DEFENSE HEALTH AGENCY

TRICARE PROGRAM RESOURCE MANAGEMENT

Agency Financial Report
Fiscal Year 2026

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Agency Head Message



I am pleased to present the Fiscal Year (FY) 2026 Agency Financial Report (AFR) for the Defense Health Agency (DHA) TRICARE Program Resource Management (TPRM) reporting entity. As a vital pillar of the Military Health System (MHS), TPRM manages the purchased care portion of the Defense Health Program (DHP) appropriation—representing approximately half of our total DHP funding and delivering essential private-sector healthcare services to over 9.5 million eligible uniformed service members, retirees, and their families across the globe.

Accountability to the American taxpayer and the medical readiness of the joint force go hand in hand. For FY 2026, I am proud to report that TPRM has once again achieved an unmodified ("clean") audit opinion on its financial statements. This achievement continues a multi-year legacy of financial excellence, demonstrating that the funds entrusted to manage private-sector healthcare networks, pharmacy benefits, and specialized TRICARE programs are backed by rigorous internal controls, accurate financial reporting, and sound fiscal stewardship.

While sustaining this benchmark of fiscal accountability, TPRM navigated a $629.9 million Private Sector Care (PSC) funding shortfall during FY 2026. This financial pressure was driven by increased healthcare delivery in parallel with transitioning to the next-generation TRICARE Managed Care Support Contracts (MCSC T-5). Severe systemic claims processing issues were experienced during the transition that resulted in abnormally high error rates and processing delays. Consequently, a substantial amount of claims for healthcare provided in FY 2025—which normally would have been paid from the FY 2025 DHP appropriation—were not processed for payment by the Government until FY 2026.

DHA addressed the shortfall through an authorized adjustment for delayed prior-year claims, funding offsets, procurement realignments, and other balancing actions. These measures supported continued funding for purchased care and ensured uninterrupted healthcare delivery.

This FY 2026 AFR focuses exclusively on the TPRM reporting entity. In prior years, separate AFRs were published for the consolidated DHP reporting entity and TPRM, formerly known as the Contract Resource Management component. Under the approved FY 2026 reporting approach, a standalone AFR is being published for TPRM, while DHP financial statements and related notes continue to be submitted through established departmental reporting avenues. We remain committed to transparent financial reporting and fulfillment of applicable reporting requirements.

In accordance with the Federal Managers' Financial Integrity Act (FMFIA) and Office of Management and Budget (OMB) Circular A-123, management evaluates its systems of internal control annually. Based on the results of our FY 2026 assessments, I am pleased to provide reasonable assurance that the internal controls over financial reporting, operations, and compliance within the TPRM reporting entity are operating effectively, with no material weaknesses identified in TPRM's FY 2026 Statement of Assurance.

As we move into FY 2027, we remain steadfast in our mission to support Department of War (DoW) readiness by providing medically ready forces and a ready medical force. I extend my sincere gratitude to our financial managers, program integrators, clinical leaders and financial improvement teams whose tireless dedication strengthens financial accountability and supports the health and readiness of those who defend our Nation.

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Keith M. Bass
Assistant Secretary of War for Health Affairs

SECTION 1

MANAGEMENT'S DISCUSSION AND ANALYSIS

Mission and Organization Structure

Description of the Reporting Entity

TPRM is a division of the DHA within the DoW. For financial reporting purposes, TPRM is a component within the consolidated financial statements of the DHP. Within the DoW, the Office of the Assistant Secretary of War for Health Affairs (ASW(HA)) over the DHP 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. The Office of the Under Secretary of War (OUSW) for Personnel and Readiness (P&R), through the ASW(HA), has as one of its missions, operational oversight of the MHS, including the direct care system (military hospitals), the private sector care system, and the Medicare-Eligible Retiree Health Care Fund (MERHCF) for those beneficiaries dual-eligible for both Medicare and TRICARE.

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

The MHS consists of a combination of MTFs and regional networks of civilian providers that work together to provide care to 9.5 million eligible beneficiaries. The MHS direct care system is staffed by personnel in 45 hospitals, 578 medical clinics, and 102 dental clinics at facilities around the globe. The MHS is a complex system that globally integrates: health care delivery, public health and medical education, private sector partnerships, and cutting-edge medical research and development.

Defense Health Agency

The DHA is a Combat Support Agency that oversees the execution of the DHP appropriation to serve the Joint Services by optimizing lethality through warfighter medical readiness. Under the policy direction and guidance of the ASW(HA), the DHA provides joint medical capabilities across a mission-ready health system worthy of the DoW, Combatant Commands, the Military Services, their families, and all 9.5 million eligible beneficiaries.

Everything DHA does—clinical care, education and training, logistics, research, information systems, and enterprise management—is to generate and sustain warfighter readiness. DHA delivers timely, high-quality healthcare to keep the human weapon system healthy and deployable. Our actions directly impact how many warfighters we can deploy—and how many medical warriors are prepared to deploy alongside them, keeping them fit to fight and return home safely.

DHA delivers joint warfighting capabilities—medical logistics, IT infrastructure, trauma systems, research, pharmacy, and blood support—that directly affect survivability and lethality. Working in close collaboration with the Department of Veterans Affairs and our civilian partners, DHA ensures warfighters remain focused on their mission by giving them the confidence that their families will always receive world-class, timely, high-quality care wherever and whenever they need it.

The DHA is the administrative agency for the TRICARE health program. TRICARE consists of care both in the direct care system and in the private sector through managed care support contracts and the TRICARE health care benefit. The direct care system consists of medical centers, hospitals, and ambulatory clinics located worldwide. Effective October 25, 2019, the DHA is responsible for exercising authority, direction, and control of MTFs in fulfillment of the National Defense Authorization Act (NDAA) for FY 2017, Section 702.

From the private sector care perspective, TRICARE is administered by the DHA on a regional basis. In fulfillment of Section 701 of the 2017 NDAA, the DoW implemented the most sweeping changes to the TRICARE benefit structure since TRICARE was established in 1995. Contract management adjusted to synchronize these changes with the DoW's transition to the TRICARE 2017 contracts and regional oversight. The TRICARE changes expand beneficiary choice, improve access to network providers, modernize beneficiary cost-sharing, and enhance administrative efficiency. The Managed Care Support Program section within the purchased care delivery branch provides government oversight of two regional managed care support contracts: the East Region and the West Region contracts. These managed care support contractors (MCSCs) provide private sector health care services to TRICARE enrollees located within the United States. The DHA's TRICARE Overseas Program (TOP) section provides government oversight of the overseas contractor, International SOS.

The most current generation of the TRICARE managed care support contracts went into effect January 1, 2025, and is administered according two TRICARE regions in the United States, East and West, with a single contract for each region.

MCSCs are responsible for managing the delivery of health care to TRICARE's beneficiaries by developing and maintaining a civilian provider network consisting of both primary care and specialist providers. The MCSCs are also responsible for ensuring adequate access to health care, referring and authorizing beneficiaries for health care, educating providers and beneficiaries about TRICARE benefits, credentialing providers, and processing claims.

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

TRICARE Program Resource Management

TPRM in Aurora, Colorado, under the leadership of Director, Support, Personnel, and Financial Operations, Michael Emerson, 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. TPRM provides budget formulation input, carries out budget execution, and prepares component financial statements and footnotes.

In addition, TPRM is responsible for processing invoices received electronically from its contractors, and through the TRICARE Encounter Data (TED) System and reporting these transactions through accessible electronic media. TPRM provides funds availability certification and financial program tracking for the centrally funded private sector care programs. TPRM monitors budget execution through analysis of current year and prior year's spending and program developments. It also assists the DHA's Contract Management division, the DHA Office of Inspector General (OIG) Health Care Fraud Division (HCFD), and Case Recoupment activities related to private sector care.

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

During the last year of TPRM's operation, funding was received from the following sources:

TPRM Funding Sources

Fiscal Year	MERHCF Funding (Billions)	Annual Appropriations (Billions) *
2026	$11.7	$21.9
2025	$11.2	$20.4

* TPRM received Funding Authorization Documents (FADs) for FY26/9700 of $20.8 billion and 18M5 of $1.1 billion through September 30, 2026. TPRM received FADs for FY25/9700 of $20.4 billion through September 30, 2025.

For FY 2026, the "Consolidated Appropriations Act, 2026," Public Law (P.L.) No. 119-75, became law February 3, 2026, providing DoW funding for FY 2026.

For FY 2025, the "Continuing Appropriations and Extensions Appropriations Act, 2025," P.L. No. 119-4, became law March 15, 2025, providing Department of Defense (DoD) funding for FY 2025.

TRICARE

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

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

- ***TRICARE Prime*** requires enrollment and is comparable to health maintenance organization (HMO) plans. Each enrollee is assigned a primary care manager (PCM). A PCM is a health care provider who is responsible for managing an enrollee's care, promoting preventive health services (e.g., routine exams and immunizations), and arranging for specialty provider services as indicated. The service areas for TRICARE Prime and the plan rules, including the use of a PCM and the referral structure, are designed to support the readiness of DoW's military hospitals and clinics. TRICARE Prime's point-of service (POS) feature offers enrollees freedom to obtain care from TRICARE-authorized providers other than their assigned PCM without a referral. However, POS deductibles and cost shares are significantly higher than TRICARE Select, and POS charges are not counted toward the enrollee's catastrophic cap.
    - **TRICARE Prime Remote (TPR)** enrollment is offered to certain active duty service members stationed remote from MTFs.
    - **TRICARE Prime Remote for Active Duty Family Members (TPRADFM)** enrollment is offered to qualified dependents of service member sponsors, active and reserve, on active duty more than 30 days.

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

    - **Uniformed Services Family Health Plan (USFHP)** is a TRICARE Prime plan offered to non-active duty beneficiaries who live in one of six statutorily specified locations: Washington, Texas, Maine, Maryland, Massachusetts, and New York/New Jersey. Enrollees forfeit MTF services and instead receive all services, including pharmacy, exclusively from their particular enrolled USFHP system.
- ***TRICARE Select*** requires enrollment and is comparable to preferred provider organization (PPO) health plans. It features access to both network and non-network TRICARE-authorized providers. Referrals are generally not required for coverage. Beneficiaries other than active duty service members and other than TFL may qualify to enroll. Retirees, their families, and certain survivors must pay enrollment fees to participate.
- ***TRICARE for Life (TFL)*** offers wraparound coverage for TRICARE-eligible beneficiaries who have both Medicare Parts A and B, regardless of age or place of residence. Similar to Medigap policies, TFL pays secondary to Medicare for TRICARE-covered services.
- **Transitional Assistance Management Program (TAMP)** plan provides 180 days of premium-free coverage upon release from active duty (served more than 30 days) by Active Component or Reserve Component members.
- ***Other Plans and Programs:*** Some beneficiaries may qualify for the following depending on their location, Active/Reserve status, and/or other factors:
    - Premium-based health plans, including:
        - TRICARE Young Adult (TYA), available for purchase by qualified former dependent children up to the age of 26.
        - TRICARE Reserve Select (TRS), available for purchase by qualified Selected Reserve members and qualified survivors. TRS delivers TRICARE Select coverage with cost sharing at the active duty family member rate.
        - TRICARE Retired Reserve (TRR), available for purchase by qualified Retired Reserve members with cost sharing at the retiree rate.
        - TRICARE Dental Program (TDP), available for purchase by family members of active duty service members as well as Ready Reserve members and their family members.
        - Continued Health Care Benefit Program (CHCBP), which is comparable to Consolidated Omnibus Budget Reconciliation Act (COBRA) continuation coverage.
        - Federal Employees Dental and Vision Insurance for Program (FEDVIP) offers dental plans for purchase by retirees and offers vision plans for purchase by most non-service member beneficiaries enrolled in a TRICARE health plan. FEDVIP is operated by the U.S. Office of Personnel Management (OPM), not DoW.
    - Other benefits and services, including:
        - Dental benefits (military dental treatment facilities and claims management for active duty using civilian dental services).
        - Pharmacy: MTFs, TRICARE retail network pharmacies, and TRICARE Pharmacy Home Delivery Program.
        - Overseas private sector care, customer service, and claims processing services.
        - Women, Infants, and Children (WIC) Overseas Program (www.tricare.mil/wic).
        - Extended Care Health Option (ECHO): non-medical benefits available to qualified active duty family members with special needs. (https://www.tricare.mil/echo)

Health Care Purchased From Civilian Providers

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

In addition to payments made to contractors through the TED records process, TRICARE contractors are paid based upon invoices that are submitted to TPRM. The invoices are for administrative services provided for the management of the healthcare benefit, network development operations, provider education services and other services that are non-healthcare in nature.

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

Medicare Eligible Retiree Health Care Plans

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

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

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

In accordance with DoD 7000.14-R, *Financial Management Regulation (FMR)*, Volume 12, Chapter 16, TPRM reports daily obligations to the MERHCF for healthcare purchased from civilian providers or "purchased care." Daily claims are validated by the voucher edit procedures required by the TRICARE Systems Manual (TSM) 7950.3-M, dated April 2015 and the TSM 7950.4-M dated April 2021 to ensure that only costs attributable to Medicare-eligible beneficiaries are included in payments drawn from the MERHCF.

DHA OIG Health Care Fraud Division

In addition, TPRM's Improper Payment Evaluation Branch conducts post payment audits. It also assists the DHA's Contract Management, HCFD, and Case Recoupment division activities related to private sector care. The HCFD

manages anti-fraud and abuse activities for the DHA to safeguard beneficiaries and protect benefit dollars. The HCFD responsibilities include:

- Develops and executes anti-fraud and abuse policies and procedures.
- Provides oversight of contractor program integrity activities.
- Supports and coordinates investigative activities.
- Develops cases for criminal prosecutions and civil litigations.
- Initiates administrative measures.
- Identifies areas for cost containment and internal controls.

During calendar year 2025, the HCFD actively managed 286 investigative cases, 122 new cases were opened, and the HCFD responded to over 373 lead requests and fraud allegation inquiries. [2]

[2] The data reported above was obtained from the calendar year 2025 Health Care Fraud Division Operation Report. FY 2026 data will not be available until published in 2027, due to the time required to compile 4th Quarter, FY 2026 data.

Analysis of Performance Goals, Objectives, and Results

Performance Measures

Military Health System (MHS) Worldwide Summary[3]

- The DoW's FY 2026 Budget Request for healthcare services was $66.0 billion. In nominal terms, this was approximately 8.7 percent higher than the actual $60.7 billion FY 2025 expenditures.
- In FY 2025, 9.48 million beneficiaries were eligible for DoW medical care. Of those, about 4.3 million were enrolled in TRICARE Prime.

Urgent Care Center and Emergency Department Utilization

- Urgent care center utilization in civilian care decreased slightly from 1.89 million visits in FY 2024 to 1.78 million visits in FY 2025.
- Emergency department (ED) utilization in civilian care remained stable at approximately 1.38 million visits in FY 2023 through FY 2025. Direct care ED utilization has increased from 1.15 million visits in FY 2024 to 1.23 million visits in FY 2025.

Access to DHA Care

- In FY 2025 at MTFs, there was a decrease from FY 2024 in the average number of days to third next available 24-hour appointment (decreasing by 1.62 days from 3.57 to 1.95) while future appointments increased (increasing by 0.79 days from 8.95 to 9.74).
- Self-reported satisfaction regarding ability to see a provider when needed consistently remains higher for beneficiaries who received civilian care compared to those who received care at MTFs.

Patient Safety

- The Dow and DHA require MTF Directors and staff to report all patient safety events that reach the patient (i.e., harm and no-harm events) and those that do not reach the patient (i.e., near-miss events) through the Joint Patient Safety Reporting (JPSR) system. In FY 2025, a total of 66,147 patient safety reports (total of Harm, No Harm, and Near Miss) were submitted from the direct care system, a four percent decrease from FY 2024. Near Miss events, which did not reach a patient, accounted for 49 percent of all JPSR events reported in FY 2025.[4]

Hospital Quality of Care/Healthcare Effectiveness Data and Information Set (HEDIS®)

- DHA breast cancer screening rates increased in FY 2025. Cervical cancer screening rates remain stable. Both breast and cervical cancer screening rates were below the 50th percentile across all sectors of care. However, the DHA colorectal cancer screening rate improved by 3.6 percentage points and exceeded the 90th percentile.
- DHA low back pain imaging utilization improved slightly in FY 2025 but remained below the 50th percentile.
- Glycemic status assessment for patients with diabetes is a two-component measure. The diabetes control measure (HbA1c<8) for MTFs steadily increased and was above the 75th percentile. The measure for poor diabetes control (HbA1c>9) for MTFs improved (lower score is better) and was at the 75th percentile.
- The well-child visit measure improved for DHA in FY 2025 but was below the 50th percentile.
- In FY 2025, the mental health follow-up 30-days measure increased for DHA and was above the 75th

[3] UMB 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, 5/2026.
[4] The DHA Patient Safety Program generates an annual calendar report where figures may not align to the fiscal year data provided in this report.

percentile.

Patient Experience

- Self-reported patient satisfaction with their health plan was above the civilian benchmark in FY 2025 for TRICARE Prime (MTF PCM and Civilian PCM) enrollees but below the benchmark.
- Overall inpatient hospital rating for direct care medical and surgical product lines were above the civilian care benchmark in FY 2025, while the obstetric product line was below the civilian benchmark.

Medical and Dental Readiness of the Total Force

- The FY 2025 total force compliance was 91 percent, with the Active Component at 92 percent and Reserve Component at 90 percent.
- Dental readiness (active duty, guard, reserve) for Dental Class 1 or 2 was 91 percent in FY 2025, falling short of the 95 percent goal.

The DoW 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 published in February 2027.

Analysis of Financial Statements

The following table presents summary financial statement information for TPRM.

TRICARE Program Resource Management Table of Key Measures						
($ In Thousands)		**FY 2026**		**FY 2025**	**Increase / (Decrease)**	
					$	**%**
Costs						
Total Financing Sources	$	22,699,385	$	19,798,122	$ 2,901,263	15%
Less: Net Cost		69,678,969		78,848,900	(9,169,931)	-12%
Net Change of Cumulative Results of Operations	**$**	**(46,979,584)**	**$**	**(59,050,778)**	**$ 12,071,194**	**20%**
Net Position						
Assets:						
Fund Balance with Treasury	$	1,717,367	$	2,290,920	$ (573,553)	-25%
Accounts Receivable, Net		1,059,695		891,261	168,434	19%
Total Assets	**$**	**2,777,062**	**$**	**3,182,558**	**$ (405,496)**	**-13%**
Liabilities:						
Accounts Payable	$	1,024,272	$	958,321	$ 65,951	7%
Pensions, Other Post-employment, and Veterans Benefits Payable		407,616,387		360,451,703	47,164,684	13%
Other		62,000		85,377	(23,377)	-27%
Total Liabilities	**$**	**408,702,659**	**$**	**361,495,401**	**$ 47,207,258**	**13%**
Net Position (Assets minus Liabilities)	**$**	**(405,925,597)**	**$**	**(358,312,843)**	**$ (47,612,754)**	**-13%**

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

Total Financing Sources

Total Financing Sources increased by $2.9 billion (15%) because of an increase in healthcare costs.

Net Cost

Total Net Cost of Operations decreased $9.2 billion (12%) for the reasons noted below.

Total Costs

Intragovernmental costs increased $287.5 million (17%) due to increases in the TRICARE Pharmacy Home Delivery benefit program of $287.9 million accounting for 100% of the increase.

Public costs, other than losses/gains from actuarial assumption changes, decreased $33.7 billion (63%) primarily due to a decrease in Actuarial Expense – Other than Losses/(Gains) from Assumption changes of $35.5 billion, accounting for 105% of the decrease.

Losses from actuarial assumption changes increased $24.4 billion (96%) (see below).

The actuarial liability for Military Pre Medicare-Eligible Retiree Health Benefits has three components that affect net cost. The first, Expenses Other than Losses/(Gains) from Actuarial Assumption Changes, before Benefit Outlays, decreased $33.9 billion. The second, Losses/(Gains) from Actuarial Assumption Changes increased $24.4 billion and the third, Benefit Outlays, increased $1.6 billion, further reducing net actuarial expense because benefit outlays

are deducted. Collectively, these changes resulted in an $11.1 billion decrease in actuarial expenses. The actuarial liability is discussed in detail in Note 6.

Total Revenue

Total earned revenue increased $173.2 million (10%). Intragovernmental revenue increased $132.3 million (17%) attributable to an increase in revenue from the USCG of $117.5 million and PHS of $12.7 million, accounting for 98% of the increase.

Public revenue increased $40.9 million (4%) attributable to an increase in revenue from TRS of $29.1 million and TYA of $9.1 million, accounting for 93% of the increase.

Net Change in Cumulative Results of Operations

Net Change in Cumulative Results of Operations increased $12.1 billion (20%) due to an increase in budgetary financing sources and a decrease in net costs as discussed above.

Fund Balance with Treasury (FBWT)

FBWT decreased $573.6 million (25%). The decrease is attributable to a decrease in unobligated balance available of $388.8 million, a decrease in unobligated balance unavailable of $28.6 million, and a decrease in obligations not yet disbursed of $156.0 million, accounting for 100% of the decrease.

Accounts Receivable, Net

Accounts Receivable, Net increased $168.4 million (19%).

Intragovernmental Accounts Receivable, Net increased $6.9 million (10%), attributable to an increase in receivables from the USCG of $5.6 million and PHS of $1.0 million, accounting for 95% of the increase.

Other than Intragovernmental Accounts Receivable, Net increased $161.6 million (20%), attributable to an increase in Other Receivables of $83.9 million and an increase in the TRICARE Retail Pharmacy Refunds Program of $74.1 million, accounting for 98% of the increase.

Total Assets

Total Assets decreased $405.5 million (13%), primarily due to the decrease in FBWT of $573.6 million offset by the increase in Accounts Receivable, Net of $168.4 million.

Accounts Payable

Accounts Payable increased $66.0 million (7%), primarily attributable to increases in other than intragovernmental Accounts Payable of $61.1 million, 93% of the increase. Other than intragovernmental payables increased primarily due to increases in the Retail Pharmacy Program of $45.7 million, in Supplemental Healthcare of $32.3 million, and Miscellaneous Healthcare of $51.5 million, offset by decreases in MCSC of $66.8 million, accounting for 103% of the increase.

Pension, Post-Employment, and Veterans Benefits Payable

Annually, the DoW Office of the Actuary (OACT) calculates this actuarial liability at the end of each fiscal year using the current active and retired population plus assumptions about future demographic and economic conditions.

Note 6 of the financial statements reflects two distinct types of liabilities related to Pension, Post-Employment, and Veteran Benefits Payable. The line entitled "Military Pre Medicare–Eligible Retiree Health Benefits" represents

the actuarial (or accrued) liability for future health care benefits that are not yet incurred. The line entitled "Other" represents the incurred-but-not-reported (IBNR) reserve amount which is an estimate of benefits already incurred but not yet reported to DoW for all the DHP beneficiaries excluding those from the retiree population.

TPRM actuarial liability is adjusted at the end of each fiscal year. The 4th Quarter, FY 2026 balance represents the September 30, 2026 amount.

Other Liabilities

Other Liabilities decreased $23.4 million (27%), primarily attributable to a legal contingent liability being reduced in FY 2026.

Total Liabilities

Total Liabilities increased $47.2 billion (13%), primarily due to the increase in Pension, Post-Employment, and Veterans Benefits Payable discussed above.

Net Position

Net Position decreased $47.6 billion (13%), due to the increases in liabilities discussed above.

Analysis of Systems, Controls, and Legal Compliance

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

Management Assurances

The Assurance Statements below were provided for FY 2026 Federal Manager's Financial Integrity Act (FMFIA).

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

DATE: September 30, 2026

TO: Office of the Undersecretary of War (Comptroller) (OUSW(C)) Deputy Chief Financial Officer (DCFO)

FROM: Kelly Thiel, Director, TRICARE Program Resource Management

SUBJECT: Annual Statement of Assurance Required Under the Federal Managers' Financial Integrity Act (FMFIA) for Fiscal Year 2026

- As Director of the TRICARE Program Resource Management (TPRM), Defense Health Agency (DHA) I recognize the TPRM-DHA is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. The TPRM-DHA 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 TPRM-DHA can provide reasonable assurance that internal controls over operations, financial reporting, and financial systems are operating effectively as of September 30, 2026.
    - The TPRM-DHA 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. Based on the results of the assessment, the TPRM-DHA can provide reasonable assurance that internal controls over operations and compliance are operating effectively as of September 30, 2026.
    - The TPRM-DHA 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 and B. Based on the results of the assessment, the TPRM-DHA can provide reasonable assurance that internal controls over reporting (including internal and external financial reporting) as of September 30, 2026), and compliance are operating effectively as of September 30, 2026.
    - The TPRM-DHA 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. Based on the results of this assessment, the TPRM-DHA can provide reasonable assurance



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that the internal controls over the financial systems are in compliance with the FMFIA, Section 4; FFMIA, Section 803; and OMB Circular No. A-123, Appendix D, as of September 30, 2026.

- The TPRM-DHA 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 TPRM-DHA can provide reasonable assurance that entity-level controls including fraud controls are operating effectively as of September 30, 2026.

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

- The TPRM-DHA demonstrates commitment to upholding the prescribed guidelines, legal obligations, and business requirements when exercising the Presidential Drawdown Authority (PDA).

If there are any questions regarding this Statement of Assurance for FY 2026, my point of contact is Matthew Finnegan and can be reached at [redacted]

[redacted]

Kelly Thiel
Director, TRICARE Program Resource Management
DHA Aurora, CO

Status of Audit Findings

TPRM received unmodified opinions for FY 2010 through FY 2026. No material weaknesses were identified during FY 2025 and FY 2026; however, two significant deficiencies were identified in FY 2026. This includes a new significant deficiency related to the actuarial liability discount rate application and a repeat significant deficiency beginning in FY 2019 pertaining to certain Information Systems used by TPRM.

Application of Discount Rate for the Actuarial Liability (New Condition)

For FY 2026, a new significant deficiency was identified regarding the application of the discount rate for the actuarial liability. Specifically, TPRM applied a 3.3% discount rate in calculating the actuarial liability for future health care benefit payments, despite having calculated and documented a 3.4% rate in the supporting actuarial model documentation. This occurred because the methodology for selecting the rate was not clearly documented, and the final review process did not thoroughly validate the model's rate application before finalization. Using a lower discount rate increases the present value of projected future benefits, resulting in a higher present value calculation and a risk of overstating the reported actuarial liability.

Information Systems (Modified Repeat Condition)

From FY 2019 through FY 2026, the audit has identified a repeat significant deficiency pertaining to certain Information Systems used by TPRM. TPRM operates or relies on external providers for the administration of multiple key financial management systems, including two core accounting systems and multiple financial support systems. The Defense Enrollment Eligibility Reporting System (DEERS) supports key medical benefit payment activities and is administered by a service organization.

The audit identified several deficiencies in the design and operating effectiveness of internal controls related to these key financial support and service organization systems. While no single control deficiency meets the level of a significant deficiency on its own, in combination, these deficiencies elevate to a significant deficiency due to their pervasiveness across the information system environment, TPRM's reliance on these systems for financial reporting, and their repeating nature.

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

TPRM agreed with the audit findings received. Notice of Findings and Recommendations (NFRs) identified during the FY 2018 audit were not remediated in a timely manner which caused repeat findings during the FY 2019 through FY 2026 audits. Corrective Action Plans (CAPs) established in prior fiscal years that failed to be fully implemented are being modified with new completion dates. TPRM will continue to implement monitoring activities and coordinate closely with external service organizations to ensure CAP milestone dates are met for remediation efforts in FY 2027. For specific details, please reference the "Independent Auditor's Report on Internal Control Over Financial Reporting" included in the Financial Section of this report.

Compliance with Laws and Regulations

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

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

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

The Anti-deficiency Act (ADA) prohibits Federal employees from obligating in excess of an appropriation, before funds are available or from accepting voluntary services. The ADA provides an exception for obligations authorized by law to be made in excess of or in advance of appropriations. Per Government Accountability Office (GAO) Report B-287619, under 10 U.S.C. §§ 1079 and 1086, obligations to ensure medical care is available for TRICARE beneficiaries are authorized by law regardless of the amount of available budgetary resources and do not violate the ADA. However, the TRICARE program is managed by TPRM in accordance with the ADA requirements. As required by the ADA, TPRM notifies all appropriate authorities of any ADA violations. TPRM 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. TPRM remains fully committed to resolving ADA violations appropriately and in compliance with all aspects of the law. TPRM is not aware of any violations of the ADA that must be reported to the Comptroller General, Congress, and the President for the year ended September 30, 2026.

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

In 1982, Congress enacted the Prompt Payment Act (PPA) to require Federal agencies to pay their bills on a timely basis, to pay interest penalties when payments are made late, and to take discounts only when payments are made by the discount date. TPRM is in full compliance with this statutory requirement. In FY 2026, TPRM processed all invoices and disbursements in a timely manner, except for $32.6 thousand paid in interest due to the government shutdown, on total net disbursements of $22.6 billion.

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

The DCIA, as amended by the DATA Act, requires that Federal agencies refer delinquent debts to the U.S. Department of Treasury (Treasury) within 120 days and take all appropriate steps prior to discharging debts. TPRM follows applicable requirements for establishing and collecting validated debts and ensuring compliance with Debt Collection statutes and regulations. TPRM is in full compliance with the DCIA.

Federal Information Security Modernization Act (FISMA) of 2014

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

Federal Financial Management Improvement Act (FFMIA) of 1996

The FFMIA requires agencies to implement and maintain financial systems that comply substantially with Federal Financial System requirements, applicable Federal accounting standards, and the United States Standard General Ledger (USSGL) at the transaction level. For Fiscal Year 2026, TPRM substantially complies with FFMIA, with the exception of full implementation of Statement of Federal Financial Accounting Standards (SFFAS) 64 (Management's Discussion and Analysis: Rescinding SFFAS 15). Effective Fiscal Year 2027, TPRM will sunset its standalone AFR requirement. Future financial reporting and any outstanding SFFAS 64 implementation activities

will be consolidated into the Department's parent-level reporting structure. Additional information regarding the SFFAS 64 status can be found in Note 1 and the Other Information section of this report.

Federal Managers' Financial Integrity Act (FMFIA) of 1982

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

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

The DATA Act expands the FFATA to increase accountability and transparency in Federal spending, making Federal expenditure information more accessible to the public. It directs the Federal Government to use government-wide data standards for developing and publishing reports and to make more information, including award-related data, available on the USASpending.gov Web site. The standards and Web site allow stakeholders to track Federal spending more effectively. Among other goals, the DATA Act aims to improve the quality of the information on USASpending.gov, as verified through regular audits of the posted data, and to streamline and simplify reporting requirements through clear data standards. The 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 until agencies determine that they can provide reasonable assurance over the data quality controls that support achievement of the reporting objectives in accordance with the DATA Act.

Systems

Treasury prepares disbursements from data directly submitted by TPRM. The Purchased Care Program managed by TPRM includes an immense volume of claims processed by two regional Health Care contractors, the TFL contractor, a foreign claims contractor, and a pharmaceutical contractor to process retail and mail order prescriptions. Contract amendments are made to incorporate policy or administrative changes, as needed.

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

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

- Improper payments.
- Inaccurate claims paid.
- Unauthorized reimbursed claims.
- Inaccurate electronic postings.
- Incorrect number or amount of claims transmitted.
- Discrepancies between the Treasury and TPRM.
- Intragovernmental Payment and Collection (IPAC) and Interfund amounts not accurately reported to the Treasury.

TPRM has established consistent business rules for management control impacting disbursing and collection activities, and the related banking and Treasury reconciliations. With processes and procedures in place and the continued risk monitoring, monthly reconciliations are performed to ensure balances reconcile to the Treasury on a monthly, quarterly, and fiscal year basis.

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

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

TPRM is responsible for implementing and maintaining financial management systems that substantially comply with Federal financial management system requirements, Federal accounting standards, and the USSGL at the transaction level. TPRM determined that the financial management systems substantially complied with the Federal financial management systems requirements, Federal accounting standards, and application of the USSGL at the transaction level as of September 30, 2026. TPRM continued to maintain SFIS compliance through FY 2026.

TED System

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

Once a claim is filed the contractor adjudicates the claim applying various edits including patient eligibility (verified via DEERS), regional or TRICARE Medicare Eligible Program eligibility, and provider eligibility. If the claims pass those edits, the benefit calculations occur based on programmed payment rules and reimbursement methods determined by TRICARE. The claims processing systems are able to determine the appropriate reimbursement methodology based on information included in the claims such as type of service, provider record, claim form type, etc.

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

E-Commerce

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

OFF

OFF is the financial subsystem of TPRM ECS. It supports budget and accounting/finance functions and healthcare (TED) claims processing. TPRM ECS migrated the entirety of its systems including OFF to Amazon Web Services GovCloud.

The accounting/finance function provides support for activities associated with establishing and administering the accounting classification structure, the standard general ledger and subsidiary account structure. The accounting function interfaces with the contracting functions to obtain contract data for issuing payments and maintaining financial records. OFF is used by TPRM and the Office of General Counsel (OGC) for debt management. It uses external and internal interfaces to provide financial reports, make payments and to provide management information to other Federal Government agencies, financial agencies and institutions.

The healthcare (TED) claims processing function is performed by the OFF-TCM extension. TCM is a custom built extension to OFF which converts healthcare (TED) data into financial data that can then be processed by standard (COTS) OFF. The TCM conversion of healthcare data is of critical importance to the accuracy of the financial information presented in TPRM's financial statements. TRICARE processed approximately 215 million claims (invoices) through the TED system during FY 2026, valued at approximately $27.6 billion. The financial conversion, processing and posting of TED data from commitment/obligation through payable/receivable is 100% automated. In addition to creating budgetary and accounting transactions, TCM supports the TED system by providing daily financial data to the TED system. Without the data received from the OFF-TCM extension the TED system would be unable to process and properly edit the contractor's daily data submissions. TED system functions supported by the OFF-TCM data provided include:

- Header and detail data editing used for government acceptance of services.
- Funds control at both the commitment and obligation level.
- Prevention of duplicate billings at the header level.

The OFF application is a current; fully supported Version of Oracle R-12. TPRM ECS Program successfully deployed Version R-12.2.8 technical upgrade in July 2021. TPRM remains compliant through FY 2026.

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

Other Management Information, Initiatives, and Issues

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

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

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

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

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

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

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

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

The table on the following page highlights DoW activity since the inception of the Program. DoW has collected $22.5 billion to date and continues rigorous collection efforts for both programs.

TRICARE Retail Pharmacy Refunds Program

Program To Date (CY 2008-3rd Quarter, CY 2026)	Total	DHP	Non-DoW	MERHCF
SDP -				
Billed	$12,752,719,857	$5,912,365,817	$210,670,704	6,629,683,336
Collected	(12,385,747,967)	(5,686,080,346)	(201,543,378)	(6,498,124,243)
Net	366,971,890	226,285,471	9,127,326	131,559,093
ADP -				
Billed	10,931,826,196	5,278,777,844	193,186,485	5,459,861,867
Collected	(10,088,335,773)	(4,761,999,740)	(173,070,472)	(5,153,265,561)
Net	843,490,423	516,778,104	20,116,013	306,596,306
UDC [1]	(1,281,066)	(801,331)	(31,305)	(448,430)
Total -				
Billed	$23,684,546,053	$11,191,143,661	$403,857,189	$12,089,545,203
Collected	(22,474,083,740)	(10,448,080,086)	(374,613,850)	(11,651,389,804)
UDC	(1,281,066)	(801,331)	(31,305)	(448,430)
Net	$1,209,181,247	$742,262,244	$29,212,034	$437,706,969
Aging -				
Current	$1,107,993,386	$693,116,440	$27,079,362	$387,797,584
61 Days to 2 Years[2]	69,659,700	35,337,246	1,657,435	32,665,019
Over 2 Years	31,528,161	13,808,558	475,237	17,244,366
Total[3]	$1,209,181,247	$742,262,244	$29,212,034	$437,706,969

1. Unapplied Collections (UDC) applied to CY26.

2. Pharmacy debt not delinquent until 70 days. 70-day Accounts Receivable aging bucket not available; 61-day aging used instead.

3. 3QCY2026 Estimate added to Billings to reconcile with Accounts Receivable: $191,102,000 MERHCF; $354,904,000 DHP & Non-DoW.

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

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

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

TPRM in FY 2026 continued to aggressively collect pharmacy refunds for both the SDP and ADP. Through the concerted efforts of TPRM, Pharmacy Operations Division (POD), HCDA, and OGC, TPRM's collection rate has continued to average 97% - 99%.

Limitations of the Financial Statements

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

SECTION 2

FINANCIAL SECTION

Office of the Inspector General Transmittal 2026

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

November 6, 2026

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

SUBJECT: Transmittal of the Independent Auditor's Reports on the Defense Health Agency-TRICARE Program Resource Management Financial Statements and Related Notes for FY 2026 and FY 2025
(Project No. D2026-D000FT-0041.000, Report No. DOWIG-2027-020)

We contracted with the independent public accounting firm of Kearney & Company, P.C. (Kearney) to audit the Defense Health Agency-TRICARE Program Resource Management (DHA-TPRM) Financial Statements and related notes as of and for the fiscal years ended September 30, 2026, and 2025.[1] 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 the DHA-TPRM'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, June 2026, Volume 2, June 2026, and Volume 3, July 2026. Kearney's Independent Auditor's Reports are attached.

Kearney's audit resulted in an unmodified opinion. Kearney concluded that the DHA-TPRM's Financial Statements and related notes as of and for the fiscal years ended September 30, 2026, and 2025, were presented fairly, in all material respects, and in accordance with Generally Accepted Accounting Principles.

Kearney's separate report, "Independent Auditor's Report on Internal Control Over Financial Reporting," did not identify any material weaknesses related to the DHA-TPRM's internal controls over financial reporting.[2]

[1] On January 7, 2026, DoW OIG announced this project as "Oversight of the Audit of the FY 2026 DHA - Contract Resource Management Financial Statements." However, on June 2, 2026, DHA renamed DHA – Contract Resource Management to DHA-TPRM.
[2] 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.

Kearney's additional report, "Independent Auditor's Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements," did not identify any instances of noncompliance with provisions of laws and regulations, contracts, and grant agreements.

In connection with the contract, we reviewed Kearney's reports and related documentation and discussed them with Kearney's representatives. Our review, as differentiated from an audit of the financial statements and related notes in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the DHA-TPRM's FY 2026 and FY 2025 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal controls over financial reporting, on whether the DHA-TPRM'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 in which Kearney did not comply, in all material respects, with GAGAS. Keaney is responsible for the attached November 6, 2026 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.

Lorin T. Venable

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

Attachments:
As stated

Independent Auditor's Report 2026

KEARNEY& COMPANY

1701 Duke Street, Suite 500, Alexandria, VA 22314
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Defense Health Agency (DHA) – TRICARE Program Resource Management (TPRM), which comprise the Balance Sheets as of September 30, 2026 and 2025, the related Statements of Net Cost and Changes in Net Position, and the combined Statements of Budgetary Resources (hereinafter referred to as the "financial statements") for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of DHA-TPRM as of September 30, 2026 and 2025 and its net cost of operations, changes in net position, and budgetary resources for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS); 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. 24-02, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards are further described in the ***Auditor's Responsibilities for the Audit of the Financial Statements*** section of our report. We are required to be independent of DHA-TPRM and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and 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.

KEARNEY& COMPANY

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 DHA-TPRM'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 objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of DHA-TPRM's internal control. Accordingly, no such opinion is expressed
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about DHA-TPRM's ability to continue as a going concern for a reasonable period of time beyond the financial statement date.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by OMB and the Federal Accounting Standards Advisory Board (FASAB), who consider it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Summary of Financial Statement Audit and Management Assurances, Payment Integrity Information Act Reporting, Fraud Reduction Report, Biennial Review of User Fees, Agency Audit Resolution Reports, and Financial Reporting-Related Legislation but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 24-02, we have also issued our reports, dated November 6, 2026, on our consideration of DHA-TPRM's internal control over financial reporting and on our tests of DHA-TPRM's compliance with provisions of applicable laws, regulations, contracts, and grant agreements, and other matters. The purpose of those reports is solely 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 the effectiveness of DHA-TPRM's 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. 24-02 in considering DHA-TPRM's internal control over financial reporting and compliance.

Alexandria, Virginia
November 6, 2026

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*, the financial statements of the Defense Health Agency (DHA) – TRICARE Program Resource Management (TPRM) as of and for the year ended September 30, 2026, and the related notes to the financial statements, which collectively comprise DHA-TPRM's financial statements, and we have issued our report thereon dated November 6, 2026.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered DHA-TPRM'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 DHA-TPRM's internal control. Accordingly, we do not express an opinion on the effectiveness of DHA-TPRM's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 24-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, 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 a 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 were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We

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identified certain deficiencies in internal control, described in the accompanying **Schedule of Findings** as Items I and II, that we consider to be significant deficiencies.

During the audit, we noted certain additional matters involving internal control over financial reporting that we will report to DHA-TPRM's management in a separate letter.

The Defense Health Agency – TRICARE Program Resource Management's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on DHA-TPRM's response to the findings identified in our audit and described in the accompanying *Management's Discussion and Analysis* section of the Agency Financial Report (AFR). DHA-TPRM concurred with the findings identified in our engagement. DHA-TPRM's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of DHA-TPRM's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 24-02 in considering DHA-TPRM's internal control. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 6, 2026

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Schedule of Findings

Significant Deficiencies

I. Application of Discount Rate for the Actuarial Liability (*New Condition*)

Background: The actuarial liability reported by the Defense Health Agency (DHA) – TRICARE Program Resource Management (TPRM) is intended to represent the present value of estimated future health care benefit payments. The process relies on projected benefit costs, which represent anticipated payments for medical and pharmacy services based on demographic and claims data. To calculate this liability, the Department of War (DoW) Office of the Actuary (OACT) projects future benefit costs and discounts those future cash flows to the valuation date using an appropriate discount rate. The discount rate reflects the time value of money and is a key actuarial assumption used in measuring the present value of future obligations. The calculation aligns with the requirements of Statement of Federal Financial Accounting Standards (SFFAS) No. 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*, which establishes Federal guidelines for measuring actuarial liabilities and mandates the use of appropriate actuarial assumptions.

Condition: During the period evaluated, DHA-TPRM applied a 3.3% discount rate in calculating the actuarial liability for future health care benefit payments, despite having calculated and documented a 3.4% discount rate in the supporting actuarial model documentation. The process required the development and application of a single equivalent discount rate, supported by clear documentation of the methodology and a review of the actuarial model. However, the review process did not identify that the 3.3% discount rate had been applied in the calculation, rather than the 3.4% rate documented in the model. As a result, the actuarial liability was calculated using a discount rate that was inconsistent with the documented model assumptions.

Cause: DHA-TPRM did not clearly document the methodology for selecting the discount rate, which resulted in ambiguity during model preparation. Additionally, the review process for the final actuarial model did not include a thorough check of the discount rate application, allowing the misapplication of the 3.3% rate to remain undetected.

Effect: The incorrect application of a lower discount rate directly increases the actuarial liability reported for DHA-TPRM. Because the discount rate determines the present value of projected future benefit payments, using a rate of 3.3% instead of the appropriate rate results in a higher present value calculation. This increases the risk of a material overstatement to the actuarial liability and the related losses from actuarial assumption changes.

Recommendation: Kearney & Company, P.C. (Kearney) recommends that OACT strengthen its documentation and review procedures to ensure the discount rate methodology is clearly defined and consistently applied in actuarial model development. These actions will address the

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ambiguity in discount rate selection and enhance the effectiveness of the review process for DHA-TPRM. Specifically, Kearney recommends that DHA-TPRM perform the following:

1. Develop and maintain comprehensive documentation detailing the methodology for selecting the discount rate, including rationale and supporting data.
2. Establish and implement formal review and approval procedures for the actuarial model, ensuring the discount rate application is thoroughly validated prior to finalization.

II. Information Systems (*Modified Repeat Condition*)

Background: DHA-TPRM operates in a complex information system (IS) environment to execute its mission and record transactions timely and accurately. DHA-TPRM operates or relies on external providers for administration of multiple key financial management systems, including two core accounting systems and multiple financial support systems. The Defense Enrollment Eligibility Reporting System (DEERS) supports key medical benefit payment activities. DEERS is administrated by a service organization. Department of Defense Instruction (DoDI) No. 8510.10, *Risk Management Framework (RMF) for DoD Systems*, Section 2.7, requires DHA-TPRM to implement security controls in accordance with National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Revision (Rev.) 5.

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

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

Our testing disclosed deficiencies in the following areas:

- Access Controls and Segregation of Duties (SD)
  - Incomplete or not fully implemented policies and procedures for managing and monitoring access to key financial management applications and databases, including third-party systems
  - Incomplete or not fully implemented policies and procedures for the proper SD, including documented business justifications for existing SD conflicts, for key financial management applications

- Configuration Management
  - Incomplete, inconsistent, or unmaintained documentation of configuration changes for key financial management applications to support the continuous monitoring of the established baselines.

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

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

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

1. Develop and implement a QC review over the user authorization and separations processes, to include procedures to ensure the completeness and accuracy of the access request forms and access listings reviewed.
2. Design and implement controls to mitigate any SD risks identified.
3. Update and implement configuration management procedures to include QC reviews. These reviews should ensure that all authorized changes were properly migrated to the production server and no unauthorized changes were made to the environment.

* * * * *

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APPENDIX A: STATUS OF PRIOR-YEAR DEFICIENCIES

In the *Independent Auditor's Report on Internal Control over Financial Reporting* included in the Defense Health Agency (DHA) – TRICARE Program Resource Management's (TPRM) fiscal year (FY) 2025 Agency Financial Report, we noted an issue that was related to internal control over financial reporting. The status of the FY 2025 internal control finding is summarized in ***Exhibit 1***.

Exhibit 1: Status of Prior-Year Finding

Control Deficiency	FY 2025 Status	FY 2026 Status
Information Technology	Significant Deficiency	Significant Deficiency

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*, the financial statements of the Defense Health Agency (DHA) – TRICARE Program Resource Management (TPRM) as of and for the year ended September 30, 2026, and the related notes to the financial statements, which collectively comprise DHA-TPRM's financial statements, and we have issued our report thereon dated November 6, 2026.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether DHA-TPRM's financial statements are free from material misstatement, we performed tests of DHA-TPRM's compliance with provisions of applicable laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements, including the provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA). However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 24-02.

The results of our tests of compliance with FFMIA disclosed no instances in which DHA-TPRM's financial management systems did not comply substantially with Section 803(a) requirements related to Federal financial management systems requirements, applicable Federal accounting standards, or application of the United States Standard General Ledger at the transaction level.

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Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of compliance with provisions of applicable laws, regulations, contracts, and grant agreements and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 24-02 in considering DHA-TPRM's compliance. Accordingly, this report is not suitable for any other purpose.



Alexandria, Virginia
November 6, 2026

Principal Financial Statements

Department of War
Defense Health Agency
TRICARE Program Resource Management
BALANCE SHEETS
As of September 30, 2026 and 2025
($ In Thousands)

	2026	2025
Assets		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 1,717,367	$ 2,290,920
Accounts Receivable, Net (Note 4)	76,956	70,091
Total Intragovernmental	1,794,323	2,361,011
Other Than Intragovernmental		
Cash and Other Monetary Assets (Note 3)	0	377
Accounts Receivable, Net (Note 4)	982,739	821,170
Total Other Than Intragovernmental	982,739	821,547
Total Assets	**$ 2,777,062**	**$ 3,182,558**
Liabilities		
Intragovernmental:		
Accounts Payable	$ 17,727	$ 12,869
Total Intragovernmental	17,727	12,869
Other Than Intragovernmental		
Accounts Payable	1,006,545	945,452
Pension, Post-Employment, and Veterans Benefits Payable (Notes 5 and 6)	407,616,387	360,451,703
Other (Note 7)	62,000	85,377
Total Other Than Intragovernmental	408,684,932	361,482,532
Total Liabilities	**$ 408,702,659**	**$ 361,495,401**
Commitments and Contingencies (Note 8)		
Net Position		
Unexpended Appropriations - Other Funds	$ 769,703	$ 1,402,873
Cumulative Results of Operations – Funds from other than Dedicated Collections	(406,695,300)	(359,715,716)
Total Net Position	$ (405,925,597)	$ (358,312,843)
Total Liabilities and Net Position	**$ 2,777,062**	**$ 3,182,558**

The accompanying notes are an integral part of these statements.

Department of War
Defense Health Agency

TRICARE Program Resource Management

STATEMENTS OF NET COST

For the Years Ended September 30, 2026 and 2025
($ In Thousands)

	2026	2025
Program Costs		
Gross Costs (Note 9)		
Operations, Readiness & Support	$ 24,382,404	$ 22,323,952
Actuarial Non Assumption Costs	(2,766,962)	32,731,302
Less: Earned Revenue	(1,941,095)	(1,767,885)
Net Program Costs	$ 19,674,347	$ 53,287,369
(Gain)/Loss from Actuarial Assumption Changes for Military Retirement Benefits (Note 6)	50,004,622	25,561,531
Net Program Costs Including Assumption Changes	$ 69,678,969	$ 78,848,900
Net Cost of Operations	**$ 69,678,969**	**$ 78,848,900**

The accompanying notes are an integral part of these statements.

Department of War
Defense Health Agency

TRICARE Program Resource Management

STATEMENTS OF CHANGES IN NET POSITION

For the Years Ended September 30, 2026 and 2025
($ In Thousands)

	2026	2025
Unexpended Appropriations:		
Beginning Balance	$ 1,402,873	$ 965,994
Budgetary Financing Sources:		
Appropriations received	21,878,347	20,402,422
Appropriations transferred-in/out	113,711	(85,782)
Other adjustments (rescissions, etc)	74,142	(81,639)
Appropriations used	(22,699,370)	(19,798,122)
Total Budgetary Financing Sources	(633,170)	436,879
Total Unexpended Appropriations	**$ 769,703**	**$ 1,402,873**
Cumulative Results of Operations:		
Beginning Balance	(359,715,716)	(300,664,938)
Budgetary Financing Sources:		
Appropriations used	22,699,370	19,798,122
Imputed financing	15	0
Total Financing Sources	22,699,385	19,798,122
Net Cost of Operations	69,678,969	78,848,900
Net Change	(46,979,584)	(59,050,778)
Cumulative Results of Operations	**(406,695,300)**	**(359,715,716)**
Net Position	**$ (405,925,597)**	**$ (358,312,843)**

The accompanying notes are an integral part of these statements.

Department of War
Defense Health Agency

TRICARE Program Resource Management

STATEMENTS OF BUDGETARY RESOURCES

For the Years Ended September 30, 2026 and 2025
($ In Thousands)

	2026	2025
Budgetary Resources		
Unobligated balance from prior year budget authority, net	$ 1,012,452	$ 546,207
Appropriations (discretionary and mandatory)	22,166,649	20,402,422
Spending authority from offsetting collections (discretionary and mandatory)	1,934,855	1,770,024
Total Budgetary Resources	**$ 25,113,956**	**$ 22,718,653**
Status of Budgetary Resources		
New obligations and upward adjustments (total)	$ 24,782,654	$ 21,969,872
Unobligated balance, end of year		
Unexpired unobligated balance, end of year	(55,214)	333,632
Expired unobligated balance, end of year	386,516	415,149
Unobligated balance, end of year (total)	331,302	748,781
Total Budgetary Resources	**$ 25,113,956**	**$ 22,718,653**
Outlays, Net		
Outlays, net (total) (discretionary and mandatory)	$ 22,639,752	$ 19,537,160
Agency Outlays, Net (discretionary and mandatory)	**$ 22,639,752**	**$ 19,537,160**

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies

1.A. Reporting Entity

TPRM, formerly Contract Resource Management (CRM), is a component of the U.S Government. For this reason, some of the assets and liabilities reported by the entity may be eliminated for Government-wide reporting 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.

In FY 2026, the entity's name was changed from CRM to TPRM. This administrative name change had no impact on reporting entity operations, and prior year comparative figures reflect the financial results of CRM.

1.B. Mission of the Reporting Entity

TPRM is a division of the DHA.

The mission of TPRM is:

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

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

1.C. Basis of Presentation

The financial statements have been prepared to report the financial position and results of TPRM operations, as required by the Chief Financial Officers Act of 1990, as amended and expanded by the Government Management Reform Act of 1994 and other applicable legislation. The financial statements account for all resources for which TPRM is responsible, unless otherwise noted. Accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

To the extent possible, the financial statements have been prepared from the accounting records of TPRM in accordance with the formats prescribed by OMB Circular No. A-136, Financial Reporting Requirements, and in accordance with U.S. GAAP for Federal entities, as prescribed by the Federal Accounting Standards Advisory Board (FASAB).

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

TPRM is able to implement the elements of GAAP and OMB Circular No. A-136, with the exception of full implementation of SFFAS 64, Management's Discussion and Analysis: Rescinding SFFAS 15. TPRM has implemented an Oracle Based Federal Financial system.

1.D. Basis of Accounting

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

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

1.E. Accounting for Intragovernmental Activities

Intragovernmental Activities: Treasury Financial Manual (TFM), Volume I, Part 2, Chapter 4700, provides guidance for reporting and reconciling intragovernmental balances. Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements to prevent overstatement caused by the inclusion of business activity between entity components. Intragovernmental cost and exchange revenue represent transactions made between two reporting entities within the Federal Government. Cost and earned revenue with the public represent exchange transactions made between the reporting entity and a non-federal entity. The DoW is implementing replacement systems and a standard financial information structure incorporating the necessary elements to enable the DoW to correctly report, reconcile, and eliminate intragovernmental balances.

Intergovernmental Activities: Goods and services are received from other Federal agencies at no cost or at a reduced cost to the providing Federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by the Department are recognized as imputed cost in the Statement of Net Cost (SNC), and are offset by imputed financing in the Statement of Changes in Net Position (SCNP). Imputed financing represents the cost paid on behalf of TPRM by another Federal entity. 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 9, Disclosures Related to the SNC.

1.F. Non-Entity Assets

TPRM only reports entity assets. Entity assets are assets that the reporting entity has authority to use in its operations. Management may have authority to decide how funds are used or it may be legally obligated to use the funds a certain way.

1.G. Fund Balance with Treasury

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

FBWT is an asset of a component entity and a liability of the U.S. Government General Fund. Similarly, investments in Federal Government securities held by dedicated collections accounts are assets of the Department and liabilities of the U.S. Government General Fund. In both cases, the amounts represent commitments by the U.S. Government to provide resources for programs, but they do not represent net assets to the Government as a whole.

When the Department seeks to use FBWT or investments in Government securities to liquidate budgetary obligations, Treasury will finance the disbursements in the same way it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public, in cases of a budget deficit.

In addition, the Department reports to the Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The 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, but rather reported in the consolidated Other Defense Organizations. As such, TPRM does not report deposit fund balances on its financial statements.

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

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

1.H. Cash and Other Monetary Assets

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

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

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

1.I. Accounts Receivable, Net

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

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

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

1.J. Liabilities

Liabilities represent the probable future outflow or other sacrifice of resources as a result of past transactions or events. However, no liability can be paid by TPRM 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 are classified as not covered by budgetary resources when congressional action is needed before they can be paid.

For additional information, see Note 5, Liabilities Not Covered by Budgetary Resources.

1.K. Other Liabilities

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

SFFAS 51, Insurance Programs, established accounting and financial reporting standards for insurance programs. OPM administers insurance benefit programs available for coverage to the Department's civilian employees; however, they are not required to participate. These programs include life, health, and long-term care insurance.

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

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

For additional information, see Note 7, Other Liabilities and Note 13, Insurance Programs.

1.L. Commitments and Contingencies

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

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

For additional information, see Note 8, Commitments and Contingencies.

1.M. Federal Employee and Veterans Benefits Payable

The Department applies SFFAS No. 33, "Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates," in selecting the discount rate and valuation date used in estimating actuarial liabilities. In addition, gains and losses from changes in long-term assumptions used to estimate the actuarial liability are presented separately on the SNC.

Refer to Note 6, Federal Employee and Veterans Benefits Payable and Note 9, Disclosures Related to the SNC, for additional information.

1.N. Revenues and Other Financing Sources

As a component of the Government-wide reporting entity, the Department is subject to the Federal budget process, which involves appropriations provided both annually and on a permanent basis. 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.

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

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

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

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

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

1.O. Recognition of Expenses

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

1.P. Budgetary Resources

The purpose of Federal budgetary accounting is to control, monitor, and report on funds made available to Federal agencies by law and help ensure compliance with the law.

The following budgetary terms are commonly used:

Appropriation is a provision of law (not necessarily in an appropriations act) authorizing the expenditure of funds for a given purpose. Usually, but not always, an appropriation provides budget authority.

Budgetary resources are amounts available to incur obligations in a given year. Budgetary resources consist of new budget authority and unobligated balances of budget authority provided in previous years.

Obligations are a binding agreement that will result in outlays, immediately or in the future. Budgetary resources must be available before obligations can be incurred legally.

Offsetting Collections are payments to the Government that, by law, are credited directly to expenditure accounts and deducted from gross budget authority and outlays of the expenditure account, rather than added to receipts. Usually, offsetting collections are authorized to be spent for the purposes of the account without further action by Congress. They usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the Government and from intragovernmental transactions with other Government accounts. The authority to spend collections is a form of budget authority.

Offsetting receipts are payments to the Government that are credited to offsetting receipt accounts and deducted from gross budget authority and outlays, rather than added to receipts. Usually, they are deducted at the level of the agency and subfunction, but in some cases they are deducted at the level of the Government as a whole. They are not authorized to be credited to expenditure accounts. The legislation that authorizes the offsetting receipts may earmark them for a specific purpose and either appropriate them for expenditures for that purpose or require them to be appropriated in annual appropriations acts before they can be spent. Like offsetting collections, they usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the Government, and from intragovernmental transactions with other Government accounts.

Outlays are the liquidation of an obligation that generally takes the form of an electronic funds transfer. Outlays are reported both gross and net of offsetting collections and they are the measure of Government spending.

For further information about budget terms and concepts, see the “Budget Concepts" chapter of the Analytical Perspectives volume of the President’s Budget: Analytical Perspectives | The White House.

1.Q. Use of Estimates

TPRM’s management makes assumptions and reasonable estimates in the preparations of financial statements based on current conditions which may affect the reported amounts. Actual results could differ materially from the estimated amounts. Significant estimates include such items as Accounts Receivable, Accounts Payable, IBNR liabilities, and unfunded actuarial liabilities.

1.R. Tax Exempt Status

As an agency of the Federal Government, TPRM is exempt from all income taxes imposed by any governing body whether it is a Federal, state, commonwealth, local, or foreign government.

Note 2. Fund Balance With Treasury

($ In Thousands)	2026	2025
Status of Funds Balance with Treasury		
Unobligated Balance	$ 331,302	$ 748,781
Obligated Balance not yet Disbursed	1,483,469	1,639,461
Non-FBWT Budgetary Accounts		
Unfilled Customer Orders without Advance	(20,992)	(27,231)
Receivables and Other	(76,412)	(70,091)
Total Non-FBWT Budgetary Accounts	(97,404)	(97,322)
Total FBWT	**$ 1,717,367**	**$ 2,290,920**

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

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

Unobligated Balance represents the cumulative amount of budgetary authority set aside to cover future obligations.

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

Non-FBWT Budgetary Accounts reduces budgetary resources. Non-FBWT budgetary accounts create budget authority and unobligated balances, but do not record to FBWT as there has been no receipt of cash or direct budget authority, such as appropriations comprised of reimbursable Accounts Receivable of $76.4 million, and reimbursable undelivered orders of $21.0 million.

Unfilled Customer Orders Without Advance-Receivables provides budgetary resources when recorded. FBWT is only increased when reimbursements are collected, not when orders are accepted or have been earned.

Note 3. Cash and Other Monetary Assets

($ In Thousands)	2026	2025
Cash	$ 0	$ 377
Total Cash and Other Monetary Assets	**$ 0**	**$ 377**

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

Note 4. Accounts Receivable, Net

($ In Thousands)	2026		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$ 76,956	$ 0	$ 76,956
Nonfederal Receivables (Other than Intragovernmental)	1,006,816	(24,077)	982,739
Total Accounts Receivable, Net	**$ 1,083,772**	**$ (24,077)**	**$ 1,059,695**

	2025		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$ 70,091	$ 0	$ 70,091
Nonfederal Receivables (Other than Intragovernmental)	841,784	(20,614)	821,170
Total Accounts Receivable, Net	**$ 911,875**	**$ (20,614)**	**$ 891,261**

Accounts Receivable represent TPRM's claim for payment from other entities. The method used to calculate the percentage for bad debt allowance on the Accounts Receivable balances is determined by taking a 36 month average of the Accounts Receivable balance against the 36 month average on the Write Off balance per each Receivable category. The data from the prior 36 months is used to calculate the percentages for the allowance. TPRM has one specific Accounts Receivable category that follows a different percentage calculation rule, the "Suspended Pharmacy" category. Per a DHA HCFD directive that prevents TPRM's Pharmacy contractor from pursuing collection action against Suspended Pharmacies while under investigation, TPRM uses a 100% allowance methodology for calculating the debt against the Accounts Receivable balance. Claims with other Federal agencies are resolved in accordance with the business rules published in Appendix 5 of TFM, Volume I, Part 2, Chapter 4700.

FASAB issued Technical Bulletin 2020-1, Loss Allowance for Intragovernmental Receivables, which clarified previously issued guidance. An allowance recorded to recognize an intragovernmental receivable at net realizable value on the financial statements does not alter the underlying statutory authority to collect the receivable or the legal obligation of the other intragovernmental entity to pay. For FY 2026 the intragovernmental allowance was calculated using the same methodology as for public receivables. TPRM developed its policy, related to the allowance for uncollectible accounts for intragovernmental receivables. Based on several years of experience, TPRM concludes that the net realizable value of its intragovernmental receivables is 100%.

As of September 30, 2026, the total net receivables recorded for the SDP and the ADP were $726.0 million. The SDP resulted from the implementation of the FCP Program for the TRICARE Retail Pharmacy Refunds Program as required by the FY 2008 NDAA, Section 703. The ADP resulted from voluntary agreements between TRICARE and the pharmaceutical manufacturers providing additional discounts above the SDP.

Note 5. Liabilities Not Covered by Budgetary Resources

($ In Thousands)	2026	2025
Pension, Post-Employment, and Veteran Benefits Payable	$ 407,616,387	$ 360,451,703
Total Liabilities Not Covered by Budgetary Resources	$ 407,616,387	$ 360,451,703
Total Liabilities Covered by Budgetary Resources	1,024,272	958,321
Total Liabilities Not Requiring Budgetary Resources	62,000	85,377
Total Liabilities	**$ 408,702,659**	**$ 361,495,401**

TPRM has two liabilities not covered by budgetary resources. Pension, Post-Employment, and Veteran Benefits Payable consists of various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities primarily consist of $407.6 billion in health benefit liabilities, with $404.5 billion in actuarial liabilities for future health benefits and $3.1 billion in IBNR health benefits. The DHA, as stated in the Senate Report No. 95-1264 on the DoD Appropriation Bill, FY 1979, does not obligate or fund health care claims until the receipt of an adjudicated claim. Consequently, no funding or obligations occur for these liabilities until health care is rendered and TPRM is in receipt of an adjudicated claim. Refer to Note 6, Federal Employee and Veterans Benefits Payable, for additional details.

Liabilities that do not require the use of budgetary resources are covered by monetary assets that are not budgetary resources to the entity. Total Liabilities Not Requiring Budgetary Resources above includes a contingent liability in the amount of $62.0 million. For additional information, refer to Note 7, Other Liabilities and Note 8, Commitments and Contingencies.

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).

Note 6. Federal Employee and Veterans Benefits Payable

($ In Thousands)	2026		
	Liabilities	Less Assets Available to Pay Benefits	Unfunded Liabilities
Military Pre Medicare-Eligible Retiree Health Benefits	$ 404,538,108	$ 0	$ 404,538,108
Other	3,078,279	0	3,078,279
Total Pension, Post-Employment, and Veteran Benefits Payable	$ 407,616,387	$ 0	$ 407,616,387
Total Federal Employee and Veteran Benefits Payable	$ 407,616,387	$ 0	$ 407,616,387

	2025		
	Liabilities	Less Assets Available to Pay Benefits	Unfunded Liabilities
Military Pre Medicare-Eligible Retiree Health Benefits	$ 357,300,448	$ 0	$ 357,300,448
Other	3,151,255	0	3,151,255
Total Pension, Post-Employment, and Veteran Benefits Payable	$ 360,451,703	$ 0	$ 360,451,703
Total Federal Employee and Veteran Benefits Payable	$ 360,451,703	$ 0	$ 360,451,703

Information Related to Federal Employee and Veterans Benefits Payable

The DoW OACT calculates the actuarial liability at the end of each fiscal year using the current active and retired population, plus assumptions about future demographic and economic conditions.

The schedules above reflects two distinct types of liabilities related to Pension, Post-Employment, and Veteran Benefits Payable. The line entitled “Military Pre Medicare-Eligible Retiree Health Benefits” represents the actuarial (or accrued) liability for future health care benefits provided to non-Medicare-eligible retired beneficiaries that are not yet incurred. The line entitled “Other” includes the IBNR, which is an estimate of benefits already incurred but not yet reported to DoW for all the DHP beneficiaries (excluding those from the retiree population who are Medicare-eligible).

Effective FY 2010, the DHA implemented requirements of SFFAS No. 33, which directs that the discount rate, underlying inflation rate, and other economic assumptions be consistent with one another. A change in the discount rate may cause other assumptions to change as well. For the September 30, 2026, financial statement valuation, the application of SFFAS No. 33 required DoW OACT to set the long-term inflation (CPI) to be consistent with the underlying Treasury spot rates used in the valuation.

The DHA actuarial liability is adjusted at the end of each fiscal year. The 4th Quarter, FY 2026 balance represents the September 30, 2026 amount that is effective through 3rd Quarter of FY 2027.

Actuarial Cost Method

As prescribed by SFFAS No. 5, the valuation of the DHA Military Retirement Health Benefits is performed using the Aggregate Entry Age Normal (AEAN) cost method. AEAN is a method whereby projected retiree medical plan costs are spread over the projected service of a new entrant cohort.

Assumptions

For the FY 2026 financial statement valuation, the long-term assumptions include a 3.3% discount rate and medical trend rates that were developed using a 3.4% 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 2025 financial statement valuation, the long-term assumptions included a 3.2% discount rate and medical trend rates that were developed using a 3.1% inflation assumption.

The change in the long-term assumptions is due to the application of SFFAS No. 33. This applicable financial statement standard is discussed further below. Other assumptions used to calculate the actuarial liabilities, such as mortality and retirement rates, were based on a blend of actual experience and future expectations. Because of reporting deadlines, and as permitted by SFFAS No. 33, the current year actuarial liability is rolled forward from the prior year valuation results using accepted actuarial methods.

In calculating the FY 2026 "rolled-forward" actuarial liability, the following assumptions were used:

Discount Rate	3.3%
Inflation	3.4%

Medical Trend (Non-Medicare)	**FY 2025 - FY 2026**	**Ultimate Rate FY 2050**
Purchased Care Inpatient	5.30%	5.40%
Purchased Care Outpatient	7.10%	5.40%
Purchased Care Prescription Drugs	7.80%	5.40%
Purchased Care USFHP	7.12%	5.40%

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

Military Pre Medicare-Eligible Retiree Health Benefits

($ In Thousands)	2026	2025
Beginning Actuarial Liability	$ 357,300,448	$ 299,007,615
Plus Expenses:		
Normal Cost	18,841,388	15,475,982
Interest Cost	11,850,309	9,283,848
Plan Amendments	0	0

Experience Losses/(Gains)	(21,726,923)	18,090,256
Other Factors	1	0
Subtotal: Expenses Before Losses/(Gains) From Actuarial Assumption Changes	8,964,775	42,850,086
Actuarial Losses/(Gains) Due To:		
Changes In Trend Assumptions	55,868,563	27,831,726
Changes In Assumptions Other Than Trend	(5,863,941)	(2,270,195)
Subtotal: Losses/(Gains) From Actuarial Assumption Changes	50,004,622	25,561,531
Total Expenses	$ 58,969,397	$ 68,411,617
Less Benefit Outlays	11,731,737	10,118,784
Total Changes In Actuarial Liability	$ 47,237,660	$ 58,292,833
Ending Actuarial Liability	**$ 404,538,108**	**$ 357,300,448**

The DHA actuarial liability increased $47.2 billion (13.2%). This resulted from the net effect of: an increase of $19.0 billion due to expected increases (interest cost plus normal cost less benefit outlays), an increase of $50.0 billion due to changes in key assumptions; and a decrease of $21.7 billion due to actual experience being different from what was assumed (demographic and claims data).

DoW complies with SFFAS No. 33, "Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates." The standard requires the separate presentation of gains and losses from changes in long-term assumptions used to estimate liabilities associated with pensions, other retirement and other postemployment benefits. SFFAS No. 33 also provides a standard for selecting the discount rate and valuation date used in estimating these liabilities. SFFAS No. 33, as published on October 14, 2008, by the FASAB requires the use of a yield curve based on marketable 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 for general purpose Federal financial statements. It does not affect statutory or other special-purpose reports such as Pension or Other Retirement Benefit reports. SFFAS No. 33 requires a minimum of five periodic rates for the yield curve input and consistency in the number of historical rates used from period to period. It permits the use of a single average discount rate if the resulting present value is not materially different from what would be obtained using the yield curve.

For the September 30, 2026 financial-statement valuation, DoW OACT determined a single equivalent discount rate of 3.3% by using a 10-year average of quarterly zero coupon Treasury spot rates. These spot rates are based on 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, 2016 through March 31, 2026.

For the September 30, 2026, financial statement valuation, DoW OACT determined a single equivalent medical cost trend rate of 5.90% can be used to reproduce the total Military Retiree Health Benefits (MRHB) liability. The total MRHB liability includes the MERHCF and DHA Direct and Purchased Care.

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

Note 7. Other Liabilities

($ In Thousands)	2026	2025
Nonfederal Other Liabilities		
Liability For Non-Fiduciary Deposit Funds and Undeposited Collections	$ 0	$ 377
Contingent Liabilities	62,000	85,000
Total Other Liabilities	**$ 62,000**	**$ 85,377**

Liability for non-fiduciary deposit funds and undeposited collections consist of undeposited collections received by TPRM before month-end but after the Treasury month-end cutoff. A corresponding liability is recorded because TPRM is not entitled to the funds until deposited with the Treasury.

Contingent Liabilities above include legal contingent liabilities. Legal liabilities reported in this note correspond to accrued probable contingencies reported in the Commitments and Contingencies note.

For Commitments and Contingencies disclosure related information see Note 8.

Note 8. Commitments and Contingencies

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

In accordance with *SFFAS No. 5*, *Accounting for Liabilities of the Federal Government,* as amended by *SFFAS No. 12*, *Recognition of Contingent Liabilities Arising from Litigation,* an assessment is made as to whether the likelihood of an unfavorable outcome is considered probable, reasonably possible, or remote. TPRM accrued one contingent liability where an unfavorable outcome is considered probable and the amount of potential loss is measurable. In addition, one previously accrued probable contingency was resolved and paid by the Treasury Judgment Fund during FY 2026. No amounts have been accrued for contingencies where the likelihood of an unfavorable outcome is less than probable or where the amount or range of potential loss cannot be estimated due to a lack of sufficient information.

TPRM did not identify amounts for potential future obligations such as contractual arrangements for fixed price contracts with escalation, price redetermination, or incentive clauses; contracts authorizing variations in quantities; and contracts where allowable interest may become payable based on contractor claims under the "Disputes" clause contained in contracts. Amounts disclosed will represent future potential liabilities and will not include amounts already recognized as contingent liabilities in Note 7. Consideration will be given in disclosing the difference between the maximum or ceiling amounts and those amounts recognized in Note 7 when it is reasonably possible the maximum amount may be paid.

There is one probable case or claim pending with TPRM meeting the requirements for disclosure.

- **Total Renal Care v. United States (Court of Federal Claims).** On March 14, 2025, Total Renal Care (also known as DaVita) filed a complaint challenging DHA's payment methodology for End Stage Renal Disease (ESRD) dialysis treatments at freestanding dialysis. The suit involves approximately 660 providers and proceeds under the same theory advocated by Bio-Medical Apps of Georgia, Inc. in Bio-Medical Apps of Georgia, Inc., et al, v. U.S., Court of Federal Claims, 19-947C that DHA and DOJ settled for a substantial amount. The estimated amount of potential loss is $62.0 million. In accordance with SFFAS No. 5, since the loss is probable and estimable, TPRM has recognized an expense and liability for the full amount of the expected loss. Any amounts ultimately due will likely be paid out of the Treasury Judgment Fund. Once the claim is settled or a court judgment is assessed and the Judgment Fund is confirmed as the source for payment of the claim, the liability will be removed and an "other financing source" amount will be recognized as prescribed by Interpretation of Federal Financial Accounting Standards 2: Accounting for Treasury Judgment Fund Transactions: An Interpretation of SFFAS 4 and SFFAS 5.

In addition to active pending litigation, one previously reported matter was resolved during FY 2026.

- **Ingham Regional Medical Center v. United States (Court of Federal Claims).** Plaintiffs abandoned their effort to seek class certification and requested entry of a final judgment. The Court dismissed the case on August 5, 2026, and entered its judgment on August 6, 2026, in accordance with its June 11 decision. On August 26, 2026, the Treasury Judgment Fund paid $14,479 to the plaintiff. The Judgment Fund did not require reimbursement from the TPRM. With the abandonment of class certification and entry of final judgment, all class-wide claims have been extinguished and no further contingent liability exists as of September 30, 2026.

For Other Liabilities disclosure related information see Note 7.

Note 9. Disclosures Related to the Statement of Net Cost

($ In Thousands)	2026	2025
Gross Cost		
Intragovernmental Cost	$ 1,998,585	$ 1,711,045
Nonfederal Cost	19,616,857	53,344,209
Total Cost	21,615,442	55,055,254
Earned Revenue		
Intragovernmental Revenue	(895,037)	(762,718)
Nonfederal Revenue	(1,046,058)	(1,005,167)
Total Revenue	(1,941,095)	(1,767,885)
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	50,004,622	25,561,531
TOTAL NET COST	**$ 69,678,969**	**$ 78,848,900**

The SNC represents the net cost of programs and organizations of TPRM that are supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. TPRM's current processes and systems capture costs based on major programs as presented in the schedule above. The Department is in the process of reviewing available data and developing a cost reporting methodology required by the SFFAS No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," as amended by SFFAS No. 55, "Amending Inter-Entity Cost Provisions.

The Department Military Retirement and post-employment costs are reported in accordance with SFFAS No. 33, "Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates." The standard requires the separate presentation of gains and losses from changes in long-term assumptions used to estimate liabilities associated with pensions, other retirement and other postemployment benefits on the SNC.

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

For FY 2026, Appropriations Received on the SCNP does not agree with Appropriations (Discretionary and Mandatory) on the Statement of Budgetary Resources (SBR). The $288.3 million difference is primarily due to differences between proprietary and budgetary accounting concepts and reporting requirements, as well as the reporting of appropriation transfers. The SBR includes these items within the 'Appropriations' line, whereas the SCNP accounts for them separately to reconcile with budgetary reporting.

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

($ In Thousands)	2026	2025
Appropriations Received, Statement of Changes in Net Position	$ 21,878,347	$ 20,402,422
Appropriation Transfers	165,973	0
Other Budgetary/Proprietary Differences	122,329	0
Appropriations, Statement of Budgetary Resources	**$ 22,166,649**	**$ 20,402,422**

Note 11. Disclosures Related to the Statement of Budgetary Resources

($ In Thousands)	2026	2025
Intragovernmental Budgetary Resources Obligated for Undelivered Orders Unpaid	91,636	67,226
Total Intragovernmental	91,636	67,226
Nonfederal Budgetary Resources Obligated for Undelivered Orders Unpaid	367,559	613,915
Total Nonfederal	367,559	613,915
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	**$ 459,195**	**$ 681,141**

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

Note 12. Reconciliation of Net Cost to Net Outlays

($ In Thousands)	2026		
	Intragovernmental	With the Public	Total
Net Cost of Operation (SNC)	$ 1,103,548	$ 68,575,421	$ 69,678,969
Components of Net Cost That are Not Part of Net Outlays:			
Increase/(decrease) in assets:			
Accounts Receivable, Net	$ 6,865	$ 161,569	$ 168,434
Other Assets		(377)	(377)
(Increase)/decrease in liabilities			

Accounts Payable	(4,858)	(61,094)	(65,952)
Pension, Post-Employment, and Veteran Benefits Payable		(47,164,684)	(47,164,684)
Other Liabilities		23,377	23,377
Financing Sources:			
Imputed Cost	(15)		(15)
Total Components of Net Cost That Are Not Part of Net Outlays	$ 1,992	$ (47,041,209)	$ (47,039,217)
Net Outlays	$ 1,105,540	$ 21,534,212	$ 22,639,752
Agency Outlays, Net, Statement of Budgetary Resources			$ (22,639,752)
Reconciling Difference			**$ 0**

($ In Thousands)	2025		
	Intragovernmental	**With the Public**	**Total**
Net Cost of Operation (SNC)	$ 948,327	$ 77,900,573	$ 78,848,900
Components of Net Cost That are Not Part of Net Outlays:			
Increase/(decrease) in assets:			
Accounts Receivable, Net	$ 13,334	$ 233,407	$ 246,741
Other Assets		(634)	(634)
(Increase)/decrease in liabilities			
Accounts Payable	12,069	(286,494)	(274,425)
Pension, Post-Employment, and Veteran Benefits Payable		(59,199,056)	(59,199,056)
Other Liabilities		(84,366)	(84,366)
Total Components of Net Cost That Are Not Part of Net Outlays	$ 25,403	$ (59,337,143)	$ (59,311,740)
Net Outlays	$ 973,730	$ 18,563,430	$ 19,537,160
Agency Outlays, Net, Statement of Budgetary Resources			$ (19,537,160)

Reconciling Difference	$ 0

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 above illustrates this reconciliation by listing the key differences between net cost and net outlays.

Net Cost of Operations is derived from the SNC.

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

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

Note 13. Insurance Programs

Premium Base Health Plans consist of several programs with coverage offered to Active Duty, Active Duty Family Member(s), Retirees and Reserve members. The programs include TRICARE CHCBP, TYA, TRS, TRR, Prime and Select which together make up the TRICARE Insurance Portfolio. The majority of these programs are intended to be budget neutral, meaning that the premiums should match the outlays. Premiums are adjusted either upward, or downward for each calendar year to maintain this neutrality. Increases or decreases in the number of beneficiaries enrolling in the programs would cause minimal effects on program cost or premiums collected. Premium rate calculations are based on the benefit cost from prior calendar years. Premiums are based on the Program's benefit cost, which eliminates any inherent risk to third parties, including the beneficiary and the MCSCs who provide health care claims processing and the initial collections on behalf of TPRM. The total amount of Insurance Premium collections in FY 2026 was $1.0 billion and $1.0 billion for FY 2025. The benefit cost for FY 2026 correlate to the premium collections reported.

Monthly Premium Rates are established on an annual basis. The Monthly Premium Rates for calendar year 2026 were established in accordance with title 10, U.S.C. Sections 1076d, 1076e, 1078a, and 1110b along with title 32, C.F.R., part 199.20, 24, 25 and 26, as enacted by Section 701 of NDAA for Fiscal Year 2017; P.L. 114 328. The enrollment fee and or premium collections are credited to the DHP appropriation available for the fiscal year collected.

TRS and TRR rates are calculated from enrollment-weighted average annual costs based on the actual cost of benefits provided during the preceding calendar year. Renewal in a specific plan is automatic unless declined. A member, and the dependents of the member, of the Selected Reserve of the Ready Reserve of a reserve component of the armed forces are eligible for health benefits under TRS program. Termination of coverage in TRS

is based upon the termination of the member's service in the Selected Reserve. TRR basically follows the same rules of coverage as TRS for members of the Retired Reserve who are qualified for a non-regular retirement but are not yet age 60. Termination of eligibility is upon obtaining other TRICARE Coverage. TYA premium rates are calculated from the Military Health System Data Repository based on enrollees for the previous 24 month period. Dependents under the age of 26 and who are not eligible to enroll in an eligible employer-sponsored plan can enroll in the TYA program. Coverage is terminated once the dependent turns 26 years of age. CHCBP premium rates are calculated from total premiums under Government Employees Health Association (GEHA) Standard plan within the Federal Employee Health Benefit (FEHB) Program. The plan provides temporary health care coverage for 18 to 36 months when a Service member and/or Family member(s) are no longer entitled to TRICARE. TRICARE Prime and Select premium rates are established on an annual basis in accordance with title 10 U.S.C. 1075 and 1075a. An enrollment of a covered beneficiary in TRICARE Prime and Select is automatically renewed upon the expiration of the enrollment unless the renewal is declined. The enrollment of a dependent of the member of the uniformed services may be terminated by the member or the dependent at any time. Active Duty service members must enroll in Prime. Family members may choose to enroll in Prime or Select.

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

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

($ In Thousands)	2026	2025
Beginning Balance	$ 3,770,704	$ 2,661,562
Claims Expense	20,648,322	18,445,466
Claims Adjustment Expenses	(432,078)	(102,862)
Payments to Settle Claims	(20,214,286)	(17,276,757)
Recoveries and Other Adjustments	15,829	43,295
Ending Balance	**$ 3,788,491**	**$ 3,770,704**

SECTION 3

OTHER INFORMATION

Summary of Financial Statement Audit and Management Assurances

Summary of Financial Statement Audit

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

Summary of Management Assurances

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

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

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

Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
Federal Financial Management Systems Requirements	No lack of compliance noted	No lack of compliance noted
Applicable Federal Accounting Standards	Lack of compliance noted[5]	No lack of compliance noted
USSGL at Transaction Level	No lack of compliance noted	No lack of compliance noted

[5] *Lack of compliance is strictly isolated to the implementation of SFFAS No. 64, Management's Discussion and Analysis. All transaction-level and system-level federal accounting standard requirements remain in full compliance. Please refer to Section I (MD&A) 'Compliance with Laws and Regulations' and Note 1.*

Payment Integrity Information Act Reporting

In accordance with the PIIA of 2019 (P. L. 116-117, 31 U.S.C § 3352), Appendix B of the OMB Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*, dated July 29, 2024, DoW reports payment integrity information (i.e., improper payments) at the agency-wide level in the consolidated DoW AFR. For detailed reporting on DoW payment integrity, refer to the "Other Information" section of the consolidated DoW AFR at: DoW AFR.

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 DOJ, the U.S. Department of Health & Human Services (HHS), the HHS OIG, and the Centers for Medicare and Medicaid Services (CMS), enforce these laws.

Within DoW and pursuant to DoD Directive 5106.01, *Inspector General of the Department of Defense (DoD IG)*, the DoW IG serves as the principal advisor to the Secretary of War 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 DoW. The DoW IG initiates, conducts, supervises, and coordinates such audits, investigations, evaluations, and inspections within the DoW, including the Military Departments, as the DoW IG considers appropriate. In addition, the DoW IG provides policy and direction for audits, investigations, evaluations, and inspections relating to fraud, waste, abuse, program effectiveness, and other relevant areas within DoW IG responsibilities.

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

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

The MHS relies on the services of the DoW IG and its Defense Criminal Investigative Service (DCIS) in our efforts to identify and deter fraud, waste and abuse. The mission of DCIS is to conduct criminal investigations of matters related to DoW programs and operations, focusing on procurement fraud, public corruption, product substitution, health care fraud, illegal technology transfer, and cyber-crimes and computer intrusions. DCIS has the legal authority to investigate military personnel, government and non-government civilians, foreign citizens, and U.S. and foreign companies alleged to have defrauded the DoW or criminally impacted DoW 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 OIG partners include Veterans Administration, HHS, and DOJ.

The HCFD in Aurora, Colorado is responsible for healthcare anti-fraud to safeguard beneficiaries and protect benefit dollars. The HCFD develops and executes antifraud and abuse policies and procedures, provides oversight of contractor program integrity activities, and coordinates investigative activities. The HCFD also develops cases for criminal prosecutions, civil litigations, and initiates administrative measures. Through a Memorandum of Understanding (MOU), the HCFD refers its fraud cases to the DCIS. The DHA HCFD 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 DoW regulations and policies. The DHA Hotline Program provides a confidential, reliable means for individuals to report fraud, waste

and abuse; violations of law, rule or regulation; mismanagement; and classified information leaks, including those involving the DHP.

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

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

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

Significant FY 2026 MHS Fraud Events (Source: DCIS)

June 24, 2026: Felon Indicted in Multimillion Dollar Healthcare Kickback and False Documents Conspiracy. Today, United States Attorney Ellis Boyle announced criminal charges against Murad “Mike” Ayyad, 45, of Roswell, Georgia, in connection with a health care fraud conspiracy that involved the payment of millions of dollars in kickbacks and the creation and use of dozens of fraudulent contracts and invoices. Ayyad is alleged to have caused the submission of fraudulent claims for laboratory testing to Medicare, the Health Resources Services Administration (“HRSA”), TRICARE, and other payers through several labs and other entities that he owned and controlled. The federal charges are part of the DOJ’s 2026 National Health Care Fraud Takedown.

April 28, 2026: U.S. Attorney's Office Reaches $300,000 False Claims Act Settlement with Clarksville Clinic Over Allegations of Improperly Coded TRICARE Claims. United States Attorney Braden H. Boucek for the Middle District of Tennessee announced today that Pitts Therapies, LLC (Pitts Therapies), doing business as Cornerstone Pediatric Therapies (Cornerstone or the Clinic), has agreed to pay $300,000 to the United States to settle allegations that Cornerstone violated the False Claims Act by excessively billing TRICARE for certain billing codes. Cornerstone operates a clinic in Clarksville, Tennessee, that provides pediatric therapy, including speech therapy, to children who are autistic, non-verbal, or speech-delayed.

April 15, 2026: Clayton Chiropractor Sentenced to 100 Months in Prison. U.S. District Judge Henry E. Autrey on Wednesday sentenced a chiropractor who committed healthcare fraud and issued fraudulent subscriptions for controlled substance to 100 months in prison and ordered him to repay $4.7 million to Medicaid, Medicare and Tricare.

March 20, 2026: Health Care Management Corporation Agrees to Pay $4 Million to Resolve False Claims Act Allegations. CVR Management, LLC, a professional services corporation in Greenbelt, Maryland, along with the Center for Vein Restoration, Center for Vascular Medicine (CVM), LLC, and Sanjiv Lakhanpal, MD, FACS, agreed to

pay the United States $4 million to resolve allegations that they violated the False Claims Act by billing Medicare, Medicaid, and TRICARE for medically unnecessary vein treatment procedures.

March 5, 2026: Waukesha Medical Equipment Company Agrees to Pay Nearly $7 Million to Resolve Allegations of False Billings to Federal Healthcare Programs. Brad D. Schimel, United States Attorney for the Eastern District of Wisconsin, announced today that Kinex Medical Company, LLC, agreed to pay $6,925,000 to resolve allegations that it violated the False Claims Act by submitting false claims to Medicare, TRICARE, and other federal programs.

February 25, 2026: South Texas doctors agree to pay nearly $5 million to settle False Claims Act liability. Six South Texas doctors and their respective practices have agreed to pay $4,855,844 to resolve allegations they submitted false claims to Medicare, Medicaid and TRICARE that were not rendered or not medically necessary, announced U.S. Attorney Nicholas J. Ganjei.

December 2, 2025: U.S. Attorney Announces $37.76 Million Settlement With CVS For Over-Dispensing Insulin Pens To Patients. United States Attorney for the Southern District of New York, Jay Clayton, Special Agent in Charge of the New York Regional Office of the U.S. Department of Health and Human Services Office of the Inspector General ("HHS-OIG"), Naomi D. Gruchacz, Acting Special Agent in Charge of the Northeast Field Office of the DCIS, Christopher M. Silvestro, and Special Agent in Charge of the U.S. Office of Personnel Management Office of the Inspector General ("OPM-OIG"), Derek M. Holt, announced that the United States has filed and settled a healthcare fraud lawsuit against national retail pharmacy chain CVS PHARMACY, INC. ("CVS"). The settlement resolves allegations that, from 2010 through 2020, CVS violated the False Claims Act in connection with its billing and dispensing of insulin pens to patients enrolled in Government healthcare programs ("GHPs"), including Medicare, Medicaid, TRICARE, and the Federal Employees Health Benefits Program. Specifically, the Government alleges that CVS improperly requested and received GHP reimbursement for premature refills, dispensed more insulin pens than patients needed according to their prescriptions, and falsely under-reported the days-of-supply of insulin that its pharmacies dispensed.

December 1, 2025: The Breastfeeding Shop and Its Owner Agree to Pay $1 Million to Resolve Allegations of False Claims for Reimbursement for Breast Pumps and Related Equipment for TRICARE Beneficiaries. United States Attorney David Metcalf announced that the United States has entered a settlement agreement with Scottie Girl, LLC, d/b/a The Breastfeeding Shop, in Emmaus, Pennsylvania, and its owner Patricia Gatter to resolve allegations that The Breastfeeding Shop submitted false claims for reimbursement for breast pumps and related equipment for TRICARE beneficiaries. The Breastfeeding Shop and Ms. Gatter will collectively pay the United States $1 million to resolve the allegations.

Biennial Review of User Fees

The CFOs Act of 1990 and OMB Circular No. A-25 requires Federal agencies to review, on a biennial basis, the fees, royalties, rents and other charges imposed by the agency for services and items of value provided to specific recipients, beyond those received by the general public. The purpose of the review is to periodically adjust existing charges to reflect unanticipated changes in costs or market values, and to review all other agency programs to determine whether fees should be assessed for Government services or the use of Government goods or services.

During FY 2025, ASW(HA) identified user fees charged subject to the review outlined in OMB Circular No A-25 including with the VA and Non-Appropriated Fund Instrumentalities for space occupied inside the MTFs. ASW(HA)

will coordinate a formal review, required by 31 U.S.C. § 902, in the future to align with the reviews being done by the MILDEPs, U.S. Army Corps of Engineers, and others in the DoW.

Agency Audit Resolution Reports

The OMB Circular A-136, Financial Reporting Requirements, require agencies to produce reports from the Agency Head under section 5(b) of the Inspector General Act of 1978, as amended (5 U.S.C. App.). Reports would come from the Office of the Secretary of War (OSW) at the DoW level. Please refer to the FY 2026 DoW Agency Financial Report / Performance and Accountability Report for more information. DHA provides input to OSW regarding resolution made to the Agency's financial statement audits.

Financial Reporting-Related Legislation

The OMB Circular A-136, Financial Reporting Requirements, require agencies to report any significant agency-specific legislative provisions enacted in the prior or current year that addresses financial accounting, reporting, or auditing issues and that affected its ability to prepare its AFR. The following applies:

Title II of P.L. 119-21, One Big Beautiful Bill Act

The OBBB Act provides multiyear appropriations to support operational resiliency. In Fiscal Year 2026, the TPRM received a $1.1 billion allocation under this appropriation to cover program-level healthcare delivery and absorb systemic claims processing pressures from the TRICARE MCSC T-5 transition. Application of this $1.1 billion stabilized operations and mitigated wider transition deficits, resulting in a managed net PSC shortfall of $629.9 million as disclosed in the Agency Head Message. This funding has been successfully integrated into execution plans with no material impact on financial reporting capabilities.

Title III of P.L. 118-158, the American Relief Act, 2025

This act provides supplemental funding to ASD(HA)-DHP for necessary expenses related to the consequences of Hurricanes Helene and Milton. TPRM was not provided any supplemental funding under this Act.

SECTION 4

APPENDIX

Appendix: Glossary of Acronyms

ADA	Anti-deficiency Act
ADP	Additional Discount Program
AEAN	Aggregate Entry Age Normal
AFR	Agency Financial Report
ASD	Assistant Secretary of Defense
ASW	Assistant Secretary of War
C.F.R.	Code of Federal Regulations
CAP	Corrective Action Plan
CHAMPUS	Civilian Health and Medical Program of the Uniformed Services
CHCBP	Continued Health Care Benefit Program
CMS	Centers for Medicare and Medicaid Services
COBRA	Consolidated Omnibus Budget Reconciliation Act
COTS	Commercial off-the-shelf
CRM	Contract Resource Management
TPRM	TRICARE Program Resource Management
DATA Act	Digital Accountability and Transparency Act
DCIA	Debt Collection Improvement Act
DCIS	Defense Criminal Investigative Service
DDRS	Defense Department Reporting System
DEERS	Defense Enrollment Eligibility Reporting System
DFAS-IN	Defense Finance and Accounting Service-Indianapolis
DHA	Defense Health Agency
DHA-C	DHA-Comptroller
DHP	Defense Health Program
DoD	Department of Defense
DoD IG	Inspector General of the Department of Defense
DOJ	Department of Justice
DoW / Department	Department of War
DoW IG	Inspector General of the Department of War
ECHO	Extended Care Health Option
ECS	E-Commerce System
ESRD	End Stage Renal Disease
FAD	Funding Authorization Document
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance with Treasury
FCP	Federal Ceiling Price
FECA	Federal Employees' Compensation Act
FEDVIP	Federal Employees Dental and Vision Insurance for Program
FEHB	Federal Employee Health Benefit
FFATA	Federal Funding Accountability and Transparency Act
FFMIA	Federal Financial Management Improvement Act
FISMA	Federal Information Security Modernization Act
FMFIA	Federal Manager's Financial Integrity Act
FMR	Financial Management Regulation
FOD	Financial Operations Division
FSIO	Financial Systems Integration Office
FSS	Federal Supply Schedule
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GEHA	Government Employees Health Association
HA	Health Affairs
HCDA	Health Care Data Analysis
HCFD	Health Care Fraud Division
HEDIS	Healthcare Effectiveness Data and Information Set
HHS	U.S. Department of Health & Human Services
HMO	Health Maintenance Organization
IBNR	Incurred but not Reported
IPAC	Intragovernmental Payment and Collection
JFMIP	Joint Financial Management Improvement Program
MARR	Mandatory Agreements Retail Refunds
MCSC	Managed Care Support Contractor
MERHCF	Medicare-Eligible Retiree Health Care Fund
MHS	Military Health System
MOU	Memorandum of Understanding
MRHB	Military Retiree Health Benefits
MTF	Military Treatment Facility
NDAA	National Defense Authorization Act
NFR	Notice of Finding and Recommendation
NOAA	National Oceanic and Atmospheric Administration
Non-FAMP	Non-Federal Average Manufacturer Price
OACT	Office of the Actuary
OFF	Oracle Federal Financials
OGC	Office of General Counsel
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OSW	Office of the Secretary of War
OUSW	Office of the Under Secretary of War
P&R	Personnel and Readiness
P.L.	Public Law
PCM	Primary Care Manager

PHS	Public Health Service
PIIA	Payment Integrity Information Act
POD	Pharmacy Operations Division
POS	Point of Service
PPA	Prompt Payment Act
PPO	Preferred Provider Organization
PSC	Private Sector Care
SBR	Statement of Budgetary Resources
SCNP	Statement of Changes in Net Position
SDP	Standard Discount Program
SF	Standard Form
SFFAS	Statement of Federal Financial Accounting Standards
SFIS	Standard Financial Information Structure
SNC	Statement of Net Cost
TAMP	Transitional Assistance Management Program
TCM	TRICARE Claims Management
TDP	TRICARE Dental Program
TED	Tricare Encounter Data
TFL	Tricare for Life
TFM	Treasury Financial Manual
TMA	TRICARE Management Activity
TOP	Tricare Overseas Program
TPR	TRICARE Prime Remote

TPRADFM	TRICARE Prime Remote for Active Duty Family Members
Treasury	U.S. Department of Treasury
TRR	TRICARE Retired Reserve
TRS	TRICARE Reserve Select
TSM	TRICARE Systems Manual
TYA	TRICARE Young Adult
U.S.C.	United States Code
UDC	Unapplied Collections
UF-VARR	Uniform Formulary VARR
USCG	United States Coast Guard
USFHP	Uniformed Services Family Health Plan
USSGL	United States Standard General Ledger
USUHS	Uniformed Services University of the Health Sciences
VA	Department of Veterans Affairs
VARR	Voluntary Agreements Retail Rebates
WAC	Wholesale Acquisition Cost
WIC	Women, Infants, and Children