed by Department of Defense (DoD) guidance under the oversight of the DeCA SAT.

Internal Controls Over Nonfinancial Operations (ICONO) assessments were conducted and self reported on 100 business processes at store level and headquarters level to support operational effectiveness and efficiencies. For FY 2011 DeCA was considered the "Gold Standard" within DoD in the implementation and maintenance of our internal controls program. The FY 2012 challenge will be, for DeCA's MICP, to continue to "raise the bar" on identifying business process improvements for DeCA through the SAT under a DeCA reorganization and with limited resources.

Government Purchase Card (GPC) Reviews

DeCA has fully deployed DoD's mandatory Purchase Card Online System (PCOLS), an automated system for managing purchase card accounts, changes, data mining and risk assessment for suspect transaction activity. As a result, in FY 2011, 100 percent of DeCA's GPC transactions were reviewed (via the PCOLS automated Data Mining Module) for suspicious activity, and 172 system identified high risk transactions were reviewed by the Agency Program Coordinator (APC). In addition, the APC completed 39 full account annual reviews in FY 2011. The most common findings for these investigations/reviews, in order of frequency, were:

- Accounts were missing Accountable Official delegations by the certifying officer in 20 percent of the cases; this was a decrease from 91 percent found in FY 2010.
- Cardholders failed to properly and timely maintain their purchase log (order records) in 17 percent of the cases; this was a decrease from 83 percent found in FY 2010.
- Tardiness in completing required annual ethics training and DoD refresher training in 17 percent of the cases; this was a decrease from 66 percent found in FY 2010.
- Card holders failed to properly identify a transaction as a payment against a contract in 15 percent of the cases; this was a decrease from 25 percent found in FY 2010.
- Cardholders failed to obtain proof of delivery for every purchase/payment in 10 percent of the cases; this was a decrease from 66 percent found in FY 2010.

Corporate Governance Structure

DeCA continued the transition from the former legacy governance board process to a new corporate governance structure, for DeCA, that was started in August 2010, as a six-month pilot project. This was done to better align resources to core priorities and provide more focused oversight through the creation of steering groups (SG) for Human Capital (HCSG), Operations (OSG), Enterprise (ESG), and Information Technology (ITSG); with the groups reporting their proposed results to a new DeCA Investment Review Board (DIRB) and Performance Review Board (PRB). Starting in FY 2011 the IRB and PRB reported results and proposed decisions to the Executive Steering Council (ESC) for approval. The governance goals are to: (1) establish a better mechanism for more deliberate decision making investment priorities; (2) hold progress reviews on those decisions; and (3) regularly review related key business performance measures. Quarterly and annual performance reviews across all functional and operational elements were scheduled under this new structure. Governance procedures for the new structure were developed in a draft directive (DeCAD 60-3).

The results of the pilot, during FY 2011, indicated that the new governance and decision making structure improved governance by developing an investment catalog, prioritizing investments based on criteria, and ensuring objectives are aligned with DeCA's strategic activities. However, as a refinement to the process, the four steering groups were discontinued and an Enterprise Integration Panel (EIP) of functional proponents was established as a vetting group for functional input integration and the final products provided to the DIRB to review initiatives and make recommendations to the ESC. The result was increased enterprise level collaboration, direct involvement of Senior Executive Service (SES) leaders and senior functional leadership in key decisions and initiatives, thus reducing management layers by streamlining the decision processes to more quickly respond to Agency issues and priorities. This governance model has produced a prioritization methodology for aligning initiatives and resources within the budget that focus on new investments, divesting of unneeded investments, and monitoring of investment performance.

For FY 2012, the corporate governance structure will be further refined to reflect DeCA's reorganization and structural changes, in response to DoD’s series of initiatives designed to reduce duplication, overhead, and excess, and to instill a culture of savings and cost accountability across DoD. In FY 2011, DeCA reviewed the above-store level organization and plotted a business course that will better support stores and customers in FY 2012. DeCA eliminated headquarters redundancies through the establishment of four major business groups, lead by SES leaders, and transitioned from three regional offices to five smaller geographic areas that better balanced oversight of the benefit delivery execution at commissaries worldwide.

The challenge for FY 2012 is to monitor the above-store support to ensure the business group integrations are seamless, understood by the workforce, and transparent to customers and stakeholders. An additional challenge will be communicating the expected governance process refinements across all the groups and obtaining their understanding, collaboration, and buy-in necessary to execute the cultural changes and overcome reorganization change resistance. This challenge is critical to help preserve the military commissary benefit as DeCA is faced with increased demand for more efficient use of scarce resources resulting from expected DoD cost-cutting decisions.

CUSTOMER FOCUS

Standard levels of Service

In FY 2011, DeCA made important progress in the Agency's standardization initiative, Commissary Levels of Authorized Standard Services (CLASS), which is to be implemented in all commissary operations.

The Greentree Group, a DeCA contractor, delivered a web-based Decision Support Tool (DST) to be used by senior leadership to conduct "what-if" scenario planning based on acceptable levels of service for all 220 functions at the store level. It is anticipated that DST will have greater value to DeCA should the Agency receive a significant budget reduction in FY 2012.

The 220 processes that were identified in FY 2011, by the DeCA Service Analysis Teams, were ranked in order of importance based on the Director’s philosophy and the Strategic Plan goals and objectives. Through prioritization DeCA hopes to attain standardized levels of service in the most critical functions at the most critical locations in FY 2012.

After all process information was entered into the DST, work began in 2011 on the associated Job Aids. Job Aids are "how to" guides that employees will use while performing daily tasks at store level. Subject matter experts in six service areas provided Job Aid input. The implementation of Job Aids will facilitate standardization of functions at the store level throughout the Agency. The standardization of store level tasks is crucial to operational and overall Agency success. The standardization in Job Aids will better ensure consistency throughout the Agency for store level functions and tasks, as DeCA frequently has employees transfer from commissary to commissary. A total of 520 Job Aids, which include step by step instructions with corresponding pictures, were developed in FY 2011.

FY 2011 saw the creation of the DeCA Communities of Practice (CoP). With the assistance of Google, the CoP was developed as a social network exclusively for DeCA employees’ use. CoP provided employees an opportunity to share ideas and best practices for possible inclusion in future Job Aids. The CoP challenge for FY 2012, is to ensure more employees use CoP and measure the amount of work ideas shared across the spectrum.

During July 2011, CLASS was tested in several stores closest to DeCA Headquarters (HQ). HQ teams briefed store employees involved that included an overview of CLASS, the new store structure, and possible scenarios involving redistribution of positions. Job Aids were reviewed by all employees. Team members observed processes and created new Job Aids when conditions warranted. In other instances, the team members and the employees made corrections to the existing Job Aids, where needed.

The FY 2012 challenge for DeCA will be the full and effective implementation of CLASS at store level. In FY 2011 union notification requirements were met clearing the way for FY 2012 deployment by zone. A deployment schedule was developed in late FY 2011, and is awaiting approval by senior leadership. It is estimated that the full CLASS deployment will take approximately 18 months.

Customer Outreach-Guard and Reserve On-Site Sales

Previously Guard and Reserve members were authorized only 24 commissary shopping days per year. With the signing of the 2004 Defense Authorization Act in the fall of 2003, members of the Guard and Reserve, authorized family members, and "gray area" retirees (those under the age of 60) were granted unlimited commissary shopping privileges. Despite the full-time benefit designation, many Guard and Reserve families were so far removed from military installation and commissaries; they were unable to make regular, everyday use of the benefit (and gain average market basket savings of 30 percent or more).

In 2007, DeCA made the commitment to DoD to increase outreach and access of the benefit to geographically remote Guard and Reserve service members through special "on-site" sales, offering a select assortment of high-demand products based on customer demographics in locations more convenient to where they live or train. In 2008, DeCA was granted the funding to establish an official Guard and Reserve "on-site" sale program. Since then, DeCA commissaries have hosted 568 events with sales in excess of $29 million, serving more than 251,000 geographically remote service members and their families. The challenge remains to sustain this level of outreach under expected budget reductions.

Customer Satisfaction Ratings

DeCA uses two measurements to quantify customer satisfaction: (1) an internally conducted Commissary Customer Service Survey (CCSS); and (2) the nation-wide externally conducted American Customer Satisfaction Index (ACSI). The CCSS is a Likert scale survey that totals and averages results. In FY 2011, the CCSS results showed customer satisfaction was rated 4.72 out of a possible 5.0 (survey of 20,814 patrons). This was the highest rating achieved since CCSS inception. The FY 2011 CCSS incorporated improvements from previous years. New questions and analysis methods now provide a better understanding of what is important to the patron overall, and how different segments of our patron population feel about specific areas of the commissary operation. For FY 2012, DeCA plans to continue research and incorporate new ways to improve the survey to gain a better understanding of customers' expectations.

ACSI input results from 250 commissary customer telephone interviews into a multi-equation economic model developed at the University of Michigan's Ross School of Business. ACSI is a cause and effect model with indices for customer satisfaction and outcomes of customer satisfaction. Indexes are reported on a 0 to 100 scale. In FY 2011, DeCA received an 80; the second highest national rating among commercial supermarkets that subscribe to ACSI. DeCA's index is well above the national supermarket average of 75 for FY 2011. ACSI's model measures customer's past experience and future customer expectations and likelihood to repurchase.

LEADERSHIP, MANAGEMENT AND WORKFORCE

Competency Management Challenge

In conjunction with DoD FY 2011 initiatives, DeCA began planning for work to be done on competency management models for designated occupational series. The initial efforts will concentrate on competencies required at several levels in the Agency and lay the groundwork for identification of skill gaps. After the competency models are finalized in FY 2012, DeCA will establish career paths and training plans for each of the designated series. This will identify the training and/or job experience needed to meet mission requirements, and lead to the identification of skill gaps for incumbents in each of the designated series. Training will then be accomplished to close the skill gaps. This effort will be aligned with the Human Capital Plan to identify future competencies needed, ensure current workforce readiness, and allow analysis for targeted disciplines in order to reduce skill gaps.

Leadership Development

The DeCA Intern Program (IP) for commissary officers that prepares internal and external candidates for management positions in the commissary system was successfully deployed in FY 2011. In FY 2011, DeCA selected five military spouses into this program. The intern program provides formal and on-the-job training to individuals selected for the position. After an intensive two-year training program, the interns are placed into management positions within the commissary system.

The New Leader Program (NLP) was redesigned in FY 2011, to better provide a stronger foundation for new supervisors in the Agency. DeCA worked, in conjunction with the USDA Graduate School, to structure a program specifically to meet the needs of DeCA supervisors. The NLP is an intensive two-week on-site leadership program designed to help individuals develop DoD leadership competencies. It focuses on experiential activities that develop specific attitudes and skills in participants. The NLP culminates in group presentations that outline and propose specific improvements to DeCA programs or processes.

Employee and Labor Relations

DeCA accepted the FY 2011 challenge to attain a more corporate approach to employee and labor relations despite the obstacles in this area. The primary challenge is consistency of administrative justice for substantiated misconduct, and having a single point of access for employee and labor relations case management, processing, and information. The Agency, with multiple locations throughout the world, must now determine whether any other Agency employee has committed a similar act of misconduct, establish what factors went into the administrative discipline determination, and make sure that the penalty selected does not exceed the penalty given to other similarly situated employees.

In response to the above challenge, in FY 2011, template letters, charge proof grids, and charge checklists were developed and issued to each Employee and Labor Relations Specialist, and have been shared with managers. This is resulting in multiple benefits. The checklists help managers to understand the requirements of the elements of a charge and assists managers in understanding the action recommended and taken, thus helping DeCA defend actions before third parties. An additional benefit being realized is shorter time between the initial Human Resources (HR) contact and when the manager receives the action to issue to the employee. Employee and Labor Relations Specialists, in FY 2011, became more diligent in communicating with managers, providing many viable options for them to use in handling situations, and reviewing relevant factors in rendering decisions in adverse actions.

Training was delivered to managers in FY 2011, via webinars, the DeCA Management Basic Level course, Store Directors Operations Course, and, when possible, face-to-face. The challenge for FY 2012 will be to successfully field the web-based DoD Case Management Tracking System as a comprehensive repository for DeCA HR case information and management. An additional challenge for FY 2012, will be to ensure, through measurement, that the tracking system improves program oversight and reporting capabilities, and allows DeCA HR to attain consistency in adverse actions proposed and administered.

IG Complaints/Investigations/Congressionals

Personnel issues represented 13.1 percent of all Hotline Contacts received by the DeCA IG Fraud, Waste, and Abuse (FWA) Unit in FY 2011. This was an increase of 3.4 percent over FY 2010. The number of Hotline Contacts received in FY 2011 decreased 58 percent compared to FY 2010. The total number of contacts converted to FWA cases in FY 2011 decreased by 50 percent compared to FY 2010. Congressional inquiries decreased 13 percent in FY 2011, compared to FY 2010, and increased 1 percent compared to FY 2009. A significant challenge for FY 2012 is to ensure the successful installation and full use of a new Commercial Off The Shelf (COTS) Case Reporting and Information Management System (CRIMS).

INFORMATION TECHNOLOGY & SECURITY MANAGEMENT

CIO Information Technology Security Review

DeCA's Information Systems Program Management and oversight control continues to be critical to benefit delivery. DeCA relies strongly on electronic financial and operational reporting accuracy for all major policy changes and report requirements to headquarters. The IG FY 2011 Chief Information Office (CIO) Information Technology Security Review indicated that the Agency continues to improve in this area. This review included testing controls related to the Plan of Action and Milestones for Mission Essential Systems, Federal Information Security Management Act (FISMA) Review from the Defense Information Technology Portfolio Registry (DITPR), and selected findings from the KPMG FY 2010 and FY 2011 consolidated financial statement audits. We found legacy documents needed electronic input upon conversion of the Plan of Action and Milestones for Essential Systems from a manual system to a computerized one. DeCA's Quarterly FISMA Review report score in August 2011, as measured by the Joint Chiefs of Staff, remained an “A”, the highest score attainable. The OIG believes this area is vital to DeCA and must be regularly tested through the use of internal management controls. Discussions with the DeCA CIO and functional process owners determined that corrective action was initiated on findings reported. The challenge for FY 2012 is to ensure an A grade is sustained since there are a number of new employees in place in key oversight positions.

Commissary Advanced Resale Transaction System (CARTS)

In FY 2011, DeCA successfully fielded its first gift card functionality through CARTS. DeCA activated its gift card features, available in $25 and $50 denominations, in 250 stores, on June 30.

Electronic Shelf Labels (ESL), tied to CARTS, were installed in 44 stores by contractor and government teams in FY2011. ESLs improved accountability for over 15 percent of DeCA’s stores by reducing labor costs and resale item price discrepancies present under the paper shelf label system.

The external Payment Card Industry (PCI) auditor (Enterprise Risk Management (ERM)) completed its 2011 assessment of CARTS. ERM prepared the DeCA Report of Compliance indicating that CARTS met the 2011 PCI requirements.

CARTS met the contractual 98 percent lane availability requirement for FY 2011. Lane availability improved in all areas compared to the prior fiscal year as follows:

Checkout Lane Type	FY 2010 %	FY 2011 %
Regular	98.76	98.96
Self Checkout	95.09	96.03
Overall Availability	97.71	98.11

Heading into FY2012, the challenge will be to comply with the significant changes that the Department of Treasury is expected to make to its electronic check processing system interface requirements. DeCA intends to partner with its CARTS contractor, IBM, to ensure that CARTS successfully meets the new interface requirements before Treasury's scheduled implementation date.

Information Assurance (IA)

Mandatory annual IA Awareness Training is required for all personnel who access DeCA Network, Internet, and e-mail systems. The IG tested this requirement for compliance via random sample of 201 personnel at 105 commissaries, 1 CMPP, 3 CDCs, a central meat processing plant and other facilities/contractors. It was determined that 45 (of the 201) employees had resigned between January and September 2011 these employees had been removed from the system properly before the annual training due date, and there were 4 exceptions identified (no response/no training).

In FY 2011 the OIG tested DeCA procedures for removing individuals from the DeCA computer network system when required. Failure to remove persons timely or at all after they left DeCA was an external auditor (KPMG) finding from the FY 2008 through the FY 2011 consolidated financial statement audits. DeCA concurred with the KPMG finding in FY 2008, FY 2009, FY 2010, and FY 2011. DeCA policy calls for individual removals from the network when supervisors prepare a DeCA Form 35-1, Request for DeCA Automated Information System (AIS) Login, or sends an e-mail to the help desk asking that the individual be removed from the system. In addition, to help ensure an employee is removed, DeCA HR also forwards a monthly list of individuals, who no longer work for DeCA, to the Help Desk. The help desk works these lists as time and resources permit. Between August and September 2011, HR sent 1,123 individual names to the Help Desk. The IG randomly selected 114 of these individuals for validation purposes and found that 32 (28.1 percent) were still found to have a level of DeCA system access.

The FY 2012 challenge for DeCA is to better ensure that all Network accessible employees that resign/retire from DeCA are expeditiously removed from the DeCA Network.

FINANCIAL & RESOURCE MANAGEMENT AUDITS

External Audit Opinion

DeCA received an unqualified opinion from KPMG on the consolidated financial statements for the 10th straight year in FY 2011, an outstanding achievement. In addition, FY 2011 was the third straight year with no material weaknesses or significant deficiencies related to DeCA's internal controls over financial reporting. DeCA's Financial Management Control and Reporting is considered a model within DoD.

Internal Audits

DeCA's Special Staff Group of Internal Audit (CCA) published nine audit reports in FY 2011, as part of DeCA's Board of Directors (BOD) approved Audit Plan. These audits targeted key internal control areas of Stores' Front-End Operations, Vendor Credit Memorandums, Swell Allowance Program, Book Inventory Process, Total Facility Maintenance and Installation Support of Commissaries. Two special requested audits were also completed, as directed by DeCA senior management. In addition, DeCA's Internal Audit Office supported two Quality Control Reviews conducted of Navy Exchange Service Command and the Army and Air Force Facility Exchange Services internal audit functions. The challenge for FY 2012 is to ensure the BOD approved FY 2012 Audit Plan can be successfully executed in a climate of reduced resources.

Glossary of Acronyms

ACSI – American Customer Satisfaction Index

AFR – Agency Financial Report

AUM – Assessable Unit Managers

BRAC – Base Realignment and Closure

BSC – Balance Scorecard

BSF – Buildings, Structures, and Facilities

CCI – Commissary Compliance Inspection

CCSS – Commissary Customer Service Survey

CDC – Central Distribution Center

CFE – Chief Financial Executive

CFO Act – Chief Financial Officer's Act

CLASS – Commissary Level of Authorized Standard Services

CMPP – Central Meat Processing Plant

CONUS – Continental United States

CSRS – Civil Service Retirement System

DeCA – Defense Commissary Agency

DFAS – Defense Finance and Accounting Service

DLA – Defense Logistics Agency

DoD – Department of Defense

DOL – Department of Labor

ESL – Electronic Shelf Label

FBWT – Fund Balance with Treasury

FCI – Facility Condition Index

FECA – Federal Employees Compensation Act

FEGLI – Federal Employees Group Life Insurance

FEHB – Federal Employee Health Benefits

FERS – Federal Employees Retirement System

FIAR – Financial Improvement and Audit Readiness

FFMIA – Federal Financial Management Improvement Act of 1996

FISMA – Federal Information Security Management Act

FMFIA – Federal Managers' Financial Integrity Act

FY – Fiscal Year

GF – General Funds

HQ – DeCA Headquarters

HR – Human Resources(s)

ICOFR – Internal Controls over Financial Reporting

ICONO – Internal Controls over Non-Financial Operations

IDEAS – Improve Defense Commissary Agency's Efficiency and Service

IPBS – Integrated Program and Budget Submission

LSS – Lean Six Sigma

MILCON – Military Construction

MWR – Morale, Welfare, and Recreation

NEXCOM – Naval Exchange Command

OMB – Office of Management and Budget

OPF – Official Personnel Files

OPM – Office of Personnel Management

OSD – Office of the Secretary of Defense

PAR – Performance and Accountability Report

PP&E – Property, Plant, and Equipment

QPR – Quarterly Performance Reviews

SAT – Senior Assessment Team

SF – Standard Form

Treasury – United States Department of Treasury

UPC – Universal Product Code

USSGL – United States Standard General Ledger

WCF – Working Capital Fund