



Contract Resource Management

Agency Financial Report

Fiscal Year 2022



Table of Contents

Agency Head Message	1
I. Management’s Discussion & Analysis.....	2
Mission and Organization Structure.....	3
Analysis of Performance Goals, Objectives, and Results.....	10
Analysis of Financial Statements.....	12
Analysis of Systems, Controls, and Legal Compliance	16
Forward-Looking Information	24
Other Management Information, Initiatives, and Issues	25
Limitations of the Financial Statements.....	28
II. Financial Section	29
Office of the Inspector General Transmittal 2022.....	30
Independent Auditor’s Report 2022	32
Principal Financial Statements	43
Notes to the Financial Statements	47
III. Other Information	69
Summary of Financial Statement Audit and Management Assurances	70
Payment Integrity Information Act Reporting.....	71
Fraud Reduction Report	72
Climate-Related Financial Risk	77
Appendix: Glossary of Acronyms.....	78

Agency Head Message



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

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

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

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

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

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

A handwritten signature in blue ink, appearing to read 'Seileen Mullen', written in a cursive style.

Seileen Mullen

Acting Assistant Secretary of Defense for Health Affairs



I. Management's Discussion and Analysis

Mission and Organization Structure

Description of the Reporting Entity

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

The MHS aims to enhance the DoD and our nation's security by providing health care support for the full range of military operations and sustaining the health of all those entrusted to our care, including active duty personnel, military retirees, certain members of the Reserve Component, family members, widows, survivors, ex-spouses, and other eligible members. These beneficiaries receive direct care through 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 9.6 million eligible beneficiaries. The MHS direct care system is staffed by more than 128,000 personnel in 47 hospitals, 465 medical clinics, and 138 dental clinics at facilities around the globe. The MHS is a complex system that globally integrates: health care delivery, public health and medical education, private sector partnerships, and cutting-edge medical research and development.

Defense Health Agency

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

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

The Quadruple Aim—Improved Readiness, Better Care, Better Health, and Lower Cost—serves as the strategic framework for the MHS. The DHP funds the MHS under the policy direction and guidance of the OASD(HA). The DHP leadership worked closely with Headquarters, Market, and MTF key personnel in developing the FY 2022-2026 DHA Campaign Plan, available at <https://www.health.mil/About-MHS/OASDHA/Defense-Health-Agency/DHA-Campaign-Plan>, to define the ideal five-year end state. The below FY 2026 Future State is our goalpost for

successfully accomplishing the efforts outlined in the FY2022-2026 DHA Campaign Plan. Over the next five years, the DHP will continue to mature and expand capabilities as a Combat Support Agency, optimize the MHS, and drive improvements in health care administration as well as operational support for the Combatant Commands. The DHA's success will be measured against this FY 2026 Future State and will require integrated efforts across eight Strategic Initiatives in support of the DHA's four priorities:

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

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

- Increased Readiness – ensuring that the total military force is medically ready to deploy and that the medical force is ready to deliver supportive health services anytime and anywhere in support of the full range of military operations, including on the battlefield or disaster response and humanitarian aid missions.
- Better Care – continuing to advance health care that is safe, timely, effective, efficient, equitable, and patient and family-centered.
- Better Health – improving, maintaining, and restoring the health of the fighting force as well as all entrusted to our care. Doing so reduces the frequency of visits to our military hospitals and clinics by keeping the people we serve healthy. We are making the transformation from health care to health by encouraging healthy behaviors, increasing health resilience, and decreasing the likelihood of illness through focused prevention.
- Lower Costs – increasing value by focusing on quality, eliminating waste, and reducing unwarranted variation. In the move toward value-based health care, we begin to consider the total cost of care over time, not just the cost of care at a single point in time. We are becoming more agile in our decision making and longer-term opportunities to change the trajectory of cost growth by building value and improving the health of all we serve.

The DHA is the administrative agency for the TRICARE health program. TRICARE consists of care both in the direct care system and in the private sector through managed care support contracts and the TRICARE health care benefit.

The direct care system consists of medical centers, hospitals, and ambulatory clinics located worldwide. Effective October 25, 2019, the DHA is responsible for exercising authority, direction, and control of MTFs in fulfillment of the National Defense Authorization Act (NDAA) for FY 2017, Section 702. One of the goals of the NDAA for FY 2017, Section 702 was to eliminate variances in processes in order to eliminate unnecessary overhead and support the MHS's Quadruple Aim. The DHA will direct and administer the direct care system by establishing standard DHA guidance, reporting relationships, and implementing a market construct. Markets consist of one or more MTFs, which will be under a single authority reporting to the DHA, and which will allow better utilization of medical assets in support of a ready medical force and a medically ready force.

From the private sector care perspective, TRICARE is administered by the DHA on a regional basis. In fulfillment of Section 701 of the 2017 NDAA, the DoD implemented the most sweeping changes to the TRICARE benefit structure since TRICARE was established in 1995. Contract management adjusted to synchronize these changes with the DoD's transition to the TRICARE 2017 contracts and regional oversight. The TRICARE changes expand beneficiary choice, improve access to network providers, modernize beneficiary cost-sharing, and enhance administrative

efficiency. The Managed Care Support Program section within the purchased care delivery branch provides government oversight of two regional managed care support contracts: Humana Military in the East Region and Health Net Federal Services in the West Region. These managed care support contractors (MCSCs) provide private sector health care services to TRICARE enrollees located within the United States. 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, 2018, which established two TRICARE regions in the United States, East and West, with a single contract for each region. Before January 1, 2018, the private sector care contracts were organized into three geographical regions –North, South, and West. The current generation merged the North and the South regions, now called the East region.

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

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.

Contract Resource Management

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

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

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

DHA-CRM Funding Sources

Fiscal Year	MERHCF Funding (Billions)	Annual Appropriations (Billions) *
2022	\$9.0	\$18.0
2021	\$8.8	\$16.2

* DHA-CRM received FADs (Funding Authorization Document) for FY21/9700 of \$16.2 billion through September 30, 2021. DHA-CRM received FADs for FY22/9700 of \$18.0 billion through September 30, 2022.

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

For FY 2022, the "Consolidated Appropriations Act, 2022", P.L. No. 117-103, became law March 15, 2022, providing DoD funding for FY 2022.

TRICARE

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

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

- **TRICARE Prime** is an enrollment plan comparable to health maintenance organization (HMO) plans. Each enrollee is assigned a primary care manager (PCM), a health care provider who is responsible for helping the patient manage his or her care, promoting preventive health services (e.g., routine exams and immunizations), and arranging for specialty provider services as indicated. TRICARE Prime access standards apply to the travel time to reach a primary care or specialty care provider, waiting times to get an appointment, and waiting times in doctors' offices. TRICARE Prime's point-of service (POS) option permits enrollees to obtain care from TRICARE-authorized providers other than the assigned PCM without a referral, but with deductibles and cost shares significantly higher than those under TRICARE Select.
 - **TRICARE Prime Remote (TPR)** enrollment is offered to certain Service members remote from MTFs.
 - **TRICARE Prime Remote for Active Duty Family Members (TPRADFM)** enrollment is offered to qualified dependents of Service member sponsors, active and reserve, on active duty more than 30 days.
 - **Uniformed Services Family Health Plan (USFHP)** is a TRICARE Prime plan offered to non-Active Duty beneficiaries at statutorily specified locations in six areas: Washington, Texas, Maine, Maryland, Massachusetts, and New York/New Jersey. Enrollees receive all services, including pharmacy, exclusively from their particular enrolled USFHP plan; no MTF services.
- **TRICARE Select** is an enrollment-based health plan comparable to preferred provider organization (PPO) plan that 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 may qualify to enroll. Retirees, their families, and certain survivors must pay enrollment fees to participate.

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

- **TRICARE For Life (TFL)** is for TRICARE-eligible beneficiaries who have Medicare Parts A and B. TFL functions similar to Medigap policies; TFL pays secondary to Medicare for TRICARE-covered services.
- **Transitional Assistance Management Program (TAMP)** plan provides 180 days of premium-free coverage upon release of certain Service member sponsors, active or reserve, from Active Duty served more than 30 days.
- **Other Plans and Programs:** Some beneficiaries may qualify for other benefit options depending on their location, Active/Reserve status, and/or other factors:
 - Premium-based health plans, including:
 - TRICARE Young Adult (TYA), available for purchase by qualified former dependent children up to the age of 26. They may choose TRICARE Prime, where offered locally, or TRICARE Select coverage
 - TRICARE Reserve Select (TRS), available for purchase by qualified Selected Reserve members. TRS delivers TRICARE Select coverage
 - TRICARE Retired Reserve (TRR), available for purchase by qualified Retired Reserve members
 - TRICARE Dental Program (TDP), available for purchase by Selected Reserve members and family members, and family members of Active Duty members
 - Continued Health Care Benefit Program (CHCBP), which is comparable to Consolidated Omnibus Budget Reconciliation Act (COBRA) continuation coverage
 - Federal Employees Dental and Vision Insurance for Program (FEDVIP) offers dental insurance for purchase by retirees and vision insurance for purchase by most non-service member beneficiaries enrolled in a TRICARE health plan. FEDVIP is operated by the U.S. Office of Personnel Management (OPM), no DoD
 - Other major benefits and plans, including:
 - Dental benefits (military dental treatment facilities and claims management for Active Duty using civilian dental services)
 - Pharmacy: MTFs, TRICARE retail network pharmacies, and TRICARE Pharmacy Home Delivery program
 - Overseas 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
 - Clinical and educational services demonstration programs (e.g., autism services, and the accountable care organization [ACO])

Health Care Purchased From Civilian Providers

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

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

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

Medicare Eligible Retiree Health Care Plans

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

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

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

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

DHA Program Integrity Office

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

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

During calendar year 2021, the DHA PI actively managed 693 investigative cases, 110 new cases were opened, and the PI responded to over 600 lead requests and fraud allegation inquiries.²

² The data reported above was obtained from the calendar year 2021 Annual Fraud and Abuse Report. FY 2022 data will not be available until published in 2023, due to the time required to compile 4th Quarter, FY 2022 data.

Analysis of Performance Goals, Objectives, and Results

Performance Measures

The *Evaluation of the TRICARE Program: Fiscal Year 2022 Report to Congress Access, Cost, and Quality Data through Fiscal Year 2021*, reflects the DHA's mission and vision statements, updates and refines descriptions of core values, and presents key results of the metrics supporting the DHA's Strategic Plan that focuses on how the DHA defines and measures mission success, and how the DHA plans to continuously improve performance. The DHA-CRM supports these goals through its mission to add value to the DHA by delivering exceptional accounting, financial, and reporting services in support of the TRICARE Private Sector Healthcare and TRICARE Retail Pharmacy Refund programs.

Stakeholder Perspective³

- The \$52.3 billion Unified Medical Program (UMP) presented in the FY 2022 President's Budget, including estimated outlays from the MERHCF, is 1.3% higher than the \$51.7 billion in estimated expenditures in FY 2021 and is 7% of total FY 2022 estimated DoD outlays.
- In 2021, 9.6 million beneficiaries were eligible for DoD medical care. Of those, almost 4.7 million (49%) enrolled in TRICARE Prime (including TYA Prime and USFHP).
- TYA enrollment decreased to just over 39,500 beneficiaries in FY 2021, from about 40,000 in FY 2020, with most enrolled in TRICARE Select.
- In FY 2021, there were 326,867 enrollees in the premium-based TRS, a significant decrease from the previous year (390,166 enrollees in FY 2020). TRR had 11,519 enrollees in FY 2021, an increase from 10,861 in FY 2020.

MHS Workload and Cost Trends

- The percentage of beneficiaries using MHS services declined slightly from 86% in FY 2019 to 85% in FY 2021.
- Excluding TFL, total MHS workload (direct and purchased care combined) fell from FY 2019 to FY 2021 for inpatient care (-8%) and prescription drugs (-8%). Outpatient care workload increased by 3% over the same time period.
- From FY 2019 to FY 2021, direct care workload decreased for inpatient care (-12%), outpatient care (-10%), and prescription drugs (-16%). Over the same period, total direct care costs fell by 19%.
- Excluding TFL, private sector care workload declined for inpatient care (-6%), but increased for outpatient care (11%) and prescription drugs (9%). Overall, private sector care costs rose by 6%.
- The private sector care portion of total MHS health care expenditures rose from 56% in FY 2019 to 59% in FY 2021.
- In FY 2021, out-of-pocket costs for MHS beneficiary families under age 65 were between \$6,800 and \$7,400 lower than those for their civilian counterparts, while out-of-pocket costs for MHS senior families were \$3,300 lower.

Lower Cost

- MHS estimated savings include nearly \$987 million in retail pharmacy refunds in FY 2021 and \$509 million in PI activities in calendar year 2020.

Improved Readiness

- **Force Health Protection:** At the end of FY 2021, the overall medical readiness of the Total Force was at 83%, with the Active Component and the Reserve Component at 83%, not meeting the strategic goal of

³ Source of all metrics presented is the *Evaluation of the TRICARE Program: Fiscal Year 2022 Report to Congress Access, Cost, and Quality Data through Fiscal Year 2021*.

85%. Dental readiness, at 93%, was below the MHS goal of 95%. The MHS surgical community is leading the way in identifying and enumerating critical clinical readiness skill sets.

Better Care

- **Access to Care:** Patient-Centered Medical Home (PCMH) primary care administrative measures indicate that, in FY 2021, MTF enrollees saw their primary care provider 55% of the time. In FY 2021, there was an improvement in the average number of days to third next available 24-hour (1.76 days) and future (5.51 days) appointments. Network urgent care usage increased substantially from 18.4 visits per 100 enrollees in FY 2020 to 22.6 visits per 100 enrollees in FY 2021 due to COVID-19 screening and vaccination. MTF responsiveness to secure messaging was 81%. The Joint Outpatient Experience Survey (JOES) shows 70 to 80% of MTF users in FY 2021 reported they could get care when needed. Administrative data shows that 86% of non-Active Duty enrollees had at least one primary care visit in FY 2021.
- **Hospital Quality of Care:** MTFs and MHS civilian network hospital performance perinatal quality measures are comparable to The Joint Commission® (TJC) hospital benchmarks. MHS civilian network hospitals and inpatient MTFs are required to maintain accreditation by a recognized external accreditation organization to demonstrate compliance with national standards of care.
- **Outpatient Care:** In FY2021, MTF Healthcare Effectiveness Data and Information Set (HEDIS®) rates exceed the national 90th percentile for mental health follow-up and surpass the national 50th percentile for cervical cancer screening and lower back imaging.
- **Beneficiary Ratings of Inpatient Care - Overall Hospital Rating:** Direct care has shown improved patient hospital ratings from FY 2019 to FY 2021, meeting or exceeding the national Hospital Consumer Assessment of Healthcare Providers and Systems (HCAHPS) benchmark average in the medical and surgical product lines. Ratings in the obstetric product line remain stable and below the HCAHPS benchmark.
- **Patient Safety:** The MHS direct care system has been focusing on reducing Wrong-Site Surgery (WSS) Reportable Event (RE) education and leadership engagement, with a goal of zero events. The MHS experienced a significant drop in WSS Res from 2019 to 2020 due to the pandemic and subsequently saw a return to 2019 levels as surgical volumes returned to pre-pandemic levels.
- **MHS Provider Trends:** The number of TRICARE network providers increased by 22% from FY 2017 to FY 2021. The total number of participating providers increased by 9% and by 8% for specialist since FY 2017 over the same time period.
- **Access for TRICARE Select (Standard/Extra) Users:** Results from the FY 2021 congressionally mandated four-year survey of civilian providers show 87% of physicians and 51% of behavioral health providers accept new TRICARE Select patients.

Analysis of Financial Statements

Comparative Financial Data

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

Contract Resource Management Table of Key Measures							
<i>(dollars in thousands)</i>	FY 2022		FY 2021		Increase/(Decrease)		
					\$	%	
Costs							
Total Financing Sources	\$	17,307,779	\$	16,314,210	\$	993,569	6%
Less: Net Cost		49,054,947		16,607,617		32,447,330	195%
Net Change of Cumulative Results of Operations	\$	(31,747,168)	\$	(293,407)	\$	(31,453,761)	10720%
Net Position							
Assets:							
Fund Balance with Treasury	\$	1,308,663	\$	1,412,137	\$	(103,474)	-7%
Accounts Receivable, Net		527,834		615,294		(87,460)	-14%
Total Assets	\$	1,836,499	\$	2,027,459	\$	(190,960)	-9%
Liabilities:							
Accounts Payable	\$	454,450	\$	431,342	\$	23,108	5%
Federal Employee and Veteran Benefits Payable		233,083,213		202,058,642		31,024,571	15%
Total Liabilities	\$	233,537,665	\$	202,490,012	\$	31,047,653	15%
Net Position (Assets minus Liabilities)	\$	(231,701,166)	\$	(200,462,553)	\$	(31,238,613)	16%

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

Total Financing Sources

Total Financing Sources increased by \$993.6 million (6%) because of an increase in healthcare costs.

Net Cost

Total Net Cost of Operations increased \$32.4 billion (195%) for the reasons noted below.

Total Costs

Intragovernmental costs increased \$4.4 million (1%) due to increases in the TRICARE Pharmacy Home Delivery benefit program of \$5.2 million, accounting for 118% of the increase.

Public costs, other than losses/gains from actuarial assumption changes, increased \$13.6 billion (65%) primarily due to an increase Actuarial Expense – Other than Losses/(Gains) from Assumption changes of \$11.5 billion, and an increase in Operations, Readiness, and Support of \$2.1 billion accounting for 100% of the increase.

The increase in Operations, Readiness, and Support was driven by an increase in healthcare costs.

Losses from actuarial assumption changes increased \$18.9 billion (497%) (see below).

The actuarial liability for Military Pre Medicare-Eligible Retiree Health Benefits has three components that affect net cost. The first, Expenses Other than Losses/(Gains) from Actuarial Assumption Changes, mentioned above, increased \$11.9 billion. The second, Losses/(Gains) from Actuarial Assumption Changes increased \$18.9 billion and the third, Benefit Outlays, increased \$0.3 billion, netting to an increase in actuarial expenses of \$30.5 billion. The actuarial liability is discussed in detail in Note 6.

Total Revenue

Total earned revenue increased \$91.0 million (6%). Intragovernmental revenue increased \$43.8 million (7%) attributable to an increase in revenue from the Coast Guard of \$35.2 million and PHS of \$8.2 million, accounting for 99% of the increase.

Public revenue increased \$47.2 million (5%) attributable to an increase in revenue from Prime Enrollment Fees of \$13.9 million, Select Enrollment Fees of \$21.8 million, and TRS of \$8.8 million, accounting for 94% of the increase.

Net Change in Cumulative Results of Operations

Net Change in Cumulative Results of Operations decreased \$31.5 billion due to an increase in budgetary financing sources and an increase in net costs as discussed above.

Fund Balance with Treasury (FBWT)

FBWT decreased \$103.4 million (-7%). The decrease is attributable to a decrease in unobligated balance unavailable of \$129.2 million and obligations not yet disbursed of \$117.0 million, offset by an increase in unobligated balance available of \$144.8 million (programmatic FAD increase offset by increase in obligations), accounting for 98% of the decrease.

Accounts Receivable, Net

Accounts Receivable, Net decreased \$87.5 million (14%).

Intragovernmental Accounts Receivable, Net increased \$5.5 million (10%) attributable to the timing of collections from PHS of \$7.1 million, accounting for 129% of the increase.

Other than Intragovernmental Accounts Receivable, Net decreased \$92.9 million (17%), attributable to a decrease in Other Receivables of \$122.5 million offset by an increase of \$29.6 million in the TRICARE Retail Pharmacy Refunds Program.

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

The decrease in Other Receivables of \$122.5 million, mentioned above, was primarily due to a decrease in Office of General Counsel (OGC) cases of \$129.1 million, accounting for 105% of the decrease.

Total Assets

Total Assets decreased \$191.0 million (-9%), primarily due to the decreases in FBWT of \$103.5 million and Accounts Receivable, Net of \$87.5 million.

Accounts Payable

Accounts payable increased \$23.1 million (5%), primarily attributable to increases in other than intragovernmental payables of \$22.7 million, 98% of the increase. Other than intragovernmental payables increased primarily due to increases in Supplemental Health Care of \$28.6 million, 126% of the increase.

Federal Employee and Veteran Benefits Payable

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

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

DHA-CRM actuarial liability is adjusted at the end of each fiscal year. The 4th Quarter, FY 2022 balance represents the September 30, 2022 amount.

Total Liabilities

Total Liabilities increased \$31.0 billion (15%), primarily due to the increase in Federal Employee and Veteran Benefits Payable discussed above.

Net Position

Net Position decreased \$31.2 billion (-16%), due to the decreases in assets and increases in liabilities discussed above.

COVID-19 Resources

In FY2020, DHA-CRM received \$82.0 million in supplemental funding under the Families First Act (P.L. 116-127 Families First Coronavirus Response Act) to cover co-pay/cost share waivers for COVID-19 diagnostic testing and services. As of September 30, 2020, DHA-CRM had incurred obligations of \$61.2 million to cover co-pay/cost share waivers for COVID-19 diagnostic testing and services, and an unobligated balance of \$20.8 million remained available for this purpose. As of September 30, 2021, DHA-CRM has incurred obligations of \$73.4 million to cover co-pay/cost share waivers for COVID-19 diagnostic testing and services, and an unobligated balance of \$8.6 million remained available for this purpose in FY 2022. The beginning unobligated balance for FY 2022 was \$8.6 million and the \$17.1 thousand in remaining funds at the end of FY 2022 expired on September 30, 2022.

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

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

In FY 2022, DHA-CRM incurred total COVID-19 related costs of \$1.0 billion, including \$996.1 million of COVID-19 related healthcare costs in excess of the supplemental budgetary resources received under the CARES Act for responding to COVID-19. No additional supplemental funding was allocated to DHA-CRM for responding to the COVID-19 emergency in FY 2022, as COVID-related health care costs incurred during the year were within the purpose of DHA-CRM's O&M appropriation and adequately funded through DHA-CRM's allotted funding, 1% O&M carryover, and transfers-in of funding from the DHP. These COVID-19 related costs have not otherwise had a significant financial or performance impact on DHA-CRM's assets, liabilities, net costs, revenue or net position for FY 2022.

For COVID-19 disclosure related information see Note 14.

Analysis of Systems, Controls, and Legal Compliance

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

Management Assurances

The Assurance Statements below were provided for FY 2022 Federal Manager's Financial Integrity Act (FMFIA).



DEFENSE
HEALTH AGENCY

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

DATE: September 30, 2022

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

FROM: Kelly Thiel, Chief, Contract Resource Management

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

- As the Chief of the Contract Resource Management (CRM), Defense Health Agency (DHA), I recognize the DHA-CRM is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. The DHA-CRM conducted its assessment of risk and internal control in accordance with the OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control"; and the Green Book, GAO-14-704G, "Standards for Internal Control in the Federal Government." Based on the results of the assessment, the DHA-CRM can provide reasonable assurance that internal controls over operations, reporting, and compliance are operating effectively as of September 30, 2022.
- The DHA-CRM conducted its assessment of the effectiveness of internal controls over operations in accordance with OMB Circular No. A-123, the GAO Green Book, and the FMFIA. The *Summary of Management's Approach to Internal Control Evaluation* section provides specific information on how the DHA-CRM conducted this assessment. Based on the results of the assessment, the DHA-CRM can provide reasonable assurance that internal controls over operations and compliance are operating effectively as of September 30, 2022.
- The DHA-CRM conducted its assessment of the effectiveness of internal controls over reporting (including internal and external financial reporting) in accordance with OMB Circular No. A-123, Appendix A. The *Summary of Management's Approach to Internal Control Evaluation* section, provides specific information on how the DHA-CRM conducted this assessment. Based on the results of the assessment, the DHA-CRM can provide reasonable assurance that internal controls over reporting (including internal and external reporting) as of September 30, 2022), and compliance are operating effectively as of September 30, 2022.
- The DHA-CRM also conducted an internal review of the effectiveness of the internal controls over the integrated financial management systems in accordance with FMFIA and OMB Circular No. A-123, Appendix D. The *Summary of Management's Approach to Internal Control Evaluation* section provides specific information on how the DHA-CRM conducted this assessment. Based on the results of this assessment, the DHA-CRM can provide reasonable assurance that the internal controls over the financial systems are in compliance with the FMFIA, Section 4; FMFIA, Section 803; and OMB Circular No. A-123, Appendix D, as of September 30, 2022.



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- The DHA-CRM has conducted an assessment of entity-level controls including fraud controls in accordance with the Green Book, OMB Circular No. A-123, the Payment Integrity Information Act of 2019, and GAO Fraud Risk Management Framework. Based on the results of the assessment, the DHA-CRM can provide reasonable assurance that entity-level controls including fraud controls are operating effectively as of September 30, 2022.
- The DHA-CRM is hereby reporting that no Anti-Deficiency Act (ADA) violation has been discovered/identified during our assessments of the applicable processes.

If there are any questions regarding this Statement of Assurance for FY 2022, my point of contact is Mr. Michael Janis and can be reached at [REDACTED]

[REDACTED]
Kelly Thiel
Chief, Contract Resource Management
DHA Aurora, CO

Status of Audit Findings

DHA-CRM received unmodified opinions for FY 2010 through FY 2022. No material weaknesses were identified during FY 2021 and FY 2022; however beginning in FY 2019 and through FY 2022 a significant deficiency has been noted.

From FY 2019 through FY 2022, the audit has identified a significant deficiency pertaining to certain Information Systems used by DHA-CRM.

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

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

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

DHA-CRM and DMDC agreed with the audit findings received. NFRs identified during the FY 2018 audit were not remediated in a timely manner which caused repeat findings during the FY 2019, FY 2020, FY 2021, and FY 2022 audits. Corrective Action Plans (CAPs) established in FY 2019, FY 2020, FY 2021, and FY 2022 that failed to be fully implemented are required to be modified with new completion dates. DHA-CRM will implement monitoring activities in coordination with DMDC to ensure CAP milestone dates are met for remediation efforts in FY 2023. For specific details please reference the "Independent Auditor's Report on Internal Control Over Financial Reporting" included in the Financial Section of this report.

Compliance with Laws and Regulations

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

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

Anti-Deficiency Act, 31 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 DHA-CRM in accordance with the ADA requirements. As required by the ADA, DHA-CRM notifies all appropriate authorities of any ADA violations. DHA-CRM management has taken and continues to take necessary steps to prevent ADA violations. Investigations of any violations will be completed in a thorough and expedient manner. DHA-CRM remains fully committed to resolving ADA violations appropriately and in compliance with all aspects of the law. DHA-CRM is not aware of any violations of the ADA that must be reported to the Comptroller General, Congress, and the President for the year ended September 30, 2022.

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

In 1982, Congress enacted the Prompt Payment Act (PPA) to require federal agencies to pay their bills on a timely basis, to pay interest penalties when payments are made late, and to take discounts only when payments are made by the discount date. DHA-CRM is in full compliance with this statutory requirement. DHA-CRM is not aware of any violations of the PPA requiring the payment of interest penalties during the year ended September 30, 2022.

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

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

Federal Information Security Modernization Act (FISMA) of 2014

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

Federal Financial Management Improvement Act (FFMIA) of 1996

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

Federal Managers' Financial Integrity Act (FMFIA) of 1982

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

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

The DATA Act expands the FFATA to increase accountability and transparency in federal spending, making federal expenditure information more accessible to the public. It directs the Federal Government to use government-wide data standards for developing and publishing reports and to make more information, including award-related data, available on the USASpending.gov Web site. The standards and Web site allow stakeholders to track federal spending more effectively. Among other goals, the DATA Act aims to improve the quality of the information on USASpending.gov, as verified through regular audits of the posted data, and to streamline and simplify reporting requirements through clear data standards. 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 Office of Management and Budget (OMB) over the DATA Act, a revised Appendix A to Circular A-123 was released in June 2018. The revised Appendix was accompanied with a cover letter that requires DATA Act reporting agencies to create Data Quality Plans. Consideration of this plan must be included in agencies' existing annual assurance statement for internal controls over reporting beginning in FY 2021 and continuing through the assurance statement covering FY 2022 at a minimum or until agencies determine that they can provide reasonable assurance over the data quality controls that support achievement of the reporting objectives in accordance with the DATA Act.

Systems

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

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

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

- Improper payments
- Inaccurate claims paid
- Unauthorized reimbursed claims

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

DHA-CRM 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.

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

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

DHA-CRM is responsible for implementing and maintaining FMS that substantially comply with Federal financial management system requirements, Federal accounting standards, and the USSGL at the transaction level. DHA-CRM determined that the FMS substantially complied with the Federal financial management systems requirements, Federal accounting standards, and application of the USSGL at the transaction level as of September 30, 2022.

The September 2007 Defense Business Systems Management Committee (DBSMC) resulted in the Investment Review Board (IRB) directing DHA-CRM E-Commerce System (DHA-CRM ECS) program, as a Target Accounting System, to “comply with the Office of the Under Secretary of Defense (Comptroller) (OUSD (C)) memorandum, ‘SFIS Implementation Policy’ dated August 4, 2005.” DHA-CRM achieved SFIS compliance during FY 2011. DHA-CRM continued to maintain SFIS compliance through FY 2022.

TEDS

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

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

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

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

E-Commerce

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

OFF

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

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

The healthcare (TEDS) claims processing function is performed by the OFF-TCM extension. TCM is a custom built extension to OFF which converts healthcare (TEDS) data into financial data that can then be processed by standard (COTS) OFF. The TCM conversion of healthcare data is of critical importance to the accuracy of the financial information presented in DHA-CRM's financial statements. TRICARE processed approximately 198 million claims (invoices) through TEDS during FY 2022, valued at approximately \$22.4 billion. The financial conversion, processing and posting of TEDS data from commitment/obligation through payable/receivable is 100% automated. In addition to creating budgetary and accounting transactions, TCM supports the TEDS system by providing daily financial data to TEDS. Without the data received from the OFF-TCM extension the TEDS system would be unable to process and properly edit the contractor's daily data submissions. TEDS functions supported by the OFF-TCM data provided include:

- header and detail data editing used for government acceptance of services

- funds control at both the commitment and obligation level
- prevention of duplicate billings at the header level

The OFF application is a current; fully supported Version of Oracle R-12. DHA-CRM ECS program successfully deployed Version R-12.2.8 technical upgrade in July 2021. DHA-CRM remains compliant through FY 2022.

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

During FY 2022, DHA-CRM ECS Program continued to sustain and enhance all deployed phases through Phase V of the Pharmacy Modernization Project, which further streamlined the ingestion, processing and resolution of disputes.

Forward-Looking Information

The FY 2023 DHP budget request presents a balanced, comprehensive strategy that aligns with the Secretary of Defense's priorities to (1) defend the nation; (2) take care of our people; and (3) succeed through teamwork. It includes funding for the Department's ongoing efforts to support COVID-19 and pandemic response priorities to integrate essential requirements for prevention, diagnosis, and surveillance health activities.

In response to the NDAA of FY 2017, the DHA continues to find efficiencies through consolidation of health care plans, and integration of the direct health care facilities into the organization. The majority of the changes affected the MTFs, and only to a lesser extent the Private Sector Care contracts. As the transition of MTFs to the DHA's management is completed per the Department's approved, conditions-based execution plan, the FY 2023 budget request reflects a continued focus on business reforms and process standardizations to ensure projected savings stemming from the transition are realized. The DHA's centralized administration of MTFs will transform the MHS into an integrated readiness and health system, eliminate redundancies, and create a standardized high quality care experience for our beneficiaries. The ongoing modernization of the private sector care portion of the TRICARE program is another element of the MHS Transformation is under the NDAA FY 2017.

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

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) ($FCP = 76\% \times \text{Non-FAMP}$).

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 DoD for the TRICARE retail pharmacy program.

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

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

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

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

The table on the following page highlights DoD activity since the inception of the Program. DoD has collected \$15.7 billion to date and continues rigorous collection efforts for both programs.

TRICARE Retail Pharmacy Refunds Program

Program To Date (CY 2008-3rd Quarter, CY 2022)	Total	DHP	Non-DoD	MERHCF
SDP -				
Billed	\$10,045,772,513	\$4,503,451,087	\$157,039,506	\$5,385,281,920
Collected	(9,743,230,824)	(4,372,577,364)	(151,746,158)	(5,218,907,302)
Net	302,541,689	130,873,723	5,293,348	166,374,618
ADP -				
Billed	\$6,227,543,995	\$2,784,471,898	\$98,347,132	\$3,344,724,965
Collected	(5,930,771,811)	(2,655,791,827)	(93,414,652)	(3,181,565,332)
Net	296,772,184	128,680,071	4,932,480	163,159,633
UDC ¹	(2,121,171)	(918,508)	(35,107)	(1,167,556)
Total -				
Billed	\$16,273,316,508	\$7,287,922,985	\$255,386,638	\$8,730,006,885
Collected	(15,674,002,635)	(7,028,369,191)	(245,160,810)	(8,400,472,634)
UDC	(2,121,171)	(918,508)	(35,107)	(1,167,556)
Net	\$597,192,702	\$258,635,286	\$10,190,721	\$328,366,695
Aging -				
Current	\$564,279,222	\$244,581,236	\$9,344,465	\$310,353,521
61 Days to 2 Years ²	3,089,702	982,214	398,626	1,708,862
Over 2 Years	29,823,778	13,071,836	447,630	16,304,312
Total³	\$597,192,702	\$258,635,286	\$10,190,721	\$328,366,695

1. Unapplied Collections (UDC) applied to Calendar Year 22.
2. Pharmacy debt not delinquent until 70 days. 70-day Accounts Receivable (A/R) aging bucket not available; 61-day aging used instead.
3. 3QCY2022 Estimate added to Billings to reconcile with A/R: \$152,356,000 MERHCF; \$124,655,000 DHP & Non-DoD.

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

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

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

DHA-CRM in FY 2022 continued to aggressively collect pharmacy refunds for both the SDP and ADP. Through the concerted efforts of DHA-CRM, Pharmacy Operations Division (POD), HCDA, and OGC, DHA-CRM’s collection rate has continued to average 97% - 99%.

Government Invoicing – G-Invoicing Initiative:

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

Limitations of the Financial Statements

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



II. Financial Section

Office of the Inspector General Transmittal 2022



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

November 7, 2022

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

SUBJECT: Transmittal of the Independent Auditor's Reports on the Defense Health Agency-Contract Resource Management Financial Statements and Related Notes for FY 2022 and FY 2021 (Project No. D2022-D000FT-0080.000, Report No. DODIG-2023-011)

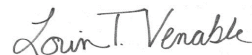
We contracted with the independent public accounting firm of Kearney & Company, P.C. (Kearney & Company) to audit the Defense Health Agency-Contract Resource Management (DHA-CRM) Financial Statements and related notes as of and for the fiscal years ended September 30, 2022, and 2021. The contract required Kearney & Company to provide a report on internal control over financial reporting and compliance with provisions of applicable laws and regulations, contracts, and grant agreements, and to report on whether the DHA-CRM's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract required Kearney & Company to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," June 2022, Volume 1, Volume 2 (Updated, June 2022), and Volume 3 (Updated, June 2022). Kearney & Company's Independent Auditor's Reports are attached.

Kearney & Company's audit resulted in an unmodified opinion. Kearney & Company concluded that the DHA-CRM Financial Statements and related notes as of and for the fiscal years ended September 30, 2022, and 2021, were presented fairly in all material respects, in accordance with Generally Accepted Accounting Principles.

Kearney & Company's separate report, "Independent Auditor's Report on Internal Control Over Financial Reporting," did not identify any material weaknesses related to DHA-CRM's internal controls over financial reporting.* Kearney & Company's additional report, "Independent Auditor's Report on Compliance With Laws, Regulations, Contracts, and Grant Agreements," did not identify any instances of noncompliance with provisions of applicable laws and regulations, contracts, and grant agreements.

In connection with the contract, we reviewed Kearney & Company's reports and related documentation and discussed them with Kearney & Company's representatives. Our review, as differentiated from an audit of the financial statements and related notes in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the DHA-CRM FY 2022 and FY 2021 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal control over financial reporting, on whether the DHA-CRM's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with provisions of applicable laws and regulations, contracts, and grant agreements. Our review disclosed no instances where Kearney & Company did not comply, in all material respects, with GAGAS. Kearney & Company is responsible for the attached November 7, 2022 reports, and the conclusions expressed within the reports.

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



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

Attachments:

As stated

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

Independent Auditor's Report 2022



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Defense Health Agency (DHA) – Contract Resource Management (CRM), which comprise the Balance Sheets as of September 30, 2022 and 2021, 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-CRM as of September 30, 2022, and 2021, 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. 22-01, *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-CRM 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: 1) the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; 2) the preparation, measurement, and presentation of Required Supplementary Information (RSI) in accordance with U.S. generally accepted accounting principles; 3) the preparation and presentation of Other Information included in DHA-CRM's Agency Financial Report, as well as ensuring the consistency of that information with the audited financial statements and the RSI; and 4) the design, implementation, and maintenance of internal control



relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our 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 *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 *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-CRM'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-CRM's ability to continue as a going concern for a reasonable period of time.



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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management’s Discussion and Analysis (hereinafter referred to as “RSI”) be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by OMB and the Federal Accounting Standards Advisory Board (FASAB), who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing it for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic 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 a Summary of Financial Statement Audit and Manager Assurances and the Payment Integrity as Other Information 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.

Other Reporting Required by *Government Auditing Standards*

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



Government Auditing Standards and OMB Bulletin No. 22-01 and should be considered in assessing the results of our audits.

A handwritten signature in blue ink that reads "Kearney & Company".

Alexandria, Virginia
November 7, 2022



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

We 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. 22-01, *Audit Requirements for Federal Financial Statements*, the financial statements of the Defense Health Agency (DHA) – Contract Resource Management (CRM) as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise DHA-CRM's basic financial statements, and we have issued our report thereon dated November 7, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered DHA-CRM's internal control over financial reporting (internal control) 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-CRM's internal control. Accordingly, we do not express an opinion on the effectiveness of DHA-CRM's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 22-01. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses.



We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings as item **I** that we consider to be a significant deficiency.

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

DHA-CRM's Response to Findings

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

Purpose of this Report

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

A handwritten signature in blue ink that reads "Kearney & Company". The signature is written in a cursive, flowing style.

Alexandria, Virginia
November 7, 2022



Schedule of Findings and Response

Significant Deficiency

I. Information Systems (*Repeat Condition*)

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

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

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

Our testing disclosed deficiencies in the following areas:

- Access Controls and Segregation of Duties
 - Incomplete or not fully implemented policies and procedures for managing and monitoring access to key financial management applications and databases, including third-party systems
 - Incomplete or not fully implemented policies and procedures for the proper segregation of duties, including documented business justifications for existing segregation of duties conflicts, for key financial management applications
 - Inconsistent implementation of user account recertification to verify the propriety of access to key financial management systems
 - Inconsistent logging and monitoring of activity for key financial management systems
- Configuration Management
 - Incomplete, inconsistent, or unmaintained documentation of configuration changes for key financial management applications, including an incomplete listing of changes implemented into the production environment.



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

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

Recommendations: As discussed within the final NFRs noted above, Kearney recommends that DHA-CRM perform the following:

1. Develop and implement a QC review over the user authorization and user access review processes, to include procedures to ensure the completeness and accuracy of the access request forms and access listings reviewed.
2. Design and implement controls to mitigate any segregation of duties risks identified.
3. Continue to perform information system environment improvement projects related to audit logging.
4. Update and implement configuration management procedures to include QC reviews. These reviews should ensure that all changes follow a defined and controlled process, including maintaining appropriate supporting documentation from initial change request through implementation into the production environment.

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

* * * * *



APPENDIX A: STATUS OF PRIOR-YEAR DEFICIENCY

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

Exhibit 1: Status of Prior-Year Findings

Control Deficiency	FY 2021 Status	FY 2022 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 Defense for Health Affairs and Inspector General of the Department of Defense

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 22-01, *Audit Requirements for Federal Financial Statements*, the financial statements of the Defense Health Agency (DHA) – Contract Resource Management (CRM) as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise DHA-CRM's basic financial statements, and we have issued our report thereon dated November 7, 2022.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether DHA-CRM's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the financial statement, and provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and did not test compliance with all laws, regulations, contracts, and grant agreements applicable to DHA-CRM. However, providing an opinion on compliance with those provisions was not an objective of our audit; accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 22-01.

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



Purpose of this Report

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

A handwritten signature in blue ink that reads "Kearney & Company". The signature is written in a cursive, flowing style.

Alexandria, Virginia
November 7, 2022

Principal Financial Statements

Department of Defense
 Defense Health Agency
 Contract Resource Management
 BALANCE SHEETS
 As of September 30, 2022 and 2021
 (\$ In Thousands)

	2022	2021
Assets		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	\$ 1,308,663	\$ 1,412,137
Accounts Receivable, Net (Note 4)	57,877	52,388
Total Intragovernmental	1,366,540	1,464,525
Other Than Intragovernmental		
Cash and Other Monetary Assets (Note 3)	2	28
Accounts Receivable, Net (Note 4)	469,957	562,906
Total Other Than Intragovernmental	469,959	562,934
Total Assets	\$ 1,836,499	\$ 2,027,459
Liabilities		
Intragovernmental:		
Accounts Payable	\$ 11,374	\$ 10,974
Total Intragovernmental	11,374	10,974
Other Than Intragovernmental		
Accounts Payable	443,076	420,368
Federal Employee and Veteran Benefits Payable (Notes 5 and 6)	233,083,213	202,058,642
Other (Note 7)	2	28
Total Other Than Intragovernmental	233,526,291	202,479,038
Total Liabilities	\$ 233,537,665	\$ 202,490,012
Commitments and Contingencies (Note 8)		
Net Position		
Unexpended Appropriations - Other Funds	\$ 911,299	\$ 402,744
Cumulative Results of Operations – Funds from other than Dedicated Collections	(232,612,465)	(200,865,297)
Total Net Position	\$ (231,701,166)	\$ (200,462,553)
Total Liabilities and Net Position	\$ 1,836,499	\$ 2,027,459

The accompanying notes are an integral part of these statements.

Department of Defense
 Defense Health Agency
 Contract Resource Management
 STATEMENTS OF NET COST
 For the Years Ended September 30, 2022 and 2021
 (\$ In Thousands)

	2022	2021
Program Costs		
Gross Costs (Note 9)		
Operations, Readiness & Support	\$ 19,926,557	\$ 17,840,594
Actuarial Non Assumption Costs	15,584,277	4,072,232
Less: Earned Revenue	(1,584,080)	(1,493,079)
Net Program Costs	\$ 33,926,754	\$ 20,419,747
 (Gain)/Loss from Actuarial Assumption Changes for Military Retirement Benefits (Note 6)	 15,128,193	 (3,812,130)
Net Program Costs Including Assumption Changes	\$ 49,054,947	\$ 16,607,617
 Net Cost of Operations	 \$ 49,054,947	 \$ 16,607,617

The accompanying notes are an integral part of these statements.

Department of Defense
 Defense Health Agency
 Contract Resource Management
 STATEMENTS OF CHANGES IN NET POSITION
 For the Years Ended September 30, 2022 and 2021
 (\$ In Thousands)

	2022	2021
Unexpended Appropriations:		
Beginning Balance	\$ 402,744	\$ 625,158
Budgetary Financing Sources:		
Appropriations received	18,052,887	15,906,582
Appropriations transferred-in/out	98,127	305,317
Other adjustments (rescissions, etc)	(94,030)	(120,103)
Appropriations used	(17,548,429)	(16,314,210)
Total Budgetary Financing Sources	508,555	(222,414)
Total Unexpended Appropriations	911,299	402,744
Cumulative Results of Operations:		
Beginning Balance	(200,865,297)	(200,571,890)
Budgetary Financing Sources:		
Appropriations used	17,548,429	16,314,210
Transfers-in/out without reimbursement	(240,650)	0
Total Financing Sources	17,307,779	16,314,210
Net Cost of Operations	49,054,947	16,607,617
Net Change	(31,747,168)	(293,407)
Cumulative Results of Operations	(232,612,465)	(200,865,297)
Net Position	\$ (231,701,166)	\$ (200,462,553)

The accompanying notes are an integral part of these statements.

Department of Defense
 Defense Health Agency
 Contract Resource Management
 STATEMENTS OF BUDGETARY RESOURCES
 For the Years Ended September 30, 2022 and 2021
 (\$ In Thousands)

	<u>2022</u>	<u>2021</u>
Budgetary Resources		
Unobligated balance from prior year budget authority, net	\$ 542,281	\$ 794,203
Appropriations (discretionary and mandatory)	18,052,887	16,238,682
Spending authority from offsetting collections (discretionary and mandatory)	<u>1,580,635</u>	<u>1,497,574</u>
Total Budgetary Resources	<u>\$ 20,175,803</u>	<u>\$ 18,530,459</u>
Status of Budgetary Resources		
New obligations and upward adjustments (total)	\$ 19,968,865	\$ 18,339,080
Unobligated balance, end of year		
Apportioned, unexpired accounts	110,557	(34,237)
Unexpired unobligated balance, end of year	110,557	(34,237)
Expired unobligated balance, end of year	<u>96,381</u>	<u>225,616</u>
Unobligated balance, end of year (total)	<u>206,938</u>	<u>191,379</u>
Total Budgetary Resources	<u>\$ 20,175,803</u>	<u>\$ 18,530,459</u>
Outlays, Net		
Outlays, net (total) (discretionary and mandatory)	<u>\$ 17,919,808</u>	<u>\$ 16,431,598</u>
Agency Outlays, Net (discretionary and mandatory)	<u>\$ 17,919,808</u>	<u>\$ 16,431,598</u>

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies

1.A. Reporting Entity

CRM is a component of the U.S Government. For this reason, some of the assets and liabilities reported by the entity may be eliminated for Government-wide reporting because they are offset by assets and liabilities of another U.S. Government entity. These financial statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

1.B. Mission of the Reporting Entity

CRM is a division of the DHA.

The mission of DHA-CRM is:

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

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

1.C. Basis of Presentation

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

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

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

1.D. Basis of Accounting

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

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

The financial statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources and legal authority to do so.

1.E. Accounting for Intragovernmental Activities

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

Goods and services are received from other federal agencies at no cost or at a cost less than the full cost to the providing federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by the Department are recognized as imputed cost in the Statement of Net Cost, and are offset by imputed financing in the Statement of Changes in Net Position. Imputed financing represents the cost paid on behalf of DHA-CRM by another federal entity. In accordance with Statement of Federal Financial Accounting Standards (SFFAS) 55, Amending Inter-entity Cost Provisions, the Department recognizes the general nature of imputed costs only for business-type activities and other costs specifically required by OMB, including (1) employee pension, post-retirement health, and life insurance benefits; (2) post-employment benefits for terminated and inactive employees, to include unemployment and workers compensation under the Federal Employees' Compensation Act (FECA); and (3) losses in litigation proceedings that are paid from the Treasury Judgement Fund. Unreimbursed costs of goods and services other than those identified above are not included in the Department's financial statements.

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

1.F. Non-Entity Assets

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

1.G. Fund Balance with Treasury

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

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

When the 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, which is to borrow from the public if there is a budget deficit (and to use current receipts if there is a budget surplus).

In addition, 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.

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

DHA-CRM has been authorized direct access to Treasury systems to make payments and collections due to the size and nature of their Purchased-Care programs. Treasury expenditure reporting is combined with DoD expenditure reporting for DHA-CRM 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 DHA-CRM, including coins, paper currency, negotiable instruments, and amounts held for deposit in banks and other financial institutions. Foreign currency consists of the total U.S. dollar equivalent of both foreign currency exchanged for U.S. dollars and foreign currency received as payment for goods or services. Foreign currency is valued using the Treasury prevailing rate of exchange. The TFM Volume I, Part 2, Chapter 3200, provides guidance for accounting and reporting foreign currency.

Cash and other monetary assets reported consist of undeposited collections received by DHA-CRM before month-end but after the Treasury month-end cutoff. A corresponding liability is recorded because DHA-CRM 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 accounts receivable, claims receivable, and refunds receivable. Allowances for uncollectible accounts due from the public are based upon factors such as: aging of accounts receivable, debtor's ability to pay, and payment history.

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

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

1.J. Liabilities

Liabilities represent the probable future outflow or other sacrifice of resources as a result of past transactions or events. However, no liability can be paid by DHA-CRM absent proper budget authority. Liabilities covered by budgetary resources are appropriated funds for which funding is otherwise available to pay amounts due. 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 DHA-CRM before month-end but after the Treasury month-end cutoff. A liability is recorded because DHA-CRM 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. The programs are available to Civilian employees, but employees do not have to participate. These programs include life, health, and long-term care insurance.

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

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

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

1.L. Commitments and Contingencies

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

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

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

1.M. Federal Employee and Veteran Benefits

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

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

1.N. Revenues and Other Financing Sources

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

permanent basis. The financial transactions that result from the budget process are generally the same transactions reflected in agency and the Government-wide financial reports.

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

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

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

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

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

1.O. Recognition of Expenses

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

1.P. 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.

Obligation is 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.

1.Q. Use of Estimates

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

1.R. Tax Exempt Status

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

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

The format of the Balance Sheet has changed to reflect more detail for certain line items, as required for all significant reporting entities by OMB Circular A-136. This change does not affect totals for assets, liabilities, or net position and is intended to allow readers of this report to see how the amounts shown on the DoD-wide Balance Sheet are reflected on the Government-wide Balance Sheet, thereby supporting the preparation and audit of the Financial Report of the United States Government. The presentation of the FY 2021 Balance Sheet and the related footnotes were modified to be consistent with the FY 2022 presentation. The mapping of USSGL accounts, in combination with their attributes, to particular Balance Sheet lines and footnotes is directed by the guidance

published periodically under TFM, USSGL Bulletins, Section V. The footnotes affected by the modified presentation are Note 5, Liabilities Not Covered by Budgetary Resources and Note 12, Reconciliation of Net Cost to Net Outlays.

Note 2. Fund Balance With Treasury

(\$ In Thousands)	2022	2021
Status of Funds Balance with Treasury		
Unobligated Balance		
Available	\$ 110,557	\$ (34,237)
Unavailable	96,381	225,616
Total Unobligated Balance	206,938	191,379
Obligated Balance not yet Disbursed	1,187,479	1,304,469
Non-FBWT Budgetary Accounts		
Unfilled Customer Orders without Advance	(27,877)	(31,323)
Receivables and Other	(57,877)	(52,388)
Total Non-FBWT Budgetary Accounts	(85,754)	(83,711)
Total FBWT	\$ 1,308,663	\$ 1,412,137

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

The Status of FBWT, as presented in Table 3, reflects the reconciliation between the budgetary resources supporting FBWT (largely consisting of Unobligated Balance and Obligated Balance Not Yet Disbursed) and those resources provided by other means. The Total FBWT reported on the Balance Sheet reflects the budgetary authority remaining for disbursements against current or future obligations.

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority set aside to cover future obligations. The available balance consists primarily of the unexpired, unobligated balance that has been apportioned and available for new obligations. The unavailable balance represents amounts that are not apportioned for obligation by law during the current fiscal year. Certain unobligated balances are restricted for future use and are not apportioned for current use.

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

Non-FBWT Budgetary Accounts reduces budgetary resources. 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 \$57.9 million, and reimbursable undelivered orders of \$27.9 million.

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

For COVID-19 disclosure related information see Note 14.

Note 3. Cash & Other Monetary Assets

(\$ In Thousands)	2022	2021
Cash	\$ 2	\$ 28
Total Cash and Other Monetary Assets	\$ 2	\$ 28

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

Note 4. Accounts Receivable, Net

(\$ In Thousands)	2022		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	\$ 57,877	\$ 0	\$ 57,877
Nonfederal Receivables (Other than Intragovernmental)	509,679	(39,722)	469,957
Total Accounts Receivable, Net	\$ 567,556	\$ (39,722)	\$ 527,834
	2021		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	\$ 52,388	\$ 0	\$ 52,388
Nonfederal Receivables (Other than Intragovernmental)	600,789	(37,883)	562,906
Total Accounts Receivable, Net	\$ 653,177	\$ (37,883)	\$ 615,294

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

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

legal obligation of the other intragovernmental entity to pay. For FY 2022 the intragovernmental allowance was calculated using the same methodology as for public receivables. DHA-CRM developed its policy, related to the allowance for uncollectible accounts for intragovernmental receivables. Based on several years of experience, DHA-CRM concludes that the net realizable value of its intragovernmental receivables is 100%.

As of September 30, 2022, the total net receivables recorded for the SDP and the ADP were \$252.9 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)	2022	2021
Federal Employee and Veteran Benefits Payable	\$ 233,083,213	\$ 202,058,642
Total Liabilities Not Covered by Budgetary Resources	\$ 233,083,213	\$ 202,058,642
Total Liabilities Covered by Budgetary Resources	454,450	431,342
Total Liabilities Not Requiring Budgetary Resources	2	28
Total Liabilities	\$ 233,537,665	\$ 202,490,012

DHA-CRM has two liabilities not covered by budgetary resources. Federal employee and veteran benefits payable consists of various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities primarily consist of \$233.1 billion in health benefit liabilities, with \$231.0 billion in actuarial liabilities for future health benefits and \$2.1 billion in IBNR health benefits. The DHA, as stated in the Senate Report No. 95-1264 on the Department of Defense Appropriation Bill, FY 1979, does not obligate or fund health care claims until the receipt of an adjudicated claim. Consequently, no funding or obligations occur for these liabilities until health care is rendered and DHA-CRM is in receipt of an adjudicated claim. Refer to Note 6, Federal Employee and Veteran Benefits Payable, for additional details.

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

The FY 2021 table was modified to conform to the FY 2022 presentation.

For COVID-19 disclosure related information see Note 14.

Note 6. Federal Employee and Veteran Benefits Payable
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(\$ In Thousands)	2022		
	Liabilities	Less Assets Available to Pay Benefits	Unfunded Liabilities
Military Pre Medicare-Eligible Retiree			
Health Benefits	\$ 230,980,581	\$ 0	\$ 230,980,581
Other	<u>2,102,632</u>	<u>0</u>	<u>2,102,632</u>
Total Federal Employee and Veteran Benefits Payable	\$ <u>233,083,213</u>	\$ <u>0</u>	\$ <u>233,083,213</u>
	2021		
	Liabilities	Less Assets Available to Pay Benefits	Unfunded Liabilities
Military Pre Medicare-Eligible Retiree			
Health Benefits	\$ 200,268,111	\$ 0	\$ 200,268,111
Other	<u>1,790,531</u>	<u>0</u>	<u>1,790,531</u>
Total Federal Employee and Veteran Benefits Payable	\$ <u>202,058,642</u>	\$ <u>0</u>	\$ <u>202,058,642</u>

Information Related to Federal Employee and Veteran Benefits Payable

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

The schedules above reflect two distinct types of liabilities related to Federal Employee and Veteran Benefits Payable. The line entitled "Military Pre Medicare-Eligible Retiree Health Benefits" represents the actuarial (or accrued) liability for future health care benefits provided to non-Medicare-eligible retired beneficiaries that are not yet incurred. The line entitled "Other" includes the IBNR, which is an estimate of benefits already incurred but not yet reported to DoD for all 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, 2022, financial statement valuation, the application of SFFAS No. 33 required DoD OACT to set the long-term inflation (CPI) to be consistent with the underlying Treasury spot rates used in the valuation.

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

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 2022 financial statement valuation, the long-term assumptions include a 2.9% discount rate and medical trend rates that were developed using a 2.3% inflation assumption. Note that the term 'discount rate' refers to the interest rate used to discount cash flows. The terms 'interest rate' and 'discount rate' are often used interchangeably in this context.

For the FY 2021 financial statement valuation, the long-term assumptions included a 3.3% discount rate and medical trend rates that were developed using a 1.6% inflation assumption.

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

In calculating the FY 2022 "rolled-forward" actuarial liability, the following assumptions were used:

Discount Rate	2.9%
Inflation	2.3%

<u>Medical Trend (Non-Medicare)</u>	<u>FY 2021 - FY 2022</u>	<u>Ultimate Rate FY 2046</u>
Purchased Care Inpatient	11.28%	4.30%
Purchased Care Outpatient	3.27%	4.30%
Purchased Care Prescription Drugs	7.25%	4.30%
Purchased Care USFHP	5.35%	4.30%

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

<u>Military Pre Medicare-Eligible Retiree Health Benefits</u> <u>(\$ In Thousands)</u>	<u>2022</u>	<u>2021</u>
Beginning Actuarial Liability	\$ 200,268,111	\$ 200,008,009
Plus Expenses:		
Normal Cost	9,064,310	9,431,798
Interest Cost	6,768,628	6,777,273
Plan Amendments	0	0
Experience Losses/(Gains)	8,265,419	(3,934,485)
Other Factors	(1)	0
Subtotal: Expenses Before Losses/(Gains) From		

Actuarial Assumption Changes	24,098,356	12,274,586
Actuarial Losses/(Gains) Due To:		
Changes In Trend Assumptions	9,458,389	(5,224,392)
Changes In Assumptions Other Than Trend	<u>5,669,804</u>	<u>1,412,262</u>
Subtotal: Losses/(Gains) From Actuarial Assumption Changes	<u>15,128,193</u>	<u>(3,812,130)</u>
Total Expenses	\$ 39,226,549	\$ 8,462,456
Less Benefit Outlays	<u>8,514,079</u>	<u>8,202,354</u>
Total Changes In Actuarial Liability	\$ <u>30,712,470</u>	\$ <u>260,102</u>
Ending Actuarial Liability	\$ <u>230,980,581</u>	\$ <u>200,268,111</u>

The DHA actuarial liability increased \$30.7 billion (15.3%). This resulted from the net effect of: an increase of \$7.3 billion due to expected increases (interest cost plus normal cost less benefit outlays), an increase of \$15.1 billion due to changes in key assumptions; and an increase of \$8.3 billion due to actual experience being different from what was assumed (demographic and claims data).

DoD complies with SFFAS No. 33, "Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates." The standard requires the separate presentation of gains and losses from changes in long-term assumptions used to estimate liabilities associated with pensions, other retirement and other postemployment benefits. SFFAS No. 33 also provides a standard for selecting the discount rate and valuation date used in estimating these liabilities. SFFAS No. 33, as published on October 14, 2008, by the FASAB requires the use of a yield curve based on marketable Treasury Securities to determine the discount rates used to calculate actuarial liabilities for federal financial statements. Historical experience is the basis for expectations about future trends in marketable Treasury securities.

The statement is effective for periods beginning after September 30, 2009, and applies to information provided in general purpose federal financial statements. It does not affect statutory or other special-purpose reports such as Pension or Other Retirement Benefit reports. SFFAS No. 33 requires a minimum of five periodic rates for the yield curve input and consistency in the number of historical rates used from period to period. It permits the use of a single average discount rate if the resulting present value is not materially different from what would be obtained using the yield curve.

For the September 30, 2022 financial-statement valuation, DoD OACT determined a single equivalent discount rate of 2.9% by using a 10-year average of quarterly zero coupon Treasury spot rates. These spot rates are based on the U.S. Department of the Treasury – Office of Economic Policy's 10-year Average Yield Curve for Treasury Nominal Coupon Issues (TNC yield curve), which represents average rates from April 1, 2012 through March 31, 2022.

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

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

Note 7. Other Liabilities

(\$ In Thousands)	2022	2021
Nonfederal Other Liabilities	2	28
Total Other Liabilities	\$ 2	\$ 28

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

For Commitments and Contingencies disclosure related information see Note 8.

Note 8. Commitments and Contingencies

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

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

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

There are two reasonably possible cases or claims pending with DHA-CRM meeting the requirements for disclosure.

Ingham Regional Medical Center v. United States (Court of Federal Claims). Class action, but not certified, alleging DoD, in reaching a resolution of hospital outpatient radiology claims, entered into contracts with the named plaintiffs. Plaintiffs' First Amended Complaint was filed on November 17, 2014. The Amended Complaint alleges breach of express contract, breach of implied contract, mutual mistake, breach of the covenant of good faith and fair dealing, and violations of a statutory mandate under the TRICARE statute. The suit alleges 5,200 hospitals were underpaid for outpatient procedures. Plaintiffs seek reformation damages of approximately \$13.8 M in underpaid overhead. Plaintiffs also seek certification of a class of all hospitals nationwide (approximately 1,600) that separately had entered into similar settlement agreements with DoD. Extrapolating from the size of the uncertified class and extrapolating, the amount sought equals or exceeds \$99.3 million. On March 22, 2016, the Court of Federal Claims issued its decision granting the Government's Motion to Dismiss Plaintiffs' Amended Complaint. Plaintiffs appealed to the Court of Appeals for the Federal Circuit. On November 3, 2017, the Court of Appeals reversed the dismissal of Ingham's breach of contract claim and remanded the case to the trial court for further proceedings. On March 20, 2018, the Government filed its Answer. Discovery has since closed, and multiple motions including the Government's Motion for Summary Judgment are pending before the court.

Bio-Medical Applications of Georgia, Inc., et al. v. United States (Court of Federal Claims). Plaintiffs challenge the DHA's payment methodology for End Stage Renal Disease dialysis treatments at freestanding dialysis facilities. Plaintiffs filed the Complaint on June 28, 2019. The Complaint alleges breach of contract, breach of the covenant of good faith and fair dealings, and violations of a money-mandating regulation. Plaintiffs have not plead specific damages beyond the \$12.5 million identified in section 3, but based on a judgmental assessment of potential damages and in view of information exchanged during discovery and negotiations, the amount sought may exceed the reporting threshold. On April 16, 2020, in an oral ruling, the Court of Federal Claims granted the Government's Motion to Dismiss in part and dismissed Counts II (breach of contract) and III (breach of the covenant of good faith and fair dealings). The Government filed its Answer on July 8, 2020, and discovery is ongoing. Plaintiffs recently amended its Complaint alleging that the Government illegally invoked a Government debt recovery process to take approximately \$12.5 million from Plaintiffs, increasing the potential liability exposure by the same amount. The Government's Answer was filed on October 14, 2021. Discovery is scheduled to close on March 15, 2023. Expert discovery will close on August 31, 2023.

Note 9. Disclosures Related to the Statement of Net Cost

<u>(\$ In Thousands)</u>	<u>2022</u>	<u>2021</u>
Gross Cost		
Intragovernmental Cost	\$ 981,358	\$ 976,954
Nonfederal Cost	<u>34,529,476</u>	<u>20,935,872</u>
Total Cost	35,510,834	21,912,826
Earned Revenue		
Intragovernmental Revenue	(671,979)	(628,138)
Nonfederal Revenue	<u>(912,101)</u>	<u>(864,941)</u>
Total Revenue	(1,584,080)	(1,493,079)
Losses/(Gains) from Actuarial Assumption		
Changes for Military Retirement Benefits	<u>15,128,193</u>	<u>(3,812,130)</u>
TOTAL NET COST	\$ <u>49,054,947</u>	\$ <u>16,607,617</u>

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of DHA-CRM that are supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. DHA-CRM's current processes and systems capture costs based on appropriations groups as presented in the schedule above.

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

For COVID-19 disclosure related information see Note 14.

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

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

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

(\$ In Thousands)	<u>2022</u>	<u>2021</u>
Appropriations Received, Statement of Changes in Net Position	\$ 18,052,887	\$ 15,906,582
Transfers - Current-Year Authority Transfers In	<u>0</u>	<u>332,100</u>
Appropriations, Statement of Budgetary Resources	<u>\$ 18,052,887</u>	<u>\$ 16,238,682</u>

For COVID-19 disclosure related information see Note 14.

Note 11. Disclosures Related to the Statement of Budgetary Resources

(\$ In Thousands)	<u>2022</u>	<u>2021</u>
Intragovernmental Budgetary Resources Obligated for Undelivered Orders		
Unpaid	<u>20,801</u>	<u>23,039</u>
Total Intragovernmental	<u>20,801</u>	<u>23,039</u>
Nonfederal Budgetary Resources Obligated for Undelivered Orders		
Unpaid	<u>712,228</u>	<u>850,088</u>
Total Nonfederal	<u>712,228</u>	<u>850,088</u>
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	<u>\$ 733,029</u>	<u>\$ 873,127</u>

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

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

For COVID-19 disclosure related information see Note 14.

Note 12. Reconciliation of Net Cost to Net Outlays

(\$ In Thousands)	2022		
	Intragovernmental	With the Public	Total
Net Cost of Operation (SNC)	\$ 309,379	\$ 48,745,568	\$ 49,054,947
Components of Net Cost That are Not Part of Net Outlays:			
Increase/(decrease) in assets:			
Accounts Receivable, Net	\$ 5,489	\$ (92,949)	\$ (87,460)
Other Assets		(26)	(26)
(Increase)/decrease in liabilities			
Accounts Payable	(400)	(22,708)	(23,108)
Federal employee and veteran benefits payable		(31,024,571)	(31,024,571)
Other Liabilities		26	26
Total Components of Net Cost That Are Not Part of Net Outlays	\$ 5,089	\$ (31,140,228)	\$ (31,135,139)
Net Outlays	\$ 314,468	\$ 17,605,340	\$ 17,919,808
Agency Outlays, Net, Statement of Budgetary Resources			\$ (17,919,808)
Reconciling Difference			\$ 0

(\$ In Thousands)	2021		
	Intragovernmental	With the Public	Total
Net Cost of Operation (SNC)	\$ 348,816	\$ 16,258,801	\$ 16,607,617
Components of Net Cost That are Not Part of Net Outlays:			
Increase/(decrease) in assets:			
Accounts Receivable, Net	\$ 5,619	\$ 154,212	\$ 159,831
Other Assets		(1,101)	(1,101)
(Increase)/decrease in liabilities			
Accounts Payable	77,684	(80,108)	(2,424)
Federal employee and veteran benefits payable		(333,426)	(333,426)

Other Liabilities		1,101	1,101
Total Components of Net Cost That Are Not Part of Net Outlays	\$ 83,303	\$ (259,322)	\$ (176,019)
Net Outlays	\$ 432,119	\$ 15,999,479	\$ 16,431,598
Agency Outlays, Net, Statement of Budgetary Resources		\$ (16,431,598)	
Reconciling Difference		\$ 0	

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

The FY 2021 reconciliation was modified to conform to the FY 2022 presentation.

Net Cost of Operations is derived from the SNC.

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

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

Note 13. Insurance Programs

Premium Base Health Plans consist of several programs with coverage offered to Active Duty, Active Duty Family Member(s), Retirees and Reserve members. The programs include TRICARE CHCBP, TYA, TRS, TRR, Prime and Select which together make up the TRICARE Insurance Portfolio. The majority of these programs are intended to be budget neutral, meaning that the premiums should match the outlays. Premiums are adjusted either upward, or downward for each calendar year to maintain this neutrality. Increases or decreases in the number of beneficiaries enrolling in the programs would cause minimal effects on program cost or premiums collected. Premium rate calculations are based on the benefit cost from prior calendar years. Premiums are based on the Program's benefit cost, which eliminates any inherent risk to third parties, including the beneficiary and the MCSCs who provide health care claims processing and the initial collections on behalf of DHA-CRM. The total amount of Insurance Premium collections in FY 2022 was \$912.1 million and \$864.9 million for FY 2021. The benefit cost for FY 2022 correlate to the premium collections reported.

Monthly Premium Rates are established on an annual basis. The Monthly Premium Rates for calendar year 2022 were established in accordance with title 10, U.S.C. Sections 1076d, 1076e, 1078a, and 1110b along with title 32, Code of Federal Regulations, part 199.20, 24, 25 and 26, as enacted by Section 701 of NDAA for Fiscal Year 2017; P.L. 114 328. The enrollment fee and or premium collections are credited to the DHP appropriation available for the fiscal year collected.

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

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

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

(\$ In Thousands)	2022	2021
Beginning Balance	\$ 2,084,678	1,966,037
Claims Expense	16,589,737	15,074,537
Claims Adjustment Expenses	(28,823)	(22,282)
Payments to Settle Claims	(16,214,008)	(14,918,922)
Recoveries and Other Adjustments	5,349	(14,692)
Ending Balance	<u>\$ 2,436,933</u>	<u>2,084,678</u>

Note 14. COVID-19 Activity

(\$ In Thousands)	FY22	FY21
Unobligated and unexpired Balance, beginning of year	\$ 8,607	20,798
New Budget Authority	0	0
Rescissions (-) and Other Changes (+/-)	4,093	50,511
Less: Obligations	12,683	62,702
Less: Expiring Funds	17	0
Unobligated and unexpired balance, end of period	\$ 0	8,607
Outlays, Net (Total)	\$ 15,210	61,546

DEF Codes included: M for *Families First Coronavirus Response Act (P.L. 116-127)*, *Emergency*

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

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

In FY 2020, DHA-CRM received \$82.0 million in supplemental funding under the Families First Act (P.L. 116-127 Families First Coronavirus Response Act) to cover co-pay/cost share waivers for COVID-19 diagnostic testing and services. Families First Act funding was provided through Appropriation 9720220130 LIMIT 9703 with an availability period ending September 30, 2022. No additional supplemental funding was allocated to DHA-CRM for the purpose of responding to the COVID-19 emergency. The beginning unobligated balance for FY 2022 was \$8.6 million and the \$17.1 thousand in remaining funds at the end of FY 2022 expired on September 30, 2022.

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

In FY 2020, additional supplemental funding of \$50.0 million was received through DHA-CRM's normal Operating and Maintenance Appropriation 9720200130 9700 under the CARES Act (P.L. 116-136 Coronavirus Aid, Relief, and Economic Security Act or the CARES Act) to cover the cost of COVID-19 healthcare related expenses. No additional supplemental funding was allocated to DHA-CRM for the purpose of responding to the COVID-19 emergency, and DHA-CRM fully expended CARES Act funding in the year it was received.

Total COVID-19 Related Costs

During FY 2021, DHA-CRM incurred total COVID-19 related costs of \$1.2 billion, including \$1.1 billion of COVID-19 related healthcare costs in excess of the supplemental budgetary resources received under the CARES Act for responding to COVID-19. COVID-19 related costs have not had a significant financial or performance impact on DHA-CRM's assets, liabilities, net costs, revenue or net position for FY 2021.

During FY 2022, DHA-CRM incurred total COVID-19 related costs of \$1.0 billion, including \$996.1 million of COVID-19 related healthcare costs in excess of the supplemental budgetary resources received under the CARES Act for responding to COVID-19. These COVID-19 related costs have not otherwise had a significant financial or performance impact on DHA-CRM's assets, liabilities, net costs, revenue or net position for FY 2022.

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



III. Other Information

Summary of Financial Statement Audit and Management Assurances

Table 1. Summary of Financial Statement Audit

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

Table 2. Summary of Management Assurances

Effectiveness of Internal Controls over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
N/A						
<i>Total Material Weaknesses</i>	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						
<i>Total Material Weaknesses</i>	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						
<i>Total Non-Conformances</i>	0	0	0	0	0	0
Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)						
	Agency			Auditor		
Federal Financial Management Systems Requirements	No lack of compliance noted			No lack of compliance noted		
Applicable Federal Accounting Standards	No lack of compliance noted			No lack of compliance noted		
USSGL at Transaction Level	No lack of compliance noted			No lack of compliance noted		

Payment Integrity Information Act Reporting

In accordance with the PIIA of 2019 (P. L. 116-117, 31 U.S.C § 3352), Appendix B of the OMB Bulletin No. 22-01, *Audit Requirements for Federal Financial Statements*, dated August 26, 2022, DoD reports payment integrity information (i.e., improper payments) at the agency-wide level in the consolidated DoD AFR. For detailed reporting on DoD payment integrity, refer to the “Other Information” section of the consolidated DoD AFR at: <https://comptroller.defense.gov/odcfo/afr2022.aspx>.

Fraud Reduction Report

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

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

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

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

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

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

The DHA Office of the Inspector General (DHA OIG) maintains a DHA Hotline Program, which includes inquiries addressing the DHP. The hotline ensures inquiries resulting from allegations are conducted in accordance with applicable laws and DoD regulations and policies. The DHA Hotline Program provides a confidential, reliable means for individuals to report fraud, waste and abuse; violations of law, rule or regulation; mismanagement; and classified information leaks, including those involving the DHP.

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

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

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

Significant FY 2022 MHS Fraud Events (Source: DCIS)

August 23, 2022: Cockerell Dermatopathology to Pay \$3.75 Million to Resolve Healthcare Fraud Claims

A Texas dermatopathology clinic has agreed to pay the United States more than \$3.7 million to resolve allegations that it violated the False Claims Act by submitting fraudulent lab claims to TRICARE and by knowingly concealing an obligation to repay the United States. Per the terms of a civil settlement, Dallas-based Cockerell Dermatopathology will pay \$3,750,000 – including \$1,875,000 in restitution – over the next 3 1/2 years. Its owner and principal physician, Dr. Clay Cockerell, will be liable if the clinic fails to make any of its payments.

August 19, 2022: Former South Florida Pharmacy VP and Executive Assistant Sentenced for Their Roles in Health Care Fraud Scheme Targeting U.S. Military

A former South Florida pharmacy executive was sentenced to seven and a half years in prison for defrauding TRICARE and CHAMPVA of approximately \$88 million through a compounding pharmacy fraud scheme. His executive assistant received a sentence of five years of imprisonment for her role in the conspiracy. Matthew Smith, 58, of Boca Raton, Florida pleaded guilty on January, 24, 2022, to one count of conspiracy to commit health care fraud. His executive assistant, Alisa Catoggio, 41, also of Boca Raton, Florida, pleaded guilty on May 17, 2022 to one count of conspiring to pay healthcare kickbacks. As part of his guilty plea, Smith admitted his role in fraudulently billing TRICARE and CHAMPVA for expensive, medically unnecessary compound drugs from a Broward pharmacy. TRICARE and CHAMPVA are the health care benefit programs for the DoD and Department of VA. In furtherance of the scheme, Smith paid kickbacks to patient recruiters in exchange for their recruiting beneficiaries and referring prescriptions for the medically unnecessary drugs. For her role, Catoggio calculated and tracked the kickbacks and sham co-pay assistance programs used to further the scheme. The fraudulent referrals caused an actual loss to the government programs of approximately \$88 million.

In addition to the prison sentence, the Court imposed restitution in the amount of \$75,106,971.

June 29, 2022: Sandy Springs man sentenced for TRICARE and Medicare fraud scheme

Brett Sabado has been sentenced for his role in a scheme to defraud TRICARE and Medicare by submitting fraudulent claims for compound medications and durable medical equipment (DME). Sabado also agreed to pay \$950,000 as part of an “ability to pay” civil settlement in order to resolve violations of the False Claims Act for causing false claims for DME to be submitted to the Medicare Program. This resolution is the result of a global investigation involving the criminal and civil divisions of the Northern District of Georgia and the Southern District of California. According to U.S. Attorney Buchanan, the charges, and other information presented in court: Sabado and his coconspirators received illegal kickbacks for TRICARE referrals and prescriptions of compound medication formulations including pain creams, scar creams, and multi-vitamins that they specifically devised to maximize profits. Brett Sabado, 34, of Sandy Springs, Georgia, was sentenced by U.S. District Judge Thomas W. Thrash, Jr., to five years in prison to be followed by three years of supervised release.

June 2, 2022: Judge Orders Middle Georgia Family Rehab to Pay \$9.6 Million in Damages for Submitting Hundreds of Fraudulent TRICARE/Medicaid Claims

The District Court for the Middle District of Georgia found in favor of the United States and the State of Georgia in a civil case involving the fraudulent billing of hundreds of TRICARE and Medicaid claims by a Macon health care facility, ordering the defendants to pay \$9,617,679.22 in damages and penalties. U.S. District Judge Tilman E. “Tripp” Self, III issued the judgment following an evidentiary hearing in U.S. v. Middle Georgia Family Rehab (MGFR) on Tuesday, May 24. According to court documents, the Court determined that approximately 800 false claims for services were improperly billed to Medicaid and TRICARE by MGFR and MGFR owner Brenda Hicks. Those improper services were billed under the names of a physical therapist and a speech therapist who were no longer employed by MGFR and therefore could not possibly have provided the services in question.

April 26, 2022: Pharmacist Sentenced for \$180 Million Health Care Fraud Scheme

A former Mississippi pharmacist was sentenced to 10 years in the Southern District of Mississippi for a multimillion-dollar scheme to defraud TRICARE and private insurance companies by paying kickbacks to distributors for the referral of medically unnecessary prescriptions. The conduct resulted in more than \$180 million in fraudulent billings, including more than \$50 million paid by federal health care programs. According to court documents, Mitchell “Chad” Barrett, 55, now of Gulf Breeze, Florida, and formerly of Mississippi, participated in a scheme to defraud TRICARE and other health care benefit programs by distributing medically unnecessary compounded medications. Barrett was licensed as a pharmacist in Mississippi and was a co-owner of various compounding pharmacies. As part of this scheme, Barrett adjusted prescription formulas to ensure the highest reimbursement without regard to medical necessity. He solicited recruiters to procure prescriptions for high-margin compounded medications and paid those recruiters commissions based on the percentage of reimbursements paid by pharmacy benefit managers and health care benefit programs, including commissions on claims reimbursed by TRICARE. He further routinely and systematically waived and/or reduced copayments to be paid by beneficiaries and members, and utilized a purported copayment assistance program to falsely make it appear as if his pharmacy and its affiliate compounding pharmacies had been collecting copayments. Barrett pleaded guilty on Aug. 25, 2021, to conspiracy to engage in monetary transactions in criminally derived property. In addition to the term of imprisonment, Barrett was ordered to pay restitution and forfeit all assets traced to his ill-gotten gains.

April 6, 2022: Eight Individuals Facing Federal Indictment for a \$3 Million Scheme to Defraud Walter Reed National Military Medical Center and the Defense Health Agency

A federal grand jury has returned an indictment charging eight individuals, including the President, Vice-President and Chief Finance and Strategy Officer at a company that provided medical billing and coding services on

government contracts and an employee at Walter Reed National Military Medical Center (WRNMMC), with conspiracy to commit health care fraud and wire fraud and related charges, in connection with a scheme to defraud WRNMMC and the DHA. The indictment alleges that beginning in at least December 2016, Akbar Masood, Michelle Peebles, and Harriett Jackson established HMA Solutions to take advantage of WRNMMC's increased need for contract medical coders. Masood, Peebles, and Jackson allegedly used the stolen identities of actual persons, including credentialed medical coders, to demonstrate that HMA had the ability to perform medical coding evaluation, feedback, and training services as a subcontractor to Company A. The indictment alleges that the defendants used falsified signature of one victim, who was a credentialed medical coder, to sign consulting agreements with Company A and representing that other identity theft victims would be performing the work. Further, the indictment alleges that Masood, Peebles, and Jackson generated false billable hours using the names of identity theft victims which they charged to Company A, which then billed those hours to WRNMMC. As detailed in the indictment, Peebles and Jackson then recruited Paul, Williams, Titi, and Duncan to pose as medical coders and sign consulting agreements with Company A, even though none of them had any experience or credentials as medical coders. The indictment alleges that Paul, Williams, Titi, and Duncan repeatedly submitted falsified medical coding invoices, claiming the processing of thousands of encounters each month, and causing Company A to bill WRNMMC over \$1 million for their false claims alone. According to the indictment, between 2017 and 2019, the defendants obtained approximately \$3.3 million from the scheme to defraud WRNMMC and the DHA. If convicted, the defendants each face a maximum sentence of 20 years in federal prison for conspiracy to commit health care fraud and wire fraud.

January 26, 2022: Pharmacist Sentenced for \$180 Million Health Care Fraud Scheme

A Mississippi pharmacist was sentenced to five years in prison in the Southern District of Mississippi for a multimillion-dollar scheme to defraud TRICARE and private insurance companies by paying kickbacks to distributors for the deferral of medically unnecessary prescriptions. According to court documents, David "Jason" Rutland of Boston, a pharmacist and co-owner of compounding pharmacies, schemed to defraud TRICARE and other health care benefit programs by distributing medically unnecessary compounded medications. Rutland adjusted prescription formulas to ensure the highest reimbursement without regard to efficacy. He solicited recruiters to procure prescriptions for high-margin compounded medications and paid those recruiters commissions based on the percentage of reimbursements paid by pharmacy benefit managers and health care benefit programs, including commissions on claims reimbursed by TRICARE. Rutland also routinely and systematically waived and/or reduced copayments to be paid by beneficiaries and members, including utilizing a purported copayment assistance program to falsely make it appear as if his pharmacy and its affiliate compounding pharmacies had been collecting copayments, among other things. Rutland pleaded guilty on July 20, 2021, to conspiracy to defraud the United States and solicit, receive, offer and pay illegal kickbacks. In addition to the term of imprisonment, Rutland was ordered to pay restitution and forfeit all assets traced to his ill-gotten gains.

December 16, 2021: Former West Hollywood Doctor and Company Associated with 1-800-GET-THIN Guilty of Massive Fraud Against Health Insurers

A former doctor and his company were found guilty by a federal jury of scheming to defraud private insurance companies and the TRICARE health care program for military service members by fraudulently submitting an estimated \$355 million in claims related to the 1-800-GET-THIN Lap-Band surgery business. Julian Omid, 53, of West Hollywood, and an Omid-controlled Beverly Hills-based company, Surgery Center Management LLC (SCM), were found guilty of 28 counts of wire fraud and three counts of mail fraud. Omid also was found guilty of two counts of making false statements relating to health care matters, one count of aggravated identity theft and two counts of money laundering. Omid and SCM were found guilty of one count of conspiracy to commit money

laundering. According to evidence presented, Omidi established procedures requiring prospective Lap-Band patients - even those with insurance plans he knew would never cover Lap-Band surgery - to have at least one sleep study, and employees were incentivized with commissions to make sure the studies occurred. Omidi used the sleep studies to find a reason - the "co-morbidity" of obstructive sleep apnea - that GET THIN would use to convince the patient's insurance company to pre-approve the Lap-Band procedure. After patients underwent sleep studies - irrespective of whether any doctor had ever determined the study was medically necessary - GET THIN employees, acting at Omidi's direction, often falsified the results. Omidi then used the falsified sleep study results in support of GET THIN's pre-authorization requests for Lap-Band surgery. Relying on the false sleep studies - as well as other false information, including patients' weights - insurance companies authorized payment for some of the proposed Lap-Band surgeries. GET THIN received an estimated \$41 million for the Lap-Band procedures. Even if the insurance company did not authorize the surgery, GET THIN still was able to submit bills for approximately \$15,000 for each sleep study, receiving an estimated \$27 million in payments for these claims. The insurance payments were deposited into bank accounts associated with the GET THIN entities. The victim health care benefit programs include TRICARE, Anthem Blue Cross, UnitedHealthcare, Aetna, Health Net, Operating Engineers Health and Welfare Trust Fund, and others. Prosecutors estimate Omidi's total fraudulent billings at approximately \$355 million. United States District Judge Dolly M. Gee has scheduled an April 6, 2022 sentencing hearing, at which time Omidi will face a statutory maximum sentence of 20 years in federal prison for each of the mail fraud, wire fraud, and money laundering counts, as well as a mandatory consecutive two-year sentence for aggravated identity theft. In 2014, the government seized more than \$110 million in funds and securities from accounts held by individuals and entities involved in the criminal scheme, including Omidi. The government is seeking forfeiture of some or all those funds in the criminal case, and intends to pursue civil forfeiture of some or all of the assets.

December 2, 2021: Flower Mound Hospital to Pay \$18.2 Million to Settle Federal and State False Claims Act Allegations Arising from Improper Inducements to Referring Physicians

Flower Mound Hospital Partners LLC (Flower Mound Hospital), a partially physician-owned hospital in Flower Mound, Texas, has agreed to pay \$18.2 million to resolve allegations that it violated the False Claims Act by knowingly submitting claims to the Medicare, Medicaid and TRICARE programs that resulted from violations of the Physician Self-Referral Law and the Anti-Kickback Statute. The settlement resolves allegations that Flower Mound Hospital violated the Stark Law and the Anti-Kickback Statute when it repurchased shares from physician-owners aged 63 or older and then resold those shares to younger physicians. The United States alleges that Flower Mound Hospital impermissibly took into account the volume or value of certain physicians' referrals when it (1) selected the physicians to whom the shares would be resold and (2) determined the number of shares each physician would receive. In connection with the settlement, Flower Mound Hospital entered into a five-year Corporate Integrity Agreement (CIA) with the HHS-OIG. The CIA requires, among other things, that Flower Mound Hospital maintain a compliance program and hire an Independent Review Organization to review arrangements entered into by or on behalf of the hospital. It also increases individual accountability by requiring compliance-related certifications from key executives. The civil settlement includes the resolution of claims brought under the qui tam or whistleblower provisions of the False Claims Act by Leslie Jennings, M.D., a physician-owner at Flower Mound Hospital. Under those provisions, a private party can file an action on behalf of the United States and receive a portion of any recovery. Dr. Jennings will receive approximately \$3 million as his share of the recovery in this case. The qui tam case is captioned United States ex rel. Jennings v. Flower Mound Hospital Partners, LLC, et al., Civil Action No. 3-19-CV-02676-B (N.D. Tex.).

Covid-19 Response

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

- *DoD Cooperative Agreements With Coronavirus Aid, Relief, and Economic Security Act Obligations (DODIG-2022-102) June 10, 2022*
- *Evaluation of Department of Defense Military Medical Treatment Facility Challenges During the Coronavirus Disease-2019 Pandemic in Fiscal Year 2021 (DODIG-2022-081) April 2, 2022*
- *Audit of DoD Implementation of the DoD Coronavirus Disease-2019 Vaccine Distribution Plan (DODIG-2022-058) February 3, 2022*
- *Management Advisory Memorandum Regarding Internal Control Weaknesses Over TRICARE Payments for the Administration of COVID-19 Vaccines (DODIG-2021-122), September 10, 2021*
- *Audit of Contracts for Equipment and Supplies in Support of the Coronavirus Disease–2019 Pandemic (DODIG-2021-045), January 21, 2021*
- *Special Report: Controls Implemented by the Defense Health Agency to Control Costs for TRICARE COVID-19 Related Services (DODIG-2020-125), September 8, 2020*
- *Special Report on Best Practices and Lessons Learned for DoD Contracting Officials in the Pandemic Environment (DODIG-2020-085), June 4, 2020*
- *Special Report on Protecting Patient Health Information During the COVID-19 Pandemic (DODIG-2020-080), April 27, 2020*
- *COVID-19 Expenditures – Lessons Learned Regarding Awareness of Potential Fraud, Waste, and Abuse Risk, April 6, 2020*

Climate-Related Financial Risk

In FY 2022, the DHA did not issue any climate action plans, sustainability reports and implementation plans, or other reports with information relevant to climate-related financial risk.

Appendix: Glossary of Acronyms

A/R	Accounts Receivable
ACO	Accountable Care Organization
ADA	Anti-deficiency Act
ADP	Additional Discount Program
AEAN	Aggregate Entry Age Normal
C.F.R.	Code of Federal Regulations
CAP	Corrective Action Plan
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
CHAMPUS	Civilian Health and Medical Program of the Uniformed Services
CHCBP	Continued Health Care Benefit Program
CMS	Centers for Medicare and Medicaid Services
COBRA	Consolidated Omnibus Budget Reconciliation Act
COTS	Commercial off-the-shelf
COVID-19	Coronavirus 2019
CRM	Contract Resource Management
DATA Act	Digital Accountability and Transparency Act
DBSMC	Defense Business Systems Management Committee
DCIA	Debt Collection Improvement Act
DCIS	Defense Criminal Investigative Service
dCore	DMDC Core Infrastructure
DDRS-B	Defense Department Reporting System-Budgetary
DEERS	Defense Enrollment Eligibility Reporting System
DEFC	Disaster Emergency Fund Code
DFAS	Defense Finance and Accounting Service
DFAS-IN	Defense Finance and Accounting Service-Indianapolis
DHA	Defense Health Agency
DHA OIG	DHA Office of the Inspector General
DHA-C	DHA-Comptroller
DHA-CRM	Defense Health Agency - Contract Resource Management
DHA-FE	DHA Facility Enterprise
DHP	Defense Health Program
DISA-OKC	Defense Information System Agency - Oklahoma City
DISA-SATX	Defense Information System Agency - San Antonio
DMDC	Defense Manpower Data Center
DME	Durable Medical Equipment
DoD / Department	Department of Defense
DoD IG	DoD Inspection General
DOJ	Department of Justice
ECHO	Extended Care Health Option
ECS	E-Commerce System

FAD	Funding Authorization Document
Families First Act	Families First Coronavirus Response Act
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance with Treasury
FCP	Federal Ceiling Price
FECA	Federal Employees' Compensation Act
FEDVIP	Federal Employees Dental and Vision Insurance for Program
FEHB	Federal Employee Health Benefit
FFATA	Federal Funding Accountability and Transparency Act
FFMIA	Federal Financial Management Improvement Act
FISMA	Federal Information Security Modernization Act
FMFIA	Federal Manager's Financial Integrity Act
FMR	Financial Management Regulation
FMS	Financial Management Systems
FOD	Financial Operations Division
FPAs	Federal Program Agencies
FSIO	Financial Systems Integration Office
FSS	Federal Supply Schedule
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GEHA	Government Employees Health Association
G-Invoicing	Fiscal Services Government Invoicing
HA	Health Affairs
HCAHPS	Hospital Consumer Assessment of Healthcare Providers and Systems
HCDA	Health Care Data Analysis
HEDIS	Healthcare Effectiveness Data and Information Set
HHS	U.S. Department of Health & Human Services
HMO	Health Maintenance Organization
IBNR	Incurred but not Reported
IG DoD	Inspector General of the Department of Defense
IGT	Intragovernmental Transactions
IPAC	Intragovernmental Payment and Collection
IRB	Investment Review Board
JFMIP	Joint Financial Management Improvement Program
JOES	Joint Outpatient Experience Survey
MARR	Mandatory Agreements Retail Refunds
MCSC	Managed Care Support Contractor

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

SFFAS	Statement of Federal Financial Accounting Standards
SFIS	Standard Financial Information Structure
SMA	Service Medical Activity
SNC	Statement of Net Cost
TAMP	Transitional Assistance Management Program
TCM	TRICARE Claims Management
TDEFIC	TRICARE Dual Eligible Fiscal Intermediary
TDP	TRICARE Dental Program
TEDS	TRICARE Encounter Data Set
TFL	TRICARE For Life
TFM	Treasury Financial Manual
TJC	The Joint Commission
TMA	TRICARE Management Activity
TOP	TRICARE Overseas Program
TPR	TRICARE Prime Remote
TPRADFM	TRICARE Prime Remote for Active Duty Family Members
Treasury	U.S. Department of Treasury
TRR	TRICARE Retired Reserve
TRRx	TRICARE Retail Pharmacy
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
UMP	Unified Medical Program
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
WSS REs	Wrong-Site Surgery Reportable Events