


DEFENSE HEALTH PROGRAM

Agency Financial Report
Fiscal Year 2022

Introduction

Agency Head Message

Our Fiscal Year (FY) 2022 Defense Health Program (DHP) budget presented a balanced, comprehensive strategy to (1) defend the nation; (2) take care of our people; and (3) succeed through teamwork. It included funding for the Department's ongoing efforts to eradicate coronavirus 2019 (COVID-19) and invest in future modernization, while preserving and bolstering readiness to cement our status as the best joint fighting force in the world.

Our financial statements illustrate how we used the resources entrusted to us to carry out our military healthcare mission. Our FY 2022 DHP expenditures reflect investments in a myriad of initiatives, including clinical and business applications; Public Health Surveillance to identify variants to prevent the further spread of COVID-19; and investments in the radiographic, surgical, and information systems functional areas, which will enable the Military Health System to maintain exceptional standards of care. We furnished new and expanded Military Construction projects with pathologic, dental, surgical, and administrative equipment in support of dental and healthcare services. We continue to deploy MHS GENESIS, our electronic health record system, and to launch the Revenue Cycle Expansion system, which will integrate clinical and business operations.

We invested in research, development, test, and evaluation efforts to advance medical science to meet the needs of current and future battlefield experiences. We funded joint battlefield healthcare aimed at injury prevention and recovery related to blunt, blast, and accelerative and musculoskeletal injuries. We funded studies in bacterial diseases and the treatment of infections with multi-drug resistant bacterial pathogens; and also funded studies in the treatment of emerging infectious and acute respiratory diseases.

As we conclude our fifth year of DHP financial statement audits, I have every confidence that we are on a resolute path to remediate audit findings and strengthen internal controls. We are pleased to have achieved our 12th unmodified opinion in FY 2022 for our private sector/TRICARE programs, which account for approximately 50 percent of our DHP budget. While our direct care DHP audit yielded a disclaimer of opinion and 10 auditor-reported financial reporting material weaknesses, we also resolved key Notices of Findings and Recommendations in several areas including reporting corrections of errors and changes in accounting principles, environmental liability reporting, journal voucher review, and universe of transactions reconciliation delivery timeline.

FY 2022 was the first year following the transition of all military medical treatment facilities from the Military Departments to the authority, direction and control of the Defense Health Agency. The transition requires us to consolidate disparate information systems and standardize processes and policies across the enterprise. This streamlining of our business processes will ensure that we review and strengthen our internal controls and derive the maximum benefit from each taxpayer dollar.

As a medical organization, we wholeheartedly recognize that we must steward our resources. We will continue to evaluate how well policies and programs are working, and explore innovative ways to achieve our medical mission in a financially transparent and accountable manner. While a great deal of work remains to be done, we have an incredible cadre of medical resource managers, accountants and leaders with drive, skill and a commitment to advancing our remediation efforts toward the goal of a clean audit opinion.

Seileen Mullen
Acting Assistant Secretary of Defense for Health Affairs

About the Agency Financial Report

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

This AFR is prepared pursuant to the following guidance, which requires DHP to prepare an AFR:

- *Chief Financial Officers Act of 1990* (CFO Act, Public Law (P.L.) 101-576, codified as 31 United States Code (U.S.C.) §501 note) as amended by the *Government Management Reform Act of 1994* (GMRA, P.L. 103-356, codified as 31 U.S.C. §3301 note);
- Department of Defense (DoD) 7000.14R *Financial Management Regulation* (FMR)*, Volume 6B*;
- *Office of the Under Secretary of Defense (Comptroller) ((OUSD(C)) Memo, FY 2021 DoD Reporting Entities*;

This AFR uses the financial reporting requirements of the following:

- Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*
- OMB Bulletin 22-01, *Audit Requirements for Federal Financial Statements*;
- Treasury Financial Manual (TFM) Volume I, Part 2, Chapter 4700, *Federal Entity Reporting Requirements for the Financial Report of the U.S. Government*; and
- OUSD(C) DoD Financial Reporting Guidance Attachment 103, *Standard Note Disclosures*.

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

Management's Discussion and Analysis

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

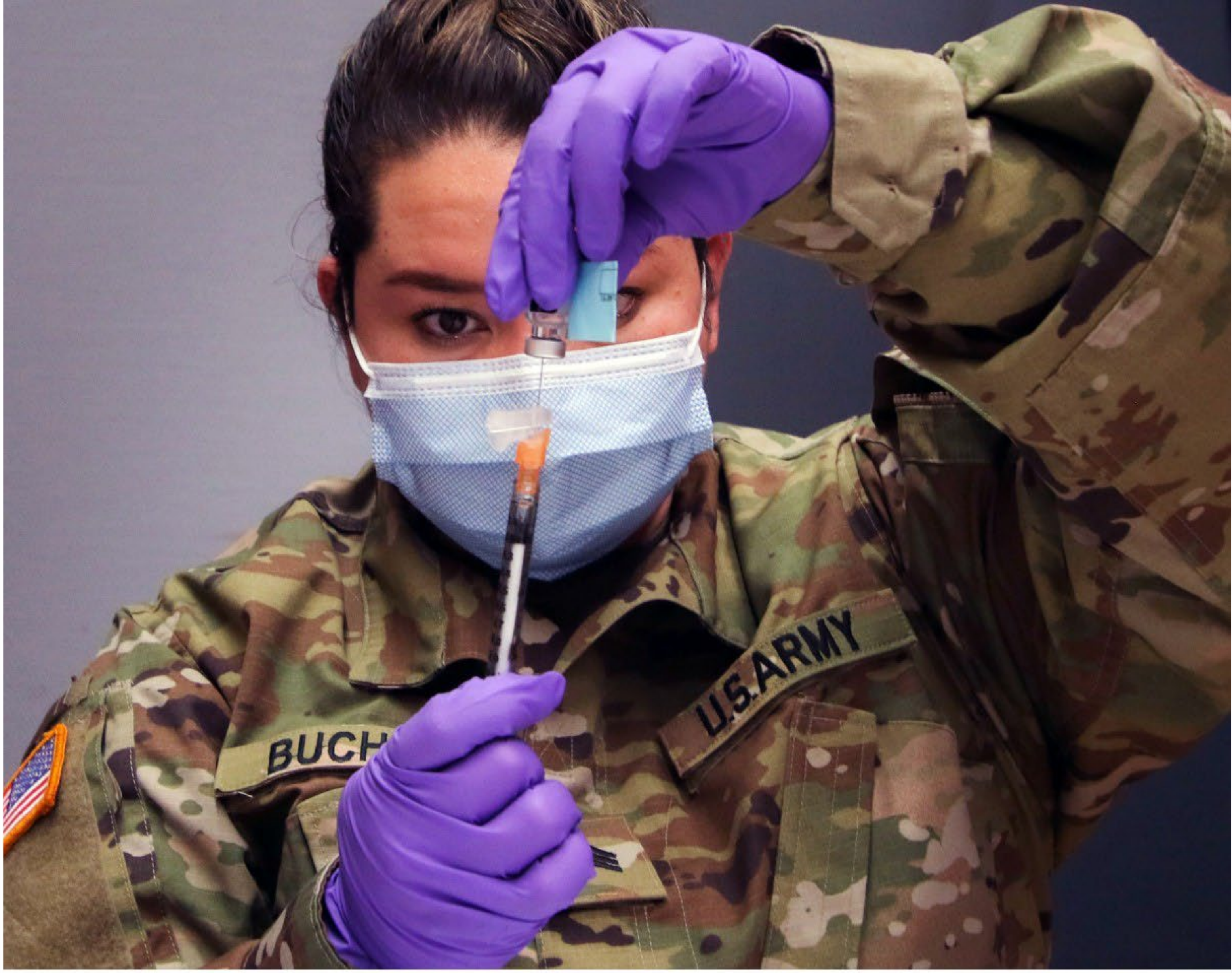
Financial Section

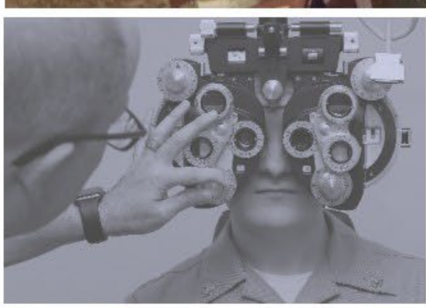
Contains financial statements, accompanying notes, required supplementary information (RSI), as well as the independent auditor's report on the financial statements and management's response to that report.

Other Information

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

Contents





Management's Discussion and Analysis

Section I

Mission and Organizational Structure

History and Mission

"We Support the National Defense Strategy and Service Military Departments by leading the MHS as an integrated, highly-reliable system of readiness, medical training, and health."

American military medicine traces its origins back to July 27, 1775. With more than 247 years of serving the nation's military medical needs, the MHS is one of America's largest and most complex healthcare institutions. The MHS's overarching and interrelated missions are to:

- Ensure America's 1.4 million active duty and 331,000 reserve-component personnel are healthy so they can complete their national security missions
- Ensure that all active and reserve medical personnel in uniform are trained and ready to provide medical care in support of operational services around the world
- Provide a medical benefit commensurate with the service and sacrifice of more than 9.6 million active duty personnel, military retirees and their families.

MHS beneficiaries receive either direct care delivered by Military Medical Treatment Facility (MTF) or private sector care purchased from civilian TRICARE network providers' networks and non-network TRICARE authorized providers. In addition to MTF pharmacies, the TRICARE Pharmacy Program provides prescription and mail order coverage.

Our FY 2022 Unified Medical Program (UMP)/DHP appropriation is aligned with the Department's vision of a more lethal, resilient, sustainable, survivable, agile, and responsive DoD that possesses the capabilities and capacity to implement the National Defense Strategy (NDS). Every line of the DoD's FY 2022 budget is strategy driven and designed to support the NDS.

The lethality of our warfighters begins with their physical and mental condition. Our medical workforce is entrusted with bolstering our warfighters' lethality by strengthening their survivability, resiliency, agility, and responsiveness. Accordingly, the MHS workforce upholds the medical standards for deployability and affords our warfighters the medical resources necessary to confront and overcome the challenges of war.

Revamping business operations to strengthen our internal controls and achieve a clean audit opinion on our financial statements is an ongoing DoD and MHS priority. We are actively reforming our business practices to close internal control gaps and comply with auditor recommendations.

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

What is the Defense Health Program?

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

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

The ASD(HA) ensures DHP Funding Authorization Documents (FADs) are issued to the two MHS financial statement reporting components through the Defense Health Agency (DHA). The two component reporting entities that make up the DHP financial statements are (1) DHA and (2) DHA – Contract Resource Management (CRM).

Major Programs

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

- **Healthcare delivery** both in garrison and during contingencies. This includes a focus on trauma care and developing interoperability with partner nations thru our global health engagements program. See *Figure 1* below for a summary of the number of healthcare delivery cases completed in FY 2021.
- **Medical education** through the Medical Education and Training Campus and the Uniformed Services University of the Health Sciences (USUHS), we support the readiness of America's warfighter and the health and well-being of the military community by educating and developing uniformed health professionals, scientists, and leaders; by conducting cutting-edge, military-relevant research, and by providing operational support to units around the world.
- **Public health** capability that is lean, efficient, effective, forward leaning, and strategically positioned to fully meet the MHS and Customer needs.
- **Private sector partnerships.** Building strong partnerships with the civilian healthcare sector through our TRICARE program is vital to our success.
- **Cutting-edge medical Research Development Test & Evaluation (RDT&E)** through the Defense Health Agency's Research and Development directorate, the U.S. Army Medical Research and Development Command, the Air Force Research Laboratory, and through partnerships with various organizations, including those established with Cooperative Research and Development Agreements. In FY 2022 DHP funded studies for:
  - Joint battlefield healthcare aimed at injury prevention and recovery related to musculoskeletal injuries.
  - Bacterial diseases and the treatment of infections with multi-drug resistant bacterial pathogens.

Figure 1: Evaluation of the Tricare Program– FY 2021

*Tricare Workload and Population Summary – FY 2021**	
Type of Care	*Annual Workload Summary*
Inpatient Admissions	**Total: 875,100** ► Military Facilities: 173,700 ► TRICARE-authorized Facilities: 337,700 ► TRICARE For Life: 363,700
Outpatient Visits	**Total: 97,400,000** ► Military Facilities: 35,800,000 ► TRICARE-authorized Facilities: 34,700,000 ► TRICARE For Life: 26,900,000
Births	**Total: 105,500** ► Military Facilities: 30,400 ► TRICARE-authorized Facilities: 75,100
Prescriptions Filled	**Total: 105,200,000** ► Military Pharmacies: 33,500,000 ► Retail Pharmacies: 30,200,000 ► TRICARE For Life: 41,500,000
Emergency Department Visits	**Total: 3,470,700** ► Military Facilities: 973,300 ► TRICARE-authorized Facilities: 1,433,300 ► TRICARE For Life: 1064,100

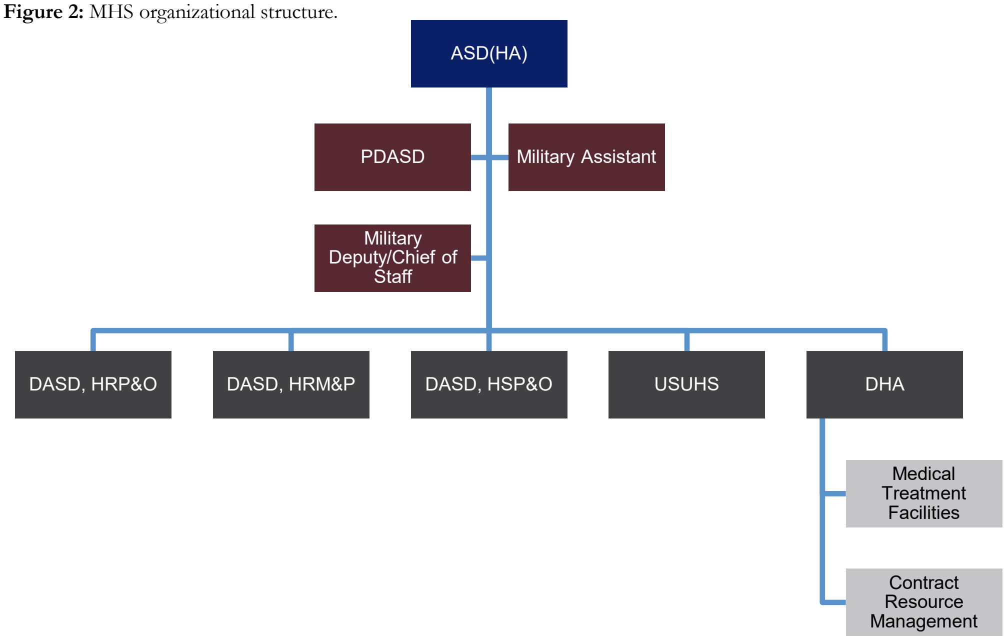
* *FY 2021 amounts are being reporting because FY 2022 statistics are not currently available.*

Organization

Leading the MHS, is the OASD(HA) as illustrated in *Figure 2* below. The Assistant Secretary of Defense (ASD(HA)) is a civilian, Senate-confirmed official who serves as the principal medical adviser to the Secretary of Defense and oversees health policy and budgeting across the system, as well as directing the activities of DHA. The ASD(HA) is supported by the Principal Deputy Assistant

Secretary of Defense (PDASD) for Health Affairs and three Deputy Assistant Secretaries of Defense (DASD), consisting of (1) the DASD for Health Readiness Policy and Oversight (HRP&O); (2) the DASD for Health Resources Management and Policy (HRM&P); and (3) the DASD for Health Services Policy and Oversight (HSP&O). The ASD(HA) also maintains oversight of DHA and USUHS.

Figure 2: MHS organizational structure.



The ASD(HA) serves as resource manager for all DoD health and medical resources and submits the UMP as part of the President's budget submission to Congress. The UMP provides the financial resources the MHS requires to support the DoD's vision of a more lethal, sustainable and responsive agency that possesses the capabilities and capacity to successfully implement the NDS. The UMP consists of discrete parts that include:

- Preparation and submission of budget exhibits and justification materials for DHP appropriation.
- Input to the individual Military Department Military Personnel Appropriations (MILPERS) for all medical military personnel end-strength.
- Input to the DoD military construction appropriation for medical facility projects.
- Input to the Medicare-Eligible Retiree Health Care Fund (MERHCF)

Beginning 01 October 2018, 10 U.S.C. *§ 1073c*, as added by Section 702 of the *National Defense Authorization Act (NDAA)* for Fiscal Year (FY) 2017 (Public Law 114-328), required the Director DHA to take responsibility for the administration of each MTF. Centralization for the management and administration of the MTFs under DHA transform the MHS into an integrated readiness and health system. DHA is now acting as the market manager for major markets.

The ASD(HA) ensures the DHP appropriation is allocated to the components that comprise the MHS. DHA, under the authority of the ASD(HA), distributes DHP funds to the components in the amounts approved within DHP Program Objective Memorandum, and as mission requirements dictate. The components further sub-allocate the appropriation to their subordinate organizations. The two MHS components are:

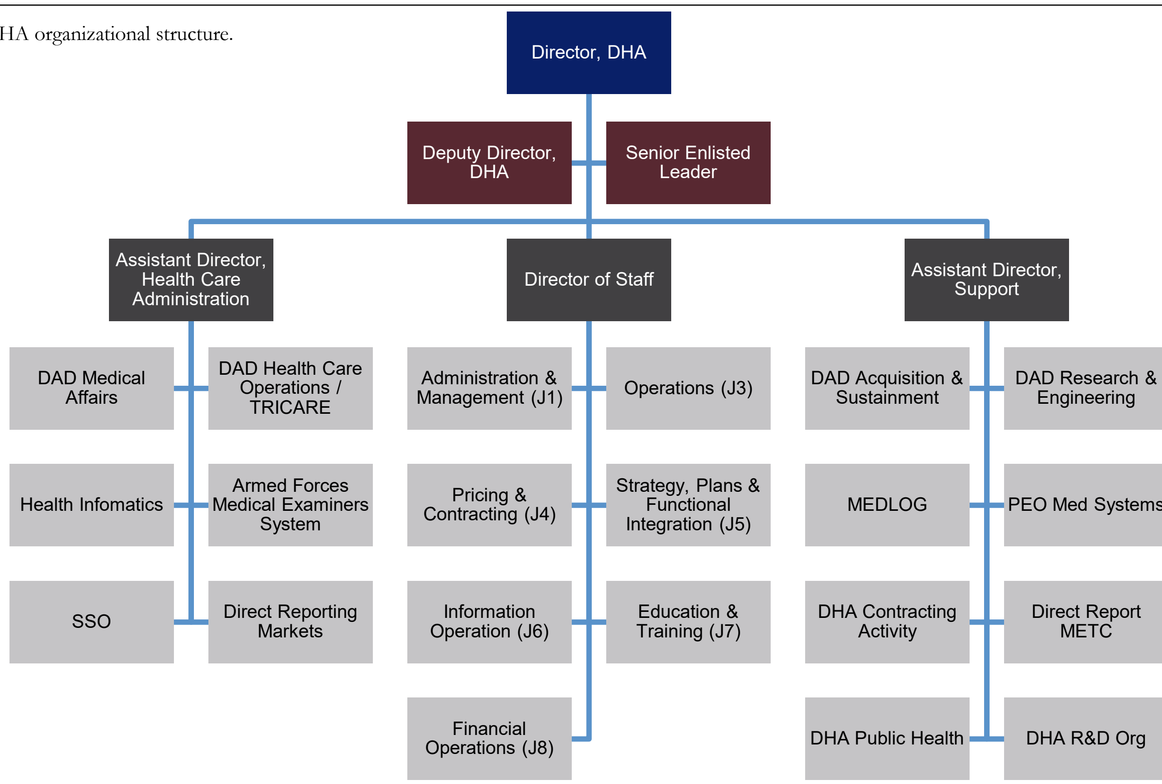
DHA: DHA is a joint, integrated Combat Support Agency (CSA) that enables the military medical markets U.S. Army Medical Command (MEDCOM), Navy Bureau of Medicine and Surgery (BUMED), and U.S. Air Force Medical Service (AFMS) to provide a ready medical force and medically ready force to Combatant Commands (CCMDs) in both peacetime and wartime. DHA leads the MHS integrated system of readiness and health to deliver the MHS Quadruple Aim: increased readiness, better health, better care, and lower cost. DHA continues to centralize functions and integrate policies, systems, and processes across the Services as part of the transition of the MTFs per Section 702 of the *NDAA* for FY 2017. As of October 1, 2021, the Service Medical Activities (SMA) and the financial reporting of the USUHS have been consolidated under DHA.

USUHS supports the readiness of America's Warfighter and the health and well-being of the military community by educating and developing uniformed health professionals, scientists and leaders; by conducting cutting-edge, military-relevant research, and by providing operational support to units around the world. On its main campus located in Bethesda, Maryland, and a satellite campus in San Antonio, Texas, USUHS educates and trains outstanding physicians, advanced practice nurses, dentists, allied health professionals, scientists, administrators, and military leaders who are dedicated to career service and leadership in the DoD, United States Public Health Service, and across the U.S. government.

DHA oversees the execution of the $46.6 billion DHP budgetary resources to support the delivery of integrated, affordable, high-quality health services to the DoD's 9.6 million eligible beneficiaries. DHA drives greater integration of clinical and business processes across the contracted healthcare networks and MTFs. DHA also respects the core values its staff brings while upholding an organizational culture that operates by six guiding principles of transparency, accountability, leading change, empowerment, nurturing, and being team oriented. See *Figure 3* below for DHA's organizational structure.

CRM Office: The CRM Office in Aurora, Colorado, is responsible for the accounting, financial support, and financial reporting for TRICARE's centrally funded private sector care programs and the TRICARE Retail Pharmacy Refunds Program. CRM provides budget formulation input, carries out budget execution, and prepares component financial statements and footnotes. In addition, CRM electronically processes invoices received from its contractors and through the TRICARE Encounter Data (TED) System and reports these transactions through accessible electronic media. CRM provides funds availability certification and financial program tracking for the centrally funded private sector care programs, in addition, CRM monitors budget execution through analysis of current and prior years' spending and program developments. Along with reimbursable authority, CRM uses DHP funds provided by annual appropriations to reimburse private sector healthcare providers for services rendered to TRICARE beneficiaries. CRM's Improper Payment Evaluations Branch conducts post payment audits for reporting estimated improper payments annually in accordance with current Payment Integrity Information Act of 2019 regulations. CRM also assists DHA's Contract Management, Program Integrity (fraud), and Case Recoupment division activities related to private sector care. **NOTE:** CRM is allocated nearly half of DHP appropriation, is its own disbursing office (does not utilize the Defense Finance and Accounting Service (DFAS)), prepares its own financial statements, and is audited separately from DHP. **CRM publishes its own financial statements, which are consolidated into the larger DHP financial statements.**

Figure 3: DHA organizational structure.



The Defense Health Program Appropriation

When enacted, the annual Appropriations Act reflects the amount of funding appropriated for peacetime MHS operations via DHP appropriation. As established in Title 10 U.S.C., *§ 1100*, DHP account (TAS 097 0130) contains amounts appropriated to carry out the functions of the Secretary of Defense (SecDef) with respect to medical and healthcare programs of the DoD. The SecDef may obligate or expend funds from the account for purposes of conducting programs and activities under 10 U.S.C., Chapter 55, including contracts entered into under *Sections 1079, 1086, 1092 and 1097*.

DHP appropriation is sub-divided as follows:

- **Operation and Maintenance (O&M) funds**: DHP O&M appropriation funding provides for worldwide medical and dental services to active forces and other eligible beneficiaries, veterinary services, occupational and industrial healthcare, specialized services for the training of medical personnel, and medical command headquarters.
- **Procurement funds**: DHP Procurement program funds acquisition of capital equipment in MTFs and other selected healthcare activities which include equipment for initial outfitting of newly constructed, expanded, or modernized healthcare facilities; equipment for modernization and replacement of uneconomically repairable items; and MHS information technology (IT) requirements.
- **RDT&E funds**: DHP RDT&E program is developed in response to the needs of the NDS and Joint Capabilities Integration and Development System. The goal is to advance the state of medical science in those areas of most pressing need and relevance to today's battlefield experience and emerging threats. The objectives are to discover and explore innovative approaches to protect, support, and advance the health and welfare of military personnel and individuals eligible for care in the MHS; to accelerate the transition of medical technologies into deployed products; and to accelerate the translation of advances in knowledge into new standards of care for injury prevention, treatment of casualties, rehabilitation, and training systems that can be applied in theater or in MTFs.

How We Accomplish Our Mission

In addition to receiving the resources via the UMP and DHP appropriation, the MHS provides care in government owned or leased MTFs focused on sustaining readiness of the medical force and the medical readiness of deployable forces. MTFs are the heart of military medicine, where military, civilian and contract personnel provide care for DoD healthcare beneficiaries and gain the skills and training to support operational units. With 49 inpatient hospitals and Medical Centers; 465 ambulatory care and occupational health clinics; 192 dental clinics, located on military installations around the world, the MHS is one of the nation's largest health systems – it operates more hospitals than any nonprofit hospital system in the nation, and would rank among the top five for-profit systems.

Additionally, the MHS purchases a majority of the total care provided for beneficiaries through tailored contracts, such as Managed Care Support Contracts responsible for the administration of TRICARE benefit. The MHS also receives a transfer of funds from the MERHCF. The MERHCF is a trust fund to pay for DoD's share of applicable Direct Care and Private Sector Care O&M healthcare costs for Medicare-eligible retirees, retiree family members and survivors.

MHS Transformation

In keeping with the provisions of *NDAA* FY 2017, *section 702*, the DHA has established a market-based structure to manage the MHS' hospitals and clinics. A "Market" is a group of MTFs in a geographic area that operate as a system, sharing patients, providers, functions, and budgets across facilities to improve the coordination and delivery of healthcare services. These market organizations are responsible for the medical readiness of the Service members and the healthcare of beneficiaries in their respective regions.

- **Large Markets** – A large amount of the MHS' current patient encounters occur in 20 regions where large medical centers exist. These large markets will have centers of excellence for specialty care that can meet the needs of beneficiaries across regions.
- **Small Markets** – Another 17 markets are centered on inpatient community hospitals focused on providing ambulatory and some specialty and inpatient care across their regions.
- **Stand-Alone Organizations** – Stand-alone hospitals and clinics located outside a market region will be supported by a stand-alone organization.

Market Benefits

Readiness – The Market construct provides opportunities to optimize patients while increasing maintenance of readiness related skillsets for providers and healthcare teams.

Patient Experience – The demand for specialties across the Market offers opportunity for aligning healthcare demand and supply. Standardized market initiatives provide greater consistency and convenience.

Staff Experience – Administrative functions are centralized across the Market, enabling staff to engage in enhanced skill development.

Resources – Resourcing (such as funding, personnel, and space) is optimized within the Market, creating flexibility for MTFs to launch broader initiatives within greater reach.

See *Figure 4* below for the centralized functions the Markets executed in support of the MTFs.

Figure 4: DHP core market functions.

Core Market Functions

Each market will execute centralized functions in support of military MTFs, working to increase efficiency and standardization while maximizing great outcomes. The functions will fall into the four main buckets below.

Clinical

1. Functions that support the delivery of patient care.
2. Clincal functions include Clinical Operation, Clinical Integration, Patient Administration, Healthcare Optimization, and Patient Safety and Quality.

Administrative

1. Functions that support operations of the markets and military MTFs in support of patient care.
2. Administrative functions include Facilities, Logistics, Aquisitions, Finanicial Management & Comptroller, Personnel, Administration & Management, and Information Technology.

Executive Support

1. Functions that enable the execution of other functions by providing necessary knowledge, planning, and tools.
2. Executive Support functions include Plans & Operations, Communication, Education & Training, and Special Staff.

Analytics

1. Functions that support the development, management, and review of strategy and performance goals.
2. Analytics functions include Analysis & Evaluation and Strategy.

Beneficiary Trends and Demographics

The OASD(HA) together with the DHA, USUHS, MEDCOM, AFMS, and BUMED enables the provision of healthcare services to all of DoD and eligible beneficiaries. In FY 2021, 9.6 million beneficiaries were eligible for DoD medical care, including Active-Duty and their families, survivors, and certain former spouses. *Figures 5-8* below are excerpts from the FY 2022 Evaluation of the TRICARE Program Report and provide a summary of the trends and demographics of eligible beneficiaries of the MHS's services. Due to the release date of the Evaluation of the TRICARE Program Report, not all figures present FY 2022 amounts. However, the latest information available has been presented.

Figure 5: MHS beneficiary trends and demographics

BENEFICIARY TRENDS AND DEMOGRAPHICS

System Characteristics

TRICARE FACTS AND FIGURES—PROJECTED FOR FISCAL YEAR (FY) 2022

	PROJECTED FOR FY 2022[a]	FY 2021 ACTUALS
Total Beneficiaries	**9.6 million worldwide[b]**	9.6 million worldwide[b]
MILITARY FACILITIES—DIRECT CARE SYSTEM[c]		
Inpatient Hospitals and Medical Centers	**47 (33 in U.S.)**	49 (35 in U.S.)
Ambulatory Care and Occupational Health Clinics	**535 (468 in U.S.)**	465 (378 in U.S.)
Dental Clinics	**138 (115 in U.S.)**	192 (149 in U.S.)
Military Health System (MHS) Defense Health Program Personnel	**128,971**	127,214
Military	**71,865** **27,372 Officers** **44,493 Enlisted**	71,318 26,404 Officers 44,914 Enlisted
Civilian (including Foreign National)	**57,106**	55,896
CIVILIAN RESOURCES—PRIVATE SECTOR CARE SYSTEM[d]		
Network Primary Care, Behavioral Health, and Specialty Care Providers (i.e., individual, not institutional, providers)	**1,011,304**	1,000,428
Network Behavioral Health Providers (shown separately, but included in above)	**143,887**	142,975
TRICARE Network Acute Care Hospitals	**5,034**	5,037
Behavioral Health Facilities	**2,138**	2,127
Contracted (Network) Retail Pharmacies	**56,129**	56,924
Contracted Worldwide Pharmacy Home Delivery Vendor	**1**	1
TRICARE Dental Program (TDP) (for Active Duty families, Reserve members and their families)	**Over 1.80 million covered lives in 770,000 contracts**	Over 1.84 million covered lives in 767,000 contracts
TDP Network Dentists	**Over 73,200 total dentists, including: 57,600 general dentists over 16.500 specialty dentists**	Over 72,800 total dentists, including: 57,300 general dentists 15,500 specialty dentists
Total Requested FY 2022 Unified Medical Program (UMP) (including Projected Trust Fund Receipts)	**$52.32 billion[e]**	$51.67 billion[e]
Projected Receipts from Medicare-Eligible Retiree Health Care Fund (MERHCF) Trust Fund	**$9.34 billion**	$8.38 billion

[a] Unless specified otherwise, this report presents budgetary, utilization, and cost data for the Defense Health Program (DHP)/UMP only, not those related to deployment or funded by the "Line" of the Services.

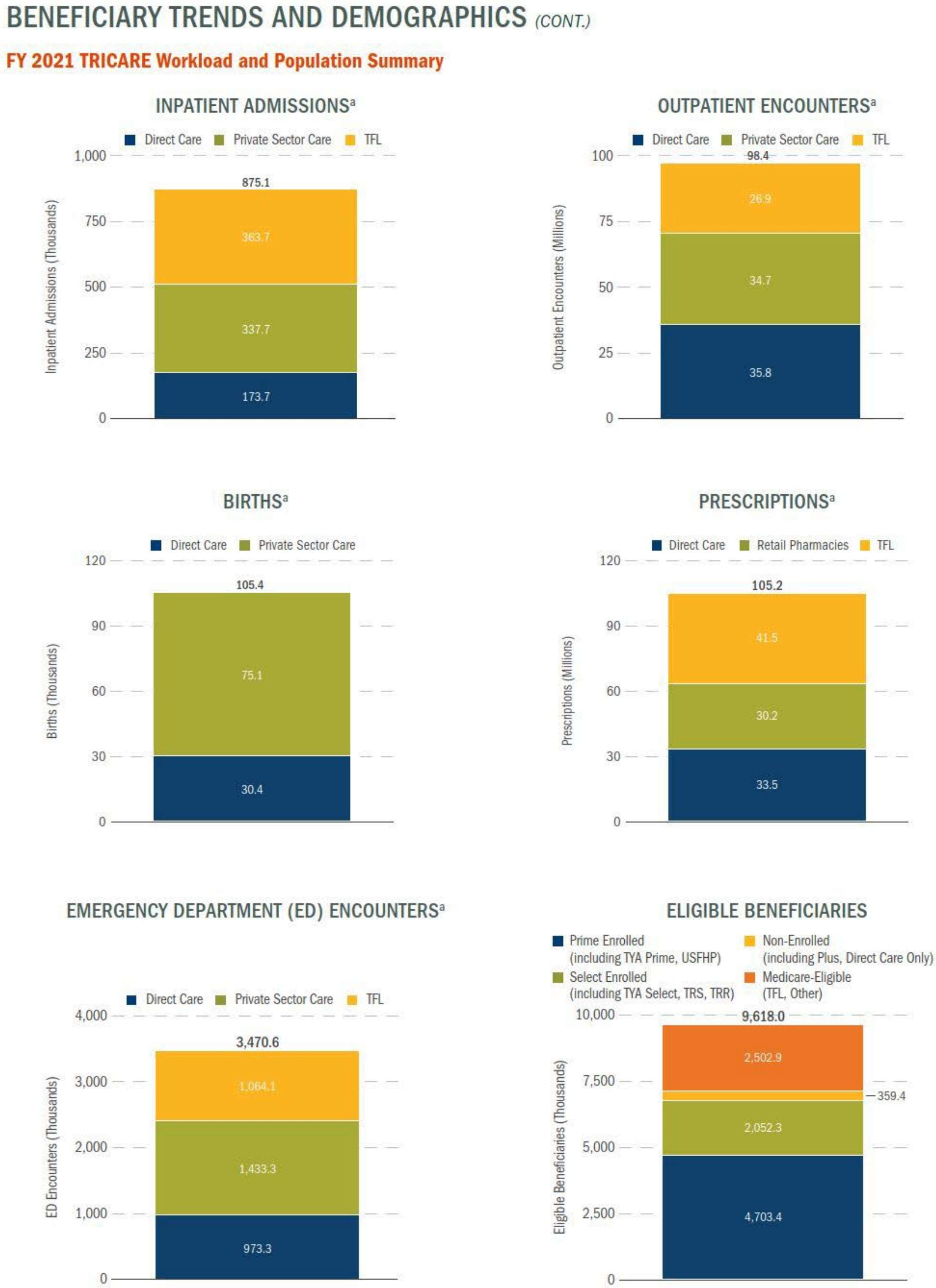
[b] Department of Defense (DoD) health care beneficiary population projected for mid–fiscal year (FY) 2022 is 9,625,000, rounded to 9.6 million, and is based on the DoD Comptroller's Budget End Strength, the DoD Actuary's forecast of retiree populations and the historical counts of family members per sponsor from the Defense Manpower Data Center End FY 2020 Defense Enrollment Eligibility Reporting System (DEERS) file.

[c] Military medical treatment facility (MTF) clinic count includes occupational health, community-based, embedded behavioral health, Active Duty troop, centers of excellence, and joint DoD-Department of Veterans Affairs (VA) clinics, and excludes leased/contracted facilities and Aid Stations. Military facility counts are that of the number of facilities (building information), not clinical functions Source: Defense Health Agency (DHA)/Resources & Management (J-1/J-8)/Budget and Execution and Programming Divisions, 1/26/2022.

[d] As reported by the managed care support contractors (MCSCs) for contracted network provider and hospital data, 12/4/2020; and by TRICARE Dental Office, Health Plan Execution and Operations for dental provider data, 12/30/2019.

[e] UMP presented here includes direct and private sector care funding, military personnel, military construction, and the MERHCF ("Accrual Fund"). Budget and expense data from DHA/Resources & Management Directorate (J-8)/Budget & Execution Division, 11/30/2021.

Figure 6: MHS beneficiary trends and demographics



Sources: MHS administrative data, 1/28/2022, and DEERS, 12/24/2021

[a] Excludes Uniformed Services Family Health Plan (USFHP) because MHS administrative data used in this report have no USFHP utilization information.

Notes:

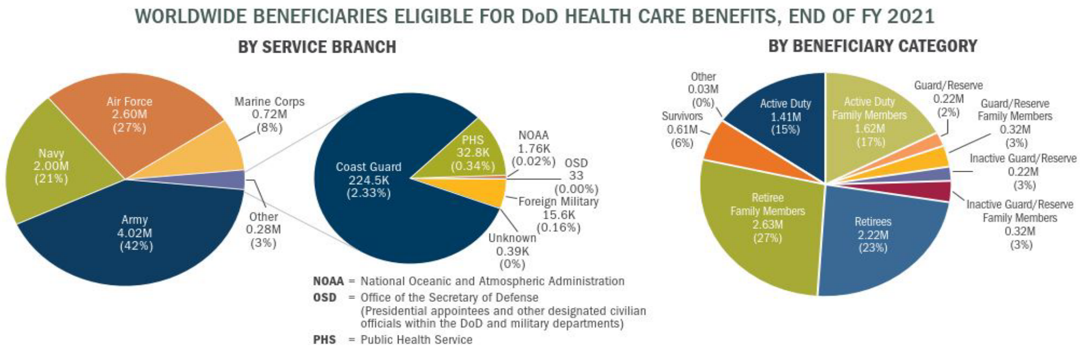
– TFL=TRICARE for Life; TRR=TRICARE Retired Reserve; TRS=TRICARE Reserve Select; TYA=TRICARE Young Adult.

– Numbers may not sum to bar totals due to rounding.

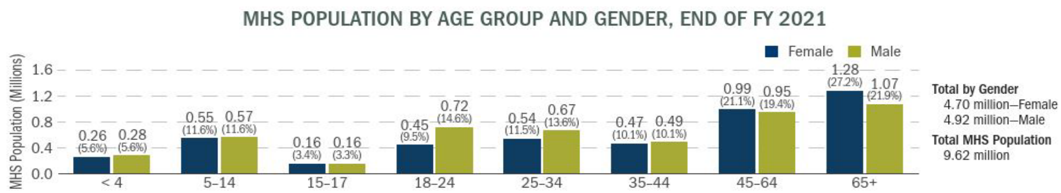
Figure 7: Summary of eligible beneficiaries in FY 2021

Eligible Beneficiaries in FY 2021

- There were a total of 9.62 million beneficiaries eligible for some form of DoD health care benefits at the end of FY 2021. The Army has the most beneficiaries eligible for Uniformed Services health care benefits, followed (in order) by the Air Force, Navy, Marine Corps, and other Uniformed Services (Coast Guard, Public Health Service, and the National Oceanic and Atmospheric Administration). Although the proportions are different, the Service rankings (in terms of eligible beneficiaries) are the same abroad as they are in the U.S.
- Retirees and their family members (including survivors) constitute the largest percentage of the eligible beneficiary population (57 percent). The U.S. MHS population is presented at the state level on page 42, reflecting those enrolled in the Prime benefit and the total population, enrolled and non-enrolled.
- Mirroring trends in the civilian population, the MHS is confronted with an aging beneficiary population.

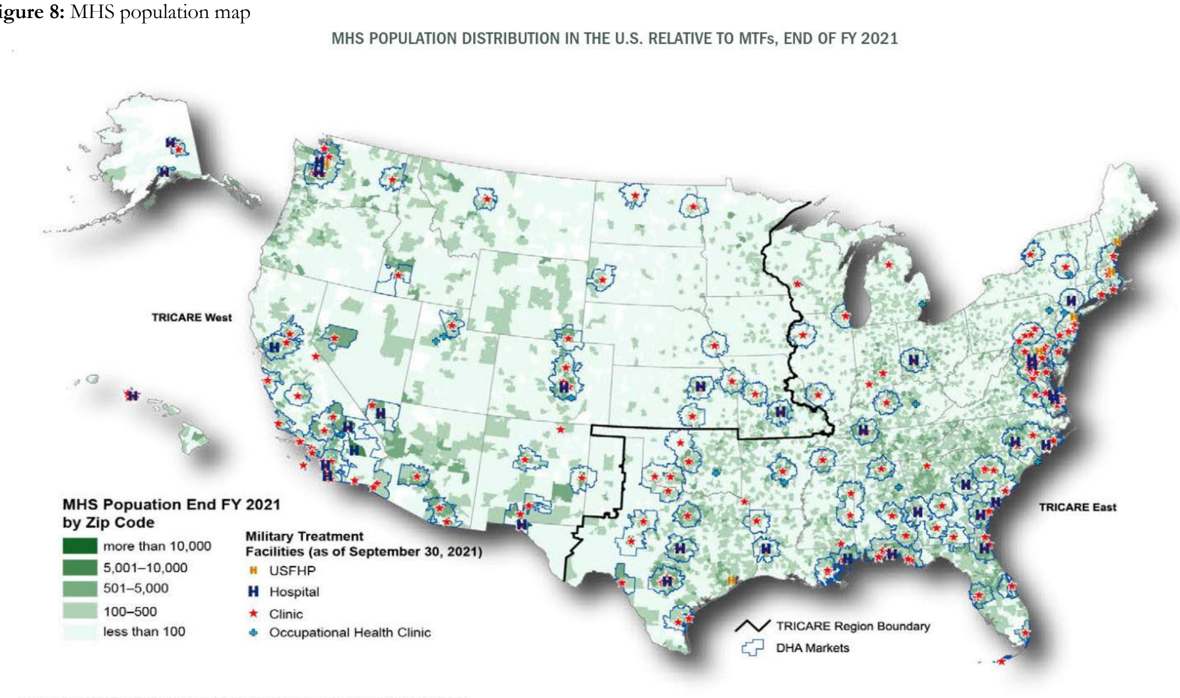


Source: DEERS, 12/24/2021
Note: Percentages may not sum to 100 percent due to rounding.



Source: FY 2021 actuals from DEERS as of 12/24/2021

Figure 8: MHS population map



Analysis of Performance Goals, Objectives, and Results

Overview

Since 2009, the MHS Quadruple Aim has served as the enduring framework to align the priorities of the Army, Navy, Air Force, and DHA to improve readiness, better care, better health, and lower costs. The Quadruple Aim represents MHS leadership's commitment to delivering value to all they serve.

The Quadruple Aim is defined as:

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

DHP funds the MHS under the policy direction and guidance of the ASD(HA). DHP leadership worked closely with Headquarters, Market, and MTF key personnel in developing the FY 2022-2026 DHA Campaign Plan, available at *https://www.health.mil/About-MHS/OASDHA/Defense-Health-Agency/DHA-Campaign-Plan*, to define the ideal five-year end state. The below FY 2026 Future State is our goalpost for successfully accomplishing the efforts outlined in the FY2022-2026 DHA Campaign Plan. Over the next five years, DHP will continue to mature and expand capabilities as a CSA, optimize the MHS, and drive improvements in healthcare administration as well as operational support for the CCMDs. Our success will be measured against this FY 2026 Future State and will require integrated efforts across eight Strategic Initiatives in support of DHA's four priorities:

- **Priority 1:** Great Outcomes
- **Priority 2:** Ready Medical Force
- **Priority 3:** Satisfied Patients
- **Priority 4:** Fulfilled Staff

DHA FY 2026 Future State

As a CSA, the DHA supports the MHS by providing a medically ready force and a ready medical force to our service partners and Combatant Commanders. DHA sees readiness as its top priority and is committed to delivering joint functions and activities to enable the rapid adoption of proven practices, reduce unwanted variation, and improve coordination of joint healthcare for the warfighter. By FY 2026, DHA will be a joint operational headquarters responsible for managing, executing, and delivering high-quality healthcare, medical education and training, military medical research and development, and public health support to the MHS's 9.6M beneficiaries and the Services. To do this, we will utilize the military, civilian, and contract personnel assigned and attached to the military medical, dental, and veterinary treatment facilities, research labs, public health organizations, markets, as well as the capability of our federal partners and the worldwide network of civilian healthcare providers, to optimize value, improve outcomes, sustain readiness, and secure resources to accomplish our worldwide mission of supporting the NDS. DHA is committed to ensuring uniformed service members are healthy and safe from potential health threats, and healthcare professionals, who provide care for our forces, receive optimized training, education, and relevant clinical settings to build skills for deployment. Without our people, the MHS cannot deliver the optimal care our beneficiaries expect and deserve. This commitment is organized around four strategic priorities.

- **Great Outcomes** - DHA's primary goal is to ensure that every Service member is medically ready through the delivery of integrated and patient-centered care that is safe, ready, and reliable. DHA must ensure quality and safety for all beneficiaries receiving care in the MHS, moving to a zero-harm environment to demonstrate our commitment to high-reliability practices.

- **Ready Medical Force** - As we face the challenges and opportunities ahead, DHA must enable our health delivery platforms to serve as forums for both obtaining and sustaining Service medical currency and competency requirements.
- **Satisfied Patients** - We must continue to provide our patients with an exemplary care experience and make the MHS the destination of choice.
- **Fulfilled Staff** - Our vision can only be achieved through the committed work of all DHA employees. Over the next five years, we will continue to advance human capital life cycle management to support a Fulfilled Staff.

These four priorities will remain enduring as the Agency drives to achieve its future state. DHA will improve health service support across the spectrum, integrate operations with partners in other federal agencies, particularly with the Department of Veterans Affairs (VA), and the civilian health system, in a manner that brings value to the DoD and supports our NDS.

Performance Management Framework

DHA's success in advancing the four strategic priorities, illustrated in *Figure 9*, will be measured through the Performance Management Framework of eight Strategic Key Performance Indicators (KPIs) driven by eight Strategic Initiatives, illustrated in *Figure 10*. The Strategic Initiatives will be monitored by the Corporate Executive Board (CEB) and executed through the Executive Steering Committee (ESC). All progress will be reported to the Director through a series of quarterly DHA Performance Reviews. These Reviews will provide data-driven insights into DHA's performance against our approved strategic measures and will highlight areas of success and areas for continuing improvement. The eight Strategic Initiatives contain operational measures and projects that serve as force multipliers for change, and define resourcing requirements for DHA's future. The Strategic Initiatives are interdependent and together comprise DHA's strategic portfolio.

Figure 9: MHS Quadruple Aim & DHA Priorities

Figure 10: Key Performance Indicators & Strategic Initiatives

Monitor	Eight Key Performance Indicators (KPIs) Provide Confirmation of Progress These strategic KPIs are used to collectively monitor performance across all eight strategic initiatives							
8 KPIs	Safety Composite	Ready Reliable Care Maturity Index	Percentage of Transition Milestones Achieved	Percentage of Service Members Not Medically Ready Due to Deployment Limiting Medical Conditions	Percentage of DHA Facilities Postured to Support the CCMDs	Survey Question - JOES 27 'In General, How Would You Rate Your Overall Health?	Survey Question - JOES 24 'In General Would You Recommend Facility to a TRICARE - Eligible Family Member or Friend	Agency Wide 'Fulfillment' Rating
Execute	Eight Strategic Initiatives Serve as Drivers for Change These initiatives work in concert to drive improvement in the above strategic KPIs							
8 Strategic Initiatives	Implement Ready Reliable Care	Improve Patient Outcomes	Enhance Staff Development and Growth	Improve HQ Performance and Business Management Processes	Sustain Expeditionary Medical Skills	Optimize the Healthcare System	Right Information, at the Right Place, Right Time, in the Right Format for the MHS	Execute Transition

Market Integration

A core component of operationalizing the DHA Strategy through an enterprise-wide performance management system is the Quadruple Aim Performance Process (QPP). QPP is the enterprise performance process that incorporates strategic planning, performance planning, financial operations, continuous process improvement, and disciplined decision-making into integrated systems of readiness and health. Through the QPP planning process, each Market or MTF submit a plan that aligns with the DHA Campaign Plan and the Military Department's medical readiness strategy. The Assistant Director, Health Care Administration approves Market/MTF plans and monitors performance. An approved plan includes an executive summary, forecasts enrollment, workload and service member availability, and incorporates projects to address gaps between current and targeted performance.

MTF/Market Execution:

In alignment with the transition of DHA assuming management and administration of MTFs, Markets will submit Market Plans in accordance with the FY 2023-2025 QPP Planning Guidance. Market Plans will support the goals of the NDS and the MHS Quadruple Aim in creating an integrated system of readiness and health. Executive Planning Sessions (EPS) are conducted by MTFs to convey changes that are forecasted to occur in the next three FYs, as well as whether both the readiness and healthcare demand signals within the MTF can be met. Markets will gather and review MTF QPP plans and readiness requirements to ensure plans are in accordance with guidance. Markets will conduct a Market EPS to develop a QPP plan for FY 2023-2025, to include a prioritized list of projects to close performance gaps.

Analysis of Financial Statements and Stewardship Information

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

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

Overview of Financial Position

Figure 11: Overview of Financial Position

DHP Major Financial Position Classifications *(dollars in thousands)*				
Net Financial Condition	FY 2022	FY 2021	Increase/ (Decrease) $	Increase/ (Decrease) %
Fund Balance with Treasury (Note 3)	20,586,316	20,458,873	127,443	0.6%
Accounts Receivable, Net (Note 5)	746,884	949,738	(202,854)	(21.4)%
General Property, Plant, and Equipment, Net (Note 7)	4,138,795	3,836,160	302,635	7.9%
Inventory and Related Property, Net (Note 6)	256,388	242,013	14,375	5.9%
Other Assets (Notes 4 & 8)	13,703	13,249	454	3.4%
Total Assets	**25,742,086**	**25,500,033**	**242,053**	**0.9%**
Accounts Payable	1,205,529	1,249,878	(44,349)	(3.5)%
Advances from Others and Deferred Revenue	14,037	9,838	4,199	42.7%
Federal Employee and Veteran Benefits Payable (Note 10)	297,706,608	259,167,054	38,539,554	14.9%
Environmental and Disposal Liabilities (Note 11)	4,457	19,633	(15,176)	(77.3)%
Other Liabilities (Note 13)	289,528	359,283	(69,755)	(19.4)%
Total Liabilities	**299,220,159**	**260,805,687**	**38,414,472**	**14.7%**
Unexpended Appropriations	19,035,674	18,522,109	513,565	2.8%
Cumulative Results of Operations	(292,513,747)	(253,827,763)	(38,685,984)	(15.2)%
Total Net Position	**(273,478,073)**	**(235,305,654)**	**(38,172,419)**	**(16.2)%**
Total Liabilities and Net Position	**25,742,086**	**25,500,033**	**242,053**	**0.9%**
Net Cost of Operations	**74,610,090**	**21,723,925**	**52,886,165**	**243.4%**
Budgetary Resources	**46,606,174**	**45,031,849**	**1,574,325**	**3.5%**

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

A summary of DHA's major financial activities as of September 30, 2022, is presented in *Figure 11* above. This table represents the resources available, assets on hand to pay liabilities, and the corresponding net position. The net cost of operations is the cost of operating the programs of DHP, less earned revenue. Budgetary resources include funds available to DHP to incur obligations and fund operations, as well as certain funds which have already been obligated.

Balance Sheets Summary

Assets – What We Own and Manage

Total assets were $25.7 billion as of September 30, 2022. The most significant assets are the Fund Balance with Treasury (FBwT) and General Property, Plant, and Equipment, net, which represent a combined 96% of DHP's total assets. The largest, FBwT, consists of funds appropriated to DoD by Congress or transferred from other federal agencies and held in the U.S. Department of Treasury's accounts that are accessible to pay for DoD medical obligations. The increase in General Property, Plant, and Equipment of $302.6 million, or 7.9%, is primarily attributable to increases in military construction program accounts. The increase in Inventory and Related Property of $14.4 million, or 5.9% is primarily due to a strategic and material increase in pandemic vaccines and personal protective equipment.

Liabilities – What We Owe

Total liabilities of $299.2 billion as of September 30, 2022, of which $297.7 billion, or 99%, comprises federal employee and veteran benefits payable. These liabilities represent funds calculated by the DoD's Office of the Actuary (OACT) at the end of each FY using the current active and retired military population plus assumptions (inflation, discount rate, and medical trend) about future demographic and economic conditions. The 77% decrease to Environmental and Disposal Liabilities is due to the removal of certain items from the balance sheets and the reassignment of a nuclear reactor to its respective military department. The increase of $38.5 billion to Federal Employee and Veteran Benefits Payable is attributable to an overall increase to DHP's actuarial liability.

Net Position – What We Have Done Over Time

Net position represents DHP's net results of activity over the years and includes unexpended appropriations and cumulative net earnings. DHP's net position is shown on the consolidated balance sheets and the consolidated statements of changes in net position. The reported net position balance as of September 30, 2022, was ($273) billion. The increase of $514 million to unexpended appropriations was predominantly driven by an increase in appropriations due to normal operations. The change of $38.7 billion to cumulative results of operations is attributable to the overall change to DHP's unfunded actuarial liability. Additionally, DHP's net position included an $807 million change to its Appropriations Transferred-In/Out primarily due to 1) a decrease in CRM "Carryover" funding received in FY 2022, and 2) DHA transfers out to the Foreign Currency Fund.

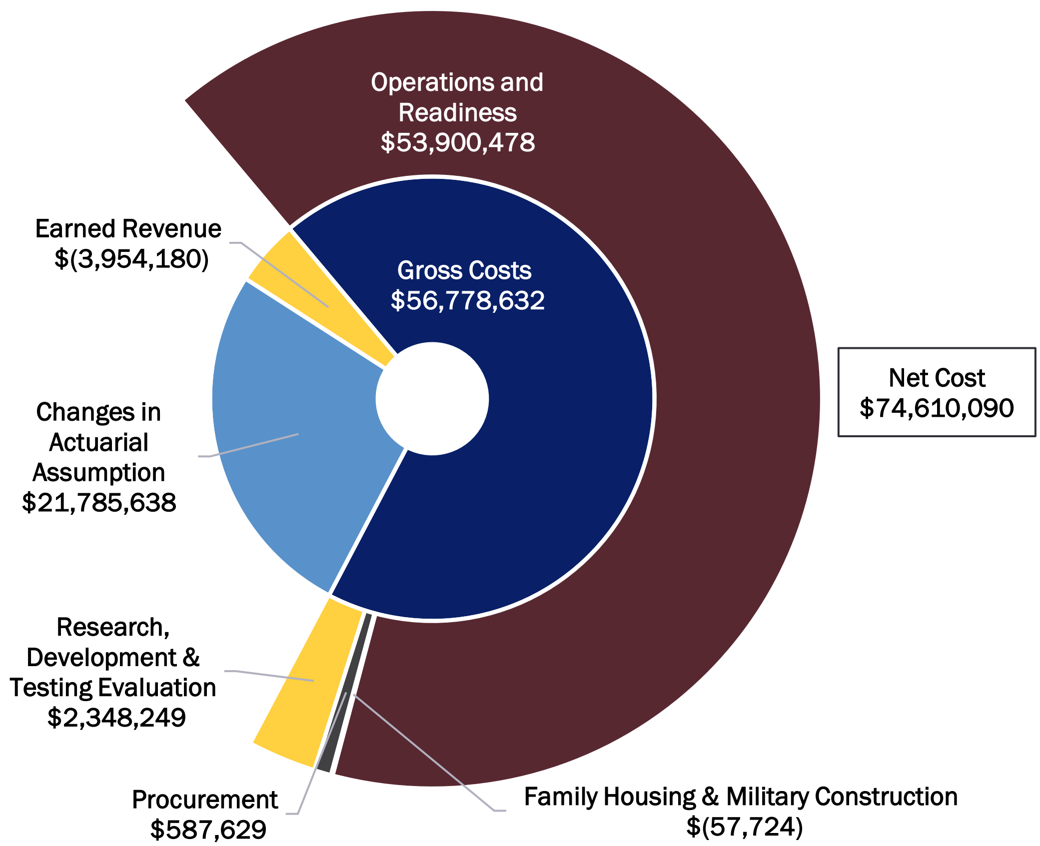
Results of Program Cost

Net Costs – What Cost We Incurred for the Year

The net results of operations are reported in the consolidated SNC and the consolidated SCNP. The consolidated SNC represent the cost of operating (net of earned revenues) DHP's major appropriate groupings. In FY 2022, DHP operated the following four fund types and are illustrated in *Figure 12*:

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

Figure 12: Summary of Gross and Net Program Costs *(dollars in thousands)*



Climate Change

Risks and Impacts

DHA Facility Enterprise (DHA-FE) partnered with the Offices of the Deputy Assistant Secretary of Defense for Environment and Energy Resilience and Sustainment Climate Action Team to add climate hazard data points to the DHA sustained inventory utilizing the Defense Climate Assessment Tool. Assessed hazards include drought, coastal flooding, riverine flood risk, heat, wildfire, land degradation, and historic weather extremes. DHA-FE is assessing the climate data provided to assess risk across its sustained inventory. Initial findings revealed flood risk against two inpatient MTFs, and in one instance, an FY 2023 engineering study is being pursued to quantify risks and develop mitigation strategies.

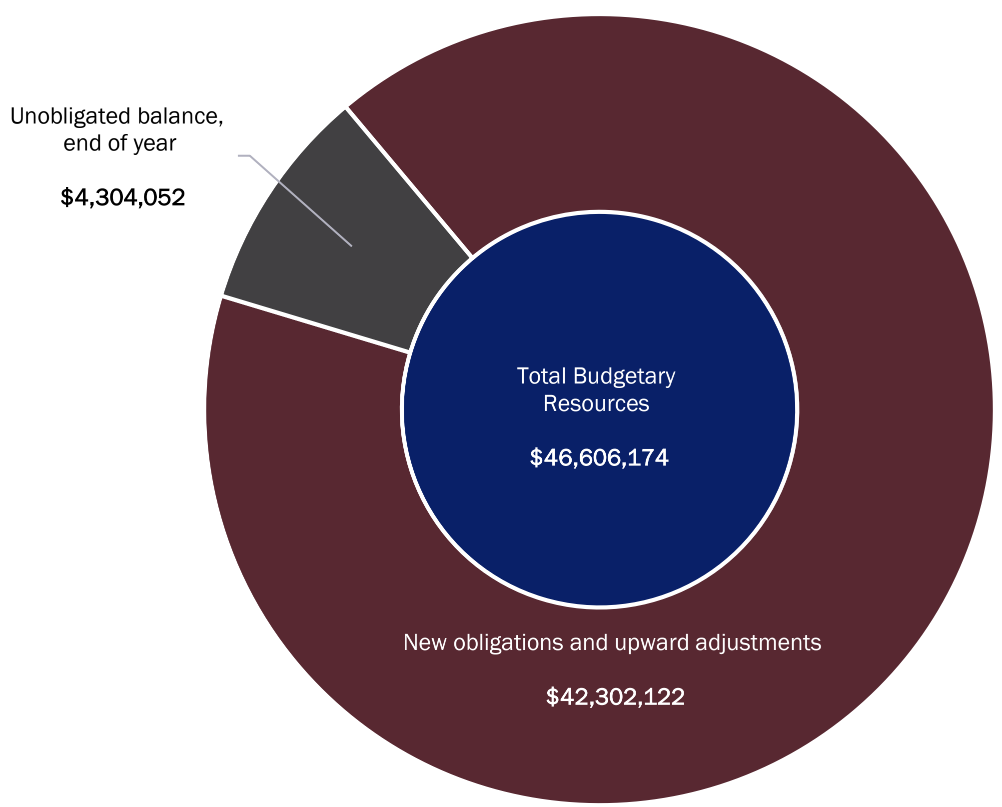
Budgetary Resources

Our Funds

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

Figure 13 below shows the obligations incurred, unobligated balances, and total budgetary resources for DHP as of September 30, 2022. DHP has received $46.6 billion in cumulative budgetary resources as of September 30, 2022, of which it has obligated $42.3 billion, to date.

Figure 13: Status of Budgetary Resources *(dollars in thousands)*



Limitations of the Financial Statements

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

Analysis of Systems, Controls, and Legal Compliance

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

Management Assurances

The Annual Statement of Assurance (SOA) below was provided for Federal Managers' Financial Integrity Act (FMFIA) for FY 2022.

DEFENSE HEALTH AGENCY
7700 ARLINGTON BOULEVARD, SUITE 5101
FALLS CHURCH, VIRGINIA 22042-5101

HEALTH AFFAIRS

Statement of Assurance Memorandum

DATE: September 30, 2022

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

FROM: Darrell W. Landreaux, Deputy Assistant Secretary of Defense, Health Resources Management & Policy, Office of the Assistant Secretary of Defense (Health Affairs)

SUBJECT: Annual Statement of Assurance Required Under the Federal Managers' Financial Integrity Act (FMFIA) for Fiscal Year 2022

- As the Deputy Assistant Secretary of Defense for Health Resources Management and Policy, Office of the Assistant Secretary of Defense for Health Affairs (OASD(HA)), I recognize the OASD(HA) is responsible for managing risks and maintaining effective internal controls for the Defense Health Program (DHP) to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. The OASD(HA) 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 OASD(HA) is unable to provide assurance that internal controls over operations, reporting, and compliance are operating effectively as of September 30, 2022.

- The OASD(HA) 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 "Internal Control Evaluation (Appendix C)" section provides specific information on how the OASD(HA) conducted this assessment. Based on the results of the assessment, the OASD(HA) is unable to provide assurance that internal controls over operations and compliance are operating effectively as of September 30, 2022.

- The OASD(HA) 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 "Internal Control Evaluation (Appendix C)" section provides specific information on how the OASD(HA) conducted this assessment. Based on the results of the assessment, the OASD(HA) is unable to provide assurance that internal controls over reporting (including internal and external reporting) as of September 30, 2022, and compliance are operating effectively as of September 30, 2022.

- The OASD(HA) 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 "Internal Control Evaluation (Appendix C)" section provides specific information on how the OASD(HA) conducted this assessment. Based on the results of this assessment, the OASD(HA) is unable to provide assurance that the internal controls over the financial systems are in compliance with the FMFIA, Section 4; FFMIA, Section 803; and OMB Circular No. A-123, Appendix D, as of September 30, 2022.

- The OASD(HA) 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 OASD(HA) is unable to provide assurance that entity-level controls including fraud controls are operating effectively as of September 30, 2022.

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

Darrell W. Landreaux
Deputy Assistant Secretary of Defense,
Health Resources Management & Policy

Summary of Internal Control Assessment

DHP conducted its assessment of the effectiveness of ICO in accordance with the FMFIA and the OMB Circular No. A-123 *Management's Responsibility for Enterprise Risk Management and Internal Control*. Each evaluation occurred at the component level and was reported to DHP with the results and testing methodology used to evaluate the status of the control. Based on the results of the assessment, DHP is unable to provide assurance regarding the effectiveness of our ICO as of September 30, 2022.

DHP assessed the effectiveness of Internal Controls Over Financial Reporting-Financial Reporting (ICOR-FR), including external financial reporting, in accordance with OMB Circular No. A-123*, Appendix A, Internal Control over Financial Report*. Each evaluation occurred at the component level and was reported to DHP with the results and testing methodology used to evaluate the status of the control. Based on the results of the assessment, DHP is unable to provide assurance that ICOR-FR were operating effectively as of September 30, 2022

DHP also conducted an internal review of the effectiveness of Internal Controls Over Reporting Financial Systems (ICOR-FS) in accordance with *the Federal Financial Management Improvement Act (FFMIA) of 1996* (P.L. 104-208) and *OMB* Circular No. A-123*, Appendix D*. Each evaluation occurred at the component level and was reported to DHP with the results and testing methodology used to evaluate the status of the control. Based on the results of the assessment, DHP is unable to provide assurance that the internal controls over the financial systems are in compliance with the FMFIA, OMB Circular No. A-123*, Appendix D*, and the *FFMIA of 1996* as of September 30, 2022.

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

- Accounting and Financial Reporting Governance Structure, Entity-Level Controls
- Financial Reporting – Universe of Transaction Reconciliations
- Financial Reporting – Defense Departmental Reporting System Adjustments
- Fund Balance with Treasury
- Medical Revenue and Associated Receivables
- Property, Plant, and Equipment
- Stockpile Materials
- Liabilities and Related Expenses
- Monitoring and Reporting of Obligations and Adjustments
- Information Systems

DHP Risk Management Internal Control Program is focused on refining and improving the Entity Level Controls (ELCs) moving into FY 2023. Correcting design failures and strengthening the ELCs should help DHP improve control and oversight over operations, reporting, and compliance. An Enterprise communication plan is being developed to ensure all responsible parties are aware of their roles related to specific ELCs. This two-pronged effort should improve the effectiveness of the controls.

Management's assessment of FFMIA compliance was completed prior to the results of the FY 2022 financial statement audit. Our auditor has noted DHP financial management systems did not comply with the (1) federal financial management system's requirements, (2) applicable federal accounting standards promulgated by Federal Accounting Standards Advisory Board (FASAB), and (3) application of the United States Standard General Ledger (USSGL) at the transaction level, because of material weaknesses noted in the Independent Auditor's Report on Internal Control over Financial Reporting. DHP continues to develop a series of reconciliations that ties the General Ledger (GL) details from its different accounting systems to the financial statements and is targeting to have these reconciliations completed in FY 2023. As a result, DHP was able to support some of the financial statement line items down to the supporting GL system detail. DHP continues the process of evaluating the FY 2022 audit findings contributing to noncompliance to continue the process of formulating remediation plans necessary to bring the financial management systems into substantial compliance.

Compliance with Laws and Regulations

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

The ADA prohibits federal employees from obligating in excess of an appropriation before funds are available or from accepting voluntary services. As required by the ADA, DHP notifies all appropriate authorities of any ADA violations. DHP management has taken and continues to take necessary steps to prevent ADA violations. Investigations of any violations will be completed in a thorough and expedient manner. DHP has developed but has not fully executed its policy and related requirements for reporting potential DHP appropriation ADA violations. DHP remains fully committed to resolving ADA violations appropriately and in compliance with all aspects of the law.

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

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

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

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

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

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

DHA in coordination with DHA Office of General Counsel continued the process of implementing a Debt Adjudication process for FY 2022 to address the FY 2019 MEDCOM reported material weakness on Medical Delinquent Debt Management; (a) lack of compliance with financial regulations with respect to debt management, including requirements associated with transfer of debt, timeliness, and debt assignment, and (b) information systems support for Uniform Business Office (UBO) processes. The process will determine what patient debt may be suspended, compromised, or terminated in accordance with current Federal Statutes and FMR.

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

The Charge Card Abuse Prevention Act (Charge Card Act) requires agencies to establish and maintain safeguards and internal controls for purchase cards, travel cards, integrated cards, and centrally billed accounts. Furthermore, the Charge Card Act requires agencies to report purchase card violations, and the OIG to conduct periodic risk assessments of government charge card programs. The J-8 Financial Operations Directorate – Financial Systems and Payroll Team recently conducted an internal audit of the Government Travel Charge Card Program and documented several controls ensuring appropriate reviews are conducted and documented. DHP, through implemented internal controls, is committed to continued compliance with all aspects of the public law.

Federal Information Security Modernization Act of 2014 (FISMA, P.L. 113-283)

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

In FY 2022, DHP was not in compliance with FISMA due to the several identified deviations from National Institute of Standards and Technology standards and guidelines.

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

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

In FY 2022 DHP's financial management systems did not substantially comply with the requirements within *FFMIA*, as asserted to by management due to the asserted departures from GAAP and USSGL requirements.

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

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

In FY 2022 DHP's financial management systems did not substantially comply with the requirements within FMFIA, as asserted to by management due to the lack of establishment and implementation of controls as detailed in the SOA.

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

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

In addition to compliance with the original legislation and subsequent guidance from OMB over the DATA Act, a revised Appendix A to Circular A-123 was released in June 2018. The revised Appendix was accompanied with a cover letter that requires DATA Act reporting agencies to create Data Quality Plans. Consideration of this plan must be included in agencies' existing annual assurance statement for internal controls over reporting beginning in FY 2021 and continuing through the assurance statement covering FY 2022 at a minimum or until agencies determine that they can provide reasonable assurance over the data quality controls that support achievement of the reporting objectives in accordance with the DATA Act.

DHP does not have a Data Quality Plan in place for FY 2022 and will begin the assessment and implementation process in FY 2023.

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

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

In FY 2022, DHP did not evaluate the compliance requirements within GONE Act.

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

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

Financial Systems Framework

Financial Management Systems Framework Systems

Enterprise Resource Planning (ERP) systems are integral to implementing the Financial Management business process improvements, achieving the planned target environment, reducing the number of vulnerable systems, and sustaining an auditable systems environment. These ERPs provide a broad range of functionality to support DHA business operations in areas such as supply chain management, logistics, human resource management, and financial management. Accordingly, DHA maintains a number of financial management and ERP systems. DHA is working to tackle one of its greatest audit challenges; managing a disparate financial reporting environment with various general ledger systems.

Financial Statement Reporting and Compilation System

Defense Departmental Reporting System (DDRS) is a web-based architecture comprised of an application server on the front-end and a database server on the back-end. DDRS provides tools for DoD accountants to produce financial statements and budgetary reports. DDRS-Audited Financial Statements (DDRS-AFS) module produces the Statement of Budgetary Resources, Balance Sheet, Statement of Changes in Net Position, and Statement of Net Cost. It also produces the interim and annual financial statement report footnotes, Management Reports, RSI, and Reconciliation Reports. DDRS Budgetary (DDRS-B) module produces the Report on Budget Execution and Budgetary Resources (SF-133), Accounting Report 1307 (AR 1307), Schedule of Transfers and Reappropriations, and the Report on Receivables. DDRS-AFS incorporates the financial statement compilation process into a single system, which allows financial statements to be shared throughout the DoD community.

General Ledger Systems

General Fund Enterprise Business System (GFEBS) is a web-based ERP system developed by the Army in 2005 to standardize business processes and transactional input across the Service branches. This Commercial Off-the-Shelf (COTS) software tool built by Systems and Applications and Products provides financial information in real time. GFEBS uses COTS business enterprise software to compile and share accurate, up-to-date financial and accounting data. DHA deployed GFEBS on April 2, 2018. DHA is in the process of full implementation of GFEBS and certain legacy systems will brown out in conjunction with their go-live dates.

Defense Agencies Initiative (DAI) is an enterprise system dedicated to addressing financial management improvements through standard end-to-end business processes delivered by COTS software. Currently, DAI provides Budget-to-Report, Proposal-to-Reward, Cost Management, Order-to-Cash, Procure-to-Pay, Acquire-to-Retire, and Hire-to-Retire (including the DAI-OTL module) capabilities for Fourth Estate organizations (i.e., Office of the Secretary of Defense (OSD), Defense Agencies, and DoD Field Activities).

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

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

Standard Accounting, Budgeting, and Reporting System (SABRS) is a general ledger accounting system used by the U.S. Marine Corps general fund to standardize accounting, budgeting, and reporting procedures. SABRS is also being used by the Department of the Navy to consolidate its activity into two general ledger systems, including the BUMED DHP activity.

Standard Accounting and Reporting System – Field Level (STARS-FL) is a general fund accounting system that supports finance, accounting, and reporting requirements for both field-level and major command headquarters. In FY 2022, DHP, in coordination with the Department of the Navy and DFAS, terminated its use of STARS-FL and migrated the existing business activity to GFEBS and SABRS.

Oracle Federal Financials is a general ledger accounting system used by CRM that contains True Cloud Method, Accounts Receivable, Accounts Payable, Purchase Orders and the General Ledger modules.

Corps of Engineers Financial Management System (CEFMS) CEFMS fully integrates the U.S. Army Corps of Engineers (USACE) business processes, supports the management of all work and funds, and provides the financial information for the USACE financial statements. CEFMS is used to provide financial information related to the DHP military construction funds sub-allotted to the USACE.

Other Systems

Armed Forces Billing and Collection Utilization Solution (ABACUS) helps the MHS manage the billing and collection activities for the Services' UBO cost recovery programs. Under U.S.C. Title 10, the Services have the ability to collect reasonable charges for healthcare services provided to individuals who have third party (private) insurance. These include the Third-Party Collection (TPC), Medical Services Account (MSA) and Medical Affirmative Claims (MAC) programs. These programs recoup an average of $400 million dollars annually for the MTFs.

Coding and Compliance Editor (CCE) supports the DoD efforts to improve coding accuracy and reimbursement for inpatient and outpatient services. CCE is a 3M suite of commercial products that supports and optimizes the workflow for 1,200-1,300 MHS trained/certified coders. CCE works via bidirectional messages with the Composite Health Care System (CHCS) Admission Discharge and Transfer, Emergency Department, and Ambulatory Data Modules. The application allows coders oversight of coded inpatient and outpatient services for the MHS direct care component.

Composite Health Care System (CHCS) CHCS serves as the foundation for Armed Forces Health Longitudinal Technology Application, the DoD current electronic health record. CHCS enables DoD providers to document patient health information and history, electronically order laboratory and radiology tests/services, retrieve test results and order/prescribe medications. CHCS supports multiple healthcare administrative activities, including patient administration, scheduling, medical service accounting, medical billing, and workload assignments.

The Defense Medical Logistics Standard Support (DMLSS) is an IT system within the Defense Medical Logistics - Enterprise Solution (DML-ES) portfolio. The DML-ES portfolio provides a continuum of medical logistics support for the DHA. DMLSS supports all medical logistics functions in the MHS. DMLSS delivers an automated and integrated information system with a comprehensive range of medical logistics management functions. It is a local server-based application that supports medical logistics functions internal to a MTF, deployed MTFs and War Reserve Management sites. DMLSS supports all local medical logistics business practices including catalog research and purchase decisions, customer inventory management, medical inventory management, biomedical equipment maintenance, property management, facility management, assemblage management, plus distribution and transportation functions. DHA anticipates transitioning its medical logistics functions to DML-ES LogiCole, the technical refresh of DMLSS, by early calendar year 2024.

MHS GENESIS is the new electronic health record for the MHS. MHS GENESIS integrates inpatient and outpatient solutions that will connect medical and dental information across the continuum of care, from point of injury to MTF. This includes garrison, operational, and en route care, increasing efficiencies for beneficiaries and healthcare professionals. MHS GENESIS is currently deploying in waves at military hospitals and clinics across the MHS. This implementation, referred to as the Revenue Cycle Expansion Project, will include multiple capabilities that will replace current DHA financially relevant feeder systems, such as ABACUS and CCE. ABACUS, which is strictly a billing system, will be replaced by the Cerner Patient Accounting Module which is a patient-level accounting system allowing for the capture of itemized cost of care for every medical service or product within an encounter, through the utilization of an embedded DoD-specific charge description master. CCE will be replaced by another 3M™ product called 3M™ 360 Encompass™, which will include a natural language processor and autosuggested coding.

Forward-Looking Information

Our FY 2023 DHP budget request presents a balanced, comprehensive strategy that aligns with the Secretary of Defense's priorities. It includes funding for the Department's ongoing efforts to support COVID-19 and pandemic response priorities to integrate essential requirements for prevention, diagnosis, and surveillance health activities.

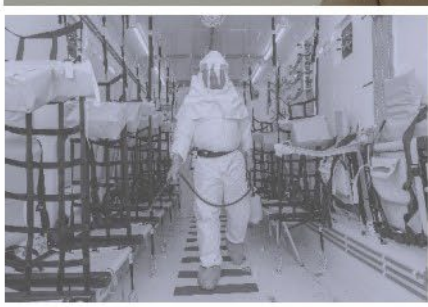
As we complete the transition of MTFs to the DHA's management per the Department's approved, conditions-based execution plan, the FY 2023 budget request reflects our continued focus on business reforms and process standardizations to ensure projected savings stemming from the transition are realized. DHA's centralized administration of MTFs will transform the MHS into an integrated readiness and health system, eliminate redundancies, and create a standardized high quality care experience for our beneficiaries.

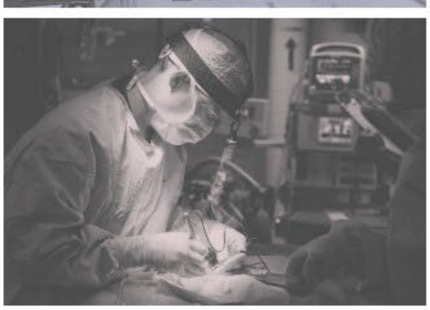
In FY 2023, DHP budget request for CRM represents roughly half of DHP O&M budget. Over the period of FY 2012 to FY 2018, both private health insurance premiums and National Health Expenditures (NHE) per capita rose about 3.7% annually. Although the CRM budget should have increased accordingly, the Department instituted a series of initiatives that averted cost increases. In FY 2021, the healthcare demand within the MHS returned to normal, pre-pandemic levels, while healthcare costs remained high due to the on-going pandemic. In FY 2022, the Department focused on re-baselined funding for CRM healthcare requirements using the latest execution data, NHE rates, beneficiary population forecasts, and current policy/compensation assumptions. Based on FY 2021 execution and FY 2022 execution to-date, the much higher CRM baseline update was valid. In FY 2023, the Department will continue to monitor the growth in CRM, as it will continue to represent an important part of the overall health system in FY 2023.

Our FY 2023 DHP O&M budget request reflects myriad initiatives, some of which are:

- FY 2023 budget invests $1.4 billion in Clinical mental health programs and initiatives include those which evaluate, treat, and follow-up with patients with a variety of mental health issues. These programs leverage evidence-based best practices and treatment, practical problem resolution, case management and crisis management to support positive health outcomes. Ongoing mental health efforts within the Department include: Primary Care Behavioral Health, Tele-Behavioral Health, National Intrepid Center of Excellence and Intrepid Spirit Centers, Substance Abuse Program, as well as research on mental health aimed to accelerate the innovation and delivery of preventive interventions and treatments for traumatic brain injuries, post-traumatic stress disorder, and other mental health conditions.
- Completion of MHS GENESIS deployment in the Continental United States with Jacksonville, Eglin, Portsmouth, Drum, Walter Reed, Fort Belvoir, and Wright-Patterson slated to go live within FY 2023.
- Deployment of MHS GENESIS outside the Continental United States is to start in FY 2023 with deployment schedule for Landstuhl, Lakenheath, Okinawa, Guam and South Korea.
- Funding of $199.7M to address increases due to the estimated impact of Executive Order 14026, *Increasing the Minimum Wage for Federal Contractors*.
- Funding of $23M for national security challenges posed by anomalous health incidents.
- Funding of $11.4M for increase for IT contracts support services funds in Integrated Electronic Health Record for building capacity and expertise to effectively manage the Department of Defense/Department of VA joint system configuration that ensures technical health system requirements meet provider and patient needs.
- Funding increase of $28.6M for restoration and modernization project requirements that improve the facility condition index for the MHS to promote safe, reliable, high quality healthcare and comply with accreditation standards mandated by The Joint Commission and other accrediting bodies.
- Funding of $86M for increases to pharmaceutical requirements.

Some of the initiatives contained within the FY 2023 DHP Procurement budget request includes investments in the radiographic, surgical, and information systems functional areas, which are driven by rapid technological advancements and the need for the MHS to maintain the standards of care, set by the civilian healthcare sector. Our procurement budget also funds the new facility outfitting program element designed to furnish new and expanded military construction projects with pathologic, dental, surgical, and administrative equipment in support of dental and healthcare services.





Financial Information

Section II

Principal Financial Statements

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

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

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

Consolidated Balance Sheets

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

Consolidated Statements of Net Cost

The SNC presents the net costs of operations for DHP's four major appropriation groupings in accordance with the DoD FMR Volume 6B Ch. 5, *Statement of Net Cost*, Section 4.1. It also presents reimbursable costs related to services provided to other federal agencies and incurred costs that are not part of DHP's core mission.

Consolidated Statements of Changes in Net Position

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

Combined Statements of Budgetary Resources

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

Notes to Financial Statements

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

Balance Sheets

Department of Defense
Defense Health Program
Consolidated Balance Sheets
As of September 30, 2022 and 2021 (dollars in thousands):

		Unaudited		
Assets (Note 2)		**FY 2022**		**FY 2021**
Intragovernmental:				
Fund Balance with Treasury (Note 3)	$	20,586,316	$	20,458,873
Accounts Receivable, Net (Note 5)		88,422		206,059
Total Intragovernmental	$	20,674,738	$	20,664,932
Other than Intragovernmental/With the Public:				
Cash and Other Monetary Assets (Note 4)	$	2	$	28
Accounts Receivable, Net (Note 5)		658,462		743,679
Inventory and Related Property, Net (Note 6)		256,388		242,013
General Property, Plant, and Equipment, Net (Note 7)		4,138,795		3,836,160
Other Assets (Note 8)		13,701		13,221
Total Other than Intragovernmental/With the Public	$	5,067,348	$	4,835,101
Total Assets	**$**	**25,742,086**	**$**	**25,500,033**
Liabilities (Note 9)				
Intragovernmental:				
Accounts Payable	$	91,133	$	98,931
Advances from Others and Deferred Revenue		202		1,550
Other Liabilities (Note 13)		84,049		96,075
Total Intragovernmental	$	175,384	$	196,556
Other than Intragovernmental/With the Public:				
Accounts Payable	$	1,114,396	$	1,150,948
Federal Employee and Veteran Benefits Payable (Note 10)		297,706,608		259,167,054
Environmental and Disposal Liabilities (Note 11)		4,457		19,633
Advances from Others and Deferred Revenue		13,835		8,288
Other Liabilities (Note 13)		205,479		263,208
Total Other than Intragovernmental/With the Public	$	299,044,775	$	260,609,131
Total Liabilities	**$**	**299,220,159**	**$**	**260,805,687**
Net Position				
Unexpended Appropriations	$	19,035,674	$	18,522,109
Cumulative Results of Operations		(292,513,747)		(253,827,763)
Total Net Position	**$**	**(273,478,073)**	**$**	**(235,305,654)**
Total Liabilities and Net Position	**$**	**25,742,086**	**$**	**25,500,033**

The accompanying notes are an integral part of the statements.

Statements of Net Cost

Department of Defense
Defense Health Program
Consolidated Statements of Net Cost
For Years Ended September 30 ,2022 and 2021 (Dollars in Thousands):

		Unaudited		
		FY 2022		FY 2021
Gross Program Costs (Note 16)	$	56,778,632	$	38,629,154
Operations, Readiness & Support	$	53,900,478	$	35,705,273
Procurement		587,629		476,436
Research, Development, Test & Evaluation		2,348,249		2,375,781
Family Housing & Military Construction		(57,724)		71,664
(Less: Earned Revenue)		(3,954,180)		(3,942,225)
Net Program Costs before Losses/(gains) from Actuarial Assumption Changes for Military Retirement Benefits	$	52,824,452	$	34,686,929
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$	21,785,638	$	(12,963,004)
Net Program Costs Including Assumption Changes		74,610,090		21,723,925
Net Cost of Operations	$	74,610,090	$	21,723,925

The accompanying notes are an integral part of the statements.

Statements of Changes in Net Position

Department of Defense
Defense Health Program
Consolidated Statements of Changes in Net Position
As of September 30, 2022 and 2021 (dollars in thousands):

	Unaudited FY 2022	FY 2021
Unexpended Appropriations:		
Beginning Balance	**$ 18,522,109**	**$ 20,210,255**
Budgetary Financing Sources:		
Appropriations Received	$ 37,915,177	$ 34,566,142
Appropriations Transferred-In/Out (+/-)	(656,018)	150,673
Other Adjustments	(854,583)	(796,493)
Appropriations Used	(35,891,011)	(35,608,468)
Net Change in Unexpended Appropriations	**$ 513,564**	**$ (1,688,146)**
Total Unexpended Appropriations	**$ 19,035,674**	**$ 18,522,109**
Cumulative Results of Operations:		
Beginning Balances	$ (253,827,763)	$ (267,690,981)
Adjustments:	-	-
Beginning Balances, as Adjusted	**$ (253,827,763)**	**$ (267,690,981)**
Budgetary Financing Sources:		
Appropriations Used	$ 35,891,010	$ 35,608,468
Nonexchange Revenue	(34)	2,719
Other Adjustments	159,524	7,708
Transfers In/Out without Reimbursement	(377,505)	(264,763)
Imputed Financing	244,884	239,600
Other	6,227	(6,589)
Net Cost of Operations	**$ 74,610,090**	**$ 21,723,925**
Net Change	**$ (38,685,984)**	**$ 13,863,218**
Cumulative Results of Operations	**$ (292,513,747)**	**$ (253,827,763)**
Net Position	**$ (273,478,073)**	**$ (235,305,654)**

The accompanying notes are an integral part of the statements.

Statements of Budgetary Resources

Department of Defense
Defense Health Program
Combined Statements of Budgetary Resources
As of September 30, 2022 and 2021 (dollars in thousands):

		Unaudited FY 2022		FY 2021
Budgetary Resources				
Unobligated balance from prior year budget authority, net	$	4,938,093	$	6,002,872
Appropriations (discretionary and mandatory)		37,766,765		34,846,242
Spending Authority from offsetting collections (discretionary and mandatory)		3,901,316		4,182,735
Total Budgetary Resources	$	46,606,174	$	45,031,849
Status of Budgetary Resources				
Total New obligations and upward adjustments	$	42,302,122	$	41,049,889
Unobligated balance, end of year:				
Apportioned, unexpired accounts		3,093,936		2,574,682
Exempt from apportionment, unexpired accounts		-		128
Unexpired unobligated balance		3,093,936		2,574,810
Expired unobligated balance		1,210,116		1,407,150
Total Unobligated balance, end of year		4,304,052		3,981,960
Total Status of Budgetary Resources	$	46,606,174	$	45,031,849
Outlays, net				
Total outlays, net (discretionary and mandatory)	$	36,436,656	$	35,457,736
Agency Outlays, net	$	36,436,656	$	35,457,736

The accompanying notes are an integral part of the statements.

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies

1.A. Reporting Entity Mission and Overall Structure

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

DHP is also sub-component of the DoD. The DoD includes the OSD, Joint Chiefs of Staff, DoD OIG, Military Departments, Defense Agencies, DoD Field Activities, and CCMDs, which are considered, and may be referred to as, DoD Components. The Military Departments consist of the Departments of the Army, the Navy (of which the Marine Corps is a component), and the Air Force. The Department was established by the National Security Act of 1947. Since the creation of America's first army in 1775, the Department and its predecessor organizations have evolved into a global presence with a worldwide infrastructure dedicated to defending the U.S. by deterring and defeating aggression and coercion in critical regions. In 2011, the Deputy Secretary of Defense's Task Force on Reform of the MHS led to the creation of the DHA, a CSA and a component of DHP. In 2013, the DoD issued a directive in accordance with the Deputy Secretary of Defense memorandum formally establishing DHA as part of DHP, which achieved full operating capability by 2015. In early 2017, in fulfillment of FY 2017 *NDAA* (P.L. 114-328), DHA began preparing to assume responsibility for the Administration, Direction, and Control (ADC) of MTFs worldwide. The Deputy Secretary of Defense directed ADC of all MTFs and Dental Treatment Facilities in the fifty United States and Puerto Rico transfer from the Military Departments to the DHA effective October 25, 2019. DHP receives its appropriation from Congress, apportioned by OMB to the Office of the Under Secretary of Defense (Comptroller), who allots these funds to the ASD(HA). The ASD(HA) issues FADs to fund the two financial reporting entities that exist within DHP. These financial reporting entities collectively support DHP's mission. With this appropriation, DHP strives to promote a medically ready force by supporting a better, stronger, and more agile MHS, providing healthcare support for the full range of military operations, and sustaining the health of all those entrusted to its care. The accompanying financial statements are evaluated annually to determine compliance with Statement of Federal Financial Accounting Standards (SFFAS) 47, *Reporting Entity*, and to ascertain whether Federal funds under the control of DHP are being appropriately consolidated into the financial statements of the enterprise, or whether identified disclosure entities or related parties are being appropriately disclosed. Any disclosure entities or related parties identified pertaining to DHP will be discussed in Note 19, Disclosure Entities and Related Parties. Additionally, it should be noted that military personnel from each of the military services staff the MTF's and are part of the manpower used to generate healthcare services for DHP.

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

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

DHA: Defense Health Agency (DHA) is a joint, integrated CSA that enables its components to provide a medically ready force and ready medical force to CCMDs in both peacetime and wartime. As of 01 October 2021, the SMA and the USUHS have all been consolidated under DHA. DHA's mission is to lead the MHS integration of readiness and health to deliver the MHS Quadruple Aim: increased readiness, better health, better care, and lower cost. DHA continues to centralize functions and integrate policies, systems, and processes across the Services as part of the transition of the MTFs. DHA oversees the execution of the $46.6 billion DHP budgetary resources to support the delivery of integrated, affordable, high-quality health services to the DHP appropriation to support the delivery of integrated, affordable, and high-quality health services to the 9.6 million DoD eligible beneficiaries in both peacetime and wartime.

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

COVID-19

On March 27, 2020, the *Coronavirus Aid, Relief and Economic Security Act* (CARES Act*)* (P.L. 116-136) was signed into law, which provided supplemental appropriations for federal agencies to respond to COVID-19. The supplemental appropriations are designated as emergency spending, which is exempt from discretionary spending limits. DHP was appropriated approximately $3.8 billion to prevent, prepare for, and respond to COVID-19, including to provide additional funds to maintain normal operations and cover other necessary authorized activities domestically or internationally during the period that the programs are impacted by the COVID-19.

On April 10, 2020, the OMB issued implementation guidance for supplemental funding provided in response to the COVID-19. In balancing speed with transparency, OMB Memorandum M-20-21, *Implementation Guidance for Supplemental Funding Provided in Response to the Coronavirus Disease 2019 (COVID-19)*, 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.

1.B. Basis of Accounting and Presentation

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

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

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

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

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

DHP presents the Consolidated Balance Sheets, SNC, and SCNP Position on a consolidated basis, which is the summation of the Components less the eliminations of intra DHP activity. The SBR is presented on a combined basis, which is the summation of the Components; therefore, intra DHP activity has not been eliminated. The financial transactions are recorded on a proprietary accrual 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.

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

- SFFAS 47, *Reporting Entity,* Issued December 23, 2014; Effective for periods beginning after September 30, 2017. The DHA conducted an analysis and has found that the Henry Jackson Foundation (HJF) can be considered a related party that will be disclosed in Note 20. The DHA continues to assess agreements to determine if there are additional related parties in need of disclosure.
- SFFAS 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*: Issued on January 27, 2016; Effective for periods beginning after September 30, 2016. DHP plans to utilize deemed cost to value beginning balances for inventory and related property, as permitted by SFFAS 48. DHP has valued some of its inventory and related property using deemed cost methodologies as described in SFFAS 48. However, systems required to account for historical cost for inventory and related property in accordance with SFFAS 3, *Accounting for Inventory and Related Property*, are not yet fully implemented. Therefore, DHP is not making an unreserved assertion with respect to this line item.
- SFFAS 49, *Public-Private Partnerships*: Disclosure Requirements Issued on April 27, 2016; Effective for periods after September 30, 2018.
- SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, 10, and 23, and Rescinding SFFAS 35*: Issued August 4, 2016; Effective for periods beginning after September 30, 2016. DHP plans to utilize deemed cost to value beginning balances for General Property, Plant, and Equipment (PP&E), as permitted by SFFAS 50. However, systems required to account for historical cost for General PP&E in accordance with SFFAS 6, *Accounting for Property, Plant and Equipment*, are not yet fully implemented. Therefore, DHP is not making an unreserved assertion with respect to this line item.
- SFFAS 53*, Budget and Accrual Reconciliation: Amending SFFAS 7 and 24, and Rescinding SFFAS 22*: Issued October 27, 2017; Effective for periods beginning after September 30, 2018.
- SFFAS 54*, Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government and SFFAS 6 Accounting for Property, Plant, and Equipment*: Issued April 17, 2018; Effective for periods beginning after September 30, 2023 under SFFAS 58, *Deferral of the Effective Date of SFFAS 54, Leases:* Issued June 19, 2020. Early adoption is not permitted. For additional information, see SFFAS 60*, Omnibus Amendments 2021: Leases-Related Topics and Technical Release 20, Implementation Guidance for Leases*.
- SFFAS 57, *Omnibus Amendments*: Issued September 27, 2019; Effective dates vary based on the paragraph number.
- SFFAS 58, *Deferral of the Effective Date of SFFAS 54, Leases:* Issued June 19, 2020; Effective upon issuance.
- SFFAS 59*, Accounting and Reporting of Government Land:* Issued September 30, 2021; Effective dates vary based on the paragraph number.
- SFFAS 60, *Omnibus Amendments 2021: Leases-Related Topics:* Issued November 4, 2021; Effective for reporting periods beginning after September 30, 2023.
- FASAB Interpretation of SFFAS 9, *Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 & 6*: Issued August 16, 2019; Effective for periods beginning after September 30, 2019. Early adoption is permitted.
- Technical Bulletin 2002-1, *Assigning to Component Entities Costs and Liabilities that Result from Legal Claims Against the Federal Government:* Issued July 24, 2002; Effective for periods ending after September 30, 2001
- Technical Bulletin 2017-1, *Intragovernmental Exchange Transactions*: Issued November 1, 2017; Effective upon issuance.
- Technical Bulletin 2017-2, *Assigning Assets to Component Reporting Entities*: Issued November 1, 2017; Effective upon issuance.
- Technical Bulletin 2020-1, *Loss Allowance for Intragovernmental Receivables*: Issued February 20, 2020; Effective upon issuance.
- Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*.
- Technical Release 9, *Implementation Guide for Statement of Federal Financial Accounting Standards 29: Heritage Assets and Stewardship Land:* Issued February 20, 2008; Effective immediately.
- Technical Release 13, *Implementation Guide for Estimating the Historical Cost of General Property, Plant, and Equipment:* Issued June 1, 2011; Effective upon issuance.
- Technical Release 14, *Implementation Guidance on the Accounting for the Disposal of General Property, Plant, and Equipment:* Issued October 6, 2011; Effective upon issuance.

- Technical Release 15, *Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment and Allocation:* Issued September 26, 2013; Effective upon issuance.
- Technical Release 16, *Implementation Guidance for Internal Use Software:* Issued January 19, 2016; Effective upon issuance.
- Technical Release 17, *Conforming Amendments to Technical Releases for SFFAS 50, Establishing Opening Balances for General Property, Plant, and Equipment*: Issued April 10, 2017; Effective upon issuance.
- Technical Release 18, *Implementation Guidance for Establishing Opening Balances*: Issued October 2, 2017; Effective upon issuance.
- Technical Release 20, *Implementation Guidance for Leases:* Issued November 4, 2021; Effective for reporting periods beginning after September 30, 2023.
- Staff Implementation Guidance 6.1: *Clarification of Paragraphs 40-41 of SFFAS 6, As Amended*: Issued July 17, 2018; Effective upon issuance.

Entity and Non-Entity: DHA classified assets as either entity or non-entity. Entity assets are those that DHA has authority to use for its operations. Non-entity assets are those held by DHA but not available for use in its operations. Non-entity assets are offset by liabilities to third parties and have no impact on net position. DHA combines its entity and non-entity assets on the Balance Sheet and discloses its non-entity assets in the notes. DHP maintains stewardship accountability and reporting responsibilities for non-entity assets and will forward these non-entity assets to the Treasury or other federal agencies in the future. DHP records a corresponding liability for these accounts receivable, net.
For additional information, see Note 2, Non-Entity Assets.

Intragovernmental and Intergovernmental Activities: SFFAS 1, *Accounting for Selected Assets and Liabilities*, defines Intragovernmental and Intergovernmental assets and liabilities. Intragovernmental Activities: 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. DHP is implementing replacement systems and a standard financial information structure incorporating the necessary elements to enable DHP to correctly report, reconcile, and eliminate intragovernmental balances.

Intergovernmental Activities: Goods and services are received from other federal agencies at no cost or at a reduced 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. In accordance with 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 16, Disclosures Related to the Statement of Net Cost.

Uses of Estimates: DHP's management makes assumptions and reasonable estimates in the preparation of financial statements based on current conditions which may affect the reported amounts. Significant estimates include such items as accounts receivable, incurred but not reported (IBNR) liabilities, unbilled revenue, year-end accruals of accounts payable, actuarial liabilities related to workers' compensation, and unfunded actuarial liabilities. Actual results could differ materially from the estimated amounts.

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

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

1.C. Departures from GAAP

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

Fund Balance with Treasury (FBwT) (Note 1.H. and Note 3): DHP was not able to identify its undistributed collections and disbursements in a timely manner because DHP shares a Treasury Index (TI)-97 with Other Defense Organizations (ODO) for Treasury reporting. In addition, DHP was not able to record and report transactions that appear on the Statement of Differences (SoD) or that are in suspense accounts since suspense balances are not included in FBwT balances. As a result, DHP is unable to explain discrepancies between its FBwT recorded in its general ledger accounts and the balance in the Treasury's accounts in accordance with SFFAS 1.

Accounts Receivable, Net and Revenue Recognition (Notes 1.E. and 1.K. and Note 5): in accordance with SFFAS 1, and SFFAS 7, *Accounting for Revenue and Other Financing Sources*, DHP did not have compliant processes in place to account for accounts receivable and the related revenue balances as a result of the change in DHP financial reporting structure. DHP recorded accounts receivable and associated revenue upon the receipt of cash, instead of when earned. Additionally, DHP does not have an adequate process in place to accrue for pharmacy credits which it is owed but has not yet received. Finally, DHP does not have a sufficient process in place for the pre-authorization of services prior to billing, and thus receivables may not be collected in a timely manner. DHP has not fully developed a methodology to estimate the allowance for uncollectible accounts receivable in accordance with SFFAS 1 and Technical Bulletin 2020-1, *Loss of Allowance for Intragovernmental Receivables*.

Inventory and Related Property, Net (Note 1.L., and Note 6): DHP was not able to properly record and report inventory and related property because its systems were not currently configured to support the management and valuation of all classes of inventory and related property in accordance with SFFAS 3. In addition, inventory and related property beginning balances have not been established using deemed cost as permitted by SFFAS 48. DHP has not accounted for Stockpile Materials in accordance with requirements set forth in SFFAS No. 3.

General PP&E, Net (Note 1.M. and Note 7): Supportable General PP&E, net beginning balances have not been established for equipment or internal use software (IUS) using the alternative valuation methods permitted by SFFAS 50. DHP did not have compliant processes in place to account for General PP&E, net, at historical cost, in accordance with SFFAS 6 and SFFAS 10, *Accounting for Internal Use Software*. DHP has not implemented policies, procedures, or controls to effectively record and report capitalized GE. DHP does not have sufficient supporting documentation to demonstrate that GE is appropriately valued under SFFAS No. 6. DHP also did not have compliant processes in place to record Construction in Progress (CIP) and is currently not assessing projects to determine if there are capitalizable construction costs in accordance with SFFAS 6. DHP did not have compliant processes in place to account for impairment of facilities and equipment in accordance with SFFAS 44, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*.

Leases (Note 1.N., Note 14): DHP did not have compliant processes in place to account for capital and operating leases in accordance with SFFAS 5, SFFAS 6, and SFFAS 10.

Stewardship Property, Plant, and Equipment (Note 1.O.): DHP did not have compliant processes for stewardship property, plant, and equipment which includes heritage assets to meet the disclosure requirements of SFFAS 29, *Heritage Assets and Stewardship Land*. These assets reside in the National Museum of Health and Medicine (NMHM) in Silver Spring, Maryland.

Accounts Payable and Expenses (Note 1.P.): DHP did not have compliant processes in place to account for accounts payable, accruals, and the related expenses in accordance with SFFAS 1, and SFFAS 5. The current accounts payable accrual methodology developed and utilized by DHP is not a comprehensive assessment of all its business processes to determine if an accrual of DHP's goods and services received but not yet billed is appropriate or necessary.

Commitments and Contingencies (Note 1T. and Note 15): DHP did not have compliant processes in place to account for contingent legal liabilities arising from pending or threatened litigation and all contracts that contained clauses, such as price escalation, awarded fee payments, and/or dispute resolution due to the limited capabilities of the automated system processes to capture potential liabilities in accordance with SFFAS 5 and SFFAS 12, *Recognition of Contingent Liabilities Arising from Litigation*: An Amendment of SFFAS 5. Further, DHP did not have compliant processes in place to report an estimate of obligations related to canceled appropriations and amounts of contractual arrangements that may require future financial obligations. DHP does not recognize contingent liabilities on the Balance Sheet for legal actions where management considers an adverse decision to be probable and the loss amount is reasonably estimable. Additionally, DHP did not have compliant processes in place to account for contingent liabilities arising from medical malpractice claims, claims brought under the Military Claims Act, and other settlements and judgments against the components of DHP, in accordance with SFFAS 5, as amended by SFFAS 12. DHP is still in the process of evaluating whether any treaties or other international agreements that it is party to may give rise to contingent liabilities that should be recognized or disclosed in accordance with SFFAS 5.

Consolidated Statements of Net Cost (Note 1.W. and Note 16): DHP did not have compliant processes in place to ensure its Consolidated SNC was presented in accordance with SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, and SFFAS 55, *Amending Inter-Entity Cost Provisions*.

Intra-Entity Activity: DHP did not have compliant processes in place to account for intragovernmental transactions by customer in accordance with SFFAS 4, SFFAS 7, and SFFAS 55, which require that an entity eliminates intra-entity activity and balances from consolidated financial statements in order to prevent overstatement for business with itself.

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

Budgetary Information: DHP did not have compliant processes in place to account for Upward Adjustments of Prior-Year Undelivered Orders (UDOs) or adjust obligations for fluctuations in price in accordance with SFFAS 7.

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

1.D. Appropriations and Funds

Appropriations: DHP receives congressional appropriations and funding as general funds. General Funds are used for collections not earmarked by law for specific purposes, the proceeds of general borrowing, and the expenditure of these monies. DHP appropriations funding covers costs including personnel, operations and maintenance, research and development, procurement, and military construction. DHP uses these appropriations and funds to execute its missions and subsequently report on resource usage.

Deposit Funds: DHP maintains immaterial deposit funds. These funds are used to record amounts held temporarily until paid to the appropriate government or public entity. They are not DHP funds and as such, are not available for DHP operations. DHP is acting as an agent or a custodian for funds awaiting distribution.

Parent-Child Reporting: DHP is a party to allocation transfers with other federal agencies as a transferring (parent) entity or receiving (child) entity. An allocation transfer is an entity's legal delegation of authority to obligate budget authority and outlay funds on its behalf. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account and subsequent allocations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to allocation transfers (e.g., budget authority, obligations, and outlays) is reported in the financial statements of the parent entity. Exceptions to this general rule apply to specific funds for which OMB has directed that all activity be reported in the financial statements of the child entity. These exceptions include U.S. Treasury-Managed Trust Funds, Executive Office of the President (EOP), and all other funds specifically designated by OMB. In addition to the specific DHP Appropriation, DHP also receives allocation transfers, as the child, and executes funds from the DoD Acquisition Workforce Development Fund (0111)

(DAWDF), the Global HIV/AIDS Initiative Fund (1030), also known as the U.S. President's Emergency Plan for AIDS Relief (PEPFAR), and the Global Health Program (1031).

1.E. Revenue and Other Financing Sources

As a component of the Government-wide reporting entity, DHP is subject to the Federal budget process, which involves appropriations that are provided annually. The financial transactions that are supported by budgetary resources, which include appropriations, are generally the same transactions reflected in agency and the Government-wide financial reports.
DHP's budgetary resources reflect past congressional action and enable the entity to incur budgetary obligations, but they do not reflect assets to the Government as a whole. Budgetary obligations are legal obligations for goods, services, or amounts to be paid based on statutory provisions (e.g., Social Security benefits). After budgetary obligations are incurred, Treasury will make disbursements to liquidate the budgetary obligations and finance those disbursements in the same way it finances all disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

Exchange and Non-exchange Revenue: DHP classifies revenue as either exchange revenue or non-exchange revenue. Exchange revenue is derived from transactions in which DHP provides goods and services to another party for a price; both the federal government and the other party receive value. Exchange revenue is presented on the Consolidated Statements of Net Cost and serves to offset the costs of goods and services. Revenue from exchange transactions is required to be recognized at the time DHP provides goods or services to the public or another government entity for a price. Non-exchange revenue is derived from the government's sovereign right to demand payment, such as specifically identifiable, legally enforceable claims. Non-exchange revenue is considered to reduce the cost of DHP operations and is therefore reported on the Consolidated Statements of Changes in Net Position as a financing source. DHP recognizes nonexchange revenue when there is a specifically identifiable, legally enforceable claim to the cash or other assets of another party that will not directly receive value in return.

Deferred Revenue: Deferred revenue is recorded when DHP receives payment for goods or services which have not been fully rendered. Deferred revenue is reported as a liability on the Balance Sheet until earned.

Appropriations Used: Most of DHP's operating funds are provided by congressional appropriations of budgetary authority. DHP receives appropriations on annual, multiple FY, and no-year bases. Upon expiration of an annual or multiple FY appropriation, the obligated and unobligated balances retain their fiscal identity, and are maintained separately within an expired account. The unobligated balances can be used to make legitimate adjustments to prior year obligations but are otherwise not available for new obligations. Annual and multiple FY appropriations are canceled at the end of the fifth FY after expiration. No-year appropriations do not expire. Appropriation of budget authority is recognized as used when costs are incurred, for example, when goods and services are received, or benefits and grants are provided. When authorized by legislation, these appropriations are supplemented by revenues generated by sales of goods or services. Per U.S.C. code 1095, DHP is permitted to collect payment from third party insurers for medical services rendered to eligible beneficiaries. Additionally, DHP receives reimbursable orders as authorized in allocation documentation**.** DHP recognizes revenue as a result of costs incurred for goods and services provided to other federal agencies and the public. DHP bills for services rendered using authorized billing rates for medical care – full cost pricing is standard for nonmedical services provided. 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.

Imputed Financing Sources from Cost Absorbed by Others and Imputed Cost: In certain cases, operating costs of DHP are paid in full or in part by funds appropriated to other federal entities. DHP includes applicable imputed costs in the Consolidated Statements of Net Cost. In addition, Imputed Financing Sources from Cost Absorbed by Others is recognized on the Consolidated Statements of Changes in Net Position as other financing source (non-exchange revenue).
DHP has implemented SFFAS 55. SFFAS 55 permits entities to no longer recognize imputed costs and corresponding imputed financing from any non-business type activities, except for personnel benefit costs and Treasury Judgement Fund settlement costs. Imputed financing represents the cost paid on behalf of DHP by another federal entities. In accordance with SFFAS 55, the DoD recognizes imputed costs only for business-type activities and other costs specifically required by OMB, including (1) employee pension, post-retirement health, and life insurance benefits; (2) post-employment benefits for terminated and inactive employees, to include unemployment and workers compensation under the FECA; and (3) losses in litigation proceedings that are paid from the Treasury Judgement Fund. Unreimbursed costs of goods and services other than those identified above are not included in DHP's financial statements. The U.S. has cost-sharing agreements with countries having a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. Fleet is in a port (U.S. allies). However, DHP does not report the non-monetary support provided by U.S. allies for common defense and mutual security on the Consolidated SNC and in Note 19, Reconciliation of Net Cost to Net Outlays.

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

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

For additional information, see Note 16, Disclosures Related to the Statement of Net Cost.

DHP acknowledges a departure from GAAP in its Revenue Recognition.

1.F. Recognition of Expenses

For financial reporting purposes, DoD policy requires that DHP estimate expenses for major items such as payroll expenses, accounts payable, environmental liabilities, and unbilled revenue in the period in which it is incurred. Estimates are made for major items such as payroll expenses, accounts payable, IBNR liabilities, and unfunded actuarial liabilities. DHP acknowledges a departure from GAAP in its ability to accurately estimate and accrue for accounts payable. In the case of Operating Materials & Supplies (OM&S), operating expenses are generally recognized when OM&S items are purchased The DoD has issued guidance under which DoD Components may expense OM&S using the purchase method of accounting rather than the consumption method if certain operational and other criteria, as applicable, are met, as set forth under GAAP. For DHP, OM&S encompasses pharmaceuticals, pharmaceutical medical supplies, and non-pharmaceutical medical supplies. Under provisions of SFFAS 3, DHP expenses OM&S using the purchase method of accounting.

1.G. Transactions with Foreign Governments and International Organizations

DHP is implementing the administration's foreign policy objectives under the provisions of the Arms Export Control Act of 1976 (P. L. 94-329) by facilitating the sale of U.S. Government-approved defense articles and services to foreign partners and international organizations. The cost of administering these sales is required to occur at no cost to the Federal Government. Payment in U.S. dollars is required in advance for each sale.

1.H. Fund Balance with Treasury

FBwT is an asset of DHP and a liability of the U.S. Government General Fund. In both cases, the amounts represent commitments by the Government to provide resources for particular programs, but they do not represent net assets to the Government as a whole. When DHP seeks to use FBwT to liquidate budgetary obligations, Treasury will finance the disbursements in the same way it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

The FBwT represents the aggregate amount of DHP's available budget spending authority available to pay current liabilities and finance future authorized purchases. The Department's monetary resources of collections and disbursements are maintained in Department of the Treasury (*Treasury*) accounts. The disbursing offices of DFAS, the Military Departments, the USACE, and the Department of State's financial service centers currently process the majority of DHP's cash collections, disbursements, and adjustments worldwide. Monthly, each disbursing station reports to the Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits. The model of using DoD's disbursing systems instead of Treasury's system is recognized by Treasury as Non-Treasury Disbursing Office (NTDO). DoD is actively migrating NTDO transactions to TDO under the TDO Enterprise Strategy effort. TDO is DoD's target end state of executing payments and collections directly between DoD and Treasury using Treasury's systems and Treasury as the Service Provider. This posture will allow DHP to achieve FBwT accountability and traceability through daily reconciliation and reporting directly with Treasury.

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

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

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

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

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

DHP acknowledges a departure from GAAP in its undistributed collections and disbursements.

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

1.I. Cash and Other Monetary Assets

Cash is the total of cash resources under the control of DHP, including coins, paper currency, negotiable instruments, and amounts held for deposit in banks and other financial institutions. Foreign currency consists of the total U.S. dollar equivalent of 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 one of DHP's components-CRM) before month-end but after the U.S. Treasury month-end cutoff. A corresponding liability is recorded because CRM is not entitled to the funds until deposited with the U.S. Treasury.

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

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

1.J. Undistributed Disbursements and Collections

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

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

DHP acknowledges a departure from GAAP in its FBwT.

1.K. Accounts Receivable, Net

Accounts receivable are amounts due to DHP from other federal entities or the public. These include reimbursement 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. Non-federal claims receivable are associated with TPCP for beneficiaries that have other health insurances. Billings to other insurance companies are reduced to the net realizable value (allowance for doubtful accounts is considered). Federal accounts receivable represent reimbursable work performed for other agencies that have been billed but not collected.

DHP is required to transfer the collection of accounts receivable at 120 days to the U.S. Treasury Department for additional collection efforts. Accounts receivable that are transferred to the U.S. Treasury Department for collection should remain on DHP's books until the U.S. Treasury Department acknowledges that the debt is uncollectible. Once the U.S. Treasury acknowledges that the debt is uncollectible, DHP will close out the bad debt and take it off their books. DHP acknowledges a departure from GAAP in its Accounts Receivable, Net.

DHP acknowledges a departure from GAAP in its Accounts Receivable, Net

For additional information, see Note 5, Accounts Receivable.

1.L. Inventory and Related Property, Net

DHP inventory and related property includes OM&S and stockpile materials. DHP uses the purchase method of accounting for OM&S. The purchase method expenses OM&S when purchased. OM&S consists of consumable supplies (e.g., pharmaceuticals, medical supplies). The use of the purchase method of accounting is compliant with SFFAS No. 3 – *Accounting for Inventory and Related Property*, as DHA meets two (2) exceptions to the consumption method: consumable supplies are in the hands of the end user for use in normal operations, and it is not cost beneficial to apply the consumption method of accounting. Stockpile materials are strategic and critical materials held due to statutory requirements or for use in national defense, conservation, or national emergencies. Stockpile materials are not held with the intent of selling in the ordinary course of business. DHP is required to maintain various medications for the DoD in the event a medical epidemic reaches the United States. DHP currently uses both the purchase and consumption methods to account for stockpile materials. DHP is in the process of fully moving to the consumption method for stockpile materials. DHP acknowledges a departure from GAAP in its Inventory and Related Property.

For additional information, see in Note 1.F, Recognition of Expenses and Note 6, Inventory and Related Property.

1.M. General Property, Plant and Equipment

DHP has efforts ongoing to address difficulties in determining the completeness and accuracy of reported balances and providing support for all asset costs in accordance with SFFAS 4, SFFAS 6, and and/or SFFAS 10. In addition, DHP does not yet have SFFAS 6 and SFFAS 10 compliant go-forward processes, supportable General PP&E beginning balances have not been established, and DHP management has not made its unreserved assertion in accordance with SFFAS 50.

Capitalization Threshold: General PP&E assets are capitalized when an asset has a useful life of two or more years and the acquisition cost equals or exceeds the relevant capitalization threshold. The costs of modifications/improvements to existing General PP&E assets are capitalized if they (1) extend the asset's useful life by two or more years, increase the asset's capability, or increase its capacity or size, and (2) equal or exceed the relevant capitalization threshold. DHP's General PP&E capitalization threshold is $250 thousand. The capitalization threshold applies to asset acquisitions and modifications/improvements placed into service after September 30, 2013. General PP&E assets acquired prior to October 1, 2013 were capitalized at prior threshold levels ($100 thousand for equipment) and are carried at the remaining net book value. However, in the years leading up to DHA making unreserved assertions under SFFAS 50, DHA may apply the applicable capitalization threshold to its entire population of General PP&E retroactively, irrespective of the capitalization thresholds in effect for the years prior to October 1, 2013. DHA depreciates all General PP&E assets, other than land, on a straight-line basis.

Buildings, structures, and facilities: Real property in the federal government generally includes land, land improvements, buildings, facilities, and structures. DHP does not own land or land improvements. However, for buildings, facilities, and structures, OUSD(C) directed DHP to stop reporting these types of real property assets and transfer them to the line Military Departments that own the installations on which they reside.

Equipment and Software: Includes equipment, software purchased, IUS, and IUS in development meeting the capitalization threshold and expected to be used in DHP's operations. DHP has not fully executed its accounting policy and related reporting for software and IUS. DHP depreciates equipment using a straight line method over 5 years. The useful life and amortization schedule of software are determined during development with the software being amortized over 2-5 or 10 year recovery periods.

Construction-in-Progress (CIP): DoD requires that DHP components that are the funding entity for construction of an asset report CIP balances in their respective CIP accounts until the asset is placed in service. Completed CIP projects are then transferred to the respective Military Department property holder. DHP allocates and provides oversight for all its military construction. The USACE, and Naval Facilities and Engineering Command, and the Air Force Civil Engineering Center are the execution agents for all DHP CIP, and related funds received. DHP uses its CIP account to accumulate the costs of new construction of General PP&E (except for internal use software and capital restoration or modernization projects (O&M CIP) while the asset is under construction.

Leases: Lease payments for the rental of equipment, IUS, and operating facilities are classified as either capital or operating leases. When a lease substantially transfers all the benefits and risks of ownership to DHP (a capital lease) and the value equals or exceeds the relevant capitalization threshold, DHP records the applicable asset as though purchased, with an offsetting liability, and records depreciation on the asset. DHP either records the asset and liability at the lesser of the present value of the rental and other minimum lease payments during the lease term (excluding portions representing executory costs paid to the lessor) or the asset's fair market value. The discount rate for the present value calculation is either the lessor's implicit interest rate or the government's incremental borrowing rate at the inception of the lease. DHP, as the lessee, receives the use and possession of leased property (e.g., real estate or equipment) from a lessor in exchange for payments of funds.

An operating lease does not substantially transfer all the benefits and risks of ownership to DHP. Payments for operating leases are expensed over the lease term. Office space leases entered into by DHP are the largest component of operating leases.

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

DHP acknowledges a departure from GAAP in its General Property, Plant, and Equipment, Net.

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

For additional information, see Note 14, Leases.

1.N. Other Assets

DHP conducts business with commercial contractors under two primary types of contracts – fixed price and cost reimbursable. DHP may provide financing payments to contractors to alleviate the potential financial burden from long-term contracts. Contract financing payments are defined in the Federal Acquisition Regulation (FAR), Part 32, as authorized disbursements to a contractor prior to acceptance of supplies or services by the Government. Contract financing payment clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advances and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts.

The Defense Federal Acquisition Regulation Supplement (DFARS) authorizes progress payments based on a percentage or stage of completion only for construction of real property, shipbuilding and ship conversion, alteration, or repair. Progress payments based on percentage or stage of completion are reported as Construction in Progress. Contract financing payments do not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion. Other assets include those assets, such as civilian service pay advances, and travel advances.

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

For additional information, see Note 8, Other Assets.

1.O. Stewardship Property, Plant, and Equipment

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

DHP acknowledges a departure from GAAP in its Stewardship PP&E.

1.P. 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 absent proper budget authority. Liabilities covered by budgetary resources are appropriated funds for which funding is otherwise available to pay amounts due. Budgetary resources include new budget authority, unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, spending authority from offsetting collections, and recoveries of unexpired budget authority through downward adjustments of prior year obligations. Liabilities not covered by budgetary resources are liabilities that will require budgetary resources.

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

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

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

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

DHP acknowledges a departure from GAAP in its Accounts Payable.

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

For additional information, see Note 10, Federal Employee and Veterans Benefits Payable and Note 13, Other Liabilities.

1.Q. Military Retirement and Other Federal Employment Benefits

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

DHP applies SFFAS 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits*: Reporting *the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*, in selecting the discount rate and valuation date used in estimating Military

Retirement Benefit 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.

DHP recognizes the annual cost of its civilian employees' pension, other retirement benefit plans, and other postemployment benefit plans (plans) including health and life insurance plans. However, as the administering entity, OPM is responsible for executing the benefit plans including accounting for plan assets, liabilities and associated gains and losses. Accordingly, DHP does not display gains and losses from changes in long-term assumptions used to measure these liabilities on the Statement of Net Cost.

The majority of DHP employees hired prior to January 1, 1984, participate in the Civil Service Retirement System (CSRS), while the majority of DHP employees hired after December 31, 1983 are covered by the Federal Employees Retirement System (FERS) and Social Security. Employees hired between January 1, 1984 and December 31, 2012 are covered by the FERS basic annuity benefit. A primary feature of FERS is that it also offers a defined contribution plan (Thrift Savings Plan) to which DHP automatically contributes one percent of base pay and matches employee contributions up to an additional four percent of base pay. The DHP also contributes to the employer's Social Security matching share for FERS participants.

Similar to CSRS and FERS, OPM reports the liability for future payments to retired employees who participate in the Federal Employee Health Benefit (FEHB) Program and Insurance FEGLI Program. DHP reports both the full annual cost of providing these Other Retirement Benefits (ORB) for its retired employees and reporting contributions made for active employees. In addition, DHP recognizes the cost for Other Post-employment Benefits (OPEB), including all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents.

The difference between the full annual cost of CSRS and FERS retirement, ORB, and OPEB and the amount paid by DHP is recorded as an imputed cost and offsetting imputed financing source in the accompanying financial statements. For the September 30, 2020, financial statement valuation, the application of SFFAS 33 required the DoD OACT to set the long-term inflation, the Consumer Price Index, DHP actuarial liability is adjusted at the end of each FY. The 4th Quarter, FY 2022 balance represents the September 30, 2022 amount that will be effective through 3rd quarter of FY 2023.

For additional information, see Note 10, Federal Employee and Veteran Benefits Payable. And Note 16, General Disclosures Related to the Statement of Net Cost.

1.R. Accrued Unfunded Annual Leave

Accrued leave includes salaries, wages, and other compensation earned by employees, but not disbursed as of September 30, 2022. Annually, as of September 30, the balances of accrued unfunded annual leave are adjusted to reflect current pay rates. Sick leave and other types of non-vested leave are expensed as taken. These liabilities are not covered by budgetary resources because funding has not yet been made available.

1.S. Other Liabilities

Accrued Payroll: Accrued Payroll consists of estimates for salaries, wages, and other compensation earned by employees but not disbursed as of September 30. Earned annual and other vested compensatory leave is accrued as it is earned and reported on the Balance Sheet. The liability is reduced as leave is taken. Each year, the balances in the accrued leave accounts are adjusted to reflect the liability at current pay rates and leave balances. Sick leave and other types of non-vested leave are expensed when used.

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

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

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

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

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

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

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

TRICARE is a worldwide healthcare program that provides coverage for Active and Reserve Component Military Service members and their families, survivors, retirees, and certain former spouses. TRICARE brings together the military hospitals and clinics worldwide with a network and non-network TRICARE authorized civilian healthcare professionals, institutions, pharmacies, and suppliers to provide access to healthcare services. TRICARE offers multiple healthcare plans. 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.

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 Insurance Programs Note 12.

For additional information, see Note 12, Insurance Programs, and Note 13, Other Liabilities.

1.T. Commitments and Contingencies

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

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

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

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

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

DHP does not currently recognize contingent liabilities on the Balance Sheet for legal actions where management considers an adverse decision to be probable and the loss amount is reasonably estimable. These legal actions are estimated and disclosed in Note 15, Commitments and Contingencies. However, there are cases where amounts have not been accrued or disclosed because the likelihood of an adverse decision is considered remote or the amount of potential loss cannot be estimated. DHP financial statements do not reflect Environmental Liabilities.

DHP acknowledges a departure from GAAP in its Commitments and Contingencies.

For additional information, see Note 15, Commitments and Contingencies.

1.U. Net Position

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

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

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

For additional information, see Note 17, Disclosures Related to the Statement of Changes in Net Position.

1.V. Treaties for Use of Foreign Bases

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

1.W. Consolidated Statements of Net Cost

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

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

1.X. Tax Status

DHP is exempt from all income taxes imposed by any governing body whether it is a federal, state, commonwealth, local, or foreign government. Accordingly, no provision for income taxes is recorded.

1.Y. Fiduciary Activities

Fiduciary activities, which DHP must uphold, are the collection or receipt, and the management, protection, accounting, investment, and disposition of cash and other assets in which non-federal individuals or entities have an ownership interest. Fiduciary cash and other assets are not assets of DHP and are not recognized on the Balance Sheet.

DHP acknowledges a departure from GAAP in its Fiduciary Activities.

1.Z. Significant Events

In FY 2022, DHA took over financial reporting procedures for BUMED, AFMS, and USUHS.

1.AA. Standardized Balance Sheet, the Statement of Changes in Net Position and Related Footnotes – Comparative Year Presentation

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 DoD-wide 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 FY 2021 Balance Sheet and the related footnotes were modified to be consistent with the FY 2022 presentation. The mapping of USSGL accounts, in combination with their attributes, to particular Balance Sheet lines and footnotes is directed by the guidance published periodically under TFM, USSGL Bulletins, Section V. The footnotes affected by the modified presentation are Note 5, Accounts Receivable, Net; Note 8, Other Assets; Note 13, Other Liabilities; and Note 19, Reconciliation of Net Cost to Net Outlays.

Note 2. Non-Entity Assets

Non-Entity Assets of September 30, 2022 and 2021 (dollars in thousands):	*Unaudited* FY 2022	FY 2021
Intragovernmental Assets		
Total Intragovernmental Assets	**$ -**	**$ -**
Non-Entity:		
Accounts Receivable	$ 655	$ 1,456
Total Non-Entity Assets	**$ 655**	**$ 1,456**
Total Entity Assets	**$ 25,741,431**	**$ 25,498,577**
Total Assets	**$ 25,742,086**	**$ 25,500,033**

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

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

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

Note 3. Fund Balance with Treasury

Fund Balance with the Treasury as of September 30, 2022 and 2021 (dollars in thousands):	*Unaudited* FY 2022		FY 2021	
Status of Fund Balance with Treasury				
Unobligated Balance				
Available	$	3,093,936	$	2,574,810
Unavailable		1,210,115		1,407,150
Total Unobligated Balance	**$**	**4,304,051**	**$**	**3,981,960**
Obligated Balance not yet Disbursed	**$**	**16,524,013**	**$**	**16,925,338**
Total Status of Fund Balance with Treasury				
Non-FBwT Budgetary Accounts				
Unfilled Customer Orders without Advance	$	(156,735)	$	(241,632)
Receivables and Other		(85,013)		(206,793)
Total Non-FBwT Budgetary Accounts	**$**	**(241,748)**	**$**	**(448,425)**
Total FBwT	**$**	**20,586,316**	**$**	**20,458,873**

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

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

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

Non-FBwT budgetary accounts reduce budgetary resources. This amount is comprised of unfilled customer orders without advance of $156.7 million and reimbursements and other income earned and not collected of $85.0 million.

The FBwT reported in the financial statements has been adjusted to reflect DHP's balance as reported by Treasury. The difference between FBwT in DHP's general ledgers and FBwT reflected in the Treasury accounts is attributable to transactions that have not been posted to the individual detailed accounts in DHP's general ledger as a result of timing differences or the inability to obtain valid accounting information prior to the issuance of the financial statements. When research is completed, these transactions will be recorded in the appropriate individual detailed accounts in DHP's general ledger accounts. By using a historical lookback analysis, the DHP estimates the amounts of Suspense and Statement of Differences transactions that should clear to the DHP should be $43.5 million and $5.8 million respectively.

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

Note 4. Cash and Other Monetary Assets

Cash and Other Monetary Assets as of September 30, 2022 and 2021 (dollars in thousands):	*Unaudited* FY 2022		FY 2021	
Cash and Other Monetary Assets				
Cash	$	2	$	28
Total Cash, Foreign Currency & Other Monetary Assets	**$**	**2**	**$**	**28**

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

Note 5. Accounts Receivable, Net

Accounts Receivable as of September 30, 2022 (dollars in thousands):	Gross Amount Due	*Unaudited* Allowance For Estimated Uncollectible	Accounts Receivable, Net
Accounts Receivable, Net			
Intragovernmental Receivables	$ 88,422	$ -	$ 88,422
Non-Federal Receivables (From the Public)	1,034,525	(376,063)	658,462
Total Accounts Receivable	$ 1,122,947	$ (376,063)	$ 746,884

Accounts Receivable as of September 30, 2021 (dollars in thousands):	Gross Amount Due	*Unaudited* Allowance For Estimated Uncollectible	Accounts Receivable, Net
Accounts Receivable, Net			
Intragovernmental Receivables	$ 206,059	$ -	$ 206,059
Non-Federal Receivables (From the Public)	1,090,151	(346,472)	743,679
Total Accounts Receivable	$ 1,296,210	$ (346,472)	$ 949,738

Accounts Receivable represents DHP's claim for payment from other entities. DHP only recognizes an allowance for uncollectible amounts from the public.

Intragovernmental receivables:

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

Accounts receivable due from the public:

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

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

Additionally, as of September 30, 2022, CRM had recorded $252.9 million related to the Standard Discount Program (SDP) and the Additional Discount Program (ADP). The SDP resulted from the implementation of the Federal Ceiling Program for the TRICARE

Retail Pharmacy Refunds Program as required by the FY 2008 *NDAA*, Section 703. The ADP resulted from voluntary agreements between TRICARE and the pharmaceutical manufacturers providing additional discounts above the SDP.

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

Note 6. Inventory and Related Property, Net

Inventory and Related Property as of September 30, 2022 and 2021 (dollars in thousands):	Unaudited FY 2022	FY 2021
Inventory and Related Property		
Stockpile Material, Net	$ 256,388	$ 242,013
Total Inventory and Related Property	**$ 256,388**	**$ 242,013**

OM&S consist of tangible personal property to be consumed in normal operations.

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

DHP currently uses both the purchase and consumption methods to account for stockpile materials. DHP is in the process of fully moving to the consumption method for stockpile materials. The $256.4 million of stockpile recorded reflects remediation efforts to record stockpile material using the consumption method of accounting as required by SFFAS 3.

Restrictions on the use of materials: stockpile materials that are held due to statutory requirements should be reported. The DHA enterprise currently only reports stockpile material as part of the Pandemic Influenza Program. The DHA is assessing all DHP inventory and related property to determine which should be classified as stockpile material programs. The DHA does not hold stockpile material held for sale. Stockpile material under the DHP program is under the release authority of the ASD(HA), Global Combatant Commands, and Regional Commands – material that is not under these release authorities do not fall under the Pandemic Influenza Program and should not be reported as stockpile.

Inventory Purchases – DHP does not maintain or report an inventory balance for pharmaceuticals and medical supplies. SFFAS 3 provides the following definition for inventory “"Inventory" is tangible personal property that is (1) held for sale, (2) in the process of production for sale, or (3) to be consumed in the production of goods for sale or in the provision of services for a fee. The term "held for sale" shall be interpreted to include items for sale or transfer to (1) entities outside the federal government, or (2) other federal entities.” Based on the above definition and the fact that DHP activities do not provide goods or services for a fee, DHP does not have an inventory balance in accordance with accounting standards. DHP pharmaceuticals and medical supplies are expensed upon receipt at the cost-center when received in accordance with accounting standards.

DMLSS, co-sponsored by the ASD(HA) and the Deputy Under Secretary of Defense (Logistics), is a partnership involving the wholesale medical logistics, medical information management, medical IT, and user communities. DMLSS has achieved significant savings by implementing just-in-time practices and Prime Vendor support concepts, eliminating the need to maintain large inventories of pharmaceutical and medical/surgical items at the wholesale level and at MTFs. By providing price comparison tools and electronic commerce capabilities, DMLSS has enabled MTFs to select and order the best value item that meets their requirements.

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

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

General Property, Plant, and Equipment as of September 30, 2022 (dollars in thousands):	Acquisition Value	*Unaudited* Accumulated Depreciation/ Amortization	Net Book Value
Major Fixed Asset Classes			
Software	$ 1,372,105	$ (805)	$ 1,371,300
General Equipment	1,579,358	(1,279,146)	300,212
Assets Under Capital Lease	3,347	(3,347)	-
Construction-in-Progress	2,467,283	-	2,467,283
Total General Property, Plant, and Equipment	$ 5,422,093	$ (1,283,298)	$ 4,138,795

General Property, Plant, and Equipment as of September 30, 2021 (dollars in thousands):	Acquisition Value	*Unaudited* Accumulated Depreciation/ Amortization	Net Book Value
Major Fixed Asset Classes			
Software	$ 1,166,086	$ (683)	$ 1,165,403
General Equipment	1,759,528	(1,354,901)	404,627
Assets Under Capital Lease	3,347	(3,347)	-
Construction-in-Progress	2,266,130	-	2,266,130
Total General Property, Plant, and Equipment	$ 5,195,091	$ (1,358,931)	$ 3,836,160

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

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

Buildings, Structures, and Facilities

DHP facilities range from sophisticated tertiary care medical centers to outpatient and dental clinics and physiological training units. Per OUSD(C) *Real Property Financial Reporting Responsibilities Policy Update*, the Buildings, Structures and Facilities were transferred to the Military Departments that own the installations on which they reside. Refer to Note 1.M. General Property, Plant, and Equipment, Net.

Internal Use Software

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

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

Equipment

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

Capital Leases

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

Construction-In-Progress

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

Heritage Assets

Heritage Assets for period ended September 30, 2022 (physical asset count):	*Unaudited*			
Categories	Beginning Balance	Additions	(Deletions)	Ending Balance
Buildings and Structures	-	-	-	-
Archeological Sites	-	-	-	-
Museum Collection Items (Objects, Not Including Fine Art)	-	43,479	-	43,479
Museum Collection Items (Objects, Fine Art)	-	-	-	-

Differences between the prior-year ending unit counts and the current-year beginning unit counts

As FY 2022 is the first year DHP is disclosing its heritage assets, there are no differences between the prior-year ending unit counts and the current-year beginning unit counts.

Heritage assets' relation to DHP's mission

NMHM collections relate directly to the mission of the museum: To preserve and explore the impact of military medicine; and to its vision: To preserve, inspire, and inform the history, research, and advancement of military and civilian medicine through world-class collections, digital technology, and public engagement. NMHM collects, preserves, and interprets a national collection of medical artifacts, pathological and skeletal specimens, research collections, archival resources, and applicable materials related to military medical research and other Federal medical sources; the collections focus on, and promote, awareness of the history and current contributions of military medicine and contemporary medical research issues.

DHP's stewardship policies for heritage assets

NMHM's stewardship policies for heritage assets are codified in its collections management policy. The current version was updated in July 2020. The document establishes policies and guidelines by which objects and collections enter and are eliminated from holdings; outlines the ethical and legal responsibilities of the NMHM and its staff, with respect to its collections, also referred to as Heritage

Assets in Federal law and DoD regulations; and sets forth policies for both use and access to the collections. All polices and guidelines conform to Federal law and DoD regulations, which will be referenced where appropriate.

Major categories of heritage assets

Historical: manages artifacts documenting the history of the practice of medicine, innovations in biomedical research, and the evolution of medical technology. The collection emphasizes the role of the U.S. Armed Forces and the Federal government as it relates to the themes.

Anatomical: manages human and non-human medical, pathological, and anatomical specimens, along with related materials that document normal and abnormal anatomy and the body's response to disease, injury, and trauma. The collection is comprised of four types of material: anatomical and pathological specimens; fluid preserved gross anatomical and pathological specimens; medical research collections containing histological slides, tissue blocks; and related archival materials.

HDAC: manages collections and individual specimens that document the normal ontogeny and development of humans and other species, particularly during the embryonic period. HDAC focuses on collecting sectioned and un-sectioned specimens pertaining to development; documents, articles, digital data, and research records of historical and research significance; and objects associated with persons significant to the history of embryology. Modern materials are also collected that represent current and ongoing research in human development.

Neuroanatomical: manages collections that document normal and pathological neurological anatomy of humans and other species to promote neuroanatomical research, education, and consultation for members of the U.S. Armed Forces and the civilian population worldwide. The collection includes whole brain serial sections mounted on slides, whole tissue preserved in fluid or other mediums, and related documentation.

Otis Historical Archives: collects and preserves institutional records, historical records, manuscript collections, digital records and images, and visual materials, including books, photographs, artwork, and film, related to medicine, health, and their histories. Subject areas of archival collections include the history of the NMHM, predecessor organizations to the NMHM, American military medicine, civilian medicine, medical illustration, reconstructive surgery and prosthetics, tropical and infectious disease research, and medical technology and battlefield surgery from the Civil War through to the present

Library: Collects and manages books, periodicals and reprints, both hard copy and some digital formats, that support all activities and disciplines of the NMHM Collections Management Policy and its mission, including history of military medicine; scientific, historical and medical research; educational programs and exhibits; collections; and museum management and public programs.

Methods of acquisition and withdrawal

Acquisition: The NMHM acquires collection items by a variety of methods, including gift donations (including bequests), exchange, Federal property transfer, and field collecting. NMHM only acquires unrestricted collections as a general rule. Certain restrictions are routinely accepted, such as retention of intellectual property rights or instances in which the country or agency of origin places restrictions on use and disposal. Any restrictions on use or disposal must be reviewed and approved by the director and must be documented in museum records at the time of acquisition. Acquisitions are generally initiated by curators or collections managers with a proposal to the Collections Advisory Committee (CAC). The CAC provides recommendations to the NMHM director for approval to acquire. Authority to accept gifts for NMHM is held by the director, DHA. Signatory authority is delegated to the deputy director, DHA.

NMHM also accepts transfers from federal agencies. Signatory authority to accept transfers of Federal property from U.S. government entities is held by the director, NMHM, and by the logistics manager, NMHM. The director may delegate signatory authority to the registrar or other Federal staff. All Federal property transferred to the collections will be reclassified as heritage assets and managed in accordance with this policy.

NMHM does not assign value as a general rule to any collections items except for loan insurance purposes. Any values known at time of acquisition or determined for insurance will be recorded and maintained by the registrar.

Deaccessioning and Disposal: Deaccessioning is the process used to formally approve and record the removal of a collection item or group of items from the permanent, accessioned collections. Disposal is the act of physically removing an item or group of items from NMHM accessioned or non-accessioned collections. NMHM collections are accessioned with a good faith intention to retain the material intact and indefinitely. The periodic review and evaluation of existing collections are intended to refine and improve the quality and relevance of the collections with respect to NMHM's mission and purpose. Collections may be deaccessioned and/or disposed of only in accordance with the established authority and only in compliance with all applicable laws and regulations, professional ethics, and terms agreed upon at the time of acquisition. NMHM Collections Management Policy states that human remains require special consideration in all decisions concerning deaccession and disposal of both accessioned and nonaccessioned collections. Deaccessions are initiated by curators and collections managers with a proposal to the CAC. The CAC will forward recommendations to the director for final approval of all deaccessions.

Collection items may be disposed of only in accordance with the established authority and professional ethics. All applicable Federal, state, local, and international laws, treaties, and regulations and any other applicable requirements that may be posed, such as disposal of hazardous or regulated materials, will be observed and documented. Disposal by permanent gift donation to entities outside will conform to applicable laws and directives set forth in 10 U.S.C § 2572, *Documents, historical artifacts, and condemned or obsolete combat materiel: loan, gift, or exchange* and in DoD Manual number 4160.21, Volume 1 Enclosure 5, *Donations, Loans, and Exchanges*.

Other Disclosures

DHP has the use of overseas facilities that are obtained through various international treaties and agreements negotiated by the Department of State. Generally, treaty terms allow DHP continued use of these properties until the treaties expire. There are no other known restrictions on use or convertibility of General PP&E. Depreciation and amortization expense for the year ended, September 30, 2022, totaled $161.1 million.

General PP&E, Net – Summary of Activity

General PP&E, net consisted of the following as of September 30, 2022 and 2021 (*dollars in thousands*):

Reconciliation of General PP&E for years ended September 30, 2022 and 2021 (dollars in thousands):	*Unaudited* FY 2022	FY 2021
General PP&E, Net Beginning of Year	$ 3,836,160	$ 3,435,797
Capitalized Acquisitions	822,073	759,223
Dispositions	(660)	4,614
Transfers In/(Out) without Reimbursement	(358,136)	(265,511)
Revaluations (+/-)	507	10,094
Depreciation Expense	(161,149)	(108,057)
General PP&E, Net End of Year	$ 4,138,795	$ 3,836,160

Note 8. Other Assets

Other Assets as of September 30, 2022 and 2021 (dollars in thousands):	*Unaudited* FY 2022	FY 2021
Intragovernmental		
Total Intragovernmental	**$ -**	**$ -**
Other than Intragovernmental/With the Public		
Advances and Prepayments	$ 13,701	$ 13,221
Subtotal	**$ 13,701**	**$ 13,221**
Less: "Advances and Prepayments"	$ (13,701)	$ (13,221)
Total Other Than Intragovernmental	**$ -**	**$ -**
Total Other Assets	**$ -**	**$ -**

Other assets can include those assets, such as civil service employee pay advances and travel advances that are not reported elsewhere on DHP's Balance Sheets. Advances and Prepayments, which are made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures, or receipt of goods and services, are excluded from "other assets" in FY 22 as they are presented discretely on the balance sheet.

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 FY 2021 Balance Sheet was modified to be consistent with the FY 2022 presentation.

Note 9. Liabilities Not Covered by Budgetary Resources

Liabilities Not Covered by Budgetary Resources as of September 30, 2022 and 2021 (dollars in thousands):	*Unaudited* FY 2022	FY 2021
Intragovernmental Liabilities		
Other	44,960	45,408
Total Intragovernmental Liabilities Not Covered by Budgetary Resources	**$ 44,960**	**$ 45,408**
Other than Intragovernmental/With the Public Liabilities		
Accounts payable	$ 111,696	$ 108,365
Federal Employee and Veteran Benefits Payable	297,688,328	259,137,923
Environment & Disposal Liabilities	4,457	18,098
Total Liabilities Other than Intragovernmental/With the Public Not Covered by Budgetary Resources	**$ 297,804,481**	**$ 259,264,386**
Total Liabilities Not Covered by Budgetary Resources	**$ 297,849,441**	**$ 259,309,794**
Total Liabilities Covered by Budgetary Resources	**$ 1,370,716**	**$ 1,495,865**
Total Liabilities Not Requiring Budgetary Resources	**2**	**28**
Total Liabilities	**$ 299,220,159**	**$ 260,805,687**

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

Intragovernmental Liabilities – Other

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

Other than Intragovernmental/With the Public Liabilities – Accounts Payable

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

Other than Intragovernmental/With the Public Liabilities – Federal employee and veteran benefits payable

These consists of various employee actuarial liabilities not due and payable during the current FY.

Other than Intragovernmental/With the Public Liabilities – Environmental and Disposal Liabilities

Represents DHP's liability for existing and estimates related to future events for environmental and clean up and disposal. For environmental and disposal liabilities disclosure related information, see Note 11, Environmental and Disposal Liabilities.

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

Note 10. Federal Employee and Veteran Benefits Payable

Federal Employee and Veteran Benefits as of September 30, 2022 and 2021 (dollars in thousands):	*Unaudited*			
		FY 2022		FY 2021
Pension and Health Benefits				
Military Pre Medicare-Eligible Retiree Health Benefits	$	295,085,561	$	256,828,640
Total Pension and Health Benefits	**$**	**295,085,561**	**$**	**256,828,640**
Federal Employment Benefits				
FECA	$	178,600	$	177,897
Other		2,442,447		2,160,517
Total Other Employee Benefits	**$**	**2,621,047**	**$**	**2,338,414**
Federal Employee and Veteran Benefits Liability	$	297,706,608	$	259,167,054
Other Benefit-Related Payables Included in Intragovernmental Accounts Payable on the Balance Sheets	$	82,007	$	93,235
Total Federal Employee Benefits and Veteran Benefits Payable	$	297,788,615	$	259,260,289

Summary of Actuarial Liabilities for years Ended September 30, 2022 and 2021 (dollars in thousands):	Unaudited FY 2022		FY 2021	
Beginning Actuarial Liability	$	256,828,640	$	270,264,694
Expenses				
Normal Cost	$	11,689,792	$	12,950,853
Interest Cost		8,680,806		9,166,326
Actuarial Experience Gains		7,117,505		(11,604,886)
Other Factors		-		(2)
Total Expenses before Gain/Loss from Actuarial Assumptions Changes	$	27,488,103	$	10,512,291
Actuarial Assumption Changes				
Changes in Trend Assumptions	$	15,332,873	$	(13,958,732)
Changes in Assumptions Other than Trend		6,452,765		995,728
Total Gain/Loss from Actuarial Assumption Changes	$	21,785,638	$	(12,963,004)
Total Expenses	$	49,273,741	$	(2,450,713)
Less: Benefit Outlays	$	11,016,820	$	10,985,341
Total Changes in Actuarial Liability	$	38,256,921	$	(13,436,054)
Ending Actuarial Liability	$	295,085,561	$	256,828,640

The DoD OACT calculates this actuarial liability at the end of each FY using the current active and retired population plus assumptions about future demographic and economic conditions.

The schedules above reflect two distinct types of liabilities related to Military Retirement and Other Federal Employment Benefits. The line entitled "Military Pre Medicare-Eligible Retiree Health Benefits" represents the actuarial (or accrued) liability for future healthcare benefits provided to non-Medicare-eligible retired beneficiaries that are not yet incurred. The line entitled "Other" includes two reserves, a small retiree life insurance reserve ($215 thousand in FY 2022) for a closed group of USUHS retirees and the IBNR, which is an estimate of benefits already IBNR to DoD for all DHP beneficiaries (excluding those from the retiree population who are Medicare-eligible).

Effective FY 2010, the DHP 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, 2022, financial statement valuation, the application of SFFAS No. 33 required the DoD OACT to set the long-term inflation (CPI) to be consistent with the underlying Treasury spot rates used in the valuation.

The DHP actuarial liability is adjusted at the end of each FY. The 4th Quarter, FY 2022 balance represents the September 30, 2022 amount that will be effective through 3rd quarter of FY 2023.

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 2022 financial statement valuation, the long-term assumptions include a 2.9% discount rate and medical trend rates that were developed using a 2.3% 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 2021 financial statement valuation, the long-term assumptions included a 3.0% 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. The standard is discussed further below. Other assumptions used to calculate the actuarial liabilities, such as mortality and retirement rates, were based on a blend of actual experience and future expectations. Because of reporting deadlines and as permitted by SFFAS No. 33, the current year actuarial liability is rolled forward from the prior year valuation results using accepted actuarial methods. This roll-forward process is applied annually. In calculating the FY 2022 "rolled-forward" actuarial liability, the following assumptions were used:

Discount Rate	2.90%	
Inflation	2.30%	
Medical Trend (Non-Medicare)	**FY 2021-FY 2022**	**Ultimate Rate FY 2045**
Direct Care Inpatient	7.63%	4.30%
Direct Care Outpatient	4.00%	4.30%
Direct Care Prescription Drugs	0.71%	4.30%
Purchased Care Inpatient	11.28%	4.30%
Purchased Care Outpatient	3.27%	4.30%
Purchased Care Prescription Drugs	7.25%	4.30%
Purchased Care USFHP	5.35%	4.30%

After a 25 year select period, an ultimate trend rate is assumed for all future projection years. The DHP actuarial liability increased $38.3 billion (14.9%). This resulted from the net effect of: an increase of $9.4 billion due to expected increases (interest cost plus normal cost less benefit outlays), an increase of $21.8 billion due to changes in key assumptions; and an increase of $7.1 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 Federal Accounting Standards Advisory Board (FASAB) requires the use of a yield curve based on marketable U.S. Treasury Securities to determine the discount rates used to calculate actuarial liabilities for federal financial statements. Historical experience is the basis for expectations about future trends in marketable Treasury securities.

The statement is effective for periods beginning after September 30, 2009, and applies to information provided in general purpose federal financial statements. It does not affect statutory or other special-purpose reports, such as Pension or Other Retirement Benefit reports. SFFAS 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, 2022 financial statement valuation, the DoD OACT determined a single equivalent discount rate of 2.9% 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, 2012 through March 31, 2022.

For the September 30, 2022, financial statement valuation, the DoD OACT determined a single equivalent medical cost trend rate of 4.60% can be used to reproduce the total Military Retiree Health Benefits (MRHB) liability. The total MRHB liability includes MERHCF, SMA, and CRM.

Note 11. Environmental and Disposal Liabilities

Environmental & Disposal Liabilities as of September 30, 2022 and 2021 (dollars in thousands):	*Unaudited* FY 2022		FY 2021	
Other than Intragovernmental/With the Public				
Other Accrued Environmental Liabilities - Non-Base Realignment and Closure	$	4,457	$	1,357
Environmental Corrective Action / Closure Requirements		-		1,536
Nuclear Powered Military Equipment / Spent Nuclear Fuel		-		16,740
Total Environmental and Disposal Liabilities	**$**	**4,457**	**$**	**19,633**

Applicable laws and regulations for cleanup requirements:

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

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

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

For DHP the types of environmental liabilities and disposal liabilities are identified as nuclear or non-nuclear. Nuclear liabilities arise from a research reactor and irradiators. Non-nuclear liability arises from medical and chemical cleanup. The revised estimated liabilities at the end of FY 2022 are $4.5 million. The decrease of $16.7 million in Nuclear Powered Military Equipment/Spent Nuclear Fuel is primarily due to the reassignment of a nuclear reactor to its respective military department.

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

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

For DHP, the environmental liabilities and disposal liabilities cost estimation and sustainment process is owned and maintained by the Department of Navy, Department of the Army and Department of the Air Force. These Military Departments capture and record environmental liabilities allowing the environmental liabilities to be consolidated and reported on the quarterly Departments Financial Statements. As a result, BUMED, MEDCOM and AFMS report a zero balance for environmental liabilities and disposal liabilities on the quarterly financial statements.

There are instances when a component reporting entity recognizes General PP&E during its useful life differs from the component reporting entity that will eventually be responsible for the future outflow of resources required for cleanup when the asset is removed from service. FASAB Interpretation 9 clarifies during the asset's useful life the reporting entity owning the asset must continue to recognize inter-period operating costs on its Statement of Net Cost and accrue the liability for General PP&E on its Balance Sheet. When the asset is transferred to the entity designated responsible by law, statute or policy for cleanup, the General PP&E and the associated liability must be de-recognized by the component reporting entity that recognized them during the General PP&E's useful life and recognized by the component reporting entity responsible for clean-up and liquidating the liability. De-recognition and recognition of the General PP&E and liability must be performed in accordance with existing accounting standards. The Component recording the environmental liability must have sufficient supporting documentation to establish its responsibility for the liability.

Note 12. 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 Continued Health Care Benefits Program (CHCBP), TRICARE Young Adult (TYA), TRICARE Reserve Select (TRS), TRICARE Retired Reserve (TRR), and TRICARE Prime Remote and Select which together make up the TRICARE Insurance Portfolio. Most of these programs are intended to be budget neutral, meaning that the premiums should match the outlays, and are exchange transaction insurance programs. 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 Managed Care Support Contractors who provide healthcare claims processing and the initial collections on behalf of DHA-CRM. The total amount of Insurance Premium collections in FY 2022 was $912.1 million and $864.9 million for FY 2021. The benefit cost for FY 2022 correlate to the premium collections reported.

For Calendar Year (CY) 2022 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 FY 2017; P.L. 114 328. The enrollment fee and or premium collections are credited to DHP appropriation available for the FY 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 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 MHS 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 Standard plan within the FEHB Program. The plan provides temporary healthcare coverage for 18 to 36 months when a Service member and/or Family member(s) are no longer entitled to TRICARE. TRICARE Prime and Select premium rates are established on an annual basis in accordance with title 10 U.S.C. 1075 and 1075a. An enrollment of a covered beneficiary in TRICARE Prime and Select is automatically renewed upon the expiration of the enrollment unless the renewal is declined. The enrollment of a dependent of the member of the uniformed services may be terminated by the member or the dependent at any time. Active-duty service members must enroll in Prime. Family members may choose to enroll in Prime or Select.

Beneficiary claims for Premium healthcare services are processed through TRICARE Encounter Data Set (TEDS). The liability balance represents unpaid claims received as of the end of the reporting period. The risk for future claim cost is accounted for under the IBNR calculation. The IBNR change is a net result of several factors that increase or decrease the reserve, including change in claims cost and volume per member, changes in administration cost estimates and required margin, change in population size, and movement of healthcare delivery to alternative types of service.

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

Summary of Insurance Programs for years ended September 30, 2022 and 2021 (dollars in thousands):	*Unaudited* FY 2022	FY 2021
Beginning Balance	$ 2,084,678	$ 1,966,037
Claims Expense	16,589,737	15,074,537
Claims Adjustment Expenses	(28,823)	(22,282)
Payments to Settle Claims	(16,214,008)	(14,918,922)
Recoveries and Other Adjustments	5,349	(14,692)
Ending Balance	$ 2,436,933	$ 2,084,678

Note 13. Other Liabilities

Other Liabilities as of September 30, 2022 (dollars in thousands):	Current Liability	Noncurrent Liability	Total
	Unaudited		
Intragovernmental			
Liabilities for Non Entity Assets	$ (39)	$ 695	$ 656
Other Liabilities	1,385	-	1,385
Subtotal	**$ 1,346**	**$ 695**	**$ 2,041**
Other Liabilities reported on Note 10, *Federal Employee and Veteran Benefits Payable*	$ 56,572	$ 25,436	$ 82,008
Total Intragovernmental Other Liabilities	**$ 57,918**	**$ 26,131**	**$ 84,049**
Other than Intragovernmental/With the Public			
Accrued Funded Payroll and Benefits	$ 200,677	$ -	$ 200,677
Liability for non-fiduciary deposit funds and undeposited collections	2	-	2
Contract Holdbacks	4,799	-	4,799
Other Liabilities with Related Budgetary Obligations	1		1
Total Other than Intragovernmental/With the Public Other Liabilities	**$ 205,479**	**$ -**	**$ 205,479**
Total Other Liabilities	$ 263,397	$ 26,131	$ 289,528

Other Liabilities as of September 30, 2021 (dollars in thousands):	*Unaudited* Current Liability	Noncurrent Liability	Total
Intragovernmental			
Liabilities for Non Entity Assets	$ 984	$ 473	$ 1,457
Other Liabilities	1,384	-	1,384
Subtotal	**$ 2,368**	**$ 473**	**$ 2,841**
Other Liabilities reported on Note 10, *Federal Employee and Veteran Benefits Payable*	$ 68,447	$ 24,787	$ 93,234
Total Intragovernmental Other Liabilities	**$ 70,815**	**$ 25,260**	**$ 96,075**
Other than Intragovernmental/With the Public			
Accrued Funded Payroll and Benefits	$ 256,661	$ -	$ 256,661
Liability for non-fiduciary deposit funds and undeposited collections	28	-	28
Contract Holdbacks	6,519	-	6,519
Other Liabilities without Related Budgetary Obligations	-	-	-
Total Other than Intragovernmental/ With the Public Other Liabilities	**$ 263,208**	**$ -**	**$ 263,208**
Total Other Liabilities	$ 334,023	$ 25,260	$ 359,283

Other Liabilities reported on Note 10, Federal Employee and Veteran Benefits Payable

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

Intragovernmental Other Liabilities

This balance primarily consists of unemployment compensation liabilities.

Accrued Funded Payroll and Benefits

This includes accrued funded payroll and benefits $200.7 million that fluctuates quarter to quarter based on use of annual leave by civilian personnel and is what primarily makes up the balance of the other liabilities line of this note.

Contract Holdbacks

Contract Holdbacks are amounts withheld from grantees or contractors pending completion of related contracts. For FY 2022 and FY 2021 contract holdbacks include $4.8 and $6.5 million for contracts authorization progress payments based on cost as defined in the Federal Acquisition Regulation (FAR).is includes accrued funded payroll and benefits.

Note 14. Leases

Capital Leases

Capital Leases as of September 30, 2022 and 2021 (dollars in thousands):	*Unaudited* FY 2022	FY 2021
Entity as Lessee - Assets Under Capital Lease		
Machinery and Equipment	$ 3,347	$ 3,347
Accumulated Amortization	(3,347)	(3,347)
Total Assets Under Capital Lease	$ -	$ -

DHP is reporting capital lease equipment and related amortization related to an arrangement that is covered by budgetary resources, allowing DHP access to digital radiographic systems and full body computed tomography scanning systems.

Future Payments Due for Federal and Non-Federal Capital Leases:

DHP currently has no significant capital lease payments with terms longer than one year.

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

Note 15. Commitments and Contingencies

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

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

DHP will disclose an estimate of obligations related to cancelled appropriations for which DHP has a contractual commitment for payment and amounts for contractual arrangements which may require future financial obligations when there are any.

DHP will disclose amounts for potential future obligations such as contractual arrangements for fixed price contracts with escalation, price redetermination, or incentive clauses; contracts authorizing variations in quantities; and contracts where allowable interest may become payable based on contractor claims under the "Disputes" clause contained in contracts, when there are any. Amounts disclosed will represent future potential liabilities and will not include amounts already recognized as contingent liabilities. Consideration will be given in disclosing the difference between the maximum or ceiling amounts and those amounts recognized when it is reasonably possible the maximum amount may be paid.

There are three reasonably possible cases or claims pending with DHP meeting the requirements for disclosure.

- **4DD Holdings, LLC and T4 Data Group, LLC v. United States (Court of Federal Claims)**. Plaintiffs allege infringement of its copyrights by cloning, copying, and installing 4DD's proprietary software program - TETRA® Healthcare Federator ("TETRA) – on servers and other computing devices with thousands of processor cores for which licenses were not purchased. The Complaint was filed on August 28, 2015, and an Amended Complaint on March 14, 2016. The Government filed its Answers. On June 24, 2016, the Government filed a partial Motion to Dismiss for Lack of Jurisdiction, which the Court denied near the close of discovery on April 23, 2019. On the same day, the Court granted plaintiffs' motion for sanctions upon finding that the Government failed to properly preserve relevant evidence. The Court denied motions for summary judgement, and a trial has been scheduled for 9 days starting November 7, 2022. The estimated amount or range of potential loss is $1-5 billion.
- **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 filed its Answer on October 14, 2021. Discovery is scheduled to close on March 15, 2023. Expert discovery will close on August 31, 2023. The estimated amount or range of potential loss is unknown.

- **Ingham Regional Medical Center, et al. v. U.S., Court of Federal Claims, No. 13-821**. Class action suit, but not certified, alleging that the DoD, in reaching a resolution of hospital outpatient radiology claims, entered into contracts with 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. The estimated amount or range of potential loss is $13 million-$22.4 billion.

Furthermore, medical malpractice claims and settlements arising from the activities of BUMED, AFMS, and MEDCOM are paid either by funds appropriated directly to the military service lines and/or the Department of Treasury's Judgement Fund.

The table below summarizes DHP's probable and reasonably possible contingent liabilities as of September 30, 2022 and 2021:

As of September 30, 2022 (dollars in thousands):	*Unaudited*		
	Estimated Range of Loss as of September 30, 2022		
	Accrued Liabilities	Lower End	Upper End
Legal Contingencies			
Probable	$ -	$ -	$ -
Reasonably Possible	-	13,000	22,400,000

As of September 30, 2021 (dollars in thousands):	*Unaudited*		
	Estimated Range of Loss as of September 30, 2021		
	Accrued Liabilities	Lower End	Upper End
Legal Contingencies			
Probable	$ -	$ -	$ -
Reasonably Possible	-	1,000,000	5,000,000

DHP acknowledges departures from GAAP related to the commitment and contingencies as discussed in Note 1.C, Departures from GAAP.

Note 16. Disclosures Related to the Statements of Net Cost

Net Cost for Years Ended September 30 ,2022 and 2021(dollars in thousands):		*Unaudited* FY 2022		FY 2021
Program Costs and Exchange Revenue by Appropriation Category				
Operations, Readiness, & Support				
Gross Costs	$	53,900,478	$	35,705,273
Less: Earned Revenue		(3,948,034)		(3,915,809)
Losses/(Gains) from Adjustments due to changes in Actuarial Assumptions		21,785,638		(12,963,004)
Net Program Cost	**$**	**71,738,082**	**$**	**18,826,460**
Procurement				
Gross Cost	$	587,629	$	476,436
Less: Earned Revenue		(2,759)		(16,791)
Losses/(Gains) from Adjustments due to changes in Actuarial Assumptions		-		-
Net Program Cost	**$**	**584,870**	**$**	**459,645**
Research, Development, Test, & Evaluation				
Gross Cost	$	2,348,249	$	2,375,781
Less: Earned Revenue		(3,387)		(9,625)
Losses/(Gains) from Adjustments due to changes in Actuarial Assumptions		-		-
Net Program Cost	**$**	**2,344,862**	**$**	**2,366,156**
Family Housing & Military Construction				
Gross Cost	$	(57,724)	$	71,664
Less: Earned Revenue		-		-
Losses/(Gains) from Adjustments due to changes in Actuarial Assumptions		-		-
Net Program Cost	**$**	**(57,724)**	**$**	**71,664**
Total Gross Cost	$	56,778,632	$	38,629,154
Less: Total Earned Revenue	$	(3,954,180)	$	(3,942,225)
Changes for Military Retirement Benefits		21,785,638		(12,963,004)
Net Cost of Operations	$	74,610,090	$	21,723,925

DHP's current processes and systems capture costs based on appropriations groups as presented in the schedule above. DHP is in the process of reviewing available data and developing a cost reporting methodology required by the SFFAS 4, as amended by SFFAS 55.

DHP implemented SFFAS 55 in FY 2018 which rescind SFFAS 30, and FASAB Interpretation 6.

DHP's Military Retirement and post-employment costs are reported in accordance with SFFAS 33. The standard requires the separate presentation of gains and losses from changes in long-term assumptions used to estimate liabilities associated with pensions, other retirement benefits and other postemployment benefits on the SNC.

DHP's gross cost for Family Housing & Military Construction has an abnormal balance in FY 2022 caused by the capitalized amount exceeding what was expensed throughout the year. The year-over-year variance is primarily due to a large decrease in operating expenses and an increase in capitalization of expenses related to CIP reported by the Naval Facilities Engineering Command, which indicates a current year capitalization of expenses incurred in a prior year.

DHP acknowledges departures from GAAP related to managerial cost accounting as discussed in Note 1.C, Departures from GAAP.

Exchange Revenue

DHP has not disclosed exchange revenue pricing and loss information in accordance with SFFAS 7, *paragraph 46* since DHP uses full cost or market pricing for all exchange transactions.

Inter-Entity Costs

DHP has instances where goods and services are received from other federal entities at no cost or at a cost less than the full cost to the providing federal entity. Consistent with SFFAS 55, DHP recognizes imputed costs only for business-type activities and other costs specifically required by OMB, including (1) employee pension, post-retirement health, and life insurance benefits; (2) post-employment benefits for terminated and inactive employees, to include unemployment and workers compensation under FECA; and (3) losses in litigation proceedings.

Goods and services are received from other federal entities at no cost or at a cost less than the full cost to the providing federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by DHP are recognized as imputed costs in the SNC and are offset by imputed revenue in the SCNP. Such imputed costs and revenues relate to business-type activities, employee benefits, and claims to be settled by the Treasury Judgment Fund.

However, unreimbursed costs of goods and services other than those identified above are not included in our financial statements.

Note 17. Disclosures Related to the Statement of Changes in Net Position

Effective FY 2018, the Department has elected early implementation of SFFAS 55, which rescinds SFFAS No. 30, *Inter-Entity Cost Implementation: Amending SFFAS No. 4, Management Cost Accounting Standards and Concepts* and Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4*.

DHP acknowledges departures from U.S. GAAP related to prior period adjustments as discussed in Note 1.C, Departures from GAAP.

Note 18. Disclosures Related to the Combined Statement of Budgetary Resources

Disclosures related to the SBR consisted of the following as of September 30, 2022 and 2021:

Undelivered Orders at End of the Period

UDOs consist of goods and services obligated that have been ordered but not received. Unpaid UDOs represent obligations for goods and services that have not been received or paid. Paid UDOs represent obligations for goods and services that have been paid for in advance of receipt. The budgetary resources obligated for UDOs as of September 30, 2022 and 2021 consisted of:

Undelivered Orders as of September 30, 2022 and 2021 (dollars in thousands):		*Unaudited* FY 2022		FY 2021
Undelivered Orders				
Intragovernmental:				
Undelivered Orders – Unpaid	$	1,213,364	$	1,389,745
Total Intragovernmental Undelivered Orders	**$**	**1,213,364**	**$**	**1,389,745**
Other than Intragovernmental/With the Public:				
Undelivered Orders – Unpaid	$	13,953,680	$	14,051,870
Undelivered Orders – Paid		13,701		13,221
Total Undelivered Orders Other than Intragovernmental/With the Public	**$**	**13,967,381**	**$**	**14,065,091**
Total Undelivered Orders	$	15,180,745	$	15,454,836

Legal Arrangements Affecting the Use of Unobligated Balances

Information about legal limitations and restrictions affecting the use of the unobligated balance of budget authority is specifically stated by program and FY in the applicable appropriation language or in the alternative provisions section at the end of the appropriations act.

The use of unobligated balances is restricted based on annual legislation requirements and other enabling authorities. Funds are appropriated on an annual, multi-year, no-year, and subsequent year basis. Appropriated funds shall expire on the last day of availability and are no longer available for new obligations. Unobligated balances in unexpired fund symbols are available in the next FY for new obligations unless some restrictions had been placed on those funds by law. Amounts in expired fund symbols are unavailable for new obligations but may be used to adjust previously established obligations.

Explanation of Differences between the Combined Statement of Budgetary Resources and the Budget of the U.S. Government

The reconciliation between the Combined SBR and the Budget of the U.S. Government (Budget) is presented below. The U.S. Government Budget amounts used in the reconciliation below represents the FY 2021 balances. The budget with FY 2022 actual values and will be available at a later date at *https://www.whitehouse.gov/omb/budget*.

Budget of the U.S. Government

Reconciliation of the Statement of Budgetary Resources to the President's Budget for the year ended September 30, 2021 (dollars in thousands):		*Unaudited* Budgetary Resources		Obligations Incurred		Distributed Offsetting Receipts		Net Outlays, Net
Combined Statement of Budgetary Resources	$	45,031,849	$	41,049,889	$	-	$	35,457,736
Shared Appropriations with Others included in the SBR but excluded from DHP direct appropriations presented in the President's Budget		(1,022,483)		(574,911)		-		(546,167)
Unobligated Balance Brought Forward from prior year included in the SBR but not included in the President's Budget		(1,454,754)		-		-		-
Other		(553,612)		99,022		-		(569)
Budget of the U.S. Government	$	42,001,000	$	40,574,000	$	-	$	34,911,000

Explanation of Differences between the Consolidated Statement of Changes in Net Position and the Combined Statement of Budgetary Resources

The 'Appropriations' line on the Combined SBR does not agree with the 'Appropriations received' line on the Consolidated SCNP due to 1) differences between proprietary and budgetary accounting concepts and reporting requirements; and 2) presentation of the Consolidated SCNP on a consolidated basis versus presentation of Combined SBR on a combined basis.

Note 19. Reconciliation of Net Cost to Net Outlays

SFFAS 53 requires a reconciliation of net outlays on a budgetary basis to its net cost of operations (reported on an accrual basis) during the reporting period. The analysis only displays information for the reporting period for the Period Ended September 30, 2022.

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position, so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting. The analysis below illustrates this reconciliation by listing the key differences between net cost and net outlays. The Reconciliation of Net Cost to Net Outlays below explains how budgetary resources outlaid during the period relate to the net cost of operations for DHP.

In FY 2022, DHP enhanced its process to reconcile its net cost to net outlays. As a result, the presentation of the FY 2021 Reconciliation of Net Cost to Net Outlays was modified to be consistent with the FY 2022 presentation.

Budget and Accrual Reconciliation:

Reconciliation of Net Costs to Net Budgetary Outlays for year ended September 30, 2022 (dollars in thousands):	Intragovernmental	*Unaudited* With the Public	Total
Net Operating Cost	$ 475,559	$ 74,134,531	$ 74,610,090
Components of Net Cost That are not Part of Net Outlays			
Change in General Property, Plant & Equipment	$ -	$ 502,748	$ 502,748
Change in Inventories and related property, net	-	14,375	14,375
Increase/(Decrease) in Assets:			
Accounts Receivable, net	$ (118,762)	(85,216)	$ (203,978)
Other Assets	-	453	453
(Increase)/Decrease in Liabilities:			
Accounts Payable	$ 8,921	36,551	$ 45,472
Loans Guarantee Liability	-	-	-
Environmental and Disposal Liabilities	-	15,177	15,177
Benefits Due and Payable	-	-	-
Federal Employee and Veteran Benefits Payable	-	(38,539,554)	(38,539,554)
Other Liabilities	13,376	52,182	65,558
Financing Sources:			
Imputed cost	$ (244,884)	-	$ (244,884)
Total Components of Net Cost that Are Not Part of Net Outlays	$ (341,349)	$ (38,003,284)	$ (38,344,633)
Components of Net Budgetary Outlays That are not Part of Net Costs			
Financing Sources:			
Donated Revenue	-	-	-
Total Components of Net Outlays That are not Part of Net Cost	$ -	$ -	$ -
Miscellaneous Reconciling Items			
Financing Sources Transferred In/out without reimbursement	$ 377,505	$ -	$ 377,505
Distributed Offsetting Receipts	-	-	-
Effects of other temporary timing differences	-	-	-
Other	(200,872)	(5,434)	(206,306)
Total Other Reconciling Items	$ 176,633	$ (5,434)	$ 171,199
Net Outlays	$ 310,843	$ 36,125,813	$ 36,436,656
Agency Outlays, Net, From Statements of Budgetary Resources			$ 36,436,656
Unreconciled Difference			$ -

Reconciliation of Net Costs to Net Budgetary Outlays for year ended September 30, 2021 (dollars in thousands):	Intragovernmental *Unaudited*	With the Public *Unaudited*	Total *Unaudited*
Net Operating Cost	$ 443,979	$ 21,279,946	$ 21,723,925
Components of Net Cost That are not Part of Net Outlays			
Change in General Property, Plant & Equipment	$ -	$ 400,363	$ 400,363
Change in Inventories and related property, net	-	12,973	12,973
Increase/(Decrease) in Assets:			
Accounts Receivable, net	$ (177,380)	94,517	$ (82,863)
Other Assets	-	3,305	3,305
(Increase)/Decrease in Liabilities:			
Accounts Payable	$ 199,321	(324,452)	$ (125,131)
Environmental and Disposal Liabilities		(1,255)	(1,255)
Federal Employee and Veteran Benefits Payable	-	13,421,326	13,421,326
Other Liabilities	33,877	42,165	76,042
Financing Sources:			
Imputed cost	$ (239,600)	-	$ (239,600)
Total Components of Net Cost that Are Not Part of Net Outlays	$ (183,782)	$ 13,648,942	$ 13,465,160
Components of Net Budgetary Outlays That are not Part of Net Costs			
Financing Sources:			
Donated Revenue	-	-	-
Total Components of Net Outlays That are not Part of Net Cost	$ -	$ -	$ -
Miscellaneous Reconciling Items			
Financing Sources Transferred In/out without reimbursement	264,762	-	264,762
Distributed Offsetting Receipts	-	-	-
Effects of other temporary timing differences	-	-	-
Other	409	(11,099)	(10,690)
Total Other Reconciling Items	$ 265,171	$ (11,099)	$ 254,072
Net Outlays	$ 525,368	$ 34,917,789	$ 35,443,157
Agency Outlays, Net, From Statements of Budgetary Resources			$ 35,457,736
Unreconciled Difference			$ (14,579)

Net Cost of Operations is derived from the SNC.

Components of net cost that are not part of net outlays: are most commonly (a) the result of allocating assets to expenses over more than one reporting period (e.g., depreciation) and the write-down of assets (due to revaluations), (b) the temporary timing differences between outlays/receipts and the operating expense/revenue during the period, and (c) costs financed by other entities (imputed inter-entity costs).

Components of net outlays that are not part of net cost: are primarily amounts provided in the current reporting period that fund costs incurred in prior years and amounts incurred for goods or services that have been capitalized on the balance sheet (e.g., plant, property and equipment acquisition and inventory acquisition).

Due to DHP's financial system limitations, budgetary resources obligated during the period could not be reconciled to DHP Net Cost of Operations. The difference is a previously identified deficiency.

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

Reconciling Difference: represents the difference between the amount of net outlays as calculated by the Budget and Accrual Reconciliation presented above and Line 4210 of DHP's Statement of Budgetary Resources. For FY 2021, DHP is unable to determine the exact cause of the reconciling difference but has been able to determine that it is related to future account mapping adjustments that will need to be made in its financial systems to accommodate differences in accounting by specific components of DHP. Research is ongoing, with coordination from DFAS, to resolve the remaining difference.

Note 20. Disclosure Entities and Related Parties

DHP has implemented SFFAS 47. This standard defines the federal reporting entity as inclusive of the consolidation entity, disclosure entities, and related parties. DHP consolidation entity includes accounts administratively assigned by the OMB to DHP in the Budget of the U.S. Government. DHP consolidation entity did not change as a result of SFFAS 47 implementation. Consolidation accounts reported in FY 2021 are consistent with accounts reported within DHP financial statements for FY 2022. DHP also has disclosure entities which are similar to consolidation entities, however they have a greater degree of autonomy with the federal government than a consolidation entity.

DHP has identified one related party, Henry M. Jackson Foundation for the Advancement of Military Medicine (HJF).

HJF is an independent, incorporated, 501(c)3 non-profit corporation that was established by Congress in 1983. The purpose of the Foundation is to carry out medical research and education projects under cooperative arrangements with the USUHS, to serve as a focus for the interchange between military and civilian medical personnel, and to encourage the participation of the medical, dental, nursing, veterinary, and other biomedical sciences in the work of the Foundation for the mutual benefit of military and civilian medicine. The President of the USUHS is statutorily appointed to serve as an ex-officio member of the HJF's Council of Directors and while this role could hold a potential to influence the financial and operational policy decisions of the HJF, the U.S. Government has seldom taken an equity interest in private companies.

USUHS has an agreement with HJF related to the collection of royalty revenues by a USU-HJF Joint Office of Technology Transfer. As HJF undergoes annual audits, the risk of HJF under-reporting royalty collections, holding undistributed royalty revenues, or other improper accounting treatment of royalty revenues owed to USUHS is minimal.

DHP also participates in a cooperative agreement with HJF related to the collection of royalty revenues which opens DHP to the potential for gain or risk of loss due to the fact that under this agreement royalty revenues due to the USUHS, may be held and collected by HJF in endowment funds.

DoD receives significant benefits from the work of the Federally Funded Research and Development Centers (FFRDCs), which is critical to national security. Congress restricts the amount of support that the Department may receive from DoD-sponsored FFRDCs through a limitation that it sets annually on the staff years of technical effort that may be funded.

DHP also identified nine disclosure activities:

DoD Acquisition Workforce Development Fund, Transfer Account

DAWDF was established under 10 U.S.C. *§ 1075*. The law requires that not more than 30 days after the end of the first quarter of each FY, the head of each Military Department and Defense Agency shall remit to the SECDEF, from amounts available to such Military Department or Defense Agency, as the case may be, for contract services for O&M, an amount equal to the applicable percentage for such FY. The applicable percentage for a FY is the percentage that results in the credit to the Fund of $500,000,000 in such FY. This amount may be adjusted by the SECDEF. DHP transfers money to this fund as mandated by federal law but has no other control. The purpose of the DAWDF is to ensure the DoD acquisition workforce has the capacity, in both personnel and skills, needed to (1) properly perform its mission; (2) provide appropriate oversight of contractor performance; and (3) ensure that the Department receives the best value for the expenditure of public resources. Given that the components of DHP make use of DoD acquisition personnel, their transfer of funds in support of this program provides them with these same potential benefits as well.

DoD-VA Health Care Sharing Incentive Fund (JIF), Transfer Account

Public law requires a $15M transfer of DHP funds annually under *Section 8111 of Title 38 of the* US Code and *Section 721 of P.L. 107-314* (*NDAA* for FY 2003). This fund is managed and reported by the Department of VA and DHP has no control outside of the annual fund transfer required by law. The money in this fund provides seed money and incentives for innovative DoD/VA joint sharing initiatives to recapture purchased care, improve quality and drive cost savings at facilities, regional and national levels. DHP can partake in these initiatives and as such is afforded the potential to obtain these same benefits.

Global Health Programs, State

The DoD's global health engagement efforts are part of a whole-of-government approach, conducted in close coordination with other U.S. Government agencies, including the Department of State, Department of Health and Human Services, Department of Agriculture, and the United States Agency for International Development. DHP transfers money to contribute to this effort on an annual basis but has no other elements of control.

Global HIV/ADIS Initiative, Transfer Account

The DoD HIV/AIDS Prevention Program (DHAPP), based at the Naval Health Research Center in San Diego, California, is the DoD Executive Agent for the technical assistance, management, and administrative support of the global HIV/AIDS prevention, care, and treatment for foreign militaries. DHAPP administers funding, directly conducts training, provides technical assistance for focus countries and other bilateral countries, and has staff actively serving on most of the Technical Working Groups and Core Teams through the Office of the U.S. Global AIDS Coordinator. DHAPP oversees the contributions to PEPFAR of a variety of DoD organizations, which fall under the various regional military commands, as well as specialized DoD institutions whose primary mission falls within the continental United States.

Defensive Institute for Medical Operations

The Defense Institute for Medical Operations (DIMO) is a dual-service agency comprised of Air Force and Navy personnel committed to providing world class, globally focused, healthcare education and training to partners around the world. DIMO utilizes subject matter experts (SMEs) throughout the DoD to develop curriculum and teach courses around the world. Upon review of the DIMO fact sheet available on the entity website, it was noted that this program was realigned under AFMS from DSCA in 2010. Upon discussion with DIMO personnel, they stated that DIMO receives an immaterial amount of DHP funding transferred to them using the 2X fund code to support two GS Personnel at DIMO warranting disclosure within DHP financial statements.

Fisher House Foundation

The Fisher House Foundation is an independent not for profit organization which occasionally receives a small amount of money from DHA issued grants to construct new houses for families on the sites of MTFs and VA medical centers.

Federally Funded Research and Development Centers (FFRDCs)

DoD maintains contractual relationships with the parent organizations of ten DoD-sponsored FFRDCs to meet some special research or development needs that cannot be met as effectively by existing government or contractor resources. The work performed by the FFRDCs provide benefits to DoD, which support national security. FFRDCs that provide support to DoD are classified into three categories:

- Research and Development Laboratories,

- Systems Engineering and Integration Centers, and
- Study and Analysis Centers.

FFRDC relationships are defined through a bi-lateral sponsoring agreement between each DoD sponsoring organization and the parent organization that operates each FFRDC. All DoD funding for FFRDC work is provided through the Department's contract with the FFRDC's parent organization. While DoD does not control the day-to-day operations of the FFRDCs, the parent organization must agree that the FFRDC will conduct its business in a manner befitting its special relationship with DoD, operate in the public interest with objectivity and independence, and be free from organizational conflicts of interest.

DoD does not have an ownership interest in the FFRDCs and is not exposed to the benefits of gains or risk of losses from the past or future operations. DoD sponsors may only assign tasks which take advantage of the core capabilities and unique characteristics of FFRDC, as established in the sponsoring agreement. Additionally, Congress sets annual limits on the amount of staff-years of technical effort that may be funded for FFRDCs. Historically, funding placed on contract to the FFRDCs is less than one percent of the sponsor's budgetary resources. Together, the sponsoring agreements, contract terms, and Congressional controls on staff-years of effort and funding, serve to limit the Federal Government's exposure to financial and non-financial risks arising from FFRDC relationships.

RAND-NDRI funds were provided for Evaluating the Quality and Safety of Pain Care and Prescription Opioid Use in the MHS and for Evidence Synthesis of Sexual Assault and Sexual Harassment Topics to support FY 2019 *NDAA Sec 702 Response*.

James Lovell Federal Health Center

This healthcare facility located in North Chicago, Illinois is a joint venture between BUMED, and the VA established by *Section 1704* of P.L. *111-84* (*NDAA* for FY 2010). DHP transfers money to this fund based on public law but the facility itself is independently managed by a joint DoD/VA management board of directors as directed by law. DHP has no administrative control.

Medicare-Eligible Retiree Health Care Fund

A portion of receipts from MERHCF accrual fund are transferred into DHP O&M account annually as outlined in DHP budget justification. The fund is managed and appropriated independently of DHP.

Note 21. COVID-19 Activity

Coronavirus Aid, Relief and Economic Security Act

On March 27, 2020, the CARES Act was signed into law, which provided supplemental appropriations for federal agencies to respond to COVID-19. The supplemental appropriations are designated as emergency spending, which is exempt from discretionary spending limits. DHP was appropriated approximately $3.8 billion to prevent, prepare for, and respond to COVID-19, including to provide additional funds to maintain normal operations and cover other necessary authorized activities domestically or internationally during the period that the programs are impacted by COVID-19.

On April 10, 2020, OMB issued implementation guidance for supplemental funding provided in response to the COVID-19. In balancing speed with transparency, OMB Memorandum M-20-21 directed agencies to leverage and continue to employ existing financial transparency and accountability mechanisms wherever possible. OMB M-20-21 further instructed agencies to consider three core principles: (1) mission achievement, by using data and evidence to meet program objectives; (2) expediency in issuing awards to meet crucial needs; and (3) transparency and accountability to the public.

Funding Usage

DEF Code M *Families First Coronavirus Response Act*	*Unaudited* FY 2022	FY 2021
Budgetary Resources: Unobligated (and unexpired) Balance Carried Forward from PY	$ 9,161,232	$ 21,381,135
New Budget Authority (+)	-	-
Rescissions (-)/Other Changes (+/-) to Budgetary Resources	-	-
Budgetary Resources Obligated (-)	(9,137,533)	(12,219,903)
Budgetary Resources: Ending Unobligated (and unexpired) Balance to be Carried Forward	$ -	$ 9,161,232
Outlays, Net (Total)	$ 19,718,031	$ 51,371,272

DEF Code N *Coronavirus Aid, Relief, and Economic Security Act*	*Unaudited* FY 2022	FY 2021
Budgetary Resources: Unobligated (and unexpired) Balance Carried Forward from PY	$ 18,399,637	$ 446,575,265
New Budget Authority (+)	-	-
Rescissions (-)/Other Changes (+/-) to Budgetary Resources	-	-
Budgetary Resources Obligated (-)	111,904	(264,206,924)
Budgetary Resources: Ending Unobligated (and unexpired) Balance to be Carried Forward	$ -	$ 18,399,637
Outlays, Net (Total)	$ 360,798,972	$ 961,278,983

As of September 30, 2022, DHP is reporting no unobligated budgetary resources related to the funding received for COVID-19 and outlaid approximately $381 million related to COVID-19 funding in FY 2022. DHP's outlays related to COVID-19 funding for FYs 2021 and 2022 included outlays for funding obligated in FY 2020. In addition, the beginning unobligated and unexpired balance for FY 2022 was $27.6 million and the $18.6 million in remaining funds at the end of FY 2022 expired on September 30, 2022. As a result, no COVID-19 funding will be carried forward to FY 2023.

COVID-19 Vaccine Administration

The majority of the COVID-19 funds received by DHP were used to administer COVID-19 vaccines. The DHP entered into an agreement with the U.S. Department of Health and Human Services Center for Disease Control and Prevention (CDC) on November 20, 2020 to transfer one or more of the United States Government purchased COVID-19 vaccines, syringes, needles and other constituent products, and other ancillary supplies at no cost to DHP. As a result, DHP has not reported such items described as inventory within its financial statements or accompanying footnotes. The agreement between DHP and the CDC outlines appropriate vaccine distribution, management, and monitoring of DHP's plans for COVID-19 vaccination. DHP agreed to Administer COVID-19 Vaccines in accordance with all requirements and recommendations of CDC and CDC's Advisory Committee on Immunization Practices.

Note 22. Subsequent Events

Subsequent events after the balance sheet date have been evaluated through the auditors' report date. Management determined that there are no additional items to disclose.

Required Supplementary Information

This section provides the deferred maintenance and repairs (DM&R) disclosures, required in accordance with SFFAS 42, *Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29, and 32*, and the Combined Statement of Budgetary Resources.

Deferred Maintenance and Repairs

DHP tracks and report DM&R of its PP&E in accordance with SFFAS 42. DM&R relate solely to capitalized General PP&E and stewardship PP&E. Since DHA is not a land holding Agency, DHA does not report real property & General PPE to DoD. All Real Property reporting is done through the Military Departments. DHA Facilities Enterprise provides DM&R statistics to inform the Command of the requisite DHP sustainment restoration, and modernization funds necessary to keep DHA assets safe and able to support DHA's medical mission.

DM&R are maintenance and repairs that were not performed when they should have been or were scheduled to be and which are put off or delayed for a future period.

Maintenance and repairs are activities directed toward keeping fixed assets in an acceptable condition. Activities include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset. Maintenance and repairs, as distinguished from capital improvements, exclude activities directed towards expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.

DHP Deferred Maintenance consisted of the following as of September 30, 2022 and 2021 *(dollars in thousands):*

	Unaudited FY 2022		
Property Type	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage
Category 1	$ 45,303	$ 4,447	10%
Category 2 (Excluded)	$ -	$ -	-
Category 3	$ 2,992	$ 436	15%
Total	$ 48,295	$ 4,883	

	Unaudited FY 2021		
Property Type	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage
Category 1	$ 40,795	$ 3,312	8%
Category 2 (Excluded)	$ -	$ -	-
Category 3	$ 3,101	$ 336	11%
Total	$ 43,896	$ 3,648	

*NOTE: The DHA Real Property Team provides BUILDER with Inventory updates annually in October.

All DHP assets are not currently in BUILDER due to inventory discrepancies resulting from on-going negotiations with the services regarding readiness facilities and on-going DHA Real Property reconciliation efforts with the Military Departments.
DHP Funded assets are continuously being added and removed from the inventory due to on-going mission changes.
DHA Real Property Team continues to work with the Military Departments in their Accountable Property System of Record.
Facility Categories defined:

- **Category 1:** Buildings, Structures, and Linear Structures that are enduring and required to support an ongoing mission,

- **Category 2:** Buildings, Structures, and Linear Structures (Excess Facilities or Planned for Replacement)
- **Category 3:** Buildings, Structures, and Liner Structures that are Heritage assets (historical, cultural, or architectural)

To facilitate DM&R reporting, the DoD mandated the use of the BUILDER program for all Condition and Facility Condition Index (FCI) reporting effective 10 Sep 13. The ASD(HA), directed the implementation of the BUILDER program in a memo dated 10 Jan 2014 and charged the DHA Facility Director with the responsibility of completing the Implementation. FCI is the primary metric used by DHP to measure/score the condition of real property and is calculated as shown in *Figure 14* below.

Figure 14: Shows how the FCI is calculated.

$$FCI = \left(1 - \frac{\sum Deferred\ Maintenance\ and\ Repair\ (DM\&R)}{\sum Plant\ Replacement\ Value\ (PRV)}\right) * 100$$

The FCI formula numerators makes up the total deferred Real Property Maintenance & Repair while the addition of a multiplication of 100 creates a scoring of 100 (good) to 0 (bad) ranking system without decimals for easy identification of building's conditions.

Maintenance and Repair Policies

DHA operates over 2,000+ facilities throughout the world and includes 88 historical buildings. Most of the facilities are predominantly used to support the MHS mission for healthcare delivery. DHA's policy ensures patient safety and world-class healthcare for all our beneficiaries.

	Count	Historical	Non-Historical	Note
DHP Structures	1,800	88	1,712	Unit of Measure = Square Feet
DHP Non-Structure Support Assets	549	0	549	Unit(s)of Measure = Tons, Gallons, Kilovolts, etc.
Totals	2,349	88	2,261	

As permitted under SFFAS 42, DHA employs a parametric estimating method from BUILDER for the largest portion of its portfolio healthcare facilities. Healthcare facilities are being reviewed continually through the BUILDER Annual Work Plan. DHA assets in BUILDER are monitored annually as part of the Work Item remediation process. Any Work Items not remediated when identified by BUILDER become the basis DM&R. DHA plans to continue to add to the BUILDER inventory as more real property assets is reconciled with the Military Departments.

Uniformat is a standard for classifying building specifications, cost estimating and cost analysis in the US and Canada which adheres to the American Society for Testing and Materials (ASTM) 1557 Building Standards and developed by the General Service Administration and the American Institute of Architects in 1972. Uniformat types are common to all facilities regardless of real property categories and *Figure 15* below provides clarification.

Figure 15: Uniformat types.

UNIFORMAT Type	Included in DMR Calculation	Excluded in DMR Calculation
A10 FOUNDATIONS		X
A20 BASEMENT CONSTRUCTION		X
B10 SUPERSTRUCTURE		X
B20 EXTERIOR ENCLOSURE	X	
B30 ROOFING	X	
C10 INTERIOR CONSTRUCTION	X	
C20 STAIRS		X
C30 INTERIOR FINISHES	X	
D10 CONVEYING	X	
D20 PLUMBING	X	
D30 HVAC	X	
D40 FIRE PROTECTION	X	
D50 ELECTRICAL	X	
E10 EQUIPMENT	X	
E20 FURNISHINGS	X	
F10 SPECIAL CONSTRUCTION	X	
G20 SITE IMPROVEMENTS	X	
G30 SITE CIVIL/MECHANICAL UTILITIES	X	
G40 SITE ELECTRICAL UTILITIES		X
G90 OTHER SITE CONSTRUCTION		X

BUILDER is a predictive modeling tool, but not the sole decision-making tool for making DM&R decisions. Mission, budget constraints, emerging threats, operational issues, and a host of other consideration go into making the decision on where funding is spent. The BUILDER Program was chosen by the DoD because its condition standards, related assessment methods, and reporting formats are consistently applied across the DoD inventory. BUILDER uses Standards and Policies (S&P) to predict and then track Work Items (Sections / Equipment) that are nearing or have passed the end of their useful life. Please Refer to Interim Procedures Memorandum 19-005, BUILDER Sustainment Management System (SMS) June 18, 2019, Para. 3.e-j for a full description of S&P development, AWP development, and AWI remediation.

The current "Standard" is measured by Remaining Service Life (RSL), that assumes, all sustainment activities have occurred during the equipment's life and that the equipment hasn't failed early, that the reliability of the equipment is diminished enough that the equipment should be replaced (Restored).

Maintenance and Repair Prioritization and Acceptable Condition Standards

DHP's current prioritization policy is based on the number of years of RSL and categorized by equipment type (a.k.a. System or UNIFORMAT).

UNIFORMATS with long service lives do not trigger replacement Work Items until they are very near the end of their useful life – 2 years. As an example, Foundations have a useful life of between 70 & 120 years and so applying the Policy would not generate a replacement Work Item until the Foundation was 68 or 118 years old.

UNIFORMATS with shorter Service Lives, but that carry a greater risk should the equipment fail, generate a Replacement Work Item 3 years before the end of their useful life. This would include super structures such as doors and windows.

UNIFORMATS with shorter Service Lives, but that carry a severe risk should the equipment fail, generate a Replacement Work Item 4 years before the end of their useful life. This would include a cross-section of UNIFORMATs types such as Fire Protection Systems, Boilers and Chillers, and Roofs.

The primary factors that BUILDER considers in determining acceptable condition standards are Equipment Service life, RSL, and risk of that equipment's failure to the Facilities performance. Healthcare facility medical centers and some of their support facilities (Central Utility or Electric Plants) have a zero-failure risk – there is no allowance for failure, the equipment must work immediately upon demand (e.g., back-up generators must come online and perform at 100% of their rated output within 10 seconds of demand).

Deferred Maintenance and Repair Exclusions

Category 1 & 3 assets are included in DM&R calculations.

Category 2 assets are not included in DM&R calculations as they are appropriated through the military construction funding program and being new, have no associated DM&R.

Category 1 & 3 assets are further broken down by building UNIFORMATs, with Included and Excluded UNIFORMAT Types.

Included UNIFORMAT Rationale

Equipment (Infrastructure) of these UNIFORMAT types will be replaced regularly during the lifecycle of the Structure (Asset) ICW BUILDER's projected lifecycle. These UNIFORMATS are capitalized over the life of the Individual Equipment.

Excluded UNIFORMAT Rationale

Although these infrastructure types may be repaired if necessary, throughout the life of an asset, there is no programed replacement for these UNIFORMAT types. These UNIFORMATS are capitalized over the life of the Structure / Asset.

Individual DMR Work Item Cost Threshold.

Market research and DHA work processes support the use of a $10,000 or greater cost as the reporting threshold for DMR work items.

Significant Changes in Deferred Maintenance and Repair

FY 2021

With the FY 20/21 rollover, significant data update activities occurred that will affect DMR Calculations:

Plant Replacement Values (PRV) had not been updated in the BUILDER Database since April of 2019. As part of the FY rollover, all PRVs were updated to reflect their corresponding DMLSS-FM PRVs. As would be expected the individual asset PRVs varied, but in the aggregate, PRVs increased.

Note: The SMS BUILDER Cost book is currently under revision to incorporate R.S. Means Cost Works data and we anticipate that this will lead to substantially increased Work Item Costs, and therefore an increase in DMR backlog. FE intends to wait until updates are completed before beginning to use the new R.S. Means costs and will decide after analyzing the new costs.

FY 2022

DHA Facilities and Enterprise procured the SMS-BUILDER Data Realignment contract in Sep 2021 with a performance period of 24 months to take the legacy Services data and bring it into conformance with the DHA SMS-BUILDER Reference Guide. Additionally, the 2016 DHA Cost Book was updated to reflect CY 22 R.S. Means Cost data for DMR calculations. The process of updating PRVs from the DoD FY 22 Facility Sustainment Model listed PRV's is ongoing. All three of these activities affect the DM&R calculations for FY 22 and the realignment activities will continue to affect DM&R numbers through FY 23.

Combining Statement of Budgetary Resources

Department of Defense
Defense Health Program
Combining Statement of Budgetary Resources
As of September 30, 2022 (dollars in thousands)

	Unaudited				
	Operations, Readiness & Support	Procurement	Research, Development, Test & Evaluation	Family Housing and Military Construction	Combined Totals
Budgetary Resources					
Unobligated Balance from Prior Year Budget Authority, net (discretionary and mandatory)	$ 1,907,585	$ 344,787	$ 2,174,437	$ 511,284	$ 4,938,093
Appropriations (discretionary and mandatory)	33,828,474	758,708	2,633,488	546,095	37,766,765
Spending Authority from Offsetting Collections (discretionary and mandatory)	3,898,414	2,685	217	-	3,901,316
Total Budgetary Resources	$ 39,634,473	$ 1,106,180	$ 4,808,142	$ 1,057,379	$ 46,606,174
Status of Budgetary Resources					
New Obligations and Upward Adjustments (total)	$ 38,451,846	$ 792,629	$ 2,540,903	$ 516,744	$ 42,302,122
Unobligated Balance, end of year:					
Apportioned, Unexpired Accounts	205,762	275,844	2,110,438	501,892	3,093,936
Exempt from apportionment, unexpired Accounts	-	-	-	-	-
Unapportioned, Unexpired Accounts	-	-	-	-	-
Unexpired Unobligated Balance	205,762	275,844	2,110,438	501,892	3,093,936
Expired Unobligated Balance	976,865	37,707	156,801	38,743	1,210,116
Unobligated Balance, end of year (total)	1,182,627	313,551	2,267,238	540,635	4,304,052
Total Budgetary Resources	$ 39,634,473	$ 1,106,180	$ 4,808,142	$ 1,057,379	$ 46,606,174
Outlays, Net					
Outlays, net (total) (discretionary and mandatory)	$ 33,049,348	$ 525,958	$ 2,351,143	$ 510,207	$ 36,436,656
Distributed Offsetting Receipts	-	-	-	-	-
Agency Outlays, net (discretionary and mandatory)	$ 33,049,348	$ 525,958	$ 2,351,143	$ 510,207	$ 36,436,656

Department of Defense
Defense Health Program
Combining Statement of Budgetary Resources
As of September 30, 2021 (dollars in thousands)

	Unaudited Operations, Readiness & Support	Procurement	Research, Development, Test & Evaluation	Family Housing and Military Construction	Combined Totals
Budgetary Resources					
Unobligated Balance from Prior Year Budget Authority, net (discretionary and mandatory)	$ 2,278,152	$ 387,399	$ 2,698,616	$ 638,705	$ 6,002,872
Appropriations (discretionary and mandatory)	31,614,930	452,455	2,395,079	383,778	34,846,242
Spending Authority from Offsetting Collections (discretionary and mandatory)	4,175,347	4,029	3,359	-	4,182,735
Total Budgetary Resources	**$ 38,068,429**	**$ 843,883**	**$ 5,097,054**	**$ 1,022,483**	**$ 45,031,849**
Status of Budgetary Resources					
New Obligations and Upward Adjustments (total)	$ 36,782,810	$ 541,400	$ 3,150,768	$ 574,911	$ 41,049,889
Unobligated Balance, end of year:					
Apportioned, Unexpired Accounts	69,960	280,499	1,837,966	386,257	2,574,682
Exempt from apportionment, unexpired Accounts	128	-	-	-	128
Unapportioned, Unexpired Accounts	-	-	-	-	-
Unexpired Unobligated Balance	70,088	280,499	1,837,966	386,257	2,574,810
Expired Unobligated Balance	1,215,532	21,983	108,320	61,315	1,407,150
Unobligated Balance, end of year (total)	1,285,620	302,482	1,946,286	447,572	3,981,960
Total Budgetary Resources	**$ 38,068,430**	**$ 843,882**	**$ 5,097,054**	**$ 1,022,483**	**$ 45,031,849**
Outlays, Net					
Outlays, net (total) (discretionary and mandatory)	$ 32,120,101	$ 454,908	$ 2,336,560	$ 546,167	$ 35,457,736
Distributed Offsetting Receipts	-	-	-	-	-
Agency Outlays, net (discretionary and mandatory)	**$ 32,120,101**	**$ 454,908**	**$ 2,336,560**	**$ 546,167**	**$ 35,457,736**

Office of the Inspector General Transmittal

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

November 7, 2022

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

SUBJECT: Transmittal of the Independent Auditor's Reports on the Defense Health Program Financial Statements and Related Notes for FY 2022 and FY 2021 (Project No. D2022-D000FT-0078.000, Report No. DODIG-2023-009)

We contracted with the independent public accounting firm of Kearney & Company, P.C. (Kearney & Company) to audit the Defense Health Program (DHP) Financial Statements and related notes as of and for the fiscal years ended September 30, 2022, and 2021. 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 DHP's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract required Kearney & Company to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," June 2022, Volume 1, Volume 2 (Updated, June 2022), and Volume 3 (Updated, June 2022). Kearney & Company's Independent Auditor's Reports are attached.

Kearney & Company's audit resulted in a disclaimer of opinion. Kearney & Company could not obtain sufficient, appropriate audit evidence to support the reported amounts within the DHP Financial Statements. As a result, Kearney & Company could not conclude whether the financial statements and related notes were presented fairly in accordance with Generally Accepted Accounting Principles. Accordingly, Kearney & Company did not express an opinion on the DHP FY 2022 and FY 2021 Financial Statements and related notes.

Kearney & Company's separate report, "Independent Auditor's Report on Internal Control Over Financial Reporting," discusses 10 material weaknesses related to the DHP's internal controls over financial reporting.* Specifically, Kearney & Company concluded that the DHP did not:

- fully implement an effective organizational structure to achieve accounting and financial reporting objectives, or meet the standards for an effective internal control system;
- maintain effective controls to ensure the universe of transactions reconciliation process was complete and supported;
- fully support adjustments processed and recorded during the quarterly financial statement compilation process;
- fully reconcile Fund Balance With Treasury;
- account for revenue or Accounts Receivable for medical services provided in the military treatment facilities in a consistent manner, or implement effective medical coding procedures to ensure the accuracy of medical coding applied to health care encounters;
- accurately value Property, Plant, and Equipment;
- design or implement internal controls to ensure that Stockpile Materials were completely, appropriately, and accurately identified, tracked, recorded, and reported;
- sufficiently account for its liabilities and related expenses;
- establish a process to review, assess, and close stale obligations in a timely basis; or
- complete corrective action related to the design, implementation, and operating effectiveness of internal controls related to financially significant systems.

Kearney & Company's additional report, "Independent Auditor's Report on Compliance With Laws, Regulations, Contracts, and Grant Agreements," discusses three instances of

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

noncompliance with provisions of applicable laws and regulations, contracts, and grant agreements. Specifically, Kearney & Company concluded that the DHP did not comply with the Federal Managers' Financial Integrity Act of 1982, the Federal Information Security Modernization Act of 2014, and the Federal Financial Management Improvement Act of 1996. In addition, the report discusses potential violations of the Antideficiency Act and an increased risk of noncompliance with the Debt Collection Improvement Act of 1996.

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 DHP FY 2022 and FY 2021 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal control over financial reporting, on whether the DHP's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with 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 7, 2022 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

Independent Auditor's Report

KEARNEY& COMPANY

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the consolidated financial statements of the Defense Health Program (DHP), which comprise the consolidated Balance Sheets as of September 30, 2022 and 2021, the related consolidated Statements of Net Cost and Changes in Net Position, and the combined Statements of Budgetary Resources (hereinafter referred to as the "financial statements") for the years then ended, and the related notes to the consolidated financial statements.

We do not express an opinion on the accompanying financial statements of the DHP. Because of the significance of the matters described in the ***Basis for Disclaimer of Opinion*** section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

Basis for Disclaimer of Opinion

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

- Accrual accounting requirements per Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities*, and SFFAS No. 5, *Accounting for Liabilities of The Federal Government*
- Recognition and valuation requirements set forth in SFFAS No. 3, *Accounting for Inventory and Related Property*
- Liability requirements set forth in SFFAS No. 5 and SFFAS No. 12, *Recognition of Contingent Liabilities Arising from Litigation*
- Recognition and valuation requirements set forth in SFFAS No. 6, *Accounting for Property, Plant, and Equipment*
- Revenue recognition requirements set forth in SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*

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- Recognition and valuation requirements set forth in SFFAS No. 10, *Accounting for Internal Use Software*
- Reporting and valuation requirements set forth in SFFAS No. 29, *Heritage Assets and Stewardship Land*
- Accounting and reporting requirements associated with SFFAS No. 31, *Fiduciary Activities*
- The full cost provisions of SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts*, as amended by SFFAS No. 55, *Amending Inter-Entity Cost Provisions*
- Recognition and valuation requirements set forth in SFFAS No. 44, *Accounting for Impairment of General Property, Plant and Equipment Remaining in Use*.

We were unable to obtain sufficient appropriate evidential matter as to the completeness and accuracy of the financial statements reported as of September 30, 2022. This includes $20.6 billion of Fund Balance with Treasury (FBWT), $1.2 billion of Accounts Payable (AP) ($91.1 million Federal and $1.1 billion Non-Federal), and $289.5 million in Other Liabilities ($84.0 million Federal and $205.5 million Non-Federal) on the Balance Sheet.

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

We were unable to obtain sufficient appropriate evidential matter as to the existence, completeness, and accuracy of the DHP's stockpile material reported within the Inventory and Related Property (I&RP) line item of the Balance Sheet. As of September 30, 2022, the DHP reported approximately $256.4 million of I&RP on the Balance Sheet, consisting solely of stockpile material. The DHP did not record stockpile material in accordance with SFFAS No. 3. The DHP was unable to provide sufficient data to allow audit procedures to be performed over the existence, completeness, and valuation of stockpile material.

We were unable to obtain sufficient appropriate evidential matter to enable us to perform audit procedures to satisfy ourselves that the Property, Plant, and Equipment (PP&E) opening balances as of October 1, 2021 or ending balance balances as of September 30, 2022 were free of material misstatements. Our work identified issues related to existence, completeness, accuracy, and disclosure of PP&E. As of September 30, 2022, the DHP reported $4.1 billion in net PP&E on its Balance Sheet.

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We were unable to obtain audited financial statements of construction funds sub-allotted to the United States Army Corps of Engineers (USACE), supporting the DHP's real property construction in progress (CIP) managed by USACE. The DHP reported $2.5 billion of real property CIP as of September 30, 2022, which is included as part of the PP&E, net line item on the Balance Sheet, and described in Note 7 to the consolidated financial statements.

We were unable to obtain sufficient appropriate evidential matter as to the completeness and accuracy of revenue and associated Accounts Receivable (AR). The DHP does not account for all revenue and AR transactions using the accrual basis of accounting, recording certain activity on the cash basis of accounting. As of September 30, 2022, the DHP reported $746.9 million of AR ($88.4 million Federal and $658.5 million Non-Federal), net on its Balance Sheet and $4.0 billion of earned revenue on its Statement of Net Cost.

We were unable to obtain sufficient appropriate audit evidence to support the existence, completeness, and accuracy of Gross Costs. For the period ended September 30, 2022, the DHP reported $56.8 billion in Gross Costs on its Statement of Net Cost.

We were unable to obtain sufficient appropriate audit evidence to support the existence, completeness, and accuracy of Unobligated balance from prior-year budget authority, net. As of September 30, 2022, the DHP reported $4.9 billion of Unobligated balance from prior-year budget authority, net on its Statement of Budgetary Resources.

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

Other Matter

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

Effective for periods beginning after September 30, 2016, the Federal Accounting Standards Advisory Board (FASAB) released SFFAS No. 50, *Establishing Opening Balances for General Property, Plant, and Equipment*, and SFFAS No. 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*, which allow a reporting entity, under specific conditions, to apply alternative methods in establishing opening balances. As of September 30, 2022, the DHP's implementation of SFFAS No. 50 and SFFAS No. 48 remained in process. We planned and performed our audit procedures over PP&E and I&RP opening balances accordingly.

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Responsibilities of Management for the Financial Statements

Management is responsible for: 1) the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; 2) the preparation, measurement, and presentation of Required Supplementary Information (RSI) in accordance with U.S. generally accepted accounting principles; 3) the preparation and presentation of Other Information included in the DHP's Agency Financial Report, as well as ensuring the consistency of that information with the audited financial statements and the RSI; and 4) 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the DHP's ability to continue as a going concern for 12 months beyond the financial statement date.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the DHP's consolidated financial statements 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. 22-01, *Audit Requirements for Federal Financial Statements*, and to issue an auditor's report. However, because of the matters described in the ***Basis for Disclaimer of Opinion*** section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements. We are required to be independent of the DHP and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit.

Required Supplementary Information

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

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 22-01, we have also issued reports, dated November 7, 2022, on our consideration of the DHP's internal control over financial reporting and on our tests of the DHP's compliance with provisions of applicable laws, regulations, contracts, and grant agreements, as well as other matters for the year ended September 30, 2022. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance and other matters. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 22-01 and should be considered in assessing the results of our audit.

Kearney & Company

Alexandria, Virginia
November 7, 2022

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

We were engaged to audit, in accordance with 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. 22-01, *Audit Requirements for Federal Financial Statements*, the financial statements of the Defense Health Program (DHP) as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the DHP's financial statements, and we have issued our report thereon dated November 7, 2022. Our report disclaims an opinion on such financial statements because we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. The DHP also asserted to departures from generally accepted accounting principles.

Report on Internal Control over Financial Reporting

In planning and performing our engagement to audit the financial statements, we considered the DHP's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the DHP's internal control. Accordingly, we do not express an opinion on the effectiveness of the DHP's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 22-01. 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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify certain deficiencies in

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internal control, described in the accompanying Schedule of Findings, that we consider to be material weaknesses.

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

The DHP's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the DHP's response to the findings identified in our engagement. The DHP's response is described in a separate memorandum attached to this report in Section 3, *Financial Information*, of the Agency Financial Report. The DHP concurred with the findings identified in our engagement. The DHP's response was not subjected to the other auditing procedures applied in the engagement to audit the financial statements; accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of the DHP's internal control. This report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* and OMB Bulletin No. 22-01 in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 7, 2022

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Schedule of Findings

Material Weaknesses

The Military Health System (MHS), which is the global health system of the Department of Defense (DoD), is composed of medical personnel, infrastructure, and resources from the Departments of the Army, Navy, and Air Force (AF); the Defense Health Agency (DHA); and the Office of the Assistant Secretary of Defense for Health Affairs (OASD[HA]). These resources are organized in a Market-structure based on geographical location. The Defense Health Program (DHP) appropriation serves as a funding source for the MHS. The DHP financial statements comprise the following Component reporting entities:

- DHA
- DHA – Contract Resource Management (CRM).

Throughout the course of our audit work across the DHP reporting entity, internal control deficiencies were encountered which were considered for the purposes of reporting on internal control over financial reporting for the DHP. The material weaknesses presented in this Schedule of Findings have been formulated based on our determination of how individual control deficiencies, in aggregate, affect internal control over financial reporting. ***Exhibit 1*** presents the material weaknesses identified during our audit.

Exhibit 1: Material Weaknesses Identified

Accounting Area	Material Weakness
Entity-Level Controls	I. Accounting and Financial Reporting Governance and Entity-Level Controls
Financial Reporting	II. Financial Reporting – Universe of Transaction Reconciliations III. Financial Reporting – Defense Departmental Reporting System Adjustments
Fund Balance with Treasury	IV. Fund Balance with Treasury
Accounts Receivable	V. Medical Revenue and Associated Receivables
Property, Plant, and Equipment	VI. Property, Plant, and Equipment
Inventory and Related Property	VII. Stockpile Materials
Accounts Payable and Related Liabilities	VIII. Liabilities and Related Expenses
Budgetary Resources	IX. Monitoring and Reporting of Obligations and Adjustments
Information Technology	X. Information Systems

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

Deficiencies in two related areas define this material weakness:

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

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

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

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

Beginning October 1, 2018, the National Defense Authorization Act for Fiscal Year (FY) 2017 (NDAA) consolidated the administration of more than 475 hospitals and clinics previously run by the Army, Navy, and AF into a centralized management structure within DHA. The transition of administrative responsibility of the Military Treatment Facilities (MTF) to DHA remained in process during FY 2022.

A. Accounting and Financial Reporting Governance Structure (*Repeat Condition*)

Condition: The DHP has not yet achieved Principle 3, *Establish Structure, Responsibility, and Authority*, of the GAO Green Book as it pertains to accounting and financial reporting operations. An organizational structure to assign responsibility and delegate authority to

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effectively achieve the accounting and financial reporting objectives and responsibilities remained in process by the shared management structure of the DHP during FY 2022.

Cause: The DHP, in its current structure during FY 2022, does not operate as a singular entity or Enterprise organization. Rather, the DHP is the funding source for DoD's MHS. Additionally, DHA has not formalized accounting and financial reporting governance across the MTFs.

Effect: An inadequate organizational structure can lead to isolated operations, disjointed and inconsistent policies and procedures, inconsistent internal control environments, and unreliable financial information across the DHP. Additionally, interrelated activities of medical commands with the respective Military Departments have created ambiguous governance, which can make it difficult to assign responsibility for the implementation of Enterprise-wide policy.

Furthermore, with unclear delegation of authority and lack of organizational structure throughout the DHP, there is potential for a lack of monitoring, which could lead to control failures and potential misstatements to the financial statements. The lack of participation and responsiveness to the MHS RMIC Team limits the DHP's ability to review, assess, and report on the effectiveness of internal control.

Finally, the lack of implemented comprehensive Enterprise-wide accounting policy for significant business operations of the DHP has contributed to departures from Federal Accounting Principles, issued by the Federal Accounting Standards Advisory Board (FASAB), including:

- Accrual accounting requirements per Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities*, and SFFAS No. 5, *Accounting for Liabilities of The Federal Government*
- Recognition and valuation requirements set forth in SFFAS No. 3, *Accounting for Inventory and Related Property*
- Liability requirements set forth in SFFAS No. 5 and SFFAS No. 12, *Recognition of Contingent Liabilities Arising from Litigation*
- Recognition and valuation requirements set forth in SFFAS No. 6, *Accounting for Property, Plant, and Equipment*
- Revenue recognition requirements set forth in SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*
- Recognition and valuation requirements set forth in SFFAS No. 10, *Accounting for Internal Use Software*
- Reporting and valuation requirements set forth in SFFAS No. 29, *Heritage Assets and Stewardship Land*
- Accounting and reporting requirements associated with SFFAS No. 31, *Fiduciary Activities*
- The full cost provisions of SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts*, as amended by SFFAS No. 55, *Amending Inter-Entity Cost Provisions*

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- Recognition and valuation requirements set forth in SFFAS No. 44, *Accounting for Impairment of General Property, Plant and Equipment Remaining in Use*.

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

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

B. Entity-Level Control Design and Operation (*Repeat Condition*)

Condition: The DHP did not meet the standards for an effective internal control system, as defined in GAO's Green Book. Entity-level internal control design failures exist across three components of internal control (i.e., Control Environment, Control Activities, and Information and Communication). In addition, the DHP's assessment of ELC design is not complete, as documentation was not available to support the DHP's consideration of all of GAO's attributes across each Component.

The DHP has not implemented an effective process to assess and monitor the adequacy of its Subcomponents' internal control programs in support of the DHP Statement of Assurance (SoA). In its FY 2022 SoA, the DHP was unable to provide assurance that internal controls over operations, reporting, and compliance are operating effectively across the Enterprise for FY 2022 in accordance with OMB Circular A-123, the GAO Green Book, and FMFIA. Additionally, the DHP was unable to provide assurance that the internal controls over the financial systems are in compliance with FMFIA, Section 4; FFMIA, Section 803; and OMB Circular A-123, Appendix D, as of September 30, 2022.

The DHP has not fully implemented policy and procedures for the design, implementation, and monitoring of CUECs. The MHS remains in the process of implementing a CUEC monitoring program across the DHP, as prescribed by the MHS CUEC Policy Memorandum.

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Cause: The MHS RMIC Program has not fully assessed or implemented all principles of internal controls in accordance with FMFIA and Green Book, including those controls necessary in the information system environment.

The DHP remains in the process of establishing the RMIC Program across the Enterprise. Additionally, the DHP has not developed or implemented a completed Standard Operating Procedure (SOP) that includes documentation requirements, test plans, monitoring procedures, and document retention that would allow for effective standardization and oversight of the RMIC Program across the Enterprise.

The DHP has not established an effective system of internal control, as required by OMB Circular A-123. This is demonstrated by the results of the MHS RMIC Team's testing of operating effectiveness.

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

Although the DHP, along with the FISCAM Team, issued the MHS CUEC Policy Memorandum and MHS CUEC Monitoring SOP, the policies and procedures have not been fully implemented. The lack of formal policy implementation has inhibited responsiveness to monitoring activities for CUEC remediation performed by the DHP.

Effect: Inadequate assessment and application of the principles defined in GAO's Green Book increases the risk of failing to identify and properly respond to relevant financial reporting risks, including information system risks and threats, in an effective manner (i.e., the ineffective design of internal controls necessary to mitigate those risks).

Incomplete internal control documentation impedes the DHP's ability to monitor the design, implementation, and operating effectiveness of its ELCs over time. As a result of its ongoing implementation of an internal control system, the DHP is unable to provide reasonable assurance that its internal controls over operations, reporting, and compliance are operating effectively.

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

Recommendations: Kearney recommends that the DHP implement an Enterprise policy for the RMIC Program that requires, at a minimum, the development of ELCs at the Enterprise and DHA Subcomponent levels that align with the MHS RMIC Program. The policy should require both the Enterprise and DHA Subcomponents to perform the following:

1. Assess the DHP structure to identify all Subcomponents and potential changes to occur based on the ongoing reorganization. The Enterprise and individual Subcomponents should document this assessment to clearly establish the boundary and reporting structure. Upon the completion of this assessment, the Enterprise and individual Subcomponents should determine how the RMIC Team will capture, develop, and provide RMIC support and guidance to all Subcomponents to facilitate a complete DHP SoA for FY 2023.
2. Finalize the MHS RMIC SOP. Upon finalization, the DHP should distribute and implement the policy throughout the Enterprise, as identified in Recommendation #1.
3. Assess the state of Subcomponents' internal control programs and develop a formal documented strategy to incorporate the transitioning reporting entities into the MHS RMIC Program.
4. Maintain assessment criteria based on Government standards, best practices, and previous knowledge of the DHP operations in the *MHS Control Matrix*.
5. Establish a mechanism to provide for adequate review of business process narratives to finalize them. In addition to helping ensure stakeholders document business processes completely and identify internal control activities accurately, the MHS RMIC Team should retain any finalized documentation from Subcomponents to support review and understanding of current processes.
6. Continue to provide stakeholders with training to enable them to properly identify internal control activities and differentiate them from process steps and informational statements.
7. Review FYs 2020, 2021, and 2022 results and final test plans; update control inventory through independent research; conduct understanding meetings with the DHP ELC points of contact (POC); review existing agency documentation; and crosswalk the documented controls to the respective principle in Enterprise-wide approved templates.
8. Develop and document a test plan annually for all principles and adaptable ELCs, considering changes in the Enterprise's ELC inventory, results of the previous assessment, and applicable recommendations provided by internal control oversight bodies and/or external auditors.
9. Implement policies and procedures for the monitoring of third-party service organization controls in accordance with GAO-14-704G, *Standards for Internal Control in the Federal Government*, as well as National Institute of Standards and Technology (NIST) Special Publications (SP) 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*, and 800-35, *Guide to Information Technology Security Services.*
10. Perform timely assessments of DHP control activities for addressing CUECs to determine their applicability to the DHP's internal controls and retain related support in coordination with the risk assessments and the design of internal controls for its end-to-end processes. The DHP should coordinate with the MHS RMIC Team and consider

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integrating efforts across teams to complete the risk assessments, as well as to perform testing over design and operating effectiveness of internal controls.

11. For CUECs determined to be applicable:
    a. Ensure reporting entities map CUECs to controls.
    b. Document the design and implementation of the control(s).
    c. Revisit relevant business process documentation to verify inclusion of CUECs.
    d. Test the control(s) to determine whether it is operating as designed.
12. Establish routine communications with the DHP and service organizations to improve awareness of changes to CUECs and potential exceptions that may be reported in the SOC 1® report. This should enable the DHP to timely mitigate risks to its financial reporting (i.e., deficiencies within its service organization's controls and related processes). The DHP should also develop methods to document these communications and the changes to the design and implementation of internal controls in response to service organization updates.

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

Background: DHP financial data is reported in eight general ledger (GL) systems with input from several feeder systems. Monthly, the DHP's service organization transfers feeder files from the GL systems to Defense Departmental Reporting System (DDRS) – Budgetary (B). The transmitted data from each GL system undergoes a series of translations referred to as pre-processing. Quarterly, the DDRS-B data transfers to DDRS – Audited Financial Statements (AFS).

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

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

The DHP's Standard Accounting and Reporting System (STARS) – Field Level (FL) GL system is not in substantial compliance with FFMIA. Testing identified that STARS-FL does not utilize General Ledger Account Codes (GLAC) which meet the standard GL accounting requirements the Department of the Treasury (Treasury) published in the United States Standard General

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Ledger (USSGL) supplement to the Treasury Financial Manual (TFM). STARS-FL requires the application of complex crosswalks to translate balances from source GLACs to USSGL.

The DHP remains in the process of refining its understanding of UoT data produced from Advana and AF GL systems, impacting its ability to timely support critical audit requests during the FY 2022 financial statement audit. Specifically:

- The DHP has not designed and implemented effective controls to prepare and submit transaction-level detail supporting DHP balances and activities recorded in AF GL systems. Accordingly, the DHP is unable to demonstrate whether transactions recorded in AF GL systems are complete, accurate, and valid. GL populations were significantly delayed, improperly summarized, and included material abnormal activity and balances
- Consumables data supporting AF GL system balances was significantly delayed and did not reconcile to the TB. These delays and variances hindered the testability of the associated expense and undelivered orders (UDO) data. In both cases, consumables represent a material portion of the associated line items
- The DHP was unable to provide a transaction-level population of FY 2022 Quarter (Q) 1 and Q2 recoveries activity reported in AF GL systems. As a result, the DHP was unable to substantiate more than $48 million in recorded recovery transactions.

Neither the DHP, nor its service organization, perform reconciliations between the AF subledgers and GL.

Cause: The DHP did not maintain effective controls to ensure the UoT reconciliation process was complete and that all identified variances were supported. Material variances were noted as a result of UoT data not containing certain transactions prior to FY 2013. The STARS-FL Chart of Accounts (COA) does not mirror USSGL account numbers and requires a crosswalk process prior to reporting balances to DDRS-B. STARS-FL is not currently configured to contain all necessary USSGL accounts and attributes when recording transactions.

The DHP remains in the process of refining its understanding of AF GL data with subject matter experts. Formalized reports and SOPs to reconcile transactions between subledgers and AF GLs remain in development. The DHP does not have an effective process to produce a detailed schedule of consumables balances and activity reported in AF GLs. Since the accounting system receives summarized activity data, associated records are insufficient to identify activity and balances at the transaction level. The DHP does not have a process to vouch recovery transactions recorded in AF GLs to source documentation.

Effect: DHP management is unable to assert to the completeness and accuracy of the financial statements in accordance with GAAP and USSGL Treasury reporting requirements.

The DHP may not detect misstatements in its reported balances and activities within AF systems resulting from differences between the GL and subledgers. Additionally, the DHP is not able to provide transaction-level detail for both consumables and recoveries activity from AF GLs, impacting the ability to validate the accuracy of multiple financial statement line items.

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The lack of timely and fully refined population parameters inhibits the DHP's ability to effectively monitor financial reporting activities.

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

1. Continue performing analysis of the financial statement impact of not having GL transaction data to fully reconcile to GL system TBs. Additionally, the DHP should continue to work with the Advana service organization to obtain GL transaction data for no-year appropriation funds.
2. Continue to monitor the DHP's migration away from the STARS-FL GL system to ensure all GL systems in-use are in compliance with FFMIA.
3. Implement system and process changes to interface consumables activity to AF GLs at the transaction level.
4. Develop and implement a process to agree summarized consumables balances recorded in its accounting systems to detailed balances and transactions composing the detailed balances from feeder systems timely.
5. Define query parameters using Advana data for AF GL population reconciliations of significant transaction classes and assessable units. Query design should enable population reconciliations from Advana to the GL system TB.
6. Update policies and procedures to require the periodic performance and review of AF subledger to GL reconciliations.
7. Develop a process to produce a complete and accurate GAFS-R recovery source transaction population that agrees to the DHP's TB and allows for the vouching of recorded transactions to source documentation.
8. As the RMIC Program continues to be implemented, incorporate assessable unit monitoring parameters to ensure consistency with documentation provided to external stakeholders.
9. Define business rules to identify cost accounting transactions, net to zero transactional activity and other transactions included in Advana GL system data which do not have a financial reporting impact. Such transactions should be defined and identifiable when running population queries so such activity can be removed prior to sample selection.

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

Background: The DHP's service organization for financial reporting posts monthly journal voucher (JV) adjustments in DDRS-B and quarterly JV adjustments in DDRS-AFS. The financial reporting service organization self-classifies each DDRS-AFS and DDRS-B JV as either "supported" or "unsupported." Monthly, the DHP service organization also prepares, pre-processes, and posts various adjustments to DDRS-B. The DHP, in coordination with its service organization, is responsible for ensuring all adjustments to its financial records contain adequate support and approvals.

Included in the monthly and quarterly financial reporting processes are the postings of trading partner adjustments and elimination entries. There are two types of eliminations: 1) intra-DHP eliminations, which are those within the DHP and its Components, and 2) inter-DHP eliminations, which are those outside of the DHP. Prior to execution of the elimination entries, trading partner adjustments are recorded to align balances between trading partners and resolve the intragovernmental account balance discrepancies. The *Financial Management Requirements for Trading Partner Eliminations Memorandum* (FPM-19-03) requires DoD reporting entities that are unable to track trading partner data at the transaction level to adjust their balance to the supportable data reported by the trading partner.

Condition: The DHP's financial statements contain material unsupported JV adjustments. During FY 2022, unsupported adjustments, as self-classified by the DHP's service organization, were posted on behalf of DHA in Q1 and Q2. Of approximately 1,540 JVs recorded, 30 were classified as unsupported.

The DHP could not sufficiently support the review and approval of DDRS-B JVs manually recorded by the DHP service organization. Three of 47 DDRS-B JVs selected for testing were noted as exceptions.

The DHP, in coordination with its service organization, has not ensured adjustments processed and recorded during the quarterly financial statement compilation process are fully supported by underlying transaction-level data, and as of Q2 FY 2022, it has not fully completed reconciliations from underlying source data to the DDRS-B TB adjustments.

The DHP's service organization records unsupported trading partner adjustments on behalf of the DHP to the DDRS Trading Partner Detail Report to agree intra-governmental balances to balances reported on the DHP TB if differences are identified within the trading partner report. This is in lieu of fully reconciling buyer/seller balances with these trading partners and recording appropriate adjustments in accordance with the TFM.

Cause: The DHP financial reporting environment is complex, necessitating a high volume of JVs and adjustments to prepare financial statements. The DHP operates eight GL systems, along with a multitude of contributing feeder information systems. Many of these feeder systems and adjustments do not interface with DHP GL systems; instead, underlying activity is recorded directly into DDRS-B and DDRS-AFS via adjustment entries. Many of the information systems in use were not designed for recording and reporting activity for the purpose of preparing financial statements in accordance with GAAP.

The DHP implementation of oversight procedures remains in process across the Enterprise and its service organization to enforce the generation and retention of supporting documentation to maintain an audit trail. The DHP and its service organization have not developed business processes to ensure accounting events are fully supported by adequate underlying documentation. Additionally, the DHP has not documented or exercised sufficient oversight of its DDRS-B feeder adjustments.

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

Effect: As a result of the magnitude of unsupported JVs and other adjustments recorded during financial statement preparation, the DHP cannot attest to the accuracy, validity, and completeness of its financial statement balances impacted by such adjustments recorded during FY 2022. In the Q2 FY 2022 Unsupported JV Financial Statement Impact Analysis, the DHP identified ($3.5) million of unsupported adjustments on the Balance Sheet, $313 million on the Statement of Net Cost, ($324) million on the Statement of Change in Net Position, and no impact to the Statement of Budgetary Resources (SBR).

The DHP is unable to reconcile its detailed feeder file transactions to the TBs used to prepare its financial statements. This may result in undetected misstatements on the DHP financial statements.

The volume and dollar amount of unsupported JVs and adjustments is also an indicator of FFMIA noncompliance, as it pertains to recording financial events in accordance with the requirements of the USSGL at the transaction level.

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

1. Continue to perform quarterly analyses of the unsupported DDRS-B and DDRS-AFS JVs to determine the nature of the adjustments. Results of this analysis should be used to identify the nature of the missing underlying support related to the unsupported adjustments. Upon completion of each analysis, the DHP should evaluate and update its remediation plan by JV category to set a path forward to resolve the JV requirement.
2. Continue efforts to reduce the number and dollar amount of JVs recorded in DDRS by coordinating with GL system owners to migrate monthly and quarterly adjustments, such as collections and disbursements, budget, and accountable property system of record (APSR) adjustments, to the GL systems which can accommodate USSGL reporting and transaction-level details.
3. Update or implement appropriate policies, procedures, and Memorandums of Understanding (MOU) to facilitate coordination and communication between DHA and all of its service organizations to obtain, maintain, and reconcile the underlying transaction-level data necessary to determine and support the monthly and quarterly adjustments for each GL system to be entered at the DDRS-B and DDRS-AFS level. MOUs should establish thresholds appropriate for the DHP to ensure adjustments material to DHA are reviewed and approved prior to being recorded in DDRS.

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4. Continue to exercise oversight to ensure review of each JV adjustment is timely documented on the JV Review Checklist and timely concurrence is provided to the respective service organization site. The DHP should use information gathered from oversight to inform further corrective actions needed to ensure preparation errors are detected and corrected timely.
5. Continue to perform periodic analyses to determine the financial statement line item impact of unsupported and unreconciled DDRS-B adjustment balances. This analysis should incorporate efforts to define relationships between the DDRS-B adjustment files to identify the net impact to the financial statements.
6. Continue to work to obtain detailed transaction-level data for all DDRS-B adjustments and feeder files, as necessary.
7. Continue efforts to implement reconciliations to support all summarized DDRS adjustment balances with transaction-level detail for all DDRS adjustment files to ensure the completeness and accuracy of the balances reported in DDRS-B.
8. Continue to perform an analysis of the unsupported adjustments and develop a strategy to validate the inclusion of the unsupported balances on the DHP TB.
9. Implement policies and procedures to ensure that the trading partner coordination and reconciliation process, as well as the process to review and approve adjustments and eliminations, is consistently applied across the DHP.
10. Continue efforts to formalize policies and procedures to perform reconciliations for both buyer- and seller-side trading partner activity at the transaction level on a monthly basis and coordinate directly with trading partners to resolve differences.
11. Continue efforts to formalize policies and procedures for coordination with trading partners and the DHP service organization to review and adjust balances, as necessary, to reflect the actual amounts incurred and owed to trading partners based on the provision of goods and/or the receipt of services.
12. Work with the General Fund Enterprise Business System (GFEBS) Program Management Office (PMO) to incorporate the trading partner code and correct the Federal/non-Federal flag at the GFEBS transaction level.

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

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

All Treasury Index (TI) 97 Other Defense Organizations (ODO), including DHP Components, are assigned specific Treasury Account Symbols (TAS) and limits. Limits designate the amount or use of funds for a certain purpose or identify sub-elements within the account for management purposes. Federal agencies are required to reconcile FBWT at the TAS level. In addition, the DoD requires TI-97 ODO Components to reconcile below the TAS to the limit level. Reconciling FBWT accounts with Treasury's Central Accounting Reporting System (CARS)

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records at least monthly helps ensure that balances are accurate and complete, differences are resolved in a timely manner, and financial statements are presented fairly. The DHP utilizes a service organization to perform monthly reconciliations between recorded amounts and those reported to Treasury at the TAS and limit level.

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

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

- The DHP's financial statements include an unsupported/unreconciled opening FBWT balance of $86 million
- The DHP, in coordination with its service organization, has not implemented internal control activities to help ensure the accuracy and completeness of the DHP's financial statements with respect to identifying and properly recording year-end actual or estimated suspense and SoD balances
- The DHP, in coordination with its service organization, does not have an effective reconciliation process to fully support undistributed adjustments recorded during the financial statement compilation process performed by its service organization.

Cause: The DHP's Balance Sheet includes FBWT activity excluded from Department 97 Reconciliation and Reporting Tool (DRRT) and Consolidated Cash Accountability System (CCAS) reconciliation tools, resulting in unreconciled/unsupported FBWT balances.

SoD and suspense UoTs are not available after quarter-end in a timely manner to perform sufficient analysis for financial reporting and often do not identify the responsible entity for each transaction. While DFAS has continued efforts to identify root causes of suspense and SoD transactions to reduce balances and clear transactions to DoD entities timely, shared TIs, ALCs, and lack of line of accounting (LOA) information continue to make it difficult to resolve differences timely.

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

Effect: Without an effective reconciliation process, the DHP may be unable to assess the potential risks to the accuracy and completeness of FBWT or determine the total unsupported differences between its recorded FBWT and the balance reported in CARS. In addition, DHP management may also be unaware of the potential risk of a financial statement misstatement.

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

1. Identify impediments to the TI-97 FBWT reconciliation process (e.g., excluded activity from the DRRT, CCAS, Advana, TI-97 budget clearing accounts, and SoDs) and establish compensating controls or develop new systems to reconcile any excluded FBWT activity or, through documented materiality analysis, indicate that management accepts the risk of potential misstatement.
2. Perform root cause analysis to assess underlying business processes which are triggering the high volume and dollar amount of undistributed transactions.
3. Develop, implement, and document an effective reconciliation process for identifying any unmatched disbursements and collections and ensure that all resulting adjustments are fully supported.
4. Develop and implement a methodology using relevant, sufficient, and reliable information to identify the actual or estimated impact of SoDs and suspense accounts for recording and reporting into the GLs and financial statements.
5. Research and resolve SoDs and suspense transactions by correcting the transactions in source systems and assist with necessary supporting documentation for corrections, if needed.

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

Deficiencies in two related areas define this material weakness:

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

Background: The DHP, through DHA and its MTFs, processes both billable and non-billable medical encounters that arise from performing medical services. Billing consists of the MTFs sending invoices to patients or agencies for medical services provided. The medical professionals (e.g., nurses, doctors) at the MTFs prepare health care encounter information for processing in the Composite Health Care System (CHCS) and MHS GENESIS. Billable encounters are processed for patient care provided to non-TRICARE beneficiaries or for patient care provided to TRICARE beneficiaries who are either covered by other insurance or who receive care which is uncovered. The Armed Forces Billing and Collection Utilization Solution (ABACUS) is the DHP's subledger for tracking and processing collections on medical billings.

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

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After a bill is finalized within ABACUS, it is transmitted to the appropriate party. DHA MTFs may then perform an adjustment or correction of a bill, as necessary. Additionally, MTF personnel may determine that a medical receivable is fully or partially uncollectible if a bill is not valid or if a bill is more than two years delinquent. Further, in some instances, MTFs may receive payment for less than the billed amount with an explanation of benefit (EOB) from an insurance company. At this point, the DHA MTF third-party collection (TPC) contractors may make an adjustment within ABACUS to the amount the insurance carrier determined it would pay, as stated in its EOB.

Care for qualified health care recipients and their families begins at the Patient Administration Department (PAD) of an MTF. At the point of initial registration (entry of the patient into the system), the PAD or Registration Specialist enters a patient's identifiers into supporting medical systems and checks eligibility information against the Defense Enrollment Eligibility Reporting System (DEERS). The verification of patient eligibility is important at the time care is delivered, as eligibility may change based on the timing and nature of services being provided, as well as beneficiary circumstances which may impact their eligibility (e.g., third-party insurance, marital status changes, separation/retirement).

MTFs provide medical services daily, and per DHA-Procedural Instruction (PI) 6040.07, these services are required to be coded within three business days for outpatient (OP) encounters, 15 days for ambulatory procedure visits (APV), and 30 days for inpatient (IP) encounters from the time the patient is discharged, which initiates the billing process. Using DHA-distributed coding tables, the MTFs input codes into ABACUS to record services rendered to patients; this is referred to as medical coding. DHA contracts with a third party to perform annual audits over the MTFs' medical coding accuracy in accordance with DoD Instruction (DoDI) 6040.42, *Management Standards for Medical Coding of DoD Health Records*. The most recent available third-party audit results are the FY 2021 coding audit, which represents an audit of medical records that were coded in FY 2020. During the audit, approximately 2,500 coded encounters were selected for testing, consisting of both billable and non-billable claims, across all MTFs.

A. Accounting and Reporting of Medical Services Provided (*Repeat Condition*)

Condition: The DHP does not account for revenue or Accounts Receivable (AR) resulting from medical services provided in a consistent manner, and the accounting for such activity is not in accordance with GAAP. Departures from Federal accounting standards include:

- Revenue as a result of medical services provided by DHA AF-affiliated MTFs to the PHS, NOAA, and VA beneficiaries is accounted for on a cash basis of accounting. The MTFs issue bills for medical services but record associated Federal revenue upon cash receipt in their GL system. DHA does not have a process in place to correct the cash basis of accounting for financial reporting purposes
- DHA MTFs record Medical Affirmative Claims (MAC) revenue (i.e., revenue from medical services provided when another party is liable [e.g., homeowners or automobile liability insurer]) using the cash basis of accounting. MAC revenue and receivables

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transactions are established when cash is collected, rather than when the legal claim is established

- DHA MTFs do not recognize estimated revenue earned for services provided which have not yet been billed
- The DHP does not have a consistent process in place to ensure that prepayment of medical services is appropriately recognized, recorded, and accounted for as deferred revenue
- The DHP does not report Federal AR at Net Realizable Value (NRV), as required by SFFAS No. 1. Furthermore, the DHP's Non-Federal AR allowance methodology is not complete, as it currently does not assess the collectability of receivables aged between 0 to 180 days
- DHA and MTFs receive quarterly prospective payments in advance of care provided from the Medicare-Eligible Retiree Health Care Fund (MERHCF). DHA MTFs do not have formalized processes in place to track health care encounters for MERHCF beneficiaries for accounting purposes, resulting in no transactional patient-level data to support the direct care revenue recognized by the DHP. The DHP, however, recognizes the revenue upon the transfer of funds, which is not in compliance with Federal accounting standards. There is also insufficient evidence that appropriate and consistent cut-off accounting activity occurs at the MTF level associated with care provided to MERHCF beneficiaries. The DHP has not yet implemented appropriate and sufficient levels of management control and reconciliation processes to ensure the adequacy and completeness of the data required for its financial reporting processes associated with direct care.

DHA does not currently have a process in place to reconcile Federal AR, revenue, and collection activity between its subledgers (i.e., ABACUS and MHS GENESIS) and GL systems. Additionally, DHA does not have a process in place to reconcile public collections in transit, collections, and revenue activity between subledgers and GL systems.

DHA MTFs have not consistently implemented internal controls regarding their billing programs to require supervisory review and approval for adjustments and corrections to medical AR billings. Although some MTFs have appropriately segregated TPC billing and collection activities, other MTFs have not implemented sufficient segregation of duties (SD) related to AR billing adjustments and corrections across their billing programs. MTFs sometimes allow incompatible functions, such as personnel who perform billing and/or collection processes to also perform AR billing adjustments and corrections.

The DHP does not have a sufficient process in place for pre-authorization of services provided to VA beneficiaries. Patient billings to the VA that are denied for lack of authorization may not be processed and/or collected timely from applicable third parties (e.g., VA beneficiaries or other health insurance).

The DHP does not have a documented internal control activity for conducting an eligibility check within DEERS to verify the most recent information is being used during the patient identification process (PIP).

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DHA MTFs did not provide or maintain sufficient audit evidence to support the validity of AR, revenue, and collection activity within the billing and collection subledger and GL systems, respectively. Additionally, remediation efforts remained in process; therefore, the DHP is unable to assert to the completeness and accuracy of its open AR ABACUS population. The DHP does not adequately perform AR debt management procedures over outstanding AR balances. Review of the DHP's Non-Federal AR aging data and allowance methodology as of June 30, 2022 identified $317 million of AR aged over one year old.

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

- The DHP has not established effective business processes with associated internal controls to properly recognize all medical service revenue and associated AR using the accrual basis of accounting
- Formalized accounting policy, procedures, and controls have not been developed to appropriately account for Federal AR and associated revenue at NRV, and the DHP continues to refine its allowance methodology for Non-Federal AR
- Specific to care for MERHCF beneficiaries, the DHP has not established an effective business process with associated internal controls to properly recognize revenue based on care provided from actual activity occurring in the current FY or based on supporting validation of its prospective payment methodology for year-end reporting.

The DHA MTFs do not record AR and revenue activity consistently in their subledgers and GLs, and the DHP does not have a policy formulated requiring periodic reconciliations of medical subledger activity to the GL.

As implementation of MHS GENESIS throughout DHA MTFs remains ongoing, the internal control environment surrounding medical charge edits and deletions has not been formalized. Although MHS GENESIS is configured to allow a Charge Analyst position to perform a review function, the position has not yet been filled at MTFs across DHA.

The DHP has not implemented an effective approach for conducting business with the VA that allows for consistency across MTF locations and the timely collection of payment for services provided. VA claims have also been disputed based on items such as differences between amounts billed and amounts paid, disagreements over location-based reimbursement rates, or instances of DHA MTFs being unable to collect payments.

DHA has not effectively implemented policy and guidance at the MTF level for patient check-in or ancillary procedures regarding eligibility verification for medical services provided. The DHP does not have a consistent process to document and demonstrate the verification of patient eligibility prior to providing medical services. The DHP is in the process of implementing a new eligibility process within MHS GENESIS.

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The DHP remains in the process of establishing its RMIC Program across the Enterprise. The DHP did not develop, maintain, or provide sufficient documentation to adequately support reported AR, revenue, or collections.

Effect: The DHP cannot assert to the accuracy and completeness of its recorded AR, revenue, and collection activity reported on the financial statements. There is a risk of material misstatement as a result of the cash basis of accounting being utilized. Additionally, the DHP financial statements may contain misstatements associated with liabilities on the Balance Sheet, as well as revenue on the Statement of Net Cost, due to improper revenue recognition for payments received in advance of care.

The DHP's lack of internal controls over charge edits and deletions may lead to invalid changes to medical charges, resulting in inaccurate patient billing. Without preventive internal controls of reviewing billed charges prior to processing, there is an increased risk of incorrect charges assigned to MTF medical encounters, which may lead to MTF AR and revenue inaccuracies.

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

The lack of formalized procedures across MTFs for obtaining preauthorization for care provided to VA beneficiaries has resulted in the DHA MTFs expending budgetary resources without proper reimbursement.

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

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

Recommendations: Consistent with the prior year, Kearney recommends that the DHP develop an accounting policy for medical services revenue and associated AR, which specifically addresses the appropriate accounting treatment as prescribed within SFFAS No. 1 and SFFAS No. 7. In addition, the DHP should perform the following:

1. Formalize revenue recognition when services are performed for all Public AR categories in accordance with applicable Federal Accounting Standards. Revenue and corresponding AR should be recognized with transactional activity recorded in the GL system or as appropriate in a subledger.

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2. Formalize revenue recognition procedures for Federal trading partners to be aligned with actual care provided in the current FY, as applicable for each MTF. Revenue recognized should be supported by transactional activity recorded in the GL system or in a supporting subledger.
3. Implement a consistent methodology for the calculation of allowance for uncollectible accounts with inclusion of all AR categories in the calculation. Separate allowance methodologies should be considered by AR category based on historical collection analysis. The methodology should adjust gross AR and associated revenue to reflect NRV.
4. Perform documented reconciliation of medical AR recorded in the subledger with medical AR recorded for financial reporting, including supervisory review and approval.
5. Design and implement a process to verify that collected patient billings are appropriately closed in the subledgers. Monitoring controls should be established, to include performing a reconciliation between aged AR balances in the subledger and collections to ensure that invalid AR entries have been closed.
6. Review and assess the approach for doing business with Federal trading partner beneficiaries and implement, as appropriate, baseline requirements to be met at the MTF level.
7. Implement required pre-authorization to administer care to Federal trading partner beneficiary patients and begin monitoring activities for proper implementation.
8. Update and implement policies and procedures to require consistent internal control activities for the edit and deletion of medical charges across MTFs, including SD and supervisory review and approval.
9. Update and implement policies and procedures to require consistent internal control activities for the adjustment and correction of AR across MTFs, including SD and supervisory review and approval.
10. Review current procedures related to verifying patient eligibility and incorporate formalized verification procedures which can demonstrate the eligibility determination at the time of patient check-in or at an appropriate point during the patient encounter or service prior to the patient's final paperwork completion.
11. Review supporting documentation and retention requirements over valuation of patient billings to ensure the DHP's ability to successfully respond to external audit requests.

B. Medical Coding Accuracy (*Repeat Condition*)

Condition: The DHP has not implemented effective medical coding procedures to ensure the accuracy of medical coding applied over IP, OP, APV, and inpatient professional services round (IPSR) health care encounters. A third-party coding audit performed in FY 2021 identified a rate of coding accuracy significantly below the required 97% threshold prescribed within DoDI 6040.42, as noted in ***Exhibit 2***.

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Exhibit 2: Pass Rates Comparison for Billable vs. Non-Billable Records

Record Type	Pass Rates	
	Billable	Non-Billable
IP	35.19%	53.85%
OP	70.00%	52.27%
APV	52.00%	57.08%
IPSR	57.41%	60.28%

Cause: The findings and recommendations included in the FY 2021 medical coding audit indicate that the DHP does not have sufficient clinical supporting documentation that clearly and specifically addresses the procedures performed during patient encounters for accurate medical coding.

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

Recommendations: Consistent with the prior year, Kearney recommends that the DHP perform the following:

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

VI. Property, Plant, and Equipment (*Repeat Condition*)

Background: The DHP owns, operates, and maintains stewardship of a diverse and significant portfolio of Property, Plant, and Equipment (PP&E). The DHP has determined the asset classes for its PP&E as follows: General Equipment (GE); real property construction in-progress (CIP); internal use software (IUS); IUS in-development (IUSD); leases; and leasehold improvements. The DHP reported PP&E, net of accumulated depreciation and accumulated amortization, to be $4.1 billion.

In August 2016, FASAB issued SFFAS No. 50, *Establishing Opening Balances for General Property, Plant, and Equipment*, amending existing PP&E accounting standards to allow a reporting entity, under specific conditions, to apply alternative valuation methods in establishing opening balances for PP&E. The alternative valuation methods available under SFFAS No. 50

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may be applied in the first reporting period in which the reporting entity makes an unreserved assertion that its financial statements are presented fairly in accordance with GAAP. As SFFAS No. 50 is applicable to the valuation of opening balances only, all changes to the DHP PP&E portfolio as a result of current-year transactions are subject to the valuation requirements set forth in SFFAS No. 6.

Condition: The DHP PP&E valuation as of September 30, 2022 is not in accordance with GAAP. The PP&E balances have not been sufficiently valued at historical cost in accordance with valuation techniques promulgated by SFFAS No. 6 or SFFAS No. 10, as appropriate. Further, the DHP did not begin valuation adjustments over PP&E using alternative valuation techniques (i.e., deemed cost) in accordance with SFFAS No. 50. Specifically:

- The DHP has not fully implemented policies, procedures, or controls to effectively record and report capitalized GE. In addition, the DHP has not fully implemented the developed inventory procedures across all DHA MTFs to ensure that consistent and compliant wall-to-wall inventory procedures are performed for the DHP in a timely manner and in accordance with DoDI 5000.64, A*ccountability and Management of DOD Equipment and Other Accountable Property*. As of June 30, 2022, the DHP did not provide sufficient support to demonstrate inventory procedures were executed across the DHP in compliance with DoDI 5000.64. As of March 31, 2022, the DHP TB and financial statements were not supported by the GE asset values and accumulated depreciation reported in the APSR. The DHP does not have effective internal control activities in place to properly account for GE additions, disposals, transfers, and depreciation
- The DHP has not finalized an assessment of IUS or IUSD in order to properly identify and account for IUS for financial reporting purposes. The opening balance of the DHP's IUSD, recorded at $1.2 billion as of October 1, 2021, consisted primarily of MHS GENESIS. MHS GENESIS is not valued in accordance with historical cost requirements prescribed within SFFAS No. 10. Although it has begun inventory efforts over IUS and IUSD, DHA has not recorded IUS or IUSD for financial reporting as a result of its efforts, which remain in process. Outside of valuing MHS GENESIS, the DHP has not begun valuation efforts over remaining IUS or IUSD using alternative valuation techniques in accordance with SFFAS No. 50
- The process to record CIP related to Operations and Maintenance (O&M)-funded projects established in DHA Administrative Instruction (AI) 7040.02, *Construction in Process*, dated December 8, 2021, has not been fully implemented across the DHP. DHA is working to identify ongoing O&M projects to determine if there are capitalizable costs. However, the published standardized guidance or procedures to identify capitalizable costs have not been implemented, and the DHP does not currently track the capitalizable costs of each project funded by O&M appropriations
- As of June 30, 2022, DHA, in coordination with the Naval Facilities Engineering Systems Command (NAVFAC), could not substantiate the validity of all ongoing projects reported by NAVFAC for the DHP. Specifically, DHA was unable to support the project status (e.g., authorized, in progress, active/in-active, complete, terminated) for projects included in the CIP reports, which, in turn, track NAVFAC-executed military

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construction (MILCON) expenditures to ensure CIP balances reported on the DHP financial statements are complete and accurate.

Cause: The DHP has not formulated an accounting policy or accounting guidance to appropriately value PP&E at historical cost in accordance with GAAP. As new accounting guidance was released by FASAB, no formal assessment of the DHP PP&E portfolio was performed to determine if implementation of alternative valuation techniques afforded by SFFAS No. 50 was necessary. While the DHP has finalized accounting guidance for GE, CIP, and IUS asset classes, the guidance does not specifically address valuation for opening balances under SFFAS No. 50.

The reorganization of the DHP has added complexity to operations, requiring a redesign of the control environment as operations and processes are consolidated from the Service Medical Activities (SMA) under DHA. Further complexity is attributable to the transition of GE oversight and reporting responsibilities from the DHP Components to the DHA Medical Logistics (MEDLOG) Division. While the DHP established inventory management controls in November 2021, these procedures are not implemented consistently across the DHA MTFs. Further, the inventory management controls do not include the preparation and retention of consistent supporting documentation. In addition, RMIC activities performed in support of the DHP annual SoA do not currently incorporate GE as an assessable unit. Risk assessment procedures have not been conducted to identify financial reporting risks associated with GE and the extent of internal controls in place to address identified risks, as well as to identify internal control gaps which may exist.

DHP management has not designed and implemented policies, procedures, and controls consistently across the DHP to ensure that GE is appropriately and accurately reported in the financial statements. The DHP has not established policies and procedures over quarterly reconciliations of the DHP APSRs to ensure effective review and approval, as well as sufficient, accurate, and consistent execution of the reconciliation procedures. The DHP and its service organization performed insufficient review of manual JVs, impacting the accuracy of reported GE and accumulated depreciation.

DHP management has not fully implemented policies, procedures, or internal controls over inventory and reporting of IUS and IUSD on the financial statements. DHP offices have not coordinated to ensure all IUS and IUSD identified during inventory procedures are being properly recorded in the GL and reported on the DHP's financial statements. Additionally, the DHP has not performed a complete assessment of operational business processes to determine the financial reporting impact and proper account treatment of operations.

The DHP has not applied its capitalization policies to real property CIP projects funded by O&M appropriations or established effective internal controls to track and record capitalized costs related to O&M-funded CIP. In addition, DHA, in coordination with NAVFAC, has not sufficiently implemented control activities over the NAVFAC-executed MILCON expenditures to ensure CIP balances reported by DHA are complete and accurate. DHA has not developed sufficient procedures surrounding project-level documentation used in support of its quarterly reconciliation procedures.

Effect: The DHP is unable to accurately and appropriately value its PP&E assets for FY 2022 in accordance with GAAP. The lack of accounting policy has resulted in a lack of preparedness to re-value FY 2022 PP&E opening balances at historical cost in accordance with SFFAS No. 50.

The DHP's PP&E as of September 30, 2022 does not reflect historical cost as required by SFFAS No. 6 or SFFAS No. 10, and the DHP's opening balances for FY 2022 do not reflect historical cost under alternative valuation techniques as allowable under SFFAS No. 50. The DHP's recorded balance for PP&E, net of accumulated depreciation and accumulated amortization, of $4.1 billion may be materially misstated as presented within the DHP's financial statements.

Without effectively and consistently implemented internal controls for the management and reporting of PP&E across the organization, the DHP cannot assert the PP&E balance is fairly stated in accordance with GAAP. Additionally, without a process in place to track and record capital costs for Real Property CIP or IUSD, there is an overstatement of gross costs and understatement of PP&E, net balances within the DHP's Statement of Net Cost and Balance Sheet, respectively. Finally, the DHP is unable to accurately account for the existence, completeness, or valuation of real property CIP managed by NAVFAC in accordance with Federal accounting standards. Accordingly, the DHP's recorded balance for PP&E is potentially understated by the NAVFAC-executed MILCON expenditures as of September 30, 2022.

Recommendations: Kearney recommends that the DHP perform the following:

1. Develop an Enterprise-wide accounting policy for PP&E, which specifically addresses historical cost valuation in accordance with SFFAS No. 6, SFFAS No. 10, and SFFAS No. 50. In its determination to implement historical cost valuation for opening balances under SFFAS No. 50, the DHP must implement PP&E processes with supporting internal controls that are both designed and operating effectively to value new PP&E acquisitions at historical cost in compliance with SFFAS No. 6 and SFFAS No. 10.
    a. Reference FASAB's Federal Financial Accounting Technical Release (TR) No. 18, *Implementation Guidance for Establishing Opening Balances*, dated October 2, 2017.
    b. Retain appropriate supporting documentation for underlying valuation methodology.
    c. Document the valuation technique by asset class for all assets currently in the DHP PP&E portfolio.
    d. Establish a timeline for the valuation and define roles and responsibilities required for execution.
    e. Detail requirements for valuation of new acquisitions that are compliant with SFFAS No. 6.
2. As part of the RMIC activities performed in support of the DHP annual SoA, ensure GE and IUS are incorporated as assessable units. Risk assessment procedures should be conducted to identify financial reporting risks associated with GE and IUS and the extent

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of internal controls in place to address identified risks, as well as to identify internal control gaps which may exist.

3. Develop and implement consistent financial reporting policies and procedures across the DHP and at the MTF level to ensure GE additions, disposals, transfers-in and transfers-out, and depreciation expense are recorded timely and accurately. The DHP should update the current quarterly reconciliation processes, as necessary, to support the timely and accurate financial reporting of GE.
4. Develop and implement internal control activities to conduct GE APSR reconciliation procedures across the DHP to ensure consistency, accuracy, and completeness of tie-outs between the APSR and the financial statements. Formalized procedures should include documentation requirements for review and approval of quarterly reconciliations.
5. Fully implement newly developed and existing procedures to ensure that consistent and compliant wall-to-wall inventory procedures are performed across the DHP in a timely manner. Inventory procedures should be documented and formalized in an SOP(s) that defines the roles and responsibilities of key personnel, requirements related to review and approval of the inventory results from the hand receipt holders (HRH), equipment managers, and other key personnel, as well as internal and external deadlines for completion of inventory procedures and communication of results to the DHP Enterprise.
6. Continue to develop and implement a strategy to verify the existence and completeness of IUS or IUSD through training and implementation of developed policy over IUS.
7. Design and implement formalized internal controls for proper cost classification associated with IUSD to facilitate the identification and reporting of capitalizable costs.
8. Coordinate with construction agents, as appropriate, to implement policies and procedures that track and account for capitalized costs related to O&M-funded CIP. The policy and procedures should include a formalized assessment of construction projects prior to project commencement to determine if criteria for capitalization has been met. O&M projects should be indicated as capital vs. non-capital within the relevant APSR based on the documented assessment.
9. Provide training to DHP personnel to ensure policies and procedures to track and record O&M-funded CIP are implemented accordingly.
10. Implement internal controls over financial reporting to verify that all capital renovation and improvement projects that meet the DHP's capitalization thresholds are captured for financial reporting purposes on the Balance Sheet. The DHP should formalize a data call at the region level on a quarterly basis to monitor appropriate capitalization decisions for O&M-funded projects.
11. Coordinate with DoD construction agents and DHA Facilities to obtain project-level documentation to enable DHA to confirm the status of MILCON projects tracked and subsequently used to confirm the completeness and accuracy of project statuses prior to financial reporting.

VII. Stockpile Materials (*Repeat Condition*)

Background: The DHP is required to maintain various medications and materials for the DoD to respond to a pandemic or other public health emergencies. DHA MEDLOG oversees the executive management of the DHP Stockpile Materials activities on behalf of OASD(HA). DHA

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maintains Service-Level Agreements (SLA) with the Defense Logistics Agency (DLA) Troop Support and the Department of Health and Human Services' (HHS) Biomedical Advanced Research and Development Authority (BARDA) to purchase medications on behalf of DHA. DHA also maintains SLAs with DLA Distribution Support; the United States Army Medical Materiel Command Europe (USAMMC-E), Southwest Asia (USAMMC-SWA), and Korea (USAMMC-K); and HHS Program Support Center (PSC) Perry Point to store and distribute medication and materials for medical preparedness. Medications and materials purchased for DHA by HHS BARDA remain at the manufacturing facility until such time that they need to be administered. DHA is responsible for developing policies, procedures, and internal controls to ensure the DHP's Stockpile Materials balances are accurately and consistently assessed, tracked, recorded, and reported across the Enterprise when Stockpile Materials are acquired, transferred, issued, or disposed.

Condition: The DHP has not fully designed and implemented policies, procedures, or internal controls to ensure that Stockpile Materials owned by the DHA are completely, appropriately, and accurately identified, tracked, recorded, and reported to meet requirements set forth by SFFAS No. 3. The DHA MTFs and service organizations continue to follow inconsistent inventory and inventory verification procedures and operate outside of a consistent internal control environment.

DHA has not completed an assessment and review of all its program operations to determine which programs maintain or acquire materials that meet the accounting criteria to be reported as Stockpile Materials on the DHP financial statements under SFFAS No. 3. DHA continues to prioritize its Pandemic Influenza Program to identify and record Stockpile Materials. However, further remediation efforts remain in process to determine what additional programs acquire Stockpile Material required for reporting by the DHP.

The DHP is inconsistently accounting for Stockpile Materials. Throughout FY 2022, DHA was not fully transitioned to the consumption method of accounting as required for Stockpile Materials under SFFAS No. 3. The purchase method of accounting is still in use for any programs containing Stockpile Material (e.g., Chemical, Biological, Radiological, and Nuclear [CBRN]), or other programs which have yet to be identified. The purchase method of accounting is not allowable under SFFAS No. 3 for Stockpile Material.

The DHP was unable to provide a Stockpile Materials population that fully reconciled to its financial statements as of March 31, 2022. A variance of $30.6 million was noted between the Stockpile Materials population provided and the financial statements as of March 31, 2022. DHP Stockpile Materials which have been recorded through remediation efforts have not yet been completely valued at historical cost in accordance with valuation techniques promulgated by SFFAS No. 3 or SFFAS No. 48.

Cause: RMIC activities performed in support of the DHP annual SoA do not completely incorporate Stockpile Materials as an assessable unit. Risk assessment procedures have not been conducted to identify financial reporting risks associated with Stockpile Materials and the extent of internal controls in place to address identified risks, as well as to identify internal control gaps

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which may exist. DHA's remediation activities related to the design and implementation of Stockpile Materials policies, procedures, and internal controls remain in process.

The determination of alternative valuation techniques afforded by SFFAS No. 48 is not planned to be completed until FY 2023. In addition, DHA's current remediation efforts outlined in CAPs exclusively focus on the Pandemic Influenza Program. A formal assessment to identify other DHP programs containing Stockpile Material has not been started.

Additionally, the DHP does not have a consolidated system, document, or file utilized to maintain Stockpile Materials. The Stockpile Materials population is manually created, and changes in Stockpile Materials balances each quarter are manually calculated. On-hand quantities and purchase prices are sourced from various systems, documents, and data sources, and they must be aggregated together to determine the quarterly balance.

Effect: Without effectively designed and implemented policies, procedures, and internal controls to identify, track, record, and report Stockpile Materials held by DHA, the DHP cannot assert to the completeness and accuracy of reported amounts on its financial statements. Furthermore, since the RMIC Program over its Stockpile Materials cycle has not been fully updated to reflect current operations, it cannot ensure that associated financial reporting risks are appropriately mitigated by internal controls. This includes completeness and accuracy over Stockpile Materials, assurance that Stockpile Materials acquired via service organizations are appropriately received, and assurance that transactions are recorded in the correct period.

The DHP is unable to accurately account for the existence, completeness, or valuation of Stockpile Materials in accordance with Federal accounting standards. Accordingly, the DHP's balance of Inventory and Related Property for FY 2022 is understated and period expenses may be misstated, as they reflect current-year purchases instead of usage (consumption).

Recommendations: Kearney recommends that the DHP perform the following:

1. As part of RMIC activities performed in support of the DHP annual SoA, ensure Stockpile Materials are incorporated as an assessable unit. Risk assessment procedures should be conducted to identify financial reporting risks associated with Stockpile Materials and the extent of internal controls in place to address identified risks, as well as to identify internal control gaps which may exist.
2. Continue to develop financial reporting policies and procedures to ensure that DHA's operational business processes are reviewed to determine the appropriate accounting treatment, recording, and financial reporting impact.
3. Implement policies, procedures, and internal controls for the end-to-end business process of Stockpile Materials. The policy, procedures, and internal controls should be developed to formally cover acquisition, receipt, issuance, transfers, inventory management, and disposal activities. Additionally, the policies should include formal roles and responsibilities of the Stockpile Materials business process stakeholders, to include roles and responsibilities within DHA, as well as third-party service organizations which are engaged for custodial activities.

4. Establish appropriate SLAs with applicable service organizations identified within the Stockpile Material end-to-end lifecycle. The SLAs should address inventory management procedures and required quarterly reporting to DHA of Stockpile Material transactions (e.g., receipts, issuances).
5. Establish appropriate accounting policy to value new acquisitions and the consumption of existing Stockpile Material in accordance with SFFAS No. 3. New acquisitions should be recorded using the consumption method of accounting defined in SFFAS No. 3.
6. Perform a documented formal assessment over the complete portfolio of DHP Stockpile Materials to determine if additional items outside the Pandemic Influenza Program should be recognized and reported.
7. Perform internal control monitoring and testwork under the RMIC Program to determine if the newly implemented policy and procedures have been implemented effectively.

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

Background: Non-payroll expenses include activities associated with the procurement of supplies and services, Military Standard Requisitioning Issue Procedures (MILSTRIP), travel, Government Purchase Card (GPC), and consumables (e.g., pharmaceutical, e-commerce, food subsidence purchases). In addition to commercially procured goods, DHA enters into Reimbursable Work Order (RWO) agreements to procure goods and services from other entities such as DoD organizations, Federal civilian agencies, and non-governmental entities.

Accounts Payable (AP) represent amounts owed for goods and services received from other entities, excluding those services rendered by employees. Management also recognizes contingent liabilities when a past transaction or event has occurred, a future outflow or other sacrifice of resources is probable, and the related future outflow or sacrifice of resources is measurable. Pending or threatened litigation and possible claims and assessments are examples of loss contingencies.

Condition: The DHP does not sufficiently account for its liabilities and related expenses. Specifically, the DHP does not have a complete or comprehensive process to record estimated AP and expenses for goods and services received but not yet billed in accordance with SFFAS No. 5.

The DHP does not have a process for validating receipt and acceptance of goods and services received from its intragovernmental trading partners prior to payment, nor a process to validate intragovernmental payment activity when receipt and acceptance cannot be performed prior to payment.

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

- Contingent or actual liabilities and related expenses
- Prospective payments received in advance of medical care provided.

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The DHP is unable to sufficiently support the substantive validity, accuracy, and completeness of non-payroll expenses recorded in USSGL No. 610000, *Operating Expenses/Program Costs*. Interim testing as of March 31, 2022 identified exceptions in 47 of 90 non-payroll expense transactions sampled, representing 79% of the balance tested. The most common findings are presented below (Note: Certain samples contained exceptions in multiple categories presented below):

- Five exceptions were noted in which the expense was recorded as a “Non-Federal” transaction; however, the support provided evidence the transactions were “Federal”
- Six exceptions were noted in which the sampled item was related to CIP and above the capitalization threshold of $250,000. As such, sampled item should have been capitalized and not expensed in the current period
- Twenty-one exceptions were noted because DHA did not provide sufficient or valid documentation to validate the receipt and acceptance of goods against the invoice (e.g., timesheets, packing slips, bills of lading)
- Eighteen exceptions were noted as a result of DHA not providing a third-party invoice or equivalent documentation to support the amount recorded
- Five exceptions were noted in which the expenses were processed through entitlement systems such as Mechanization of Contract Administration Services (MOCAS), where DHA did not provide documentation demonstrating that an authorized Government official with purview of the contractor’s performance validated invoice amounts or accepted the goods/services rendered prior to payment.

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

The DHP does not have a process to ensure contingent legal liabilities are completely captured and reported, such as legal liabilities arising from claims related to price escalation, awarded fee payments, and/or dispute resolution due to the limited capabilities of the automated system processes to capture potential liabilities in accordance with SFFAS No. 5 and SFFAS No. 12.

The DHP remains in the process of establishing its RMIC Program across the Enterprise and currently does not have sufficient internal control activities in place to properly account for the validity, accuracy, and completeness of non-payroll expense transactions. The DHP does not consistently obtain and/or maintain sufficient supporting documentation to validate if goods and services are received prior to accepting the invoice. While the DHP has established processes that align with contractual requirements for payment processing, those processes have not been designed to sufficiently achieve financial reporting objectives.

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The DHP has also not implemented sufficient internal control activities to properly classify expenditures as Federal and Non-Federal. While system limitations have inhibited proper trading partner identification, no compensating internal controls or processes were identified.

The DHP has not established policies and procedures and effective business processes with associated internal controls to properly recognize advances based on supporting validation of its prospective payment methodology for year-end reporting (for additional information, reference **Section V. Medical Revenue and Associated Receivables**).

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

As applicable to settlements and judgments related to DHP activities, in situations where Military Departments pay for amounts on behalf of the DHP, there is risk of a potential augmentation of the DHP appropriation and violation of the Antideficiency Act.

Recommendations: Kearney recommends that the DHP perform the following:

1. Complete planned efforts to include Federal trading partner transactions in the AP accrual estimate.
2. Expand the current AP accrual methodology to include all DHP limits.
3. Analyze, evaluate, document, and update, as appropriate, policies and procedures to require the execution of internal control activities for the complete and accurate recording of liabilities, including AP and any estimates needed for goods and services received but not recorded.
4. Coordinate with trading partners to ensure Support Agreements (SA), Inter-Agency Agreements (IAA), MOUs, or equivalent include language requiring cooperation of the trading partner to provide any required documentation necessary for the DHP to validate the accuracy of the amounts it has been billed.
5. Collaborate with the Office of the General Counsel (OGC) to determine and document the legislative basis by which the DHP pays for settlements and judgments and evaluate whether amounts are being charged to the correct appropriation.
6. Evaluate the current control environment and design/establish control activities to verify receipt and acceptance of services prior to entitlement and disbursement or through timely post-payment reviews. These control activities should be designed in a manner that allows management to have reasonable assurance that the risk of material misstatement will be reduced to a sufficiently low level.
7. Improve record retention over receipt of goods and services and supporting documentation over non-payroll expense transactions. Sufficient supporting documentation requirements should be implemented to demonstrate proper receipt and acceptance has occurred for payment processing (e.g., timesheets, packing slips, contract performance statements, proof of enrollment).

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8. Assess current business operations to implement compensating control activities to address proper cost classification between Federal and Non-Federal transactions. The DHP should coordinate any newly designed controls activities with remediation efforts planned to address system limitations for cost classification.
9. Accounting policy should be addressed to recognize prospective payments provided in excess of actual care provided as a liability at year-end, as appropriate.

IX. Monitoring and Reporting of Obligations and Adjustments (*Repeat Condition*)

Background: UDOs represent goods and/or services ordered which have not been actually or constructively received and for which amounts have not been prepaid or advanced. At DHA, typical UDO activities are associated with Contract Pay, Vendor Pay, GPC, Travel Pay, RWOs, Unmatched Transactions, or other goods and services business processes.

Federal reporting entities recognize and report downward adjustments during the current FY to obligations that were originally recorded in a prior FY. Downward adjustments are required to be classified utilizing specific USSGL accounts in accordance with the TFM. The DHP is responsible for developing policies and procedures to ensure downward adjustments are appropriately supported, comply with all relevant regulations, and are properly reviewed and approved.

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

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

Condition: The DHP's DAR-Q process is not operating effectively across the Enterprise to review, assess, and close stale obligations on a timely basis and has not been effectively implemented to verify completeness of the populations used as part of the DAR-Q.

The DHP is unable to sufficiently support the substantive accuracy of downward adjustments recorded in USSGL No. 4871, *Downward Adjustments of Prior-Year Unpaid Undelivered Orders – Obligations, Recoveries*. Testing identified exceptions in 30 of 45 sampled transactions, representing 46% of the balance tested. The most common findings are presented below:

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- Five exceptions were noted as a result of the DHA processing corrections of administrative errors that should not have impacted the financial statements but improperly generated accounting entries in the GL systems
- Eight exceptions were noted to be obligations which should have been recovered prior to FY 2022
- Ten exceptions were noted because DHA did not prepare and/or maintain sufficient documentation to support the transactions recorded.

The DHP is unable to sufficiently support the substantive validity, accuracy, and completeness of UDOs in USSGL No. 4801, *Undelivered Orders- Obligations, Unpaid.* Beginning balance testing as of October 1, 2021 identified exceptions in 164 of 400 sampled transactions, representing 11% of the balance tested.

The most common findings are presented below (Note: Certain samples contained exceptions in multiple categories presented below):

- Thirty exceptions were noted related to stale obligations without activity or correspondence over the past 90 days, and DHA could not support that the UDOs should remain open as of October 1, 2021
- Twenty-eight exceptions were noted as a result of liquidating transactions not posting within GFEBS after the liquidating transactions posted within the subledger
- Seventy-seven exceptions were noted because DHA did not provide sufficient draw-down documentation to support the UDO balances
- Thirty-three exceptions were noted because DHA did not provide sufficient obligation documentation to support the UDO balances.

Interim testing of UDOs as of June 30, 2022 identified exceptions in 37 of 90 sampled balances, representing 28% of the balance tested. The most common findings are presented below (Note: Certain samples contained exceptions in multiple categories presented below):

- Three exceptions were noted as a result of liquidating transactions not posting within GFEBS after the liquidating transactions posted within the subledger
- Twenty-five exceptions were noted because DHA did not provide sufficient draw-down documentation to support the UDO balances as of June 30, 2022
- Ten exceptions were noted because DHA did not provide sufficient obligation documentation to support the UDO balances as of June 30, 2022.

Cause: The DHP remains in the process of establishing its RMIC Program across the Enterprise. The DHP does not have sufficient internal control activities in place to properly monitor UDO transactions or account for the validity, accuracy, and completeness of UDO transactions. Additionally, the DHP does not consistently obtain and/or maintain sufficient supporting documentation for recorded UDOs.

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

The DHP, in coordination with the OUSD(C), has not finalized all steps of the DAR-Q process. As of Q3, the DHP remains in the process of transitioning the AF MTFs into the DHA DAR-Q process. As such, DHA remains in the process of fully implementing a DAR-Q reconciliation which demonstrates that the DAR-Q population ties and agrees to the TB (prior to starting monitoring procedures). Further, the DAR-Q does not currently include all obligations within the DHP financial reporting entity.

The DHP's decentralized control environment lacks clear policy and procedures for standard treatment of deobligations and adjustments to prior-year obligations. Additionally, the DHP has not developed a process to evaluate entries to USSGL No. 4871 that are automatically generated in the GL system but require reversal for administrative changes.

The DHP has not developed a process to ensure liquidating transactions posted within the subledger are also posted within the GL timely.

Effect: The DHP cannot attest to the substantive validity, accuracy, and completeness of UDO and recovery transactions recorded; accordingly, they may be misstated on the DHP SBR.

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

The absence of liquidating transactions within the GL system results in overstatement of obligated balances as presented within the DHP's SBR. Additionally, DHA's inability to provide sufficient source documentation to support the validity, accuracy, and completeness of UDO transactions prevents the DHP from effectively monitoring the design and operating effectiveness of internal controls and may prevent it from asserting to the fair presentation of the SBR.

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Recommendations: Kearney recommends that the DHP perform the following:

1. Establish formalized policy and procedures for the DAR-Q process as prescribed by OUSD(C). The formal policy should include timeframes for deobligation actions after identification and how to handle contracts still in the contract close-out process.
2. In coordination with OUSD, develop formalized supporting documentation to demonstrate that the DAR-Q population ties and agrees to the TB prior to isolating obligation activity for specific monitoring.
3. Perform a full-scope analysis of open obligations which are dormant and require deobligation. The analysis can be performed in phases (e.g., greater than three years dormant, two years dormant, one year dormant); inform Commands of the deobligation initiative and establish cut-off dates for mandatory deobligation; and process the deobligation actions to remove invalid obligations.
4. Evaluate processes currently in place to adjust obligations in each DHP GL system to identify procedural and documentation gaps. This analysis should include administrative adjustments, financial adjustments, and deobligations.
5. Develop standardized policies and/or guidelines that ensure proper documentation is prepared, reviewed, approved, and retained in accordance with 31 United States Code (U.S.C.) Section 1501, *Documentary evidence requirement for Government obligations*. This should include internal controls that ensure transactions are accurate and properly supported.
6. Design and implement a recurring analysis to identify and reverse improper entries to USSGL No. 4871 resulting from administrative changes to previously recorded obligations. The DHP should consider whether this process would benefit from the design and release of a standard data call to identify activity to be reversed.
7. Modify robotic process automation to serve as the identification point for potentially stale obligations. Deobligation should not occur until the vendor and/or appropriate contracting official verifies that no additional goods/services are pending, invoicing has occurred, and contract close-out is appropriate.
8. Evaluate the current internal control environment and design/establish control activities to verify the validity, accuracy, and completeness of UDO transactions recorded in USSGL No. 4801.
9. Improve record retention over UDO transactions and implement sufficient supporting documentation requirements to demonstrate proper accounting for validity, accuracy, and completeness of UDO transactions recorded within USSGL No. 4801.
10. Develop internal control procedures and revise existing policies and procedures to ensure that the liquidating transactions posted within the subledger are timely posted within the GL system.
11. Perform internal control monitoring and testwork under the RMIC Program to determine if the newly implemented policy and procedures have been implemented effectively.

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X. Information Systems (*Repeat Condition*)

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

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

Condition: The DHP has control deficiencies in the design, implementation, and operating effectiveness of internal controls related to financially significant systems which could have a material effect on the financial statements. Internal control deficiencies exist in 29 financially significant systems, including five GL and financial reporting systems, five health IT systems, and 19 other key feeder systems and environments.

The following is a summary of critical deficiencies:

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

Cause: While the DHP made progress in addressing items noted in the prior years by developing and disseminating Enterprise-wide policies, procedures, and other guidance, the implementation, training, monitoring, or enforcement of those policies and procedures at the user community level is still in process, and remediation efforts are evolving as the DHA organization structure changes. The DHP prioritized remediation of many prior NFRs through an Enterprise-wide CAP completed in FY 2022, but it did not fully resolve the underlying conditions. The deficiencies noted above result from a multitude of causal factors, with the most pervasive ones being the lack of complete and consistent implementation and enforcement of IT policies and procedures,

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as well as inconsistent or inadequate control implementation and/or performance. Specifically, the conditions noted above occurred primarily due to a combination of the following reasons:

- Control Implementation and Operation
  - Controls were not implemented during FY 2022
  - Controls were implemented but not operating effectively during FY 2022
- Policies and Procedures
  - Policies and procedures relevant to the control area were not developed during FY 2022
  - Policies and procedures were developed but were not implemented during FY 2022.

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

Recommendations: Kearney recommends that the DHP perform the following:

1. Provide guidance and oversight to the DHP program owners and offices, Markets, MTFs, and service organizations on the assignment of responsibilities for the consistent implementation of internal controls to reinforce overall IT governance.
2. Continue communication and reinforce IT policies and procedures to the DHP program owners and offices, Markets, MTFs, and service organizations.
3. Provide training to users and privileged users regarding the consistent implementation of new IT security policy, procedures, and practices for DHP systems.
4. Monitor implementation of entity-level IT policy, procedures, and practices throughout the Enterprise, as well as adjust training and communication, where needed.

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APPENDIX A: STATUS OF PRIOR-YEAR FINDINGS

In the *Independent Auditor's Report on Internal Control over Financial Reporting* included in the audit report on the Defense Health Program's (DHP) fiscal year (FY) 2021 financial statements, we noted several issues that were related to internal control over financial reporting. The statuses of the FY 2021 internal control findings are summarized in ***Exhibit 3***.

Exhibit 3: Status of Prior-Year Findings

Control Deficiency		FY 2021 Status	FY 2022 Status
I.	**Accounting and Financial Reporting Governance and Entity-Level Control Design and Operation**	Material Weakness	Material Weakness
II.	**Financial Reporting – Universe of Transaction Reconciliations**	Material Weakness	Material Weakness
III.	**Financial Reporting – Defense Departmental Reporting System Adjustments**	Material Weakness	Material Weakness
IV.	**Fund Balance with Treasury**	Material Weakness	Material Weakness
V.	**Medical Revenue and Associated Receivables**	Material Weakness	Material Weakness
VI.	**General Equipment Existence and Completeness**	Material Weakness	Partially remediated and consolidated under Control Deficiency VII, Property, Plant, and Equipment
VII.	**Property, Plant, and Equipment**	Material Weakness	Material Weakness
VIII.	**Stockpile Materials**	Material Weakness	Material Weakness
IX.	**Liabilities and Related Expenses**	Material Weakness	Material Weakness
X.	**Monitoring and Reporting of Obligations and Adjustments**	Material Weakness	Material Weakness
XI.	**Information Systems**	Material Weakness	Material Weakness

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

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

We were engaged to audit, in accordance with 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. 22-01, *Audit Requirements for Federal Financial Statements*, the financial statements of the Defense Health Program (DHP) as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the DHP's financial statements, and we have issued our report thereon dated November 7, 2022. Our report disclaims an opinion on such financial statements because we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. The DHP also asserted to departures from Generally Accepted Accounting Principles.

Report on Compliance and Other Matters

In connection with our engagement to audit the financial statements of the DHP, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination on financial statement amounts, and provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the DHP. However, providing an opinion on compliance with those provisions was not an objective of our engagement; accordingly, we do not express such an opinion. The results of our tests, exclusive of those referred to in the FFMIA, disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 22-01, which are described in the accompanying Schedule of Findings.

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

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

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The DHP's Response to Findings

The DHP's response to the findings identified in our engagement is described in a separate memorandum attached to this report in Section 3, *Financial Information*, of the Agency Financial Report. The DHP concurred with the findings identified in our engagement. *Government Auditing Standards* requires the auditor to perform limited procedures on the DHP's response to the findings identified in our engagement. The DHP's response was not subjected to the other auditing procedures applied in the engagement to audit the financial statements; accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's compliance. This report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* and OMB Bulletin No. 22-01 in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 7, 2022

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Schedule of Findings

Noncompliance and Other Matters

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

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

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

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

- The DHP has not fully implemented processes to support the effective design and operation or evaluation of its entity-level internal controls. The DHP did not achieve the GAO-prescribed principles for an effective internal control system
- The DHP remains in the process of establishing the Risk Management and Internal Control (RMIC) Program across the Enterprise. The DHP's Statement of Assurance provided no assurance that internal control over operations, financial reporting, and compliance were operating effectively as of September 30, 2022.

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

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

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

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

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

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

Federal Financial Management Systems Requirements

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

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

Federal Accounting Standards

FFMIA requires that agency management systems maintain data to support reporting in accordance with Generally Accepted Accounting Principles (GAAP). As identified through our audit procedures and as noted by the DHP in Note 1, *Summary of Significant Accounting Policies*, the DHP disclosed several instances where it departed from GAAP. The DHP asserted to the following departures from GAAP:

- Accrual accounting requirements per Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities*, and SFFAS No. 5, *Accounting for Liabilities of The Federal Government*

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- Recognition and valuation requirements set forth in SFFAS No. 3, *Accounting for Inventory and Related Property*
- Liability requirements set forth in SFFAS No. 5 and SFFAS No. 12, *Recognition of Contingent Liabilities Arising from Litigation*
- Recognition and valuation requirements set forth in SFFAS No. 6, *Accounting for Property, Plant, and Equipment*
- Revenue recognition requirements set forth in SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*
- Recognition and valuation requirements set forth in SFFAS No. 10, *Accounting for Internal Use Software*
- Reporting and valuation requirements set forth in SFFAS No. 29, *Heritage Assets and Stewardship Land*
- Accounting and reporting requirements associated with SFFAS No. 31, *Fiduciary Activities*
- The full cost provisions of SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts*, as amended by SFFAS No. 55, *Amending Inter-Entity Cost Provisions*
- Recognition and valuation requirements set forth in SFFAS No. 44, *Accounting for Impairment of General Property, Plant and Equipment Remaining in Use*.

United States Standard General Ledger at the Transaction Level

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

- The DHP uses core accounting systems, some of which are not fully compliant with USSGL. Specifically, such accounting systems do not:
  - Accumulate or transmit complete and accurate attribute data to support financial reporting requirements
  - Possess General Ledger Account Codes (GLAC) which match standard USSGL accounts correctly in all instances and require a crosswalk for reporting
- The DHP's financial statements contain material unsupported adjustments processed and recorded during financial statement compilation procedures. The unsupported adjustments do not contain sufficient supporting documentation and/or underlying source data for recording financial events in accordance with USSGL requirements at the transaction level
- The DHP did not consistently account for Stockpile Materials in accordance with requirements set forth in SFFAS No. 3. For additional details, see Section VII, "Stockpile Materials," in our *Report on Internal Control over Financial Reporting*

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- Property, Plant, and Equipment (PP&E) capital expenditures were recorded as operating expenses within the core accounting system. The DHP was unable to completely identify capitalized expenses from non-capital expenses to appropriately record PP&E expenditures in accordance with USSGL requirements. For additional details, see Section VI, "Property, Plant, and Equipment," in our *Report on Internal Control over Financial Reporting*
- The DHP did not consistently track and accumulate revenue and Accounts Receivable (AR) data to post general ledger (GL) transactions consistent with USSGL requirements. The DHP had revenue and AR transactions recorded in subsidiary systems which were not recorded in the GL. For additional details, see Section V, "Medical Revenue and Associated Receivables," in our *Report on Internal Control over Financial Reporting*
- The DHP's financial statements included summarized amounts for revenue associated with patient care provided for which no underlying transactional activity is maintained.

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

The Debt Collection Improvement Act of 1996 (DCIA), as amended by the Digital Accountability and Transparency Act of 2014 (DATA Act), requires that any non-tax debt or claim owed to the U.S. Government that is over 120 days delinquent is required to be reported to the Department of the Treasury (Treasury) for purposes of administrative offset. As discussed in Section V, "Medical Revenue and Associated Receivables," of the *Report on Internal Control over Financial Reporting*, the Defense Health Agency (DHA) and its Military Treatment Facilities (MTF) are not able to support the validity of debt balances associated with medical services provided, which are recorded in the DHA MTFs' subsidiary billing and collection system. The internal control weaknesses described demonstrate an increased risk of noncompliance with the requirements of the DCIA. The DHP's inability to sufficiently support the validity of recorded debts limited the extent of audit procedures which could be performed over DCIA requirements.

V. The Antideficiency Act (*Repeat Condition*)

The Antideficiency Act (ADA) prohibits Federal agencies from: 1) making or authorizing an expenditure from, or creating or authorizing an obligation under, any appropriation or fund in excess of the amount available in the appropriation or fund unless authorized by law; 2) involving the Government in any obligation to pay money before funds have been appropriated for that purpose, unless otherwise allowed by law; or 3) making obligations or expenditures in excess of an apportionment or reapportionment or in excess of the amount permitted by agency regulations. Per 31 United States Code (U.S.C.) §1351, management is required to immediately report violations to the President and Congress, including all relevant facts and a statement of actions taken, as well as transmit a copy of each report to the Comptroller General on the same date.

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The DHP subordinate organizations, including MTFs, recorded obligations in excess of their suballotments, allocations, and suballocations as of December 31, 2021 across 34 locations. Such activity may represent violations of the ADA, as prescribed within the Assistant Secretary of Defense for Health Affairs' (ASD[HA]) policy memorandum, entitled *Formal Administrative Subdivisions of the Defense Health Program Appropriation Subject to the Antideficiency Act*. Furthermore, the DHP has not identified the recording of obligations in excess of its suballotments, allocations, and suballocations as possible ADA violations. Therefore, such instances were not subject to review prior to inquiry during associated testwork.

* * * * *

Response to Independent Auditor's Report

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
1200 DEFENSE PENTAGON
WASHINGTON, DC 20301-1200

HEALTH AFFAIRS

November 7, 2022

Kearney and Company, P.C.
Attention: Mr. Daniel Scarola
1701 Duke Street, Suite 500
Alexandria, VA 22314

Dear Mr. Scarola:

Please accept our gratitude for the Kearney and Company team's extensive efforts with the audit of the Defense Health Program (DHP) Fiscal Year (FY) 2022 financial statements. We concur with your audit results and will devise a methodical approach to design and implement corrective actions addressing your findings and recommendations.

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

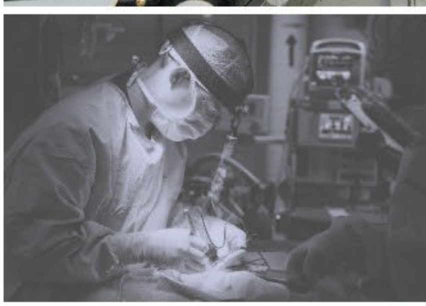
We successfully remediated 19 Notices of Findings and Recommendations (NFRs) comprising 17 percent of our total NFRs. We were also able to sustain an unmodified opinion for the twelfth consecutive year for our Contract Resource Management financial statements. We will continue to proactively seek opportunities to improve the design and operating effectiveness of our financial processes, systems, and internal controls to achieve an unmodified audit opinion of our DHP financial statements.

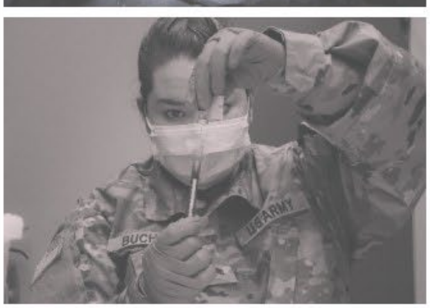
We appreciate and extend our sincere thanks to you and your team for their professionalism, due diligence, and commitment.

Sincerely,

Darrell W. Landreaux

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





Other Information

Section III

Summary of Financial Statement Audit and Management Assurances

Table below provides a summary of financial statement audit.[1]

Summary of Financial Statement Audit					
Audit Opinion	Disclaimer				
Restatement	No				
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Accounting and Financial Reporting Governance Structure, Entity-Level Controls	1	-	-	-	1
Financial Reporting – Universe of Transaction Reconciliations	1	-	-	-	1
Financial Reporting – Defense Departmental Reporting System Adjustments	1	-	-	-	1
Fund Balance with Treasury	1	-	-	-	1
Medical Revenue and Associated Receivables	1	-	-	-	1
General Equipment Existence and Completeness	1	-	-	-1	-
Valuation of Property, Plant, and Equipment	1	-	-	-1	-
Property, Plant, and Equipment	-	1	-	-	1
Stockpile Materials	1	-	-	-	1
Liabilities and Related Expenses	1	-	-	-	1
Monitoring and Reporting of Obligations and Adjustments	1	-	-	-	1
Information System	1	-	-	-	1
Total Material Weaknesses	11	1	-	-2	10

Table below provides a summary of management assurances[2]

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	No Assurance					
Material Weaknesses *(Assessable Unit)*	**Beginning Balance**	**Reclassified**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Accounts Receivable	1	-	-	-	-	1
Financial Reporting	4	-	1	-	-	5
Equipment Assets	1	-	-	-	-	1
Real Property Assets	1	-	-	-	-	1
Internal Use Software	1	-	-	-	-	1
Total Material Weaknesses	8	-	1	-	-	9

[1] The summary of financial statement audit of material weaknesses is from the Independent Auditor's (IPA) DHP Report on ICOR. Per OMB Circular A-136 significant deficiencies are not required to be disclosed.

[2] The total number of material weaknesses and non-Compliances for ICOR, ICO and internal controls over federal financial management system requirements are self-identified by DHP Management and exclude material weaknesses identified by IPA per the OSD's *FY 2020 Department of Defense Statement of Assurance Execution Handbook*. As referenced in Management's Response to the Independent Auditor's Report, Management agrees with the auditor identified material weaknesses. Also, Per OMB Circular A-136 significant deficiencies are not required to be disclosed.

Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	No Assurance					
Material Weaknesses *(Assessable Unit)*	Beginning Balance	Reclassified	New	Resolved	Consolidated	Ending Balance
Acquisition	6	-	-	-	-	6
Comptroller and Resource Management	4	-	1	-	-	5
Communications	1	-1	-	-	-	-
Contract Administration	5	-4	3	-	-	4
Information Technology – Business System Modernization	3	-1	1	-	-	3
Personnel and Organizational Management	8	2	-	-	-	10
Legacy	-	1	-	-	-	1
Supply Operations	-	2	-	-	-	2
Support Services	-	1	4	-	-	5
Force Readiness	-	-	1	-	-	1
Total Material Weaknesses	27	-	10	-	-	37

Conformance with Federal Financial Management System Requirements (FMFIA§ 4)						
Statement of Assurance	No Assurance					
Material Weaknesses *(Assessable Unit)*	Beginning Balance	Reclassified	New	Resolved	Consolidated	Ending Balance
Access Controls	1	-	-	-	-	1
Continuity Planning	1	-	-	-	-	1
Data Management Controls	1	-	-	-	-	1
Total Material Weaknesses	3	-	-	-	-	3

Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
1. Federal Financial Management System Requirements	Lack of compliance noted	Lack of compliance noted
2. Applicable Federal Accounting Standards	Lack of compliance noted	Lack of compliance noted
3. USSGL at Transaction Level	Lack of compliance noted	Lack of compliance noted

Management's assessment of FFMIA compliance was completed prior to the results of the FY 2022 financial statement audit. Our auditor has noted DHP financial management systems did not comply substantially with the federal financial management system's requirements, applicable federal accounting standards, or application of the USSGL at the transaction level, because of material weaknesses noted in the Independent Auditor's Report on Internal Control over Financial Reporting. DHP is in the process of evaluating the FY 2022 audit findings contributing to noncompliance to continue the process of formulating and implementing remediation plans necessary to bring the financial managements systems into substantial compliance.

Management Challenges

In the DoD OIG FY 2022 Top DoD Management Challenges report, the DoD identifies the challenge of Protecting the Health and Wellness of Service Members and Their Families. The report highlights the following areas

Medical Readiness of the Force

Both the Active and Reserve components have reported an increase in deployment-limiting medical conditions. The Military Departments are required to assess the medical readiness of Service members during each clinical encounter and determine whether the individual is able to deploy. Each Service member's assessment affects the unit's readiness and, depending on how many personnel are non-deployable, could compromise the unit's operational capabilities. To maintain the physical readiness of uninjured Service members, reduce vulnerability to injury, and aggressively treat injured Service members and return them to duty, the Military Departments have embedded physical therapists within operational units. In a similar effort, the Military Departments have embedded mental health providers within operational units to raise awareness of mental health conditions, increase access to care, and reduce the stigma of seeking mental healthcare.

Readiness of the Service Members in the Medical Field

As a CSA, DHA enables and sustains medical force readiness. The Military Services rely on the DHA-managed MTFs to maintain the knowledge, skills, and abilities of MTF medical providers, including preparing the military providers for deployment. However, MTF medical providers are not maintaining these required skills. Reforms contained in the *NDAA* for FY 2017 and Department of Defense Instruction (DoDI) 6000.19, issued in February 2020, were designed to address this challenge by ensuring that medical providers have the opportunities and the ability to meet critical wartime medical readiness skills and core competencies for healthcare providers. DoDI 6000.19 requires DHA to coordinate with the Military Departments to meet medical force readiness requirements, through placement of personnel at DHA-administered MTFs or at the facilities of civilian partners during peacetime.

Providing Care to Victims of Sexual Assault

Treating victims of sexual assault remains a persistent and serious challenge as the DoD continues to combat the rise in sexual assaults. The DoD still faces challenges in providing appropriate care and support to victims of sexual assault while maintaining the patients' privacy. Continued focus on preventing sexual assault is paramount, and when victims come forward, they must receive the best physical and mental healthcare that the DoD can provide. On February 26, 2021, the SECDEF established an Independent Review Commission (IRC) to assess the military's treatment of sexual assault, which included a review of the clinical and non-clinical services provided to victims. The IRC recommended that the DoD expand access to sexual assault services provided by civilian programs and allow Service members to confidentially access Department of VA services for sexual assault without a referral. The Acting ASD(HA) requested that the DoD OIG review MTFs to ensure they are adequately prepared to treat sexual assault victims. The DoD must continue to combat sexual assault through training and holding personnel accountable for their actions, while also continually improving the care and support it provides to victims of sexual assault.

Behavioral Health

Behavioral health conditions, such as substance use disorders and suicide-related behaviors, and access to inpatient and outpatient healthcare to treat those conditions, remain key health and safety issues for Service members and their families. The 2019 DoD Health of the Force Report found that 13.3 percent of active duty Service members screened positive for hazardous drinking, based on the Service member's responses to questions on the frequency and quantity of their alcohol consumption. The DoD has increased efforts to recognize and treat behavioral health problems and prevent suicides. The DoD and the Military Services continue to identify high-risk populations, such as Service members transitioning out of the military, and provide them with access to suicide prevention resources, such as suicide awareness campaigns, suicide intervention training, and suicide crisis hotline marketing. In response to an Executive Order, in March 2018, the Secretaries of Defense, Department of VA, and Homeland Security issued a Joint Action Plan, which described actions to provide seamless access to mental healthcare and suicide prevention resources for transitioning Service members. The Joint Action Plan sought to eliminate barriers to care and gaps in access to mental healthcare and suicide prevention services.

Impact of COVID-19 and Preparedness for Future Pandemics

The DoD continues to face challenges protecting its personnel and beneficiaries from the COVID-19 virus, providing healthcare during the COVID-19 pandemic, and incorporating lessons learned into preparing for future pandemics. In 2021, the COVID-19 virus evolved and continued to threaten DoD personnel and their families, and adversely impact medical readiness. As of September 29, 2021, the DoD reported 372,146 COVID-19 cases, 5,274 hospitalizations, and 515 deaths among its Service members, civilians, dependents, and contractors. As COVID-19 variants continue to spread, a resurgence in cases could strain the ability of the MHS to deliver mission-essential healthcare services, including providing COVID-19 services to Service members and beneficiaries. To sustain access to healthcare throughout the pandemic, the DoD has prioritized the allocation of personal protective equipment and encouraged the use of telemedicine, particularly for follow-up appointments and ongoing care of isolated patients with COVID-19. The pandemic also identified challenges related to critical medical supply stockpiles and highlighted the importance of a safe, secure, and reliable supply chain. The DoD must remediate these supply chain risks in the event of another pandemic or other disaster. In order to effectively evaluate the DoD's response to the COVID-19 pandemic, the DoD established a COVID-19 after action review working group to identify lessons learned. Additionally, the FY 2021 *NDAA* directed numerous studies and policies to address the impacts of the COVID-19 pandemic on the DoD, including the delivery of mental health services during the COVID-19 pandemic, a strategy to leverage telehealth services, and protocols and mitigation strategies aboard ships and Navy vessels.

Deployment and Interoperability of Electronic Health Records

The MHS' deployment of MHS Genesis as a new electronic health record system is an ongoing challenge from the 2021 DoD OIG report. In 2017, the DoD deployed MHS GENESIS, to help ensure seamless care throughout the life of military members and beneficiaries. MHS GENESIS is being jointly developed and operated with the Department of VA and is intended to standardize the management and delivery of healthcare for the DoD's 9.6 million beneficiaries and the 9.1 million beneficiaries supported by the VA. MHS GENESIS should provide enhanced, secure technology to access and manage patient health. The DoD continues to deploy MHS GENESIS while addressing implementation issues and known system shortfalls. The DHA aims to field MHS GENESIS to all MTFs by 2024.

Payment Integrity Information Act Reporting

In accordance with the *Payment Integrity Information Act of 2019* (*P.L. 116-117, 31 U.S.C § 3352 and § 3357*) and *Appendix B* of the OMB Bulletin No. 22-01, *Audit Requirements for Federal Financial Statements*, dated August 26, 2022, DoD reports payment integrity information (i.e., improper payments) at the agency-wide level in the consolidated DoD AFR. For detailed reporting on DoD payment integrity, refer to the "Other Information" section of the consolidated DoD AFR at: *https://comptroller.defense.gov/odcfo/afr2022.aspx*.

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), Health and Human Services (HHS), the HHS OIG, and the Centers for Medicare and Medicaid Services, enforce these laws.

Within DoD and pursuant to *DoD* Directive 5106.01, the DoD OIG serves as the principal advisor to the SECDEF 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 OIG initiates, conducts, supervises, and coordinates such audits, investigations, evaluations, and inspections within the DoD, including the Military Departments, as the DoD OIG considers appropriate. In addition, the DoD OIG provides policy and direction for audits, investigations, evaluations, and inspections relating to fraud, waste, abuse, program effectiveness, and other relevant areas within DoD OIG responsibilities.

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

a) Preventing and detecting fraud, waste, abuse, and mismanagement in DoD programs and operations promotes efficiency, economy, and effectiveness.

b) DoD personnel are required to report suspected fraud, waste, abuse, mismanagement, and other matters of concern to DoD without fear of reprisal.

c) The DoD OIG maintains the DoD Hotline Program.

The MHS relies on the services of the DoD OIG 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, healthcare 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 Department of VA, HHS, and DOJ.

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

The DHA OIG maintains a DHA Hotline Program, which includes inquiries addressing 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 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 *Payment Integrity Information Act of 2019* (P.L. 116-117) and the OMB Circular A-123*, Appendix C* (OMB M-18-20).

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 number 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 Payment Integrity Information Act of 2019 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 *http://www.paymentaccuracy.gov* and reflected below in *Figure 16*.

Figure 16: Military Health Benefits Payment Integrity Scorecard.

Payment Integrity Scorecard

Program or Activity	Reporting Period
Military Health Benefits	Q3 2022

DOD
Military Health Benefits

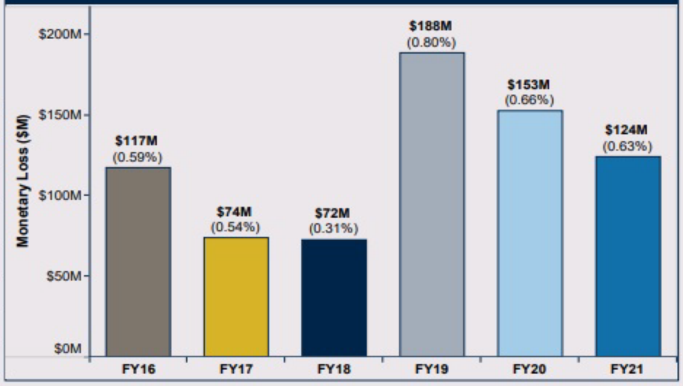
Brief Program Description:
Payments disbursed by the Defense Health Agency to private sector contractors for delivery of health care services to TRICARE eligible beneficiaries. Payments disbursed for administrative costs supporting management of the TRICARE benefits program.

	Key Milestones	Status	ECD
1	Develop mitigation strategies to get the payment right the first time	On-Track	Sep-22
2	Evaluate the ROI of the mitigation strategy	On-Track	Oct-24
3	Determine which strategies have the best ROI to prevent cash loss	On-Track	Oct-24
4	Implement new mitigation strategies to prevent cash loss	On-Track	Oct-24
5	Analyze results of implementing new strategies	On-Track	Oct-24
6	Achieved compliance with PIIA	On-Track	Oct-24
7	Identified any data needs for mitigation	On-Track	Sep-22

		Goals towards Reducing Monetary Loss	Status	ECD
1	Q3 2022	Second round of Quarterly Memos have been distributed to Contract Officers and their Reps to address root causes of improper payments identified in claims processing for each unique private sector care contract.	On-Track	Jul-22
2	Q3 2022	The Annual Cost of Healthcare Audits (Unallowed Costs) for OP4-managed care contracts have commenced. This is a mechanism in the contracts to ensure that the contractors are recouping overpayments on underwritten claims to make the Government whole.	On-Track	Jan-23

Change from Previous FY ($M)	-$29M

Monetary Loss ($M)
(Overpayment as Percentage of Total Outlays)



	Recovery Method	Brief Description of Plans to Recover Overpayments	Brief Description of Actions Taken to Recover Overpayments
1	Recovery Activity	Continue scheduled compliance reviews conducted by EIC. Payment errors are identified and refunds made to the Government through the submission of an adjusted TED record or by direct payment.	Incremental post payment compliance reviews conducted by an External Independent Contractor identify payment errors for the purpose of reporting IP estimates. Private sector care contractors are notified of payment errors for correction and to correct deficiencies in complying with TRICARE directives.
2	Recovery Activity	Continued recoupments occurring in the course of routine healthcare claims processing and adjustments as identified. Non-underwritten healthcare claims greater than $600, if not collected or offset, are referred to the DHA General Counsel.	Contract and policy requirements for private sector contractors to recover IPs. Recoupments/refunds occurring in the course of routine healthcare claims processing, healthcare claim adjustments or corrections as identified by civilian providers or TRICARE beneficiaries.
3	Recovery Audit	Annual Cost of Healthcare Audit requires regional Contractors to recoup unallowable costs determined on a yearly basis.	Annual Cost of Healthcare Audit is a contractual requirement for TRICARE private sector regional Contractors to recoup unallowable costs.

	Accomplishments in Reducing Monetary Loss	Date
1	Relayed root cause findings and recommendations to Contracting Officers and their Reps for this quarter. Supporting documentation to be uploaded to the PISP.	Jun-22
2	The Annual Cost of Healthcare Audit for OP4 of the managed care contract – West region was started. The universe of underwritten claims was undisputed. The West contract is currently being audited by the external claims auditor for the first time.	Jun-22
3	The Annual Cost of Healthcare Audit for OP4 of the managed care contract- East region was started. The universe of underwritten claims was undisputed. The first audit phase of the East contract has been completed and is waiting for rebuttals.	Jun-22

Amt($)	Root Cause of Monetary Loss	Root Cause Description	Mitigation Strategy	Brief Description of Mitigation Strategy and Anticipated Impact
$124M	Overpayments within agency control that occurred because of a Failure to Access Data/Information Needed.	The DHA external compliance reviewer manually re-adjudicates TRICARE claims post-payment to identify payment errors, assigned reason codes/root cause and an amount (over/under). Failure to access stems from those errors.	Change Process – altering or updating a process or policy to prevent or correct error.	Mitigating strategy is to use mechanism in the contracts to recover erroneous payments through claims audits identifying process and system deficiencies.

Monetary Loss - Monetary loss to the Government includes amounts that should not have been paid and in theory should/could be recovered.

Significant FY 2022 MHS Fraud Events (Source: DCIS)

August 23, 2022: Cockerell Dermatopathology to Pay $3.75 Million to Resolve Healthcare Fraud Claims

A Texas dermatopathology clinic has agreed to pay the United States more than $3.7 million to resolve allegations that it violated the False Claims Act by submitting fraudulent lab claims to TRICARE and by knowingly concealing an obligation to repay the United States. Per the terms of a civil settlement, Dallas-based Cockerell Dermatopathology will pay $3,750,000 – including $1,875,000 in restitution – over the next 3 1/2 years. Its owner and principal physician, Dr. Clay Cockerell, will be liable if the clinic fails to make any of its payments.

August 19, 2022: Former South Florida Pharmacy VP and Executive Assistant Sentenced for Their Roles in Healthcare Fraud Scheme Targeting U.S. Military

A former South Florida pharmacy executive was sentenced to seven and a half years in prison for defrauding TRICARE and CHAMPVA of approximately $88 million through a compounding pharmacy fraud scheme. His executive assistant received a sentence of five years of imprisonment for her role in the conspiracy. Matthew Smith, 58, of Boca Raton, Florida pleaded guilty on January, 24, 2022, to one count of conspiracy to commit healthcare fraud. His executive assistant, Alisa Catoggio, 41, also of Boca Raton, Florida, pleaded guilty on May 17, 2022 to one count of conspiring to pay healthcare kickbacks. As part of his guilty plea, Smith admitted his role in fraudulently billing TRICARE and CHAMPVA for expensive, medically unnecessary compound drugs from a Broward pharmacy. TRICARE and CHAMPVA are the healthcare benefit programs for the DoD and Department of VA. In furtherance of the scheme, Smith paid kickbacks to patient recruiters in exchange for their recruiting beneficiaries and referring prescriptions for the medically unnecessary drugs. For her role, Catoggio calculated and tracked the kickbacks and sham co-pay assistance programs used to further the scheme. The fraudulent referrals caused an actual loss to the government programs of approximately $88 million.

In addition to the prison sentence, the Court imposed restitution in the amount of $75,106,971.

June 29, 2022: Sandy Springs man sentenced for TRICARE and Medicare fraud scheme

Brett Sabado has been sentenced for his role in a scheme to defraud TRICARE and Medicare by submitting fraudulent claims for compound medications and durable medical equipment (DME). Sabado also agreed to pay $950,000 as part of an "ability to pay" civil settlement in order to resolve violations of the False Claims Act for causing false claims for DME to be submitted to the Medicare Program. This resolution is the result of a global investigation involving the criminal and civil divisions of the Northern District of Georgia and the Southern District of California. According to U.S. Attorney Buchanan, the charges, and other information presented in court: Sabado and his coconspirators received illegal kickbacks for TRICARE referrals and prescriptions of compound medication formulations including pain creams, scar creams, and multi-vitamins that they specifically devised to maximize profits. Brett Sabado, 34, of Sandy Springs, Georgia, was sentenced by U.S. District Judge Thomas W. Thrash, Jr., to five years in prison to be followed by three years of supervised release.

June 2, 2022: Judge Orders Middle Georgia Family Rehab to Pay $9.6 Million in Damages for Submitting Hundreds of Fraudulent TRICARE/Medicaid Claims

The District Court for the Middle District of Georgia found in favor of the United States and the State of Georgia in a civil case involving the fraudulent billing of hundreds of TRICARE and Medicaid claims by a Macon healthcare facility, ordering the defendants to pay $9,617,679.22 in damages and penalties. U.S. District Judge Tilman E. "Tripp" Self, III issued the judgment following an evidentiary hearing in U.S. v. Middle Georgia Family Rehab (MGFR) on Tuesday, May 24. According to court documents, the Court determined that approximately 800 false claims for services were improperly billed to Medicaid and TRICARE by MGFR and MGFR owner Brenda Hicks. Those improper services were billed under the names of a physical therapist and a speech therapist who were no longer employed by MGFR and therefore could not possibly have provided the services in question.

April 26, 2022: Pharmacist Sentenced for $180 Million Healthcare Fraud Scheme

A former Mississippi pharmacist was sentenced to 10 years in the Southern District of Mississippi for a multimillion-dollar scheme to defraud TRICARE and private insurance companies by paying kickbacks to distributors for the referral of medically unnecessary prescriptions. The conduct resulted in more than $180 million in fraudulent billings, including more than $50 million paid by federal healthcare programs. According to court documents, Mitchell "Chad" Barrett, 55, now of Gulf Breeze, Florida, and formerly of Mississippi, participated in a scheme to defraud TRICARE and other healthcare benefit programs by distributing medically unnecessary compounded medications. Barrett was licensed as a pharmacist in Mississippi and was a co-owner of various compounding pharmacies. As part of this scheme, Barrett adjusted prescription formulas to ensure the highest reimbursement without regard to medical necessity. He solicited recruiters to procure prescriptions for high-margin compounded medications and paid those recruiters commissions based on the percentage of reimbursements paid by pharmacy benefit managers and healthcare benefit programs, including commissions on claims reimbursed by TRICARE. He further routinely and systematically waived and/or reduced copayments to be paid by beneficiaries and members, and utilized a purported copayment assistance program to falsely make it appear as if his pharmacy and its affiliate compounding pharmacies had been collecting copayments. Barrett pleaded guilty on Aug. 25, 2021, to conspiracy to engage in monetary transactions in criminally derived property. In addition to the term of imprisonment, Barrett was ordered to pay restitution and forfeit all assets traced to his ill-gotten gains.

April 6, 2022: Eight Individuals Facing Federal Indictment for a $3 Million Scheme to Defraud Walter Reed National Military Medical Center and the Defense Health Agency

A federal grand jury has returned an indictment charging eight individuals, including the President, Vice-President and Chief Finance and Strategy Officer at a company that provided medical billing and coding services on government contracts and an employee at Walter Reed National Military Medical Center (WRNMMC), with conspiracy to commit healthcare fraud and wire fraud and related charges, in connection with a scheme to defraud WRNMMC and DHA. The indictment alleges that beginning in at least December 2016, Akbar Masood, Michelle Peebles, and Harriett Jackson established HMA Solutions to take advantage of WRNMMC's increased need for contract medical coders. Masood, Peebles, and Jackson allegedly used the stolen identities of actual persons, including credentialed medical coders, to demonstrate that HMA had the ability to perform medical coding evaluation, feedback, and training services as a subcontractor to Company A. The indictment alleges that the defendants used falsified signature of one victim, who was a credentialed medical coder, to sign consulting agreements with Company A and representing that other identity theft victims would be performing the work Further, the indictment alleges that Masood, Peebles, and Jackson generated false billable hours using the names of identity theft victims which they charged to Company A, which then billed those hours to WRNMMC. As detailed in the indictment, Peebles and Jackson then recruited Paul, Williams, Titi, and Duncan to pose as medical coders and sign consulting agreements with Company A, even though none of them had any experience or credentials as medical coders. The indictment alleges that Paul, Williams, Titi, and Duncan repeatedly submitted falsified medical coding invoices, claiming the processing of thousands of encounters each month, and causing Company A to bill WRNMMC over $1 million for their false claims alone. According to the indictment, between 2017 and 2019, the defendants obtained approximately $3.3 million from the scheme to defraud WRNMMC and DHA. If convicted, the defendants each face a maximum sentence of 20 years in federal prison for conspiracy to commit healthcare fraud and wire fraud.

January 26, 2022: Pharmacist Sentenced for $180 Million Healthcare Fraud Scheme

A Mississippi pharmacist was sentenced to five years in prison in the Southern District of Mississippi for a multimillion-dollar scheme to defraud TRICARE and private insurance companies by paying kickbacks to distributors for the deferral of medically unnecessary prescriptions. According to court documents, David "Jason" Rutland of Boston, a pharmacist and co-owner of compounding pharmacies, schemed to defraud TRICARE and other healthcare benefit programs by distributing medically unnecessary compounded medications. Rutland adjusted prescription formulas to ensure the highest reimbursement without regard to efficacy. He solicited recruiters to procure prescriptions for high-margin compounded medications and paid those recruiters commissions based on the percentage of reimbursements paid by pharmacy benefit managers and healthcare benefit programs, including commissions on claims reimbursed by TRICARE. Rutland also routinely and systematically waived and/or reduced copayments to be paid by beneficiaries and members, including utilizing a purported copayment assistance program to falsely make it appear as if his pharmacy and its affiliate compounding pharmacies had been collecting copayments, among other things. Rutland pleaded guilty on July 20, 2021, to conspiracy to defraud the United States and solicit, receive, offer and pay illegal kickbacks. In addition to the term of imprisonment, Rutland was ordered to pay restitution and forfeit all assets traced to his ill-gotten gains.

December 16, 2021: Former West Hollywood Doctor and Company Associated with 1-800-GET-THIN Guilty of Massive Fraud Against Health Insurers

A former doctor and his company were found guilty by a federal jury of scheming to defraud private insurance companies and the TRICARE healthcare program for military service members by fraudulently submitting an estimated $355 million in claims related to the 1-800-GET-THIN Lap-Band surgery business. Julian Omidi, 53, of West Hollywood, and an Omidi-controlled Beverly Hills-based company, Surgery Center Management LLC (SCM), were found guilty of 28 counts of wire fraud and three counts of mail fraud. Omidi also was found guilty of two counts of making false statements relating to healthcare matters, one count of aggravated identity theft and two counts of money laundering. Omidi and SCM were found guilty of one count of conspiracy to commit money laundering. According to evidence presented, Omidi established procedures requiring prospective Lap-Band patients - even those with insurance plans he knew would never cover Lap-Band surgery - to have at least one sleep study, and employees were incentivized with commissions to make sure the studies occurred. Omidi used the sleep studies to find a reason - the "co-morbidity" of obstructive sleep apnea - that GET THIN would use to convince the patient's insurance company to pre-approve the Lap-Band procedure. After patients underwent sleep studies - irrespective of whether any doctor had ever determined the study was medically necessary - GET THIN employees, acting at Omidi's direction, often falsified the results. Omidi then used the falsified sleep study results in support of GET THIN's pre-authorization requests for Lap-Band surgery. Relying on the false sleep studies - as well as other false information, including patients' weights - insurance companies authorized payment for some of the proposed Lap-Band surgeries. GET THIN received an estimated $41 million for the Lap-Band procedures. Even if the insurance company did not authorize the surgery, GET THIN still was able to submit bills for approximately $15,000 for each sleep study, receiving an estimated $27 million in payments for these claims. The insurance payments were deposited into bank accounts associated with the GET THIN entities. The victim healthcare benefit programs include TRICARE, Anthem Blue Cross, UnitedHealthcare, Aetna, Health Net, Operating Engineers Health and Welfare Trust Fund, and others. Prosecutors estimate Omidi's total fraudulent billings at approximately $355 million. United States District Judge Dolly M. Gee has scheduled an April 6, 2022 sentencing hearing, at which time Omidi will face a statutory maximum sentence of 20 years in federal prison for each of the mail fraud, wire fraud, and money laundering counts, as well as a mandatory consecutive two-year sentence for aggravated identity theft. In 2014, the government seized more than $110 million in funds and securities from accounts held by individuals and entities involved in the criminal scheme, including Omidi. The government is seeking forfeiture of some or all those funds in the criminal case, and intends to pursue civil forfeiture of some or all of the assets.

December 2, 2021: Flower Mound Hospital to Pay $18.2 Million to Settle Federal and State False Claims Act Allegations Arising from Improper Inducements to Referring Physicians

Flower Mound Hospital Partners LLC (Flower Mound Hospital), a partially physician-owned hospital in Flower Mound, Texas, has agreed to pay $18.2 million to resolve allegations that it violated the False Claims Act by knowingly submitting claims to the Medicare, Medicaid and TRICARE programs that resulted from violations of the Physician Self-Referral Law and the Anti-Kickback Statute. The settlement resolves allegations that Flower Mound Hospital violated the Stark Law and the Anti-Kickback Statute when it repurchased shares from physician-owners aged 63 or older and then resold those shares to younger physicians. The United States alleges that Flower Mound Hospital impermissibly took into account the volume or value of certain physicians' referrals when it (1) selected the physicians to whom the shares would be resold and (2) determined the number of shares each physician would receive. In connection with the settlement, Flower Mound Hospital entered into a five-year Corporate Integrity Agreement (CIA) with the HHS OIG. The CIA requires, among other things, that Flower Mound Hospital maintain a compliance program and hire an Independent Review Organization to review arrangements entered into by or on behalf of the hospital. It also increases individual accountability by requiring compliance-related certifications from key executives. The civil settlement includes the resolution of claims brought under the qui tam or whistleblower provisions of the False Claims Act by Leslie Jennings, M.D., a physician-owner at Flower Mound Hospital. Under those provisions, a private party can file an action on behalf of the United States and receive a portion of any recovery. Dr. Jennings will receive approximately $3 million as his share of the recovery in this case. The qui tam case is captioned United States ex rel. Jennings v. Flower Mound Hospital Partners, LLC, et al., Civil Action No. 3-19-CV-02676-B (N.D. Tex.).

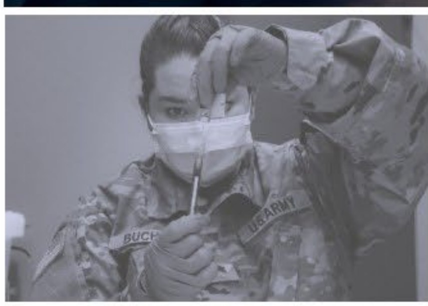
Preventing and Deterring COVID-19 Fraud

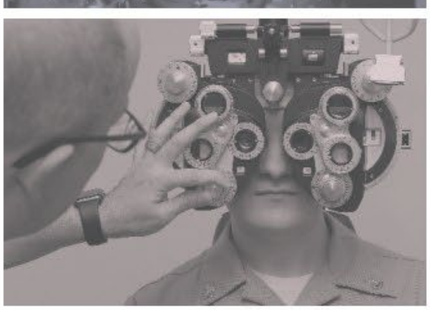
In addition to the aforementioned significant events, the DoD OIG has also issued the following reports specific to COVID-19. These reports are available at *https://www.dodig.mil/Reports/COVID-19/*:

- DoD Cooperative Agreements With Coronavirus Aid, Relief, and Economic Security Act Obligations (DODIG-2022-102) June 10, 2022
- Evaluation of Department of Defense Military Medical Treatment Facility Challenges During the Coronavirus Disease-2019 Pandemic in FY 2021 (DODIG-2022-081) April 2, 2022
- Audit of DoD Implementation of the DoD Coronavirus Disease-2019 Vaccine Distribution Plan (DODIG-2022-058) February 3, 2022
- Management Advisory Memorandum Regarding Internal Control Weaknesses Over TRICARE Payments for the Administration of COVID-19 Vaccines (DODIG-2021-122), September 10, 2021
- 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: 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

Climate-Related Financial Risk

In FY 2022, DHP did not issue any climate action plans, sustainability reports and implementation plans, or other reports with information relevant to climate-related financial risk.





Appendices

Appendix A: Abbreviations and Acronyms

ABACUS	Armed Forces Billing and Collection Utilization Solution
ADA	Antideficiency Act
ADC	Administration, Direction, and Control
ADP	Additional Discount Program
AFMS	U.S. Air Force Medical Service
AFR	Agency Financial Report
ASD(HA)	Assistant Secretary of Defense (Health Affairs)
BUMED	Navy Bureau of Medicine and Surgery
CAC	Collections Advisory Committee
CARES	Coronavirus Aid, Relief, and Economic Security Act
CCE	Coding and Compliance Editor
CCMD	Combatant Commands
CEFMS	Corps of Engineers Financial Management System
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act
CFO	Chief Financial Officer
CHCBP	Continued Health Care Benefits Program
CHCS	Composite Health Care System
CIP	Construction in Progress
COTS	Commercial Off-the-Shelf
COVID-19	Coronavirus Disease 2019
CRM	Contract Resource Management
CSA	Combat Support Agency
DAI	Defense Agencies Initiative
DASD	Deputy Assistant Secretaries of Defense
DATA Act	Digital Accountability and Transparency Act of 2014
DAWDF	DoD Acquisition Workforce Development Fund
DCIA	Debt Collection Improvement Act of 1996
DCIS	Defense Criminal Investigative Service
DEAMS	Defense Enterprise Accounting and Management System
DFAS	Defense Finance and Accounting Service
DHA	Defense Health Agency
DHA-FE	DHA Facility Enterprise
DHA PI	DHA Program Integrity Office
DHAPP	DoD HIV/AIDS Prevention Program
DHP	Defense Health Program
DIMO	Defense Institute for Medical Operations
DM&R	Deferred Maintenance and Repairs
DME	Durable Medical Equipment
DMLSS	Defense Medical Logistics Standard Support
DoD	Department of Defense
DoDI	Department of Defense Instruction
DOJ	Department of Justice
DOL	Department of Labor
ELCs	Entity-Level Controls
ERP	Enterprise Resource Planning
FADs	Funding Authorization Documents
FASAB	Federal Accounting Standards Advisory Board
FBwT	Fund Balance with Treasury
FCI	Facility Condition Index
FECA	Federal Employees' Compensation Act
FEDVIP	Federal Employees Dental and Vision Insurance for Program
FEGLI	Federal Employee Group Life Insurance
FEHB	Federal Employee Health Benefit
FFATA	Federal Funding Accountability and Transparency Act of 2006
FFMIA	Federal Financial Management Improvement Act
FFRDC	Federally Funded Research and Development Centers
FISMA	Federal Information Security Modernization Act
FLTCIP	Federal Long-Term Care Insurance Program
FMFIA	Federal Managers' Financial Integrity Act
FMR	Financial Management Regulation
GAAP	Generally Accepted Accounting Principles
GAFS-R	General Accounting and Finance System – Reengineered
GFEBS	General Fund Enterprise Business System
GL	General Ledger
GMRA	Government Management Reform Act
GONE Act	Grants Oversight and New Efficiency Act
GPRAMA	Government Performance and Results Modernization Act of 2010
HA	Health Affairs
HDAC	Human Developmental Anatomy Center
HHS	Health & Human Services
HRM&P	Health Resources Management and Policy
HRP&O	Health Readiness Policy and Oversight
HSP&O	Health Services Policy and Oversight
IBNR	Incurred but not reported
ICO	Internal Controls Over Operations
ICOR-FR	Internal Controls Over Financial Reporting-Financial Reporting
ICOR-FS	Internal Controls Over Reporting Financial Systems
IT	Information Technology
IUS	Internal Use Software
IUSID	Internal Use Software in Development
MEDCOM	U.S. Army Medical Command
MERHCF	Medicare-Eligible Retiree Health Care Fund
MHS	Military Health System
MSA	Medical Service Accounts
MTF	Military Medical Treatment Facility
NDAA	National Defense Authorization Act
NDS	National Defense Strategy
NHE	National Health Expenditures
NMHM	National Museum of Health and Medicine
NOAA	National Oceanic and Atmospheric Administration
O&M	Operation and Maintenance
OACT	Office of the Actuary
OASD(HA)	The Office of the Assistant Secretary of Defense for Health Affairs
OIG	Office of Inspector General
OM&S	Operating Materials & Supplies
OMB	Office of Management and Budget

OPM	Office of Personnel Management	**SNC**	Statement of Net Cost
OSD	Office of the Secretary of Defense	**SOA**	Statement of Assurance
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)	**STARS-FL**	Standard Accounting and Reporting System – Field Level
PDASD	Principal Deputy Assistant Secretary of Defense	**TAS**	Treasury Account Symbol
PEPFAR	President's Emergency Plan for AIDS Relief	**TED**	TRICARE Encounter Data
PHS	Public Health Service	**TEDS**	TRICARE Encounter Data Set
PP&E	Property, Plant and Equipment	**TFM**	Treasury Financial Manual
PPA	Prompt Payment Act	**TPC**	Third-Party Collections
PRV	Plant Replacement Value	**TPCP**	Third-Party Collection Program
RCRA	Resource Conservation and Recovery Act	**TRR**	TRICARE Retired Reserve
RDT&E	Research Development Test & Evaluation	**TRS**	TRICARE Reserve Select
RSI	Required Supplementary Information	**TYA**	TRICARE Young Adult
RSL	Remaining Service Life	**UBO**	Uniform Business Office
S&P	Standards and Policies	**UDOs**	Undelivered Orders
SABRS	Standard Accounting, Budgeting, and Reporting System	**UMP**	Unified Medical Program
SARA	Superfund Amendments and Reauthorization Act	**USACE**	United States Army Corps of Engineers
SBR	Statement of Budgetary Resources	**U.S.C.**	United States Code
SCNP	Statement of Changes in Net Position	**USD(P&R)**	Under Secretary of Defense for Personnel and Readiness
SDP	Standard Discount Program	**USSGL**	United States Standard General Ledger
SECDEF	Secretary of Defense	**USUHS**	Uniformed Services University of the Health Sciences
SFFAS	Statement of Federal Financial Accounting Standards	**VA**	Veterans Affairs
SMS	Sustainment Management System	**WRNMMC**	Walter Reed National Military Medical Center

Appendix B: We would like to hear from you

We would like to hear from you about our FY 2022 Agency Financial Report. Did we present information in a way you could use? What did you like best and least about our report? How can we improve our report in the future?

Please send written comments to:

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