



IN REPLY  
REFER TO

DEFENSE COMMISSARY AGENCY  
HEADQUARTERS  
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FORT LEE, VIRGINIA 23801-1800

CC

July 16, 2014

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE  
(READINESS AND FORCE MANAGEMENT)

SUBJECT: Annual Statement Required Under the Federal Managers' Financial Integrity Act  
For Fiscal Year 2014

As Director of the Defense Commissary Agency (DeCA), I recognize that DeCA is responsible for establishing and maintaining effective internal controls to meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). Tab A-1 provides specific information on how DeCA conducted the assessment of operational internal controls, in accordance with (IAW) OMB Circular A-123, *Management's Responsibility for Internal Control*, and provides a summary of the significant accomplishments and actions taken to improve DeCA's internal controls during the past year.

I am able to provide an unqualified statement of assurance that DeCA's operational internal controls meet the objectives of the FMFIA.

DeCA conducted its assessment of the effectiveness of internal controls over financial reporting IAW OMB Circular A-123, Appendix A, *Internal Control Over Financial Reporting*. Tab A-1 of the attachment provides specific information on how DeCA conducted this assessment. Based on the results of this assessment, DeCA is able to provide an unqualified statement of assurance (SOA) that the internal controls over financial reporting as of June 30, 2014, were operating effectively.

DeCA also conducted an internal review of the effectiveness of the internal controls over the integrated financial management systems. Tab A-1 of the attachment provides specific information on how DeCA conducted this assessment. Based on the results of this assessment, DeCA is able to provide a qualified SOA that the internal controls over the integrated financial management systems as of June 30, 2014, are in compliance with the Federal Financial Management Improvement Act and OMB Circular A-123, Appendix D, with the exception of one nonconformance noted in Tab C.

Joseph H. JEU  
Director

Attachment:  
As stated

cc:  
Chairman, DeCA Board of Director

# Defense Commissary Agency FY 2014 Annual Statement of Assurance

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## Minimizing Risk & Maximizing Success!

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The Defense Commissary Agency (DeCA), as a component of the Department of Defense (DoD), is responsible for establishing and maintaining an Agency-wide internal control system. The DoD Instruction (DoDI) 5010.40, entitled “Managers’ Internal Control Program Procedures,” implements the requirements of the Federal Managers’ Financial Integrity Act of 1982 (Public Law 97-255) and the Federal Financial Management Improvement Act (FFMIA) of 1996 (Public Law 104-208); and Office of Management and Budget Circular No. A-123, entitled “Management’s Responsibility for Internal Control” provides guidance on that implementation.

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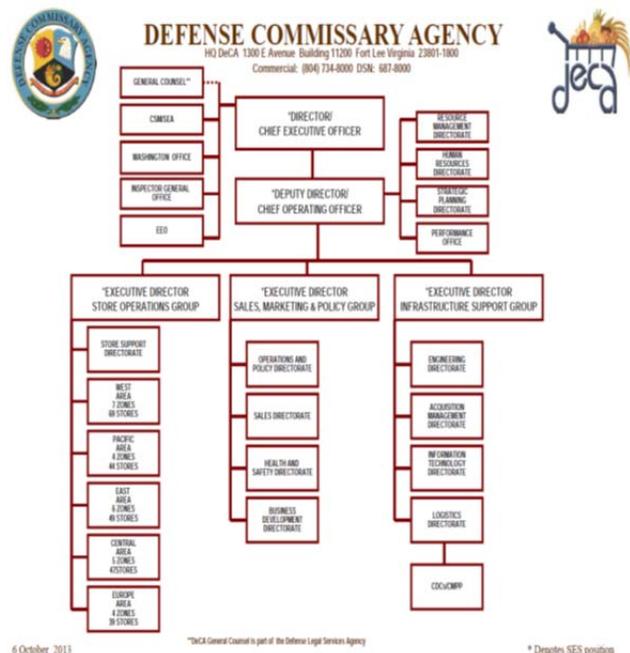
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## TAB A-1

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

The Defense Commissary Agency's (DeCA) mission is to deliver a vital benefit of the military pay system that sells grocery items at cost while enhancing the quality of life and readiness of the soldiers, retirees, and their families. DeCA's vision is to understand those individuals and deliver to them a 21<sup>st</sup> Century Commissary Benefit by: (a) providing the military community with a great shopping experience; (b) sustaining a capable, diverse, and engaged civilian workforce; and (c) being a model organization through agility and governance. Assuring this requires an effective system of internal controls that is strengthened by quarterly or annual assessments throughout the organization. DeCA is comprised of the following organizations:

- Office of the Director
  - Inspector General Office
  - Equal Employment Office
  - Office of General Counsel
  - DeCA Washington Office
- Office of the Deputy Director
  - Resource Management Directorate
  - Human Resources Directorate
  - Strategic Planning Directorate
  - Performance Office
- Store Operations Group, Executive
  - West Area Stores
  - Pacific Area Stores
  - East Area Stores
  - Central Area Stores
  - Europe Area Stores
- Sales, Marketing, & Policy Group, Executive
  - Operations & Policy Directorate
  - Sales Directorate
  - Health & Safety Directorate
  - Business Development Directorate
- Infrastructure Support Group, Executive
  - Engineering Directorate
  - Acquisition Management Directorate
  - Information Technical Directorate
  - Logistics Directorate



DeCA's senior management evaluated the system of internal controls in effect during the Fiscal Year (FY), as of the date of this memorandum, according to the guidance in the Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Internal Control*, December 21, 2004. The OMB guidelines were issued in conjunction with the Comptroller General of the United States, as required by the Federal Managers' Financial Integrity Act of 1982. Included is an evaluation of whether the system of internal controls for

DeCA is in compliance with standards prescribed by the Comptroller General. The objectives of the system of internal controls of DeCA are to provide reasonable assurance of:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

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

DeCA evaluated the system of internal controls in accordance with the guidelines identified above. The results indicate that the system of internal controls at DeCA, in effect as of the date of this memorandum, taken as a whole, complies with the requirement to provide reasonable assurance that the above mentioned objectives were achieved. This position on reasonable assurance is within the limits described in the preceding paragraph.

DeCA's success stems from an effective internal control system that is greatly influenced by managements' leadership, its financial responsibility and commitment to the Managers' Internal Control Program (MICP).

### **Management's Responsibility:**

DeCA's executive management is responsible for the quality and timeliness of program performance, increasing productivity, controlling costs, mitigating adverse aspects of Agency operations, and assuring that programs are managed with integrity and in compliance with applicable laws. To ensure these responsibilities are always at the forefront of the minds of every employee, management employs a sound system of internal controls to monitor success, mitigate risk, and to help achieve a more effective operation. These responsibilities are coupled with the fiduciary responsibility of financial management.

DeCA's financial managers are focused on the concept of enhancing the reliability of financial reporting data and committed to producing useful financial statements that provide a meaningful representation of the organization's financial condition, current and long term liabilities, and month-to-month assessments of the effective execution of the budget. The accuracy of this information is paramount to both the success of the organization and to the transparency of its operation. To that end, management monitors the financial internal controls by way of monthly reviews that assess the accuracy of the financial data; considers alternatives

in financial decisions; and checks for errors and omissions, while producing the quarterly and annual statements.

### **Control Assessments:**

In accordance with Department of Defense Instruction (DoDI) 5010.40, *Managers' Internal Control Program Procedures*, DeCA is required to report on the effectiveness of financial and operational controls. DeCA continues to accomplish this requirement using the OMB Circular A-123, Appendix A methodology, whereby self-assessments are used to determine the effectiveness of both the financial and operational risk management programs.

DeCA's management continues to assess and evaluate internal control testing methods to ensure that they are effective and current. By conducting these annual assessments management can pinpoint problem areas early, fix them, and move on (Find it & Fix it concept). This year's control assessments provided management the opportunity to establish a clear line of accountability throughout each organization, while strengthening the agency's strategic standing as a model 21<sup>st</sup> century organization.

Operational Controls Assessment: DeCA's comprehensive and robust operational assessment was critical to ensuring that the organization's overall assurance was strong and that control activities appropriately addressed key risk areas. Operational and administrative controls were assessed at various times throughout the year using staff personnel as testers who were experts in their area of operation. The testers conducted self-audits, reviews, and evaluations to assess the Agency's overall operational effectiveness.

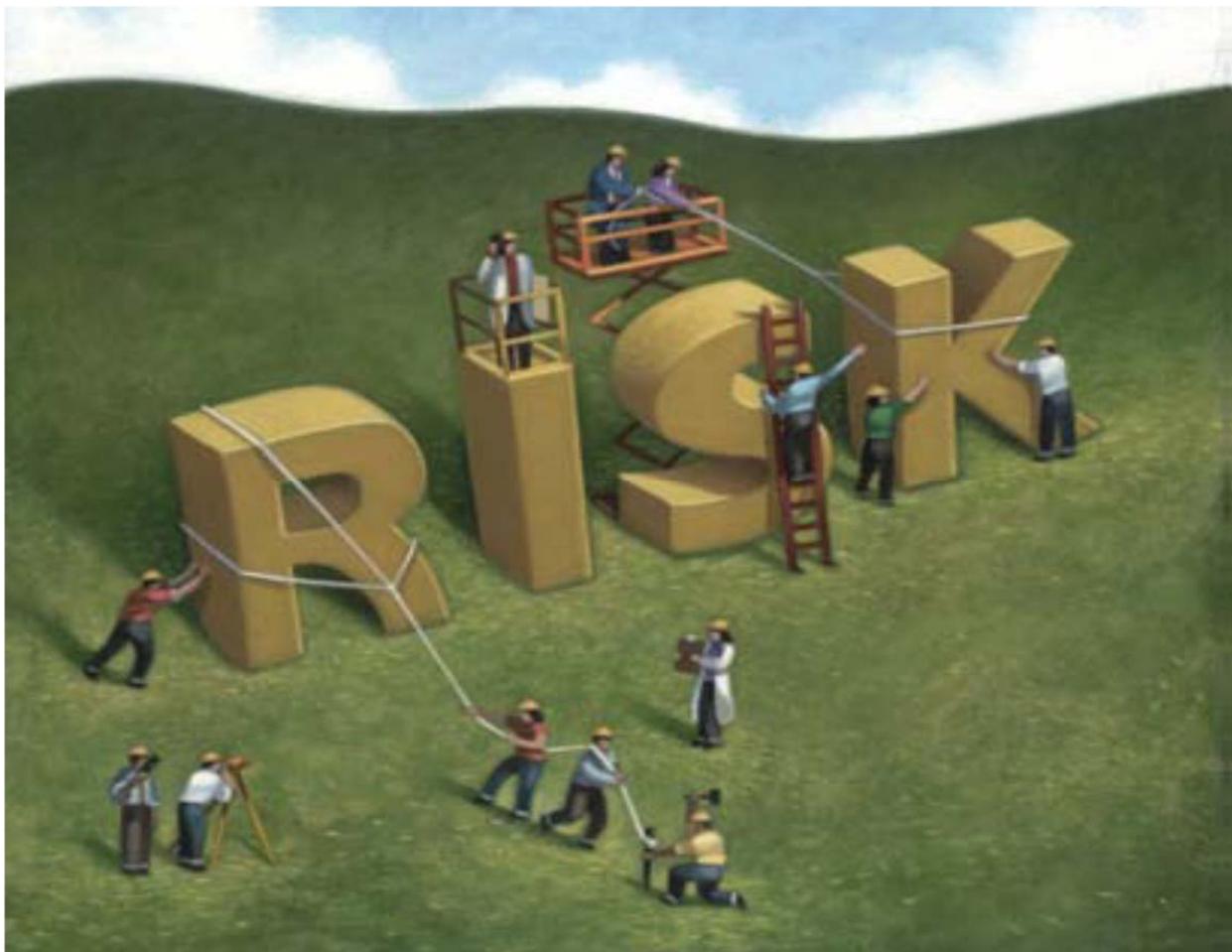
Financial Reporting Controls Assessment: DeCA's financial reporting controls are designed as a series of checks and balances, monitored by management and the Board of Directors and validated each year by the external audit. This system of checks and balances is intended to provide reasonable assurance that all monthly financial activities are accurate and complete, resulting in reliable financial reports and financial statements. This year's assessments identified several deficiencies resulting from failed checks and balances which were identified during the quarterly assessments, and quickly resolved by management. Although these control deficiencies were not material, immediate resolution and continued corrective actions speaks to the success of the program and commitment by management.

### Financial System Controls Assessment:

The financial systems control assessments were used to determine if the system owners and operators were meeting the required cyberspace security goals and organizational objectives set by management. Findings provided an indication of the quality of risk mitigation employed within the Agency's program networks, and how those controls have impacted the organization as a whole. By conducting periodic assessments, management was able to capitalize on opportunities that enhanced network and system defenses against intrusion and malicious activity, by improving system access requirements, conducting periodic reviews, and deactivating individuals timely.

Periodic assessments also focused on the need for an improved financial management system to replace the Agency's non-compliant legacy systems. Those assessments were mostly focused on the effectiveness of current compensating control methods such as journal vouchers, crosswalks, and reconciliations. These efforts continue to prove to be effective in ensuring transactions are accurately recorded, supported, and reported.

DeCA and DoD alike are fully engaged in the effort to move to a more effective financial management system, and the Agency is scheduled to transition in FY 2018 to the new system, Defense Agencies Initiative (DAI). The DAI is a financial management system designed to provide complete, reliable, consistent, and timely information that is responsive to the financial needs of management.



DeCA's operation is confronted daily by events in any one of the previously mentioned control areas that could affect the execution of the Agency's strategies and objectives. Therefore, it is vital that management monitor and assess controls to provide reasonable assurance that they continue to function effectively.

## **ANNUAL ASSESSMENT PROCEDURES:**

### Pre-Test Planning:

MICP coordinators begin the planning phase by evaluating the adequacy of each control's design, by reviewing cycle memos, process flows, and organizational directives. Review of these documents allowed management to determine true control objectives for each of their areas of responsibility. A deficiency in operation could exist when a properly designed control failed to operate as it was intended. A control deficiency could also exist when the design or operation of a control did not allow management or employees, in the normal course of business, to prevent, detect, and correct errors, omissions, or misstatements.

This year, DeCA's Assessable Unit Managers (AUMs) identified key internal controls that were significant to each organization's (directorate, office, etc.) operation. Collectively, the AUMs conducted over 250 control self-assessments on key controls, using various methods, such as: interviews, observations, inspection of documents or records, and direct testing. In all cases, the tester's goal was to determine whether actual actions were consistent with the established process, and if the established process was designed effectively. No matter the method, the test plans provided a detailed description of the actions to be taken to determine the effectiveness of each control.

### Designing the Test Plan:

During pre-planning stages, the testers conferred with the MICP coordinator(s), internal auditors, and any fellow employees who had conducted testing in the past, to obtain advice on appropriate testing techniques. Consultation with the MICP coordinator before, during, and after testing was the Agency's way of maintaining quality. Finally, the tester concluded by preparing a written test plan, that explained the what, when, where, and how tests were conducted. Test plans are designed to validate controls identified in the Risk Analysis and are updated as often as necessary to ensure accurate steps and audit readiness. The randomizer, an online sampling program used for generating online samples, is used when determining the number of documents or records to be reviewed. Using a simple random sample, there is an equal opportunity in selecting each unit from the population being studied. The randomizer has proven to be an excellent way to identify sample data from various populations, such as: employee time and attendance records, commissaries, months of the year, etc.

### Gather Testing Results:

Testers also maintained a Testing Results document to capture a sufficient record of the testing results. The Testing Results document was consistent with the test plan's control numbers and its expected outcomes. It explained the findings and demonstrated how often the key controls were not followed. The test results are designed to capture specific sample data and support management's judgment on whether a control is functioning adequately. If an assessment of ineffectiveness is made, exceptions noted in the testing of properly designed internal controls should support that assessment. Management must consider the extent of a deficiency in such

cases. Deficiencies can range from a *simple deficiency* (e.g., missing initials indicating a supervisor's review on 1 of 26 reconciliations sampled) to a *significant deficiency* (e.g., only 8 monthly reconciliations were performed for the year) and resulted in a loss of resources, to a *material weakness* (e.g., reconciliation of several key accounts were not performed throughout the year) and resulted in a major loss of resources and breaches in security. A simple deficiency is an internal control deficiency that creates minimal exposure for management and is generally considered an anomaly. A significant deficiency usually indicates a history of internal control deficiencies that, when consolidated, equate to a reportable condition or material weakness. When exceptions are noted, management should assess whether the sample size should be expanded to validate whether an exception that appears to be a simple deficiency, is indeed an anomaly.

### Analyzing Test Results:

DeCA's MICP coordinators analyzed each of their programs based on the results and findings of the control self-assessments to determine their effectiveness. Using these results, the coordinators made judgments on the effectiveness of the controls and the associated programs, such as whether the failure was confined to one part of the process, or one group of staff, or to one period of time. Senior management also reviewed the results to determine if failures had resulted in significant or material operating weaknesses. Management then made judgments about the cause of the failure and its effect on the overall program. Any and all findings that resulted from the assessments were summarized into the Control Analysis and later briefed to the Senior Assessment Team (SAT). The Control Analysis provides detailed explanations on the cause and effect of the identified ineffective controls (weaknesses).

**Cause:** identifies the responsibility and reason for the deficiencies. A cause could be a continuing practice or a single event. The following are some questions the coordinators used to consider in the analysis:

- What were the circumstances that resulted in the reported problem or condition?
- Would the problem or condition have been identified if the test had not taken place?
- What practices were absent that should have been present?
- Was it an isolated incident or an indication of a continuing operational deficiency?
- Did the problem reflect an operational weakness?

**Effect:** determines the significance of the ineffective control (weakness) identified through testing. It helps to determine the materiality of the weakness by reviewing its effect on the everyday functioning of the operation being tested. Consider the following as some possible effects:

- Determine the revenue losses or unnecessary expenses.
- Determine the inefficiency or waste.
- Explain failure to achieve stated objectives.
- Point out any inability to comply with laws, rules and regulations.
- Point out any physical loss and/or adverse publicity.

While analyzing this information, DeCA's operational managers apply cost-benefit standards to any actions suggested to remedy apparent deficiencies as they considered the level of corrective actions required. Any revision in practice, especially any additional expenses for stronger controls led to recognizable financial savings or other operating improvements in which the overall value is greater than the increased investment. DeCA's Governance program is designed to vet all new projects, to include possible process improvements that result from corrective action plans.

#### Implementing Corrective Actions (Remediation):

During this year's senior assessment briefing, we discussed three areas that remain where controls are being reworked to provide a stronger level of assurance. Tentative corrective action plans were submitted, which identified the weakness and courses of action to resolve and/or correct the problem(s).

- Hazardous Food and Drug Recall Program - Current system being replaced with an automated system (strengthens oversight and acknowledgement capabilities)
- Disposition of Obsolete Equipment - Contracted service to sell obsolete store level equipment (strengthens accountability and speeds up disposition process)
- Environmental Management System (Above and Below Ground Tanks) - Tank assessments required to determine an appropriate environmental liability for possible future needs

Management is currently considering those tentative corrective actions, while decisions are being made to institute new controls, improve existing controls, or accept the risk inherent in current controls. In some instances, the appropriate action was evident and apparent, but in others, further analysis is necessary. The corrective action plans includes all the planned actions, responsibilities, personnel, and target dates for specific actions. A corrective actions plan (CAP) is required to be designed, implemented, and tracked within 6 months of being identified as a resolution to the ineffective control. An effective CAP requires the AUM responsible for the control deficiency to establish feasible and attainable goals that will result in an effective control and successful objective.

#### Directorate Level Statement of Assurance (DSOA):

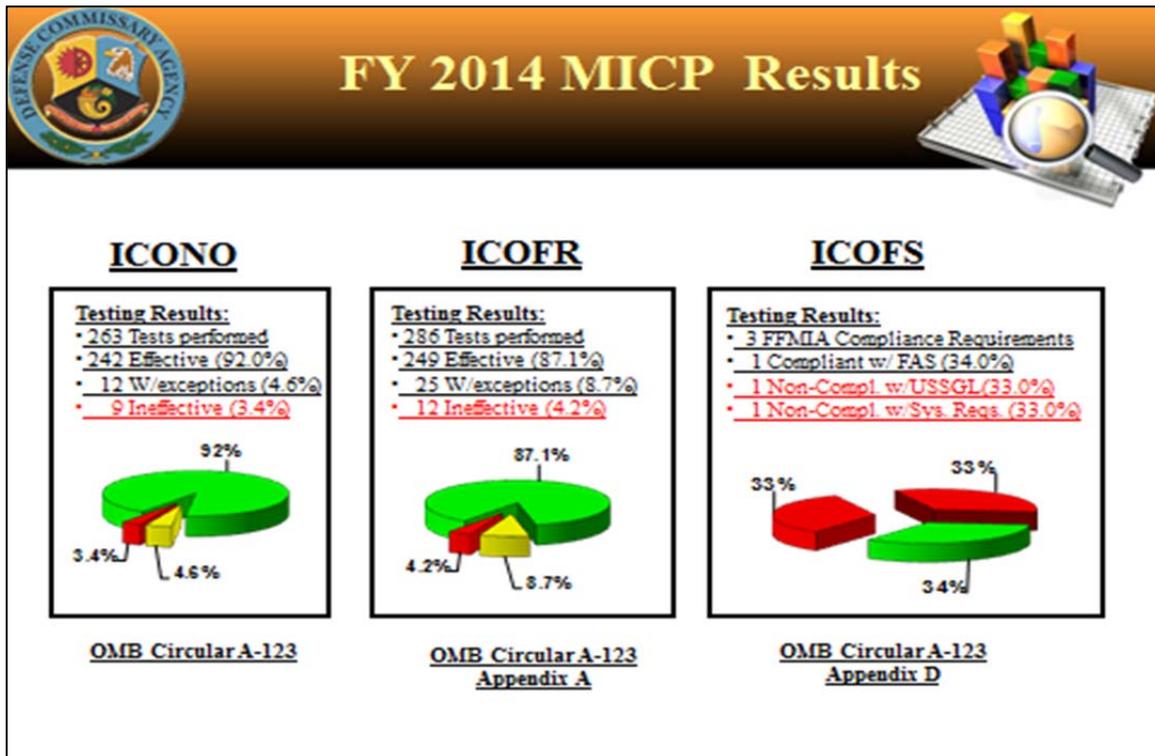
Management concludes the annual control analysis by rolling up assessments, findings, and results into a directorate level statement of assurance. Each memo provides the directorate's particular level of assurance, identifying key programs and focus areas such as facility maintenance programs, commissary operations, health and safety programs, as well as several others. The DSOA also briefly discusses the various plans of action to improve ineffective controls and/or operational processes.

DeCA's management continuously assesses and evaluates internal controls, in this manner, to ensure programs are not only effective, but necessary. This year's control assessments provided management the opportunity to establish a clear line of accountability throughout each organization, (while strengthening the Agency's strategic standing as a model 21<sup>st</sup> Century

organization). Such measures are apparent in every step of DeCA's internal control program. Reviews, audits, and assessments conducted by both internal and external auditors have concluded with similar results. DeCA continues to lead the way in minimizing risks associated with waste and inefficiency, while maximizing success.

As of FY 2014, control assessments have evolved and been embraced by all facets of the organization. Clearly, implementation of this comprehensive assessment system has gone far beyond financial reporting compliance. It has also influenced other aspects of the organization. The program has made major strides in assessing controls associated with contracting, purchasing, acquisition management, environmental management, etc. This effort has proven, without a doubt, that the Agency not only has tone at the top but throughout all levels of management and the organization. This year's assessment results are attributable to sustained leadership committed to the idea of finding ineffective controls and correcting them.

At the conclusion of this year's testing, the testers reviewed a total of 552 controls throughout all three program areas. Management assessed 263 operational controls (ICONO) and found 92 percent of those controls operating effectively, while 8 percent had exceptions and/or were ineffective. Financial reporting (ICOFR) assessments addressed 286 controls, finding 87 percent operating effectively, while 13 percent had exceptions and/or were ineffective. Management also addressed the 3 major FFMIA compliance requirements for financial systems (ICOFS), identifying 2 of the 3 as non-compliant, with associated risks being mitigated by audited compensating controls.



**TAB A-2**  
**SIGNIFICANT MICP ACCOMPLISHMENTS**



**Internal Control Reporting Category:** Comptroller and Resource Management

**Description of the Issue:** Resource Management and Energy Conservation

**Accomplishment:** Cost Savings Initiatives

DeCA has long earned patrons' trust as a valued non-pay benefit that puts quality in soldiers' shopping carts and dollars back in their pockets. In late FY 2013, amidst extraordinary DoD challenges, DeCA set out on several cost savings initiatives as a way of addressing unprecedented budget constraints and reductions.

The first of those initiatives was the reorganization of the Sales Directorate. Transforming the old marketing business unit into a more modern category management system will result in new products, better pricing, a more cohesive merchandising plan, and more excitement in commissaries. By mirroring industries best practices, the Agency now has the capacity to deeply analyze each category and focus on ways to optimize selection and promotional effectiveness. The Sales Directorate's accountability is enhanced with regular status meetings held at division and corporate levels. This encourages better coordination with operations and field personnel in the execution of the various directorate programs. By maximizing product opportunities and employing impactful promotional displays, the future looks bright for FY 2015 and beyond.

The Agency is also incorporating sustainable and energy-saving design features in all new commissary projects and major systems that use natural refrigerants. Two such projects are at Lackland Air Force Base (AFB), Texas, where construction will include subcritical refrigeration systems that will use ammonia and CO<sub>2</sub> as refrigerants and Spangdahlem Air Base, Germany, where the new commissary will be our first with a CO<sub>2</sub>-only refrigeration system.

Efforts to maximize the number of glass doors on our show cases will reduce energy loads on display cases by about 50 percent and allow warmer shopping aisles and better product temperatures. To accomplish this in the most cost effective manner, the Agency is currently retrofitting glass doors into existing display cases at 110 stores. The new design standard for major construction and equipment replacement requires glass doors on all display cases with the exception of produce and meat cases.

In the area of solid waste disposal, the Agency is testing the use of dehydrators at two locations (Fort Lee, Virginia and Twentynine Palms, California) in an effort to control the rising cost of organic solid waste disposal and divert organics from the waste stream. Preliminary results show an 85 percent reduction in weight for organics processed. The byproduct of the organics is usable compost, which is 100 percent environment friendly. Future test locations will include Hanscom AFB, Maine, and Forest Glen, Maryland.

Last, but certainly not least, the Agency has begun a recycling program for plastic bags at all U.S. commissaries enabling shoppers to return used plastic bags. To do this, the Agency has modified all recycling contracts throughout the U.S. During FY 2013, DeCA recycled approximately 2,904,000 pounds of plastic materials, which generated additional revenue for the

surcharge fund. So, recycling is now a win-win for everyone, the customer; the environment; and DeCA.

Since its establishment more than 21 years ago, DeCA has been an example of how effective transformation can lead to a more efficient organization. From FY 1992 to FY 2013, the creation of one commissary operation, in lieu of four separate systems operated by the individual Military Services, has saved the American taxpayer more than \$700 million in operating costs alone. The bottom line is that DeCA will continue to explore and test initiatives that will help ensure the relevancy of a viable commissary benefit, being ever mindful of using the appropriation efficiently and effectively.

**Internal Control Reporting Category:** Comptroller and Resource Management

**Description of the Issue:** Operational Control Assessments

**Accomplishment:** Maximized the Impact of the Assessments

Since DeCA's inception management has endeavored to make good business decisions to:

- Prioritize operational objectives
- Produce meaningful financial data
- Implement program improvements

All DoD components have, or at least should have, procedures, plans, and policies in place to ensure that the organization operates as efficiently and effectively as possible. Such measures are apparent in every step of DeCA's internal control program. Reviews, audits, and assessments conducted by both internal and external auditors and examiners show similar results pointing to the Agency's successful managerial and financial operations.

DeCA continues to lead the way in minimizing risk associated with waste and inefficiency in all areas of the organization. In FY 2006 DeCA was influenced by one of DoD's most impactful campaigns known as "Check It, What gets Checked gets Done." The campaign was designed to ensure internal control mechanisms were being implemented in all facets of DoD operations to ensure that all federally required regulations were carried out. DeCA embraced this program beginning with its financial operations. In July of that same year, the Agency began implementing the A-123, Appendix A program, where financial reporting processes were defined, mapped, and analyzed to identify control areas and their related risk. Those identified controls were later assessed at the transaction level to determine their overall effectiveness. The benefits of this methodology were immediate and long lasting. Effective controls were validated and ineffective controls were captured for remediation. Constant progress was made to improve financial operations.

Over time, the same type assessments have evolved and been embraced by all facets of the organization for varying types of operational compliance requirements set by DoD and other Federal entities. The operational assessments are now conducted by teams imbedded within each directorate. Results of those assessments are used as a basis for conclusions made about the effectiveness of the program and the operation, as well as supporting recommendations for control/process changes. Clearly, DeCA's implementation of this comprehensive internal control system has gone far beyond excellence in financial reporting. Noteworthy are accomplishments in the areas of equal employment, human resources, and acquisition management.

**Equal Employment Office (EEO)** - Agencies have an ongoing obligation to eliminate barriers that impede free and open competition in the workplace and prevent individuals of any racial or national origin group or either sex from realizing their full potential. As part of this on-going obligation, the EEO conducts its annual internal control assessment to monitor the workforce

environment and identify areas where the risk of barriers may operate to exclude certain groups. These efforts as well as assessment of the timeliness of the complaint process, and reviews of the reasonable accommodation process are ideal indicators of the progress that the Agency's EEO has made in the managers' internal controls program.

**Human Resources (HR)** - Used the annual control assessment to identify inefficiencies in background investigations for non-sensitive store level positions. On November 1, 2013, HR centralized the processing of background investigations for all DLA-serviced employees who occupy a non-sensitive position. Centralizing the process has increased its timeliness and created other efficiencies in order to meet the time lines set by the Office of Personnel Management. HR now has the capability to monitor the investigations from start to finish, reducing the volume of unacceptable cases and eliminating the processing of unnecessary investigations resulting in cost savings for the agency.

**Acquisition Management** - The Defense Procurement and Acquisition Policy (DPAP) office publishes a quarterly Past Performance Information Retrieval System (PPIRS) scorecard which measures Defense Agencies' compliance with submitting contractor performance evaluations into the Contractor Performance Assessment Reporting System (CPARS). DeCA has reduced its overall backlog of overdue contractor evaluations by 77 percent in the last four years, resulting in 63 overdue evaluations as of May 2014. This milestone was accomplished through in-depth research and constant communication, with an eye on excellence. DeCA is ranked 13 out of 24 agencies with an 81.58 percent compliance rate.

**TAB B - Not Applicable**

**OPERATIONAL MATERIAL WEAKNESSES/CORRECTIVE ACTIONS**



**TAB C**

**FINANCIAL REPORTING/FINANCIAL SYSTEM  
MATERIAL WEAKNESSES/ CORRECTIVE ACTIONS**



**Uncorrected Material Weaknesses Identified During Prior Periods:**

DeCA’s financial management systems do not substantially comply with FFMIA. The Agency received the first Notice of Finding and Recommendation (NFR) during the annual FY 2011 external audit. However DeCA has been exceeding compliance requirements since FY 2002 by implementing a series of compensating controls and assessing their effectiveness annually. The Agency will continue to implement these same stringent controls until a new financial system is acquired in the future.

DeCA, along with DoD, is actively working on improving the financial business system for Defense Agencies in an effort referred to as the Defense Agencies Initiative (DAI). The DAI is a standardized system that will replace DeCA’s current legacy accounting systems, Defense Business Management System (DBMS), and Standard Financial System (STANFINS).

DeCA was originally expected to transition to the new system as early as FY 2015, but has since been rescheduled to FY 2018 along with 8 other agencies, as part of the DAI increment 2. As DoD continues to move forward with the deployment of DAI, DeCA continues to prepare its systems, personnel, and resources for the transition.

<b>Internal Control Reporting Category</b>	<b>Description of Material Weakness</b>	<b>First Year Reported</b>	<b>Targeted Correction Year</b>	<b>Original Target Date</b>	<b>Corrective Action Summary</b>
Comptroller & Resource Mgmt	Non-compliance with FFMIA	FY 2011	FY 2018	FY 2015	Legacy Systems Replacement

TAB C-2

FINANCIAL REPORTING/FINANCIAL SYSTEM  
CORRECTIVE ACTION PLAN



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

**FIP Related Assessable Unit:** Budget to Report (Non-compliant Financial Systems)

**First Year Reported:** FY 2011

**Original Target Date:** FY 2015

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

**Status:** On Track

**Current Target Date:** FY 2018

**Description of Weakness:** DeCA's financial management systems do not substantially comply with Federal financial management systems requirements (systems are not interoperable with other Federal accounting systems; systems do not adhere to Federal Accounting Standards; and systems cannot account for transactions at the United States Standard General Ledger (USSGL) level).

**Corrective Action Summary:** Currently, DeCA mitigates risks caused by the non-compliant systems by implementing a series of compensating controls that have previously met and exceeded the requirements of the annual audit. DeCA/DFAS, as part of the DAI, are actively pursuing a new accounting system that will provide: a) interoperability of systems; b) compliance with Federal Accounting Standards; and c) transactions at the USSGL level. This will be achieved by replacing the current legacy systems with an FFMIA-compliant general ledger accounting system that a) facilitates the appropriated fund; b) accepts and generates USSGL transaction level activity from the Agency's business systems; and c) provides optimal interoperability between DeCA's various funds (operations fund, resale fund, surcharge fund, etc.)

**Impediments:** DeCA has been identified as part of Increment 2, and re-scheduled to transition in FY 2018.

**TAB C-3**

**FINANCIAL REPORTING/FINANCIAL SYSTEM  
MATERIAL WEAKNESS**

End-to End Business Process & Material Weakness	OSD Senior Accountable Official
<b>Budget to Report:</b>	
<b>Non-Compliant Financial Systems (w/FFMIA)</b>	<b>Mr. Mark Easton, Deputy Chief Financial Officer, OUSD(Comptroller)</b>
Unable to exchange information between financial systems	
Unable to adhere to Federal Accounting Standards	
Unable to record transaction activity at the USSGL level	
<b>Hire to Retire:</b>	
N/A	
N/A	
N/A	
<b>Order to Cash:</b>	
N/A	
N/A	
N/A	
<b>Procure to Pay:</b>	
N/A	
N/A	
N/A	
<b>Acquire to Retire:</b>	
N/A	
N/A	
N/A	
<b>Plan-to-Stock:</b>	
N/A	
N/A	

**TAB D**  
**DOD ASSESSMENT OF**  
**INTERNAL CONTROL OVER ACQUISITION FUNCTIONS**



**TAB D**

**DoD ASSESSMENT OF INTERNAL CONTROL OVER ACQUISITION FUNCTIONS**

<b>Cornerstones<sup>i</sup></b>	<b>Control Environment</b> <small>(What are the standards or objectives that set the tone or provide the discipline and structure?)</small>	<b>Risk Assessment</b> <small>(What are the relevant risks to properly implementing the standards or objectives?)</small>	<b>Control Activities</b> <small>(What are the policies and procedures that help ensure the necessary actions are taken to address risks?)</small>	<b>Monitoring</b> <small>(What monitoring activities or separate evaluations are in place to assess performance over time?)</small>
<p><b>Organizational Alignment and Leadership</b></p> <ul style="list-style-type: none"> <li>▪ Aligning Acquisition with Agency Mission and Needs</li> <li>▪ Commitment from Leadership</li> </ul>	<ul style="list-style-type: none"> <li>• The mission of DeCA is to provide an efficient and effective worldwide system of commissaries for the resale of groceries and related household items. DeCA is governed by: a) Title 10, United States Code (USC); b) DoDD 5105.55, Defense Commissary Agency (DeCA), revised March 12, 2008; and c) DoDI 1330.17, revised June 18, 2014, to prescribe policy, assign responsibilities, and set procedures for operating the DoD commissary program.</li> </ul> <p><b><u>Acquisition:</u></b></p> <ul style="list-style-type: none"> <li>• DeCA’s acquisitions are governed by the Federal Acquisition Regulation (FAR), the Defense Federal Acquisition Regulation Supplement (DFARS), and the Defense Commissary Agency Federal Acquisition Regulation Supplement (DeCAARS); as well as guidance generated from the Office of Defense Procurement &amp; Acquisition Policy (DPAP).</li> <li>• DeCA manages its own worldwide acquisition program in support of the commissary system. It provides acquisition support for supplies, services, equipment, IT systems, revenue generating agreements, architect-engineer services, construction, and resale.</li> <li>• DeCA’s procurement practices promote the lowest possible pricing for resale items. Per sections 2304(c)(5) and 2484(f) of Title 10, USC., the Director, DeCA, may use other than competitive procedures to procure brand-name commercial items.</li> </ul> <p><b><u>Acquisition Governance:</u></b></p> <ul style="list-style-type: none"> <li>• Government Purchase Card – GPC Program Coordinator</li> <li>• Acquisitions &lt; \$150K – Contracting Officer review</li> <li>• Acquisitions &gt; \$150K – multiple review levels</li> </ul>	<ul style="list-style-type: none"> <li>• Accurate funding will not be allocated for the operational and sustainment activities of each store</li> <li>• Operations could be delayed due to lack of funds for timely purchases</li> <li>• Construction project design and/or building exceed funding thresholds</li> <li>• Agency funds an unapproved project or acquisition</li> <li>• Offering products for resale at prices which do not compare favorably with commercial grocery markets</li> <li>• Delivery delays</li> <li>• Spoilage and shrinkage</li> <li>• Product doesn’t meet contract requirements</li> <li>• Possible cost overruns</li> </ul>	<p><b>Budget To Report:</b></p> <ul style="list-style-type: none"> <li>• Budget Analysts allocate funds for the operation and sustainment of each store and manage the execution of funds each year, ensuring against NULOs and ADA violations</li> </ul> <p><b>Contract to Close:</b></p> <ul style="list-style-type: none"> <li>• Acquisition Managers negotiate contracts for operational and sustainment services for each store and manage the execution of those services, ensuring a reconciled close of the contract</li> <li>• Micro-purchases are managed through the Agency GPC program</li> <li>• Construction and sustainment projects are modeled and forecast based on historical data using comparable facilities as bench marks</li> <li>• Acquisitions are reviewed, evaluated, and monitored from initiation to closeout</li> </ul>	<ul style="list-style-type: none"> <li>• Compliance with FAR Part 6.3 - justification for acquisitions for other than full and open competition - DeCA Competition Advocate</li> <li>• Solicitation reviews for all acquisitions &gt; SAT</li> <li>• Contract Review Boards (CRB) for all formal contract awards</li> <li>• Balanced Score Card measures performance goals against DoD, USD(P&amp;R), and DeCA’s strategic goals for socio-economic program support on a quarterly basis</li> </ul>

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<b>Policies and Processes</b> <ul style="list-style-type: none"> <li>▪ Planning Strategically</li> <li>▪ Effectively Managing the Acquisition Process</li> <li>▪ Promoting Successful Outcomes of Major Projects</li> </ul>	<ul style="list-style-type: none"> <li>• Managers ensure their staffs are competent, that training is sufficient, and that management styles and philosophies foster accomplishment of the organization’s mission and strategic goals</li> <li>• Acquisition of items for resale is funded by the Resale Fund, which is governed by the requirements of DoDI 1330.17, sections 2304(c)(5) and 2484(f) of Title 10 USC</li> <li>• Acquisition of Construction and A-E services is funded from the Surcharge Fund, which is governed by DoD Instruction 7700.18, “Commissary Surcharge, Nonappropriated Fund (NAF) and Privately Financed Construction Reporting Procedures,” December 15, 2004</li> <li>• Information Technology acquisitions are funded by two funds: the Surcharge Fund, governed by DoD Instruction 7700.18, “Commissary Surcharge, Nonappropriated Fund (NAF) and Privately Financed Construction Reporting Procedures,” December 15, 2004, and the Defense Working Capital Fund (DWCF) guided by the FMR, Vol 11B, Chapter 1, DWCF General Policies &amp; Procedures.</li> </ul>		<ul style="list-style-type: none"> <li>• Automated receiving / receipt process at store level</li> <li>• Title II - Construction Inspection procedures</li> <li>• A-E Design Phase Technical Review Charrette Process</li> </ul>	<ul style="list-style-type: none"> <li>• 3<sup>rd</sup> party review of construction progress for compliance with design specifications</li> <li>• A-E designs are reviewed at multiple stages (e.g., 10 percent, 35 percent and 65 percent design)</li> </ul>

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<b>Human Capital</b> <ul style="list-style-type: none"> <li>▪ Valuing and Investing in the Acquisition Workforce</li> <li>▪ Strategic Human Capital Planning</li> <li>▪ Acquiring, Developing, and Retaining Talent</li> <li>▪ Creating Results-Oriented Organizational Cultures</li> </ul>	<b>Strong Competent Workforce</b> <ul style="list-style-type: none"> <li>• Directed by the Defense Acquisition Workforce Improvement Act (DAWIA); DoD Directive 5000.52, Defense Acquisition Education, Training, and Career Development Program; and DOD Instruction 5000.66, Implementation Instructions</li> <li>• DeCA’s personnel management support provided by Defense Logistics Agency (DLA) ensures employees in acquisition management (1102 occupational series) possess a Bachelor’s degree in one of the following: accounting, business, finance, law, contracts, purchasing, economics, industrial management, marketing, quantitative methods, and organization management, to include at least 24 credit hours earned in business, and that they retain or can obtain the proper DAWIA level certification</li> </ul>	<ul style="list-style-type: none"> <li>• Hiring unqualified applicants into the 1102 career field would hamper operations within many directorates and cause the Agency to be in violation of various OPM and DoD directives</li> <li>• Private sector offers better opportunities</li> <li>• Fail to capture the job skills of the acquisition requirements for the Agency</li> </ul>	<b>Hire To Retire Process:</b> <ul style="list-style-type: none"> <li>• DLA uses established criteria and works directly with DeCA management to ensure the correct procedures are used to both identify and hire candidates for 1102 vacancies within DeCA</li> <li>• DLA ensures candidates possess the skill set, time in grade, and education level needed to compete, with the possibility of selection. Once a candidate is selected the necessary QCs are used to validate the selection</li> <li>• Qualified individuals are encouraged to seek advancement opportunities first within the Agency and then within DoD and finally within the Federal Government</li> </ul>	<ul style="list-style-type: none"> <li>• Semi-Annual Performance Reviews</li> <li>• Periodic reviews of certifications for the entire acquisition management workforce</li> <li>• Balanced Score Card Quarterly Reviews</li> <li>• Organizational Climate Surveys</li> </ul>

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<b>Information Management &amp; Stewardship</b> <ul style="list-style-type: none"> <li>▪ Identifying Data and Technology that Support Acquisition Management Decisions</li> <li>▪ Safeguarding the Integrity of Operations and Data</li> </ul>	<b>Information Technology Reliability, Sustainment, &amp; Security</b> <ul style="list-style-type: none"> <li>• Directed by the Defense Acquisition System, DoDI 5000.01, and the interim DoDI 5000.02, Operation of the Defense Acquisition System, DeCA acquires Information Technology</li> <li>• DeCA places the highest priority on key information technology for modernization and future needs, while ensuring access security and confidence the system will maintain the Agency’s cybersecurity and information assurance (IA) posture throughout its life cycle</li> <li>• DeCA’s main goal is to provide a controlled environment that facilitates managing information system-related security risks that encompasses the involvement of the entire organization—from senior leaders providing the strategic vision and top-level goals and objectives for the organization, to mid-level leaders planning and managing system projects, to individuals who utilize the information systems and data by developing, implementing, and operating the systems supporting the organization’s core missions and business processes</li> </ul> <b>Acquisition Related IT Initiatives</b> <ul style="list-style-type: none"> <li>• Improving Enterprise Architecture</li> <li>• Strengthening IT Governance</li> <li>• Improving IT Acquisition</li> <li>• Strengthening Cyber security</li> </ul>	<ul style="list-style-type: none"> <li>• Ineffective operational performance due to antiquated IT systems</li> <li>• Failed accreditation and certification due to legacy systems</li> <li>• Costly implementation of Risk Management Tools</li> <li>• Failed Security Controls</li> <li>• Undetected Cost Overruns</li> </ul>	<b>Developmental Life-Cycle Process</b> <ul style="list-style-type: none"> <li>• Initiation Controls</li> <li>• Development and Acquisition Phase</li> <li>• Implementation Phase</li> <li>• Operational and Maintenance Phase</li> <li>• Disposal Phase</li> </ul> <b>Risk Management Framework</b> <ul style="list-style-type: none"> <li>• Annual Certification and Accreditation</li> </ul>	<ul style="list-style-type: none"> <li>• Governance Board Review throughout Life Cycle</li> <li>• Balanced Score Card Quarterly Reviews</li> <li>• DeCA IT operates as a Computer Network Defense Service Provider (CNDSP) to monitor systems and identify weaknesses in systems and data integrity.</li> <li>• The Defense Information Systems Agency (DISA) performs inspections of DeCA’s systems on a periodic basis and validates that DeCA is performing risk assessments of systems through the Risk Management Framework and information assurance vulnerability management reporting.</li> <li>• DeCA systems are evaluated (yearly) by independent auditors.</li> </ul>

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<sup>i</sup> Cornerstone descriptions as described in the U.S. Government Accountability Office report, *Framework for Assessing the Acquisition Function at Federal Agencies*, September 2005:

**Organizational Alignment and Leadership:** Organizational alignment is the appropriate placement of the acquisition function in the agency, with stakeholders having clearly defined roles and responsibilities. There is no single optimal way to organize an agency's acquisition function. Each agency must assess whether the current placement of its acquisition function is meeting its organizational needs. Committed leadership enables officials to make strategic decisions that achieve agency-wide acquisition outcomes more effectively and efficiently.

**Policies and Processes:** Implementing strategic decisions to achieve desired agency-wide outcomes requires clear and transparent policies and processes that are implemented consistently. Policies establish expectations about the management of the acquisition function. Processes are the means by which management functions will be performed and implemented in support of agency missions. Effective policies and processes govern the planning, award, administration, and oversight of acquisition efforts, with a focus on assuring that these efforts achieve intended results.

**Human Capital:** The value of an organization and its ability to satisfy customers depends heavily on its people. Successfully acquiring goods and services and executing and monitoring contracts to help the agency meet its missions requires valuing and investing in the acquisition workforce. Agencies must think strategically about attracting, developing, and retaining talent, and creating a results-oriented culture within the acquisition workforce.

**Knowledge and Information Management:** Effective knowledge and information management provides credible, reliable, and timely data to make acquisition decisions. Each stakeholder in the acquisition process—program and acquisition personnel who decide which goods and services to buy; project managers who receive the goods and services from contractors; commodity managers who maintain supplier relationships; contract administrators who oversee compliance with the contracts; and the finance department, which pays for the goods and services—need meaningful data to perform their respective roles and responsibilities.