

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**DEFENSE COMMISSARY RESALE STOCK FUND
FINANCIAL STATEMENTS FOR FY 1992**

Report No. 93-147

June 30, 1993

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Department of Defense

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INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

June 30, 1993

MEMORANDUM FOR DIRECTOR, DEFENSE COMMISSARY AGENCY
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Audit Report on the Defense Commissary Resale Stock Fund Financial Statements
for FY 1992 (Report No. 93-147)

We are providing this final report for your information and use and for use by Congress. Financial statement audits are required by the Chief Financial Officers Act of 1990. The Act requires the Inspector General to render an opinion on the fairness of the financial statements of revolving funds such as the Commissary Resale Stocks portion of the Defense Commissary Agency (DeCA) Defense Business Operations Fund (DBOF). The statements were to be prepared by DeCA in accordance with DoD accounting policies and procedures and generally accepted accounting principles. Additionally, we are reporting on the adequacy of DeCA's internal controls and compliance with laws and regulations. Our audit reviews and testing were made of the FY 1992 financial accounts and statements for the Commissary Resale Stock Fund.

We have concluded that the Resale Stock fund part of the DBOF financial statements and the Notes to the Statements and DeCA Overview do not present fairly the financial position of the DeCA Resale Stock fund for FY 1992. The statements are not based on a comprehensive accounting system and include material errors. The Notes to the Statements do not adequately present DeCA's accounting procedures during FY 1992.

We understand DeCA is aggressively working to improve its financial management system. However, DeCA will not be able to prepare accurate financial reports in the near future unless effective action is taken to design and implement a financial reporting system. Such a system must include adequate internal controls, compatible computer systems, documented accounting policies and procedures, and the segregation of duties between accounting and operational organizations. We will be unable to provide the audit assurance required by the Chief Financial Officers Act and in compliance with financial auditing standards, until DeCA designs and implements a comprehensive financial system.

The courtesies extended to the audit staff are appreciated. If you have any questions about this audit, please contact Mr. Robert J. Ryan at (703) 692-3457 (DSN 222-3457) or Mr. Walter R. Loder, Jr. at (703) 692-3387 (DSN 222-3387). The distribution of this report is listed in Part V, Appendix D.

A handwritten signature in cursive script, reading "Robert J. Lieberman", is positioned above the typed name.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 93-147
(Project No. 2LA-2003)

June 30, 1993

**DEFENSE COMMISSARY AGENCY RESALE STOCK FUND
FINANCIAL STATEMENTS FOR FY 1992**

EXECUTIVE SUMMARY

Introduction. The Chief Financial Officers Act of 1990 requires an annual audit of the Financial Statements of the Defense Commissary Agency (DeCA) Resale Stock fund. The Commissary Resale Stock fund is a revolving fund established for procuring and selling food and household products to authorized patrons at cost. For FY 1992, the Commissary Resale Stock fund reported revenue from the sales of goods to the public and other Governmental agencies of over \$6.1 billion and an excess of revenues over expenses of about \$132 million. The agency also reported year end inventories held for resale in excess of \$803 million.

Objectives. The initial objectives of the audit were to determine whether the FY 1992 Commissary Resale Stock fund financial statements present fairly the financial position and results of operation of the fund. Based on the results of our audit survey; we limited our detailed testing and analysis to selected accounts. We revised our objectives to review controls over vendor payment authorizations and performed a limited review of inventory accountability controls. We also performed a desk review of the financial statements and accompanying notes.

Audit Results. We identified material internal control weaknesses over vendor payments and inventory accountability. Based on a review of vendor payments authorized during the first half of FY 1992, we estimated that about 25 percent of \$1.6 billion in vendor payment authorizations were not properly supported and significant duplicate payments of \$11 million for vendor invoices were made. Inventories and inventory accounts were misstated, although the amount could not be determined. Part IV, Appendix B summarizes the results of our desk review. Store level controls over inventories were also identified as weak and there was little assurance that items received were accurately recorded in the general ledger.

Independent Auditor's Opinion. The financial statements and the Notes to the Financial Statements do not present fairly the financial position of the fund. Although DeCA's records did not permit the application of generally accepted auditing standards or other tests, our review disclosed material errors. Notes to the Financial Statements assert that inventories are misstated. We were unable to perform adequate audit tests because DeCA did not have a reliable system of internal controls, physical inventories were not taken at October 1, 1991, or at September 30, 1992, and DeCA had not documented many of its operating and accounting policies and procedures. Part I contains our opinion on the financial statements.

Internal Controls. DeCA did not begin to document most internal controls and other policies and procedures until March 1992, 6 months after DeCA was activated as a Defense agency. For vendor payments and the inventory account, internal controls were not adequate to ensure that the financial statements were free of material misstatements. Part II contains our report on material internal control weaknesses.

Compliance with Laws and Regulations. DeCA did not comply with provisions of the Prompt Payment Act, did not comply fully with the Federal Managers' Financial Integrity Act and did not have accounting systems to properly record and control budgetary and financial data. Part III contains our findings on compliance with laws and regulations.

Benefits of the Audit. The audit identified material control weaknesses. DeCA took action to avoid the payment of \$191 million in duplicate vendor invoices, initiated action to collect over \$11 million in duplicate payments and to avoid payment of unnecessary interest and penalties. DeCA paid over \$404 million to vendors without adequate supporting documentation, and in the future will avoid making payments without supporting documentation. The DeCA internal review function and quality assurance for vendor payments were improved. The Comptroller of the DoD issued a DeCA financial management improvement plan partially in response to the audit findings. The Comptroller of the DoD has ordered physical inventories to be taken at all stores in order to establish beginning balances.

Usefulness of Financial Statements. The reliability and usefulness of the Financial Statements are questionable. Although we could not ascertain the overall accuracy of the statements, we did note control problems, which affected the reported numbers, and placed in doubt the ability of the fund to fairly present an accurate picture of the financial position of the fund. Accordingly, the usefulness of the statements is questionable. In any event, the audit will significantly improve the accuracy of future financial information and financial statements. Also, managers will have more accurate data to use in their decisionmaking processes.

Management Comments. No recommendations are made to revise the financial statements. We were unable to monetize the full magnitude of accounting errors because of the lack of supporting documentation and audit trails. Issues regarding compliance with laws and regulations have been identified to management. We provided Parts II and III to management on April 29, 1993, and asked for comments by May 14, 1993. Management comments from DeCA that agree with our internal control results were received on May 19, 1993. We also suggested changes to the financial statements on April 23, 1993. Management comments were received on June 1, 1993. Those comments and our response are reproduced in Part V of this report.

Management Actions. The Comptroller of the DoD ordered physical inventories to be taken at all DeCA stores to determine the inventory on hand and establish beginning balances. The Comptroller also initiated action to review and correct DeCA's financial accounting systems.

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This report was prepared by the Logistics Support Directorate, Office of the Inspector General for Auditing, DoD. Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate (703) 614-6303 (DSN 224-6303).

Part I - Independent Auditor's Opinion on the Financial Statements

Introduction

We have audited selected accounts of the Defense Commissary Agency (DeCA) Resale Stock fund Financial Statements and related Notes to the Statements, included in the DeCA consolidated statements and the Defense Business Operating Fund Consolidated Statements (see Part V), as of the year ended September 30, 1992. The financial statements were prepared by DeCA, based on financial information provided by the Defense Finance and Accounting Service (DFAS) - Columbus Center and the 9th Finance Group, Europe. Our responsibility is to express an opinion on the statements based on our audit.

Scope

DeCA's records did not permit the application of generally accepted auditing standards to the financial accounts taken as a whole. We limited our scope to vendor payment authorizations and inventories. We also performed a review of the statements to identify mathematical errors, noncompliance with DoD and OMB guidance on the form and content of the Financial Statements, and the completeness of the Overview and Notes to the Financial Statements.

An audit includes examining, on test basis, evidence supporting the amounts and disclosures in financial statements, including accompanying notes. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Statement presentation. We developed a client profile for DeCA and developed cycle memorandums that assessed the internal control structure. This financial statement audit was made during the period November 1991 through April 1993. See Appendix D of Part IV for the organizations visited or contacted. We believe that our audit efforts provide a reasonable basis for our results.

Auditing Standards

We conducted our audit in accordance with generally accepted auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, Department of Defense, and Office of Management and Budget (OMB) Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free of material misstatements.

Accounting Principles

Accounting principles are currently being studied by the Federal Accounting Standards Advisory Board (the Board). Generally accepted accounting principles for Federal entities are to be promulgated by the Joint Financial Management Improvement principals, based on advice from the Board. In the interim, Federal agencies are to use a comprehensive basis of accounting as defined in OMB Bulletin No. 93-06. The summary of significant policies included in the Notes to the Statements describes the accounting principles and methods of applying those principles that management has concluded are the most appropriate for presenting the Resale Stock fund's significant assets, liabilities, net position, results of operations, cash flows, and reconciliation to the budget.

Independent Auditor's Opinion

In our opinion, the DeCA Resale Stock fund financial statements Overview, the Financial Statements for FY 1992, and the Notes to the Financial Statements include material errors and are not complete. In summary the DeCA Overview disclosed that the inventory account included in the Statement of Financial Condition is materially overstated (the amount of the overstatement was not disclosed); the Statement of Financial Condition included \$198 million classified as Accounts Receivable - Federal that should be classified as Funds Available with Treasury; and the Statement of Operations has misallocated the cost of goods sold between the cost of goods sold to the public and cost of goods sold intragovernmental. The cost of goods sold was allocated between the accounts based on the supply source of the merchandise sold and not the related sales to customers, as required. The Overview and Notes to the Financial Statements did not adequately disclose the extent of DeCA's accounting system problems, the duplicate payments that DeCA authorized, and the extent of invalid payments to vendors. We have provided a separate memorandum to DeCA stating our detailed comments (see Part IV, Appendix B).

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the Resale Stock fund Financial Statements do not present fairly, in accordance with DoD and OMB guidance, the financial position of the DeCA Resale Stock fund as of September 30, 1992.

Other Financial Information

Our audit was conducted for the purpose of forming an opinion on the DeCA Resale Stock fund Financial Statements for FY 1992. The information presented in the Overview and Supplemental Financial and Management Information sections are presented for the purpose of additional analysis. Such information has not been audited by us; but based on a limited review we believe, as noted above, the Overview and Notes to the Financial Statements are incomplete or inaccurate.

Part II - Internal Controls

Introduction

As part of our audit of the DeCA Resale Stock fund Financial Statements for FY 1992, we audited DeCA's internal control structure for authorizing vendor payments and exercising inventory accountability.

Objectives and Scope

We conducted our audit in accordance with generally accepted Government auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General (IG), DoD, and OMB Bulletin 93-06. The standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free of material misstatements. We applied the standards as appropriate.

In planning our audit of the DeCA Resale Stock fund for the year ended September 30, 1992, we considered the related internal control structure. The purpose of the planning work was to determine the auditing procedures we would apply for the purposes of expressing our opinion on the Financial Statements. Planning work included obtaining an understanding of the internal control policies and procedures and assessing the level of control risk relevant to the financial cycles and classes of transactions or account balances. Planning work also included an evaluation to determine if significant policies and procedures have been properly designed and placed in operation by performing sufficient tests to provide reasonable assurance that the controls are effective and working as designed.

DeCA management is responsible for establishing and maintaining an internal control structure. In fulfilling its internal control responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of internal control policies and procedures. The objectives of an internal control structure are to provide management with reasonable but not absolute assurance that obligations and costs are in compliance with applicable laws; funds, property, and other assets are safeguarded against waste, loss, and unauthorized use or misappropriation; and revenues and expenditures applicable to Resale Stock fund operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports.

For the purpose of this report, we classified the significant Resale Stock fund internal control policies and procedures into the following categories.

- o General ledger: policies and procedures associated with reconciling general ledger account balances with subsidiary ledgers and supporting records.

- o Inventories: policies and procedures associated with receiving, storing, issuing, reporting and valuing inventories.

- o Transaction processing: processing and flow of financial data into financial accounts.
- o Financial reporting: policies and procedures used to prepare financial statements.

Prior Audit Coverage

There have been no prior audits of the DeCA Resale Stock. DeCA and the fund were established on October 1, 1991.

Audit Conclusion

In our opinion, the DeCA internal control structure was not adequate for controlling and recording financial information. This deficiency had a material effect on the financial statements. DeCA did not have an effective financial reporting system that systematically collected and summarized financial or management information. DeCA's internal control policies and procedures were not fully documented. Internal control policies and procedures began to be documented in March 1992, 6 months after the start of FY 1992. As a result, we limited our tests of specific internal control procedures to vendor payment authorizations and inventories.

Results of Audit

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under the standards established by the Comptroller General and OMB Bulletin 93-06. Reportable conditions are matters that come to our attention relating to significant deficiencies in the design or operation of an internal control structure that, in our judgment, could adversely affect the organization's ability to ensure that obligations and costs are in compliance with applicable laws; funds, property, and other assets are safeguarded against waste, loss, and unauthorized use or misappropriation; and revenues and expenditures applicable to Resale Stock fund operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports. Part IV, Appendix A to the report summarizes our reports on the audit results.

Documented Policies and Procedures. DeCA did not have documented policies and procedures for operational and financial internal control systems. DeCA did not begin to document and implement most policies and procedures until March 1992, 6 months after the start of the fiscal year. As a result, there was little assurance that the accounting and operational data were systematically and accurately recorded and reported.

Vendor Payment Authorizations. Internal controls did not ensure that all vendor payment authorizations processed by the East and West Service Centers were timely and valid. We estimated that 25 percent of the vendor payment authorizations

Internal Controls

processed from October 1, 1991, through March 1992, were invalid. Additionally, invoices were paid under fast payment procedures without subsequent verification of merchandise receipt. DeCA management initiated corrective action that is ongoing.

Inventories. Internal controls did not ensure that inventory general ledger balances agreed with subsidiary records. There was little assurance that merchandise received for resale was promptly and accurately recorded in the books and records. DeCA did not take sufficient physical inventories to determine the beginning or ending balances for FY 1992.

Federal Managers' Financial Integrity Act (FMFIA). DeCA did not fully implement FMFIA during FY 1992. Additionally, the control environment at DeCA did not include adequate Internal Review and Inspector General functions. The Internal Review and Inspector General offices within DeCA were understaffed and the available staff did not always perform audits or inspections. DeCA issued FMFIA policies and procedures in March 1992, that are being implemented.

We believe the conditions reported in the preceding paragraphs are material weaknesses, as defined in DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. The Comptroller, DoD, and DeCA management are continuing to take a wide range of corrective actions to improve the financial reports of the Agency. Implementation of the actions discussed in Part IV of this report would correct the identified conditions.

Our evaluation of the internal control structure would not necessarily disclose all material internal control weaknesses, especially given the magnitude of problems discussed in the background and Notes to the Financial Statements.

Part III - Compliance with Laws and Regulations

Introduction

We have reviewed the DeCA Resale Stock fund Financial Statements for the year ended September 30, 1992. Our detailed testing was limited to vendor payment authorizations. We also performed limited tests of inventory internal controls.

Objectives and Scope

We conducted our audit in accordance with generally accepted Government auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD and OMB Bulletin 93-06. The standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free of material misstatements. We applied the standards, as appropriate, to vendor payment authorizations and inventory internal controls.

Compliance with laws and regulations applicable to the DeCA Resale Stock fund is the responsibility of management. As part of obtaining reasonable assurance about whether the Resale Stock fund statements are free of material misstatements, we tested vendor payment authorizations for compliance with DoD Manual 7220.9-M, "DoD Accounting Manual," and the provisions of the Prompt Payment Act. As part of our audit, we reviewed management's process for evaluating and reporting on internal controls and accounting systems as required by the FMFIA, and compared the most recent FMFIA reports with our evaluation of the internal control system. The laws and regulations we tested were:

- o Prompt Payment Act of 1982, as amended
- o OMB Circular A-125, "Prompt Payment"
- o DoD Manual 7220.9-M, "DoD Accounting Manual"
- o FMFIA of 1982
- o Federal Acquisition Regulation
- o Defense Federal Acquisition Regulation Supplement
- o Policy and Procedures Manual for Guidance of Federal Agencies (Title 2)
- o Chief Financial Officers Act of 1990
- o OMB Bulletin 93-02, "Form and Content of Financial Statements"
- o DoD Guidance on Form and Content of FY 1992 Financial Statements

We also reviewed the entity's policies, procedures, and systems for documenting and supporting financial, statistical, and other information presented in the overview of the fund.

Prior Audit Coverage

There have been no prior audits of compliance with laws and regulations related to the Resale Stock fund. DeCA and the fund were established on October 1, 1991.

Results of Audit

The material noncompliances that we found are summarized below and discussed in Part IV, Appendix A.

Prompt Payment Act. The Prompt Payment Act requires agencies to pay vendors promptly and take advantage of all economic discounts offered. With respect to vendor payment authorizations, DeCA did not comply with the provisions of the Prompt Payment Act. DeCA did not pay vendors promptly or take advantage of all economical vendor discounts offered.

OMB Circular A-125. DeCA did not follow procedures in OMB Circular A-125 for determining payment due dates, calculating interest due vendors, and returning improper invoices to vendors.

DoD Manual 7220.9-M, "DoD Accounting Manual" and Title 2. DeCA did not comply with DoD Accounting Manual and Comptroller General requirements for ensuring that vendor payment authorizations were valid. Payments were not supported by appropriate documentation and internal controls did not ensure that payments to vendors were not duplicated.

Federal Acquisition Regulation and Defense Federal Acquisition Regulation Supplement. DeCA did not comply with the provisions of the regulations for controlling payments to vendors under "Fast Pay" procedures. DeCA did not ensure that merchandise was actually received when payment was made before receipt of the receiving report for the merchandise. Additionally, DeCA did not ensure that all vendor agreements were signed by an authorized contract official and that changes to vendor agreements were documented and appropriately authorized.

FMFIA of 1982. DeCA disclosed in its FY 1992 annual report that it did not comply with all FMFIA requirements in FY 1992. However, DeCA took action to comply with the provisions of the FMFIA, OMB, and DoD implementing guidance. DeCA issued implementing guidance in March 1992.

With respect to items not tested, DeCA's financial systems did not comply with the Comptroller General, DoD Accounting Manual and OMB requirements. Automated data processing system deficiencies prevented DeCA from implementing a comprehensive and systematic accounting and financial management reporting system. The notes to the Financial Statements disclose significant organizational startup problems that DeCA and DoD management are addressing.

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Part IV - Additional Information

Appendix A. Summary of Management Memorandums and Reports

The following is a summary of the memorandums and reports we issued to DeCA during the period of our audit of the Resale Stock fund Financial Statements. The reports were intended to assist management in its financial statements for FY 1992.

o Inspector General, DoD, "Management Advisory Memorandum-Controls Over Vendor Payments and Related Transactions for the Defense Commissary Agency's FY 1992 Resale Stock Fund Financial Statements," March 17, 1992, provided preliminary results of our review of internal controls over vendor payments and the reliability of DeCA's financial data. Our memorandum reported that payment authorization vouchers were not supported by invoices, matching receiving reports, and other supporting documentation. We also found large quantities of uncontrolled invoices, lack of computer availability, inadequate ADP controls, and lack of controls over data entered at commissaries. The memorandum suggested that DeCA document and enforce its operational policies and improve compliance with the Prompt Payment Act of 1982. In response, DeCA stated that proper procedures and policies had already been implemented but additional guidance would be prepared. DeCA also stated that its policy is to pay only proper invoices and receipts in compliance with the Prompt Payment Act. Further, DeCA blamed automated data processing (ADP) complications on operating software problems, storage, and equipment.

o Inspector General, DoD, "Management Advisory Memorandum-Duplicate Vendor Payments, Audit of the FY 1992 Resale Stock Fund Financial Statements," May 4, 1992, provided audit results of preliminary work in the vendor payments area. The memorandum concluded that internal controls were inadequate to ensure that authorized vendor payments did not result in duplicate vendor payments. It suggested that DeCA use only appropriately trained personnel to enter valid invoice data that show invoice numbers compatible with DeCA's bill paying system. The memorandum also suggested that receipt information be entered only at the commissaries and that commissary store employees delay reentry of receipt information until signed written verification of a proper reversal can be obtained. The memorandum further suggested that DeCA develop edit checks to identify possible duplicate payments and establish quality control programs to ensure that payments are adequately supported. DeCA concurred with the suggested actions and took action to correct the identified conditions.

o Inspector General, DoD, "Management Advisory Memorandum - Control Environment, Audit of the FY 1992 Resale Stock Fund Financial Statements," September 29, 1992, discussed the usage of the internal review and Inspector General (IG) staffs of DeCA. The memorandum suggested that all DeCA IG personnel work on appropriate oversight projects and not operational projects. It also suggested that DeCA instruct regional auditors to report to the Chief of the Internal Review Office (IRO) and that the Chief of IRO report to the Deputy Director or Director. Further, the memorandum suggested that DeCA conduct an evaluation of staffing resources needed to operate an effective internal oversight mission. DeCA concurred with the suggested actions and is taking action to correct the identified conditions.

Appendix A. Summary of Management Memorandums and Reports

o Inspector General, DoD, Audit Report No. 93-028, "Quick-Reaction Report on Physical and System Security at the East Service Center of the Defense Commissary Agency," November 30, 1992, reported that DeCA's East Service Center had not developed written policies and procedures on security and had not established a formal security program. The report stated that minimum security requirements included provisions for the accountability of users; password protection; security training and awareness; and physical control of hardware, software, and data. The report recommended that DeCA limit the system administrator's access to data bases; develop password generation procedures; start conducting security entrance and exit briefings and a training program; establish criteria to determine who is allowed access to the computer room; and establish a contingency plan for alternate site processing. DeCA management concurred with four of the five report suggestions. DeCA did not concur with limiting access of the systems administrator but did propose alternative action, which was acceptable. The Director stated that DeCA can initiate action to bond or certify system administrators at a level consistent with the access requirements of their position.

o Inspector General, DoD, memorandum on "Inventory Accounting, Audit of the FY 1992 Defense Commissary Agency Resale Stock Fund Financial Statements," February 25, 1993, discussed conditions that included automated data systems processing problems related to inventories, the inability to reconcile physical inventories to accounting records, inadequate internal controls such as the lack of policies and procedures, and inadequate staffing. As a result, DeCA monthly financial statements included unusual and misstated account balances. We suggested that DeCA prepare internal control procedures, including comparing daily store inputs to the actual postings to the financial records; perform physical inventories every 6 months; develop procedures for performing the inventories; and evaluate the staffing needed to effectively maintain and reconcile inventory accounts. DeCA concurred with our suggested actions, except for taking inventories every six months. DeCA is taking action to correct the identified conditions.

o Inspector General, DoD, Audit Report No. 93-124, "Controls Over Vendor Payments, Returned Checks, and Rebates," March 25, 1993, provides that DeCA did not adequately control financial transactions related to payments to vendors. Contract administration procedures did not provide assurance that information in the Standard Automated Vouchers Examination System (SAVES) data base was supported by valid contractual documents. Further, vendor invoices were paid without required validation of receipt, checks received from fast payment vendors and returned U.S. Treasury checks were not adequately controlled, and controls over rebates from cigarette vendors were inadequate. As a result, the DeCA financial statements could be materially misstated.

We recommended that DeCA issue or modify contract administration procedures, modify its fast payment procedures to ensure that the receipt of vendors' merchandise is verified and that prompt feedback on any deficiencies of fast payment vendors is provided to the contracting officers, require that vendor checks be endorsed and deposited promptly, and require that vendor checks and returned U.S. Treasury checks be promptly and properly accounted for. We also recommended that DeCA record the estimated rebates due from cigarette vendors as an accounts receivable on the financial records, periodically reconcile the actual vendor rebates received with the recorded accounts receivable amount, and separate the duties of personnel responsible for contracting for cigarette rebates from personnel receiving rebate checks. DeCA

Appendix A. Summary of Management Memorandums and Reports

concurred or partially concurred with our recommendations and provided dates for corrective actions to be accomplished. DeCA proposed acceptable corrective actions, except for our recommendation to remove expired contracts from the SAVES control data base. During subsequent discussions with DeCA, management agreed to remove expired contracts from SAVES after completion of their financial management improvement plan.

- o Inspector General, DoD, memorandum on "Noncompliance of Defense Commissary Agency Financial Statements with OMB Bulletin 93-02," April 23, 1993, discussed issues disclosed during our desk review of the FY 1992 Defense Commissary Business Operations fund Financial Statements. Appendix B is a copy of the document provided to DeCA stating our concerns.

- o Inspector General, DoD, Audit Report No. 93-096, "The System Used By the Defense Commissary Agency to Pay Vendors' Invoices," May 14, 1993, provides that DeCA's system for paying vendors' invoices was not timely and that DeCA had not reassessed its existing staffing levels to redetermine the number of ADP personnel needed to support current or future information systems. We recommended that the Director revise DeCA Directive 70-10 to require service centers and commissaries to improve the bill-paying process. We also recommended that the Assistant Secretary of Defense (Production and Logistics) request an independent study to determine the proper staffing level of DeCA's ADP operation. Management comments were responsive and management acted on all recommendations.

- o Inspector General, DoD, Audit Report No. 93-135, "Controls Over Vendor Payment Authorizations by the Defense Commissary Agency," June 30, 1993. Based on our sample derived from \$1.6 billion in CONUS only vendor payments in the first half of FY 1992, DeCA management did not provide adequate internal controls over vendor payment transactions. Specifically, DeCA's vendor payment process lacked the internal controls necessary to ensure that all payment authorizations for vendor invoices were authorized, valid, and accurate. Additionally, DeCA did not adhere to the requirements of the Prompt Payment Act and OMB Circular A-125, "Prompt Payment." We recommended that DeCA evaluate its employees on the implementation of internal controls, prepare and execute a written bill paying plan to exercise quality control over bill paying, document computer systems, and move financial functions under the operational control of the Director, Resource Management. We also recommended that controls be established to ensure that service center personnel meet the Prompt Payment Act requirements. The Director, DeCA, concurred with the audit recommendations. However, the Director did not indicate the action taken to include additional computer edit checks in the bill paying system and did not indicate that a written plan to improve quality control over bill paying had been written and implemented. We have requested the Director to provide additional comments in response to the final report.

Appendix B. Suggested Changes to the Defense Commissary Agency Financial Statements

Inspector General, DoD, memorandum on "Defense Commissary Agency Financial Statements," April 23, 1993, provided our position on the financial statements. The memorandum discussed our concerns about DeCA's statements based on a desk review. We did not audit, and we do not express an opinion on the statements for the Business Operations fund and consolidated statements. We have cross-referenced the following paragraphs to Part IV of this report.

I. Resale Stock Fund

I.A. The Overview to the Financial Statements

I.A.1. OMB Bulletin 93-02 states that the Overview is part of the financial statements and should report on the results of operations and provide the effect on DeCA's performance indicators. DeCA's Overview omits information such as bill paying practices used during the first 10 months of FY 1992 and the effect of bill paying problems on its performance indicators. The Overview describes procedures in effect at the end of the year for bill paying. 41

I.A.2. DeCA's Overview should describe the effect of start up problems on the performance indicators, for such accounts as Discounts Earned (98 percent goal versus 86 percent actual) and Interest Paid (.03 percent goal versus .14 percent actual). DeCA does not make any reference to the amount of suspected duplicate payments (\$17 million) or the value of lost discounts.

I.A.3. With respect to the Standard Automated Voucher Examination System (SAVES), the Overview states that "the systems were selected because tests proved they could process DeCA's consolidated workload volume." DeCA officials could not provide us with test documentation. Further, some cognizant DeCA personnel maintain that the volumes tested were not truly representative of the volume of transactions to be processed by DeCA. The Overview should be modified and not say that the systems were selected because tests proved they could process DeCA's workload volume. The Overview should describe the excessive downtime and long overnight processing times that affected data entry access and vouchers examiners access to SAVES, and contributed to the vendor payment problems. 46

I.A.4. DeCA's Overview states, "In the service center's bill paying organization, the invoice is reviewed to determine if it meets the requirements for a proper invoice set forth in OMB Circular A-125. If not, it is returned to the vendor with a letter explaining the problem." DeCA's Overview should disclose the improper procedures used to accomplish bill paying. During the fall of 1991 improper invoices were retained at the service centers for correction. Further, the date DeCA corrected the invoice was entered as the date DeCA received the invoice from the vendor. 47

Appendix B. Suggested Changes to DeCA Financial Statements

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Improper invoices were not returned to vendors in accordance with requirements of the Prompt Payment Act and vendors had no opportunity to correct their invoices to obtain prompt payment. DeCA's overview also stated, "Improper invoices are returned to the vendor within the timeframe set forth in OMB Circular A-125 and do not incur interest." This statement discloses current practice, but does not reflect procedures in effect during the fall and winter of 1991 and 1992.

I.A.5. DeCA's overview should describe earlier procedures during the fall of 1991 and winter of 1992 with regard to reconciliations between invoices and receipts. Different procedures were used during the period of bill paying problems in FY 1992 than were disclosed in the Overview.

I.A.6. The Overview does not mention that because of the bill paying problems, outdated contracts were retained in SAVES during FY 1992 beyond the time frames normally permitted.

I.A.7. DeCA's overview states, "It is the opinion of this Agency that inventories are significantly overstated in the financial records." We suggest that DeCA use the phrase "we believe" rather than "it is our opinion." The auditor's opinion should be the only opinion included in the financial statements in order to avoid confusing the reader. If DeCA can determine or estimate the overstatement of inventory, it should provide the information in the Overview and based on the degree of supporting evidence considering adjusting the financial statements.

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I.B. The Financial Statements

I.B.1. The Statement of Operations. Resale Stocks and Consolidating Statements. DeCA's cost of goods sold should be stated in accordance with OMB Bulletin 93-02. DeCA's cost of goods sold account was allocated between the public and intragovernmental on the basis of obligations to the Federal government. However, OMB Bulletin 93-02 requires that the cost of goods sold be based on the cost of sales to customers, not the activities the goods were purchased from. This error causes significant misstatement in the financial statements as shown in the table below.

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	<u>Public</u> (000)	<u>Intragovernmental</u> (000)
Revenue from the Sale of Goods	\$6,005,021	\$ 152,004
Cost of Goods Sold	5,053,117	976,638
Profit (Loss)	<u>\$ 951,904</u>	<u>\$(824,634)</u>

DeCA did not realize a profit of \$951 million on sales to the public nor lose \$824 million on intragovernment sales. These amounts are material to DeCA's financial statements and should be adjusted.

I.B.2. The Statement of Operations for the Resale Stock fund shows \$4,228,198 in Other Revenues and Financing Sources. However, this amount is the result of netting \$17.3 million in inventory losses against \$21.5 million in Other Revenues primarily derived from coupons. The \$17.3 million should be shown on line 12, bad debts and write offs. The amount of other revenues should be \$21.5 million. The nature of the

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other revenues should be disclosed in the Notes to the Financial Statements. The misstated accounts in the resale stock statements carry over into the Consolidated Statements as errors.

I.B.3. Statement of Financial Position. The Overview states that Accounts Receivable-Federal for Resale Stocks is overstated by \$198,079,000 for unconfirmed deposits. This amount has been sent for deposit in financial institutions, but the deposit tickets have not been forwarded through the commissaries to Defense Finance and Accounting Service (DFAS)-Columbus Center for credit to DeCA's account.

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The unconfirmed deposits represent amounts that are U.S. Treasury cash, but are not yet recognized by the U.S. Treasury. Some of the deposits were in transit or not yet accounted for by the financial institutions on September 30, 1992. The unconfirmed deposits should be shown as Other, Non-Federal Financial Resources and explained in the Notes to the Financial Statements. OMB Bulletin 93-02 requires the separate reporting of Federal intragovernmental items to facilitate the preparation of government wide consolidated financial statements. Since the \$198 million does not represent an amount due from a Federal agency on September 30, 1992, the amount should not be shown as a Federal intragovernmental item.

I.C. Footnotes to the Financial Statements

I.C.1. Resale Stocks. Footnote disclosure should be made of the change funds held at the commissaries. DeCA staff said that change funds kept at the commissaries are reported by local disbursing officers, not DeCA. However, DeCA physically controls the monies. The amount held and the reason for not including such monies in the Statement of Financial Position should be disclosed in the Notes to the Financial Statements. We estimate that DeCA could have about \$6 million in change funds (\$16,000 per commissary times 384 stores).

Operations Fund

II.A. Overview. No comments are made concerning Operations disclosures in the Overview at this time.

II.B. Financial Statements

II.B.1. Statement of Operations. DeCA's Notes to the Financial Statements disclose that DeCA did not process \$64.56 million in year end accruals for specific types of expenses and that expenses for commissary operations are understated by \$64.56 million. DeCA staff explained that the expenses were not accrued because of limitations in DeCA's accounting system. The \$64.56 million is material to the financial statements taken as a whole, and nonaccrual of \$64.56 million causes misstatement of the financial statements including the Statements of Operations, Financial Position, and Budget and Actual Expenses.

II.B.2. Total Expenses of \$1,027,281,818 on the Statement of Operations for Operations is incorrectly enclosed by parentheses which would indicate a negative balance instead. The amount was carried forward correctly to the Consolidated Statement and added correctly on the Statement of Operations. The error is still a significant one for the financial statements.

Appendix B. Suggested Changes to DeCA Financial Statements

II.B.3. Statement of Financial Position. Equipment Valuation. The valuation of equipment in the financial statements does not agree with the trial balance. The \$48,025 misstatement affects the Statement of Financial Position, Statement of Operations, Statement of Cash Flows, and Statement of Budget and Actual Expenses. The error carries forward into the Consolidating Statements.

II.B.4. Operations. Typographical and Other Errors. There were small typographical errors of figures in the Statement of Financial Position, Statement of Operations, and Statement of Cash Flows. The errors were not included in totals. Figures that agree with the trial balance are included in the totals and carried forward to the Consolidating Statements.

II.C. Footnotes to the Financial Statements. Footnote 7 to Commissary Operations and Footnote 9 to the Business Operations Fund reflect the allocation of \$878 million in operating expenses in CONUS based on the percentage of total expenses by line item for the Midwest Region. OMB Bulletin 93-02 states, "Financial statements shall be the culmination of a systematic accounting process." OMB Bulletin 93-02 also requires, "... to the extent possible, expenses should be classified and reported by major type of program. Agencies that are able to do so should also disclose operating expenses by object classification in the notes to the principal statements." DeCA did develop actual expense data for the Midwest Region and had actual data for Europe. The expenses should be disclosed in the Notes to the Financial Statements including an explanation of what is represented. However, extrapolating from one region to the other five CONUS regions with percentage estimates is not an appropriate basis for reporting expenses by object classification. DeCA staff stated that actual expense information was not developed for the rest of CONUS because of the lack of staff and time involved.

Appendix C. Defense Commissary Agency Response to Suggested Changes



REPLY TO
ATTENTION OF

DEFENSE COMMISSARY AGENCY
-HEADQUARTERS
FORT LEE VIRGINIA 23801-6300

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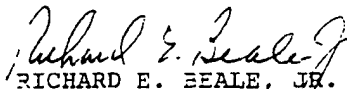
2 JUN 1993

MEMORANDUM FOR INSPECTOR GENERAL, LOGISTICS SUPPORT DIRECTORATE,
400 ARMY NAVY DRIVE, ARLINGTON, VA 22202-2884

SUBJECT: Defense Commissary Agency Financial Statements

Reference: DoDIG Memorandum, dtd April 23, 1993, SAB.

We have reviewed the comments provided by referenced memorandum that contains recommended changes to the DBOF Financial Statements, and furnished a copy to the OSD Comptroller for assistance in developing this response. Our comments to your recommended changes are provided at attachment 1. For information purposes, the comments furnished by the OSD Director for Accounting Policy are enclosed as attachment 2.


RICHARD E. BEALE, JR.
Major General, USA/
Director

Attachments:
As Stated

CF: OASD (PRODUCTION AND LOGISTICS)
OASD, Acting DASD (PERSONNEL, SUPPORT, FAMILY AND EDUCATION)

Appendix C. DeCA Response to Suggested Changes

DeCA COMMENTS TO DoDIG RECOMMENDED CHANGES

Comment I.A.1: Office of Management and Budget (OMB) Bulletin 93-02 states that the Overview is part of the financial statements and should report on the results of operations and provide the effect on Agency performance indicators. DeCA's Overview omits information such as bill paying practices during FY 1992 and the effect of bill paying problems upon its performance indicators. The Overview describes procedures in effect at the end of the year for bill paying, but needs to include many of the bill paying procedures followed during the year.

Response: Nonconcur. OMB Bulletin 93-02, in Appendix B, paragraph A (first paragraph, third sentence) provides, when referring to the "Overview", that "It should also include program and administrative highlights and may also highlight critical areas for financial and management improvement." The Overview which includes a "Financial Impact of Start-Up Problems" section satisfies the OMB requirement.

Comment I.A.2: DeCA's Overview should describe the effect of start-up problems on the performance indicators, Discounts Earned (98 percent goal versus 86 percent actual) and Interest Paid (.03 percent goal versus .14 percent actual). DeCA does not make any reference to the amount of suspected duplicate payments (\$17 million) or to the value of invoices (\$191 million) written off due to duplicate entries.

Response: Nonconcur for the reasons stated in item I.A.1.

Comment I.A.3: With respect to the Standard Automated Voucher Examination System (SAVES), the Overview states that "the systems were selected because tests proved they could process DeCA's consolidated workload volume." However, no official at DeCA could provide us with documentation of these tests. Further, certain DeCA personnel maintain that the volumes tested were not truly representative of the volume of transactions to be processed by DeCA. The Overview should not say the systems were selected because tests proved they could process DeCA's workload volume. The Overview should describe the excessive downtime and long overnight processing times that affected data entry access and voucher examiners access to SAVES, and contributed to the vendor payment problems.

Response: Partially concur. The sentence will be reworded to state "the systems were selected because of their ability to process DeCA's consolidated workload volume..." Nonconcur with the latter recommendation for the reasons stated in item I.A.1.

Comment I.A.4: DeCA's Overview should disclose the procedures used to accomplish bill paying during much of FY 1992. For example, the Overview states "In the service center's bill paying organization,

Appendix C. DeCA Response to Suggested Changes

the invoice is reviewed to determine if it meets the requirements for a proper invoice set forth in OMB Circular A-125. If not, it is returned to the vendor with a letter explaining the problem." However, during the fall of 1991 improper invoices were retained at the service centers for correction. The invoices were entered into the SAVES and the date DeCA corrected the invoices was entered as the date DeCA received the invoice from the vendor.

Improper invoices were not returned to vendors within the requirements of the Prompt Payment Act and vendors had no opportunity to correct their invoices to obtain prompt payment. A later statement in the Overview also discloses current practice but does not reflect procedures in effect during the fall and winter of 1991-1992. "Improper invoices are returned to the vendor within the timeframe set forth in OMB Circular A-125 and do not incur interest."

Response: Nonconcur. The Office of Management and Budget, in a memorandum dated, February 5, 1992, advises that, "The Overview of the Reporting Entity will be the first and for many readers (e.g., non-accountants and high-level decision makers) perhaps the only part of the Annual Financial Statement that will be read. It must provide readers with a clear and concise understanding of the reporting entity's activities, accomplishments, financial results and condition, problems, and needs. It should tell the reader whether and how well the mission of the reporting entity is being accomplished and what, if anything, needs to be done to improve either program performance or financial performance." Corrective action on many of the previous problems has already been taken; and omission of the suggested statements does not appear to violate OMB's direction.

Recommendation I.A.5: DeCA should describe earlier procedures during the fall of 1991 and winter of 1992 with regard to reconciliations between invoices and receipts. Different procedures were used during the period of bill paying problems in FY 1992 than were disclosed in the Overview.

Response: Nonconcur for the reasons stated in item I.A.4.

Comment I.A.6: The Overview does not mention that because of the bill paying problems, outdated contracts were retained in SAVES during FY 1992 beyond the timeframes normally permitted.

Response: Nonconcur for the reasons stated in item I.A.4.

Comment I.A.7: DeCA's overview says "it is the opinion of this Agency that inventories are significantly overstated in the financial records." We suggest that DeCA use the phrase "we believe" rather than "it is our opinion." The auditor's opinion should be the only opinion included in the financial statements in order to avoid confusing the reader. If DeCA can determine or

Appendix C. DeCA Response to Suggested Changes

estimate the overstatement of inventory, it should provide the information in the Overview and based on the degree of supporting evidence consider adjusting the financial statements.

Response: Concur. The clause will be deleted.

Comment I.B.1: The Statement of Operations. Resale Stocks and Consolidating Statements. DeCA's Cost of Goods Sold should be stated in accordance with OMB 93-02. DeCA's Cost of Goods Sold was allocated between public and intragovernmental on the basis of obligations to the Federal Government. However, OMB 93-02 requires that the Cost of Goods Sold be based on the cost of sales to customers, not the activities the goods were purchased from. This error causes significant misstatement in the financial statements.

Response: Concur. The re-allocation of Costs of Goods Sold has been journalized and the statements revised to reflect the proper distribution based on cost of sales.

Comment I.B.2. The Statement of Operations for the Resale Stock Fund shows \$4,228,198 in Other Revenues and Financing Sources. However, this amount is the result of netting \$17.3 million in inventory losses against \$21.5 million in Other Revenues primarily derived from coupons. The \$17.3 million should be shown on line 12, Bad Debts and Write Offs. The amount of Other Revenues should be disclosed in the Notes. The misstated accounts in the Resale Stocks statements carry over into the Consolidated Statements as errors.

Response: Concur. Other Revenues and Financing Sources has been redistributed on the Statement of Operations to incorporate the Auditor's recommendations.

Comment I.B.3. Statement of Financial Position. The Overview states that Accounts Receivable-Federal for Resale Stocks is overstated by \$198,079,000 for unconfirmed deposits. This amount has been sent for deposit in financial institutions, but the deposit tickets have not been forwarded through the commissaries to Defense Finance and Accounting Service (DFAS)-Columbus Center for credit to DeCA's account. The unconfirmed deposits represent amounts that really are Treasury Cash, but are not yet recognized by Treasury. Some of the deposits were in transit or not yet accounted for by the financial institutions on September 30, 1992. These unconfirmed deposits should be shown as Other, Non-Federal Financial Resources and explained in the Notes. OMB Bulletin 93-02 requires the separate reporting of Federal Intragovernmental items to facilitate the preparation of government-wide consolidated financial statements. Since the \$198 million does not represent an amount due from a Federal Agency on September 30, 1992, the amount should not be shown as a Federal Intragovernmental item. The only reason to not reflect the unconfirmed deposits as cash or other monetary assets is that DeCA has been instructed to show no cash

Appendix C. DeCA Response to Suggested Changes

assets on its statement of financial position. This issue will be discussed between DoDIG, the DBOF, and OSD(C).

Response: Concur. The Statements of Financial Position and Cash Flows are being adjusted to show the unconfirmed deposits as Financial Resources, Other, Non-Federal. Disclosure will be added to the footnotes, and deleted from the Overview.

Comment I.C.1: Resale Stocks. Footnote disclosure should be made of the change funds held at the commissaries. DeCA staff said that change funds kept at the commissaries are reported by local disbursing officers, and are not reported by DeCA. However, DeCA physically controls these monies. The amount held and the reason for not including such monies in the Statement of Financial Position should be disclosed in the Notes to the Financial Statements. We estimate that DeCA could hold \$6 million in change funds (\$16,000 per commissary times 384 stores).

Response: Partially concur. A footnote disclosure will be added to i) explain that change funds held at the commissary stores though controlled by DeCA, are under accountability of local disbursing agents, ii) disclose operational guidelines for change fund requirements. However, actual amounts held in the stores vary according to local installation guidelines. An estimate arrived at using the auditor's technique could result in significant over-or understatement of change funds managed within the Agency.

Comment II.B.1. DeCA's Notes to the Financial Statements disclose that \$64.56 million in year-end accruals for specific expense types were not processed by the Agency and that expenses for Commissary Operations are understated by this amount. DeCA staff explained that the expenses were not accrued because of limitations of DeCA's accounting system. The \$64.56 million is material to the financial statements taken as a whole, and non-accrual of \$64.56 million causes misstatement of the financial statements including the Statements of Operations, Financial Position, and Budget and Actual Expenses.

Response: Partially concur. Problems with the CONUS accounting system precluded classifying and recording of actual expenses, and the value of \$64.56 million was developed as an early estimate of understated expenses. However, the \$64.56 million constitutes only an estimate derived from by DeCA sources, cannot be supported by detail performance data, and is now believed to be understated. Insufficient documentation exists to first validate an estimated amount by which expenses are understated, then perform an estimated distribution by object classification. Although we concur that the understated expenses are both material and should otherwise be included in the statements, we are reluctant to include data of such a speculative nature in the financial statements.

Appendix C. DeCA Response to Suggested Changes

We have presented the void in recording and classifying expenses as part of the Overview, Impact of Start-up Problems. In so doing, we have "highlighted critical areas for financial and management improvement" in compliance with OMB Bulletin 93-02, Appendix B, paragraph A, and believe that a footnote disclosure of this item is adequate. The footnote will be revised to i) disclose that expenses are believed to be understated by at least \$64.56 million and ii) include the statement "Systems to capture and report expenses by object class are in the process of being developed."

Comment II.B.2. Total expenses of \$1,027,281,818 on the Statement of Operations for Operations is incorrectly enclosed by parentheses. The amount is carried forward correctly on the Statement of Operations. This error is still a significant error for the financial statements.

Response: Concur. The typographical error has been corrected.

Comment II.B.3: Statement of Financial Position. Equipment Valuation. The valuation of equipment in the financial statements does not agree with the trial balance. The \$48,025 misstatement effects the Statement of Financial Position, Statement of Operations, Statement of Cash Flows, and Statement of Budget and Actual Expenses. The error carries forward into the Consolidating Statements.

Response: Partially concur. The recording error of \$48,025, a balance sheet entry, is not material to the DBOF financial statements. Though acknowledged, no adjustment has been made to the financial statements because the valuation of fixed assets, which is the basis for the amount shown on the trial balance was determined to be invalid after publication of the statements. Efforts underway to determine correct values of DeCA fixed assets are disclosed in the Overview under Property, Plant and Equipment.

Comment II.B.4. Operations. Typographical and Other Errors. There were small typographical errors of figures in the Statement of Financial Position, Statement of Operations, and Statement of Cash Flows. These errors were not included in totals. Figures that agree with the trial balance are included in the totals and carried forward to the Consolidating Statements.

Response: Concur. Corrective action will be taken.

Comment II.C. Footnotes to the Financial Statements. Footnote 7 to the Commissary Operations and Footnote 9 to the Business Operations Fund reflect the allocation of \$878 million in operating expenses in the CONUS based on the percentage of total expenses by line item for the Midwest Region. OMB Bulletin 93-02 states that "Financial Statements shall be the culmination of a systematic accounting process." OMB 93-02 also requires that "...to the

extent possible, expenses should be classified and reported by major type of program. Agencies that are able to do so should also disclose operating expenses by object classification in the notes to the principal statements." DeCA did develop actual expense data for the Midwest Region and had actual data for Europe. Those expenses should be disclosed in the Notes including an explanation of what is represented. However, extrapolating from one region to the other five CONUS regions with percentage estimates is not an appropriate basis for reporting expenses by object classification. DeCA staff said actual expense information was not developed for the rest of CONUS because of the lack of staff and time involved.

Response: Nonconcur. Expense-like data (i.e., accrued expenditures) was used to estimate expenses for the Midwest region, and not actual expense data as stated in the finding. The estimates used for one CONUS region add no value to the disclosure for the same reasons outlined in the response to II.B.1.-- not only is the information comprised of estimates, but it is also known to be significantly understated. The footnote will be revised to more appropriately state "The Defense Commissary Agency is unable to capture expenses by object class accurately at this time. Systems to capture and report expenses by object class are in the process of being developed."

Appendix C. DeCA Response to Suggested Changes



OFFICE OF THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON DC 20301-1100

MAY 17 1993

Management Systems)

COVER BRIEF

TO: DEPUTY COMPTROLLER (MANAGEMENT SYSTEMS)
FROM: DIRECTOR FOR ACCOUNTING POLICY N. E. Tate
SUBJECT: Defense Commissary Agency Financial Statements
PURPOSE: To obtain concurrence on recommended actions to DoDIG requested corrections to DeCA financial statements.

DISCUSSION:

- The Defense Commissary Agency (DeCA) received a memorandum from the Office of the Inspector General, dated April 23, 1993, requesting that portions of the financial statements be corrected. DeCA referred the memorandum to this office prior to responding to the DoDIG. The significant corrections are summarized below and the individual requests are attached:
 - Overview of the Reporting Entity. The DoDIG suggests that the Overview include negative information on DeCA operations such as bill paying practices during FY 1992 and the effect of bill paying problems upon agency performance indicators (DoDIG Findings I.A.1 through I.A.7).
 - Principal Statements. The Statement of Financial Position shows deposits in transit of \$198 million as accounts receivable (DoDIG Finding I.B.3).
 - Footnotes to the Principal Statements. The DoDIG suggests that funds retained at individual commissaries for the purpose of making change be disclosed in the footnotes, and that expenses be at actual, not estimated, costs (DoDIG Finding I.C.3).
- Recommended actions to each of the DoDIG requested adjustments are attached. Generally, this office concurs with a number of the ODoDIG's recommendations. However, one major area of disagreement is the extent to which DeCA should report, in great detail, the extent of its contract payment and other problems in FY 1992--many of which have been corrected. While the ODoDIG requests that the Overview be modified to include more details on such problems, this office is not inclined to insist that DeCA do so.

Attachment 1

Appendix C. DeCA Response to Suggested Changes

- DeCA has requested concurrence prior to permitting the DFAS-Indianapolis Center to make approved changes. This office is following the precedent set last year to review suggested changes for consistency with DoD policy and recommend appropriate action relative to the requested correction.
- Conversations with Mr. Gary Lutz (DeCA Resource Management) indicates that the DoDIG plans to issue an adverse opinion based on problems in inventory accounting and duplicate payments. Actions taken relative to the corrections in this memorandum will not effect that opinion.
- In a memorandum dated April 15, 1993 (at Backup), the DoDIG advised that it would not be able to verify corrections made to Business Operations Fund financial statements after April 30, 1993, and corrections made to other than Business Operations Fund financial statements after May 15, 1993.
- Attached, at Tab A, is a proposed memorandum advising the DoDIG that the Department plans to continue to make corrections in its audited financial statements. Further, the proposed memorandum advises that such corrections will be submitted to the DoDIG for consideration. (Forwarding proposed corrections to the DoDIG, even though the DoDIG may not review such corrections, is considered essential to avoid a situation whereby [later on] the ODoDIG could state that it never saw the proposed changes. Statements by the ODoDIG that it was not provided an opportunity to see changes before they were included in the final statements could be misinterpreted and invite additional unwarranted criticism of the Department.)

RECOMMENDATION: Sign the memorandum at Tab A. Also, if you agree, we will relay the attached proposed comments to DeCA and the DFAS-IN, for transmittal to the DoDIG.

COORDINATION: None.

Prepared by: Covell/ODC(MS)AP/3A882/76149/5-14-93/OA-363-1
File: 304.02.17.1 Audited Financial Statements

Appendix C. DeCA Response to Suggested Changes

Non-Compliance of DeCA Financial Statements with OMB 93-02

DoDIG Finding I: Resale Stock Fund

DoDIG Finding I.A: The Overview to the Financial Statements

DoDIG Finding I.A.I: Office of Management and Budget (OMB) Bulletin 93-02 states that the Overview is part of the financial statements and should report on the results of operations and provide the effect on Agency performance indicators. DeCA's Overview omits information such as bill paying practices during FY 1992 and the effect of bill paying problems upon its performance indicators. The Overview describes procedures in effect at the end of the year for bill paying, but needs to include many of the bill paying procedures followed during the year.

Recommended Action: Nonconcur. This office is unable to identify the particular requirement in Office of Management and Budget (OMB) Bulletin 93-02. However, OMB Bulletin 93-02, in Appendix B, paragraph A (first paragraph, third sentence), does provide, when referring to the "Overview", that "It should also include program and administrative highlights and may also highlight critical areas for financial and management improvement." The Defense Commissary Agency "Overview" includes a "Financial Impact Of Start-Up Problems" section which satisfies the OMB requirement.

DoDIG Finding I.A.2: DeCA's Overview should describe the effect of start up problems on the performance indicators. Discounts Earned (98 percent goal versus 86 percent actual) and Interest Paid (.03 percent goal versus .14 percent actual). DeCA does not make any reference to the amount of suspected duplicate payments (\$17 million) or to the value of invoices (\$192 million) written off due to duplicate entries.

Recommended Action: Nonconcur. The "Overview" addresses start-up problems in recording (a) expenses, (b) inventories, (c) property, plant and equipment, and (d) accounts receivable deemed appropriate for inclusion by DeCA management.

DoDIG Finding I.A.3: With respect to the Standard Automated Voucher Examination System (SAVES), the Overview states that "the systems were selected because tests proved they could process DeCA's consolidated workload volume." However, no official at DeCA could provide us with documentation of these tests. Further, certain DeCA personnel maintain that the volumes tested were not truly representative of the volume of transactions to be processed by DeCA. The Overview should not say the systems were selected because tests proved they could process DeCA's workload volume. The Overview should describe

the excessive downtime and long overnight processing times that affected data entry access and vouchers examiners access to SAVES, and contributed to the vendor payment problems.

Recommended Action: Partially concur. If tests cannot be documented, then it is inappropriate to make such a statement. The decision to include or not to include data, such as described above, is reserved for the fund manager by Office of Management and Budget (OMB) memorandum entitled "Financial Statements and Performance Measures" dated, February 5, 1992.

DoDIG Finding I.A.4: DeCA's Overview should disclose the procedures used to accomplish bill paying during much of FY 1992. For example, the Overview states "In the service center's bill paying organization, the invoice is reviewed to determine if it meets the requirements for a proper invoice set forth in OMB Circular A-125. If not, it is returned to the vendor with a letter explaining the problem." However, during the fall of 1991 improper invoices were retained at the service centers for correction. The invoices were entered into the SAVES and the date DeCA corrected the invoice was entered as the date DeCA received the invoice from the vendor.

Improper invoices were not returned to vendors within the requirements of the Prompt Payment Act and vendors had no opportunity to correct their invoices to obtain prompt payment. A later statement in the Overview also discloses current practice but does not reflect procedures in effect during the fall and winter of 1991-1992. "Improper invoices are returned to the vendor within the timeframe set forth in OMB Circular A-125 and do not incur interest."

Recommended Action: Nonconcur. The Office of Management and Budget, in a memorandum dated, February 5, 1992, advises that, "The Overview of the Reporting Entity will be the first and for many readers (e.g., non-accountants and high-level decision makers) perhaps the only part of the Annual Financial Statement that will be read. It must provide readers with a clear and concise understanding of the reporting entity's activities, accomplishments, financial results and condition, problems, and needs. It should tell the reader whether and how well the mission of the reporting entity is being accomplished and what, if anything, needs to be done to improve either program performance or financial performance." Corrective action on many of the previous problems already have been taken; and the omission of the suggested statements does not appear to violate OMB's direction.

DoDIG Finding I.A.5: DeCA should describe earlier procedures during the fall of 1991 and winter of 1992 with regard to reconciliations between invoices and receipts. Different

Appendix C. DeCA Response to Suggested Changes

procedures were used during the period of bill paying problems in FY 1992 than were disclosed in the Overview.

Recommended Action: Nonconcur for the reasons stated in item I.A.4.

DoDIG Finding I.A.6: The Overview does not mention that because of the bill paying problems, outdated contracts were retained in SAVES during FY 1992 beyond the timeframes normally permitted.

Recommended Action: Nonconcur for the reasons stated in item I.A.4.

DoDIG Finding I.A.7: DeCA's overview says "it is the opinion of this Agency that inventories are significantly overstated in the financial records." We suggest that DeCA use the phrase "we believe" rather than "it is our opinion." The auditor's opinion should be the only opinion included in the financial statements in order to avoid confusing the reader. If DeCA can determine or estimate the overstatement of inventory, it should provide the information in the Overview and based on the degree of supporting evidence considering adjusting the financial statements.

Recommended Action: Concur.

DoDIG Finding I.B: The Financial Statements

DoDIG Finding I.B.1: The Statement of Operations. Resale Stocks and Consolidating Statements. DeCA's Cost of Goods Sold should be stated in accordance with OMB 93-02. DeCA's Cost of Goods Sold was allocated between public and intragovernmental on the basis of obligations to the Federal Government. However, OMB 93-02 requires that the Cost of Goods Sold be based on the cost of sales to customers, not the activities the goods were purchased from. This error causes significant misstatement in the financial statements.

For example,

	Public (000)s	Intragovernment (000)s
Revenue from the Sale of Goods	\$6,005,021	\$152,004
Cost of Goods Sold	5,053,117	976,638
Profit (Loss)	951,904	824,636)

DeCA clearly did not profit by \$951 million on sales to the public nor lose \$824 million on intragovernment sales. These amounts are material to DeCA's financial statements.

Recommended Action: Concur. Recommend that DeCA attempt to classify "Cost of Goods Sold" along the lines suggested by the auditor.

DoDIG Finding I.B.2: The Statement of Operations for the Resale Stock Fund shows \$4,228,198 in Other Revenues and Financing \$17.3 million in inventory losses against \$21.5 million in Other Revenues primarily derived from coupons. The \$17.3 million should be shown on line 12, Bad Debts and Write Offs. The amount of Other Revenues should be \$21.5 million. The nature of the Other Revenues should be disclosed in the Notes. The misstated accounts in the Resale Stocks statements carry over into the Consolidated Statements as errors.

Recommended Action: Concur.

DoDIG Finding I.B.3: Statement of Financial Position. The Overview states that Accounts Receivable-Federal for Resale Stocks is overstated by \$198,079,000 for unconfirmed deposits. This amount has been sent for deposit in financial institutions, but the deposit tickets have not been forwarded through the commissaries to Defense Finance and Accounting Service (DFAS)-Columbus Center for credit to DeCA's account. The unconfirmed deposits represent amounts that really are Treasury Cash, but are not yet recognized by Treasury. Some of the deposits were in transit or not yet accounted for by the financial institutions on September 30, 1992. These unconfirmed deposits should be shown as Other, Non-Federal Financial Resources and explained in the Notes. OMB Bulletin 93-02 requires the separate reporting of Federal Intragovernmental items to facilitate the preparation of government-wide consolidated financial statements. Since the \$198 million does not represent an amount due from a Federal Agency on September 30, 1992, the amount should not be shown as a Federal Intragovernmental item. The only reason to not reflect the unconfirmed deposits as cash or other monetary assets is that DeCA has been instructed to show no cash assets on its statement of financial position. This issue will be discussed between DoD IG, the DBOF, and OSD(C).

Recommended Action: Concur. However, neither the Defense Commissary Agency, nor any other Business Operations Fund activity, has been instructed to exclude cash or any other monetary asset on the Statement of Financial Position. They have, however, been instructed to show a "Fund Balance With Treasury" that is equal to the difference between disbursements and collections for the reported fiscal year. The reason for such direction is that the Business Operations Fund cash balance is held and controlled at the Fund level.

Appendix C. DeCA Response to Suggested Changes

DoDIG Finding I.C: Footnotes to the Financial Statements

DoDIG Finding I.C.1: Resale Stocks. Footnote disclosure should be made of the change funds held at the commissaries. DeCA staff said that change funds kept at the commissaries are reported by local disbursing officers, and are not reported by DeCA. However, DeCA physically controls these monies. The amount held and the reason for not including such monies in the Statement of Financial Position should be disclosed in the Notes to the Financial Statements. We estimate that DeCA could hold \$6 million in change funds (\$16,000 per commissary times 384 stores).

Recommended Action: Concur.

DoDIG Finding II: Operations Fund

DoDIG Finding II.A: Overview. No comments are made concerning operations disclosures in the Overview at this time.

Recommended Action: The finding requires no corrective action.

DoDIG Finding II.B: Financial Statements

DoDIG Finding II.B.1: Statement of Operations. DeCA's Notes to the Financial Statements disclose that \$64.56 million in year-end accruals for specific expense types were not processed by the Agency and that expenses for Commissary Operations are understated by this amount. DeCA staff explained that the expenses were not accrued because of limitations of DeCA's accounting system. The \$64.56 million is material to DeCA's accounting system. The \$64.56 million is material to the financial statements taken as a whole, and non-accrual of \$64.56 million causes misstatement of the financial statements including the Statements of Operations, Financial Position, and Budget and Actual Expenses.

Recommended Action: Concur.

DoDIG Finding II.B.2: Total expenses of \$1,327,281,818 on the Statement of Operations for Operations is incorrectly enclosed by parentheses. The amount is carried forward correctly to the Consolidated Statement and added correctly on the Statement of Operations. This error is still a significant error for the financial statements.

Recommended Action: Concur. The parentheses should be deleted.

DoDIG Finding II.B.3: Statement of Financial Position. Equipment Valuation. The valuation of equipment in the financial

statements does not agree with the trial balance. The \$48,025 misstatement affects the Statement of Financial Position, Statement of Operations, Statement of Cash Flows, and Statement of Budget and Actual Expenses. The error carries forward into the Consolidating Statements.

Recommended Action: Concur.

DoDIG Finding II.B.4: Operations. Typographical and Other Errors. There were small typographical errors of figures in the Statement of Financial Position, Statement of Operations, and Statement of Cash Flows. The errors were not included in totals. Figures that agree with the trial balance are included in the totals and carried forward to the Consolidating Statements.

Recommended Action: Corrective action should be taken as noted.

DoDIG Finding II.C. Footnotes to the Financial Statements. Footnote 7 to Commissary Operations and Footnote 9 to the Business Operations Fund reflect the allocation of \$878 million in operating expenses in the CONUS based on the percentage of total expenses by line item for the Midwest Region. OMB Bulletin 93-02 states that "Financial statements shall be the culmination of a systematic accounting process." OMB 93-02 also requires that "... to the extent possible, expenses should be classified and reported by major type of program. Agencies that are able to do so should also disclose operating expenses by object classification in the notes to the principal statements." DeCA did develop actual expense data for the Midwest Region and had actual data for Europe. These expenses should be disclosed in the Notes including an explanation of what is represented. However, extrapolating from one region to the other five CONUS regions with percentage estimates is not an appropriate basis for reporting expenses by object classification. DeCA staff said actual expense information was not developed for the rest of CONUS because of the lack of staff and time involved.

Recommended Action: Concur. However, the footnote should more appropriately state that, "The Defense Commissary Agency is unable to capture expense by object class accurately at this time. Systems to capture and report expenses by object class are in the process of being developed."

Appendix D. Organizations Visited or Contacted

Office of the Secretary of Defense

Assistant Secretary of Defense (Production and Logistics)

Defense Agencies

Defense Commissary Agency Headquarters, Fort Lee, Petersburg, VA
Defense Commissary Agency, East Service Center, Fort Lee, Petersburg VA
Defense Commissary Agency, West Service Center, Kelly Air Force Base, San Antonio, TX
Alameda Naval Air Station, Commissary Resale Store, Alameda, CA
Charles Melvin Price Support Center, Commissary Resale Store, Granite City, IL
Fort Carson, Commissary Resale Store, Fort Carson, CO
Fort Benjamin Harrison, Commissary Resale Store, Fort Benjamin Harrison, IN
Fort Huachuca, Commissary Resale Store, Fort Huachuca, AZ
Fort Monroe, Commissary Resale Store, Fort Monroe, VA
Fort Ord, Commissary Resale Store, Fort Ord, CA
Holloman Air Force Base, Commissary Resale Store, Alamogordo, NM
Jacksonville Naval Air Station, Commissary Resale Store, Jacksonville, FL
Kingsville Naval Air Station, Commissary Resale Store, Kingsville, TX
Langley Air Force Base, Commissary Resale Store, Hampton, VA
March Air Force Base, Commissary Resale Store, Riverside, CA
McChord Air Force Base, Commissary Resale Store, Tacoma, WA
National City Central Distribution Center, San Diego, CA
Norton Air Force Base, Commissary Resale Store, San Bernardino, CA
Oceana Naval Air Station, Commissary Resale Store, Virginia Beach, VA
Patrick Air Force Base, Commissary Resale Store, Cocoa Beach, FL
U.S. Air Force Academy, Commissary Resale Store, Colorado Springs, CO
Wurtsmith Air Force Base, Commissary Resale Store, Oscoda, MI

Appendix E. Report Distribution

Office of the Secretary of Defense

Assistant Secretary of Defense (Production and Logistics)
Assistant Secretary of Defense (Force Management and Personnel)
Assistant to the Secretary of Defense for Public Affairs
Comptroller of the Department of Defense

Department of the Army

Secretary of the Army
Inspector General

Department of the Navy

Department of the Navy, Naval Audit Service

Department of the Air Force

Air Force Audit Agency

Defense Agencies

Director, Defense Commissary Agency
Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Defense Intelligence Agency
Director, Defense Logistics Agency
Director, Defense Logistics Studies Information Exchange
National Security Agency

Non-DoD Federal Organizations

U.S. General Accounting Office
Information Management and Technical Division
National Security and International Affairs Division, Technical Information Center
National Security and International Affairs Division, Defense and National Aeronautics and
Space Administration Management Issues

Non-DoD Federal Organizations (cont'd)

National Security and International Affairs Division, Military Operations and Capabilities
Issues
Office of Management and Budget
National Security Division Special Project Branch
Office of Federal Procurement Policy

Chairman and Ranking Minority Member of Each of the Following Congressional Committees
and Subcommittees:

Senate Committee on Appropriations
Senate Committee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Government Affairs
House Committee on Appropriations
House Committee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on Government
Operations

**Part V - Defense Commissary Agency
Defense Business Operations
Fund - Financial Statements
For FY 1992**

***DEFENSE COMMISSARY
AGENCY DEFENSE
BUSINESS OPERATIONS
FUND***

OVERVIEW

**DEFENSE COMMISSARY AGENCY
DEFENSE BUSINESS OPERATIONS FUND
OVERVIEW**

DESCRIPTION OF THE REPORTING ENTITY

The Defense Commissary Agency (DeCA) is an element of the Department of Defense under the supervision of the Under Secretary of Defense (Acquisition) through the Assistant Secretary of Defense (Production and Logistics). DeCA was formed after the House Armed Services Committee-appointed Jones Commission found that a single agency could operate the commissary system more efficiently and at a lower cost. After fifteen months of intense planning and coordination, DeCA was officially activated on October 1, 1991. DeCA now manages and operates a worldwide network of systems managing 22,000 people, encompassing nearly 400 commissaries worldwide, and totaling more than \$6 billion in annual sales.

Mission

DeCA's mission is to operate the network of retail grocery sales stores, making quality goods available at the lowest possible cost to members of the U.S. military Services. Commissary patrons include members of the military Services, retirees, members of the Reserve and National Guard and authorized family members. This is a quality of life benefit that improves the armed Services' efficiency. DeCA also provides a training environment for wartime support operations, and provides troop issue subsistence support to military dining facilities in accordance with the needs of the Services.

The Agency is headquartered at Fort Lee, Virginia. The headquarters command element and staff manages the total resources of all DoD commissaries worldwide, including personnel, facilities, supplies, equipment and funds. The headquarters has oversight of a worldwide system of seven regions, districts within several of those regions, and two service centers.

DeCA Regions

<u>Region</u>	<u>Location</u>
Central	Little Creek Naval Amphibious Base, VA
Northeast	Fort Meade, MD
Southern	Maxwell Air Force Base, AL
Midwest	Kelly Air Force Base, TX
Southwest	El Toro Marine Corps Air Base, CA
Northwest-Pacific	Fort Lewis, WA
European	Ramstein Air Force Base, Germany

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Each region headquarters encompasses several divisions, including Operations, Resource Management, Information Resources Management, Facilities, Personnel and Training, Contracting and Auditing. Several of the regions are divided into districts for localized management support.

Region headquarters provide technical advice, assistance, training and direction pertaining to resale and troop issue functions to all locations under their jurisdiction. The region office staff also acts as liaison for DeCA Headquarters with all commissaries and installation commanders within the region. Region commanders and directors report personally to DeCA's Deputy Director. They are responsible for ensuring the accomplishment of all phases of the DeCA mission, including policy implementation, customer service, safety and security, computer systems, goals and operating standards, manpower requirements, training programs and stockage requirements. They are also the accountable officers for all region assets and resources.

Service Centers

DeCA's two service centers are located at Fort Lee, Virginia (East Service Center), and Kelly Air Force Base, Texas (West Service Center). The East Service Center has responsibility for all commissaries, districts and regions east of the Mississippi, including Europe; the West Service Center has the identical duties for locations west of the Mississippi, including the Pacific.

The centers are responsible for analysis and reconciliation of accounting transaction data between the inventory management system and the official accounting system. They provide accounts management, including accounts payable reconciliation of receipts and vendor invoices voucher preparation; and disbursement officer certification for payment of funds. The service centers also perform contracting for resale merchandise, services and supplies. The West Service Center is the focal point for the DeCA merchandise coupon program.

Agency Funding

DeCA is funded from three congressionally-approved sources:

(1) Commissary Resale Stock (97X4930.5K00) accounts for the purchase of resale stock items - primarily groceries and war reserve materials. The fund is a sub-apportionment of the Defense Business Operations Fund (DBOF). Revenues are recognized at the point of sale.

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(2) Commissary Operations (97X4930.5J00) accounts for direct and indirect costs of store operations. Also sub-apportioned from the DBOF, authorized revenues for this account are established as a percentage of sales. The lions share of this account is expended for civilian and military pay. Expenses are recognized upon consumption. This account contains a capital budget limitation subject to provisions of 31 USC 1517.

(3) Commissary Surcharge Collections (97X8164) revenue is generated by a surcharge added to grocery sales at checkout. The money generated by this surcharge is used to build, renovate and upgrade commissaries; and defrays store-level operational expenses like equipment, utilities, bags, plastic wrap, etc. The largest share is used for building new commissaries and modifying existing structures. These monies are congressionally apportioned to DeCA. Budgetary resources for Commissary Surcharge Collections in FY 92 also included unfunded contract authority. The fund operates subject to the provisions of Section 1517 of 31 USC, relevant portions of Title 10 USC and DoD 1330.17-R.

Defense Commissary Advisory Board

The Defense Commissary Advisory Board is responsible to the Assistant Secretary of Defense (*Production and Logistics*). It functions as a forum for discussion of commissary issues. The Board consists of the DeCA Director, who serves as chairman; a representative of the chairman of the Joint Chiefs of Staff; one military officer and one enlisted representative from each of the military Services, appointed by the secretaries of the military departments; and other invited representatives.

The board meets annually, or more often as needed, to exchange information between the DeCA director and the military departments. It considers key aspects of DeCA operations, services and resources and makes recommendations on policies and programs.

The board also provides advice on funding and recommends priorities for the commissary construction program. Its main objective is to enhance patron service and ensure that a financially solvent and responsive system is maintained to benefit commissary patrons.

BACKGROUND OF THE CONSOLIDATION

The Defense Commissary Agency (DeCA) was activated on October 1, 1991. DeCA's mission is to operate a worldwide system of retail grocery sales stores, making quality goods available at the lowest possible cost to service personnel, retirees and their families. DeCA also is responsible for assisting in wartime troop support and maintaining stocks of subsistence materials.

The consolidation of the military Services' commissary systems under the DeCA was more complex than previous consolidations within the Department. The substantial differences and incompatibilities of the distribution, pricing, contracting, bill paying, and ac-

1-7-6 Overview

counting systems of the four military Services' commissary operations mandated standardization in order to achieve the benefits of consolidation. The consolidation required the establishment of accounting systems, organization responsibilities and document flows to provide stewardship and accountability for funds provided to the DeCA

A major objective of the consolidation was to achieve improved item availability for the commissary patron while saving taxpayer dollars through better inventory management by using food industry practices. DeCA's distribution system utilizes a combination of central distribution centers (CDCs) and "just-in-time" inventory from distributors or vendors for delivery to the commissary store shelf. For remote commissaries, sufficient inventory levels are maintained in backrooms to meet sales demands considering the product availability from vendors.

DeCA used the existing Services' CDCs, and new CDCs to support all commissaries within a geographic area regardless of former Service affiliation. This required integrated procedures and compatible pricing, contracting, bill paying and accounting systems.

The "just-in-time" inventory methodology was developed and implemented with industry participation, using a Total Quality Management approach, to ensure a workable system which was beneficial to all parties. The current standardized process requires deliveries to be rolled-up from the 1st - 15th and from the 16th to month-end to reduce invoicing/billing costs for industry and the government's processing costs. In addition, the vendor obtains preferable payment terms in net 23 days vs the normal net 30 days. The roll-up method of invoicing used by DeCA does not apply to products which require payment either in 7 or 10 days under the Prompt Payment Act unless the manufacturer requests these type items be rolled in their contracts.

DeCA implemented a region based central buying and pricing concept for resale items. Under this concept the regions have professional buyers who negotiate the best prices with the vendors by combining quantities of items for all commissaries or CDCs in the region. The vendors provide the region buyers their price quotes with the effective dates. The region, in turn, sends the prices to the commissaries and CDCs for use in ordering, receiving and selling the items. This concept uses DeCA's buying power to get the best prices and quality products; and, it ensures uniformity of item pricing between commissaries in the same pricing zone.

The military Services' commissary organizations used different systems for buying and pricing resale items that directly impacted the efficiency of DeCA's operations initially. The military Services' systems were incompatible and had to be melded into a single system to effect the consolidation of commissaries. The military Services' buying and pricing systems ranged from highly centralized at the region or complex level to fully

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decentralized at the commissary. When DeCA took over October 1, 1991, interfaces needed to be developed to continue using Navy and Air Force automated commissary systems for central pricing until DeCA's interim business system (DIBS) could be fully deployed. The Marine Corps' commissaries and CDCs were the first to convert to DIBS on October 1, 1991, because of the cost to maintain their proprietary system. Under DeCA, the former Army commissaries now receive their pricing from the respective region; however, they continue to use the same manual methods to enter prices into their front end cash register systems and to transmit receiving data using a PC to the DeCA Standard Automated Voucher Examination System (SAVES). As DIBS is deployed, it will provide regions the capability to electronically transmit price quotes to the commissaries and CDCs. This should substantially reduce or eliminate pricing discrepancies, a problem that has continually challenged commissaries.

DeCA's concept was to establish a single contracting office at the West Service Center to issue all resale contracts and a contracting office at the East Service Center to issue all other contracts, i.e., for equipment, supplies and services needed by DeCA organizations. This approach provided vendors supplying DeCA with a standard method to get a contract and, depending on the nature of the procurement, one location for contracts. It also provided the capability to combine requirements for supplies and equipment to obtain lower prices from quantity purchases. It was concluded that "capitalization in place" was not feasible as it would have required modifying over 60,000 resale contracts used by the military Services and maintaining them in many contracting offices. In addition, the differences in DeCA's distribution methods and the realignment of commissaries, troop issue activities and CDCs under the DeCA region mandated that new resale contracts be established.

For the resale contracts, DeCA adopted a regionalized approach to reduce the number of contracts needed and the associated maintenance costs to both the Government and industry. Under this concept, a vendor was issued a single contract for each type of distribution method and department, i.e., grocery, meat or produce, for all commissaries, troop issue activities and CDCs serviced by the vendor within the region. This approach dramatically reduced the number of commissary resale contracts by some 57 percent, from the approximate 60,000 contracts used by the military Services' commissary systems to approximately 25,000 contracts in DeCA's system. A reduction of this magnitude translates into savings for the Government and industry.

Prior to DeCA there were over 100 bill paying activities and 22 commissary regions/complexes. The consolidation resulted in two bill paying offices and seven regions. DeCA could not use all of the different bill paying and accounting systems of the military Services' commissary systems after the consolidation and maintain essential funds control to execute a \$6.5 billion annual resale program. DeCA's concept was to centralize and standardize bill paying and accounting systems to provide funds control, reduce operating costs, and simplify the number of required interfaces from the commissary business systems.

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The Jones Commission-DoD Study of Military Commissary System recognized the need to reduce the 100 bill paying offices supporting the military Services' commissary systems. The study recommended consolidating the bill paying function at the commissary regions. DeCA, to stay within the dictated manpower constraints and to achieve further efficiencies, consolidated bill paying at two service centers located East and West to service the respective regions in those areas of the continental United States. Furthermore, DeCA selected the Defense Finance and Accounting Service (DFAS), Columbus Center to provide centralized accounting and disbursing support for its regions and commissaries at a lower overall cost. This centralization of bill paying and accounting was made possible through use of the Defense Logistics Agency communication network which enables the DeCA Headquarters, service centers, regions, commissaries, troop issue activities and CDCs to be linked with the bill paying and accounting systems from all locations in the continental United States, Hawaii and Alaska. In addition, the DeCA civilian payroll for over 17,000 personnel was centralized at the DFAS Columbus Center from some 70 payroll offices at a lower cost. In the European Commissary Region, a similar consolidation of over 2,000 civilian personnel payroll records was accomplished at the 266th Army Theatre Area Finance Command in Heidelberg, Germany to reduce processing costs.

In selecting the bill paying and accounting systems, DeCA evaluated those used by the former military Services commissaries and the Defense Logistics Agency's systems. Additionally, DeCA coordinated with the Department's Corporate Information Management Groups working on bill paying and accounting systems; and the Defense Finance and Accounting Service (i.e., implementation team and the headquarters after January 20, 1992).

The Army's Standard Accounting and Finance System (STANFINS) and the Standard Automated Voucher Examination System (SAVES) were selected for DeCA's resale stock accounting and bill paying, respectively. The systems were selected because tests proved they could process DeCA's consolidated workload volume; the automated interfaces between the accounting and bill paying modules already existed and were proved successful over the prior five years. Also, the former Army commissaries, representing 31 percent of the stores, were experienced on the system and required minimal retraining; and the accounting system was compatible with the standard civilian payroll system at the DFAS Columbus Center which eliminated the need for multiple computers. In addition, the DFAS certified the capabilities and controls of the SAVES for bill paying in July 1991 in a Federal Managers Financial Integrity Act (FMFIA) review of the system.

The bill paying system, SAVES, that DeCA is using is contract based. The system validates receipt and invoice information at the time of data input and will not accept the input if the contract is not in SAVES; or if the commissary, troop issue activity, or CDC are not authorized to use the contract; or the order (i.e., call) number was previously used by the commissary troop issue activity/CDC.

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Each day the commissaries, troop issue activities and CDCs key in their receiving data to their business system where it is validated for contract and call number. The receipt file is transmitted each evening to the SAVES computer at the DeCA East Service Center through our communications network. The vendor sends invoices to either the East or West Service Center depending on the billing address in the contract. The mail room supporting each service center opens the mail daily, date stamps each invoice, and delivers the invoices to the bill paying organization in the service center.

In the service center's bill paying organization, the invoice is reviewed to determine if it meets the requirements for a proper invoice set forth in OMB Circular A-125. If not, it is returned to the vendor with a letter explaining the problem. The invoice requirements are vendor's name; contract number; item description, unit price, quantity; extended and totalled dollar amounts; payment terms; name of delivery location; vendor's "remit to" address; and vendor point of contact and telephone number. Once the invoice is reviewed to determine if it contains the required elements, it is keyed into SAVES and validated at the point of entry for valid contract number; commissary/troop issue activity/CDC authorized to use contract; and duplicate call number. If the invoice does not pass the edit criteria, the invoice is returned to the vendor with a letter explaining the problem.

Once the invoice is entered into SAVES, the system searches during the end-of-day processing cycle for a matching receipt based on the contract and call (i.e. order) number. If the invoice and receipt are matched, the system determines if the dollar amounts agree. The SAVES will automatically reconcile the invoice and receipt amounts down to the lower amount when the difference does not exceed \$200. If the invoice or receipt amounts differ by more than \$200, a manual reconciliation will be performed by the service center bill paying organization. Payment vouchers furnished the vendor with the check show reason codes to explain any differences between the amount invoiced and paid.

The SAVES automatically considers discount terms offered by the vendor when the invoice and receipt are matched; and, SAVES determines if discounts are cost effective for the Government. The discount period is calculated automatically by SAVES from the date of invoice. If the terms are favorable, the system schedules the payment to take the discount. If the terms are not favorable, the system will schedule the payment for the net terms of the contract.

If the payment was made outside the net contract terms, interest is automatically calculated by SAVES and added to the payment. The vendor's copy of the voucher shows the interest paid. SAVES automatically computes the interest due on late payments based on the later of the date the invoice was received in the DeCA mail room or the date of delivery of the items at the commissary/troop issue activity/CDC. Improper invoices are returned to the vendor the timeframe set forth in OMB Circular A-125 and do not incur interest.

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On the payment due date, the SAVES produces a payment file and a voucher file which are electronically sent to the DFAS Columbus Center for producing the check and voucher. The DFAS Columbus Center matches the voucher with the check and mails the payment to the vendor.

FINANCIAL IMPACT OF START-UP PROBLEMS

The Defense Commissary Agency (DeCA) was activated on October 1, 1991 as a result of the Jones Commission DoD Commissary Study to consolidate the Air Force, Army, Navy, and Marine Corps commissary systems. Non-compatible automated systems and diverse operating procedures were major obstacles DeCA had to confront during its first year of operation. These start-up problems were also prevalent in the following financial areas:

Accounting systems employed for DeCA resale activity were placed into operation shortly before DeCA's activation. Although testing was performed, not all problems were identified prior to start-up. Minor problems became evident in the Continental United States (CONUS) application during the early months of operation, and most were resolved as they were identified. However, after capitalization of the prior Services' inventories, it became evident that resale accounts payable and inventory balances in CONUS were overstated, and further research disclosed that the problem existed at start-up. At the Office of the Secretary of Defense's direction, a team was established under the supervision of the DoD Comptroller to identify all problems in the resale accounting system, and to establish and execute a plan to resolve the problems. The team's mandate is to resolve the specific issues related to overstatement of inventories and accounts payable, and to resolve other outstanding issues related to the CONUS resale accounting system by mid-1993.

EXPENSES

Accounting systems currently providing support to DeCA do not provide detail expense data by general ledger account code (GLAC). DeCA employed the Defense Business Management System (DBMS), (an existing accounting system) to perform the accounting function for its commissary operations and surcharge collections accounts. In DBMS, operating expenses for FY 92 were not accrued in the period during which performance occurred. Instead, expenses were largely recorded at the time of disbursement. As a result, expenses are understated in the financial statements. Expense information at the detail object class level is provided by the accounting system servicing the European theater operations. However, the accounting system that services CONUS operations provides only summary expenses (not by GLAC or object class). At present, a download extract is provided; however totals do not agree with summary expense totals from the DFAS trial balance report. As a result, expense amounts reflected in these reports for

Overview I-7-11

Commissary Operations are accurate at bottom line, but aside from payroll costs, the object class distribution is based on a representative DeCA region. Real Property Maintenance expenses totaling approximately \$21.9 million are included in the "Contractual Services" object classification

Fund Balances with Treasury, Cash and Foreign Currency

(1) **Unexpended Appropriations:** The amount reported for Commissary Operations (\$170.0 million) is understated in FY 92 by approximately \$3.8 million. The reason for the understatement is a transfer of funds from surcharge collections that was not processed as an increase to income during the fiscal year. The omission was discovered after submission of the TFS 2108

(2) **Cash:** The cash balance reflected in item B represents net outlays reported to this Agency by servicing finance and accounting activities, and recorded in the Agency's accounting reports. The Defense Business Operations Fund (DBOF) outlay transactions reported directly to the Treasury by outside activities are not reflected in the cash balance.

Inventories

The following are the types of DeCA inventory and method used to determine the value of each type of inventory:

(1) **Inventories Held for Sale:** Grocery items procured from Federal and non-Federal sources are restricted for sale at cost to authorized commissary patrons, and to authorized appropriated and nonappropriated fund organizations. Resale inventories are valued using the first-in, first-out (FIFO) method

(2) **Troop Issue:** Bulk purchase food items are procured in support of troop mission requirements for Air Force installations and Army troop supported activities on 11 Army installations. These items are procured through Defense Personnel Support Center (DPSC), and sold at cost primarily to troop dining facilities. Commissaries that have a troop support mission must always be ready to support any contingency or rapid deployment. Troop Issue inventories are valued using the FIFO method.

(3) **War Readiness Materiel (WRM):** New WRM stocks are procured by DeCA and stored in Central Distribution Centers (CDCs), warehouses, or facilities under commercial lease by DPSC until needed. The Operations and Maintenance, Air Force appropriation, replaces spoiled and obsolete stocks. The WRM stocks residing in DeCA inventories are valued using the FIFO method

1-7-12 Overview

Inventory - Start-Up Problems: DeCA has experienced many transitional problems in its conversion year with recording and valuation of inventories. As a result of these problems, no adjustments were made to the accounting records based on physical inventories, and it is the opinion of this Agency that inventories are significantly overstated in the financial records.

(1) A reconciliation of the control versus subsidiary accounts conducted at fiscal year-end disclosed a \$205 million overstatement of inventory balances in the accounting control files. Based on this discovery, the resale inventory and accounts payable balances were adjusted downward by \$205 million to bring the accounting records into agreement with the subsidiary.

(2) Portions of the business/accounting system interface did not function correctly during FY 92. Specifically, store transactions that generate increases and decreases to inventory on-hand and inventory in-transit balances did not post correctly. Actions are underway to correct this problem.

(3) Beginning inventories capitalized when DoD consolidated commissary operations under DeCA are questionable. The military Services cannot substantiate the ending inventory balances, which were furnished to DeCA as beginning balances. Since initial capitalization of those balances, no reconciliation has been performed in the Agency's accounting system.

(4) Duplication may have occurred in the transfers of resale stock inventories from the military Services. In addition to capitalization of the certified ending inventory amounts, it is believed that the Air Force also sent a significant amount of in-transit inventory billings to DeCA. This means that these amounts were absorbed during the initial capitalization and again upon receipt of the merchandise at DeCA commissaries classified within ASAC as "receipts not due-in".

(5) Procedures used to transfer inventory between warehouses, commissaries, regions, DPSC and other locations are under review. Controls are being evaluated to discern whether the inventory accounts are being properly affected by the transfers. A plan has been developed in conjunction with the OSD Comptroller to inventory all DeCA commissaries and CDCs in March and April 1993 to establish valid book inventories.

Property, Plant and Equipment

B Other Information: The Property and Plant Accounting System (PPAS) is the property accountability system employed by DeCA. The Agency encountered difficulty obtaining accountability data from the military Services to accurately load property values into the PPAS:

Overview I-7-13

(1) The consolidation process involved gathering data from property records of all four military Services. Property records were not uniform. It is doubtful that all capital assets are properly classified and/or reflected in the PPAS, and in this statement.

(2) In most cases, exact acquisition dates were not provided by the former Services. For the DBOF, all capital assets acquired were entered into the PPAS with an acquisition date of October 1, 1991, or DeCA's inaugural date. As a result, we are aware that net book values are overstated by the time value of the difference (net acquisition value less depreciation) between October 1, 1991 and the actual acquisition date.

(3) These problems are being resolved wherever actual acquisition data is available. Each DeCA region has been tasked to identify and submit corrections to the PPAS to reflect, as nearly as possible, the correct acquisition dates and values for property contained in their inventories.

Resale Stock Receivables

Accounts Receivable, Federal is overstated by \$198,079,000, or the value of unconfirmed deposits at September 30, 1992. The unconfirmed deposits should have been reported as Treasury cash. The resale accounting system is currently programmed to record collections for cash sales as public receivables until deposits are confirmed at the DFAS-Columbus accounting center--normally three to five days after the funds are deposited. A system change is being initiated to discontinue this practice. When the change is completed, proceeds from cash sales will post to unconfirmed deposits, not receivables.

This performance measure shows customer responses to twelve survey questions. Results are expressed as a mean average on a scale of 1 to 5 (outstanding to unsatisfactory).

COST PER DOLLAR SALES

This performance measure shows appropriated funds expended for each dollar of commissary sales; expressed as a ratio of appropriated funds to sales. In the financial reports actual expenses are understated by \$64.56 million in identified unrecorded accruals.

OBLIGATIONS TO SALES COMPARISON

This performance measure shows the value of resale stock fund dollars expended to replace inventory sold to commissary patrons, minus inventory drawdowns due to patron base reductions and inventory management efficiencies. It is expressed as a ratio of inventory orders to sales. The objective ratio for commissary resale stocks in FY 92 was .995 (Sales are exclusive of coupon handling fees of \$20.7 million.)

I-7-14 Overview

**FINANCIAL ATTRIBUTES
OPERATING EFFICIENCY ATTRIBUTES**

Cost performance against FY 92 cost objectives are outlined below. This attribute shows the degree to which fund cost performance was met when compared against the cost objectives. Anticipated costs for the Commissary Operations account are based on a fixed percentage of projected store sales; for FY 92, the cost objective was 17.7% of store sales. The objective cost per dollar of sales for the resale account was set at 99.5%. If adjusted for unrecorded accruals, the actual would be 18.1%.

**ASSET MANAGEMENT
EFFICIENCY RATIO**

This attribute is an overall measure of the entity's asset position. When used in conjunction with other balance sheet measures, such as acid test and inventory turnover ratio, the asset management efficiency ratio can be used to determine optimum asset levels. For resale inventories, maintaining well-balanced stockage levels ensures the best use of resources, and assures greater payback to the entity over time by minimizing losses through avoiding excessive inventory maintenance costs.

Note: For accounts receivable, the ratio shown here is inflated by the value of unconfirmed deposits. See notes to the principal statements - Commissary Resale Stocks. Public Receivables are only used in computing the average. The average inventory-on-hand excludes paid in transit inventory enroute to OCONUS commissaries, CDCs and on order inventory.

Consolidating Statements

V-7-1

***DEFENSE COMMISSARY
AGENCY DEFENSE
BUSINESS OPERATIONS
FUND***

***CONSOLIDATING
STATEMENTS***

DeCA DBOF Financial Statements for FY 1992

Consolidating Statements V-7-3

Department/Agency: Department of Defense
 Reporting Entity: Defense Commissary Agency DBOF Consolidating Statements
 Statement of Financial Position
 as of September 30, 1992
 (Nearest Dollar)

ASSETS	1992
1 Financial Resources	
a Fund Balances with Treasury (Note 2)	(\$298,836,530)
b Cash (Note 2)	
c Foreign Currency (Note 2)	
d Other Monetary Assets	
e Investments, Non-Federal	
f Accounts Receivable Net Non-Federal (Note 4)	124,657,668
g Inventories Held for Sale Net (Note 3)	803,521,917
h Loans Receivable Net Non-Federal	
i Advances Prepayments Non-Federal	211,944
j Property Held for Sale	
k Other Non-Federal	
l Intragovernmental Items	
(1) Accounts Receivable, Federal (Note 4)	287,270,722
(2) Loans Receivable, Federal	
(3) Investments, Federal	
(4) Other Federal	
m Total Financial Resources	<u>\$916,825,721</u>
2 Non-Financial Resources:	
a Resources Transferable to Treasury	
b Inventories Not Held for Sale (Note 3)	
c Property Plant and Equipment (Note 5)	1,164,843
d Other	
e Total Non-Financial Resources	<u>\$1,164,843</u>
3 Total Assets	<u><u>\$917,990,564</u></u>
LIABILITIES	
4 Funded Liabilities	
a Accounts Payable Non-Federal (Note 6)	\$899,853,743
b Accrued Interest Payable	
c Accrued Payroll and Benefits (Note 6)	12,740,034
d Accrued Entitlement Benefits	
e Lease Liabilities	
f Debt	
g Guarantees Payable	
h Other Funded Liabilities Non Federal	

The accompanying notes are an integral part of these statements

DeCA DBOF Financial Statements for FY 1992

V-7-4 Consolidating Statements

Department/Agency: Department of Defense
 Reporting Entity: Defense Commissary Agency DBOF Consolidating Statements
 Statement of Financial Position
 as of September 30, 1992
 (Nearest Dollar)

LIABILITIES (Continued)	1992
i Intragovernmental Liabilities	
(1) Accounts Payable, Federal (Note 6)	\$292,154,416
(2) Debt	
(3) Deferred Revenue	
(4) Other Funded Liabilities	
j Total Funded Liabilities	<u>\$1,204,748,193</u>
5. Unfunded Liabilities:	
a Accrued Leave (Note 7)	27,789,475
b Lease Liabilities	
c Pensions and Other Actuarial Liabilities	
d Other Unfunded Liabilities	
e Total Unfunded Liabilities	<u>\$27,789,475</u>
6 TOTAL LIABILITIES	\$1,232,537,668
NET POSITION	
7 Fund Balances:	
a Revolving Fund	(\$286,757,629)
b Trust Fund	
c Appropriated Fund	
d Total Fund Balances	<u>(\$286,757,629)</u>
8 Less Future Funding Requirements	<u>(27,789,475)</u>
9 Net Position (Note 8)	<u>(\$314,547,104)</u>
10 Total Liabilities and Net Position	<u>\$917,990,564</u>

The accompanying notes are an integral part of these statements

DeCA DBOF Financial Statements for FY 1992

Consolidating Statements V-7-5

Department/Agency: Department of Defense
 Reporting Entity: Defense Commissary Agency DBOF Consolidating Statements
 Statement of Operations (and Changes in Net Position)
 for Period Ended September 30, 1992
 (Nearest Dollar)

REVENUES AND FINANCING SOURCES		1992
1	Appropriations Expenses	
2	Revenue from Sales of Goods	
a	To the Public	\$6,005,021,654
b	Intragovernmental	152,004,928
3	Interest and Penalties, Non-Federal	
4	Interest, Federal	
5	Taxes	
6	Other Revenues and Financing Sources	20,072,278
7	Less: Taxes/Receipts Returned to the Treasury	
8	Total Revenues and Financing Sources	<u>\$6,177,098,860</u>
EXPENSES		
9	Cost of Goods or Services Sold	
a	To the Public	\$5,053,117,647
b	Intragovernmental	976,638,669
10	Program or Operation Expenses	1,013,236,159
11	Depreciation	109,638
12	Bad Debts and Write-Offs	91
13	Interest	
a	Federal Financing Bank/Treasury	
b	Federal Securities	
c	Other	6,835,930
14	Other Expenses	7,100,000
15	Total Expenses (Note 9)	<u>\$7,057,038,134</u>
16	Excess (Shortage) of Revenues/Financing Sources Over Funded Expenses Before Adjustments	(879,939,274)
17	Plus (Minus) Adjustments:	
a	Extraordinary Items	
b	Prior Period Adjustments	
18	Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	
19	Plus Unfunded Expenses (Note 9)	<u>27,899,113</u>
20	Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	<u>(\$907,838,387)</u>

The accompanying notes are an integral part of these statements

DeCA DBOF Financial Statements for FY 1992

V-7-6 Consolidating Statements

Department/Agency: Department of Defense
Reporting Entity: Defense Commissary Agency DBOF Consolidating Statements
Statement of Operations (and Changes in Net Position)
for Period Ended September 30, 1992
(Nearest Dollar)

EXPENSES (Continued)	1992
21 Net Position, Beginning Balance	
22 Excess (Shortage) of Revenues and Financing Sources over Total Expenses	(\$907,838.387)
23 Plus (Minus) Equity Transfers	<u>593,291.283</u>
24 Net Position, Ending Balance	<u><u>(\$314,547.104)</u></u>

The accompanying notes are an integral part of these statements

Consolidating Statements V-7-7

Department/Agency: Department of Defense
Reporting Entity: Defense Commissary Agency DBOF Consolidating Statements
Statement of Cash Flows- Indirect Method
for the Period Ended September 30, 1992
(Nearest Dollar)

CASH FLOWS FROM OPERATING ACTIVITIES	1992
1 Excess (Shortage) of Revenues and Financing Over Total Expenses	<u>(\$907,838,387)</u>
Adjustments Affecting Cash Flow:	
2 Appropriations Expensed	(\$7,084,937,247)
3 Decrease (Increase) in Accounts Receivable	(412,140,333)
4 Decrease (Increase) in Loans Receivable	
5 Decrease (Increase) in Other Assets	(804,796,399)
6 Increase (Decrease) in Accounts Payable	1,192,008,159
7 Increase (Decrease) in Debt	
8 Increase (Decrease) in Other Liabilities	40,529,509
9 Depreciation and Amortization	109,638
10 Other Unfunded Expenses	27,899,113
11 Other Adjustments	522,209,615
12 Total Adjustments	<u>(\$6,519,117,945)</u>
13 Net Cash Provided (Used) by Operating Activity	<u>(\$7,426,956,332)</u>
Cash Flows from Non-Operating Activities	
14 Proceeds from Sales of Investments	
15 Proceeds from Sales of Property, Plant and Equipment	
16 Purchase of Investments	
17 Purchases of Property, Plant and Equipment	
18 Net Cash Provided (Used) by Non-Operating Activities	<u> </u>
CASH PROVIDED (USED) BY FINANCIAL ACTIVITIES	
19 Appropriations (Current Warrants)	7,128,119,802
20 Add:	
a Restorations	
b Transfers of Cash from Others	
21 Deduct:	
a Withdrawals	
b Transfers of Cash to Others	
22 Net Appropriations	<u>\$7,128,119,802</u>

The accompanying notes are an integral part of these statements

DeCA DBOF Financial Statements for FY 1992

V-7-8 Consolidating Statements

Department/Agency: Department of Defense
Reporting Entity: Defense Commissary Agency DBOF Consolidating Statements
Statement of Cash Flows- Indirect Method
for the Period Ended September 30, 1992
(Nearest Dollar)

CASH PROVIDED (USED) BY FINANCIAL ACTIVITIES (Cont)	1992
23. Borrowing from the Public	
24. Repayments on Loans	
25. Borrowing from the Treasury and the Federal Financing Bank	
26. Repayments on Loans from the Treasury and the Federal Financing Bank	
27. Other Borrowings and Repayments	
28. Net Cash Provided (Used) by Financing Activity	\$7,128,119,802
29. Net Cash Provided (Used) by Operating Non-Operating and Financing Activities	(7,426,956,332)
30. Fund Balance with Treasury, Beginning	
31. Fund Balance with Treasury, Ending	<u>(\$298,836,530)</u>

The accompanying notes are an integral part of these statements

DeCA DBOF Financial Statements for FY 1992

Consolidating Statements V-7-9

Department/Agency: Department of Defense
 Reporting Entity: Defense Commissary Agency DBOF Consolidating Statements
 Statement of Budget and Actual Expenses
 for the Period Ended September 30, 1992
 (Nearest Dollar)

Program Name (s)	BUDGET			ACTUAL
	Resources	Obligations Direct	Reimbursed	Expenses
Commissary Operations	\$995,819,802	\$1,098,860,991	\$15,719,802	\$1,055,180,931
Commissary Resale Stocks	6,132,300,000	6,233,725,380		6,029,756,316
Totals	<u>\$7,128,119,802</u>	<u>\$7,332,586,371</u>	<u>\$15,719,802</u>	<u>\$7,084,937,247</u>

Budget Reconciliation:

A. Total Expenses	\$7,084,937,247
B. Add:	
(1) Capital Acquisitions	1,274,482
(2) Loans Disbursed	
(3) Other Expended Budget Authority	261,974,975
C. Less:	
(1) Depreciation and Amortization	109,638
(2) Unfunded Annual Leave Expenses	27,789,475
(3) Other Unfunded Expenses	<u>59,361,129</u>
D. Expended Appropriations	\$7,260,926,462
E. Less Reimbursements	<u>6,194,213,403</u>
F. Expended Appropriations, Direct	<u>\$1,066,713,059</u>

The accompanying notes are an integral part of these statements.

***DEFENSE COMMISSARY
AGENCY DEFENSE
BUSINESS OPERATIONS
FUND***

***CONSOLIDATING
FOOTNOTES***

**DEFENSE COMMISSARY AGENCY
DEFENSE BUSINESS OPERATIONS FUND
CONSOLIDATING STATEMENTS FOOTNOTES**

Note 1: Significant Accounting Policies

DeCA Headquarters maintains overall program and fund control for funds distribution and reporting. The DeCA Resource Management Directorate issues fund targets to the six commissary regions located in CONUS and the funds are accounted for by the DFAS Columbus Center in Columbus, Ohio. DeCA Headquarters formally allots funds to the European Commissary Region.

Centralized accounting support for the European Commissary Region is provided by the Subsistence Finance and Accounting Office Europe, 9th Finance Group, Zweibruecken, Germany. The Standard Army Finance and Accounting System (STANFINS) is used for all funds allotted to the region. Financial reports are provided to DeCA by the 9th Finance Group Finance and Accounting Office (FAO), and DeCA Headquarters consolidates the reports with those from DFAS Columbus Center, then prepares the required reports for submission to DFAS Headquarters.

Centralized accounting support for the six CONUS regions, Headquarters and the service centers is provided by DFAS Columbus Center. Computer processing support for the accounting and civilian payroll systems used by DFAS Columbus Center to support DeCA is provided by the Defense Logistics Agency (DLA).

For the six CONUS regions, Headquarters, and the service centers, accounting for DeCA's Defense Business Operations Fund (DBOF) Commissary Operations and Surcharge Collections Account is accomplished using the Defense Business Management System (DBMS). Accounting for DeCA's DBOF Resale Stocks is accomplished using STANFINS.

DeCA established a liaison office in each of the six regions and the East Service Center to interface the Agency payroll and accounting requirements with DFAS Columbus Center. The liaison function establishes new employees in DBMS, removes separating employees, processes entitlement changes and payroll deductions, and records commitments and obligations. The Midwest Region liaison office supports the West Service Center and the East Service Center liaison office supports the Headquarters. For overseas commissaries managed by CONUS regions, civilian payroll support is obtained from the host installation or other central payroll activity under an Installation Support Agreement. The financial data is reported to DFAS Columbus Center for posting to DeCA financial records.

V-7-14 Consolidating Footnotes

DFAS Columbus Center provides DeCA Headquarters, CONUS regions and service centers with the following finance and accounting services: disbursing; commercial accounts processing for DBOF - Operations and Surcharge Collections contracts; processing of intertund and 1080 billings; processing TFO/TBO transactions; accounting reports; and travel payments. Collections/deposits of commissary sales receipts and surcharges are processed by DFAS Columbus Center for all CONUS commissaries to include Puerto Rico, Hawaii and Alaska. The DFAS Columbus Center also processes returned checks for these commissaries. Collections/deposits and returned checks for the other off shore commissaries managed by a CONUS region are processed by the host finance and accounting office at the location and the collections processed to DFAS Columbus Center under TBO/TFO or cross disbursing procedures.

Civilian payroll support for CONUS commissary personnel to include those in Puerto Rico, Hawaii and Alaska is centralized and obtained from DFAS Columbus Center to reduce the cross disbursing workload; ensure timeliness of accounting data; and reduce payroll processing costs. DeCA organizations in the CONUS central pay system input time and attendance using communications lines into DBMS.

In CONUS, resource management personnel in the liaison offices input commitments and obligations directly into the accounting system (DBMS) over the dedicated communication lines for contracts, Military Interdepartmental Purchase Requests (MIPRs), and travel orders that are funded by Commissary Operations or Surcharge Collections. Documentation to support the obligation is retained under controlled conditions. Reviews of unliquidated obligations are performed by the resource management organization that input the obligation and deobligations are made where appropriate. DFAS Columbus Center is provided copies of obligation documents to support the accounting records as well as the contract payment.

Obligations for subsistence delivery orders placed against BDOs/BPAs are entered into the financial system at the same time the receipt transactions are processed into the financial system. The receipt data is forwarded electronically each business day from the commissaries and central distribution centers (CDCs) into a computer located at the East Service Center and the data loaded into SAVES. SAVES produces the accounting transaction file for obligations and receipts during the daily cycle. The transaction file is passed to the Dayton, Ohio computer center for posting to the STANFINS accounting records. Commissaries and CDCs retain the hard copy receiving reports under appropriate controls to support the payments.

Milstrip requisitions are issued for commissary resale subsistence and Troop Issue subsistence. The commissary or CDC electronically transmits the requisition data daily to the East Service Center computer. Each workday the East Service Center computer operations passes the transaction file to the Dayton Ohio computer center for posting of obligations to the STANFINS accounting records.

Consolidating Footnotes V-7-15

The DeCA East Service Center and West Service Center perform resource management functions related to CONUS stock fund bill paying SAVES and reconciliation of CONUS stock fund inventory supply records with the financial records. The West Service Center has an added mission to manage the DeCA worldwide merchandise coupon redemption program which includes oversight of processing from acceptance to redemption, accounting for redemptions and losses, contractor oversight, and processing documentation to return the cash to the DeCA Commissary Resale fund.

DFAS Columbus Center performs the disbursing function for DeCA funds executed through the DFAS Columbus Center with the exception of any TBO/TFO or cross disbursements. For CONUS resale commercial accounts processed by the DeCA service centers the disbursement transactions to STANFINS and the voucher and check producing information is passed electronically from the East Service Center computer operations to DFAS Columbus Center for update of the accounting records and producing the voucher and check. The DeCA service centers retain the backup payment documentation. DFAS Columbus Center produces the check and the voucher and mails the payment to the vendor. DFAS Columbus Center provides check numbers to the service centers to update the automated bills register in SAVES.

Commissary collections affect the three types of funds received by DeCA. The daily commissary sales receipts and surcharge collections (i.e., 5 percent added at checkout to patron's purchases) are deposited the DBOF Commissary Resale fund and the Surcharge Collections fund, respectively. The redemption of merchandise coupons represents a collection for the commissary resale (i.e., reimbursement for face value of coupon) and the DBOF Commissary Operations fund (i.e., reimbursement of the handling costs). The sale of cardboard and excess commissary equipment represents earnings to the Surcharge Collections fund. Discounts earned on the payment of resale subsistence commercial accounts are transferred to the Surcharge Collections fund as earnings. Additionally, fees from merchandising agreements with manufacturers for store shelf space allocation are transferred to the Surcharge Collections fund as earnings.

Fiscal Year 1992 represents the first year that the Defense Commissary Agency has prepared financial statements as required by Section 252 of Title 10, United States Code. The accompanying financial statements account for all funds for which the Agency is responsible. The audited financial statements are presented on the accrual basis of accounting as required by Title 2, "Accounting Principles and Standards" of the Policy and Procedures Manual for Guidance of Federal Agencies, published by the U.S. General Accounting Office.

V-7-16 Consolidating Footnotes

Note 2: Fund Balances with Treasury, Cash and Foreign Currency:

A Fund Balances with Treasury

(1) Trust Funds	
(2) Revolving Funds	(\$298,836,530)
(3) Appropriated Funds	
(4) Other Fund Types	
Total	<u>(\$298,836,530)</u>

B Cash

(1) Restricted Cash
(2) Unrestricted Cash
Total

C Foreign Currency

D Other Information:

(1) Fund Balance with Treasury does not reflect unfunded expenditure authority of \$110,500,000 received and executed during FY 92

(2) Fund Balance with Treasury does not include \$3,100,000 contingent appropriated for acquisition of war reserves

(3) Cash balance reflects net outlays for the fiscal year, and is understated by unconfirmed deposits of \$198,079,958. The unconfirmed deposits are reflected as part of Accounts Receivable, Federal.

Consolidating Footnotes V-7-17

Note 3: Inventories

A Inventory Categories	(1) Inventory Amount	(2) Allowance for Losses	(3) Inventory Net	(4) Valuation Method
(1) Inventory Held for Sale	\$803,521,917		\$803,521,917	FIFO
(2) Inventory Not Held For Sale				
(a) Own Use				
(b) Stockpile Materials				
(c) Other				
(3) Total	<u>\$803,521,917</u>		<u>\$803,521,917</u>	

B Other Information: DeCA Resale inventory includes totals capitalized from the prior military Services, and current year acquisitions/gains less sales and losses. The reliability of totals presented here are addressed in-depth in the Supplemental Financial and Management Information.

Note 4: Receivables

A Accounts Receivable	
(1) Federal	\$287,270,722
(2) Non-Federal	<u>124,657,668</u>
Total	<u>\$411,928,390</u>

B Other Information: The Federal receivable amount includes unconfirmed deposits of \$198,079,958, and is thus overstated by that amount. (See note 2 above). This condition is caused by a programmed posting error, which is addressed in more detail in the Supplemental Financial and Management Information.

V-7-18 Consolidating Footnotes**Note 5: Property, Plant and Equipment**

Class of Assets	(1) Deprec Method	(2) Service Life	(3) Acquis. Value	(4) Accum. Deprec	(5) Net Book Value
A Land					
B Structures					
C Military Equipment	SL	1-5	\$1,274,482	\$109,638	\$1,164,844
D ADP Software					
E Equipment					
F Assets Under Capital Lease					
G Other					
H Nat Resources					
I Const In Progress					
Total			<u>\$1,274,482</u>	<u>\$109,638</u>	<u>\$1,164,844</u>

* Keys:

Depreciation Method
Straight Line

Range of Service Life
1-5 Years

Other Information: This category shows the value of capital assets transferred from the former Service commissary systems. Additional information is provided in the Supplemental Financial and Management Information.

Note 6: Other Funded Liabilities

A Other Funded Liabilities	Non-Federal	Federal	Total
(1) Accts Payable	\$899,853,743	\$292,154,416	\$1,192,008,159
(2) Accrued Payroll and Benefits	<u>12,740,034</u>		<u>12,740,034</u>
Total	<u>\$912,593,777</u>	<u>\$292,154,416</u>	<u>\$1,204,748,193</u>

B Other Information: The non-Federal accounts payable balance reflects a \$205 million decrease to bring the control account into balance with the accounts payable subsidiary account. This adjustment was effected at fiscal year-end when the control balance was found to be overstated because of system problems. The reliability of the non-Federal balance is addressed in the Supplemental Financial and Management Information.

Consolidating Footnotes V-7-19

Note 7: Other Unfunded Liabilities

A Other Unfunded Liabilities	Total
(1) Accrued Leave	<u>\$27,789,475</u>
Total	<u>\$27,789,475</u>

Note 8: Fund Balances

	Commissary Operations	Commissary Resale Stocks	Total
A Unexpended Appropriations	\$169,952,456	\$465,117,413	\$635,069,869
B Invested Capital			
C Cumulative Results of Operations	(1,039,336,851)	131,498,464	(907,838,387)
D Donations			
E Transfers	1,274,482	592,016,801	593,291,283
F Total	<u>(\$868,109,914)</u>	<u>\$1,188,632,679</u>	<u>\$320,522,765</u>

G Other Information:

(1) Unexpended appropriations for Commissary Operations does not include \$110.5 million of unfunded expenditure authority received and executed during FY 92

(2) Resale Stock transfers are comprised of inventories decapitalized by the former service commissary systems at the end of FY 92 and capitalized by DeCA during FY 92. Operations transfers are comprised of capital assets transferred-in. The reliability of both capitalization balances is addressed in the Supplemental Financial and Management Information.

DeCA DBOF Financial Statements for FY 1992

V-7-20 Consolidating Footnotes

Note 9: Operating Expenses

FY 92

A Operating Expenses by Object Classification

(1) Personal Services and Benefits	\$573,594,125
(2) Travel and Transportation	114,830,366
(3) Rental, Communication, Utilities	2,285,979
(4) Printing and Reproduction	321,280
(5) Contractual Services	319,227,689
(6) Supplies and Materials (Operations)	6,032,300,595
(7) Equipment not Capitalized	542,079
(8) Grants, Subsidies & Contributions	
(9) Insurance, Claims & Indemnities	
(10) Other	<u>41,835,043</u>
(11) Total Expenses by Object Classification	<u>\$7,084,937,247</u>

B Operating Expenses by Program

(1) Commissary Operations	\$1,055,180,931
(2) Commissary Resale Stocks	<u>6,029,756,316</u>
Total	<u>\$7,084,937,247</u>

C Other Information: Expenses for Commissary Operations are understated by approximately \$64.56 million because year-end accruals for specific expense types were not processed by the Agency. Additional data is provided in Supplemental Financial and Management Information.

***DEFENSE COMMISSARY
AGENCY DEFENSE
BUSINESS OPERATIONS
FUND OPERATIONS

FINANCIAL STATEMENTS***

DeCA DBOF Financial Statements for FY 1992

Financial Statements

V-1-1-2

Department/Agency: Department of Defense
Reporting Entity: Defense Commissary Agency DBOF - Operations
Statement of Financial Position
as of September 30, 1992
(Nearest Dollar)

ASSETS	1992
1. Financial Resources	
a Fund Balances with Treasury (Note 2)	(\$810,147,544)
b Cash (Note 2)	
c Foreign Currency (Note 2)	
d Other Monetary Assets	
e Investments, Non-Federal	
f Accounts Receivable, Net Non-Federal	43,541
g Inventories Held for Sale, Net	
h Loans Receivable, Net Non-Federal	
i Advances Prepayments, Non-Federal	211,944
j Property held for Sale	
k Other, Non-Federal	
l Intragovernmental items:	
(1) Accounts Receivable, Federal	2,133.00
(2) Loans Receivable, Federal	
(3) Investments, Federal	
(4) Other, Federal	
m Total Financial Resources	<u>(\$807,759,049)</u>
2. Non-Financial Resources	
a Resources Transferable to Treasury	
b Inventories Not Held for Sale	
c Property, Plant and Equipment (Note 3)	1,164,843
d Other	
e Total Non-Financial Resources	<u>1,164,843</u>
3. Total Assets	<u>(\$806,594,206)</u>
LIABILITIES	
4. Funded Liabilities	
a Accounts Payable, Non-Federal (Note 4)	118,383,910
b Accrued Interest Payable	
c Accrued Payroll and Benefits (Note 4)	12,740,034
d Accrued Entitlement Benefits	
e Lease Liabilities	
f Debt	
g Guarantees Payable	
h Other Funded Liabilities, Non-Federal	

The accompanying notes are an integral part of these statements

DeCA DBOF Financial Statements for FY 1992

V-7-1-4 Financial Statements

Department/Agency: Department of Defense
Reporting Entity: Defense Commissary Agency DBOF - Operations
Statement of Financial Position
as of September 30, 1992
(Nearest Dollar)

LIABILITIES (Continued)	1992
i Intragovernmental Liabilities	
(1) Accounts Payable, Federal (Note 4)	\$72,554,745
(2) Debt	
(3) Deferred Revenue	
(4) Other Funded Liabilities	
j Total Funded Liabilities	<u>\$203,678,689</u>
5 Unfunded Liabilities:	
a Accrued Leave (Note 5)	27,789,475
b Lease Liabilities	
c Pensions and Other Actuarial Liabilities	
d Other Unfunded Liabilities	
e Total Unfunded Liabilities	<u>\$27,789,475</u>
6 TOTAL LIABILITIES	\$231,468,164
NET POSITION	
7. Fund Balances:	
a Revolving Fund	(1,010,272,895)
b Trust Fund	
c Appropriated Fund	
d Total Fund Balances	<u>(\$1,010,272,895)</u>
8. Less Future Funding Requirements	<u>(27,789,475)</u>
9. Net Position (Note 6)	<u>(\$1,038,062,370)</u>
10. Total Liabilities and Net Position	<u>(\$806,594,206)</u>

The accompanying notes are an integral part of these statements

DeCA DBOF Financial Statements for FY 1992

Financial Statements V-7-1-5

Department/Agency: Department of Defense
 Reporting Entity: Defense Commissary Agency DBOF - Operations
 Statement of Operations (and Changes in Net Position)
 for Period Ended September 30, 1992
 (Nearest Dollar)

REVENUES AND FINANCING SOURCES	1992
1. Appropriations Expensed	
2. Revenue from Sales of Goods	
a. To the Public	
b. Intragovernmental	
3. Interest and Penalties, Non-Federal	
4. Interest, Federal	
5. Taxes	
6. Other Revenues and Financing Sources	\$15,844,080
7. Less: Taxes/Receipts Returned to Treasury	
8. Total Revenues and Financing Sources	<u>\$15,844,080</u>
 EXPENSES	
9. Cost of Goods or Services Sold	
a. To the Public	
b. Intragovernmental	
10. Program or Operation Expenses	1,013,236,159
11. Depreciation	109,638
12. Bad Debts and Write-offs	91
13. Interest	
a. Federal Financing Bank/Treasury	
b. Federal Securities	
c. Other	6,835,930
14. Other Expenses	7,100,000
15. Total Expenses (Note 7)	<u>(\$1,027,281,818)</u>
16. Excess (Shortage) of Revenues and Financing Sources Over Funded Expenses Before Adjustments	(1,011,437,738)
17. Plus (Minus) Adjustments:	
a. Extraordinary Items	
b. Prior Period Adjustments	
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	<u>(\$1,011,437,738)</u>
19. Plus Unfunded Expenses (Note 7)	<u>27,899,113</u>
20. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	<u>(\$1,039,336,851)</u>

The accompanying notes are an integral part of these statements

DeCA DBOF Financial Statements for FY 1992

V-7-1-6 Financial Statements

Department/Agency: Department of Defense
Reporting Entity: Defense Commissary Agency DBOF - Operations
Statement of Operations (and Changes in Net Position)
for Period Ended September 30, 1992
(Nearest Dollar)

EXPENSES (Continued)	1992
21 Net Position, Beginning Balance	
22 Excess (Shortage) of Revenues and Financing Sources over Total Expenses	(\$1,039,336,851)
23 Plus (Minus) Equity Transfers	<u>1,274,482</u>
24. Net Position, Ending Balance	<u><u>(\$1,038,062,370)</u></u>

The accompanying notes are an integral part of these statements

DeCA DBOF Financial Statements for FY 1992

Financial Statements V-7-1-7

Department/Agency: Department of Defense
Reporting Entity: Defense Commissary Agency DBOF - Operations
Statement of Cash Flows- Indirect Method
for the Period Ended September 30, 1992
(Nearest Dollar)

CASH FLOWS FROM OPERATING ACTIVITIES	1992
1 Excess (Shortage) of Revenues and Financing Over Total Expenses	(\$1,039,336,851)
Adjustments Affecting Cash Flow:	
2 Appropriations Expenses	(1,055,180,851)
3 Decrease (Increase) in Accounts Receivable	(2,388,495)
4 Decrease (Increase) in Loans Receivable	
5 Decrease (Increase) in Other Assets	(1,274,482)
6 Increase (Decrease) in Accounts Payable	190,938,656
7 Increase (Decrease) in Debt	
8 Increase (Decrease) in Other Liabilities	40,529,509
9 Depreciation and Amortization	109,638
10 Other Unfunded Expenses	27,899,113
11 Other Adjustments	32,736,497
12 Total Adjustments	(\$766,630,495)
13 Net Cash Provided (Used) by Operating Activities	(\$1,805,967,346)
Cash Flows from Non-Operating Activities:	
14 Proceeds from Sales of Investments	
15 Proceeds from Sales of Property, Plant and Equipment	
16 Purchases of Investments	
17 Purchases of Property, Plant and Equipment	
18 Net Cash Provided (Used) by Non-Operating Activities	
CASH PROVIDED (USED) BY FINANCIAL ACTIVITIES	
19 Appropriations (Current Warrants)	995,819,802
20 Add:	
a Restorations	
b Transfers of Cash from Others	
21 Deduct:	
a Withdrawals	
b Transfers of Cash to Others	
22 Net Appropriations	995,819,802

The accompanying notes are an integral part of these statements

DeCA DBOF Financial Statements for FY 1992

V-7-1-8 Financial Statements

Department/Agency: Department of Defense
Reporting Entity: Defense Commissary Agency DBOF - Operations
Statement of Cash Flows- Indirect Method
for the Period Ended September 30, 1992
(Nearest Dollar)

CASH PROVIDED (USED) BY FINANCIAL ACTIVITIES (Cont.)	1992
23 Borrowing from the Public	
24 Repayments on Loans	
25 Borrowing from the Treasury and the Federal Financing Bank	
26 Repayments on Loans from the Treasury and the Federal Financing Bank	
27 Other Borrowings and Repayments	
28 Net Cash Provided (Used) by Financing Activities	\$995,819,802
29 Net Cash Provided (Used) by Operating, Non-Operating and Financing Activities	(1,805,967,933)
30 Fund Balance with Treasury, Beginning	
31 Fund Balance with Treasury, Ending	<u>(\$810,147,544)</u>

The accompanying notes are an integral part of these statements

DeCA DBOF Financial Statements for FY 1992

Financial Statements V-7-1-9

Department/Agency: Department of Defense
 Reporting Entity: Defense Commissary Agency DBOF - Operations
 Statement of Budget and Actual Expenses
 for the Period Ended September 30, 1992
 (Nearest Dollar)

Program Name (s)	BUDGET			ACTUAL
	Resources	Obligations Direct	Reimbursed	Expenses
Commissary Operations	\$995,819,802	\$1,098,860,991	\$15,719,802	\$1,055,180,931
Totals	<u>\$995,819,802</u>	<u>\$1,098,860,991</u>	<u>\$15,719,802</u>	<u>\$1,055,180,931</u>

Budget Reconciliation:

A	Total Expenses	\$1,055,180,931
B	Add:	
	(1) Capital Acquisitions	
	(2) Loans Disbursed	
	(3) Other Expended Budget Authority	1,274,482
C	Less:	
	(1) Depreciation and Amortization	109,638
	(2) Unfunded Annual Leave Expenses	27,789,475
	(3) Other Unfunded Expenses	59,361,129
D	Expended Appropriations	\$1,027,201,081
E	Less Reimbursements	15,719,802
F	Expended Appropriations, Direct	<u>\$1,011,481,279</u>

The accompanying notes are an integral part of these statements

***DEFENSE COMMISSARY
AGENCY DEFENSE
BUSINESS OPERATIONS
FUND OPERATIONS***

FOOTNOTES

**DEFENSE COMMISSARY AGENCY DEFENSE BUSINESS
OPERATIONS FUND OPERATIONS FOOTNOTES**

Note 1: Significant Accounting Policies

DeCA Headquarters maintains overall program and fund control for funds distribution and reporting. The DeCA Resource Management Directorate issues fund targets to the six commissary regions located in CONUS and the funds are accounted for by the DFAS Columbus Center in Columbus, Ohio. DeCA Headquarters formally allots funds to the European Commissary Region.

Centralized accounting support for the European Commissary Region is provided by the Subsistence Finance and Accounting Office Europe, 9th Finance Group, Zweibruecken, Germany. The Standard Army Finance and Accounting System (STANFINS) is used for all funds allotted to the region. Financial reports are provided to DeCA by the 9th Finance Group Finance and Accounting Office (FAO), and DeCA Headquarters consolidates the reports with those from DFAS Columbus Center, then prepares the required reports for submission to DFAS Headquarters.

Centralized accounting support for the six CONUS regions, Headquarters and the service centers is provided by DFAS Columbus Center. Computer processing support for the accounting and civilian payroll systems used by DFAS Columbus Center to support DeCA is provided by the Defense Logistics Agency (DLA).

For the six CONUS regions, Headquarters, and the service centers, accounting for DeCA's Defense Business Operations Fund (DBOF) Commissary Operations and Surcharge Collections Account is accomplished using the Defense Business Management System (DBMS). Accounting for DeCA's DBOF Resale Stocks is accomplished using STANFINS.

DeCA established a liaison office in each of the six regions and the East Service Center to interface the Agency payroll and accounting requirements with DFAS Columbus Center. The liaison function establishes new employees in DBMS, removes separating employees, processes entitlement changes and payroll deductions, and records commitments and obligations. The Midwest Region liaison office supports the West Service Center and the East Service Center liaison office supports the Headquarters. For overseas commissaries managed by CONUS regions, civilian payroll support is obtained from the host installation or other central payroll activity under an Installation Support Agreement. The financial data is reported to DFAS Columbus Center for posting to DeCA financial records.

V-7-1-14 Footnotes

DFAS Columbus Center provides DeCA Headquarters, CONUS regions and service centers with the following finance and accounting services: disbursing; commercial accounts processing for DBOF - Operations and Surcharge Collections contracts; processing of interfund and 1080 billings; processing TFO/TBO transactions; accounting reports; and travel payments. Collections/deposits of commissary sales receipts and surcharges are processed by DFAS Columbus Center for all CONUS commissaries to include Puerto Rico, Hawaii and Alaska. The DFAS Columbus Center also processes returned checks for these commissaries. Collections/deposits and returned checks for the other off shore commissaries managed by a CONUS region are processed by the host finance and accounting office at the location and the collections processed to DFAS Columbus Center under TBO/TFO or cross disbursing procedures.

Civilian payroll support for CONUS commissary personnel to include those in Puerto Rico, Hawaii and Alaska is centralized and obtained from DFAS Columbus Center to reduce the cross disbursing workload; ensure timeliness of accounting data; and reduce payroll processing costs. DeCA organizations in the CONUS central pay system input time and attendance using communications lines into DBMS.

In CONUS, resource management personnel in the liaison offices input commitments and obligations directly into the accounting system (DBMS) over the dedicated communication lines for contracts, Military Interdepartmental Purchase Requests (MIPRs), and travel orders that are funded by Commissary Operations or Surcharge Collections. Documentation to support the obligation is retained under controlled conditions. Reviews of unliquidated obligations are performed by the resource management organization that input the obligation and deobligations are made where appropriate. DFAS Columbus Center is provided copies of obligation documents to support the accounting records as well as the contract payment.

Obligations for subsistence delivery orders placed against BDCs/BPAs are entered into the financial system at the same time the receipt transactions are processed into the financial system. The receipt data is forwarded electronically each business day from the commissaries and central distribution centers (CDCs) into a computer located at the East Service Center and the data loaded into SAVES. SAVES produces the accounting transaction file for obligations and receipts during the daily cycle. The transaction file is passed to the Dayton, Ohio computer center for posting to the STANFINS accounting records. Commissaries and CDCs retain the hard copy receiving reports under appropriate controls to support the payments.

Milstrip requisitions are issued for commissary resale subsistence and Troop Issue subsistence. The commissary or CDC electronically transmits the requisition data daily to the East Service Center computer. Each workday the East Service Center computer operations passes the transaction file to the Dayton Ohio computer center for posting of obligations to the STANFINS accounting records.

DeCA DBOF Financial Statements for FY 1992

Footnotes V-7-1-15

The DeCA East Service Center and West Service Center perform resource management functions related to CONUS stock fund bill paying SAVES and reconciliation of CONUS stock fund inventory supply records with the financial records. The West Service Center has an added mission to manage the DeCA worldwide merchandise coupon redemption program which includes oversight of processing from acceptance to redemption, accounting for redemptions and losses, contractor oversight, and processing documentation to return the cash to the DeCA Commissary Resale fund.

DFAS Columbus Center performs the disbursing function for DeCA funds executed through the DFAS Columbus Center with the exception of any TBO/TFO or cross disbursements. For CONUS resale commercial accounts processed by the DeCA service centers the disbursement transactions to STANFINS and the voucher and check producing information is passed electronically from the East Service Center computer operations to DFAS Columbus Center for update of the accounting records and producing the voucher and check. The DeCA service centers retain the backup payment documentation. DFAS Columbus Center produces the check and the voucher and mails the payment to the vendor. DFAS Columbus Center provides check numbers to the service centers to update the automated bills register in SAVES.

Commissary collections affect the three types of funds received by DeCA. The daily commissary sales receipts and surcharge collections (i.e., 5 percent added at checkout to patron's purchases) are deposited the DBOF Commissary Resale fund and the Surcharge Collections fund, respectively. The redemption of merchandise coupons represents a collection for the commissary resale (i.e., reimbursement for face value of coupon) and the DBOF Commissary Operations fund (i.e., reimbursement of the handling costs). The sale of cardboard and excess commissary equipment represents earnings to the Surcharge Collections fund. Discounts earned on the payment of resale subsistence commercial accounts are transferred to the Surcharge Collections fund as earnings. Additionally, fees from merchandising agreements with manufacturers for store shelf space allocation are transferred to the Surcharge Collections fund as earnings.

Fiscal Year 1992 represents the first year that the Defense Commissary Agency has prepared financial statements as required by Section 252 of Title 10, United States Code. The accompanying financial statements account for all funds for which the Agency is responsible. The audited financial statements are presented on the accrual basis of accounting as required by Title 2, "Accounting Principles and Standards" of the Policy and Procedures Manual for Guidance of Federal Agencies, published by the U.S. General Accounting Office.

DeCA DBOF Financial Statements for FY 1992

V-7-1-16 Footnotes

Note 2: Fund Balances with Treasury, Cash and Foreign Currency

A Fund Balances with Treasury

(1) Trust Funds	
(2) Revolving Funds	(\$810,147,544)
(3) Appropriated Funds	
(4) Other Fund Types	
Total	<u>(\$810,147,544)</u>

B Cash

(1) Restricted Cash	
(2) Unrestricted Cash	
Total	

C Foreign Currency

D Other Information: Fund Balance with Treasury does not reflect unfunded expenditure authority of \$110,500,000 Cash balance reflects net outlays reported to Treasury.

Note 3: Property, Plant and Equipment

Class of Assets	(1) Deprec Method	(2) Service Life	(3) Acquis Value	(4) Accum Deprec.	(5) Net Book Value
A Land					
B Structures					
C Military Equipment	SL	1-5	\$1,274,482	\$109,638	\$1,164,844
D ADP Software					
E Equipment					
F Assets Under Capital Lease					
G Other					
H Nat Resources					
I Const In Progress					
Total			<u>\$1,274,482</u>	<u>\$109,638</u>	<u>\$1,164,844</u>

• Keys:

Depreciation Method
Straight Line

Range of Service Life
1-5 Years

DeCA DBOF Financial Statements for FY 1992

Footnotes V-7-1-17

J Other Information: This total reflects the value of capital assets transferred from the former Service commissary systems. Additional information regarding the transfer of capital assets is provided in the Supplemental Financial and Management Information.

Note 4: Other Funded Liabilities

A Other Funded Liabilities	Non-Federal	Federal	Total
(1) Accounts Payable	\$118,383,910	\$72,554,745	\$190,938,655
(2) Accrued Payroll and Benefits	12,740,034		12,740,034
Total	<u>\$131,123,944</u>	<u>\$72,554,745</u>	<u>\$203,678,689</u>

Note 5: Other Unfunded Liabilities

A Other Unfunded Liabilities	Total
(1) Accrued Leave	\$27,789,475
Total	<u>\$27,789,475</u>

Note 6: Fund Balances:

	Commissary Operations	Total
A Unexpended Appropriations	\$169,952,456	\$169,952,456
B Invested Capital		
C Cumulative Results of Operations	(1,039,336,851)	(1,039,336,851)
D Donations		
E Transfers	1,274,482	1,274,482
F Total	<u>(\$868,109,914)</u>	<u>(\$868,109,914)</u>

G Other Information: Unexpended appropriations for Commissary Operations excludes \$110.5 million of unfunded expenditure authority received and executed during FY 92.

DeCA DBOF Financial Statements for FY 1992

V-7-1-18 Footnotes

Note 7: Operating Expenses:

FY 92

A Operating Expenses by Object Classification

(1) Personal Services and Benefits	\$573,594,125
(2) Travel and Transportation	114,830,366
(3) Rental, Communication, Utilities	2,285,979
(4) Printing and Reproduction	321,280
(5) Contractual Services	319,227,689
(6) Supplies and Materials (Operations)	2,544,279
(7) Equipment not Capitalized	542,079
(8) Grants, Subsidies & Contributions	
(9) Insurance, Claims & Indemnities	
(10) Other	41,835,043
(11) Total Expenses by Object Classification	<u>\$1,055,180,931</u>

B Operating Expenses by Program

(1) Commissary Operations	<u>\$1,055,180,931</u>
Total	<u>\$1,055,180,931</u>

C Other Information: Expenses for Commissary Operations are understated by approximately \$64.56 million because year-end accruals for specific expense types were not processed by the Agency. Additional data regarding the shortfall of expenses is provided in Supplemental Financial and Management Information.

Financial Statements V-7-2-1

***DEFENSE COMMISSARY
AGENCY DEFENSE
BUSINESS OPERATIONS
FUND RESALE STOCKS

FINANCIAL STATEMENTS***

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DeCA DBOF Financial Statements for FY 1992

Financial Statements V-7-2-3

Department/Agency: Department of Defense
 Reporting Entity: Defense Commissary Agency DBOF - Resale Stocks
 Statement of Financial Position
 as of September 30, 1992
 (Nearest Dollar)

ASSETS	1992
1. Financial Resources	
a Fund Balances with Treasury (Note 2)	\$511,311,014
b Cash (Note 2)	
c Foreign Currency (Note 2)	
d Other Monetary Assets	
e Investments, Non-Federal	
f Accounts Receivable, Net - Non-Federal (Note 4)	124,614,127
g Inventories Held for Sale, Net (Note 3)	803,521,917
h Loans Receivable, Net - Non-Federal	
i Advances Prepayments, Non-Federal	
j Property held for Sale	
k Other, Non-Federal	
l Intragovernmental items:	
(1) Accounts Receivable, Federal (Note 4)	285,137,712
(2) Loans Receivable, Federal	
(3) Investments, Federal	
(4) Other, Federal	
m. Total Financial Resources	<u>\$1,724,584,770</u>
2. Non-Financial Resources:	
a Resources Transferable to Treasury	
b Inventories Not Held for Sale (Note 3)	
c Property, Plant and Equipment	
d Other	
e. Total Non-Financial Resources	<u> </u>
3. Total Assets	<u><u>\$1,724,584,770</u></u>
LIABILITIES	
4. Funded Liabilities	
a Accounts Payable, Non-Federal (Note 5)	\$781,469,833
b Accrued Interest Payable	
c Accrued Payroll and Benefits	
d Accrued Entitlement Benefits	
e Lease Liabilities	
f Debt	
g Guarantees Payable	
h Other Funded Liabilities, Non-Federal	

The accompanying notes are an integral part of these statements.

DeCA DBOF Financial Statements for FY 1992

V-7-2-4 Financial Statements

Department/Agency: Department of Defense
Reporting Entity: Defense Commissary Agency DBOF - Resale Stocks
Statement of Financial Position
as of September 30, 1992
(Nearest Dollar)

LIABILITIES (Continued)	1992
i. Intragovernmental Liabilities	
(1) Accounts Payable, Federal (Note 5)	\$219,599,671
(2) Debt	
(3) Deferred Revenue	
(4) Other Funded Liabilities	
j. Total Funded Liabilities	<u>\$1,001,069,504</u>
5. Unfunded Liabilities:	
a. Accrued Leave	
b. Lease Liabilities	
c. Pensions and Other Actuarial Liabilities	
d. Other Unfunded Liabilities	
e. Total Unfunded Liabilities	<u> </u>
6. TOTAL LIABILITIES	<u>\$1,001,069,504</u>
NET POSITION	
7. Fund Balances:	
a. Revolving Fund	723,515,266
b. Trust Fund	
c. Appropriated Fund	
d. Total Fund Balances	<u>\$723,515,266</u>
8. Less Future Funding Requirements	
9. Net Position (Note 6)	<u>\$723,515,266</u>
10. Total Liabilities and Net Position	<u><u>\$1,724,584,770</u></u>

The accompanying notes are an integral part of these statements

DeCA DBOF Financial Statements for FY 1992

Financial Statements V-7-2-5

Department/Agency: Department of Defense
 Reporting Entity: Defense Commissary Agency DBOF - Resale Stocks
 Statement of Operations (and Changes in Net Position)
 for Period Ended September 30, 1992
 (Nearest Dollar)

REVENUES AND FINANCING SOURCES		1992
1	Appropriations Expensed	
2	Revenue from Sales of Goods	
a	To the Public	\$6,005,021,654
b	Intragovernmental	152,004,928
3	Interest and Penalties, Non-Federal	
4	Interest, Federal	
5	Taxes	
6	Other Revenues and Financing Sources	4,228,198
7	Less: Taxes/Receipts Returned to Treasury	
8	Total Revenues and Financing Sources	<u>\$6,161,254,780</u>
EXPENSES		
9	Cost of Goods or Services Sold	
a	To the Public	\$5,053,117,647
b	Intragovernmental	976,638,669
10	Program or Operation Expenses	
11	Depreciation	
12	Bad Debts and Write-Offs	
13	Interest	
a	Federal Financing Bank/Treasury	
b	Federal Securities	
c	Other	
14	Other Expenses	
15	Total Expenses (Note 7)	<u>\$6,029,756,316</u>
16	Excess (Shortage) of Revenues/Financing Sources Over Total Expenses Before Adjustments	131,498,464
17	Plus (Minus) Adjustments:	
a	Extraordinary Items	
b	Prior Period Adjustments	
18	Excess (Shortage) of Revenues/Financing Sources Over Total Expenses	
19	Plus Unfunded Expenses (Note 7)	
20	Excess(Shortage) of Revenues/Financing Sources Over Funded Expenses	<u>\$131,498,464</u>

The accompanying notes are an integral part of these statements

DeCA DBOF Financial Statements for FY 1992

V-7-2-6 Financial Statements

Department/Agency: Department of Defense
Reporting Entity: Defense Commissary Agency DBOF - Resale Stocks
Statement of Operations (and Changes in Net Position)
for Period Ended September 30, 1992
(Nearest Dollar)

EXPENSES (Continued)	1992
21 Net Position, Beginning Balance	
22 Excess (Shortage) of Revenues/Financing Sources over Total Expenses	\$131,498,464
23 Plus (Minus) Equity Transfers	<u>592,016,801</u>
24 Net Position, Ending Balance	<u><u>\$723,515,265</u></u>

The accompanying notes are an integral part of these statements

DeCA DBOF Financial Statements for FY 1992

Financial Statements V-7-2-7

Department/Agency: Department of Defense
 Reporting Entity: Defense Commissary Agency DBOF - Resale Stocks
 Statement of Cash Flows- Indirect Method
 for the Period Ended September 30, 1992
 (Nearest Dollar)

CASH FLOWS FROM OPERATING ACTIVITIES		1992
1	Excess (Shortage) of Revenue/Financing Over Total Expenses	<u>\$131,498,464</u>
Adjustments Affecting Cash Flow:		
2	Appropriations Expenses	(\$6,029,756,316)
3	Decrease (Increase) in Accounts Receivable	(409,751,838)
4	Decrease (Increase) in Loans Receivable	
5	Decrease (Increase) in Other Assets	(803,521,917)
6	Increase (Decrease) in Accounts Payable	1,001,069,503
7	Increase (Decrease) in Debt	
8	Increase (Decrease) in Other liabilities	
9	Depreciation and Amortization	
10	Other Unfunded Expenses	
11	Other Adjustments	<u>489,473,118</u>
12	Total Adjustments	<u>(\$5,752,487,450)</u>
13	Net Cash Provided (Used) by Operating Activities	<u>(\$5,620,988,986)</u>
Cash Flows from Non-Operating Activities:		
14	Proceeds from Sales of Investments	
15	Proceeds from Sales of Property, Plant and Equipment	
16	Purchases of Investments	
17	Purchases of Property, Plant and Equipment	
18	Net Cash Provided (Used) by Non-Operating Activities	<u> </u>
CASH PROVIDED (USED) BY FINANCIAL ACTIVITIES		
19	Appropriations (Current Warrants)	\$6,132,300,000
20	Add:	
a	Restorations	
b	Transfers of Cash from Others	
21	Deduct:	
a	Withdrawals	
b	Transfers of Cash to Others	
22	Net Appropriations	<u>\$6,132,300,000</u>

The accompanying notes are an integral part of these statements.

DeCA DBOF Financial Statements for FY 1992

V-7-2-8 Financial Statements

Department/Agency: Department of Defense
Reporting Entity: Defense Commissary Agency DBOF - Resale Stocks
Statement of Cash Flows- Indirect Method
for the Period Ended September 30, 1992
(Nearest Dollar)

CASH PROVIDED (USED) BY FINANCIAL ACTIVITIES (Cont.)	1992
23 Borrowing from the Public	
24 Repayments on Loans	
25 Borrowing from the Treasury and the Federal Financing Bank	
26 Repayments on Loans from the Treasury and the Federal Financing Bank	
27 Other Borrowings and Repayments	
28 Net Cash Provided (Used) by Financing Activities	\$6,132,300,000
29 Net Cash Provided (Used) by Operating Non-Operating and Financing Activities	(5,620,988,986)
30 Fund Balance with Treasury, Beginning	
31 Fund Balance with Treasury, Ending	<u>\$511,311,014</u>

The accompanying notes are an integral part of these statements

DeCA DBOF Financial Statements for FY 1992

Financial Statements V-7-2-9

Department/Agency: Department of Defense
 Reporting Entity: Defense Commissary Agency DBOF - Resale Stocks
 Statement of Budget and Actual Expenses
 for the Period Ended September 30, 1992
 (Nearest Dollar)

Program Name (s)	BUDGET			ACTUAL
	Resources	Obligations		Expenses
		Direct	Reimbursed	
Commissary Resale Stocks	\$6,132,300,000	\$6,233,725,380		\$6,029,756,316
Totals	<u>\$6,132,300,000</u>	<u>\$6,233,725,380</u>		<u>\$6,029,756,316</u>

Budget Reconciliation:

A	Total Expenses	\$6,029,756,316
B	Add:	
	(1) Capital Acquisitions	
	(2) Loans Disbursed	
	(3) Other Expended Budget Authority	203,969,065
C	Less:	
	(1) Depreciation and Amortization	
	(2) Unfunded Annual Leave Expenses	
	(3) Other Unfunded Expenses	
D	Expended Appropriations	\$6,233,725,381
E	Less Reimbursements	<u>6,178,493,601</u>
F	Expended Appropriations, Direct	<u>\$55,231,780</u>

The accompanying notes are an integral part of these statements

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Footnotes V-7-2-11

***DEFENSE COMMISSARY
AGENCY DEFENSE
BUSINESS OPERATIONS
FUND RESALE STOCKS***

FOOTNOTES

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**DEFENSE COMMISSARY AGENCY DEFENSE BUSINESS
OPERATIONS FUND- RESALE STOCKS FOOTNOTES**

Note 1: Significant Accounting Policies

DeCA Headquarters maintains overall program and fund control for funds distribution and reporting. The DeCA Resource Management Directorate issues fund targets to the six commissary regions located in CONUS and the funds are accounted for by the DFAS Columbus Center in Columbus, Ohio. DeCA Headquarters formally allots funds to the European Commissary Region.

Centralized accounting support for the European Commissary Region is provided by the Subsistence Finance and Accounting Office Europe, 9th Finance Group, Zweibruecken, Germany. The Standard Army Finance and Accounting System (STANFINS) is used for all funds allotted to the region. Financial reports are provided to DeCA by the 9th Finance Group Finance and Accounting Office (FAO), and DeCA Headquarters consolidates the reports with those from DFAS Columbus Center, then prepares the required reports for submission to DFAS Headquarters.

Centralized accounting support for the six CONUS regions, Headquarters and the service centers is provided by DFAS Columbus Center. Computer processing support for the accounting and civilian payroll systems used by DFAS Columbus Center to support DeCA is provided by the Defense Logistics Agency (DLA).

For the six CONUS regions, Headquarters, and the service centers, accounting for DeCA's Defense Business Operations Fund (DBOF) Commissary Operations and Surcharge Collections Account is accomplished using the Defense Business Management System (DBMS). Accounting for DeCA's DBOF Resale Stocks is accomplished using STANFINS.

DeCA established a liaison office in each of the six regions and the East Service Center to interface the Agency payroll and accounting requirements with DFAS Columbus Center. The liaison function establishes new employees in DBMS, removes separating employees, processes entitlement changes and payroll deductions, and records commitments and obligations. The Midwest Region liaison office supports the West Service Center and the East Service Center liaison office supports the Headquarters. For overseas commissaries managed by CONUS regions, civilian payroll support is obtained from the host installation or other central payroll activity under an Installation Support Agreement. The financial data is reported to DFAS Columbus Center for posting to DeCA financial records.

V-7-2-14 Footnotes

DFAS Columbus Center provides DeCA Headquarters, CONUS regions and service centers with the following finance and accounting services: disbursing; commercial accounts processing for DBOF - Operations and Surcharge funded contracts; processing of interfund and 1080 billings; processing TFO/TBO transactions; accounting reports; and travel payments. Collections/deposits of commissary sales receipts and surcharges are processed by DFAS Columbus Center for all CONUS commissaries to include those located in Puerto Rico, Hawaii and Alaska. The DFAS Columbus Center also processes returned checks for these commissaries. Collections/deposits and returned checks for the other offshore commissaries managed by a CONUS region are processed by the host finance and accounting office at the location and the collections processed to DFAS Columbus Center under TBO/TFO or cross disbursing procedures.

Civilian payroll support for CONUS commissary personnel to include those in Puerto Rico, Hawaii and Alaska is centralized and obtained from DFAS Columbus Center to reduce the cross disbursing workload; ensure timeliness of accounting data; and reduce payroll processing costs. DeCA organizations in the CONUS central pay system input time and attendance using communications lines into DBMS.

In CONUS, resource management personnel in the liaison offices input commitments and obligations directly into the accounting system (DBMS) over the dedicated communication lines for contracts, Military Interdepartmental Purchase Requests (MIPRs), and travel orders that are funded by Commissary Operations or Surcharge Collections. Documentation to support the obligation is retained under controlled conditions. Reviews of unliquidated obligations are performed by the resource management organization that inputs the obligation and deobligations are made where appropriate. DFAS Columbus Center is provided copies of obligation documents to support the accounting records as well as the contract payment.

Obligations for subsistence delivery orders placed against BDOs/BPAs are entered into the financial system at the same time the receipt transactions are processed into the financial system. The receipt data is forwarded electronically each business day from the commissaries and central distribution centers (CDCs) into a computer located at the East Service Center and the data loaded into SAVES. SAVES produces the accounting transaction file for obligations and receipts during the daily cycle. The transaction file is passed to the Dayton, Ohio computer center for posting to the STANFINS accounting records. Commissaries and CDCs retain the hard copy receiving reports under appropriate controls to support the payments.

MILSTRIP requisitions are issued for commissary resale subsistence and Troop Issue subsistence. The commissary or CDC electronically transmits the requisition data daily to the East Service Center computer. Each workday the East Service Center computer operations passes the transaction file to the Dayton, Ohio computer center for posting of obligations to the STANFINS accounting records.

DeCA DBOF Financial Statements for FY 1992

FOOTNOTES V-1-4-15

The DeCA East Service Center and West Service Center perform resource management functions related to CONUS stock fund bill paying and reconciliation of CONUS stock fund inventory supply records with the financial records. The West Service Center has an added mission to manage the DeCA worldwide merchandise coupon redemption program which includes oversight of processing from acceptance to redemption, accounting for redemptions and losses, contractor oversight, and processing documentation to return the cash to the DBOF Resale Account.

DFAS Columbus Center performs the disbursing function for DeCA funds with the exception of the European Region and TBO/TFO or cross disbursements. For CONUS resale commercial accounts processed by the DeCA service centers the disbursement transactions to STANFINS and the voucher and check producing information is passed electronically from the East Service Center computer operations to DFAS Columbus Center for update of the accounting records and producing the voucher and check. The DeCA service centers retain the backup payment documentation. DFAS Columbus Center produces the check and the voucher and mails the payment to the vendor. DFAS Columbus Center provides check numbers to the service centers to update the automated bills register in SAVES.

Commissary collections affect the three types of funds received by DeCA. The daily commissary sales receipts and surcharge collections (i.e., 5 percent added at checkout to patron's purchases) are deposited into the DBOF Commissary Resale fund and the Surcharge Collections fund, respectively. The redemption of merchandise coupons represents a collection for the commissary resale (i.e., reimbursement for face value of coupon) and the DBOF Commissary Operations fund (i.e., reimbursement of the handling costs). The sale of cardboard and excess commissary equipment represents earnings to the Surcharge Collections fund. Discounts earned on the payment of resale subsistence commercial accounts are transferred to the Surcharge Collections fund as earnings. Additionally, fees from merchandising agreements with manufacturers for store shelf space allocation are transferred to the Surcharge Collections fund as earnings.

Fiscal year 1992 represents the first year that the Defense Commissary Agency has prepared financial statements as required by Section 252 of Title 10, United States Code. The accompanying financial statements account for all funds for which the Agency is responsible. The audited financial statements are presented on the accrual basis of accounting as required by Title 2, "Accounting Principles and Standards" of the Policy and Procedures Manual for Guidance of Federal Agencies, published by the U.S. General Accounting Office.

V-7-2-16 Footnotes

Note 2: Fund Balances with Treasury, Cash and Foreign Currency

A Fund Balances with Treasury

(1) Trust Funds	
(2) Revolving Funds	\$511,311,014
(3) Appropriated Funds	
(4) Other Fund Types	
Total	<u>\$511,311,014</u>

B Cash

(1) Restricted Cash
(2) Unrestricted Cash
Total

C Foreign Currency

D Other Information:

(1) The Fund Balance with Treasury does not include \$3,100,000 contingent appropriated for acquisition of war reserves.

(2) The cash balance reflects net outlays for the fiscal year, and is understated by unconfirmed deposits of \$198,079,958. The unconfirmed deposits are reflected as part of Accounts Receivable, Federal. Additional details are provided in the Supplemental Financial and Management Information.

DeCA DBOF Financial Statements for FY 1992

Footnotes V-7-2-17

Note 3: Inventories

A Inventory Categories	(1) Inventory Amount	(2) Allowance for	(3) Inventory Net	(4) Valuation Method Losses
(1) Inventory Held for Sale	\$803,521,917		\$803,521,917	FIFO
(2) Inventory Not Held for Sale				
(a) Own Use				
(b) Stockpile Materials				
(c) Other				
(3) Total	<u>\$803,521,917</u>		<u>\$803,521,917</u>	

B Other Information: DeCA Resale inventory includes totals capitalized from the prior military Services, and current year acquisitions/gains less sales and losses. The reliability of totals presented here are addressed in-depth in the Supplemental Financial and Management Information

Note 4: Receivables

A Accounts Receivable

(1) Federal	\$285,137,712
(2) Non-Federal	<u>124,614,127</u>
Total	<u>\$409,751,839</u>

B. Other Information: The Federal receivable amount includes unconfirmed deposits of \$198,079,958, and is thus overstated by that amount. (See note 2 above). This condition is caused by a programmed posting error in the accounting system, which is addressed in more detail in the Supplemental Financial and Management Information

DeCA DBOF Financial Statements for FY 1992

V-7-2-18 Footnotes

Note 5: Other Funded Liabilities

A Other Funded Liabilities	Non-Federal	Federal	Total
(1) Accounts Payable	\$781,469,833	\$219,599,671	\$1,001,069,504
(2) Accrued Payroll and Benefits			
Total	<u>\$781,469,833</u>	<u>\$219,599,671</u>	<u>\$1,001,069,504</u>

B Other Information: The non-Federal accounts payable balance reflects a \$205 million decrease to bring the control account into balance with the accounts payable subsidiary account. This adjustment was effected at year end when the control balance was found to be overstated because of system problems. The reliability of the non-Federal balance is addressed in the Supplemental Financial and Management Information.

Note 6: Fund Balances:

	Commissary Resale Stocks	Total
A Unexpended Appropriations	\$465,117,413	\$465,117,413
B Invested Capital		
C Cumulative Results of Operations	131,498,464	131,498,464
D Donations		
E Transfers	592,016,801	592,016,801
F Total	<u>\$1,188,632,679</u>	<u>\$1,188,632,679</u>

G Other Information: Transfers are comprised of resale stock inventories decapitalized by the former service commissary systems at the end of FY 92 and capitalized by DeCA during FY 92. The reliability of the capitalized amount is addressed in the Supplemental Financial and Management Information.

DeCA DBOF Financial Statements for FY 1992

FOOTNOTES V-1-2-19

Note 7: Operating Expenses

FY 92

A Operating Expenses by Object Classification

(1) Personal Services and Benefits	
(2) Travel and Transportation	
(3) Rental, Communication, Utilities	
(4) Printing and Reproduction	
(5) Contractual Services	
(6) Supplies and Materials (Operations)	\$6,029,756,316
(7) Equipment not Capitalized	
(8) Grants, Subsidies & Contributions	
(9) Insurance, Claims & Indemnities	
(10) Other	
(11) Total Expenses by Object Classification	<u>\$6,029,756,316</u>

B Operating Expenses by Program

(1) Commissary Resale Stocks	\$6,029,756,316
Total	<u>\$6,029,756,316</u>

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Supplemental VI-7-1

***DEFENSE COMMISSARY
AGENCY DEFENSE
BUSINESS OPERATIONS
FUND***

SUPPLEMENTAL

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Supplemental VI-7-3

***PERFORMANCE
MEASURES***

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Supplemental VI-7-5

PROGRAM PERFORMANCE MEASURES

These overall performance indicators provide a quick glance of FY 92 performance in specific attributes against goals established for the fiscal year.

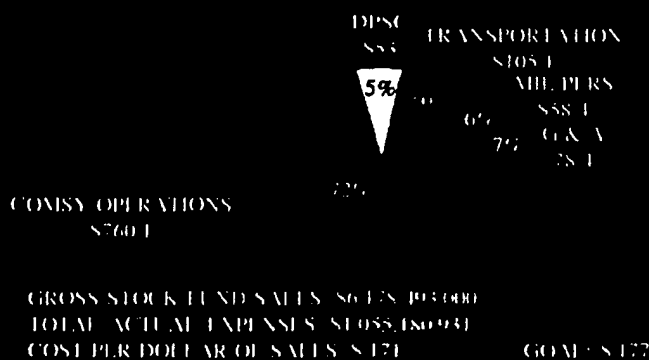
PERFORMANCE MEASURES/INDICATORS
FY 1992

	GOAL	ACTUAL
• CUSTOMER SAVINGS	25%	24%
• IN STOCK RATE	98%	92.5%
• INVENTORY TURNS	18	14
• DISCOUNTS EARNED	98%	86%
• INTEREST PAID	.03%	.11%
• OPERATING EXPENSE (SURCHARGE) (OF SALES)	2.6%	2.57%

COST PER DOLLAR SALES

This performance measure shows appropriated funds expended for each dollar of commissary sales; expressed as a ratio of appropriated funds to sales. In the financial reports actual expenses are understated by \$64.56 million in identified unrecorded accruals.

DeCA DBOF-COMSY OPERATIONS
COST PER DOLLAR SALES
(\$ IN MILLIONS)



VI-7-6 Supplemental

CUSTOMER SATISFACTION

This performance measure shows customer responses to twelve survey questions. Results are expressed as a mean average on a scale of 1 to 5 (outstanding to unsatisfactory)

COMMISSARY SURVEY STATISTICS FY 1992

The following information is the survey results of 894 commissary patrons six months after consolidation of the commissary system Demographics of patrons surveyed: 75% Active Duty, 24% Retired, 1% Reserve/National Guard.

Service Members - 24%
Family Members - 76%

	RATING*
Expansion of commissary hours	3.6
Maximum check-out time of 15 minutes	3.5
Improved quality of produce	3.4
Improved quality of meat department	3.4
Expanded selection in meat department	3.4
Increased savings on general grocery	3.3
Consistently well stocked shelves	3.2
Are managers more available	3.4
Improvements since October 1, 1991	3.4
Are shelf price tags easy to find	2.3
Are shelf price tags easy to read	2.3
How does commissary compare with favorite local supermarket	3.0

5) Outstanding 4) Better 3) No Change 2) Worse 1) Unsatisfactory
*The figures reflect mean averages for each answer

SHOPPING TIME PREFERENCE

RESPONSE	NUMBER	PERCENTAGE
Weekdays	635	72%
Weekends	145	16%
Evenings	100	11%

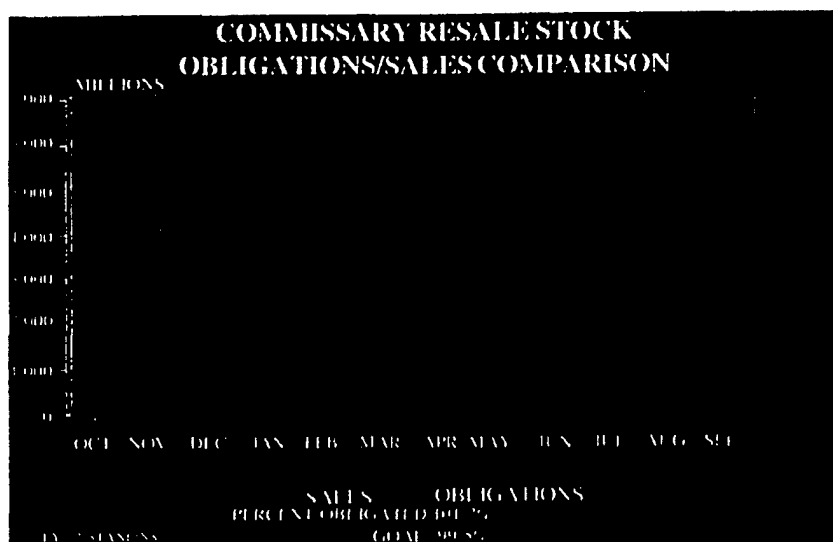
SHOPPING FREQUENCY

CATEGORY	NUMBER	PERCENTAGE
Daily	38	4%
Weekly	645	73%
Monthly	180	20%
Rarely	16	2%

Supplemental VI-7-7

OBLIGATIONS TO SALES COMPARISON

This performance measure shows the value of resale stock fund dollars expended to replace inventory sold to commissary patrons, minus inventory drawdowns due to patron base reductions and inventory management efficiencies. It is expressed as a ratio of inventory orders to sales. The objective ratio for commissary resale stocks in FY 92 was .995. (Sales are exclusive of coupon handling fees of \$20.7 million.)



	SALES	OBLIGATIONS
October	\$233	\$136
November	\$749	\$449
December	\$1,133	\$936
January	\$1,776	\$1,606
February	\$2,446	\$2,139
March	\$3,097	\$2,716
April	\$3,679	\$3,252
May	\$4,169	\$3,766
June	\$4,530	\$4,279
July	\$4,885	\$5,139
August	\$5,379	\$5,628
September	\$6,157	\$6,234

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Supplemental VI-7-9

FINANCIAL ATTRIBUTES

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Supplemental VI-7-11

OPERATING EFFICIENCY ATTRIBUTES

Cost performance against FY 92 cost objectives are outlined below. This attribute shows the degree to which fund cost performance was met when compared against the cost objectives. Anticipated costs for the Commissary Operations account are based on a fixed percentage of projected store sales; for FY 92, the cost objective was 17.7% of store sales. The objective cost per dollar of sales for the resale account was set at 99.5%. If adjusted for unrecorded accruals, the actual would be 18.1%.

DEFENSE COMMISSARY AGENCY BUSINESS OPERATING FUND COMMISSARY OPERATIONS OPERATING EFFICIENCY ATTRIBUTE (Thousands)		
	1992 Unit Cost Goal	1992 Actual
Inventory Control Point Operations Depot Issues and Receipts Other Depot Costs Included in Sales: COSIS Inspections COSIS Line Item Managed Material/Other Costs of Sales Material Customer Returns with Credit		
TOTAL SALES COSTS	\$1,090,600	\$1,055,180.9
Workload: Gross Stock Fund Sales Cost Per Dollar of Sales	\$6,160,000 .177	\$6,178,493.6 .171

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DEFENSE COMMISSARY AGENCY BUSINESS OPERATING FUND COMMISSARY RESALE STOCK OPERATING EFFICIENCY ATTRIBUTE (Thousands)		
	1992 Unit Cost Goal	1992 Actual
Inventory Control Point Operations		
Depot Issues and Receipts		
Other Depot Costs Included in Sales:		
COSIS Inspections		
COSIS Line Item Managed		
Material/Other Costs of Sales		
Material	\$6,129,200	\$6,029,756.3
Customer Returns with Credit		
TOTAL SALES COSTS	\$6,129,200	\$6,029,756.3
Workload: Gross Stock Fund Sales	\$6,160,000	\$6,178,493.6
Cost Per Dollar of Sales	995	976

Supplemental VI-7-13

ASSET MANAGEMENT EFFICIENCY RATIO

This attribute is an overall measure of the entity's asset position. When used in conjunction with other balance sheet measures, such as acid test and inventory turnover ratio, the asset management efficiency ratio can be used to determine optimum asset levels. For resale inventories, maintaining well-balanced stockage levels ensures the best use of resources, and assures greater payback to the entity over time by minimizing losses through avoiding excessive inventory maintenance costs

Note: For accounts receivable, the ratio shown here is inflated by the value of unconfirmed deposits. See notes to the principal statements - Commissary Resale Stocks. Public Receivables are only used in computing the average. The average inventory-on-hand excludes paid in transit inventory enroute to OCONUS commissaries, CDCs and on order inventory

DEFENSE COMMISSARY BUSINESS FUND - ASSET MANAGEMENT EFFICIENCY ATTRIBUTE (Thousands)	
	FISCAL YEAR 1992
Cost of Goods Sold Expense	\$6,029,756.3
Average Inventory	444.4
Inventory Turnover Ratio	13.6 or 27 days
Sales Revenue	\$6,178,493.6
Average Accounts Receivable During Year	\$88,523
Accounts Receivable Turnover Ratio	69.8 or 5 days
Operating Cycle = Inventory Turnover Ratio + Accounts Receivable Turnover Ratio (days)	32 days

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Samuel D. Brister	Auditor
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Sheryl L. Martz	Auditor
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