Assistant Secretary of Defense (Health Affairs) - Defense Health Program

Agency Financial Report
Fiscal Year 2023

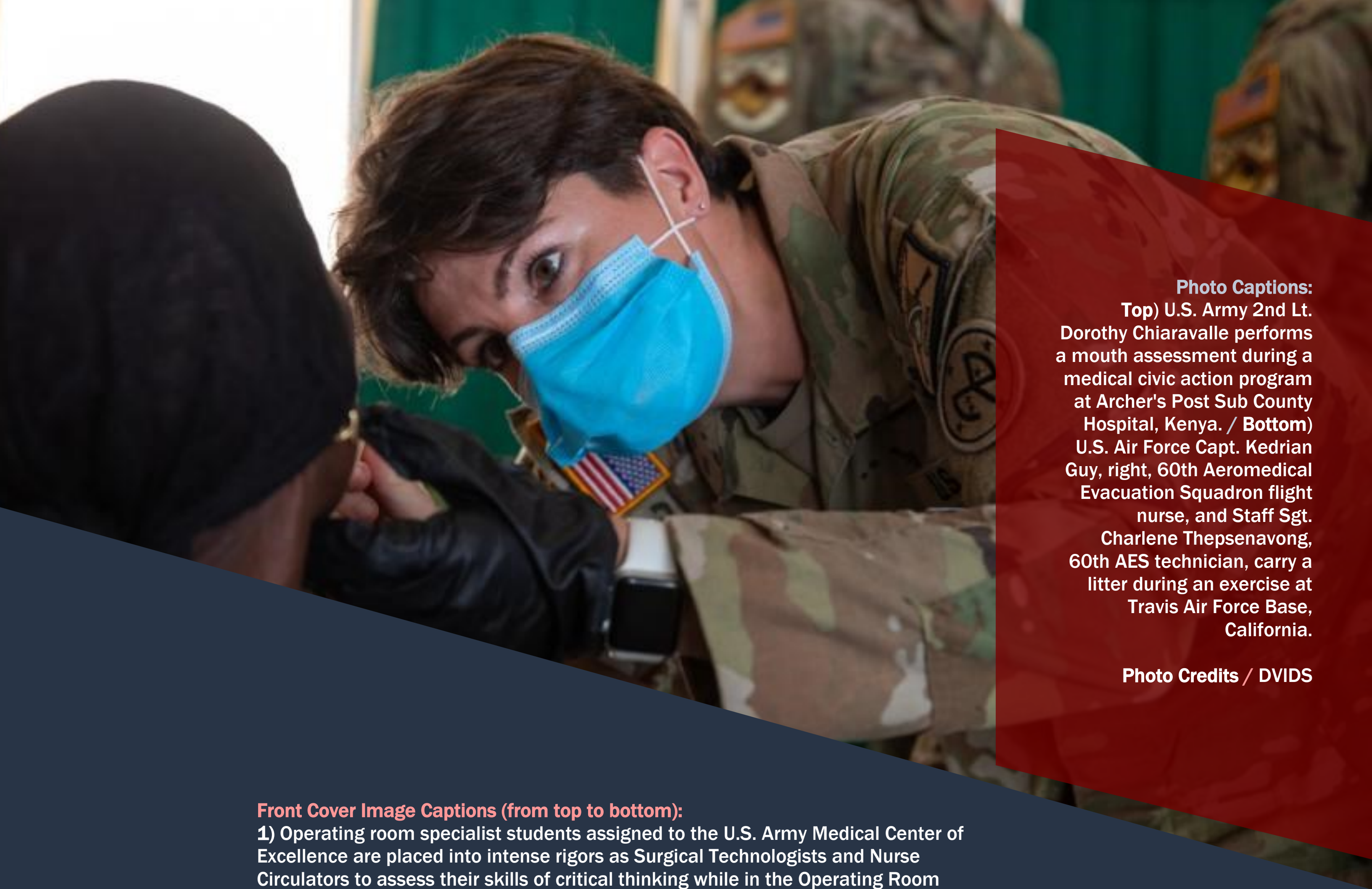

Photo Captions:
Top) U.S. Army 2nd Lt. Dorothy Chiaravalle performs a mouth assessment during a medical civic action program at Archer's Post Sub County Hospital, Kenya. / **Bottom**) U.S. Air Force Capt. Kedrian Guy, right, 60th Aeromedical Evacuation Squadron flight nurse, and Staff Sgt. Charlene Thepsenavong, 60th AES technician, carry a litter during an exercise at Travis Air Force Base, California.

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Front Cover Image Captions (from top to bottom):
1) Operating room specialist students assigned to the U.S. Army Medical Center of Excellence are placed into intense rigors as Surgical Technologists and Nurse Circulators to assess their skills of critical thinking while in the Operating Room setting at Fort Sam Houston, Texas. / **2**) Operating room specialist students assigned to the U.S. Army Medical Center of Excellence wash their hands before performing the mock surgery portion of the program, at the Medical Education and Training Campus, Fort Sam Houston, Texas. / **3**) Idaho National Guard Soldiers and Airmen, as well as active duty counterparts joined forces with a one team, one fight mentality for joint training during a mass casualty exercise on Feb. 4, 2023, near Gowen Field, Boise, Idaho.

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Photo Caption:
The hospital ship USNS Comfort (T AH 20) steams through the ocean as part of the transit south from Norfolk, VA. Comfort is deployed to U.S. 4th Fleet in support of Continuing Promise 2022, a humanitarian assistance and goodwill mission conducting direct medical care, expeditionary veterinary care, and subject matter expert exchanges with five partner nations in the Caribbean, Central and South America.

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AGENCY HEAD MESSAGE

Our Fiscal Year (FY) 2023 Defense Health Program (DHP) President's Budget request was fully enacted at $39.8 billion, including funding additions totaling close to $2.3 billion going primarily for medical research projects. The FY 2023 budget enabled us to invest $1.4 billion in clinical mental health programs and initiatives including those that evaluate, treat, and follow-up with patients and 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 Programs, 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.

DoD continued funding the clinical application "HealtheIntent," that provides a platform for population health and analytic tools and offers a seamless longitudinal record between the DoD and Department of Veterans Affairs, granting providers and beneficiaries access to detailed medical histories. The budget also supported the completion of MHS GENESIS (electronic health record) deployments in the beginning of the deployment to overseas military medical treatment facilities, as well as the continued deployment of Revenue Cycle Expansion, the MHS GENESIS medical billing system. Additional enhancements to MHS GENESIS provided expanded analytics and data modeling, decision support, and advanced prognostic competencies. We also issued the FY 2023 - 2028 Defense Health Agency (DHA) Strategic Plan, which communicates the DHA mission, vision, and responsibilities to our stakeholders.

In accordance with statutory requirements, the Department realigned significant elements of the Army's medical research, development, and acquisition capabilities, as well as many public health functions previously performed by the Military Departments to the DHA, with funding from the DHP. The Military Health System (MHS) 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, as well as studies in the treatment of emerging infectious and acute respiratory diseases.

Our financial statements illustrate how we employed the resources entrusted to us to carry out the MHS healthcare mission. Expenditures reflect investments in myriad initiatives, including new and expanded military construction projects with pathologic, dental, surgical, and administrative equipment in support of dental and healthcare services.

As the sixth annual DHP financial statement audit concludes, I have every confidence that we are on a resolute path to remediate audit findings and strengthen internal controls. The MHS is pleased to have achieved its 13th unmodified opinion in FY 2023 for the private sector care program, accounting for approximately 50 percent of the DHP budget. While the direct care and private sector care combined audit yielded a disclaimer of opinion and ten auditor-reported material weaknesses, we continued our march towards an unmodified opinion for the entire DHP appropriation by re-establishing a clear audit roadmap and resolving 29 Notices of Findings and Recommendations.

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 a seasoned 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.

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Dr. Lester Martinez-Lopez

Assistant Secretary of Defense for Health Affairs

ABOUT THE ASD(HA) - DHP AGENCY FINANCIAL REPORT

The Office of the Assistant Secretary of Defense for Health Affairs (ASD(HA)) over 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);
- DoD 7000.14R *Financial Management Regulation* (FMR)*, Volume 6B*;
- *Office of the Under Secretary of Defense (Comptroller) ((OUSD(C)) Memo, FY 2022 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 24-01, *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*.

ASD(HA) chooses to produce an AFR over its use of DHP funding 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* (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 DHP funding it utilized, including its history and mission, organizational structure, the ASD (HA)-DHP'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 the entity's compliance with, and commitment to, specific regulations, including performance and management analyses and recommendations from the DoD Office of Inspector General (OIG).

Photo Caption:
U.S. Army SGT Ariel Love, a medic with the Vermont National Guard, prepares to insert an IV into a Senegalese patient, during a medical readiness exercise in Senegal. Love is part of a 40 person U.S. medical team working with Senegalese hospital professionals at the Thies Regional Hospital and two smaller hospitals in and around Thies, Senegal over the two week MEDREX Senegal 2023 exercise.

Photo Credits / DVIDS

Photo Caption:
U.S. Air Force Capt. Sarah Price Faulkner, conducts a hysterectomy on a Dominican Republic native aboard the hospital ship USNS Comfort. Comfort is deployed to in support of Continuing Promise 2022, a humanitarian assistance and goodwill mission conducting direct medical care, expeditionary veterinary care, and subject matter expert exchanges with five partner nations in the Caribbean, Central and South America.

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SECTION 1

Management's Discussion and Analysis

MISSION AND ORGANIZATION STRUCTURE

The Military Health System (MHS) enables the National Defense Strategy (NDS) by providing a Medically Ready Force, a Ready Medical Force, and improving the health of all those entrusted to its care. The missions of the MHS are complex and interrelated:

- **To ensure America's active duty and reserve-component personnel are healthy so they can complete their national security missions.**
- **To ensure that all active and reserve medical personnel in uniform are trained and ready to provide medical care in support of operational forces around the world.**
- **To provide a medical benefit commensurate with the service and sacrifice of more than 9.5 million active duty personnel, military retirees and their families.**

American military medicine traces its origins back to July 27, 1775, when the Continental Congress established the Army Hospital headed by a "Director General and Chief Physician". The Army Hospital was disbanded in 1789, and in the following period Congress established an Army medical organization that would only be used during times of war or emergency. A permanent and ongoing Medical Department was established in the year 1818. Specialty cadre were later established, such as the Army Nurse Corps in 1901; the Dental Corps in 1911; the Veterinary Corps in 1916; the Medical Service Corps in 1917; and the Army Medical Specialist Corps in 1947. The Army Organization Act of 1950 renamed the Medical Department as the Army Medical Service. On June 4, 1968, the Army Medical Service was redesignated the Army Medical Department.

In March 1798—just a month before the U.S. Navy was formally established—the first physicians began reporting aboard the warships of the U.S. Navy. On February 26, 1811, Congress approved an act establishing the first permanent Naval Hospital which opened in 1830 in Portsmouth, Virginia thereby establishing a new platform in medical care. The Bureau of Medicine and Surgery (BUMED) was established in 1842 to administer the activities of the U.S. Navy. BUMED was charged with all medicines and medical stores, all clothing, beds and bedding for the sick, all surgical instruments, and the management of hospitals. Throughout the Civil War, the Navy treated over 31,000 patients. To meet the new patient loads, the three largest Navy Hospitals were expanded and the first hospital ships, such as the Red Rover, were commissioned.

The National Security Act of 1947 mandated a reorganization of the military establishments. The Army and Navy Departments, were merged along with the newly established Air Force (1949) were consolidated to form the Department of Defense (DoD). The three Military Departments each administered its own streamlined and consolidated medical corps. Post-World War II (WWII), military medicine experienced myriad changes that are still in effect today. In response to a dwindling number of military physicians between WWII and 1970, the idea to establish a national university of the health sciences was championed. The Uniformed Services University of the Health Sciences (USUHS) was established in 1972 as a "West Point for doctors," ensuring that the military could rely on a pipeline of trained career physicians.

Although military medical care was primarily concerned with treatment of active duty personnel, treatment of military dependents was authorized in 1884. Congress stated that the medical officers of the Army and contract surgeons shall, whenever practicable attend the families of the officers and soldiers free of charge. The Dependents Medical Care Act of 1956 established a program and authorized the Secretary of Defense (SECDEF) to contract with civilian healthcare organizations and providers for coverage and treatment of active duty dependents. The Act has been amended throughout the years, expanding coverage to military retirees.

Chapters 55 and 56 of Title 10, U.S. Code entitles military personnel, retirees, and their families to certain health benefits administered by the MHS. The DHA was established in 2013 and is responsible for policy execution, administration, and management of military medical treatment facilities (MTFs). Additionally, DHA manages the execution of the Defense Health Program (DHP) appropriation (established in FY 1993), and the delivery of healthcare through the TRICARE program. TRICARE consists of care both in the direct care system and in the private sector through managed care support contracts. The direct care system consists of MTFs (medical centers, hospitals, and ambulatory clinics) located worldwide. Effective October 25, 2019, the DHA is responsible for exercising authority, direction, and control of MTFs in fulfillment of the National Defense Authorization Act (NDAA) for FY 2017, Section 702.

KEY EVENTS IN MODERN MILITARY HEALTHCARE

1947

The National Security Act of 1947 consolidated the Army and Navy into a single Department of Defense.

1956

The 1956 Dependents' Medical Care Act officially established the availability of healthcare services to active-duty dependents, retirees and their dependents at MTFs. The Act also authorized the SECDEF to contract with civilian healthcare providers for coverage of civilian hospital services for active-duty dependents' medical care.

1966

The Military Medical Benefits Amendments of 1966 formally established the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) to provide non-hospital-based care to eligible dependents and retirees.

1972

To address a post-WWII dwindling medical corps, the Uniformed Services Health Professions Revitalization Act of 1972 established the Uniformed Services University, "West Point for doctors," the nation's only federal health sciences university.

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KEY EVENTS IN MODERN MILITARY HEALTHCARE

1993

Title 10 of the United States Code 1100 the military healthcare program was established in 1993.

2013

DoD Directive 5136.13 established the DHA in October 2013 to manage the activities of the MHS through integration of clinical and business processes across the DoD and the military services.

1993-1997

The DoD Appropriation Act of FY 1994 directed the DoD to explore managed healthcare program options. The first TRICARE contract was awarded in 1995 and replaced CHAMPUS as the civilian healthcare benefit for eligible dependents and retirees. Full implementation of the TRICARE program was completed in 1997 and included the addition of preventive healthcare coverage.

2017-2022

The National Defense Authorization Act of 2017 directed the DHA to begin transitioning to assume responsibility for the administration and management of healthcare delivery at all MTFs. In October 2022 DHA completed the transition.

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MISSION AND BACKGROUND

What is the Defense Health Program?

To fund the peacetime operation of the MHS, there is established within the Department of the Treasury an account called the "Defense Health Program," with a Treasury Account Symbol (TAS) of 097 0130. All sums appropriated to carry out the functions of the SECDEF 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. The ASD(HA) is the principal advisor to the SECDEF 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 Unified Medical Program for the annual President's Budget submission to request appropriations for the MHS. Consistent with applicable law, the ASD(HA) accounts for all funding for the MHS, including the DHP appropriations account. The ASD(HA) ensures DHP funding is issued to the two MHS financial statement reporting components through the Defense Health Agency (DHA). The two component reporting entities that make up the ASD(HA)-DHP financial statements are (1) DHA and (2) DHA – Contract Resource Management (CRM).

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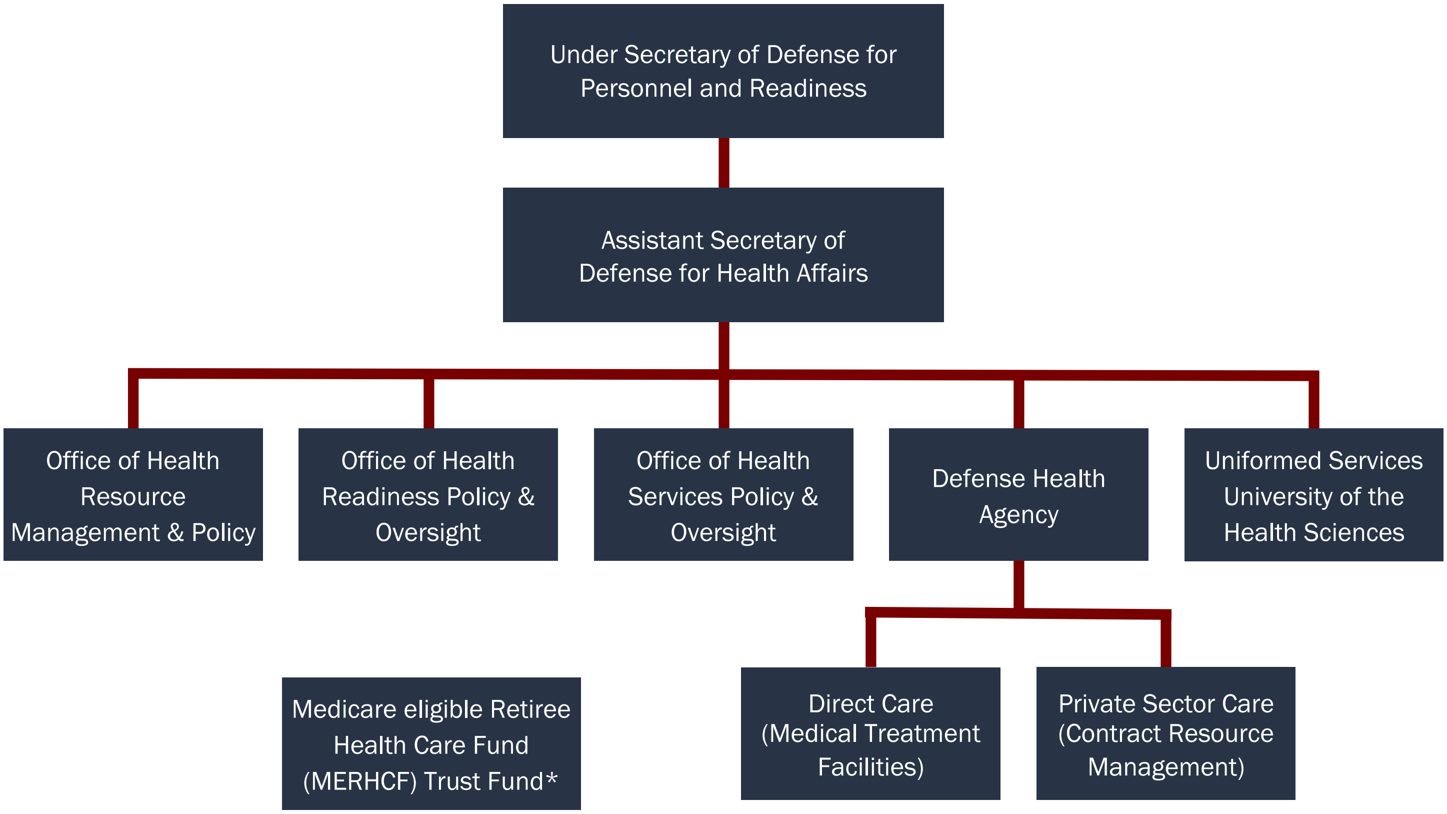
Military Health System Organizational Structure



*MERHCF is part of the MHS and produces its own AFR. Link to MERHCF AFR

Figure I — 1: MHS Organization Chart

As depicted above in Figure I– 1, leading the MHS, the ASD(HA) is a civilian, Senate-confirmed official who serves as the principal medical adviser to the SECDEF and oversees health policy and budgeting across the system, as well as directing the activities of the DHA. The ASD(HA) is supported by the Principal Deputy Assistant Secretary of Defense for Health Affairs and three Deputy Assistant Secretaries of Defense (DASD), consisting of: (1) the DASD for Health Readiness Policy and Oversight; (2) the DASD for Health Resources Management and Policy; and (3) the DASD for Health Services Policy and Oversight. The ASD(HA) also maintains oversight of USUHS.

The ASD(HA) serves as resource manager for all DoD health and medical resources and submits the Unified Medical Program (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 National Defense Strategy. 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)

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

MILITARY HEALTH SYSTEM WORKLOAD

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 through our global health engagements program. See Figure I — 2 below for a summary of the number of healthcare delivery cases completed in FY 2022.
- Medical education through the Medical Education and Training Campus and the USUHS. We support the readiness of America's warfighter and the health and well-being of the military community by educating and developing uniformed health professionals, scientists, and leaders; by conducting cutting edge, military-relevant research, and by providing operational support to units around the world.
- 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 DHA'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 2023 ASD(HA)-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 I — 2

Tricare Workload and Population Summary – FY 2022*	
Type of Care	**Annual Workload Summary**
Inpatient Admissions	**Total: 865,800** Direct Care: 159,800 Private Sector Care: 338,200 TRICARE For Life: 367,800
Outpatient Visits	**Total: 86,000,000** Direct Care: 21,700,000 Private Sector Care: 35,500,000 TRICARE For Life: 28,800,000
Births	**Total: 105,400** Direct Care: 30,400 Private Sector Care: 75,100
Prescriptions Filled	**Total: 105,200,000** Direct Care: 32,700,000 Retail Pharmacies: 25,200,000 TRICARE For Life: 41,500,000
Emergency Department Visits	**Total: 3,750,000** Direct Care: 1,112,300 Private Sector Care: 1,567,300 TRICARE For Life: 1,070,400

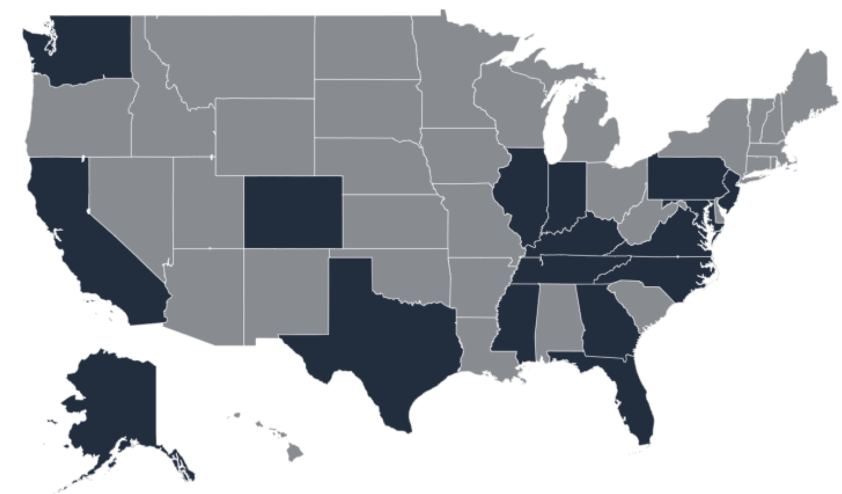
- **FY 2022 amounts are being reporting because FY 2023 statistics are not currently available.**
- **Totals may not foot properly**

Defense Health Agency

The DHA oversees the execution of the DHP appropriation to support the delivery of integrated, affordable, and high-quality health services to the DoD's 9.5 million eligible beneficiaries and executes responsibility for shared services, functions, and activities of the MHS and other common clinical and business processes. The DHA manages the execution of policy as issued by ASD(HA) and exercises authority, direction, and control over the inpatient facilities and their subordinate clinics assigned to the DHA. The senior medical leadership, the Surgeons General, and DHA staff over the past several years have reexamined the DHA's fundamental purpose, vision for the future and strategies to achieve that vision.

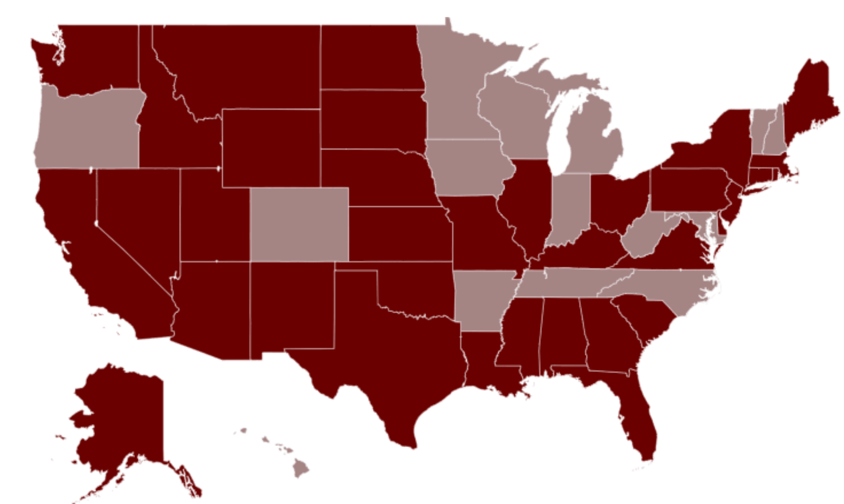
The DHA is refocusing efforts on the core business in which it is engaged: creating an integrated medical team that provides optimal health services in support of our nation's military mission—anytime, anywhere. The DHA has taken bold steps to redefine how we work collaboratively with the Department of Veterans Affairs (VA) and our civilian partners to improve coordinated care for wounded warriors and all whom we have the honor to serve. Beginning October 1, 2018, 10 U.S.C. § *1073c*, as added by Section 702 of the NDAA for FY 2017 (Public Law 114-328), required the Director of 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.

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. Figures I—3 and I—4 below show the states which have large, small, and stand-alone markets.



- **Large Markets** – Nearly 2/3 of current patient encounters occur in 20 regions where large medical centers exist. These large markets have centers of excellence for specialty care that can meet the needs of beneficiaries across regions.

Figure I – 3: Map of large markets



- **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 are supported by a stand-alone organization. These small markets and stand alone organizations provide both administration and management support.

Figure I — 4: Map of small and standalone markets

The Defense Health Program Appropriation

When enacted, the annual Appropriations Act reflects the amount of funding appropriated for peacetime MHS operations via the DHP appropriation. The DHP account (TAS 097 0130) contains amounts appropriated to carry out the functions of the 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 §§ *1079, 1086, 1092 and 1097*.

The DHP appropriation is sub-divided as follows:

- **Operation and Maintenance (O&M) funds**: DHP O&M 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 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 is executed 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 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 45 inpatient hospitals and Medical Centers; 525 ambulatory care and occupational health clinics; 138 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.

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 the TRICARE benefit. The MHS also receives a transfer of funds from the MERHCF. The MERHCF is a trust fund establish pursuant to law to pay for DoD's share of healthcare costs for Medicare-eligible retirees, retiree family members and survivors.

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Defense Health Agency - Contract Resource Management

CRM is a directorate of the DHA. For financial reporting purposes, DHA-CRM is a component within the consolidated financial statements of the DHP. Within the DoD, OUSD(PR), through OASD(HA), maintains operational oversight of the MHS, including direct care, private sector care, and the MERHCF for those beneficiaries eligible for both Medicare and TRICARE.

DHA-CRM in headquartered in Aurora, Colorado, and is responsible for the accounting, financial support, and financial reporting for TRICARE's centrally funded private sector health care programs and the TRICARE Retail Pharmacy Refunds Program. DHA-CRM provides budget formulation input, carries out budget execution, and prepares component financial statements and footnotes. In addition, DHA-CRM is responsible for processing invoices received electronically from its contractors, and through the TRICARE Encounter Data Set (TEDS), and reporting these transactions through accessible electronic media. DHA-CRM provides funds availability certification and financial program tracking for the centrally funded private sector care programs. DHA-CRM monitors budget execution through analysis of current and prior year spending and program developments. It also assists the DHA's Contract Management division, Program Integrity (PI), and Case Recoupment activities related to private sector care. DHA-CRM uses the DHP funds and MERHCF to reimburse private sector health care providers for services rendered to TRICARE beneficiaries. **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 ASD(HA)-DHP. CRM publishes its own financial statements, which are consolidated into the larger ASD(HA)-DHP financial statements.

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 I — 5 below for the centralized functions the Markets executed in support of the MTFs.

Figure I — 5: DHP Core Market Functions

Core Market Functions

Each market executes centralized functions in support of MTFs, working to increase efficiency and while maximizing great outcomes. Their functions fall into the four main buckets below.

Clinical

1. Functions that support the delivery of patient care.

2. Clinical 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, Acquisitions, Financial Management & Comptroller, Personnel, Administration & Management, and Information TechnologyManagement, 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

In FY 2022, 9.5 million beneficiaries were eligible for DoD medical care, including Active-Duty and their families, military retiree and their families, survivors, and certain former spouses. Figures I — 6 on the following page depicts excerpts from the FY 2023 Evaluation of the TRICARE Program Report and provide a summary of the trends and demographics of eligible beneficiaries of the MHS. Due to the release date of the Evaluation of the TRICARE Program Report, not all figures present FY 2023 amounts. However, the latest information available has been presented.

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Beneficiary Trends and Demographics

System Characteristics

TRICARE FACTS AND FIGURES—PROJECTED FOR FISCAL YEAR (FY) 2023

Figure I – 6	PROJECTED FOR FY 2023[a]	FY 2022 ACTUALS
Total Beneficiaries	9.5 million worldwide[b]	9.6 million worldwide[b]
MILITARY FACILITIES—DIRECT CARE SYSTEM[c]		
Inpatient Hospitals and Medical Centers	45 (31 in U.S.)	45 (31 in U.S.)
Ambulatory Care and Occupational Health Clinics[d]	566 (466 in U.S.)	525 (458 in U.S.)
Dental Clinics	117 (94 in U.S.)	138 (115 in U.S.)
Military Health System (MHS) Defense Health Program Personnel	127,511	123,794
Military	70,116 26,404 Officers 44,914 Enlisted	70,422 26,371 Officers 43,995 Enlisted
Civilian (including Foreign National)	57,395	58,163
CIVILIAN RESOURCES—PRIVATE SECTOR CARE SYSTEM[e]		
Network Primary Care, Behavioral Health (BH), and Specialty Care Providers (i.e., individual, not institutional, providers)	1,163,560	1,121,377
Network BH Providers (shown separately, but included in above)	164,245	156,270
TRICARE Network Acute Care Hospitals	4,880	5,599
BH Facilities	2,295	1,311
Contracted (Network) Retail Pharmacies	42,500	56,129
Contracted Worldwide Pharmacy Home Delivery Vendor	1	1
TRICARE Dental Program (TDP) (for Active Duty families, Reserve members and their families)	Over 1.79 million covered lives in 756,000 contracts	Over 1.79 million covered lives in 771,000 contracts
TDP Network Dentists	Over 80,300 total dentists, including: 62,144 general dentists and 18,191 specialty dentists	79,935 total dentists, including: 61,744 general dentists over 18,191 specialty dentists
Total Requested FY 2023 Unified Medical Program (UMP) (including Projected Trust Fund Receipts)	$58.38 billion[f]	$55.41 billion[f]
Projected Receipts from Medicare-eligible Retiree Health Care Fund (MERHCF) Trust Fund	$9.74 billion	$9.34 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 the end of FY 2022 is 9,489,182, rounded to 9.5 million. This projection is based on the DoD Comptroller's Budget End Strength, the DoD Actuary's forecast of the retiree population, and the family members per sponsor from the Defense Manpower Data Center Defense Enrollment Eligibility Reporting System (DEERS) as of January 2023.

[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 based on the Defense Medical Information System Identifiers ID, not clinical functions Source: Defense Health Agency (DHA)/Resources & Management (J-1/J-8)/Budget and Execution and Programming Divisions, 1/26/2023.

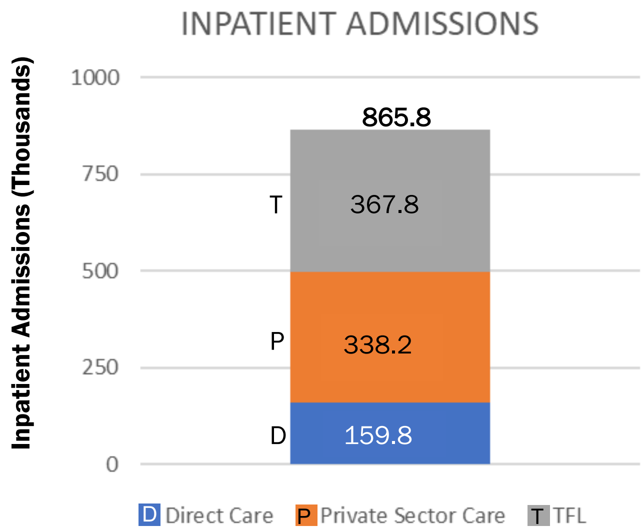
[d] The projected increase in ambulatory clinics for FY 2023 is largely administrative in nature to ensure system alignment with MHS GENESIS Patient Care locations. The policy reinforcement has come from two different directions: (1) Defense Medical Information System Identifiers (DMIS IDs) table alignment with MHS GENESIS to resolve issues in clerk/patient appointing and (2) aligning overhead costs to a building or function to better reflect the cost of care (delineating buildings on the DMIS table that don't fall under a campus concept).

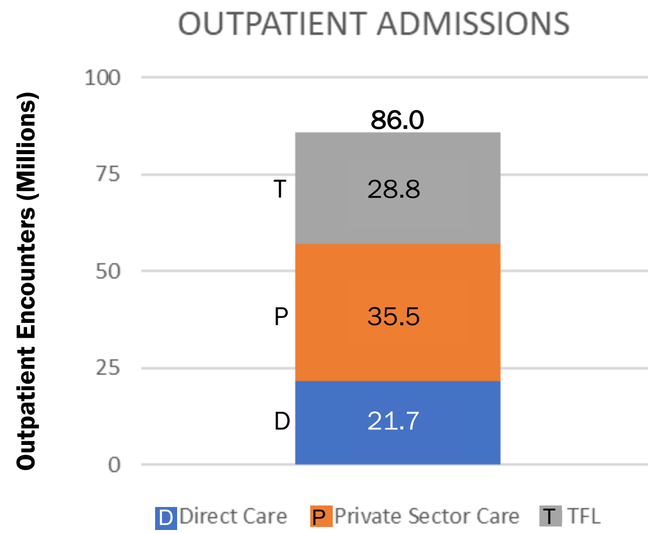
[e] As reported by the managed care support contractors (MCSCs) for contracted network provider and hospital data, 12/19/2022; and TRICARE Dental Program Section, Health Plan Execution and Operations for dental provider data, 3/1/2023.

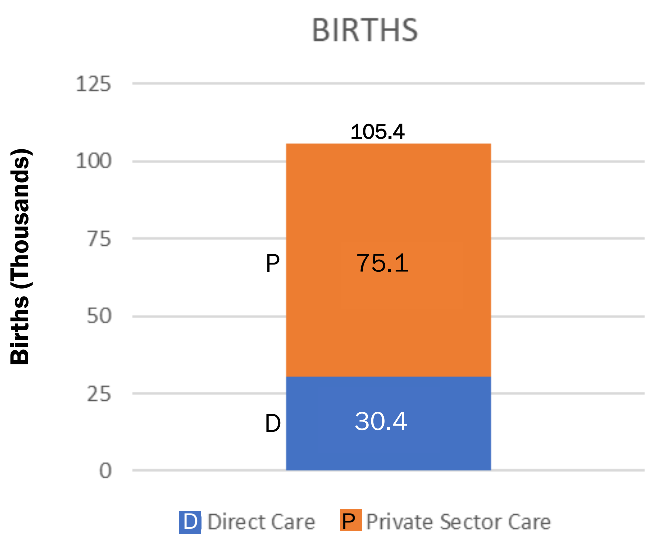
[f] UMP presented here includes direct and private sector care funding, military personnel, military construction, and the MERHCF ("Accrual Fund"). Budget and expense data from DHA/Resources & Management Directorate (J-8)/Budget & Execution Division, as of FY 2023 Request.

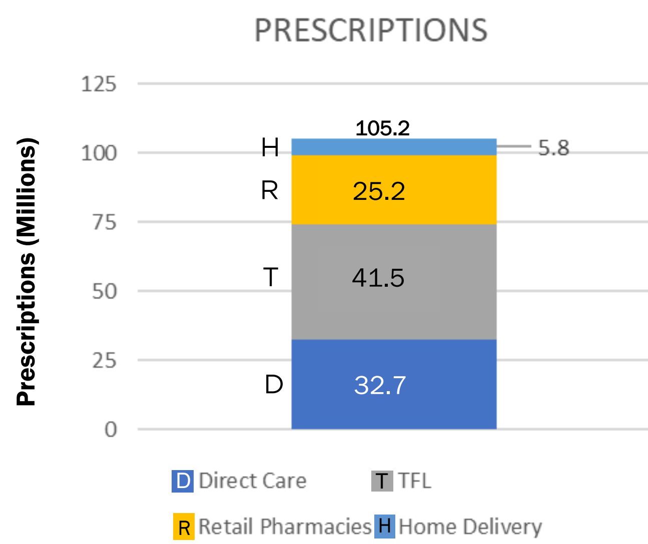
Source: MHS administrative data, 1/20/2023, and DEERS, 12/30/2022 (Numbers may not sum to totals due to rounding.)

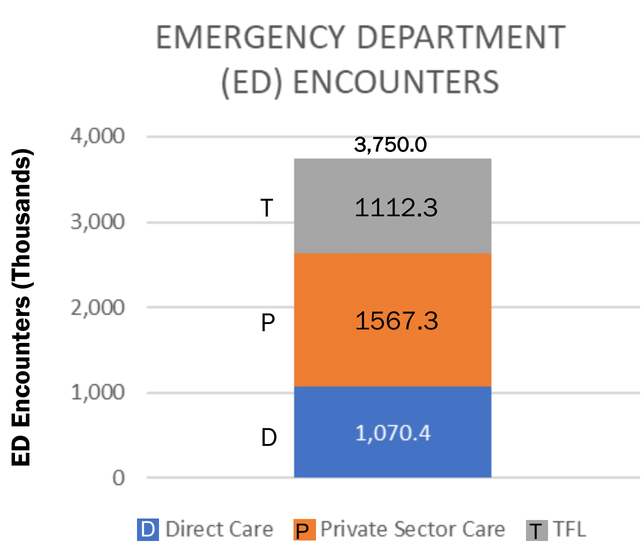
FY2022 Tricare Workload and Population Summary

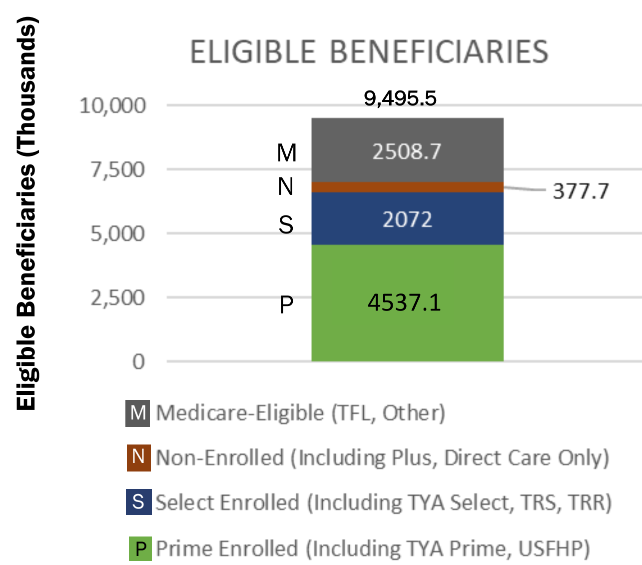












Sources: MHS administrative data, 1/20/2023, and DEERS, 12/30/2022
[a] Excludes Uniformed Services Family Health Plan (USFHP) because MHS administrative data used in this report have no USFHP utilization information. Notes: Numbers may not sum to bar totals due to rounding.

Figure I — 7

Eligible Beneficiaries

Figure I – 8

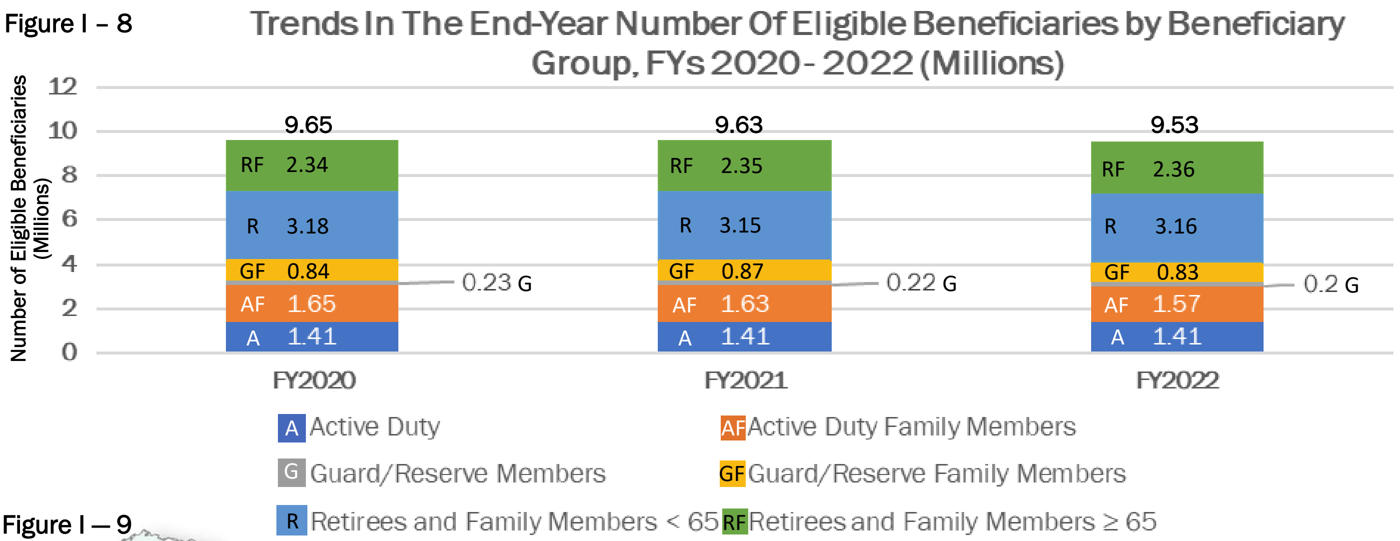
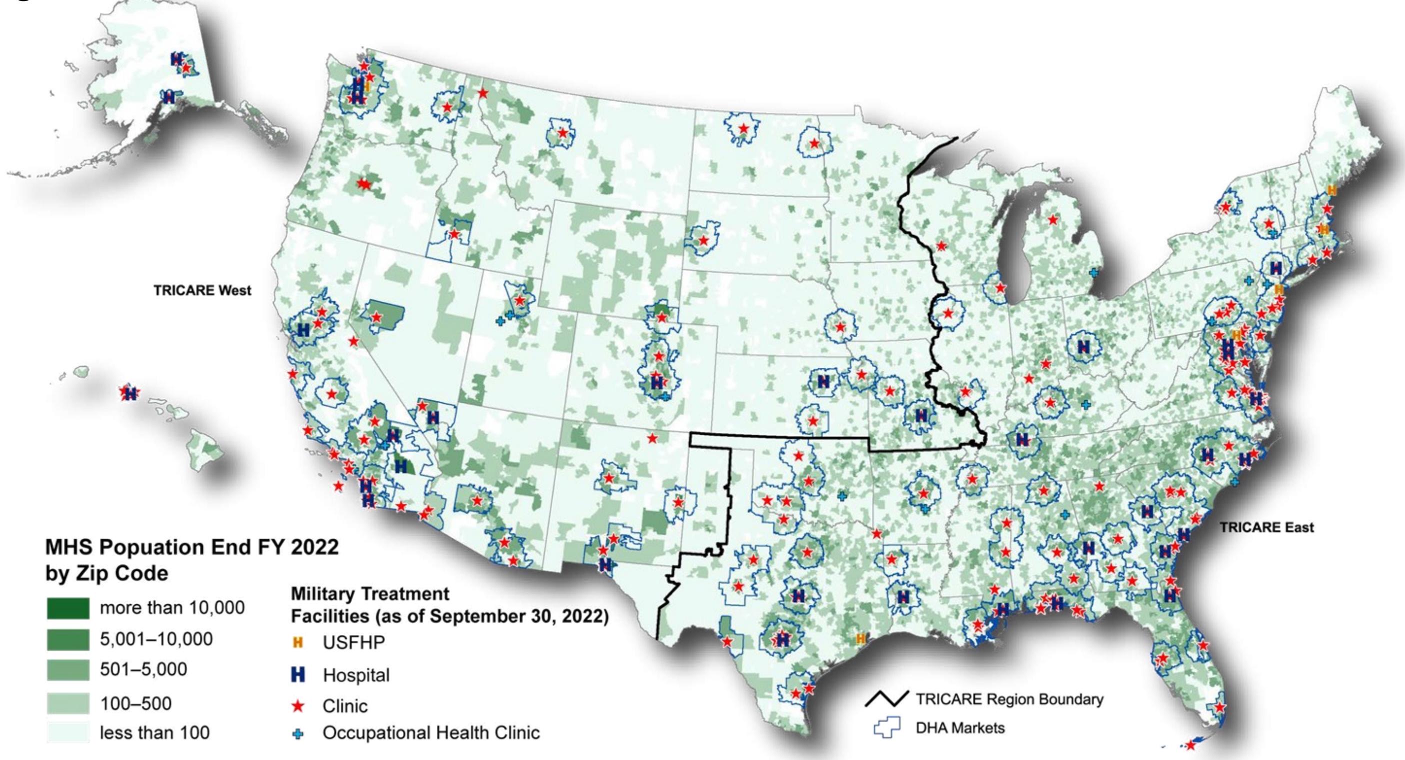


Figure I — 9



The map displays, as of September 30, 2022, where the Military Treatment Facilities are located and the MHS Population by Zip Code across the United States. It is taken from Page 37 of the "Evaluation of the TRICARE Program: Fiscal Year 2023 Report to Congress." For in-depth market area maps, visit https://info.health.mil/staff/analytics/decsupmp/gismaps.

Analysis of Performance Goals, Objectives, and Results

MHS QUADRUPLE AIM—STRATEGIC DIRECTION AND PRIORITIES

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.

- **Improved Readiness:** Readiness means ensuring that the total military force is medically ready to deploy and that the medical force is ready to deliver health services at a moment's notice in support of the full range of military operations, on the battlefield or during disaster response and humanitarian aid missions.
- **Better Care:** We are proud of our track record and recent improvements, but there is always more to accomplish. We continue to advance health care that is safe, timely, effective, efficient, equitable, and patient- and family-centered.
- **Better Health:** Our goal is to improve, maintain, and restore the health of the fighting force as well as all entrusted to our care. Doing so reduces the frequency of visits to our military hospitals and clinics by keeping the people we serve healthy. We are making the transformation from health care to health by encouraging healthy behaviors, increasing health resilience, and decreasing the likelihood of illness through focused prevention.
- **Lower Cost:** To lower costs, we increase value by focusing on quality, eliminating waste, and reducing unnecessary variation. As the industry moves toward value-based health care, we begin to consider the total cost of care over time, not just the cost of care at a single point in time. We are becoming more agile in our decision making and are implementing longer-term opportunities to improve the value of health services for all we serve.

DHA FY 2026 Future State

As a Combat Support Agency, 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 9.5 million beneficiaries and the Military Departments. 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 National Defense Strategy. 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 DHA 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 I — 10, will be measured through the Performance Management Framework of eight Strategic Key Performance Indicators (KPIs) driven by eight Strategic Initiatives, illustrated in Figure I — 11. 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 I — 10: MHS Quadruple Aim & DHA Priorities

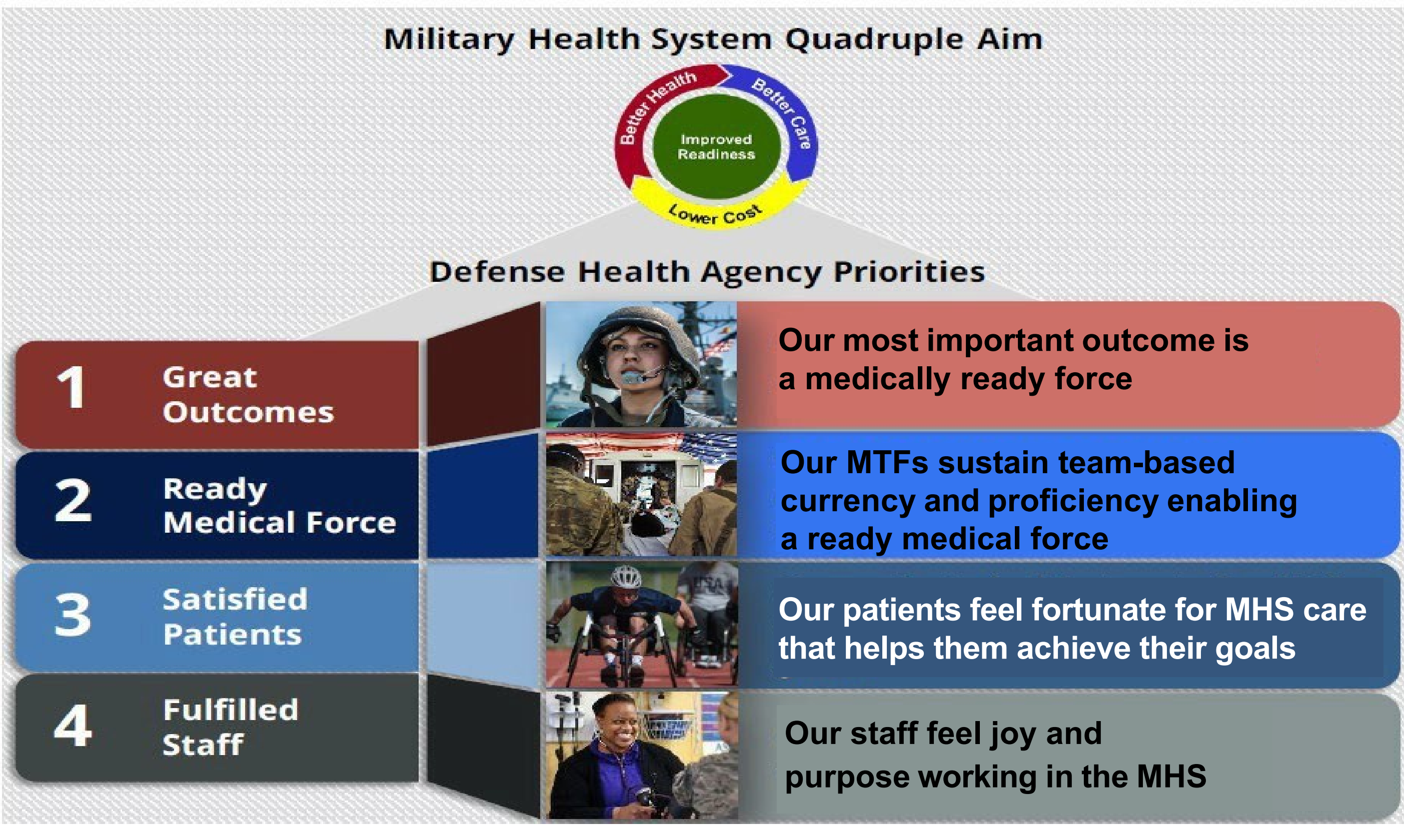
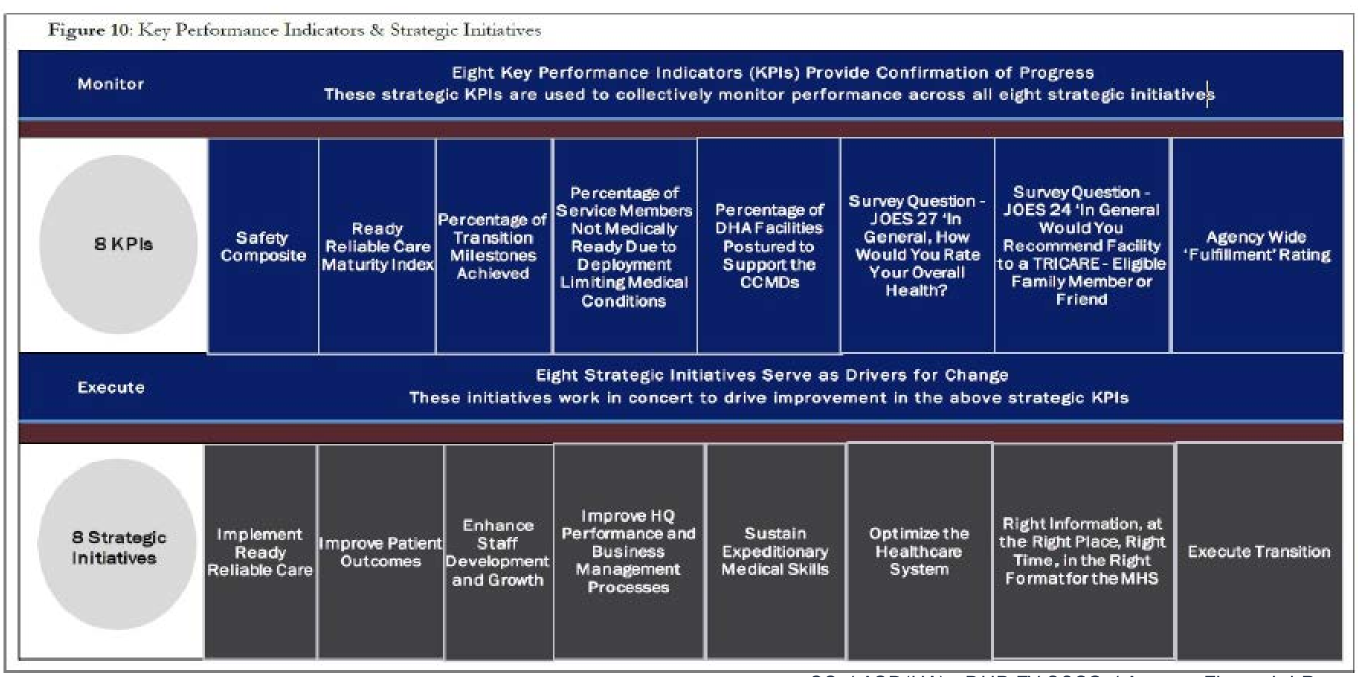


Figure I — 11



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.

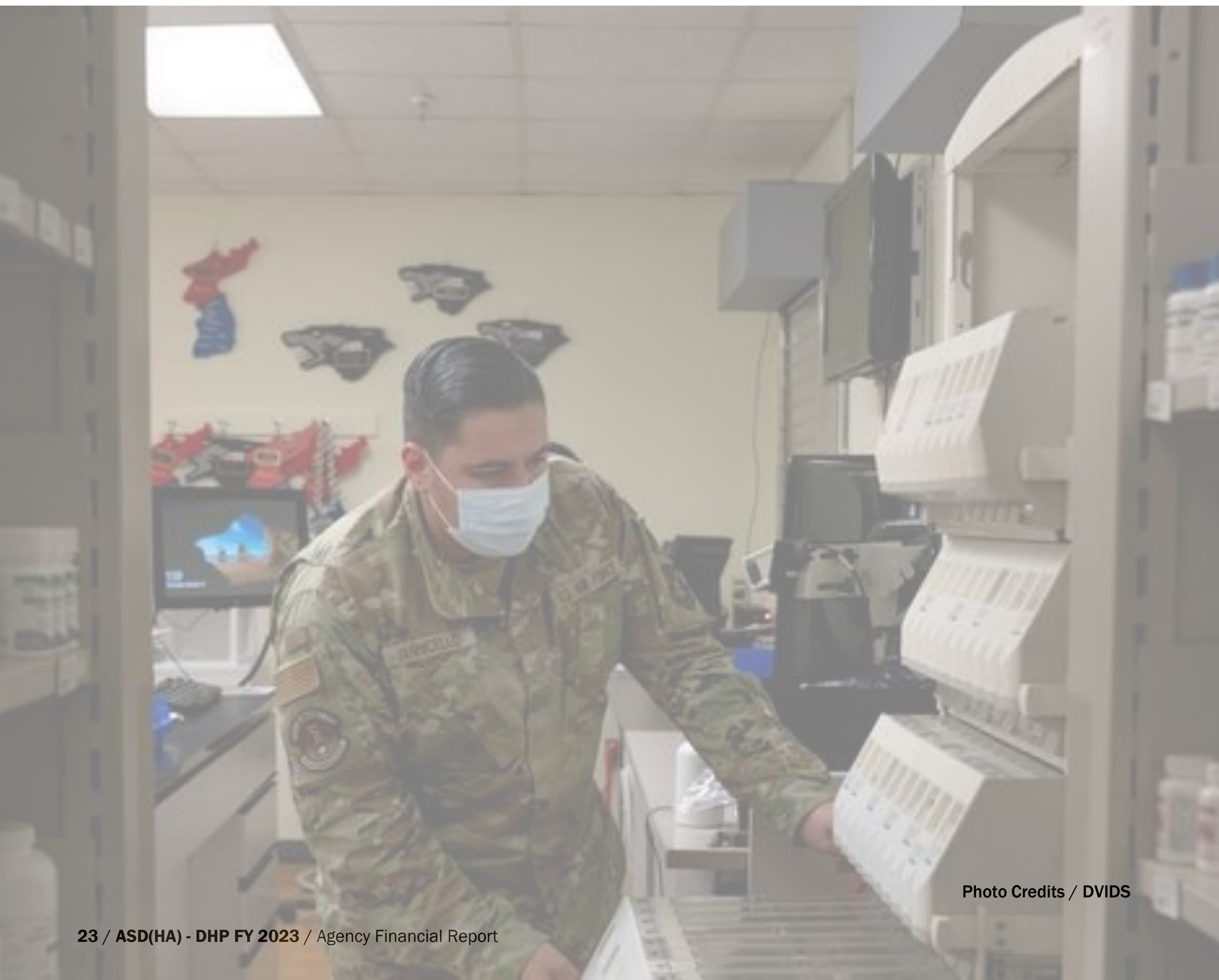


Photo Credits / DVIDS

ANALYSIS OF FINANCIAL STATEMENTS AND STEWARDSHIP INFORMATION

The DHP financial statements reflect and evaluate the execution of the MHS mission to provide a ready medical force and a medically ready force to Combatant Commands (CCMDs) in both peacetime and wartime. This analysis summarizes ASD (HA)-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.

Overview of Financial Position

Figure I — 12: Overview of DHP Financial Position

DHP Major Financial Position Classifications (dollars in thousands)	FY 2023	FY 2022	Increase/ (Decrease) $	%
Costs:				
Gross Program costs	44,664,239	56,778,632	(12,114,393)	-21%
Less Earned Revenue	(4,127,019)	(3,954,180)	172,839	4%
Plus: Losses from Actuarial Assumption Changes	17,844,389	21,785,638	(3,941,249)	-18%
Net Cost of Operations	**58,381,609**	**74,610,090**	**(16,228,481)**	**22%**
Assets:				
Fund Balance with Treasury (Note 3)	21,553,170	20,586,316	966,854	5%
Accounts Receivable, Net (Note 5)	784,240	746,884	37,356	5%
General Property, Plant, and Equipment, Net (Note 7)	3,486,042	4,138,795	(652,753)	-16%
Inventory and Related Property, Net (Note 6)	268,408	256,388	12,020	5%
Other Assets	18,176	13,703	4,473	33%
Total Assets	**26,110,036**	**25,742,086**	**367,950**	**1%**
Liabilities:				
Accounts Payable	1,161,107	1,205,529	(44,422)	-4%
Advances from Others and Deferred Revenue	31,217	14,037	17,180	122%
Federal Employment Benefits payable (Note 10)	318,172,941	297,706,608	20,466,333	7%
Environmental and Disposal Liabilities (Note 11)	-	4,457	(4,457)	-100%
Other Liabilities (Note 13)	421,086	289,528	131,558	45%
Total Liabilities	**319,786,351**	**299,220,159**	**20,566,192**	**7%**
Net Positions:				
Unexpended Appropriations	20,281,803	19,035,674	1,246,129	7%
Cumulative Results of Operations	(313,958,118)	(292,513,747)	21,444,371	7%
Total Net Position	(293,676,315)	(273,478,073)	20,198,242	7%
Total Liabilities and Net Position	26,110,036	25,742,086	367,950	1%
Budgetary Resources	49,380,562	46,606,174	2,774,388	6%

The accompanying notes are an integral part of the statements.

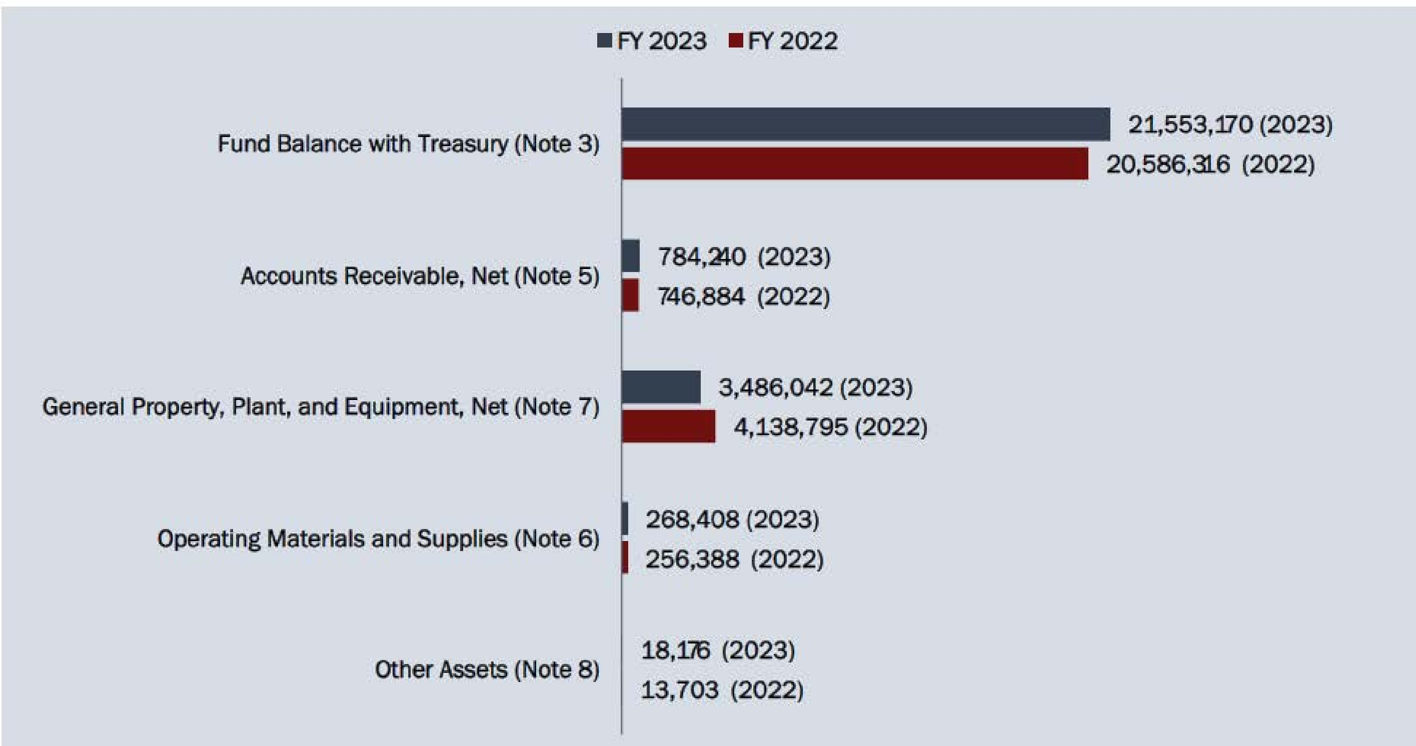
Preparing ASD(HA)-DHP financial statements is a vital component of sound financial management and provides information that is useful for assessing performance, allocating resources, and targeting areas for future programmatic emphasis. MHS leadership are responsible for the integrity of the financial information presented in the ASD(HA)-DHP financial statements. ASD(HA) is committed to financial management excellence and is in the 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 ASD(HA)-DHP's major financial activities as of September 30, 2023, is presented in Figure I—12 on the previous page 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 ASD(HA)-DHP, less earned revenue. Budgetary resources include funds available to ASD(HA)-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

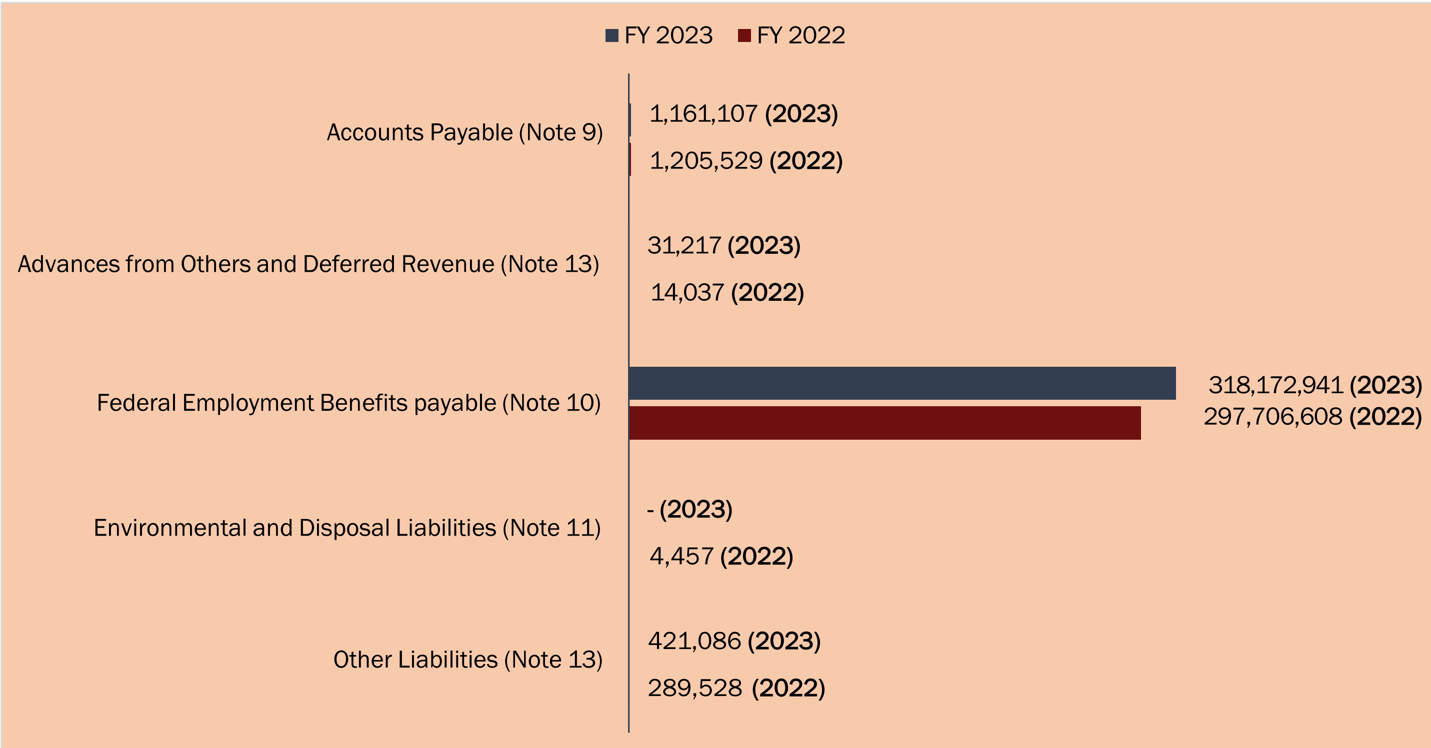
Figure I — 13: Summary of ASD(HA)-DHP Assets (in thousands)



As summarized above in Figure I — 13, total assets were $26.1 billion as of September 30, 2023. The most significant assets are the Fund Balance with Treasury (FBwT) and General PP&E, net, which represent a combined 95.9% of ASD(HA) - 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 decrease in General PP&E of $653 million, or 15.8%, from Q4 FY22, is primarily attributable to a decrease in construction in progress, due to a large transfer out of completed projects by the US Army Corps of Engineers. The increase in Inventory and Related Property of $12.0 million, or 4.7% is primarily due to a strategic and material increase in pandemic vaccines and personal protective equipment.

Liabilities – What We Owe

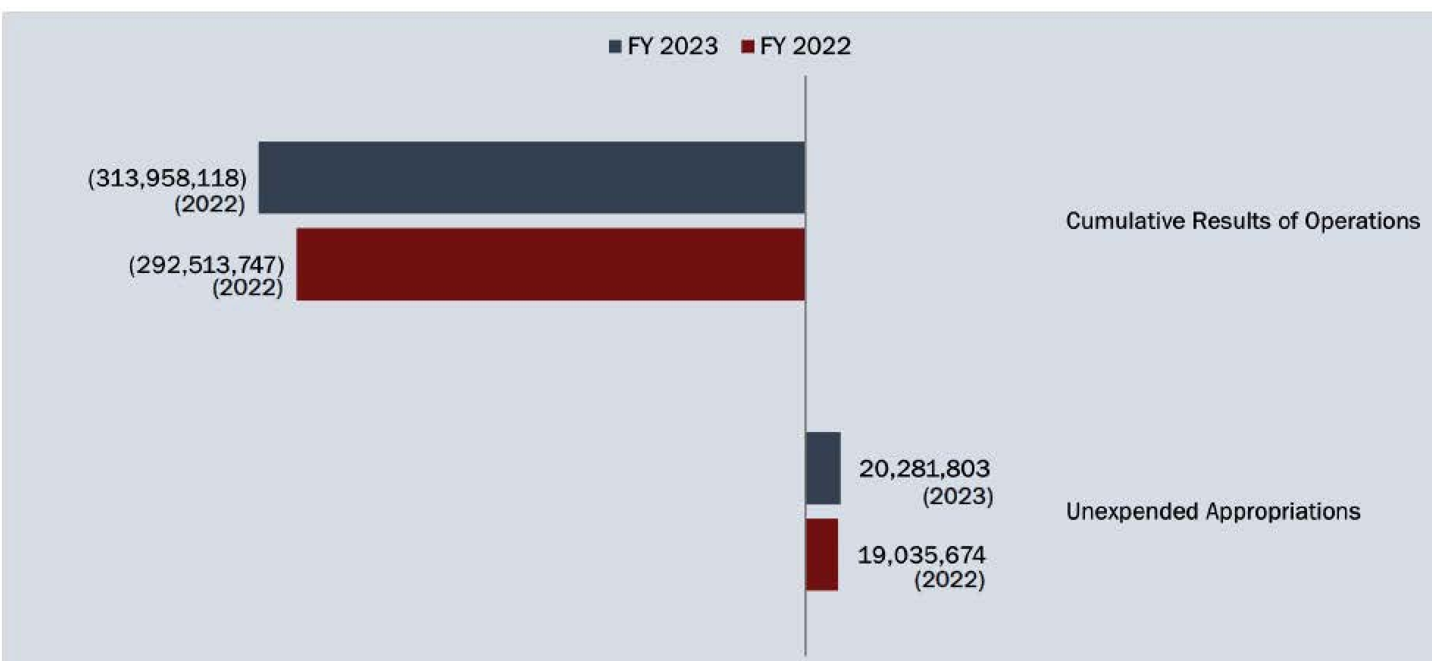
Figure I — 14: Summary of ASD(HA)-DHP Liabilities (in thousands)



As summarized above in Figure I — 14, total liabilities of $319.8 billion as of September 30, 2023, of which $318.2 billion, or 99.5%, 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 increase of $20.5 billion in Federal Employee and Veteran Benefits Payable is attributable to an overall increase to ASD(HA)-DHP's actuarial liability.

Net Position – What We Have Done Over Time

Figure I — 15: Summary of ASD(HA)-DHP Net Position (in thousands)



Net position represents ASD(HA) - DHP's net results of operations and includes both unexpended appropriations and cumulative net earnings. ASD(HA) - DHP's net position is shown on the consolidated Balance Sheets (BS) and the consolidated Statements of Changes in Net Positions. As summarized in Figure I — 15, the reported net position balance as of September 30, 2023, was ($293.7) billion. The decrease of $21.4 billion in cumulative results of operations is mainly attributable to the overall change in ASD(HA) - DHP's unfunded actuarial liability.

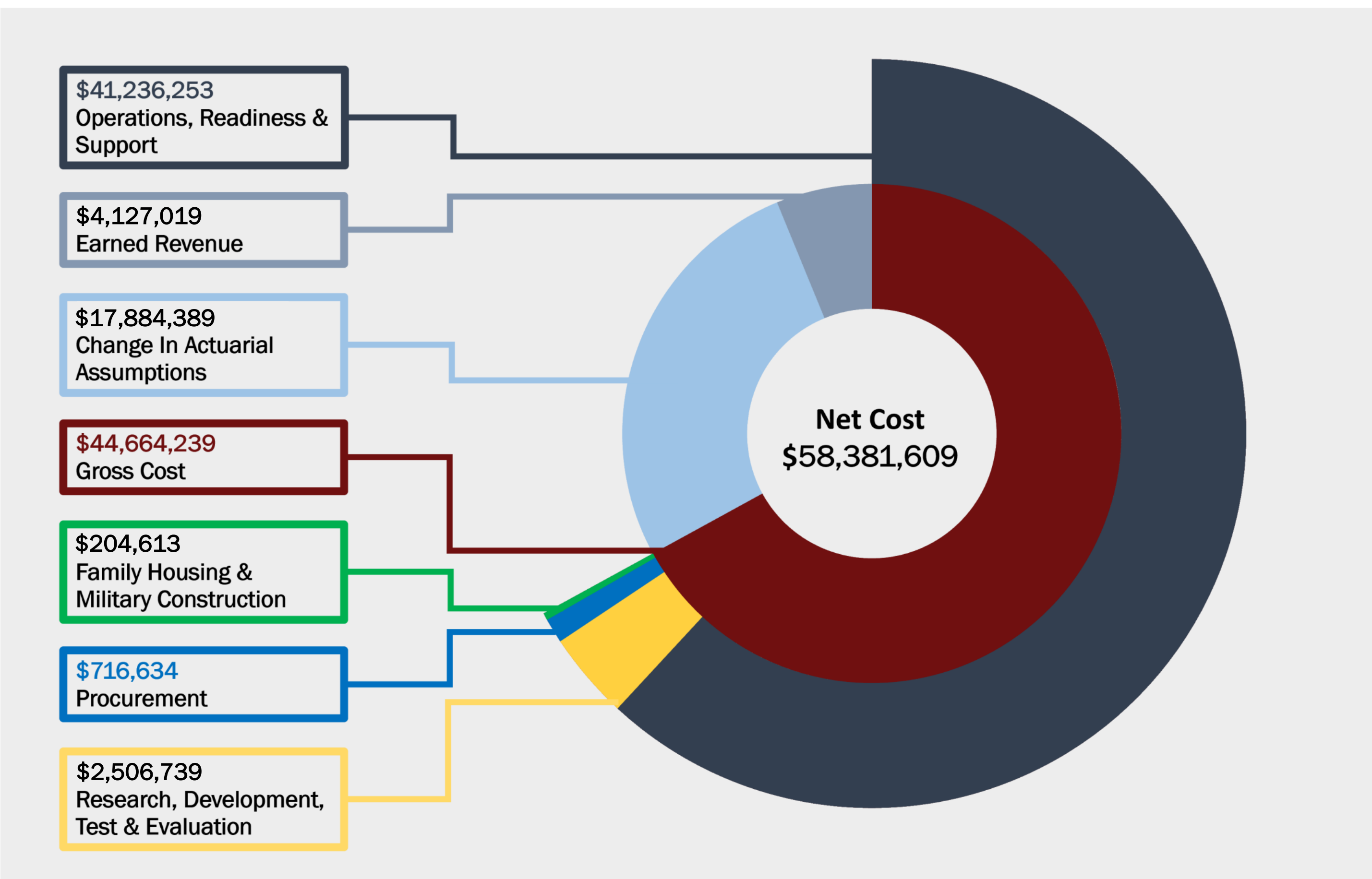
Results of Program Cost

Net Costs – What Cost We Incurred for the Year

The net results of operations are reported in the consolidated Statement of Net Costs (SNC) and the consolidated Statement of Changes in Net Position (SCNP). The consolidated SNC represent the cost of operating (net of earned revenues) ASD (HA)-DHP's major appropriate groupings. In FY 2023, DHP operated the following four fund types and are illustrated in Figure I — 16:

- **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 I — 16: Summary of ASD(HA)-DHP Net Costs (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.

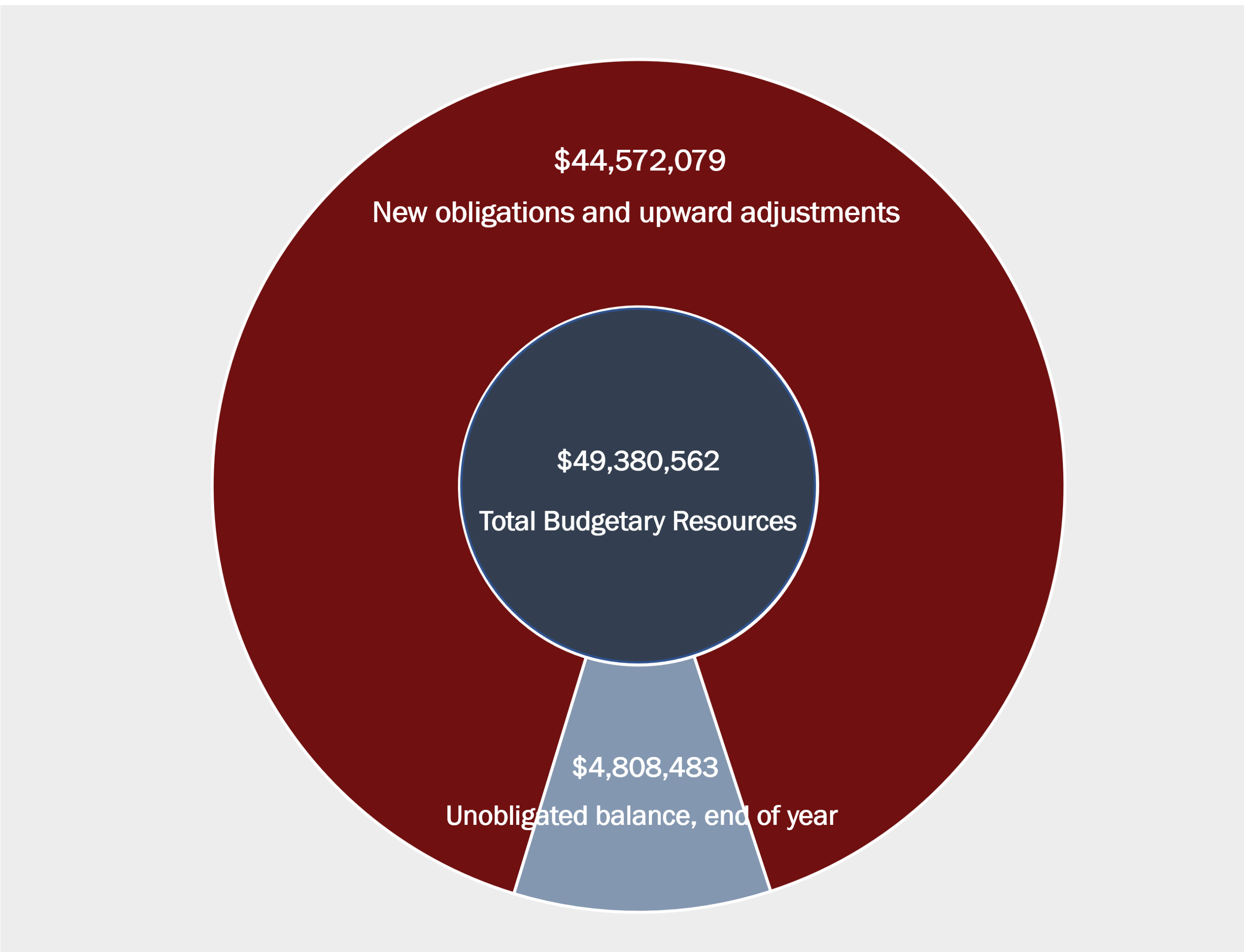
Budgetary Resources

Our Funds

The combined Statements of Budgetary Resources (SBR) provides information on the budgetary resources that were made available to ASD(HA)-DHP during the FY and the status of those resources at the end of the FY. ASD(HA)-DHP receives most of its funding from general government funds administered by Treasury and appropriated by Congress. Budgetary resources consist of the resources available 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 I — 17 below shows the obligations incurred, unobligated balances, and total budgetary resources for ASD(HA)-DHP as of September 30, 2023. ASD(HA)-DHP has received $49.4 billion in cumulative budgetary resources as of September 30, 2023, of which it has obligated $44.6 billion, to date.

Figure I — 17: Summary of ASD(HA)-DHP Budgetary Resources (in thousands)



New DHA Director and Senior Enlisted Leader

Lt. Gen. Telita Crosland

Director, DHA

The Defense Health Agency welcomed U.S. Air Force Command Chief Master Sgt. Tanya Y. Johnson as the new senior enlisted leader in a ceremony at the Defense Health Headquarters in Falls Church, Virginia, on March 10. Johnson

Chief Master Sgt. Tanya Y. Johnson

Senior Enlisted Leader

On January 5, 2023, U.S. Army Lt. Gen. Telita Crosland became the DHA's fourth director, succeeding U.S. Army Lt. Gen. (Dr.) Ronald Place, who served as director since October 2019. Lt. Gen. Crosland is a graduate of the U.S. Military Academy, Uniformed Services University of Health Sciences, and U.S. Army Command and General Staff College. During her three decades of service, she has garnered the Legion of Merit, Meritorious Service Medal, Army Commendation Medal, Joint Service Achievement Medal, Army Staff Badge, and Parachutist s Badge. Lt. Gen Crosland made history becoming the first African American to serve as DHA director.

Lt. Gen. Crosland has served in a variety of leadership positions throughout her military career at military installations, hospitals and clinics across the globe. Prior to her new post, she served as the Army deputy surgeon general. She also served as the deputy commander of the Army's Medical Command. At her swearing in ceremony, Lt. Gen. Crosland concluded by accentuating the new vision of the DHA to "care for the joint force and those we are privileged to serve   anytime, anywhere   always."

In FY 2023 DHA also welcomed U.S. Air Force Command Chief Master Sgt. Tanya Y. Johnson as the new DHA senior enlisted leader. Master Sgt. Johnson entered the Air Force in October 1993. She graduated Medical Laboratory Apprentice Technical Training Course in December 1994. She has served as a Clinical Laboratory technician, Protocol Assistant for the 375th Airlift Wing Commander, and Executive Assistant to both the Aeronautical System Center and Air Education and Training Command, Command Chief Master Sergeants. Master Sgt. Johnson has deployed in support of Operation United Assistance, Operation Inherent Resolve, and Operation Deliberate Resolve. She made history becoming DHA's first female enlisted senior leader.

In addition, Master Sgt. Johnson has held various leadership positions within the Air Force Medical Service. In her prior role at DHA, Johnson served as the senior enlisted leader for the DHA's Director of Staff. Master Sgt. Johnson has stated that she hopes to "make a difference while [DHA is] improving health, building readiness across the world, and changing the Military Health System to where they can be   anytime, anywhere   always."

Limitations of Financial Statements

The principal financial statements are prepared to report the financial position, financial condition, budgetary resources, and results of operations of ASD(HA)-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

Summary of Internal Control Assessment

ASD(HA)-DHP conducted its assessment of the effectiveness of Internal Controls over Operations (ICO) in accordance with the Federal Managers Financial Integrity Act (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 ASD(HA)-DHP with the results and testing methodology used to evaluate the status of the component maturity with regards to the control environment. Based on the results of the assessment, ASD(HA)-DHP is unable to provide assurance regarding the effectiveness of our ICO as of September 30, 2023.

ASD(HA)-DHP assessed the effectiveness of Internal Controls Over Financial Reporting-Financial Reporting (ICOFR-FR), including external financial reporting, in accordance with OMB Circular No. A-123*, Appendix A, Internal Control over Financial Report*. Each evaluation occurred at the component level and was reported to DHP with the results and testing methodology used to evaluate the component maturity of the control. Based on the results of the assessment, ASD(HA)-DHP is unable to provide assurance that ICOFR-FR were operating effectively as of September 30, 2023.

ASD(HA)-DHP has undergone an external Financial Statement Audit performed in accordance with standard set forth by the Federal Account Standard and Advisory Board (FASAB), OMB Circular No. A-123, Appendix D, and NIST 800-53 Revision 5. Additionally, ASD(HA)-DHP completed complementary review of Internal Controls Over Financial Reporting-Financial Systems (ICOFR-FS) in accordance with FFMIA of 1996 (P.L. 104-208) and OMB Circular No. A-123, Appendix D. Based on the results of Financial Statement Audit performed by the Independent Public Accountant, ASD(HA)-DHP is unable, at this time, 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, 2023.

Material weaknesses identified in the following areas are 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 (RMIC) Program is focused on refining and improving the Entity Level Controls (ELCs) moving into FY 2024. Correcting design failures and strengthening the ELCs should help ASD(HA)-DHP improve control and oversight over operations, reporting, and compliance. An Enterprise communication plan and ELC Testing Matrix has been 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.

During FY23, an external audit was conducted on Test of Design (ToD) of ELCs and while significant improvements to the MHS RMIC's approach in establishing an effective framework was acknowledged, the IPA ultimately concluded that MHS RMIC Team still has the areas to improve upon in establishing effective design and implementation of internal controls in areas such as IT Controls.

Management's assessment of FFMIA compliance was completed prior to the results of the FY 2023 financial statement audit. Our auditor has noted ASD(HA)-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. ASD(HA)-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 2024. As a result, ASD(HA)-DHP was able to support some of the financial statement line items down to the supporting GL system detail. ASD(HA)-DHP continues the process of evaluating the FY 2023 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. ASD(HA)-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. ASD(HA)-DHP has developed but has not fully executed its policy and related requirements for reporting potential DHP appropriation ADA violations. ASD(HA)-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. ASD (HA)-DHP has a number of internal controls as they relate to payroll, timecard entry, review, approval and special pay. ASD (HA)-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*.

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

In 1982, Congress enacted the Prompt Payment Act 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. ASD(HA)-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. ASD(HA)-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 2023 to address the FY 2019 U.S. Army Medical Command (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 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. ASD(HA)-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 2023, 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 2023, ASD(HA)-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 Generally Accepted Accounting Principles (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 2023, ASD(HA)-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 website. 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. ASD(HA)-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 2023 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.

ASD(HA)-DHP does not have a Data Quality Plan in place for FY 2023 and will begin the assessment and implementation process in FY 2024.

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.

The ASD(HA) oversees DHP funded programs such as the Congressionally Directed Medical Research Program (CDMRP). The CDMRP supports innovative and impactful research to advance healthcare for DoD beneficiaries and the American public through various mechanisms and instruments including the award of Grants and Agreements pursuant to 2 CFR 200. While the Government Accountability Office favorably assessed the CDMRP in FY 2021, the ASD(HA)-DHP did not evaluate GONE Act compliance requirements across the full spectrum of ongoing research programs in FY 2023, and will begin comprehensive assessments in FY 2024. The CDMRP annual report and information about the cutting-edge research it funds is available on the CDMRP site.

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.

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Management Assurances

The Annual Statement of Assurance (SOA) for ASD(HA)-DHP on the following page was provided for Federal Managers' Financial Integrity Act (FMFIA) compliance for FY 2023.

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OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE

1200 DEFENSE PENTAGON

WASHINGTON, DC 20301-1200

HEALTH AFFAIRS

Statement of Assurance Memorandum

DATE: 28 September 2023

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

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

SUBJECT: Annual Statement of Assurance Required Under the Federal Managers' Financial Integrity Act

(FMFIA) for Fiscal Year 2023

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 29, 2023.

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 29, 2023.

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) and compliance are operating effectively as of September 29, 2023.

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 29, 2023.

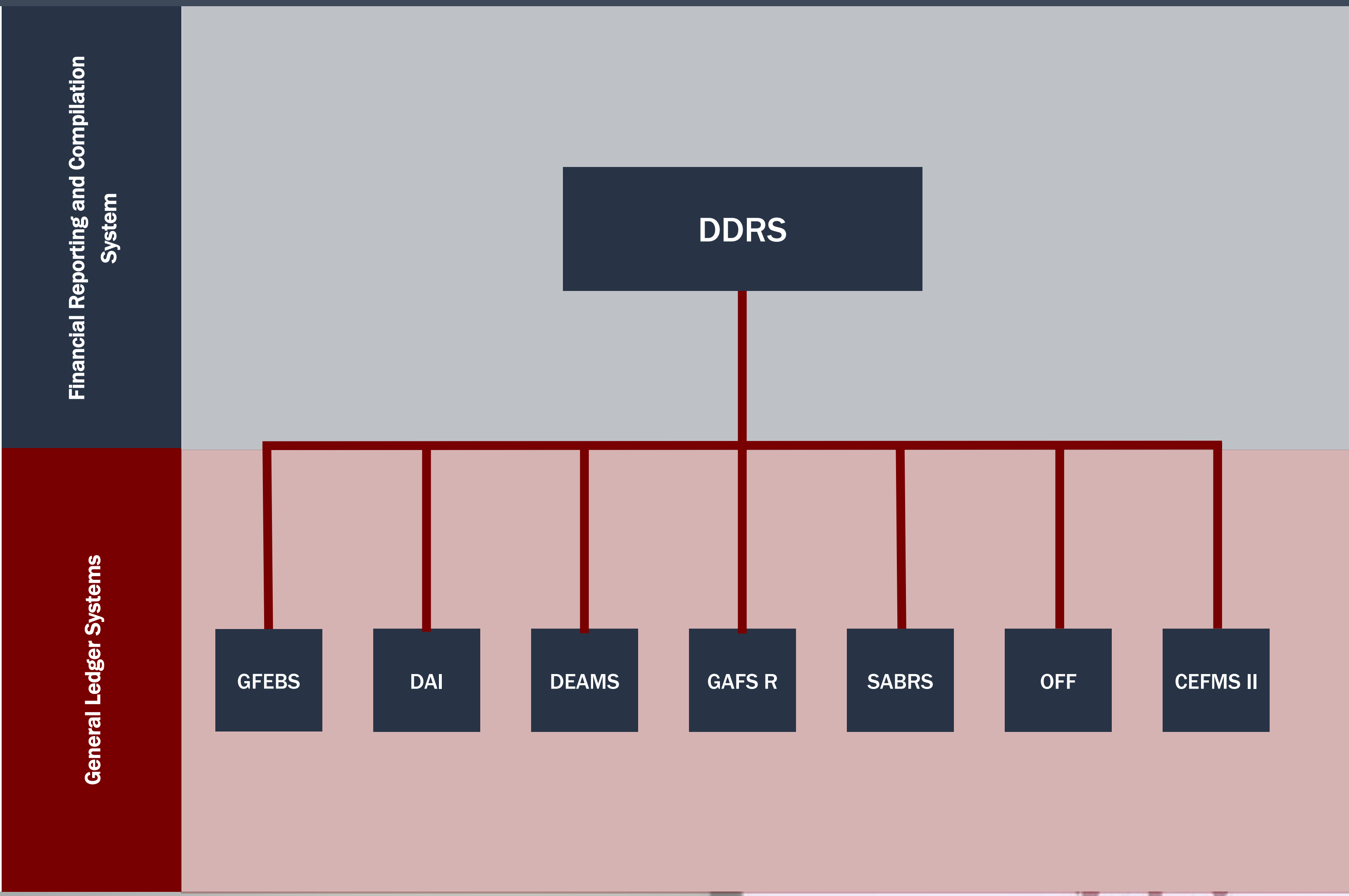
The OASD(HA) has conducted an assessment of entity-level controls including fraud controls in accordance with the Green Book, OMB Circular No. A-123, the Payment Integrity Information Act of 2019, and GAO Fraud Risk Management Framework. Based on the results of the assessment, the OASD(HA) is unable to provide assurance that entity-level controls including fraud controls are operating effectively as of September 29, 2023.

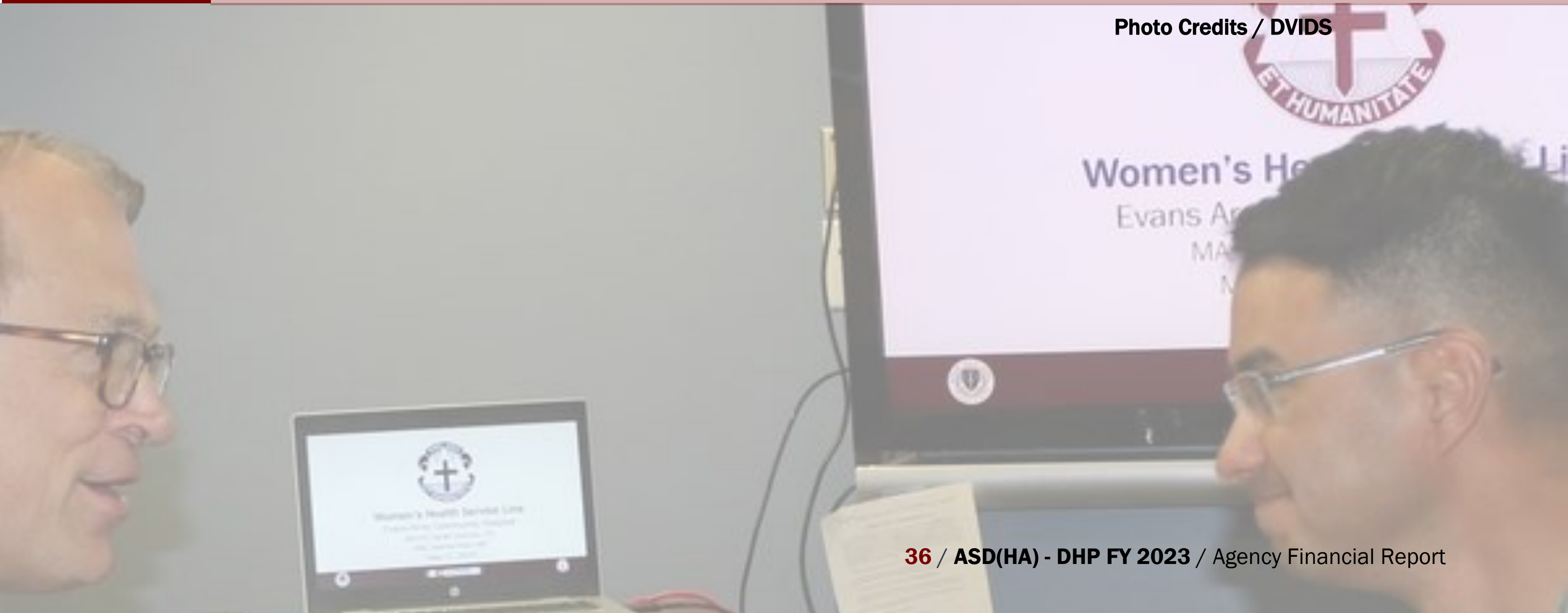
The OASD(HA) is hereby reporting that no Anti-Deficiency Act (ADA) violation has been discovered/identified during our assessments of the applicable processes.

If there are any questions regarding this Statement of Assurance for FY 2023, my point of contact is Candace Farrow, (703) 681-6757 or Candace.P.Farrow.civ@health.mil.

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

Financial Systems Framework





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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 GL systems. Additionally, DHA is working to expand the internal control testing and audit remediation over relevant ERP systems to better facilitate compliance with FFMIA standards. Per the current audit roadmap, DHA is diligently working to have remediation achieved by FY27.

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 SBR, BS, SCNP, and SNC. 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 (SAP) 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 the U.S. Air Force Medical Service (AFMS). DEAMS is intended to improve financial accountability by providing a single, standard, automated financial management system that is compliant with the CFO Act of 1990 and other mandates. DEAMS performs the following core accounting functions: Core Financial System Management, GL 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 the Defense Finance and Accounting Service 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 GL 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 GL systems, including the Navy Bureau of Medicine and Surgery (BUMED) DHP activity.

Oracle Federal Financials (OFF) is a GL accounting system used by CRM that contains TRICARE Claims Management (health care claims processing), Accounts Receivable, Accounts Payable, Purchase Orders, Oracle Projects, and the GL modules.

Corps of Engineers Financial Management System II (CEFMS) CEFMS II fully integrates the United States 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 II is used to provide financial information related to the DHP military construction funds sub-allotted to the USACE.

Other Key Financial Feeder Systems

Armed Forces Billing and Collection Utilization Solution (ABACUS) helps the MHS manage the billing and collection activities for the Services' Uniform Business Office 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, 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 served as the foundation for Armed Forces Health Longitudinal Technology Application, the legacy DoD electronic health record which was replaced by MHS GENESIS in the continental U.S. by FY23 and outside the continental U.S. by mid-FY24. Prior to MHS GENESIS' deployment, CHCS enabled DoD providers to document patient health information and history, electronically order laboratory and radiology tests/services, retrieve test results, order/prescribe medications, and supported 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 electronic health record for the MHS. MHS GENESIS integrates inpatient and outpatient solutions that connect medical and dental information across the continuum of care, from point of injury to MTF. 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.

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Forward Looking Information

Our FY 2024 ASD(HA)-DHP budget request presents a balanced, comprehensive strategy that aligns with the SECDEF's priorities. It includes funding for the Department's ongoing efforts to support Coronavirus disease 2019 (COVID-19) and pandemic response priorities to integrate essential requirements for prevention, diagnosis, and surveillance health activities.

As of FY 2023, the DHA has completed the transition of all Military MTF's to DHA in accordance with the Department's approved conditions-based execution plan (Plan 3 version 6) for critical milestones. In FY 2024, DHA is anticipating COVID costs to continue to come down, driving a reduction in the ASD(HA)-DHP budget in direct care and private sector care (PSC) for costs attributed directly to COVID. The Department continues to invest in testing, bio-surveillance, genomic sequencing, and integrating health information technology systems to protect against and treat COVID-19 and prepare for new variants, while applying lessons learned to prepare for future biological threats and other major public health emergencies.

PSC continues to be a vital part of the MHS in FY 2024 and represents over half of the ASD(HA)-DHP O&M requirement. Over the period of FY 2012 to FY 2018, both private health insurance premiums and National Health Expenditures per capita rose 25% (or 3.7% annually). The PSC budget should have continued to rise but the Department, with concurrence from Congress, instituted a series of initiatives that bent the cost curve. A combination of benefit changes, payment savings initiatives, contract changes, and population reductions offset underlying increases in health care costs, which is estimated to have saved $3.5 billion over a six-year period. Beginning toward the end of FY 2019 and continuing into FY 2020, the Department began to experience significant growth without the benefit of new reforms to offset the increases. In FY 2022, the Department focused on re-baselined funding for PSC healthcare requirements using the latest execution data, National Health Expenditure rates, beneficiary population forecasts, and current policy/compensation assumptions. Based on FY 2021 execution and FY 2022 execution, the much higher PSC baseline update was valid. In FY 2024, the Department is making additional investments in PSC based on the previous year's execution trends and the FY 2024 request fully funds the Department's anticipated PSC requirements to reduce risk to other DoD programs. PSC will continue to represent an important part of the overall health system in FY 2024 and beyond.

Our FY 2024 ASD(HA)-DHP O&M budget request reflects myriad initiatives, some of which are:

- FY 2024 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 outside the Continental United States is to start in FY 2024 with deployment schedule for Landstuhl, Lakenheath, Okinawa, Guam and South Korea.
- Funding of $78.2M to address increases due to the estimated impact of Executive Order 14026, *Increasing the Minimum Wage for Federal Contractors*.
- $73.4 million provides funds for Joint Operational Medicine Information Systems requirements, the increase is largely due to the realignment of funding from RDT&E to O&M to reflect the new Acquisition Strategy approved January 2021, including: 1) continued funding of software development that will occur beyond the first Minimally Viable Capability Release (MVCR); 2) funding of IT Management and testing support for software development beyond the first MVCR.
- Funding of $54.5M for increase in supplemental health care program due to increased utilization of the PSC network for Active Duty car not available in the MTFs.
- Funding of $46.5M for increased utilization of PSC mental health treatment by Active Duty.
- Funding of $39.1M to improve the ability to prevent, detect, and respond to biological incidents and biological threats as highlighted in the Biodefense Posture Review.

Forward Looking Information (cont.)

Consideration and Mitigation of Risks

The MHS, which includes ASD(HA)-DHP, recognizes financial risks to the agency's ability to achieve its goals and objectives.

Risks Related to Achieving Goals and Objectives

Timely enactment of the annual Appropriations Acts pose a risk in achieving the MHS's goals and objectives because the activities within the MTFs are largely funded by the discretionary DHP appropriation. Accordingly, to mitigate risks, the DoD annually submits the Department of Defense Contingency Plan Guidance for Continuation of Essential Operations in the Absence of Available Appropriations to the Office of Management and Budget. To avert degradation of the MHS' medical mission and other DoD activities that are essential to the nation's defense, the plan designates certain medical activities as "excepted" during a lapse in appropriations. "Excepted" activities are those activities that may be continued notwithstanding the absence of available funding authority in the applicable appropriations. Designating functions as "excepted" medical activities recognizes the MHS must uphold (1) patient safety and (2) maintain the medical readiness of the Joint Force.

The Government Accountability Office (GAO) has also opined on the necessity of continuing medical activities in the absence of available budgetary resources. GAO Opinion B-287619 states, "Given DoD's legal liability for providing medical services to eligible beneficiaries, we conclude that such actions are "authorized by law" regardless of the amount of available budgetary resources and do not violate the Antideficiency Act." The ability to incur said obligations would be contingent on the Department's ability to liquidate the obligations when appropriations become available.

Risk Mitigation

Public Law 116-1, Government Employee Fair Treatment Act of 2019, codified in Section 1341 of Title 31, mitigates the MHS' risks. It states that furloughed and excepted employees will be paid for the lapse in appropriations period when the lapse ends.

DHA Advancement

In FY 2024, the DHA Advancement plan will realign the MHS direct care system. Twenty direct reporting medical markets will transition into nine flag officer / general officer led Defense Health Networks (DHN), aligning every MTF to a DHN. A DHN is a group of military medical and dental facilities that operates as a coordinated system and improves the delivery and continuity of health services. The Defense Health Support Activity will also be established to improve communication and coordination between headquarters and the new networks. This plan carries out a deliberate organizational change to strengthen the management of health care delivery, combat support, and support to the military health enterprise worldwide.

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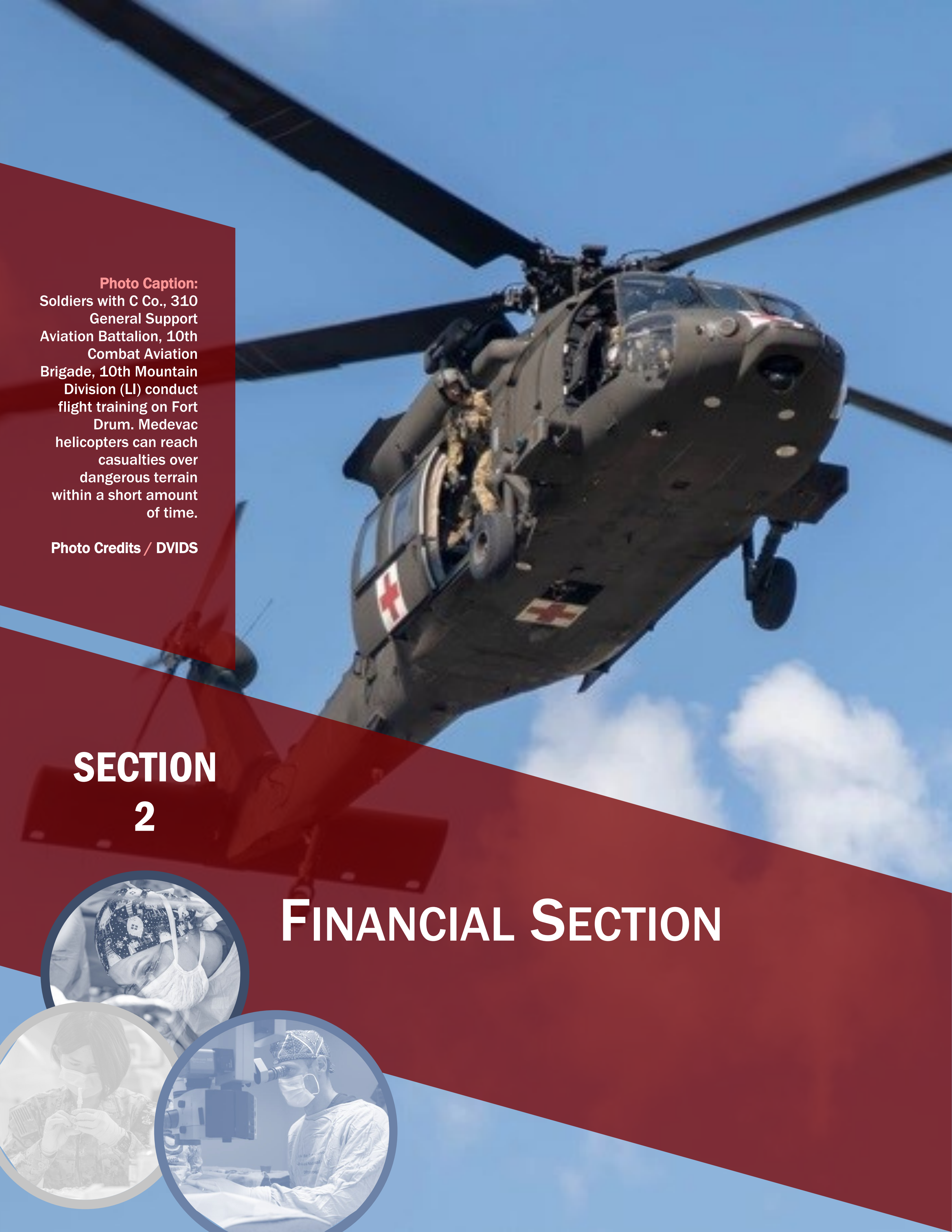

Photo Caption: Soldiers with C Co., 310 General Support Aviation Battalion, 10th Combat Aviation Brigade, 10th Mountain Division (LI) conduct flight training on Fort Drum. Medevac helicopters can reach casualties over dangerous terrain within a short amount of time.

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SECTION 2

FINANCIAL SECTION

ASD(HA)-DHP FINANCIAL STATEMENTS, NOTES, AND REQUIRED SUPPLEMENTARY INFORMATION

These financial statements have been prepared to report the financial position, results of operations, net position, and budgetary resources of ASD(HA)-DHP, as required by the CFO 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 ASD(HA)-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 ASD(HA)-DHP (assets), amounts owed by ASD(HA)-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 ASD(HA)-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 ASD(HA)-DHP's core mission.

Consolidated Statements of Changes in Net Position

The SCNP 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 ASD(HA)-DHP's budgetary resources, status of budgetary resources, and net outlays. ASD(HA)-DHP's budgetary resources consist of appropriations and spending authority from offsetting collections. Budgetary resources provide ASD(HA)-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

Assistant Secretary of Defense (Health Affairs) - Defense Health Program

Consolidated Balance Sheets (Unaudited)

As of September 30, 2023 and 2022 (dollars in thousands):

Figure II — 1

		Q4 2023		Q4 2022
Assets				
Intragovernmental				
Fund Balance with Treasury (Note 3)	$	21,553,170	$	20,586,316
Accounts Receivable, Net (Note 5)		25,681		88,422
Total Intragovernmental		21,578,851		20,674,738
Other than Intragovernmental				
Cash and Other Monetary Assets (Note 4)		38		2
Accounts Receivable, Net (Note 5)		758,559		658,462
Inventory and Related Property, Net (Note 6)		268,408		256,388
General Property, Plant, and Equipment, Net (Note 7)		3,486,042		4,138,795
Advances and Prepayments (Note 8)		18,138		13,701
Total Other than Intragovernmental		4,531,185		5,067,348
Total Assets	**$**	**26,110,036**	**$**	**25,742,086**
Liabilities (Note 9)				
Intragovernmental				
Accounts Payable	$	182,061	$	91,133
Advances from Others and Deferred Revenue		1,075		202
Other Liabilities (Note 13)		72,762		84,049
Total Intragovernmental		255,898		175,384
Other than Intragovernmental				
Accounts Payable		979,046		1,114,396
Federal Employee and Veteran Benefits Payable (Note 10)		318,172,941		297,706,608
Environmental and Disposal Liabilities (Note 11)		-		4,457
Advances from Others and Deferred Revenue		30,142		13,835
Other Liabilities (Note 13)		348,324		205,479
Total Other than Intragovernmental		319,530,453		299,044,775
Total Liabilities	**$**	**319,786,351**	**$**	**299,220,159**
Net Position				
Unexpended Appropriations	$	20,281,803	$	19,035,674
Cumulative Results of Operations		(313,958,118)		(292,513,747)
Total Net Position		**(293,676,315)**		**(273,478,073)**
Total Liabilities and Net Position	**$**	**26,110,036**	**$**	**25,742,086**

The accompanying notes are an integral part of the statements.

Statements of Net Cost

Department of Defense

Assistant Secretary of Defense (Health Affairs) - Defense Health Program

Consolidated Statements of Net Cost (Unaudited)

For Years Ended September 30, 2023 and 2022 (dollars in thousands):

Figure II — 2

		Q4 2023		Q4 2022
Gross Program Costs (Note 16)	**$**	**44,664,239**	**$**	**56,778,632**
Operations, Readiness, and Support		41,236,253		53,900,478
Procurement		716,634		587,629
Research, Development, Test & Evaluation		2,506,739		2,348,249
Family Housing & Military Construction		204,613		(57,724)
(Less: Earned Revenue)		(4,127,019)		(3,954,180)
Net Program Costs before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	**$**	**40,537,220**	**$**	**52,824,452**
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$	17,844,389	$	21,785,638
Net Program Costs Including Assumption Changes		58,381,609		74,610,090
Net Cost of Operations	**$**	**58,381,609**	**$**	**74,610,090**

The accompanying notes are an integral part of the statements.

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Statements of Changes in Net Position

Department of Defense

Assistant Secretary of Defense (Health Affairs) - Defense Health Program

Consolidated Statements of Changes in Net Position (Unaudited)

As of September 30, 2023 and 2022 (dollars in thousands):

Figure II — 3

		Q4 2023		Q4 2022
Unexpended Appropriations				
Beginning Balance	$	19,035,675	$	18,522,109
Appropriations Received		39,790,883		37,915,177
Appropriations Transferred-In/Out (+/-)		(255,579)		(656,018)
Other Adjustments		(684,178)		(854,583)
Appropriations Used		(37,604,998)		(35,891,011)
Net Change in Unexpended Appropriations		1,246,128		513,565
Total Unexpended Appropriations	**$**	**20,281,803**	**$**	**19,035,674**
Cumulative Results of Operations				
Beginning Balances	$	(292,513,747)	$	(253,827,763)
Beginning Balances, as Adjusted	**$**	**(292,513,747)**	**$**	**(253,827,763)**
Appropriations Used		37,604,998		35,891,010
Nonexchange Revenue		24,271		(34)
Other Adjustments		(2,526)		159,524
Transfers In/Out without Reimbursement		(1,062,238)		(377,505)
Imputed Financing		377,685		244,884
Other		(4,952)		6,227
Net Cost of Operations		58,381,609		74,610,090
Net Change		(21,444,371)		(38,685,984)
Cumulative Results of Operations		**(313,958,118)**		**(292,513,747)**
Net Position	**$**	**(293,676,315)**	**$**	**(273,478,073)**

The accompanying notes are an integral part of the statements.

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Statements of Budgetary Resources

Department of Defense

Assistant Secretary of Defense (Health Affairs) - Defense Health Program

Combined Statements of Budgetary Resources (Unaudited)

As of September 30, 2023 and 2022 (dollars in thousands):

Figure II — 4

		Q4 2023		Q4 2022
Budgetary Resources				
Unobligated balance from prior year budget authority, net	$	5,502,926	$	4,938,093
Appropriations (discretionary and mandatory)		39,608,637		37,766,765
Contract Authority (Discretionary and Mandatory)		-		-
Spending Authority from offsetting collections (discretionary and mandatory)		4,268,999		3,901,316
Total Budgetary Resources	**$**	**49,380,562**	**$**	**46,606,174**
Status of Budgetary Resources				
Total New obligations and upward adjustments	$	44,572,079	$	42,302,122
Unobligated balance, end of year				
Apportioned, unexpired accounts		3,419,219		3,093,936
Unexpired unobligated balance		3,419,219		3,093,936
Expired unobligated balance		1,389,264		1,210,116
Total Unobligated balance, end of year		4,808,483		4,304,052
Total Status of Budgetary Resources	**$**	**49,380,562**	**$**	**46,606,174**
Outlays, net				
Total outlays, net (discretionary and mandatory)		37,881,747		36,436,656
Agency Outlays, net	**$**	**37,881,747**	**$**	**36,436,656**

The accompanying notes are an integral part of the statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.A. Reporting Entity Mission and Overall Structure

ASD(HA)-DHP is a component of the DoD, which 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 because they are offset by assets and liabilities of another U.S. Government entity. 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.

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 the ASD(HA)-DHP. In 2013, the DoD issued a directive in accordance with the Deputy Secretary of Defense memorandum formally establishing DHA as part of the ASD(HA)-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 of MTFs worldwide. The Deputy Secretary of Defense directed 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. ASD(HA)-DHP receives its appropriation from Congress, apportioned by OMB to the OUSD(C), who allots these funds to the ASD(HA). The ASD(HA) issues Funding Authorization Documents to fund the two financial reporting entities that exist within ASD(HA)-DHP. These financial reporting entities collectively support the ASD(HA) mission. With this appropriation, ASD(HA)-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 ASD(HA)-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 ASD(HA)-DHP will be discussed in Note 21, Disclosure Entities and Related Parties. Additionally, it should be noted that military personnel from each of the military services staff the MTFs and are part of the manpower used to generate healthcare services for ASD(HA)-DHP.

ASD(HA)-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 ASD(HA)-DHP and directs the use of its appropriations. For purposes of these consolidated and combined financial statements, the following two financial reporting components comprise ASD(HA)-DHP Financial Statement Reporting Entity:

DHA: 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 October 1, 2021, the Service Medical Activities 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 ASD(HA)-DHP budgetary resources to support the delivery of integrated, affordable, high-quality health services to the ASD (HA)-DHP appropriation to support the delivery of integrated, affordable, and high-quality health services to the 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. ASD(HA)-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*, 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

ASD(HA)-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 ASD(HA)-DHP, as required by the CFO 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 ASD(HA)-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 ASD(HA)-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, ASD(HA)-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. ASD(HA)-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 ASD(HA)-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, ASD(HA)-DHP continues to implement process and system improvements addressing these limitations.

ASD(HA)-DHP financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of ASD(HA)-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.

ASD(HA)-DHP presents the Consolidated BS, SNC, and SCNP Position on a consolidated basis, which is the summation of the Components less the eliminations of intra ASD(HA)-DHP activity. The SBR is presented on a combined basis, which is the summation of the Components; therefore, intra ASD(HA)-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.

ASD(HA)-DHP in coordination with DoD 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 ASD(HA)-DHP's financial statements; however, ASD(HA)-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. ASD(HA)-DHP plans to utilize deemed cost to value beginning balances for inventory and related property, as permitted by SFFAS 48. ASD(HA)-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, ASD(HA)-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. ASD(HA) -DHP plans to utilize deemed cost to value beginning balances for General 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, ASD(HA)-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*: Issued September 28, 2006; Effective for periods beginning after September 30, 2012.
- 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 classifies 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. ASD(HA)-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. ASD(HA)-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. ASD(HA)-DHP is implementing replacement systems and a standard financial information structure incorporating the necessary elements to enable ASD(HA)-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 SNC, and are offset by imputed financing in the SCNP. 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 SNC.

Uses of Estimates: ASD(HA)-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, unfunded actuarial liabilities, and MHS GENESIS Internal Use Software in Development (IUSD). Actual results could differ materially from the estimated amounts.

Discretionary and Mandatory Spending: ASD(HA)-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* use of accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

1.C. Departures from GAAP

Financial management systems and operations continue to be refined as ASD(HA)-DHP strives to record and report its financial activity in accordance with GAAP. ASD(HA)-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. ASD(HA)-DHP has identified the following departures from GAAP, several of which are pervasive problems within DoD that may not be remediated at ASD(HA)-DHP level.

Fund Balance with Treasury (FBwT) (Note 1.H. and Note 1.J. and Note 3): ASD(HA)-DHP was not able to identify its undistributed collections and disbursements in a timely manner because ASD(HA)-DHP shares a Treasury Index (TI)-97 with Other Defense Organizations (ODO) for Treasury reporting. In addition, ASD(HA)-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, ASD(HA)-DHP is unable to explain discrepancies between its FBwT recorded in its GL 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*, ASD(HA)-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 ASD(HA)-DHP financial reporting structure. ASD(HA)-DHP recorded accounts receivable and associated revenue upon the receipt of cash, instead of when earned. Additionally, ASD(HA)-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. ASD(HA)-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): ASD(HA)-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. ASD(HA)-DHP has not accounted for Stockpile Materials in accordance with requirements set forth in SFFAS 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. ASD(HA)-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*. ASD(HA)-DHP has not fully implemented policies, procedures, or controls to effectively record GE acquisitions, disposals, and transfers. ASD(HA)-DHP does not have sufficient supporting documentation to demonstrate that GE is appropriately valued under SFFAS 6. ASD(HA)-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. ASD(HA)-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): ASD(HA)-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.): ASD(HA)-DHP did not have compliant processes for stewardship PP&E, 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.): ASD(HA)-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 ASD(HA)-DHP is not a comprehensive assessment of all its business processes to determine if an accrual of ASD(HA)-DHP's goods and services received but not yet billed is appropriate or necessary.

Consolidated Statements of Net Cost (Note 1.W. and Note 16): ASD(HA)-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: ASD(HA)-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: ASD(HA)-DHP did not have a compliant process in place to identify, account for, and report ASD(HA)-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: ASD(HA)-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: ASD(HA)-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: ASD(HA)-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. ASD(HA)-DHP appropriations funding covers costs including personnel, operations and maintenance, research and development, procurement, and military construction. ASD(HA)-DHP uses these appropriations and funds to execute its missions and subsequently report on resource usage.

Deposit Funds: ASD(HA)-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 ASD(HA)-DHP funds and as such, are not available for ASD(HA)-DHP operations. ASD(HA)-DHP is acting as an agent or a custodian for funds awaiting distribution.

Child Reporting: ASD(HA)-DHP is a party to allocation transfers with other federal agencies as a 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, and all other funds specifically designated by OMB. In addition to the specific ASD(HA)-DHP Appropriation, ASD(HA)-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, and the Global Health Program (1031).

1.E. Revenue and Other Financing Sources

As a component of the Government-wide reporting entity, ASD(HA)-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.

ASD(HA)-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: ASD(HA)-DHP classifies revenue as either exchange revenue or non-exchange revenue. Exchange revenue is derived from transactions in which ASD(HA)-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 ASD(HA)-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 ASD(HA)-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 ASD(HA)-DHP's operating funds are provided by congressional appropriations of budget authority. ASD(HA)-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, ASD(HA)-DHP is permitted to collect payment from third party insurers for medical services rendered to eligible beneficiaries. Additionally, ASD(HA)-DHP receives reimbursable orders as authorized in allocation documentation. ASD(HA) -DHP recognizes revenue as a result of costs incurred for goods and services provided to other federal agencies and the public. ASD(HA)-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 ASD(HA)-DHP are paid in full or in part by funds appropriated to other federal entities. ASD(HA)-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).

ASD(HA)-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 ASD(HA)-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 ASD(HA)-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, ASD(HA)-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: ASD(HA)-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 SNC.

ASD(HA)-DHP acknowledges a departure from GAAP in its Revenue Recognition as discussed in Note 1.C., Departures in GAAP.

1.F. Recognition of Expenses

For financial reporting purposes, DoD policy requires that ASD(HA)-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. ASD(HA)-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 ASD(HA)-DHP, OM&S encompasses pharmaceuticals, pharmaceutical medical supplies, and non-pharmaceutical medical supplies. Under provisions of SFFAS 3, ASD(HA)-DHP expenses OM&S using the purchase method of accounting.

1.G. Transactions with Foreign Governments and International Organizations

ASD(HA)-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 ASD(HA)-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 ASD(HA)-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 ASD(HA)-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 ASD(HA)-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 ASD(HA)-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 ASD(HA)-DHP's right to draw funds from the Treasury for allowable expenditures. 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 Account Symbol level. While nearly all of ASD(HA)-DHP funding is included in account symbol 0130, the military construction component is housed within a shared DoD account symbol, 0500, at an aggregate level that does not provide identification of the separate defense agencies contained within. As a result, the U.S. Treasury does not separately report an amount for ASD(HA)-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, ASD(HA)-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, ASD(HA)-DHP does not report deposit fund balances on its financial statements.

ASD(HA)-DHP acknowledges a departure from GAAP in its undistributed collections and disbursements, as discussed in Note 1.C., Departures from GAAP.

For additional information, see Note 3, FBwT.

1.I. Cash and Other Monetary Assets

Cash is the total of cash resources under the control of ASD(HA)-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 ASD(HA)-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.

ASD(HA)-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. ASD(HA)-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.

ASD(HA)-DHP acknowledges a departure from GAAP in its undistributed collections and disbursements as discussed in Note 1.C. Departures from GAAP

For additional information, see Note 3, FBwT.

1.K. Accounts Receivable, Net

Accounts receivable are amounts due to ASD(HA)-DHP from other federal entities or the public. Gross receivables, including federal receivables, must be reduced to net realizable value by an allowance for doubtful accounts in accordance with SFFAS 1. FASAB issued Technical Bulletin 2020-1, *Loss Allowance for Intragovernmental Receivables*. Allowances for uncollectible accounts due from the public are based upon historical analysis of outstanding receivables and collections data (i.e. Third party collections, MSA-Public, Medical Affirmative Claims). Non-federal claims receivable are associated with TPCP for beneficiaries that have other health insurances. Claims with other federal agencies are resolved in accordance with the business rules published in Appendix 5 of TFM, Volume I, Part 2, Chapter 4700. Federal accounts receivable represent reimbursable work performed for other agencies that have been billed but not collected. For FY 2023, the ASD(HA)-DHP only recognizes an allowance for uncollectible amounts from the public.

ASD(HA)-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 ASD(HA)-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, ASD(HA)-DHP will close out the bad debt and take it off their books.

ASD(HA)-DHP acknowledges a departure from GAAP in its Accounts Receivable, Net as discussed in Note 1.C. Departures from GAAP.

For additional information, see Note 5, Accounts Receivable.

1.L. Inventory and Related Property, Net

ASD(HA)-DHP inventory and related property includes stockpile materials. Stockpile materials are not held with the intent of selling in the ordinary course of business. ASD(HA)-DHP is required to maintain various medications for the DoD in the event a medical epidemic reaches the United States. In accordance with SFFAS 3, stockpile materials are to be accounted for through the consumption method using historical cost valuation or any method that reasonably approximates historical cost. In accordance with FASAB requirements, the DoD Financial Management Regulations (FMR) Vol. 4, Chap. 4, financial control of assets, includes the following policy: The consumption method of accounting must be applied for stockpile materials. The materials must be recognized as assets and reported when produced or purchased.

ASD(HA)-DHP acknowledges a departure from GAAP in its Inventory and Related Property as discussed in Note 1.C. Departures from GAAP.

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

ASD(HA)-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/or SFFAS 10. In addition, ASD(HA)-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 ASD(HA)-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. ASD(HA)-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 applied 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. ASD(HA)-DHP does not own land or land improvements. However, for buildings, facilities, and structures, OUSD(C) directed ASD(HA)-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 ASD(HA)-DHP's operations. ASD(HA)-DHP has not fully executed its accounting policy and related reporting for software and IUS. ASD(HA)-DHP depreciates equipment using a straight-line method over five years. The useful life and amortization schedule of software are determined during development with the software being amortized over two to five years, or ten year recovery periods.

Construction in Progress (CIP): DoD requires that ASD(HA)-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. ASD(HA)-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 ASD(HA)-DHP CIP, and related funds received. ASD(HA)-DHP uses its CIP account to accumulate the costs of new construction of General PP&E (except for IUS 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 ASD(HA)-DHP (a capital lease) and the value equals or exceeds the relevant capitalization threshold, ASD(HA)-DHP records the applicable asset as though purchased, with an offsetting liability, and records depreciation on the asset. ASD(HA)-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. ASD(HA)-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 ASD(HA)-DHP. Payments for operating leases are expensed over the lease term. Office space leases entered into by ASD(HA)-DHP are the largest component of operating leases.

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

ASD(HA)-DHP acknowledges a departure from GAAP in its General PP&E, Net as discussed in Note 1.C., Departures from GAAP.

For additional information, see Note 7, General PP&E.

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, 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 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 CIP. 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, ASD(HA)-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. ASD(HA)-DHP's policy is to expense and/or properly classify assets when the related goods and services are received.

1.O. Stewardship Property, Plant, and Equipment

Disclosures for stewardship PP&E are required under SFFAS 29. ASD(HA)-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. ASD(HA)-DHP operates the NMHM.

ASD(HA)-DHP acknowledges a departure from GAAP in its Stewardship PP&E as discussed in Note 1.C., Departures from GAAP.

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: ASD(HA)-DHP segregates its other liabilities between current and noncurrent liabilities. The current liabilities represent liabilities that ASD(HA)-DHP expects to settle within the 12 months of the Balance Sheet date. Noncurrent liabilities represent liabilities that ASD(HA)-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.

ASD(HA)-DHP acknowledges a departure from GAAP in its Accounts Payable as discussed in Note 1.C., Departures from GAAP.

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.

ASD(HA)-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 SNC.

ASD(HA)-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, ASD(HA)-DHP does not display gains and losses from changes in long-term assumptions used to measure these liabilities on the SNC.

The majority of ASD(HA)-DHP employees hired prior to January 1, 1984, participate in the Civil Service Retirement System (CSRS), while the majority of ASD(HA)-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 ASD(HA)-DHP automatically contributes one percent of base pay and matches employee contributions up to an additional four percent of base pay. The ASD(HA)-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 the Federal Employees' Group Life Insurance (FEGLI) Program. ASD(HA)-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, ASD(HA)-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 ASD(HA)-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, ASD(HA)-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 SNC.

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 ASD(HA)-DHP and subsequently seeks reimbursement from ASD(HA)-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 ASD(HA)-DHP. These liabilities are not covered by budgetary resources because funding has not been made available.

In addition, ASD(HA)-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 most 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. 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. ASD(HA)-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 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.

ASD(HA)-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. ASD(HA)-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.

ASD(HA)-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.

ASD(HA)-DHP recognizes contingent liabilities on the Balance Sheet for legal actions where management considers an adverse decision to be probable and the loss amount 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. ASD(HA)-DHP financial statements do not reflect Environmental Liabilities.

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 SCNP.

1.V. Treaties for Use of Foreign Bases

ASD(HA)-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 ASD(HA)-DHP continued use of these properties until the treaties expire. ASD(HA)-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 SNC represents the net cost of programs that are supported by appropriations or other means. The intent of the Consolidated SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. ASD(HA)-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.

ASD(HA)-DHP acknowledges a departure from GAAP in its Consolidated Statements of Net Cost as discussed in Note 1.C., Departures from GAAP.

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

1.X. Tax Status

ASD(HA)-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 ASD(HA)-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 ASD(HA)-DHP and are not recognized on the Balance Sheet.

ASD(HA)-DHP acknowledges a departure from GAAP in its Fiduciary Activities as discussed in Note 1.C., Departures from GAAP.

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NOTE 2. NON-ENTITY ASSETS

Non-Entity Assets of September 30, 2023 and 2022 (dollars in thousands):

Figure II—5

	UNAUDITED Q4 2023	Q4 2022
Intragovernmental Assets		
Accounts Receivable	$ -	$ -
Total Intragovernmental Assets	**$ -**	**$ -**
Other than Intragovernmental		
Accounts Receivable	$ 855	$ 655
Total Other Than Intragovernmental Assets	**$ 855**	**$ 655**
Total Non-Entity Assets	**$ 855**	**$ 655**
Total Entity Assets	**$ 26,109,181**	**$ 25,741,431**
Total Assets	**$ 26,110,036**	**$ 25,742,086**

Non-entity assets are not available for use in ASD(HA)-DHP's normal operations. ASD(HA)-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.

ASD(HA)-DHP acknowledges various departures from GAAP as discussed in Note 1.C, Departures from GAAP.

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NOTE 3. FUND BALANCE WITH TREASURY

Fund Balance with the Treasury as of September 30, 2023 and 2022 (dollars in thousands):

Figure II - 6

		UNAUDITED		
		Q4 2023		Q4 2022
Status of Fund Balance with Treasury				
Unobligated Balance				
Available	$	3,419,219	$	3,093,936
Unavailable		1,389,264		1,210,115
Total Unobligated Balance	**$**	**4,808,483**	**$**	**4,304,051**
Obligated Balance not yet Disbursed	**$**	**16,989,816**	**$**	**16,524,013**
Non-FBwT Budgetary Accounts				
Unfilled Customer Orders without Advance	$	(219,479)	$	(156,735)
Receivables and Other		(25,650)		(85,013)
Total Non-FBwT Budgetary Accounts	**$**	**(245,129)**	**$**	**(241,748)**
Total FBwT	**$**	**21,553,170**	**$**	**20,586,316**

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

The Status of Fund Balance with Treasury (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 budget 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 $219.5 million and reimbursements and other income earned and not collected of $25.7 million.

The FBwT reported in the financial statements has been adjusted with undistributed adjustments to reflect ASD(HA)-DHP's balance as reported by Treasury. The difference between FBwT in ASD(HA)-DHP's GL and FBwT reflected in the Treasury accounts is attributable to transactions that have not been posted to the individual detailed accounts in ASD(HA)-DHP's GL or transactions that have been received, but not yet matched to the correct detailed accounts in ASD(HA)-DHP's GL. The difference is 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 ASD(HA)-DHP's GL accounts. By using a historical lookback analysis, the ASD(HA)-DHP estimates the amounts of Suspense and Statement of Differences transactions that should clear to the ASD(HA)-DHP should be $3.0 million and $22.6 million respectively.

ASD(HA)-DHP acknowledges departures from GAAP related to FBwT as discussed in Note 1.C, Departures from GAAP.

NOTE 4. CASH AND MONETARY ASSETS

Cash and Other Monetary Assets as of September 30, 2023 and 2022 (dollars in thousands):

Figure II — 7

		UNAUDITED		
		Q4 2023		Q4 2022
Cash and Other Monetary Assets				
Cash	$	38	$	2
Total Cash, Foreign Currency & Other Monetary Assets	**$**	**38**	**$**	**2**

Cash and other monetary assets reported are comprised of undeposited collections received by ASD(HA)-DHP.

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NOTE 5. ACCOUNTS RECEIVABLE, NET

Accounts Receivable as of September 30, 2023 (dollars in thousands):
Figure II — 8

	UNAUDITED		
	Gross Amount Due	Allowance For Estimated Un-collectibles	Accounts Receivable, Net
Accounts Receivable, Net			
Intragovernmental Receivables	$ 25,681	$ -	$ 25,681
Other than Intragovernmental Receivables	1,182,872	(424,313)	758,559
Total Accounts Receivable	**$ 1,208,553**	**$ (424,313)**	**$ 784,240**

Accounts Receivable as of September 30, 2022 (dollars in thousands):
Figure II — 9

	UNAUDITED		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
Accounts Receivable, Net			
Intragovernmental Receivables	$ 88,422	$ -	$ 88,422
Other than Intragovernmental Receivables	1,034,525	(376,063)	658,462
Total Accounts Receivable	**$ 1,122,947**	**$ (376,063)**	**$ 746,884**

Accounts Receivable represents ASD(HA)-DHP's claim for payment from other entities. Gross receivables, including federal receivables, must be reduced to net realizable value by an allowance for doubtful accounts in accordance with SFFAS 1. FASAB issued Technical Bulletin 2020-1, Loss Allowance for Intragovernmental Receivables, which clarified previously issued standards. An allowance recorded to recognize an intragovernmental receivable at net realizable value on the financial statements does not alter the underlying statutory authority to collect the receivable or the legal obligation of the other intragovernmental entity to pay.

For FY 2023, the ASD(HA)-DHP only recognizes an allowance for uncollectible amounts from the public.

Claims with other federal agencies are resolved in accordance with the business rules published in Appendix 5 of TFM, Volume I, Part 2, Chapter 4700. Allowances for uncollectible accounts due from the public are based upon historical analysis of outstanding receivables and collections data.

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, National Oceanic and Atmospheric Administration, and Department of VA.

Accounts receivable due from the public:

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

- Third Party Collections (TPC) relate 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 relates to medical services provided when another party is liable (e.g., homeowners or auto liability insurer).

Additionally, as of September 30, 2023, CRM had recorded $371.0 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.

ASD(HA)-DHP acknowledges departures from GAAP related to accounts receivable, net as discussed in Note 1.C, Departures from GAAP.

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NOTE 6. INVENTORY AND RELATED PROPERTY

Inventory and Related Property as of September 30, 2023 and 2022 (dollars in thousands):

Figure II — 10

		UNAUDITED		
		Q4 2023		Q4 2022
Inventory and Related Property				
Stockpile Material, Net	$	268,408	$	256,388
Total Inventory and Related Property	**$**	**268,408**	**$**	**256,388**

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.

ASD(HA)-DHP uses the consumption method to account for stockpile materials. The $268.4 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. ASD(HA)-DHP report stockpile material as part of the Pandemic Influenza Program. ASD(HA)-DHP is assessing all inventory and related property to determine which should be classified as stockpile material programs. The ASD(HA)-DHP does not hold stockpile material held for sale. Stockpile material is under the release authority of the ASD(HA)-DHP, Global CCMDs, 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 – ASD(HA)-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 ASD(HA)-DHP activities do not provide goods or services for a fee, ASD(HA)-DHP does not have an inventory balance in accordance with accounting standards. ASD(HA)-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)-DHP 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.

ASD(HA)-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, 2023 (dollars in thousands):

Figure II — 11

	UNAUDITED		
	Acquisition Value	Accumulated Deprecia-tion/ Amortization	Net Book Value
Major Fixed Asset Classes			
Software	$ 1,560,247	$ (927)	$ 1,559,320
General Equipment	1,646,573	(1,372,730)	273,843
Assets Under Capital Lease	3,347	(3,347)	-
Construction-in-Progress	1,652,879	-	1,652,879
Total General Property, Plant, and Equipment	**$ 4,863,046**	**$ (1,377,004)**	**$ 3,486,042**

General Property, Plant, and Equipment as of September 30, 2022 (dollars in thousands):

Figure II — 12

	UNAUDITED		
	Acquisition Value	Accumulated Deprecia-tion/ 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**

Most of ASD(HA)-DHP's PP&E, net owned or leased by ASD(HA)-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.

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 MTFs. 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. ASD(HA)-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.

ASD(HA)-DHP acknowledges departures from GAAP related to PP&E as discussed in Note 1.C, Departures from GAAP.

Capital Leases

In providing healthcare to its patient population, the components of ASD(HA)-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

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

ASD(HA)-DHP acknowledges departures from GAAP related to CIP as discussed in Note 1.C, Departures from GAAP.

HERITAGE ASSETS

Heritage Assets for period ended September 30, 2023 (physical asset count):

Figure II — 13

	UNAUDITED			
Categories	Beginning Balance	Additions	(Deletions)	Ending Balance
Buildings and Structures	-	-	-	-
Archeological Sites	-	-	-	-
Museum Collection Items (Objects, Not Including Fine Art)	43,479	62,663	(2,160)	103,982
Museum Collection Items (Objects, Fine Art)	-	-	-	-

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

As of FY 2023, there is an increase of 60,503 unit counts between the prior-year ending unit count of 43,479 and the current-year ending unit count of 103,982.

Heritage assets' relation to ASD(HA)-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.

ASD(HA)-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.

Human Developmental Anatomy Center: Manages collections and individual specimens that document the normal ontogeny and development of humans and other species, particularly during the embryonic period. The Center 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 non-accessioned 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

ASD(HA)-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 ASD(HA)-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, 2023, totaled $274.7 million.

GENERAL PP&E, NET — SUMMARY OF ACTIVITY

Reconciliation of General Property, Plant, and Equipment for years ended September 30, 2023 and 2022 (dollars in thousands):

Figure II — 14

		UNAUDITED		
		Q4 2023		Q4 2022
General PP&E, Net Beginning of Year	$	4,138,795	$	3,836,160
Capitalized Acquisitions		691,687		822,073
Dispositions		(5,892)		(660)
Transfers In/(Out) without Reimbursement		(1,062,249)		(358,136)
Revaluations (+/-)		(1,621)		507
Depreciation Expense		(274,678)		(161,149)
General PP&E, Net End of Year	**$**	**3,486,042**	**$**	**4,138,795**

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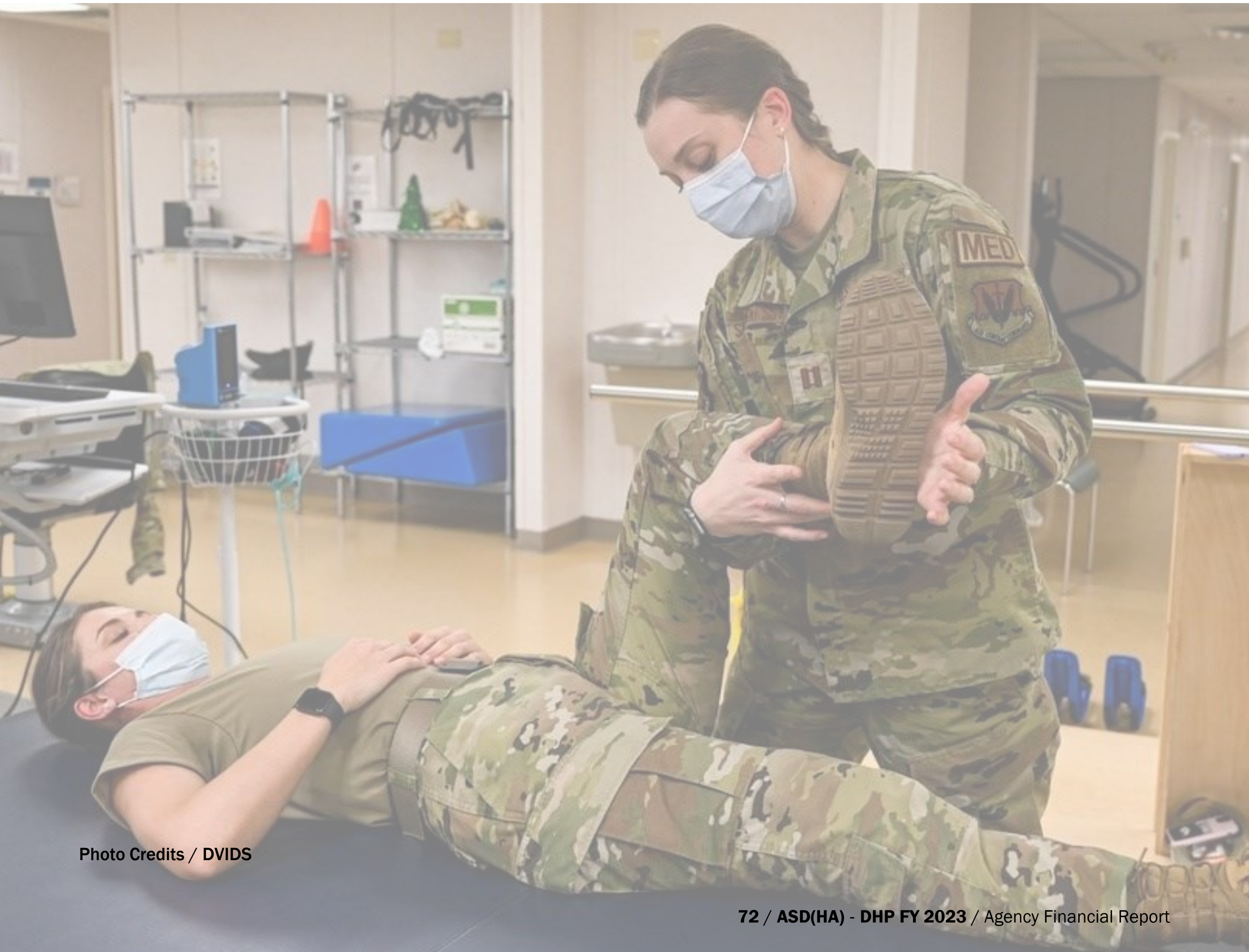
NOTE 8. OTHER ASSETS

Other Assets as of September 30, 2023 and 2022 (dollars in thousands):
Figure II — 15

		UNAUDITED		
		Q4 2023		Q4 2022
Other than Intragovernmental				
Advances and Prepayments	$	18,138	$	13,701
Subtotal	**$**	**18,138**	**$**	**13,701**
Less: Advances and Prepayments	$	(18,138)	$	(13,701)
Total Other Than Intragovernmental	**$**	-	**$**	-
Total Other Assets	**$**	-	**$**	-

Advances and Prepayments are made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures, or receipt of other assets, excluding those made as Outstanding Contract Financing Payments. Advances and Prepayments are excluded from Other Assets in FY23 as they are presented discretely on the Balance Sheet.

ASD(HA)-DHP's Other Assets (Other than Intragovernmental) includes advance pay and travel advances to military and civilian personnel.



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NOTE 9. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities Not Covered by Budgetary Resources as of September 30, 2023 and 2022 (dollars in thousands):

Figure II—16

		UNAUDITED		
		Q4 2023		Q4 2022
Intragovernmental Liabilities				
Accounts Payable	$	1,069	$	-
Other		50,298		44,960
Total Intragovernmental Liabilities Not Covered by Budgetary Resources	**$**	**51,367**	**$**	**44,960**
Other than Intragovernmental Liabilities				
Accounts payable	$	113,153	$	111,696
Federal employee and veteran benefits payable		318,162,490		297,688,328
Environment & Disposal Liabilities		-		4,457
Other Liabilities		216,200		-
Total Liabilities Other than Intragovernmental Not Covered by Budgetary Resources	**$**	**318,491,843**	**$**	**297,804,481**
Total Liabilities Not Covered by Budgetary Resources	**$**	**318,543,210**	**$**	**297,849,441**
Total Liabilities Covered by Budgetary Resources	**$**	**1,243,103**	**$**	**1,370,716**
Total Liabilities Not Requiring Budgetary Resources		**38**		**2**
Total Liabilities	**$**	**319,786,351**	**$**	**299,220,159**

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

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

Other than Intragovernmental 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 Liabilities – Environmental and Disposal Liabilities

Represents ASD(HA)-DHP's liability for existing and estimates related to future events for environmental and clean up and disposal. It was determined in FY 23 the items reported at the end of FY 22 were deemed routine waste and were expensed accordingly.

Other than Intragovernmental Liabilities – Other Liabilities

Represents ASD(HA)-DHP's liability for contingent liabilities.

ASD(HA)-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, 2023 and September 20, 2022 (dollars in thousands):
Figure II — 17

	UNAUDITED			
		Q4 2023		Q4 2022
Pension and Health Benefits				
Military Pre Medicare-Eligible Retiree Health Benefits	$	315,587,360	$	295,085,561
Total Pension and Health Benefits	**$**	**315,587,360**	**$**	**295,085,561**
Federal Employment Benefits				
FECA	$	255,818	$	178,600
Other		2,329,763		2,442,447
Total Other Employee Benefits	**$**	**2,585,581**	**$**	**2,621,047**
Federal Employee and Veteran Benefits Liability	**$**	**318,172,941**	**$**	**297,706,608**
Other Benefit-Related Payables Included in Intragovernmental Accounts Payable on the Balance Sheet	$	71,907	$	82,007
Total Federal Employee Benefits and Veteran Benefits Payable	**$**	**318,244,848**	**$**	**297,788,615**

Summary of Actuarial Liabilities for years ended September 30, 2023 and September 30, 2022 (dollars in thousands):
Figure II — 18

	UNAUDITED			
		Q4 2023		Q4 2022
Beginning Actuarial Liability	**$**	**295,085,561**	**$**	**256,828,640**
Expenses				
Normal Cost	$	14,522,694	$	11,689,792
Interest Cost		8,810,344		8,680,806
Plan Amendments		-		-
Actuarial Experience Gains		(8,985,512)		7,117,505
Other Factors		-		-
Total Expenses before Gain/Loss from Actuarial Assumption Changes	**$**	**14,347,526**	**$**	**27,488,103**
Actuarial Assumption Changes				
Changes in Trend Assumptions	$	20,987,034	$	15,332,873
Changes in Assumptions Other than Trend		(3,142,645)		6,452,765
Total Gain/Loss from Actuarial Assumption Changes	**$**	**17,844,389**	**$**	**21,785,638**
Total Expenses	**$**	**32,191,915**	**$**	**49,273,741**
Less: Benefit Outlays	$	11,690,116	$	11,016,820
Total Changes in Actuarial Liability	**$**	**20,501,799**	**$**	**38,256,921**
Ending Actuarial Liability	**$**	**315,587,360**	**$**	**295,085,561**

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 2023) for a closed group of USUHS retirees and the IBNR, which is an estimate of benefits already IBNR to DoD for all ASD(HA)-DHP beneficiaries (excluding those from the retiree population who are Medicare-eligible).

Effective FY 2010, the ASD(HA)-DHP implemented requirements of SFFAS 33, which directs that the discount rate, underlying inflation rate, and other economic assumptions be consistent with one another. A change in the discount rate may cause other assumptions to change as well. For the September 30, 2023, financial statement valuation, the application of SFFAS 33 required the DoD OACT to set the long-term inflation (Consumer Price Index) to be consistent with the underlying Treasury spot rates used in the valuation.

The ASD(HA)-DHP actuarial liability is adjusted at the end of each FY. The 4th Quarter, FY 2023 balance represents the September 30, 2023 amount that will be effective through 3rd quarter of FY 2024.

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

Assumptions: For the FY 2023 financial statement valuation, the long-term assumptions include a 2.9% discount rate and medical trend rates that were developed using a 2.6% inflation assumption. Note that the term ’discount rate’ refers to the interest rate used to discount cash flows. The terms ‘interest rate’ and ‘discount rate’ are often used interchangeably in this context.

For the FY 2022 financial statement valuation, the long-term assumptions included a 2.9% discount rate and medical trend rates that were developed using a 2.3% inflation assumption.

The change in the long-term assumptions is due to the application of SFFAS 33. This applicable financial statement standard is discussed further below. The standard is discussed further below. Other assumptions used to calculate the actuarial liabilities, such as mortality and retirement rates, were based on a blend of actual experience and future expectations. Because of reporting deadlines and as permitted by SFFAS 33, the current year actuarial liability is rolled forward from the prior year valuation results using accepted actuarial methods. This roll-forward process is applied annually. In calculating the FY 2023 “rolled-forward” actuarial liability, the following assumptions were used:

Figure II — 19

Discount Rate	2.90%	
Inflation	2.60%	
Medical Trend (Non Medicare)	**FY 2022-FY 2023**	**Ultimate Rate FY 2047**
Direct Care Inpatient	5.00%	4.60%
Direct Care Outpatient	4.79%	4.60%
Direct Care Prescription Drugs	8.77%	4.60%
Purchased Care Inpatient	5.31%	4.60%
Purchased Care Outpatient	5.06%	4.60%
Purchased Care Prescription Drugs	9.20%	4.60%
Purchased Care USFHP	5.88%	4.60%

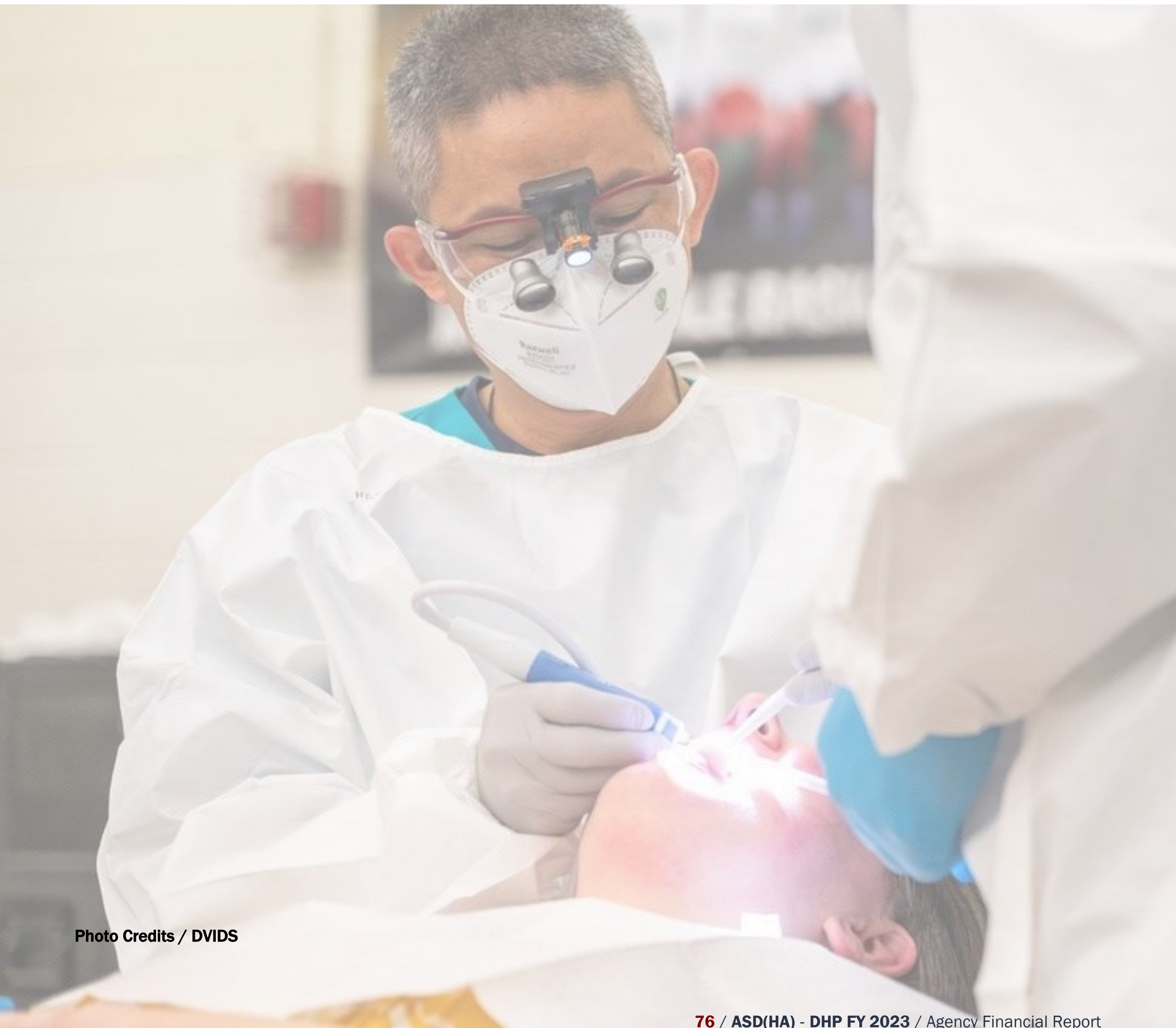
After a 25 year select period, an ultimate trend rate is assumed for all future projection years. The ASD(HA)-DHP actuarial liability increased $20.5 billion (7.0%). This resulted from the net effect of: an increase of $11.7 billion due to expected increases (interest cost plus normal cost less benefit outlays), an increase of $17.8 billion due to changes in key assumptions; and a decrease of $9.0 billion due to actual experience being different from what was assumed (demographic and claims data).

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

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

For the September 30, 2023 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, 2013 through March 31, 2023.

For the September 30, 2023, financial statement valuation, the DoD OACT determined a single equivalent medical cost trend rate of 4.91% can be used to reproduce the total Military Retiree Health Benefits liability. The total Military Retiree Health Benefits liability includes MERHCF, Service Medical Activities, and CRM.



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NOTE 11. ENVIRONMENTAL AND DISPOSAL LIABILITIES

Environmental & Disposal Liabilities as of September 30, 2023 and 2022 (dollars in thousands):

Figure II — 20

	UNAUDITED Q4 2023	Q4 2022
Other than Intragovernmental		
Other Accrued Environmental Liabilities - Non-Base Realignment and Closure (BRAC)	$ -	$ 4,457
Environmental Corrective Action / Closure Requirements	-	-
Total Environmental and Disposal Liabilities	**$ -**	**$ 4,457**

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 Conservation 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)

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

ASD(HA)-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 ASD(HA)-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 SNC 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.

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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 CHCBP, TYA, TRS, 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 2023 was $957.7 million and $912.1 million for FY 2022. The benefit cost for FY 2023 correlate to the premium collections reported.

For Calendar Year (CY) 2023 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 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, 2023 and September 30, 2022 (dollars in thousands):

Figure II — 21

		UNAUDITED Q4 2023		Q4 2022
Beginning Balance	$	2,436,933	$	2,084,678
Claims Expense		16,750,821		16,589,737
Claims Adjustment Expenses		(26,465)		(28,823)
Payments to Settle Claims		(16,775,908)		(16,214,008)
Recoveries and Other Adjustments		(1,867)		5,349
Ending Balance	**$**	**2,383,514**	**$**	**2,436,933**

NOTE 13. OTHER LIABILITIES

Other Liabilities as of September 30, 2023 (dollars in thousands):

Figurer II — 22

		UNAUDITED	
	Current Liability	Noncurrent Liability	Total
Intragovernmental			
Liabilities for Non Entity Assets	$ -	$ 855	$ 855
Other Liabilities	-	-	-
Subtotal	**$ -**	**$ 855**	**$ 855**
Other Liabilities reported on Note 10, *Federal Employee and Veteran Benefits Payable*	$ 42,282	$ 29,625	$ 71,907
Total Intragovernmental Other Liabilities	**$ 42,282**	**$ 30,480**	**$ 72,762**
Other than Intragovernmental			
Accrued Funded Payroll and Benefits	$ 128,978	$ -	$ 128,978
Liability for non-fiduciary deposit funds and undeposited collections	38	-	38
Contract Holdbacks	3,101	-	3,101
Contingent liabilities	216,200	-	216,200
Other Liabilities with Related Budgetary Obligations	7	-	7
Total Other than Intragovernmental Other Liabilities	**$ 348,324**	**$ -**	**$ 348,324**
Total Other Liabilities	**$ 390,606**	**$ 30,480**	**$ 421,086**

As of September 30, 2022 (dollars in thousands):

Figure II — 23

		UNAUDITED	
	Current Liability	Noncurrent Liability	Total
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		**$ 26,131**	**$ 84,049**
Other than Intragovernmental			
Accrued Funded Payroll and Benefits	$ 200,677	$ -	$ 200,677
Advances from Others	-	-	-
Liability for non-fiduciary deposit funds and undeposited collections	2	-	2
Contract Holdbacks	4,799	-	4,799
Contingent liabilities	-	-	-
Other Liabilities without Related Budgetary Obligations	1	-	1
Total Other than Intragovernmental Other Liabilities	**$ 205,479**	**$ -**	**$ 205,479**
Total Other Liabilities	**$ 263,397**	**$ 26,131**	**$ 289,528**

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 $129.0 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

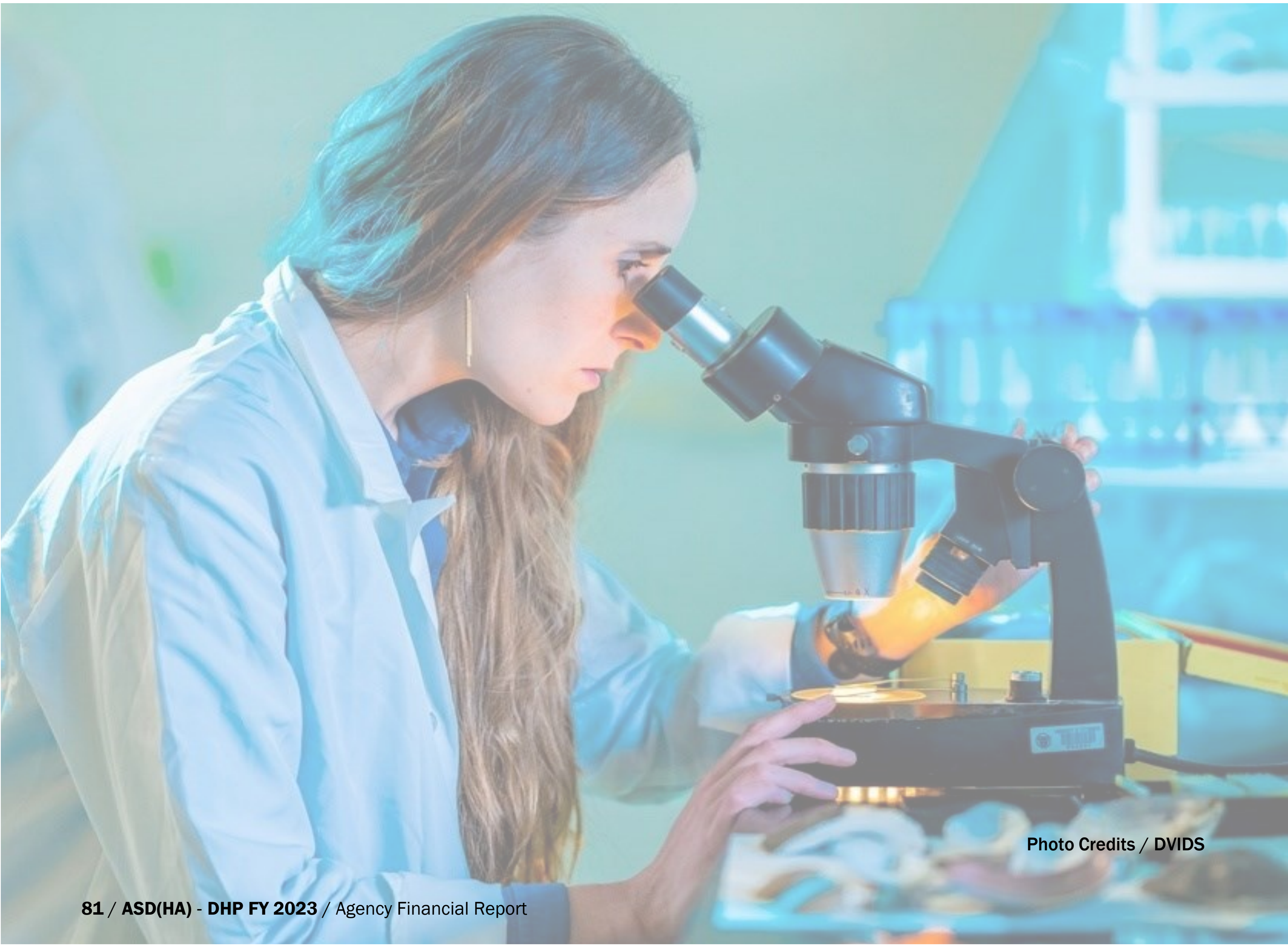
Contract Holdbacks are amounts withheld from grantees or contractors pending completion of related contracts. For FY 2023 and FY 2022 contract holdbacks include $3.1 and $4.8 million for contracts authorization progress payments based on cost as defined in the Federal Acquisition Regulation. It includes accrued funded payroll and benefits.

Contingent Liabilities

Contingent Liabilities include legal contingent liabilities. Legal liabilities reported in this note correspond to accrued probable contingencies. *Refer to Note 15, Commitments and Contingencies.*

Other Liabilities with Related Budgetary Obligations

Other Liabilities with Related Budgetary Obligations primarily consist of estimated costs for goods and services provided.



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NOTE 14. LEASES

Capital Leases as of September 30, 2023 and 2022 (dollars in thousands):
Figure II — 24

		UNAUDITED Q4 2023		Q4 2022
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	**$**	-	**$**	-

Capital Leases

ASD(HA)-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:

ASD(HA)-DHP currently has no significant capital lease payments with terms longer than one year.

ASD(HA)-DHP acknowledges departures from GAAP related to leases as discussed in Note 1.C. Departures from GAAP.

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NOTE 15. COMMITMENTS AND CONTINGENCIES

ASD(HA)-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 ASD(HA)-DHP's legal representation letters and management summary schedule.

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

ASD(HA)-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 two possible cases or claims pending and one reasonably probable case or claims pending with ASD(HA)-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 does not request a specific monetary amount. Based on information exchanged in discovery and negotiations and a judgmental assessment of potential damages, the amount of potential liability is estimated to be at least $1 billion. 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 judgment, and a trial was held in November 2022. Both parties have exchanged post-trial briefs. The Court held oral argument on the briefs for June 6, 2023, and rendered a verdict for the plaintiffs. Exact damages are still being determined but the estimated damages were stated to be $12 million. Since the loss is probable and estimable, ASD(HA)-DHP has recorded an expense and liability for the full amount of the expected loss. Since the Judgment Fund is the likely source for the payment of the claim, the liability will be removed from the financial statements and an "other financing source" amount would be recognized as prescribed by Interpretation of SFFAS 2.

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 a 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. Plaintiffs did not plead exact damages beyond the $12.5 million identified in section 3 but based on the exchange of information during court sponsored mediation, plaintiff's damages could arguably be estimated as $281 million. 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. Plaintiffs amended its Complaint alleging that the Government illegally invoked a government debt recovery process to take approximately $12.5 million from Plaintiffs. The Government's Answer was filed on October 14, 2021. Discovery was scheduled to end January 31, 2023, but the parties sought an extension to allow time for mediation. The parties have reached a tentative settlement agreement in principle in the amount of $210 million, and they are currently finalizing settlement terms. It is likely the settlement will be paid out of the Judgment Fund and not require disbursement. DHA OGC has advised that it is probable that the subject legal claim will end in a loss for DHA and the loss is estimable. The parties are finalizing settlement terms and have an agreed amount in principle - $210 million. Out of $210 million, $204.2 million is allocated to the DHA Program General Fund. Since the loss is probable and estimable, ASD(HA)-DHP has recorded an expense and liability for the full amount of the expected loss. Since the Judgment Fund is the likely source for the payment of the claim, the liability will be removed from the financial statements and an "other financing source" amount would be recognized as prescribed by Interpretation of SFFAS 2.

Ingham Regional Medical Center, et al. v. U.S., Court of Federal Claims, No. 13-821.

Class action, but not certified, arises out of a settlement agreement to resolve hospital outpatient radiology claims. Plaintiffs' First Amended Complaint was filed on November 17, 2014. It 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. Plaintiffs seek reformation damages of approximately $13.8M in underpaid overhead. Plaintiffs also seek certification of a class of all hospitals nationwide (approximately 1,600) that separately had entered into similar settlement agreements with DoD. Extrapolating from the size of the uncertified class and extrapolating, the amount sought equals or exceeds $99.3 million. 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 the parties briefed multiple motions including the Government's Motion for Summary Judgment. In late November 2022, the judge approved, in large part, the Government's request for Summary Judgment. Plaintiffs have filed a motion to re-open discovery, to submit a completely new expert opinion report, and to renew their class certification motion. The Government's response brief was filed on April 21, 2023. A hearing is scheduled for July 19, 2023. 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, 2023 and 2022:

Commitments and Contingent Liabilities as of September 30, 2023 (dollars in thousands):

Figure II — 25

	Accrued Liabilities	Estimated Range of Loss	
		Lower End	Upper End
Legal Contingencies			
Probable	$ 216,200	$ -	$ -
Reasonably Possible	$ -	$ 13,000	$ 22,400,000

—

	Accrued Liabilities	Estimated Range of Loss	
		Lower End	Upper End
Legal Contingencies			
Probable	$ -	$ -	$ -
Reasonably Possible	$ -	$ 13,000	$ 22,400,000

NOTE 16. DISCLOSURES RELATED TO THE STATEMENTS OF NET COST

Net Cost for years ended September 30, 2023 and 2022 (dollars in thousands):

Figure II — 27

				UNAUDITED
		Q4 2023		Q4 2022
Program Costs and Exchange Revenue by Appropriation				
Operations, Readiness, and Support				
Gross Costs	$	41,236,253	$	53,900,478
Less: Earned Revenue		(4,084,737)		(3,948,034)
Losses/(Gains) from Adjustments due to changes in Actuarial Assumptions		17,844,389		21,785,638
Net Program Cost	**$**	**54,995,905**	**$**	**71,738,082**
Procurement				
Gross Cost	$	716,634	$	587,629
Less: Earned Revenue		(411)		(2,759)
Losses/(Gains) from Adjustments due to changes in Actuarial Assumptions		-		-
Net Program Cost	**$**	**716,223**	**$**	**584,870**
Research, Development, Test, and Evaluation				
Gross Cost	$	2,506,739	$	2,348,249
Less: Earned Revenue		(41,871)		(3,387)
Losses/(Gains) from Adjustments due to changes in Actuarial Assumptions		-		-
Net Program Cost	**$**	**2,464,868**	**$**	**2,344,862**
Family Housing & Military Construction				
Gross Cost	$	204,613	$	(57,724)
Less: Earned Revenue		-		-
Losses/(Gains) from Adjustments due to changes in Actuarial Assumptions		-		-
Net Program Cost	**$**	**204,613**	**$**	**(57,724)**
Total Gross Cost	**$**	**44,664,239**	**$**	**56,778,632**
Less: Total Earned Revenue		**(4,127,019)**		**(3,954,180)**
Changes for Military Retirement Benefits		**17,844,389**		**21,785,638**
Net Cost of Operations	**$**	**58,381,609**	**$**	**74,610,090**

ASD(HA)-DHP's current processes and systems capture costs based on appropriations groups as presented in the schedule above. ASD(HA)-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.

ASD(HA)-DHP implemented SFFAS 55 in FY 2018 which rescind SFFAS 30, and FASAB Interpretation 6.

ASD(HA)-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.

ASD(HA)-DHP acknowledges departures from GAAP related to managerial cost accounting as discussed in Note 1.C, Departures from GAAP.

Exchange Revenue

ASD(HA)-DHP has not disclosed exchange revenue pricing and loss information in accordance with SFFAS 7 since ASD(HA)-DHP uses full cost or market pricing for all exchange transactions.

Inter-Entity Costs

ASD(HA)-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, ASD(HA)-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 ASD(HA)-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.

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NOTE 17. DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION

Appropriations Received on the SCNP does not agree with Appropriations (Discretionary and Mandatory) on the SBR because the SCNP records Appropriations transferred in and out on a separate line. SBR line Appropriations (Discretionary and Mandatory) includes appropriation transfers only.

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

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NOTE 18. DISCLOSURES RELATED TO THE COMBINED STATEMENT OF BUDGETARY RESOURCES

Disclosures related to the SBR consisted of the following as of September 30, 2023 and 2022:

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, 2023 and 2022 consisted of:

Undelivered Orders as of September 30, 2023 and 2022 (dollars in thousands):

Figure II – 28

		UNAUDITED Q4 2023		Q4 2022
Intragovernmental				
Undelivered Orders – Unpaid	$	3,390,977	$	1,213,364
Total Intragovernmental Undelivered Orders		3,390,977		1,213,364
Other than Intragovernmental				
Undelivered Orders – Unpaid	$	12,387,423	$	13,953,680
Undelivered Orders – Paid		18,138		13,701
Total Undelivered Orders Other than Intragovernmental		12,405,561		13,967,381
Total Undelivered Orders	**$**	**15,796,538**	**$**	**15,180,745**

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 2022 balances. The budget with FY 2023 actual values and will be available at a later date at *https://www.whitehouse.gov/omb/budget*.

Budget of the U.S. Government
Figure II — 29

Reconciliation of the Statement of Budgetary Resources to the President's Budget for the year ended September 30, 2022 (dollars in thousands):	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays, Net
	Unaudited			
Combined Statement of Budgetary Resources	$ 46,606,173	$ 42,302,122	$ -	$ 36,436,656
Shared Appropriations with Others included in the SBR but excluded from DHP direct appropriations presented in the President's Budget	(1,057,379)	(516,744)	-	(510,207)
Unobligated Balance Brought Forward from prior year included in the SBR but not included in the President's Budget	(2,055,809)	-		-
Other	153,015	(378)	-	(449)
Budget of the U.S. Government	**$ 43,646,000**	**$ 41,785,000**	**$ -**	**$ 35,926,000**

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.

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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. 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 explains how budgetary resources outlaid during the period relate to the net cost of operations for ASD(HA)-DHP.

The FY22 schedule contains a $200.1 million reclassification from Miscellaneous Reconciling Items, Other, to Changes in General Property, Plant and Equipment. This reclassification while not material, properly reflects the impact of a Real Property CIP transfer which occurred in FY 2021. This reclassification yields a net-zero impact on Net Outlays reported in the note schedules.

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Reconciliation of Net Costs to Net Budgetary Outlays for year ended September 30, 2023 (dollars in thousands):

Figure II — 30

		UNAUDITED				
		Intragovernmental		With the Public		Total
Net Operating Cost	**$**	**1,077,588**	**$**	**57,304,021**	**$**	**58,381,609**
Components of Net Cost That are not Part of Net Outlays						
Change in General Property, Plant & Equipment	$	-	$	(652,753)	$	(652,753)
Change in Inventories and related property, net		-		12,020		12,020
Increase/(Decrease) in Assets						
Accounts Receivable, net	$	(62,749)	$	100,098	$	37,349
Other Assets		-		4,473		4,473
(Increase)/Decrease in Liabilities						
Accounts Payable	$	(90,918)	$	135,349	$	44,431
Loans Guarantee Liability		-		-		-
Environmental and Disposal Liabilities		-		4,457		4,457
Benefits Due and Payable		-		-		-
Federal Employee and Veteran Benefits Payable		-		(20,466,332)		(20,466,332)
Other Liabilities		10,412		(159,152)		(148,740)
Financing Sources						
Imputed cost	$	(377,685)		-	$	(377,685)
Total Components of Net Cost that Are Not Part of Net Outlays	**$**	**(520,941)**	**$**	**(21,021,840)**	**$**	**(21,542,780)**
Components of Net Budgetary Outlays That are not Part of Net Costs						
Financing Sources						
Donated Revenue		-		-		-
Total Components of Net Outlays That are not Part of Net Cost	**$**	**-**	**$**	**-**	**$**	**-**
Miscellaneous Reconciling Items						
Financing Sources Transferred In/out without reimbursement	$	1,062,238	$	-	$	1,062,238
Distributed Offsetting Receipts		-		-		-
Effects of other temporary timing differences		-		-		-
Other		241		(19,561)		(19,320)
Total Other Reconciling Items	**$**	**1,062,479**	**$**	**(19,561)**	**$**	**1,042,918**
Net Outlays	**$**	**1,619,127**	**$**	**36,262,620**	**$**	**37,881,747**
Agency Outlays, Net, From Statements of Budgetary Resources					**$**	**37,881,747**
Unreconciled Difference					**$**	**-**

Reconciliation of Net Costs to Net Budgetary Outlays for year ended September 30, 2022 (dollars in thousands):

Figure II — 31

	UNAUDITED		
	Intragovernmental	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	$ -	$ 302,634	$ 302,634
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)**	**$ (38,203,398)**	**$ (38,544,747)**
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	(758)	(5,434)	(6,192)
Total Other Reconciling Items	**$ 376,747**	**$ (5,434)**	**$ 371,313**
Net Outlays	**$ 510,957**	**$ 35,925,699**	**$ 36,436,656**
Agency Outlays, Net, From Statements of Budgetary Resources			**$ 36,436,656**
Unreconciled Difference			**$ -**

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 ASD(HA)-DHP's financial system limitations, budgetary resources obligated during the period could not be reconciled to ASD(HA)-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 ASD(HA)-DHP's SBR. For FY 2023 and FY 2022 there is no reconciling difference between the Budget and Accrual Reconciliation and Line 4210 of ASD(HA)-DHP's SBR.

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NOTE 20. PUBLIC-PRIVATE PARTNERSHIP

ASD(HA)-DHP does not have any public-private partnerships. ASD(HA)-DHP continues to evaluate its business and will consult with OUSD(C) regarding activity that potentially qualifies as public-private partnerships.

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NOTE 21. DISCLOSURE ENTITIES AND RELATED PARTIES

ASD(HA)-DHP has implemented SFFAS 47. This standard defines the federal reporting entity as inclusive of the consolidation entity, disclosure entities, and related parties. ASD(HA)-DHP consolidation entity includes accounts administratively assigned by the OMB to ASD(HA)-DHP in the Budget of the U.S. Government. ASD(HA)-DHP consolidation entity did not change as a result of SFFAS 47 implementation. Consolidation accounts reported in FY 2022 are consistent with accounts reported within ASD(HA)-DHP financial statements for FY 2023. ASD(HA)-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.

ASD(HA)-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.

ASD(HA)-DHP also participates in a cooperative agreement with HJF related to the collection of royalty revenues which opens ASD(HA)-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.

ASD(HA)-DHP also identified nine disclosure activities:

DoD Acquisition Workforce Development Fund, Transfer Account

DAWDF was established under *Section 1705 of Title 10 of the US Code*. 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. ASD(HA)-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 ASD(HA)-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 ASD(HA)-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 ASD(HA)-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. ASD(HA)-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 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 U.S. President's Emergency Plan for AIDS Relief 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 ASD(HA)-DHP O&M account annually as outlined in ASD(HA)-DHP budget justification. The fund is managed and appropriated independently of ASD(HA)-DHP.

NOTE 22. 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, *Implementation Guidance for Supplemental Funding Provided in Response to the Coronavirus Disease 2019*, 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.

Families First Coronavirus Response Act (DEF Code M):

Figure II — 32

	UNAUDITED	
	Q4 2023	Q4 2022
Budgetary Resources: Unobligated (and unexpired) Balance Carried Forward from PY	$ -	$ 9,161,232
New Budget Authority (+)	-	-
Rescissions (-)/Other Changes (+/-) to Budgetary Resources	-	-
Budgetary Resources Obligated (-)	-	(9,137,533)
Budgetary Resources: Ending Unobligated (and unexpired) Balance to be Carried Forward	$ -	$ -
Outlays, Net (Total)	$ -	$ **19,718,031**

Coronavirus Aid, Relief, and Economic Security Act (DEF Code N):

Figure II — 33

	UNAUDITED	
	Q4 2023	Q4 2022
Budgetary Resources: Unobligated (and unexpired) Balance Carried Forward from PY	$ -	$ 18,399,637
New Budget Authority (+)	-	-
Rescissions (-)/Other Changes (+/-) to Budgetary Resources	-	-
Budgetary Resources Obligated (-)	20,680,615	111,904
Budgetary Resources: Ending Unobligated (and unexpired) Balance to be Carried Forward	$ -	$ -
Outlays, Net (Total)	$ **221,522,207**	$ **360,798,972**

As of September 30, 2023, ASD(HA)-DHP is reporting no unobligated budgetary resources related to the funding received for COVID-19 and outlaid approximately $222 million related to COVID-19 funding in FY 2023. ASD(HA)-DHP's outlays related to COVID-19 funding for FYs 2022 and 2023 included outlays for funding obligated in FY 2020. In addition, the beginning unobligated and unexpired balance for FY 2023 was $0 as all COVID-19 related funding expired on September 30, 2022. As a result, no COVID-19 funding was carried forward to FY 2023.

COVID-19 Vaccine Administration

The majority of the COVID-19 funds received by ASD(HA)-DHP were used to administer COVID-19 vaccines. The ASD(HA)-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 ASD(HA)-DHP. As a result, ASD (HA)-DHP has not reported such items described as inventory within its financial statements or accompanying footnotes. The agreement between ASD(HA)-DHP and the CDC outlines appropriate vaccine distribution, management, and monitoring of ASD (HA)-DHP's plans for COVID-19 vaccination. ASD(HA)-DHP agreed to Administer COVID-19 Vaccines in accordance with all requirements and recommendations of CDC and CDC's Advisory Committee on Immunization Practices.

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NOTE 23. 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.

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REQUIRED SUPPLEMENTARY INFORMATION

This section provides the deferred maintenance and repairs (DM&R) disclosures for ASD(HA)-DHP, 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 SBR.

Deferred Maintenance and Repairs

DM&R are maintenance and repairs that were delayed for a future period. ASD(HA)-DHP tracks and report DM&R of its PP&E in accordance with SFFAS 42, *Deferred Maintenance and Repairs*. 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 PP&E 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 ASD(HA)-DHP sustainment restoration and modernization funds necessary to keep DHA assets safe and able to support DHA's medical mission.

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.

The primary data source for DM&R figures is derived from the BUILDER database, which predicts useful life dates for all building components and programs their replacements through the Annual Work Plan process. Annual work plans are comprised of individual work items. Each individual work item has its individual work item status that reflects the current state of the work item.

While BUILDER is the primary predictive modeling tool used, it is not the sole decision-making tool for DM&R. Mission, budget constraints, emerging threats, operational issues, and a host of other considerations go into the decision-making of allocating funds. 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 to predict and 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 standards and procedures development, annual work plan development, and AWI remediation.

Please note that not all ASD(HA)-DHP assets are currently listed in BUILDER due to inventory discrepancies resulting from ongoing negotiations with the services regarding readiness facilities and ongoing DHA Real Property reconciliation efforts with the Military Departments.

ASD(HA)-DHP funded assets are continuously added and removed from the inventory due to ongoing mission changes. DHA Real Property Team continues to work with the Military Departments in their Accountable Property System of Record.

DHA operates over 2,000+ facilities throughout the world and includes 131 historical buildings. Most of the facilities are predominantly used to support the MHS mission for healthcare delivery.

Figure II — 34

	Count	Historical	Non Historical	Note:
DHP Structures	2,167	127	2,040	Unit of Measure = Square Feet
DHP Non-Structure Support Assets	768	4	764	Unit(s) of Measure = Tons, Gallons, Kilovolts, etc.
Totals	**2,935**	**131**	**2,804**	

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 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 are reconciled with the Military Departments.

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)

In reporting DM&R, Category 1 & 3 assets are included in the DM&R calculation. Category 2 assets are excluded in the DM&R calculation since the assets are appropriated through military construction funding program. Given their relatively new life and long remaining service life (RSL), they have yet to have associated DM&R expenses.

ASD(HA)-DHP Deferred Maintenance consisted of the following as of September 30, 2023 and 2022 *(dollars in thousands):*

Figure II – 35

	UNAUDITED FY 2023				
		Plant Replacement Value		Required Work (Deferred Maintenance & Repair)	Percentage
Property Type					
Category 1	$	53,640	$	5,638	11%
Category 2 (Excluded)	$	-	$	-	-
Category 3	$	4,376	$	868	20%
Total	**$**	**58,016**	**$**	**6,506**	

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

Calculating Deferred Maintenance and Repairs

To facilitate DM&R reporting, the DoD mandates 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 II-36* below.

Figure II — 36: FCI Formula

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

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 for easy identification of building's conditions.

Maintenance and Repair Acceptable Condition Standards and Prioritization

Acceptable Condition Standards

UNIFORMAT is the accepted standard used for classifying building specifications, cost estimating and cost analysis in the US and Canada. This standard 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.

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).

UNIFORMAT types are common to all facilities regardless of real property categories and *Figure II-37* below provides clarification.

UNIFORMAT Type	Included in DM&R Calculation	Excluded in DM&R 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	

Included in 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.

Maintenance and Repair Prioritization

ASD(HA)-DHP's current maintenance and repair prioritization policy is based on the number of years of RSL and categorized by equipment type (i.e., UNIFORMAT).

UNIFORMATs with long service lives do not trigger replacement work items until they are near the end of their useful life – 2 years. For 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 includes 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 includes a cross-section of UNIFORMATs types such as fire protection systems, boilers and chillers, and roofs.

The primary factors 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).

Significant Changes in Deferred Maintenance and Repair

FY 2023

DHA-Facilities and Enterprise (DHA-FE) continued in its efforts to bring the legacy Services' BUILDER data into conformance with the DHA SMS-BUILDER Reference Guide using the BUILDER Data Realignment contract. Realignment efforts will continue through FY23. The annual Work plan was completed at the end of 1st quarter with changes incorporated into audit. The Cost book was updated in the 2nd quarter. Significant changes in the number of Assets occurred in the 2nd quarter with the release of the DHA Real Property Standard Operating Procedure was published and Specified Risk Material guidance. Both of these changes combined in the 2nd quarter to produce increases in Inventory and DM&R. All Asset Plant Replacement Values were updated in 3rd quarter using version 25.2 of the DoD FY 23 Facility Sustainment Model.

FY 2022

DHA-FE 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.

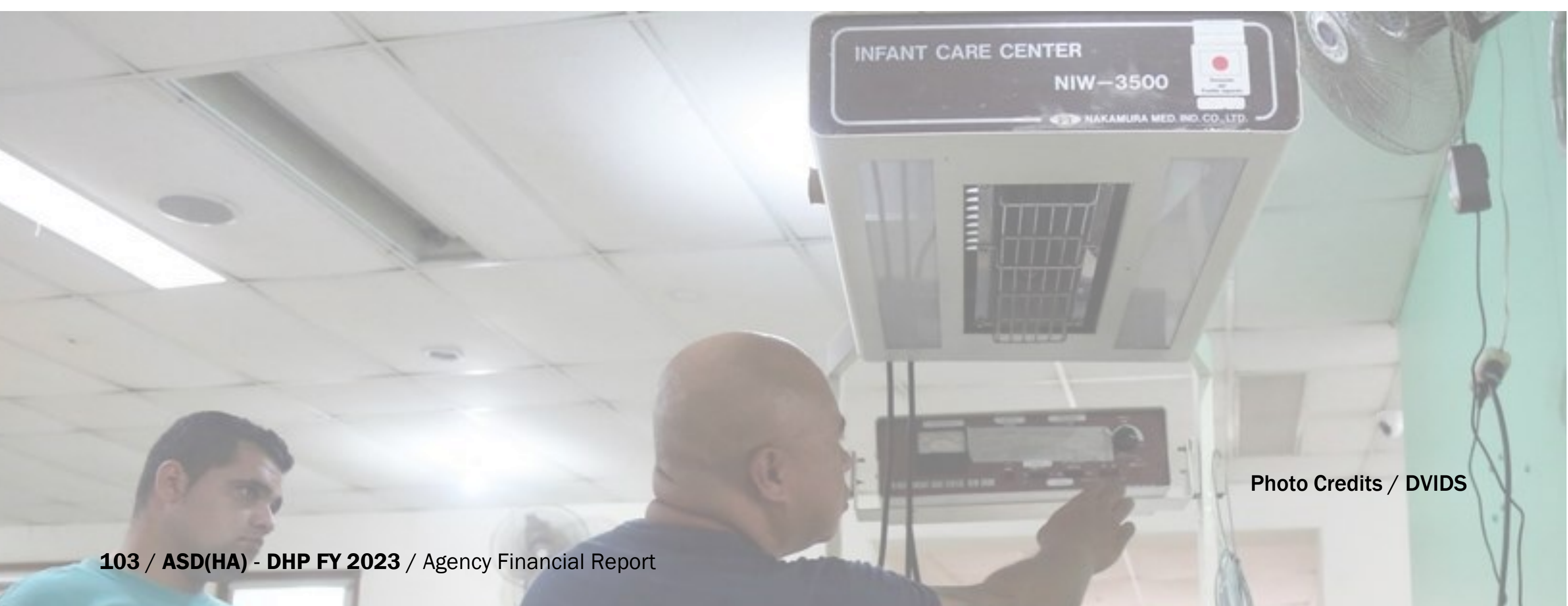

Photo Credits / DVIDS

Combining Statement of Budgetary Resources

Assistant Secretary of Defense (Health Affairs) - Defense Health Program
Combining Statement of Budgetary Resources
As of September 30, 2023
(dollars in thousands)
Figure II — 38

	UNAUDITED				
	Operations, Readiness, and Support	Procurement	Research, Development, Test, and Evaluation	Family Housing and Military Construction	Combined Totals
Budgetary Resources					
Unobligated Balance from Prior Year Budget Authority, net (discretionary and mandatory)	$ 1,858,911	$ 404,610	$ 2,606,594	$ 632,811	$ 5,502,926
Appropriations (discretionary and mandatory)	35,539,218	461,741	3,037,441	570,237	39,608,637
Contract Authority (discretionary and mandatory)	-	-	-	-	-
Spending Authority from Offsetting Collections (discretionary and mandatory)	4,129,480	24,028	115,491	-	4,268,999
Total Budgetary Resources	**$ 41,527,609**	**$ 890,379**	**$ 5,759,526**	**$ 1,203,048**	**$ 49,380,562**
Status of Budgetary Resources					
New Obligations and Upward Adjustments (total)	$ 40,281,084	$ 498,912	$ 3,239,531	$ 552,552	$ 44,572,079
Unobligated Balance, end of year					
Apportioned, Unexpired Accounts	196,296	336,255	2,338,468	548,200	3,419,219
Exempt from apportionment, unexpired Accounts	-	-	-	-	-
Unapportioned, Unexpired Accounts	-	-	-	-	-
Unexpired Unobligated Balance	196,296	336,255	2,338,468	548,200	3,419,219
Expired Unobligated Balance	1,050,229	55,212	181,527	102,296	1,389,264
Unobligated Balance, end of year (total)	1,246,525	391,467	2,519,995	650,496	4,808,483
Total Budgetary Resources	**$ 41,527,609**	**$ 890,379**	**$ 5,759,526**	**$ 1,203,048**	**$ 49,380,562**
Outlays, Net					
Outlays, net (total) (discretionary and mandatory)	$ 34,281,541	$ 685,872	$ 2,468,172	$ 446,162	$ 37,881,747
Distributed Offsetting Receipts	-	-	-	-	-
Agency Outlays, net (discretionary and mandatory)	**$ 34,281,541**	**$ 685,872**	**$ 2,468,172**	**$ 446,162**	**$ 37,881,747**

Assistant Secretary of Defense (Health Affairs) - Defense Health Program
Combining Statement of Budgetary Resources
As of September 30, 2022

(dollars in thousands)

Figure II — 39

	UNAUDITED									
		Operations, Readiness, and Support		Procurement		Research, Development, Test, and 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
Contract Authority (discretionary and mandatory)		-		-		-		-		-
Spending Authority from Offsetting Collectio ns (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**

OFFICE OF THE INSPECTOR GENERAL TRANSMITTAL

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

November 8, 2023

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 2023 and FY 2022 (Project No. D2023-D000FT-0061.000, Report No. DODIG-2024-006)

We contracted with the independent public accounting firm of Kearney & Company, P.C. (Kearney) to audit the Defense Health Program (DHP) Financial Statements and related notes as of and for the fiscal years ended September 30, 2023, and 2022. The contract required Kearney 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 DHP's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract required Kearney 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," Volume 1, May 2023, Volume 2, May 2023, and Volume 3, June 2023. Kearney's Independent Auditor's Reports are attached.

Kearney's audit resulted in a disclaimer of opinion. Kearney could not obtain sufficient, appropriate audit evidence to support the reported amounts within the DHP Financial Statements. As a result, Kearney could not conclude whether the financial statements and related notes were presented fairly and in accordance with Generally Accepted Accounting Principles. Accordingly, Kearney did not express an opinion on the DHP FY 2023 and FY 2022 Financial Statements and related notes.

Kearney's separate report, "Independent Auditor's Report on Internal Control Over Financial Reporting," discusses 10 material weaknesses related to DHP's internal controls over financial reporting."[*] Specifically, Kearney & Company's report stated 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;
- design and implement effective internal controls that resulted in a universe of transactions that supported DHP financial statement balances with complete, accurate, and valid transactions;
- establish policies or procedures to reconcile intradepartmental transactions, or adequately design or implement controls for appropriate review and approval over trading partner eliminations;
- 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;
- 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;
- implement sufficient controls to properly monitor and account for the validity, accuracy, and completeness of undelivered orders transactions; or
- design, implement, and operate effective internal controls related to financially significant systems.

Kearney's additional report, "Independent Auditor's Report on Compliance With Laws, Regulations, Contracts, and Grant Agreements," discusses three instances of noncompliance with provisions of applicable laws and regulations, contracts, and grant

[*] 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.

agreements. Specifically, Kearney's report 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 also discusses an increased risk of noncompliance with the Debt Collection Improvement Act of 1996.

In connection with the contract, we reviewed Kearney's reports and related documentation and discussed them with Kearney 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 2023 and FY 2022 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal controls 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 did not comply, in all material respects, with GAGAS. Kearney is responsible for the attached November 8, 2023 reports and the conclusions expressed within the reports.

We appreciate the cooperation and assistance received during the audit. If you have any questions, please contact me.

FOR THE INSPECTOR GENERAL:

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 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, 2023 and 2022, 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
- Recognition and valuation requirements set forth in SFFAS No. 6, *Accounting for Property, Plant, and Equipment*

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- 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*.

We were unable to obtain sufficient appropriate evidential matter as to the completeness and accuracy of the financial statements reported as of September 30, 2023. This includes $21.6 billion of Fund Balance with Treasury (FBWT), $1.2 billion of Accounts Payable (AP) ($182.1 million Federal and $979 million Non-Federal), and $421.1 million in Other Liabilities ($72.8 million Federal and $348.3 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 (SGL) reporting requirements. 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 completeness and accuracy of the DHP's stockpile materials reported within the Inventory and Related Property (I&RP) line item on the Balance Sheet. As of September 30, 2023, the DHP reported approximately $268.4 million of I&RP on the Balance Sheet, consisting solely of stockpile materials. The DHP did not record stockpile materials in accordance with SFFAS No. 3. The DHP was unable to provide sufficient data to allow audit procedures to be performed over the completeness and valuation of stockpile materials.

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, 2022 or ending balances as of September 30, 2023 were free of material misstatements. Our work identified issues related to the existence, completeness, accuracy, and disclosure of PP&E. As of September 30, 2023, the DHP reported $3.5 billion in net PP&E on its Balance Sheet.

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We were unable to obtain sufficient appropriate evidential matter as to the existence, 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, 2023, the DHP reported $784.3 million of AR ($25.7 million Federal and $758.6 million Non-Federal), net on its Balance Sheet and $4.1 billion of earned revenue on its Statement of Net Cost.

We were unable to obtain sufficient appropriate evidential matter to support the existence, completeness, and accuracy of Gross Costs. For the period ended September 30, 2023, the DHP reported $44.7 billion in Gross Costs on its Statement of Net Cost.

We were unable to obtain sufficient appropriate evidential matter to support the existence, completeness, and accuracy of Unobligated balance from prior-year budget authority, net. As of September 30, 2023, the DHP reported $5.5 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, 2023, 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 a reasonable period of time 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. 24-01, *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 basic 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 *Government Auditing Standards* 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. 24-01, we have also issued reports, dated November 8, 2023, 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, 2023. 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. 24-01 and should be considered in assessing the results of our audit.

Kearney & Company

Alexandria, Virginia
November 8, 2023

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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. 24-01, *Audit Requirements for Federal Financial Statements*, the financial statements of the Defense Health Program (DHP) as of and for the year ended September 30, 2023, 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 8, 2023. 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. 24-01. 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 identified certain deficiencies in internal control, described in the accompanying **Schedule of Findings**, that we consider to be material weaknesses.

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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 Defense Health Program'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 the Financial Section of the Agency Financial Report. The DHP concurred with the findings identified in our engagement. The DHP's response was not subjected to the auditing procedures applied in the engagement to audit the financial statements; accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of the DHP's internal control. This report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* and OMB Bulletin No. 24-01 in considering the entity's internal control. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 8, 2023

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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); Defense Health Agency (DHA); and Office of the Assistant Secretary of Defense for Health Affairs (OASD[HA]). In fiscal year (FY) 2023, these resources were 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 Transactions 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* (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.

Beginning October 1, 2018, the National Defense Authorization Act for FY 2017 (NDAA) required the Director of DHA to take responsibility for the administration of each Military Treatment Facility (MTF). Centralization for the management and administration of the MTFs under DHA is intended to transform the MHS into an integrated readiness and health system. In FY 2023, DHA served as the market manager for major markets; DHA continues to centralize functions and integrate policies, systems, and processes across the Services as part of the transition of the MTFs.

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

Condition: The DHP has not yet achieved Principle 3, *Establish Structure, Responsibility, and Authority*, of GAO's Green Book as it pertains to accounting and financial reporting operations. An organizational structure to assign responsibility and delegate authority to effectively achieve the accounting and financial reporting objectives and responsibilities remained in process by the shared management structure of the DHP during FY 2023.

Cause: The DHP, in its current structure during FY 2023, does not operate as a singular entity or Enterprise organization. Rather, the DHP is the funding source for DoD's MHS. The DHP remains in the process of establishing organizational and governance structures to adjust to the ongoing transition of DoD MTFs from the Services to DHA's authority, direction, and control. Additionally, DHA has not formalized accounting and financial reporting governance across the MTFs.

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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.

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.

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:

- Fund Balance with Treasury (FBWT) balance is not in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities*
- Stockpile materials acquired and held has not been accounted for or valued in conformity with SFFAS No. 3, *Accounting for Inventory and Related Property*
- 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*, were not adhered to
- Expenses and related liabilities are not accounted for in conformity with SFFAS No. 5, *Accounting for Liabilities of the Federal Government*
- Property, Plant, and Equipment (PP&E) balances are not in conformity with SFFAS No. 6, *Accounting for Property, Plant, and Equipment*
- Revenue associated with medical services rendered is not accounted for in conformity with SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*
- Costs associated with internal use software (IUS) are not capitalized as promulgated by SFFAS No. 10, *Accounting for Internal Use Software*.

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

1. Formalize the accounting and financial reporting governance body and distribute the supporting governance charter throughout the DHP Enterprise. The charter should specifically address financial and accounting governance, policies, and procedures at the Enterprise. The charter should also address an oversight role for compliance with established policies and procedures across the DHP Enterprise.
2. Continue to perform a gap analysis over current policy and procedures to determine where Enterprise-wide policy needs development or strengthening for overall compliance with GAO's Green Book and Generally Accepted Accounting Principles (GAAP).

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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 four components of internal control (i.e., Control Environment, Control Activities, Information and Communication, and Monitoring).

The DHP has not fully implemented an effective oversight process of the existing RMIC environment to ensure governance and monitoring of all RMIC coordinators within the DHP Statement of Assurance (SOA) reporting structure. Additionally, the DHP has not implemented an effective process to assess and monitor the adequacy of its subcomponents and markets' internal control programs in support of the DHP SOA.

In the FY 2023 SOA, the DHP was unable to provide assurance that internal control over operations, reporting, and compliance are operating effectively across the Enterprise for FY 2023 in accordance with OMB Circular A-123, GAO's Green Book, and FMFIA. Additionally, the DHP is unable to provide assurance that the internal controls over the financial systems are in compliance with FMFIA, Section 4; the Federal Financial Management Improvement Act of 1996 (FFMIA), Section 803; and OMB Circular A-123, Appendix D, as of September 29, 2023.

Cause: The DHP RMIC Program remains in the process of implementation across the DHP Enterprise. While a formal framework for the program has been established, implementation efforts remain ongoing to address all principles of internal controls in accordance with FMFIA and GAO's Green Book, including those controls necessary in the information system environment.

The DHP remains in the process of implementing an organizational structure to assign responsibility and delegate authority effectively to meet financial reporting objectives.

The infancy of the DHP's RMIC Program and ongoing implementation has resulted in internal control deficiencies across various accounting and financial reporting areas. The DHP has developed Corrective Action Plans (CAP) and is performing remediation activities to address noted control gaps, design failures, and/or controls that are not operating effectively.

The DHP's monitoring activities also remain in process for implementation to continuously assess the entity's business processes to address identified risks, monitor control gaps, and respond to self-reported deficiencies and/or auditor-identified material weaknesses.

Effect: Inadequate assessment and application of the principles defined in GAO's Green Book increases the risk that the entity may fail 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 control environment over time.

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As a result of its ongoing implementation of an internal control system, the DHP is unable to provide reasonable assurance that its internal control over operations, reporting, and compliance is operating effectively.

Recommendations: Kearney recommends that the DHP perform the following:

1. Review FY 2023 results and final test plans, update control inventory through independent research, conduct understanding meetings with the DHP points of contact (POC), review existing agency documentation, and crosswalk the documented controls to the respective principles in Enterprise-wide approved templates.
2. Conduct periodic review of changes that occur within the DHP and review policies, procedures, and related control activities to mitigate risk of control gaps to ensure the controls are effectively designed and implemented.
3. Evaluate both internal and external sources of data for reliability to be used for monitoring controls and control gaps throughout the DHP.
4. Continue to design and implement appropriate types of control activities, including, but not limited to, the DHP's information system environment.
5. Based on approved procedures, evaluate the operating effectiveness of each ELC that has been determined to be effectively designed and implemented; this may require sample-based test procedures to confirm operating effectiveness.
6. Establish a mechanism to provide for adequate review of business process narratives to finalize them. In addition to helping ensure stakeholders continue to document business processes completely and identify internal control activities accurately, the DHA RMIC Team should retain any finalized documentation from subcomponents and markets to support review and understanding of current processes.

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

Background: 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). Monthly, OUSD(C) obtains DHA general ledger (GL) and trial balance (TB) data from its respective financial systems before ingesting and harmonizing the data to provide to the DHP through Advana. In addition, DHA performs Quantitative Drill Downs (QDD) to identify the volume of activity flowing through each assessable unit and feeder system. Feeder systems with significant UoT issues are described below:

- DHA uses the Defense Medical Logistics Standard Support (DMLSS) to execute consumables transactions. For certain MTFs (those previously associated with the AF), DMLSS interfaces obligation and expense data to the Standard Materiel Accounting System (SMAS) daily. From SMAS, consumables obligations and expenses are directly interfaced to DHA's GL systems
- On behalf of the DHP, its service organization prepares, preprocesses, and posts the Cash Management Report (CMR) to the Defense Departmental Reporting System (DDRS) – Budgetary (B). The CMR feeder file is designed to quantify the difference between the

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DHP's GL records and the disbursement and collection data reported by the U.S. Department of the Treasury (Treasury). The temporary, monthly CMR adjustment records disbursement and collection activity to be reflected in the DHP's financial statements. Although the adjustment is now temporary, historical balances remain from legacy CMR processes in prior years that were not reversed or resolved. As a result, the impact of the CMR on the DHP's financial statements includes both current-year activity and historical balances.

The DHP is responsible for understanding its financial data to perform appropriate monitoring activities for effective internal controls over financial reporting.

Condition: The DHP remains in the process of refining its understanding of UoT data produced from AF GL systems and reconciled in Advana, impacting its ability to timely support critical audit requests during the FY 2023 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
- Consumables populations interfaced from SMAS to AF GL systems were incomplete or unsuitable for testwork. Additionally, consumables populations cannot be fully vouched to supporting detail in DMLSS.

The DHP reports activity and balances associated with the CMR adjustment across multiple financial statements and line items. This includes both current-year activity, as well as historical balances. CMR adjustment amounts are derived from reconciliations between Treasury and the DHP's GL systems; however, the amounts are unsupported, as they cannot be reconciled to source transactions.

Cause: The DHP remains in the process of refining its understanding of AF GL data with subject matter experts. 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. Further, the DHP has not designed and implemented a method to ensure all DMLSS activity is appropriately captured in SMAS and subsequently in the GL.

The CMR feeder file consists of summary-level details at the Line of Accounting (LOA) level, representing a calculation of GL-reported balances compared to Treasury-reported balances, as Treasury does not report FBWT below the Treasury Account Symbol (TAS) level. Accordingly, the CMR does not have a supported UoT to produce sufficient details for the purposes of tracking the recorded adjustments to source transactions representing true economic events (i.e., valid obligations, orders, collections, disbursements). The DHP, in coordination with its service organization, is currently in the process of working to support CMR feeder file adjustments within the OUSD(C) Advana platform. However, the reconciliation process within Advana has

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not been effectively designed, implemented, or documented. In addition, resulting UoTs are not yet suitable for testing CMR feeder file adjustments.

Effect: 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 consumables activity from AF GLs, impacting the ability to validate the accuracy of multiple financial statement line items.

The DHP is unable to produce underlying transaction-level details to reconcile the CMR feeder file to its financial statements. As a result, the DHP cannot assert to the accuracy and completeness of the CMR feeder file adjustment amounts reported on its financial statements. The unsupported CMR adjustments included material amounts impacting Total Assets as reported on the Balance Sheet, Net Position as reported on the Statement of Changes in Net Position (SCNP), and Total Budgetary Resources as reported on the Statement of Budgetary Resources (SBR).

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. Implement system and process changes to interface consumables activity to AF GLs at the transaction level.
2. 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.
3. Update policies and procedures to require the periodic performance and review of AF subledger to GL reconciliations.
4. Research root causes for the historical balances representing a significant portion of the amounts reported within the CMR.
5. Identify and obtain source transactions that reconcile to the summary-level data reported by the CMR. Transactions should have sufficient detail to allow for traceability to source documents representing valid obligations, orders, disbursements, or collections.
6. Assess, evaluate, and revise business processes over recording, reconciling, and reporting collections and disbursements to better support balances reported on the CMR feeder file adjustment to DDRS and align with the DHP's GL.
7. Continue working with OUSD(C) to develop and implement an effective process within Advana to better support CMR feeder file adjustments.

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 – Audited

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Financial Statements (AFS). The financial reporting service organization self-classifies each DDRS-AFS and DDRS-B JV as either "supported" or "unsupported." 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 any DoD reporting entity that is unable to track trading partner data at the transaction level to adjust its balance to the supportable data reported by the trading partner.

Condition: The DHP's financial statements contain material unsupported JV adjustments. During FY 2023, unsupported adjustments, as self-classified by the DHP's service organization, were posted on behalf of DHA in Quarter (Q) 1 and Q2. Of approximately 1,631 JVs recorded, 35 were classified as unsupported.

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 Treasury Financial Manual (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 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-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 2023. In the Q2 FY 2023 Unsupported JV Financial Statement Impact Analysis, the DHP

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identified ($434) million of unsupported adjustments to the Statement of Net Cost (SNC) and $440 million to the SCNP.

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 United States Standard General Ledger (USSGL) at the transaction level.

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

1. Continue efforts to reduce the number and dollar amount of JVs recorded in DDRS by coordinating with DHP and GL system owners to migrate monthly and quarterly adjustments, such as collections and disbursements, budget, and accountable property system of record (APSR) adjustments, to the DHP GL systems which can accommodate USSGL reporting and transaction-level details.
2. Continue to perform semi-annual analyses of the DDRS-B JVs, DDRS-AFS JVs, and trial balance input adjustments (TBIA) 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, a remediation plan should be evaluated and updated by JV category to set a path forward to resolve the JV requirement.
3. Implement policies and procedures at the DHP Enterprise 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.
4. Continue efforts at the DHA level 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.
5. Continue efforts to formalize policies and procedures requiring DHA to coordinate its service organization and trading partners 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.

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

Background: The 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 TAS and limits. Treasury requires the DHP to perform monthly reconciliations of its FBWT GL accounts to the balances recorded in Treasury's Central

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Accounting Reporting System (CARS). Reconciling FBWT accounts with Treasury's CARS records 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 DHP. 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 $88.8 million
- The DHP, in coordination with its service organization, has not implemented sufficient internal control activities to ensure the accuracy and completeness of the DHP's financial statements with respect to transactions recorded in suspense accounts or SOD balances that should be recognized in the DHP accounting records
- The DHP, in coordination with its service organization, does not have sufficient oversight of the ingestion of the DHP's FBWT source data into Advana or an effective FBWT reconciliation process to fully support undistributed adjustments recorded during the financial statement compilation process performed by its service organization. The DHP's March 2023 undistributed analysis identified a total undistributed amount recorded in its trial balance of ($2.75 billion).

Cause: The DHP's Balance Sheet includes FBWT activity excluded from the legacy Department 97 Reconciliation and Reporting Tool (DRRT) and Consolidated Cash Accountability System (CCAS) reconciliation processes, 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. DoD SOD and suspense accounts continue to contain a high volume of collections and disbursements which require manual research and resolution. That manual research and resolution is what supports the production of the final UoTs. Additionally, at the time of UoT availability, there is historically a significant volume of transactions and dollar amount, in SOD and suspense that have not been identified to an entity and are listed in the UoTs as "to be determined" (TBD). While efforts continue to identify root causes of suspense and SOD transactions to reduce balances and clear transactions to DoD entities timely, shared TIs, Agency Location Codes (ALC), and lack of LOA information continue to make it difficult to resolve differences timely.

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The DHP and its service organization have not fully designed, implemented, or documented FBWT monitoring, reporting, and reconciliation policies and procedures. The high volume of the DHP's undistributed adjustments is primarily attributable to unmatched collections and disbursements, ineffective business processes over in-transit collections and disbursements, and the differing processes across reporting locations in recording, reconciling, and reporting collections and disbursements.

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.

Material unsupported undistributed adjustments increase the risk that FBWT reconciliations are incomplete or that financially reported balances are not properly supported. The DHP FBWT line item may be misstated, and misstatements may not be detected and corrected timely. Misstatements to FBWT may result in misstatements reflected within the DHP's Balance Sheet (FBWT and Accounts Receivable [AR]), SNC (Gross Program Costs), SCNP (Appropriations – Used – Accrued and Net Cost of Operations), and SBR (Unobligated Balances, Spending Authority from Offsetting Collections and Outlays).

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

1. Develop documentation to support the existence and completeness of FBWT and demonstrate that amounts recorded are appropriate to include in the FBWT balance.
2. Coordinate with DHP stakeholders and service organizations responsible for the accounting and financial reporting of FBWT, expenses, AR, budgetary resources, and budgetary execution to assess and review underlying business processes to determine and remediate root causes of high volume and material undistributed adjustments.
3. Develop documentation to support the existence and completeness of FBWT, to include historical balances, and demonstrate that amounts recorded are appropriate to include in the FBWT balance.
4. Research and resolve SOD and suspense transactions by correcting the transactions in source systems and assist with necessary supporting documentation for corrections, if needed.
5. Pursuant to receiving the necessary information and documentation, develop and implement procedures to identify the DHP's SOD and suspense account balances for recording and reporting into the GLs and financial statements.
6. Continue to develop procedures to determine what portion of the SOD and suspense balances, if any, should be attributed to the DHP for financial reporting in a timely manner and made available for year-end financial reporting purposes.
7. Continue to monitor and track the resolution of SOD and suspense activity cleared to the DHP to enable the entity to perform root cause analysis. This includes further research and resolution over the transactions not resolved in the UoTs and listed as "TBD."

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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: DHA MTFs process both billable and non-billable medical encounters that arise from performing medical services. Billing consists of MTFs sending invoices to patients or agencies for medical services provided. Billable encounters are processed for patient care provided to non-TRICARE beneficiaries or for patient care provided to TRICARE beneficiaries that is either uncovered or covered by other insurance. 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. For health care encounters that require medical billing, billing information is transmitted from CHCS to the Armed Forces Billing and Collection Utilization Solution (ABACUS), which is DHA's legacy medical billing system. MHS GENESIS encounters are billed through the Revenue Cycle Expansion (RevX) module within MHS GENESIS.

After a bill is finalized within ABACUS, it is transmitted to the appropriate party. 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. At the point of initial registration (entry of the patient into the system), the Patient Administration Department (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).

Medical coding consists of taking the medical services rendered to a patient and entering the applicable codes using the DHA-distributed coding tables. DHA contracts with a third party to perform annual audits over the MTFs' medical coding accuracy in accordance with DoD Instructions (DoDI) 6040.40, *MHS Data Quality Management Control (DQMC) Program,* and 6040.42, *Management Standards for Medical Coding of DoD Health Records*. During the audit, approximately 500 coded encounters were selected for testing, consisting of both billable and non-billable claims, across all MTFs.

For medical services provided to United States Coast Guard (USCG) and Medicare-eligible retirees, DHA receives prospective payments in advance of providing care. Prospective payment amounts are calculated by DHA using historical patient encounter data of the preceding FYs.

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

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

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- Revenue as a result of medical services provided by DHA AF-affiliated MTFs to the Public Health Service (PHS), National Oceanic and Atmospheric Administration (NOAA), and Department of Veterans Affairs (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 systems. DHA does not have a process in place to correct the cash basis of accounting for financial reporting purposes
- Non-Federal financial activity processed through MHS GENESIS is accounted for on a cash basis of accounting, which does not comply with GAAP. The MTFs issue bills for medical services but record associated Revenue upon cash receipt in their GL systems. Additionally, DHA is unable to sufficiently support the substantive validity, accuracy, and completeness of Non-Federal AR balances within MHS GENESIS as of March 31, 2023
- 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 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, DHA did not establish an allowance for Federal AR or perform an analysis to demonstrate whether an adjustment for NRV was necessary
- The DHP's Non-Federal AR allowance methodology is incomplete, as it currently does not assess the collectability of receivables within the timeline of one to 180 days aged and does not include MHS GENESIS AR transactions
- The DHP does not account for prospective payments from the USCG properly. The DHP incorrectly recorded monthly earned collections for anticipated USCG prospective payments and did not record an AR balance prior to payment receipt in July
- DHA MTFs do not have formalized processes in place to track health care encounters for Medicare-Eligible Retiree Health Care Fund (MERHCF) beneficiaries for accounting purposes, resulting in no transactional patient-level data to support the direct care Revenue recognized by the DHP. The DHP recognizes the Revenue upon the receipt 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.

The DHP does not use a complete population of patient care data in its prospective payment processes. Specifically, DHA does not use patient care data from MHS GENESIS in the development of prospective payment amounts and, instead, relies on historical data from CHCS.

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CHCS does not include patient care data for MTFs that have transitioned to MHS GENESIS. Furthermore, DHA's financial reporting control related to adjusting for the correction of under/over-estimating prospective payment amounts is no longer operating effectively due to current-year data not being available for use from MTFs on MHS GENESIS.

The DHP 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).

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. DHA 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, 2023 identified $380 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 Federal accounting standards. 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
- The ongoing transition from CHCS to MHS GENESIS has impacted DHA's ability to gather reliable and complete patient care data necessary to calculate prospective payment

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estimates from MTFs that have transitioned to MHS GENESIS. Legacy processes and system interfaces have not been formalized for MHS GENESIS, leading to uncertainties with the integrity of MHS GENESIS data for financial reporting purposes

- DHA's accounting treatment of USCG prospective payments is reflective of the intended payment schedule outlined in the interagency agreement between DHA and the USCG, rather than the actual economic events that occurred during the FY with respect to patient care provided to USCG beneficiaries and the receipt of payments from the USCG. 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.

DHA has not formulated accounting policies, guidance, or internal controls to ensure consistent and accurate accounting of Federal and Public AR and Revenue activity across MTFs, including a requirement for periodic reconciliations of medical subledger activity to the GL.

Appropriate SD remains in process across DHA MTFs relating to the internal control environment surrounding medical charge edits and deletions. 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. With the transition to MHS GENESIS, appropriate system interfaces with VA systems have not been established by the DHP. 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. DHA does not have a consistent process to document and demonstrate the verification of patient eligibility prior to providing medical services. DHA has chosen to implement a new eligibility process within MHS GENESIS, rather than remediate the limitations associated with CHCS, resulting in a delay in remediating the identified control gap.

The DHP remains in the process of establishing its RMIC Program across the Enterprise. The entity does not have sufficient internal control activities in place to properly account for the validity, accuracy, and completeness of Unfilled Customer Orders (UFCO), AR, Revenue, and Collection transactions. 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. The DHP financial statements may contain misstatements associated with AR or liabilities on the Balance Sheet, as

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well as Revenue on the SNC. In addition, unrecorded AR can result in the understatement of Spending Authority from Offsetting Collections presented on the SBR.

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.

The DHP's inability to produce sufficient documentation to consistently demonstrate the validity of UFCOs, AR, Revenue, and Collections prevents it from monitoring the design and operating effectiveness of controls and may hinder it from asserting to the fair presentation of reported AR, Revenue, and Collections.

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.

DHA cannot make timely or accurate adjustments or corrections to the prospective payment estimates in circumstances where CHCS historical data is utilized, instead of current-year MHS GENESIS data. DHA's use of CHCS historical patient care data for MTFs that have transitioned to MHS GENESIS may result in the calculation of inaccurate prospective payment estimates due to the use of incomplete data. An inaccurate prospective payment and financial reporting reconciliation process could create a misstatement of Revenue on the SNC. Additionally, DHA's periodic reviews and reconciliations over its prospective payment agreements may not detect significant variances between prospective payment estimates and actual workload realized.

DHA's accounting records are not accurate, including interim period financial statements. DHA's initial recording of the USCG prospective payment misstates FBWT, AR, and Advances as reported on the Balance Sheet, Revenue as reported on the SNC, and UFCOs as reported in the SBR. There is also an increased risk that misstatements will carry forward to year-end depending on the receipt of payment from the USCG.

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

Recommendations: Kearney recommends that the DHP develop an accounting policy for medical services Revenue and associated AR, which specifically addresses the appropriate accounting treatment as prescribed within SFFAS No. 1 and SFFAS No. 7. In addition, Kearney recommends that the DHP 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

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corresponding AR should be recognized with transactional activity recorded in the GL system or as appropriate in a subledger.

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. Design and implement a systematic process within internal controls to extract patient care data from MHS GENESIS to utilize within the prospective payment process. The process and internal controls should ensure that the data is complete and accurate in order to rely on it to make managerial and financial decisions.
8. Develop and implement formalized internal control activities to achieve financial reporting objectives associated with prospective payments. These should include review and approval of all USCG prospective payment accounting entries to ensure compliance with GAAP and to verify that recorded entries are reflective of economic events that have occurred.
9. 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.
10. 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.
11. 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.
12. Review supporting documentation and retention requirements over valuation of patient billings to ensure the DHP's ability to successfully respond to external audit requests.

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B. Medical Coding Accuracy (*Repeat Condition*)

Condition: DHA has not implemented effective medical coding procedures to ensure the accuracy of medical coding applied over inpatient (IP), outpatient (OP), ambulatory procedure visits (APV), and inpatient professional services round (IPSR) health care encounters. A third-party coding audit performed in FY 2022 identified a rate of coding accuracy significantly below the required 97% threshold prescribed within DoDI 6040.42.

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

Record Type	Pass Rates	
	Billable	Non-Billable
IP	55.81%	57.43%
Ambulatory	34.29%	21.18%
Day Surgery	24.00%	26.15%
IPSR	24.00%	26.15%

Cause: The findings and recommendations included in the FY 2022 medical coding audit indicate that DHA does not have sufficient clinical supporting documentation that clearly and specifically address the procedures performed during patient encounters for accurate medical coding. Additionally, the DHA Medical Coding Program Branch (MCPB) is experiencing high turnover and continues to be understaffed compared to its scope of responsibilities. At an Enterprise level, DHA's coding program is impacted by the national shortage of medical coders.

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, DHA cannot assert to the accuracy and valuation of AR recorded for medical billing encounters, and DHA's recorded Revenue and AR line items may be misstated as presented on the SNC and Balance Sheet, respectively.

Recommendations: Kearney recommends that the DHP perform the following:

1. Continue to review the third-party audit findings and recommendations and formally develop appropriate CAPs, as necessary, to remediate coding accuracy deficiencies. CAPs should be developed with input from appropriate stakeholders of DHA.
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 PP&E. The DHP has determined the asset classes for its PP&E as follows: General Equipment (GE); Real Property Construction in Progress (CIP); IUS; IUS in Development

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(IUSD); Leases; and Leasehold Improvements. The DHP reported PP&E, net of accumulated depreciation and accumulated amortization, to be $3.5 billion.

In August 2016, FASAB issued SFFAS No. 50, *Establishing Opening Balances for General Property, Plant, and Equipment*, amending existing PP&E accounting standards to allow a reporting entity, under specific conditions, to apply alternative valuation methods in establishing opening balances for PP&E. The alternative valuation methods available under SFFAS No. 50 may be applied in the first reporting period in which the reporting entity makes an unreserved assertion that its financial statements are presented fairly in accordance with GAAP. As SFFAS 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, 2023 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 record 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 DoD and DHA policies regarding the acquisition and disposal of capital GE. Effective controls are not in place to ensure GE additions and disposals are properly recorded
- The DHP has not finalized an assessment of IUS or IUSD to properly identify and account for IUS and IUSD for financial reporting purposes. The opening balance of the DHP's IUSD, recorded at $1.4 billion as of October 1, 2022, consisted primarily of MHS GENESIS. MHS GENESIS is not valued in accordance with historical cost requirements prescribed within SFFAS No. 10. Although it has performed 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*, 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 and procedures to identify capitalizable costs have not been implemented, and the DHP does not currently track the capitalizable cost of each project funded by O&M appropriations
- DHA, in coordination with the Naval Facilities Engineering Systems Command (NAVFAC), was unable to provide transaction-level data associated with DHA NAVFAC CIP expenditures reported within the DHP financial statements.

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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.

DHP management has not implemented policies, procedures, and controls over the acquisition and disposition of GE to ensure that GE is appropriately and accurately reported in the financial statements. The reorganization of the DHP has added complexity to operations, requiring a redesign of the control environment as operations and processes are consolidated under DHA control. Further complexity is attributable to the transition of GE oversight and reporting responsibilities to the DHA Medical Logistics (MEDLOG) Division.

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 accounting 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 military construction (MILCON) expenditures to ensure CIP balances reported by DHA are complete and accurate and supported by transaction-level detail. 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 2023 in accordance with GAAP. The absence of accounting policy has resulted in a lack of preparedness to re-value FY 2023 PP&E opening balances at historical cost in accordance with SFFAS No. 50.

The DHP's PP&E as of September 30, 2023 does not reflect historical cost as required by SFFAS No. 6 or SFFAS No. 10, and the DHP's opening balances for FY 2023 do not reflect historical cost under alternative valuation techniques as allowable under SFFAS No. 50. The DHP's recorded balance for PP&E, net of accumulated depreciation and accumulated amortization, of $3.5 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 that the PP&E balance is fairly stated in accordance with GAAP. Additionally, without a process in place to track and record

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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 SNC 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 misstated by the NAVFAC-executed MILCON expenditures as of September 30, 2023.

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 alternative 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 and SFFAS No. 10.
2. Implement guidance at the MTF level to standardize processes to record GE additions, disposals, transfers-in, and transfers-out consistently.
3. 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.
4. Design and implement formalized internal controls for proper cost classification associated with IUSD to facilitate the identification and reporting of capitalizable costs.
5. 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.
6. Provide training to DHP personnel to ensure policies and procedures to track and record O&M-funded CIP are implemented accordingly.
7. 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 procedure on a quarterly basis to monitor appropriate capitalization decisions for O&M-funded projects.

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8. 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 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 of.

Condition: The DHP has not fully implemented policies, procedures, and internal controls to ensure that stockpile materials owned by the DHP are completely, appropriately, and accurately identified, tracked, recorded, and reported in accordance with GAAP. DHA MTFs continue to follow inconsistent inventory and inventory verification procedures and operate outside of a consistent DHA internal control environment.

DHP stockpile materials have not yet been completely valued at historical cost in accordance with valuation techniques promulgated by SFFAS No. 3 or SFFAS No. 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*. Furthermore, 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 materials for reporting by the DHP.

Cause: DHA's RMIC Program 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 which may exist. DHA's remediation activities related to the implementation of stockpile materials policies, procedures, and internal controls remain in

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process. Additionally, the determination of alternative valuation techniques afforded by SFFAS No. 48 is not planned to be completed until FY 2024. Furthermore, DHA's current remediation efforts exclusively focus on the Pandemic Influenza Program. A formal assessment to identify other DHA programs containing stockpile materials has not been completed.

Effect: Without effectively 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 DHA's 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, inconsistent accounting amongst the DHA MTFs, and assurance that transactions are recorded in the correct period.

The DHP is unable to accurately account for the valuation or completeness of stockpile materials in accordance with GAAP. The opening balances for FY 2023 do not reflect historical or deemed cost in accordance with Federal accounting standards. Further assessments are required to determine if additional programs meet the stockpile materials reporting requirements.

Recommendations: Kearney recommends that the DHP perform the following:

1. As part of the DHA 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 implement 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.
4. Complete efforts to value stockpile materials in accordance with Federal accounting standards. DHA should consider the valuation techniques within SFFAS No. 48 in establishing its opening balance of stockpile materials.
5. Establish appropriate accounting policy to value new acquisitions and the consumption of existing stockpile materials 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.

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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 Commercial Purchase Card (GCPC), and consumables (e.g., pharmaceutical, e-commerce, food subsidence purchases). In addition to the commercially procured goods listed above, DHA may enter into Reimbursable Work Order (RWO) agreements to procure goods or 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.

Condition: The DHP does not sufficiently account for its liabilities and related expenses. Specifically, the entity 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 an advance (liabilities) and lacks internal control activities to help ensure the proper accounting of liabilities. Prospective payments received in advance of medical care provided are not completely considered by the DHP and are not consistently recorded.

The DHP is unable to sufficiently support the substantive validity, accuracy, and completeness of non-payroll expenses recorded in USSGL Account 610000, *Operating Expenses/Program Costs*. Interim testing as of March 31, 2023 identified exceptions in 34 of 45 non-payroll expense sampled transactions. The most common findings are presented below (Note: Certain samples contained exceptions in multiple categories presented below):

- Twelve exceptions were noted in which the incorrect classification of the expense was recorded (eleven as a "Non-Federal" transaction, and one incorrectly as "Federal")
- Six exceptions were noted in which the sampled expense was not recorded in the correct accounting period. Documentation provided indicated the expense should have been recorded prior to FY 2023
- Twenty-five 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.,

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timesheets, packing slips, bills of lading, contract performance statement with current period incurred charges)

- Seventeen exceptions were noted as a result of DHA not providing a third-party invoice or equivalent to support the sampled amount
- Ten exceptions were noted as a result of DHA not providing sufficient documentation or information to accurately substantiate the sampled amount
- 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, as determined necessary for financial reporting.

The DHP remains in the process of establishing its RMIC Program across the Enterprise. The entity does not have sufficient internal control activities in place to properly account for the validity, accuracy, and completeness of non-payroll expenditure transactions. The DHP does not consistently obtain and/or maintain sufficient supporting documentation outside of Wide Area Workflow (WAWF) 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. The entity also does not have a process in place to validate post-payment activity when receipt and acceptance cannot be performed.

The DHP has not implemented sufficient internal control activities to properly classify expenditures as Federal or Non-Federal. While system limitations have inhibited proper trading partner identification, compensating internal controls or processes have not been 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 effective internal controls and comprehensive policies 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.

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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. 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.
3. Coordinate with trading partners to ensure Support Agreements (SA), Inter-Agency Agreements (IAA), Memorandums of Understanding (MOU), 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.
4. 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.
5. Improve record retention over receipt of goods and services and supporting documentation over non-payroll expense transactions. The DHP should implement sufficient supporting documentation requirements to demonstrate proper receipt and acceptance has occurred for payment processing (e.g., timesheets, packing slips, contract performance statements, proof of enrollment).
6. 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.
7. Accounting policy should be addressed to recognize prospective payments submitted 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: Undelivered Orders (UDO) 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, Government Purchase Cards (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.

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Condition: The DHP is unable to sufficiently support the substantive accuracy of downward adjustments recorded in USSGL Account 4871, *Downward Adjustments of Prior-Year Unpaid Undelivered Orders – Obligations, Recoveries*, and has not implemented corrective actions to address exceptions identified during prior-year testing:

- The DHP processed corrections of administrative errors that should not have impacted the financial statements but improperly generated accounting entries in the GL systems
- Obligations were noted that should have been recovered in the prior FY
- The DHP did not prepare and/or maintain sufficient documentation to support the transactions recorded.

DHA is unable to sufficiently support the substantive validity, accuracy, and completeness of UDOs in USSGL Account 4801, *Undelivered Orders- Obligations, Unpaid.* Beginning balance testing as of October 1, 2022 identified exceptions in 344 of 660 balances tested.

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

- One hundred two exceptions were noted to present 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, 2022
- Sixty-two exceptions were noted as a result of liquidating transactions not posting within the GL after the liquidating transaction was posted within the subledger
- Thirty-four exceptions where the sampled amounts were overstated as of October 1, 2022. DHA did not properly deobligate the outstanding balances for these samples as of October 1, 2022 based on the provided documentation
- Two hundred forty-four exceptions were noted where DHA did not provide sufficient documentation to support the UDO balances as of October 1, 2022.

Cause: The DHP remains in the process of establishing its RMIC Program across the Enterprise. The entity 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, DHA does not consistently obtain and/or maintain sufficient supporting documentation for recorded UDOs.

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 Account 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. When stale obligations are detected by the current Dormant Account Review – Quarterly (DAR-Q) program, the resulting deobligation actions are not performed timely. Lastly, the DHP has not sufficiently enforced the deobligation actions which must coincide with the detection of stale obligations.

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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 untimely action to deobligate funds results in stale obligations remaining on the DHP's financial statements, which increases the risk of overstatement of obligated balances. The absence of liquidating transactions within the GL system results in overstatement of obligated balances as presented within the DHP's SBR. Additionally, the DHP's inability to provide sufficient source documentation to support the validity, accuracy, and completeness of UDO transactions prevents DHA from effectively monitoring the design and operating effectiveness of internal controls and may prevent it from asserting to the fair presentation of the SBR.

Recommendations: Kearney recommends that the DHP perform the following:

1. 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.
2. 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.
3. Design and implement a recurring analysis to identify and reverse improper entries to USSGL Account 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.
4. Modify robotic process automation to serve as the identification point for potentially stale obligations. Deobligation should not occur until an assessment is made over the validity of the open obligation to determine the appropriate amount to deobligate.
5. Evaluate the current internal control environment and design/establish control activities to verify the validity, accuracy, and completeness of UDO transactions recorded in USSGL Account 4801.
6. 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 Account 4801.
7. 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.
8. Perform a full-scope analysis of open obligations which require deobligation. DHA should inform components of the deobligation initiative and establish cut-off dates for mandatory deobligation and process the deobligation actions to remove the stale obligations.
9. Expand DAR-Q monitoring procedures, as well as conduct follow-up procedures to verify deobligation actions have occurred.

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10. Perform internal control monitoring and testwork under the RMIC Program to determine if the newly implemented policy and procedures have been implemented effectively.

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 21 financially significant systems, including two GL and financial reporting systems, three health IT systems, and 16 other key feeder systems and environments.

The following is a summary of critical deficiencies:

- Access Controls
  - Account management policies, procedures, and controls for managing and monitoring access to key financial management applications and third-party systems for privileged and non-privileged users are not designed, consistently implemented, and/or operating effectively across the DHP Enterprise
  - User account recertifications to verify the continued propriety of access of privileged and non-privileged users are inconsistently implemented and documented or not operating effectively across the DHP Enterprise
  - Audit logging and monitoring controls over activity in key financial management systems are not consistently implemented or operating effectively
- ELC – Oversight and Monitoring
  - Policies and procedures for monitoring third-party service organizations and complementary user entity controls (CUEC) are not fully implemented
- SD
  - Policies, procedures, and controls for the proper SD within applications, databases, and operating systems are not consistently developed, documented, and/or implemented.

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Cause: The deficiencies noted above occurred primarily due to a combination of the following causal factors:

- Control Design
  - Policies, procedures, and controls for managing and monitoring SD conflicts and termination of user access for transferred users have not been consistently documented, communicated, or implemented across the DHP Enterprise
- Control Implementation and Operation
  - Policies and procedures over account management, CUEC monitoring, and SD controls have not been consistently communicated or implemented across the DHP Enterprise
  - Control activities in key financial management systems have been properly designed, documented, and implemented, but are not consistently operating effectively.

Effect: Without complete and consistent implementation, monitoring, and enforcement of IT security policies, procedures, and practices, IT control weaknesses may exist and be overlooked, thus increasing the risk of inaccurate financial reporting. 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 without timely detection in the normal course of business.

Recommendations: Kearney recommends that the DHP perform the following:

1. Continue communication and reinforce IT policies and procedures to the DHP program owners and offices, markets, MTFs, and service organizations.
2. Provide training to users and privileged users regarding the consistent implementation of IT security policy, procedures, and practices for DHP systems.
3. Continue to monitor and enforce 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 DEFICIENCIES

In the *Independent Auditor's Report on Internal Control over Financial Reporting* that was included in the audit report on the Defense Health Program's (DHP) fiscal year (FY) 2022 financial statements, we noted several issues that were related to internal control over financial reporting. The status of the FY 2022 internal control findings is summarized in ***Exhibit 3***.

Exhibit 3: Status of Prior-Year Findings

Control Deficiency		FY 2022 Status	FY 2023 Status
I.	Accounting and Financial Reporting Governance and Entity-Level Controls	Material Weakness	Material Weakness
II.	Financial Reporting – Universe of Transactions	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.	Property, Plant, and Equipment	Material Weakness	Material Weakness
VII.	Stockpile Materials	Material Weakness	Material Weakness
VIII.	Liabilities and Related Expenses	Material Weakness	Material Weakness
IX.	Monitoring and Reporting of Obligations and Adjustments	Material Weakness	Material Weakness
X.	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. 24-01, *Audit Requirements for Federal Financial Statements*, the financial statements of the Defense Health Program (DHP) as of and for the year ended September 30, 2023, 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 8, 2023. 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 of the 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 FFMIA, disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 24-01, 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 Defense Health Program'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 and described in the accompanying **Schedule of Findings**. The DHP's response to the findings identified in our engagement is described in a separate memorandum attached to this report in the Financial Section 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 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. 24-01 in considering the entity's compliance. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 8, 2023

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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* (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 Internal Control (RMIC) Program across the Enterprise. The DHP's Statement of Assurance provided no assurance that internal controls over operations, financial reporting, and compliance were operating effectively as of September 30, 2023.

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
- 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'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*
- 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

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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.

The DHP subordinate organizations, including MTFs, recorded obligations in excess of their suballotments, allocations, and suballocations as of December 31, 2022 across 16 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.

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RESPONSE TO INDEPENDENT AUDITOR'S REPORT

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
1200 DEFENSE PENTAGON
WASHINGTON, DC 20301-1200

HEALTH AFFAIRS

November 8, 2023

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) 2023 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 29 Notices of Findings and Recommendations (NFRs) comprising 28 percent of the 105 NFRs received in FY 2022. We were also able to sustain an unmodified opinion for the thirteenth consecutive year for the 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

Photo Caption: U.S. Air Force Maj. Tim Soeken, an Ophthalmologist works on a patient in support of Health Engagements Assistance Response Team (HEART) 2022. During HEART 22, the U.S. and partner nation medical professionals operated side by side in three specialties: Ophthalmology, Orthopedic, and Dental.

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SECTION 3

OTHER INFORMATION

Summary of Financial Statement Audit and Management Assurances

Summary of Financial Statement Audit[1]

Figure III 1

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
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	10				10

[1.]The summary of financial statement audit of material weaknesses is from the Independent Auditor's (IPA) ASD(HA)-DHP Report on Internal Controls Over Financial Reporting. Per OMB Circular A-136 significant deficiencies are not required to be disclosed.

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)[2]

Figure III 2

Statement of Assurance	No Assurance					
Material Weaknesses (Assessable Unit)	**Beginning Balance**	**Reclassified**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Accounts Receivable	1	-	-	-	-	1
Financial Reporting	5	-	-	3	-	2
Equipment Assets	1	-	-	-	-	1
Real Property Assets	1	-	-	1	-	-
Internal Use Software	1	-	-	-	-	1
Other	-	-	1	-	-	1
Total Material Weaknesses	9	-	1	4	-	6

Effectiveness of Internal Control over Operations (FMFIA § 2)[2]

Figure III 3

Statement of Assurance	No Assurance					
Material Weaknesses (Assessable Unit)	**Beginning Balance**	**Reclassified**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Acquisition	6	-	-	-	-	6
Comptroller and Resource Management	5	-	1	-	-	6
Communications	-	-	-	-	-	-
Contract Administration	4	-	-	-	-	4
Information Technology—Business System Modernization	3	-	-	-	-	3
Personnel and Organizational Management	10	-	1	2	-	9
Legacy	1	-	-	-	-	1
Supply Operations	2	-	-	-	-	2
Support Services	5	1	1	-	1	4
Force Readiness	1	-	-	-	-	1
Security	-	-	1	-	-	1
Other	-	-	7	-	-	7
Total Material Weaknesses	37	1	11	2	1	44

[2.] The total number of material weaknesses and non-Compliances for Internal Controls Over Financial Reporting, ICO and internal controls over federal financial management system requirements are self-identified by ASD(HA)-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.

Conformance with Federal Financial Management System Requirements (FMFIA § 4)[2]

Figure III — 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	-	-
Compliance	-	-	1	-	-	1
Total Material Weaknesses	3	-	1	1	-	3

Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)

Figure III — 5

	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 2023 financial statement audit. Our auditor has noted ASD(HA)-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. ASD(HA)-DHP is in the process of evaluating the FY 2023 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.

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MANAGEMENT CHALLENGES

IN THE DOD OIG FY 2023 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

Degraded Readiness of Health Care Personnel

The COVID-19 pandemic increased the operational tempo for DoD health care personnel, contributing to staffing shortages, staff burnout, and degraded personnel readiness. The U.S. Surgeon General recognizes that a range of factors affect burnout rates among health workers, including excessive workloads, administrative burdens, limited input in scheduling, and lack of organizational support. These factors affect the readiness and welfare of DoD health care personnel. The DoD is working on actions to implement the DoD OIG's recommendations such as updating policy to include maximum consecutive hours to be worked, maximum shifts per week, and coverage of duties when absent. In July 2022, the DoD OIG announced a multi-Federal agency OIG project that seeks to inform decision makers of the extent of health care staff shortages and best practices used by each Federal agency, including the DoD, to attract and retain staff. In this review, the DoD OIG will also determine the effect of health care staff shortages on military readiness and strategies to mitigate shortages during future pandemics.

Continued Shortfalls in Mental Health Services

Before the COVID-19 pandemic, the DoD faced shortfalls in meeting the demand for mental health services. The pandemic highlighted the impact of the shortfalls on DoD beneficiaries, especially as demand increased. The DoD will need to reassess its requirements based on pre-existing need and increased demand resulting from the COVID-19 pandemic. Research to determine the effect of the pandemic on the mental health of Service members and their families shows a rising need for mental health care. In its 2021 Health of the Force report, the Army highlighted the direct effects of the pandemic on the mental health of Service members. The report stated that half of Soldiers reported negative financial impacts because of the pandemic and those Soldiers were more likely to screen positive for depression or anxiety.

According to an August 2020 report, the DoD OIG determined that the DoD did not consistently meet timeliness standards for access to mental health care for active-duty Service members and their families. Although the DoD agreed with the recommendations in the report, officials stated that implementation of corrective actions either were delayed by the COVID-19 pandemic or will be implemented when new TRICARE managed-care support contracts are awarded in 2023. To help meet demand for mental health services over the past few years, the Defense Health Agency authorized the increased use of telehealth capabilities, as evidenced by increased expenditures for telehealth services from $4.0 million in FY 2019 to more than $150 million in FY 2020. The DoD OIG has an ongoing project to identify and describe potential program integrity risks associated with telehealth services offered through the DoD TRICARE program. As the MHS evolves, the DoD must continue to assess the pandemic's effects on mental health and develop and implement policies, programs, and initiatives that will ensure it can provide appropriate care to its Service members and beneficiaries.

Encouraging Treatment for Substance Misuse

Identifying and treating Service members with substance misuse problems remains a challenge for the DoD. In March 2022, the DoD OIG determined that Military Service health care providers did not perform annual alcohol screenings in a timely manner, and the DHA and Military Services did not provide timely intake assessments or treatment for alcohol misuse according to DHA or Service guidance. The Army established a substance abuse treatment program in 2019, specifically for Soldiers who did not have alcohol-related disciplinary problems. The program has already produced positive results by increasing the readiness of Service members for potential deployment and by decreasing the rate of emergency services for substance misuse. Addressing the stigma associated with seeking and receiving treatment for substance misuse will continue to challenge the DoD.

Suicide Prevention Efforts in the DOD

The DoD has increased its efforts in suicide prevention, and there was a 15% decrease in suicides from 2020 to 2021, according to the Defense Suicide Prevention Office. The FY 2021 NDAA required the use of multidisciplinary teams to review each death by suicide at the installation or command level. The DoD OIG found that the DoD's overall approaches and services for arranging continuity of care for transitioning Service members receiving mental health care within the DoD are insufficient, resulting in interruption of care for Service members transitioning their health care from the DoD to the Veteran's Health Administration. Suicide prevention remained a priority for the DoD and will be an area of oversight for the DoD OIG in FY 2024.

Addressing Women's Health Issues

The DoD faces the challenge of addressing health issues that uniquely affect female Service members and beneficiaries. According to a 2020 Defense Health Board report, the DoD should do more to address the health challenges that female Service members face, such as musculoskeletal injuries, reproductive and urogenital tract conditions, postpartum depression, eating disorders, and sexual violence care.

The Defense Health Board report stated that the physiological differences in men and women translate to differential performance and injury risk for some common military tasks. Considering these differences, in March 2022, the Army revised the Army Combat Fitness Test to better support gender- and age-normed performance by replacing an exercise that measures core strength in Soldiers. The revision to the Army Combat Fitness Test is a positive step to address the physiological uniqueness of female Service members.

Another area of women's health that warrants attention from the DoD is reproductive and urogenital care. According to the Defense Health Board report, urogenital conditions are among the top reasons for medical encounters and evacuations of deployed female Service members. Pregnancy, gynecologic concerns, and postpartum complications also present unique challenges to female Service members and beneficiaries. Although the MHS provides health care services to treat the majority of reproductive and urogenital conditions, there are still areas where the DoD can improve care, such as providing more preventative measures for deploying female Service members and providing more health care services for female Service members while deployed.

In addition, there is a stigma associated with obtaining mental health care for more women-specific conditions, such as postpartum depression, and for conditions diagnosed in both men and women, such as eating disorders. While the DoD has discussed postpartum depression in the Veterans Affairs/DoD Clinical Practice Guideline, there is no standard policy to address it. Variability in military screening protocols result in the stark differences in the reported prevalence of diagnosed eating disorders, and there is no specific policy from the DoD or DHA on the preferred or required assessment of eating disorders.

Finally, sexual violence and harassment remains an issue for female Service members. The Defense Health Board pointed out that female Service members are more susceptible to sexual violence and that the low conviction rate following interpersonal or sexual violence can cause long-term negative effects on Service members' physical and psychological health if not addressed in an efficient and productive manner. The DoD has established sexual and health education campaigns, established walk-in contraceptive clinics, and made the Decide + Be Ready mobile app available to female Service members. Preventing sexual harassment and sexual assault and providing medical care for female Service members in deployed and non-deployed settings are essential to DoD readiness and the DoD's ability to recruit and retain female Service members.

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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 OMB Bulletin No. 24-01, *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/afr2023.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 III-6*.

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Figure III — 6: Military Health Benefits—Healthcare Payment Integrity Scorecard

Payment Integrity Scorecard

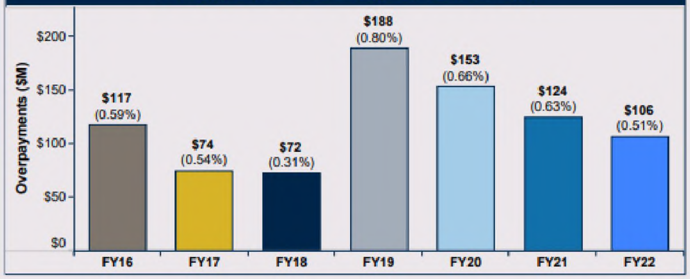
Program or Activity	Reporting Period	FY 2022 Overpayment Amount ($M)*	$106
Military Health Benefits - Healthcare	Q3 2023	*Estimate based a sampling time frame starting 10/2020 and ending 9/2021	

DOD
Military Health Benefits - Healthcare

Brief Program Description & summary of overpayment causes and barriers to prevention:

Defense Health Agency (DHA) contracts with an external contractor to review TRICARE healthcare claims. The contractor re-adjudicates the claims to identify IPs. The root causes include, Duplicates, Miscalculated Reimbursement, and Payments made by Other Health Ins. DHA reported an est. $106M in monetary loss for FY22. While this is greater than the statutory threshold, the program reported $20B in proper payments for private sector healthcare claims, and each contractor was well within their Claims Accuracy Performance Rate. The main barrier that is being corrected in FY23 is the program structure of the compilation of TRICARE contracts with different characteristics, which is being fixed by the reorganization into separate programs.

Historical Payment Rate and Amount ($M) (Overpayment as Percentage of Total Outlays)



Discussion of Actions Taken in the Preceding Quarter and Actions Planned in the Following Quarter to Prevent Overpayments

The Defense Health Agency (DHA) requires claims processors to provide the updated definitions of discount fields as well as a better audit trail of discount changes and the timeframes associated with the contractual negotiated discounts. By using these quarterly compliance reviews, DHA will continue to monitor contractor progress to implement CMS/DHA fee schedules in a timelier way. As a direct result of the finalized performance review findings, a contractual disincentive will be assessed if a contractor fails to meet or adhere to the performance accuracy standards, and if it is for more than one consecutive quarter, a corrective action plan will be established and thoroughly implemented. Quarterly key supporting documents were compiled to address root causes of improper payments identified in claims processing for each private sector care contract. High frequency errors were addressed in detail to raise awareness of problem areas, provide information about mitigation efforts, and to reduce the likelihood of future improper payments, specifically unintentional monetary loss. The initial audit phase of the annual Unallowed Cost audits, for Option Period number five, of the managed care contracts are nearing their completion. This is a contractual mechanism built within the TRICARE managed contracts to ensure that the contractors are identifying, tracking, and recouping overpayments on underwritten claims to make the Government whole through the adjudication process.

	Accomplishments in Reducing Overpayment	Date
1	The DHA continues working toward improving its sampling plans. The first risk-based sample of claims has been requested from the West regional contractor. DHA will start the focus study of that sample in July 23. Additional samples are being developed for other regions.	May-23
2	Detailed error reports have been created using current and historical data from compliance reviews. High frequency errors are being tracked and examined to identify root causes. Findings from these reports are being included in the quarterly memos to the Program Offices.	Jun-23
3	The Annual audits for the East and West regions are fully underway. Both managed care contractors have completed the required validation of the Payment Integrity audit universes. These annual TRICARE audits will ensure that overpayments are being recaptured appropriately.	Jun-23

	Goals towards Reducing Overpayments	Status	ECD
1	Continued collaborating with the DHA Program Offices to ensure purchased care contractor claims processors receive periodic training and following the guidance regarding split billings when new PPS rates are determined. Specifically, the high frequency errors attributed to Skilled Nursing Facility Per-Diem Rate and, Reimbursement Method Miscalculated or Payments made by Other Health Insurance. Document and verify, as part of the timely implementation of new rates when published by Medicare.	Completed	Jul-23
2	DHA required claims processors to provide the discount fields as well as a better audit trail of discount changes and timeframes associated with contractual negotiated discounts. DHA will require that claims processors implement changes to the CMS/DHA fee schedules timely. DHA monitored implementation using quarterly compliance reviews. As a result of finalized performance review findings, a contractual disincentive will be assessed if contractor fails to meet performance accuracy standards.	Completed	Jul-23

	Recovery Method	Brief Description of Plans to Recover Overpayments	Brief Description of Actions Taken to Recover Overpayments
1	Recovery Activity	TRICARE West, upon completion of the annual unallowable cost compliance review process, DHA will determine the amount of overpayments. The disallowed amount will either be deducted from current payments, or DHA will provide other instructions for the overpayment recovery.	Upon completion of the Option Period 5 Annual Unallowed Cost audits, the Contracting Officer will transmit a recoupment letter to the East contractor based on the findings of that review. Recoupments will be validated to confirm the full amount determined to be overpaid.
2	Recovery Activity	TRICARE East, upon completion of the annual unallowable cost compliance review process, DHA will determine the amount of overpayments. The disallowed amount will either be deducted from current payments, or DHA will provide other instructions for the overpayment recovery.	Upon completion of the Option Period 5 Annual Unallowed Cost audits, the Contracting Officer will transmit a recoupment letter to the West contractor based on the findings of that review. Recoupments will be validated to confirm the full amount determined to be overpaid.
3	Recovery Activity	Quarterly compliance results are being reported to the Contractors and Representatives. Error details are provided for each claim identified as an overpayment. The contractors confirm that recoupment efforts have occurred or will commence using these review findings.	DHA enforces contract policies to recover identified overpayments. IPs disbursed for non-underwritten care are required to be recouped from providers. If refunds are not received, the contractors retain a receivable to offset future claims from those providers.

Amt($)	Root Cause of Overpayment	Root Cause Description	Mitigation Strategy	Brief Description of Mitigation Strategy and Anticipated Impact
$95M	Overpayments within agency control that occurred because of a Failure to Access Data/Information Needed.	Authorizations and referrals document the medical status, diagnosis codes, and approved types of care. These documents support medical status at the time the claim is processed. Ex. Include duplicate payments, payment was made for non-covered services, incorrect coding.	Audit - process for assuring an organization's objectives of operational effectiveness, efficiency, reliable financial reporting, and compliance with laws, regulations, and policies.	Quarterly compliance reviews and annual audits are conducted to identify and report on improper payments specifically overpayments. Recoupments and corrections such as future contract offsets are initiated based on the findings from these in-depth quarterly payment reviews.
		Incorrect documentation in an audit or rebuttal packages from other benefit programs could result in an overpayment. If the explanation of benefits form indicates a lower amount paid than what was actually covered would impact the calculation of the TRICARE allowed amount.	Training – teaching a particular skill or type of behavior; refreshing on the proper processing methods.	Quarterly informative and educational documentation of overpayment errors is disseminated. This information is shared with management to reduce future overpayments. This allows the stakeholders to implement the guidance to ensure progress in reducing overpayments.
$11M	Overpayments outside the agency control that occurred because of an Inability to Access the Data/Information Needed.	Some beneficiaries receive benefits from other insurers or Gov. programs. The claim or supporting documentation must indicate that other coverage exists. To determine the proper allowed amount, a summary of benefits paid by the other source must be provided with the claim.	Predictive Analysis - A data analytics technique used to prevent Improper Payments. It uses predictive capabilities to identify unobserved attributes that lead to suspicion of Improper Payments based on known Improper Payments	A newly created Risk-based sampling methodology is in the comprehensive testing phase to improve DHA's ability to identify the maximum amount of payment error by utilizing the unique claim and historical data characteristics by considering their level of inherent risk.

In the ongoing effort to improve Payment Integrity reporting for the Department Military Health Benefits (MHB) payment portfolio, the DoD established the "Military Health Benefits – Administrative Costs" (Admin) program in FY 2022 and submitted the FY 2023 Improper Payment (IP) and Unknown Payment (UP) Risk Assessment to the DoD Office of Inspector General on June 20, 2023. The remaining MHB payments not covered under administrative costs were disaggregated into groups with similar contractual requirements and/or performance incentives. The Department is currently performing the new MHB program risk assessments to determine the susceptibility to IP&UP. The Department will deliver the completed risk assessments prior to June 30, 2024. The following Military Health Benefits (MHB) programs to increase the accuracy and efficiency of Payment Integrity reporting. • Military Health Benefits – TRICARE East Region Program (East) • Military Health Benefits – TRICARE West Region Program (West) • Military Health Benefits – TRICARE Medicare Eligible Program (TMEP) • Military Health Benefits – TRICARE Pharmacy Program (TPharm) • Military Health Benefits – TRICARE Overseas Program (TOP) This strategic reorganization or restructuring of the previously combined Military Health Benefits program will streamline PIIA compliance while also providing numerous operational impacts and greater insights through this Department wide effort.

Significant FY 2023 MHS Fraud Events (Source DCIS)

September 29, 2023: Behavior Services Healthcare Provider and its Owner Settle False Claims Act Allegations
Connex Family Services, LLC (Connex), located in Warrenton, and Bianca Riddle, 33, a resident of Gloucester, have agreed to pay $918,000 to settle a civil fraud case that claimed Connex and Riddle submitted or caused false claims to be submitted to Medicaid and TRICARE. The government alleged that Connex and Riddle submitted claims to TRICARE and Medicaid for applied behavioral analysis services that were not provided during the period from March 1, 2019, through November 13, 2021. Connex's behavioral analysis services are provided to children who have been diagnosed with Autism Spectrum Disorder and other related disorders.

September 18, 2023: Pharmacy Operators and Pharmacist Charged with $33 Million Health Care Fraud, Wire Fraud, and Kickback Conspiracy
Two pharmacy executives and a pharmacist were arraigned today on charges of defrauding Medicare and TRICARE by submitting fraudulent claims for medically unnecessary prescriptions, Attorney for the United States Vikas Khanna announced. The pharmacy executives are also charged with paying and conspiring to pay illegal kickbacks.

July 28, 2023: Husband and Wife Plead Guilty to $65 Million TRICARE Fraud
Jimmy and Ashley Collins, a married couple living in Birchwood, Tennessee, pleaded guilty in federal court today, admitting that they participated in a health care fraud scheme that bilked TRICARE-the health care program that covers United States service members-out of more than $65 million.

June 16, 2023: Man Convicted of $54M Bribery and Kickback Scheme Involving Fraudulent Prescriptions
A federal jury convicted a Florida man for his role in a $54 million bribery and kickback scheme involving TRICARE, a federal program that provides health insurance benefits to active duty and retired service members and their families. According to court documents and evidence presented at trial, David Byron Copeland, 55, of Tallahassee, was a part-owner and senior sales manager at Florida Pharmacy Solutions (FPS), a Florida-based pharmacy that specialized in compounded prescription drugs. Copeland, along with his accomplices, engaged in a practice known as "test billing" to develop the most expensive combination of compounded drugs to maximize reimbursement from TRICARE.

June 15, 2023: Baton Rouge Man Sentenced to 18 Months Imprisonment for Health Care Fraud Scheme
Christopher Blackstone has been sentenced to 18 months of imprisonment to be followed by a 2-year term of supervised release after pleading guilty in federal court relating to his role in a health care fraud conspiracy. BLACKSTONE, age 46, a resident of Baton Rouge, Louisiana, pled guilty on February 24, 2021 before U.S. District Judge Lance M. Africk to Count One of a bill of information charging him with conspiracy to commit health care fraud, in violation of Title 18, U.S.C. §1347 and §1349.

June 14, 2023: Baton Rouge Man Sentenced to 26 Months Imprisonment for Health Care Fraud Scheme
Donald Peter Auzine was sentenced on June 13, 2023 to 26 months of imprisonment to be followed by a 3-year term of supervised release after pleading guilty in federal court relating to his role in a health care fraud conspiracy. Auzine, age 51, a resident of Baton Rouge, Louisiana, pled guilty on September 23, 2021 before U.S. District Judge Susie Morgan to Count One of an indictment that charged him with conspiracy to commit health care fraud, in violation of Title 18, U.S.C. §1347 and §1349.

May 25, 2023: Charleston County Woman Pleads Guilty to Conspiracy to Commit Health Care Fraud
Deeana Burr, 54, of Charleston, South Carolina, has pleaded guilty to conspiracy to commit health care fraud. Evidence obtained in the investigation revealed that Burr, a licensed nurse practitioner who became a 15% co-owner of Atlantic Coast Integrated Medicine in September 2017, participated in scheme to defraud Medicare and TRICARE by submitting claims to Medicare for medically unnecessary durable medical equipment and certain procedure codes.

April 25, 2023: Private Oklahoma City School Pays $354,000 to Settle Allegations of Submitting False Claims to Tricare for Services Provided to Students with Autism
Good Shepherd Catholic School, Inc. paid $354,000 to settle civil claims by the United States stemming from allegations that GSCS submitted false claims to TRICARE for services provided to students with autism, announced United States Attorney Robert J. Troester.

April 24, 2023: L3 Technologies Settles False Claims Act Allegations Relating to Double-Charging for Certain Material Costs
The Department of Justice announces that L3 Technologies, Inc., Communication Systems West, a Utah-based manufacturer of communications equipment for military systems, has agreed to pay $21.8 million to resolve allegations that it violated the False Claims Act by knowingly submitting and causing the submission of false claims to the DoD by including in contract proposals the cost of certain parts twice.

April 19, 2023: Former Physician Associated with 1-800-GET-THIN Sentenced to 7 Years in Federal Prison for Massive Fraud Against Health Insurers
The Justice Department announces that a former doctor has been sentenced to 84 months in federal prison for scheming to defraud private insurance companies and the TRICARE health care program for U.S. military service members by fraudulently submitting nearly $120 million in claims related to the 1-800-GET-THIN Lap-Band surgery business.

April 18, 2023: Podiatrist and Patient Recruiter Convicted for $8.5M Compounding Fraud Scheme
A federal jury convicted two Texas men for their role in a scheme to fraudulently bill TRICARE – the health care program for U.S. service members and their families – for compounded creams that were medically unnecessary and procured through kickbacks and bribes.

April 4, 2023: Orange County Pharmacist Sentenced to 15 Years in Federal Prison for Helping to Defraud U.S. Military's Health Plan Out of $11.1 Million
A licensed Orange County pharmacist was sentenced 180 months in federal prison for her role in a health care fraud scheme in which more than 1,000 bogus prescriptions for compounded medications were filled, costing TRICARE, the United States military's health care plan, more than $11 million in losses.

March 27, 2023: Laboratory Corporation of America Agrees to pay $2,100,000 to Settle False Claims Act Allegations related to Overbillings on Department of Defense Contracts
Laboratory Corporation of America has agreed to pay the United States $2,100,000 to resolve allegations that it violated the federal False Claims Act by overbilling the DoD for genetic tests performed by GeneDx, LLC, a third-party reference laboratory used by Laboratory Corporation of America to perform genetic tests for military members.

March 20, 2023: Former Director of Operations for O.C. Pharmacy Sentenced to 9 ½ Years in Prison for Defrauding the U.S. Military's Health Care Plan
A Florida man who once was the director of operations at a now-shuttered Irvine pharmacy was sentenced to 114 months in federal prison for his role in a scheme in which kickbacks were paid for prescriptions for "compounded" medications-a scam that cost TRICARE, the United States military's health care plan, more than $3 million in losses.

January 9, 2023: Conyers Doctor pays $1,850,000 to Resolve Allegations that she Performed and Billed for Medically Unnecessary Cataract Surgeries and Diagnostic Tests
Aarti D. Pandya, M.D. and Aarti D. Pandya, M.D. P.C. of the Pandya Practice Group have agreed to pay approximately $1,850,000 to resolve allegations that they violated the False Claims Act by, among other things, billing the government for cataract surgeries and diagnostic tests that were not medically necessary, tests that were incomplete or of worthless value, and office visits that did not provide the level of service claimed.

December 20, 2022: Advanced Bionics LLC to pay over $12 Million for Alleged False Claims for Cochlear Implant Processors
Advanced Bionics LLC, a Valencia, California-based manufacturer of cochlear implant system devices, has agreed to pay more than $12 million to resolve allegations that it misled federal health care programs regarding the radio-frequency emissions generated by some of its cochlear implant processors.

December 20, 2022: Cardiac Monitoring Companies to Pay More than $44.8 Million to Resolve False Claims Act Liability Relating to Services Performed by Offshore Technicians
Bio Telemetry, Inc. and its subsidiary CardioNet, LLC, both headquartered in Pennsylvania (collectively referred to as Bio Telemetry), have agreed to pay $44,875,000 to resolve allegations that they violated the False Claims Act by knowingly submitting claims to Medicare, TRICARE, the Veterans Health Administration, and the Federal Employee Health Benefits Program for heart monitoring tests that were performed, in part, outside the United States, and in many cases by technicians who were not qualified to perform such tests.

December 8, 2022: Florida Man Charged with Conspiring to pay Kickbacks and Commit Health Care Fraud in $64 Million Scheme
Attorney for the United States Vikas Khanna announces that a Florida man was charged for his role in conspiracies to pay illegal kickbacks and to commit health care fraud that caused at least $64 million in losses to federal health care benefit programs.

October 18, 2022: Oklahoma City Home Health Company and Two Former Corporate Officers Agree to Pay $22.9 Million to Settle Federal False Claims Act and Kickback Allegations from Improper Payments to Referring Physicians
United States Attorney Robert J. Troester announces that CHC Holdings, LLC d/b/a Carter Healthcare, an Oklahoma limited liability company that provides home healthcare through subsidiaries in multiple states; including Texas and Oklahoma, as well as Stanley Carter and Brad Carter (collectively Defendants) agreed to pay $22,948,004 to resolve allegations that Carter Healthcare wrongfully paid physicians to induce referrals of home health patients under the guise of medical directorships.

CLIMATE-RELATED FINANCIAL RISK

In FY 2023, ASD(HA)-DHP did not issue any climate action plans, sustainability reports and implementation plans, or other reports with information relevant to climate-related financial risk.

Photo Credits / DVIDS

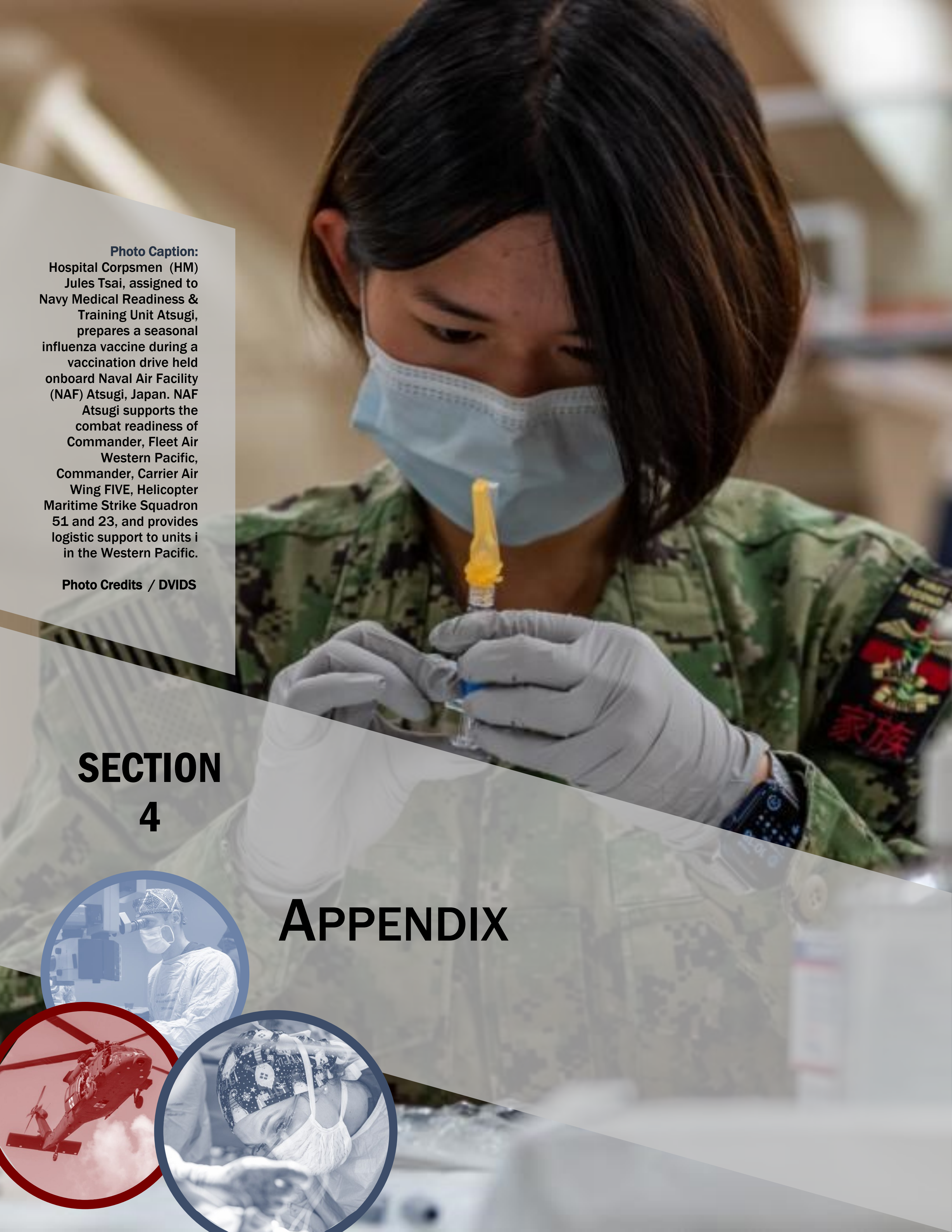


Photo Caption:
Hospital Corpsmen (HM) Jules Tsai, assigned to Navy Medical Readiness & Training Unit Atsugi, prepares a seasonal influenza vaccine during a vaccination drive held onboard Naval Air Facility (NAF) Atsugi, Japan. NAF Atsugi supports the combat readiness of Commander, Fleet Air Western Pacific, Commander, Carrier Air Wing FIVE, Helicopter Maritime Strike Squadron 51 and 23, and provides logistic support to units i in the Western Pacific.

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SECTION 4

APPENDIX

ACRONYMS AND ABBREVIATIONS

ABACUS	Armed Forces Billing and Collection Utilization Solution	DCIA	Debt Collection Improvement Act of 1996
ADA	Anti-deficiency Act	DCIS	Defense Criminal Investigative Service
ADP	Additional Discount Program	DDRS	Defense Departmental Reporting System
AFR	Agency Financial Report	DDRS-AFS	Defense Departmental Reporting System - Audited Financial Statements
ASD(HA)	Assistant Secretary of Defense (Health Affairs)	DEAMS	Defense Enterprise Accounting and Management System
BS	Balance Sheet	DHA	Defense Health Agency
BUMED	Navy Bureau of Medicine and Surgery	DHA-FE	Defense Health Agency Facility Enterprise
CAC	Collections Advisory Committee	DHA-PI	Defense Health Agency Program Integrity Office
CARES	Coronavirus Aid, Relief, and Economic Security Act	DHAPP	Department of Defense HIV/AIDS Prevention Program
CCE	Coding and Compliance Editor	DHP	Defense Health Program
CCMDs	Combatant Commands	DIMO	Defense Institute for Medical Operations
CDCP	Center for Disease Control and Prevention	DM&R	Deferred Maintenance and Repairs
CEFMS II	Corps of Engineers Financial Management System II	DML-ES	Defense Medical Logistics – Enterprise Solution
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act	DMLSS	Defense Medical Logistics Standard Support
CFO	Chief Financial Officer	DoD	Department of Defense
CHAMPUS	Civilian Health and Medical Program of the Uniformed Services	DOJ	Department of Justice
CHCBP	Continued Health Care Benefit Program	DOL	Department of Labor
CHCS	Composite Health Care System	ELCs	Entity Level Controls
CIP	Construction In Process	ERP	Enterprise Resource Planning
COTS	Commercial Off-the-Shelf	FASAB	Federal Accounting Standards Advisory Board
COVID-19	Coronavirus Disease 2019	FBwT	Fund Balance with Treasury
CRM	Contract Resource Management	FCI	Facility Condition Index
CSA	Combat Support Agency	FECA	Federal Employees' Compensation Act
CSRS	Civil Service Retirement System	FEDVIP	Federal Employees Dental and Vision Insurance for Program
CY	Current Year	FEGLI	Federal Employee Group Life Insurance
DAI	Defense Agencies Initiative	FEHB	Federal Employee Health Benefit
DASD	Deputy Assistant Secretaries of Defense	FFATA	Federal Funding Accountability and Transparency Act of 2006
DATA Act	Digital Accountability and Transparency Act of 2014	FFMIA	Federal Financial Management Improvement Act
DAWDF	DoD Acquisition Workforce Development Fund	FFRDC	Federally Funded Research and Development Centers

FISMA	Federal Information Security Modernization Act	OUSD	Office of the Under Secretary of Defense
FLTCIP	Federal Long-Term Care Insurance Program	OUSD(C)	Office of the Under Secretary of Defense
FMFIA	Federal Managers' Financial Integrity Act	PP&E	Property, Plant, and Equipment
FMR	Financial Management Regulation	RCRA	Resource Conservation and Recovery Act
FY	Fiscal Year	RDT&E	Research, Development, Test & Evaluation
GAAP	Generally Accepted Accounting Principles	RSI	Required Supplementary Information
GAFS-R	General Accounting and Finance System – Reengineered	RSL	Remaining Service Life
GFEBS	General Fund Enterprise Business System	SABRS	Standard Accounting, Budgeting, and Reporting
GL	General Ledger	SARA	Superfund Amendments and Reauthorization Act
GMRA	Government Management Reform Act	SBR	Statement of Budgetary Resources
GONE Act	Grants Oversight and New Efficiency Act	SCNP	Statement of Changes in Net Position
HA	Health Affairs	SDP	Standard Discount Program
HJF	Henry M. Jackson Foundation	SECDEF	Secretary of Defense
IBNR	Incurred but not reported	SFFAS	Statement of Federal Financial Accounting
ICO	Internal Controls Over Operations	SMS	Sustainment Management System
IUS	Internal Use Software	SNC	Statement of Net Cost
MEDCOM	U.S. Army Medical Command	SOA	Statement of Assurance
MERHCF	Medicare-Eligible Retiree Health Care Fund	TEDS	TRICARE Encounter Data Set
MHS	Military Health System	TFM	Treasury Financial Manual
MSA	Medical Services Accounts	TPCP	Third-Party Collection Program
MTFs	Military Medical Treatment Facilities	TRR	TRICARE Retired Reserve
MVCR	Minimally Viable Capability Release	TRS	TRICARE Reserve Select
NDAA	National Defense Authorization Act	TYA	TRICARE Young Adult
NDS	National Defense Strategy	U.S.C.	United States Code
NMHM	National Museum of Health and Medicine	UDOs	Undelivered Orders
O&M	Operation and Maintenance	UMP	Unified Medical Program
OACT	Office of the Actuary	USACE	United States Army Corps of Engineers
OIG	Office of Inspector General	USD (P&R)	Under Secretary of Defense for Personnel and Readiness
OM&S	Operating Materials & Supplies	USFHP	Uniformed Services Family Health Plan
OMB	Office of Management and Budget	USSGL	United States Standard General Ledger
OPM	Office of Personnel Management	USUHS	Uniformed Services University of the Health Sciences
OSD	Office of the Secretary of Defense	VA	Veterans Affairs

Photo Captions:
Top) Capt. Megan Honeywell and Capt. Megan Gross, emergency trauma nurses, treat a simulated patient during the Tactical Trauma Reaction and Evacuation Crossover Course at Joint Base San Antonio Lackland, Texas. / **Bottom**) Military Sealift Command hospital ship USNS Mercy (T AH 19) passes the USS Arizona Memorial while arriving at Joint Base Pearl Harbor Hickam during Pacific Partnership 2022.

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Back Cover Image Captions (from top to bottom):
1) U.S. Air Force Lt. Col. Jacob Riis, an orthopedic surgeon, performs surgery on a local Guatemalan knee while deployed in support of Health Engagements Assistance Response Team 2022, at Hospital Regional de Occidente in Quetzaltenango, Guatemala. / **2**) Capt. Morgan Bobinski and Capt. Lauren Blake, both Burn Intensive Care Unit nurses, treat a simulated patient during the Tactical Trauma Reaction and Evacuation Crossover Course at Joint Base San Antonio Lackland, Texas. / **3**) An aircrew assigned to 1st Battalion 126th Aviation Regiment MEDEVAC, Rhode Island Army National Guard, conduct UH 60 Black Hawk helicopter hoist qualification training, at Big River Management Area, West Greenwich, R.I.

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