

Defense Health Program (DHP) Audit Readiness

22 September 2020 0800 – 0900 EDT
24 September 2020 1400 – 1500 EDT

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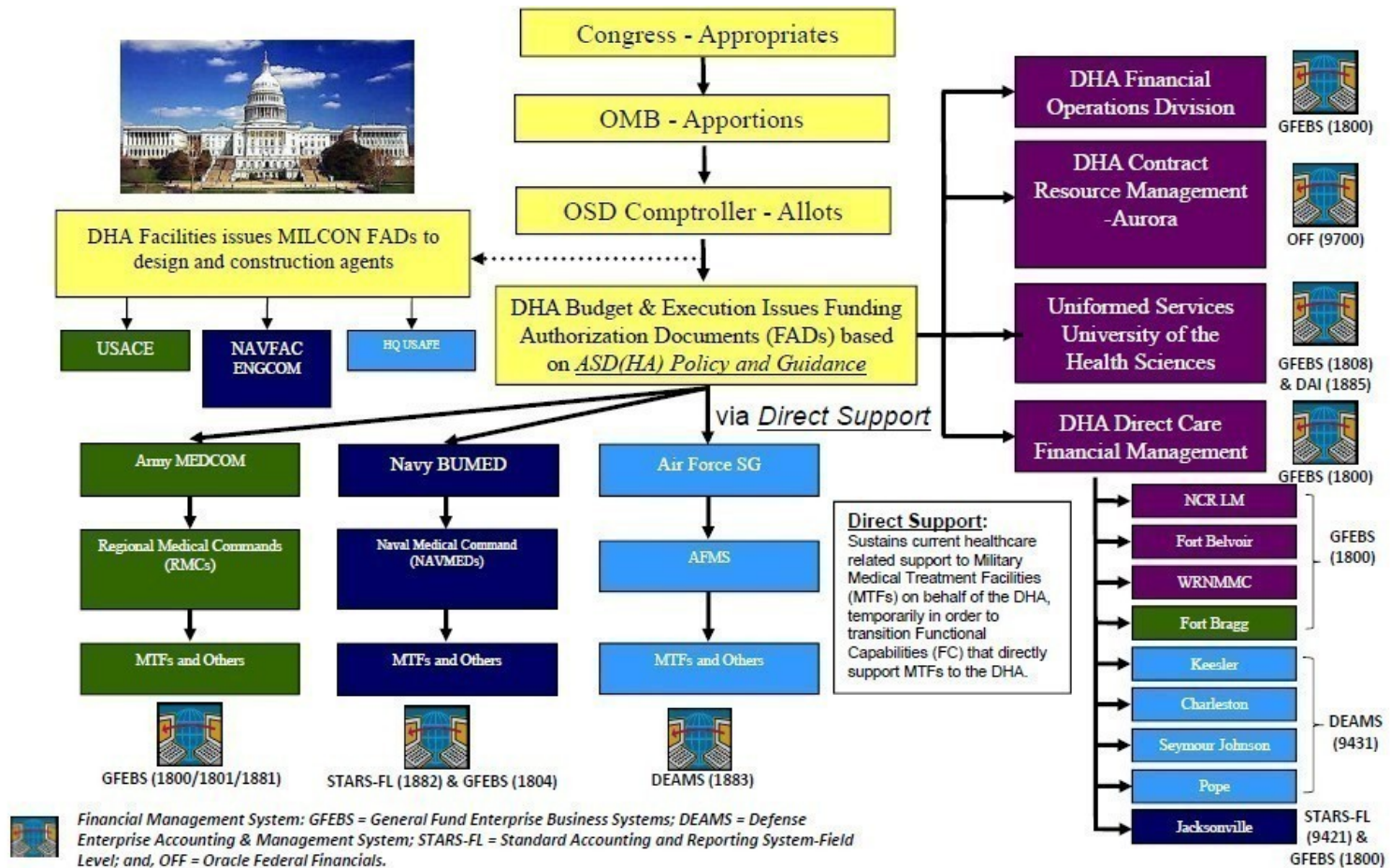
- Financial Statement Reporting Requirements
- FY 2019 Financial Statement Audit Results
- Medical Accounts Receivable (A/R)

- So why is the Department of Defense the only government department that has failed to achieve an Unmodified Audit Opinion (a.k.a. Clean Opinion) for its Financial Statements?
- How large is the FY 2020 DoD Budget?
- How much does DoD spend per Day?
- How much does DoD spend per Hour?
- How much does DoD spend per Minute?
- How much will DoD spend during my presentation?

- How large is the FY 2020 DoD Budget?
 - \$705 Billion
- How much does DoD spend per Day?
 - \$1.93 Billion
- How much does DoD spend per Hour?
 - \$80.48 Million
- How much does DoD spend per Minute?
 - \$1.34 Million
- How much will DoD spend during my 50 minute presentation?
 - \$67.07 Million

- Unmodified Opinion (a.k.a. Clean Opinion)
 - Financial statements **are** prepared and presented, **in all material respects**, in accordance with the applicable financial reporting framework
- Modified Opinion
 - Financial statements **are not** prepared and presented fairly, **in all material respects**, in accordance with the applicable financial reporting framework
- Disclaimer Opinion
 - A statement made by an auditor that **no opinion** is being given regarding the financial statements of the audit client
- Adverse Opinion
 - Financial statements are **materially misstated** and such misstatements have pervasive effect on the financial statements





- CFO Act of 1990: Integrated Financial Management (FM) systems supporting DoD accounting needs are key to effective financial management
- Federal Financial Management Improvement Act (FFMIA) of 1996: ALL Federal agencies to comply
 - Implement/maintain systems that meet Federal FM system requirements (Joint Financial Management Improvement Program (JFMIP))
 - Support Federal accounting standards (Federal Accounting Standards Advisory Board (FASAB))
 - Apply US Standard General Ledger (USSGL) at the transaction level

- Since passage of CFO Act of 1990, DoD has expressed its intentions to achieve auditable financial statements
- Twenty three of 24 government agencies covered by the CFO Act have received at least one or more Unmodified (“clean”) Audit Opinions since 1990
 - DoD is the only government agency that still keeps getting a Disclaimer Audit Opinion
- Congress became impatient with DoD progress and mandated a 30 September 2017 deadline for DoD’s financial statements to be validated as ready for audit
 - National Defense Authorization Act (NDAA) for FY 2010 (Public Law 111-84), Section 1003, describes the mandated requirements

- Development and maintenance of the Financial Improvement and Audit Readiness (FIAR) Plan
 - <http://comptroller.defense.gov/fiar/plan.aspx>
- Ensure the financial statements of the DoD are validated as ready for audit NLT 30 September 2017
- Semi-annually submit a report to Congress (NLT 15 May and 15 November) to the Congressional Defense Committees
 - <http://comptroller.defense.gov/fiar/plan.aspx>
- FIAR Guidance as of September 2020
 - <http://comptroller.defense.gov/fiar/fiarguidance.aspx>

“I’ve directed the Department to cut in half the time it will take to achieve audit readiness for the Statement of Budgetary Resources so that by 2014 we will have the ability to conduct a full-budget audit.”

Secretary Leon E. Panetta, 13 October 2011

Testimony before the House Armed Services Committee



- Within 60 days, the USD(C) was required to submit a revised plan to:
 - Achieve audit readiness of the Statement of Budgetary Resources (SBR) by the end of FY 2014
 - Increase emphasis on accountability of assets
 - Review all financial controls over the next two years
 - Establish course-based certification program for financial managers (i.e., DoD Financial Management Certification Program)
 - Resource efforts to meet these goals
 - Achieve full **audit readiness** by end of FY 2017

- NDAA for FY 2012 signed into law 31 December 2011.
 - Section 1003 – Additional Requirements Relating to the Development of the Financial Improvement and Audit Readiness Plan. “...to support the goal established by the Secretary of Defense that the statement of budgetary resources is validated to audit not later than September 30, 2014.”

DAI – Defense Agencies Initiative

DEAMS – Defense Enterprise Accounting and Management System

DHA – Defense Health Agency

FSRE – Financial Statement Reporting Entity

GAFS-R – General Accounting Financial System – Rehost

GFEB – General Fund Enterprise Business System

STARS-FL – Standard Accounting and Reporting System - Field
Level

USUHS – Uniformed Services University of the Health Sciences

- FSRE Structure Challenges
 - DHA has a clear chain of command and organizational structure
 - MERHCF has actuarial and accounting information
 - SMA components have two lines of authority (command and control, and finance business rules) vs. dollar flow. Face issues related to MILDEP priorities vs. fund flow priorities: financial impact, accounting system, financial business rules
- NDAA for FY 2017, Section 702
 - Transfer of certain authorities and control from the Military Departments to the DHA effective 1 October 2017.
 - 6+2 MTFs

- FSRE Structure Challenges (continued)
 - Solution: **single accounting system** with common business rules and chain of command simplifies, streamlines the financial statement, financial reporting, and financial performance reporting
- Conversion of Walter Reed National Military Medical Center (WRNMMC) in FY 2015 from Navy STAR-FL to Army GFEBS was the start of DHP moving to increased standardization
- DHA-FOD and USUHS to migrated from DAI to GFEBS on 1 Apr 2018
- SMA-Navy migrated to GFEBS in FY 2020; SMA-Air Force (TBD)

- **What** – Financial Statement Audit - An audit is an official inspection of an individual's or organization's accounts, typically by an independent body. Audits are performed to ascertain the validity and reliability of information provided by an entity. Audits provide an assessment of a system's internal controls.
- **Who** – Independent Public Accountant (IPA) – Kearney & Company
- **Scope** – FY 2019 Defense Health Program (DHP) Financial Statements
- **Why** – Congressionally mandated by the CFO Act of 1990 and the National Defense Authorization Act for FY 2010.
- **Started** – December 2018
- **Audit Opinion** – Issued 15 November 2019

- FY 2019 Audit of the Defense Health Program (DHP) covered four different financial statements
 - Balance Sheet
 - Statement of Net Cost
 - Statement of Net Position
 - Statement of Budgetary Resources
- Opinion for FY 2019 financial statements had to be issued NLT 15 November 2019 (no more than 45 days after close of fiscal year)

- The DHP audit covered the FY 2019 DHP Financial Statement and covers all beginning balances and current FY 2019 execution
- Involved all of the DHP Components (excluding DHA-CRM) to include all Service Medical Activities (SMAs), DHA-Financial Operations Division, and Uniformed Services University of the Health Sciences (USUHS)
- The DHP responded to over 5,000 Provided by Client (PBC) audit requests for documentation. More than 6,000 sample requests were made by the auditor (Kearney & Company)
- Notification of Findings & Recommendations (NFRs) are findings that require correction

- Each NFRs is a finding that requires correction and is supported by one or more Corrective Action Plans (CAPs) designed to correct the weakness
- Each CAP is recorded in a DoD Database and its progress tracked by OSD Comptroller
- During each annual Financial Audit, the IPA validates whether the implemented CAPs have corrected the NFR

- A substantial Percentage (94%) of NFRs from DoD FY 2018 audits pertained to Cyber/ IT, Fund Balance With Treasury (FBWT)/ Financial Reporting or Property, Plant and Equipment (PP&E).

Component	Cyber/ IT	FBWT/ Financial Reporting	Property, Plant and Equipment	Other	Total # of FY 2018 NFRs
U.S. Army	172	115	69	47	403
U.S. Navy	316	95	97	20	528
USMC	86	35	25	11	157
U.S. Air Force	169	106	58	14	347
Fourth Estate and DoD Consolidated	406	359	131	46	942
Total	1,149	710	380	138	2,377

- DHP (excluding DHA-CRM)
 - Disclaimer Opinion
 - 190 NFRs
- MERHCF
 - Modified Opinion
 - 23 NFRs
- DHA-CRM
 - Unmodified Opinion (11th Year in a Row)
 - 20 NFRs

- Two types of A/R in governmental accounting
 - Intra-Governmental (e.g., Coast Guard, VA)
 - Expect to get **paid 100%** of Billed Amount
 - Disputes regarding claims against other federal agencies (e.g., Coast Guard, VA) are to be resolved per Code of Federal Regulations 4 CFR 101
 - Public (e.g., civilian emergencies, Third Party Collections)
 - Need to establish an allowance for bad debt
 - Gross versus Net (reduced amount)

- DoD Financial Management Regulation (FMR) has 7,307 pages (as of 21 Sep 2020) and can be found at the OSD (Comptroller) Web site:
 - <http://comptroller.defense.gov/fmr.aspx>
- DoD Financial Management Regulation (FMR), Volume 4, Accounting Policy, Chapter 3, “Receivables” dated February 2016
- DoD Financial Management Regulation (FMR), Volume 6B, Form & Content of the DoD Audited Financial Statements, Chapter 10, “Notes to the Financial Statements” dated March 2020



- A/R are reported on the annual audited financial statements
- Service Financial Statements located at OSD(Comptroller) Web site:
 - <https://comptroller.defense.gov/ODCFO/afr2019.aspx>

- Accounts Receivable Policy Memorandum (with attachment)
 - Policy signed on 8 May 2008
- Purpose
 - Establish policy for the recognition (“as rendered”), classification, recording, aging, collection, disposition and reporting of accounts receivable in order to improve the accuracy of financial statements
 - Compliance with DoD’s Financial Management Regulation (FMR) and Generally Accepted Accounting Principles (GAAP)
- Updated Health Affairs A/R Policy Currently in Development

- Total Third Party Collections (TPC) Billings in FY 2019 were \$270.6 million
- Total TPC Collections from insurers in FY 2019 were \$132.2 million
- On average, from FY12-FY16, 54% of total MHS TPCP charges billed can be attributed to acceptable third party payer denials (co-pay, deductibles, out of network, non-covered benefits).



- Combination of both Intra-governmental A/R (e.g., Coast Guard, VA) and Public A/R (e.g., civilian emergencies)
- Total MSA amount collected for medical care provided in MTFs for FY 2018 was \$362.1 million

- Medical Affirmative Claims (MAC) A/R is all Public A/R (e.g., insurance companies, liable individuals)
- Total MAC amount collected for medical care provided in MTFs for FY 2018 was \$11.8 million
- **ALL FUNDS** collected (i.e., TPC, MSA and MAC) are retained by **your MTF**
 - TPC funds are in addition to your MTF's O&M Budget

- FY 2020 (as of 30 June 2020) Intra-Governmental Accounts Receivable (100% Collected)
 - SMA-Army (\$107.13 Million)
 - SMA-Navy (\$50.15 Million)
 - SMA-Air Force (\$4.70 Million)
 - DHA (formerly tIMO)(\$452.30 Million)

- FY 2020 (as of 30 June 2020) Nonfederal Receivables from the Public, Net (reduced by Allowance for Estimated Uncollectible)
 - SMA-Army (\$6.79 Million)
 - SMA-Navy (\$10.18 Million)
 - SMA-Air Force (\$33.29 Million)
 - DHA (formerly tIMO) (\$183.50 Million)



- NDAA for FY 2017, Section 702
 - Transfer of authority, direction & control (ADC) for CONUS MTFs from the Military Departments to the DHA effective 1 October 2018
- ASD (Health Affairs) will provide Policy
- DHA will develop and provide standard guidance for use across the Military Health System
- Transition of Markets is temporarily halted due to MHS efforts to counter the COVID-19 Pandemic



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