Contract Resource Management

★★★ Agency Financial Report ★★★

Fiscal Year 2021

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Agency Head Message

After nearly 21 months of operating under a national emergency with the Coronavirus Disease 2019 (COVID-19) pandemic, the Military Health System (MHS) continues to focus on our top priority—providing the highest quality healthcare possible to ensure the medical readiness of our warfighters, and keeping their families healthy and safe. That is the purpose for which our MHS exists and the reason why it's vital that we invest time and effort into properly stewarding our Defense Health Program (DHP) resources.

This report comes at a time of unprecedented challenges as we tackle the COVID-19 pandemic. During the past year, COVID-19 has been our number one priority. Military medicine has been leading efforts to protect our workforce, maintain readiness, and support the national response. Whether it was standing up a COVID-19 Testing Task Force, collecting more than 10,000 units of COVID Convalescent Plasma, or distributing and administering the COVID-19 vaccine, the MHS continues the fight against COVID-19.

We have also continued to make tremendous progress on our high priority MHS initiatives.

Implementing TRICARE Reform. Our patients benefitted from recent TRICARE enhancements—including a successful rollout of two TRICARE Open Seasons; transition of more than 450 military hospitals and clinics to the TRICARE.mil website; and expansion of telehealth services specifically to meet patient needs during the pandemic.

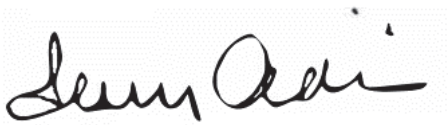
Continuing MHS GENESIS Rollout. The MHS continued its expansion of MHS GENESIS to our military treatment facilities (MTFs). MHS GENESIS integrates inpatient and outpatient solutions that connects medical and dental information across the continuum of care, from point of injury to the MTF. When fully deployed by fiscal year (FY) 2024, MHS GENESIS will provide a single health record for Service members and their families.

Implementing MTF Transition to the Defense Health Agency (DHA). Great strides were taken in FY 2021 to transition MTFs from the Military Departments to the authority, direction, and control of the DHA. This transition is designed to increase overall access to care for beneficiaries; improve coordination, standardization, and dissemination of best practices across the MHS; and provide more opportunities for military medical providers to get the training they need to meet readiness goals. The MHS is on track to complete this transition early in FY 2022.

The outcome of our fourth audit proves that we are committed to using the audit as a valuable learning tool. While we are pleased to have achieved another unmodified opinion in FY 2020 on the DHP funds allocated to our private sector/TRICARE programs (11th consecutive year in a row reported through the financial statements of the Defense Health Agency – Contract Resource Management); we recognize that we still have a considerable amount of work to do on our direct care MTF programs. We are continually using the results of our financial statement audits to build a body of evidence that justifies the overhaul of ineffective policies and procedures, to invest in tools and enablers that improve oversight, and to assign subject matter experts to develop and implement well-designed controls to mitigate risks. These efforts are aimed at producing the eventual, desired internal control environment.

Focusing on producing verifiable evidence to support our financial reporting is vital. Our management infrastructure and decision-making rely heavily on data—whether it's financial, clinical, or managerial. Data is a strategic asset to the organization, therefore, not only must it be credible; it must also be accurate. Verifying that data is accurate demands that evidence be produced and tested. Whether testing is done by external auditors or through internal self-inspections, the objectives are the same—that we learn from the results so that we can improve.

As a medical organization, we wholeheartedly recognize that we must steward our resources and will continue to harness the array of talent within our workforce to evaluate how well policies and programs are working, and to explore innovative ways to achieve our medical mission in a financially transparent and accurate manner. Transparency and accountability support sound stewardship of taxpayer funds and compels financial management rigor, integrity and efficient and effective business practices. This too is our responsibility and obligation to our nation.



Terry Adirim, M.D., M.P.H., M.B.A.
Acting Assistant Secretary of Defense for Health Affairs

I. Management's Discussion and Analysis

Mission and Organization Structure

Description of the Reporting Entity

Contract Resource Management (CRM), is a division of the Defense Health Agency (DHA) within the Department of Defense (DoD). For financial reporting purposes, Defense Health Agency – Contract Resource Management (DHA-CRM) is a component within the consolidated financial statements of the DHP. Within the DoD, the Office of the Under Secretary of Defense (OUSD) for Personnel and Readiness (P&R), through the Office of the Assistant Secretary of Defense (OASD) for Health Affairs (HA), has as one of its missions, operational oversight of the MHS, including the direct care system (military hospitals), the private sector care system, and the Medicare-Eligible Retiree Health Care Fund (MERHCF) for those beneficiaries dual-eligible for both Medicare and TRICARE.

The MHS aims to enhance the DoD and our nation's security by providing health care support for the full range of military operations and sustaining the health of all those entrusted to our care, including active duty personnel, military retirees, certain members of the Reserve Component, family members, widows, survivors, ex-spouses, and other eligible members. These beneficiaries receive direct care through MTFs, private sector care through TRICARE's civilian provider network, as well as prescription and mail order coverage through the TRICARE Pharmacy Program. Care is also provided to members of the Coast Guard, the National Oceanic and Atmospheric Administration (NOAA), the Public Health Service (PHS) and their families on a reimbursable basis.

The MHS consists of a combination of MTFs and regional networks of civilian providers that work together to provide care to 9.6 million eligible beneficiaries. The MHS direct care system is staffed by more than 134,000 personnel in 49 hospitals, 465 medical clinics, and 442 dental clinics at facilities around the globe. The MHS is a complex system that globally integrates: health care delivery, public health and medical education, private sector partnerships, and cutting-edge medical research and development.

Defense Health Agency

The DHA oversees the execution of the DHP appropriation to support the delivery of integrated, affordable, and high quality health services to the DoD's 9.6 million eligible beneficiaries and executes responsibility for shared services, functions and activities of the MHS and other common clinical and business processes. The DHA manages the execution of policy as issued by the OASD(HA) and exercises authority, direction, and control over the inpatient facilities and their subordinate clinics assigned to the DHA.

The senior medical leadership, the Surgeons General, and DHA staff over the past several years have reexamined DHA's fundamental purpose, vision for the future and strategies to achieve that vision. The DHA is refocusing efforts on the core business in which it is engaged: creating an integrated medical team that provides optimal health services in support of our nation's military mission—anytime, anywhere. The DHA has taken bold steps to redefine how we work collaboratively with the Department of Veterans Affairs (VA) and our civilian partners to improve coordinated care for wounded warriors and all whom we have the honor to serve.

The Quadruple Aim—Improved Readiness, Better Care, Better Health, and Lower Cost—serves as the strategic framework for the MHS. To ensure the Quadruple Aim is achieved, the DHA has developed three strategic goals:

- Optimize the DHA for Greater Performance
- Co-create Optimal Outcomes for Health, Well-being and Readiness
- Deliver Global Support for Combat Forces

The DHA leads the MHS integrated system of readiness and health to deliver the Quadruple Aim:

- Increased Readiness – ensuring that the total military force is medically ready to deploy and that the medical force is ready to deliver supportive 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 Care – continuing to advance health care that is safe, timely, effective, efficient, equitable, and patient- and family-centered.
- Better Health – improving the health of a population, making the transformation from health care to health by reducing the generators of disease and injury, encouraging healthy behaviors, increasing health resilience, and decreasing the likelihood of illness through focused prevention.
- Lower Costs – increasing value by focusing on quality, eliminating waste, and reducing unwarranted variation. In the move toward value-based health care, we begin to consider the total cost of care over time, not just the cost of care at a single point in time. There are both near-term opportunities to become more agile in our decision making and longer-term opportunities to change the trajectory of cost growth by building value and improving the health of all we serve.

The DHA is the administrative agency for the TRICARE health program. TRICARE consists of care both in the direct care system and in the private sector through managed care support contracts and the TRICARE health care 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 authority, direction, and control of MTFs in fulfillment of the National Defense Authorization Act (NDAA) for FY 2017, Section 702. One of the goals of the NDAA for FY 2017, Section 702 was to eliminate variances in processes in order to eliminate unnecessary overhead and support the MHS's 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.

From the private sector care perspective, TRICARE is administered by the DHA on a regional basis. In fulfillment of Section 701 of the 2017 NDAA, the DoD implemented the most sweeping changes to the TRICARE benefit structure since TRICARE was established in 1995. Contract management adjusted to synchronize these changes with the DoD's transition to the TRICARE 2017 contracts and regional oversight. The TRICARE changes expand beneficiary choice, improve access to network providers, modernize beneficiary cost-sharing, and enhance administrative efficiency. The Managed Care Support Program 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 in the West Region. These managed care support contractors (MCSCs) provide private sector health care 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.

The most current generation of the TRICARE managed care support contracts went into effect January 1, 2018, which established two TRICARE regions in the United States, East and West, with a single contract for each region. Before January 1, 2018, the private sector care contracts were organized into three geographical regions –North, South, and West. The current generation merged the North and the South regions, now called the East region.

MCSCs are responsible for managing the delivery of health care to TRICARE's beneficiaries by developing and maintaining a civilian provider network consisting of both primary care and specialist providers. The MCSCs are

also responsible for ensuring adequate access to health care, referring and authorizing beneficiaries for health care, educating providers and beneficiaries about TRICARE benefits, credentialing providers, and processing claims.

DHA provides oversight, monitoring/management of the Payment Integrity Information Act (PIIA) of 2019, and preparation of consolidated financial statements and footnotes for the DHP. The Defense Finance and Accounting Service-Indianapolis (DFAS-IN) provides accounting and financing activities for DHA. The DHA is also responsible for the management of the dental program, Uniformed Services Family Health Plans (USFHP) and pharmacy programs, both retail and mail order, and the MERHCF.

Contract Resource Management

DHA-CRM in Aurora, Colorado, under the leadership of J8, Deputy Assistant Director, Financial Operations, Mr. Robert Goodman Chief Financial Officer, is responsible for the accounting, financial support, and financial reporting for TRICARE's centrally funded private sector health care programs and the TRICARE Retail Pharmacy Refunds Program. DHA-CRM provides budget formulation input, carries out budget execution and prepares component financial statements and footnotes.

In addition, DHA-CRM is responsible for processing invoices received electronically from its contractors, and through the TRICARE Encounter Data Set (TEDS), and reporting these transactions through accessible electronic media. DHA-CRM provides funds availability certification and financial program tracking for the centrally funded private sector care programs. DHA-CRM monitors budget execution through analysis of current year and prior years spending and program developments. It also assists the DHA's Contract Management division, Program Integrity (fraud), and Case Recoupment activities related to private sector care.

DHA-CRM uses DHP funds provided by annual appropriations from the Congress of the United States to reimburse private sector health care providers for services rendered to TRICARE beneficiaries and funding from the MERHCF for the health care provided through TRICARE for Life (TFL) programs.

During the last two years of DHA-CRM's operation, funding was received from the following sources:

DHA-CRM Funding Sources

Fiscal Year	MERHCF Funding (Billions)	Annual Appropriations (Billions) *
2021	$8.8	$16.2
2020	$8.4	$16.2

* DHA-CRM received Funding Authorization Documents (FADs) for FY20/9700 of $16.1 billion through September 30, 2020. DHA-CRM received supplemental FADs for FY20-FY22/9703 of $82.0 million through September 30, 2022. Total appropriated FADS of $16.2 million in FY20 includes supplemental funding received in FY20. DHA-CRM received FADs for FY21/9700 of $16.2 billion through September 30, 2021.

For FY 2020, the "Consolidated Appropriations Act, 2020", Public Law (P.L.) No. 116-93, became law December 20, 2019, providing DoD funding for FY 2020.

For FY 2021, the "Consolidated Appropriations Act, 2021", P.L. No. 116-260, became law December 27, 2020, providing DoD funding for FY 2021.

TRICARE

Established in 1995, TRICARE is the worldwide DoD purchased health care program. As a major component of the MHS, TRICARE brings together the military hospitals and clinics worldwide (often referred to as "direct care," usually in MTFs and military dental treatment facilities) with TRICARE network and non-network civilian health care professionals, institutions, pharmacies, and suppliers to provide access to the full array of high-quality health care services while maintaining the capability to support military operations.

The TRICARE program offers beneficiaries a range of health plans as follows:[1]

- ***TRICARE Prime*** is an enrollment plan comparable to health maintenance organization (HMO) plans. Each enrollee is assigned a primary care manager (PCM), a health care provider 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 times 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 Prime Remote (TPR)** enrollment is offered to certain Service members remote from MTFs.
    - **TRICARE Prime Remote for Active Duty Family Members (TPRADFM)** enrollment is offered to qualified dependents of Service member sponsors, active and reserve, on active duty more than 30 days.
    - **Uniformed Services Family Health Plan (USFHP)** is a TRICARE Prime plan offered to non-Active Duty beneficiaries at statutorily specified locations in six areas: Washington, Texas, Maine, Maryland, Massachusetts, and New York/New Jersey. Enrollees receive all services, including pharmacy, exclusively from their particular enrolled USFHP plan; no MTF services.
- ***TRICARE Select*** is an enrollment-based, self-managed preferred provider organization (PPO) plan that features access to both network and non-network TRICARE-authorized providers. Referrals are generally not required for coverage.
- ***TRICARE for Life (TFL)*** is for TRICARE-eligible beneficiaries who have Medicare Parts A and B. TFL functions similar to Medigap policies; TFL pays secondary to Medicare for TRICARE-covered services.
- **Transitional Assistance Management Program (TAMP)** plan provides 180 days of premium-free coverage upon release of certain Service member sponsors, active or reserve, from Active Duty served more than 30 days.
- ***Other Plans and Programs:*** Some beneficiaries may qualify for other benefit options depending on their location, Active/Reserve status, and/or other factors:
    - Premium-based health plans, including:
        - TRICARE Young Adult (TYA), available for purchase by qualified former dependent children up to the age of 26.
        - TRICARE Reserve Select (TRS), available for purchase by qualified Selected Reserve members
        - TRICARE Retired Reserve (TRR), available for purchase by qualified Retired Reserve members
        - TRICARE Dental Program (TDP), available for purchase by Selected Reserve members and family members, and family members of Active Duty members

[1] For more information on the plans noted above see https://www.tricare.mil/Plans/HealthPlans

    - Continued Health Care Benefit Program (CHCBP), which is comparable to Consolidated Omnibus Budget Reconciliation Act (COBRA) continuation coverage.
    - Federal Employees Dental and Vision Insurance for Program (FEDVIP) offers dental insurance for purchase by retirees and vision insurance for purchase by most non-service member beneficiaries enrolled in a TRICARE health plan. FEDVIP is operated by the U.S. Office of Personnel Management (OPM), no DoD.
- Other major benefits and plans, including:
    - Dental benefits (military dental treatment facilities and claims management for Active Duty using civilian dental services)
    - Pharmacy: MTFs, TRICARE retail network pharmacies, and TRICARE Pharmacy Home Delivery program
    - Overseas purchased care and claims processing services
    - Women, Infants, and Children (WIC) Overseas Program (www.tricare.mil/wic)
    - Chiropractic care, limited to Service members (on Active Duty) at certain MTFs only (no private-sector chiropractic care is authorized)
    - Extended Care Health Option (ECHO): financial assistance to qualified Active Duty family members with special needs
    - Clinical and educational services demonstration programs (e.g., chiropractic care, autism services, and the accountable care organization [ACO])

Health Care Purchased From Civilian Providers

Claims for care provided by civilian providers are submitted to claims processors who work for the private sector MCSCs. Claims are adjudicated to ensure that the patients are eligible, that care was provided by authorized healthcare providers, for covered benefits and for the contracted price. A record of the transaction is submitted to DHA-CRM in the form of a TEDS file. The TEDS records are run through a series of automated edits to ensure that the data is accurate and that data standards are met. If the TEDS records pass these edits, the records are accepted, and payment to the contractor is authorized.

In addition to payments made to contractors through the TEDS record process, TRICARE contractors are paid based upon invoices that are submitted to DHA-CRM. The invoices are for administrative services provided for the management of the healthcare benefit, such as the operation of TRICARE Service Centers, network development operations, provider education services and other services that are non-healthcare in nature.

In addition to the direct healthcare/MTF systems and the private sector healthcare systems, DoD beneficiaries may enroll in capitation rate plans in specific locations where USFHP facilities are available. These plans include inpatient and outpatient services and a pharmacy benefit. The capitation rate is paid by DoD. Beneficiaries who choose enrollment in these plans are ineligible for care in MTFs as well as benefits under the TFL programs.

Medicare Eligible Retiree Health Care Plans

The FY 2001 NDAA significantly expanded the DoD health care benefits for Medicare-eligible military retirees, their dependents and survivors. The NDAA established the TRICARE Pharmacy Program that began on April 1, 2001, and the TFL benefits that became effective on October 1, 2001.

The TRICARE Pharmacy Program authorizes Medicare-eligible beneficiaries to obtain low-cost prescription medications from the TRICARE Pharmacy Home Delivery and TRICARE network and non-network civilian pharmacies. Medicare-eligible beneficiaries may also continue to use military hospital and clinic pharmacies, at no charge.

Beneficiaries who are eligible for the Medicare program (over 65, End-Stage Renal Disease, survivors, etc.) can receive care from Medicare participating providers through the TFL program. With this program TRICARE serves as the final payer to Medicare and other health insurance for Medicare covered benefits, and first payer for TRICARE benefits that are not covered by Medicare or other health insurance programs.

In accordance with DoD 7000.14-R, *Financial Management Regulation (FMR)*, Volume 12, Chapter 16, DHA-CRM reports daily obligations to the MERHCF for healthcare purchased from civilian providers or "purchased care". Daily claims are validated by the voucher edit procedures required by the TRICARE Systems Manual (TSM) 7950.3-M, Dated April 1, 2015 (all contracts except pharmacy) & TSM 7950.2-M, Dated February 1, 2008 (Pharmacy contract only), to ensure that only costs attributable to Medicare-eligible beneficiaries are included in payments drawn from the MERHCF.

DHA Program Integrity Office

In addition, DHA-CRM's Improper Payment Evaluation Branch conducts post payment audits. It also assists DHA's Contract Management, Program Integrity (PI) (fraud), and Case Recoupment division activities related to private sector care. The DHA Office of PI manages anti-fraud and abuse activities for the DHA to safeguard beneficiaries and protect benefit dollars. The PI responsibilities include:

- Central coordinating office for allegations of fraud and abuse within the TRICARE Program.
- Develops and executes anti-fraud and abuse policies and procedures.
- Provides oversight of contractor program integrity activities.
- Develops cases for criminal prosecutions and civil litigations.
- Coordinates investigative activities with Military Criminal Investigative Offices, as well as other federal, state, and local agencies.
- Initiates administrative measures.
- Identifies areas for cost containment.

During calendar year 2020, the DHA PI actively managed 875 investigative cases, 433 new cases were opened, and the PI responded to over 1,500 lead requests and fraud allegation inquiries. [2]

[2] For more information, please refer to DHA's "Program Integrity Division Operational Report" for calendar year 2020, available at https://www.health.mil/Reference-Center/Reports/2021/06/10/2020-Annual-Fraud-and-Abuse-Report. The FY 2021 data will not be available until published in April 2022, due to the time required to compile 4th Quarter, FY 2021 data.

Analysis of Performance Goals, Objectives, and Results

Performance Measures

The *Evaluation of the TRICARE Program: Fiscal Year 2021 Report to Congress Access, Cost, and Quality Data through Fiscal Year 2020,* reflects DHA's mission and vision statements, updates and refines descriptions of core values, and presents key results of the metrics supporting DHA's Strategic Plan that focuses on how DHA defines and measures mission success, and how DHA plans to continuously improve performance. DHA-CRM supports these goals through its mission to add value to the DHA by delivering exceptional accounting, financial, and reporting services in support of the TRICARE Private Sector Healthcare and TRICARE Retail Pharmacy Refund programs.

Stakeholder Perspective[3]

- The $50.5 billion Unified Medical Program (UMP) presented in the FY 2021 President's Budget, including estimated outlays from MERHCF, is 1% lower than the $51.0 billion in estimated expenditures in FY 2020 and is 7% of total FY 2021 estimated DoD outlays.
- In 2020, 9.6 million beneficiaries were eligible for DoD medical care. Of those, almost 4.8 million (50%) enrolled in TRICARE Prime (including TYA Prime and USFHP).
- TYA enrollment increased to over 40,000 beneficiaries under age 26 enrolled in FY 2020, from almost 37,000 in FY 2019, with most enrolled in the TRICARE Select benefit (77%).
- There were almost 390,166 enrollees in the premium-based TRS in 111,000 plans, while Retired Reserve members and their families in TRR reached just over 3,900 plans and almost 10,800 covered lives.

MHS Workload and Cost Trends

- The percentage of beneficiaries using MHS services declined slightly from 86% in FY2018 to 85% in FY2020.
- Excluding TFL, total MHS workload (direct and purchased care combined) fell from FY 2018 to FY 2020 for inpatient care (-13%), outpatient care (-9%), and prescription drugs (-6%).
- From FY 2018 to FY 2020, direct care workload decreased for inpatient care (-17%), outpatient care (-20%), and prescription drugs (-8%).
- Excluding TFL, purchased care workload fell for inpatient care (-11%), outpatient care (-2%), and prescription drugs (-1%). Overall, purchased care costs rose by 4%.
- The purchased care portion of total MHS health care expenditures rose from 55% in FY 2018 to 59% in FY 2020.
- In FY 2020, out-of-pocket costs for MHS beneficiary families under age 65 were between $7,100 and $9,400 lower than those for their civilian counterparts, while out-of-pocket costs for MHS senior families were $3,500 lower.

Lower Cost

- MHS estimated savings include nearly $825 million in retail pharmacy refunds in FY 2020 and $364 million in PI activities in calendar year 2019.

Improved Readiness

- **Force Health Protection:** At the end of FY 2020, the overall medical readiness of the Total Force was at 82%, with the Active Component and the Reserve Component at 82%, not meeting the strategic goal of 85%. Dental readiness, at 92%, was below the MHS goal of 95%. The MHS surgical community is leading the way in identifying and enumerating critical clinical readiness skill sets.

[3] Source of all metrics presented is the Evaluation of the TRICARE Program: Fiscal Year 2021 Report to Congress Access, Cost, and Quality Data through Fiscal Year 2020 located at https://www.health.mil/Reference-Center/Reports/2021/07/20/TRICARE-Program-Effectiveness-for-FY-2021

Better Care

- **Access to Care:** Patient-Centered Medical Home (PCMH) primary care administrative measures indicate that, in FY 2020, MTF enrollees saw their primary care provider 56% of the time and a PCMH team member 91% of the time. In FY 2020, there was an increase in the average number of days to third next available 24-hour (2.0 days) and future (6.95 days) appointments with greater variation in appointment availability due to COVID-19. Network urgent care usage slightly decreased from 19.86 visits per 100 enrollees in FY 2019 to 19.01 visits per 100 enrollees in FY 2020. Beneficiary enrollment in and MTF responsiveness to secure messaging increased in FY 2020 to 64.16%. The Joint Outpatient Experience Survey (JOES) shows 73 to 82% of MTF users in FY 2020 reported they could get care when needed. Administrative data shows that 85% of non-Active Duty enrollees had at least one primary care visit in FY 2020.
- **Hospital Quality of Care:** MTFs and MHS civilian network hospital performance perinatal quality measures are comparable to The Joint Commission® (TJC) hospital benchmarks. MHS civilian network hospitals and inpatient MTFs are required to maintain accreditation by a recognized external accreditation organization to demonstrate compliance with national standards of care.
- **Outpatient Care:** MTF Healthcare Effectiveness Data and Information Set (HEDIS®) rates exceed the national 75th percentile for treatment of children with upper respiratory infection and mental health follow-up, and surpass the national 50th percentile for colorectal cancer screening, lower back imaging, and well-child visits.
- **Beneficiary Ratings of Inpatient Care - Overall Hospital Rating:** Direct care has shown improved patient hospital ratings from FY 2018 to FY 2020, meeting or exceeding the national Hospital Consumer Assessment of Healthcare Providers and Systems (HCAHPS) benchmark average in the medical and surgical product lines with three MTFs at the 90th percentile and six MTFs at the 75th percentile. Ratings in the obstetric product line remain stable and below the HCAHPS benchmark.
- **Patient Safety:** The MHS direct care system has been focusing on reducing Wrong-Site Surgery Reportable Events (WSS REs) education and leadership engagement, with a goal of zero events. There was a reduction in REs from FY 2019 (27) to FY 2020 (21).
- **MHS Provider Trends:** The number of TRICARE network providers increased by 18% from FY 2016 to FY 2020. The total number of participating providers increased by 6% over the same time period.
- **Access for TRICARE Select (Standard/Extra) Users:** Results from the fourth year of the congressionally mandated four-year survey (2017–2020) of civilian providers and MHS non-enrolled beneficiaries shows eight of 10 physicians accept new TRICARE Select patients, a higher acceptance rate than reported for behavioral health providers.

Analysis of Financial Statements

Comparative Financial Data

The following table presents comparative financial statement information for DHA-CRM.

Contract Resource Management Table of Key Measures						
(dollars in thousands)	**FY 2021**		**FY 2020**	**Increase/(Decrease)**		
				$		**%**
Costs						
Total Financing Sources	$	16,314,210	$ 16,160,541	$	153,669	1%
Less: Net Cost		16,607,617	31,593,198		(14,985,581)	-47%
Net Change of Cumulative Results of Operations	**$**	**(293,407)**	**$ (15,432,657)**	**$**	**15,139,250**	**-98%**
Net Position						
Assets:						
Fund Balance with Treasury	$	1,412,137	$ 1,751,939	$	(339,802)	-19%
Accounts Receivable, Net		615,294	455,463		159,831	35%
Total Assets	**$**	**2,027,459**	**$ 2,208,531**	**$**	**(181,072)**	**-8%**
Liabilities:						
Accounts Payable	$	431,342	$ 428,918	$	2,424	1%
Federal Employee and Veteran Benefits Payable		202,058,642	201,725,216		333,426	0%
Total Liabilities	**$**	**202,490,012**	**$ 202,155,263**	**$**	**334,749**	**0%**
Net Position (Assets minus Liabilities)	**$**	**(200,462,553)**	**$ (199,946,732)**	**$**	**(515,821)**	**0%**

*Total Assets and Total Liabilities are taken from the Balance Sheet and therefore do not foot on this table.

Total Financing Sources

Total Financing Sources increased by $153.7 million (1%) because of an increase in healthcare costs.

Net Cost

Total Net Cost of Operations decreased $15.0 billion (-47%) for the reasons noted below.

Total Costs

Intragovernmental costs increased $66.9 million (7%) due to increases in the TRICARE Pharmacy Home Delivery benefit program of $68.7 million, accounting for 103% of the increase.

Public costs, other than losses/gains from actuarial assumption changes, increased $416.7 million (2%) primarily due to an increase in Managed Care Support of $552.5 million, Miscellaneous Health Care of $162.0 million, Supplemental Health Care of $159.1 million, and TRICARE Retail Pharmacy (TRRx) of $79.0 million, offset by a decrease in Actuarial Expense – Other than Losses/(Gains) from Assumption changes of $533.4 million, accounting for 101% of the increase.

Losses from actuarial assumption changes decreased $15.3 billion (-133%) (see below).

The actuarial liability for Military Pre Medicare-Eligible Retiree Health Benefits has three components that affect net cost. The first, Expenses Other than Losses/(Gains) from Actuarial Assumption Changes, mentioned above, decreased $0.5 billion. The second, Losses/(Gains) from Actuarial Assumption Changes decreased $15.3 billion and the third, Benefit Outlays, increased $0.0 billion, netting to a decrease in actuarial expenses of $15.8 billion. The actuarial liability is discussed in detail in Note 6.

Total Revenue

Total earned revenue increased $149.8 million (11%). Intragovernmental revenue increased $40.5 million (7%) attributable to an increase in revenue from the Coast Guard of $38.9 million and PHS of $2.2 million, accounting for 101% of the increase.

Public revenue increased $109.3 million attributable to an increase in revenue from Select Enrollment Fees of $63.7 million, TYA of $17.0 million, and TRS of $12.5 million, accounting for 85% of the increase.

Net Change in Cumulative Results of Operations

Net Change in Cumulative Results of Operations increased $15.1 billion (98%) due to an increase in budgetary financing sources and a decrease in net costs as discussed above.

Fund Balance with Treasury (FBWT)

FBWT decreased $339.8 million (-19%). The decrease is attributable to a decrease in unobligated balance available of $417.0 million (increase in obligations offset by programmatic FAD increase) offset by an increase in obligations not yet disbursed of $70.7 million, accounting for 102% of the decrease.

Appropriations transferred-in/out increased $430.6 million (-344%) due to net transfers-in within FY 2021 of $305.3 million compared to net transfers-out within FY 2020 of $125.3 million. In FY 2021 CRM had increased healthcare costs and therefore required a transfer-in of funding from DHP. In FY 2020 CRM had anticipated an increase in healthcare costs and therefore had received extra funding. The anticipated increase in healthcare costs did not materialize during FY 2020 and therefore the additional funding received resulted in a transfer-out.

Accounts Receivable, Net

Accounts Receivable, Net increased $159.8 million (35%).

Intragovernmental Accounts Receivable, Net increased $5.6 million (12%) attributable to increases in billings to the Coast Guard of $5.3 million and the PHS of $0.4 million, accounting for 102% of the increase.

Other than Intragovernmental Accounts Receivable, Net increased $154.2 million (38%), attributable to an increase in Other Receivables of $123.0 million and an increase of $31.2 million in the TRICARE Retail Pharmacy Refunds Program.

The increase in the TRICARE Retail Pharmacy Refunds Program is due to the timing of quarterly billing, collections and the amount of the calculated accrual.

The increase in Other Receivables of $123.0 million, mentioned above, was primarily due to net increases in contractor held debt of $44.8 million and Office of General Counsel (OGC) cases of $92.7 million, accounting for 112% of the increase.

Total Assets

Total Assets decreased $181.1 million (-8%), primarily due to the decrease in FBWT of $339.8 million offset by an increase in Accounts Receivable, Net of $159.8 million.

Accounts Payable

Accounts payable increased $2.4 million (1%), primarily attributable to increases in other than intragovernmental payables of $80.1 million, offset by decreases in intragovernmental payables of $77.7 million, 100% of the increase. Intragovernmental payables decreased as CRM transitioned to the DLA Interfund billing process, resulting in more timely collection of funds. This transition accounts for $77.4 million of the decrease to intragovernmental accounts payable. Other than intragovernmental payables increased primarily due to increases in the TRRx of $14.3 million, Managed Care Support of $20.4 million, Supplemental Health Care of $6.0 million, Overseas Benefits of $22.2 million, and Miscellaneous Health Care of $5.8 million.

Federal Employee and Veteran Benefits Payable

Annually, the DoD Office of the Actuary (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.

Note 6 of the financial statements reflects two distinct types of liabilities related to Federal Employee and Veteran Benefits Payable. The line entitled "Military Pre Medicare–Eligible Retiree Health Benefits" represents the actuarial (or accrued) liability for future health care benefits that are not yet incurred. The line entitled "Other" represents the incurred-but-not-reported (IBNR) reserve amount which is an estimate of benefits already incurred but not yet reported to DoD for all DHP beneficiaries excluding those from the retiree population.

DHA-CRM actuarial liability is adjusted at the end of each fiscal year. The 4th Quarter, FY 2021 balance represents the September 30, 2021 amount.

Total Liabilities

Total Liabilities increased $334.8 billion (0.2%), primarily due to the increase in Federal Employee and Veteran Benefits Payable discussed above.

Net Position

Net Position decreased $515.8 million (-0.3%), due to the decreases in assets and increases in liabilities discussed above.

Covid-19 Resources

In FY2020, DHA-CRM received $82.0 million in supplemental funding under the Families First Act (P.L. 116-127 Families First Coronavirus Response Act) to cover co-pay/cost share waivers for COVID-19 diagnostic testing and services. As of September 30, 2020, DHA-CRM had incurred obligations of $61.2 million to cover co-pay/cost share waivers for COVID-19 diagnostic testing and services, and an unobligated balance of $20.8 million remained available for this purpose. As of September 30, 2021, DHA-CRM has incurred obligations of $73.4 million to cover co-pay/cost share waivers for COVID-19 diagnostic testing and services, and an unobligated balance of $8.6 million remains available for this purpose in FY 2022.

In FY 2020, DHA-CRM received additional supplemental funding of $50.0 million under the CARES Act (P.L. 116-136 Coronavirus Aid, Relief, and Economic Security Act or the CARES Act) to cover the cost of COVID-19 healthcare related expenses. As of September 30, 2020, DHA-CRM incurred obligations of $50.0 million for COVID-19 related healthcare costs against supplemental funding under the CARES Act, and no unobligated supplemental funding provided under the CARES Act remained available for FY 2021.

In FY 2020, total supplemental funding received in response to COVID-19 was not significant to DHA-CRM's appropriation of $16.2 billion for FY 2020. DHA-CRM incurred total COVID-19 related costs of $189.2 million during FY 2020, including $128.5 million of COVID-19 related healthcare costs in excess of the supplemental budgetary resources received under the CARES Act for responding to COVID-19. These COVID-19 related costs did not have a significant financial or performance impact on DHA-CRM's assets, liabilities, net costs, revenue or net position for FY 2020.

In FY 2021, DHA-CRM incurred total COVID-19 related costs of $1.2 billion, including $1.1 billion of COVID-19 related healthcare costs in excess of the supplemental budgetary resources received under the CARES Act for responding to COVID-19. No additional supplemental funding was allocated to DHA-CRM for responding to the COVID-19 emergency in FY 2021, as COVID-related health care costs incurred during the year were within the purpose of DHA-CRM's Operations and Maintenance (O&M) appropriation and adequately funded through DHA-CRM's allotted funding, 1% O&M carryover, and transfers-in of funding from the DHP. These COVID-19 related costs have not otherwise had a significant financial or performance impact on DHA-CRM's assets, liabilities, net costs, revenue or net position for FY 2021.

No additional supplemental funding was allocated to DHA-CRM in FY 2021 for the purpose of responding to the COVID-19 emergency. DHA-CRM continues to use the remaining funds received under the Families First Coronavirus Response Act and expects these funds to remain available until September 30, 2022, or until all the funds are used, whichever occurs first.

For COVID-19 disclosure related information see Note 14.

Analysis of Systems, Controls, and Legal Compliance

DHA-CRM management is required to comply with various laws and regulations in establishing, maintaining, and monitoring internal controls over operations, financial reporting, and financial management systems as discussed below.

Management Assurances

The Assurance Statements below were provided for FY 2021 Federal Manager's Financial Integrity Act (FMFIA).

DEFENSE HEALTH AGENCY

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
HEALTH AFFAIRS
16401 EAST CENTRETECH PARKWAY
AURORA, CO 80011-9066

DATE: September 30, 2021

TO: Office of the Undersecretary of Defense (Comptroller) (OUSD(C)) Deputy Chief Financial Officer (DCFO)

FROM: Kelly Thiel, Chief, Contract Resource Management

SUBJECT: Annual Statement of Assurance Required Under the Federal Managers' Financial Integrity Act (FMFIA) for Fiscal Year 2021

- As the Chief of the Contract Resource Management (CRM), Defense Health Agency (DHA), I recognize the DHA-CRM 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 DHA-CRM conducted its assessment of risk and internal control in accordance with the OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control"; and the Green Book, GAO-14-704G, "Standards for Internal Control in the Federal Government." Based on the results of the assessment, the DHA-CRM can provide reasonable assurance that internal controls over operations, reporting, and compliance are operating effectively as of September 30, 2021.

- The DHA-CRM 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 DHA-CRM conducted this assessment. Based on the results of the assessment, the DHA-CRM can provide reasonable assurance that internal controls over operations and compliance are operating effectively as of September 30, 2021.

- The DHA-CRM 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 DHA-CRM conducted this assessment. Based on the results of the assessment, the DHA-CRM can provide reasonable assurance that internal controls over reporting (including internal and external reporting) as of September 30, 2021), and compliance are operating effectively as of September 30, 2021.

- The DHA-CRM 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 DHA-CRM conducted this assessment. Based on the results of this assessment, the DHA-CRM can provide reasonable 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 September 30, 2021.

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DEFENSE
HEALTH AGENCY

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- The DHA-CRM 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 DHA-CRM can provide reasonable assurance that entity-level controls including fraud controls are operating effectively as of September 30, 2021.

- The DHA-CRM is hereby reporting that no Anti-Deficiency Act (ADA) violation has been discovered/identified during our assessments of the applicable processes.

If there are any questions regarding this Statement of Assurance for FY 2021, my point of contact is Ms. Aundrea Davis and can be reached at [redacted]

Kelly Thiel

Kelly Thiel
Chief, Contract Resource Management
DHA Aurora, CO

Status of Audit Findings

DHA-CRM received unmodified opinions for FY 2010 through FY 2021. No material weaknesses were identified during FY 2020 and FY 2021; however in FY 2019, FY 2020 and FY 2021 a significant deficiency was noted.

In FY 2019, FY 2020, and FY 2021, the audit identified a significant deficiency pertaining to certain Information Systems used by DHA-CRM.

DHA-CRM operates or relies on external providers for administration of multiple key financial management systems, including two core accounting systems and multiple financial support systems. The Defense Manpower Data Center (DMDC) Core Infrastructure (dCore), Defense Enrollment Eligibility Reporting System (DEERS), and DMDC mainframe systems support key medical benefit payment activities. dCore, DEERS, and the DMDC mainframe are administrated by a service organization.

The audit identified DHA-CRM, through the support systems of DMDC, has several deficiencies in the design and operating effectiveness of internal controls related to key financial support systems and service organization systems. While the audit noted that no single control deficiency meets the level of a significant deficiency, in combination, the deficiencies noted were elevated to a significant deficiency due to the pervasiveness of the weaknesses throughout the information system environment, DHA-CRM's reliance on these systems for financial reporting, and the nature of the deficiencies repeating from the prior year.

Without effective controls throughout the information system environment, the risk of unauthorized access and information system changes increases, thereby increasing the risk to the systems and the data confidentiality, integrity, and availability.

DHA-CRM and DMDC agreed with the audit findings received. Notices of Findings and Recommendations (NFRs) identified during the FY 2018 audit were not remediated in a timely manner which caused repeat findings during the FY 2019, FY 2020, and FY 2021 audits. Corrective Action Plans (CAPs) established in FY 2019, FY 2020, and FY 2021 that failed to be fully implemented are required to be modified with new completion dates. DHA-CRM will implement monitoring activities in coordination with DMDC to ensure CAP milestone dates are met for remediation efforts in FY 2022. For specific details please reference the "Independent Auditor's Report on Internal Control Over Financial Reporting" included in the Financial Section of this report.

Compliance with Laws and Regulations

DHA-CRM is responsible for understanding and complying with applicable provisions of laws, regulations, and contracts, including those that affect the financial statements. DHA-CRM is not aware of any undisclosed pending or threatened litigation, claims, and assessments, the effects of which should be considered when preparing the financial statements. There are no known:

- Violations or possible violations of laws or regulations, the effects of which should be disclosed in the financial statements or as a basis for recording a loss contingency.
- Material liabilities or gain or loss contingencies that are required to be accrued or disclosed that have not been accrued or disclosed.
- Unasserted claims or assessments that are probable of assertion and must be disclosed that have not been disclosed.

Anti-Deficiency Act, 31 U.S.C. §§ 1341, 1342, 1350, 1351, 1517: ANTI-DEFICIENCY ACT

The Anti-deficiency Act (ADA) prohibits federal employees from obligating in excess of an appropriation, before funds are available or from accepting voluntary services. The ADA provides an exception for obligations authorized by law to be made in excess of or in advance of appropriations. Per Government Accountability Office (GAO) Report B-287619, under 10 U.S.C. §§ 1079 and 1086, obligations to ensure medical care is available for TRICARE beneficiaries are authorized by law regardless of the amount of available budgetary resources and do not violate the ADA. However, the TRICARE program is managed by DHA-CRM in accordance with the ADA requirements. As required by the ADA, DHA-CRM notifies all appropriate authorities of any ADA violations. DHA-CRM 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. DHA-CRM remains fully committed to resolving ADA violations appropriately and in compliance with all aspects of the law. DHA-CRM is not aware of any violations of the ADA that must be reported to the Comptroller General, Congress, and the President for the year ended September 30, 2021.

Prompt Payment Act, 31 U.S.C. §§ 3901-3907

In 1982, Congress enacted the Prompt Payment Act (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. DHA-CRM is in full compliance with this statutory requirement.

In FY 2021, DHA-CRM did not process three invoices in a timely manner and was required to pay interest penalties of $54.92, on total net disbursements of $16.4 billion.

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), as amended by the Digital Accountability and Transparency Act (DATA) 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. DHA-CRM follows applicable requirements for establishing and collecting validated debts and ensuring compliance with Debt Collection statutes and regulations. DHA-CRM is in full compliance with the DCIA.

Federal Information Security Modernization Act (FISMA) of 2014

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. DHA-CRM is in full compliance with FISMA.

Federal Financial Management Improvement Act (FFMIA) of 1996

The FFMIA requires agencies to implement and maintain financial systems that comply substantially with Federal Financial System requirements, applicable federal accounting standards, and the United States Standard General Ledger (USSGL) at the transaction level. DHA-CRM is in full compliance with FFMIA.

Federal Managers' Financial Integrity Act (FMFIA) of 1982

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. DHA-CRM is in full compliance with FMFIA.

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

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 Office of Management and Budget (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.

Systems

The U.S. Treasury prepares disbursements from data directly submitted by DHA-CRM. The Purchased Care Program managed by DHA-CRM includes an immense volume of claims processed by two regional Health Care contractors, the TRICARE Dual Eligible Fiscal Intermediary (TDEFIC) contractor, a foreign claims contractor, and a pharmaceutical contractor to process retail and mail order prescriptions. Contract amendments are made to incorporate policy or administrative changes, as needed.

To process the high volume of electronic invoices and reports, DHA-CRM uses the TEDS, a financial feeder system, through which billing for services or reporting of contractor payments are either accepted or rejected by the government. After TED processing is complete, all invoices and disbursement reports (accepted and rejected) are sent to Oracle Federal Financials (OFF). OFF contains TCM, Accounts Receivable, Accounts Payable, Purchase Orders and the General Ledger modules. DHA-CRM sends OFF trial balances to DFAS-IN, through the Defense Department Reporting System-Budgetary (DDRS-B), who reviews the balances for proprietary to budgetary adjustments, prepares journal vouchers in DDRS and compiles the financial statements.

The initiative to improve controls, increase efficiency, and documentation are contributing factors in the reduction of the risks and misstatements that can occur within FBWT. The risk areas are monitored ensuring prompt action if fluctuation occurs. Many processes are automated, so it is important to consider information systems and the effects on inherent risk. The asserted inherent risk revealed from the test samples indicated the risk components are susceptible to a material misstatement in the area of:

- Improper payments
- Inaccurate claims paid
- Unauthorized reimbursed claims

- Inaccurate electronic postings
- Incorrect number or amount of claims transmitted
- Discrepancies between the U.S. Treasury and DHA-CRM
- Intragovernmental Payment and Collection (IPAC) amounts not accurately reported to the U.S. Treasury

DHA-CRM has established consistent business rules for management control impacting disbursing and collection activities, and the related banking and U.S. Treasury reconciliations.

With processes and procedures in place and the continued risk monitoring, monthly reconciliations are performed to ensure balances reconcile to the U.S. Treasury on a monthly, quarterly, and fiscal year basis.

DHA-CRM uses OFF to track commitments and obligations for its purchases. These transactions flow through the Unadjusted Trial Balance that is submitted to DFAS-IN and becomes the primary source into the financial statements.

The DoD recognizes the significance and impact of Financial Management Systems (FMS) in obtaining unmodified audit opinions, as evidenced by implementation of the Standard Financial Information Structure (SFIS) and other accounting policies that focus on FMS and key feeder systems. DHA-CRM continues to improve financial management and feeder system processing and eliminate weaknesses.

DHA-CRM is responsible for implementing and maintaining FMS that substantially comply with Federal financial management system requirements, Federal accounting standards, and the USSGL at the transaction level. DHA-CRM determined that the FMS substantially complied with the Federal financial management systems requirements, Federal accounting standards, and application of the USSGL at the transaction level as of September 30, 2021.

The September 2007 Defense Business Systems Management Committee (DBSMC) resulted in the Investment Review Board (IRB) directing DHA-CRM E-Commerce System (DHA-CRM ECS) program, as a Target Accounting System, to "comply with the OUSD (C) memorandum, 'SFIS Implementation Policy' dated August 4, 2005." DHA-CRM achieved SFIS compliance during FY 2011. DHA-CRM continued to maintain SFIS compliance through FY 2021.

TEDS

TEDS is the entry point from the Health Care Support Contactors. The data includes various categories of records that include Institutional, Non Institutional, and Provider health plan information. TEDS is primarily required by DHA-CRM to account for the expenditure of government funds and to develop statistical information used for analysis by DHA-CRM for reporting to the Congress of the United States, the Executive Branch, for developing trends and budget projections and for determining the loss to the government when the Department of Justice (DoJ) institutes criminal or civil action against a provider who has been under investigation.

The TED Production environment is hosted at Defense Information System Agency - San Antonio (DISA-SATX) and has a Disaster Recovery environment supporting continuity of operations requirements hosted at Defense Information System Agency – Oklahoma City (DISA-OKC).

Once a claim is filed the contractor adjudicates the claim applying various edits including patient eligibility (verified via DEERS), regional or TDEFIC eligibility, and provider eligibility. If the claims pass those edits, the benefit

calculations occur based on programmed payment rules and reimbursement methods determined by TRICARE. The claims processing systems are able to determine the appropriate reimbursement methodology based on information included in the claims such as type of service, provider record, claim form type, etc.

On a daily basis, the contractors submit the adjudicated claims as TEDS records to DHA-CRM. The incoming TEDS are required to pass another set of edits in-house within OFF before they are accepted and paid.

E-Commerce

DHA-CRM ECS is an integrated, centralized major system that improves DHA-CRM's core financial, contracting and business processes by providing a seamless integrated financial and contracting system. It uses commercial off-the-shelf (COTS) software and hardware to provide a network-based, multi-user system with the essential tools to manage and administer the TRICARE financial and contracting activities. The core financial solution embedded in DHA-CRM ECS, OFF, is a Financial Systems Integration Office (FSIO) (formerly known as the Joint Financial Management Improvement Program [JFMIP]) certified financial system. This component is integrated with a contract management component and a management control component. The management control component enables Web-based queries of TRICARE contracting and financing information directly against a single database and permits direct reporting of program status and tracking information to management.

OFF

OFF is the financial subsystem of DHA-CRM ECS. It supports budget and accounting/finance functions and healthcare (TEDS) claims processing. Since 2009, the OFF financial subsystem has employed DISA hardware at the OKC data center.

The accounting/finance function provides support for activities associated with establishing and administering the accounting classification structure, the standard general ledger and subsidiary account structure. The accounting function interfaces with the contracting functions to obtain contract data for issuing payments and maintaining financial records. OFF is used by DHA-CRM and the OGC for debt management. It uses external and internal interfaces to provide financial reports, make payments and to provide management information to other federal government agencies, financial agencies and institutions.

The healthcare (TEDS) claims processing function is performed by the OFF-TCM extension. TCM is a custom built extension to OFF which converts healthcare (TEDS) data into financial data that can then be processed by standard (COTS) OFF. The TCM conversion of healthcare data is of critical importance to the accuracy of the financial information presented in DHA-CRM's financial statements. TRICARE processed approximately 192 million claims (invoices) through TEDS during FY 2021, valued at approximately $20.7 billion. The financial conversion, processing and posting of TEDS data from commitment/obligation through payable/receivable is 100% automated. In addition to creating budgetary and accounting transactions, TCM supports the TEDS system by providing daily financial data to TEDS. Without the data received from the OFF-TCM extension the TEDS system would be unable to process and properly edit the contractor's daily data submissions. TEDS functions supported by the OFF-TCM data provided include:

- header and detail data editing used for government acceptance of services
- funds control at both the commitment and obligation level
- prevention of duplicate billings at the header level

The OFF application is a current; fully supported Version of Oracle R-12. DHA-CRM ECS program successfully deployed Version R-12.2.8 technical upgrade in July 2021. DHA-CRM remains compliant through FY 2021.

As main participants of the TRICARE Retail Pharmacy Refund Program, MERHCF/DHA-CRM, along with the Health Care Data Analysis (HCDA) Group, receive and use pharmacy files as a basis for demand letters, billing and invoicing, the calculation of penalties, interest and administrative costs, and dispute tracking. Using existing E-Commerce toolsets, the Pharmacy Modernization Project was deployed in FY 2015 to streamline billings, collections, reconciliations, dispute resolutions, and pricing changes. Since deployment of the Pharmacy Modernization Project collections have increased significantly to an average of 98% per bill quarter.

During FY 2021, DHA-CRM ECS Program continued to sustain and enhance all deployed phases through Phase IV of the Pharmacy Modernization Project. Development efforts for Phase V, which is expected to further streamline the ingestion, processing and resolution of disputes, is planned for future years.

Forward-Looking Information

As we enter FY 2022, the MHS will continue our efforts to assess and bolster business practices with the aim of becoming more efficient stewards of federal funds and more proficient practitioners of the science of medicine. We will continue to consistently refine or eliminate processes that do not afford us verifiable evidence that our financial data is accurate and reliable. We will endeavor to make impactful changes that will garner measurable efficiencies.

In response to the NDAA of FY 2017, the DHA continues to find efficiencies through consolidation of health care plans, and integration of the direct health care facilities into the organization. The majority of the changes affected the MTFs, and only to a lesser extent the Private Sector Care contracts. Execution for the MTF transition will provide maximized efficiency (eliminating redundancies) across the landscape, addresses DoD's medical readiness requirements, provides better consistency of higher quality experience, and most importantly, reduces enterprise operational costs. The authority, direction, and control of MTFs will be managed under a market construct, which is designed to leverage and expand on the existing enhanced Multi-Service Market (eMSM) concept to scale optimization and efficiencies across the MHS.

- The Market Construct will drive process standardization, reduce variability, and generate efficiencies and optimization across the MHS
- Sustain a world-class health care system by providing health care services based on population health care demands
- Improve decision-making and execution for improved patient care and experience
- Effect the enterprise culture, enhancing both operations and delivery of care

Under the NDAA FY 2017, another element of MHS Transformation is the ongoing modernization of the private sector care portion of the TRICARE program.

In FY 2022 and beyond, we will continue our efforts to eradicate the virus and apply lessons learned, which will have an immediate and sustained impact on the ability of the MHS to support the ongoing pandemic and to prepare for future major public health emergencies. Specific COVID-19 and Pandemic Response resources were added for FY 2022 to integrate essential requirements for prevention, diagnosis, and surveillance health activities.

Other Management Information, Initiatives, and Issues

TRICARE Standard Discount Program (SDP) formerly known as Mandatory Agreements Retail Refunds (MARR)

The SDP (Program 006) is a Standard or Minimum Refund, formerly known as MARR, on a Section 703 Covered Drug. It is by law equal to the difference between Non-Federal Average Manufacturer Price (Non-FAMP) and Federal Ceiling Price (FCP) (FCP = 76% x Non-FAMP).

The NDAA for FY 2008, §703 enacted 10 United States Code (U.S.C.) 1074g(f) which mandated all covered TRICARE Retail Pharmacy Network prescriptions filled after January 28, 2008, is subject to FCP.

The initial rule, published in the Code of Federal Regulations (C.F.R.) at 32 C.F.R. 199.21(q), subjected the TRICARE retail pharmacy program to pricing standards known as FCP by prohibiting pharmaceutical manufacturers from receiving more than the FCPs for pharmaceuticals purchased by DoD for the TRICARE retail pharmacy program.

The OGC requested waiver/compromise authority from DoJ, received it, and has resolved all pending waiver/compromise requests applicable to the "Retro Period" (January 2008 through June 2009) based upon the provisions of 32 C.F.R. §199.11.

TRICARE Additional Discount Program (ADP) formerly known as Voluntary Agreements Retail Rebates (VARR)

The DHA initiated a new retail pharmacy rebate program during FY 2007, ADP, formerly known as VARR. Manufacturers may offer rebates to the DoD for pharmaceutical agents dispensed through the TRICARE Retail pharmacy network. The Uniform Formulary VARR (UF-VARR) is contingent upon pharmaceutical agents being included on the 1st (generic drugs) or 2nd (formulary brand drugs) tiers of the DoD Uniform Formulary. There are two types of additional discounts:

- ADP #1 (Program 009) - WAC (% of Wholesale Acquisition Cost): The manufacturer's list price for the drug to wholesalers or direct purchasers in the United States, not including prompt pay or other discounts, rebates or reductions in price, as reported in wholesale price guides or other publications of drug pricing data.
- ADP #2 (Program 010) – (FCP - additional discount): The maximum price the manufacturer can charge for a Federal Supply Schedule (FSS) listed drug to the Big 4 - VA, DoD, PHS, and the Coast Guard; calculated annually by VA using Non-FAMP and other data submitted by the manufacturer.

The table on the following page highlights DoD activity since the inception of the Program. DoD has collected $14.7 billion to date and continues rigorous collection efforts for both programs.

TRICARE Retail Pharmacy Refunds Program

Program To Date (CY 2008-3rd Quarter, CY 2021	Total	DHP	Non-DoD	MERHCF
SDP				
Billed	$9,452,854,133	$4,246,469,019	$147,235,395	5,059,149,719
Collected	($9,141,562,110)	($4,111,775,908)	($141,823,855)	($4,887,962,347)
Net	$311,292,023	$134,693,111	$5,411,540	$171,187,372
ADP				
Billed	$5,732,596,066	$2,569,896,985	$90,159,323	$3,072,539,758
Collected	($5,514,764,723)	($2,475,414,694)	($86,552,241)	($2,952,797,788)
Net	$217,831,343	$94,482,291	$3,607,082	$119,741,970
UDC [1]	($174,671)	($74,393)	($2,846)	($97,432)
Total				
Billed	$15,185,450,199	$6,816,366,004	$237,394,718	$8,131,689,477
Collected	($14,656,326,833)	($6,587,190,602)	($228,376,096)	($7,840,760,135)
UDC	($174,671)	($74,393)	($2,846)	($97,432)
Net	$528,948,695	$229,101,009	$9,015,776	$290,831,910
Aging				
Current	$496,271,865	$215,148,790	$8,173,600	$272,949,475
61 Days to 2 Years[2]	$4,038,775	$1,370,900	$413,682	$2,254,193
Over 2 Years	$28,638,055	$12,581,319	$428,494	$15,628,242
Total[3]	$528,948,695	$229,101,009	$9,015,776	$290,831,910

1. Unapplied Collections (UDC) applied to Calendar Year 21.
2. Pharmacy debt not delinquent until 70 days. 70-day Accounts Receivable (A/R) aging bucket not available; 61-day aging used instead.
3. 3QCY2021 Estimate added to Billings to reconcile with A/R: $137,682,000 MERHCF; $112,649,000 DHP & Non-DoD.

TRICARE has a waiver dated September 23, 1996, 10 U.S.C. 1079a, Civilian Health and Medical Program of the Uniformed Services *(CHAMPUS): Treatment of Refunds and Other Amounts Collected* that states:

"All refunds and other amounts collected in the administration of the CHAMPUS shall be credited to the appropriation available for that program for the fiscal year in which the refund or amount is collected."

Thus TRICARE records all Collections/Refunds into the current year and decreases budgetary disbursements for the current year. The refunds collected are not treated as offsetting collections.

DHA-CRM in FY 2021 continued to aggressively collect pharmacy refunds for both the SDP and ADP. Through the concerted efforts of DHA-CRM, Pharmacy Operations Division (POD), HCDA, and OGC, DHA-CRM's collection rate has continued to average 97% - 99%.

Government Invoicing – G-Invoicing Initiative:

DHA-CRM has adopted the Fiscal Services Government Invoicing (G-Invoicing) initiative to improve the quality and reliability of Intragovernmental Transactions (IGT) - Buy/Sell data and reporting. The solution is in accordance with 31 U.S.C. 3512(b) and 3513, which state the Secretary of the Treasury may develop an effective and coordinated system of accounting and financial reporting that integrates Treasury's accounting results and acts as the operation center for consolidating Treasury's results with those of other executive agencies. G-Invoicing has been mandated for use by all Federal Program Agencies (FPAs) by October 2023. G-Invoicing will provide a common platform for brokering all IGT Buy/Sell activity, implementing a Federal IGT Buy/Sell Data Standard, and provide transparent access to a common data repository of brokered transactions. DHA-CRM's projects full implementation of G-Invoicing by the mandated due date.

Limitations of the Financial Statements

The principal financial statements are prepared to report the financial position, financial condition, and results of operations, 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 the 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.

II. Financial Section

Office of the Inspector General Transmittal 2021

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

November 8, 2021

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 Agency–Contract Resource Management Financial Statements and Related Notes for FY 2021 and FY 2020 (Project No. D2021-D000FT-0077.000, Report No. DODIG-2022-017)

We contracted with the independent public accounting firm of Kearney & Company to audit the Defense Health Agency–Contract Resource Management (DHA-CRM) Financial Statements and related notes as of and for the fiscal years ended September 30, 2021, and 2020. The contract required Kearney & Company to provide a report on internal control over financial reporting and compliance with provisions of applicable laws and regulations, contracts, and grant agreements, and to report on whether the DHA-CRM'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, Volume 1 (Updated, April 2020), Volume 2 (Updated, March 2021), and Volume 3 (Updated, September 2021). Kearney & Company's Independent Auditor's Reports are attached.

Kearney & Company's audit resulted in an unmodified opinion. Kearney & Company concluded that the DHA-CRM FY 2021 and FY 2020 Financial Statements and related notes as of and for the fiscal years ended September 30, 2021, and 2020, are presented fairly in all material respects, in accordance with Generally Accepted Accounting Principles.

Kearney & Company's separate report, "Independent Auditor's Report on Internal Control Over Financial Reporting," did not identify any material weaknesses related to

DHA-CRM's internal controls over financial reporting.* Kearney & Company's additional report, "Independent Auditor's Report on Compliance With Laws, Regulations, Contracts, and Grant Agreements," did not identify any instances of noncompliance with laws, regulations, contracts, or grant agreements.

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 and related notes in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the DHA-CRM FY 2021 and FY 2020 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal control over financial reporting, on whether the DHA-CRM's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with provisions of applicable laws and regulations, contracts, and grant agreements. 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 8, 2021 reports, and the conclusions expressed within the reports.

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

Lorin T. Venable

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

Attachments:
As stated

* 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.

Independent Auditor's Report 2021

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 have audited the accompanying financial statements of the Defense Health Agency – Contract Resource Management (DHA-CRM), which comprise the balance sheets as of September 30, 2021 and 2020, the related 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 our audits. We conducted our 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. 21-04, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 21-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DHA-CRM as of September 30, 2021 and 2020, and its net cost of operations, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (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 financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing it for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 (AFR), 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. 21-04, we have also issued reports, dated November 8, 2021, on our consideration of DHA-CRM's internal control over financial reporting and on our tests of DHA-CRM's compliance with provisions of applicable laws, regulations, contracts, and grant agreements, as well as other matters for the year ended September 30, 2021. The purpose of those reports is to describe the scope of our

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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. 21-04 and should be considered in assessing the results of our audits.

Kearney & Company

Alexandria, Virginia
November 8, 2021

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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 have audited, 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. 21-04, *Audit Requirements for Federal Financial Statements*, the financial statements of Defense Health Agency – Contract Resource Management (DHA-CRM) as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise DHA-CRM's financial statements, and we have issued our report thereon dated November 8, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered DHA-CRM'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 DHA-CRM's internal control. Accordingly, we do not express an opinion on the effectiveness of DHA-CRM's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 21-04. 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 have not been identified. However, as described in the accompanying Schedule of Finding, we did identify certain deficiencies in internal control that we consider to be a significant deficiency.

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. A significant deficiency is a deficiency, or 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.

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We did identify certain deficiencies in internal control, described in the accompanying Schedule of Finding, that we consider to be a significant deficiency.

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

DHA-CRM's Response to Findings

DHA-CRM's response to the findings identified in our audit is described in the Management's Discussion and Analysis (MD&A) section of the Agency Financial Report (AFR). DHA-CRM's response was not subjected to the auditing procedures applied in the audit of the financial statements; accordingly, we express no opinion on it. Kearney will issue a Management Letter to communicate deficiencies in internal control or instances of noncompliance noted during the audit to management and those charged with governance.

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 DHA-CRM's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 21-04 in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 8, 2021

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Schedule of Finding and Response

Significant Deficiency

I. Information Systems (*Repeat Condition*)

Background: Defense Health Agency – Contract Resource Management (DHA-CRM) operates in a complex information system environment to execute its mission and record transactions timely and accurately. DHA-CRM operates or relies on external providers for the administration of multiple key financial management systems, including two core accounting systems and multiple financial support systems. The Defense Manpower Data Center (DMDC) Core (dCore), Defense Enrollment Eligibility Reporting System (DEERS), and DMDC Mainframe systems support key medical benefit payment activities. A service organization administers the dCore, DEERS, and the DMDC Mainframe systems.

Because of the sensitive nature of DHA-CRM's information system environment, Kearney & Company, P.C. (Kearney) does not present specific details related to the systems, conditions, or criteria discussed within this significant deficiency. We provided those details separately to DHA-CRM management and relevant stakeholders through Notices of Findings and Recommendations (NFR).

Condition: DHA-CRM, through the support systems of its service organization, has several deficiencies in the design and operating effectiveness of internal controls related to key financial support systems and service organization systems. While no single control deficiency meets the level of a significant deficiency, in combination, these deficiencies elevate to a significant deficiency due to the pervasiveness of the weaknesses throughout the information system environment, DHA-CRM's reliance on these systems for financial reporting, and the nature of the deficiencies repeating from the prior year.

Our testing disclosed deficiencies in the following areas:

- Security Management
  - A key financial management system did not update core Risk Management Framework (RMF) documents following significant changes to the system environment
- Access Controls and Segregation of Duties
  - Incomplete or not fully implemented policies and procedures for managing and monitoring access to key financial management applications and databases, including third-party systems
  - Incomplete or not fully implemented policies and procedures for the proper segregation of duties, including documented business justifications for existing segregation of duties conflicts, for key financial management applications
  - Inconsistent implementation of user account recertification to verify the propriety of access to key financial management systems

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  - Inconsistent logging and monitoring of activity for key financial management systems
- Configuration Management
  - Incomplete, inconsistent, or unmaintained documentation of configuration changes for key financial management applications, including an incomplete listing of changes implemented into the production environment.

Cause: The deficiencies are a result of multiple circumstances, including previous deferral of key information system environment improvement projects related to audit logging, lack of integration between business and information technology (IT) stakeholders, incomplete or inconsistent implementation of policies and procedures, ineffective quality control (QC) processes to ensure personnel responsible for key information system controls followed documented procedures, and competing organizational priorities.

Effect: Without effective controls throughout the information system environment, the risk of unauthorized access and information system changes increases, thereby increasing the risk to the systems and the data confidentiality, integrity, and availability.

Recommendations: Kearney recommends that DHA-CRM perform the following:

1. Implement monitoring activities to ensure compliance with DoD Instruction (DoDI) 8510.01, National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, and NIST SP 800-37 RMF's document update requirements.
2. Develop and implement a QC review over the user authorization and user access review processes, to include procedures to ensure the completeness and accuracy of the access request forms and access listings reviewed.
3. Design and implement controls to mitigate any segregation of duty risks identified.
4. Continue to perform information system environment improvement projects related to audit logging.
5. Update and implement configuration management procedures to include QC reviews. These reviews should ensure that all changes follow a defined and controlled process, including maintaining appropriate supporting documentation from initial change request through implementation into the production environment.

Management's Response: DHA-CRM's response is outlined in the Management's Discussion and Analysis (MD&A) of the Agency Financial Report (AFR). DHA-CRM management did not provide a standalone, formalized response; however, they concurred with each of the deficiencies that aggregated to the information systems significant deficiency.

* * * * *

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APPENDIX A: STATUS OF PRIOR-YEAR DEFICIENCIES

In the *Independent Auditor's Report on Internal Control over Financial Reporting* included in the audit report on the Defense Health Agency – Contract Resource Management's (DHA-CRM) fiscal year (FY) 2020 financial statements (DoDIG-2021-008, November 2020), we noted several issues that were related to internal control over financial reporting. The status of the FY 2020 internal control finding is summarized in ***Exhibit 1*** below.

Exhibit 1: Status of Prior-Year Finding

Control Deficiency	FY 2020 Status	FY 2021 Status
Information Technology (IT)	Significant Deficiency	Significant Deficiency

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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

Kearney & Company, P.C. (defined as "Kearney," "we," and "our") have audited, 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. 21-04, *Audit Requirements for Federal Financial Statements*; the financial statements of the Defense Health Agency – Contract Resource Management (DHA-CRM) as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise DHA-CRM's financial statements, and we have issued our report thereon dated November 8, 2021.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether DHA-CRM's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of applicable 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 DHA-CRM. However, providing an opinion on compliance with those provisions was not an objective of our audit; accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 21-04.

The results of our tests of compliance with FFMIA disclosed no instances in which DHA-CRM'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.

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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 audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 21-04 in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

Alexandria, Virginia
November 8, 2021

Principal Financial Statements

Department of Defense
Defense Health Agency
Contract Resource Management
BALANCE SHEETS
As of September 30, 2021 and 2020
($ In Thousands)

	2021	2020
Assets		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 1,412,137	$ 1,751,939
Accounts Receivable, Net (Note 4)	52,388	46,769
Total Intragovernmental	1,464,525	1,798,708
Other Than Intragovernmental:		
Cash and Other Monetary Assets (Note 3)	28	1,129
Accounts Receivable, Net (Note 4)	562,906	408,694
Total Other Than Intragovernmental	562,934	409,823
Total Assets	$ 2,027,459	$ 2,208,531
Liabilities		
Intragovernmental:		
Accounts Payable	$ 10,974	$ 88,658
Total Intragovernmental	10,974	88,658
Other Than Intragovernmental:		
Accounts Payable	420,368	340,260
Federal Employee and Veteran Benefits Payable (Notes 5 and 6)	202,058,642	201,725,216
Other (Note 7)	28	1,129
Total Other Than Intragovernmental	202,479,038	202,066,605
Total Liabilities	$ 202,490,012	$ 202,155,263
Commitments and Contingencies (Note 8)		
Net Position		
Unexpended Appropriations - Other Funds	$ 402,744	$ 625,158
Cumulative Results of Operations – Funds from other than Dedicated Collections	(200,865,297)	(200,571,890)
Total Net Position	$ (200,462,553)	$ (199,946,732)
Total Liabilities and Net Position	$ 2,027,459	$ 2,208,531

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Health Agency
Contract Resource Management
STATEMENTS OF NET COST
For the Years Ended September 30, 2021 and 2020
($ In Thousands)

	2021	2020
Program Costs		
Gross Costs (Note 9)		
Operations, Readiness & Support	$ 17,840,594	$ 16,823,596
Actuarial Non Assumption Costs	4,072,232	4,605,657
Less: Earned Revenue	(1,493,079)	(1,343,275)
Net Program Costs	$ 20,419,747	$ 20,085,978
(Gain)/Loss from Actuarial Assumption Changes for Military Retirement Benefits (Note 6)	(3,812,130)	11,507,220
Net Program Costs Including Assumption Changes	$ 16,607,617	$ 31,593,198
Net Cost of Operations	$ 16,607,617	$ 31,593,198

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Health Agency
Contract Resource Management
STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2021 and 2020
($ In Thousands)

	2021	2020
Unexpended Appropriations:		
Beginning Balance	$ 625,158	$ 859,734
Budgetary Financing Sources:		
Appropriations received	15,906,582	16,191,754
Appropriations transferred-in/out	305,317	(125,265)
Other adjustments (rescissions, etc)	(120,103)	(140,524)
Appropriations used	(16,314,210)	(16,160,541)
Total Budgetary Financing Sources	(222,414)	(234,576)
Total Unexpended Appropriations	402,744	625,158
Cumulative Results of Operations:		
Beginning Balance	(200,571,890)	(185,139,233)
Budgetary Financing Sources:		
Appropriations used	16,314,210	16,160,541
Transfers-in/out without reimbursement	0	0
Other	0	0
Total Financing Sources	16,314,210	16,160,541
Net Cost of Operations	16,607,617	31,593,198
Net Change	(293,407)	(15,432,657)
Cumulative Results of Operations	(200,865,297)	(200,571,890)
Net Position	$ (200,462,553)	$ (199,946,732)

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Health Agency
Contract Resource Management
STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2021 and 2020
($ In Thousands)

	2021	2020
Budgetary Resources		
Unobligated balance from prior year budget authority, net	$ 794,203	$ 370,212
Appropriations (discretionary and mandatory)	16,238,682	16,191,754
Spending authority from offsetting collections (discretionary and mandatory)	1,497,574	1,352,409
Total Budgetary Resources	$ 18,530,459	$ 17,914,375
Status of Budgetary Resources		
New obligations and upward adjustments (total)	$ 18,339,080	$ 17,322,664
Unobligated balance, end of year		
Unexpired unobligated balance, end of year	(34,237)	382,756
Expired unobligated balance, end of year	225,616	208,955
Unobligated balance, end of year (total)	191,379	591,711
Total Budgetary Resources	$ 18,530,459	$ 17,914,375
Outlays, Net		
Outlays, net (total) (discretionary and mandatory)	$ 16,431,598	$ 15,518,138
Agency Outlays, Net (discretionary and mandatory)	$ 16,431,598	$ 15,518,138

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies

1.A. Reporting Entity

CRM 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.

1.B. Mission of the Reporting Entity

CRM is a division of the DHA.

The mission of DHA-CRM is:

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

1.C. Basis of Presentation

The financial statements have been prepared to report the financial position and results of DHA-CRM operations, as required by the Chief Financial Officers Act of 1990, as amended and expanded by the Government Management Reform Act of 1994 and other applicable legislation. To the extent possible, the financial statements have been prepared from the accounting records of DHA-CRM in accordance with the formats prescribed by OMB Circular No. A-136, Financial Reporting Requirements, and in accordance with U.S. GAAP for federal entities as prescribed by the Federal Accounting Standards Advisory Board (FASAB). The financial statements account for all resources for which DHA-CRM is responsible, unless otherwise noted. Accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

On September 30, 2013, DoD Directive Number 5136.13 disestablished the TRICARE Management Activity (TMA) and all TMA functions were transferred to DHA. TMA is now DHA with components including DHA-CRM, Uniformed Services University of Health Services (USUHS), and the DHA-Comptroller (DHA-C) (formerly Financial Operations Division (FOD). Any reference in law, rule, regulation, or issuance to TMA will be deemed to be a reference to DHA, unless otherwise specified by the Secretary of Defense.

DHA-CRM is able to fully implement all elements of GAAP and the OMB Circular No. A-136. DHA-CRM has implemented an Oracle Based Federal Financial system.

The format of the Balance Sheet has changed to reflect more detail for certain line items, as required for all significant reporting entities by OMB Circular A-136. This change does not affect totals for assets, liabilities, or net

position and is intended to allow readers of this Report to see how the amounts shown on the Balance Sheet are reflected on the Government-wide Balance Sheet, thereby supporting the preparation and audit of the Financial Report of the United States Government. The presentation of the fiscal year 2020 Balance Sheet was modified to be consistent with the fiscal year 2021 presentation.

1.D. Basis of Accounting

DHA-CRM financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of DHA-CRM's feeder systems. The underlying data is largely derived from budgetary transactions (obligations, disbursements, and collections), from non-financial feeder systems, and accruals made for major items such as accounts payable and actuarial liabilities.

The financial transactions are recorded on both a proprietary accrual basis and a budgetary basis of accounting. Under the proprietary accrual basis, revenues are recognized when earned and expenses are recognized when incurred, without regard to the timing of receipt or payment of cash. Under the budgetary basis, the legal commitment or obligation of funds is recognized in advance of the proprietary accruals and in compliance with legal requirements and controls over the use of federal funds.

The 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.

1.E. Accounting for Intragovernmental Activities

Treasury Financial Manual (TFM), Volume I, Part 2, Chapter 4700, provides guidance for reporting and reconciling intragovernmental balances. 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. Intragovernmental cost and exchange revenue represent transactions made between two reporting entities within the federal government. Cost and earned revenue with the public represent exchange transactions made between the reporting entity and a non-federal entity. The DoD is implementing replacement systems and a standard financial information structure incorporating the necessary elements to enable the DoD to correctly report, reconcile, and eliminate intragovernmental balances.

Goods and services are received from other federal agencies 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 the Department are recognized as imputed cost in the Statement of Net Cost, and are offset by imputed financing in the Statement of Changes in Net Position. Imputed financing represents the cost paid on behalf of DHA-CRM by another federal entity. In accordance with Statement of Federal Financial Accounting Standards (SFFAS) 55, Amending Inter-entity Cost Provisions, the Department recognizes the general nature of 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 Federal Employees' Compensation Act (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 Department's financial statements.

For additional information, see Note 9, Disclosures Related to the Statement of Net Cost.

1.F. Non-Entity Assets

DHA-CRM only reports 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.

1.G. Fund Balance with Treasury

The FBWT represents the aggregate amount of the Department's available budget spending authority available to pay current liabilities and finance future authorized purchases. DHA-CRM's monetary resources of collections and disbursements are maintained in U.S. Treasury accounts. DHA-CRM's cash collections, disbursements, and adjustments are processed by DHA-CRM through the U.S. Treasury. DHA-CRM prepares monthly reports to the U.S. Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

FBWT is an asset of a component entity and a liability of the General Fund. Similarly, investments in Government securities held by dedicated collections accounts are assets of the reporting entity responsible for the dedicated collections and liabilities of the 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 the reporting entity seeks to use FBWT or investments in Government securities to liquidate budgetary obligations, Treasury will finance the disbursements in the same way it finances all other disbursements, which is to borrow from the public if there is a budget deficit (and to use current receipts if there is a budget surplus).

In addition, Defense Finance and Accounting Service (DFAS) 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.

Fund Balance with Treasury 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, DHA-CRM does not report deposit fund balances on its financial statements.

DHA-CRM has been authorized direct access to U.S. Treasury systems to make payments and collections due to the size and nature of their Purchased-Care programs. U.S. Treasury expenditure reporting is combined with DoD expenditure reporting for DHA-CRM by DFAS-IN.

On March 11, 2020, a novel strain of Corona virus, also known as COVID-19 was declared a pandemic by the World Health Organization (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.

DHA-CRM was appropriated CARES Act funding, under P.L. 116-136, 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 14.

Additionally, DHA-CRM received additional funding to cover Co-Pay/Cost Share, or the administration of such products under the Families First Act, P.L. 116-127. No additional supplemental funding was allocated to DHA-CRM in FY 2021 for the purpose of responding to the COVID-19 emergency. For additional information, see Note 14, COVID-19 Activity.

For additional information, see Note 2, Fund Balance with Treasury.

1.H. Cash and Other Monetary Assets

Cash is the total of cash resources under the control of DHA-CRM, 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.

Cash and other monetary assets reported consist of undeposited collections received by DHA-CRM before month-end but after the U.S. Treasury month-end cutoff. A corresponding liability is recorded because DHA-CRM is not entitled to the funds until deposited with the U.S. Treasury.

For additional information, see Note 3, Cash and Other Monetary Assets.

1.I. Accounts Receivable, Net

Accounts receivable, Net from other federal entities or the public include accounts receivable, claims receivable, and refunds receivable. Allowances for uncollectible accounts due from the public are based upon factors such as: aging of accounts receivable, debtor's ability to pay, and payment history.

Since the beginning of the FCP Program, outpatient pharmaceuticals purchased by DoD through medical treatment facility pharmacies have been subject to FCPs, as have those under the TRICARE Pharmacy Home Delivery program. The DHA implemented FCPs for the TRICARE Retail Pharmacy program in compliance with the NDAA for Fiscal Year 2008, §703. The Final Rule was published March 17, 2009 and was updated October 15, 2010. The DHA applied this rule to all retail prescriptions filled subsequent to January 28, 2008 unless the DHA (formerly TMA) granted a waiver to a particular manufacturer. Compliance is mandatory and the advantage to the manufacturers is that their drugs will be included on the DoD Uniform Formulary (list of available prescription drugs). The DHA records accounts receivable upon receipt of the calculation from the TRICARE Pharmacy Operations Directorate and posts collections from the manufacturers to the fiscal year of receipt pursuant to Title 10, U.S.C. §1079a.

For additional information, see Note 4, Accounts Receivable, Net.

1.J. Liabilities

Liabilities represent the probable future outflow or other sacrifice of resources as a result of past transactions or events. However, no liability can be paid by DHA-CRM absent proper budget authority. Liabilities covered by budgetary resources are appropriated funds for which funding is otherwise available to pay amounts due. Liabilities not covered by budgetary resources, for example Federal Employee and Veteran Benefits Payable, 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 funded by the current year appropriation are classified as liabilities not covered by budgetary resources in Note 5, Liabilities Not Covered by Budgetary Resources.

1.K. Other Liabilities

Other liabilities (Other than Intragovernmental) consist of undeposited collections received by DHA-CRM before month-end but after the U.S. Treasury month-end cutoff. A liability is recorded because DHA-CRM is not entitled to the funds until deposited with the U.S. Treasury.

SFFAS 51, Insurance Programs, established accounting and financial reporting standards for insurance programs. OPM administers insurance benefit programs available for coverage to the Department'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.

SFFAS 51 identifies three categories of insurance programs: 1) exchange transaction insurance programs other than life insurance, 2) nonexchange transaction insurance programs, and 3) life insurance programs. Based on the nature of the TRICARE insurance program, only category number 1 (exchange transaction insurance programs other than life insurance) is applicable to DHA-CRM. The majority of TRICARE premiums are paid on a monthly or quarterly basis. Since these payments are received during the period to which the services relate, recognizing the revenue of these premiums when received does not affect annual financial reporting or result in a liability for unearned premiums. For premiums paid on an annual basis a determination is made each year to assess whether a liability for unearned premiums should be recognized. For additional information, see Note 13, Insurance Programs.

TRICARE is a worldwide health care 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 health care professionals, institutions, pharmacies, and suppliers to provide access to health care services. TRICARE offers multiple health care plans. The DHP'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 7, Other Liabilities and Note 13, Insurance Programs.

1.L. Commitments and Contingencies

DHA-CRM recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

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. DHA-CRM's risk of loss and resultant contingent liabilities arise from pending or threatened litigation or claims and assessments due to events such as medical malpractice; property or environmental damages; and contract disputes.
For additional information, see Note 8, Commitments and Contingencies.

1.M. Military and Civilian Retirement Benefits

The Department applies SFFAS No. 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", in selecting the discount rate and valuation date used in estimating actuarial liabilities. In addition, gains and losses from changes in long-term assumptions used to estimate the actuarial liability are presented separately on the Statement of Net Cost.

Refer to Note 6, Federal Employee and Veteran Benefits Payable and Note 9, Disclosures Related to the Statement of Net Cost, for additional information.

1.N. Revenues and Other Financing Sources

As a component of the Government-wide reporting entity, the Department is subject to the Federal budget process, which involves appropriations that are provided annually and appropriations that are provided on a permanent basis. The financial transactions that result from the budget process are generally the same transactions reflected in agency and the Government-wide financial reports.

The Department's budgetary resources reflect past congressional action and enable the entity to incur budgetary obligations, but 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, which, as noted above, is to borrow from the public if there is a budget deficit.

DHA-CRM receives congressional appropriations and funding as general funds. DHA-CRM uses these appropriations and funds to execute its missions and subsequently report on resource usage.

General funds are used for collections not earmarked by law for specific purposes, the proceeds of general borrowing, and the expenditure of these moneys. DHA-CRM appropriations funding covers costs for operations and maintenance.

Deposit funds are used to record amounts held temporarily until paid to the appropriate government or public entity. They are not DHA-CRM funds, and as such, are not available for DHA-CRM's operations. DHA-CRM is acting an agent or a custodian for funds awaiting distribution.

When authorized by legislation, these appropriations are supplemented by revenues generated by sales of goods or services. DHA-CRM recognizes revenue as a result of costs incurred for goods and services provided to other federal agencies and the public. Full cost pricing is DHA-CRM's standard policy for services provided as required by OMB Circular A-25, "User Charges". In some instances, revenue is recognized when bills are issued.

1.O. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. Estimates are made for major items such as IBNR liabilities and unfunded actuarial liabilities. Accrual adjustments are made for major items such as accounts payable.

1.P. Use of Estimates

DHA-CRM's management makes assumptions and reasonable estimates in the preparations of financial statements based on current conditions which may affect the reported amounts. Actual results could differ materially from the estimated amounts. Significant estimates include such items as accounts receivable, IBNR liabilities, and unfunded actuarial liabilities.

1.Q. Tax Exempt Status

As an agency of the federal government, DHA-CRM is exempt from all income taxes imposed by any governing body whether it is a federal, state, commonwealth, local, or foreign government.

Note 2. Fund Balance With Treasury

($ In Thousands)	2021	2020
Status of Funds Balance with Treasury		
Unobligated Balance		
Available	$ (34,237)	$ 382,756
Unavailable	225,616	208,955
Total Unobligated Balance	191,379	591,711
Obligated Balance not yet Disbursed	1,304,469	1,233,825
Non-FBWT Budgetary Accounts		
Unfilled Customer Orders without Advance	(31,323)	(26,828)
Receivables and Other	(52,388)	(46,769)
Total Non-FBWT Budgetary Accounts	(83,711)	(73,597)
Total FBWT	$ 1,412,137	$ 1,751,939

The Treasury records cash receipts and disbursements on DHA-CRM's behalf; funds are available only for the purposes for which the funds were appropriated. DHA-CRM's FBWT consists of appropriation accounts.

The Status of FBWT, as presented in Table 3, 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 Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority set aside to cover future obligations. The available balance consists primarily of the unexpired, unobligated balance that has been apportioned and available for new obligations. Certain unobligated balances are restricted for future use and are not apportioned for current use.

Obligated Balance Not Yet Disbursed represents funds obligated for goods and services but not paid.

Non-FBWT Budgetary Accounts reduces budgetary resources, comprised of reimbursable accounts receivable of $52.4 million, and reimbursable undelivered orders of $31.3 million.

Unfilled Customer Orders Without Advance and Reimbursements and Other Income Earned - Receivable provide budgetary resources when recorded. FBWT is only increased when reimbursements are collected, not when orders are accepted or have been earned.

For COVID-19 disclosure related information see Note 14.

Note 3. Cash & Other Monetary Assets

($ In Thousands)	2021	2020
Cash	$ 28	$ 1,129
Total Cash and Other Monetary Assets	$ 28	$ 1,129

Cash and other monetary assets reported consist of undeposited collections received by DHA-CRM before month-end but after the U.S. Treasury month-end cutoff. A corresponding liability is recorded because DHA-CRM is not entitled to the funds until deposited with the U.S. Treasury.

Note 4. Accounts Receivable, Net

($ In Thousands)	2021		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$ 52,388	$ 0	$ 52,388
Nonfederal Receivables (Other than Intragovernmental)	600,789	(37,883)	562,906
Total Accounts Receivable, Net	$ 653,177	$ (37,883)	$ 615,294

	2020		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$ 46,769	$ 0	$ 46,769
Nonfederal Receivables (Other than Intragovernmental)	429,177	(20,483)	408,694
Total Accounts Receivable, Net	$ 475,946	$ (20,483)	$ 455,463

A/R represent DHA-CRM's claim for payment from other entities. The method used to calculate the percentage for bad debt allowance on the A/R balances is determined by taking a 12 month average of the A/R balance against the 12 month average on the Write Off balance per each Receivable category. The data from the prior 12 months is used to calculate the percentages for the allowance. DHA-CRM has one specific A/R category that follows a different percentage calculation rule, the "Suspended Pharmacy" category. Per a DHA PI directive that prevents DHA-CRM's Pharmacy contractor from pursuing collection action against Suspended Pharmacies while under investigation, DHA-CRM uses a 100% Allowance methodology for calculating the debt against the A/R balance. Claims with other federal agencies are resolved in accordance with the business rules published in Appendix 5 of TFM, Volume I, Part 2, Chapter 4700.

FASAB issued Technical Bulletin 2020-1, Loss Allowance for Intragovernmental Receivables, which clarified previously issued guidance. An allowance recorded to recognize an intragovernmental receivable at net realizable value on the financial statements does not alter the underlying statutory authority to collect the receivable or the

legal obligation of the other intragovernmental entity to pay. For FY 2021 the intragovernmental allowance was calculated using the same methodology as for public receivables. DHA-CRM developed its policy, related to the allowance for uncollectible accounts for intragovernmental receivables. Based on several years of experience, DHA-CRM concludes that the net realizable value of its intragovernmental receivables is 100%.

As of September 30, 2021, the total net receivables recorded for the SDP and the ADP were $223.4 million. The SDP resulted from the implementation of the FCP 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.

Note 5. Liabilities Not Covered by Budgetary Resources

($ In Thousands)	2021	2020
Federal Employee and Veteran Benefits Payable	$ 202,058,642	$ 201,725,216
Total Liabilities Not Covered by Budgetary Resources	$ 202,058,642	$ 201,725,216
Total Liabilities Covered by Budgetary Resources	431,370	430,047
Total Liabilities	$ 202,490,012	$ 202,155,263

DHA-CRM has two liabilities not covered by budgetary resources. Federal employee and veteran benefits payable consists of various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities primarily consist of $202.1 billion in health benefit liabilities, with $200.3 billion in actuarial liabilities for future health benefits and $1.8 billion in IBNR health benefits. The DHA, as stated in the Senate Report No. 95-1264 on the Department of Defense Appropriation Bill, FY 1979, does not obligate or fund health care claims until the receipt of an adjudicated claim. Consequently, no funding or obligations occur for these liabilities until health care is rendered and DHA-CRM is in receipt of an adjudicated claim. Refer to Note 13, Federal Employee and Veteran Benefits Payable, for additional details.

Liabilities not covered by budgetary resources require future congressional action whereas liabilities covered by budgetary resources reflect prior congressional action. Regardless of when the congressional action occurs, when the liabilities are liquidated, Treasury will finance the liquidation in the same way that it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

For COVID-19 disclosure related information see Note 14.

Note 6. Federal Employee and Veteran Benefits Payable

($ In Thousands)	2021		
	Liabilities	Less Assets Available to Pay Benefits	Unfunded Liabilities
Military Pre Medicare-Eligible Retiree Health Benefits	$ 200,268,111	$ 0	$ 200,268,111
Other	1,790,531	0	1,790,531
Total Federal Employee and Veteran Benefits Payable	$ 202,058,642	$ 0	$ 202,058,642

	2020		
	Liabilities	Less Assets Available to Pay Benefits	Unfunded Liabilities
Military Pre Medicare-Eligible Retiree Health Benefits	$ 200,008,009	$ 0	$ 200,008,009
Other	1,717,207	0	1,717,207
Total Federal Employee and Veteran Benefits Payable	$ 201,725,216	$ 0	$ 201,725,216

Information Related to Federal Employee and Veteran Benefits Payable

The DoD OACT calculates the 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 Federal Employee and Veteran Benefits Payable. The line entitled "Military Pre Medicare-Eligible Retiree Health Benefits" represents the actuarial (or accrued) liability for future health care benefits provided to non-Medicare-eligible retired beneficiaries that are not yet incurred. The line entitled "Other" includes the IBNR, which is an estimate of benefits already incurred but not yet reported to DoD for all DHP beneficiaries (excluding those from the retiree population who are Medicare-eligible).

Effective FY 2010, DHA implemented requirements of SFFAS No. 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, 2021, financial statement valuation, the application of SFFAS No. 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 DHA actuarial liability is adjusted at the end of each fiscal year. The 4th Quarter, FY 2021 balance represents the September 30, 2021 amount that is effective through 3rd quarter of FY 2022.

Actuarial Cost Method

As prescribed by SFFAS No. 5, the valuation of 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 2021 financial statement valuation, the long-term assumptions include a 3.0% 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 2020 financial statement valuation, the long-term assumptions included a 3.3% discount rate and medical trend rates that were developed using a 1.6% inflation assumption.

The change in the long-term assumptions is due to the application of SFFAS No. 33. This applicable financial statement 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 No. 33, the current year actuarial liability is rolled forward from the prior year valuation results using accepted actuarial methods.

In calculating the FY 2021 "rolled-forward" actuarial liability, the following assumptions were used:

Discount Rate	3.0%
Inflation	1.6%

Medical Trend (Non-Medicare)	FY 2020 - FY 2021	Ultimate Rate FY 2045
Purchased Care Inpatient	4.55%	3.60%
Purchased Care Outpatient	5.15%	3.60%
Purchased Care Prescription Drugs	10.61%	3.60%
Purchased Care USFHP	5.06%	3.60%

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

Military Pre Medicare-Eligible Retiree Health Benefits ($ In Thousands)	2021	2020
Beginning Actuarial Liability	$ 200,008,009	$ 183,895,132
Plus Expenses:		
Normal Cost	9,431,798	7,494,655
Interest Cost	6,777,273	6,556,463
Plan Amendments	0	0
Experience Losses/(Gains)	(3,934,485)	(1,250,411)
Other Factors	0	0
Subtotal: Expenses Before Losses/(Gains) From		

Actuarial Assumption Changes	12,274,586	12,800,707
Actuarial Losses/(Gains) Due To:		
Changes In Trend Assumptions	(5,224,392)	8,275,828
Changes In Assumptions Other Than Trend	1,412,262	3,231,392
Subtotal: Losses/(Gains) From Actuarial Assumption Changes	(3,812,130)	11,507,220
Total Expenses	$ 8,462,456	$ 24,307,927
Less Benefit Outlays	8,202,354	8,195,050
Total Changes In Actuarial Liability	$ 260,102	$ 16,112,877
Ending Actuarial Liability	$ 200,268,111	$ 200,008,009

The DHA actuarial liability increased $0.3 billion (0.1%). This resulted from the net effect of: an increase of $8.0 billion due to expected increases (interest cost plus normal cost less benefit outlays), a decrease of $3.8 billion due to changes in key assumptions; and a decrease of $3.9 billion due to actual experience being different from what was assumed (demographic and claims data).

DoD complies with SFFAS No. 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 No. 33 also provides a standard for selecting the discount rate and valuation date used in estimating these liabilities. SFFAS No. 33, as published on October 14, 2008, by the 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 U.S. 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 No. 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, 2021 financial-statement valuation, DoD OACT determined a single equivalent discount rate of 3.0% 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, 2011 through March 31, 2021.

For the September 30, 2021, financial statement valuation, DoD OACT determined a single equivalent medical cost trend rate of 4.11% can be used to reproduce the total Military Retiree Health Benefits (MRHB) liability. The total MRHB liability includes MERHCF, Service Medical Activity (SMA), and CRM.

DHA-CRM's life and other insurance programs covering civilian employees are provided through the OPM. DHA-CRM 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.

Note 7. Other Liabilities

($ In Thousands)	2021	2020
Nonfederal Other Liabilities	28	1,129
Total Other Liabilities	$ 28	$ 1,129

Total Other Liabilities (other than Intragovernmental) consist of undeposited collections received by DHA-CRM before month-end but after the Treasury month-end cutoff. A corresponding liability is recorded because DHA-CRM is not entitled to the funds until deposited with the Treasury.

For Commitments and Contingencies disclosure related information see Note 8.

Note 8. Commitments and Contingencies

DHA-CRM is a party in various administrative proceedings, legal actions, and other claims awaiting adjudication which may result in settlements or decisions adverse to the Federal government. These matters arise in the normal course of operations; generally relate to environmental damage, equal opportunity, and contractual matters; and their ultimate disposition is unknown. In the event of an unfavorable judgment against the Government, some of the settlements are expected to be paid from the *Treasury Judgment Fund*. In most cases, DHA-CRM does not have to reimburse the Judgment Fund; reimbursement is only required when the case comes under either the *Contracts Disputes Act* or the *No FEAR Act*.

In accordance with *SFFAS No. 5, Accounting for Liabilities of the Federal Government,* as amended by *SFFAS No. 12, Recognition of Contingent Liabilities Arising from Litigation,* an assessment is made as to whether the likelihood of an unfavorable outcome is considered probable, reasonably possible, or remote. DHA-CRM did not accrue contingent liabilities for material contingencies where an unfavorable outcome is considered probable and the amount of potential loss is measurable. No amounts have been accrued for contingencies where the likelihood of an unfavorable outcome is less than probable, where the amount or range of potential loss cannot be estimated due to a lack of sufficient information, or for immaterial contingencies.

DHA-CRM did not identify 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. Amounts disclosed will represent future potential liabilities and will not include amounts already recognized as contingent liabilities in Note 7. Consideration will be given in disclosing the difference between the maximum or ceiling amounts and those amounts recognized in Note 7 when it is reasonably possible the maximum amount may be paid.

There is one remote case and one reasonably possible case or claim pending with DHA-CRM meeting the requirements for disclosure.

Ingham Regional Medical Center v. United States (Court of Federal Claims). Class action, but not certified, alleging DoD, in reaching a resolution of hospital outpatient radiology claims, entered into contracts with the named plaintiffs. Plaintiffs' First Amended Complaint was filed on November 17, 2014. The Amended Complaint alleges breach of express contract, breach of implied contract, mutual mistake, breach of the covenant of good faith and fair dealing, and violations of a statutory mandate under the TRICARE statute. The suit alleges 5,200 hospitals were underpaid for outpatient procedures. On March 22, 2016, the Court of Federal Claims issued its decision granting the Government's Motion to Dismiss Plaintiffs' Amended Complaint. Plaintiffs appealed to the Court of Appeals for the Federal Circuit. On November 3, 2017, the Court of Appeals reversed the dismissal of Ingham's breach of contract claim and remanded the case to the trial court for further proceedings. On March 20, 2018, the Government filed its Answer. Discovery has since closed, and multiple motions including the Government's Motion for Summary Judgment are pending before the court.

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 discovery is ongoing. Plaintiffs recently amended its Complaint alleging that the Government illegally invoked a Government debt recovery process to take approximately $12.5 million from Plaintiffs, increasing the potential liability exposure by the same amount. The Government's Answer was filed on October 14, 2021. The parties will complete discovery in January 2022. The estimated amount or range of potential loss is unknown.

Note 9. Disclosures Related to the Statement of Net Cost

($ In Thousands)	2021	2020
Gross Cost		
Intragovernmental Cost	$ 976,954	$ 910,040
Nonfederal Cost	20,935,872	20,519,213
Total Cost	21,912,826	21,429,253
Earned Revenue		
Intragovernmental Revenue	(628,138)	(587,639)
Nonfederal Revenue	(864,941)	(755,636)
Total Revenue	(1,493,079)	(1,343,275)
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	(3,812,130)	11,507,220
TOTAL NET COST	$ 16,607,617	$ 31,593,198

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of DHA-CRM that are supported by appropriations or other means. The intent of the SNC 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. DHA-CRM's current processes and systems capture costs based on appropriations groups as presented in the schedule above.

The Department Military Retirement and post-employment costs are reported in accordance with SFFAS No. 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 on the SNC.

For COVID-19 disclosure related information see Note 14.

Note 10. Disclosures Related to the Statement of Changes in Net Position

For FY 2021, Appropriations Received on the Statement of Changes in Net Position (SCNP) does not agree with Appropriations (Discretionary and Mandatory) on the Statement of Budgetary Resources (SBR). The $332.1 million difference is due to an authority transfer in.

Reconciliation of Appropriations on the Statement of Budgetary Resources to Appropriations Received on the Statement of Changes in Net Position

($ In Thousands)	2021	2020
Appropriations Received, Statement of Changes in Net Position	$ 15,906,582	$ 16,191,754
Transfers - Current-Year Authority Transfers In	332,100	0
Appropriations, Statement of Budgetary Resources	$ 16,238,682	$ 16,191,754

For COVID-19 disclosure related information see Note 14.

Note 11. Disclosures Related to the Statement of Budgetary Resources

($ In Thousands)	2021	2020
Intragovernmental Budgetary Resources Obligated for Undelivered Orders		
Unpaid	23,039	17,443
Total Intragovernmental	23,039	17,443
Nonfederal Budgetary Resources Obligated for Undelivered Orders		
Unpaid	850,088	787,463
Total Nonfederal	850,088	787,463
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 873,127	$ 804,906

DHA-CRM has no legal arrangements, other than time limits applied to obligational authority, affecting the use of unobligated balances of budget authority. DHA-CRM has not identified any material differences between amounts reported on the SBR and the Standard Form (SF) 133, Report on Budget Execution.

Appropriations presented on SBR does not agree with Appropriations Received on the SCNP for FY 2021. See Note 10, *Disclosures Related to the Statement of Changes in Net Position* for additional details.

For COVID-19 disclosure related information see Note 14.

Note 12. Reconciliation of Net Cost to Net Outlays

($ In Thousands)	2021		
	Intragovernmental	With the Public	Total
Net Cost of Operation (SNC)	$ 348,816	$ 16,258,801	$ 16,607,617
Components of Net Cost That are Not Part of Net Outlays:			
Increase/(decrease) in assets:			
Accounts Receivable, Net	$ 5,619	$ 154,212	$ 159,831
Other Assets		(1,101)	(1,101)
(Increase)/decrease in liabilities			
Accounts Payable	77,684	(80,108)	(2,424)
Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)		(332,325)	(332,325)
Total Components of Net Cost That Are Not Part of Net Outlays	$ 83,303	$ (259,322)	$ (176,019)
Net Outlays	$ 432,119	$ 15,999,479	$ 16,431,598
Agency Outlays, Net, Statement of Budgetary Resources			$ (16,431,598)
Reconciling Difference			$ 0

($ In Thousands)	2020		
	Intragovernmental	With the Public	Total
Net Cost of Operation (SNC)	$ 322,406	$ 31,270,792	$ 31,593,198
Components of Net Cost That are Not Part of Net Outlays:			
Increase/(decrease) in assets:			
Accounts Receivable, Net	$ (1,227)	$ (20,657)	$ (21,884)
Other Assets		985	985
(Increase)/decrease in liabilities			
Accounts Payable	(20,468)	123,924	103,456
Other Liabilities (Unfunded Leave,			

Unfunded FECA, Actuarial FECA)		(16,157,617)	(16,157,617)
Total Components of Net Cost That Are Not Part of Net Outlays	$ (21,695)	$ (16,053,365)	$ (16,075,060)
Net Outlays	$ 300,711	$ 15,217,427	$ 15,518,138
Agency Outlays, Net, Statement of Budgetary Resources			$ (15,518,138)
Reconciling Difference			$ 0

The Reconciliation of Net Cost to Net Outlays demonstrates the relationship between DHA-CRM's Net Cost of Operations, reported on an accrual basis on the Statement of Net Cost, and Net Outlays, reported on a budgetary basis on the Statement of Budgetary Resources. While budgetary and financial accounting are complementary, the reconciliation explains the inherent differences in timing and in the types of information between the two during the reporting period. The accrual basis of financial accounting is intended to provide a picture of DHA-CRM's operations and financial position, including information about costs arising from the consumption of assets and the incurrence of liabilities. Budgetary accounting reports on the management of resources and the use and receipt of cash by DHA-CRM. Outlays are payments to liquidate an obligation, other than the repayment to the Treasury of debt principal.

The FY 2020 reconciliation was modified to conform to the FY 2021 presentation.

Net Cost of Operations is derived from the SNC.

Components of net cost that are not part of net outlays are most commonly the temporary timing differences between outlays/receipts and the operating expense/revenue during the period.

Net Outlays is the summation of Net Cost of Operations and Components of net cost that are not part of net outlays, and equals the SBR net outlays amount.

Note 13. 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 MCSCs who provide health care claims processing and the initial collections on behalf of DHA-CRM. The total amount of Insurance Premium collections in FY 2021 was $864.9 million and $755.6 million for FY 2020. The benefit cost for FY 2021 correlate to the premium collections reported.

For Calendar Year 2021 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 199.20, 24, 25 and 26, as enacted by Section 701 of NDAA for Fiscal Year 2017; P.L. 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 health care 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 health care services are processed through TEDS. The liability balance represents unpaid claims received as of the end of the reporting period. The risk for future claim cost are 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 health care delivery to alternative types of service.

The table below presents the changes in the liability balance for unpaid insurance claims.

($ In Thousands)		**2021**	**2020**
Beginning Balance	$	1,966,037	2,038,491
Claims Expense		15,074,537	14,040,316
Claims Adjustment Expenses		(22,282)	(30,375)
Payments to Settle Claims		(14,918,922)	(14,098,748)
Recoveries and Other Adjustments		(14,692)	16,353
Ending Balance	$	2,084,678	1,966,037

Note 14. COVID-19 Activity

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.

Per OMB M-20-21, Disaster Emergency Fund Code (DEFC) "M" is utilized to track Families First Act cost and DEFC "N" to identify cost under the CARES Act funding.

Supplemental Funding and Related Costs Incurred per Families First Act – DEFC M:

In FY 2020, DHA-CRM received $82.0 million in supplemental funding under the Families First Act (P.L. 116-127 Families First Coronavirus Response Act) to cover co-pay/cost share waivers for COVID-19 diagnostic testing and services. Families First Act funding was provided through Appropriation 9720220130 LIMIT 9703. As of September 30, 2021, DHA-CRM incurred cumulative obligations across FY 2020 and FY 2021 of $73.4 million to cover co-pay/cost share waivers for COVID-19 diagnostic testing and services, and an unobligated balance of $8.6 million remains available for obligation in FY 2022 for this purpose. During FY 2021, no additional supplemental funding was allocated to DHA-CRM for the purpose of responding to the COVID-19 emergency.

Supplemental Funding and Related Costs Incurred per CARES Act – DEFC N:

In FY 2020, additional supplemental funding of $50.0 million was received through DHA-CRM's normal Operating and Maintenance Appropriation 9720200130 9700 under the CARES Act (P.L. 116-136 Coronavirus Aid, Relief, and Economic Security Act or the CARES Act) to cover the cost of COVID-19 healthcare related expenses. In addition, DHA-CRM received funding of $1.1 billion under section 13002 of the CARES Act for contracts entered into under the TRICARE program and not restricted to COVID-19 related healthcare costs. DHA-CRM worked with its contractors to establish special processing codes for COVID-19 healthcare related activity. During FY 2020, DHA-CRM incurred obligations of $50.0 million for COVID-19 related healthcare costs against supplemental funding provided under the CARES Act, and no unobligated supplemental funding provided under the CARES Act remained available for FY 2021. During FY 2021, no additional supplemental funding was allocated to DHA-CRM for the purpose of responding to the COVID-19 emergency.

Total Supplemental Funding and Related Costs

As of September 30, 2020, DHA-CRM had the following activity against the supplemental funding provided for responding to COVID-19: obligations incurred of $111.2 million, consisting of undelivered orders (unpaid obligations) of $50.5 million, as well as liabilities of $5.5 million, and disbursements of $55.2 million for total expenses of $60.7 million. Total supplemental funding received of $132.0 million for responding to COVID-19 was not significant to DHA-CRM's annual appropriation of $16.2 billion for FY 2020.

As of September 30, 2021, DHA-CRM had the following activity against the supplemental funding provided for responding to COVID-19: cumulative obligations against both supplemental funding sources across FY 2020 and FY 2021 of $123.4 million, consisting of FY 2021 undelivered orders (unpaid obligations) of $6.6 million, no FY 2021

liabilities/AP, FY 2020 disbursements of $55.2 million, and FY 2021 disbursements of $61.5 million (which include FY 2020 liabilities/AP of $5.5 million). Total expenses during FY 2021 were $56.1 million.

Total COVID-19 Related Costs

During FY 2020, DHA-CRM incurred total COVID-19 related costs of $189.2 million, including $128.5 million of COVID-19 related healthcare costs in excess of the supplemental budgetary resources received under the CARES Act for responding to COVID-19. COVID-19 related costs have not had a significant financial or performance impact on DHA-CRM's assets, liabilities, net costs, revenue or net position for FY 2020.

During FY 2021, DHA-CRM incurred total COVID-19 related costs of $1.2 billion, including $1.1 billion of COVID-19 related healthcare costs in excess of the supplemental budgetary resources received under the CARES Act for responding to COVID-19. No additional supplemental funding was allocated to DHA-CRM for responding to the COVID-19 emergency in FY 2021, as COVID-related health care costs incurred during the year were within the purpose of DHA-CRM's O&M appropriation and adequately funded through DHA-CRM's allotted funding, 1% O&M carryover, and transfers-in of funding from the DHP. These COVID-19 related costs have not otherwise had a significant financial or performance impact on DHA-CRM's assets, liabilities, net costs, revenue or net position for FY 2021.

Other Footnotes impacted are Note 2 FBWT, Note 5 Liabilities Not Covered by Budgetary Resources, Note 9 SNC, Note 10 SCNP, and Note 11 SBR.

III. Other Information

Summary of Financial Statement Audit and Management Assurances

Table 1. Summary of Financial Statement Audit

Audit Opinion	Unmodified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
N/A					
Total Material Weaknesses	0	0	0	0	0

Table 2. Summary of Management Assurances

Effectiveness of Internal Controls over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
N/A						
Total Material Weaknesses	0	0	0	0	0	0

Effectiveness of Internal Controls over Financial Operations (FMFIA § 2)						
Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
N/A						
Total Material Weaknesses	0	0	0	0	0	0

Conformance with Federal Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Federal Systems conform to financial management systems requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
N/A						
Total Non-Conformances	0	0	0	0	0	0

Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
Federal Financial Management Systems Requirements	No lack of compliance noted	No lack of compliance noted
Applicable Federal Accounting Standards	No lack of compliance noted	No lack of compliance noted
USSGL at Transaction Level	No lack of compliance noted	No lack of compliance noted

Payment Integrity Information Act Reporting

In accordance with the PIIA of 2019 (P. L. 116-117, 31 U.S.C § 3352), Appendix B of the OMB Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements*, dated June 11, 2021, and OMB Circular No. A-136 II.4.5. *Payment Integrity Information Act Reporting,* information previously contained in this section will be collected by OMB and published on www.paymentaccuracy.gov.

Fraud Reduction Report

As a healthcare organization, the MHS is just as susceptible to healthcare fraud schemes as any other medical organization. Several federal laws governing fraud and abuse exist that specify the criminal, civil, and administrative penalties and remedies the government may impose on individuals or entities that commit fraud and abuse federal programs such as TRICARE. Violating these laws may result in nonpayment of claims, Civil Monetary Penalties, exclusion from all Federal healthcare programs, and criminal and civil liability. Government agencies, including the U.S. Department of Justice (DOJ), the U.S. Department of Health & Human Services (HHS), the HHS Office of Inspector General (OIG), and the Centers for Medicare and Medicaid Services (CMS), enforce these laws.

Within DoD and pursuant to DoD Directive 5106.01, *Inspector General of the Department of Defense (IG DoD)*, the DoD Inspection General (DoD IG) serves as the principal advisor to the Secretary of Defense on all audit and criminal investigative matters and for matters relating to the prevention and detection of fraud, waste, and abuse in the programs and operations of the DoD. The DoD IG initiates, conducts, supervises, and coordinates such audits, investigations, evaluations, and inspections within the DoD, including the Military Departments, as the IG DoD considers appropriate. In addition, the DoD IG provides policy and direction for audits, investigations, evaluations, and inspections relating to fraud, waste, abuse, program effectiveness, and other relevant areas within OIG DoD responsibilities.

In accordance with DoD Instruction 7050.01, *DoD Hotline Program*, it is DoD policy that:

- Preventing and detecting fraud, waste, abuse, and mismanagement in DoD programs and operations promotes efficiency, economy, and effectiveness.
- DoD personnel are required to report suspected fraud, waste, abuse, mismanagement, and other matters of concern to DoD without fear of reprisal.
- The OIG DoD maintains the DoD Hotline Program.

The MHS relies on the services of the DoD IG and its Defense Criminal Investigative Service (DCIS) in our efforts to identify and deter fraud, waste and abuse. The mission of DCIS is to conduct criminal investigations of matters related to DoD programs and operations, focusing on procurement fraud, public corruption, product substitution, health care fraud, illegal technology transfer, and cyber crimes and computer intrusions. DCIS has the legal authority to investigate military personnel, government and non-government civilians, foreign citizens, and U.S. and foreign companies alleged to have defrauded the DoD or criminally impacted DoD programs or operations. DCIS partners with federal, state, local and tribal law enforcement as needed, and frequently work with the Federal Bureau of Investigations, Homeland Security Investigations, Army Criminal Investigations Command, Naval Criminal Investigative Service, and Air Force Office of Special Investigations. Other Office of Inspector General partners include Veterans Administration, HHS, and DoJ.

The DHA Program Integrity Office in Aurora, Colorado is responsible for healthcare anti-fraud to safeguard beneficiaries and protect benefit dollars. DHA PI develops and executes antifraud and abuse policies and procedures, provides oversight of contractor program integrity activities, and coordinates investigative activities. DHA PI also develops cases for criminal prosecutions and civil litigations, and initiates administrative measures. Through a Memorandum of Understanding (MOU), DHA PI refers its fraud cases to the Defense Criminal Investigative Services. DHA PI also coordinates investigative activities with Military Criminal Investigative Offices, as well as other federal, state, and local agencies.

Program Savings and Claim Recoveries – New reimbursement approaches are continually evaluated for potential savings to TRICARE[4]. As new programs are established, savings are estimated and monitored. Claim recoveries result from identified overpayments adjusted in TRICARE Encounter Data (TED), and the differences are recouped.

- Recovery A – Post-payment Duplicate Claim Recoveries: A post-payment duplicate claims system was developed by DHA as a retrospective auditing tool. It facilitates the identification of actual duplicate claim payments and the initiation and tracking of recoupments.[5]

- Recovery B – Improper Payment Recoveries: The DHA is vigilant in ensuring the accuracy of healthcare claims payments within the military health benefits program. The DHA has contracted with an external independent contractor (EIC) who is responsible for conducting post-payment accuracy reviews of TRICARE health benefit claims. The EIC is responsible for identifying improper payments made by TRICARE purchased care contractors as a result of contractor noncompliance with TRICARE policy, benefits, and/or reimbursement requirements.

In addition to the EIC post-payment reviews, DHA requires TRICARE purchased care contractors to use industry best practices when processing TRICARE claims. Contractors are required to use claims auditing software and develop prepayment initiatives that are manual and/or automated to avoid or prevent improper payments.[6]

The DHA Office of the Inspector General (DHA OIG) maintains a 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. 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 term "improper payment" are payments made by the government to the wrong person, in the wrong amount, or for the wrong reason. Although not all improper payments are fraud, and not all improper payments represent a loss to the government, all improper payments degrade the integrity of government programs and compromise citizens' trust in government. The definition is found in the PIIA and OMB Circular A-123, Appendix C, *Requirements for Payment Integrity Improvement*.

Under the direction of the OMB, agencies have identified the programs that are susceptible to significant improper payments, and measured, or are putting in place measurement plans, to determine the estimated amount of improper payments. By identifying and measuring the problem, and determining the root causes of error, the government is able to focus its resources so that corrective action plans can be thoughtfully developed and successfully carried out.

The PIIA and OMB Circular A-123, Appendix C require Federal agencies to report information related to improper payments. The Payment Integrity Scorecard for military health benefits is available at www.paymentaccuracy.gov.

[4] See the *FY 2021 Evaluation of the TRICARE Program Report* for Program Integrity Recoveries and Cost Avoidance for calendar years 2017 – 2019.
[5] See the *FY 2021 Evaluation of the TRICARE Program Report* for the historical recovery of duplicate claims payments.
[6] See the *FY 2021 Evaluation of the TRICARE Program Report* for FY 2020 improper payment recoveries of healthcare as a result of the EIC compliance reviews and ongoing purchased care contractor efforts to identify and recover improper payments.

Significant FY 2021 MHS Fraud Events (Source: DCIS)

March 23, 2021: Former children's autism service provider pays over $2.7 million to resolve healthcare fraud allegations

The former owner and sole shareholder of The Shape of Behavior (TSOB), a Texas-based provider of therapy services for children with autism, has agreed to pay to resolve allegations that the company submitted improper claims to the TRICARE program. Dr. Domonique Randall has now paid a total of $2,729,083.23. Authorities initiated an investigation after TRICARE's managed care support contractor -Humana Military Program Integrity - uncovered alleged improper claims. These were for applied behavior analysis therapy to beneficiaries with autism spectrum disorder. The settlement resolves allegations that nine separate TSOB locations submitted claims to TRICARE that misrepresented the identity of the actual rendering providers, that medical records could not substantiate or when individual providers billed excessive hours on individual dates of service. The Defense Health Agency -Office of Program Integrity, DCIS and Humana Military Program Integrity all assisted in the joint investigation resulting in the settlement.

March 22, 2021: Texas Doctor Accused of False Claims Act Violations

The United States Attorney's Office for the Northern District of Texas has filed a False Claims Act lawsuit against a Texas dermatopathologist and his clinic, Cockerell Dermatopathology (CDP), for submitting nearly $4.2 million in fraudulent claims to TRICARE. According to allegations in a civil complaint filed Monday, Dr. Clay Cockerell, 64, knowingly permitted a laboratory management company to use his clinic's lab license to submit false claims to federal health insurance programs, including TRICARE, for medically unnecessary tests. The government is now seeking to recover millions in TRICARE payments that CDP previously admitted were improper, or, at a minimum, $3.485 million that CDP and Dr. Cockerell agreed they would pay to TRICARE.

March 18, 2021: Cardiologist Dinesh Shah Pays $2 Million To Resolve False Claims Act Allegations Relating To Excessive Testing

Dinesh M. Shah, M.D. and his practice, Michigan Physicians Group, P.C. (MPG) have paid the United States $2 million to resolve allegations that they violated the False Claims Act by knowingly billing federal healthcare programs for diagnostic testing that was either unnecessary or not performed. This settlement resolves allegations that from 2006 to 2017, Shah and MPG knowingly billed government programs, including Medicare, Medicaid, and TRICARE, for unnecessary diagnostic testing. This settlement comes after a years-long investigation by the Office of Inspector General for the United States Department of Health and Human Services and the Defense Health Agency acting on behalf of the TRICARE Program.

March 10, 2021: Chiropractor charged with falsely billing for procedure learned via YouTube

A Houston chiropractor and her medical group have been named in a civil suit under the False Claims Act alleging fraudulent billing, announced Acting U.S. Attorney Jennifer B. Lowery. Suhyun An owns and manages Campbell Medical Group PLLC and Johnson Medical Group PLLC dba Campbell Medical Clinic in the Spring Valley area of Houston. The civil complaint, filed today, alleges An fraudulently obtained over $3.9 million from the Medicare and TRICARE programs by billing for the implantation of neurostimulator electrodes. These are surgical procedures usually requiring use of an operating room, and Medicare pays thousands of dollars for this procedure. The complaint alleges that neither An nor her clinic's employees performed surgery. Instead, they allegedly applied inexpensive devices used for electro-acupuncture. This procedure involves inserting needles into patients' ears with a neurostimulator taped behind the ears with an adhesive, according to the complaint. The lawsuit alleges nurse practitioners working for An learned how to apply the devices by watching YouTube videos and participating in trainings with sales representatives. The complaint alleges An knew the devices were not billable or recklessly

disregarded that fact. The suit further claims she ignored emailed warnings from employees and outside billing companies including warnings that the devices were being labeled as "possible fraud."

February 10, 2021: Former Co-Owner of Pharmacy Pleads Guilty in Prescription Drug Billing Scheme
An additional defendant pleaded guilty in a long-running investigation into a prescription drug-billing scheme involving a Haleyville, Ala.-based pharmacy, Northside Pharmacy doing business as Global Compounding Pharmacy. This brings the total number of defendants who have pleaded guilty in the larger investigation to 26. According to the plea agreement, between August 2013 and June 2016, the defendant participated in a scheme to cause the pharmacy he worked at to bill for medically unnecessary prescription drugs. He participated in a scheme to direct employees to get medically unnecessary drugs for themselves, family members, and friends, to alter prescriptions to add non-prescribed drugs, to automatically refill prescriptions regardless of patient need, to routinely waive and discount co-pays to induce patients to obtain and retain medically unnecessary drugs, and to bill for drugs without patients' knowledge. According to the plea agreement, when prescription drug administrators attempted to police this conduct, the defendants evaded and obstructed those efforts, including by providing false information in response to audits and diverting their billing through affiliated pharmacies. The scheme targeted multiple health insurance plans, including the pharmacy's Blue Cross Blue Shield of Alabama plan, as well as plans providing health insurance to the elderly, disabled, members of the military, and veterans-Medicare, TRICARE, and CHAMPVA, among others.

February 2, 2021: Clinton Pharmacist Sentenced to 10 Years in Federal Prison for Conspiracy to Commit Health Care Fraud
Marco Bisa Hawkins Moran, 45, of Clinton, Mississippi, was sentenced today to 120 months in federal prison followed by 3 years of supervised release for conspiring to commit health care fraud. Moran was also ordered to pay a monetary judgment of $12,195,740, restitution in the amount of $22,096,697, and a $20,000 fine. Between 2014 and 2016, Moran, as co-owner of Medworx Compounding and Custom Care Pharmacy, participated in a scheme to defraud TRICARE and other health care benefit programs, including those that provided coverage to employees of the City of Jackson, Mississippi. In total, the pharmacies submitted $22,068,144 in fraudulent claims to TRICARE and other health care benefit programs. As part of the scheme, Moran and his co-conspirators, among other things, adjusted prescription formulas to ensure the highest reimbursement, paid marketers and physicians kickbacks and bribes to obtain prescriptions for high-yield compounded medications irrespective of whether they were medically necessary, and routinely waived or reduced the collection of copayments.

January 15, 2021: Compounding Pharmacy Mogul Sentenced for Multimillion-Dollar Health Care Fraud Scheme
A Mississippi businessman was sentenced today for his role in a multimillion-dollar scheme to defraud TRICARE. Wade Ashley Walters, a co-owner of numerous compounding pharmacies and pharmaceutical distributors, was sentenced today on his guilty plea to one count of conspiracy to commit health care fraud and one count of conspiracy to commit money laundering. Walters was ordered to serve a total of 18 years in prison and to pay $287,659,569 in restitution. Walters was further ordered to forfeit $56,565,963, representing the proceeds he personally derived from the fraud scheme. Between 2012 and 2016, Walters orchestrated a scheme to defraud TRICARE and other health care benefit programs by distributing compounded medications that were not medically necessary. As part of the scheme, Walters and his coconspirators, among other things, adjusted prescription formulas to ensure the highest reimbursement without regard to efficacy; solicited recruiters to procure prescriptions for high-margin compounded medications and paid those recruiters commissions based on the percentage of the reimbursements paid by pharmacy benefit managers and health care benefit programs, including commissions on claims reimbursed by TRICARE.

January 12, 2021: Couple Sentenced For Obtaining $1.7 Million in Military Health Care Kickback Scheme
Richard and Kimberly Homrighausen were sentenced on January 7, 2021 by United States District Judge Barry W. Ashe for conspiracy to pay and receive kickbacks related to compounded medications paid for by TRICARE. At their guilty pleas, the defendants admitted to paying kickbacks to TRICARE beneficiaries to induce them to obtain compounded medications, costing TRICARE a total of approximately $9 million. To conceal the kickbacks, the defendants created a purported non-profit that paid off the beneficiaries under the guise of "grants" to thank them for their military service.

December 21, 2020: Acting Manhattan U.S. Attorney Announces $40.5 Million Settlement With Durable Medical Equipment Provider Apria Healthcare For Fraudulent Billing Practices
Authorities announced today a $40.5 million settlement of a fraud lawsuit against Apria Healthcare Group, Inc. and its affiliate, Apria Healthcare LLC (together, "Apria"), a large durable medical equipment ("DME") provider with approximately 300 branch offices located throughout the United States. The lawsuit alleges, among other claims, that Apria submitted false claims to federal health programs, including Medicare, Medicaid and TRICARE, seeking reimbursement for the rental of costly non-invasive ventilators ("NIVs") to program beneficiaries who were not using the NIVs such that the devices were not medically necessary or that involved the improper waiver of patient co-insurance payments. Under the settlement, which was approved on December 18 by U.S. District Judge Edgardo Ramos, Apria agreed to pay a total sum of $40.5 million, with $37,632,789.89 being paid to the United States and the remaining amount to be paid to various states. As part of the settlement, Apria also made extensive factual admissions regarding its conduct. Apria improperly waived co-pays for a number of Medicare and TRICARE beneficiaries to induce them to rent NIVs.

Covid-19 Response

In addition to the aforementioned significant events, the DoD IG has also issued the following reports specific to COVID-19. The DHA OIG has issued the following Reports to provide awareness to the DHA and DHP (at https://www.dodig.mil/COVID-19/Reports/):

- *Audit of Contracts for Equipment and Supplies in Support of the Coronavirus Disease–2019 Pandemic* (DODIG-2021-045), January 21, 2021
- *Special Report: Controls Implemented by the Defense Health Agency to Control Costs for TRICARE COVID-19 Related Services* (DODIG-2020-125), September 8, 2020
- *Special Report on Best Practices and Lessons Learned for DoD Contracting Officials in the Pandemic Environment* (DODIG-2020-085), June 4, 2020
- *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

Appendix: Glossary of Acronyms

A/R	Accounts Receivable
ACO	Accountable Care Organization
ADA	Anti-deficiency Act
ADP	Additional Discount Program
AEAN	Aggregate Entry Age Normal
C.F.R.	Code of Federal Regulations
CAP	Corrective Action Plan
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
CDP	Cockerell Dermatopathology
CHAMPUS	Civilian Health and Medical Program of the Uniformed Services
CHCBP	Continued Health Care Benefit Program
CMS	Centers for Medicare and Medicaid Services
COBRA	Consolidated Omnibus Budget Reconciliation Act
COTS	Commercial off-the-shelf
COVID-19	Coronavirus Disease of 2019
CRM	Contract Resource Management
DATA Act	Digital Accountability and Transparency Act
DBSMC	Defense Business Systems Management Committee
DCIA	Debt Collection Improvement Act
DCIS	Defense Criminal Investigative Service
dCore	DMDC Core Infrastructure
DDRS-B	Defense Department Reporting System-Budgetary
DEERS	Defense Enrollment Eligibility Reporting System
DEFC	Disaster Emergency Fund Code
DFAS	Defense Finance and Accounting Service
DFAS-IN	Defense Finance and Accounting Service-Indianapolis
DHA	Defense Health Agency
DHA OIG	DHA Office of the Inspector General
DHA-C	DHA-Comptroller
DHA-CRM	Defense Health Agency - Contract Resource Management
DHP	Defense Health Program
DISA-OKC	Defense Information System Agency - Oklahoma City
DISA-SATX	Defense Information System Agency - San Antonio
DMDC	Defense Manpower Data Center
DME	Durable Medical Equipment
DoD / Department	Department of Defense
DoD IG	DoD Inspection General
DOJ	Department of Justice
ECHO	Extended Care Health Option
ECS	E-Commerce System
EIC	External independent contractor
eMSM	Enhanced Multi-Service Market
FAD	Funding Authorization Document
Families First Act	Families First Coronavirus Response Act
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance with Treasury
FCP	Federal Ceiling Price
FECA	Federal Employees' Compensation Act
FEDVIP	Federal Employees Dental and Vision Insurance for Program
FEHB	Federal Employee Health Benefit
FFATA	Federal Funding Accountability and Transparency Act
FFMIA	Federal Financial Management Improvement Act
FISMA	Federal Information Security Modernization Act
FMFIA	Federal Manager's Financial Integrity Act
FMR	Financial Management Regulation
FMS	Financial Management Systems
FOD	Financial Operations Division
FPAs	Federal Program Agencies
FSIO	Financial Systems Integration Office
FSS	Federal Supply Schedule
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GEHA	Government Employees Health Association
G-Invoicing	Fiscal Services Government Invoicing
HA	Health Affairs
HCAHPS	Hospital Consumer Assessment of Healthcare Providers and Systems
HCDA	Health Care Data Analysis
HEDIS	Healthcare Effectiveness Data and Information Set
HHS	U.S. Department of Health & Human Services
HMO	Health Maintenance Organization
IBNR	Incurred but not Reported
IG DoD	Inspector General of the Department of Defense
IGT	Intragovernmental Transactions
IPAC	Intragovernmental Payment and Collection
IRB	Investment Review Board
JFMIP	Joint Financial Management Improvement Program
JOES	Joint Outpatient Experience Survey
MARR	Mandatory Agreements Retail Refunds

MCSC	Managed Care Support Contractor
MERHCF	Medicare-Eligible Retiree Health Care Fund
MHS	Military Health System
MOU	Memorandum of Understanding
MPG	Michigan Physicians Group, P.C.
MRHB	Military Retiree Health Benefits
MTF	Military Treatment Facility
NDAA	National Defense Authorization Act
NFR	Notice of Finding and Recommendation
NIV	Non-Invasive Ventilators
NOAA	National Oceanic and Atmospheric Administration
Non-FAMP	Non-Federal Average Manufacturer Price
O&M	Operations and Maintenance
OACT	Office of the Actuary
OASD	Office of the Assistant Secretary of Defense
OFF	Oracle Federal Financials
OGC	Office of General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OUSD	Office of the Under Secretary of Defense
P&R	Personnel and Readiness
P.L.	Public Law
PCM	Primary Care Manager
PCMH	Patient-Centered Medical Home
PHS	Public Health Service
PI	Program Integrity
PIIA	Payment Integrity Information Act
POD	Pharmacy Operations Division
POS	Point of Service
PPA	Prompt Payment Act
PPO	Preferred Provider Organization
SBR	Statement of Budgetary Resources
SCNP	Statement of Changes in Net Position
SDP	Standard Discount Program
SF	Standard Form

SFFAS	Statement of Federal Financial Accounting Standards
SFIS	Standard Financial Information Structure
SMA	Service Medical Activity
SNC	Statement of Net Cost
TAMP	Transitional Assistance Management Program
TCM	TRICARE Claims Management
TDEFIC	TRICARE Dual Eligible Fiscal Intermediary
TDP	TRICARE Dental Program
TEDS	TRICARE Encounter Data Set
TFL	TRICARE for Life
TFM	Treasury Financial Manual
TJC	The Joint Commission
TMA	TRICARE Management Activity
TOP	TRICARE Overseas Program
TPR	TRICARE Prime Remote
TPRADFM	TRICARE Prime Remote for Active Duty Family Members
TRR	TRICARE Retired Reserve
TRRx	TRICARE Retail Pharmacy
TRS	TRICARE Reserve Select
TSM	TRICARE Systems Manual
TSOB	The Shape of Behavior
TYA	TRICARE Young Adult
U.S.C.	United States Code
UDC	Unapplied Collections
UF-VARR	Uniform Formulary VARR
UMP	Unified Medical Program
USFHP	Uniformed Services Family Health Plan
USSGL	United States Standard General Ledger
USUHS	Uniformed Services University of the Health Sciences
VA	Department of Veterans Affairs
VARR	Voluntary Agreements Retail Rebates
WAC	Wholesale Acquisition Cost
WHO	World Health Organization
WIC	Women, Infants, and Children
WSS REs	Wrong-Site Surgery Reportable Events