



June 2022

DEFENSE COMMISSARIES

Actions Needed to Clarify Priorities and Improve Program Management

Why GAO Did This Study

DeCA's sales of groceries and other goods have fallen over \$1 billion in the past 6 years. Since 2016, DeCA has implemented reforms to improve the efficiency of its operations while continuing to provide savings to its customers. Providing savings to service members may be of particular concern in light of recent inflation in food prices. Senate Report 116-236 accompanying a bill for the National Defense Authorization Act for Fiscal Year 2021 included a provision for GAO to review DeCA's implementation of business reforms, and the effects of these reforms on DeCA's customer savings and appropriations.

GAO evaluated the extent to which (1) DeCA can provide assurance that it is meeting its target customer savings rate, and DeCA's (2) business model reflects clearly defined objectives and (3) strategic plan includes key business reform efforts and information to assess performance. GAO analyzed DeCA's customer savings rate methodology and compared results to its 23.7 percent target. GAO also compared data on margin, appropriations, and performance to DeCA's goals.

What GAO Recommends

GAO is making three recommendations to DeCA to review its OCONUS customer savings rate methodology, conduct an analysis that identifies the savings rate and related benefits it can achieve at varying levels of appropriations, and improve its strategic plan. GAO is also making a matter for congressional consideration to clarify the benefits DeCA should seek to achieve. DOD concurred with all three recommendations.

View [GAO-22-104728](#). For more information, contact Elizabeth A. Field at (202) 512-2775 or FieldE1@gao.gov.

DEFENSE COMMISSARIES

Actions Needed to Clarify Priorities and Improve Program Management

What GAO Found

The Defense Commissary Agency's (DeCA) mission is to provide low cost groceries to service members, their families, and other eligible customers. To meet its mission, DeCA aims to achieve a global customer savings rate; however, DeCA is unable to provide assurance that it is meeting its target savings rate. GAO found that the savings rate for customers within the continental United States (CONUS) is consistently lower than DeCA's target, and that DeCA only meets its global customer savings rate target by relying on the savings rate for commissaries outside of the continental United States (OCONUS). Further, as shown in the figure, DeCA's methodology for the OCONUS customer savings rate is unreliable, as it does not include required price comparisons based on actual price data. Without analysis to assess the accuracy of the OCONUS methodology, Congress and DOD decision makers do not have assurance that DeCA is meeting its savings target and that commissary customers are reliably receiving their intended benefit.

Overview of Defense Commissary Agency (DeCA) Customer Savings Rate

Location	FY21 Rate	Methodology
Continental United States	17.7%	Reliable
Outside the Continental United States	42.5%	Not Reliable

Source: GAO analysis of DeCA data and methodology. | [GAO-22-104728](#)

DeCA strives to meet two primary objectives: (1) to be a benefit to service members by providing the target savings rate to its customers, and (2) to operate like a business to reduce its reliance on appropriations. GAO found that these objectives can be in tension because DeCA has not determined the tradeoffs necessary to achieve these competing targets, and as a result, has not achieved targets for either objective. Further, Congress has provided varying statutory direction that has led to uncertainty regarding expectations for DeCA—specifically as it relates to what type and level of benefit DeCA should ensure that it can provide. Until DeCA conducts an analysis to evaluate the risks and tradeoffs associated with achieving its defined objectives, it will continue to operate without a clear understanding of what outcomes it can reasonably achieve for its customers. Additionally, without clarity from Congress regarding the level of benefit that DeCA should provide, DeCA will be hindered in its ability to operate effectively.

DeCA's strategic plan lacks key business reform efforts and information necessary to implement and measure success. DeCA also lacks complete supporting documentation linking its performance goals to measurable indicators, milestones, or deliverables. DeCA's strategic plan includes information on its strategic goals, but does not include any information on its key business reform efforts, variable pricing and private label efforts, or certain performance information such as measures. Without complete information and fully developed measurable goals, DeCA cannot assess and accurately report on its progress toward successful implementation of its business reforms and whether it is achieving intended results.

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Abbreviations

COLA	Cost of Living Adjustment
CONUS	continental United States
DeCA	Defense Commissary Agency
DOD	Department of Defense
FY	fiscal year
GPRA	Government Performance and Results Act
NAFI	non-appropriated fund instrumentality
NAF	non-appropriated funds
NDAA	National Defense Authorization Act
OCONUS	outside of the Continental United States

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June 28, 2022

The Honorable Jack Reed
Chairman
The Honorable James M. Inhofe
Ranking Member
Committee on Armed Services
United States Senate

The Honorable Adam Smith
Chairman
The Honorable Mike Rogers
Ranking Member
Committee on Armed Services
House of Representatives

The Department of Defense (DOD) currently operates 236 commissaries worldwide to enhance the quality of life of uniformed service members, their families, and retirees by providing reduced-priced groceries. Commissaries are considered an income benefit available to approximately 8 million households of military personnel and other qualified customers, whom DOD also refers to as patrons.¹ In light of recent inflation in food prices,² providing these savings to service members and retirees may be of particular concern.³

The Defense Commissary Agency (DeCA) has operated all DOD commissaries since 1991; prior to that, the military services operated their own commissaries. DOD's commissaries do not operate as typical private

¹Authorized commissary patrons generally include uniformed military personnel, recipients of the Medal of Honor, retired personnel, DOD civilian employees stationed outside the United States and its Territories, military members of foreign nations, and family members of authorized personnel, among others. As of January 1, 2020, commissary access was also authorized for Purple Heart recipients, former prisoners of war, all veterans with service-connected disabilities, and caregivers of eligible veterans enrolled under the Department of Veterans Affairs Program of Comprehensive Assistance for Family Caregivers.

²Inflation on food prices increased about 8 percent in February 2022 compared to the year prior, according to the U.S. Bureau of Labor Statistics.

³In a November 2021 memorandum, the Secretary of Defense announced several department-wide actions to improve the economic security of members of the military, including addressing food insecurity. Secretary of Defense Memorandum, *Strengthening Economic Security in the Force* (November 17, 2021).

sector grocery stores. Instead, DeCA is funded by both appropriations and revenue from the sale of goods. DeCA receives appropriations annually and is also authorized to establish merchandise sales prices at a level that will recoup actual product cost plus a 5 percent surcharge. That is, DeCA can charge more than the cost it pays for goods, but it cannot price goods to make a profit overall, after taking into account operating expenses.

In recent years, Congress has expressed interest in the level of DeCA's appropriated funding and in efficiencies that could be realized within its business operations, as DeCA's sales have fallen from about \$6 billion in fiscal year 2015 to about \$4.4 billion in fiscal year 2021. In 2016, DeCA was authorized to implement various business reform pilot programs, such as variable pricing and the sale of private label goods, to help improve its operations and reduce reliance on appropriations.⁴ Before implementing variable pricing and private label goods, DeCA was authorized to sell nationally-recognized branded goods at a uniform sales price that would recoup the actual product cost, plus a 5 percent surcharge. Variable pricing, used by private sector grocers, is a pricing method that sets item prices to generate a margin over the cost of the good.⁵ DeCA continues to charge the 5 percent surcharge, and the prices it charges for goods can be higher than cost and vary by location. Private label goods, often referred to as "store brands," are intended to expand choices for customers and provide savings over the purchase of branded goods, all while increasing margins. See figure 1 for a description of branded and private label goods.

⁴National Defense Authorization Act for Fiscal Year 2016, Pub. L. No. 114-92, § 651 (2015). Both the variable pricing and private label goods programs were approved for permanent use, not just as pilot programs, in fiscal year 2017.

⁵According to the Oxford dictionary, profit margin is the amount by which revenue from sales exceed costs in a business. DeCA uses the term "margin" and further defines margin as the revenue generation results from expected program implementation.

Figure 1: Description of Branded and Private Label Goods



Source: GAO. | GAO-22-104728

In conjunction with authorizing business reforms to improve DeCA’s operations, DeCA was statutorily required to sustain certain benchmarks, including high levels of customer satisfaction, provision of high quality products, and discount savings to customers as the agency implemented these reforms.⁶ Since fiscal year 2016, DeCA has had a global target customer savings rate of 23.7 percent, meaning that it expects its customers to save, on average across all commissary locations, over 20 cents on the dollar by shopping at a commissary instead of making similar purchases at other local grocery stores.

Senate Report 116-236 accompanying a bill for the National Defense Authorization Act (NDAA) for Fiscal Year (FY) 2021 included a provision for us to review DeCA’s implementation of business reforms, including but not limited to, variable pricing and the sale of private label goods, and to consider the resulting effects of such reforms on DeCA’s operations, need for appropriations, and customer savings.⁷ This report evaluates the extent to which (1) DeCA can provide assurance that it is meeting its customer savings rate target; (2) DeCA’s business model reflects clearly defined objectives; and (3) DeCA’s strategic plan includes key business reform efforts and information to assess performance.

For our first objective, we gathered information on DeCA’s process and methodology for estimating the customer savings rate, assessed the savings rates that DeCA estimated between 2017 and 2021, and compared those rates against DeCA’s target savings rate. We determined that the customer savings rate data were unreliable. However, these are the only data available and therefore we are reporting them. We also reviewed DOD guidance that provides direction to DeCA on its customer

⁶Pub. L. No. 114-92, § 651.

⁷S. Rep. No. 116, at 236 (2020).

savings rate methodology and our prior work that defines key elements of a high-quality economic analysis, and interviewed relevant DeCA officials.⁸ For our second objective, we analyzed DeCA's appropriations, revenue, data, and agency documentation related to its customer savings rate to the extent available for fiscal years 2017 through 2021.

For our third objective, we reviewed DeCA's strategic plan for fiscal years 2021 through 2022 and performance management documents for fiscal years 2017 through 2020 (to the extent available), and assessed them using both strategic planning practices established in the Government Performance and Results Act (GPRA)—updated by the GPRA Modernization Act of 2010—and key practices identified in our prior work on effective reforms.⁹ We also interviewed officials from DeCA headquarters, the military exchanges, officials responsible for commissary operations at selected commissaries, a group that represents commissary customers, and grocery industry experts. Our objectives, scope, and methodology are discussed in greater detail in appendix I.

We conducted this performance audit from January 2021 to June 2022 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The DeCA Organization

DeCA is a defense agency headquartered in Ft. Lee, Virginia. The agency is managed on a day-to-day basis by a Director and has a board of directors composed of members from the Department of the Army, Department of the Navy, and the Department of the Air Force. The DeCA Director is under the authority, direction, and control of the Under Secretary of Defense for Personnel and Readiness through the Assistant

⁸DOD Instruction 1330.17, *DOD Commissary Program* (June 18, 2014) (incorporating change 2, effective Sept. 14, 2018) and GAO, *Assessment Methodology for Economic Analysis*, [GAO-18-151SP](#) (Washington, D.C.: Apr. 10, 2018).

⁹Pub. L. No. 111-352. Government Performance and Results Act Modernization Act of 2010. (2011) (codified at 5 U.S.C. § 306); GAO, *Government Reorganization: Key Questions to Assess Agency Reform Efforts*, [GAO-18-427](#) (Washington, D.C.: June 13, 2018).

Secretary of Defense for Manpower and Reserve Affairs. The Assistant Secretary of Defense for Manpower and Reserve Affairs establishes uniform policy and guidance for the commissary programs, appoints the director of DeCA, and appoints the chair and members of the DeCA board of directors, among other responsibilities.

Overview of the Commissary Benefit

The commissary program is an integral element of the military pay and benefits package for active duty personnel. It enhances the quality of life of retired members, dependents and others; and supports military readiness, recruitment, and retention. The commissary benefit provides access to reduced-priced groceries and household goods to eligible customers, including military personnel, their families, and retirees. Additionally, the commissary does not charge local or state taxes on purchases.

DeCA operates commissaries throughout the United States, including in isolated or more remote areas, as well as at overseas locations in 13 countries, where military personnel can access familiar products in a safe and secure facility while deployed. DeCA operates commissaries in locations that would not be considered profitable by the private grocery industry, and are important to its customer population that are stationed in remote areas. Whereas a private grocery store chain might close a location based on lack of profitability, DOD must follow clear criteria defined in a DOD instruction to close a commissary.¹⁰ The instruction states that the effect on active duty service members and their dependents who use the store and on the military community in which the commissary is located will be the primary consideration when assessing the discontinuation of a commissary store.

We previously reported that the commissaries provide benefits in addition to the reduced price of goods authorized by law.¹¹ For example, DeCA preferences its employment opportunities to veterans, military spouses, and military family members, providing additional income for families and career opportunities during frequent military-mandated transfers. DeCA also supports small businesses, scholarships, and school lunch programs. For example, in 2015, DeCA helped expand employment

¹⁰DOD Instruction 1330.17.

¹¹GAO, *DOD Commissaries and Exchanges: Plan and Additional Information Needed on Cost Savings and Metrics for DOD Efforts to Achieve Budget Neutrality*, [GAO-17-38](#) (Washington D.C.: Nov. 9, 2016).

opportunities to Wounded Warriors. As of 2022, DeCA employed a workforce of over 12,500 civilian full-time equivalents.

DeCA Funding and Sales

DeCA's budget includes three activities: commissary resale stocks, commissary operations, and a surcharge collections trust fund. Resale stocks and commissary operations are managed in the DeCA working capital fund.¹²

1. **The commissary resale stocks** activity collects revenues from product sales in commissaries to replenish stock.¹³
2. The **commissary operations** activity finances the operating costs of the commissaries, headquarters, and field activities. The primary revenue sources for this activity are appropriations funded by the military services based on a rate of usage, then transferred to DeCA each fiscal year.
3. **The surcharge collections trust fund** is primarily financed by the 5 percent surcharge applied to customer sales, and is used to pay for sustainment, modernization, maintenance, and repair of commissary stores.¹⁴

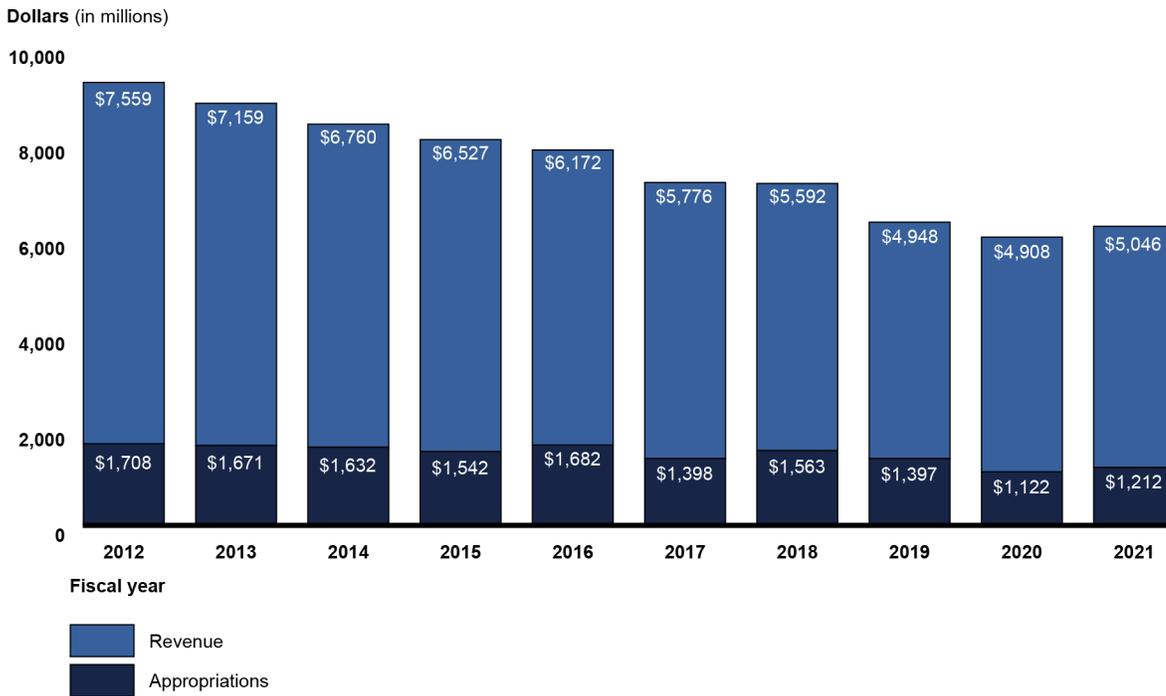
See figure 2 below for details regarding DeCA's revenue and reported appropriated funds for fiscal years 2012 through 2021.

¹²A working capital fund is a type of revolving fund that operates as a self-supporting entity that conducts a regular cycle of businesslike activities. DOD is authorized to establish working capital funds, in part, to provide working capital for commercial-type activities within or among its departments and agencies.

¹³Actual sales prices include the cost of commercial transport in the U.S. to the place of sale and the actual or estimated cost of shrinkage, spoilage, and pilferage of merchandise under commissary store control.

¹⁴DeCA's surcharge collections trust fund also derives revenue from prompt payment discounts to vendor, the sale of recycled cardboard and plastic, and a return on the sale of used surcharge-purchased equipment when replaced in the stores.

Figure 2: DeCA's Annual Revenue and Reported Appropriated Funding for Fiscal Year 2012-2021



Source: GAO analysis of Defense Commissary Agency documentation. | GAO-22-104728

Note: Inflation-adjusted numbers are presented in fiscal year 2022 dollars in this figure to illustrate appropriation and revenue trends over time and to remove the effect of changes in prices.

Related GAO Work

We have considerable past work focused on DeCA. Over the past 8 years, Congress has expressed interest in improving DeCA's operations and authorized several reforms. These reforms included authorizing DeCA to pursue business practices used by private sector groceries, such as variable pricing and private label programs, and to explore consolidation with DOD's military exchanges.¹⁵ The reforms have sought to reduce DeCA's reliance on appropriated funding without compromising

¹⁵In addition to commissaries, DOD operates about 2,500 exchange facilities worldwide that provide goods and services similar to department or retail stores. Specifically, the Army and Air Force Exchange Service, the Navy Exchange Service Command, and Marine Corps Community Services operate their own service-specific exchanges. In fiscal year 2018, the exchanges generated about \$12 billion in sales revenue. Unlike commissaries, exchanges rely on non-appropriated funding, including sales and other revenue, to cover operating expenses.

customers' commissary benefits.¹⁶ For a complete, detailed description of DeCA-related legislative history and associated GAO work, see appendix II of this report.

Of note, the NDAA for FY 2015 required DOD to report on the effects of DeCA (1) using variable pricing, (2) implementing a private label goods program, and (3) converting to a non-appropriated fund instrumentality, among other reforms.¹⁷ The following year, the NDAA for FY 2016 required DOD to submit a comprehensive plan to achieve budget neutrality, which DOD interpreted as a plan for ending the use of appropriated funding for commissaries by October 1, 2018.¹⁸

In November 2016, we found that DOD's resulting May 2016 report did not provide a plan for achieving budget neutrality.¹⁹ DOD reported that it would not be able to eliminate fully the use of appropriated funds for defense resale, but did not provide detailed information supporting that conclusion.²⁰ Instead, the report stated that DOD expected to achieve \$2 billion in cost savings over a 5-year period from fiscal year 2017 through fiscal year 2021. However, we found that the report did not include any assumptions, methodology, or specific time frames related to initiatives that would lead to these savings. We recommended that DOD (1) provide information to Congress supporting its conclusion for not achieving budget neutrality; (2) develop a plan for achieving alternative reductions to appropriations; and (3) identify specific metrics to determine whether the organization has fulfilled its mandated requirements. DOD concurred with and has since implemented all three recommendations.

¹⁶Commissary access is an income benefit provided through savings on purchases of food and household items necessary to subsist and maintain a service member's household for the inclusive period of compensated duty or service.

¹⁷Carl Levin and Howard P. "Buck" McKeon National Defense Authorization Act for Fiscal Year 2015, Pub. L. No. 113-291, § 634 (2014).

¹⁸National Defense Authorization Act for Fiscal Year 2016, Pub. L. No. 114-92, § 651 (2015).

¹⁹[GAO-17-38](#)

²⁰DOD, *Report on Plan to Obtain Budget Neutrality for the Defense Commissary System and the Military Exchange System* (May 2016) (report to Congress in accordance with section 651 of the National Defense Authorization Act for Fiscal Year 2016 (P.L. 114-92)).

In March 2017, we found that DeCA's methodology for calculating the savings rate did not provide reasonable assurance that it was maintaining the desired savings rate for commissary customers.²¹ We also found that DeCA's business model departed from practices generally employed by commercial grocery stores. We recommended that DOD (1) address limitations identified in its savings rate methodology; (2) develop a plan with objectives, goals, and time frames to improve efficiency in product management; and (3) conduct comprehensive cost-benefit analyses for service contracts and distribution operations. DOD concurred with and implemented the first two recommendations. DOD partially concurred with the third recommendation and as of July 2021, has not provided documentation to confirm completed actions to implement our recommendation.

In a May 2018 memorandum, the Deputy Secretary of Defense, recognizing that commissaries and exchanges were experiencing the same industry, generational, and demographic trends negatively affecting private-sector grocers and retailers, stated that consolidation of the commissaries and the military exchanges offered the greatest potential to achieve efficiencies needed for the survivability of the defense resale enterprise.²² The memorandum also directed the establishment of a task force to perform a business case analysis for consolidating the resale organizations, among other duties. In November 2018, DOD developed a business case analysis that recommended DeCA and the exchanges consolidate into one defense resale organization.²³ In April 2020, we found that DOD's business case analysis overestimated savings and understated cost estimates for information technology and headquarters relocation.²⁴ We recommended, among other things, that DOD (1) reassess estimated savings from cost of goods; (2) reassess the methodology for estimating information technology costs of consolidation;

²¹GAO, *Defense Commissaries: DOD Needs to Improve Business Processes to Ensure Patron Benefits and Achieve Operational Efficiencies*, [GAO-17-80](#) (Washington D.C.: Mar. 23, 2017). DOD has since changed how it calculates the savings rate, as discussed later in this report.

²²Deputy Secretary of Defense Memorandum, *Enterprise Management of Community Services Task Force* (May 29, 2018).

²³DOD Community Services Reform Task Force, *Study to Determine the Feasibility of Consolidating the Defense Resale Entities: Business Case Analysis* (Nov. 14, 2018).

²⁴GAO, *Commissaries and Exchanges: DOD and Congress Need More Reliable Information on Expected Savings and Costs of Consolidating the Defense Resale Organizations*, [GAO-20-418](#) (Washington, D.C.: Apr. 30, 2020).

and (3) develop a range of cost estimates for relocating the defense resale organizations. DOD concurred with these recommendations and reassessed its estimated savings and costs estimates in updated analysis.²⁵

DOD likewise found that costs were underrepresented and savings were overestimated in its prior business case analysis. DOD re-evaluated its decision to consolidate supported by the 2018 business case analysis and determined that consolidation of the resale organizations was not feasible without significant costs and disruption to the organizations that would exceed potential savings and efficiencies gained through consolidation. Specifically, DOD confirmed that its prior analysis overstated the savings on the cost of goods, understated costs of information technology integration, and omitted the costs of relocating DeCA headquarters.

In April 2021, the Deputy Secretary of Defense issued a memorandum that rescinded the prior 2018 memorandum and stated that the department should cease all efforts to consolidate the defense resale entities.²⁶ DOD determined that it instead plans to pursue additional savings by concentrating on structured collaboration efforts between DeCA and the exchanges. For example, given the proximity of many commissaries and exchange facilities, collaboration efforts between DeCA and the exchanges includes joint promotional events, as well as a Joint Buying Alliance and a beer and wine pilot.²⁷ Figure 3 shows the close proximity of a commissary and exchange store.

²⁵DOD, *Defense Resale 2021 Business Case Analysis Update Risk and Impact Assessment for the 2018 "Study to Determine the Feasibility of the Consolidation of the Defense Resale Entities"* (August 2021).

²⁶Deputy Secretary of Defense Memorandum, *Way Forward for the Defense Resale Entities* (Apr. 4, 2022).

²⁷The Joint Buying Alliance is a collaboration in which the military exchanges and DeCA maximize combined buying power and negotiate vendor markdowns on the products they sell in key retail areas, such as health and beauty, enabling each entity to offer lower prices. In the beer and wine pilot, DeCA partners with exchanges to purchase and resell a limited selection of beer and wine at the commissaries.

Figure 3: Commissary and Marine Corps Exchange (MCX) Stores Co-located at Marine Corps Base Quantico, Virginia



Source: Defense Commissary Agency/Kevin Robinson. | GAO-22-104728

DeCA Cannot Assure That It Is Meeting Its Global Customer Savings Rate Target

Based on its methodology, DeCA states that it is meeting its global customer savings rate target of 23.7 percent, but we found that this methodology is not reliable or consistent with applicable requirements. We found that the savings rate for customers within the continental United States (CONUS) is consistently lower than DeCA's target.²⁸ Furthermore, DeCA only meets its global customer savings rate target by relying on the savings rate for commissaries outside of the continental United States (OCONUS). We found that while DeCA's methodology for estimating the CONUS savings rate is reliable and includes required price comparisons, its methodology for estimating the OCONUS savings rate is unreliable, as it does not include required price comparisons based on actual prices.

²⁸Prior to 2016, DeCA reported its customer savings rate for the United States (CONUS) and overseas OCONUS regions. Although Alaska and Hawaii are outside of the continental United States, for the purposes of this report, those states are reported as part of the CONUS savings rate methodology.

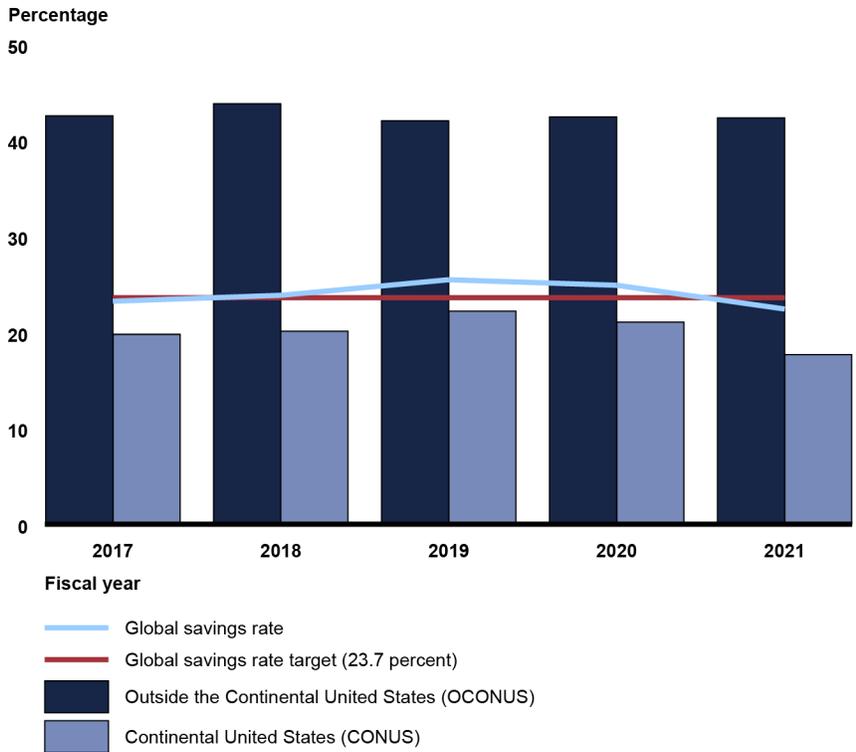
DeCA's CONUS Customer Savings Rate Relies on OCONUS Customer Savings Rate to Meet Global Target

Over the last several years, DeCA had generally reached its global 23.7 percent customer savings rate target by relying on the higher OCONUS savings rate, a smaller portion of DeCA sales overall. Although the majority of DeCA's sales occur in CONUS commissaries, we found that the savings provided to CONUS commissary customers is consistently lower than the global target of 23.7 percent. DeCA estimates its customer savings rate quarterly and reports the global savings rate annually to its Board of Directors and in its Annual Financial Reports. In fiscal year 2021, DeCA estimated that its overall savings rates for CONUS customers was 17.7 percent, 6 percentage points or approximately 25 percent lower than the global target. Further, DeCA did not meet its overall global savings rate target during fiscal year 2021 for the first time since changing its business model and implementing its new estimation methodology in 2016, as discussed later in this report.²⁹

The differences between the CONUS and OCONUS customer savings rates are illustrated for fiscal years 2017-2021 in figure 4 below.

²⁹DeCA changed its business model from pricing items at cost, to pricing items to generate a margin over cost.

Figure 4: Defense Commissary Agency's (DeCA) Customer Savings Rate Estimation for OCONUS and CONUS, Fiscal Years 2017–2021



Source: GAO analysis of Defense Commissary Agency information. | GAO-22-104728

Note: DeCA did not collect prices to estimate the customer savings rate in the third quarter of fiscal year 2020 due to shutdowns related to the COVID-19 pandemic.

We reviewed DeCA's annual CONUS savings rate for each of the seven regions between fiscal years 2017 and 2021, and found that only two regions included in the CONUS methodology—Alaska and Hawaii in fiscal years 2017 through 2021, and the Pacific region in fiscal year 2019—achieved the 23.7 target during that 5-year time period. Table 1 shows DeCA's CONUS savings rates, by region, from fiscal years 2017 through fiscal year 2021.

Table 1: DeCA’s Customer Savings Rate by Location, Fiscal Years 2017–2021

Location	2017	2018	2019	2020	2021
Total Continental United States (CONUS)	19.9	20.2	22.3	21.1	17.7
New England	20.2	20.1	21.8	21.8	17.6
South Atlantic	18.4	19.3	20.4	18.7	16.5
North Central	20.3	20.3	22.0	21.4	18.2
South Central	18.3	18.1	20.7	18.9	15.5
Mountain	18.0	18.6	20.8	20.0	16.0
Pacific	21.5	21.5	24.3	22.6	18.9
Hawaii and Alaska	31.8	32.7	35.1	33.2	33.3
Total Outside Continental United States (OCONUS)	42.7	44.0	42.2	42.6	42.5

Source: GAO analysis of Defense Commissary Agency (DeCA) customer savings rate information. | GAO-22-104728

Note: DeCA’s global customer savings rate target is 23.7 percent, meaning that it expects its customers to save, on average across all commissary locations, over 20 cents on the dollar by shopping at a commissary instead of at other local grocery stores.

Conversely, we found that DeCA’s OCONUS customer savings rate is consistently higher than DeCA’s global target. From fiscal years 2017 through 2021, the OCONUS customer savings rate was consistently at least 42 percent, or more than twice the savings rate reported for customers shopping in CONUS commissaries.

To determine the global customer savings rate, DeCA first estimates the rates for CONUS and OCONUS separately, using different methodologies. Then DeCA averages the CONUS and OCONUS customer savings rates by weighing each rate according to the relative sales volume in CONUS and OCONUS commissaries. The weighting is higher for CONUS because these commissaries account for the majority of sales. For example, in fiscal year 2021, the majority of commissary sales, about \$3.25 billion (or 81 percent), occurred in CONUS commissaries. Conversely, about \$777 million (or 19 percent) of sales occurred in OCONUS commissaries. Therefore, the global savings rate is estimated by adding the CONUS savings rate multiplied by its weight (17.7 percent X 0.807) plus the OCONUS savings rate multiplied by its weight (42.5 percent X 0.193). As shown in table 2 below, in fiscal year 2021, the result equals 22.4 percent, which is below the 23.7 percent target.

Table 2: DeCA's Fiscal Year 2021 Calculated Customer Savings Rate, with Weights

	FY2021 Sales	Weight	Savings Rate
CONUS	\$3,250,331,106	80.7	17.7
OCONUS	\$776,518,789	19.3	42.5
Global	\$4,026,849,895	100	22.5

Source: Defense Commissary Agency (DeCA). | GAO-22-104728

CONUS Customer Savings Rate Includes Required Price Data, but OCONUS Customer Savings Rate Methodology Is Unreliable

DeCA's CONUS Methodology Relies on Required Comparisons with Actual Price Data

We found that DeCA's methodology to estimate the CONUS customer savings rate is both consistent with DOD requirements and reliable. To estimate the customer savings rate in CONUS commissaries, DeCA uses a methodology that relies on actual price data and includes quarterly market-based price comparisons informed by manual shops at competitor stores and an analysis of syndicated price data. Specifically, the CONUS savings rate includes two market-based price-comparison components based on actual price data: (1) a manual shop that provides a comparison of DeCA prices to the prices of the same products in other local grocery stores; and (2) an analysis of syndicated data on grocery item prices that DeCA purchases from Nielsen.³⁰

- **Manual shop.** DeCA uses a contractor to conduct the manual shop, which involves shopping in person to manually collect the prices of approximately 1,000 items at up to three local competitor grocery stores within 20 miles of each commissary. DeCA's contractor executes the manual shop at approximately 25 percent of CONUS commissaries each quarter, to include all CONUS commissaries within a fiscal year. The list of 1,000 items included in the manual shop consists of the most commonly shopped items and is accessible by only a limited number of individuals within DeCA to protect it from

³⁰Nielsen surveys private retail grocery outlets in the continental United States, covering more than 90 participating retail chains, and provides DeCA with comparison data that includes traditional grocery retailers and mass retailers, among others.

bias. DeCA then estimates savings levels by averaging the prices of each item collected at the local competitor locations and comparing that average competitor price with the local commissary price for the same item. Figure 5 describes DeCA’s manual shop savings methodology for a sample CONUS grocery item.

Figure 5: Defense Commissary Agency’s (DeCA) Manual Shop Savings Methodology



Source: GAO analysis of Defense Commissary Agency documentation. | GAO-22-104728

- **Syndicated data.** DeCA also uses Nielsen syndicated data to compare the prices of items sold in commissaries to a broad set of competitors’ prices for those same items at a regional level, based on Universal Product Codes.³¹ Nielsen syndicated data provides average price data for all of DeCA’s approximately 38,000 scannable items, including prices at grocery retailers, supermarkets, drug stores, dollar stores, supercenters, and participating club stores. Nielsen data excludes fresh produce and meats; however, DeCA collects prices for a sample of these items in the manual shop.

This methodology is consistent with DOD requirements. Specifically, for CONUS commissaries, DeCA is to use comprehensive data of actual price data for scannable items from commercial grocery stores and to use a manual shop for other items, such as meat and produce.³² In addition, we determined that this CONUS methodology is reliable because it addresses weaknesses in the savings rate methodology that we previously identified in our March 2017 report.³³ For example, we found that the frequency at which DeCA collected price samples was not representative of the whole year and, in using syndicated data from

³¹According to DeCA officials, a universal product code is a product-specific, scannable barcode to identify individual products.

³²DODI 1330.17. Actual price data includes prices on the same goods collected from market-based comparisons, including manual shops or syndicated data, of prices charged by local competitors.

³³GAO-17-80.

Nielson on aggregated sales, it did not compare prices with individual commissaries' local competitors' prices or include private label products. Since revising its methodology in 2017, DeCA's CONUS methodology conducts more frequent price comparisons that include the syndicated data from Nielson, local competitor prices for each commissary, and private label products. In addition, the CONUS methodology is well documented and is conducted using the best available economic information, which, in this case, is either the market-based price comparison or the syndicated data and a manual shop.

**DeCA's OCONUS
Methodology Relies on a Cost
of Living Adjustment instead of
Actual Price Data**

We found that DeCA's methodology for calculating the OCONUS customer savings rate is neither consistent with DOD requirements nor reliable. DeCA's customer savings rate estimation methodology for OCONUS commissaries is not based on actual price data collected through a manual shop or syndicated data, but, instead, relies on a cost of living adjustment (COLA) and information from CONUS regions.³⁴ Specifically, to estimate the customer savings rate for a particular OCONUS region, on a quarterly basis, DeCA selects a CONUS coastal region to use as a basis, then multiplies the customer savings rate of the selected coastal CONUS region by the COLA for the OCONUS region. The resulting percentage is DeCA's estimated customer savings rate for that OCONUS region. For example, in figure 6 below, we show the calculation to estimate the savings rate in an OCONUS commissary in Japan, as of the fourth quarter of fiscal year 2021. This example shows that when multiplying the 21.8 percent customer savings rate for the CONUS Pacific region by the COLA for Japan, the resulting customer savings rate for the commissary in Japan is more than 10 percent higher than the CONUS rate.

³⁴The Defense Travel Management Office calculates the Cost of Living Allowance (COLA), which is intended to equalize purchasing power so that service members can purchase the same level of goods and services overseas as they could if they were stationed in CONUS. It is calculated by comparing the prices of goods and services overseas with average prices for equivalent goods and services in CONUS. If prices in CONUS are rising at a greater rate than those overseas, COLA will decrease. If prices overseas are rising at a greater rate than those in CONUS, COLA will increase.

Figure 6: An Illustrative Example of a Cost of Living Adjustment to a U.S. Savings Rate



Source: GAO analysis of Defense Commissary Agency and Defense Travel Management Office Cost of Living Adjustment information. | GAO-22-104728

We found that this method of calculating the OCONUS customer savings rate is unreliable and inaccurate for two reasons. First, the COLA is not an appropriate proxy for grocery items because the COLA includes the cost of many unrelated non-grocery items. For example, DOD’s COLA calculation includes cost factors such as transportation, services, income taxes, and miscellaneous expenses such as savings, investment, charitable contributions, and insurance, which are unrelated to the cost of grocery items. Therefore, DeCA’s use of the COLA to estimate the savings rate for OCONUS commissaries, which sell food and related household items only, is an inappropriate proxy for grocery costs.

Second, since DeCA’s OCONUS savings rate is not estimated by comparing the actual price of items in overseas commissaries against the actual price of the similar items charged by local competitors, the price of items in overseas commissaries could be significantly higher or lower than comparable items in local stores without affecting the savings rate. DeCA officials we interviewed confirmed that, in theory, DeCA could raise its prices in commissaries in Japan by 20 percent without affecting its customer savings rate it estimates for Japan, but these officials also stated they were not raising prices overseas. We heard in discussions with managers in two Pacific region commissaries that there are concerns regarding higher prices for some items, such as certain produce. They stated that they had sometimes noted commissary prices to be higher than the prices they had observed in other local markets, and they contacted DeCA management in those instances. For example, in November 2021, one commissary manager in the Pacific region noted concerns about higher prices for limes, which cost \$2.39 each at the time, and that commissary manager stated that her commissary took action to decrease the price so that it was comparable to local markets.

DOD guidance states that DeCA must track average savings by using a market-based price comparison conducted in accordance with standard

industry practices.³⁵ For OCONUS, the guidance requires that the actual price data of a sample of items representing categories carried within the commissaries be compared to the prices of like items in local grocery stores. This OCONUS price comparison analysis is to be conducted quarterly. Statutes have also authorized DeCA to consider market-based price and demand comparisons when establishing a baseline savings rate.³⁶ Specifically, the National Defense Authorization Act for Fiscal Year 2016 stated that, before establishing any authorized pilot program such as the variable pricing program, the Secretary of Defense shall establish a baseline of savings to patrons achieved for each commissary by comparing prices charged by those stores for a representative market basket of goods to prices charged by local competitors for the same basket of goods. However, under a market-based variable pricing program, the level of savings may not be less than the level of savings prior to program implementation.

DeCA officials told us that one reason they do not use actual price data to estimate the OCONUS customer savings rate is that the two providers of syndicated data, Nielsen and Information Resources, Inc., do not maintain syndicated data for overseas markets. Further, as of 2016, there were no third-party contractors who could conduct a manual shop as required overseas according to documentation from a former contracting firm hired to conduct a business reform study.³⁷ DeCA had difficulty comparing prices through a manual shop overseas because local grocery stores near the OCONUS commissaries sometimes do not contain the same product selection or sizes. However, prior to 2017, DeCA was able to conduct a manual shop to compare prices from other local markets to the prices in the OCONUS commissaries. Specifically, when we reviewed its customer savings rate calculation in 2016, DeCA physically conducted limited sampling of 13 commissaries overseas.³⁸

In addition, DeCA officials told us that they revised their methodology because a consulting firm—hired to support DeCA’s implementation of

³⁵DOD Instruction 1330.17.

³⁶Pub. L. No. 114-92, § 651 (2015).

³⁷The Boston Consulting Group, *Defense Commissary Agency (DeCA) Savings Methodology* (Apr. 22, 2016).

³⁸[GAO-17-80](#).

business reforms—recommended that they do so.³⁹ This firm advised that using a COLA was comparable in accuracy to the manual shop for overseas stores. We have previously reported that a reliable methodology and documentation are key elements of a high quality economic analysis intended to inform decision makers.⁴⁰ The analysis should document that it is conducted using the best available economic information.

DeCA's methodology for its OCONUS customer savings rate is contrary to the DOD Instruction, which calls for a market-based price comparison, and relies instead on a COLA that reflects more than the price of groceries purchased in OCONUS locations. Moreover, DeCA has not assessed whether applying a COLA adjustment is comparable to the savings rate estimated with an actual price comparison. When we reviewed the documentation from the consulting firm that recommended the use of the COLA, we found that it did not contain information or analysis demonstrating that the use of COLA adjustments provides an accurate proxy for actual price data. Rather, it pointed to the convenience of the COLA approach, stating that the use of the COLA was a simpler and less resource-intensive method than a manual shop. Without conducting and documenting an analysis that evaluates whether applying COLA adjustments to a regional CONUS savings rate provides comparable accuracy to actual price data, DeCA cannot demonstrate that its reported OCONUS savings rate, which is consistently over 40 percent, is realistic. Additionally, because DeCA relies heavily on the OCONUS customer savings rate estimation to demonstrate that it has met its global customer savings rate target, Congress and DOD decision makers do not have assurance that commissary customers are reliably receiving their intended benefit.

³⁹The Carl Levin and Howard P. "Buck" McKeon National Defense Authorization Act for Fiscal Year 2015 required the Secretary of Defense to review the defense commissary system using the services of an independent organization experienced in grocery retail analysis. Pub. L. No. 113-291, § 634 (2014). DOD hired the Boston Consulting Group to evaluate opportunities for DeCA to reduce appropriated funds and for consolidating the defense resale organizations. DOD officials told us they stopped working with the Boston Consulting Group in 2021 and hired another contractor to update the 2018 business case analysis on defense resale consolidation.

⁴⁰[GAO-18-151SP](#).

DeCA Has Two Primary Objectives, but Has Not Analyzed Tradeoffs between Them and Congress's Expectations Are Unclear

Since 2017, DeCA has had two primary operating objectives:

- (1) **Providing a customer savings rate to commissary shoppers that meets or exceeds DeCA's defined global target of 23.7 percent.** DOD's instruction governing the commissary program and DeCA's most recent strategic plan state that the mission of the commissary program is to provide an income benefit through savings on purchases of food and household items to service members and other eligible customers.⁴¹ As such, DeCA officials stated that maintaining the customer savings rate is a primary objective of the agency.
- (2) **Generating a margin to offset its operating costs and reduce its reliance on appropriations.** DeCA officials stated that the agency also has another primary objective to operate more like a private sector grocery store and generate margin through raising some prices, which is intended to reduce DeCA's reliance on appropriations. Those officials noted that the objective to generate margin was a Department-level decision to generate and use margin as a way to fund a portion of operating costs.

These two objectives of generating savings and increasing margin can be in tension with one another, particularly if the targets set for each are incompatible. Specifically, if DeCA raises the prices on certain items to generate more margin (and therefore reduce its reliance on appropriations), the savings to the customer on those items decreases. Conversely, if DeCA lowers prices to provide more savings to customers, DeCA's ability to generate a margin decreases. Figure 7 demonstrates the effect of price on savings rate and margin.

Figure 7: Effect of Price on Savings Rate and Margin



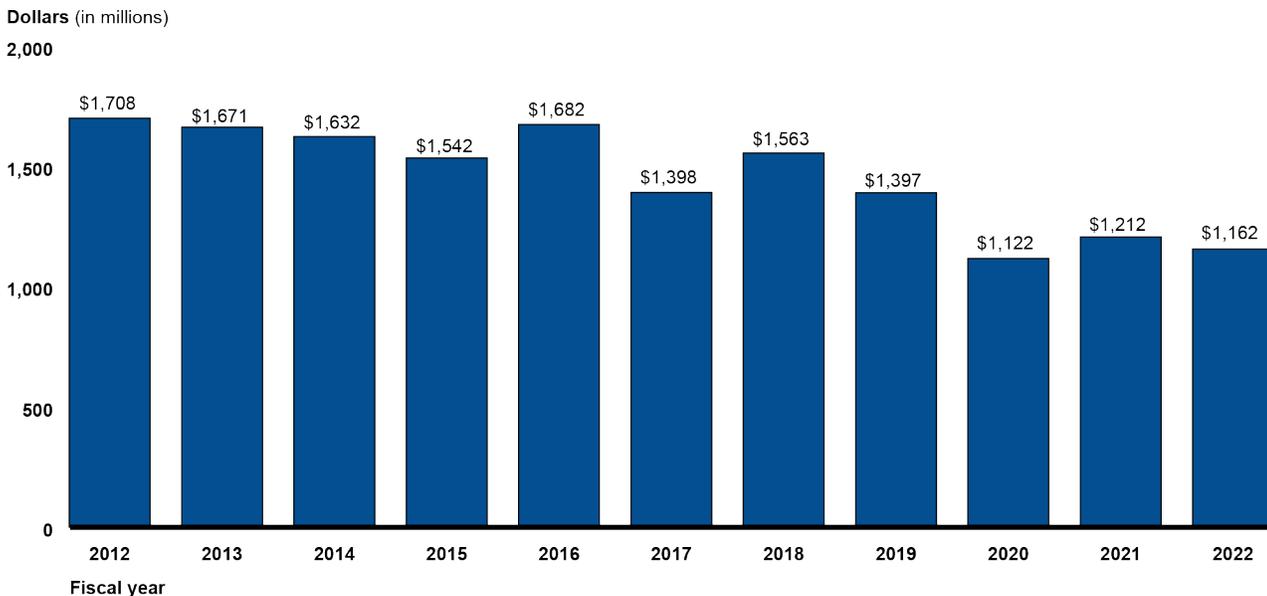
Source: GAO analysis of Defense Commissary Agency information; rrodrickeiler/stock.adobe.com (Treasury photo); Bumble Dee/stock.adobe.com (service member photo). | GAO-22-104728

⁴¹DOD Instruction 1330.17 and Defense Commissary Agency, *2021-2022 Game Plan*.

DeCA has not been able to achieve both of its targets—maintaining a 23.7 percent customer savings rate and, according to DeCA officials, generating margin equivalent to about 10 percent of its annual appropriation—because of this inherent tension between the objectives. As discussed earlier in this report, while DeCA reports that it met the global savings rate target until fiscal year 2021, we found that DeCA’s methodology for estimating the savings rate—in particular the OCONUS savings rate—is unreliable. Further, in fiscal year 2021, the average customer savings rate for CONUS customers, who are responsible for approximately 81 percent of DeCA’s global sales, was 17.7 percent, approximately 25 percent (or 6 percentage points) lower than the global savings rate target of 23.7 percent. Thus, the CONUS customers were not realizing savings near the target.

In addition, while DeCA’s reported appropriated funding has decreased overall since 2016, when it was authorized to implement business reforms such as variable pricing, DeCA has received around \$1 billion in appropriations for each of the last several years. See figure 8 for an illustration of the change in DeCA’s reported appropriated funds since fiscal year 2012.

Figure 8: DeCA’s Reported Appropriations from Fiscal Years 2012–2022



Source: GAO analysis of Defense Commissary Agency documentation. | GAO-22-104728

Note: Inflation-adjusted numbers are presented in fiscal year 2022 dollars in this figure to illustrate appropriation trends over time and to remove the effect of changes in prices.

In addition, DeCA has set annual margin generation goals since 2019, according to DeCA officials and as shown in table 4. DeCA officials projected that DeCA would generate approximately \$900 million in total margin between fiscal years 2019 and 2026 to offset its appropriations. DeCA officials told us that they met margin goals each year for fiscal years 2019 through 2021 and generated almost \$247 million to date. However, those officials were not able to provide supporting documentation for these figures.⁴² In addition, they told us it was unclear whether DeCA could meet its targets for margin in the future. Moreover, recent high inflation of food prices, transportation costs, and other goods may add to uncertainty regarding DeCA's budget and ability to generate a margin.

Table 3: DeCA's Internal Goals for Generating Margin, Fiscal Years 2019–2026

Fiscal year	2019	2020	2021	2022	2023	2024	2025	2026
Margin goal (millions)	\$50	\$88.3	\$108.5	\$118.7	\$128.9	\$135.7	\$136	\$136

Source: Defense Commissary Agency (DeCA) officials. | GAO-22-104728

DeCA officials we interviewed agreed that there is an inherent tension between maintaining customer savings and generating margin, and that DeCA likely cannot both meet the target of a 23.7 percent savings rate and reduce its reliance on appropriations through margin as intended. However, DeCA has not determined or clearly articulated the tradeoffs necessary to achieve these competing targets. In other words, DeCA has not conducted an analysis that specifically identifies the level of appropriations needed to meet varying savings rates and best provide the benefit, taking into account whatever efficiencies it can garner through different authorized reforms to generate margin. Were DeCA to reduce its reliance on appropriations through a greater focus on producing margin, it would likely need to lower its target savings rate or take other steps that might reduce the benefit provided, such as limiting operating hours or removing commissary locations.⁴³ In contrast, if DeCA's appropriations

⁴²DeCA officials can attribute about \$50 million of its margin since 2017 to sales from its private label products.

⁴³As explained earlier in this report, DeCA's CONUS customers do not receive the target savings rate, and the methodology for calculating the savings rate for OCONUS customers is unreliable. Moreover, DeCA expects to require additional funding to meet the increased hourly minimum wage for those working on or in connection with a federal government contract. The wage increase was effective January 30, 2022.

increased, it might be able to increase the target savings rate and, therefore, provide a greater benefit.

Further, there could be other improvements to the benefit that DeCA could pursue, such as increased access, extended operating hours, more locations, and greater availability of e-Commerce. For example, DeCA could fund other initiatives intended to increase usage of the benefit. Currently, according to DeCA officials, only 1.5 million out of 8 million eligible customers shop at the commissaries regularly. According to these same officials, if DeCA did not have to focus on generating margin to offset regular operating costs, it would invest in advertising to the approximately 6.5 million eligible customers that choose not to shop at the commissaries. In addition, DeCA could invest in efforts with the potential to increase revenue in the long term, such as further developing DeCA's private label milk and eggs, because DeCA's data indicate those customers who purchase milk and eggs tend to make larger purchases. On the other hand, officials stated that current margin generation would not be sufficient to support increased customer shopping without an increase in appropriations. Moreover, a higher number of eligible customers shopping at DeCA would lead to higher resale operating costs, such as paying the salaries of more workers to accommodate additional customers, especially in light of a recent increase in the minimum wage for federal workers.⁴⁴

Standards for Internal Control in the Federal Government state that an agency should identify and analyze risks related to achieving its defined objectives and that management should communicate information about those risks to achieving its objectives to external stakeholders.⁴⁵ In addition, our prior work has identified leading practices for federal strategic planning, which we derived in part from the GPRA

⁴⁴On January 21, 2022, the Office of Personnel and Management announced that federal civilian employees in the U.S. will be paid at least \$15 per hour. OPM CPM 2022-02, *Achieving a \$15 per Hour Minimum Pay Rate for Federal Employees* (Jan. 21, 2022). OPM issued a memorandum for the heads of executive departments and agencies that provides implementing guidance for how agencies should adjust pay rates for General Schedule and Federal Wage System employees stationed in the U.S. Over 56,000 workers within DOD are affected by this increase. OPM's guidance directed agencies to implement these changes by January 30, 2022.

⁴⁵GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 10, 2014).

Modernization Act of 2010 and associated guidance.⁴⁶ Specifically, one of these leading practices is to identify resources needed to achieve goals.

Until DeCA conducts an analysis to evaluate and clearly identify the risks and tradeoffs associated with achieving its defined objectives and necessary resources, it will continue to operate without a clear understanding of what outcomes it can reasonably achieve for its customers with whatever level of funding it receives. Such an analysis would be helpful to both DeCA in planning its efforts to achieve its objectives, as well as to Congress in its oversight of DeCA's efforts. Specifically, a detailed analysis could provide better information to Congress on the total array of benefits that DeCA could provide in addition to customer savings, such as increased access to the benefit through extended operating hours or more locations, greater availability of e-Commerce, and broader benefits such as employment opportunities to service member family members.

We found that an additional challenge to DeCA has been the varying statutory authorizations and requirements it has received from Congress. Specifically, through statute, Congress has provided direction to DeCA focused on both increasing the customer benefit and reducing its reliance on appropriations. Between fiscal year 2016 and fiscal year 2021, statutory provisions

- directed DeCA to develop a plan to achieve budget neutrality;
- authorized the implementation of numerous business reforms such as variable pricing and private label programs to reduce reliance on appropriated amounts; and
- authorized the Secretary of Defense to determine that the commissaries be converted into a non-appropriated fund instrumentality if consolidated with the military exchanges.⁴⁷

⁴⁶GAO, *Executive Guide: Effectively Implementing the Government Performance and Results Act*, [GAO/GGD-96-118](#) (Washington, D.C.: June 1, 1996). The GPRAMA amended section 306 of title 5 of the United States Code, to establish required elements of agency strategic plans. Pub. L. No. 111-352, § 2 (2011). Although GPRMA and GPRMA Modernization Act of 2010 requirements apply to departments (e.g., DOD), we have previously reported that they can serve as leading practices at other organizational levels, such as component agencies (e.g., DeCA) for performance management.

⁴⁷A non-appropriated fund instrumentality (NAFI) is a DOD organizational and fiscal entity supported in whole or in part by non-appropriated funds (NAFs), for example DOD morale, welfare, and recreation programs. NAFs are government monies and assets from sources other than monies appropriated by Congress.

During the same period, DeCA was also required to sustain certain benchmarks, including maintaining high levels of customer satisfaction, providing high quality products and sustaining discount savings to patrons at a rate not less than pre-reform levels; and a statutory provision barred the Secretary of Defense from taking any consolidation action prior to Congressional notification and acceptance of an updated business case analysis. See figure 9 below for a timeline of relevant NDAA direction regarding business reforms and potential consolidation with exchanges.

Figure 9: Selected Statutory Changes Affecting the Defense Commissary Agency, Fiscal Years 2015–2022

Fiscal year							
2015	2016	2017	2018	2019	2020	2021	2022
2015 National Defense Authorization Act (NDAA) directed the Secretary of Defense to use an independent contractor to examine the effects of, among other things, proposed variable pricing and private label programs, and converting to a non-appropriated fund instrumentality.	2016 NDAA required the Secretary of Defense to develop a plan to achieve budget neutrality; required GAO to review the budget neutrality report; and authorized one or more pilot programs to begin after submission and review of the report. Pilot programs were authorized to operate until Nov. 25, 2020.	2017 NDAA authorized the Secretary of Defense to convert its variable pricing pilot program to full operations. Also authorized the Secretary of Defense to determine if conversion to a non-appropriated fund instrumentality was appropriate.		2019 NDAA directed the Secretary of Defense to conduct a Business Case Analysis (BCA) to determine the feasibility of consolidating the Defense Commissary Agency and the military exchanges into a single defense resale system.	2020 NDAA required GAO to review the Defense Resale Optimization Study which included in part, the BCA for consolidation.	2021 NDAA required the Secretary of Defense to revise its BCA for consolidation to include addressing recommendations from GAO's review of DOD's BCA for consolidation. The Secretary of Defense was barred from taking any consolidation action until Congress notified DOD in writing of receipt and acceptance of the updated BCA.	2022 NDAA authorized the use of surcharge revenue to be used for additional purposes such as construction, repair, improvement and maintenance of commissary facilities.

Source: GAO analysis of NDAAs for fiscal years 2015-2022. | GAO-22-104728

This statutory direction and requirements have led to uncertainty over Congress's expectations for DeCA—specifically, what type and level of benefit DeCA should ensure that it can provide, despite the impacts on margin. The GPRM Modernization Act of 2010 states that agencies should solicit and consider the views and suggestions of congressional entities potentially affected by or interested in the agencies' goals, objectives, and strategies, such as the appropriate authorizing, appropriations, and oversight committees.⁴⁸ However, without clarity from Congress regarding the level of benefit that DeCA should provide, DeCA may be hindered in its ability to operate effectively.

⁴⁸Pub. L. No. 111-352, § 2 (2011) (codified at 5 U.S.C. § 306).

DeCA's Strategic Plan Lacks Key Business Reform Efforts and Information Necessary to Measure Performance

In April 2021, DeCA issued its current strategic plan for fiscal years 2021-2022.⁴⁹ Although DeCA's strategic plan establishes strategic goals, we found that the plan does not address DeCA's key business reform efforts of variable pricing and private label, and lacks information necessary for guiding implementation and measuring success of key efforts identified in the plan.⁵⁰

DeCA's Strategic Plan Does Not Include Key Business Reforms

We found that DeCA's strategic plan lacks any mention of two of DeCA's key business reform efforts—variable pricing and private label. Specifically, the plan contains no information regarding the implementation status of these key business reform efforts, nor any detail regarding what would constitute full implementation.

When we interviewed DeCA officials, we discovered a related lack of clarity regarding the intended purpose or intended outcome of its private label and variable pricing reforms. For example, DeCA officials could not clearly detail the effect of variable pricing on the agency's objective of margin generation or how pricing information was used to set annual goals for margin and, thus, reduce reliance on appropriations.⁵¹ Additionally, some senior DeCA officials told us that the purpose of offering private label products in the commissaries is to provide a more

⁴⁹Defense Commissary Agency, *2021-2022 Game Plan*. Strategic plans are the starting point and basic underpinning for a system of program goal setting and performance measurement throughout the federal government. A multi-year strategic plan articulates the fundamental mission of an organization, and lays out its long-term general goals for implementing that mission.

⁵⁰A strategic goal is a statement of aim or purpose that is included in a strategic plan. Strategic goals articulate clear statements of what the agency wants to achieve to advance its mission. Each strategic goal should be supported by a suite of strategic objectives and performance goals. A strategic objective reflects the outcome or management effect the agency is trying to achieve. A performance goal is a statement of the level of performance to be accomplished within a timeframe, expressed as a tangible, measurable objective or as a quantitative standard, value, or rate.

⁵¹The National Defense Authorization Act for Fiscal Year 2016 authorized DeCA to pilot variable pricing and measure aspects of the program while achieving savings for DOD. Pub. L. No. 114-92, § 651 (2015). The National Defense Authorization Act for Fiscal Year 2017 directed DOD to develop a strategy to optimize management practices across DeCA and the exchanges to reduce reliance on appropriated funding without reducing benefits to patrons. Pub. L. No. 114-328, § 661 (2016).

economical option. Specifically, officials stated that DeCA shifted its private label strategy to develop products comparable to the quality of name brands, at lower prices, to support the objective of providing a benefit to customers. Other senior DeCA officials stated that the purpose of private label is to help generate margin, and, therefore, to support the objective of reducing the reliance on appropriations.

Additionally, the DeCA officials we interviewed offered varied responses about the implementation status of these key business reform efforts. Specifically, according to DeCA officials:

- **DeCA is in the process of implementing its private label program.** DeCA currently offers 1,162 items and has generated \$50 million in margin with the program over 5 years. At the beginning of our review, DeCA officials told us that a goal for the private label program was to offer about 4,000 private label items. However, during the course of review, DeCA officials told us that the number of private label items is not a meaningful goal because it does not reflect customer acceptance or demand. See figure 10 below for an example of DeCA's private label water, Freedom's Choice.

Figure 10: DeCA's Private Label Water



Source: GAO. | GAO-22-104728

- **DeCA is in the process of implementing variable pricing.** This reform is approximately 80 percent implemented and not fully matured. DeCA officials told us that it employs variable pricing for all scannable items in all commissaries, except for the three categories of meat, produce, and deli. However, these officials could not provide a clear timeframe for full implementation or describe what it would look like for DeCA to reach full implementation of its variable pricing program.

Additionally, DeCA officials have not provided evidence to demonstrate that these key business reform efforts are helping to achieve either of DeCA's objectives of maintaining the customer savings rate or generating margin.

Further, industry representatives from DeCA's private label manufacturer told us that DeCA has not set appropriate goals for its private label program. For example, an industry standard measurement for a private label is its share of market penetration, which is the private label sales units divided by the total sales units. Market penetration of private labels

can be measured from a total store perspective or by category. These industry representatives said DeCA should use the industry standards of market penetration to set its own goals, and assess the performance of its private label categories against those goals. While DeCA officials stated that they use some limited information about private label penetration to make decisions about the assortment of products it offers at the commissaries, DeCA does not currently have its own goals for private label market penetration overall, or for each category of goods, as industry representatives stated was an industry standard.

DeCA’s Strategic Plan Lacks Performance Information

DeCA’s strategic plan establishes strategic goals (noted in the strategic plan as “future state”) and corresponding measures of success for each goal. Prior to developing the strategic plan, DeCA conducted a 100 day assessment—organized in a Strengths, Weaknesses, Opportunities, and Threats analysis—which established the plan’s lines of effort. Table 4 shows DeCA’s published lines of effort in priority order, associated strategic goals, and corresponding measures of success.

Table 4: DeCA’s Fiscal Year 2021-2022 Strategic Game Plan Lines of Effort

Line of effort	Future state (strategic goal)	Measures of success
Supply chain	DeCA’s supply chain is optimized and enables full commissary shelves with the right products delivered at the right time and place at the lowest cost that meets the demands of our patrons at all times.	<ol style="list-style-type: none"> 1. Full shelves 2. Product satisfaction
eCommerce	DeCA 21st century grocery operation offers our patron’s eCommerce services to include: next generation digital shelf, dynamic order fulfillment, a secure and trusting online payment environment, enhanced mobility, and localized pickup or delivery.	<ol style="list-style-type: none"> 1. Improved e-Commerce customer satisfaction stores 2. Increased number of deployment sites 3. Increased online sales and usage statistics
Patron focus	DeCA has earned the confidence of our patrons that we will deliver our exclusive benefit in a safe, convenient, exciting way and have earned their trust as “the grocery provider of choice.”	<ol style="list-style-type: none"> 4. Improved customer satisfaction survey results, to include those of the Commissary Customer Service Survey and ForeSee Purchaser Survey
Demand creation	DeCA met or exceeded sales goals and achieved margin, while delivering savings and increasing shopper share of wallet, customer perception, and benefit usage.	<ol style="list-style-type: none"> 1. Increased revenue 2. Increased margin 3. Maintained savings
Facilities management	All DeCA stores are comfortable, clean, inviting, well-lit and maintained, with functional equipment, up-to-date décor packages, and modern amenities.	<ol style="list-style-type: none"> 1. Facility readiness 2. Equipment readiness 3. Store cleanliness
Workforce investment	DeCA has a leader-driven, customer-focused culture encompassing trust, respect, and ownership among DeCA’s managers and employees	<ol style="list-style-type: none"> 1. Employee satisfaction through surveys and other indicators

Source: Defense Commissary Agency (DeCA), DeCA’s 2021-2022 Game Plan. | GAO-22-104728

While DeCA's strategic plan includes lines of effort and identifies areas to measure success, we found that DeCA does not have complete planning documents, such as an implementation or performance plan, that provide the necessary information to accurately measure the performance of these lines of effort. For example,

- As a first line of effort, the strategic plan describes an optimized **supply chain** with measures of success including full shelves and product satisfaction, but does not identify performance goals with indicators or associated targets that DeCA will use to measure the extent to which shelves are full or customers are satisfied with products.
- The plan's second line of effort is **e-Commerce** (referred to as Click2Go), DeCA's online shopping and curbside pickup program. It is now offered in all CONUS and OCONUS commissaries. However, the strategic plan does not have goals or targets for the e-Commerce measures of success including increased online sales and increased usage. DeCA monitors e-Commerce transactions by commissary and has data on the number of transactions, the amount spent for each transaction, and the usage of available e-Commerce pick-up time slots. However, DeCA officials stated it does not have performance goals with measurable targets for increased online sales and increased usage. We analyzed DeCA-provided data from May 2021 through December 2021 and found that customers who shop using e-Commerce have a larger basket size per order, on average around \$110, than those who shop in store, whose baskets average around \$64. However, customer usage of e-Commerce is low. For example, at about 62 percent of DeCA's commissaries, customer booking of available pick-up time slots was 20 percent or less.
- The plan's third line of effort states that the goal of **patron focus** is for DeCA to be the grocery provider of choice. However, the measures of success include two surveys of current customers, with no information regarding what level of satisfaction DeCA is targeting. Further, the surveys do not provide information regarding why service members and other eligible customers choose not to use the benefit.

We also found that the strategic plan lacks supporting documentation, such as an implementation plan or performance plan that could link DeCA's performance goals to measurable performance indicators,

specific targets, and time periods for achieving them.⁵² As of April 2022, more than halfway through the timeframe for its current strategic plan, DeCA had not yet finalized an implementation or performance plan associated with its strategic plan. Senior DeCA officials told us that implementation plans are an unnecessary layer of planning documentation, and they are unsure of their effectiveness for strategic planning. Instead, DeCA senior officials stated that DeCA monitors the implementation of each line of effort by holding monthly meetings with responsible managers who provide status updates to the leadership team. Specifically, DeCA's Director stated that he decided not to create a separate implementation plan, that the current strategic plan has implementation built in, and that he and DeCA's leadership review progress for each line of effort at the monthly meetings, which they refer to as the battle rhythm meetings.

We obtained internal DeCA documentation created and reviewed by senior leadership at the battle rhythm meetings from the past year. We found that, in some cases, the internal documentation for some lines of effort contains detailed information indicative of effective strategic planning, such as measurable goals and outcome-based performance measures. For example, for the **facilities management** line of effort, DeCA's documentation contains a clear and measureable baseline and target goal for the year, along with performance information by quarter assessing DeCA's performance against the goal. For other lines of effort, the internal documentation lacked the necessary information. For example, the **supply chain** and **patron focus** lines of effort do not contain benchmark or goal information. This documentation also generally lacks timeframes or key milestones and deliverables to track implementation of the lines of effort.

OMB Circular No. A-11 encourages agencies, when developing strategic objectives, to consider how to measure progress toward achieving each

⁵²Agency strategic plans should contain a description of how the performance goals provided in an agency's performance plan contribute to the general goals and objectives in the strategic plan. Agency performance plans establish performance goals expressed in an objective, quantifiable, and measurable form, unless otherwise authorized to be in an alternative form. Additionally, an agency's performance plan should describe how the performance goals contribute to the general goals and objectives established in the agency's strategic plan. Office of Management and Budget, Circular No. A-11 (2021) Sections 200 and 230.

objective and assessing effectiveness.⁵³ Agency performance goals should include performance indicators, targets, and time periods for achieving them. Additionally, federal government performance plan goals should be expressed in an objective, quantifiable, and measurable form.⁵⁴

Our previous work on both reform efforts and strategic planning calls for agencies to use performance indicators in measuring or assessing progress.⁵⁵ Our work has also identified useful principles for evaluating reform efforts to ensure effective implementation. For example, these principles provide that agencies should design proposed reforms to achieve specific, identifiable goals; establish clear outcome-oriented goals and performance measures; and develop an implementation plan with timeframes or key milestones and deliverables to track implementation of reforms.

DeCA's strategic plan does not include relevant information on key business reforms and performance, nor does DeCA have a supporting implementation plan with such information because DeCA's senior leadership chose not to develop such an implementation plan. Instead, DeCA leadership has chosen to rely on monthly meetings to track implementation. While these meetings help assess tasks and implementation status for each line of effort, as discussed previously, we found that the documents used in those discussions lacked some needed information.

DeCA's strategic planning process and efforts are still evolving. Senior DeCA officials told us that they were still engaged in efforts to develop appropriate outcome based performance measures for some lines of effort. Further, in June 2022 DeCA officials stated that they were finalizing an update to the strategic game plan to include revised lines of effort. DeCA's completion of effective strategic planning with necessary performance information may also have been challenged by a lack of clarity in DeCA's objectives and various statutory directions and requirements, as discussed previously.

⁵³Office of Management and Budget (OMB) Circular No. A-11, *Preparation, Submission and Execution of the Budget* (August 2021).

⁵⁴31 U.S.C. § 1115.

⁵⁵GAO, *Government Reorganization: Key Questions to Assess Agency Reform Efforts*, [GAO-18-427](#) (Washington, D.C.: June 13, 2018).

Having a strategic plan with associated implementation or performance plans that includes all business reforms and performance goals with measures, milestones, and deliverables could help DeCA complete its implementation of variable pricing and private label and demonstrate progress for each line of effort in its strategic plan. Without a comprehensive strategic plan that includes key business reforms or supporting documentation with complete performance information, DeCA cannot measure its progress toward implementing key business reforms and determine if its efforts are achieving desired results. DeCA also cannot measure progress and determine whether efforts are achieving desired results at its monthly meetings without supporting documentation that is comprehensive and current. As DeCA clarifies with Congress the level of benefit it should provide, it will be important for DeCA to clearly define and fully develop measurable goals, performance information, milestones, and deliverables to ensure it is meeting its mission and has a plan for when and how to implement improvements.

Conclusions

In this time of rising prices and DOD efforts to reduce food insecurity, the ability of DeCA to provide servicemembers, their families, and retirees reduced-price groceries is especially important. However, customers who shop at CONUS commissaries save less than DeCA's global targeted saving rate of 23.7 percent, and DeCA's methodology for estimating the OCONUS savings rates is both unreliable and inaccurate. By analyzing the OCONUS methodology to determine whether it accurately reflects savings, DeCA can provide assurance to DOD and Congress that all commissary customers are receiving their intended benefit.

DeCA currently seeks to achieve two primary objectives—maintaining a certain level of customer savings and generating a margin to offset its operating costs and reduce its reliance on appropriations. These two objectives are in competition, as lowering prices to increase savings decreases DeCA's margin, while raising prices to generate a greater margin reduces customer savings. DeCA has continued to pursue these competing objectives because statutes have emphasized that DeCA should work to reduce or eliminate its reliance on appropriated funds while maintaining customer savings.

By analyzing the tradeoffs associated with meeting one of the competing objectives over the other, DeCA can inform Congress of the tradeoffs between priorities and the effects of various business reforms. Such information can position Congress to make fully informed oversight decisions necessary to provide clear direction on how best to provide the benefit. Moreover, by identifying these tradeoffs and coordinating with

Congress, DeCA can update its strategic plan or supporting documentation to include all business reforms, including the use of variable pricing and private label goods, and develop goals with metrics for each of the reforms and other key efforts.

Recommendations for Executive Action

We are making the following three recommendations to DOD and one matter for congressional consideration:

The Secretary of Defense, in coordination with the Office of the Under Secretary of Defense for Personnel and Readiness, should ensure that DeCA conducts and documents an analysis of whether its OCONUS customer savings rate methodology provides comparable accuracy to a market-based price comparison and make any appropriate adjustments to its methodology based on this analysis. (Recommendation 1)

The Secretary of Defense, in coordination with the Office of the Under Secretary of Defense for Personnel and Readiness, should ensure that DeCA, once it has made any necessary adjustments to its OCONUS customer savings rate methodology, conducts an analysis of tradeoffs that specifically identifies the customer savings rate and related benefits, such as number, location, and operating hours of commissaries, that it can provide at varying levels of appropriation; and submits such analysis to the appropriate authorizing, appropriations, and oversight congressional committees. (Recommendation 2)

The Secretary of Defense, in coordination with the Office of the Under Secretary of Defense for Personnel and Readiness, should ensure that DeCA updates its strategic plan or supporting documentation to include all business reforms; and identifies goals with associated performance measures, milestones, and deliverables for each key effort. (Recommendation 3)

Matter for Congressional Consideration

Congress should consider clarifying its direction to DeCA regarding the level of customer savings and related benefits it should seek to achieve and maintain as a benefit, using the tradeoff analysis provided by DeCA. (Matter for Consideration 1)

Agency Comments

We provided a draft of this report to DOD for its review and comment. In its comments, reproduced in appendix IV, DOD concurred with our recommendations. DOD also provided technical comments, which we incorporated as appropriate.

We are sending copies of this report to the appropriate congressional committees, the Secretary of Defense, and the Director of DeCA. In addition, the report is available at no charge on the GAO website at <https://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-2775 or FieldE1@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix V.

A handwritten signature in black ink, appearing to read "Elizabeth A. Field". The signature is fluid and cursive, with a large initial "E" and "F".

Elizabeth A. Field
Director, Defense Capabilities and Management

Appendix I: Objectives, Scope, and Methodology

This report evaluates the extent to which (1) the Defense Commissary Agency (DeCA) can provide assurance that it is meeting its target customer savings rate; (2) DeCA's business model reflects clearly defined objectives; and (3) DeCA's strategic plan includes key business reform efforts and information to assess performance.

For our first objective, we obtained and analyzed data for fiscal years 2017 through 2021, and the methodology DeCA uses to calculate the savings rate that its customers realize by shopping at commissaries instead of private retailers. We assessed the documentation associated with DeCA's customer savings rate methodology, including the data associated with DeCA's price comparisons through manual shop and syndicated data, to calculate the customer savings rate in the continental United States (CONUS), as well as data associated with the Cost of Living Adjustment (COLA) to calculate the savings rate outside of the continental United States (OCONUS). We compared the results of DeCA's savings rate calculations from fiscal years 2017 through 2021 to DeCA's customer savings rate target of 23.7 percent to assess the extent to which DeCA is meeting that rate in CONUS, OCONUS, and globally.

We also interviewed relevant DeCA officials and compared DeCA's savings methodology 1) with applicable statutory requirements and DOD guidance that provides direction to DeCA on its customer savings rate methodology and 2) with our prior work that identifies key elements of a high-quality economic analysis intended to inform decision makers.¹ We assessed the reliability of DeCA's customer savings rate data by interviewing knowledgeable officials and reviewing associated documentation.

We determined that the overall customer savings rate data were unreliable, as discussed in this report. However, these are the only data available and therefore we present them in this report. Specifically, we found that the CONUS customer savings rate, which accounts for approximately 80 percent of DeCA sales, is reliable. However, as stated throughout the report, DeCA's methodology for the OCONUS customer savings rate is unreliable, as it does not include required price

¹For example, we reviewed National Defense Authorization acts for fiscal years 2016 through 2022; DOD guidance such as DODI 1330.17 *DOD Commissary Program* (June 18, 2014) (incorporating change 2, effective Sept. 14, 2018); and prior GAO reports such as GAO, *Defense Commissaries: DOD Needs to Improve Business Processes to Ensure Patron Benefits and Achieve Operational Efficiencies*, [GAO-17-80](#) (Washington, D.C.: Mar. 23, 2017); and GAO, *Assessment Methodology for Economic Analysis*, [GAO-18-151SP](#) (Washington, D.C.: Apr. 10, 2018).

comparisons based on actual price data and instead relies on a cost of living adjustment (COLA). Therefore, the OCONUS portion of the savings rate is inaccurate, because DOD inappropriately applies a COLA index to estimate customer savings overseas. Because DeCA estimates the overall savings rate by computing a weighted average of the OCONUS and CONUS customer savings rates, the overall customer savings rate is unreliable.

For our second objective, we analyzed DeCA's appropriation and revenue data and estimated customer savings rate data for fiscal years 2017 through 2021. We reviewed relevant laws and our prior work related to DeCA's operations, including those on DeCA's business reforms, DOD's resale organizations, agency reforms, and the Defense-Wide Working Capital Fund.² We reviewed DOD and DeCA policies and guidance and interviewed officials from DeCA and the Office of the Secretary of Defense for Personnel and Readiness about their roles and responsibilities to gain an understanding of how DOD provides direction and oversight to DeCA, and how DeCA manages its operations and business reforms to fulfill its mission and any supporting objectives.³ We compared DeCA's policies, guidance, and processes for defining objectives to *Standards for Internal Control in the Federal Government*, which state that an agency should identify and analyze risks related to achieving its defined objectives, and management should communicate information about those risks to achieving its objectives to external stakeholders.⁴

For our third objective, we reviewed DeCA's strategic plan for fiscal years 2021 through 2022⁵ and performance management documents for fiscal years 2016 through 2020 (to the extent available). We assessed them

²GAO, *Government Reorganization: Key Questions to Assess Agency Reform Efforts*, [GAO-18-427](#) (Washington, D.C.: June 13, 2018); GAO, *Commissaries and Exchanges: DOD and Congress Need More Reliable Information on Expected Savings and Costs of Consolidating the Defense Resale Organizations*, [GAO-20-418](#) (Washington D.C.: April 30, 2020); GAO, *Defense Management: DOD Needs to Address Inefficiencies and Implement Reform across Its Defense Agencies and DOD Field Activities*, [GAO-18-592](#) (Washington D.C.: Sept. 6, 2018).

³DOD Directive 5105.55, *Defense Commissary Agency* (Mar. 12, 2008) and DODI 1330.17.

⁴GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 10, 2014).

⁵Defense Commissary Agency, *2021-2022 Game Plan*.

using both strategic planning criteria in the Government Performance and Results Modernization Act of 2010 and our prior work on key practices associated with effective reforms.⁶ We also obtained and reviewed DeCA's two internal customer satisfaction surveys, specifically (1) the Commissary Customer Satisfaction Survey for 2015 to 2020, and (2) the ForeSee Purchaser Survey results between 2019 and 2021.⁷ We reviewed the survey designs, content of the questions, and changes in response over time to determine any observable trends and determine what information DeCA tracks related to customer satisfaction.

To inform all objectives, we selected a nongeneralizable sample of nine of 236 CONUS and OCONUS commissaries to discuss implementation of the reforms at the store-level, including variable pricing and private label, customer feedback, and associated challenges, if any. To obtain variation, we selected our sample based on their grocery sales, size, location and other factors. Specifically, we interviewed senior officials responsible for operations at these commissaries: (1) Camp Lejeune Marine Corps Base, North Carolina; (2) Ramstein Air Base, Germany; (3) MacDill Air Force Base, Florida; (4) Camp Foster Marine Corps Base, Okinawa; (5) Camp Humphreys, Korea; (6) Holloman Air Base, New Mexico; (7) Naval Air Station Joint Reserve Base Fort Worth, Texas; and (8) Memphis Naval Support Activities, Tennessee. Further, we conducted a site visit with officials at DeCA Headquarters and Fort Lee Commissary, Fort Lee, VA. We conducted an in-person tour of the Fort Lee commissary to view DeCA's private label products and their placement on shelves.

We interviewed military service officials from the Army and Air Force Exchange Service, Navy Exchange Service Command, and Marine Corps Exchange to learn about DeCA's collaboration with other resale organizations. Lastly, we consulted the Military Officers Association of

⁶GAO, *Government Reorganization: Key Questions to Assess Agency Reform Efforts*, [GAO-18-427](#) (Washington, D.C.: June 13, 2018); and GPRM Modernization Act of 2010 Pub. L. No. 111-352, § 2 (2011), amending section 306 of title 5 of the United States Code.

⁷According to DeCA officials, DeCA has administered the Commissary Customer Satisfaction Survey annually since 2011 and the ForeSee Purchaser Survey since July 2019. For our purposes, we reviewed the most recent results of both survey instruments available at the time of our review, which was 5 years for the Commissary Customer Satisfaction Survey and 3 years for the ForeSee Purchaser Survey.

America, a group that represents commissary customers about the commissary benefit, and grocery industry professionals.

We conducted this performance audit from January 2021 to June 2022 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Selected Revisions to the Defense Commissary Agency's (DeCA) Statutory Authorities and Related Reporting Requirements

- **Carl Levin and Howard P. “Buck” McKeon National Defense Authorization Act for Fiscal Year 2015.** The Act required the Secretary of Defense to conduct a review, using the services of an independent organization experienced in grocery retail analysis, of the Department of Defense (DOD) commissary system.¹ Mandated report elements included determining the qualitative and quantitative effects of using variable pricing to reduce expenditure of appropriated funds; implementing a private label products program; converting the commissary system to a non-appropriated fund instrumentality;² and eliminating or reducing second-destination funding, among other elements.³
- **National Defense Authorization Act for Fiscal Year 2016.** The Act required the Secretary of Defense to submit a report setting forth a comprehensive plan to achieve budget neutrality in the delivery of commissary and exchange benefits while meeting certain benchmarks, including the maintenance of high levels of customer satisfaction; the provision of high quality products; and the discount savings to eligible beneficiaries.⁴ The initiation of several pilot programs was also authorized, including variable pricing and private label goods programs. Finally, the Act included a provision for us to review the comprehensive plan within 6 months of DOD's submission to Congress.

DOD reported that it could achieve budget neutrality only if it closed all the commissaries. We found that DOD's May 2016 report did not provide a plan for achieving budget neutrality, which DOD interpreted as a plan for ending the use of appropriated funding for commissaries by October 1, 2018.⁵ We found that DOD's report did not include any assumptions, methodology, or specific time frames related to

¹Pub. L. No. 113-291, § 634 (2014).

²A non-appropriated fund instrumentality (NAFI) is a DOD organizational and fiscal entity supported in whole or in part by non-appropriated funds (NAFs), for example DOD morale, welfare, and recreation programs. NAFs are government monies and assets from sources other than monies appropriated by Congress.

³Funding for second-destination transportation finances the movement of government owned equipment and materiel among and between depots, logistics centers, and field activities. DeCA's second destination transportation costs include products shipped overseas.

⁴Pub. L. No. 114-92, § 651 (2015).

⁵GAO, *DOD Commissaries and Exchanges: Plan and Additional Information Needed on Cost Savings and Metrics for DOD Efforts to Achieve Budget Neutrality*, [GAO-17-38](#) (Washington, D.C.: Nov. 9, 2016).

initiatives that would lead to the elimination of a need for appropriated amounts. In fact, DOD reported that it would not be able to fully eliminate the use of appropriated funds for defense resale, but did not provide detailed information supporting that conclusion. Instead, the report stated that DOD expected to achieve \$2 billion in cost savings over a 5-year period from fiscal year 2017 through fiscal year 2021. However, again we found that the report did not include any assumptions, methodology, or specific time frames related to initiatives that would lead to these savings.

We recommended that DOD (1) provide information to Congress supporting its conclusion for not achieving budget neutrality; (2) develop a plan for achieving alternative reductions to appropriations; and (3) as DOD conducts pilot programs, identify specific metrics to determine whether the organization has fulfilled its mandated requirements. DOD concurred with and has since addressed all three recommendations.

- **National Defense Authorization Act for Fiscal Year 2017.** The Act amended several sections of title 10 of the United States Code.⁶ First, section 2481 was amended to direct the Secretary of Defense to develop and implement a comprehensive strategy to optimize management practices across the commissary and exchange systems in order to reduce reliance on appropriated funding without reducing patron benefits. For example, DeCA and the exchanges were authorized to enter into contracts for the joint acquisition of supplies, resale goods, and services used by both resale systems. Section 2484 was also amended to authorize the regular use of variable pricing outside of a pilot program.
- **National Defense Authorization Act for Fiscal Year 2018.** This Act contained no statutory provisions affecting DeCA.⁷
- **John S. McCain National Defense Authorization Act for Fiscal Year 2019.** The Act required the Secretary of Defense to conduct a study to determine the feasibility of consolidating the military resale entities—commissaries and exchanges—into a single defense resale system. Required report elements included a financial assessment of consolidation, and a business case analysis for consolidation, among other elements.⁸ The Act also prohibited the use of amounts

⁶Pub. L. No. 114-328 § 661 (2016).

⁷Pub. L. No. 115-91 (2017).

⁸Pub. L. No. 115-232 § 627 (2018).

appropriated or otherwise to be utilized for the purpose of implementing consolidation of the resale entities until October 1, 2019.

DOD completed the required study in December 2018 and concluded that DOD would be able to harvest significant savings by consolidating above-store operations of DeCA and the military exchanges.⁹

- **National Defense Authorization Act for Fiscal Year 2020.** This Act contained a provision for the Comptroller General to conduct a review of DOD's business case analysis performed as part of the defense resale optimization study determining the feasibility of consolidation, dated Dec. 4, 2018.¹⁰ Required review elements included, among others, an evaluation of the assumptions, analytical choices, and data used to calculate pricing, sales assumptions, and patron savings levels. We found that the business case analysis may have overestimated savings and understated costs estimates for information technology and headquarters relocation.¹¹ Additionally, we found that the military departments officially concurred with the business case analysis but provided written concerns, which were not disclosed to Congress. We recommended that DOD (1) reassess estimated savings from cost of goods; (2) reassess the methodology for estimating information technology costs of consolidation; (3) develop a range of cost estimates for relocating the defense resale organizations; and (4) provide additional written information to Congress on the comments and concerns from the military departments and resale organizations on the task force's business case analysis. DOD concurred and addressed the first three recommendations. However, DOD did not concur with the fourth recommendation, and upon DOD's decision in 2021 to no longer pursue consolidation, we concluded there was no longer a need for the recommendation and considered it to be closed as not implemented.
- **William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021.** The Act required DOD to update the December

⁹DOD, *Study to Determine the Feasibility of Consolidation of the Defense Resale Entities* (2018).

¹⁰Pub. L. No. 116-92 § 633 (2019).

¹¹GAO, *Commissaries and Exchanges: DOD and Congress Need More Reliable Information on Expected Savings and Costs of Consolidating the Defense Resale Organizations*, [GAO-20-418](#) (Washington D.C.: Apr. 30, 2020).

2018 business case analysis for consolidation to include a new business case analysis that (1) establishes new baselines for savings from costs of goods sold, the cost of new Information Technology required for consolidation, and the cost of DeCA headquarters relocation arising from consolidation; and (2) addresses every recommendation in [GAO-20-418](#).¹² Additionally, the Act prohibited the Secretary of Defense from taking any action to consolidate military exchanges and commissaries until the Committees on Armed Services of the House of Representatives and the Senate notified the Secretary in writing of receipt and acceptance of the updated business case analysis. DOD subsequently updated its report and found that costs were underrepresented and savings were overestimated.¹³

DOD re-evaluated the recommendation in the 2018 business case analysis and determined that consolidation of the resale organization was not feasible without enormous cost and disruption to the organizations that would exceed potential savings and efficiencies gained through consolidation. Additionally, DOD confirmed that the November 2018 business case analysis had overstated the savings on the cost of goods, understated costs of information technology integration, and did not include the costs of relocating DeCA headquarters. For those and other reasons, DOD determined that it no longer supported such a consolidation and instead planned to pursue additional savings by concentrating on structured collaboration efforts between DeCA and the exchanges.

- **National Defense Authorization Act for Fiscal Year 2022.** The Act amended section 2484 of title 10 of the United States Code by authorizing DeCA to use certain appropriated amounts for expanded purposes, including repair or reconstruction of commissary stores damaged in disasters or emergencies, and certain revenue to be supplemented with additional funds derived from the variable pricing program, among other flexibilities.¹⁴

¹²Pub. L. No. 116-283, § 633 (2021).

¹³DOD, *Defense Resale 2021 Business Case Analysis Update to the 2018 "Study to Determine the Feasibility of the Consolidation of the Defense Resale Entities"* (August 2021).

¹⁴Pub. L. No. 117-81, § 631 (2021)

Appendix III: DeCA's Appropriations and Revenue Values

Nominal dollar values are the values that have not been adjusted for inflation, whereas real values are values that have been adjusted for inflation. We have adjusted the nominal values for inflation using the most recent GAO inflation adjustment methodology. We present real values in our analysis to accurately illustrate appropriation and revenue trends over time and remove the effect of changes in prices.

Table 5 shows the Defense Commissary Agency's (DeCA) appropriations for fiscal years 2012 through 2021 in nominal dollars, as reported by DeCA, and in real dollars, as calculated by GAO.

Table 5: DeCA's Reported Appropriations from Fiscal Year 2012 through 2022

Fiscal year	Appropriations in Nominal Dollars (\$M)	Appropriations in Real Dollars (\$M) (FY2022 Dollars)
2012	1,376.83	1,708.16
2013	1,371.56	1,670.98
2014	1,365.89	1,632.49
2015	1,304.73	1,541.97
2016	1,435.35	1,682.20
2017	1,214.05	1,397.94
2018	1,389.34	1,563.34
2019	1,266.20	1,397.43
2020	1,029.70	1,121.54
2021	1,146.66	1,211.65
2022	1,162.07	1,162.07

Source: GAO analysis of Defense Commissary Agency's (DeCA) documentation. | GAO-22-104728

Table 6 shows DeCA's revenue for fiscal years 2012 through 2021 in nominal dollars, as provided by DeCA, and in real dollars as calculated by GAO.

Table 6: DeCA's Revenue from Fiscal Year 2012 through 2021

Fiscal year	Revenue in Nominal Dollars (\$M)	Revenue in Real Dollars (\$M) (FY2022 Dollars)
2012	6,092.52	7,558.66
2013	5,875.99	7,158.76
2014	5,656.10	6,760.07
2015	5,523.70	6,527.22
2016	5,266.62	6,172.37
2017	5,016.20	5,775.98
2018	4,969.70	5,592.11
2019	4,483.70	4,948.41
2020	4,506.20	4,908.09
2021	4,775.60	5,046.28

Source: GAO analysis of the Defense Commissary Agency's (DeCA) documentation. | GAO-22-104728

Appendix IV: Comments from the Department of Defense



MANPOWER AND
RESERVE AFFAIRS

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
1500 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-1500

Ms. Elizabeth A. Field
Director, Defense Capabilities and Management
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Field:

Enclosed is the Department of Defense (DoD) response to the Government Accountability Office (GAO) Draft Report GAO-22-104728, "DEFENSE COMMISSARIES: Actions Needed to Clarify Priorities and Improve Program Management," dated May 6, 2022 (GAO Code 104728).

Should you have any questions, please contact Michael Kelly at Michael.j.kelly51.civ@mail.mil or 703-440-9383.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom Constable", written over a horizontal line.

Thomas A. Constable
Performing the Duties of the Assistant Secretary
of Defense for Manpower and Reserve
Affairs

Enclosure:
As stated

GAO Draft Report Dated May 6, 2022

GAO-22-104728 (GAO CODE 104728)

**“DEFENSE COMMISSARIES: Actions Needed to Clarify Priorities and Improve
Program Management”**

**DEPARTMENT OF DEFENSE COMMENTS
TO THE GAO RECOMMENDATION**

RECOMMENDATION 1: The Secretary of Defense, in coordination with the Office of the Under Secretary of Defense for Personnel and Readiness, should ensure that DeCA conducts and documents an analysis of whether its OCONUS customer savings rate methodology provides comparable accuracy to a market-based price comparison and make any appropriate adjustments to its methodology, based on this analysis.

DoD RESPONSE: Concur. DeCA will conduct and document the recommended analysis of its OCONUS customer savings rate methodology and make any appropriate adjustments to its methodology, based on this analysis.

RECOMMENDATION 2: The Secretary of Defense, in coordination with the Office of the Under Secretary of Defense for Personnel and Readiness, should ensure that DeCA, once it has made any necessary adjustments to its OCONUS customer savings rate methodology, conducts an analysis of tradeoffs that specifically identifies the customer savings rate and related benefits, such as number, location, and operating hours of commissaries, that it can provide at varying levels of appropriation, and submits such analysis to the appropriate authorizing, appropriations, and oversight congressional committees.

DoD RESPONSE: Concur. DeCA will conduct the recommended analysis of tradeoffs, and specifically identify the customer savings rate and related benefits that it can provide at varying levels of appropriation. We will then submit the analysis to the appropriate Congressional committees

RECOMMENDATION 3: The Secretary of Defense, in coordination with the Office of the Under Secretary of Defense for Personnel and Readiness, should ensure that DeCA updates its strategic plan or supporting documentation to include all business reforms, and identifies goals with associated performance measures, milestones, and deliverables for each key effort.

DoD RESPONSE: Concur. DeCA will update its strategic planning, implementation planning, and supporting documentation to include the requested information. DeCA will then periodically update those documents in order to report on progress being made toward successful implementation of critical business reforms.

Enclosure

Appendix V: GAO Contact and Staff Acknowledgments

Contact

Elizabeth A. Field at (202) 512-2775 or FieldE1@gao.gov

Staff Acknowledgments

In addition to the contact named above, Suzanne M. Perkins (Assistant Director), Sara G. Cradic (Analyst in Charge), Pedro Almoguera, Dawn R. Godfrey, Kevin Gonzalez, Kaitie Hunter, David Jones, Benjamin T. Licht, Felicia Lopez, Leah Nash, Michael Silver, and Lillian Moyano Yob made key contributions to this report.

Related GAO Products

Forced Labor: Actions Needed to Better Prevent the Availability of At-Risk Goods in DOD's Commissaries and Exchanges. [GAO-22-105056](#). Washington, D.C.: February 3, 2022.

Commissaries and Exchanges: DOD and Congress Need More Reliable Information on Expected Savings and Costs of Consolidating the Defense Resale Organizations. [GAO-20-418](#). Washington, D.C.: April 30, 2020.

Defense Commissaries: DOD Needs to Improve Business Processes to Ensure Patron Benefit and Achieve Operational Efficiencies. [GAO-17-80](#). Washington, D.C.: March 23, 2017.

DOD Commissaries and Exchanges: Plan and Additional Information Needed on Cost Savings and Metrics for DOD Efforts to Achieve Budget Neutrality. [GAO-17-38](#). Washington, D.C.: November 9, 2016.

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