DEFENSE HEALTH PROGRAM

Agency
Financial
Report

Fiscal
Year
2020

Introduction

Agency Head Message

Despite the challenges the Nation and the world are facing during this unprecedented time, the Military Health System (MHS) continues to deliver on our healthcare mission to support the warfighter and care for our 9.6 million beneficiaries, including serving on the front lines of the COVID-19 response. We do this while refocusing our military medical treatment facilities on readiness, providing world-class combat support capabilities, and delivering quality healthcare.

The ability to perform our mission is entirely contingent on the resources we're allocated to carry it out. Protecting and stewarding those resources—whether it's equipment, buildings, people or funding—is our fundamental responsibility. We have a duty to extract maximum value from every taxpayer dollar entrusted to us in order to gain the confidence of Congress and the American people. Prudently managing appropriations through a fiscally sound business environment replete with checks and balances, and in full compliance with fiscal laws and accounting principles, is inherently the duty of every member of our workforce. Further, working to reform our business practices for greater performance and affordability is one of three lines of effort espoused in the National Defense Strategy.

Our financial statement audits are vital in helping us verify that we're properly managing the funds, equipment, property, materials and supplies entrusted to us, while testing vulnerabilities in DoD business systems and validating the accuracy of financial transactions and records. We have now undergone our third consolidated financial statement audit. While our Contract Resource Management audit resulted in an "Unmodified Opinion" for the 11th consecutive year and our Medicare-Eligible Retiree Health Care Fund audit resulted in a sustained "Modified Opinion"; our Defense Health Program (DHP) audit once again yielded a "Disclaimer of Opinion." Although we've not yet resolved the issues identified in the Fiscal Year 2019 DHP audit report, we successfully remediated 42 Notifications of Findings and Recommendations (NFRs) comprising 22 percent of our total NFRs—a compelling accomplishment.

We are committed to ramping up our remediation efforts to successfully implement more corrective actions. We are in the process of refining our audit strategy so as to concisely focus on remediation of material weaknesses and establish a more robust Risk Mitigation and Internal Control program (formerly the Manager's Internal Control Program). We will continue to proactively seek opportunities to enhance and mature the design and operating effectiveness of our financial processes, systems, and internal controls in order to achieve a clean audit opinion of our DHP financial statements.

We have made significant progress in remediating material weaknesses and strengthening our internal controls, but there is much left to do and we cannot achieve it without the hard work of our MHS workforce. Our collective commitment to enhancing fiscal responsibility and efficiency means a stronger MHS to best support our mission, our patients and our Nation.

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Thomas P. McCaffery

Assistant Secretary of Defense for Health Affairs

About the Agency Financial Report

The Defense Health Program (DHP) Agency Financial Report (AFR) provides financial and summary performance results enabling the President, Congress, and the American people to assess its accomplishments and to understand its financial results and operational functions. This AFR satisfies the reporting requirements of the following:

- Federal Managers' Financial Integrity Act (FMFIA) of 1982 (Public Law (P.L.) 97-255)
- Chief Financial Officers Act of 1990 (P.L. 101-576)
- Government Management Reform Act of 1994 (P.L. 103-356)
- Reports Consolidation Act of 2000 (P.L. 106-531)
- Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*
- Improper Payments Elimination and Recovery Improvement Act of 2012 (P.L. 112-248)
- OMB Memorandum M-12-12, *Promoting Efficient Spending to Support Agency Operations*
- Fraud Reduction and Data Analytics Act of 2015 (P.L. 114-186)
- Federal Financial Management Improvement Act (FFMIA) of 1996 (P.L. 104-208)
- Government Performance and Results Act of 1993 (P. L. 103–62)

The Military Health System (MHS) chooses to produce an AFR rather than the alternative Performance and Accountability Report (PAR). The Annual Performance Report, with detailed performance information that meets the requirements of the Government Performance and Results Modernization Act of 2010 (GPRAMA, P.L. 111-352), will be provided within the Annual Performance Plan and Report and transmitted with the release of the Congressional Budget Justification. The AFR may be viewed online at www.health.mil/HealthAffairs. The AFR consists of three primary sections:

Management's Discussion and Analysis

Provides a high-level overview of the MHS, including its history, mission, and organizational structure; the MHS's overall performance related to its strategic goals and primary objectives; management's assurance on internal controls; and forward-looking information.

Financial Section

Contains financial statements, accompanying notes, required supplementary information, as well as the independent auditor's report on the financial statements and management's response to that report.

Other Information

Details MHS's compliance with, and commitment to, specific regulations, including performance and management analyses and recommendations from the Office of the Inspector General (OIG).

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Section I

Management's Discussion and Analysis

Mission and Organizational Structure

History

American military medicine traces its origins back to July 27, 1775. For 218 years and until Fiscal Year (FY) 1993, Congress appropriated funds to each of the Military Departments (MilDeps) to fund their respective healthcare operations. As advances in medicine and medical technologies emerged, across the nation and within the DoD, healthcare costs escalated rapidly and began to consume larger portions of the DoD budget. In an effort to control the ever-increasing healthcare costs of the DoD and to lend greater visibility into healthcare expenditures, Congress established the DHP appropriation beginning FY 1993 to fund the MHS.

On December 14, 1991, the Deputy Secretary of Defense (DepSecDef) signed Program Budget Decision 742 to consolidate all medical resources under the control of the Assistant Secretary of Defense for Health Affairs (ASD(HA)) and to make other required adjustments to the medical program.

The three MilDeps were directed to (1) parse out what they historically spent on medical care and (2) transfer those amounts from their respective Operations and Maintenance (O&M); Research, Development, Test, and Evaluation (RDT&E); and Procurement appropriations, into the new DHP appropriation. Military healthcare resources that were not consolidated into the DHP were Military Personnel accounts, Military Construction (MILCON) accounts for medical facilities, and the healthcare accrual contributions into the Medicare-Eligible Retiree Health Care Fund (MERHCF). The funding and personnel to support the MHS mission are referred to as the Unified Medical Budget (UMB) and are the sum of the DHP plus the other three-line items. MILCON continues to be reflected in the Service MILCON account but is administered by the ASD(HA). Combat medical support continues to be funded via the MilDeps funds/or funds appropriated for that purpose (i.e., Other Contingency Operations appropriation). This includes support of combat operations, field/numbered medical units, hospital ships, and shipboard medical operations.

More recently, in 2011, the DepSecDef's Task Force on Reform of the MHS and the reports to Congress required by section 731 of the National Defense Authorization Act (NDAA) for FY 2013 (P.L. 112-239) led

What is the Defense Health Program?

In order to fund the peacetime operation of the MHS, there is established within the DoD an account called the "Defense Health Program" with a Treasury Account Symbol of 097 0130. All sums appropriated to carry out the functions of the Secretary of Defense with respect to medical and healthcare programs of the DoD are appropriated to that account. The Secretary of Defense may obligate or expend funds from the account for purposes of conducting programs and activities under title 10 United States Code (U.S.C.), Chapter 55, including contracts entered into under Sections 1079, 1086, 1092 or 1097 of 10 U.S.C.

The ASD(HA) is the principal advisor to the Secretary of Defense and the Under Secretary of Defense for Personnel and Readiness (USD(P&R)) for all DoD health and force health protection policies and programs. The ASD(HA) serves as resource manager for all DoD health and medical financial and other resources and prepares the UMB for the annual President's Budget submission to request appropriations for the DoD MHS. Consistent with applicable law, the ASD(HA) accounts for all funding for the DoD MHS, including the DHP appropriations account.

The ASD(HA) ensures DHP Funding Authorization Documents (FADs) are issued to the six MHS financial statement reporting components through the DHA. The six component reporting entities that make up the DHP financial statements are (1) Army Medical Command, (2) Navy Bureau of Medicine and Surgery, (3) Air Force Medical Service, (4) DHA – Contract Resource Management, (5) Uniformed Services University of the Health Sciences, and (6) DHA.

to the creation of the Defense Health Agency (DHA), a Combat Support Agency (CSA). On September 30, 2013, the DoD issued a directive formally establishing the DHA, and on October 1, 2015, the DHA achieved full operating capability.

In early 2017, in fulfillment of the NDAA for FY 2017 (P.L. 114-328), the DHA began preparing to assume responsibility for the administration, direction, and control (ADC) of military Medical Treatment Facilities (MTFs) worldwide. The DepSecDef directed ADC of all MTFs and Dental Treatment Facilities (DTFs) in the 50 contiguous United States and Puerto Rico transfer from the MilDeps to the DHA effective October 25, 2019. The assumption of these responsibilities began on October 1, 2018 and is being phased in over a 3-year period. The DHA published the FY 2017 strategic plan to communicate its mission, vision, goals and objectives to best support its workforce, patients, services, and Combatant Commands (CCMDs). Further, an MHS Strategy Map was issued on October 29, 2019, with updates. Also, in response to the direction provided in the FY 2019 NDAA to have the administration of MTFs transferred from the MilDeps to the Director of the DHA, by no later than September 30, 2021, the DHA continues to prepare for the management and administration of the MTFs.

Congress legislated sweeping reform to the MHS through the FY 2017 NDAA, including changes to the TRICARE Health Plan and existing internal management structures within the DHA. Moving MTFs to the ADC of the DHA provides opportunity to improve readiness, standardize and improve the patient experience, and lower costs through the elimination of unnecessary redundancies.

"We do nothing alone. We work in support of the combatant commands and the military departments, and our achievements reflect the combined talent and perseverance of our entire military medical team."
- LTG Place

Mission

The MHS's overarching mission is to support a medically ready force and a ready medical force, supporting a more agile workforce. The MHS aims to enhance the DoD and our nation's security by providing healthcare support for the full range of military operations and sustaining the health of all those entrusted to our care. This includes Active Duty personnel, uniformed services retirees, certain members of the Reserve Components, family members, survivors, certain unremarried former spouses, and other eligible members. These MHS beneficiaries receive either direct care delivered by MTFs or private sector care purchased from civilian TRICARE network providers networks and non-network TRICARE authorized providers. In addition to MTF pharmacies, the TRICARE Pharmacy Program (TPharm) provides prescription and mail order coverage.

Our FY 2020 UMB/DHP appropriation is aligned with the Department's vision of a more lethal, results-oriented DoD that possesses the capabilities and capacity to implement the National Defense Strategy (NDS). Every line of the DoD's FY 2020 budget is strategy driven and designed to support the Department's three primary lines of effort, which are to increase our military's lethality, strengthen our network of alliances and partnerships, and reform DoD's business practices for greater performance and affordability.

Central to increasing our military's lethality is to (1) ensure we have a properly trained and ready medical force so that we can (2) ensure our warfighters meet or exceed DoD's exacting healthcare requirements, while optimizing their health and driving improved human performance. The lethality of our warfighters begins with their physical and mental condition. Our medical workforce is entrusted with bolstering our warfighters' lethality by strengthening their survivability, resiliency, and readiness. Accordingly, the MHS workforce upholds the medical standards for deployability and accords our warfighters the medical resources necessary to confront and overcome the challenges of war.

Revamping business operations in order to strengthen our internal controls and achieve a clean audit opinion on our financial statements is an ongoing priority of the Department and demonstrates our ability to properly steward resources. We are actively reforming our business practices in order to close internal control gaps and comply with auditor recommendations.

Whether ensuring that warfighters are ready for deployment, treating a gunshot wound or depression, it is our privilege and our resolve to ensure our warfighters and all beneficiaries receive the medical care needed to maintain and restore their health.

How We Accomplish Our Mission

The MHS is a global, comprehensive, integrated system (includes both the direct care system and private sector care) comprising Army, Navy, and Air Force military, civilian and contracted medical professionals who work cohesively to ensure those in uniform are medically ready to deploy anywhere around the globe on a moment's notice.

With over $50 billion in the UMB (which includes DHP's $37.9 billion, Military Personnel $8.9 billion, MILCON $0.3 billion and MERHCF $7.8 billion), the MHS serves 9.6 million beneficiaries. The MHS direct care system is staffed by more than 138,000 personnel in 50 hospitals, 425 medical clinics, and 497 dental clinics at facilities around the globe, as well as in contingency and combat-theater operations worldwide, and in support of national emergencies such as COVID-19.

Major Programs

Our major programs include more than just combat medicine – it also includes the following programs that together form a complex globally integrated system that enables us to accomplish our mission and deliver world class healthcare:

- **Healthcare delivery** both in garrison and during contingencies. This includes a focus on trauma care and developing interoperability with partner nations thru our global health engagements program.
- **Public health and medical education** through the Medical Education and Training Campus and the USUHS, we support the readiness of America's Warfighter and the health and well-being of the military community by educating and developing uniformed health professionals, scientists and leaders; by conducting cutting-edge, military-relevant research, and by providing operational support to units around the world.
- **Private sector partnerships.** Building strong partnerships with our civilian healthcare sector through our TRICARE program is vital to our success.
- **Cutting-edge medical RDT&E** through the DHA's Research and Development directorate, the U.S. Army Medical Research and Development Command, the Air Force Research Laboratory, and thru partnerships with various organizations, including those established with Cooperative Research and Development Agreements.

Figure 1: *The DHP MHS by the numbers – 2019*[1]

MILITARY HEALTH SYSTEM BY THE NUMBERS - 2019

TYPE OF CARE	AVERAGE NUMBER PER WEEK	ANNUAL SUMMARY
Inpatient Admissions	**Total: 18,777** Military Facilities: 3,737 Network Facilities: 7,083 TRICARE For Life: 7,957	**Total: 979,800** Military Facilities: 195,000 Network Facilities: 369,600 TRICARE For Life: 415,200
Outpatient Visits	**Total: 2,106,229** Military Facilities: 734,018 Network Facilities: 711,020 TRICARE For Life: 661,191	**Total: 109,900,000** Military Facilities: 38,300,000 Network Facilities: 37,100,000 TRICARE For Life: 34,500,000
Births	**Total: 2,094** Military Facilities: 683 Network Facilities: 1,411	**Total: 109,263** Military Facilities: 35,640 Network Facilities: 73,623
Prescriptions Filled	**Total: 2,184,806** Military Pharmacies: 837,509 Network Pharmacies: 433,128 Home Delivery: 111,157 TRICARE For Life: 803,012	**Total: 114,000,000** Military Pharmacies: 43,700,000 Network Pharmacies: 22,600,000 Home Delivery: 5,800,000 TRICARE For Life: 41,900,000

https://www.health.mil/i-am-a/media/media-center/patient-care-numbers-for-the-MHS

What is TRICARE?

TRICARE is the worldwide DoD healthcare program serving 9.6 million service members (Active and Guard/Reserve) on Active Duty (greater than 30 days) and their families, as well as retirees, their families, survivors, and certain former spouses (tricare.mil). As a major component of the MHS (health.mil), TRICARE brings together the military hospitals and clinics worldwide (often referred to as "direct care," usually in military medical treatment facilities [MTFs]) with network and non-network TRICARE-authorized civilian healthcare professionals, institutions, pharmacies, and suppliers (often referred to as "private sector care") to provide access to the full array of high-quality healthcare services while maintaining the capability to support military operations.

The TRICARE program offers a range of health plans as follows:

- ***TRICARE Prime***: This enrollment-based plan is comparable to a health maintenance organization (HMO) plan. Each enrollee is assigned a primary care manager (PCM), a healthcare provider (either in the direct care system or private sector) who is responsible for helping the patient manage his or her care, promoting preventive health services (e.g., routine exams and immunizations), and arranging for specialty provider services as indicated. TRICARE Prime access standards apply to the travel time to reach a primary care or specialty care provider, waiting time to get an appointment, and waiting times in doctors' offices. TRICARE Prime's point-of-service (POS) option permits enrollees to obtain care from TRICARE-authorized providers other than the assigned PCM without a referral, but with deductibles and cost shares significantly higher than those under TRICARE Select.
- ***TRICARE Select***: This enrollment-based, self-managed preferred provider organization (PPO) plan features access to both network and non-network TRICARE-authorized providers with no referrals required for coverage.
- ***TRICARE for Life (TFL)***: For TRICARE-eligible beneficiaries who have Medicare as their primary healthcare coverage, TFL is Medicare wraparound coverage. In most instances, Medicare pays first, then TRICARE pays second.

[1] https://www.health.mil/I-Am-A/Media/Media-Center/Patient-Care-Numbers-for-the-MHS

- ***Other plans and programs***: Some beneficiaries may qualify for other benefit options depending on their location, active/Reserve status, and/or other factors. Some examples are:
  - Premium-based health plans, including:
    - TRICARE Young Adult (TYA), available for purchase by qualified dependents up to the age of 26
    - TRICARE Reserve Select (TRS), available for purchase by qualified Select Reserve members
    - TRICARE Retired Reserve (TRR), available for purchase by qualified Retired Reserve members
    - TRICARE Dental Program (TDP), available for purchase by Select Reserve members and family members and family members of Active Duty members
    - Continued Health Care Benefit Program (CHCBP), which provides a Consolidated Omnibus Budget Reconciliation Act-like continuation benefit
    - Federal Employees Dental and Vision Insurance for Program (FEDVIP), which offers dental insurance for purchase by retirees and vision insurance for purchase by most TRICARE plan enrollees
  - Other major benefit plans, including:
    - The Transitional Assistance Management Program (TAMP), which provides 180 days of premium-free continued access to the TRICARE benefit after release from Active Duty for certain Active Component members separating from Active Duty and Reserve Component members who have served more than 30 consecutive days in support of a preplanned mission or a Contingency Operation
    - Dental benefits (military DTFs and claims management for Active Duty members using civilian dental services)
    - Pharmacy benefits in MTFs, via TRICARE retail network pharmacies, and through the TRICARE Pharmacy Home Delivery program (formerly called TRICARE Mail Order Pharmacy)
    - Overseas purchased care and claims processing services
  - Supplemental programs, including:
    - TRICARE Prime Remote (TPR) in the United States and overseas, DoD and Department of Veterans Affairs (VA) sharing arrangements, and joint services
    - Uniformed Services Family Health Plan (USFHP), which provides the full TRICARE Prime benefit, including pharmacy (under capitated payment) to non-Active Duty MHS enrollees at six statutorily specified locations: Maine, Maryland, Massachusetts, New York, Texas and Washington
    - Chiropractic care limited to service members (on Active Duty) at certain MTFs only (no private sector chiropractic care is authorized)
    - Clinical and educational services demonstration programs (e.g., chiropractic care, autism services, and the accountable care organization (ACO))

Figure 2: *Executive Summary: Key Findings for FY 2020*

EXECUTIVE SUMMARY: KEY FINDINGS FOR FY 2020

Evaluation of the TRICARE Program: Report to Congress

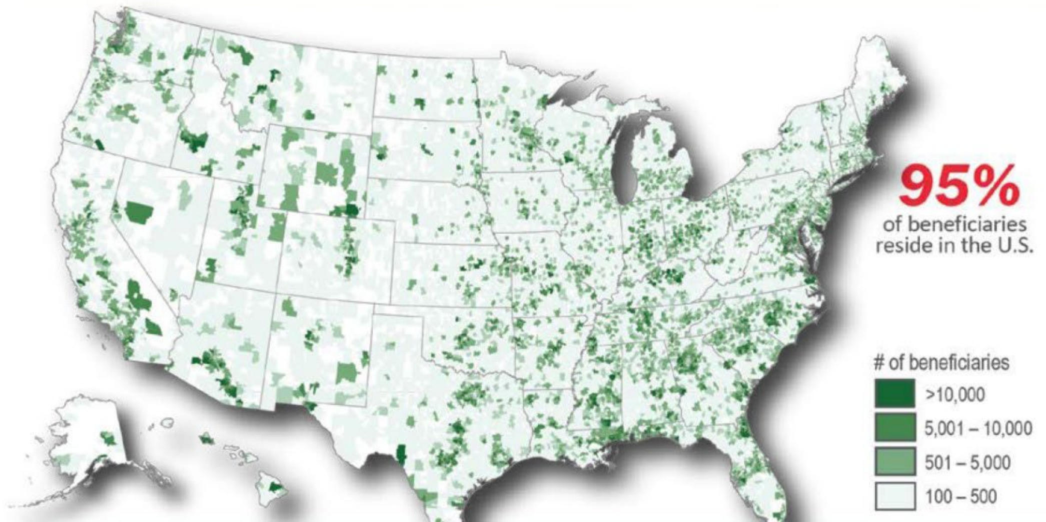
Executive Summary: Key Findings for FY 2020 (Data for FYs 2017–2019)

The DHA, a Combat Support Agency, leads the MHS integrated system of readiness and health to deliver:

The Quadruple Aim

Improved **Readiness**	Better **Care**	Better **Health**	Lower **Cost**

Beneficiary Population (page 29)



Enrollment (page 24)

Prime Enrolled:
4.8 million beneficiaries

- 3,461,000 Prime: MTF PCM
- 1,194,000 Prime: Network PCM
- ↑ 111,000 USFHP
- ↓ 11,000 TYA Prime

** **Select Enrolled/Non-Enrolled:**
2.1 million beneficiaries

- ↓ 1,679,000 TRICARE Select
- ↑ 392,000 TRS
- ↑ 183,000 Direct Care Only
- ↓ 27,000 TRICARE Plus
- ↑ 27,000 TYA Select
- ↑ 10,000 TRR

Medicare-Eligible:
2.5 million beneficiaries

- ↑ 2,092,000 TFL
- ↓ 186,000 TRICARE Plus
- ↓ 91,000 Direct Care Only
- ↓ 42,000 USFHP
- 31,000 Prime: MTF PCM
- 31,000 Prime: Network PCM
- ↓ 3,000 Other

Numbers rounded to the nearest thousand; ↑ Increase from FY 2018; ↓ Decrease from FY 2018

Readiness (pages 49–50)

	Active	Reserve	Dental
	87%	85%	94%
Strategic Goal:	85%	85%	95%

Perinatal Care Measures (pages 119–120)

	MTFs	National
Health Care–Associated Blood Stream Infections	0.0%	1.0%
Elective Delivery	1.1%	1.7%
Cesarean Section	19.2%	25.7%
Exclusive Breastfeeding	71.3%	49.2%
Antenatal Steroids	98.5%	95.7%

Pharmacy (page 173)

$861 million
Retail Pharmacy Refunds

Surgical Safety (page 98)

40% decrease in number of Wrong-Site Surgery Reportable Events

Hospital Ratings (page 147)

Direct care scores improved by 4.8 percentage points from FY 2016

*** Select Enrolled/Non-Enrolled total should be 2.3 million beneficiaries instead of 2.1 million.*

EXECUTIVE SUMMARY: KEY FINDINGS FOR FY 2020 *(CONT.)*

Budget (page 21)

FY 2019 Expenditures → FY 2020 Budget

$50.6 B → $49.2 B

Beneficiary Categories (page 23)

- 33% Retirees and Family Members <65
- 24% Retirees and Family Members ≥65
- 17% Active Duty Family Members
- 15% Active Duty
- 9% Guard/Reserve Family Members
- 2% Guard/Reserve Members

85% of beneficiaries used services

Utilization & Expenditures (pages 33, 36, 37, 41, 47)

	PURCHASED CARE Utilization	PURCHASED CARE Expenditures	DIRECT CARE Utilization	DIRECT CARE Expenditures
Inpatient Dispositions	369,600 <1% decrease	$3,794 M 2% increase	195,000 5% decrease	$2,073 M 3% decrease
Outpatient Encounters	37.1 million 2% increase	$8,680 M 7% increase	38.3 million 2% decrease	$8,027 M 2% increase
Pharmacy Scripts	22.6 million <1% increase	$1,934 M 4% decrease	43.7 million <1% decrease	$1,518 M 9% increase
Expenditures Total		$14,408 M 4% increase		$11,618 M 2% increase

TRICARE Network Providers (pages 160–161)

21% increase in **Prime network** providers since FY 2015

11% increase in **total network** providers since FY 2015

37% of behavioral health providers accept TRICARE

Hospital Ratings (page 145)

Direct care ratings improved in all product lines

Medical: 75% (FY 2017) → 76% (FY 2019)

Surgical: 77% (FY 2017) → 79% (FY 2019)

Obstetric: 65% (FY 2017) → 68% (FY 2019)

HEDIS Scores and Star Ratings (page 117)

30-Day Mental Health Follow-Up: 81% FY 2016; 78% FY 2018

Low Back Pain Imaging: 76% FY 2016; 80% FY 2019 ★★★

Well Child: 6 or More Visits: 84% FY 2016; 86% FY 2019 ★★★

Urgent Access (pages 66, 70–72)

The direct care system met future appointment goals of **less than 7 days (6.5 days) in FY 2019**

Network urgent care usage by MTF enrollees **increased almost 51%** while emergency department visits remained similar to FY 2018

– **56% of beneficiaries enrolled in secure messaging** in FY 2019
– **Over 80%** of patient messages were responded to within one business day

Access Ratings (pages 75, 92)

Overall network leakage of MTF enrollees' primary care needs **increased** from 9.9% in FY 2018 to **11.3%** in FY 2019

66–79% of MTF users in FY 2019 reported they could get care when needed, an average **2% decrease** from FY 2018

How TRICARE Is Administered

TRICARE consists of care both in the direct care system and in the private sector through managed care support contracts and the TRICARE healthcare benefit.

The direct care system consists of medical centers, hospitals, and ambulatory clinics located worldwide. Effective October 25, 2019, the DHA is responsible for exercising ADC of MTFs in fulfillment of the FY 2017 NDAA, Section 702. One of the goals of the FY2017 NDAA, Section 702 was to eliminate variance in processes in order to eliminate unnecessary overhead and support the MHS' Quadruple Aim. DHA will direct and administer the direct care system by establishing standard DHA guidance, reporting relationships, and implementing a market construct. Markets consist of one or more MTFs, which will be under a single authority reporting to DHA, and which will allow better utilization of medical assets in support of a ready medical force and a medically ready force to best respond when called upon. Direct care market offices worldwide are responsible for successfully executing established performance plans and DHA guidance.

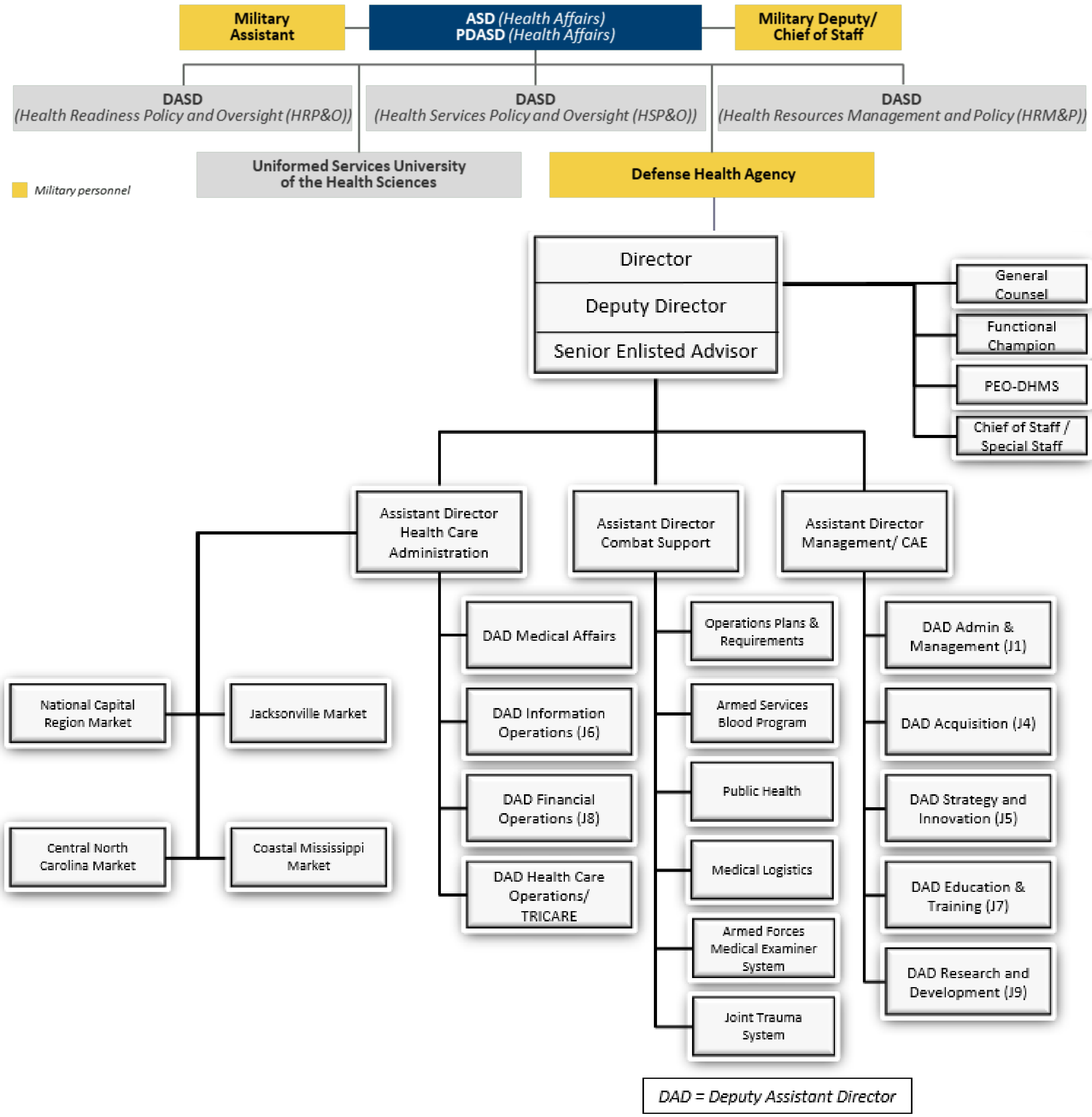
From the private sector care perspective, TRICARE is administered by the DHA on a regional basis. The Managed Care Support Program (MCSP) section within the purchased care delivery branch provides government oversight of two regional managed care support contracts: Humana Military in the East Region and Health Net Federal Services for the West Region. These managed care support contractors (MCSCs) provide private sector healthcare services to TRICARE enrollees located within the United States. DHA's TRICARE Overseas Program (TOP) section provides government oversight of the overseas contractor, International SOS. Both MCSP and TOP are responsible for managing private sector care operations for their respective areas of responsibilities and for coordinating with the MTFs (direct care system) for medical services available through civilian providers. The MCSP and TOP offices perform the following:

- Administer and manage the purchased care contracts in the United States and overseas
- Support the optimization of MTF markets, both small and large
- Support the CCMDs in delivery of healthcare in remote locations and during natural disasters when military assets are not available

The MHS continues to meet the challenge of providing the world's finest combat medicine and aeromedical evacuation, while supporting the TRICARE benefit to DoD beneficiaries at home and abroad. Since its inception in 1995, TRICARE continues to offer an increasingly comprehensive healthcare plan to uniformed services members, retirees, and their families. Even as the MHS aggressively works to sustain the TRICARE program through good fiscal stewardship, it also refines and enhances the benefits and programs in a manner consistent with the industry standard of care, best practices, and statutes to meet the changing healthcare needs of its beneficiaries.

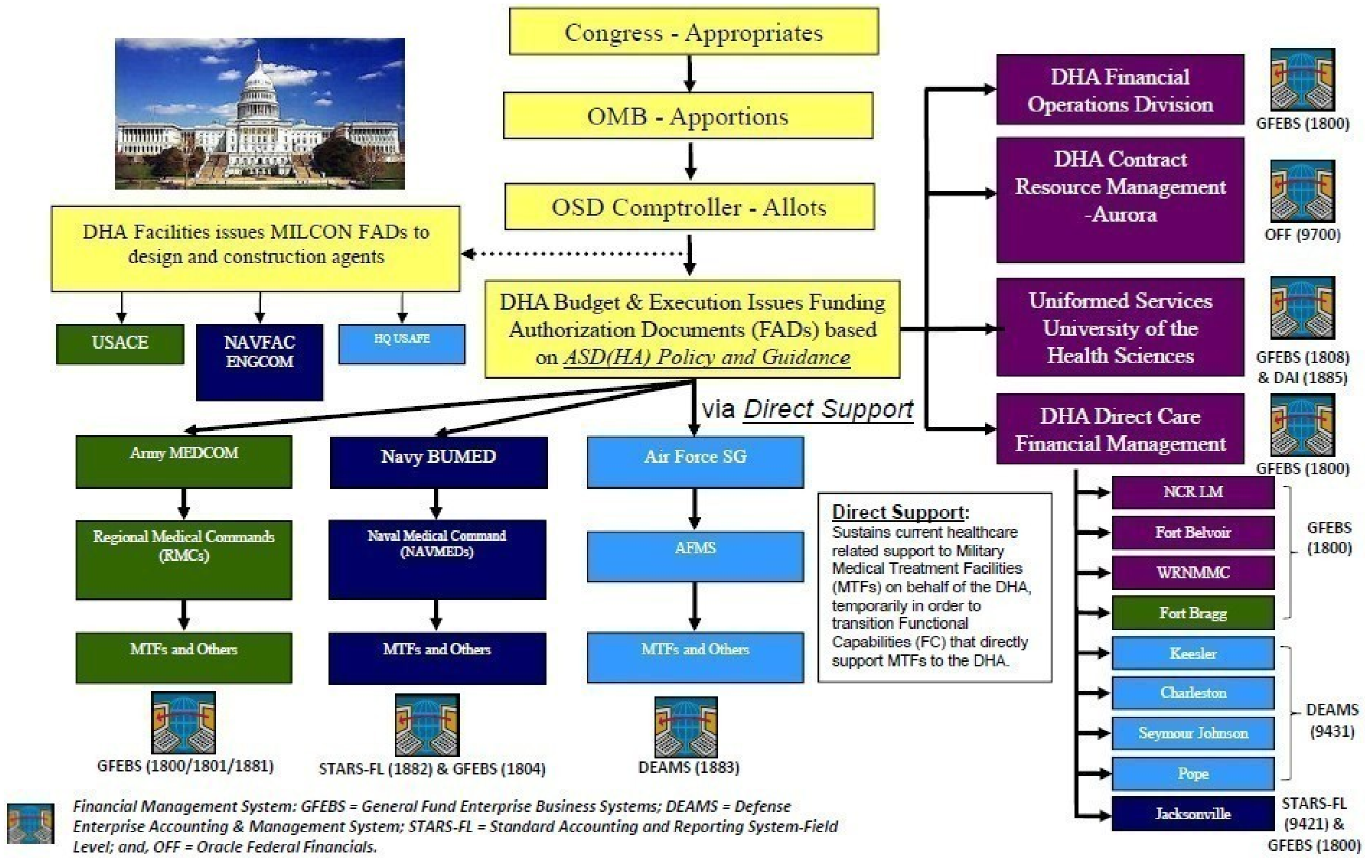
Organizational Structure

Figure 3: *MHS organization chart*[2] *as of April 2020*



[2]*SMAs are direct reports to the MHS including Figure 3 and Figure 4.*

Figure 4: *Defense Health Program O&M funds distribution*



MHS Components of the DHP Financial Statement Structure

The DHP financial statement structure includes the following six (6) MHS components:

U.S. Army Medical Command (MEDCOM): MEDCOM provides a premier expeditionary and globally integrated medical force ready to meet the ever-changing challenges of today and tomorrow. As the Army is foundational to the Joint Force, MEDCOM is foundational to the joint health services enterprise. MEDCOM maintain the diversity and depth to respond to our nation's most demanding expeditionary missions. MEDCOM must ensure the health readiness of the force and maintain responsive medical capabilities to support the Army's four lines of effort to build readiness, modernize concepts and capabilities, reform processes, and strengthen our alliances and partnerships to ensure land power dominance on any battlefield, against any threat, at any time. MEDCOM provides sustained health services and research in support of the total force to enable readiness and conserve the fighting strength while caring for soldiers for life and their families.

The Navy Bureau of Medicine and Surgery **(BUMED)**: BUMED is a global healthcare network of highly trained medical personnel who provide healthcare support to the U.S. Navy, Marine Corps, their families and veterans in high operational tempo environments, at expeditionary medical facilities, military treatment facilities (medical centers, hospitals and clinics), hospital ships and research units around the world. BUMED is led by the Navy Surgeon General, and is headquartered in Falls Church, Virginia. The BUMED team of physicians, dentists, nurses, corpsmen, allied health providers, and support personnel also works in tandem with the Army and Air Force medical personnel and coalition forces to ensure the physical and mental well-being of service members and civilians. This care is provided via the DHP and coordinated by the Office of ASD(HA) with support from the DHA.

U.S. Air Force Medical Service (AFMS): The AFMS' mission is to ensure medically fit forces, provide expeditionary medics, and deliver trusted care to all it serves. The AFMS' vision is for its supported population to be the healthiest and highest-performing segment of the US population. Air Force medics work for the United States Air Force. AFMS supports benefit execution and readiness to provide: healthy/fit force, resilient families, and trained medics. Air Force Warrior Medics...Mission Focused, Excellence Driven.

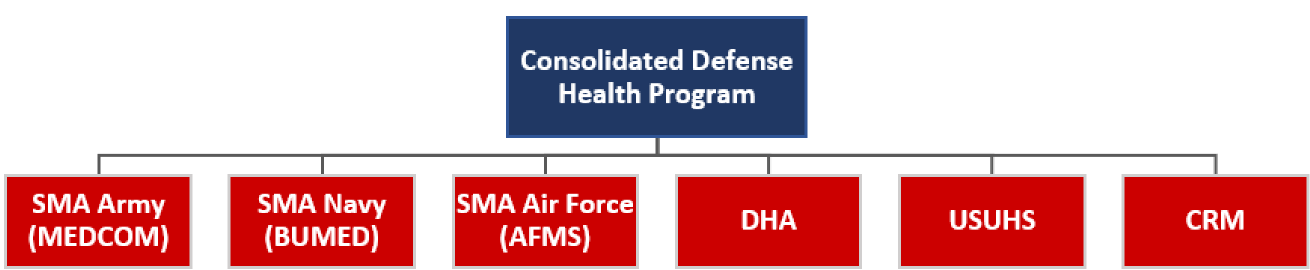
Defense Health Agency (DHA): DHA is a joint, integrated CSA that enables MEDCOM, BUMED, and the AFMS to provide a ready medical force and medically ready force to CCMDs in both peacetime and wartime. DHA leads the MHS integrated system of readiness and health to deliver the MHS Quadruple Aim: increased readiness, better health, better care, and lower cost. The DHA oversees the execution of the $37.9 billion DHP appropriation to support the delivery of integrated, affordable, high-quality health services to the DoD's 9.6 million eligible beneficiaries. The DHA drives greater integration of clinical and business processes across the contracted healthcare networks and MTFs. The DHA also respects the core values its staff brings while upholding an organizational culture that operates by six guiding principles of transparency, accountability, leading change, empowerment, nurturing, and being team oriented.

Uniformed Services University of the Health Sciences (USUHS): The mission of USUHS is to educate, train, and comprehensively prepare uniformed services health professionals, scientists, and leaders to support the Military and Public Health Systems, the national security and national defense strategies of the United States, and the readiness of our Uniformed Services. On its main campus located in Bethesda, Maryland, and a satellite campus in San Antonio, Texas, USUHS educates and trains outstanding physicians, advanced practice nurses, dentists, allied health professionals, scientists, administrators, and military leaders who are dedicated to career service and leadership in the DoD, United States Public Health Service (PHS), and across the U.S. government. By the end of calendar year (CY) 2021, the vision for USUHS is for it to be widely recognized as the pre-eminent national educational institution for the creation of career uniformed services leaders in the health sciences who are prepared to serve the nation. USUHS will be a focal point for the Uniformed Services in health-related education and training, research and scholarship, leadership development, and support to operational military units around the world. Each USUHS graduate will be a health professional and leader prepared with an outstanding health education, interprofessional health training, leadership training, and a deep and abiding commitment to selfless service, the uniformed services ethos, and the security of the United States.

Contract Resource Management (CRM) Office: The CRM Office in Aurora, Colorado, is responsible for the accounting, financial support, and financial reporting for TRICARE's centrally funded private sector care programs and the TRICARE Retail Pharmacy Refunds Program. The CRM provides budget formulation input, carries out budget execution, and prepares component financial statements and footnotes. In addition, CRM electronically processes invoices received from its contractors and through the TRICARE Encounter Data System and reports these transactions through accessible electronic media. CRM provides funding availability certification and financial program tracking for the centrally funded private sector care programs and monitors budget execution through analysis of current and prior years' spending and program developments. CRM uses DHP funds provided by annual appropriations to reimburse private sector healthcare providers for services rendered to TRICARE beneficiaries. It also assists DHA's Contract Management, Program Integrity (PI) (fraud), and Case Recoupment division activities related to private sector care.

In FY 2020, DHP had budget authority of $37.9 billion appropriation to support Operations and Maintenance (O&M), RDT&E and Procurement. DHP also has consolidated entities disclosed in Note 1.A., *Reporting Entity Mission and Overall Structure* and disclosure entities disclosed in Note 19, *Disclosure Entities and Related Parties.*

Figure 5*: DHP Defense Department Reporting System (DDRS) Audited Financial Statement (AFS) Compilation Structure*



Analysis of Performance Goals, Objectives, and Results

Overview

DHP funds the MHS under the policy direction and guidance of the ASD(HA). In 2009, the MHS adopted the Quadruple Aim of improved readiness, better health, better care, and lower cost for all components funded by the program. In 2019, the ASD(HA) released an enterprise strategy with three (3) goals for the MHS to focus improvement and modernization:

- **Goal 1:** Measure and improve the readiness of the force
- **Goal 2:** Measure and improve health outcomes of the population we serve
- **Goal 3:** Reform the MHS for greater performance and affordability

The strategy maintains alignment to the Quadruple Aim while providing more specific direction for the MHS components to ensure alignment to the NDS. The DHA, Service Medical Departments, and USUHS have developed strategies to support the three goals of the MHS aligned to the Quadruple Aim. Recognizing that the MHS is in a time of radical transformation, the ASD(HA) began revising the strategic performance management system at the end of FY 2019 to better understand the impact of transition of the MTFs to the DHA on the Quadruple Aim with the goal to have key performance indicators (KPIs) ready for review in early Summer 2020.

The Quadruple Aim is defined as:

- **Improved Readiness** means ensuring that the total military force is medically ready to deploy and that the medical force is ready to deliver support health services anytime and anywhere in support of the full range of military operations, including on the battlefield or disaster response and humanitarian aid missions.
- **Better Health** is achieved by reducing the generators of disease and injury, encouraging healthy behaviors, increasing health resilience, decreasing the likelihood of illness through focused prevention, and improving the health of those with chronic illness.
- **Better Care** advances healthcare services that are safe, timely, effective, efficient, equitable, and patient and family centered. Better care focuses on the health outcomes that matter to patients and their families.
- **Lower Cost** is achieved by focusing on quality, eliminating waste, and reducing unwarranted variation.

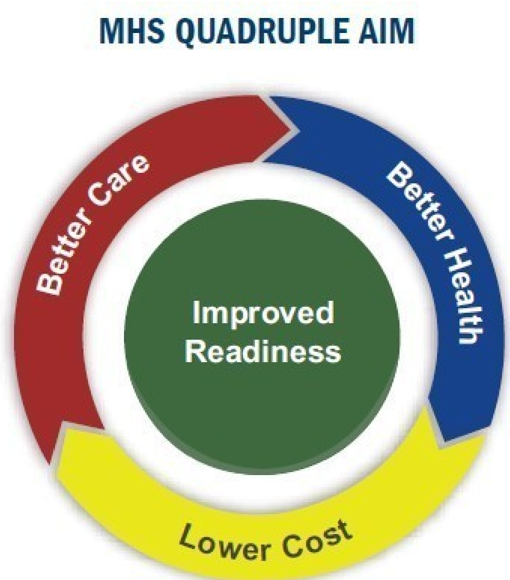


Figure 6: *MHS Quadruple Aim*

Improved Readiness

The MHS exists to provide medical and health support to the uniformed service members of the United States for war, combat, humanitarian aid, and disasters. A ready medical force has the knowledge, skills, and abilities to provide combat casualty care and other military-relevant health services, anytime and anywhere. A medically ready fighting force is physically ready to go into combat or support a full range of military operations across the world.

The measures below are critical for measuring readiness (Table 1).

***Table 1**: Readiness Measures*

Measure Name	Current Performance/Status	Data as of	Performance	Longitudinal Time Period
Individual Medical Readiness	**Air Force:** 86.0%	06/2020	**Air Force:** 88.5% to 86.0%; slight decline in performance	09/2015 to 06/2020
	Army: 83.2%		**Army:** 85.0% to 83.2%; slight decline in performance	
	Navy: 83.9%		**Navy:** 89.8% to 83.9%; sharp decline in performance from march to June 2020	
Percent of providers meeting knowledge, skills, and abilities for general surgery	13%	06/2020	15% to 13%; slight decline in performance from February to June 2020.	02/2020 to 06/2020
Percent of providers meeting knowledge, skills, and abilities for orthopedic surgery	73%	06/2020	73% to 68%; slight decline in performance from February to June 2020.	02/2020 to 06/2020
Deployment limiting conditions	**Active Components:** 4.9% **Reserve Components:** 6.8%	06/2020	**Active Components:** 7.0% to 4.9%; significant improvement **Reserve Components**: 6.0% to 6.8%; slight decline in performance	3/2015 to 6/2020

Red denotes significantly below target, yellow/amber below target, green on target, and blue exceeding target. For more information about measures, methodology, and performance visit https://carepoint.health.mil

Better Health

Measuring health outcomes is key to any health system. The below measures in Table 2 such as the health-related quality of life (HRQOL), which is a self-reported well-being indicator developed by the Centers for Disease Control and Prevention (CDC), tobacco use, and obesity rate all have bearing on the readiness of the force.

Table 2. *Better health performance in the MHS. For more information about measures, methodology and performance, visit* https://carepoint.health.mil

Measure Name	Current Performance		Data as of	Performance	Longitudinal Time Period
HRQOL		90.1%	9/2019	90.4% to 90.1%; slight decline	9/2016 to 9/2019
Obesity in Active Duty Service Members		19.8%	6/2020	16.2% to 19.8%; decline in performance	3/2014 to 6/2020
Obesity in adults		34.3%	6/2020	29.7% to 34.3%; decline in performance	3/2016 to 6/2020
Obesity in children		10.6%	6/2020	10.2% to 10.6%; slight decline in performance	3/2016 to 6/2020
Overweight in Active Duty Service Members		48.3%	6/2020	50.5% to 48.3%; slight improvement	3/2014 to 6/2020
Overweight in adults		38.8%	6/2020	41.5% to 38.8%; slight improvement	3/2016 to 6/2020
Overweight in children		14.2%	6/2020	14.0% to 14.2%; slight decline in performance	3/2016 to 6/2020
Tobacco counseling		12.8%	7/2020	24.5% to 12.8%; decline in performance	7/2016 to 7/2020
Tobacco use		21.6%	7/2020	22.7% to 21.6%; slight improvement	7/2016 to 7/2020

Red denotes significantly below target, yellow/amber below target, green on target, and blue exceeding target. For more information about measures, methodology, and performance visit https://carepoint.health.mil

Better Care

Patient-centric improvements in access, evidenced-based quality of care, and preventable harm events are presented in Table 3 below.

Table 3: *Quality of healthcare services performance in the MHS.*

Measure Name	Current Performance		Refresh Date	Performance	Longitudinal Time Period
Risk-adjusted mortality		0.79 standard mortality ratio	3/2020	0.99 to 0.79; significant improvement in performance	9/2016 to 3/2020
Recommend hospital		77.47% recommend	3/2020	75.43% to 77.47%; slight improvement	6/2016 to 3/2020
Provider communication		83.35% satisfaction w/ outpatient provider	3/2020	76.43% to 83.35%; positive improvement	6/2014 to 3/2020
Catheter-associated UTI – SIR		0.146 standard infection ratio	3/2020	1.076 to 0.146; positive improvement	3/2013 to 3/2020
Central line-associated bloodstream infection		0.263 infection rate ratio	3/2020	.783 to 0.263; positive improvement	3/2013 to 3/2020
Wrong site surgery		5 wrong site, person, or procedure	6/2020	7 to 5; positive improvement	12/2012 to 6/2020
Unintended retained foreign object (URFO)		3 Surgical objects retained	6/2020	3 to 3; steady performance	12/2012 to 6/2020
National Surgical Quality Improvement Program (NSQIP) all cases morbidity		6 cases	12/2018	6 to 6; no change	12/2013 to 12/2018
NSQIP all cases mortality		5 cases	12/2018	4 to 5; slight decline in performance	12/2013 to 12/2018
Diabetes A1c testing		84.02% 18–75-year-olds with diabetes tested	7/2020	89.71% to 84.02%; slight decline in performance	1/2013 to 7/2020
Low back pain		81.57% with low back pain imaged	7/2020	75.13% to 81.57%; positive improvement	1/2016 to 7/2020
Children with pharyngitis-appropriate testing		81.40% 3–18-year-olds tested and prescribed an antibiotic	7/2020	82.55% to 81.40%; slight decline in performance	1/2016 to 7/2020
Healthcare Effectiveness Data and Information Set (HEDIS) breast cancer screening		69.72% 52–74-year-old women with screening in past 27 months	7/2020	73.91% to 69.72%; decline in performance.	1/2013 to 7/2020
HEDIS cervical cancer screening		79.52% 24–64-year-old women with screening in past 3 years	7/2020	83.17% to 79.52%; declining performance	1/2013 to 7/2020
HEDIS colon cancer screening		75.14% 51–75-year-olds screened past 2 years	7/2020	72.78% to 75.14%; positive improvement	1/2013 to 7/2020
7-day mental health follow-up		73.66% seen within 7 days post-discharge	7/2020	64.25% to 73.66%; positive improvement	1/2013 to 7/2020
HEDIS all cause readmissions		0.85 out of 1.00; benchmarked to HEDIS	4/2020	0.92 to 0.85; positive improvement	6/2014 to 4/2020
Well child		82.05% at 15 months with 6+ well child visits	7/2020	77.03% to 82.05%; positive improvement	1/2013 to 7/2020
Inpatient Quality Indicator (IQI) #33 primary cesarean section		13.96% first-time delivery without hysterectomy	09/2019	16.05% to 13.96%; positive improvement	3/2016 to 9/2019
Postpartum hemorrhage		4.59% women who delivered, diagnosed with hemorrhage	09/2019	2.43% to 4.59%; declining performance	3/2016 to 9/2019

Measure Name	Current Performance		Refresh Date	Performance	Longitudinal Time Period
Unexpected newborn complication		4.63% of babies without pre-existing conditions with complications	6/2018	5.34% to 4.63%; positive improvement	3/2016 to 6/2018
Days to third next 24-hour appointment		1.26 days to third next available same-day appointment	8/2020	1.16 to 1.26; slight decline in performance likely due to COVID-19	10/2015 to 8/2020
Days to third next future appointment		4.30 days to third next available future appointment	8/2020	5.79 to 4.30; improvement in performance	10/2015 to 8/2020
Primary care leakage		5.40% of potentially recapturable PC leakage to the network	6/2020	5.87% to 5.40%; slight improvement in performance	10/2014 to 6/2020
PCM continuity		54.02% of enrollees seen by their assigned PCM	8/2020	59.89% to 54.02%; decline in performance	10/2015 to 8/2020
Access – secure messaging enrollment		60.96% of direct care enrollees w/secure messaging	8/2020	36.2% to 60.96%; positive improvement	5/2015 to 8/2020
Access – secure messaging response time		81.54% of patient messages were responded to within one day	8/2020	76.85% to 81.54%; positive improvement	5/2016 to 8/2020
Satisfaction with access to care		78.18% of patients were satisfied with access to care	03/2020	81.43% to 78.18%; decline in performance	12/2016 to 3/2020
Referral Disposition 1 Bed Day		86.7%	8/2020	83.6% to 86.7%; positive improvement	10/2018 to 8/2020
Specialty care: booked to actual appointment		11.15 days from date booked to specialty appointment date	6/2020	13.52 to 11.15; slight improvement in performance	1/2016 to 6/2020
Ambulatory specialty care leakage		15.2% of specialty care encounters leaking into the network	6/2020	13.9% to 15.2%; decline in performance	10/2013 to 6/2020
Active Duty (AD) days to primary care appointment		.85 days from request to appointment for AD	8/2020	.54 to .85; slight decline in performance	10/2017 to 8/2020
AD days to specialty care appointments		10.18 days from referral to appointment for AD specialty care	8/2020	13.49 to 10.18; slight improvement	10/2017 to 8/2020
MEB stage timeliness		20 days	8/2020	36 days to 20 days; improvement in performance	11/2019 to 8/2020
Accreditation Council for Graduate Medical Education (ACGME) accreditation status		100% accreditation	9/2020	100% to 100%; Steady performance	3/2020 to 9/2020
Accreditation for DoD clinical laboratories		Under development	N/A	Under development	Under development
The Joint Commission (TJC) accreditation		100% of MHS accredited by TJC	09/2020	100% to 100%; steady performance; however, 15 Surveys are currently on Hold due to COVID-19	01/2014 to 09/2020

Red denotes significantly below target, yellow/amber below target, green on target, and blue exceeding target. For more information about measures, methodology, and performance visit https://carepoint.health.mil

Lower Cost

Healthcare cost containment is a priority for the Department. The Quadruple Aim Lower Cost metrics tracked by the MHS are displayed below in Table 4.

Table 4. *Lower Cost – Improve Stewardship performance in the MHS*

Measure Name		Current Performance	Refresh Date	Performance	Longitudinal Time Period
Per member per month (PMPM)		-1.96% PMPM growth rate for TRICARE Prime enrollees	6/2020	$333.18 to $369.80; decline in performance for overall PMPM; however, improvement in PMPM growth rate over the past year	10/2013 to 6/2020
Total purchased care cost		$779M spent on purchased care	6/2020	$701M to $779M; declining performance;	10/2013 to 6/2020
Private sector care cost per prime enrollee		-0.93% YTD Change in Private Sector Care Costs per Prime Enrollee	6/2020	$165.89 to $185.02; decline in performance for overall cost; however, YTD change has improved	10/2013 to 6/2020
Total empanelment		-3.5% decrease in total empanelment (rolling 12-month average)	8/2020	5.196M to 4.312M; decline in performance	9/2012 to 8/2020
Pharmacy percent retail spend		32.5% of pharmacy dollars spent in retail pharmacies	7/2020	47.6% to 32.5%; positive improvement	10/2011 to 7/2020
Active Duty specialty care provider efficiency		21% of AD providers met MGMA benchmark; proxy for clinical currency	9/2020	23% to 21%; decline in performance	12/2013 to 9/2020
Overall occupancy rate (US)		41% of inpatient beds occupied	5/2020	61% to 41%; decline in performance	10/2016 to 5/2020
ICU occupancy rate (US)		46% of ICU beds occupied	5/2020	61% to 46%; decline in performance	10/2016 to 5/2020

Red denotes significantly below target, yellow/amber below target, green on target, and blue exceeding target. For more information about measures, methodology, and performance, visit https://carepoint.health.mil

In summary, of the 59 measures reported: 15 Red, 6 yellow, 14 green, 9 blue, 15 did not have targets. 39% are hitting or exceeding target (green/blue), 36% percent not meeting target (Red and Yellow) and 24% did not have a target. Of those with no target 9 decreased in performance, 4 improved and 1 was not reported.

Performance Information Assurance

The MHS performance data is stored and retrieved in a standardized, controlled process from the MHS Data Repository. The repository, in turn, is accessed through the MHS Mart (M2). These systems are automated with data pushed directly from the legacy electronic health records (EHR) such as Composite Health Care System (CHCS) and Armed Forces Health Longitudinal Technology Application (AHLTA). MHS GENESIS, the new commercial off-the-shelf (COTS) Cerner EHR, will integrate with the repository or another platform with similar functionality.

Strategic data, trends, and information are populated on an interactive, web-based platform called CarePoint, accessible at https://carepoint.health.mil. Data is available to all with a DoD Common Access Card (CAC).

The ASD(HA) hosts an MHS Review and Analysis meeting on a recurring basis, analyzing performance trends across the enterprise with representation from the Army, Navy, Air Force, DHA, Joint Staff, and USUHS. A full evaluation of the program is delivered to Congress annually.

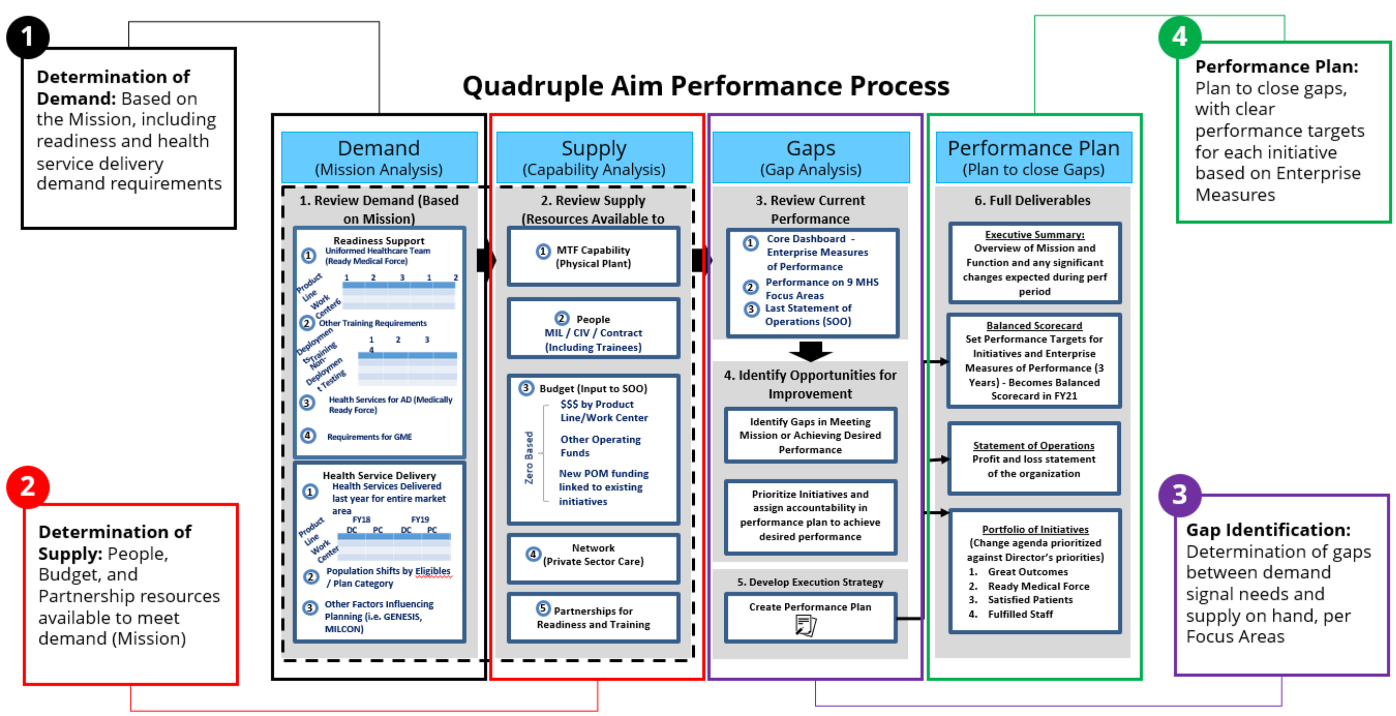
Plans to Achieve Missed Targets

In FY 2019, the DHA implemented the first round of the Quadruple Aim Performance Process (QPP). It is the process by which "we" engage the entire MHS to achieve breakthrough performance in pursuit of the Quadruple Aim and establish local, market and enterprise initiatives to close performance gaps. The purpose of the QPP is to:

- Align market and MTF activities with the MHS Quadruple Aim vision
- Enhance our integrated system of readiness and health
- Promote system learning and continuous improvement
- Support a smooth transition of administration and management of MTFs to DHA
- Enable enhanced enterprise performance, balanced across the Quadruple Aim framework – Improved Readiness, Better Health, Better Care, and Lower Cost

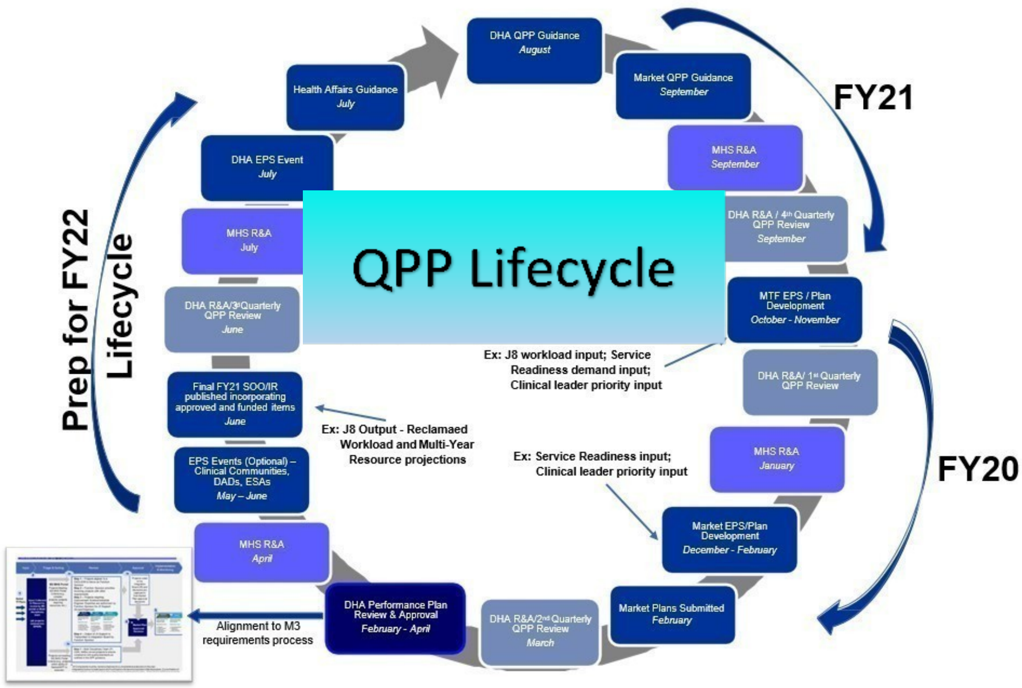
The QPP begins with issuing guidance from DHA headquarters to the markets and MTFs. Upon receipt of QPP guidance, MTF/market leaders conduct an Executive Planning Session (EPS) to identify both the readiness and health services delivery demand signals in their area of responsibility. These demand signals serve as inputs into a 3-year planning process. MTF/market leaders then evaluate their available supply to respond to their demand signals. Supply, or resources, include both direct care assets as well as those that can be leveraged from our network and private sector partnerships. Understanding both demand and supply, MTFs/markets are positioned to evaluate current performance against MHS Core Dashboard measures and to develop plans to close gaps in performance, as well as gaps in available supply to meet the demand signal. MTF leaders will signal to their market if demand exceeds the MTF's capabilities. Likewise, market leaders will signal to the DHA when they require DHA assistance to close any gaps. Inputs, evaluation and outputs of the QPP are displayed in Figure 7 and the QPP life cycle is depicted in Figure 8.

***Figure 7**: Inputs, evaluation, and outputs of the QPP https://carepoint.health.mil/sites/QPP/SitePages/Home.aspx*



As the DHA continues to transition MTFs under the market construct, the FY 2021–2023 QPP cycle provides an opportunity for iterative improvements to the QPP process, emphasizes the full integration of direct and private sector care, and aligns market activities to the Program Objective Memorandum (POM) submission cycle. All MTFs will execute the functions outlined in the "Roles and Responsibilities" section of the FY 2021 QPP guidance to support the development of 3-year plans. MTFs will incorporate child facility input as they execute their roles and responsibilities.

Figure 8: *QPP life cycle*

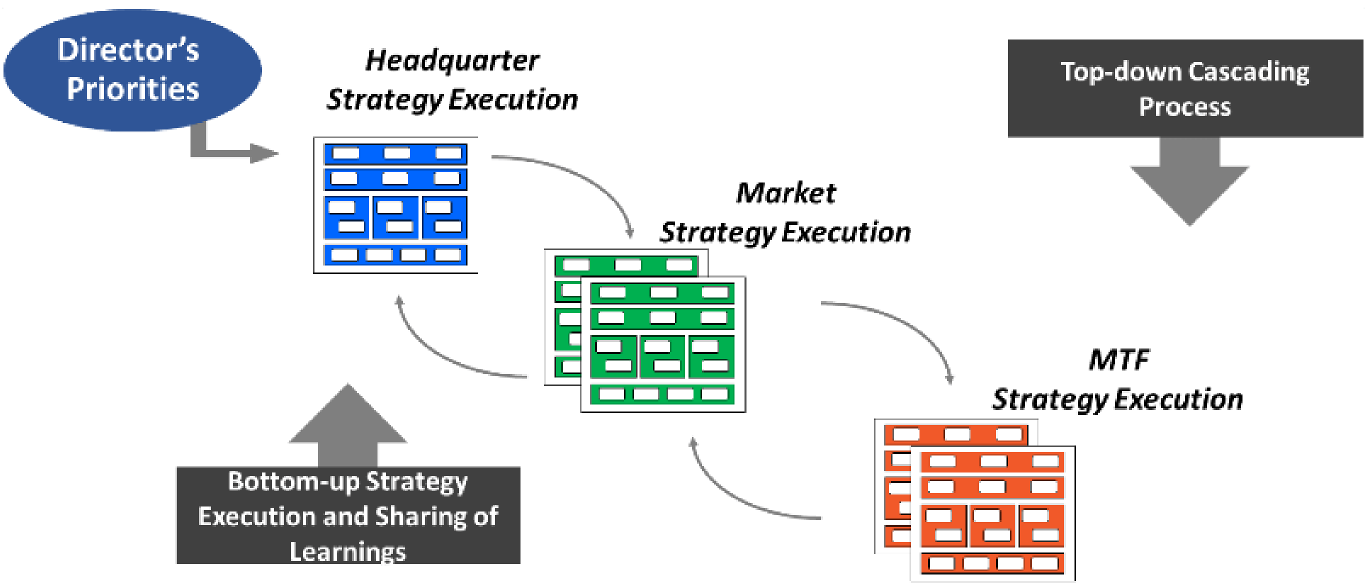


MHS leaders have approved a core set of 64 performance measures around the Quadruple Aim (Increased Readiness, Better Health, Better Care, and Lower Cost). DHA, Health Care Operations will monitor the execution of actual vs projected performance of all markets and MTFs using this set of core measures and FY 2021 projected workload. The measures are accessible to anyone with a CAC at https://carepoint.health.mil/SitePages/LandingPage.aspx.

Future Performance Management and Accountability

DHA has partnered with ASD(HA) to design an MHS performance management system – a closed-loop system to identify strategic changes MHS need to drive, implement, and sustain those changes over time. This framework leverages the principle of having the right measures reviewed at the most appropriate level. The below diagram depicts this framework supporting strategic, operational and tactical measures to drive this change agenda.

Figure 9: *Cascading reviews*



The DHA leadership approved a new operating model on May 22, 2020. The MHS performance management process is intended to support this operating model to ensure coordinated and efficient execution of our priorities are reviewed and discussed at the right level of governance to drive improvement efforts. DHA goal champions (Assistant Directors for Management, Health Care Administration and Combat Support) are identifying KPIs and setting performance targets. Once those have been identified, objective champions will identify KPIs or driver measures to support the goal-level KPIs. This will enable the ASD(HA) to issue annual FY 2021 strategic guidance outlining accountability for the DHA as a performance-based organization.

Analysis of Financial Statements and Stewardship Information

The financial statements of the DHP reflect and evaluate the execution of its mission to provide a ready medical force and a medically ready force to CCMDs in both peacetime and wartime. This analysis summarizes the DHP's financial position and results of operations and addresses the relevance of major types and/or amounts of assets, liabilities, costs, revenues, obligations, and outlays.

The principal financial statements include a consolidated balance sheets, a consolidated statements of net cost (SNC), a consolidated statement of changes in net position (SCNP), and a combined statements of budgetary resources (SBR). These principal statements are included in the "Financial Section" of this report. The DHP also prepares a combining schedule of budgetary resources within required supplementary information.

Overview of Financial Position

***Table 5**: Summary of DHP's major financial activities as of September 30, 2020 and 2019*

DHP Major Financial Activities *(dollars in thousands)*				
Net Financial Condition	**FY 2020**	**FY 2019**	**$ Increase/(Decrease)**	**% Increase/(Decrease)**
Fund Balance with Treasury	$21,988,560	$19,580,243	$2,408,317	12%
Accounts Receivable, Net	1,036,901	943,453	93,448	10%
Inventory and Other Assets	238,983	85,385	153,598	180%
Property, Plant, and Equipment, Net	3,435,799	3,224,053	211,746	7%
Total Assets	**$26,700,243**	**$23,833,134**	**$2,867,109**	**12%**
Accounts Payable	$1,129,047	$1,116,293	$12,754	1%
Military Retirement and Other Federal Employment Benefits	272,162,864	256,703,184	15,459,680	6%
Accrued Unfunded Annual Leave	402,665	321,277	81,388	25%
Accrued Funded Payroll and Benefits	261,287	226,146	35,141	16%
Environmental and Disposal Liabilities	18,378	18,098	280	2%
Other Liabilities	206,727	184,955	21,772	12%
Total Liabilities	**$274,180,968**	**$258,569,953**	**$15,611,015**	**6%**
Unexpended Appropriations	$20,210,256	$18,603,336	$1,606,920	9%
Cumulative Results of Operations	(267,690,981)	(253,340,155)	(14,350,826)	6%
Total Net Position	**($247,480,725)**	**($234,736,819)**	**($12,743,906)**	**5%**
Net Program Cost	**$49,510,251**	**$40,083,175**	**$9,427,076**	**24%**
Net Cost of Operations	**$49,510,251**	**$40,083,175**	**$9,427,076**	**24%**
Budgetary Resources	**$47,051,863**	**$44,359,105**	**$2,692,758**	**6%**

Preparing the DHP financial statements is a vital component of sound financial management and provides information that is useful for assessing performance, allocating resources, and targeting areas for future programmatic emphasis. DHA management is responsible for the integrity of the financial information presented in its financial statements. The DHA is committed to financial management excellence and is in process of developing and implementing a rigorous system of internal controls to safeguard its widely dispersed assets against loss from unauthorized acquisition, use, or disposition.

A summary of the DHA's major financial activities as of September 30, 2020, is presented in Table 5 above. This table represents the resources available, assets on hand to pay liabilities, and the corresponding net position. The net cost of operations is the cost of operating the programs of the DHP, less earned revenue. Budgetary resources are funds available to the DHP to incur obligations and fund operations.

Balance Sheets Summary

Assets – What We Own and Manage

Total assets were $26.7 billion as of September 30, 2020. The most significant assets are the Fund Balance with Treasury (FBwT) and Property, Plant, and Equipment, net, which represent a combined 95% of DHP's total assets. The largest, FBwT, consists of cash appropriated to DoD by Congress or transferred from other federal agencies and held in the U.S. Department of Treasury's accounts that are accessible to pay for DoD medical obligations. The FBwT increase by $2.4 billion, or 12% is attributable primarily to increases in funding provided by the CARES Act. Additionally, the increase in Inventory and Other Assets of $153.6 million, or 180%, is primarily attributable to valuing $234.3 million of stockpile materials at the BUMED, DHA and AFMS in the form of emergency supplies to be used in the event of a nationwide pandemic such as COVID-19.

Liabilities – What We Owe

Total liabilities of $274.2 billion as of September 30, 2020, of which $272.2 billion, or 99%, comprises military retirement and other federal employment benefits. These liabilities represent funds calculated by the DoD's Office of the Actuary (OACT) at the end of each fiscal year using the current active and retired military population plus assumptions (inflation, discount rate, and medical trend) about future demographic and economic conditions. An increase in the Accrued Unfunded Annual Leave of $81.4 million, or 25% and Accrued Funded Payroll and Benefits of $35.1 million or 16% is due to timing of payment of benefits. Finally, $21.8 million, or 12% of the increase in Other Liabilities balance is primarily due to the to the timing of advances from others and employer contributions and payroll taxes payable.

Net Position – What We Have Done Over Time

Net position represents the DHP's net results of activity over the years and includes unexpended appropriations and cumulative net earnings. The DHP's net position is shown on the consolidated balance sheets and the consolidated statements of changes in net position. The reported net position balance as of September 30, 2020, was ($247.5) billion.

Results of Program Cost

Net Costs – What Cost We Incurred for the Year

The net results of operations are reported in the consolidated SNC and the consolidated SCNP. The consolidated SNC represent the cost of operating (net of earned revenues) the DHP's programs. In FY 2020, the DHP operated the following four programs:

- ***Operations, Readiness, and Support**:* Support the total military force by ensuring the medical force is medically ready and prepared to deliver healthcare anytime, anywhere in support of the full range of military operations, including humanitarian missions.
- ***Procurement**:* The DHP appropriation procurement program funds acquisition of capital equipment in MTFs and other selected healthcare activities.
- ***RDT&E**:* Aid medical force through effective and accountable investments in education and research to establish sustainable improvements in the well-being and productivity of the MHS.
- ***Family Housing and Military Construction**:* Assist military forces based on need according to principles of universality, impartiality, and human dignity to save lives, alleviate suffering, and minimize the economic costs of conflict, disasters, and displacement.

***Figure 10**: Summarizes total net program cost by the DHP's programs as of September 30, 2020*

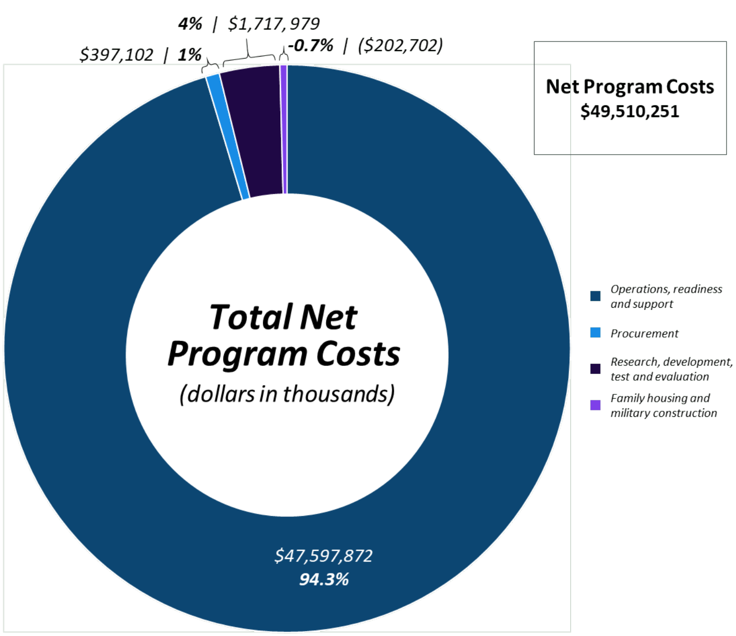


Figure 10 to the left shows the total net program cost of operations of $49.5 billion to operate each of these DHP's programs. These costs include the $10.6 billion gain from actuarial assumption changes. This is approximately a $9.4 billion increase over FY 2019 in net costs, an increase that is due in large part to supplemental funding provided from the CARES Act. The funding was used to support the O&M efforts. Additionally, the FY 2020 credit balance of ($202.7) million, shown as gross costs related to Family Housing and Military Construction, due to an abnormally large increase in the DHP's cost capitalization offset account caused by adjustments resulting from a process change in the way DHP accounts for construction-in-progress (CIP).

Net Program costs represent the resources use by DHP to support the National Defense Strategy (NDS) and the three distinct lines of effort established for the DoD:

1. Build a more lethal force
2. Strengthen alliances and attract new partners
3. Reform the Department for greater performance and affordability

The current enterprise strategy, released by the ASD(HA) in 2019, has three (3) goals for the MHS that focus on improvement and modernization:

- **Goal 1:** Measure and improve the readiness of the force
- **Goal 2:** Measure and improve health outcomes of the population we serve
- **Goal 3:** Reform the MHS for greater performance and affordability

The MHS strategy maintains alignment to the Quadruple Aim while providing more specific direction for the MHS components to ensure alignment to the NDS.

Measuring MHS performance is a means of improving program efficiency, effectiveness and program results. One measure of MHS performance is the Department of Defense (DoD) *Evaluation of the TRICARE Program* Report that is provided annually to Congress, as required per Section 717 of the National Defense Authorization Act (NDAA) for fiscal year (FY) 1996 (Public Law 104-106). This report provides an assessment of the Military Health System (MHS) overall performance in providing full-spectrum health care services to our 9.6 million Service member, retiree, and family member beneficiaries. The report includes both financial and non-financial measurements.

Additionally, the MHS tracks performance measures in support of each of the four key components of the Quadruple Aim. Information regarding these measures, methodology, and performance can be found by anyone with a CAC at https://carepoint.health.mil.

Budgetary Resources

Our Funds

The combined SBR provide information on the budgetary resources that were made available to DHP during the fiscal year and the status of those resources at the end of the fiscal year. DHP receives most of its funding from general government funds administered by Treasury and appropriated by Congress for use by DHP. Budgetary resources consist of the resources available to the DHP at the beginning of the year, plus the appropriations received, spending authority from offsetting collections, and other budgetary resources received during the year, such as receipts from the MERHCF Accrual Fund.

Figure 11: *Summarizes obligations incurred, unobligated balances, and total budgetary resources for the DHP as of September 30, 2020*

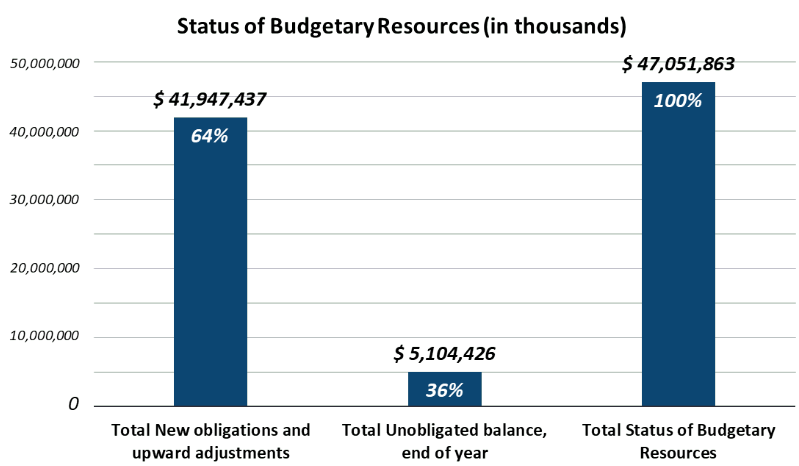


Figure 11 to the left shows the obligations incurred, unobligated balances, and total budgetary resources for DHP for as of September 30, 2020. The DHP has received $47.1 billion in cumulative budgetary resources as of September 30, 2020, of which it has obligated $41.9 billion, to date.

Obligations and Net Outlays

The status of budgetary resources (Figure 11) shown above illustrates the overall total budgetary resources received and whether obligations were incurred, or the funding remains in unobligated balances at September 30, 2020. As shown in the chart, the DHP's total budgetary resources as of September 30, 2020, was $47.1 billion. The net outlay for the DHP as of September 30, 2020, is $34.6 billion.

Coronavirus Budgetary Resources

COVID-19 Resources

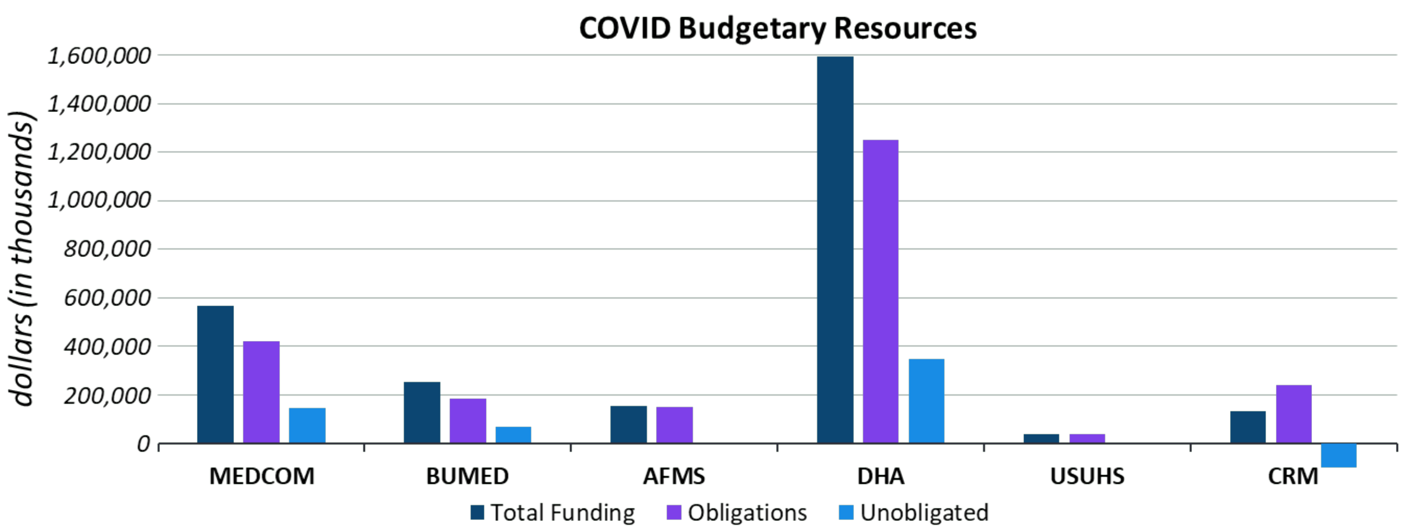
In December 2019, a novel strain of coronavirus was reported in Wuhan, China. The World Health Organization (WHO) has declared the outbreak to constitute a "Public Health Emergency of International Concern." The president of the United States proclaimed that the COVID-19 outbreak in the United States constitutes a national emergency as of March 1, 2020. In order to address impacts of the virus, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed on March 27, 2020. This bill stated the funds received by DHP for COVID-19 have the sole purpose of preventing, preparing for, and responding to coronavirus domestically or internationally. The CARES Act provided a total of $4.9 billion in total to DHP. $3.8 billion was allocated for COVID-19 requirements to prevent, prepare for, and respond to coronavirus, domestically or internationally, of which $3.4 billion was allocated for O&M and $415.0 million was allocated for RDT&E. The COVID-19 funding will remain available until September 30, 2021. Additionally, $1.1 billion was allocated for O&M (available for TRICARE) and of which the funding may be available for contracts entered into under the TRICARE program.

In addition, the Families First Coronavirus Response Act (FFCRA) was passed on March 18, 2020. This bill provided $82 million to DHP for the purpose of providing health services consisting of Severe Acute Respiratory Syndrome Coronavirus 2 (SARS-CoV-2) or COVID-19 related items. DHP expects the funds received under the FFCRA to remain available until September 30, 2022, or until all the funds are used, whichever occurs first.

DHP also received $147.6 million in additional funding to be used for RDT&E related to COVID-19.

As of September 30, 2020, DHP returned $1.3 billion to the OSD for redistribution to other non-DHA organizations for potential execution. Out of the remaining $2.7 billion of the COVID-19 funding, $2.3 billion have been obligated and the $455.0 million remains unobligated.

Figure 12: *Summarizes total COVID funding received, COVID related obligations, and unobligated balances (funding that has yet to be obligated, also equals total funding minus total obligations for the DHP as of September 30, 2020, for resources received for COVID-19 purposes*



Limitations of the Financial Statements

The principal financial statements are prepared to report the financial position, financial condition, and results of operations of DHP, pursuant to the requirements of 31 U.S.C. § 3515(b). The statements are prepared from records of Federal entities in accordance with Federal Generally Accepted Accounting Principles (GAAP) and the formats prescribed by OMB. Reports used to monitor, and control budgetary resources are prepared from the same records. Users of the statements are advised that the statements are for a component of the U.S. Government.

Analysis of Systems, Controls, and Legal Compliance

DHP management is required to comply with various laws and regulations in establishing, maintaining, and monitoring internal controls over operations (ICO), financial reporting, and financial management systems as discussed below.

Management Assurances

The Annual Statement of Assurance below were provided for FMFIA for FY 2020.

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE

1200 DEFENSE PENTAGON
WASHINGTON, DC 20301-1200

HEALTH AFFAIRS

Statement of Assurance Memorandum

DATE: 8/1/2020

SUBJECT: Annual Statement of Assurance Required Under the Federal Managers' Financial Integrity Act (FMFIA) for Fiscal Year 2020

As Acting Deputy Assistant Secretary of Defense, Health Resources Management and Policy of the Military Health System (MHS), I recognize the MHS is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. The MHS conducted its assessment of risk and internal control in accordance with the Office of Management and Budget (OMB) Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control"; and the Green Book, Government Accountability Office (GAO)-14-704G, "Standards for Internal Control in the Federal Government." Based on the results of the assessment, the MHS is unable to provide assurance that internal controls over operations, reporting, and compliance are operating effectively as of October 1, 2020.

The MHS conducted its assessment of the effectiveness of internal controls over operations in accordance with OMB Circular No. A-123, the GAO Green Book, and the FMFIA. The *Summary of Management's Approach to Internal Control Evaluation* section provides specific information on how the MHS conducted this assessment. Based on the results of the assessment, MHS is unable to provide assurance that internal controls over operations and compliance are operating effectively as of October 1, 2020.

The MHS conducted its assessment of the effectiveness of internal controls over reporting (including internal and external financial reporting) in accordance with OMB Circular No. A-123, Appendix A. The *Summary of Management's Approach to Internal Control Evaluation* section, provides specific information on how the MHS conducted this assessment. Based on the results of the assessment, the MHS is unable to provide assurance that internal controls over reporting (including internal and external reporting) as of October 1, 2020), and compliance are operating effectively as of October 1, 2020.

The MHS also conducted an internal review of the effectiveness of the internal controls over the integrated financial management systems in accordance with FMFIA and OMB Circular No. A-123, Appendix D. The *Summary of Management's Approach to Internal Control Evaluation* section provides specific information on how the MHS conducted this assessment. Based on the results of this assessment, the MHS is unable to provide assurance that the internal controls over the financial systems are in compliance with the FMFIA, Section 4; FFMIA, Section 803; and OMB Circular No. A-123, Appendix D, as of October 1, 2020.

The MHS has conducted an assessment of entity-level controls including fraud controls in accordance with the Green Book, OMB Circular No. A-123, the Payment Integrity Information Act of 2019, and GAO Fraud Risk Management Framework. Based on the results of the assessment, the MHS can provide reasonable assurance, except for one modified MW, that entity-level controls including fraud controls are operating effectively as of October 1, 2020.

Signed

Darrell W. Landreaux
Deputy Assistant Secretary of Defense
Health Resources Management & Policy
(HRM&P)

Attachments:
1. MHS Material Weakness and Significant Deficiencies – Q4 Updates
2. MHS Statement of Assurance Memorandum – Q4 Updates
3. MHS Risk Assessment - Q4 Updates
4. MHS Testing Area Verification and Validation – Q4 Updates
5. MHS Data Quality Controls Matrix
6. MHS Statement of Managements Approach to Internal Control Evaluation

Summary of Internal Control Assessment

The MHS conducted its assessment of the effectiveness of ICO in accordance with the FMFIA and the OMB Circular No. A-123 *Management's Responsibility for Enterprise Risk Management and Internal Control*. Each evaluation occurred at the component level and was reported to the MHS with the results and testing methodology used to evaluate the status of the control. Based on the results of the assessment, the MHS is unable to provide reasonable assurance regarding the effectiveness of our ICO, reporting, and compliance as of September 30, 2020.

The MHS assessed the effectiveness of Internal Controls Over Financial Reporting-Financial Reporting (ICOFR-FR), including external financial reporting, in accordance with OMB Circular No. A-123, Appendix A, *Internal Control over Financial Report*. Each evaluation occurred at the component level and was reported to the MHS with the results and testing methodology used to evaluate the status of the control. Based on the results of the assessment, the MHS is unable to provide assurance that ICOFR-FR were operating effectively as of September 30, 2020.

The MHS also conducted an internal review of the effectiveness of Internal Controls Over Reporting Financial Systems (ICOFR-FS) in accordance with FFMIA of 1996 (P. L. 104-208) and OMB Circular No. A-123, Appendix D. Each evaluation occurred at the component level and was reported to DHP with the results and testing methodology used to evaluate the status of the control. Based on the results of the assessment, we concluded that our financial management systems were not substantially compliant with FFMIA and OMB Circular No. A-123, Appendix D, *Compliance with the Federal Financial Management Improvement Act (FFMIA) of 1996* as of September 30, 2020, due to significant deficiencies.

Material weaknesses were also identified in the following areas as a result of the financial statement audit:

- Accounting and Financial Reporting Governance and Entity-Level Controls
- Financial Reporting and Analysis
- FBwT
- Revenue
- Accounting of PP&E
- Accounting for OM&S
- Information Systems

The MHS is working to resolve material weaknesses identified during prior financial statement audits.

The MHS Managers Internal Control Program (MICP) are focused on refining and improving the Entity Level Controls (ELCs) in FY 2019 and FY 2020. Correcting design failures and strengthening the ELCs should help MHS improve control and oversight over operations, reporting, and compliance. An Enterprise communication plan is being developed to ensure all responsible parties are aware of their roles related to specific ELCs. This two-pronged effort should improve the effectiveness of the controls.

Management's assessment of FFMIA compliance was completed prior to the results of the FY 2020 financial statement audit. Our auditor has noted the MHS financial management systems did not comply with the (1) federal financial management system's requirements, (2) applicable federal accounting standards promulgated by FASAB, and (3) application of the United States Standard General Ledger (USSGL) at the transaction level, because of material weaknesses noted in the Independent Auditor's Report on Internal Control over Financial Reporting. The MHS continues to develop a series of reconciliations that ties the General Ledger (GL) details from its different accounting systems to the financial statements. As a result, was able to support some of the financial statement line items down to the supporting GL system detail. The MHS continues the process of evaluating the FY 2020 audit findings contributing to noncompliance to continue the process of formulating remediation plans necessary to bring the financial management systems into substantial compliance.

Compliance with Laws and Regulations

Anti-Deficiency Act (ADA), 31 U.S.C. §§ 1341, 1342, 1350, 1351, 1517

The ADA prohibits federal employees from obligating in excess of an appropriation, before funds are available or from accepting voluntary services. As required by the ADA, DHP notifies all appropriate authorities of any ADA violations. The DHP management has taken and continues to take necessary steps to prevent ADA violations. Investigations of any violations will be completed in a thorough and expedient manner. DHP remains fully committed to resolving ADA violations appropriately and in compliance with all aspects of the law.

Pay and Allowance System for Civilian Employees as provided in 5 U.S.C. Chapters 51–59

5 U.S.C. Chapters 51–59 codify the statutory provisions concerning the pay and allowances afforded federal employees. DHP is fully committed to complying with these provisions, periodically reviewing its compliance with them, and taking appropriate action to achieve compliance if and when any errors are identified. Link to 5 U.S.C Chapter 51***:*** https://www.gpo.gov/fdsys/granule/USCODE-2011-title5/USCODE-2011-title5-partIII-subpartD-chap51/content-detail.html

Prompt Payment Act (PPA) (P. L. 97-177), 31 U.S.C. §§ 3901–3907

In 1982, Congress enacted the PPA to require federal agencies to pay their bills on a timely basis, to pay interest penalties when payments are made late, and to take discounts only when payments are made by the discount date. DHP uses the Invoice Receipt, Acceptance and Property Transfer (iRAPT) (formerly Wide Area Workflow) system to ensure compliance with this statutory requirement.

Provisions Governing Claims of the United States Government as provided in 31 U.S.C. §§ 3711-3720E (including provisions of the Debt Collection Improvement Act of 1996, (DCIA, P. L. 104-134), as amended by the Digital Accountability and Transparency Act (DATA Act) of 2014)

The DCIA, as amended by the DATA Act, requires that Federal agencies refer delinquent debts to Treasury within 120 days and take all appropriate steps prior to discharging debts. DHP follows applicable requirements for establishing and collecting validated debts and ensuring compliance with Debt Collection statutes and regulations.

DHA in coordination with DHA Office of General Counsel (OGC) are in the process of implementing a Debt Adjudication process by September 30, 2020 to address the FY 2019 MEDCOM reported a material weakness on Medical Delinquent Debt Management; (a) lack of compliance with financial regulations with respect to debt management, including requirements associated with transfer of debt, timeliness, and debt assignment, and (b) information systems support for Uniform Business Office (UBO) processes. The process will determine what patient debt may be suspended, compromised, or terminated in accordance with current Federal Statutes and Financial Management Regulation (FMR).

Government Charge Card Abuse Prevention Act of 2012 (P. L. 112-194)

The Charge Card Abuse Prevention Act (Charge Card Act) requires agencies to establish and maintain safeguards and internal controls for purchase cards, travel cards, integrated cards, and centrally billed accounts. Furthermore, the Charge Card Act requires agencies to report purchase card violations, and the OIG to conduct periodic risk assessments of government charge card programs. DHP, through implemented internal controls, is committed to continued compliance with all aspects of the public law.

Federal Information Security Modernization Act of 2014 (FISMA, P.L. 113-282)

The FISMA requires agencies to report major information security incidents as well as data breaches to Congress as they occur and annually and simplifies existing FISMA reporting to eliminate inefficient or wasteful reporting while adding new requirements for major information security incidents.

In FY 2020 DHP was not in compliance with FISMA due to the several identified deviations from National Institute of Standards and Technology (NIST) standards and guidelines.

Federal Financial Management Improvement Act of 1996 (FFMIA, P.L. 104-208)

The FFMIA requires agencies to implement and maintain financial systems that comply substantially with Federal Financial System (FFS) requirements, applicable federal accounting standards, and the USSGL at the transaction level.

In FY 2020 the DHP's financial management systems did not substantially comply with the requirements within FFMIA, as asserted to by management due to the asserted departures from GAAP and USSGL requirements.

Federal Managers' Financial Integrity Act of 1982 (FMFIA, P.L. 97-255)

The FMFIA requires agencies to establish and maintain internal control and financial management systems to provide reasonable assurance that the three objectives of internal control: 1) effectiveness and efficiency of operations, 2) compliance with applicable laws and regulations, and 3) reliability of financial reporting are achieved.

In FY 2020 the DHP's financial management systems did not substantially comply with the requirements within FMFIA, as asserted to by management due to the lack of establishment and implementation of controls as detailed in the SOA.

DATA Act, 31 U.S.C. § 6101 note. The DATA Act amended the Federal Funding Accountability and Transparency Act of 2006 (FFATA). DIGITAL ACCOUNTABILITY AND TRANSPARENCY ACT OF 2014 (DATA Act, P. L. 113-101)

The DATA Act expands the FFATA to increase accountability and transparency in federal spending, making federal expenditure information more accessible to the public. It directs the Federal Government to use government-wide data standards for developing and publishing reports and to make more information, including award-related data, available on the USASpending.gov Web site. The standards and Web site allow stakeholders to track federal spending more effectively. Among other goals, the DATA Act aims to improve the quality of the information on USASpending.gov, as verified through regular audits of the posted data, and to streamline and simplify reporting requirements through clear data standards. DHP complies with the DATA Act; making its expenditures accessible to the public on USASpending.gov.

In addition to compliance with the original legislation and subsequent guidance from OMB over the DATA Act, a revised Appendix A to Circular A-123 was released in June 2018. The revised Appendix was accompanied with a cover letter that requires DATA ACT reporting agencies to create Data Quality Plans. Consideration of this plan must be included in agencies' existing annual assurance statement for internal controls over reporting beginning in FY 2020 and continuing through the assurance statement covering FY 2021 at a minimum or until agencies determine that they can provide reasonable assurance over the data quality controls that support achievement of the reporting objectives in accordance with the DATA ACT.

DHP does not have a Data Quality Plan in place for FY 2020 and will begin the assessment and implementation process in FY 2021.

Grants Oversight and New Efficiency Act (P. L. 114-117)

The Grants Oversight and New Efficiency (GONE) Act requires the head of each agency to submit to Congress, in coordination with the Secretary of Health and Human Services, a report on Federal grant cooperative agreement awards that have not yet been closed out and for which the period of performance, including any extensions, elapsed for more than two years. The GONE Act also sets forth follow-on reporting and analysis requirements by various entities.

In FY 2020 the DHP did not to evaluate the compliance requirements withing GONE Act.

Healthcare services incurred on behalf of covered beneficiaries: collection from third-party payers as provided in 10 U.S.C. § 1095

Title 10, U.S.C., Section 1095 authorizes MTFs to recover the cost of providing healthcare services to covered DoD beneficiaries from third party payers. The Third-Party Collection Program (TPCP) is the military program established to accomplish this task.

Financial Systems Framework

Financial Management Systems Strategy

The NDAA for FY 2017 has called for the reform of the MHS and MTFs. According to Section 702 of the NDAA for FY 2017, "Beginning on October 1, 2018 the Director of the DHA shall be responsible for the administration of each MTF, including with respect to budgetary matters, IT, healthcare administration and management, administrative policy and procedure, military medical construction, and any other matters the Secretary of Defense determines appropriate."

The rationale behind this legislation revolves around the strength of a centralized organization serving the medical needs of all branches of the military. In the prior state, despite having a common funding source, the individual MHS components operated on separate accounting systems. This arrangement made it difficult to get comparable financial data and hindered leadership from making well-informed decisions. It also complicates audit preparation, as the DHP appropriation is undergoing audit as a single entity. To adhere to the NDAA for FY 2017, to enhance auditability, and provide seamless medical care across all services, the ASD(HA) has decided to work towards a single accounting system solution.

The ASD(HA)'s NDAA for FY 2017 compliance strategy is being executed by using a single accounting solution, General Fund Enterprise Business System (GFEBS). This COTS Enterprise Resource Planning (ERP) software tool built by Systems Applications and Products (SAP) and implemented by the U.S. Army provides financial information in real time and reveals cost drivers to provide decision support information for leadership. It is a fully open system that allows transparency across all Army, DHA and USUHS for better visibility and in turn better accountability of our funds. GFEBS is a modern ERP with inherent "best practices" and is commercially maintained and updated. GFEBS also provides analytics data and tools, reduces the cost of business operations, and improves accountability. The system will enable the Army to meet congressional mandates, requiring audit compliance and an accurate accounting of all financial transactions, and will allow DHP to meet similar requirements and needs. That said, the Army received an adverse opinion from their auditor on the GFEBS SOC 1 report in 2020. The mitigation strategies and way ahead on corrective actions are in active coordination and discussion.

MEDCOM implemented GFEBS in FY 2010, and in FY 2015, a proof of concept GFEBS deployment to the National Capital Region Medical Directorate (NCR MD), now DHA, to include WRNMMC was executed. The notable factor of this implementation was WRNMMC's classification as a Navy chassis. This implementation effectively illustrated the ability of a non-Army entity to successfully deploy GFEBS. With MEDCOM and NCR MD on GFEBS, some of the DHP funding was accounted for in this single system. Following the resounding success of this proof of concept, leadership became interested in pursuing a system-wide deployment in a realistic, sequential manner that would bring the remaining balance of the DHP funding on GFEBS.

DHA and USUHS deployed GFEBS on April 2, 2018, and the four wave BUMED transition is currently underway. Wave 1 successfully deployed on January 1, 2020, Wave 2 successfully deployed on April 1, 2020, and Wave 3A was successfully deployed on June 22, 2020, and Wave 3B was completed on August 3, 2020. The BUMED deployment will be completed on schedule to all Navy MTFs.

On May 8, 2020, BUMED Leadership unilaterally decided that all non-MTFs with the exception of DHP Funded Navy Medicine Readiness and Training Commands would no longer transition to GFEBS. This decision effectively canceled all of Wave 4 deployment, as Wave 4 consisted of Navy Labs. For these and other future deployments, the ASD(HA) has agreed to deploy GFEBS "as-is" with basic Army functionality.

Additionally, the ASD(HA) sponsored an assessment of deploying GFEBS to AFMS. The assessment identified 13 risks/challenges in three categories (technology, operations and change management) to address prior to deploying GFEBS to AFMS. The assessment concluded that GFEBS implementation at AFMS is achievable. The final report was coordinated with Senior Leadership in ASD(HA), DHA, AFMS, GFEBS Project Management Office (PMO) and Deputy Assistant Secretary of the Army Financial Information Management (DASA FIM). On August 24, 2020 the ASD(HA) submitted an official request to the Army for the fielding of GFEBS at AFMS. On September 28, 2020, the Army responded favorably to the request. The MHS will leverage the existing support function to begin working considerations through the Army Technical Financial Information Council (tFIC) and Financial Information Council (FIC) for the fielding of GFEBS to the AFMS.

In addition to GFEBS, DHP utilizes the following General Ledger (GL) systems: Defense Agencies Initiative (DAI), Defense Enterprise Accounting and Management System (DEAMS), General Accounting and Finance System - Reengineered (GAFS-R), and Standard Accounting and Reporting System - Field Level (STARS-FL). Upon GFEBS implementation for DHA and BUMED, DAI and STARS-FL will brown out over a five-year period in conjunction with their go-live dates.

DEAMS is a Major Automated Information System (MAIS) that uses COTS ERP software to provide accounting and management services for the AFMS. DEAMS is intended to improve financial accountability by providing a single, standard, automated financial management system that is compliant with the Chief Financial Officers Act of 1990 and other mandates. DEAMS performs the following core accounting functions: Core Financial System Management, General Ledger Management, Funds Management, Payment Management, Receivable Management, Cost Management, and Reporting.

GAFS-R is a system that extends the capabilities of the accounting systems that are used by Defense Finance and Accounting Service (DFAS) Columbus to manage, account for, and report status of funds allocated to the U.S. Air Force. GAFS-R includes transaction-level accounting data.

STARS-FL is a general fund accounting system that supports finance, accounting, and reporting requirements for both field-level and major command headquarters. At the end of FY 2021, the Department of Navy and DFAS will terminate STARS-FL.

In addition to the GL systems, DHA owns four (4) financially relevant feeder systems: Armed Forces Billing and Collection Utilization Solution (ABACUS), Coding and Compliance Editor (CCE), CHCS, and Defense Medical Logistics Standard Support (DMLSS). DHA also relies on service provider feeder systems. For service provider systems, DHP obtains SOC 1 reports. DHA implements Complementary User Entity Controls (CUECs) identified in SOC 1 reports to address control objectives specified in management's description of the service provider system.

Current and Future Financial Management Systems Framework

Due to the NDAA for FY 2017's intent in driving the DHP towards standardized business practices to help achieve auditability through a single, system-wide accounting solution, it is important that the MHS aligns common interests and interacts with Army as "one voice." This new protocol will apply to communication with Army regarding the new Army Governance councils, the tFIC and the FIC. These new councils replace the Army GFEBS Functional Governance Board (FGB) for requesting system enhancements, and the Army GFEBS Process Owners Group (POG). Furthermore, the "one voice" concept applies to audit support requests and other requests for information or updates to and from Army. As MHS' use of GFEBS matures, the one-voice protocol may expand into additional areas. It is important to note here that this will be a marked departure from the previous "way of life" for organizations such as MEDCOM and NCR MD and an entirely new process for DHA, USUHS, and BUMED.

Prior to the one-voice initiative, MEDCOM was one of the commands represented as a stand-alone advisory member at the Army FGB; however, MEDCOM and all other organizations under the purview of the DHP per the NDAA for FY 2017 will now be represented by the ASD(HA)'s designated department defined below.

In a concerted effort to consolidate the varying voices of MHS into a single, focused entity, ASD(HA) has stood up the Health Affairs Functional Champion (HAFC) to represent the MHS in the Army governance structure and to standardize business processes within GFEBS. The HAFC has stood up the MHS GFEBS Governance Board (GGB) to review and adjudicate system enhancement requests and business process standardization issues. Chaired by the HAFC Director, the MHS GGB is comprised of voting members of all of the MHS Components. To assist the GGB voting members with the assessment and deliberation of GFEBS related issues, two subordinate workgroups have been established, with representation from all of the MHS Components, the MHS GFEBS System Change Group (SCG), which focuses on GFEBS system enhancements, and the Business Process Standardization and Policy (BPSP), which focuses on standardizing GFEBS related business processes across the entire MHS.

Prior to the escalation of issues to Army's tFIC for official consideration, the SCG and GGB identify, validate, and set priorities for GFEBS enhancements requested by the MHS. This process will identify MHS priorities while also highlighting audit compliance and cost savings/avoidance where applicable.

This consolidation of MHS as required by the NDAA for FY 2017 will strengthen MHS by uniting such a large, joint force community with uniquely converging interests into one focused voice. Prior to the legislation, MHS faced potential challenges as voices of the MHS community could be overlooked as the requirement would impact fewer users. With a united voice, MHS will be able to clearly and effectively organize and effect change when necessary and to obtain clear guidance from HAFC when needed, while eliminating the risk of duplicated work efforts of a fragmented MHS community.

RevX Overview

Revenue Cycle Expansion, or RevX, is projected to be deployed starting in FY 2021. This deployment will include multiple capabilities that will replace current DHA financially relevant feeder systems, such as the ABACUS and the CCE. ABACUS will be replaced by the Cerner Patient Accounting Module (CPAM) which will allow for the capture of itemized cost of care for every service within an encounter, with an embedded DoD specific charge description master. CCE will be replaced by another 3M™ product called 3M™ 360 Encompass™, which will include a natural language processor and auto-suggested coding.

These capabilities will provide greater visibility of cost at the patient level and advance the auditability of the MHS. A final deployment schedule is being negotiated between the Leidos Partnership for Defense Health (LPDH), Program Executive Office (PEO) DoD Healthcare Management System Modernization (DHMSM) and the Defense Health Agency Functional Champion (DHA-FC). A pilot may be launched at one of the initial operating capability sites to test the configuration prior to any official deployment, currently anticipated to be at Wave Tripler. Final deployment schedules are pending.

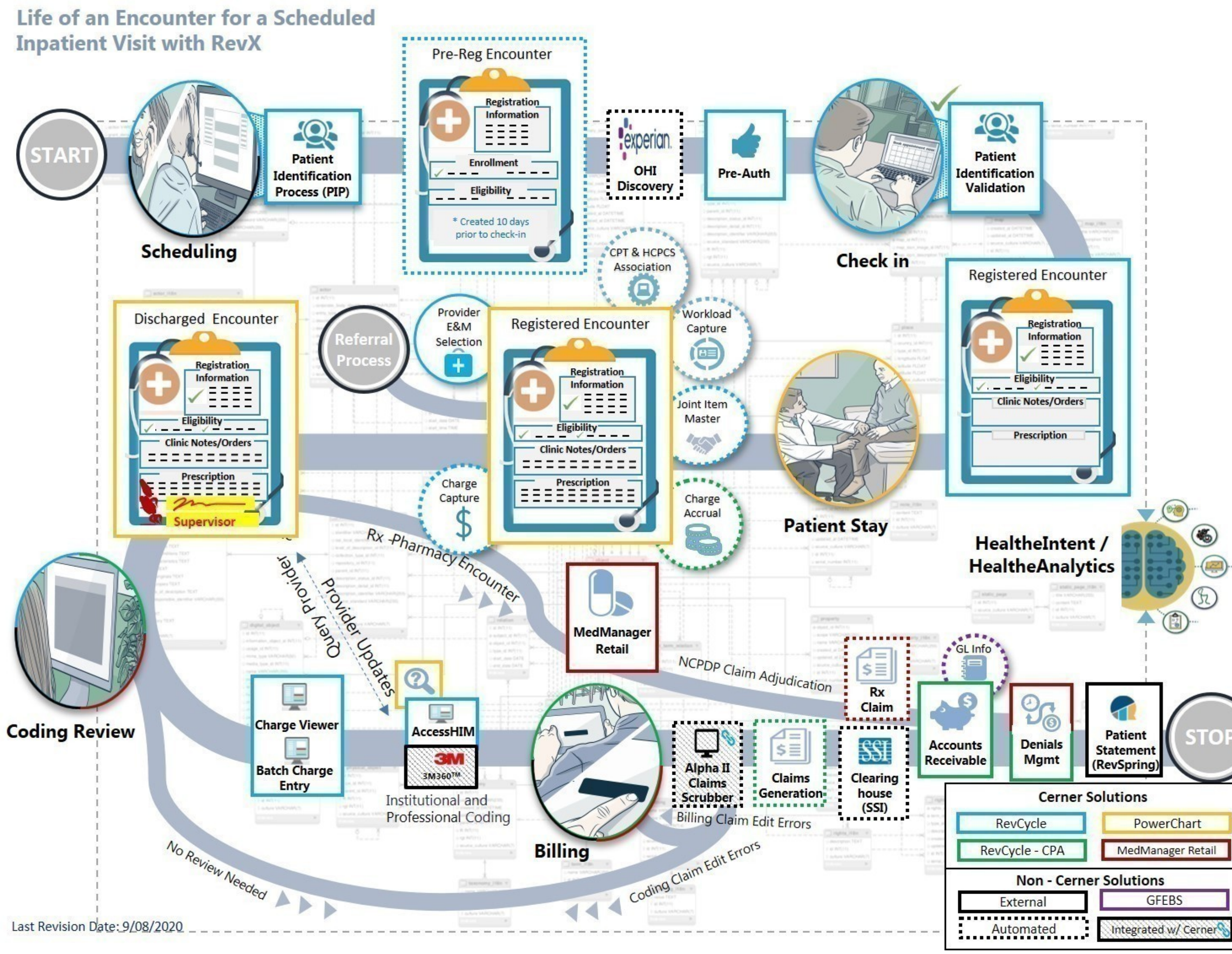
Additional RevX capabilities include:

- Other Health Insurance discovery through Experian Health
- Allows for Prior Authorization procedures to be implemented and standardized
- Patient Identification Process (PIP) (replacing Patient Categories) including the selection of a patient profile and health plan at the point of scheduling with verification at registration/check-in
- Automated Current Procedural Terminology (CPT), Healthcare Common Procedure Coding System (HCPCS), charge and workload capture based on clinician orders and documentation
- Charge accrual for inpatient encounters
- Improved referral processes to enable care coordination with our MCSC and Veterans Health Administration (VHA) partners
- Pharmaceutical claims processing at the point of dispensing through the PharmNet application
- Alpha II, an integrated claims scrubber to improve data quality and reduce the probability of denied claims
- Automated claims generation for encounters cleanly passing through Alpha II
- SSI Clearinghouse to facilitate transmission of claims to the appropriate third-party insurer
- Improved accounts receivable and denials management tracking through standardized workflows and work queues
- Interface between CPAM and GFEBS
- Patient Statements vendor, RevSpring, to assist Uniform Business Office staff in directly billing self-pay beneficiaries
- Improved revenue cycle reports through HealtheIntent/HealtheAnalytics

Along with RevX implementation a complete review of revenue cycle policies and procedures will be conducted and updated as required. Standard operating procedures will be developed for scheduling, registration, referral management, coding, and billing. Standardized workflows are also being developed to help manage beneficiaries accessing both DoD and the VHA systems to improve documentation and resulting billing processes. Successful outcomes are dependent on a commitment from every MHS GENESIS end-user to adopt the new system and updated procedures, implementation of an effective training approach, and revenue cycle maintenance procedures and internal sustainment structure to continuously improve the system. Figure 13 provides an illustration of the RevX capabilities from an inpatient encounter viewpoint. Overall end-users can expect:

- Standardized business processes and workflows across all MTFs
- Integrated communication between the business and clinical communities
- Interagency interoperability resulting from use of vendor model standards
- Access to industry standard reports with the ability to adjust report filters and parameters
- Ability to support audit readiness through detailed resource allocation
- Targeted work queues so staff can work outstanding accounts based on priorities

Figure 13: *Life of an Encounter for a Scheduled Inpatient Visit with RevX*



Forward-Looking Information

Changes and the Future of the MHS

For FY 2021, the MHS will be emerging from the first wave of a global military medical response to the COVID-19 pandemic while continuing the transition of military hospitals and clinics to the DHA; reforming the TRICARE benefit, and realigning military medical services to best support military readiness. The central focus of these efforts is readiness. Discussions regarding these initiatives are ongoing and changes to the MHS will be done in a deliberate fashion and with a focus on activities that will yield the highest readiness value for the Department.

MHS Reform

MHS reform entails a broad set of intertwined activities intended to strengthen the medical readiness of the uniformed force, as well as the readiness of military medical forces to perform their jobs. The changes underway reflect direction from senior civilian leadership as well as from Congress, through successive NDAAs.

A cornerstone of medical readiness is identification of the platforms on which medical personnel serve to sustain their skills. In February 2020, the Department announced its strategic efforts to realign its military medical infrastructure to best support readiness, consistent with the direction of the FY 2017NDAA, Section 703. The COVID-19 pandemic delayed the initial implementation of this plan in FY 2020. In close consultation with senior leaders and Congress, the Department will resume its implementation efforts in FY 2021.

The Department also took a 90-day strategic pause, from April-June 2020, in implementing Section 702 of the FY 2017 NDAA which directed that the DHA assume management responsibility for healthcare delivered through military hospitals and clinics worldwide. Reform activities are scheduled to resume in the last quarter of FY 2020 and will continue in FY 2021. This reform will feature standardized readiness and business plans for all MTFs worldwide, along with the establishment of geographic markets and market leaders who will integrate healthcare delivery across a number of MTFs.

All MTFs will utilize the QPP which outlines their approach to delivering high quality, accessible health services that support the readiness and health of all beneficiaries entrusted to their care.

Finally, a third major element of MHS Reform is the ongoing modernization of the private sector care portion of the TRICARE program – representing over $15 billion annual in DHP expenditures. The DHA plans to release a draft Request for Proposal (RFP) for new TRICARE contracts later in CY 2020. The MHS aims to expand the use of value-based incentives in the next round of RFPs, encourage new entrants to the market, and increase the cost-effectiveness in managing the TRICARE program.

Healthcare in the COVID-19 era

The changes that the MHS is undertaking are unfolding as the COVID-19 pandemic remains present throughout the United States and the world. The MHS is providing agile and comprehensive health services to its own beneficiary population of 9.6 million Americans, while also providing critical medical support to civil authorities. Expanded use of technology to deliver care in virtual environments will likely be sustained and grow in the coming years. MHS medical research and development capabilities will also remain a critical asset in support of both national security and civilian sector in the prevention, diagnosis and treatment of COVID-19. While the Department and the US Government maintain the long-term expectation that a vaccine will become available in 2021, there remains some short-term uncertainty regarding use of healthcare services.

Risk Mitigation

As the MHS undertakes reform efforts, the standup and certification of each market presents some risk. This risk is largely mitigated as each market standup is conditions-based rather than time-based. In addition, because the Department has finite resources to support many requirements, private sector care costs must be continually monitored and effectively managed. The ASD(HA) has directed that the DHA ensure any MTF actions that could drive higher private sector care costs are promptly addressed from an execution and oversight standpoint and reported to the Deputy Assistant Secretary of Defense for Health Resources Management and Policy.

Section II

Financial Section

Office of the Inspector General Transmittal

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500

November 9, 2020

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF FINANCIAL OFFICER, DOD
ASSISTANT SECRETARY OF DEFENSE (HEALTH AFFAIRS)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Transmittal of the Independent Auditor's Reports on the Defense Health Program Enterprise Financial Statements and Related Notes for FY 2020 and FY 2019 (Project No. D2020-D000FT-0065.000, Report No. DODIG-2021-012)

We contracted with the independent public accounting firm of Kearney & Company to audit the Defense Health Program (DHP) Enterprise Financial Statements and related notes as of and for the fiscal years ended September 30, 2020, and 2019. The contract required Kearney & Company to provide a report on internal control over financial reporting and compliance with laws and other matters, and to report on whether the DHP's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract required Kearney & Company to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency "Financial Audit Manual," June 2018, Updated April 2020. Kearney & Company's Independent Auditor's Reports are attached.

Kearney & Company's audit resulted in a disclaimer of opinion. Kearney & Company could not obtain sufficient, appropriate audit evidence to support the reported amounts within the DHP Financial Statements. As a result, Kearney & Company could not conclude whether the financial statements and related notes were presented fairly in accordance with Generally Accepted Accounting Principles. Accordingly, Kearney & Company did not express an opinion on the DHP Enterprise FY 2020 and FY 2019 Financial Statements and related notes.

Kearney & Company's separate report, "Independent Auditor's Report on Internal Control Over Financial Reporting," discusses 11 material weaknesses related to the DHP's internal controls over financial reporting.* Specifically, Kearney & Company's report describes the following material weaknesses.

- The DHP did not have an effective enterprise-level accounting and financial reporting governance structure and oversight organization to achieve its accounting and financial reporting objectives and responsibilities and did not design and implement an effective process to assess and monitor the adequacy of its components' internal control programs.

- The DHP, in coordination with its service organization, was unable to completely reconcile its universe of transactions from the general ledger system trial balance to the final DHP financial statements.

- The DHP's financial statements contained material unsupported journal voucher adjustments that its service organization posted on behalf of DHP Components during the first through third quarters of FY 2020.

- The DHP, in coordination with its service organization, had not designed all necessary internal control activities or documented its end-to-end Fund Balance With Treasury reporting and reconciliation process and associated risks.

- DHP Components did not consistently account for revenue or accounts receivable from medical services provided in accordance with Generally Accepted Accounting Principles. In addition, the DHP did not implement effective medical coding procedures to ensure the accuracy of medical coding applied over inpatient, outpatient, ambulatory procedure visit, and inpatient professional service healthcare encounters.

- The DHP did not record general equipment in a consistent manner and did not fully design and implement policies, procedures, or controls to effectively record and report capitalized general equipment for all components.

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* A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting that results in a reasonable possibility that management will not prevent, or detect and correct, a material misstatement in the financial statements in a timely manner.

- The DHP did not sufficiently value its Property, Plant, and Equipment at historical cost and did not use alternative valuation methodologies in accordance with Generally Accepted Accounting Principles.

- The DHP did not perform a sufficient annual assessment of Operating Material and Supplies to support the purchases method accounting treatment. In addition, the DHP did not account for stockpile material in accordance with requirements set forth in Statement of Federal Financial Accounting Standards No. 3.

- The DHP did not sufficiently account for its liabilities and related expenses. Specifically, the DHP and its Components did not completely record estimated accounts payable and expenses for goods and services received but not yet billed.

- The DHP's quarterly dormant account review process was not operating effectively across all component entities to review, assess, and close stale obligations on a timely basis or was not fully implemented across all components.

- The DHP had control deficiencies in the design, implementation, and operating effectiveness of internal controls related to financially significant systems which could have a material effect on the financial statements. The critical deficiencies were related to access controls, monitoring service organizations, and monitoring of activity for key financial systems.

Kearney & Company's additional report, "Independent Auditor's Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements," discusses four instances of noncompliance with applicable laws and regulations and potential violations of the Antideficiency Act. Specifically, Kearney & Company's report describes instances in which the DHP did not comply with the Federal Managers' Financial Integrity Act, the Federal Information Security Modernization Act, the Federal Financial Management Improvement Act, and the Debt Collection Improvement Act.

In connection with the contract, we reviewed Kearney & Company's reports and related documentation and discussed them with Kearney & Company's representatives. Our review, as differentiated from an audit of the financial statements in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the DHP Enterprise FY 2020 and FY 2019 Financial Statements and related notes. Furthermore, we do not express conclusions about the effectiveness of internal control over financial reporting, on whether the DHP's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with laws and other matters. Our review disclosed no instances where Kearney & Company did not comply, in all material respects, with GAGAS. Kearney & Company is responsible for the attached November 9, 2020, reports, and the conclusions expressed within the reports.

We appreciate the cooperation and assistance received during the audit. Please direct questions to me.

Signed

Lorin T. Venable, CPA
Assistant Inspector General for Audit
Financial Management and Reporting

Attachments:
As stated

Independent Auditor's Report

KEARNEY& COMPANY

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INDEPENDENT AUDITOR'S REPORT

To the Assistant Secretary of Defense for Health Affairs and Inspector General of the Department of Defense

Report on the Financial Statements

We were engaged to audit the accompanying consolidated financial statements of the Defense Health Program (DHP) Enterprise (hereinafter referred to as the DHP), which comprise the consolidated balance sheets as of September 30, 2020 and 2019, the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources (hereinafter referred to as the "financial statements") for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*. Because of the matters described in the Basis for Disclaimer of Opinion section below, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

We were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion that the financial statements are free from material misstatements when taken as a whole. The DHP disclosed in Note 1, *Summary of Significant Accounting Policies*, instances where its current accounting and business practices represent departures from accounting principles generally accepted in the United States of America. As a result, the DHP was unable to assert that the financial statements are presented fairly in accordance with accounting principles generally accepted in the United States of America. The DHP asserted to the following departures from accounting principles generally accepted in the United States of America:

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- Accrual accounting requirements per Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities*, and SFFAS No. 5, *Accounting for Liabilities of The Federal Government*
- Recognition and valuation requirements set forth in SFFAS No. 3, *Accounting for Inventory and Related Property*
- Liability requirements set forth in SFFAS No. 5 and SFFAS No. 12, *Recognition of Contingent Liabilities Arising from Litigation*
- Recognition and valuation requirements set forth in SFFAS No. 6, *Accounting for Property, Plant, and Equipment*
- Revenue recognition requirements set forth in SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*
- Recognition and valuation requirements set forth in SFFAS No. 10, *Accounting for Internal Use Software*
- Reporting and valuation requirements set forth in SFFAS No. 29, *Heritage Assets and Stewardship Land*
- The full cost provisions of SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts*, as amended by SFFAS No. 55, *Amending Inter-Entity Cost Provisions*
- Accounting and reporting requirements associated with restatements per SFFAS No. 21, *Reporting Corrections of Errors and Changes in Accounting Principles*, and OMB Circular A-136, *Financial Reporting Requirements*.

We were unable to obtain sufficient appropriate evidential matter as to the completeness of the financial statements reported as of September 30, 2020. This includes $22.0 billion of Fund Balance with Treasury (FBWT), $1.1 billion of Accounts Payable (AP) ($302.6 million Federal and $826.5 million Non-Federal), and $206.7 million in Other Liabilities ($131.5 million Federal and $75.2 million Non-Federal) on the balance sheet.

We were unable to obtain sufficient appropriate evidential matter to enable us to perform audit procedures to support the completeness and accuracy of the financial statements in accordance with accounting principles generally accepted in the United States of America and Department of the Treasury (Treasury) standard general ledger (GL) reporting requirements. The DHP is unable to reconcile its financial statements to supporting GL system trial balances and GL system transaction details without material variances. The DHP and its financial reporting service organization are unable to support, and do not have underlying transaction-level data available for, material adjustments recorded during the financial statement compilation process.

We were unable to obtain sufficient appropriate evidential matter as to the existence, completeness, and accuracy of the DHP's stockpile material reported within the Inventory and Related Property line item of the balance sheet. As of September 30, 2020, the DHP reported approximately $229.0 million of Inventory and Related Property on the balance sheet, consisting solely of stockpile material. The DHP did not record stockpile material in accordance with SFFAS No. 3. The DHP was unable to provide sufficient data to allow audit procedures to be performed over the existence, completeness, and valuation of stockpile material.

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We were unable to obtain sufficient appropriate evidential matter to enable us to perform audit procedures to satisfy ourselves that the Property, Plant, and Equipment (PP&E) opening balances as of October 1, 2019 or ending balance balances as of September 30, 2020 were free of material misstatements. Our work identified issues related to existence, completeness, valuation, and disclosure of construction-in-progress (CIP), internal use software (IUS) (including IUS in development), and general equipment. As of September 30, 2020, the DHP reported $3.4 billion in net PP&E on its balance sheet.

We were unable to obtain sufficient appropriate evidential matter as to the completeness of revenue and associated Accounts Receivable (AR). The DHP does not account for all revenue and AR transactions using the accrual basis of accounting, recording certain activity on the cash basis of accounting. As of September 30, 2020, the DHP reported $1.0 billion of AR ($387.7 million Federal and $649.2 million Non-Federal), net on its balance sheet and $4.0 billion of earned revenue on its Statement of Net Cost.

As disclosed in Note 1 and Note 7, *General Property, Plant, and Equipment, Net*, the DHP's financial statements for FY 2020 include amounts related to opening balance adjustments, which have been recorded as a prior-period adjustment due to changes in accounting principle.

The effects of the conditions described in the preceding paragraphs cannot be fully quantified, nor was it practical, given the available information, to extend audit procedures to sufficiently determine the extent of the misstatements to the financial statements. The effects of the conditions in the preceding paragraphs and overall challenges in obtaining timely and sufficient audit evidence also made it impractical to execute all planned audit procedures. As a result of these departures, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded amounts within the elements of the financial statements.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion section above, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

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Other Matters

Implementation of Statement of Federal Financial Accounting Standards for Establishing Opening Balances

The DHP attempted implementation of SFFAS No. 50, *Establishing Opening Balances for General Property, Plant, and Equipment*, and SFFAS No. 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*, for its FY 2020 opening balances. Effective for periods beginning after September 30, 2016, the Federal Accounting Standards Advisory Board (FASAB) released SFFAS No. 50 and SFFAS No. 48, which allow a reporting entity, under specific conditions, to apply alternative methods in establishing opening balances. We planned and performed our audit procedures over PP&E and Inventory and Related Property opening balances accordingly. As of September 30, 2020, the DHP's implementation of SFFAS No. 50 and SFFAS No. 48 remains in process.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, and other Required Supplementary Information (hereinafter referred to as the "required supplementary information") be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by OMB and the Federal Accounting Standards Advisory Board (FASAB), who consider it to be an essential part of the financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America because of matters described in the Basis for Disclaimer of Opinion section above. We do not express an opinion or provide any assurance on the information.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. Other Information, as named in the Agency Financial Report, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements; accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 19-03, we have also issued reports, dated November 9, 2020, on our consideration of the DHP's internal control over financial reporting and on our tests of the DHP's compliance with provisions of applicable laws, regulations, contracts, and grant agreements, as well as other matters for the year ended September 30, 2020. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance and other matters. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 19-03 and should be considered in assessing the results of our audit.

Kearney & Company

Alexandria, Virginia
November 9, 2020

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Assistant Secretary of Defense for Health Affairs and Inspector General of the Department of Defense

We were engaged to audit, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*, the financial statements of the Defense Health Program (DHP) as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the DHP's financial statements, and we have issued our report thereon dated November 9, 2020. Our report disclaims an opinion on such financial statements because we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. The DHP also asserted to departures from generally accepted accounting principles.

Internal Control over Financial Reporting

In connection with our engagement to audit the financial statements of the DHP, we considered the DHP's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the DHP's internal control. Accordingly, we do not express an opinion on the effectiveness of the DHP's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 19-03. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we did identify certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings to be material weaknesses.

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A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

We noted certain additional matters involving internal control over financial reporting that we will report to the DHP's management in a separate letter.

The DHP's Response to Findings

The DHP's response to the findings identified in our engagement is described in a separate memorandum attached to this report in Section 2, *Financial Section*, of the Agency Financial Report. The DHP's response was not subjected to the auditing procedures applied in the engagement to audit the financial statements, and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of the DHP's internal control. This report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* and OMB Bulletin No. 19-03 in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 9, 2020

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Schedule of Findings

Material Weaknesses

The Military Health System (MHS), which is the global health system of the Department of Defense (DoD), is composed of medical personnel, infrastructure, and resources from the Departments of the Army, Navy, and Air Force; the Defense Health Agency (DHA); and the Office of the Assistant Secretary of Defense (Health Affairs). The Defense Health Program (DHP) appropriation serves as a funding source for the MHS. The DHP Enterprise financial statements comprise the following Component reporting entities:

- DHA
- DHA Contract Resource Management (CRM)
- Uniformed Services University of Health Sciences (USUHS)
- Service Medical Activity (SMA) – Army/Army Medical Command (MEDCOM)
- SMA – Navy/Navy Bureau of Medicine and Surgery (BUMED)
- SMA – Air Force (AF)/Air Force Medical Service (AFMS).

Throughout the course of our audit work with each DHP Component reporting entity, internal control deficiencies were encountered which were considered for the purposes of reporting on internal control over financial reporting for the DHP. The material weaknesses presented in this Schedule of Findings have been formulated based on our determination of how individual control deficiencies, in aggregate, affect internal controls over financial reporting. The table below presents the material weaknesses identified during our audit:

Accounting Area	Material Weakness
Entity-Level Controls	I. Accounting and Financial Reporting Governance Structure, Entity-Level Control Design and Operation
Financial Reporting	II. Financial Reporting – Universe of Transaction Reconciliations III. Financial Reporting – Defense Departmental Reporting System Adjustments
Fund Balance with Treasury (FBWT)	IV. Fund Balance with Treasury
Accounts Receivable (AR)	V. Medical Revenue and Associated Receivables
Property, Plant, and Equipment (PP&E)	VI. General Equipment Existence and Completeness VII. Valuation of Property, Plant, and Equipment
Inventory and Related Property	VIII. Operating Materials and Supplies and Stockpile Material
Accounts Payable (AP) and Related Liabilities	IX. Liabilities and Related Expenses
Budgetary Resources	X. Monitoring and Reporting of Obligations
Information Technology (IT)	XI. Information Systems

3

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I. Accounting and Financial Reporting Governance and Entity-Level Controls (*Repeat Condition*)

Deficiencies in two related areas define this material weakness:

A. Accounting and Financial Reporting Governance Structure
B. Entity-Level Control (ELC) Design and Operation.

Background: ELCs relate to an entity's control environment, risk assessment processes, information and communication, and monitoring of control effectiveness over time. These controls are enterprise-wide and have a pervasive effect on an entity's internal control system and may include service organizations. The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires Federal Executive agencies to establish, implement, periodically review, and report on the agency's internal control systems in accordance with the U.S. Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (commonly referred to as the Green Book).

Agencies implement these requirements by considering the guidance provided by Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. The DHP launched its Manager's Internal Control Program (MICP) to support the design, implementation, and maintenance of its system of internal control.

An agency's system of internal control may be dependent upon processes and controls performed by service organizations. A *Report on Controls at a Service Organization Relevant to User Entities' Internal Control over Financial Reporting* (also known as a SOC 1® report) is specifically intended to meet the needs of entities that use service organizations (user entities) in evaluating the effect of the service organization controls on its financial statements. The control objectives stated in the description of the service organization's system cannot be achieved by the service organization alone. Rather, the achievement of the control objectives is dependent on the user entity's implementation of control activities that address the complementary user entity controls (CUEC) as identified within the SOC 1® report.

Beginning October 1, 2018, the National Defense Authorization Act for Fiscal Year (FY) 2017 (NDAA) consolidated the administration of more than 475 hospitals and clinics currently run by the Army, Navy, and Air Force into a centralized management structure within DHA. The transition of administrative responsibility of the Military Treatment Facilities (MTF) to DHA remained in process during FY 2020.

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A. Accounting and Financial Reporting Governance Structure

Condition: The DHP does not have an effective enterprise-level accounting and financial reporting governance and oversight organization to achieve its accounting and financial reporting objectives and responsibilities.

The organizational hierarchy for the DHP Components has not been formalized as it pertains to accounting and financial reporting governance. Specifically, SMA Components align themselves with their respective Military Departments and have adopted Department-specific accounting policies and procedures accordingly. The DHP Components were not always responsive to requests made by the DHP or its senior leadership group to provide documentation to support the DHP MICP.

Further, the DHP lacks implemented accounting policy in the following key areas:

- Fund Balance with Treasury (FBWT)
- General Property, Plant, and Equipment (PP&E)
- Inventory and Related Property
- Accounts Receivable (AR) and Associated Revenue
- Accounts Payable (AP)
- Legal Liabilities
- Financial Reporting.

In FY 2020, the DHP stood up the *Military Health System Financial Policy Synchronization Working Group Charter* to develop, evaluate, adjudicate, and publish financial policies for the DHP appropriation. To help guide and prioritize DHP-wide efforts, the FPS Working Group escalates policy requirements associated with DHP audit findings to assist with the remediation and reducing overall risk.

Cause: The DHP financial management organization continued to evolve during FY 2020. However, as of September 30, 2020, the DHP did not yet have the ability to exercise authority and oversight over all DHP Components. The DHP did not have an effective oversight structure in place to monitor Components' accounting and financial reporting. The individual management of the DHP Components, which are responsible for the execution of DHP funding across the Army, Navy, Air Force, DHA, and Health Affairs, operate independently and have not yet effectively merged into a cohesive, formalized accounting and financial reporting governance structure within the DHP.

Effect: Without an effective enterprise-wide financial management governance and oversight organization, inconsistent policies and procedures can lead to unreliable and inaccurate financial information. Further, SMA Components frequently revert to guidance from their respective Military Departments, leading to greater ambiguity and confusion.

Unclear delegation of authority and lack of organizational structure between the DHP and Components results in ineffective implementation and monitoring of financial management policies and operations, control failures, and potential misstatements to the financial statements. Without the ability to implement an effective internal control assessment program, the risk of producing inaccurate financial statements increases.

The lack of comprehensive enterprise accounting policy for significant business operations of the DHP contributed to departures from Federal accounting standards issued by the Federal Accounting Standards Advisory Board (FASAB), including:

- Accrual accounting requirements per Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities*, and SFFAS No. 5, *Accounting for Liabilities of The Federal Government*
- Recognition and valuation requirements set forth in SFFAS No. 3, *Accounting for Inventory and Related Property*
- Liability requirements set forth in SFFAS No. 5 and SFFAS No. 12, *Recognition of Contingent Liabilities Arising from Litigation*
- Recognition and valuation requirements set forth in SFFAS No. 6, *Accounting for Property, Plant, and Equipment*
- Revenue recognition requirements set forth in SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*
- Recognition and valuation requirements set forth in SFFAS No. 10, *Accounting for Internal Use Software*
- The full cost provisions of SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts*, as amended by SFFAS No. 55, *Amending Inter-Entity Cost Implementation*
- Accounting and reporting requirements associated with restatements per SFFAS No. 21, *Reporting Corrections of Errors and Changes in Accounting Principles*, and OMB Circular A-136, *Financial Reporting Requirements*.

Recommendations: Kearney & Company, P.C. (Kearney) recommends that the DHP perform the following:

1. Develop and distribute an enterprise governance policy or consider expanding the MHS Governance Business Rules to formalize accounting and financial reporting governance for all Components of the DHP financial reporting entity. The policy should specifically address financial and accounting governance, policies and procedures at the Enterprise and Component level, accountability, and authority. The policy should also address an oversight role for compliance with established policies and procedures across all Components of the reporting entity.
2. Perform a gap analysis over current policy and procedures to determine where Enterprise-wide policy needs development or strengthening for overall compliance with GAO Green Book and Generally Accepted Accounting Principles (GAAP).
3. Ensure the DHA Chief Financial Officer (CFO) or an equivalent position will have overall responsibility for establishing and implementing effective financial management

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policies, internal controls, and financial management systems for all Components of the DHP Enterprise reporting entity.

B. Entity-Level Control Design and Operation

Condition: The DHP did not meet the standards for an effective internal control system, as defined in GAO's Green Book. Entity-level internal control design and operating effectiveness failures exist across all five components of internal control (i.e., Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring), as defined in GAO's Green Book. The DHP did not achieve any of the 17 GAO Green Book principles across the five components of internal control.

The DHP has not designed and implemented an effective process to assess and monitor the adequacy of its Components' internal control programs in support of the DHP Statement of Assurance. In FY 2020, the DHP Enterprise's Statement of Assurance for the MHS provided no assurance that internal control over operations, financial reporting, and compliance were operating effectively as of September 30, 2020 in accordance with OMB Circular A-123, the GAO Green Book, and FMFIA. In addition, the DHP Enterprise Statement of Assurance for the MHS provided no assurance that the internal controls over the financial systems are in compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA) as of September 30, 2020.

The DHP Components have not demonstrated that all CUECs documented within relevant SOC 1® reports have been designed, implemented, and are operating effectively, nor have they assessed that certain CUECs are not applicable to the DHP's end-to-end processes.

Cause: The DHP MICP has not fully assessed or implemented all principles of internal controls in accordance with FMFIA and Green Book requirements in the design and implementation of ELCs, including those controls necessary in the information system environment. Due to DHA's lack of authority, direction, and control over the SMAs, the DHP Components continue to operate independently.

The DHP Enterprise has not completely documented and tested the design and operating effectiveness of its ELCs to demonstrate that the controls achieve all control objectives and are operating in an integrated manner. In addition, the Component reporting entities of the DHP have not established an effective system of internal control, as required by OMB Circular A-123.

The DHP Components have not fully considered the impact of service organizations within their existing control environments. Additionally, the DHP Components do not have a formalized process to map and document existing control activities to required CUECs, nor to assess where internal control gaps may exist based on required CUECs, as defined in applicable SOC 1® reports.

The DHP Enterprise monitoring activities of Component CUECs, as well as the requirement for implementation of CUECs by the Components, have not been formalized in Enterprise policy or procedural instructions. The lack of formal policy, combined with the current organizational structure of the DHP where Component reporting entities align themselves with their respective Military Department, have inhibited responsiveness to monitoring activities for CUEC remediation performed by the DHP Enterprise.

Effect: Without an effective ELC program in place, the DHP is susceptible to inefficient and ineffective operations, unreliable financial reporting, and noncompliance with laws and regulations. Incomplete internal control documentation impedes the DHP's ability to monitor the design, implementation, and operating effectiveness of its ELCs over time.

Failure to fully implement external information system CUECs may result in significant control weaknesses that may be overlooked, along with non-achievement of the related control objective(s), thus increasing the risk of inaccurate financial reporting, as well as unauthorized disclosure and modification to applicable systems and data. Specifically, if DHP Components have not implemented CUECs or assessed CUECs for operating effectiveness, then they are unable to sufficiently assess the risk to applicable financial reporting processes impacted by the service organization.

Recommendations: Kearney recommends that the DHP establish an Enterprise policy for the MICP that requires, at a minimum, the development of ELCs at the DHP and Component levels that align with the DHP MICP. The policy should require both the DHP and individual Components to:

1. Review Green Book standards and accompanying implementation guidance to design Enterprise-wide ELCs to be implemented at the DHP and Component levels.
2. Perform a data call with each of the Components to establish an understanding of the following:
   a. Component points of contact (POC).
   b. Key supporting documents, policies, and references identified within the Components' current ELCs.
   c. Current programs, functions, and responsibilities to support the agency's compliance with the Green Book.
3. Update assessment criteria based on OMB Circular A-123, best practices, and knowledge of agency operations.
4. Develop a risk assessment model for ELCs, considering work performed under the agency's Enterprise Risk Management (ERM) effort and the Green Book's principles.
5. Review FY 2020 and 2019 results and final test plans; update control activity inventory through the annual risk assessment process, hold understanding meetings with DHP ELC POCs, and review existing agency documentation; and crosswalk the documented controls to the respective principle in DHP-approved templates.
6. Document identified instances of control gaps based on design assessment; evaluate the magnitude of impact, likelihood of occurrence, and nature of each deficiency; and develop recommendations for compliance and/or improvement.

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7. Design standard templates that are updated to support the assessment strategy and document results at the principle and Component levels to provide sufficient evidence to support the effective operation of internal controls.
8. Document and implement policies and procedures for the monitoring of third-party service organization controls in accordance with the Green Book, as well as National Institute of Standards and Technology (NIST) Special Publications (SP) 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*, and NIST SP 800-35, *Guide to Information Technology Security Services*.
9. Perform timely assessments of DHP control activities for addressing CUECs to determine their applicability to the DHP's internal controls and retain related support in coordination with the risk assessments and the design of internal controls for its end-to-end processes.
10. For CUECs determined to be applicable:
    a. Ensure Component reporting entities map CUECs to controls.
    b. Document the design and implementation of the control(s).
    c. Revisit relevant business process documentation to verify inclusion of CUECs.
    d. Test the control(s) to determine whether it is operating as designed.
11. Establish routine communications with the DHP and Component service organization(s) to improve awareness of changes to CUECs and potential exceptions that may be reported in the SOC 1® report. This should enable the DHP to timely mitigate risks to its financial reporting (i.e., deficiencies within its service organization's controls and related processes). The DHP should also develop methods to document these communications and the changes to the design and implementation of internal controls in response to service organization updates.

II. Financial Reporting – Universe of Transaction Reconciliations (*Repeat Condition*)

Background: The DHP operates in a non-integrated systems environment with financial information from many systems feeding into various DHP Component general ledger (GL) systems. DHP financial data is captured within Component GL systems from several feeder systems. Monthly, the DHP's service organization transfers feeder files from the Component GL systems to Defense Departmental Reporting System – Budgetary (DDRS-B). The transmitted data from each GL system undergoes a series of translations referred to as pre-processing. Quarterly, the DDRS-B data transfers to DDRS – Audited Financial Statements (AFS).

In FY 2020, the DHP, in coordination with the Office of the Under Secretary of Defense (Comptroller) (OUSD[C]), performed a universe of transaction (UoT) compilation and reconciliation process using OUSD(C)'s Advanced Analytics (Advana). The DHP, using Advana, performs financial statement reconciliation procedures to verify that complete transaction universes are available in support of the compiled financial statements. The overall reconciliation process includes reconciliation points to attempt to support the overall compilation of the DHP's financial statements from Component GL systems to DDRS-B and to DDRS-AFS. The UoT reconciliation process consists of four separate reconciliations for each Component and three additional reconciliations at the DHP level.

With the exception of DHA-CRM, all of the DHP's Components have been included in the UoT reconciliation process. DHA-CRM receives a standalone audit and, therefore, is not included in the UoT reconciliation process. The five DHP Components included in Advana utilize eight GL systems.

Condition: The DHP, in coordination with its service organizations, was unable to completely reconcile its UoT from the GL system trial balance (TB) to the final DHP financial statements. The DHP could not sufficiently explain material variances between GL transaction details and GL system TBs, as well as GL system TBs and the final DDRS-AFS TB used for compiling the DHP's financial statements.

The DHP cannot timely support the current reconciliation process for the financial statement balances. The DHP was unable to produce the UoT reconciliations over FY 2019 Quarter (Q) 4 through FY 2020 Q4 to coincide with the delivery of final financial statements. Delivery of completed reconciliations ranged from seven weeks after quarter-close to 12 weeks after quarter-close.

The DHP's Standard Accounting and Reporting System (STARS) – Field Level (FL) GL system is not in substantial compliance with the FFMIA. Testing identified that STARS-FL does not utilize general ledger account codes (GLAC) which meet the standard GL accounting requirements the Department of the Treasury (Treasury) published in the United States Standard General Ledger (USSGL) supplement to the Treasury Financial Manual (TFM). STARS-FL requires the application of complex crosswalks to translate balances from source GLACs to USSGL.

The DHP Components did not all have sufficient understanding of UoT data produced from Advana or GL system data to timely support critical audit requests during the FY 2020 financial statement audit.

- DHA was unable to resolve inquiries on beginning balance data associated with Military Construction (MILCON) activities performed by the Naval Facilities Engineering Command (NAVFAC)
- DHA Defense Agencies Initiative (DAI) beginning balance data included invalid summary balances for AP and Undelivered Orders (UDO) based on improper transaction processing
- Interim expense populations provided by DHA and SMA-Army did not include proper exclusions, resulting in large offsetting balances remaining in the testing data
- Beginning balance and interim populations submitted by DHA, excluding interim UDOs, were not sufficient upon initial submission, requiring multiple submissions to appropriately refine the populations
- SMA-AF is unable to readily produce reliable schedules of AP and UDO balances. Multiple iterations of the requested populations were provided after it was determined the populations consisted of transactional activity rather than open balances.

Cause: The DHP did not maintain effective controls to ensure the UoT reconciliation process was complete and that all identified variances were supported. Material variances were noted as a result of UoT data not containing transactions prior to FY 2013 and variances were noted which remained under research for which no explanation could be provided. In addition, the DHP did not maintain service-level agreements (SLA) or Memoranda of Understanding (MOU) with its service organizations to establish official submission deadlines for key components of the reconciliation process performed each quarter.

The DHP's use of eight GL systems adds complexity, risk, and time to the overall reconciliation process. GL transaction-level data must be obtained, normalized, and reconciled before it is useable across each of the GL systems. Subsequently, the DHP is performing review and approval procedures for each reconciliation package of the seven GL systems. The end-to-end process cannot currently be performed in the compressed financial reporting timeline following quarter-end.

The STARS-FL chart of accounts (COA) does not mirror USSGL account numbers and requires a crosswalk process prior to reporting balances to DDRS-B. STARS-FL is not currently configured to contain all necessary USSGL accounts and attributes when recording transactions.

The DHP Enterprise and Components continued to refine their processes to utilize Advana data to obtain populations for significant accounting transaction classes in FY 2020. The ongoing reorganization of the DHP Component entities has impacted management's understanding of the associated financial data, with multiple, complex GL systems involved in supporting the Component entity financial statements. Further, Advana is not currently part of the DHP internal control environments over financial reporting. The DHP does not rely on or use Advana for any financial reporting validation procedures or managerial reporting requirements.

Effect: The DHP is unable to prepare financial statements reconciled to supporting transaction-level data in a timely manner. DHP management is unable to assert to the completeness and accuracy of the financial statements in accordance with GAAP and USSGL Treasury reporting requirements.

The DHP cannot consistently generate timely and accurate GL populations across its multitude of systems and continues efforts to establish criteria to isolate and exclude transactions arising from non-economic events (e.g., cost transfers). Further, the lack of timely and fully refined population parameters inhibits the DHP's ability to strengthen monitoring activities over financial reporting.

Recommendations: Kearney recommends that the DHP, in coordination with its service organization, perform the following:

1. Design UoT reconciliation processes to complete tie-out of the GL data to the DHP Enterprise consolidated TB and consolidated financial statements prior to issuance of final financial statements.

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2. Continue efforts to develop formal SLAs and/or MOUs with service organizations and modify the MOU with the service organization Advana team as necessary to establish timely formal delivery of the GL detail, TB detail, journal voucher (JV) detail, and applicable reconciliation packages to the DHP subsequent to each quarter-end.
3. Coordinate with the service organization Advana team to implement standard policies and procedures to identify and manage personally identifiable information (PII) reported in the source systems' data to prevent delayed delivery of quarterly data.
4. Utilize the Advana SOC 1® Report (when issued) to place reliance on service organization controls in order to expedite validation of data and reconciliation packages.
5. Monitor service organization progress in generating key components of the reconciliation process to allow for alternative procedures if extended delays are anticipated.
6. Continue performing an annual analysis of the financial statement impact of not having GL transaction data to fully reconcile to GL system TBs. Additionally, the DHP should continue to work with the Advana service organization to obtain GL transaction data for no-year appropriation funds.
7. Coordinate with the service organization Advana team to continue efforts to resolve variances under research. The DHP should determine the financial statement impact of the unexplained variances identified.
8. Implement procedures to complete and document crosswalk reconciliations from GL system TBs to DDRS-B to ensure the completeness and accuracy from native GLACs to USSGL. The crosswalk reconciliations should be formalized to allow an external auditor to re-perform the crosswalking exercise from GL system TBs to DDRS-B and from DDRS-B to GL system TBs. Additionally, the DHP should document a process for modifying and/or updating the crosswalks based on changes implemented with the GL systems to ensure crosswalks stay current and are reflective of current GL system GLACs.
9. Complete a formalized validation of all data fields from Component GL systems which are necessary for inclusion in Advana for assessable unit identification, key supporting documentation retrieval, and other reporting requirements as determined necessary. The validation of data fields should include necessary fields which may be required by service organizations for sample support retrieval.
10. Define query parameters using Advana data for population reconciliations of significant transaction classes or assessable units. Query design should enable population reconciliation from Advana to Component GL system TBs.
11. Review and update all population parameters between Component entities for common systems to ensure consistency and completeness of sample populations.
12. Update population parameters using a rules-based approach, leveraging field and character identifiers that can be applied across a transaction universe.
13. Review and update the waterfall sequence of population assessable unit parameters to ensure consistency with documentation provided to external stakeholders.
14. Define business rules to identify cost accounting transactions, net to zero transactional activity and other transactions included in Advana GL system data which do not have a financial reporting impact. Such transactions should be defined and identifiable when running population queries so such activity can be removed prior to sample selection.

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III. Financial Reporting – Defense Departmental Reporting System Adjustments (*Repeat Condition*)

Background: The DHP's service organization for financial reporting posts monthly JV adjustments in DDRS-B and quarterly JV adjustments and trial balance input adjustments (TBIA) in DDRS-AFS on behalf of the DHP Components. The financial reporting service organization self-classifies each DDRS-AFS and DDRS-B JV as either "supported" or "unsupported". Monthly, the DHP service organization also prepares, preprocesses, and records various feeder adjustments within DDRS-B. The DHP, in coordination with its service organization, is responsible for ensuring all adjustments to its financial records contain adequate support and approvals.

Included in the monthly and quarterly financial reporting processes are the posting of trading partner adjustments and elimination entries. There are two types of eliminations: 1) intra-DHP eliminations, which are those within the DHP and its Components, and 2) inter-DHP eliminations, which are those outside of the DHP. Prior to execution of the elimination entries, trading partner seller-side adjustments are made. The Financial Management Requirements for Trading Partner Eliminations memorandum requires DoD reporting entities that are unable to track trading partner data at the transaction level to adjust their balance to the supportable data reported by the trading partner.

Condition: The DHP's financial statements contain material unsupported JV adjustments. During FY 2020, unsupported adjustments, as self-classified by the DHP's service organization, were posted on behalf of the DHP Components in Q1 through Q3. Of approximately 2,000 JVs and TBIAs recorded as of June 30, 2020, 101 were classified as unsupported.

The DHP remains in the process of analyzing the unsupported JVs to determine the nature of the missing underlying support or to identify the GL system limitations or business process deficiencies that necessitate an adjustment in DDRS.

The DHP's service organization recorded JVs, self-classified as "supported," which did not contain sufficient supporting documentation. Twenty-one of 74 JVs selected for testing impacting the FY 2020 Q3 financial statement balances were noted as exceptions.

The DHP Components could not sufficiently support the review and approval of DDRS-B and DDRS-AFS JVs manually recorded by the DHP service organization. Thirty-nine of 74 JVs selected for testing were noted as exceptions.

The DHP, in coordination with its service organization, has not ensured feeder adjustments recorded during the monthly DDRS-B reporting process are fully supported by underlying transaction-level data, and it has not fully completed reconciliations from underlying source data to the DDRS-B TB adjustments.

Trading partner seller-side adjustment JVs, recorded in DDRS-AFS to adjust the buyer-side intra-governmental transactions to the seller-side intra-governmental transactions, are

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unsupported, as no underlying reconciliation of trading partner activity is performed to support the adjustments. DDRS elimination JVs (intra-DHP eliminations and inter-DHP eliminations) and reports at the DHP financial statement level lack evidence of review and approval.

Cause: The DHP financial reporting environment is complex, necessitating an inordinate volume of JVs and adjustments to prepare financial statements. The DHP Components do not share a common GL system, and each Component utilizes a multitude of contributing feeder information systems. Many of these feeder systems and adjustments do not interface with DHP GL systems, but rather underlying activity is recorded directly into DDRS-B and DDRS-AFS via adjustment entries.

The DHP does not exercise oversight of its Components and its service organization to enforce the generation and retention of supporting documentation to maintain an audit trail to transaction-level data. The DHP and its service organization have not developed business processes to ensure accounting events are fully supported by adequate underlying documentation. Additionally, the DHP has not documented and exercised sufficient oversight of its DDRS-B feeder adjustments.

The DHP has not established policies or procedures to reconcile intra-departmental transactions and balances with its trading partners. The DHP has not implemented appropriate or effective oversight of its service organization and has not adequately designed or implemented controls for appropriate review and approval over intra-DHP and inter-DHP trading partner eliminations for the DHP's financial statements.

Effect: As a result of the magnitude of unsupported JVs and other adjustments recorded during financial statement preparation, the DHP could not attest to the accuracy and completeness of its FY 2020 opening balances and the financial statement balances impacted by such adjustments recorded during FY 2020. The DHP is unable to provide audit trails from its detailed feeder adjustment transactions to its financial statements. The volume of unsupported JVs is also an indicator of FFMIA noncompliance as it pertains to recording financial events in accordance with the requirements of the USSGL at the transaction level.

Recommendations: Kearney recommends that the DHP, in coordination with its service organization, perform the following:

1. Analyze the unsupported DDRS-AFS JVs, DDRS-AFS TBIAs, and DDRS-B JVs to determine the nature of the adjustments. Results of this analysis should be used to identify the nature of the missing underlying support related to the unsupported adjustments. Upon completion of the analysis, a Corrective Action Plan (CAP) should be developed by JV category to set a path forward to resolve the underlying reason for the JV. This analysis should include review of the assigned "supported" or "unsupported" classification of each JV category to ensure the JV log accurately reflects the correct classification.
2. Continue to assess the unsupported JVs to determine the financial reporting impact to the DHP financial statements. The assessment should include appropriate detail to provide

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the percentage of significant financial statement line items which cannot be asserted to for completeness and accuracy as a result of unsupported JVs included in the line item balance.

3. Update existing JV preparation and review procedures to ensure JV packages for supported JVs are complete and include all necessary underlying detail needed to substantiate the supported nature of the adjustment, as well as contain a tie-out of supporting documentation to the posted amount.
4. Coordinate with the DHP Components and GL system owners to migrate monthly and quarterly adjustments, such as collections and disbursements, budget, and Accountable Property System of Record (APSR) adjustments, to the DHP Component GL systems which can accommodate USSGL reporting and transaction-level details.
5. Continue to perform periodic analyses to determine the financial statement line item impact of unsupported and unreconciled DDRS-B feeder adjustment balances.
6. Continue to work to obtain detailed transaction-level data for all DDRS-B feeder adjustments, as necessary.
7. Continue efforts to implement reconciliations to support all summarized DDRS adjustment balances with transaction-level detail for all DDRS adjustment files to ensure the completeness and accuracy of the balances reported in DDRS-B.
8. Perform an analysis of the unsupported adjustments and develop a strategy to validate the inclusion of the unsupported balances on the DHP TB.
9. Implement policies and procedures for reconciling trading partner data at the transaction level based on the transactions and source documentation provided by trading partners. Once reconciliations are complete, the DHP should coordinate with its trading partners to adjust balances, as necessary, to reflect the actual amounts incurred and owed to trading partners based on the provision of goods and/or the receipt of services.
10. Update relevant intra-DHP elimination policies and procedures to require its service organization to submit the intra-DHP eliminations with all appropriate and necessary JV support to allow for proper review to be performed by the DHP and to require the coordination directly with trading partners to develop processes for obtaining transaction details for intra-DHP eliminations.
11. Establish an SLA, as may be necessary, to ensure the trading partner elimination notifications occur within business hours, confirming the DHP's availability for review and approval during the agreed-upon response window within the SLA.
12. Implement formal policies and procedures to perform and document the review of the intra-DHP and inter-DHP trading partner eliminations made on behalf of the DHP. This should include the development of a Standard Operating Procedure (SOP) to ensure that the review and approval process is consistently applied at the Enterprise level.

IV. Fund Balance with Treasury (*Repeat Condition*)

Background: The FBWT account represents the aggregate amount of funds available at Treasury for which DHP Components are authorized to make outlays and includes balances held by the entity on behalf of the Government or other entities (which includes clearing/suspense and deposit accounts). FBWT is increased by receiving appropriations, continuing resolutions, transfers-in, and offsetting collections, and it is decreased through rescissions and cancellations of budget authority, transfers-out, and disbursements.

All Treasury Index (TI) 97 Other Defense Organizations (ODO), including DHP Components, are assigned specific Treasury Account Symbols (TAS) and limits. Limits designate the amount or use of funds for a certain purpose or identify sub-elements within the account for management purposes. Federal agencies are required to reconcile FBWT at the TAS level. In addition, the DoD requires TI 97 ODO Components to reconcile below the TAS to the limit level. Reconciling FBWT accounts with Treasury's Central Accounting Reporting System (CARS) records at least monthly helps ensure that balances are accurate and complete, differences are resolved in a timely manner, and financial statements are presented fairly. The DHP utilizes a service organization to perform monthly reconciliations between recorded amounts and those reported to Treasury at the TAS and limit level.

In addition to supporting FBWT reconciliations, the service organization processes collections and disbursements and reports the DHP's total expenditure activity to Treasury on behalf of the Enterprise. Statements of Differences (SOD) arise when amounts reported to Treasury differ from actual disbursements and collections processed by financial institutions and the Treasury Regional Financial Centers. When reported transactions cannot be linked to a specific appropriation or reporting entity, they are placed into a DoD budget clearing (suspense) account for research and resolution.

Condition: The DHP experienced the following issues regarding the accuracy and completeness of collections and disbursements and related changes to FBWT:

- The DHP, in coordination with its service organization, does not have a complete, documented, end-to-end reconciliation process over FBWT
- The DHP does not have controls over the monitoring of its service organization FBWT processes, including the review, approval, and monitoring of monthly FBWT reconciliations and variance resolution to ensure FBWT is accurate and complete
- The DHP's financial statements include an unsupported/unreconciled opening FBWT balance of $318.5 million, or 1.75% of the DHP's opening FBWT balance
- The DHP, in coordination with its service organization, has not implemented internal control activities to ensure the accuracy and completeness of the DHP's financial statements with respect to identifying and properly recording year-end actual or estimated suspense and SOD balances
- The DHP suspense transactions transferred out of suspense (i.e. written off) by the DHP's service organization have not been properly prepared or approved. Discontinued research packages (DRP) were not prepared and processed in accordance with requirements set forth in OUSD(C) policy
- The DHP service organization Cash Management Report (CMR) reconciliations, which are used to reconcile CARS TASs to TI-97 ODO TASs and limit balances, are not properly designed. CMR reconciling differences associated with the DHP's basic symbol 0130 are not properly supported. The DHP, in coordination with its service organization, does not research and resolve reconciling and unidentified differences timely

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- The DHP, in coordination with its service organization, does not have an effective process to support monthly undistributed adjustments recorded during the financial statement compilation process.

Cause: The DHP, in coordination with its service organization, has not designed all necessary internal control activities or documented its end-to-end FBWT reporting and reconciliation process and associated risks. To further complicate the process, Treasury does not report FBWT at the limit level below the TAS, inhibiting DHP Components' abilities to reconcile directly with Treasury.

SOD and Suspense UoTs are not available for review until 60 days after quarter end and often do not identify the responsible reporting entity for each transaction. The DHP and its service organization have not designed and implemented a methodology to determine the financial reporting impact of the SOD and suspense balances to the DHP's financial statements.

FBWT reporting and reconciliation controls performed on behalf of the DHP are ineffective due to incomplete policies and procedures, ineffective management review and approval, and failure to adhere to defined policies.

The DHP's service organization has not designed and implemented effective controls to reconcile with Treasury, resulting in reconciling and unidentified differences. In addition, the service organization has not designed and implemented effective controls to verify the accuracy of the DHP FBWT balances by reconciling and resolving differences between the CMR and DHP reported amounts, including CMR undistributed disbursement and collection adjustments.

The DHP and its Components have not formally developed and implemented oversight procedures or mitigating controls to compensate for the risk of ineffective controls over the FBWT reconciliation process.

Effect: The DHP may not be able to assess the potential risks to the accuracy and completeness of FBWT without a complete end-to-end reconciliation process, and the DHP may be unable to determine the total unsupported differences between its recorded FBWT and the balance reported in CARS. Without an end-to-end FBWT reconciliation, DHP management may also be unaware of the potential risk of a financial statement misstatement.

Recommendations: Kearney recommends that the DHP, in coordination with its service organization, perform the following:

1. Develop an accounting policy for FBWT which specifically addresses the requirements for a complete end-to-end FBWT reconciliation process to be performed at the Component and DHP Enterprise levels.
2. Identify impediments to the TI-97 FBWT reconciliation process (e.g., excluded activity from the CMR, TI-97 budget clearing accounts) and develop compensating controls at the DHP Enterprise and Component limit levels to reconcile any excluded FBWT activity

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or, through documented materiality analysis, indicate that management accepts the risk of potential misstatement.

3. Perform root cause analysis to assess underlying business processes which are triggering the high volume and dollar amount of undistributed transactions. Corrective actions in core GL systems should be initiated to begin relying on GL system data and transition away from non-GL systems (e.g., Headquarters Accounting and Reporting System [HQARS], Defense Cash Accountability System [DCAS], CMR) in the financial reporting and compilation process.
4. Establish DHP oversight procedures over FBWT processes performed, including identifying and documenting roles and responsibilities for FBWT reconciliations, reviewing and approving reconciliations performed, and performing causative research, for reconciling items identified on a monthly basis.
5. Work with applicable parties to transition away from using monthly non-Treasury Disbursing Office reporting to daily Treasury Disbursing Office reporting.
6. Develop and implement a methodology to identify the actual or estimated impact of SODs and budget clearing accounts for recording and reporting into the GLs and financial statements.
7. Develop, implement, and document an effective reconciliation process for identifying any unmatched disbursements and collections and ensure that all resulting adjustments are fully supported at the DHP Component limit level.
8. Review unidentified CMR differences and provide supporting information to clear differences timely.
9. Research and resolve SODs and suspense transactions by correcting the transactions in source systems and assist with necessary supporting documentation for corrections, if needed.
10. Design and/or implement a process to inquire with DHP's service organization if any unauthorized DRP suspense account write-offs have occurred on a quarterly basis and assess the risk of write-offs subsequently being rejected and posing completeness risk to the DHP's FBWT.

V. Medical Revenue and Associated Receivables (*Repeat Condition*)

Deficiencies in two related areas define this material weakness:

A. Accounting and Reporting of Medical Services Provided
B. Medical Coding Accuracy.

Background: The DHP Components process both billable and non-billable medical encounters that arise from performing medical services. Billing consists of the MTFs sending invoices to patients, agencies, or other third-parties for medical services provided. Billable encounters are processed for patient care provided to non-TRICARE beneficiaries or for patient care provided to TRICARE beneficiaries who are either uncovered or covered by other insurance. The DHP Components utilize a billing and collection system as a subsidiary ledger to track and process collections on medical billings.

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MTFs also provide medical services for beneficiaries that are dual-eligible under Medicare, as well as Federal beneficiaries of the United States Coast Guard (USCG), Public Health Service (PHS), National Oceanic and Atmospheric Administration (NOAA), and Department of Veterans Affairs (VA). Payment for services provided to such beneficiaries varies based on established agreements with each entity.

Care for qualified health care recipients and their families begins at the Patient Administration Department (PAD) of MTFs. A PAD Specialist is responsible for entering a patient's information into supporting medical systems and checking eligibility information against the Defense Enrollment Eligibility Reporting System (DEERS). The verification of patient eligibility is important at the time care is delivered, as eligibility may change based on the timing and nature of services being provided, as well as beneficiary circumstances which may impact their eligibility (e.g., third-party insurance, marital status changes). A patient category (PATCAT) code is ultimately assigned, which is subsequently used by MTF business centers in determining coverage and cost of care.

Medical services provided at MTFs are required to be coded within 30 days of the patient's discharge, which initiates the billing process. Medical coding consists of taking the medical services rendered to a patient and entering the applicable codes using the DHA distributed coding tables. The DHA contracts with a third party to perform annual audits over the MTFs' medical coding accuracy in accordance with DoD Instruction (DoDI) 6040.42, *Management Standards for Medical Coding of DoD Health Records*. The most recent available third-party audit results are the FY 2019 coding audit, which represents an audit of medical records that were coded in FY 2018. During the audit, approximately 2,500 coded encounters were selected for testing, consisting of both billable and non-billable claims, across all MTFs.

A. Accounting and Reporting of Medical Services Provided

Condition: The DHP Components do not account for revenue or AR resulting from medical services provided in a consistent manner, and the accounting for such activity is not in accordance with GAAP.

- Not all Components record revenue earned from medical services provided to Federal trading partners on an accrual basis; rather, revenue is recorded on a cash basis. Bills are issued for medical services but the associated Federal revenue is not recorded until cash receipt in each respective GL system. No process is in place to completely correct the cash basis of accounting for Federal services provided for the DHP
- AR associated with medical services provided to Federal trading partner beneficiaries are not always collected in a timely manner
- Not all revenue earned from services provided to the public are recorded on an accrual basis; rather, certain classes of revenue are recorded on a cash basis
- DHP Components do not consistently and accurately present revenue and AR at net realizable value (NRV). The DHP has not established appropriate allowance for uncollectible accounts or alternatively adjusted revenue and AR to reflect NRV, as appropriate.

The DHP Components receive quarterly prospective payments in advance of care provided from two Federal trading partners. The accounting for prospective payments is not consistent across the Components. The Components either recognize revenue upon receipt of payment prior to performing services, which is not in accordance with GAAP, or recognize the prospective payments as unearned revenue with periodic recognition over time based on actual care provided or historical data. The DHP did not establish a formalized process to timely assess the reasonableness of its revenue recognition methodology to appropriately adjust revenue based on current-year care provided, as may be appropriate for financial reporting purposes.

The DHP Components do not have an internal control in operation to sufficiently demonstrate that patient eligibility confirmation is performed by an authorized PAD Specialist, ensuring accurate eligibility information from within DEERS is being used to determine patient PATCAT codes.

The DHP Components are not all able to provide sufficient audit evidence to support the validity of AR balances within the billing and collection subsidiary ledger. DHP Component remediation efforts remained in process during FY 2020 to correct AR transactions noted as invalid because they were previously collected and never closed in the system and to provide sufficient documentation to support amounts billed for services provided.

Cause: The DHP has not formulated or implemented complete Enterprise-wide accounting policies or guidance for its Components to ensure consistent and accurate accounting of medical services provided in accordance with GAAP.

The DHP has not implemented an effective Enterprise approach for conducting business with all Federal trading partners that allows for consistency across MTF locations and the timely collection of payment for services provided. Additionally, formalized accounting policy and procedures have not been developed to appropriately account for Federal AR and associated revenue at NRV. Claims are often disputed, rejected, or partially paid based on the billing rates for the services provided or not having prior authorization for care provided to non-DoD beneficiaries. Federal trading partners are also not always timely with their resolution of bills received from the DHP.

The DHP has not established effective business processes with associated internal controls to properly recognize medical service revenue and associated AR using the accrual basis of accounting. In addition, specific to Federal prospective payments received for care to be provided, the DHP has not established an effective business process with associated internal controls to properly recognize revenue based on care provided from actual activity occurring in the current FY or based on supporting validation of its prospective payment methodology for year-end reporting.

The DHP has not established effective business processes to properly perform and/or sufficiently demonstrate patient check-in procedures regarding eligibility, as well as billing, collecting, closing, and recording of medical AR in its subsidiary system. The DHP's remediation efforts to

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develop, maintain, and provide sufficient documentation to adequately support the reported medical AR remains in process.

Effect: The DHP's financial statements may contain misstatements associated with AR and Other Liabilities (as associated with prospective payments) on the balance sheet, as well as Revenue and Expenses on the Statement of Net Cost. In addition, any unrecorded Federal AR would result in the understatement of Spending Authority from offsetting collections presented on the SBR.

Unrecorded AR and the untimely collection of AR also inhibits the efficient and effective use of the DHP's spending authority, as such collections are made available for obligation in the appropriation year collected as authorized by public law.

The lack of Enterprise-wide policies and guidance for the accounting treatment of medical services resulted in inconsistent accounting treatment across the DHP, as well as noncompliance with Federal accounting standards and, accordingly, the FFMIA.

The lack of formalized internal control activities over patient eligibility verification inhibits the DHP's ability to ensure medical care provided to patients is a specifically covered benefit. The risk of uncovered care provided to beneficiaries, or care provided to ineligible beneficiaries, may be elevated without proper procedures in place to demonstrate the eligibility verification.

Recommendations: Kearney recommends that the DHP develop an accounting policy for medical services revenue and associated AR, which specifically addresses the appropriate accounting treatment as prescribed within SFFAS No. 1 and SFFAS No. 7. The accounting policy should be developed through coordination with all Component reporting entities. In addition, the DHP should also perform the following:

1. Review and assess the Enterprise approach for doing business with Federal trading partner beneficiaries and implement, as appropriate, baseline requirements to be met at the MTF level.
2. Implement required pre-authorization to administer care to Federal trading partner beneficiary patients and begin monitoring activities for proper implementation.
3. Formalize revenue recognition when services are performed for all Public AR categories. Revenue and corresponding AR should be recognized with transactional activity recorded in the GL system or as appropriate in a subsidiary system.
4. Formalize revenue recognition procedures for Federal trading partners to be aligned with actual care provided in the current FY, as applicable for each Component. Revenue recognized should be supported by transactional activity recorded in the GL system or in a supporting subsidiary system.
5. Implement a consistent methodology for the calculation of allowance for uncollectible accounts with inclusion of all AR categories in the calculation. Separate allowance methodologies should be considered by AR category based on historical collection analysis.

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6. Implement consistent methodology for adjusting gross AR and associated revenue to reflect NRV.
7. Review current procedures related to patient eligibility and incorporate formalized verification procedures which can demonstrate the eligibility determination at the time of patient check-in or at an appropriate point during the patient lifecycle prior to the patient's final paperwork completion.
8. Perform documented reconciliation of medical AR recorded in the subsidiary ledger with medical AR recorded for financial reporting, including supervisory review and approval.
9. Design and implement a process to verify that collected patient billings are appropriately closed in the subsidiary ledgers. Monitoring controls should be established, to include performing a reconciliation between aged AR balances in the subsidiary ledger and collections to ensure that invalid AR entries have been closed.
10. Formalize supporting documentation and retention requirements to demonstrate the validity of patient billings.

B. Medical Coding Accuracy

Condition: The DHP has not implemented effective medical coding procedures to ensure the accuracy of medical coding applied over inpatient (IP), outpatient (OP), ambulatory procedure visit (APV), and inpatient professional service round (IPSR) healthcare encounters. The third-party medical coding audit report released during FY 2019, entitled *Fiscal Year 2018 Military Treatment Facility Coding Audit Findings and Recommendations*, identified coding errors significantly below the required 97% accuracy threshold prescribed within DoDI 6040.42. Accuracy rates were noted as:

Record Type	Pass Rates	
	Billable	Non-Billable
IP	76.74%	79.18%
OP	43.18%	40.65%
APV	45.83%	68.34%
IPSR	57.14%	57.46%

Cause: The findings and recommendations included in the FY 2019 medical coding audit indicate that the DHP does not have sufficient clinical supporting documentation that clearly and specifically addresses the procedures performed during patient encounters for accurate medical coding.

Effect: Medical AR billing valuation and the corresponding revenue recorded is determined, in part, by the prescribed medical code being aligned to a corresponding prescribed rate for the coded encounter. Therefore, the DHP cannot assert to the accuracy and valuation of AR recorded for medical billing encounters, and the DHP's recorded Revenue and AR line items may be misstated as presented on the Statement of Net Cost and balance sheet, respectively.

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Recommendations: Kearney recommends that the DHP perform the following:

1. Review the third-party audit findings and recommendations and formally develop appropriate CAPs, as necessary, to remediate coding accuracy deficiencies. CAPs should be developed with input from appropriate stakeholders across the DHP Components.
2. Utilizing the coding accuracy results for billable encounters, assess the financial reporting impact of coding inaccuracies found during the third-party audits. Appropriate analysis of the error rates should be conducted to determine the impact of error rates over applicable financial statement line items (e.g., AR and Revenue).

VI. General Equipment Existence and Completeness (*Repeat Condition*)

Background: FASAB defines general equipment (GE) as all personal property that is functionally complete for its intended purpose, durable, and nonexpendable. Additionally, GE typically has an expected service life of two or more years, is not intended for sale, does not ordinarily lose its identity or become a component part of another article when put into use, and has been acquired (or constructed) with the intention of being used.

Condition: The DHP did not record GE in a consistent manner across Component reporting entities. Two component reporting entities have not fully designed and implemented policies, procedures, or controls to effectively record and report capitalized GE. During FY 2020, DHA was unable to sufficiently determine the existence and completeness of its GE asset portfolio for financial reporting purposes. While the DHA Component reporting entity reported GE as a result of ongoing reorganization of the DHP Component reporting entities, DHA's recorded GE was exclusively those assets which were transferred from the SMA-Army Component reporting entity. The SMA-AF did not perform a sufficient assessment of GE to verify completeness for financial reporting purposes. SMA-AF GE recorded across three APSRs were not completely identified and properly reported.

The DHP Enterprise remains in the process of implementing Enterprise-wide guidance over GE at the Component level, formalizing operational processes and controls to identify, track, record, and value GE in accordance with GAAP, as promulgated by FASAB. The procedural instruction for GE, provided in draft form in March 2019, remained in draft form as of September 30, 2020.

The remaining DHP Components, in aggregate, could not sufficiently support the existence of GE which was recorded for FY 2020. The DHP could not locate or did not provide sufficient audit evidence to support the existence of 17% of 122 tested assets.

Cause: The DHP has not completely implemented policies, procedures, or internal controls to identify, recognize, and report capital GE for all Component entities. The DHP is currently in the process of completing its assessment of capital GE at various locations and, therefore, has not yet finalized its approach to valuing GE.

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Existence exceptions over GE are due to the lack of effective inventory management controls, inaccurate reporting of assets within the APSR, and lack of effective retention of supporting documentation.

Effect: Ineffective inventory management controls may result in the loss of accountability for asset custodianship and unsupportable financial reporting over PP&E. Further, the DHP cannot assert that the PP&E balance is fairly stated in accordance with GAAP. The DHP could not provide sufficient appropriate evidence of the existence and completeness for approximately 12% of tested assets, which may represent potential misstatements to the PP&E balance as of September 30, 2019.

Recommendations: Kearney recommends that the DHP perform the following:

1. Establish an Enterprise-wide accounting policy to require annual inventory of GE, tracking GE, and proper cost classification in accordance with SFFAS No. 6, to include appropriate footnote disclosures.
2. Develop financial reporting policies and procedures to ensure that the DHP's operational business processes are reviewed to determine the appropriate accounting treatment, recording, and financial reporting impact.
3. Complete ongoing efforts to verify the existence and completeness of GE for the purpose of bringing the GE portfolio to record for financial reporting.
4. Perform a final assessment of available supporting documentation based on the known exceptions from testwork. Adjustments to the Component APSRs should be recorded to remove known existence exceptions and add any remaining known completeness exceptions from the asset detail schedule.
5. Disseminate the GE existence and completeness audit testing results to all equipment custodians to promote awareness of the impact that effective inventory management controls have on property accountability.
6. Adhere to criteria and internal guidance related to the proper storing of documentation to support the acquisition, transfer, and disposal of GE.

VII. Valuation of Property, Plant, and Equipment (*Repeat Condition*)

Background: DHP Components own, operate, and maintain stewardship of a diverse and significant portfolio of PP&E. The DHP has determined the asset classes for its PP&E as follows: GE; real property construction in-progress (CIP); internal use software (IUS); IUS in-development (IUSD); heritage assets; leases; and leasehold improvements. The DHP reported PP&E, net of accumulated depreciation and accumulated amortization, to be $3.4 billion.

In August 2016, FASAB issued SFFAS No. 50, *Establishing Opening Balances for General Property, Plant, and Equipment*, amending existing PP&E accounting standards to allow a reporting entity, under specific conditions, to apply alternative valuation methods in establishing opening balances for PP&E. The alternative valuation methods available under SFFAS No. 50 may be applied in the first reporting period in which the reporting entity makes an unreserved assertion that its financial statements are presented fairly in accordance with GAAP. As SFFAS

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No. 50 is applicable to the valuation of opening balances only, all changes to the DHP PP&E portfolio as a result of current-year transactions are subject to the valuation requirements set forth in SFFAS No. 6.

Condition: The DHP PP&E valuation as of September 30, 2020 is not in accordance with GAAP. The PP&E balances have not been sufficiently valued at historical cost in accordance with valuation techniques promulgated by SFFAS No. 6 or SFFAS No. 10, as appropriate. Further, the DHP did not begin valuation efforts over PP&E using alternative valuation techniques (i.e., deemed cost) in accordance with SFFAS No. 50.

- The DHP has not completed an assessment of IUS or IUSD in order to properly identify and account for IUS for financial reporting purposes. During FY 2020, the DHP prioritized one IUSD asset, MHS GENESIS, and began valuation efforts, recording IUSD for the first time on June 30, 2020. The DHA recorded the MHS GENESIS as a prior period adjustment due to a change in accounting principle, which is not compliant with SFFAS No. 21. Outside of MHS GENESIS, the DHP has not begun valuation efforts over IUS using alternative valuation techniques in accordance with SFFAS No. 50, and it is unable to value IUS at historical cost in accordance with SFFAS No. 10
- DHP does not have a process in place to record real property CIP related to Operations and Maintenance (O&M)-funded projects for financial reporting. The DHP does not assess and monitor O&M projects to determine if the project meets the requirements for capitalization, nor do they track and accumulate costs for capitalization from O&M-funded projects
- DHP Component reporting entities do not have sufficient supporting documentation (e.g. invoices and receipt and acceptance documentation) to support the historical cost requirements of SFFAS No. 6 for reported GE.

Cause: The DHP has not established effective business processes, internal controls, or information systems necessary to accurately value PP&E in accordance with SFFAS No. 6 or SFFAS No. 10. The accumulation of historical cost information with supporting documentation for PP&E acquisitions has not been appropriately maintained to support acquisition costs recorded in property systems. While the DHP intends to elect the alternative valuation techniques within SFFAS No. 50 to report property balances, it was not ready to make the election during FY 2020.

As part of remediation efforts conducted in response to the prior-year NFR, the DHP has formulated draft accounting guidance for GE, CIP, and IUS/IUSD asset classes. The draft guidance has not been finalized as of September 30, 2020, and the guidance does not specifically address valuation for opening balances under SFFAS No. 50.

SMA Components have not applied their capitalization policies to real property CIP projects funded by O&M appropriations. Additionally, SMAs have not established effective internal controls to track and record capital costs related to O&M-funded CIP.

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Effect: The DHP is unable to accurately and appropriately value its PP&E assets for FY 2020 in accordance with GAAP. The lack of accounting policy from an Enterprise perspective has resulted in a lack of preparedness at the Component level to re-value FY 2020 PP&E opening balances at historical cost in accordance with SFFAS No. 50.

The DHP's PP&E as of September 30, 2020 does not reflect historical cost as required by SFFAS No. 6 or SFFAS No. 10, and the DHP's opening balances for FY 2020 do not reflect historical cost under alternative valuation techniques as allowable under SFFAS No. 50. The DHP's recorded balance for PP&E, net of accumulated depreciation and accumulated amortization, of $3.4 billion may be materially misstated as presented within the DHP's financial statements.

Without a process in place to track and record capital costs related to real property CIP funded by O&M appropriations, there is an overstatement of gross costs and understatement of PP&E, net balances within the DHP's Statements of Net Cost and balance sheet, respectively.

Noncompliance with restatement requirements prescribed within SFFAS No. 21 for prior period adjustments, inhibits the comparability of the DHP's financial statements as presented for FY 2019 and FY 2020.

Recommendations: Kearney recommends that the DHP perform the following:

1. Develop an Enterprise-wide accounting policy for PP&E, which specifically addresses historical cost valuation in accordance with SFFAS No. 6, SFFAS No. 10, and SFFAS No. 50. In its determination to implement historical cost valuation for opening balances under SFFAS No. 50, the DHP must implement PP&E processes with supporting internal controls that are both designed and operating effectively to value new PP&E acquisitions at historical cost in compliance with SFFAS No. 6 and SFFAS No. 10.
2. Reference FASAB's Federal Financial Accounting Technical Release (TR) No. 18, *Implementation Guidance for Establishing Opening Balances*, dated October 2, 2017.
3. Retain appropriate key supporting documentation for underlying valuation methodology.
4. Document the valuation technique by asset class for all assets currently in the DHP PP&E portfolio.
5. Establish a timeline for the valuation and steps that each Component is required to perform.
6. Detail requirements for valuation of new acquisitions that are compliant with SFFAS No. 6 and SFFAS No. 10
7. Coordinate with constructions agents (i.e., NAVFAC and United States Army Corps of Engineers [USACE]), as appropriate, to develop and implement policies and procedures that track and account for capitalized costs related to O&M-funded CIP. The policy and procedures should include a formalized assessment of construction projects prior to project commencement to determine if criteria for capitalization has been met. O&M projects should be indicated as capital vs. non-capital within the relevant APSR based on the documented assessment.

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8. Provide training to DHP personnel to ensure policies and procedures to track and record O&M-funded CIP are implemented accordingly.
9. Implement internal controls over financial reporting to verify that all capital renovation and improvement projects that meet the DHP's capitalization thresholds are captured for financial reporting purposes on the balance sheet. The DHP should formalize a data call at the region level on a quarterly basis to monitor appropriate capitalization decisions for O&M-funded projects.

VIII. Operating Material and Supplies and Stockpile Material (*Repeat Condition*)

Deficiencies in two related areas define this material weakness:

A. Enterprise Assessment of Operating Material and Supplies (OM&S)
B. Policies, Procedures, and Controls Surrounding Stockpile Materials Held by the DHP.

Background: SFFAS No. 3 defines OM&S as tangible personal property to be consumed in normal operations with the exclusion of: 1) goods that have been acquired for use in constructing real property or in assembling equipment to be used by the entity; 2) stockpile materials; 3) goods held under price stabilization programs; 4) foreclosed property; 5) seized and forfeited property; and 6) inventory. Per SFFAS No. 3, the consumption method of accounting must be applied unless it is: 1) not significant amounts; 2) in the hands of the end user; or 3) if it is not cost-beneficial to apply the consumption method, the purchases method may be applied. The DHP Components' OM&S encompasses pharmaceuticals, pharmaceutical medical supplies, and non-pharmaceutical medical supplies needed for MTFs.

DHP Components are also required to maintain various medications for the DoD to respond to a pandemic or other public health emergency. The DHA Components maintain SLAs with Federal entities to purchase medications on behalf of DHA. DHA also maintains SLAs to store and distribute medication materials for medical preparedness. Medications purchased for DHA by other Federal entities remain at the manufacturing facility until such time that they need to be administered throughout the DoD.

A. Enterprise Assessment of OM&S

Condition: The DHP has not performed a sufficient annual assessment of OM&S to support the purchases method accounting treatment elected under SFFAS No. 3. While the DHP prepared a position paper providing justification for its determination that OM&S is in the hands of the end user for use in normal operations upon arrival at MTFs, the DHP did not complete a documented assessment of OM&S acquired and held outside of MTF locations, if any.

Cause: The DHP has not conducted a complete assessment of its supply chain business processes to determine if OM&S is acquired and held for future use, or stored in locations which would not constitute the end user. The DHP maintains warehouse locations outside of MTFs, and no assessment has been conducted to determine if such locations maintain OM&S.

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The DHP has not formulated policies and procedures to ensure that OM&S acquired by Component reporting entities are appropriately and accurately accounted for and captured in the DHP's financial statements in accordance with Federal accounting standards.

Effect: The opening balance of Inventory and Related Property, as required to be reported on the DHP Enterprise balance sheet and disclosed in the supporting footnotes, may be incomplete and the corresponding expenditures associated with the purchase and issuance of OM&S may be misstated on the Statement of Net Cost.

As a result of the DHP's incomplete assessment of OM&S, the DHP could not demonstrate the fair presentation of Inventory and Related Property in accordance with GAAP.

Recommendations: Kearney recommends that the DHP perform the following:

1. Develop and implement a strategy to perform an annual assessment to support the elected accounting treatment for OM&S under SFFAS No. 3.
2. Support the assessment with formalized documentation, demonstrating the selected criteria and applicable analysis.

If the DHP is unable to support one of the three criteria required for directly expensing OM&S acquisitions, Kearney recommends that the DHP perform the following:

1. Develop and implement a strategy to verify the existence, rights and obligations, valuation, and completeness of OM&S at the DHP Enterprise and Component levels.
2. Evaluate flexibilities provided by SFFAS No. 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*, to establish opening balances.
3. Develop a DHP strategy for valuing, recording, maintaining (accountability), and reporting OM&S to provide guidance to the Components.
4. Develop an Enterprise-wide policy to define the appropriate accounting treatment, recording, and financial reporting of OM&S.

B. Policies, Procedures, and Controls Surrounding Stockpile Materials Held by the Defense Health Program

Condition: The DHP did not account for stockpile material in accordance with requirements set forth in SFFAS No. 3. As a result of the ongoing assessments to identify programs which maintain stockpile material, the DHP has not fully transitioned to the consumption method of accounting as required for stockpile materials under SFFAS No. 3. The purchases method of accounting is still in use for any programs containing stockpile material which have yet to be identified. The purchases method of accounting is not allowable under SFFAS No. 3.

During fiscal year (FY) 2020, the DHA Component prioritized its Pandemic Influenza Program to identify and record stockpile materials, while all Components continued efforts to obtain stockpile material data from MTF locations for the purpose of financial reporting requirements.

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The DHP Components' remediation efforts to validate the recorded quantities and amounts of stockpile remain in process.

Cause: The DHP has not designed or implemented policies, procedures, and controls to ensure that stockpile materials are appropriately and accurately captured in the financial statements. In addition, the DHP has not performed a complete assessment of operational business processes to determine the financial reporting impact and proper accounting treatment of operations.

Additionally, DHA and the SMAs have not incorporated stockpile materials into their MICP as part of management's responsibility for evaluating its system of internal control.

Effect: The DHP is unable to accurately account for the existence, completeness, or valuation of stockpile materials in accordance with Federal accounting standards. Accordingly, the DHP's balance of Inventory and Related Property for FY 2020 is understated and period expenses are overstated by any stockpile acquisitions made in FY 2020 which were not appropriately captured in recording stockpile as of September 30, 2020.

Due to the lack of controls surrounding stockpile acquisitions and tracking, the DHP was unable to sufficiently support the value of stockpile material recorded or determine the value of any misstatement.

Recommendations: Kearney recommends that the DHP perform the following:

1. Develop and implement a strategy to verify the existence and completeness of stockpile materials held by DHA and the SMAs or held by third-party custodians on behalf of the DHP.
2. Develop financial reporting policies and procedures to ensure that the DHP's operational business processes are reviewed to determine the appropriate accounting treatment, recording, and financial reporting impact.
3. Incorporate stockpile material as an assessable unit within the DHP MICP.
4. Implement policies, procedures, and controls for the end-to-end business process of stockpile materials. The policy, procedures, and controls should formally cover acquisition, receipt, issuance, transfers, inventory management, and disposal activities.
5. Establish appropriate SLAs with applicable service organizations identified within the stockpile material end-to-end lifecycle.
6. Complete ongoing efforts to verify the existence and completeness of DHP-owned stockpile material for the purpose of bringing the portfolio to record for financial reporting.
7. Complete ongoing efforts to value stockpile material in accordance with Federal accounting standards. The DHP should consider the valuation techniques within SFFAS No. 48 in establishing its opening balance of stockpile material.
8. Establish appropriate accounting policy to value new acquisitions and the consumption of existing stockpile material in accordance with SFFAS No. 3. New acquisitions should be recorded using the consumption method of accounting defined in SFFAS No. 3.

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IX. Liabilities and Related Expenses (*Repeat Condition*)

Background: During the normal course of operations, Federal agencies incur certain economic events that give rise to amounts owed to external entities. These liabilities can include, among others, AP for goods and services received from, and progress in contract execution made by, other entities excluding those services rendered by employees; Environmental and Disposal Liabilities (E&DL) for the cleanup costs associated with removing, containing, and/or disposing of hazardous waste or property that consists of hazardous waste; and loss contingencies for pending or threatened litigation and possible claims and assessments.

Each DHP Component engages in Reimbursable Work Order – Grantor (RWO-G) transactions with its intragovernmental trading partners. In an RWO-G agreement, the DHP Component grants reimbursable authority to another Federal entity that performs the work stipulated in the agreement and bills the DHP Component in order to replenish the funding that it expended on the Component's behalf.

Purchase cards are Government-issued credit cards that can be used for authorized Government purchases only. The purchase cardholder must reconcile Component system transactions to a monthly bank credit card statement for review and approval. DHP Components are responsible for developing procedures to ensure that purchase card obligations and payments are appropriately and accurately recorded for financial reporting purposes. In December 2018, one SMA Component changed its purchase card vendor in alignment with its Military Department. The change in vendor impacted purchase card operations due to a non-working interface between the purchase card vendor and the SMA Component GL system.

The Federal Employees Compensation Act (FECA) actuarial liability includes the expected liability for death, disability, medical, and other approved costs. The Department of Labor (DOL) administers FECA and sends Federal agencies the actuarial liability estimates for future workers' compensation benefits. In addition, DOL makes actual payments for workers' compensation benefits and then sends annual bills to the employing agencies in the chargeback process.

Condition: The DHP does not sufficiently account for its liabilities and related expenses. Specifically, the DHP and its Components have not completely recorded estimated AP and expenses for goods and services received but not yet billed in accordance with SFFAS No. 5.

DHP Components do not have a process for validating receipt and acceptance of goods and services received from its intragovernmental trading partners prior to payment, or a process to validate intragovernmental payment activity when receipt and acceptance cannot be performed prior to payment.

One SMA Component was unable to record FY 2019 obligations, expenses, or AP transactions within its GL for any purchase card transactions from December 2018 to June 2019 due to interface issues experienced during the transition to a new purchase card vendor. During FY 2020, the SMA Component was unable to provide sufficient documentation to demonstrate that

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all prior-year purchase card activity was appropriately recorded in the GL and appropriately reconciled to monthly bank statements.

The DHP has not sufficiently recorded other classes of liabilities and lacks internal control activities to help ensure the proper accounting of liabilities. The following transaction classes were either not completely considered by the DHP Components or were not consistently recorded across Components:

- Contingent or actual liabilities and related expenses
- E&DL and the related expense
- FECA liabilities, both actuarial and actual
- Prospective payments received in advance of care provided.

Cause: DHP Components have not designed and implemented an effective internal control within respective procurement processes to ensure goods and services received but not yet paid for are appropriately accrued, across all relevant business processes. DHP Components remain in the process of developing a comprehensive AP accrual methodology which takes into consideration all business processes, as determined necessary for financial reporting. Additionally, DHP Components do not have a process in place to validate post-payment activity when receipt and acceptance cannot be performed.

The purchase card interface issues were resolved as of June 6, 2019; however, the DHP Component did not provide additional supporting documentation to demonstrate that purchase card activity from December 2018 through the end of May 2019 was appropriately recorded. The DHP Component could not produce supporting documentation to demonstrate purchase card activity reconciled with the bank and was properly recorded for financial reporting.

For E&DL, settlements and judgments, and FECA, DHP Components lacked policies and procedures to gather appropriate information to determine whether liabilities exist which should be reported or an appropriate assessment had not been performed to determine the reporting responsibility between DHP Components and each respective Military Department.

Effect: The lack of Enterprise-wide policies and guidance has resulted in inconsistent accounting treatment across the DHP, as well as noncompliance with Federal accounting standards and, accordingly, the FFMIA. The DHP is unable to determine whether its liabilities, net costs, and changes in net position were complete and fairly stated in accordance with GAAP.

Specific to purchase card activity, understatements may exist within the DHP financial statements pertaining to obligations within the SBR, expenses on the Statement of Net Cost, and AP on the balance sheet. The DHP did not provide documentation to determine the extent of any possible misstatement.

In situations where Military Departments pay for amounts on behalf of respective SMAs, there is risk of a potential augmentation of the DHP appropriation and violation of the Antideficiency Act.

Recommendations: Kearney recommends that the DHP perform the following:

1. Continue the comprehensive analysis of business processes that give rise to liabilities, including unrecorded AP at the end of an accounting period, to determine whether there are unrecorded liabilities and expenses.
2. Expand the current AP accrual methodology to include all GL systems and all financial reporting limits, as determined appropriate.
3. Analyze, evaluate, document, and update, as appropriate, policies and procedures to require the execution of internal control activities for the complete and accurate recording of liabilities, including AP and any estimates needed for goods and services received but not recorded.
4. Continue to document estimate methodology for any liability estimates developed by the DHP and its Components. The DHP should also implement internal control activities for estimate development and monitoring of the accuracy of the estimate.
5. Coordinate with trading partners to ensure Support Agreements (SA), Inter-Agency Agreements (IAA), MOUs, or equivalent include language requiring cooperation of the trading partner to provide any required documentation necessary for DHP Components to validate the accuracy of the amounts they have been billed.
6. Retroactively complete all monthly purchase card reconciliation controls not performed while the interface issue was ongoing to ensure that purchase card activity is properly reviewed and approved.
7. Prepare a correcting entry JV package summarizing the total dollar amount of purchase card-related accounting entry omissions and ensure that relevant personnel review and approve this correcting JV package for completeness and accuracy.
8. Collaborate with the Office of General Counsel (OGC); determine and document the legislative basis by which the Military Departments pay for E&DL, settlements and judgments, and FECA on behalf of SMA Components, as applicable; and evaluate whether amounts are being charged to the correct appropriation. If any amounts are being charged to an incorrect appropriation, the DHP should evaluate the purpose statute and related concepts regarding augmentation of an appropriation and report any Antideficiency Act violations in accordance with applicable reporting requirements.

X. Monitoring and Reporting of Obligations (*Repeat Condition*)

Background: As part of the financial reporting process, entities perform financial analysis, reconciliations, and other internal control procedures to evaluate the validity and accuracy of financial information. DHP Components review and evaluate the status and accuracy of recorded UDOs; Delivered Orders, Unpaid (DOU); UDO-Paid (UDOP); and Unfilled Customer Orders (UFCO) on a quarterly basis as part of Dormant Account Review – Quarterly (DAR-Q). The DAR-Q process is required by the DoD Financial Management Regulation (FMR), in part, to increase each DoD Component's ability to use available appropriations before they expire and to ensure remaining open obligations are liquidated before canceling.

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Through the DAR-Q process, balances are reviewed to determine if dormant balances exist and remain valid. Financial reporting personnel perform analyses over obligation activity and, if amounts are determined as stale, follow-up actions are taken with contract close-out personnel/reimbursable agreement trading partners to achieve necessary de-obligations.

Condition: The DHP's DAR-Q process is not operating effectively across all Component entities to review, assess, and close stale obligations on a timely basis or has not been fully implemented across all Components.

For one DHP Component, a validation of the completeness and accuracy of open balances utilized in the DAR-Q process was not performed to ensure all appropriate balances were subject to review. Additionally, the Component did not provide sufficient documentation to support its DAR-Q validation statuses as of 30 June 2020 for the Component limits processed within DAR-Q.

Cause: The DHP's DAR-Q process has not been effectively designed or implemented across all components. DHP Components have not all designed a sufficient reporting capability for ULOs or status of funds review, which has inhibited a complete and fully implemented DAR-Q process, as required by the DoD FMR. In addition, the DAR-Q process has not been designed to fully capture the DHP's open obligation activity, as certain obligation classes have not been incorporated in the process.

The DHP has not sufficiently enforced the de-obligation actions which must coincide with the detection of stale obligations. While stale obligations are being detected by the current program (i.e., marked for adjustment), the resulting de-obligation actions are not being performed timely. Certain open obligation activity requires correspondence with external parties to resolve the contracts identified as cancelled, expired, and dormant. Nonresponsive vendors and/or trading partners may add significant delays to the close-out process. Additionally, contracts under audit by outside entities contribute to delays in closing contracts, as the contracts must remain open until the external audit is completed.

Effect: The DHP is unable to ensure that its obligation activity is valid and accurately reported in the GL systems for all DHP Components. The lack of timely action to de-obligate funds results in stale obligations remaining on the DHP's financial statements, which increases the risk of overstatement of obligated balances as presented within the SBR. As a result, the DHP's financial statements may be misstated due to dormant balances that have not been subject to review and removal. Furthermore, this prevents the DHP from utilizing available appropriations before they expire, validating ULOs prior to the cancellation of the appropriation, and returning funds to Treasury timely.

Recommendations: Kearney recommends that the DHP perform the following:

1. Establish formalized policy and procedures for the DAR-Q process as prescribed by OUSD(C). The formal policy should prescribe timeframes for de-obligation actions after identification and how to handle contracts still in the contract close-out process.

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2. In coordination with OUSD, develop formalized supporting documentation to demonstrate that the DAR-Q population ties and agrees to the trial balance, prior to isolating obligation activity for specific monitoring.
3. Perform a full-scope analysis of open obligations which are dormant and require de-obligation. The analysis can be performed in phases (e.g., greater than three years dormant, two years dormant, one year dormant); inform Commands of the de-obligation initiative and establish cut-off dates for mandatory de-obligation; and process the de-obligation actions to remove the stale obligations.
4. Expand the MICP, as appropriate, at the Component level to include testing to determine whether the DAR-Q has been performed effectively, including tracing supporting documentation to the GL and verifying that sufficient analysis has been performed to substantiate applicable certifications.

XI. Information Systems (*Repeat Condition*)

Background: The DHP operates a complex information system environment to execute its mission and record transactions timely and accurately using several accounting systems and a mixture of health IT and non-medical systems. This includes third-party systems owned and operated by organizations outside of the DHP that affect the Enterprise's business processes and financial statements.

Because of the sensitive nature of the DHP's information system environment, Kearney does not present specific details related to the systems, conditions, or criteria discussed within this material weakness. We provided those details separately to DHP management and relevant stakeholders through Notices of Findings and Recommendations (NFR).

Condition: The DHP has control deficiencies in the design, implementation, and operating effectiveness of internal controls related to financially significant systems which could have a material effect on the financial statements. Internal control deficiencies exist in 26 financially significant systems, including five GL and financial reporting systems, five health IT systems, and other key feeder systems and environments. The following is a summary of critical deficiencies:

- Access Controls
  - Incomplete, inconsistent, or not fully implemented policies and procedures for managing and monitoring access to key financial management applications and third-party systems of privileged and non-privileged users
  - Incomplete and/or inconsistent implementation of user account recertifications to verify the continued propriety of access of privileged and non-privileged users
  - Incomplete or not fully implemented policies and procedures for the proper segregation of duties within applications, databases, and operating systems
- System and Services Acquisition
  - Incomplete, inconsistent, or not fully implemented policies and procedures for monitoring service organizations and implementing CUECs
- Audit and Accountability

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- Incomplete, inconsistent, or not fully implemented logging and monitoring of activity for key financial management systems.

Cause: While the DHP made progress in addressing items noted in the prior year, the remediation efforts are ongoing and evolving as the DHA organization structure changes. To address access control weaknesses reported in prior audits, the DHA Chief Information Officer (CIO) organization developed and communicated Information Security Control Compliance Reporting Instructions (ISCCRI) and System Management Plans (SMP) for core DHA systems to MTF CIOs. However, the organization lacks enforcement ability until compliance is mandated by policy, which is still pending approval. The deficiencies noted above result from a multitude of causal factors, with the most pervasive ones being the lack of complete and consistent implementation and enforcement of IT policies and procedures; inconsistent or inadequate control implementation and/or performance; and focused remediation efforts that resulted in weaknesses in other areas continuing. Specifically, the conditions noted above occurred primarily due to a combination of the following reasons:

- Control Implementation and Operation
  - Controls were not implemented during FY 2020
  - Controls were implemented but not operating effectively during FY 2020
- Policies and Procedures
  - Policies and procedures relevant to the control area were not developed
  - Policies and procedures were developed but were incomplete in one or more areas
- CAP Implementation
  - Remediation efforts are ongoing and evolving as the organization structure changes
  - CAPs associated with FY 2018 or FY 2019 IT NFRs were not completed or not prioritized during FY 2020.

Effect: Without complete and consistent implementation, monitoring, and enforcement of policies and procedures, IT control weaknesses may exist and be overlooked. Without sufficient controls throughout the information system environment, users may possess or retain unauthorized access to systems, as well as intentionally or unintentionally abuse computer resources, process unauthorized program changes or transactions, or perform other actions that jeopardize the confidentiality, integrity, or availability of systems and data.

Recommendations: Kearney recommends that the DHP perform the following:

1. Provide guidance and oversight to the DHP Components, MTFs, and service organizations on the assignment of responsibilities for the consistent implementation of internal controls, to strengthen overall IT governance.
2. Continue communication and reinforce IT policies and procedures to the DHP Components, MTFs, and service organizations.
3. Provide training to users and privileged users regarding the consistent implementation of new IT security policy, procedures, and practices for DHP systems.

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4. Monitor implementation of entity-level IT policy, procedures, and practices throughout the organization, as well as adjust training and communication where needed.

* * * * *

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APPENDIX A: STATUS OF PRIOR-YEAR FINDINGS

In the *Independent Auditor's Report on internal Control over Financial Reporting* included with the audit report on the Defense Health Program's (DHP) fiscal year (FY) 2019 financial statements, we noted several issues that were related to internal control over financial reporting. The status of the FY 2019 internal control findings is summarized in ***Exhibit 1***.

Exhibit 1: Status of Prior-Year Findings

Control Deficiency		FY 2019 Status	FY 2020 Status
I.	**Accounting and Financial Reporting Governance Structure, Entity-Level Control Design and Operation**	Material Weakness	Material Weakness
II.	**Financial Reporting – Universe of Transaction Reconciliations**	Material Weakness	Material Weakness
III.	**Financial Reporting – Defense Departmental Reporting System Adjustments**	Material Weakness	Material Weakness
IV.	**Fund Balance with Treasury**	Material Weakness	Material Weakness
V.	**Medical Revenue and Associated Receivables**	Material Weakness	Material Weakness
VI.	**General Equipment Existence and Completeness**	Material Weakness	Material Weakness
VII.	**Valuation of Property, Plant, and Equipment**	Material Weakness	Material Weakness
VIII.	**Real Property**	Material Weakness	Closed
IX.	**Internal Use Software and Internal Use Software In-Development**	Material Weakness	Consolidated to Valuation of Property, Plant, and Equipment
X.	**Operating Material and Supplies and Stockpile Material**	Material Weakness	Material Weakness
XI.	**Liabilities**	Material Weakness	Material Weakness
XII.	**Monitoring and Reporting of Obligations**	Material Weakness	Material Weakness
XIII.	**Information Systems**	Material Weakness	Material Weakness

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS, REGULATIONS, CONTRACTS, AND GRANT AGREEMENTS

To the Assistant Secretary of Defense for Health Affairs and Inspector General of the Department of Defense

We were engaged to audit, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*, the financial statements of the Defense Health Program (DHP) as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the DHP's financial statements, and we have issued our report thereon dated November 9, 2020. Our report disclaims an opinion on such financial statements because we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. The DHP also asserted to departures from Generally Accepted Accounting Principles.

Compliance and Other Matters

In connection with our engagement to audit the financial statements of the DHP, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the DHP. However, providing an opinion on compliance with those provisions was not an objective of our engagement; accordingly, we do not express such an opinion. The results of our tests, exclusive of those referred to in the FFMIA, disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 19-03 which are described in the accompanying Schedule of Findings.

The results of our tests of compliance with FFMIA disclosed that the DHP's financial management systems did not comply substantially with the Federal financial management systems requirements, applicable Federal accounting standards, or application of the United States Standard General Ledger (USSGL) at the transaction level, as described in the accompanying Schedule of Findings.

Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

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The DHP's Response to Findings

The DHP's response to the findings identified in our engagement is described in a separate memorandum attached to this report in Section 2, *Financial Section*, of the Agency Financial Report. The DHP's response was not subjected to the auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's compliance. This report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* and OMB Bulletin No. 19-03 in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 9, 2020

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Schedule of Findings

Noncompliance and Other Matters

I. The Federal Managers' Financial Integrity Act of 1982 (FMFIA) (*Repeat Condition*)

Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, implements the requirements of the Federal Managers' Financial Integrity Act of 1982 (FMFIA). FMFIA and OMB Circular A-123 require agencies to establish a process to document, assess, and assert to the effectiveness of internal control over financial reporting.

The Defense Health Program (DHP) has not established and implemented controls in accordance with standards prescribed by the Comptroller General of the United States, as codified in the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (the Green Book), as supported by the material weakness in the *Report on Internal Control over Financial Reporting*.

As discussed in Section I, "Accounting and Financial Reporting Governance Structure and Entity-Level Control Design and Operation," of the *Report on Internal Control over Financial Reporting*, the audit identified the following instances of noncompliance with FMFIA and OMB Circular A-123:

- The DHP has not fully implemented processes to support the effective design and operation or evaluation of its entity-level internal controls. Due to extensive design and effectiveness failures noted, the DHP did not achieve the GAO-prescribed principles for an effective internal control system
- The DHP has not designed and implemented an effective process to assess and monitor the adequacy of its Components' internal control programs in support of the DHP Statement of Assurance. In fiscal year (FY) 2020, the DHP Enterprise's Statement of Assurance for the Military Health System (MHS) provided no assurance that internal control over operations, financial reporting, and compliance were operating effectively as of September 30, 2020.

II. The Federal Information Security Modernization Act of 2014 (FISMA) (*Repeat Condition*)

The Federal Information Security Modernization Act of 2014 (FISMA) requires agencies to provide information security controls commensurate with the risk and potential harm of not having those controls in place. The National Institute of Standards and Technology (NIST) publishes standards and guidelines for Federal entities to implement for non-national security systems. Deviations from NIST standards and guidelines represent departures from FISMA requirements. During our audit, we noted several deviations from NIST standards and guidelines that contributed to an overall material weakness related to information systems, as described in Section XI, "Information Systems," in our *Report on Internal Control over Financial Reporting*.

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These deviations represent the DHP's noncompliance with FISMA. By not complying with FISMA, the DHP's security controls may adversely affect the confidentiality, integrity, and availability of information and information systems.

III. The Federal Financial Management Improvement Act of 1996 (FFMIA) (*Repeat Condition*)

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires that an entity's overall financial management systems environment operate, process, and report data in a meaningful manner to support business decisions. Compliance with FFMIA is achieved through substantial compliance with the following three Section 803(a) requirements:

- Federal financial management system requirements
- Applicable Federal accounting standards
- United States Standard General Ledger (USSGL) at the transaction level.

The DHP's financial management systems do not substantially comply with the requirements within FFMIA, as asserted to by management, and as discussed below.

Federal Financial Management Systems Requirements

FFMIA requires reliable financial reporting, including the availability of timely and accurate financial information, and maintaining internal control over financial reporting and financial system security. The matters described in the Basis for Disclaimer of Opinion section in the accompanying *Independent Auditor's Report*, and the material weaknesses reported in the accompanying *Report on Internal Control over Financial Reporting*, represent noncompliance with the requirement for reliable financial reporting.

FFMIA requires financial management systems owners to implement and monitor Federal information system security controls to minimize the impact to the confidentiality, integrity, and availability of the systems and data. The primary means for Federal entities to provide these controls are the implementation and monitoring of controls defined in NIST Special Publication (SP) 800-53, *Recommended Security Controls for Federal Information Systems*. The DHP deviated from recommended controls included in NIST SP 800-53, as discussed in Section XI, "Information Systems," in our *Report on Internal Control over Financial Reporting*. These deviations related to access controls, system and services acquisition, and audit and accountability, which represent instances of noncompliance with information security requirements.

Federal Accounting Standards

FFMIA requires that agency management systems maintain data to support reporting in accordance with Generally Accepted Accounting Principles (GAAP). As identified through our audit procedures and as noted by the DHP in Note 1, *Summary of Significant Accounting*

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Policies, the DHP disclosed several instances where it departed from GAAP. The DHP asserted to the following departures from GAAP:

- Accrual accounting requirements per Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities*, and SFFAS No. 5, *Accounting for Liabilities of The Federal Government*
- Recognition and valuation requirements set forth in SFFAS No. 3, *Accounting for Inventory and Related Property*
- Liability requirements set forth in SFFAS No. 5 and SFFAS No. 12, *Recognition of Contingent Liabilities Arising from Litigation*
- Recognition and valuation requirements set forth in SFFAS No. 6, *Accounting for Property, Plant, and Equipment*
- Revenue recognition requirements set forth in SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*
- Recognition and valuation requirements set forth in SFFAS No. 10, *Accounting for Internal Use Software*
- Reporting and valuation requirements set forth in SFFAS No. 29, *Heritage Assets and Stewardship Land*
- The full cost provisions of SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts*, as amended by SFFAS No. 55, *Amending Inter-Entity Cost Provisions*
- Accounting and reporting requirements associated with restatements per SFFAS No. 21, *Reporting Corrections of Errors and Changes in Accounting Principles*, and OMB Circular A-136, *Financial Reporting Requirements*.

USSGL at the Transaction Level

FFMIA requires that agency management systems record financial events by applying the USSGL guidance in the Treasury Financial Manual (TFM) at the transaction level. The DHP's financial management systems do not always record financial events in accordance with the requirements of USSGL at the transaction level. The DHP has not complied with USSGL requirements in the following instances:

- The DHP uses core accounting systems, which, for certain Components, are not fully compliant with USSGL. Specifically, such accounting systems do not:
  - Accumulate or transmit complete and accurate attribute data to support financial reporting requirements
  - Possess General Ledger Account Codes (GLAC) which match standard USSGL accounts correctly in all instances and require a crosswalk for reporting
- The DHP's financial statements contain material unsupported adjustments processed and recorded during financial statement compilation procedures. The unsupported adjustments do not contain sufficient supporting documentation and/or underlying source data for recording financial events in accordance with USSGL requirements at the transaction level

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- The DHP did not consistently account for stockpile material in accordance with requirements set forth in SFFAS No. 3. The DHP recorded stockpile material as operating expenses within the core accounting system. For additional details, see Section VIII, "Operating Materials and Supplies (OM&S) and Stockpile Material," in our *Report on Internal Control over Financial Reporting*
- Property, Plant, and Equipment (PP&E) capital expenditures were recorded as operating expenses within the core accounting system. The DHP was unable to completely identify capitalized expenses from non-capital expenses to appropriately record internal use software (IUS), including IUS in development, expenditures in accordance with USSGL requirements. For additional details, see Section VII, "Valuation of Property, Plant, and Equipment," in our *Report on Internal Control over Financial Reporting*
- The DHP did not consistently track and accumulate revenue and accounts receivable (AR) data to post general ledger (GL) transactions consistent with USSGL requirements. The DHP had revenue and AR transactions recorded in subsidiary systems which were not recorded in the GL. For additional details, see Section V, "Medical Revenue and Associated Receivables," in our *Report on Internal Control over Financial Reporting*
- The DHP's financial statements included summarized amounts for revenue associated with patient care provided for which no underlying transactional activity is maintained.

IV. The Debt Collection Improvement Act of 1996 (DCIA) (*Repeat Condition*)

The Debt Collection Improvement Act of 1996 (DCIA), as amended by the Digital Accountability and Transparency Act of 2014 (DATA Act), requires that any non-tax debt or claim owed to the U.S. Government that is over 120 days delinquent is required to be reported to the Department of the Treasury (Treasury) for purposes of administrative offset. The DHP did not transfer all outstanding eligible debt in accordance with DCIA requirements. The DHP had debts that were not referred to Treasury despite exceeding the delinquency threshold of 120 days.

As discussed in Section V, "Medical Revenue and Associated Receivables," of the *Report on Internal Control over Financial Reporting*, not all DHP Components are able to support the validity of debt balances associated with medical services provided, which are recorded in the DHP's subsidiary billing and collection system. The internal control weaknesses described demonstrate an increased risk for the DHP to be fully compliant with the requirements of the DCIA. The DHP's inability to sufficiently support the validity of recorded debts limited the extent of audit procedures which could be performed over DCIA requirements.

V. The Antideficiency Act (ADA) (*Repeat Condition*)

The Antideficiency Act (ADA) prohibits Federal agencies from: 1) making or authorizing an expenditure from, or creating or authorizing an obligation under, any appropriation or fund in excess of the amount available in the appropriation or fund unless authorized by law; 2) involving the Government in any obligation to pay money before funds have been appropriated for that purpose, unless otherwise allowed by law; or 3) making obligations or expenditures in excess of an apportionment or reapportionment or in excess of the amount permitted by agency regulations. Per 31 United States Code (U.S.C.) §1351, management is required to immediately

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report violations to the President and Congress, including all relevant facts and a statement of actions taken, as well as transmit a copy of each report to the Comptroller General on the same date. The following issues identified during audit procedures may represent instances of noncompliance with the ADA:

- On August 25, 2020, the DHP, through policy released from the Under Secretary of Defense Health Affairs, formally established administrative subdivisions subject to the ADA. The policy establishes that DHP funds allocated and suballocated constitute a formal administrative submission of funds and are, therefore, subject to ADA. As of the date of this report, procedures have not been published for reporting potential DHP ADA violations. The DHP, upon request, was unable to determine if any ADA violations occurred as of September 30, 2020, subject to the new policy requirements. Through analysis of the DHP's financial data, Military Treatment Facilities (MTF) were identified which have abnormal unobligated balances through March 31, 2020. These instances of exceeding the subdivision of funds at the MTF level may represent ADA violations under the DHP's new policy
- DHP management has identified one potential violation of the ADA, which is in a preliminary review/formal investigation state. This potential violation consists of purpose violations as described above; however, the reporting deadline of the internal preliminary review/formal investigation was not complete as of the date of this report.

* * * * *

Response to Independent Auditor's Report

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE

1200 DEFENSE PENTAGON
WASHINGTON, DC 20301-1200

HEALTH AFFAIRS

Mr. David Zavada
Kearney and Company, P.C.
1701 Duke Street, Suite 500
Alexandria, VA 22314

Dear Mr. Zavada:

Please accept our gratitude for the Kearney and Company team's extensive efforts with the audit of the Defense Health Program (DHP) Fiscal Year (FY) 2020 financial statements. We concur with your audit results and will devise a methodical approach to implementing your sound recommendations.

We are in the process of refining our audit strategy so as to concisely focus on remediation of material weaknesses. We are also formulating a more robust Risk Mitigation and Internal Control program. We acknowledge the material weaknesses identified in your "Independent Auditor's Report on Internal Control over Financial Reporting" and the findings identified in your "Independent Auditor's Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements." We will continue to work to correct, improve and sustain progress of our accounting processes, internal controls, financial systems, and financial reporting.

Although we did not resolve the issues identified in the FY 2019 audit report, we successfully remediated 42 Notifications of Findings and Recommendations (NFRs) comprising 22 percent of our total NFRs. We were also able to sustain an Unmodified Opinion for the eleventh year in a row on our Contract Resource Management financial statements. While those are compelling accomplishments, we are nonetheless committed to ramping up our remediation efforts to achieve more corrective actions. We will continue to proactively seek opportunities to enhance and mature the design and operating effectiveness of our financial processes, systems, and internal controls in order to achieve a clean audit opinion of our DHP financial statements.

We appreciate and extend our sincere thanks to you and your team for their professionalism, due diligence, and commitment.

Sincerely,

Signed

Darrell W. Landreaux
Deputy Assistant Secretary of Defense
for Health Resources Management and Policy

Principal Financial Statements and Notes

These financial statements have been prepared to report the financial position, results of operations, net position, and budgetary resources of DHP, as required by the Chief Financial Officers Act of 1990, expanded by the Government Management Reform Act (GMRA) of 1994, other appropriate legislation, and in accordance with the form and content provided by OMB Circular A-136, *Financial Reporting Requirements*.

The responsibility for the integrity of the financial information contained within these statements' rests with DHP management. Kearney & Company, P.C. (Kearney) was the independent public accountant engaged to audit these financial statements. The Independent Auditor's Report accompanies the principal financial statements and notes.

A brief description of the nature of each required financial statement and the related notes are listed below.

Consolidated Balance Sheets

The Balance Sheets present amounts of current and future economic benefits owned or managed by DHP (assets), amounts owed by DHP (liabilities), and residual amounts which constitute the difference (net position).

Consolidated Statements of Net Cost

The SNC presents the net costs of operations for the four program areas established in the DHP's strategic plan. It also presents reimbursable costs related to services provided to other federal agencies and incurred costs that are not part of DHP's core mission.

Consolidated Statements of Changes in Net Position

The Statements of Changes in Net Position reports the changes in net position during the period. Net position is affected by changes to its two components, unexpended appropriations and cumulative results of operations.

Combined Statements of Budgetary Resources

The SBR provides information about DHP's budgetary resources, status of budgetary resources, and net outlays. The DHP's budgetary resources consist of appropriations and spending authority from offsetting collections. Budgetary resources provide DHP its authority to incur financial obligations that will ultimately result in outlays.

Notes to Financial Statements

Notes to the financial statements communicate information essential for fair presentation of the financial statements that is not displayed on the face of the financial statement.

Balance Sheets

Department of Defense

Defense Health Program

Consolidated Balance Sheets as of September 30, 2020 and 2019

(dollars in thousands)

		Unaudited		
		FY 2020		**FY 2019**
ASSETS (Note 2)				
Intragovernmental:				
Fund Balance with Treasury (Note 3)	$	21,988,560	$	19,580,243
Accounts Receivable (Note 5)		387,740		205,699
Total Intragovernmental Assets	$	22,376,300	$	19,785,942
Cash and Other Monetary Assets (Note 4)		1,128		144
Accounts Receivable, Net (Note 5)		649,161		737,754
Inventory and Related Property, Net (Note 6)		229,040		52,070
General, Property, Plant, and Equipment, Net (Note 7)		3,435,799		3,224,053
Other Assets (Note 8)		8,815		33,171
TOTAL ASSETS	**$**	**26,700,243**	**$**	**23,833,134**
STEWARDSHIP PROPERTY, PLANT, AND EQUIPMENT (Note 1)				
LIABILITIES (Note 9)				
Intragovernmental:				
Accounts Payable	$	302,551	$	183,689
Other Liabilities (Notes 12)		131,503		98,834
Total Intragovernmental Liabilities	$	434,054	$	282,523
Accounts Payable		826,496		932,604
Military Retirement and Other Federal Employment Benefits (Note 10)		272,162,864		256,703,184
Accrued Unfunded Annual Leave (Note 9)		402,665		321,277
Accrued Funded Payroll and Benefits (Note 9)		261,287		226,146
Environmental and Disposal Liabilities (Note 11)		18,378		18,098
Other Liabilities (Note 12)		75,224		86,121
TOTAL LIABILITIES	**$**	**274,180,968**	**$**	**258,569,953**
Commitments and Contingencies (Note 14)				
NET POSITION				
Unexpended Appropriations	$	20,210,256	$	18,603,336
Cumulative Results of Operations		(267,690,981)		(253,340,155)
TOTAL NET POSITION	**$**	**(247,480,725)**	**$**	**(234,736,819)**
TOTAL LIABILITIES AND NET POSITION	**$**	**26,700,243**	**$**	**23,833,134**

The accompanying notes are an integral part of the statements.

Statements of Net Cost

Department of Defense

Defense Health Program

Consolidated Statements of Net Cost for the periods ended September 30, 2020 and 2019

(dollars in thousands)

	Unaudited	
	FY 2020	FY 2019
Program Costs (Note 15)		
Gross Costs	$ 42,948,777	$ 41,334,493
Operations, Readiness & Support	41,021,044	38,554,678
Procurement	399,893	584,071
Research, Development, Test & Evaluation	1,730,542	1,897,228
Family Housing and Military Construction	(202,702)	298,516
(Less: Earned Revenue)	(4,027,367)	(3,845,944)
Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	38,921,410	37,488,549
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits (Note 10)	10,588,841	2,594,626
Net Program Costs Including Assumption Changes	49,510,251	40,083,175
Costs Not Assigned to Programs	-	-
(Less: Earned Revenues) Not Attributed to Programs	-	-
Net Cost of Operations	**$ 49,510,251**	**$ 40,083,175**

The accompanying notes are an integral part of the statements.

Statements of Changes in Net Position

Department of Defense

Defense Health Program

Consolidated Statements of Changes in Net Position for the periods ended September 30, 2020 and 2019

(dollars in thousands)

	Unaudited FY 2020	FY 2019
UNEXPENDED APPROPRIATIONS		
Beginning Balance	$ 18,551,636	$ 19,243,749
Budgetary Financing Sources:		
Appropriations Received	39,749,196	34,500,304
Appropriations Transferred In/Out	(1,742,308)	(50,557)
Other Adjustments	(941,843)	(1,026,566)
Appropriations Used	(35,406,425)	(34,063,594)
Total Budgetary Financing Sources	1,658,620	(640,413)
TOTAL UNEXPENDED APPROPRIATIONS	**$ 20,210,256**	**$ 18,603,336**
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ (253,340,155)	$ (246,794,094)
Prior Period Adjustments:		
Changes in Accounting Principles	830,415	-
Correction of Errors	-	-
Beginning Balance, as adjusted	$ (252,509,740)	$ (246,794,094)
Budgetary Financing Sources:		
Appropriations Used	35,406,425	34,063,594
Non-Exchange Revenue	26,486	(143)
Other Adjustments	28,312	480
Other Financing Sources:		
Transfers-In/Out Without Reimbursement	(1,380,786)	(743,496)
Imputed Financing from Costs Absorbed by Others	246,066	295,741
Other	2,507	(79,062)
Total Financing Sources	34,329,010	33,537,114
Net Cost of Operations	49,510,251	40,083,175
Net Change	(15,181,241)	(6,546,061)
TOTAL CUMULATIVE RESULTS OF OPERATIONS	**$ (267,690,981)**	**$ (253,340,155)**
TOTAL NET POSITION	**$ (247,480,725)**	**$ (234,736,819)**

The accompanying notes are an integral part of the statements.

Statements of Budgetary Resources

Department of Defense

Defense Health Program

Combined Statements of Budgetary Resources for the periods ended September 30, 2020 and 2019

(dollars in thousands)

		Unaudited		
		FY 2020		FY 2019
BUDGETARY RESOURCES				
Unobligated balance from prior year budget authority, net	$	4,943,590	$	6,087,732
Appropriations (discretionary and mandatory)		38,154,673		34,375,804
Spending Authority from offsetting collections (discretionary and mandatory)		3,953,600		3,895,569
TOTAL BUDGETARY RESOURCES	**$**	**47,051,863**	**$**	**44,359,105**
STATUS OF BUDGETARY RESOURCES				
Total New obligations and upward adjustments	$	41,947,437	$	40,085,576
Unobligated balance, end of year:				
Apportioned, unexpired accounts		3,948,860		2,753,443
Exempt from apportionment, unexpired accounts		36		163,066
Unapportioned, unexpired accounts		60		-
Unexpired unobligated balance		3,948,956		2,916,509
Expired unobligated balance		1,155,470		1,357,020
Total Unobligated balance, end of year		5,104,426		4,273,529
TOTAL STATUS OF BUDGETARY RESOURCES	**$**	**47,051,863**	**$**	**44,359,105**
OUTLAYS, NET				
Total outlays, net (discretionary and mandatory)	$	34,619,809	$	34,376,623
Distributed offsetting receipts (-)		3,129		-
AGENCY OUTLAYS, NET (discretionary and mandatory)	**$**	**34,622,938**	**$**	**34,376,623**

The accompanying notes are an integral part of the statements.

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies

1.A. Reporting Entity Mission and Overall Structure

DHP is a component of the U.S. Government. For this reason, some of the assets and liabilities reported by the entity may be eliminated for Government-wide reporting. These financial statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources and legal authority to do so.

DHP is also sub-component of the DoD. The DoD includes the Office of the Secretary of Defense (OSD), Joint Chiefs of Staff (JCS), DoD OIG, Military Departments, Defense Agencies, DoD Field Activities, and CCMDs, which are considered, and may be referred to as, DoD Components. The Military Departments consist of the Departments of the Army, the Navy (of which the Marine Corps is a component), and the Air Force. The Department was established by the National Security Act of 1947. Since the creation of America's first army in 1775, the Department and its predecessor organizations have evolved into a global presence with a worldwide infrastructure dedicated to defending the U.S. by deterring and defeating aggression and coercion in critical regions.

In 2011, the Deputy Secretary of Defense's Task Force on Reform of the MHS led to the creation of the DHA, a CSA and a component of the DHP. In 2013, the DoD issued a directive in accordance with the Deputy Secretary of Defense memorandum formally establishing DHA as part of the DHP, which achieved full operating capability by 2015. In early 2017, in fulfillment of FY 2017 NDAA (P.L. 114-328), the DHA began preparing to assume responsibility for the ADC of MTFs worldwide. The Deputy Secretary of Defense directed ADC of all MTFs and DTFs in the fifty United States and Puerto Rico transfer from the Military Departments to the DHA effective October 25, 2019. The DHP receives its appropriation from Congress, apportioned by the OMB to the Office of the Under Secretary of Defense (Comptroller), who allots these funds to the ASD(HA). The ASD(HA) issues Funding Authorization Documents (FADs) to fund the six financial reporting entities that exist within DHP. These six financial reporting entities collectively support DHP's mission. With this appropriation, DHP strives to promote a medically ready force by supporting a better, stronger, and more agile MHS, providing healthcare support for the full range of military operations, and sustaining the health of all those entrusted to its care. The accompanying financial statements are evaluated annually to determine compliance with Statement of Federal Financial Accounting Standards (SFFAS) 47 and to ascertain whether Federal funds under the control of DHP are being appropriately consolidated into the financial statements of the enterprise, or whether identified disclosure entities or related parties are being appropriately disclosed. Any disclosure entities or related parties identified pertaining to the DHP will be discussed in Note 19, Disclosure Entities and Related Parties. Additionally, it should be noted that military personnel from each of the military services staff the MTF's and are part of the manpower used to generate healthcare services for the DHP.

The DHP's mission is to support the delivery of integrated, affordable, and high-quality health services to its beneficiaries and to drive greater global integration.

Based on DoD Directive 5136.01, the ASD(HA) exercises authority, direction, and control over DHP and directs the use of its appropriations. For purposes of these consolidated and combined financial statements, the following six financial reporting components comprise the DHP FSRE:

MEDCOM: MEDCOM is a major command of the U.S. Army that provides oversight, command and control of the Army's medical readiness programs, fixed-facility medical, dental, and veterinary treatment facilities, medical research and development and training institutions.

Effective FY 2020, the Army Medical Department Center & School (AMEDDC&S) transitioned to the Army's Training and Doctrine Command. The Medical Research and Development Command (MRDC) was aligned under Army Futures Command (AFC) and medical logistics functions were transitioned to the Army Materiel Command. These organizations continue to receive DHP funding distributed through Army MEDCOM/OTSG and are included as a part of the DHP Financial Statements and thus are accounted for within the consolidation entity.

BUMED: BUMED is a global healthcare network of highly trained medical personnel who provide healthcare support to the U.S. Navy, Marine Corps, their families and veterans in high operational tempo environments, at expeditionary medical facilities, military medical treatment facilities, hospitals, clinics, hospital ships and research units around the world. BUMED is led by the Navy Surgeon General and is headquartered in Falls Church, VA. BUMED team of physicians, dentists, nurses, corpsmen, allied health providers, and support personnel also work in tandem with the Army and Air Force medical personnel and coalition forces to ensure the physical and mental wellbeing of service members and civilians. This care is provided via the Defense Health Program and coordinated by the Office of ASD(HA) with support from the DHA.

AFMS: AFMS mission is to ensure medically fit forces, provide expeditionary medics, and deliver Trusted Care to all we serve. The AFMS vision is have their supported population be the healthiest and highest performing segment of the U.S. population.

DHA: The DHA is a joint, integrated CSA that enables MEDCOM, BUMED, and the AFMS to provide a medically ready force and ready medical force to CCMDs in both peacetime and wartime. DHA leads the MHS integrated system of readiness and health to deliver the MHS Quadruple Aim: increased readiness, better health, better care, and lower cost. The DHA oversees the execution of the $37.9 billion DHP appropriation to support the delivery of integrated, affordable, and high-quality health services to the DoD's 9.6 million eligible beneficiaries. The DHA is responsible for driving greater integration of clinical and business processes across the contracted healthcare networks and MTFs. The DHA respects the core values its staff brings while upholding an organizational culture that operates by six guiding principles of transparency, accountability, leading change, empowerment, nurturing, and being team oriented.

The DHA also is accountable for the National Museum of Health and Medicine (NMHM). NMHM is funded and supported by DHP Funding and the J9 DHA Research and Development Directorate and should be accounted for as a part of the DHA's Component financial statements. The DHP acknowledges the existence of the museum, however a current GAAP Departure is also acknowledged in Note 1C of the DHP AFR for the lack of Stewardship reporting of the Museum in the financial statements of DHA and DHP under Stewardship Property Reporting Requirements.

USUHS: The mission of USUHS is to educate, train, and comprehensively prepare uniformed services health professionals, scientists, and leaders to support the Military and Public Health Systems, the national security and national defense strategies of the United States, and the readiness of our Uniformed Services.

Also, USUHS is a health science university of the U.S. federal government under DoD. The university consists of the F. Edward Hébert School of Medicine, a medical school, which includes a full health sciences graduate education program, the Daniel K. Inouye Graduate School of Nursing, the Postgraduate Dental College, and the College of Allied Health Sciences.

CRM: To add value to DHA by delivering exceptional accounting, financial, and reporting services in support of the TRICARE Private Sector Healthcare and TRICARE Retail Pharmacy Refund programs.

To achieve the CRM mission, CRM enables TRICARE beneficiaries to receive healthcare services by remunerating TRICARE contractors in accordance with their contracts in a timely and accurate manner. CRM prepares an accurate accounting of the funding used to support the TRICARE Private Sector Healthcare and TRICARE Retail Pharmacy Refund programs.

1.B. Basis of Accounting and Presentation

Basis of Accounting and Presentation: DHP's fiscal year ends September 30. These financial statements have been prepared to report the financial position, results of operations, net position, and budgetary resources of the DHP, as required by the Chief Financial Officers Act of 1990, expanded by the GMRA of 1994, and other appropriate legislation. The financial statements have been prepared from the books and records of the DHP in accordance with, and to the extent possible, U.S. GAAP promulgated by the Federal Accounting Standards Advisory Board (FASAB); OMB Circular A-136, Financial Reporting Requirements; and the DoD's FMR.

The accompanying financial statements account for all resources for which the DHP is responsible unless otherwise noted. These financial statements, where possible, reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred, without regard to the receipt or payment of cash. Budgetary accounting is designed to recognize the obligation of funds according to legal requirements, which in many cases is made prior to the occurrence of an accrual-based transaction. Budgetary accounting is essential for compliance with legal constraints and controls over the use of federal funds.

However, the DHP is unable to fully implement all elements of U.S. GAAP as promulgated by FASAB and the form and content requirements for federal government entities specified by OMB in Circular A-136, Financial Reporting Requirements, due to limitations of financial and non-financial management processes and systems of certain component entities that support the financial statements. The DHP derives reported values and information for major asset and liability categories largely from nonfinancial systems, such as logistical systems.

The DHP's components' financial management systems used by DHP are unable to meet all full accrual accounting requirements as many of their components' financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of U.S. GAAP. These systems were not designed to collect and record financial information on the full accrual accounting basis as required by U.S. GAAP. These systems were designed to support reporting requirements for maintaining accountability over assets, reporting the status of federal appropriations, and recording information on a budgetary basis, rather than preparing financial statements in accordance with U.S. GAAP. Although the DoD's continued effort towards full compliancy with U.S. GAAP for the accrual method of accounting is encumbered by various systems limitations and the sensitive nature of Departmental activities, the DHP continues to implement process and system improvements addressing these limitations.

The DHP financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of DHP's financial statement reporting entities. The underlying data is largely derived from budgetary transactions (obligations, disbursements, and collections), from nonfinancial feeder systems, and accruals made for major items such as payroll expenses, accounts payable, and environmental liabilities.

The DHP presents *the Consolidated Balance Sheets*, *Statements of Net Costs*, and *Statements of Changes in Net Position* on a consolidated basis which is the summation of the Components less the Eliminations. The *Statements of Budgetary Resources* is presented on a combined basis which is the summation of the Components. The financial transactions are recorded on a proprietary accrual and a budgetary basis of accounting.

The DHP in coordination with DoD Office of the Under Secretary of Defense (Comptroller) (OUSD-C) is continuing to evaluate the effects that will result from fully adopting recent accounting standards and other authoritative guidance issued by FASAB. The pronouncements listed below are expected to have an impact on the DHP's financial statements; however, the DHP is currently unable to determine the full impact.

1. SFFAS 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*: Issued on January 27, 2016; Effective for periods beginning after September 30, 2016. DHP plans to utilize deemed cost to value beginning balances for inventory and related property (I&RP), as permitted by SFFAS 48. Systems required to account for historical cost for I&RP in accordance with SFFAS 3, *Accounting for Inventory and Related Property*, are not yet fully implemented. DHP has not yet adjusted I&RP valuation using alternative methodologies prescribed within SFFAS No. 48. Therefore, DHP has not made an unreserved assertion with respect to this line item.

2. SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, 10, and 23, and Rescinding SFFAS 35*: Issued August 4, 2016; Effective for periods beginning after September 30, 2016.

   DHP plans to utilize deemed cost to value beginning balances for general property, plant and equipment (GPP&E), as permitted by SFFAS 50. However, systems required to account for historical cost for GPP&E in accordance with SFFAS 6, *Accounting for Property, Plant and Equipment*, are not yet fully implemented. Therefore, the DHP is not making an unreserved assertion with respect to this line item.

3. SFFAS 53, *Budget and Accrual Reconciliation: Amending SFFAS 7 and 24, and Rescinding SFFAS 22:* Issued October 27, 2017; Effective for periods beginning after September 30, 2018.

4. SFFAS 54, *Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government and SFFAS 6, Accounting for Property, Plant, and Equipment*: Issued April 17, 2018; Effective for periods beginning after September 30, 2023 (as amended by SFFAS 58). Early adoption is not permitted.

5. Interpretation of SFFAS 9, *Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 & 6*: Issued August 16, 2019; Effective for periods beginning after September 30, 2019. Early adoption is permitted.

6. Technical Bulletin 2017-1, *Intragovernmental Exchange Transactions*: Issued November 1, 2017; Effective upon issuance.

7. Technical Bulletin 2017-2, *Assigning Assets to Component Reporting Entities*: Issued November 1, 2017; Effective upon issuance.

8. Technical Bulletin 2020-1, *Loss Allowance for Intragovernmental Receivables*: Issued February 20, 2020; Effective upon issuance.
9. Technical Release 18, *Implementation Guidance for Establishing Opening Balance*s: Issued October 2, 2017; Effective upon issuance. Staff Implementation Guidance 6.1: Clarification of Paragraphs 40-41 of SFFAS 6, Accounting for Property, Plant, and Equipment, As Amended: Issued July 17, 2018; Effective upon issuance.

Elimination of Intra-Entity Transactions and Balances: Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements in order to prevent overstatement for business with itself. Transactions and balances within a reporting entity (intra-entity) have been eliminated from *the Consolidated Balance Sheets, Consolidated Statements of Net Cost, and the Consolidated Statements of Changes in Net Position*. *The Combined Statements of Budgetary Resources* is presented on a combined basis; therefore, intra-entity transactions and balances have not been eliminated from these statements. Generally, seller entities within the DoD provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal accounting offices. The DoD is implementing replacement systems and a standard financial information structure that will incorporate the necessary elements to enable DHP and other DoD components to correctly report, reconcile, and eliminate intragovernmental balances.

Entity and Non-Entity*:* DHP reports both entity and non-entity assets. Entity assets are assets that the reporting entity has authority to use in its operations. Management may have authority to decide how funds are used or it may be legally obligated to use the funds a certain way. Non-entity assets are not available for use in DHP's normal operations. DHP maintains stewardship accountability and reporting responsibilities for non-entity assets and will forward these non-entity assets to the Treasury or other federal agencies in the future. DHP records a corresponding liability for these accounts receivable, net.

Intragovernmental and Governmental Activities: SFFAS 1, *Accounting for Selected Assets and Liabilities*, defines Intragovernmental and Governmental assets and liabilities. Intragovernmental assets and liabilities arise from transactions among federal entities. Intragovernmental assets are claims other federal entities owe to DHP. Intragovernmental liabilities are claims DHP owes to other federal entities. Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements to prevent overstatement caused by the inclusion of business activity between entity components.

Treasury Financial Manual (TFM), Volume I, Part 2, Chapter 4700, also provides guidance for reporting and reconciling intragovernmental balances.

Governmental assets and liabilities arise from transactions of the federal government or an entity of the federal government with public entities, sometimes referred to as non-federal entities. The term public entities encompass domestic and foreign persons and organizations outside the U.S. Government. Governmental assets are claims of DHP against public entities. Governmental liabilities are amounts that DHP owes to public entities. DHP's proportionate share of public debt and related expenses of the Federal Government is not included. The Federal Government does not apportion debt and its related costs to federal agencies. The DHP's financial statements do not report any public debt, interest, or source of public financing, whether from issuance of debt or tax revenues.

Generally, financing for the construction of DoD facilities is obtained through appropriations. To the extent this financing ultimately may have been obtained through the issuance of public debt, interest costs have not been capitalized since the U.S. Treasury does not allocate such costs to DoD.

Uses of Estimates: DHP's management makes assumptions and reasonable estimates in the preparation of financial statements based on current conditions which may affect the reported amounts. Actual results could differ materially from the estimated amounts.

Discretionary and Mandatory Spending: The DHP has both discretionary and mandatory spending. Discretionary spending is spending provided through an appropriations act(s). Mandatory spending is spending controlled by existing laws other than an appropriations act(s).

Classified Activities: SFFAS 56, *Classified Activities*, allows for certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information. As such, information relative to classified assets, programs, and operations is excluded from the statements or otherwise aggregated and reported in such a manner that it is not discernible.

1.C. Departures from U.S. GAAP

Financial management systems and operations continue to be refined as DHP strives to record and report its financial activity in accordance with U.S. GAAP. DHP is determining the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with U.S. GAAP. One such action is the current revision of its accounting systems to record transactions based on the USSGL. DHP has identified the following departures from U.S. GAAP, several which are pervasive problems within DoD that may not be remediated at the DHP level.

Fund Balance with Treasury (Note 1.H. and Note 3): DHP was not able to identify its undistributed collections and disbursements in a timely manner because DHP shares a Treasury Index (TI)-97 with Other Defense Organizations (ODO) for Treasury reporting. In addition, DHP was not able to record and report transactions in suspense accounts since DHP suspense activity is recorded in shared DoD suspense account. As a result, the DHP is unable to explain discrepancies between its FBwT recorded in its general ledger accounts and the balance in the Treasury's accounts in accordance with SFFAS 1, *Accounting for Selected Assets and Liabilities.*

Accounts Receivable, Net and Revenue Recognition (Notes 1.E. and 1.K. and Note 5): DHP did not have compliant processes in place to account for accounts receivable and the related revenue balances in accordance with SFFAS 1, *Accounting for Selected Assets and Liabilities*, and SFFAS 7, *Accounting for Revenue and Other Financing Sources*. DHP recorded accounts receivable and associated revenue upon the receipt of cash, instead of when earned.

DHP did not have a formal policy and procedures in place to estimate the allowance for uncollectible accounts receivable in accordance with SFFAS 1, *Accounting for Selected Assets and Liabilities and* Technical Bulletin 2020-1*, Loss of Allowance for Intragovernmental Receivables.*

Inventory and Related Property, Net (Note 1.F., 1.L., and Note 6): DHP was not able to properly record and report inventory and related property because its systems were not currently configured to support the management and valuation of all classes of inventory and related property in accordance with SFFAS 3, *Accounting for Inventory and Related Property.*

In addition, inventory and related property beginning balances have not been established using deemed cost as permitted by SFFAS 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials.*

General Property, Plant, and Equipment, Net (Note 1.M. and Note 7): Supportable general property, plant, and equipment, net beginning balances have not been established for facilities, equipment or internal use software using the alternative valuation methods permitted by SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment*.

DHP did not have compliant processes in place to account for general property, plant, and equipment, net, at historical cost, in accordance with SFFAS 6, *Accounting for Property, Plant and Equipment* and SFFAS 10, *Accounting for Internal Use Software*.

DHP also did not have compliant processes in place to record CIP and is currently not all assessing projects to determine if there are capitalizable constructions costs in accordance with SFFAS 6, *Accounting for Property, Plant and Equipment*.

DHP did not have compliant processes in place to account for impairment of facilities and equipment in accordance with SFFAS 44, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use.*

Prior Period Adjustments (Note 1.U., Note 7, and Note 16): DHP did not have compliant processes in place to account for Correction of Errors and Changes in Accounting Principles in accordance with SFFAS 21, *Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources*.

Leases (Note 1.N., Note 13): DHP did not have compliant processes in place to account for capital and operating leases in accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government*, SFFAS 6, *Accounting for Property, Plant and Equipment,* and SFFAS 10, *Accounting for Internal Use Software*.

Stewardship Property, Plant, and Equipment (Note 1.O.)*:* DHP did not have compliant processes for stewardship property, plant, and equipment which includes heritage assets to meet the disclosure requirements of SFFAS 29, *Heritage Assets and Stewardship Land.*

Accounts Payable and Expenses (Note 1.P.): DHP did not have compliant processes in place to account for accounts payable, accruals, and the related expenses in accordance with SFFAS 1, *Accounting for Selected Assets and Liabilities,* and SFFAS 5, *Accounting for Liabilities of the Federal Government*.

Accrued Unfunded Annual Leave (Note 1.R. and Note 9): Due to system limitations, DHP was not able to fully recognize its accrued leave liability in accordance with SFFAS 1, *Accounting for Selected Assets and Liabilities.*

Federal Employees' Compensation Act (FECA) Liabilities (Note 1.P. and Note 10): DHP did not report the FECA actuarial liabilities/expenses and chargeback billings in accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government*.

Environmental and Disposal Liabilities (Note 1.P. and Note 11): DHP did not have compliant processes in place to account for cleanup cost associated with general property, plant, and equipment in accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government*; SFFAS 6, *Accounting for Property, Plant and Equipment*; and Federal Financial Accounting and Auditing Technical Release 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*.

Commitments and Contingencies (Note 1.T. and Note 14): DHP did not have compliant processes in place to account for contingent legal liabilities arising from pending or threatened litigation and all contracts that contained clauses, such as price escalation, awarded fee payments, and/or dispute resolution due to the limited capabilities of the automated system processes to capture potential liabilities in accordance with SFFAS 5, *Accounting for Liabilities of The Federal Government a*nd SFFAS 12, *Recognition of Contingent Liabilities Arising from Litigation: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government.* Further, DHP did not have compliant processes in place to report an estimate of obligations related to canceled appropriations and amounts of contractual arrangements that may require future financial obligations.

DHP is still in the process of evaluating whether or not any treaties or other international agreements that it is party to may give rise to contingent liabilities that should be recognized or disclosed in accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government.*

Consolidated Statements of Net Cost (Note 1.W. and Note 15): DHP did not have compliant processes in place to ensure its Consolidated SNC was presented in accordance with SFFAS 4, *Managerial Cost Accounting Concepts and Standards*, and SFFAS 55, *Amending Inter-Entity Cost Provisions*.

Intra-Entity Activity: DHP did not have compliant processes in place to account for intragovernmental transactions by customer in accordance with SFFAS 4, *Managerial Cost Accounting Concepts and Standards,* SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, and SFFAS 55, *Amending Inter-entity Cost Provisions,* which require that an entity eliminates intra-entity activity and balances from consolidated financial statements in order to prevent overstatement for business with itself.

***Fiduciary Activity**:* DHP did not have a compliant process in place to identify, account for, and report DHP related deposit fund activity maintained at the DoD Agency-Wide level in its financial statements and/or disclose it in a note in accordance with SFFAS 31, *Fiduciary Activities*.

***Budgetary Information**:* DHP did not have compliant processes in place to account for Upward Adjustments of Prior-Year Undelivered Orders (UDO) or adjust obligations for fluctuations in price in accordance with SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*.

***Non-Federal Physical Property**:* DHP acknowledges a departure from GAAP related to non-federal physical property. More information on this departure can be found in the related section within the Required Supplementary Information section of this document.

Insurance Programs (Note 1.S and Note 20): DHP did not have a compliant process in place to account for Insurance Programs in accordance with SFFAS 51, *Insurance Programs.*

1.D. Appropriations and Funds

Appropriations: DHP receives general fund appropriations. General funds are used for financial transactions funded by congressional appropriations, including personnel, O&M, research and development, procurement, and MILCON. DHP uses these appropriations and funds to execute its missions and subsequently report on resource usage.

Deposit Funds: These funds are used to record amounts held temporarily until paid to the appropriate government or public entity. Deposit funds are reported in the consolidated Other Defense Organizations General Fund. As such, DHP does not report deposit fund balances on its financial statements.

Parent-Child Reporting: DHP is a party to allocation transfers with other federal agencies as a transferring (parent) entity or receiving (child) entity. An allocation transfer is an entity's legal delegation of authority to obligate budget authority and outlay funds on its behalf. Generally, all financial activity related to allocation transfers (e.g. budget authority, obligations, outlays) is reported in the financial statements of the parent entity. Exceptions to this general rule apply to specific funds for which OMB has directed that all activity be reported in the financial statements of the child entity. These exceptions include U.S. Treasury-Managed Trust Funds, Executive Office of the President (EOP), and all other funds specifically designated by OMB. In addition to the specific DHP Appropriation, DHP also receives allocation transfers, as the child, and executes funds from the DoD Acquisition Workforce Development Fund (0111), the Global HIV/AIDS Initiative Fund (1030), also known as the U.S. President's Emergency Plan for AIDS Relief (PEPFAR), and the Global Health Program (1031). DHP also allocates funds to the DoD-VA Healthcare Sharing Incentive Fund (0165) which are funds appropriated by Congress to the Department of VA to operate DoD/VA Joint Health Care Centers.

Prior Period Adjustments (PPA): DHP recorded prior period adjustment that increased the FY 2019 beginning balance of a prior year asset – IUSID on the balance sheet. The PPAs are attributable to the Change in Accounting Principle. Refer to Note 16, *Disclosures Related to the Statement of Changes in Net Position.*

COVID-19: On March 11, 2020, a novel strain of Coronavirus, also known as COVID-19 was declared a pandemic by the WHO. As a result, a national emergency was declared in the United States concerning the COVID-19 outbreak on March 13, 2020.

In response to the pandemic, the United States Congress passed a series of Bills including the CARES Act which was signed into law by President Trump on March 27, 2020, to provide aid and economic assistance to individuals, families and businesses across the nation impacted by COVID-19.

DHP was appropriated CARES Act (P.L. 116-136) funding, in the amount of $3.8 billion to prevent, prepare for, and respond to Coronavirus, including to provide additional funds to maintain normal operations and cover other necessary authorized activities during the period that the programs are impacted by the Coronavirus as noted in Note 21. In addition, the Families First Coronavirus Response Act (FFCRA) was passed on March 18, 2020. This bill provided $82 million to DHP for the purpose of providing health services consisting of Severe Acute Respiratory Syndrome Coronavirus 2 (SARS-CoV-2) or COVID-19 related items. DHP expects the funds received under the FFCRA to remain available until September 30, 2022, or until all the funds are used, whichever occurs first.

1.E. Revenue and Other Financing Sources

As a component of the Government-wide reporting entity, DHP is subject to the Federal budget process, which involves appropriations that are provided annually. The financial transactions that are supported by budgetary resources, which include appropriations, are generally the same transactions reflected in agency and the Government-wide financial reports.

DHP's budgetary resources reflect past congressional action and enable the entity to incur budgetary obligations, but they do not reflect assets to the Government as a whole. Budgetary obligations are legal obligations for goods, services, or amounts to be paid based on statutory provisions (e.g., Social Security benefits). After budgetary obligations are incurred, Treasury will make disbursements to liquidate the budgetary obligations and finance those disbursements in the same way it finances all disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

Exchange and Non-exchange Revenue: DHP classifies revenue as either exchange revenue or non-exchange revenue. Exchange revenue is derived from transactions in which DHP provides goods and services to another party for a price; both the federal government and the other party receive value. Exchange revenue is presented on the *Consolidated Statements of Net Cost* and serves to offset the costs of goods and services. Revenue from exchange transactions is required to be recognized at the time DHP provides goods or services to the public or another government entity for a price. Non-exchange revenue is derived from the government's sovereign right to demand payment, such as specifically identifiable, legally enforceable claims. Non-exchange revenue is considered to reduce the cost of DHP operations and is therefore reported on the *Consolidated Statements of Changes in Net Position* as a financing source. Non-exchange revenue is recognized when DHP establishes a specifically identifiable, legally enforceable claim to cash or other assets. It is recognized to the extent that the collection is probable.

Appropriations Used: Most of DHP's operating funds are provided by congressional appropriations of budgetary authority. DHP receives appropriations on annual, multiple fiscal year, and no-year bases. Upon expiration of an annual or multiple fiscal year appropriation, the obligated and unobligated balances retain their fiscal identity, and are maintained separately within an expired account. The unobligated balances can be used to make legitimate adjustments to prior year obligations but are otherwise not available for new obligations. Annual and multiple fiscal year appropriations are canceled at the end of the fifth fiscal year after expiration. No-year appropriations do not expire. Appropriation of budget authority is recognized as used when costs are incurred, for example, when goods and services are received, or benefits and grants are provided. When authorized by legislation, these appropriations are supplemented by revenues generated by sales of goods or services. The DHP recognizes revenue as a result of costs incurred for goods and services provided to other federal agencies and the public. In some instances, revenue is recognized when bills are issued.

Imputed Financing Sources from Cost Absorbed by Others and Imputed Cost: In certain cases, operating costs of the DHP are paid in full or in part by funds appropriated to other federal entities. DHP includes applicable imputed costs in the *Consolidated Statements of Net Cost.* In addition, *Imputed Financing Sources* from *Cost Absorbed by Others* is recognized on the *Consolidated Statements of Changes in Net Position* as other financing source (non-exchange revenue).

DHP has implemented SFFAS 55, *Amending Inter-Entity Cost Provisions*. SFFAS 55 permits entities to no longer recognize imputed costs and corresponding imputed financing from any non-business type activities, except for personnel benefit costs and Treasury Judgement Fund settlement costs. Imputed financing represents the cost paid on behalf of DHP by another federal entities. In accordance to SFFAS 55,the DoD recognizes imputed costs only for business-type activities and other costs specifically required by OMB, including (1) employee pension, post-retirement health, and life insurance benefits; (2) post-employment benefits for terminated and inactive employees, to include unemployment and workers compensation under the FECA; and (3) losses in litigation proceedings that are paid from the Treasury Judgement Fund. Unreimbursed costs of goods and services other than those identified above are not included in the DHP's financial statements. The U.S. has cost-sharing agreements with countries having a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. Fleet is in a port (U.S. allies). However, the DHP does not report the consolidated support provided by U.S. allies for common defense and mutual security on the Consolidated SNC and in Note 18, Reconciliation of Net Cost of Operations to Net Outlays. The DHP acknowledges departures from U.S. GAAP related to Consolidated Statement of Net Cost as discussed in Note 1.C, *Departures from U.S. GAAP*.

Transfer In/(Out): Intragovernmental transfers may include budgetary resources or assets without reimbursement, are recorded at book value, and reported in the *Consolidated Statements of Changes in Net Position.*

Other Financing Sources: DHP receives congressional appropriations as financing sources that expire annually, on a multi-year basis, or do not expire.

1.F. Recognition of Expenses

For financial reporting purposes, DoD policy requires that DHP estimates expenses for major items such as payroll expenses, accounts payable, environmental liabilities, and unbilled revenue in the period in which it is incurred. Estimates are made for major items such as payroll expenses, accounts payable, environmental liabilities, and unbilled revenue. DHP acknowledges a departure from GAAP in its ability accurately estimate and accrue for accounts payable.

In the case of Operating Materiel & Supplies (OM&S), operating expenses are generally recognized when OM&S items are purchased. OM&S is considered tangible personal property to be consumed in normal operations. For the DHP, OM&S encompasses pharmaceuticals, pharmaceutical medical supplies, and non-pharmaceutical medical supplies. The DoD has issued guidance under which Federal entities may expense OM&S using the purchase method of accounting rather than the consumption method. Under the consumption method, OM&S would be expensed when consumed. DHP will continue to perform an assessment to determine whether it meets the criteria to expense OM&S under the purchase method as outlined in SFFAS 3, *Accounting for Inventory and Related Property* in FY 2021.

1.G. Transactions with Foreign Governments and International Organizations

DHP sells services to foreign governments and international organizations under the provision of the Arms Export Control Act of 1976. Under the provisions of the Act, DoD has the authority to sell defense articles and services to foreign governments and international organizations, generally at no profit or loss to the federal government.

1.H. Fund Balance with Treasury

FBwT is an asset of the DHP and a liability of the U.S. Government General Fund. In both cases, the amounts represent commitments by the Government to provide resources for particular programs, but they do not represent net assets to the Government as a whole.

When DHP seeks to use FBwT to liquidate budgetary obligations, Treasury will finance the disbursements in the same way it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

The U.S. Treasury Department performs cash management activities for all Federal Government agencies. FBwT represents the DHP's right to draw funds from the Treasury for allowable expenditures. FBwT also represents the aggregate amount of the DHP's available budget spending authority available to pay current liabilities and finance future authorized purchases. FBwT is increased by the receipt of appropriations and collections and decreased by outlays and fund transfers.

The U.S. Treasury maintains and reports fund balances at the Treasury Index appropriation level. Defense agencies, to include the DHP, are included at the Treasury Index 97 appropriation level, an aggregate level that does not provide identification of the separate defense agencies.

FBwT is classified as unobligated available, unobligated unavailable, or obligated. Unobligated funds, depending on budget authority, are generally available for new obligations in current operations. The unavailable balance represents funds that were appropriated in prior years which are unavailable to fund new and future obligations. The obligated-not-yet-disbursed balance represents amounts designated for payment of goods and services ordered but not yet received, or goods and services received but for which payments have not been made.

The disbursing offices of DFAS, the Military Departments, the U.S. Army Corps of Engineers (USACE), and the Department of State's financial service centers process the majority of the DHP's cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports to the U.S. Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

In addition, DFAS and the USACE Finance Center submit reports to the U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records these transactions to the applicable FBwT account.

FBwT and the accompanying liability for deposit funds are not reported by individual Other Defense Organizations General Fund, but rather reported in the consolidated Other Defense Organizations General Fund. As such, DHP does not report deposit fund balances on its financial statements.

For additional information, see Note 3, *Fund Balance with Treasury.*

1.I. Cash and Other Monetary Assets

Cash is the total of cash resources under the control of the DHP, including coins, paper currency, negotiable instruments, and amounts held for deposit in banks and other financial institutions. Foreign currency consists of the total U.S. dollar equivalent of both foreign currency exchanged for U.S. dollars and foreign currency received as payment for goods or services. Foreign currency is valued using the Treasury prevailing rate of exchange. The TFM Volume I, Part 2, Chapter 3200, provides guidance for accounting and reporting foreign currency.

The majority of cash and all foreign currency is classified as "non-entity" and is restricted. Amounts reported consist primarily of cash and foreign currency held by disbursing officers to carry out their paying, collecting, and foreign currency accommodation exchange missions.

DHP conducts a portion of operations overseas. Congress established a special account to handle the gains and losses from foreign currency transactions for five general fund appropriations: (1) O&M; (2) military personnel; (3) MILCON; (4) family housing O&M; and (5) family housing construction. The gains and losses are calculated as the variance between the exchange rate current at the date of payment and a budget rate established at the beginning of each fiscal year by OUSD-C. Foreign currency fluctuations related to other appropriations require adjustments to the original obligation at the time of payment. The DHP does not separately identify currency fluctuation transactions on its financial statements.

For additional information, see Note 4*, Cash and Other Monetary Assets.*

1.J. Undistributed Disbursements and Collections

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to specific obligations, payables, or receivables in the source systems and those reported by the U.S. Treasury. Supported disbursements and collections have corroborating documentation for the summary-level adjustments made to accounts payable and receivable. Unsupported disbursements and collections do not have supporting documentation for the transaction. However, both supported and unsupported adjustments may have been made to the DoD or component entity in line with DoD accounts payable and receivable trial balances prior to validating underlying transactions.

The DoD policy is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of distributed federal and nonfederal accounts payable and accounts receivable. Supported undistributed disbursements and collections are then applied to reduce accounts payable and receivable accordingly. Unsupported undistributed disbursements are recorded as disbursements in transit and reduce nonfederal accounts payable. Unsupported undistributed collections are recorded in other liabilities due to the public.

1.K. Accounts Receivable, Net

Accounts receivable are amounts due to the DHP from other federal entities or the public.

The method CRM, a component of DHP, uses to calculate the percentage for bad debt allowance on the accounts receivable balances is determined by taking a 12-month average of the accounts receivable balance against the 12-month average on the write off balance per each accounts receivable category. The data from the prior 12-months is used to calculate the percentages for the allowance. Additionally, CRM has one specific account receivable category that follows a different percentage calculation rule, the "Suspended Pharmacy" category. Per a DHA PI directive that prevents CRM's Pharmacy contractor from pursuing collection action against Suspended Pharmacies while under investigation, CRM uses a 100% allowance methodology for calculating the debt against the accounts receivable balance.

The DHP is required to transfer the collection of accounts receivable at 120 days to the U.S. Treasury Department for additional collection efforts. Accounts receivable that are transferred to the U.S. Treasury Department for collection should remain on the DHP's books until the U.S. Treasury Department acknowledges that the debt is uncollectible within two years per DoD FMR to write-off the debt guidance. Once the U.S. Treasury acknowledges that the debt is uncollectible, the DHP will close out the bad debt and take it off their books.

For additional information, see Note 5 *Accounts Receivable.*

1.L. Inventory and Related Property

DHP inventory and related property includes stockpile materials. Stockpile materials are strategic and critical materials held due to statutory requirements or for use in national defense, conservation, or national emergencies. Stockpile materials are not held with the intent of selling in the ordinary course of business. DHP is required to maintain various medications for the DoD in the event a medical epidemic reaches the United States. DHP is in process of assessing operations to identify stockpile material which should be reported, has begun transitioning to the consumption method of accounting from the purchases method of accounting under SFFAS No. 3.

DHP also purchases and consumes a significant volume of operating materials and supplies (OM&S) throughout the DHP. The DHP utilizes a just-in-time inventory system and considers its OM&S at MTFs to be in the hands of the end user for use in normal operations. In accordance with SFFAS No. 3, the DHP uses the purchase method of accounting, directly expensing OM&S upon purchase.

For additional information, see Note 6, *Inventory and Related Property.*

1.M. General Property, Plant, and Equipment, Net

DHP has efforts ongoing to address difficulties in determining the completeness and accuracy of reported balances and providing support for all asset costs in accordance with SFFAS 6, *Accounting for Property, Plant, and Equipment*, and and/or SFFAS 10, *Accounting for Internal Use Software*. Also, DHP does not yet have SFFAS 6 and SFFAS 10 compliant go-forward processes, supportable GPP&E beginning balances have not been established, and DHP management has not made its unreserved assertion in accordance with SFFAS 50, *Establishing Opening Balances for General Property, Plant and Equipment*.

Capitalization Threshold: DHP's GPP&E capitalization threshold is $250 thousand. The capitalization threshold applies to asset acquisitions and modifications/improvements placed into service after September 30, 2013. GPP&E assets acquired prior to October 1, 2013 were capitalized at prior threshold levels ($100 thousand for equipment and $20 thousand for real property) and are carried at the remaining net book value.

Depreciation Method:

Asset Classes	Depreciation/Amortization Method	Service Life
Buildings, Structures, and Facilities	S/L*	35, 40 or 45
Software	S/L	2-5 or 10
Equipment	S/L	5

**Straight line (S/L)*

Buildings, structures, and facilities: Real property in the federal government generally includes land, land improvements, buildings, facilities, and structures. DHP does not own land or land improvements. However, for buildings, facilities, and structures, DHP does not report these types of real property assets per FMP # 19-05. DHP transferred them to the line MilDeps that own the installations on which they reside. DHP is still in the process of transferring its remaining balances in this category.

Equipment and Software: Includes equipment, software purchased, and internal use software meeting the capitalization threshold and expected to be used in the DHP's operations. DHP has not fully developed and executed its accounting policy and related reporting for software and internal use software.

Construction-in-Progress (CIP): DoD requires that DHP components that are the funding entity for construction of an asset report CIP balances in their respective CIP accounts until the asset is placed in service. Completed CIP projects are then transferred to the respective Military Department property holder. The DHP allocates and provides oversight for all its MILCON. The USACE, and Naval Facilities and Engineering Command, and the Air Force Civil Engineering Center are the execution agents for all DHP CIP and related funds received.

Leases: DHP has not fully developed and executed its accounting policy and related reporting requirements for its lease activity. The DHP is in the process of performing an analysis of its lease contracts, but that process has not yet been completed as of September 30, 2020.

For additional information, see Note 7, *General Property, Plant and Equipment.*

1.N. Other Assets

Advances and Prepayments: When advances are permitted by law, legislative action, or presidential authorization, the DHP's policy is to record advances or prepayments. As such, payments made in advance of the receipt of goods and services are reported as assets on the Consolidated Balance Sheets. The DHP's policy is to expense and/or properly classify assets when the related goods and services are received.

For additional information, see Note 8, *Other Assets.*

1.O. Stewardship Property, Plant, and Equipment

Disclosures for stewardship property, plant, and equipment are required under SFFAS 29, *Heritage Assets and Stewardship Land*. DHP has heritage assets. Heritage assets are unique for one or more of the following reasons: (1) historical or natural significance, (2) cultural, educational, or artistic importance, or (3) significant architectural characteristics. Heritage assets are generally expected to be preserved indefinitely. DHP operates the National Museum of Health and Medicine.

For additional information, see Note 1. C., *Departures from U.S. GAAP.*

1.P. Liabilities

Liabilities represent probable and measurable amounts to be paid by DHP because of past transactions and are recognized when incurred, regardless of whether there are budgetary resources available to pay them. However, the liquidation of these liabilities will consume budgetary resources and cannot be made until available budgetary resources have been obligated. Thus, for financial reporting purposes, the liabilities are classified as liabilities covered or not covered by budgetary resources.

Covered and Uncovered Liabilities: Liabilities incurred that are covered by available budgetary resources as of the Consolidated Balance Sheet date are referred to as funded liabilities. Liabilities are covered by budgetary resources if they are funded by appropriations, provided that the resources are apportioned by OMB without further action by the Congress and without a contingency having to be met first. Budgetary resources include: (1) new budget authority, (2) unobligated balances of budgetary resources at the beginning of the year or net transfers of prior-year balances during the year, (3) spending authority from offsetting collections (credited to an appropriation or fund account), and (4) recoveries of unexpired budget authority through downward adjustments of prior-year obligations. Liabilities not covered by budgetary resources, for example future environmental cleanup liability, represent amounts owed in excess of available appropriated funds or other amounts, where there is no certainty that the appropriations will be enacted.

Liabilities that are not covered by available budgetary resources as of the *Consolidated Balance Sheets* date are referred to as unfunded liabilities.

Current and Noncurrent Liabilities: DHP segregates its other liabilities between current and noncurrent liabilities. The current liabilities represent liabilities that the DHP expects to settle within the 12 months of the Balance Sheet date. Noncurrent liabilities represent liabilities that DHP does not expect to be settled within the 12 months of the Balance Sheets date.

Accounts Payable: Accounts payable are amounts primarily owed for goods, services, or capitalized assets received, progress on contract performance by others, and other expenses due.

***FECA Liabilities*:** FECA liabilities provide income and medical cost protection to covered federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases, and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the U.S. Department of Labor (DOL), which pays valid claims against the DHP and subsequently seeks reimbursement from DHP for these paid claims. Therefore, the accrued FECA liability, included in Intragovernmental Other Liabilities, represents amounts due to DOL for claims paid on behalf of DHP. These liabilities are not covered by budgetary resources because funding has not been made available.

In addition, DHP recognizes an actuarial FECA liability. The actuarial FECA liability represents the liability for future workers' compensation (FWC) benefits, which includes the expected liability for death, disability, medical, and miscellaneous costs for approved cases. The liability is determined by DOL annually, as of September 30, using a method that utilizes historical benefits payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Projected annual payments were discounted to present value based on OMB's interest rate assumptions, which were interpolated to reflect the average duration in years for income payments and medical payments.

To provide more specifically for the effects of inflation on the liability for FWC benefits, wage inflation factors (cost-of-living adjustment) and medical inflation factors (consumer price index – medical) are applied to the calculation of projected future benefits. The actual rates for these factors are also used to adjust the historical payments to current-year constant dollars. These liabilities are not covered by budgetary resources because funding has not been made available.

Environmental and Disposal Liabilities: DHP has not fully developed and executed its accounting policy and related reporting for environmental and disposal liabilities. These liabilities are not covered by budgetary resources because funding has not been made available.

For additional information, see Note 9*, Liabilities Not Covered by Budgetary Resources*.

1. Q. Military Retirement and Other Federal Employment Benefits

Military Retirement and Other Federal Employment Benefits provide income and medical benefits to covered military personnel and Federal civilian employees. These actuarial liabilities are not covered by budgetary resources because funding has not yet been made available.

DHP implemented requirements of SFFAS 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*, which directs that the discount rate, underlying inflation rate, and other economic assumptions be consistent with one another. A change in the discount rate may cause other assumptions to change as well. For the September 30, 2020, financial statement valuation, the application of SFFAS 33 required DoD OACT to set the long-term inflation, the Consumer Price Index (CPI), the DHP actuarial liability is adjusted at the end of each fiscal year. The 4th Quarter, FY 2020 balance represents the September 30, 2020 amount that will be effective through 3rd quarter of FY 2021.

For additional information, see Note 10, *Military and Civilian Retirement Benefits*.

1.R. Accrued Unfunded Annual Leave

Accrued leave includes salaries, wages, and other compensation earned by employees, but not disbursed as of September 30, 2020. Annually, as of September 30, the balances of accrued unfunded annual leave are adjusted to reflect current pay rates. Sick leave and other types of non-vested leave are expensed as taken. These liabilities are not covered by budgetary resources because funding has not yet been made available.

1.S. Other Liabilities

SFFAS 51*, Insurance Programs*, established accounting and financial reporting standards for insurance programs. Office of Personnel Management (OPM) administers insurance benefit programs available for coverage to the DoD's civilian employees. The programs are available to Civilian employees, but employees do not have to participate. These programs include life, health, and long-term care insurance.

The life insurance program, Federal Employee Group Life Insurance (FEGLI) plan is a term life insurance benefit with varying amount of coverage selected by the employee. The Federal Employees Health Benefits (FEHB) program is comprised of different types of health plans that are available to Federal employees for individual and family coverage for healthcare. Those employees meeting the criteria for coverage under FEHB may also enroll in the Federal Employees Dental and Vision Insurance Program (FEDVIP). FEDVIP allows for employees to have dental insurance and vision insurance to be purchased on a group basis.

The Federal Long-Term Care Insurance Program (FLTCIP) provides long term care insurance to help pay for costs of care when enrollees need help with activities, they perform every day, or have a severe cognitive impairment, such as Alzheimer's disease. To meet the eligibility requirements for FLTCIP, employees must be eligible to participate in FEHB. However, employees are not required to be enrolled in FEHB.

OPM as the administrating agency, establishes the types of insurance plans, options for coverage, the premium amounts to be paid by the employees and the amount and timing of the benefit received. The DoD has no role in negotiating these insurance contracts and incurs no liabilities directly to the insurance companies. Employee payroll withholding related to the insurance and employee matches are submitted to OPM.

TRICARE is a worldwide healthcare program that provides coverage for Active and Reserve Component Military Service members and their families, survivors, retirees, and certain former spouses. TRICARE brings together the military hospitals and clinics worldwide with a network and non-network TRICARE authorized civilian healthcare professionals, institutions, pharmacies, and suppliers to provide access to healthcare services. TRICARE offers multiple healthcare plans. The Defense Health Program's CRM component serves as the program manager for TRICARE, providing oversight, payment, and management of private sector care administered by contracted claims processors.

For additional information, see Note 12, *Other Liabilities* and Note 20, *Insurance Programs*.

1.T. Commitments and Contingencies

A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. SFFAS 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS 12, *Recognition of Contingent Liabilities Arising from Litigation,* requires contingent liabilities and related expenses to be recognized when a past event has occurred, and a future outflow or other sacrifice of resources is measurable and probable. Further, SFFAS 5, as amended, requires (1) report a contingent liability on the balance sheet when an unfavorable outcome is 'probable,' and (2) disclose a contingent liability in the notes to the financial statements when an unfavorable outcome is 'reasonably possible.' No disclosure is required if the loss from a contingent liability is considered 'remote.'

A contingent legal liability arises from pending or threatened litigation, possible claims, and assessments which could result in monetary loss to an entity. The actual monetary liability in contingent legal cases can be considered case-by-case or as an aggregate of multiple cases.

The DHP's risk of loss and resultant contingent liabilities arising from pending or threatened litigation or claims and assessments are due to events such as medical malpractice, property or environmental damages, and contract disputes.

Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses. The DHP's risk of loss and resultant contingent liabilities arise from pending or threatened litigation or claims and assessments due to events such as aircraft, ship and vehicle accidents; medical malpractice; property or environmental damages; and contract disputes.

DHP executes project agreements pursuant to the framework cooperative agreement with foreign governments. All of these agreements give rise to obligations that are reported in the DoD financial statements, pursuant to legal authority, appropriated funds, and none are contingent. The DoD does not enter into treaties and other international agreements that create contingent liabilities.

For additional information, see Note 14, *Commitments and Contingencies.*

1.U. Net Position

Net position is the residual difference between assets and liabilities and is comprised of Unexpended Appropriations and Cumulative Results of Operations.

Unexpended Appropriations: Unexpended appropriations represent the amounts of budgetary resources that are unobligated and have not been rescinded or withdrawn. Unexpended appropriations also represent amounts obligated for which legal liabilities for payments that have not been incurred.

Cumulative Results of Operations: Cumulative Results of Operations represent the net difference between expenses and losses, and financing sources (including appropriations, revenue, and gains), since inception. The cumulative results of operations also include transfers in and out of assets that were not reimbursed.

Adjustments for the beginning balance of cumulative results of operations due to corrections of errors and changes in accounting principles should be reported in accordance with SFFAS No. 21, Reporting Corrections of Errors and Changes in Accounting Principles. The DHP's beginning balance of cumulative results of operations has been adjusted as a result of ongoing remediation efforts to value PP&E in accordance with historical cost provisions prescribed within SFFAS No. 6, as amended by SFFAS No. 50. DHP did not comply with the requirements of SFFAS No. 21, presenting the adjustment as due to a change in accounting principle, rather than due to the correction of an error.

1.V. Treaties for Use of Foreign Bases

The DHP has the use of land, buildings, and other overseas facilities that are obtained through various international treaties and agreements negotiated by the Department of State. Generally, the treaty terms allow the DHP continued use of these properties until the treaties expire. The DHP purchases capital assets overseas with appropriated funds; however, the host country retains title to the land and capital improvements. In the event treaties or other agreements are terminated, use of the foreign bases is prohibited and losses are recorded for the value of any non-retrievable capital assets. The settlement due to the U.S. or host nation is negotiated and considers the value of capital investments and may be offset by the cost of the environmental cleanup.

1.W. Consolidated Statements of Net Cost

The *Consolidated Statements of Net Cost* represents the net cost of programs that are supported by appropriations or other means. The intent of the *Consolidated Statements of Net Cost* is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. The DHP current processes and systems capture costs based on appropriations groups.

In FY 2019, the DoD completed implementation of SFFAS 55*, Amending Inter-entity Cost Provisions*, which rescinds SFFAS 30, "Inter-Entity Cost Implementation: Amending SFFAS 4, *Managerial Cost Accounting Standards and Concepts* and Interpretation 6, Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS 4." The DoD is in the process of reviewing available data and developing a cost reporting methodology as required by the SFFAS 4*, Managerial Cost Accounting Concepts and Standards for the Federal Government,* as amended.

1.X. Tax Status

DHP is not subject to federal, state, or local income taxes. Accordingly, no provision for income taxes is recorded.

1.Y. Significant Events

On January 23, 2020, DHA memo, "Establishment of DHA Markets and Market Director Authorities," established the following markets in DHA:

- National Capital Region
- Central North Carolina
- Coastal Mississippi
- Jacksonville

Also, the establishment of additional markets was delayed due to COVID-19. For more information, go to Note 21.

Note 2. Non-Entity Assets

Non-entity assets consisted of the following as of September 30, 2020 and 2019 (*dollars in thousands)*:

	Unaudited	
	FY 2020	**FY 2019**
Intragovernmental Assets		
Accounts Receivable	$ -	$ -
Total Intragovernmental Assets	**$ -**	**$ -**
Nonfederal Assets		
Accounts Receivable	$ 1,990	$ 1,989
Total Nonfederal Assets	1,990	1,989
Total Non-Entity Assets	**$ 1,990**	**$ 1,989**
Total Entity Assets	**$ 26,698,253**	**$ 23,831,145**
Total Assets	**$ 26,700,243**	**$ 23,833,134**

Non-entity assets are not available for use in DHP's normal operations. DHP has stewardship accountability and reporting responsibility for non-entity assets, which are included on the balance sheet.

The non-entity accounts receivable due from the public, restricted by nature, consists of refund receivables, interest receivables, penalties and fines, and the related allowance for loss on interest receivables. As receivables are collected, they are deposited to Treasury.

DHP acknowledges various departures from U.S. GAAP as discussed in Note 1.C, *Departures from U.S. GAAP.*

Note 3. Fund Balance with Treasury

Fund balance with Treasury consisted of the following as of September 30, 2020 and 2019 (*dollars in thousands*):

	Unaudited	
	FY 2020	**FY 2019**
Status of Fund Balance with Treasury:		
Unobligated Balance		
Available	$ 3,948,896	$ 2,916,509
Unavailable	1,155,531	1,357,020
Total Unobligated Balance	**$ 5,104,427**	**$ 4,273,529**
Obligated Balance not yet Disbursed	$ 17,432,571	$ 15,868,557
Non-Budgetary Fund Balance with Treasury		
Clearing Accounts	-	-
Deposit Funds	-	-
Non-Entity and Other	-	-
Total Status of Fund Balance with Treasury	**$ 22,536,998**	**$ 20,142,086**
Non-Fund Balance with Treasury Budgetary Accounts		
Unfilled Customer Orders Without Advance	$ (167,623)	$ (166,946)
Receivables and Other	(380,815)	(394,897)
Total Non-Fund Balance with Treasury Budgetary Accounts	**(548,438)**	**(561,843)**
Total Fund Balance with Treasury	**$ 21,988,560**	**$ 19,580,243**

The Treasury records cash receipts and disbursements on the DHP's behalf; funds are available only for the purposes for which the funds were appropriated. The DHP's fund balances with treasury consist of appropriation accounts.

The Status of FBwT reflects the reconciliation between the budgetary resources supporting FBwT (largely consisting of Unobligated Balance and Obligated Balance Not Yet Disbursed) and those resources provided by other means. The Total FBwT reported on the Balance Sheet reflects the budgetary authority remaining for disbursements against current or future obligations.

Unobligated and obligated balances presented in this note may not equal related amounts reported on the Combined SBR because unobligated and obligated balances reported on the Combined SBR are supported by FBwT and other budgetary resources that do not affect FBwT.

Non-FBwT Budgetary Accounts reduce budgetary resources. This amount is comprised of unfilled customer orders without advance of $167.6 million and reimbursements and other income earned and not collected of $380.8 million.

The FBwT reported in the financial statements has been adjusted to reflect DHP's balance as reported by Treasury. The difference between FBwT in DHP's general ledgers and FBwT reflected in the Treasury accounts is attributable to transactions that have not been posted to the individual detailed accounts in DHP's general ledger as a result of timing differences or the inability to obtain valid accounting information prior to the issuance of the financial statements. When research is completed, these transactions will be recorded in the appropriate individual detailed accounts in DHP's general ledger accounts.

For COVID-19 disclosure related information see Note 21, *COVID-19 Activity.*

The DHP acknowledges departures from U.S. GAAP related to FBwT as discussed in Note 1.C, *Departures from U.S. GAAP.*

Note 4. Cash and Other Monetary Assets

Cash and other monetary assets consisted of the following as of September 30, 2020 and 2019 (*dollars in thousands)*:

	Unaudited FY 2020	Unaudited FY 2019
Cash and Other Monetary Assets		
Undeposited Collections	$ 1,128	$ 144
Total Cash and Other Monetary Assets	**$ 1,128**	**$ 144**

Cash and other monetary assets reported are comprised of undeposited collections received by DHP.

Note 5. Accounts Receivable, Net

Accounts receivable, net consisted of the following as of September 30, 2020 and 2019 (*dollars in thousands*):

Unaudited FY 2020	Gross Amount Due	Allowance For Estimated Uncollectible	Accounts Receivable, Net
Intragovernmental Receivables	$ 387,740	$ -	$ 387,740
Receivables due from the Public	855,510	(206,349)	649,161
Total Accounts Receivable	**$ 1,243,250**	**$ (206,349)**	**$ 1,036,901**

Unaudited FY 2019	Gross Amount Due	Allowance For Estimated Uncollectible	Accounts Receivable, Net
Intragovernmental Receivables	$ 205,699	$ -	$ 205,699
Receivables due from the Public	891,718	(153,964)	737,754
Total Accounts Receivable	**$ 1,097,417**	**$ (153,964)**	**$ 943,453**

Accounts Receivable represents DHP's claim for payment from other entities. Claims with other federal agencies are resolved in accordance with the business rules published in Appendix 5 of Treasury Financial Manual, Volume 1, Part 2, Chapter 4700.

Intragovernmental receivables:

Represent amounts due from other federal agencies. The MTFs provide medical services for TRICARE beneficiaries, including those that are dual eligible under Medicare, as well as Federal beneficiaries of the United States Coast Guard (USCG), PHS, National Oceanic and Atmospheric Administration (NOAA), and Department of VA.

Accounts receivable due from the public:

Arises from the provision of care by SMA MTFs which is comprised of the following:

- Third Party Collections (TPC), relates to medical services provided to TRICARE beneficiaries with other health insurance (e.g., from their employers).
- Medical Service Accounts (MSA), Public, includes medical services provided and charged directly to eligible beneficiaries (e.g., coinsurance, copays, elective services). MSA - Public also includes emergency room visits by individuals who are not TRICARE beneficiaries or other eligible agencies.
- Medical Affirmative Claims (MAC), relates to medical services provided when another party is liable (e.g., homeowners or auto liability insurer).

Additionally, as of September 30, 2020 CRM had recorded $193.3 million related to the Standard Discount Program (SDP) and the Additional Discount Program (ADP). The SDP resulted from the implementation of the Federal Ceiling Program for the TRICARE Retail Pharmacy Refunds Program as required by the FY 2008 NDAA, Section 703. The ADP resulted from voluntary agreements between TRICARE and the pharmaceutical manufacturers providing additional discounts above the SDP.

The DHP acknowledges departures from U.S. GAAP related to accounts receivable, net as discussed in Note 1.C, *Departures from U.S. GAAP.*

Note 6. Inventory and Related Property

Inventory and related property consisted of the following as of September 30, 2020 and 2019 (*dollars in thousands*):

	Unaudited	
	FY 2020	FY 2019
Inventory and Related Property		
Stockpile Materiel, Net	$ 229,040	$ 52,070
Total Inventory and Related Property	**$ 229,040**	**$ 52,070**

Stockpile Materiel consist of materials held due to statutory requirements for strategic and critical materiel for use in national defense, conservation, or national emergencies including the National Defense Stockpile Transaction Fund.

Currently DHP accounts for the purchase of stockpile materials using the purchase method of accounting and expenses these items upon purchase instead of when consumed. The $229.0 million of stockpile recorded reflects the efforts of three DHP components which began remediation efforts to record stockpile material using the consumption method of accounting as required by SFFAS 3.

The DHP acknowledges departures from U.S. GAAP related to inventory and related property as discussed in Note 1.C, *Departures from U.S. GAAP*.

Note 7. General Property, Plant, and Equipment, Net

General property, plant, and equipment, net consisted of the following as of September 30, 2020 and 2019 (*dollars in thousands*):

	Unaudited FY 2020				
	Method	**Useful Life**	**Acquisition Value**	**(Accumulated Depreciation / Amortization)**	**Net Book Value**
Major Asset Classes					
Buildings, Structures, and Facilities	S/L	35, 40, or 45	$ -	$ -	$ -
Software	S/L	2-5 or 10	1,049,145	(560)	1,048,585
General Equipment	S/L	5	1,679,952	(1,339,195)	340,757
Capital Leases (Assets)	S/L	Lease Term	3,347	(3,347)	-
Construction-in- Progress	N/A	N/A	2,046,457	-	2,046,457
Other Assets	N/A	N/A	-	-	-
Total General PP&E			**$ 4,778,901**	**$ (1,343,102)**	**$ 3,435,799**

	Unaudited FY 2019				
	Method	**Useful Life**	**Acquisition Value**	**(Accumulated Depreciation / Amortization)**	**Net Book Value**
Major Asset Classes					
Buildings, Structures, and Facilities	S/L	35, 40 or 45	$ 5	$ -	$ 5
Software	S/L	2-5 or 10	1,225	(437)	788
General Equipment	S/L	5	1,730,441	(1,196,198)	534,243
Capital Leases (Assets)	S/L	Lease Term	2,501	(2,501)	-
Construction-in- Progress	N/A	N/A	2,689,017	-	2,689,017
Other Assets	N/A	N/A	-	-	-
Total General PP&E			**$ 4,423,189**	**$ (1,199,136)**	**$ 3,224,053**

Most of DHP's PP&E, net owned or leased by DHP is primarily used to provide high quality, cost effective healthcare services to active forces and other eligible beneficiaries.

The total PP&E and accumulated depreciation for the current year as shown in the reconciliation above.

Buildings, Structures, and Facilities

The DHP facilities range from sophisticated tertiary care medical centers to outpatient and dental clinics and physiological training units. DHP does not report Buildings, Structures, and Facilities on its financial statements. Per FMP # 19-05 the Buildings, Structures and Facilities were transferred to MilDeps that own the installations on which they reside. Refer to 1.M. *General Property, Plant, and Equipment, Net.*

Internal Use Software (IUS)

IUS identified in the schedule as "software" can be purchased from commercial vendors off-the-shelf, modified "off the shelf", internally developed, or contractor developed. Internal Use Software includes software that is used to operate programs (financial and administrative software).

MHS GENESIS is the new electronic health record system that manages military patient health information. MHS GENESIS integrates inpatient and outpatient solutions that will connect medical and dental information across the continuum of care, from point of injury to the MTF. When fully deployed, MHS GENESIS will provide a single health record for service members, veterans, and their families.

In FY 2020, DHP recorded a prior period adjustment for Internal Use Software in Development (IUSID), as the DHP continues efforts to meet historical cost requirements prescribed by SFFAS No. 10, as amended by SFFAS No. 50. The prior period adjustment was not recorded in accordance with requirements set forth in SFFAS No. 21. The DHP acknowledges departures from U.S. GAAP related to prior period adjustments as discussed in Note 1.C, Departures from U.S. GAAP.

Equipment

Dental, surgical, radiographic, and pathologic equipment is essential to providing high quality healthcare services that meet accepted standards of practice. The required safety standards, related laws and regulatory requirements from credentialing and healthcare standard setting organizations influence and affect the requirement for, cost of, and replacement and modernization of medical equipment. DHP also acquires and leases capital equipment for MTFs and participates in other selected healthcare activities such as acquiring equipment for the initial outfitting of a newly constructed, expanded, or modernized healthcare facility; equipment for modernization and replacement of uneconomically reparable items; equipment supporting programs such as pollution control, clinical investigation, and occupational/environmental health; and MHS information technology (IT) requirements.

Capital Leases

In providing healthcare to its patient population, the components of the DHP sometimes lease medical equipment for use within its facilities. This medical equipment consists of items such as digital radiography x-ray systems and computerized axial tomography scanners.

Construction-In-Progress

The DHP often encounters the need to obtain fixed assets through the process of construction. Costs related to constructed assets of the DHP are recorded as CIP until such a time as construction is completed and the asset can either be transferred to its intended entity or is placed into service.

For the year ended September 30, 2020, DHP identified 11 completed projects, valued at $302.6 million, which are pending transfer to the appropriate MILDEP in accordance with FMP # 19-05".

Other Disclosures

The DHP has the use of overseas facilities that are obtained through various international treaties and agreements negotiated by the Department of State. Generally, treaty terms allow DHP continued use of these properties until the treaties expire. There are no other known restrictions on general property, plant, and equipment.

Year to date depreciation and amortization expense totaled $119.0 million for the year ended, September 30, 2020.

General PP&E, Net – Summary of Activity

General property, plant, and equipment, net consisted of the following as of September 30, 2020 (*dollars in thousands*):

	Unaudited FY 2020	Unaudited FY 2019
General PP&E, Net Beginning of Year	**$ 3,224,053**	**$ N/A**
Capitalized acquisitions	263,281	N/A
Dispositions	-	N/A
Revaluations (+/-)	1,437,465	N/A
Depreciations expense	(119,004)	N/A
Transfers in/(out) without reimbursement	(1,369,996)	N/A
General PP&E, Net end of year	**$ 3,435,799**	**$ N/A**

The DHP acknowledges departures from U.S GAAP related to general property, plant, and equipment, net as discussed in Note 1.C, *Departures from U.S. GAAP.*

Note 8. Other Assets

Other assets consisted of the following as of September 30, 2020 and 2019 (*dollars in thousands)*:

	Unaudited FY 2020	Unaudited FY 2019
Intragovernmental		
Other Assets (Intragovernmental)	$ -	$ -
Other Assets		
Advances and Prepayments	$ 8,815	$ 33,169
Other Assets (With the Public)	-	2
Total Other Assets	**$ 8,815**	**$ 33,171**

Advances and Prepayments are payments made in advance for payroll and travel.

Note 9. Liabilities Not Covered by Budgetary Resources

Liabilities covered and not covered by budgetary resources consisted of the following as of September 30, 2020 and 2019 (*dollars in thousands)*:

	Unaudited	
	FY 2020	**FY 2019**
Liabilities not Covered by Budgetary Resources:		
Intragovernmental		
Other Liabilities	$ 46,599	$ 48,049
Total Intragovernmental	**$ 46,599**	**$ 48,049**
Nonfederal		
Accounts Payable	$ 108,796	$ 106,507
Military Retirement and Other Federal Employment Benefits	272,162,706	256,703,026
Accrued Unfunded Annual Leave	402,665	321,278
Environmental and Disposal Liabilities	18,378	18,098
Other Liabilities	398	46
Total Nonfederal	**$ 272,692,943**	**$ 257,148,955**
Total Liabilities Not Covered by Budgetary Resources	**$ 272,739,542**	**$ 257,197,004**
Total Liabilities Covered by Budgetary Resources	**$ 1,441,426**	**$ 1,372,949**
Total Liabilities	**$ 274,180,968**	**$ 258,569,953**

Liabilities not covered by budgetary resources are liabilities not currently funded by existing budgetary authority as of the balance sheet date. Budgetary authority to satisfy these liabilities is expected to be provided in a future Defense Appropriations Act.

Intragovernmental Liabilities – Other

These consist primarily of unfunded liabilities for FECA, Judgement Fund and unemployment compensation.

Non-Federal Liabilities – Accounts Payable

Primarily represents liabilities in canceled appropriations, which if paid, will be disbursed using current year funds.

Non-Federal Liabilities – Military Retirement and Other Federal Employment Benefits

These consists of various employee actuarial liabilities not due and payable during the current fiscal year. In FY 2020, these liabilities primarily consist of $270.3 billion in health benefit liabilities. In FY 2019 these liabilities primarily consist of $254.8 billion in health benefit liabilities Refer to Note 10, *Military Retirement and Other Federal Employment Benefits*, for additional details and disclosures.

Non-Federal Liabilities – Environmental and Disposal Liabilities

Represents DHP's liability for existing and estimates related to future events for environmental and clean-up and disposal. Refer to Note 11, *Environmental and Disposal Liabilities*, for additional details and disclosures.

Accrued Unfunded Annual Leave

Represents the DHP's estimated liability at the end of the current period for earned but unpaid and unfunded annual leave.

Nonfederal – Other

Represents various contingent liability amounts booked by AFMS.

For COVID-19 disclosure related information see Note 21, *COVID-19 Activity*.

The DHP acknowledges departures from U.S. GAAP related to various liabilities as discussed in Note 1.C, *Departures from U.S. GAAP*.

Note 10. Military Retirement Benefits and Other Federal Employment Benefits

Military retirement and other federal employment benefits consisted of the following as of September 30, 2020 and 2019 (*dollars in thousands)*:

	Unaudited	
	FY 2020	FY 2019
	Unfunded Liabilities	
Pension and Health Benefits		
Military Pre Medicare-Eligible Retiree Health Benefits	$ 270,264,694	$ 254,832,838
Total Pension and Health Benefits	**$ 270,264,694**	**$ 254,832,838**
Other Benefits		
FECA	$ 180,590	$ 196,464
Other	1,717,580	1,673,882
Total Other Benefits	**$ 1,898,170**	**$ 1,870,346**
Total Military Retirement and Other Federal Employment Benefits	**$ 272,162,864**	**$ 256,703,184**

The Actuarial Liability consists of the following as of September 30, 2020 and 2019 (*dollars in thousands*):

	Unaudited	
	FY 2020	FY 2019
	Military Pre Medicare-Eligible Retiree Health Benefits	
Beginning Actuarial Liability	$ 254,832,838	$ 249,693,998
Expenses		
Normal Cost	$ 10,746,861	$ 10,357,828
Interest Cost	9,103,914	9,166,847
Plan Amendments	-	-
Actuarial Experience Gains	(3,977,147)	(6,049,443)
Other Factors	1	-
Total Expenses before Gains from Actuarial Assumptions Changes	**$ 15,873,629**	**$ 13,475,232**
Actuarial Assumption Changes	**-**	**-**
Changes in Trend Assumptions	$ 5,390,748	$ (232,024)
Changes in Assumptions Other than Trend	5,198,093	2,826,650
Total (gains) from Actuarial Assumption Changes	**$ 10,588,841**	**$ 2,594,626**
Total Expenses	**$ 26,462,470**	**$ 16,069,858**
Less: Benefit Outlays	11,030,614	10,931,018
Total Changes in Actuarial Liability	**$ 15,431,856**	**$ 5,138,840**
Ending Actuarial Liability	**$ 270,264,694**	**$ 254,832,838**

Military Retirement and Other Federal Employment Benefits provide income and medical benefits to covered military personnel and Federal civilian employees. These actuarial liabilities are not covered by budgetary resources because funding has not yet been made available. The DoD Office of the Actuary (DoD OACT) calculates this actuarial liability at the end of each fiscal year using the current active and retired population plus assumptions about future demographic and economic conditions.

The schedules above reflect two distinct types of liabilities related to Military Retirement and Other Federal Employment Benefits. The line entitled “Military Pre Medicare-Eligible Retiree Health Benefits” represents the actuarial (or accrued) liability for future healthcare benefits provided to non-Medicare-eligible retired beneficiaries that are not yet incurred. The line entitled “Other” includes two reserves, a small retiree life insurance reserve ($215 thousand in FY 2020) for a closed group of USUHS retirees and the incurred-but-not-reported reserve (IBNR), which is an estimate of benefits already incurred but not yet reported to DoD for all Defense Health Program (DHP) beneficiaries (excluding those from the retiree population who are Medicare-eligible).

Effective FY 2010, the DHP implemented requirements of SFFAS 33, which directs that the discount rate, underlying inflation rate, and other economic assumptions be consistent with one another. A change in the discount rate may cause other assumptions to change as well. For the September 30, 2020, financial statement valuation, the application of SFFAS 33 required DoD OACT to set the long-term inflation (CPI) to be consistent with the underlying Treasury spot rates used in the valuation.

The DHP actuarial liability is adjusted at the end of each fiscal year. The 4th Quarter, FY 2020 balance represents the September 30, 2020 amount that will be effective through 3rd quarter of FY 2021.

Actuarial Cost Method: As prescribed by SFFAS 5, the valuation of the DHA Military Retirement Health Benefits is performed using the Aggregate Entry Age Normal (AEAN) cost method. AEAN is a method whereby projected retiree medical plan costs are spread over the projected service of a new entrant cohort.

Assumptions: For the FY 2020 financial-statement valuation, the long-term assumptions include a 3.3% discount rate and medical trend rates that were developed using a 1.6% inflation assumption. Note that the term 'discount rate' refers to the interest rate used to discount cash flows. The terms 'interest rate' and 'discount rate' are often used interchangeably in this context.

For the FY 2019 financial-statement valuation, the long-term assumptions included a 3.5% discount rate and medical trend rates that were developed using a 1.8% inflation assumption.

The change in the long-term assumptions is due to the application of SFFAS 33. This applicable financial statement standard is discussed further below. The standard is discussed further below. Other assumptions used to calculate the actuarial liabilities, such as mortality and retirement rates, were based on a blend of actual experience and future expectations. Because of reporting deadlines and as permitted by SFFAS 33, the current year actuarial liability is rolled forward from the prior year valuation results using accepted actuarial methods. This roll-forward process is applied annually. In calculating the FY 2020 "rolled-forward" actuarial liability, the following assumptions were used:

Discount Rate	3.3%	
Inflation	1.6%	
Medical Trend (Non-Medicare)	**FY 2019 – FY 2020**	**Ultimate Rate FY 2044**
Direct Care Inpatient	1.43%	3.60%
Direct Care Outpatient	1.66%	3.60%
Direct Care Prescription Drugs	3.60%	3.60%
Purchased Care Inpatient	0.27%	3.60%
Purchased Care Outpatient	0.16%	3.60%
Purchased Care Prescription Drugs	4.63%	3.60%
Purchased Care USFHP	1.28%	3.60%

After a 25 year select period, an ultimate trend rate is assumed for all future projection years.

The DHP actuarial liability increased $15.4 billion (6.1%). This resulted from the net effect of: an increase of $8.8 billion due to expected increases (interest cost plus normal cost less benefit outlays), an increase of $10.6 billion due to changes in key assumptions; and a decrease of $4.0 billion due to actual experience being different from what was assumed (demographic and claims data).

DoD complies with SFFAS 33, "Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates." The standard requires the separate presentation of gains and losses from changes in long-term assumptions used to estimate liabilities associated with pensions, other retirement and other postemployment benefits. SFFAS 33 also provides a standard for selecting the discount rate and valuation date used in estimating these liabilities. SFFAS 33, as published on October 14, 2008, by the Federal Accounting Standards Advisory Board (FASAB) requires the use of a yield curve based on marketable U.S. Treasury Securities to determine the discount rates used to calculate actuarial liabilities for federal financial statements. Historical experience is the basis for expectations about future trends in marketable Treasury securities.

The statement is effective for periods beginning after September 30, 2009 and applies to information provided in general purpose federal financial statements. It does not affect statutory or other special-purpose reports, such as Pension or Other Retirement Benefit reports. SFFAS 33 requires a minimum of five periodic rates for the yield curve input and consistency in the number of historical rates used from period to period. It permits the use of a single average discount rate if the resulting present value is not materially different from what would be obtained using the yield curve.

For the September 30, 2020 financial-statement valuation, DoD OACT determined a single equivalent discount rate of 3.3% by using a 10-year average of quarterly zero-coupon Treasury spot rates. These spot rates are based on the U.S. Department of the Treasury – Office of Economic Policy's 10-year Average Yield Curve for Treasury Nominal Coupon Issues (TNC yield curve), which represents average rates from April 1, 2010 through March 31, 2020.

The DHP acknowledges departures from U.S. GAAP related to FECA liabilities as discussed in Note 1.C, *Departures from U.S. GAAP.*

Note 11. Environmental and Disposal Liabilities

Environmental and Disposal Liabilities consisted of the following as of September 30, 2020 and 2019 (*dollars in thousands)*:

	Unaudited	
	FY 2020	**FY 2019**
Environmental Liabilities – Nonfederal		
Nuclear Powered Military Equipment / Spent Nuclear Fuel	$ 16,740	$ 16,854
Environmental Corrective Action / Closure Requirements	281	-
Other Accrued Environmental Liabilities - Non-BRAC	1,357	1,244
Total Environmental Liabilities	**$ 18,378**	**$ 18,098**

Applicable laws and regulations for cleanup requirements:

(a) Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA, P. L. 96-510)
(b) Superfund Amendments and Reauthorization Act (SARA, P. L. 99-499)
(c) Clean Water Act of 1977 (P. L. 95-217)
(d) Safe Drinking Water Act (P. L. 93-523)
(e) Clean Air Act (P. L. 88-206)
(f) Resource Conversation and Recovery Act of 1976 (RCRA, P.L. 94-580)
(g) Toxic Substances Control Act (TSCA, P. L. 94-469)
(h) Medical Waste Tracking Act of 1988 (P. L. 100-582)
(i) Atomic Energy Act of 1946 (P.L. 79-585) as amended
(j) Nuclear Waste Policy Act of 1982 (P. L. 97-425)
(k) Low Level Radioactive Waste Policy Amendments Act of 1985 (P. L. 99-240)

DHP is required to clean up contamination from past waste disposal practices, leaks, spills, and other activity resulting in public health or environmental risk. DHP accomplishes this effort in coordination with regulatory agencies and, if applicable, other responsible parties and current property owners. DHP is also required to recognize closure and post-closure costs for its PP&E, and environmental corrective action costs for current operations. Each of DHP's major reporting entities is responsible for tracking and reporting all required environmental information related to environmental restoration costs, other accrued environmental costs, disposal costs of weapon systems, and environmental costs related to BRAC actions.

DHP follows the CERCLA, SARA, RCRA, and other applicable federal or state laws to clean up contamination. The CERCLA and RCRA require DHP to clean up contamination in coordination with regulatory agencies, current owners of property damaged by DHP and third parties with partial responsibility for environmental restoration. Failure to comply with agreements and legal mandates puts DHP at risk of incurring fines and penalties.

The Nuclear Waste Policy Act of 1982 requires owners and generators of high-level nuclear waste and spent nuclear fuel to pay their share of the cost of the program. The Low-Level Radioactive Waste Policy Amendments Act of 1985 provides for the safe and efficient management of low-level radioactive waste.

For DHP the types of environmental liabilities and disposal liabilities are identified as nuclear or non-nuclear. Nuclear liabilities arise from a research reactor and irradiators. Non-nuclear liability arises from medical and chemical cleanup. The revised estimated liabilities at the end of FY 2020 is $18.4 million.

DHP is not aware of any pending changes but the liability can change in the future due to changes in laws and regulations, changes in agreements with regulatory agencies, and advances in technology.

Accounting estimates for environmental liabilities use reasonable judgments and assumptions based on available information. Actual results may materially vary if agreements with regulatory agencies require remediation to a different degree than anticipated when calculating the estimates. Liabilities can be further affected if investigation of the environmental sites reveals contamination levels differing from estimate parameters.

DHP acknowledges departures from U.S GAAP related to environmental and disposal liabilities as discussed in Note 1.C, *Departures from U.S. GAAP*.

Note 12. Other Liabilities

Other liabilities consisted of the following as of September 30, 2020 and 2019 (*dollars in thousands*):

	Unaudited FY 2020 Current Liability	Unaudited FY 2020 Non-Current Liability	Unaudited FY 2020 Total
Other Liabilities			
Intragovernmental			
Advances from Others	$ 32,554	$ -	$ 32,554
FECA Reimbursements due to DOL	20,123	24,602	44,725
Employer Contribution and Payroll Taxes Payable	50,849	-	50,849
Other Liabilities	2,149	1,226	3,375
Total Intragovernmental Other Liabilities	**$ 105,675**	**$ 25,828**	**$ 131,503**
Due to the Public			
Advances from Others	$ 46,908	$ 883	$ 47,791
Employer Contribution and Payroll Taxes Payable	22,850	-	22,850
Other Liabilities	3,905	678	4,583
Total Due to the Public Other Liabilities	**$ 73,663**	**$ 1,561**	**$ 75,224**
Total Other Liabilities	**$ 179,338**	**$ 27,389**	**$ 206,727**

	Unaudited FY 2019 Current Liability	Unaudited FY 2019 Non-Current Liability	Unaudited FY 2019 Total
Other Liabilities			
Intragovernmental			
Advances from Others	$ 15,803	$ -	$ 15,803
FECA Reimbursements due to DOL	20,979	25,684	46,663
Employer Contribution and Payroll Taxes Payable	32,994	-	32,994
Other Liabilities	3,374	-	3,374
Total Intragovernmental Other Liabilities	**$ 73,150**	**$ 25,684**	**$ 98,834**
Due to the Public			
Advances from Others	$ 54,394	$ 2,591	$ 56,985
Employer Contribution and Payroll Taxes Payable	22,009	-	22,009
Other Liabilities	7,080	47	7,127
Total Due to the Public Other Liabilities	**$ 83,483**	**$ 2,638**	**$ 86,121**
Total Other Liabilities	**$ 156,633**	**$ 28,322**	**$ 184,955**

Advances from Others

The balance represents liabilities for collections received to cover future expenses or acquisition of assets DHP incurs or acquires on behalf of another organization.

Federal Employees' Compensation Act Reimbursement to the DOL

The balance represents liabilities due under the FECA. The liability includes amounts for unbilled incurred and estimated accruals. Refer to Note 10, Military Retirement and Other Federal Employment Benefits, for the estimated FECA actuarial liability.

The DHP acknowledges departures from U.S. GAAP related to FECA reimbursements as discussed in Note 1.C*, Departures from U.S. GAAP.*

Custodial Liabilities

This balance represents liabilities for collections reported as non-exchange revenues where DHP is acting on behalf of another Federal entity.

Employer Contributions and Payroll Taxes Payable

This balance represents the employer portion of payroll taxes and benefit contributions for health benefits, retirement, life insurance and voluntary separation incentive payments.

Intragovernmental Other Liabilities

This balance primarily consists of unemployment compensation liabilities.

Accrued Funded Payroll and Benefits

This includes accrued funded payroll of $261.3 million and unfunded annual leave liability of $402.7 million, reported on the face of the Balance Sheet, that fluctuates quarter to quarter based on use of annual leave by civilian personnel and is what primarily makes up the balance of the other liabilities line of this note.

Environmental Liability

This is a part of the Non-Environmental Disposal liability related to the final disposition of equipment, munitions, and other national defense weapon systems that are considered non-nuclear. Disposal measurements involve the use of cost estimates that consider the anticipated level of effort required to dispose of the item.

Life Insurance Liabilities and Other Insurance Programs

DHP'S life and other insurance programs covering civilian employees are provided through the OPM. DHP does not negotiate the insurance contracts and incurs no liabilities directly to the insurance companies. Employee payroll withholdings related to the insurance and employer matches are submitted to OPM.

For COVID-19 disclosure related information see Note 21, *COVID-19 Activity.*

Note 13. Leases

Capital Leases

Leases consisted of the following as of September 30, 2020 and 2019 respectively (*dollars in thousands*):

ENTITY AS LESSEE-Capital Leases	Unaudited FY 2020	FY 2019
Land and Buildings	$ -	$ -
Machinery and Equipment	3,347	2,501
Other	-	-
Accumulated Amortization	(3,347)	(2,501)
Total Assets Under Capital Leases	$ -	$ -

DHP is reporting capital lease equipment and related amortization related to an arrangement allowing DHP access to digital radiographic systems and full body computed tomography scanning systems.

The DHP acknowledges departures from U.S. GAAP related to leases as discussed in Note 1.C., *Departures from U.S. GAAP.*

Note 14. Commitments and Contingencies

DHP is a party to various administrative proceedings and legal actions related to healthcare claims payments, accidents, environmental damage, equal opportunity matters and contractual bid protests which may ultimately result in settlements or decisions adverse to the federal government. These proceedings and actions arise in the normal course of operations and their ultimate disposition is unknown.

Amounts disclosed for litigation claims and assessments are fully supportable and agree with DHP's legal representation letters and management summary schedule.

DHP will disclose an estimate of obligations related to cancelled appropriations for which the DHP has a contractual commitment for payment and amounts for contractual arrangements which may require future financial obligations, when there are any.

DHP will disclose amounts for potential future obligations such as contractual arrangements for fixed price contracts with escalation, price redetermination, or incentive clauses; contracts authorizing variations in quantities; and contracts where allowable interest may become payable based on contractor claims under the "Disputes" clause contained in contracts, when there are any. Amounts disclosed will represent future potential liabilities and will not include amounts already recognized as contingent liabilities.

There are two reasonably possible cases or claims pending meeting the requirements for disclosure.

Bio-Medical Applications of Georgia, Inc., et al. v. United States (Court of Federal Claims). Plaintiffs challenge the DHA's payment methodology for End Stage Renal Disease dialysis treatments at freestanding dialysis facilities. Plaintiffs filed the Complaint on June 28, 2019. The Complaint alleges breach of contract, breach of the covenant of good faith and fair dealings, and violations of a money-mandating regulation. On April 16, 2020, in an oral ruling, the Court of Federal Claims granted the Government's Motion to Dismiss in part and dismissed Counts II (breach of contract) and III (breach of the covenant of good faith and fair dealings). The Government filed its Answer on July 8, 2020, and the parties will proceed with discovery in the near future. The estimated amount or range of potential loss is unknown.

4DD Holdings, LLC and T4 Data Group, LLC v. United States (Court of Federal Claims). Plaintiffs allege infringement of its copyrights by cloning, copying and installing 4DD's proprietary software program - TETRA® Healthcare Federator (TETRA) – on servers and other computing devices with thousands of processor cores for which licenses were not purchased. The Complaint was filed on August 28, 2015, and an Amended Complaint on March 14, 2016. The Government filed its Answers. On June 24, 2016, the Government filed a partial Motion to Dismiss for Lack of Jurisdiction, which the Court denied near the close of discovery on April 23, 2019. On the same day, the Court granted plaintiffs' motion for sanctions upon finding that the Government failed to properly preserve relevant evidence. The parties are conducting expert discovery, and plaintiffs served Opening Expert Reports on the Government in August. The estimated range of the potential loss is $1.0 billion to $5.0 billion.

Additionally, DHP is advised that there are situations where counsel was not able to express an opinion concerning the likely outcome of a case. As such, the DHP did not make an estimate of any probable or reasonably possible loss contingencies through its respective legal counsel.

Furthermore, medical malpractice claims and settlements arising from the activities of the BUMED, AFMS, and MEDCOM are paid either by funds appropriated directly to the military service lines and/or the Department of Treasury's Judgement Fund.

The DHP cannot estimate the amount of UDOs for open contracts citing cancelled appropriations.

The table below summarizes the DHP's reasonably possible contingent liabilities as of September 30, 2020 and 2019 (*dollars in thousands*):

	FY 2020		
		Estimated Range of Loss	
	Accrued Liabilities	Lower End	Upper End
Legal Contingencies			
Probable	$ N/A	$ -	$ -
Reasonably Possible	N/A	1,000,000	5,000,000
Total	**$ N/A**	**$ 1,000,000**	**$ 5,000,000**

	FY 2019		
		Estimated Range of Loss	
	Accrued Liabilities	Lower End	Upper End
Legal Contingencies			
Probable	$ N/A	$ -	$ -
Reasonably Possible	N/A	-	-
Total	**$ N/A**	**$ -**	**$ -**

DHP acknowledges departures from U.S GAAP related to the commitment and contingencies as discussed in Note 1.C, *Departures from U.S. GAAP*.

Note 15. Disclosures Related to the Statements of Net Cost

Department of Defense
Defense Health Program
Cost and Exchange Revenue by Major Program for the year ended September 30, 2020 and 2019
(dollars in thousands)

	Unaudited	
	FY 2020	FY 2019
Program Costs		
Operations, Readiness and Support		
Gross Costs	$ 41,021,044	$ 38,554,678
Less: Earned Revenue	(4,012,013)	(3,803,713)
Net Program Cost	$ 37,009,031	$ 34,750,965
Procurement		
Gross Cost	$ 399,893	$ 584,071
Less: Earned Revenue	(2,791)	(16,335)
Net Program Cost	$ 397,102	$ 567,736
Research, Development, Test and Evaluation		
Gross Cost	$ 1,730,542	$ 1,897,228
Less: Earned Revenue	(12,563)	(25,895)
Net Program Cost	$ 1,717,979	$ 1,871,333
Family Housing and Military Construction		
Gross Cost	$ (202,702)	$ 298,516
Less: Earned Revenue	-	-
Net Program Cost	$ (202,702)	$ 298,516
Total Gross Costs	**$ 42,948,777**	**$ 41,334,493**
Less: Total Earned Revenue	(4,027,367)	(3,845,944)
Net Program Costs	$ 38,921,410	$ 37,488,549
Gain on pension, ORB, or OPED Assumption Changes (Note 10)	10,588,841	2,594,626
NET COST OF OPERATIONS	**$ 49,510,251**	**$ 40,083,175**

The DHP's current processes and systems capture costs based on appropriations groups as presented in the schedule above. The lower level costs for major programs are not presented as required by the Government Performance and Results Act of 1993 (P. L. 103–62). The DHP is in the process of reviewing available data and developing a cost reporting methodology as required by the SFFAS 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, as amended by SFFAS 55, *Amending Inter-Entity Cost Provisions.*

DHP implemented SFFAS 55 in FY 2018 which rescinded SFFAS 30*, Inter-Entity Cost Implementation*: Amending SFFAS 4, *Managerial Cost Accounting Standards and Concepts* and Interpretation 6, Accounting for Imputed Intra-Departmental Costs: An Interpretation of SFFAS 4.

DHP accounting systems generally do not capture information relative to heritage assets separately and distinctly from normal operations.

DHP's Military Retirement and post-employment costs are reported in accordance with SFFAS 33. The standard requires the separate presentation of gains and losses from changes in long-term assumptions used to estimate liabilities associated with pensions, other retirement benefits and other postemployment benefits on the SNC.

DHP acknowledges departures from U.S GAAP related to managerial cost accounting as discussed in Note 1.C, *Departures from U.S. GAAP.*

Exchange Revenue

DHP has no disclosed exchange revenue pricing and loss information in accordance with SFFAS 7, paragraph 46, since DHP uses full cost or market pricing for all exchange transactions.

Inter-Entity Costs

DHP has instances where goods and services are received from other federal entities at no cost or at a cost less than the full cost to the providing federal entity. Consistent with SFFAS 55, DHP recognizes imputed costs only for business-type activities and other costs specifically required by OMB, including (1) employee pension, post-retirement health, and life insurance benefits; (2) post-employment benefits for terminated and inactive employees, to include unemployment and workers compensation under the FECA; and (3) losses in litigation proceedings.

Goods and services are received from other federal entities at no cost or at a cost less than the full cost to the providing federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by DHP are recognized as imputed costs in the SNC and are offset by imputed revenue in the SCNP. Such imputed costs and revenues relate to business-type activities, employee benefits, and claims to be settled by the Treasury Judgment Fund.

However, unreimbursed costs of goods and services other than those identified above are not included in our financial statements.

For COVID-19 disclosure related information see Note 21, *COVID-19 Activity.*

Note 16. Disclosures Related to the Statement of Changes in Net Position

In FY 2020, DHP recorded a prior period adjustment, which was presented as a change in accounting principle on the Statement of Changes in Net Position. The prior period adjustment, associated with valuation efforts of PP&E as further discussed in Note 7, adjusted the beginning balance of cumulative results of operations by $830 million.

The DHP acknowledges departures from U.S. GAAP related to prior period adjustments as discussed in Note 1.C, *Departures from U.S. GAAP*.

In FY 2020, undistributed adjustments associated with the DHP appropriation which was previously reported as part of the Other Defense Organization (ODO) consolidated financial statements, was remapped to properly align under the DHP. This remapping adjusted the DHP's FBWT by $51.7 million, increasing DHP's total assets.

DHP acknowledges departures from U.S GAAP related to managerial cost accounting as discussed in Note 1.C, *Departures from U.S. GAAP.*

Note 17. Disclosures Related to the Combined Statement of Budgetary Resources

Disclosures related to the *SBR* consisted of the following as of September 30, 2020 and 2019:

Undelivered Orders at End of the Period

UDOs consist of goods and services obligated that have been ordered but not received. Unpaid UDOs represent obligations for goods and services that have not been received or paid. Whereas, paid UDOs represent obligations for goods and services that have been paid for in advance of receipt. The budgetary resources obligated for UDOs for the quarter ended, September 30, 2020, consisted of (*dollars in thousands*):

	Unaudited	
	FY 2020	FY 2019
Undelivered Orders		
Intragovernmental		
Undelivered orders – unpaid	$ 4,660,442	$ 2,621,985
Undelivered orders – paid	-	-
Total Intragovernmental Undelivered Orders	**$ 4,660,442**	**$ 2,621,985**
With the Public		
Undelivered orders – unpaid	$ 11,410,048	$ 11,944,600
Undelivered orders – paid	8,815	33,169
Total Undelivered Orders with the Public	**$ 11,418,863**	**$ 11,977,769**
Total Undelivered Orders	**$ 16,079,305**	**$ 14,599,754**

Legal Arrangements Affecting the Use of Unobligated Balances

Information about legal limitations and restrictions affecting the use of the unobligated balance of budget authority is specifically stated by program and fiscal year in the applicable appropriation language or in the alternative provisions section at the end of the appropriations act.

The use of unobligated balances is restricted based on annual legislation requirements and other enabling authorities. Funds are appropriated on an annual, multi-year, no-year, and subsequent year basis. Appropriated funds shall expire on the last day of availability and are no longer available for new obligations. Unobligated balances in unexpired fund symbols are available in the next fiscal year for new obligations unless some restrictions had been placed on those funds by law. Amounts in expired fund symbols are unavailable for new obligations but may be used to adjust previously established obligations.

Explanation of Differences between the Consolidated Statement of Budgetary Resources and the Budget of the U.S. Government

The reconciliation between the Combined SBR and the Budget of the U.S. Government (Budget) is presented below. The U.S. Government Budget amounts used in the reconciliation below represents the FY 2019 balances. The FY 2021 Budget will display the FY 2020 actual values and will be available at a later date at https://www.whitehouse.gov/omb/budget.

Budget of the U.S. Government:

	Unaudited FY 2020			
(dollars in thousands)	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays, Net
Combined Statement of Budgetary Resources	$ 44,359,104	$ 40,085,575	$ -	$ 34,376,623
Shared Appropriations with Others included in the SBR but excluded from DHP direct appropriations presented in the President's Budget	(1,435,153)	(696,806)	-	(570,512)
Unobligated Balance Brought Forward from prior year included in the SBR but not included in the President's Budget	(1,946,790)	-	-	-
Other	(166,161)	(824,769)	-	(5,111)
Budget of the U.S. Government	**$ 40,811,000**	**$ 38,564,000**	**$ -**	**$ 33,801,000**

Explanation of Differences between the Consolidated Statement of Changes in Net Position and the Combined Statement of Budgetary Resources

The 'Appropriations' line on the Combined SBR does not agree with the 'Appropriations received' line on the Consolidated SCNP due to: 1) differences between proprietary and budgetary accounting concepts and reporting requirements; and 2) presentation of the Consolidated SCNP on a consolidated basis versus presentation of Combined SBR on a combined basis.

For COVID-19 disclosure related information see Note 21, *COVID-19 Activity*.

Note 18. Reconciliation of Net Cost to Net Outlays

SFFAS 53*, Budget and Accrual Reconciliation*, requires a reconciliation of net outlays on a budgetary basis to its net cost of operations (reported on an accrual basis) during the reporting period. The Budget and Accrual Reconciliation replaces the Statement of Financing (SOF) note disclosure.

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position, so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting. The analysis below illustrates this reconciliation by listing the key differences between net cost and net outlays.

The Reconciliation of Net Cost to Net Outlays below explains how budgetary resources outlaid during the period relate to the net cost of operations for DHP.

Budget and Accrual Reconciliation as of September 30, 2020:

	Unaudited FY 2020		
(dollars in thousands)	Intragovernmental	With the Public	Total
Net Operating Cost	**$ 2,962,208**	**$ 46,548,043**	**$ 49,510,251**
Components of Net Cost That are not Part of Net Outlays			
Property, Plant, and equipment depreciation	$ -	$ (119,005)	$ (119,005)
Property, plant, and equipment disposal and revaluation	-	(816)	(816)
Other	-	(9,707)	(9,707)
Increase/(Decrease) in Assets:			
Accounts Receivable	$ 165,320	$ (88,592)	$ 76,728
Other Assets	-	(23,372)	(23,372)
Increase/(Decrease) in Liabilities			
Accounts Payable	$ (131,935)	$ 118,577	$ (13,358)
Salaries and Benefits	(17,855)	(35,982)	(53,837)
Environmental and Disposal Liabilities	-	(281)	(281)
Other Liabilities (Unfunded leave, Unfunded FECA, Actuarial FECA)	1,937	(15,542,679)	(15,540,742)
Other Financing Sources			
Federal Employee retirement benefit costs paid by OPM and imputed to the agency	$ (246,066)	$ -	$ (246,066)
Transfers Out/(In) Without Reimbursement	1,380,786	-	1,380,786
Total Components of Net Costs that Are Not Part of Net Outlays	**$ 1,152,187**	**$ (15,701,857)**	**$ (14,549,670)**
Components of Net Outlays That are not Part of Net Costs			
Acquisition of Capital Assets	$ 899	$ 1,040,512	$ 1,041,411
Other	(480)	(26,163)	(26,643)
Total Components of Net Outlays That are not Part of Net Costs	**$ 419**	**$ 1,014,349**	**$ 1,014,768**
Other Temporary Timing Differences	**-**	**(830,416)**	**(830,416)**
Net Outlays	**$ 4,114,814**	**$ 31,030,119**	**$ 35,144,933**
Outlays, Net, From Statements of Budgetary Resources			**34,622,938**
Reconciling Difference			**$ (521,995)**

Budget and Accrual Reconciliation as of September 30, 2019:

(dollars in thousands)	Intragovernmental	Unaudited FY 2019 With the Public	Total
Net Operating Cost	**$ 1,137,227**	**$ 38,945,948**	**$ 40,083,175**
Components of Net Cost That are not Part of Net Outlays			
Property, Plant, and equipment depreciation	$ -	$ (91,085)	$ (91,085)
Property, plant, and equipment disposal and revaluation	-	(621)	(621)
Other	-	(572,433)	(572,433)
Increase/(Decrease) in Assets:			
Accounts Receivable	$ (257,890)	$ 35,820	$ (222,070)
Other Assets		1,774	1,774
Increase/(Decrease) in Liabilities			
Accounts Payable	$ (31,183)	$ (62,368)	$ (93,551)
Salaries and Benefits	1,508	(12,438)	(10,930)
Environmental and Disposal Liabilities	-	(2,532)	(2,532)
Other Liabilities (Unfunded leave, Unfunded FECA, Actuarial FECA)	320	(5,424,728)	(5,424,408)
Other Financing Sources			
Federal Employee retirement benefit costs paid by OPM and imputed to the agency	$ (295,741)	$ -	$ (295,741)
Transfers Out/(In) Without Reimbursement	743,496	-	743,496
Total Components of Net Costs that Are Not Part of Net Outlays	**$ 160,510**	**$ (6,128,611)**	**$ (5,968,101)**
Components of Net Outlays That are not Part of Net Costs			
Acquisition of Capital Assets	$ -	$ 282,436	$ 282,436
Other	-	(143)	(143)
Total Components of Net Outlays That are not Part of Net Costs	**$ -**	**$ 282,293**	**$ 282,293**
Net Outlays	**$ 1,297,737**	**$ 33,099,630**	**$ 34,397,367**
Outlays, Net, From Statements of Budgetary Resources			**34,376,623**
Reconciling Difference			**$ (20,744)**

Net Cost of Operations: is derived from the SNC.

Components of net cost that are not part of net outlays: are most commonly (a) the result of allocating assets to expenses over more than one reporting period (e.g., depreciation) and the write-down of assets (due to revaluations), (b) the temporary timing differences between outlays/receipts and the operating expense/revenue during the period, and (c) costs financed by other entities (imputed inter-entity costs).

Components of net outlays that are not part of net cost: are primarily amounts provided in the current reporting period that fund costs incurred in prior years and amounts incurred for goods or services that have been capitalized on the balance sheet (e.g., plant, property and equipment acquisition and inventory acquisition).

Due to DHP's financial system limitations, budgetary resources obligated during the period could not be reconciled to DHP Net Cost of Operations. The difference is a previously identified deficiency.

Other financing sources: include a limited number of special transactions that are used to account for non-operating revenues/receipts and expenditures/disbursements.

Other temporary timing differences: reflect special adjustments (e.g., prior period adjustments due to correction of errors).

Net Outlays: is the summation of Net Cost of Operations, Components of net cost that are not part of net outlays, Components of net outlays that are not part of net cost and other temporary timing differences and equals the SBR net outlays amount.

Reconciling Difference: represents the difference between the amount of net outlays as calculated by the Budget and Accrual Reconciliation presented above and Line 4210 of DHP's Statement of Budgetary Resources. Currently, the DHP is unable to determine the exact cause of the reconciling difference but has been able to determine that it is related to the current account mapping that will need to adjusted in its financial systems to accommodate differences in accounting by specific components of the DHP. Research is on-going to resolve the remaining difference.

Note 19. Disclosure Entities and Related Parties

DHP has implemented SFFAS 47, *Reporting Entity*. This standard defines the federal reporting entity as inclusive of the consolidation entity, disclosure entities, and related parties. DHP consolidation entity includes accounts administratively assigned by the OMB to the DHP in the Budget of the U.S. Government. DHP consolidation entity did not change as a result of SFFAS 47 implementation. Consolidation accounts reported in FY 2019 are consistent with accounts reported within DHP financial statements for FY 2020 DHP also has disclosure entities which are similar to consolidation entities, however they have a greater degree of autonomy with the federal government than a consolidation entity.

DHP has identified one related party, Henry M. Jackson Foundation for the Advancement of Military Medicine (HJF).

HJF is an independent, incorporated, 501(c)3 non-profit corporation that was established by Congress in 1983. The purpose of the Foundation is to carry out medical research and education projects under cooperative arrangements with the USUHS, to serve as a focus for the interchange between military and civilian medical personnel, and to encourage the participation of the medical, dental, nursing, veterinary, and other biomedical sciences in the work of the Foundation for the mutual benefit of military and civilian medicine. The President of the USUHS serves as an ex-officio member of the HJF's Council of Directors and holds the ability to influence the financial and operational policy decisions of the HJF.

DHP also participates in a cooperative agreement with HJF related to the collection of royalty revenues which opens the DHP to the potential for gain or risk of loss due to the fact that under this agreement royalty revenues due to the USUHS, may be held and collected by HJF in endowment funds. This exposes USUHS, a component of the DHP, to the potential risk of misuse or improper accounting treatment of these funds while in the possession of HJF.

DoD receives significant benefits from the work of the FFRDCs, which is critical to national security. Congress restricts the amount of support that the Department may receive from DoD-sponsored FFRDCs through a limitation that it sets annually on the staff years of technical effort that may be funded.

DHP also identified nine disclosure activities:

DoD Acquisition Workforce Development Fund, Transfer Account

The DAWDF was established under 10 USC 1075. The law requires that not more than 30 days after the end of the first quarter of each fiscal year, the head of each Military Department and Defense Agency shall remit to the Secretary of Defense, from amounts available to such Military Department or Defense Agency, as the case may be, for contract services for O&M, an amount equal to the applicable percentage for such fiscal year. The applicable percentage for a fiscal year is the percentage that results in the credit to the Fund of $500,000,000 in such fiscal year. This amount may be adjusted by the Secretary of Defense (SECDEF). DHP transfers money to this fund as mandated by federal law but has no other control. The purpose of the DAWDF is to ensure the DoD acquisition workforce has the capacity, in both personnel and skills, needed to (1) properly perform its mission; (2) provide appropriate oversight of contractor performance; and (3) ensure that the Department receives the best value for the expenditure of public resources. Given that the components of the DHP make use of DoD acquisition personnel, their transfer of funds in support of this program provides them with these same potential benefits as well.

DoD-VA Health Care Sharing Incentive Fund (JIF), Transfer Account

Public law requires a $15M transfer of DHP funds annually under Section 8111 of Title 38 of the US Code and Section 721 of Public Law 107-314 (NDAA for FY 2003). This fund is managed and reported by the Department of VA and DHP has no control outside of the annual fund transfer required by law. The money in this fund provides seed money and incentives for innovative DoD/VA joint sharing initiatives to recapture purchased care, improve quality and drive cost savings at facilities, regional and national levels. DHP is allowed to partake in these initiatives and as such is afforded the potential to obtain these same benefits. The DHP transferred $15 million in funding to this program during FY 2020.

Global Health Programs, State

The DoD's global health engagement efforts are part of a whole-of-government approach, conducted in close coordination with other U.S. Government agencies, including the Department of State, Department of Health and Human Services, Department of Agriculture, and the United States Agency for International Development (USAID). DHP transfers money to contribute to this effort on an annual basis but has no other elements of control.

Global HIV/AIDS Initiative, Transfer Account

The DoD HIV/AIDS Prevention Program (DHAPP), based at the Naval Health Research Center (NHRC) in San Diego, California, is the DoD Executive Agent for the technical assistance, management, and administrative support of the global HIV/AIDS prevention, care, and treatment for foreign militaries. DHAPP administers funding, directly conducts training, and provides technical assistance for focus countries and other bilateral countries, and has staff actively serving on most of the Technical Working Groups and Core Teams through the Office of the U.S. Global AIDS Coordinator. DHAPP oversees the contributions to PEPFAR of a variety of DoD organizations, which fall under the various regional military commands, as well as specialized DoD institutions whose primary mission falls within the continental United States.

Defensive Institute for Medical Operations

The Defense Institute for Medical Operations (DIMO) is a dual-service agency comprised of Air Force and Navy personnel committed to providing world class, globally-focused, healthcare education and training to partners around the world. DIMO utilizes subject matter experts (SMEs) throughout the DoD to develop curriculum and teach courses around the world. Upon review of the DIMO fact sheet available on the entity website, it was noted that this program was realigned under the AFMS from the DSCA in 2010. Upon discussion with DIMO personnel, they stated that DIMO receives an immaterial amount of DHP funding ($308k) transferred to them using the 2X fund code to support two GS Personnel at DIMO warranting disclosure within the DHP financial statements.

Fisher House Foundation

The Fisher House Foundation is an independent not for profit organization which occasionally receives a small amount of money from DHA-issued grants in order to construct new houses for families on the sites of MTFs and VA medical centers.

Federally Funded Research and Development Centers (FFRDCs)

DoD maintains contractual relationships with the parent organizations of ten DoD sponsored FFRDCs to meet some special long-term research or development needs that cannot be met as effectively by existing government or contractor resources. The work performed by the FFRDCs provide benefits to the Department, which support national security. FFRDCs that provide support to the Department are classified into three categories:

(1) Research and Development Laboratories,
(2) Systems Engineering and Integration Centers, and
(3) Study and Analysis Centers.

FFRDC relationships are defined through a bi-lateral sponsoring agreement between each DoD sponsoring organization and the parent organization that operates each FFRDC. All DoD funding for FFRDC work is provided through the Department's contract with the FFRDC's parent organization. While DoD does not control the day-to-day operations of the FFRDCs, the parent organization must agree that the FFRDC will conduct its business in a manner befitting its special relationship with the Department, operate in the public interest with objectivity and independence, and be free from organizational conflicts of interest.

DoD does not have an ownership interest in the FFRDCs and is not exposed to the benefits of gains or risk of losses from the past or future operations. DoD sponsors may only assign tasks which take advantage of the core capabilities and unique characteristics of the FFRDC, as established in the sponsoring agreement. Additionally, Congress sets annual limits on the amount of staff-years of technical effort that may be funded for FFRDCs. Historically, funding placed on contract to the FFRDCs is less than one percent of the sponsor's budgetary resources. Together, the sponsoring agreements, contract terms, and Congressional controls on staff-years of effort and funding, serve to limit the Federal Government's exposure to financial and non-financial risks arising from FFRDC relationships.

RAND-NDRI funds were provided for Evaluating the Quality and Safety of Pain Care and Prescription Opioid Use in the MHS and for Evidence Synthesis of Sexual Assault and Sexual Harassment Topics to support FY19 NDAA Sec 702.

James Lovell Federal Health Center

This healthcare facility located in North Chicago, Illinois is a joint venture between BUMED, and the VA established by Section 1704 of Public Law 111-84 (NDAA for FY 2010). DHP transfers money to this fund based on public law but the facility itself is independently managed by a joint DoD/VA management board of directors as directed by law. DHP has no administrative control. In FY 2020, DHP transferred $127 million to the joint DoD-VA Demonstration Fund in support of the operations of this healthcare facility.

Medicare-Eligible Retiree Health Care Fund

A portion of receipts from the MERCHF accrual fund are transferred into the DHP O&M account annually as outlined in the DHP budget justification. The fund is managed and appropriated independently of the DHP.

Note 20. Insurance Programs

Premium Base Health Plans consist of several programs with coverage offered to Active Duty, Active Duty Family Member(s), Retirees and Reserve members. The programs include TRICARE CHCBP, TYA, TRS, TRR, Prime and Select which together make up the TRICARE Insurance Portfolio. The majority of these programs are intended to be budget neutral, meaning that the premiums should match the outlays. Premiums are adjusted either upward, or downward for each calendar year to maintain this neutrality. Increases or decreases in the number of beneficiaries enrolling in the programs would cause minimal effects on program cost or premiums collected. Premium rate calculations are based on the benefit cost from prior calendar years. Premiums are based on the Program's benefit cost, which eliminates any inherent risk to third parties, including the beneficiary and the Manage Care Support Contractors who provide healthcare claims processing and the initial collections on behalf of DHA-CRM. The total amount of Insurance Premium collections in FY 2020 was $755.6 million and $754.7 million for FY 2019. The benefit cost for FY 2020 correlate to the premium collections reported.

For CY 2020 Monthly Premium Rates are established on an annual basis in accordance with title 10, U.S.C. Sections 1076d, 1076e, 1078a, and 1110b along with title 32, Code of Federal Regulations, part 199.24, 25 and 26, as enacted by FY 2017 Section 701 of NDAA; Public Law 114 328. The enrollment fee and or premium collections are credited to the DHP appropriation available for the fiscal year collected.

TRS and TRR rates are calculated from enrollment-weighted average annual costs based on the actual cost of benefits provided during the preceding calendar year. Renewal in a specific plan is automatic unless declined. A member, and the dependents of the member, of the Selected Reserve of the Ready Reserve of a reserve component of the armed forces are eligible for health benefits under TRS program. Termination of coverage in TRS is based upon the termination of the member's service in the Selected Reserve. TRR basically follows the same rules of coverage as TRS for members of the Retired Reserve who are qualified for a non-regular retirement but are not yet age 60. Termination of eligibility is upon obtaining other TRICARE Coverage. TYA premium rates are calculated from the Military Health System Data Repository based on enrollees for the previous 24-month period. Dependents under the age of 26 and who are not eligible to enroll in an eligible employer-sponsored plan can enroll in the TYA program. Coverage is terminated once the dependent turns 26 years of age. CHCBP premium rates are calculated from total premiums under Government Employees Health Association (GEHA) Standard plan within the Federal Employee Health Benefit (FEHB) Program. The plan provides temporary healthcare coverage for 18 to 36 months when a Service member and/or Family member(s) are no longer entitled to TRICARE. TRICARE Prime and Select premium rates are established on an annual basis in accordance with title 10 U.S.C. 1075 and 1075a. An enrollment of a covered beneficiary in TRICARE Prime and Select is automatically renewed upon the expiration of the enrollment unless the renewal is declined. The enrollment of a dependent of the member of the uniformed services may be terminated by the member or the dependent at any time. Active duty service members must enroll in Prime. Family members may choose to enroll in Prime or Select.

Beneficiary claims for Premium healthcare services are processed through the TRICARE Encounter Data Set (TEDS). The liability balance represents unpaid claims received as of the end of the reporting period. The risk for future claim cost is accounted for under the IBNR calculation. The IBNR change is a net result of several factors that increase or decrease the reserve, including change in claims cost and volume per member, changes in administration cost estimates and required margin, change in population size, and movement of healthcare delivery to alternative types of service.

The table below presents the changes in the liability balance for unpaid insurance claims.

	Unaudited			
(dollars in thousands)		FY 2020		FY 2019
Beginning Balance	$	2,038,491	$	1,744,271
Claims Expense		14,040,316		14,170,220
Claims Adjustment Expenses		(30,375)		(27,391)
Payments to Settle Claims		(14,098,748)		(13,852,160)
Recoveries and Other Adjustments		16,353		3,551
Ending Balance	**$**	**1,966,037**	**$**	**2,038,491**

For COVID-19 disclosure related information see Note 21, *COVID-19 Activity*.

Note 21. COVID-19 Activity

Coronavirus Aid, Relief and Economic Security Act

On March 27, 2020, the CARES Act (Public Law 116-136) was signed into law, which provides FY2020 supplemental appropriations for federal agencies to respond to COVID-19. The supplemental appropriations are designated as emergency spending, which is exempt from discretionary spending limits. DHP was appropriated approximately $3.8 billion to prevent, prepare for, and respond to COVID-19, including to provide additional funds to maintain normal operations and cover other necessary authorized activities domestically or internationally during the period that the programs are impacted by the COVID-19.

On April 10, 2020, the OMB issued implementation guidance for supplemental funding provided in response to the COVID-19. In balancing speed with transparency, OMB Memorandum M-20-21 directed agencies to leverage and continue to employ existing financial transparency and accountability mechanisms wherever possible. OMB M-20-21 further instructed agencies to consider three core principles: (1) mission achievement, by using data and evidence to meet program objectives; (2) expediency in issuing awards to meet crucial needs; and (3) transparency and accountability to the public.

Funding Usage

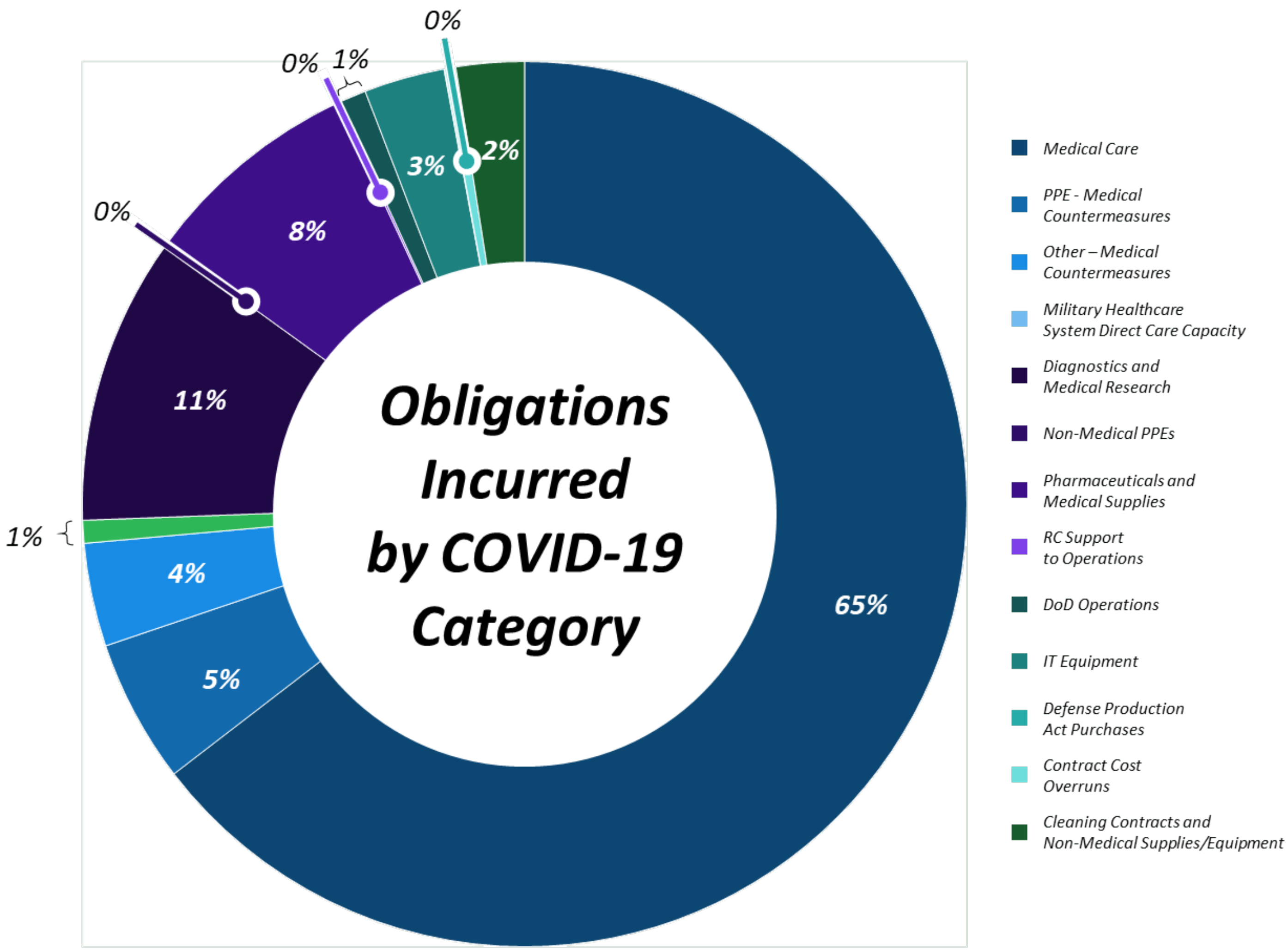
DHP currently has 13 different categories in which funding received for COVID-19 can be used. See the table below for more details regarding each category.

(dollars in thousands)

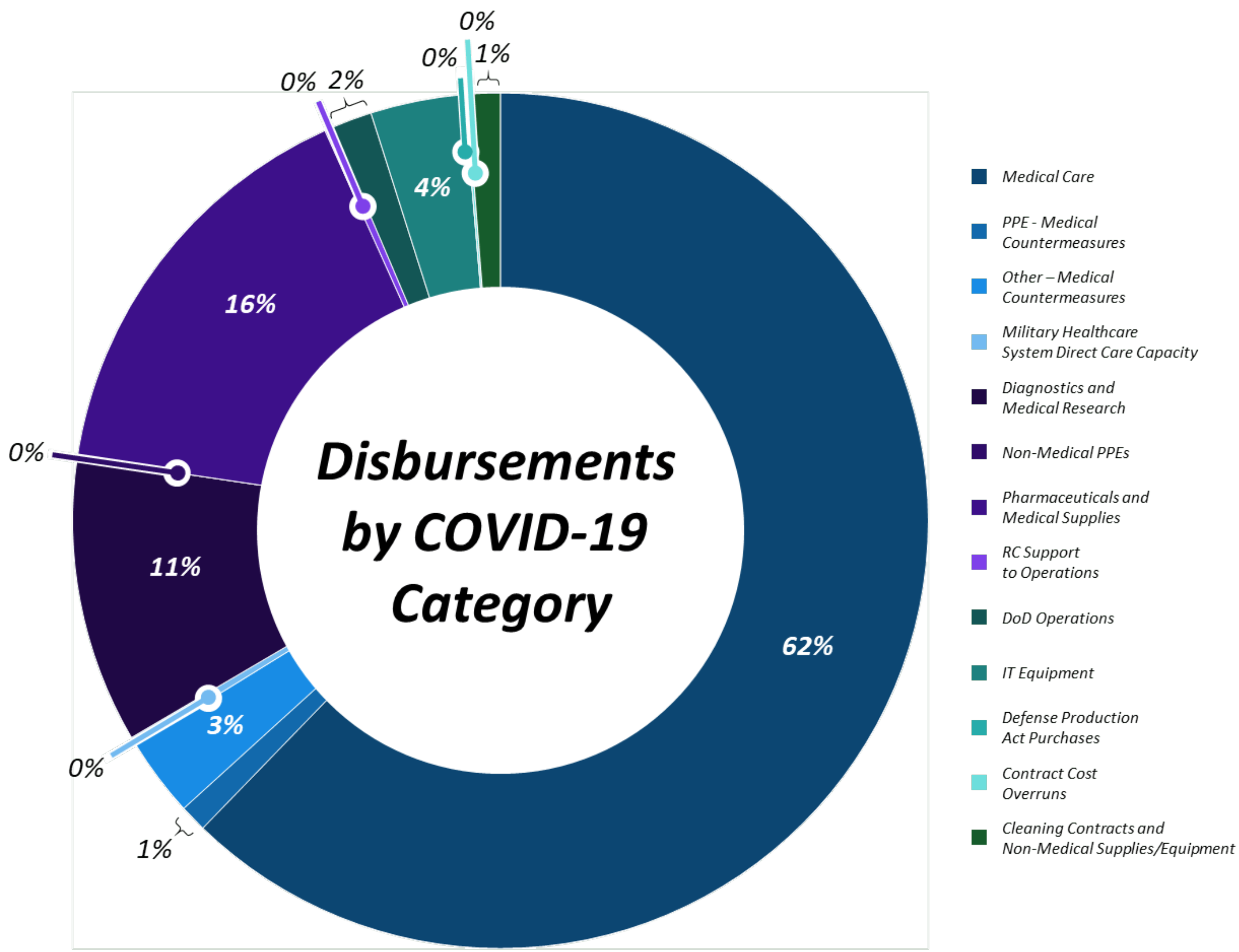
		Unaudited			
CARES Act Funds Cost Categories	**CARES Act Funds Cost Definition**	**Total Obligations as of 30 September 20 (In Thousands)**		**Total Disbursements as of 30 September 20 (In Thousands)**	
Medical Care	All MTF expenses that are attributable to patient care, and not part of bed expansion, medical PPE, COVID-19 vaccine, antivirals, or pharmaceutical (otherwise covered in another category)	$	1,470,540	$	397,705
PPE - Medical Countermeasures	All PPE purchases for MTF staff and patients	$	119,454	$	6,533
Other - Medical Countermeasures	Limited to COVID-19 vaccine, antivirals, public health surveillance	$	85,988	$	18,867
Military Healthcare System Direct Care Capacity	Costs directly attributable to bed expansion efforts and Cost directly attributable to support of response outside the MTF	$	18,916	$	2,087
Diagnostics and Medical Research	All RDT&E for COVID-19 (does not include any DHP O&M)	$	239,957	$	69,001
Non-Medical PPEs	Increased operations and deployment schedules and costs to support social distancing, quarantine requirements, etc	$	3	$	3
Pharmaceuticals and Medical Supplies	Includes all pharmaceuticals (except for vaccines and antivirals) but does not include supplies for medical and Direct Care Capacity	$	184,174	$	101,790
RC Support to Operations	Deployments of Reserve Component personnel for DoD missions inside the MTF (e.g., TDY costs)	$	2,299	$	2,008
DoD Operations	Increased operations and deployment schedules and costs to support social distancing, quarantine requirements, etc	$	22,487	$	9,707
IT Equipment	Includes all DHP O&M BAG 4 in support of COVID-19	$	67,194	$	22,618
Defense Production Act Purchases	Increased operations and deployment schedules and costs to support social distancing, quarantine requirements, etc	$	580	$	-
Contract Cost Overruns	Mitigate contract increases and overruns tied directly to the COVID-19 response. This category should only be applicable to BAGs 3-7 only; BAGs 1-2 should be captured under Medical Care Category.	$	9,268	$	722
Cleaning Contracts and Non-Medical Supplies / Equipment	This applies to non-medical facilities only. Janitorial and aseptic cleaning contacts should be captured under Medical Care Category	$	56,646	$	7,920

DHP has used the funding received for the categories listed above. Please see the charts below for a breakdown of how much funding was used within each CARES Act Cost Category.

DHP has used most of the funding it has received within the "Medical Care" CARES Act cost category, which is consistent with its mission statement and day-to-day business operations. Other categories that have received a sizable portion of the COVID-19 funding include "Military Healthcare System Direct Care Capacity" and "Diagnostics and Medical Research".



** 0% represents very small obligations incurred from the full COVID 19 Funding*



** 0% represents very small disbursements incurred from the full COVID 19 Funding*

Other Information

As of September 30, total obligations and disbursements related to the funding received for COVID-19 were approximately $2.3 billion and $639.0 million, respectively.

The impact on the entity's assets, liabilities, costs, revenues, and net position cannot yet be determined by the DHP due to no visibility on the impact of the funding at component level.

Note 22. Subsequent Events

In FY 2021, the Department of Defense Appropriations Bill sets forth a reduction in DHP funding resources previously allocated for the MEDCOM. This funding reduction, estimated to be $1.1 billion, will be converted to the U.S. Army O&M appropriation. As a result, multiple Army commands which received DHP funding in FY 2020, will not receive DHP funding in FY 2021.

Required Supplementary Information

This section provides the DM&R disclosures, required in accordance with SFFAS 42, and the Combining Statement of Budgetary Resources, which disaggregates information aggregated for presentation on the DoD Agency-wide Combined Statement of Budgetary Resources.

Deferred Maintenance and Repairs

Maintenance and repairs for real property assets that were not performed when they should have been or were scheduled and delayed for a future period are considered DM&R.

DHP tracks and report deferred maintenance and repair of its PP&E in accordance with SFFAS 42, *Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29, and 32*.

Maintenance and repairs are activities directed toward keeping fixed assets in an acceptable condition. Activities include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset. Maintenance and repairs, as distinguished from capital improvements, exclude activities directed towards expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.

DHP Deferred Maintenance consisted of the following as of September 30, 2020 and 2019 (*dollars in thousands)*:

	Unaudited FY 2020		
	Plant Replacement Value	**Required Work (Deferred Maintenance & Repair)**	**Percentage**
Property Type			
Category 1	$ 17,184	$ 3,282	19%
Category 2	$ -	$ -	
Category 3	$ 1,533	$ 340	22%
Total	**$ 18,718**	**$ 3,622**	**19%**

	Unaudited FY 2019		
	Plant Replacement Value	**Required Work (Deferred Maintenance & Repair)**	**Percentage**
Property Type			
Category 1	$ 20,021	$ 2,318	11%
Category 2 (Excluded)	$ -	$ -	
Category 3	$ 2,172	$ 257	11%
Total	**$ 22,193**	**$ 2,575**	**11%**

*NOTE: The DHA Real Property Team provides BUILDER with Inventory updates annually in October. FY 2020 balance is lower due to a major BUILDER data cleanup mostly on AFMS assets in earlier this year.

All DHP assets are currently not in BUILDER, due to inventory discrepancies resulting from on-going negotiations with the Services regarding Readiness facilities, and on-going DHA Real Property reconciliation efforts with the MilDeps.

DHA DHP Funded assets are continuously being added and removed from the inventory due to on-going mission changes.

DHA Real Property Team continues to work with the MilDeps in their Approved Property System of Records.

Facility Categories defined:

- Category 1: Buildings, Structures, and Linear Structures that are enduring and required to support an ongoing mission
- Category 2: Buildings, Structures, and Linear Structures (Excess Facilities or Planned for Replacement)
- Category 3: Buildings, Structures, and Liner Structures that are Heritage assets (historical, cultural or architectural)

To facilitate DM&R reporting, the DoD mandated the use of the BUILDER™ program for all Condition and Facility Condition Index (FCI) reporting effective 10 Sep 13 (See Encl. 1 USD(AT&L) Memorandum "Standardizing Facility Condition Assessments"). The ASD(HA), directed the implementation of the BUILDER program in a memo dated 10 Jan 2014 and charged the DHA Facility Director with the responsibility of completing the implementation (See Encl. 2 ASD-HA Memorandum "Implementation of BUILDER").

Facility Condition Index is the primary metric used by the DHP to measure/score the condition of real property.

$$FCI = \left(1 - \frac{\sum Deferred\ Maintenance\ and\ Repair\ (DM\&R)}{\sum Plant\ Replacement\ Value\ (PRV)}\right) * 100$$

The FCI formula numerators makes up the total deferred Real Property Maintenance & Repair while the addition of a multiplication of 100 creates a scoring of 100 (good) to 0 (bad) ranking system without decimals for easy identification of building's conditions.

Maintenance and Repair Policies

The DHP operates facilities throughout the world and includes historical buildings. Most of the facilities are predominantly used to support the MHS mission for healthcare delivery. DHA's policy ensures patient safety and world class healthcare for all of our beneficiaries.

	Count	Historical	Non-Historical	Note:
DHP Structures	1,675	88	1,587	Unit of Measure = Square Feet
DHP Non-Structure Support Assets	261	0	261	Unit(s)of Measure = Tons, Gallons, Kilovolts, etc.
Totals	**1,936**	**88**	**1,848**	**(As of 17 Sep 20)**

As permitted under SFFAS 42, *Deferred Maintenance and Repairs, Amending Statements of Federal Financial Accounting Standards 6, 14, 29 and 32,* the DHP employs a parametric estimating method from BUILDER for the largest portion of its portfolio (HealthCare facilities). Healthcare facilities are being reviewed continually through the BUILDER Annual Work Plan. DHP assets in BUILDER are reviewed monitored annually as part of the Work Item remediation process. Any Work Items not remediated when identified by BUILDER become the basis DM&R. DHP plans to continue to add to the BUILDER inventory as more real property assets is reconciled with the MilDeps.

Uniformat is a standard for classifying building specifications, cost estimating and cost analysis in the US and Canada which adheres to the ASTM 1557 Building Standards and developed by the General Service Administration (GSA) and the American Institute of Architects (AIA) in 1972. Uniformat types are common to all facilities regardless of real property categories and a table is inserted below provides for clarification.

UNIFORMAT Type	Included in DMR Calculation	Excluded in DMR Calculation
A10 FOUNDATIONS		X
A20 BASEMENT CONSTRUCTION		X
B10 SUPERSTRUCTURE		X
B20 EXTERIOR ENCLOSURE	X	
B30 ROOFING	X	
C10 INTERIOR CONSTRUCTION	X	
C20 STAIRS		X
C30 INTERIOR FINISHES	X	
D10 CONVEYING	X	
D20 PLUMBING	X	
D30 HVAC	X	
D40 FIRE PROTECTION	X	
D50 ELECTRICAL	X	
E10 EQUIPMENT	X	
E20 FURNISHINGS	X	
F10 SPECIAL CONSTRUCTION	X	
G20 Site Improvements	X	
G30 SITE CIVIL/MECHANICAL UTILITIES	X	
G40 SITE ELECTRICAL UTILITIES		X
G90 OTHER SITE CONSTRUCTION		X

BUILDER is a predictive modeling tool, but not the sole decision-making tool for making DM&R decisions. Mission, budget constraints, emerging threats, operational issues, and a host of other consideration go into making the decision on where funding is spent. The BUILDER Program was chosen by the DOD because its condition standards, related assessment methods, and reporting formats are consistently applied across the DOD inventory.

BUILDER uses Standards and Policies (S&P) to predict and then track Work Items (Sections / Equipment) that are nearing or have passed the end of their useful life. Please Refer to Interim Procedures Memorandum 19-005, BUILDER™ Sustainment Management System (SMS) June 18, 2019, Para. 3.e-j for a full description of S&P development, AWP development, and AWI remediation.

The current “Standard” is measured by Remaining Service Life (RSL), that assumes, all Sustainment activities have occurred during the Equipment’s life and that the Equipment hasn’t failed early, that the reliability of the Equipment is diminished enough that the Equipment should be replaced (Restored).

Maintenance and Repair Prioritization and Acceptable Condition Standards

DHP's current prioritization policy is based on the number of years of RSL and categorized by equipment type (a.k.a. System or UNIFORMAT).

UNIFORMATS with long service lives do not trigger replacement Work Items until they are very near the end of their useful life – 2 years. As an example, A10 Foundations have a useful life of between 70 & 120 years and so applying the Policy would not generate a replacement Work Item until the Foundation was 68 or 118 years old.

UNIFORMATS with shorter Service Lives, but that carry a greater risk should the equipment fail, generate a Replacement Work Item 3 years before the end of their useful life. This would include B10 UNIFORMATS types such as doors and windows.

UNIFORMATS with shorter Service Lives, but that carry a severe risk should the equipment fail, generate a Replacement Work Item 4 years before the end of their useful life. This would include a cross-section of UNIFORMATs types such as F10 Fire Protection Systems, D10 Boilers and Chillers, and B10 Roofs.

The primary factors that BUILDER considers in determining acceptable condition standards are Equipment Service life, RSL, and risk of that equipment's failure to the Facilities performance. Healthcare facilities (MEDCENS) and some of their support facilities (Central Utility or Electric Plants) have a zero-failure risk – there is no allowance for failure, the equipment must work immediately upon demand, e.g. back-up generators must come online and perform at 100% of their rated output within 10 seconds of demand.

Deferred Maintenance and Repair Exclusions

Category 1 & 3 assets are included in DM&R calculations.

Category 2 assets are not included in DM&R calculations as they are appropriated through the MILCON funding program and being new, have no associated DM&R.

Category 1 & 3 assets are further broken down by building UNIFORMATs, with Included and Excluded UNIFORMAT Types.

Included UNIFORMAT Rationale

Equipment (Infra-structure) of these UNIFORMAT types will be replaced regularly during the lifecycle of the Structure (Asset) ICW BUILDER's projected lifecycle. These UNIFORMATS are capitalized over the life of the Individual Equipment.

Excluded UNIFORMAT Rationale

Although these infra-structure types may be repaired if necessary, throughout the life of an asset, there is no programed replacement for these UNIFORMAT types. These UNIFORMATS are capitalized over the life of the Structure / Asset.

Individual DMR Work Item Cost Threshold.

Market research and DHA work processes support the use of a $10,000 or greater cost as the reporting threshold for DMR work items.

Significant Changes in Deferred Maintenance and Repair

There was no "consolidated" DHA BUILDER Work plan created in FY 2019 to generate a Deferred Maintenance and Repair balance because the Service Medical Activities controlled the SRM funds and were responsible for maintaining their own data. FY 2020 was the first Year that the Annual Work plan was centrally created and distributed but executed at the Service level.

With the award of the centralized DHS BUILDER Sustainment Contract in September 2020, the program will be centrally funded, managed, and executed and this will be reported across future FYs.

Combining Statement of Budgetary Resources

Combining Statements of Budgetary Resources for the period ended September 30, 2020 (*dollars in thousands*)	**Operations, Readiness and Support**	**Procurement**	**Research, Development, Test and Evaluation**	**Family Housing and Military Construction**	**Total Budgetary Accounts**
BUDGETARY RESOURCES					
Unobligated balance from prior year budget authority, net	$ 2,188,951	$ 319,599	$ 1,655,074	$ 779,966	$ 4,943,590
Appropriations (discretionary and mandatory)	33,515,934	623,762	3,677,187	337,790	38,154,673
Spending Authority from offsetting collections (discretionary and mandatory)	3,951,352	29,462	(27,214)	-	3,953,600
TOTAL BUGETARY RESOURCES	**$ 39,656,237**	**$ 972,823**	**$ 5,305,047**	**$ 1,117,756**	**$ 47,051,863**
STATUS OF BUDGETARY RESOURCES					
Total New obligations and upward adjustments	$ 37,980,857	$ 632,421	$ 2,833,684	$ 500,475	$ 41,947,437
Apportioned, unexpired accounts	748,619	300,912	2,357,197	542,132	3,948,860
Exempt from apportionment, unexpired accounts	36	-	-	-	36
Unapportioned, unexpired accounts	-	60	-	-	60
Unexpired unobligated balance	748,655	300,972	2,357,197	542,132	3,948,956
Expired unobligated balance	926,725	39,430	114,166	75,149	1,155,470
Total Unobligated balance, end of year	**$ 1,675,380**	**$ 340,402**	**$ 2,471,363**	**$ 617,281**	**$ 5,104,426**
TOTAL STATUS OF BUDGETARY RESOURCES	**$ 39,656,237**	**$ 972,823**	**$ 5,305,047**	**$ 1,117,756**	**$ 47,051,863**
OUTLAYS, NET					
Outlays, Net (discretionary and mandatory)	$ 31,954,103	$ 354,338	$ 1,784,965	$ 526,403	$ 34,619,809
Distributed offsetting receipts	-	-	3,129	-	3,129
TOTAL NET OUTLAYS	**$ 31,954,103**	**$ 354,338**	**$ 1,788,094**	**$ 526,403**	**$ 34,622,938**

Combining Statements of Budgetary Resources for the period ended September 30, 2019 (*dollars in thousands*)	Operations, Readiness and Support	Procurement	Research, Development, Test and Evaluation	Family Housing and Military Construction	Total Budgetary Accounts
BUDGETARY RESOURCES					
Unobligated balance from prior year budget authority, net	$ 3,358,666	$ 309,652	$ 1,472,237	$ 947,177	$ 6,087,732
Appropriations (discretionary and mandatory)	31,335,216	683,702	1,868,910	487,976	34,375,804
Spending Authority from offsetting collections (discretionary and mandatory)	3,844,261	3,779	47,529	-	3,895,569
TOTAL BUGETARY RESOURCES	**$ 38,538,143**	**$ 997,133**	**$ 3,388,676**	**$ 1,435,153**	**$ 44,359,105**
STATUS OF BUDGETARY RESOURCES					
Total New obligations and upward adjustments	$ 36,843,588	$ 754,864	$ 1,790,318	$ 696,806	$ 40,085,576
Apportioned, unexpired accounts	357,862	200,466	1,525,842	669,273	2,753,443
Exempt from apportionment, unexpired accounts	163,066	-	-	-	163,066
Unapportioned, unexpired accounts	-	-	-	-	-
Unexpired unobligated balance	520,928	200,466	1,525,842	669,273	2,916,509
Expired unobligated balance	1,173,627	41,801	72,518	69,074	1,357,020
Total Unobligated balance, end of year	**$ 1,694,555**	**$ 242,267**	**$ 1,598,360**	**$ 738,347**	**$ 4,273,529**
TOTAL STATUS OF BUDGETARY RESOURCES	**$ 38,538,143**	**$ 997,131**	**$ 3,388,678**	**$ 1,435,153**	**$ 44,359,105**
OUTLAYS, NET					
Outlays, Net (discretionary and mandatory)	$ 31,847,368	$ 557,828	$ 1,400,915	$ 570,512	$ 34,376,623
Distributed offsetting receipts	-	-	-	-	-
TOTAL NET OUTLAYS	**$ 31,847,368**	**$ 557,828**	**$ 1,400,915**	**$ 570,512**	**$ 34,376,623**

Section III

Other Information

Summary of Financial Statement Audit and Management Assurances

Table 1 below provides a summary of financial statement audit.

Table 1: *Summary of financial statement audit*[3]

Summary of Financial Statement Audit	
Audit Opinion	Disclaimer
Restatement	No

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Accounting and Financial Reporting Governance and Entity-Level Controls	1	-	-	-	-	**1**
Financial Reporting – Universe of Transaction Reconciliations	1	-	-	-	-	**1**
Financial Reporting – Defense Departmental Reporting System Adjustments	1	-	-	-	-	**1**
Fund Balance with Treasury	1	-	-	-	-	**1**
Medical Revenue and Associated Receivables	1	-	-	-	-	**1**
General Equipment Existence and Completeness	1	-	-	-	-	**1**
Valuation of Property, Plant, and Equipment	1	-	-	-	-	**1**
Real Property	1	-	-1	-	-	-
Internal Use Software and IUS in Development	1	-	-	-1	-	-
Operating Materials and Supplies and Stockpile Material	1	-	-	-	-	**1**
Liabilities and Related Expenses	1	-	-	-	-	**1**
Monitoring and Reporting of Obligations	1	-	-	-	-	**1**
Information Systems	1	-	-	-	-	**1**
Total Material Weaknesses	**13**	**-**	**-1**	**-1**	**-**	**11**

[3] The summary of financial statement audit of material weaknesses is from the Independent Auditor's (IPA) DHP Report on ICOFR.

Table 2 below provides a summary of management assurances

***Table 2**: Summary of management assurances*[4]

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)*						
Statement of Assurance	**No Assurance**					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Financial Reporting – Compilation	2	-	-	-	-	**2**
Financial Reporting – Universe of Transaction Reconciliations	5	-	-	-	-3	**2**
Financial Reporting – Defense Departmental Reporting System Adjustments	3	-	-1	-	-2	**-**
Fund Balance with Treasury	10	-	-2	-	-8	**-**
Medical Revenue and Associated Receivables	8	-	-	-	-7	**1**
General Equipment Existence and Completeness	3	-	-	-	-2	**1**
Valuation of Property, Plant, and Equipment	2	-	-	-	-	**2**
Real Property	2	-	-	-	-2	**-**
Internal Use Software and IUS in Development	2	-	-	-	-2	**-**
Operating Materials and Supplies and Stockpile Material	5	-	-	-	-5	**-**
Liabilities and Related Expenses	17	-	-	-	-17	**-**
Total Material Weaknesses	**59**	**-**	**-3**	**-**	**-48**	**8**

[4] The total number of material weaknesses and non-Compliances for ICOFR, ICO and internal controls over federal financial management system requirements are self-identified by DHP Management and exclude material weaknesses identified by IPA per the OSD's *Fiscal Year 2020 Department of Defense Statement of Assurance Execution Handbook*. As referenced in Management's Response to the Independent Auditor's Report, Management agrees with the auditor identified material weaknesses.

Effectiveness of Internal Control over Operations (FMFIA § 2)*						
Statement of Assurance	No Assurance					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Fund Balance with Treasury	2	-	-	-	-1	**1**
General Equipment	2	-	-1	-	-	**1**
Governance Structure and Entity-Level Controls	9	4	-5	-	2	**10**
Information Systems	5	1	-1	-	-	**5**
Liabilities	9	-	-5	-	-2	**2**
Total Material Weaknesses	**27**	**5**	**-12**	**-**	**-1**	**19**

Conformance with Federal Financial Management System Requirements (FMFIA§ 4)*						
Statement of Assurance	No Assurance					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Information Systems	47	-	-	-	-47	-
Total Material Weaknesses	**47**	**-**	**-**	**-**	**-47**	**-**

Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)		
	Agency	**Auditor**
1. Federal Financial Management System Requirements	Lack of compliance noted	Lack of compliance noted
2. Applicable Federal Accounting Standards	Lack of compliance noted	Lack of compliance noted
3. USSGL at Transaction Level	Lack of compliance noted	Lack of compliance noted

Management's assessment of FFMIA compliance was completed prior to the results of the FY 2020 financial statement audit. Our auditor has noted the DHP financial management systems did not comply substantially with the federal financial management system's requirements, applicable federal accounting standards, or application of the USSGL at the transaction level, because of material weaknesses noted in the Independent Auditor's Report on Internal Control Reporting over Financial Reporting. The DHP is in the process of evaluating the FY 2020 audit findings contributing to noncompliance to continue the process of formulating and implementing remediation plans necessary to bring the financial managements systems into substantial compliance.

*According to the *Fiscal Year 2020 Department of Defense Statement of Assurance Execution Handbook,* OUSD stated "The material weaknesses and significant deficiencies' template has been updated to include only self-identified material weaknesses and significant deficiencies, while the Notice of Finding and Recommendations (NFRs) database retains the externally identified reporting and tracking". The material weaknesses included in the ending balance of Table 2 reflect only the self-identified material weaknesses reported to management. OUSD will track IPA's identified material NFRs via the Office of Deputy Chief Financial Officer (ODCFO) NFR Tool. This change in FY 2020 was in an effort to avoid double reporting of material weaknesses. The reassessed column reflects the removal, from this table, of material weaknesses previously reported that are now tracked via the ODCFO NFR Tool. The reassessed column may also reflect the reclassification of material weaknesses to other priority areas. As referenced in Management's Response to the Independent Auditor's Report, Management agrees with the auditor identified material weaknesses.

Management Challenges

Challenge 1: Implementing Timely and Effective Actions to Address Financial Management Weaknesses

As stated in the DoD OIG's *FY 2020 Top DoD Management Challenges* report, financial management is an enduring challenge DoD contends with, specifically, in our ability – or inability – to implement timely and effective actions to address financial management weaknesses identified during the DHP Financial Statement audit. While the MHS has successfully maintained the unmodified audit opinion for our CRM financial statements; we continue to take significant actions to remediate Notification of Finding Recommendations (NFRs) for our MERHCF financial statements – which achieved a qualified audit opinion; and our DHP financial statements – which received a disclaimer of opinion. Within the January 2020 *U.S. Department of Defense Report on the Ranking of the Auditability of the Financial Statements,* CRM and MERHCF ranked #2 and #9, respectively, out of 27 DoD audited programs. The DHP ranked #24 out of 27. The DHP's ranking in the bottom quartile was based on auditors identifying 13 material weaknesses in our program along with 5 instances of noncompliance with laws and regulations. Auditors also noted our high reliance on service providers such as the DFAS and our suboptimal ability to produce testing samples in a timely manner.

The 13 material weaknesses and their underlying causes represent management challenges for MHS leadership and our workforce and, as such, warrant ongoing discussion and senior leader direction and intervention to ensure remediation is achieved. Notwithstanding, we recognize that despite our best efforts to develop and implement remediation actions, the DHP contends with some difficult challenges to overcome that occasionally impede our ability to make timely progress. Some of these challenges include:

- Generating data requested by auditors in a timely manner:

  System limitations, data quality issues and reliance on third-party service providers and external system owners often inhibit our ability to generate a timely universe of transactions for auditors.

- Reliance on others for feedback and actions:

  Implementing Corrective Actions Plans (CAPs) is often a collaborative effort between service providers, system owners, and functional experts. Reliance on others to provide feedback or to assist in implementing specific actions frequently causes delays in meeting CAP timelines.

- Multiple ongoing system replacements and data migrations:

  The replacement of multiple major MHS functional systems (e.g., ABACUS, DMLSS, MHS GENESIS) and data migrations regularly stifle remediation efforts for myriad reasons. When system replacements or data migrations are delayed, they cause a ripple effect in implementing CAPs and often require the development of workarounds that are manual and labor intensive.

To help overcome these challenges, regular updates on remediation progress are provided to the DoD's Office of the Deputy Chief Financial Officer (ODCFO) and MHS senior leadership. This continued leadership attention and commitment to audit success, along with job performance ratings for key personnel, are aimed at promoting collaboration, progress and accountability as they relate to auditability.

DHP Remediation Priorities

Ranking in the bottom quartile of all of DoD's audited programs carries the requirement of having to submit a detailed report to the congressional defense committees addressing the MHS's overall efforts to improve the DHP's standing and achieve a clean audit. Moving forward, in keeping with ODCFO's strategy to compel progress, the MHS will track material weakness closures along with the NFRs closed. In addition, we have established five financial statement remediation priorities to enable MHS components to better focus their corrective action efforts on challenges that are most significant and widespread:

- Financial reporting internal controls
- FBwT
- Accounting and financial reporting governance and entity-level controls (ELCs)
- OM&S and stockpile material
- Liabilities and related expenses

DHP Material Weaknesses, Underlying Causes, and Remediation Strategies

As stated above, during FY 2019 auditors reported 13 material weaknesses within the DHP program and also issued 190 NFRs, of which 124 were repeat findings from the previous audit. Many of these repeat findings resulted from complex long-standing business processes that will require time and cross-MHS component solutions. Another contributing factor was business processes supported by legacy systems and system interfaces that are not compliant with audit requirements.

Table 1: *DHP material weaknesses, underlying causes, and remediation strategies*

#	Material Weakness Description and Underlying Causes	Accounting Area
1	Accounting and financial reporting governance and ELCs: ▸ No formalized accounting and financial reporting governance across reporting entities ▸ ELCs are not designed and operating effectively, including sufficient monitoring of service providers	Entity-Level Controls
	MHS Remediation	
	▸ Develop financial and accounting governance, policies, and procedures ▸ Redesign the DHA's ELCs in accordance with the Government Accountability Office (GAO) Green Book principles, which will serve as the ELC framework throughout the MHS ▸ Test the redesigned ELCs and component deviations and correct any identified control failures	
2	Financial Reporting Universe of Transactions (UoT) Reconciliations ▸ Monetary variances identified in General Ledger (GL) to Trial Balance (TB) reconciliations lack supporting documentation	Financial Reporting
	MHS Remediation	
	▸ Develop a standard operating procedure documenting the UoT reconciliation process ▸ Continue support and refinement of the data and usage of the ODCFO Advancing Analytics (ADVANA) tool ▸ Stratify data populations across all GL systems in support of auditor sampling efforts ▸ Develop reconciliations for additional DDRS-B feeder systems in support of financial system balances	
3	Financial Reporting – Defense Departmental Reporting System (DDRS) Adjustments ▸ The DDRS journal voucher (JV) review process is not effectively designed to ensure adjustments	Financial Reporting
	MHS Remediation	
	▸ Develop reconciliations for additional DDRS-B feeder systems in support of financial system balances ▸ Implement appropriate procedures to reduce unsupported manual JVs to produce the DHP financial statements and associated notes ▸ Implement procedures on trading partner elimination process	

4	Fund Balance with Treasury: ▸ Effective processes and controls are not designed and implemented to reconcile variances between FBwT GL balances and Treasury	FBwT
	MHS Remediation	
	▸ Work with DFAS to support undistributed, Suspense and Deposit amounts ▸ Coordinate with ODCFO and DFAS to move the current DHP 999* limit from the ODO Consolidated Statement to DHP's financial statements to ensure completeness of the FBwT universe ▸ Document the current end-to-end reconciliation and oversight processes	
5	Medical Revenue and Associated Receivables: ▸ Insufficient enterprise-wide accounting policies to ensure consistent and accurate accounting of medical services provided to the public and federal trading partners in accordance with Generally Accepted Accounting Principles (GAAP)	Accounts Receivable (AR)
	MHS Remediation	
	▸ Develop an enterprise accounting policy for Medical Services Revenue and associated AR that specifically addresses the appropriate accounting treatment as prescribed within Statement of Federal Financial Accounting Standards (SFFAS) No. 1 and SFFAS No. 7	
6	General Equipment (GE) existence and completeness: ▸ Procedures have not been designed to accurately report GE	Property, Plant and Equipment (PP&E)
	MHS Remediation	
	▸ Develop and implement GE processes	
7	Valuation of PP&E: ▸ Procedures have not been designed to appropriately value PP&E at historical cost in accordance with GAAP	PP&E
	MHS Remediation	
	▸ Develop accounting policy for PP&E that specifically addresses historical cost valuation in accordance with SFFAS No. 6, SFFAS No. 10, and SFFAS No. 50	
8	Real Property ▸ Procedures have not been designed to appropriately value PP&E at historical cost in accordance with GAAP	PP&E
	MHS Remediation	
	▸ Incorporate Medical Real Property in the development of enterprise accounting policy for PP&E, aligning, as appropriate, with the financial reporting responsibilities of Real Property prescribed at the DoD level	
9	Internal Use Software (IUS) and IUS in development: ▸ Process has not been implemented to identity and classify pertinent cost information required for IUS reporting	PP&E
	MHS Remediation	
	▸ Develop a valuation strategy and approach for IUS and record it on the financial statements in accordance with federal accounting standards	

10	OM&S and stockpile material: ▸ O&MS processes are not fully documented ▸ Stockpile material assets are not 100% recorded	Inventory and related property
	MHS Remediation	
	▸ Develop financial reporting procedures to document O&MS accounting methodology and stockpile reporting process ▸ Complete an auditable stockpile baseline inventory and maintain documentation for transactions recorded in the Accountable Property System of Record (APSR) ▸ Develop and implement policies and procedures to accurately capture stockpile materials in the financial statements	
11	Liabilities and Related Expenses ▸ Accounting-compliant processes for recording known liabilities on the balance sheet are not established for AP, Contingent Liabilities and FECA	Accounts Payable (AP) and Related Liabilities
	MHS Remediation	
	▸ Develop a GAAP-compliant AP accrual methodology to record estimated AP for goods and/or services received but not yet invoiced nor currently captured in other accrual processes ▸ Develop and execute procedures for recording contingent liabilities ▸ Document the FECA liability, payment and charge-back processes and enter amount onto the appropriate financial statement	
12	Monitoring and Reporting of Obligations ▸ Reporting capability for unliquidated obligations (ULO) or status of funds has not been sufficiently designed ▸ Dormant account review is not effective	Budgetary Resources
	MHS Remediation	
	▸ Implement Dormant Account Review – Quarterly (DARQ) process to review and remove dormant balances, as appropriate	
13	Information Systems ▸ Insufficient procedures on user access and logging of user activities	Information Technology (IT)
	MHS Remediation	
	▸ Update policy and documentation for access control monitoring for the four DHA-owned systems (the systems are used at the Military Treatment Facility level)	

Developing and implementing corrective actions that address these material weaknesses is no small feat considering the size and expanse of the MHS. Nonetheless, our workforce is committed and diligently working to remediate the items while simultaneously working to migrate most of the DHP to a single accounting system in lieu of the three distinct systems currently in use. In FY 2020 we're projected to close 9 NFRs, while in FY 2021 we're projected to close 67, and 56 more in FY 2022 and beyond. Naturally, these are projections that with concerted efforts, we hope to surpass.

Challenge 2: Providing Comprehensive and Cost-Effective Healthcare

The MHS is a global, comprehensive, integrated healthcare organization that includes a healthcare delivery system, combat medical services, public health activities, medical education and training, and medical research and development. All of these elements make up our mission and are necessary to supporting both the National Defense Strategy (NDS) and our 9.6 million beneficiaries. To best accomplish our mission, the MHS is undergoing major changes and actualizing various significant initiatives. The MHS is:

(1) Deploying a new EHR system and moving to integrate it with the VA

(2) Focusing on behavioral health issues, such as suicide prevention and opioid and substance use disorders

(3) Working to reduce vulnerabilities for healthcare fraud within the MHS

(4) Working to control rising healthcare costs

(5) Enhancing our medical billing capabilities

(6) Reforming the DHA to manage MTFs

(7) Revamping our medical infrastructure to principally support medical readiness

(8) Bolstering our medical research and development portfolio

These are complex challenges aimed at best supporting the levels of effort espoused within the NDS. We are committed to advancing the superb battlefield medical care provided to warfighters and the world-class treatment and rehabilitation for those who bear the wounds of past military conflicts.

Responding to public health threats, such as COVID-19 and having a lead role in DoD's pandemic response go hand in hand with the MHS mission. Medical research plays a key role in pandemic response, both in how to safeguard Department personnel and in developing vaccines. Pandemics can constrain the operational capability of the Department, and it is the responsibility of the MHS to help ensure the health of the force remains unencumbered in order to carry out its mission to safeguard the nation.

Payment Integrity Information Act Reporting

In accordance with the Payment Integrity Information Act of 2019 (P. L. 116-117, 31 U.S.C § 3352 and § 3357) and Appendix B of the OMB Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*, dated August 27, 2019, DoD reports payment integrity information (i.e., improper payments) at the agency-side level in the consolidated DoD AFR. For detailed reporting on DoD payment integrity, refer to the "Other Information" section of the consolidated DoD AFR at: https://comptroller.defense.gov/ODCFO/afr2020.aspx.

Fraud Reduction Report

OMB Circular No. A-136 requires that, "*Under the Payment Integrity Information Act of 2019, each agency must include in its AFR or PARs a report on its fraud reduction efforts undertaken in FY 2020*." The mission of the DHA OIG is to improve DHA MHS integration of readiness and health to deliver the Quadruple Aim by providing independent support to deter and prevent fraud, waste, abuse, and mismanagement in order to improve economy, accountability, integrity, and efficiency. The guiding philosophy behind the Defense OIG system is to enhance the readiness, warfighting, and mission capabilities of the DHA. The DHA OIG provides support to the agency director to ensure that systems are functioning according to established requirements within mandatory timelines and to resolve conflicts or issues to enable personnel to focus on their mission.

The DHA OIG does not have the operational capacity to conduct a deliberate assessment on DHP management and performance challenges. The office continues to evolve from a reactive to proactive model by focusing concerted effort in helping the DHP identify and address problems through inspections before occurrence, promoting organizational health, and enabling DHP readiness. The DHA OIG was established in a limited Initial Operating Capability (IOC) in 2016 and continues through FY 2020 to provide partial hotline and investigation programs for DHA HQ and two MTFs at Walter Reed (WRNMMC) and Fort Belvoir (FBCH). During FY 2019, the DHA OIG began transition plans to implement Congressional direction for MHS reform. Under this mandate, USD(P&R) assessed DHA OIG as requiring 54 government personnel to support the entire MHS system and operationalize the four major OIG functions of inspection, investigations, teach and train, and assistance. Delays in workforce resourcing and MHS transition delays due to COVID-19 response have minimized the capability of the DHA OIG, which currently has eight personnel authorized and on hand and is at 15% required capacity.

Allegations of Fraud

DoD Directive 5106.01 provides DHA OIG the authority to maintain the DHA Hotline Program, which includes inquiries addressing the DHP. The hotline ensures inquiries resulting from allegations are conducted in accordance with applicable laws and DoD regulations and policies. Per Department of Defense Instruction (DoDI) 7050.01, the DHA Hotline Program provides a confidential, reliable means for individuals to report fraud, waste and abuse; violations of law, rule or regulation; mismanagement; and classified information leaks, including those involving the DHP. The DHA OIG derives its authority to inspect and investigate from the director, DHA. The DHA OIG control and reporting relationship may not be further delegated. Approval with written authority must be gained from the director to conduct inspections or full investigations. However, the DHA OIG can respond to requests for assistance and can conduct informal inquiries, generally to gather initial facts to determine if a formal investigation is warranted, without the director's personal approval. Inspections and investigations contain recommendations to improve program management and operations and to address fraud, abuse, mismanagement, and waste of DoD funds.

Performance Metrics and Trend Analysis

Hotline, investigation, and inspections collect trends over multiple years to identify management and process challenges based on a volume of events that can provide an accurate and effective analysis. Effective collection and analysis of data can:

- Identify opportunities to improve the management of hotline complaints from receipt to resolution
- Identify trends that will help DHP decision-makers combat fraud, waste, abuse, and mismanagement in DHP programs and operations more effectively

As of this report, the volume of events supportable by the DHA OIG is insufficient to accurately provide management and performance challenges.

Preventing and Deterring Fraud

The DHA OIG identifies that there are organizations other than the DHA OIG that support fraud deterrence. The Program Integrity Office at the DHA in Aurora, Colorado is the central coordinating agency for allegations of fraud and abuse within the TRICARE program. Its mission is to manage antifraud and abuse activities for the DHA to protect benefit dollars and safeguard beneficiaries. The Program Integrity Office develops and executes antifraud and abuse policies and procedures, provides oversight of contractor program integrity activities, coordinates investigative activities, develops cases for criminal prosecutions and civil litigations, and initiates administrative measures. The Audit Liaison team, a part of the DHP Financial Reporting & Compliance Division, coordinates with DHA HQ Functional Capabilities (FCs) to identify a DHA point of contact (POC) for any GAO and/or DoD OIG engagement that requires a DHA or DHP coordination. The FC POC coordinates with GAO and/or DoD OIG to support external engagements by those oversight entities and provides visibility of external engagements for DHA. After GAO or DoD OIG publishes its reports, the Audit Liaison team tracks all recommendations and DHA responses through DHA, ASD(HA) and USD(P&R) approval process to verify completion.

COVID-19 Response

The DHA OIG identifies that the COVID-19 threat and response are significant events for DHP. The DHA OIG does not have enough data to provide a response at the time of this report but has utilized two DoD OIG Special Reports to provide awareness to the DHA and DHP (at https://www.dodig.mil/COVID-19/Reports/):

- *Special Report on Protecting Patient Health Information During the COVID-19 Pandemic* (DODIG-2020-080), April 27, 2020
- *COVID-19 Expenditures – Lessons Learned Regarding Awareness of Potential Fraud, Waste, and Abuse Risk*, April 6, 2020

Appendices

Appendix A: Abbreviations and Acronyms

ABACUS	Armed Forces Billing and Collection Utilization Solution
ACGME	Accreditation Council for Graduate Medical Education
ACO	Accountable Care Organization
AD	Active Duty
ADA	Antideficiency Act
ADC	Administration, Direction, and Control
ADDP	Active Duty Dental Program
ADP	Additional Discount Program
ADSMs	Active Duty Service Members
AEAN	Aggregate Entry Age Normal
AFC	Army Futures Command
AFMS	U.S. Air Force Medical Service
AFR	Agency Financial Report
AHCC	Annual healthcare cost
AHLTA	Armed Forces Health Longitudinal Technology Application
AIMS	Accounting and Inventory Management System
AL	Actuarial Liability
ALC	Agency Location Code
AMC	Army Materiel Command
AMLC	Army Medical Logistics Command
APSR	Accountable Property System of Record
ARRA	American Recovery and Reinvestment Act
ASD(HA)	Assistant Secretary of Defense (Health Affairs)
BPSP	Business Process Standardization and Policy
BS	Balance sheet
BUMED	Navy Bureau of Medicine and Surgery
CAC	Common Access Card
CAP	College of American Pathologists
CAP	Corrective Action Plan
CARES	Coronavirus Aid, Relief, and Economic Security Act
CCE	Coding and Compliance Editor
CCMD	Combatant Command
CCS	Choctaw Contracting Services
CDC	Centers for Disease Control and Prevention
CDMRP	Congressionally Directed Medical Research Program
CDRL	Contract Data Requirements List
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act
CFO	Chief Financial Officer
CFR	Code of Federal Regulations
CHAMPUS	Civilian Health and Medical Program of the Uniformed Services
CHCBP	Continued Health Care Benefits Program
CHCS	Composite Health Care System
CIP	Construction in Progress
CLRS	CFO Load Reconciliation System
CMAC	CHAMPUS Maximum Allowable Charge
CMR	Combat Mission Requirement
CONUS	Continental United States
COR	Contracting Officer Representative
COTS	Commercial Off-the-Shelf
COVID-19	Coronavirus Disease 2019
CPAM	Cerner Patient Accounting Module
CPI	Consumer Price Index
CPT	Current Procedural Terminology
CRM	Contract Resource Management
CSA	Combat Support Agency
CUEC	Complementary User Entity Control
CY	Calendar Year
DAI	Defense Agencies Initiative
DAPA	Distribution and Pricing Agreements
DARQ	Dormant Account Review – Quarterly
DASAFIM	Deputy Assistant Secretary of the Army Financial Information Management
DATA Act	Digital Accountability and Transparency Act of 2014
DCIA	Debt Collection Improvement Act of 1996
DCIS	Defense Criminal Investigative Service
DCPS	Defense Civilian Personnel System
DCS	Duplicate Claims System
DEAMS	Defense Enterprise Accounting and Management System
DEERS	Defense Enrollment Eligibility Reporting System
DFAS	Defense Finance and Accounting Service
DHA	Defense Health Agency
DHA-FC	Defense Health Agency Functional Champion
DHAPP	DoD HIV/AIDS Prevention Program
DHMSM	DoD Healthcare Management System Modernization
DHP	Defense Health Program
DIMO	Defense Institute for Medical Operations
DISA-OKC	Defense Information Systems Agency – Oklahoma City
DLA	Defense Logistics Agency
DM&R	Deferred maintenance and repairs
DMDC	Defense Manpower Data Center
DME	Durable Medical Equipment
DMLSS	Defense Medical Logistics Standard Support
DoD	Department of Defense
DoDI	Department of Defense Instruction

DOL	Department of Labor
DON	Department of Navy
DP	Designed Providers
DPP	Designated Providers Program
DRRS	Defense Readiness Reporting System
DRG	Diagnosis Related Group
DTF	Dental Treatment Facility
ECS	E-Commerce System
EHR	Electronic Health Record
EIC	External Independent Contractors
EIN	Employer Identification Number
ELC	Entity-Level Control
EOP	Executive Office of the President
EPLS	Excluded Parties List System
EPS	Executive Planning Session
ERP	Enterprise Resource Planning
ESA	Enterprise Support Activities
ESI	Express Scripts
ESRD	End-stage renal disease
FAD	Funding Authorization Document
FASAB	Federal Accounting Standards Advisory Board
FBCH	Fort Belvoir Community Hospital
FBwT	Fund Balance with Treasury
FC	Functional Capability
FCA	False Claims Act
FCP	Federal Ceiling Price
FECA	Federal Employees' Compensation Act
FEDVIP	Federal Employees Dental and Vision Insurance for Program
FEHB	Federal Employee Health Benefit
FEHRM	Federal Electronic Health Record Management
FFATA	Federal Funding Accountability and Transparency Act of 2006
FFCRA	Families First Coronavirus Response Act
FFMIA	Federal Financial Management Improvement Act
FFRDC	Federally Funded Research and Development Centers
FFS	Federal Financial System
FGB	GFEBS Functional Governance Board
FIAR	Financial Improvement and Audit Readiness
FIC	Financial Information Council
FISMA	Federal Information Security Modernization Act
FLSA	Fair Labor Standards Act
FMR	Financial Management Regulation
FMFIA	Federal Managers' Financial Integrity Act
FSIO	Financial Systems Integration Office
FSRE	Financial Statement Reporting Entity
FWC	Future Workers' Compensation
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles

GAFS-R	General Accounting and Finance System – Reengineered
GAO	Government Accountability Office
GEHA	Government Employees Health Association
GFEBS	General Funds Enterprise Business System
GGB	GFEBS Governance Board
GL	General Ledger
GMRA	Government Management Reform Act
GONE Act	Grants Oversight and New Efficiency Act
GPP&E	General Property, Plant and Equipment
GPRA	Government Performance and Results Act
GPRAMA	Government Performance and Results Modernization Act of 2010
HA	Health Affairs
HAFC	Health Affairs Functional Champion
HCPCS	Healthcare Common Procedure Coding System
HEDIS	Healthcare Effectiveness Data and Information Set
HGB	Humana Government Business Inc.
HJF	Henry M. Jackson Foundation
HMO	Health Maintenance Organization
HNFS	Health Net Federal Services
HRO	High Reliability Organization
HRQOL	Health Related Quality of Life
I&RP	Inventory and Related Property
IBNR	Incurred but not reported
ICO	Internal Controls Over Operations
ICOFR	Internal Controls Over Financial Reporting
ICOFS	Internal Controls Over the Financial Systems
ILIR	In-House Laboratory Independent Research
IOC	Initial Operating Capability
IP	Improper Payment
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
IPIA	Improper Payments Information Act of 2002
IQI	Inpatient Quality Indicator
iRAPT	Invoice Receipt, Acceptance and Property Transfer
IT	Information Technology
IUS	Internal Use Software
IUSID	Internal Use Software in Development
JCS	Joint Chiefs of Staff
JFMIP	Joint Financial Management Improvement Program
JPC	Joint Pathology Center
KSA	Knowledge, Skills and Abilities
KPI	Key Performance Indicators
LEIE	List of Excluded Individuals/Entities
LES	Leave and Earnings Statement
LPDH	Leidos Partnership for Defense Health
M2	MHS Mart
MAC	Medical Affirmative Claims

MAIS	Major Automated Information System
MCSCs	Managed Care Support Contractors
MCSP	Managed Care Support Program
MD	Medical Directorate
MDR	Military Health System (DHP) Data Repository
MEDCOM	U.S. Army Medical Command
MERHCF	Medicare-Eligible Retiree Health Care Fund
MHBs	Military Health Benefits
MHS	Military Health System
MILDEP	Military Department
MILCON	Military Construction
MRDC	Medical Research and Development Command
MSA	Medical Service Accounts
MTF	Military Treatment Facility
NWCF	Navy Working Capital Fund
NCR	National Capital Region
NCR MD	National Capital Region Medical Directorate
NDAA	National Defense Authorization Act
NDS	National Defense Strategy
NFR	Notification of Finding Recommendations
NGPL	No Government Pay List
NHRC	Naval Health Research Center
NIPRNET	Internet/Non-secure Internet Protocol Router Network
NMHM	National Museum of Health and Medicine
NOAA	National Oceanic & Atmospheric Administration
NSQIP	National Surgical Quality Improvement Program
O&M	Operations and Maintenance
OACT	Office of the Actuary
OASD(HA)	The Office of the Assistant Secretary of Defense for Health Affairs
OCONUS	Outside of the Continental United States
ODCFO	Office of the Deputy Chief Financial Officer
ODO	Other Defense Organizations
OFF	Oracle Federal Financials
OGC	Office of General Counsel
OHI	Other Health Insurance
OI	Other Information
OIG	Office of Inspector General
OM&S	Operating Materiel & Supplies
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OP	Other Procurement
OP	Overpayment
OSD	Office of the Secretary of Defense
OUSD-C	Office of the Under Secretary of Defense (Comptroller)
PAR	Performance Accountability Report
PCM	Primary Care Manager
PEO	Program Executive Office
PEPFAR	President's Emergency Plan for AIDS Relief
PHS	Public Health Service
PI	Program Integrity
PIMS	Participant Information Management System
PIP	Patient identification process
PMO	Project Management Office
POC	Point of Contact
POG	Process Owner's Group
POM	Program Objective Memorandum
POS	Point-of-service
PP&E	Property, Plant and Equipment
PPA	Prompt Payment Act
PPO	Preferred Provider Organization
PSC	Private Sector Care
PTSD	Post-Traumatic Stress Disorder
PVFB	Present Value of Future Benefits
PVFNC	Present Value of Future Normal Costs
QA	Quality Assurance
QPP	Quadruple Aim Performance Process
RCRA	Resource Conservation and Recovery Act
RDT&E	Research Development Test & Evaluation
RevX	Revenue Cycle Expansion
ROI	Return on Investment
RSL	Remaining Service Life
S&P	Standards and Policies
S/L	Straight Line
SAP	Systems Applications and Products
SARA	Superfund Amendments and Reauthorization Act
SARS-CoV-2	Severe Acute Respiratory Syndrome Coronavirus 2
SBR	Statement of Budgetary Resources
SCG	System Change Group
SDP	Standard Discount Program
SFFAS	Statement of Federal Financial Accounting Standards
SMA	Service Medical Activity
SME	Subject Matter Expert
SMS	Sustainment Management System
SNC	Statement of Net Cost
SNP	Statement of Changes in Net Position
SOC 1	System and Organization Controls
SOFA	Status of Forces Agreement
SSN	Social Security Number
STARS-FL	Standard Accounting and Reporting System – Field Level
TAMP	Transitional Assistance Management Program
TBI	Traumatic Brain Injury
TCM	TRICARE Claims Management
TDEFIC	TRICARE Dual Eligible Fiscal Intermediary Contract
TDP	TRICARE Dental Program
TEDS	TRICARE Encounter Data Set
tFIC	Technical Financial Information Council

TFL	TRICARE for Life
TFM	Treasury Financial Manual
tIMO	Transitional Intermediate Management Organization
TJC	The Joint Commission
TMA	TRICARE Management Activity
TMOP	TRICARE Mail Order Pharmacy
TNC	Treasury Nominal Coupon Issues
TOM	TRICARE Operations Manual
TOP	TRICARE Overseas Program
TPC	Third Party Collections
TPCP	Third-Party Collection Program
TPharm	TRICARE Pharmacy Program
TPR	TRICARE Prime Remote
TPRADFM	TRICARE Prime Remote for Active Duty Family Members
TRDP	TRICARE Retiree Dental Program
TRO	TRICARE Regional Office
TRR	TRICARE Retired Reserve
TRS	TRICARE Reserve Select
TSCA	Toxic Substances Control Act
TSM	TRICARE Systems Manual
TYA	TRICARE Young Adult
UBO	Uniform Business Office
UDO	Undelivered Order
UHM&VS	UnitedHealth Military and Veterans Services
ULO	Unliquidated Obligations
UMB	Unified Medical Budget
UP	Underpayment
USACE	United States Army Corps of Engineers
USAID	United States Agency for International Development
U.S.C.	United States Code
USD(P&R)	Under Secretary of Defense for Personnel and Readiness
USFHP	Uniformed Services Family Health Plan
USSGL	United States Standard General Ledger
USUHS	Uniformed Services University of the Health Sciences
USCG	United States Coast Guard
VA	Veterans Affairs
VHA	Veterans Health Administration
WHO	World Health Organization
WIC	Women, Infant, and Children
WPS	Wisconsin Physicians Services
WRNMMC	Walter Reed National Military Medical Center

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