



United States Government Accountability Office
Washington, D.C. 20548

April 26, 2005

The Honorable John Warner
Chairman
The Honorable Carl Levin
Ranking Minority Member
Committee on Armed Services
United States Senate

The Honorable Duncan Hunter
Chairman
The Honorable Ike Skelton
Ranking Minority Member
Committee on Armed Services
House of Representatives

Subject: *Policy and Criteria Used to Assess Potential Commissary Store Closures*

As part of its pay and benefits package for service members, the Department of Defense (DOD) operates supermarket-type stores called commissaries to provide service members and their families with groceries and authorized household supplies at the lowest practical price. The Defense Commissary Agency (DeCA), DOD's designated agency for managing commissary stores, operates 273 commissary stores in the United States and abroad. To ensure efficient operation of the commissary stores, all commissary stores are assessed annually to determine whether there should be any operational changes or possible store closures. The Office of the Under Secretary of Defense (Personnel and Readiness), which has oversight responsibility for DeCA operations, can either endorse or change the results of the assessments or direct additional actions. In August 2003, the Office of the Under Secretary of Defense (Personnel and Readiness) proposed that the military services consider the closure of 14 commissary stores not previously under consideration for closure. Subsequently, various members of Congress raised questions about these proposed actions, including whether DOD's policy and criteria for deciding whether to close commissary stores adequately considered the impact on quality of life of service members and their dependents. Congress, in enacting the fiscal year 2005 defense authorization act, included a provision mandating that quality of life be a primary consideration in the closure decision-making process.

In response to a mandate in the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005,¹ we examined DeCA's policies and process for analyzing commissary stores for potential closure. Our objectives were to review (1) the policy and criteria used to analyze potential commissary store closures, determining whether these policies and criteria are consistent with the policies on preserving quality of life for the armed forces, and (2) any studies or assessments conducted to close commissary stores.

We performed our work at DeCA headquarters located at Fort Lee, Virginia; DeCA- East, Virginia Beach, Virginia; the Commissary Operating Board (COB); and the Office of the Under Secretary for Defense (Personnel and Readiness). To address our objectives, we reviewed regulations, policies, and guidance related to the closure of commissary stores. We also reviewed a March 2005 policy memo that implements the congressional direction contained in the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005. In addition, we reviewed commissary store performance assessments for fiscal years 2001 through 2004 and discussed data reliability with officials in the Office of the Secretary of Defense. Finally, we interviewed officials at DeCA headquarters, the COB, and in the Office of the Under Secretary of Defense (Personnel and Readiness) regarding how they balance business and quality of life factors in making decisions about whether to close commissary stores. We determined that the data used were sufficiently reliable for the purposes of this review. We conducted our review from January through April 2005 in accordance with generally accepted government auditing standards.

Summary

Based on a recent legislative requirement, the Office of the Secretary of Defense issued new policy guidance in March 2005 to reinforce and ensure that quality of life will be a primary consideration in all future assessments of commissary operations. No assessments have been conducted under the revised guidance.

Annual assessments of commissary stores' performance have been conducted in recent years to determine whether operational changes were needed or whether potential store closures should be considered.

¹ Pub. L. No. 108-375, § 597(b) (Oct. 28, 2004).

Consistent with the criteria in effect at that time, each assessment considered both quality of life and business factors. After reviewing DeCA's fiscal year 2002 annual assessment in August 2003, the Office of the Principal Deputy Under Secretary of Defense (Personnel and Readiness) proposed that DeCA consider closing 14 commissary stores primarily because financial goals were not met or because too few active-duty personnel were present. This decision was apparently inconsistent with DOD policy requiring that quality of life and business factors be considered in the aggregate. Significant concerns were expressed by the military services and members of Congress over the closure of the 14 stores. DOD subsequently decided to keep the 14 stores open, 6 because of their improved financial performance and 8 because of quality of life concerns and other factors. DeCA headquarters did not recommend any store closures in the 2004 assessment process, the results of which are currently being reviewed within the Office of the Under Secretary of Defense (Personnel and Readiness).

Background

Commissary stores are located in 46 states and 14 foreign countries. Headquartered at Fort Lee, Virginia, DeCA is DOD's designated agency for managing commissary stores worldwide. As of September 30, 2004, DeCA had 273 stores with annual sales of about \$5 billion. The COB, which consists of representatives from each of the military services, has day-to-day operational oversight responsibilities for DeCA. The Under Secretary of Defense (Personnel and Readiness) exercises overall supervision of the commissary store system.

DeCA's mission is to provide beneficiaries with groceries and authorized household supplies at the lowest practical price, charging patrons only for the cost of goods plus a 5 percent surcharge. The funds generated by the surcharge are used to acquire (including acquisition by lease), construct, repair, maintain, and equip the physical infrastructure of commissary stores and central product processing facilities. Additionally, the recovered cost-of-goods sold is rolled over to purchase replacement inventory. In fiscal year 2005, DeCA also received about \$1.2 billion in direct appropriations from Congress for its annual operating expenses. This appropriation pays for employees' salaries, transportation, some above-store-level information technology, and other expenses. Any savings in stores' operating costs do not affect the cost of merchandise sold in the commissary stores because such savings reduce the need for appropriated funds.

All commissary stores have been subject to annual performance assessments to determine whether there should be any operational changes or possible store closures. Since fiscal year 2001, DOD's policy required these assessments to consider both quality of life and business factors, as seen in table 1.²

Table 1: Selected Assessment Criteria for Commissary Stores

Factor	Criteria
Quality of life	<ul style="list-style-type: none"> • Presence of an active duty mission and at least 100 active personnel assigned to the installation. • Capacity of other commissaries in the area to adequately support the customer base within a reasonable distance. Reasonable distance and time are defined as 20 miles or 30 minutes travel one way. • Proximity to alternate civilian shopping.
Business case	<ul style="list-style-type: none"> • Unit cost of operations. • Historical and projected sales data. • Fifteen year forecast of the installations' patron demographics and mission changes. • Funding needed to sustain efficient and effective operations of an existing commissary.

Source: GAO analysis of DOD data.

The annual assessment process includes the collection of sales and cost data for each store. Information is also collected on patron demographics, projected mission and force structure changes at the base where the commissary store is located, proximity to the nearest commissary and alternative commercial stores, and remoteness of the installation. Based on these assessments, DeCA headquarters recommends any needed store closures, the creation of combined stores, as well as any changes in store operations to the COB.³ The COB can either endorse or change the proposed actions, based upon the judgment and needs of the participating service representatives. The COB then forwards the recommendations to the Principal Deputy Under Secretary of Defense (Personnel and Readiness) for final approval. The Principal Deputy Under Secretary of

² Annual commissary assessments are mandated by Armed Services Commissary Regulation, DOD 1330.17-R, and the Principal Deputy Under Secretary of Defense (Personnel and Readiness) policy memo of June 8, 2004.

³ According to DeCA officials, the general policy is to close a commissary store on an installation that is closed as a result of base closure. However, subject to general and economic criteria, DOD may authorize a commissary store to remain open or operate as a downscaled commissary or allow the exchange service to operate a combined store to serve any remaining active-duty or reservist personnel and retirees.

Defense can either endorse or change the proposed action or recommend additional actions.

New Policy Guidance Issued

In March 2005, DOD issued new policy, based on congressional direction, to ensure that quality of life is a primary factor considered in evaluating whether commissary stores should be closed and that the quality of life of active-duty service members' dependents and members of the reserve components is also considered. No assessments of commissary stores have been conducted under the new policy.

Results of Prior Assessments

Prior to the issuance of new policy, DOD's policy and criteria for assessing the potential closure of commissary stores required that both quality of life and business factors be considered, which is consistent with DOD's policies to preserve quality of life for service members.⁴ The quality of life factors consider the number of active duty personnel, remoteness of the duty stations, distance to the nearest alternative commissary store, and availability of civilian shopping facilities, while the business factors include the current and projected sales and cost of operations. DOD's policy required that the criteria should be applied in the aggregate for the commissary store program and not in isolation. Thus, a commissary store with high operating costs relative to sales, but in a remote location, might not be closed because of the negative effect closure would have on active-duty service members' quality of life.

⁴ DOD policy regarding service member quality of life is a result of the goals expressed in Department of Defense, *A New Social Compact: A Reciprocal Partnership Between the Department of Defense, Service Members and Families* (July 2002). This social compact identifies commissary stores as an important nonpay compensation benefit for service members and their families.

Since 2001, DeCA has recommended the closure of 12 commissary stores. Six of these stores were closed because they were on installations that closed.⁵ Three more stores were closed because of aging facilities, declining customer base, declining sales, high unit costs, and close proximity to another commissary.⁶ However, the COB deferred the recommended closure of two additional stores, which remain open because of quality of life, and one store because of prior arrangements to support a contractor workforce.⁷

After reviewing DeCA's fiscal year 2002 annual assessment, which recommended the closure of 2 stores (one on an installation that was closing and another because there was less than 100 active-duty personnel),⁸ the Principal Deputy Under Secretary of Defense (Personnel and Readiness) recommended that as many as 14 additional commissary stores be closed. The operating costs of these 14 stores in fiscal year 2002 were about \$6.5 million, or less than 1 percent of DeCA's annual appropriations. Depending upon improvement in fiscal year 2003, 6 of these 14 stores were recommended for closure by the Principal Under Secretary of Defense because their unit costs were very high compared to DeCA's overall unit cost,⁹ as shown in table 2.

⁵ According to DeCA officials, these six stores were Presidio of San Francisco, California; Winter Harbor, Maine; Roosevelt Roads, Puerto Rico; Bad Aibling, Germany; Bad Kreuznach, Germany; and Costanzo, Italy.

⁶ These three stores were Point Mugu, California; New Cumberland, Pennsylvania; and Fort Monroe, Virginia.

⁷ These three stores were Fort Greeley, Alaska; Mitchel Field, New York; and Sagami Depot, Japan.

⁸ These 2 are part of the 12 commissary stores noted above.

⁹ Unit cost is determined by dividing store operating costs by annual sales.

Table 2: Unit Cost Comparison for Commissary Stores Recommended for Closure

Commissary	Fiscal year 2002 unit cost
Yuma Proving Ground, Arizona	.51
Lakehurst , New Jersey	.40
Dahlgren, Virginia	.35
Kelley Barracks, Germany	.47
Hario, Japan	.42
Pusan, Korea	.48
DeCA overall unit cost	.21

Source: GAO analysis of DeCA assessment data.

Service officials stated these six commissary stores had existed primarily for quality of life reasons and should not be evaluated strictly on business factors such as unit cost. They believed that the Principal Deputy Under Secretary of Defense (Personnel and Readiness) failed to consider the difficulty that patrons could encounter in getting to the next nearest commissary due to terrain, urban congestion, or security concerns. Likewise, service officials noted that service members and their dependents cannot always find products in alternate overseas civilian shopping locations that typically could be purchased in stateside civilian shopping locations.

The Principal Deputy Under Secretary of Defense (Personnel and Readiness) recommended the remaining eight commissary stores^{10—7} overseas and 1 in the United States—for closure because they served fewer than 100 active-duty members or there was another commissary store in close proximity. Army and Navy officials noted that these commissary stores also existed because of other quality of life concerns. For example, some of these overseas commissary stores were located in housing areas, improving quality of life by providing easy and safe access. Army and Navy officials also noted that some families overseas only have one vehicle, which is used during the day by the active-duty service member, leaving no transportation available for the dependents. In other overseas locations, patrons face difficult winter conditions, limited public transportation, and dangerous roads, especially in remote mountainous terrain. Likewise, for

¹⁰ These eight commissary stores were: Dugway Proving Ground, Utah; Idar-Oberstein, Germany; Neubrucke, Germany; Panzer Kaserne, Germany; Camp Kure, Japan; Sagami Depot, Japan; Sagamihara, Japan; and Chinhae, Korea

the U.S. commissary, Army officials noted that nearest commissary to Dugway Proving Ground is over 100 miles away, and alternative civilian shopping is nearly 40 miles away. By May 2004, DOD decided that all 14 commissary stores could remain open because they were now meeting financial goals or were needed to maintain quality of life for service members.

DeCA did not recommend any commissary store closures in its 2004 assessment that is currently being reviewed within the office of the Under Secretary of Defense (Personnel and Readiness). However, because of existing agreements with the host nations, three overseas commissary stores will close in fiscal year 2005, and two other overseas stores will consolidate to improve customer service and maximize efficiencies.¹¹

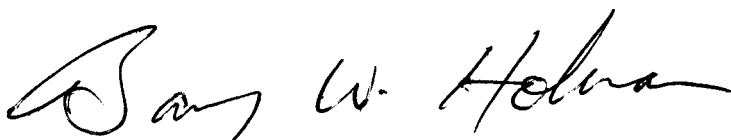
Agency Comments

In commenting on a draft of this report, the Deputy Under Secretary of Defense (Military Community and Family Policy) concurred with the report. The department provided various technical comments which were incorporated as appropriate. DOD's comments are reprinted in the enclosure of this report.

We are sending copies of this report to the Secretary of Defense; the Under Secretary of Defense (Personnel and Readiness); the Chairman, Commissary Operating Board; the Director, Defense Commissary Agency; and the Director, Office of Management and Budget. In addition, the report will be available at no charge on GAO's Web site at <http://www.gao.gov> and to others upon request.

¹¹ Camp Howze, Korea, closed November 30, 2004, and Camp Page, Korea, will close March 31, 2005, in accordance with a United States/Republic of Korea Land Partnership Agreement, and Rhein-Main, Germany, will close September 30, 2005 when the United States Air Force Europe relocates its military airlift mission. The Naples and Gricignano, Italy, commissaries will be consolidated at Gricignano to meet Navy restationing needs.

Please contact me at (202) 512-5581 if you or your staff have any questions concerning this report. Major contributors to this report were Michael Kennedy, Paul Gvoth, Julia Matta, and Renee Brown.

A handwritten signature in black ink that reads "Barry W. Holman". The signature is written in a cursive style with a large, stylized initial 'B'.

Barry W. Holman
Director, Defense Capabilities
and Management

Comments from the Department of Defense



PERSONNEL AND
READINESS

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APR 21 2005

Mr. Barry W. Holman
Director, Defense Capabilities and Management
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. Holman:

This is the Department of Defense (DoD) response to the GAO draft report, "Policy and Criteria Used to Assess Potential Commissary Store Closures," dated April 7, 2005 (GAO Code 350629/GAO-05-470R). DoD concurs with the overall report. We request that GAO modify the report to reflect the recommended technical corrections enclosed.

Thank you for the opportunity to comment on this letter.

Sincerely,

A handwritten signature in black ink, appearing to read "John M. Molino".

John M. Molino
Deputy Under Secretary of Defense
(Military Community and Family Policy)

Enclosure:
As stated

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