DEFENSE HEALTH AGENCY

CONTRACT RESOURCE MANAGEMENT

Agency Financial Report
Fiscal Year 2023

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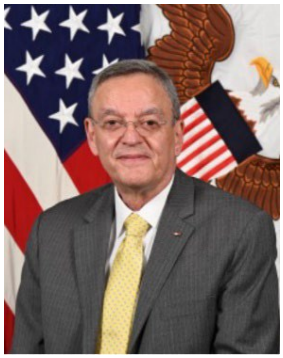
Agency Head Message



Our Fiscal Year (FY) 2023 Defense Health Program (DHP) President's Budget request was fully enacted at $39.8 billion, including funding additions totaling close to $2.3 billion going primarily for medical research projects. The FY 2023 budget enabled us to invest $1.4 billion in clinical mental health programs and initiatives including those that evaluate, treat, and follow-up with patients and leverage evidence-based best practices and treatment, practical problem resolution, case management, and crisis management to support positive health outcomes.

Ongoing mental health efforts within the Department include Primary Care Behavioral Health, Tele-Behavioral Health, National Intrepid Center of Excellence and Intrepid Spirit Centers, Substance Abuse Programs, as well as research on mental health aimed to accelerate the innovation and delivery of preventive interventions and treatments for Traumatic Brain Injuries, Post-Traumatic Stress Disorder, and other mental health conditions.

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

In accordance with statutory requirements, the Department realigned significant elements of the Army's medical research, development, and acquisition capabilities, as well as many public health functions previously performed by the Military Departments to the DHA, with funding from the DHP. The Military Health System (MHS) invested in research, development, test, and evaluation efforts to advance medical science to meet the needs of current and future battlefield experiences. We funded joint battlefield healthcare aimed at injury prevention and recovery related to blunt, blast, and accelerative and musculoskeletal injuries. We funded studies in bacterial diseases and the treatment of infections with multi-drug resistant bacterial pathogens, as well as studies in the treatment of emerging infectious and acute respiratory diseases.

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

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

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

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Dr. Lester Martinez-Lopez
Assistant Secretary of Defense for Health Affairs

SECTION 1

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 9.5 million eligible beneficiaries. The MHS direct care system is staffed by more than 127,000 personnel in 45 hospitals, 566 medical clinics, and 117 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 9.5 million eligible beneficiaries and executes responsibility for shared services, functions, and activities of the MHS and other common clinical and business processes. The DHA manages the execution of policy as issued by 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 DHA's success will be measured against the FY 2026 Future State, which 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:

- Improved Readiness – ensuring that the total military force is medically ready to deploy and that the medical force is ready to deliver health services at a moment's notice in support of the full range of military operations, on the battlefield or during disaster response and humanitarian aid missions.
- Better Care – 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 are implementing longer-term opportunities to improve the value of health services for 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.

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 (TED) System 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, the DHA Office of Inspector General (OIG) Health Care Fraud Division (HCFD), 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) *
2023	$9.4	$18.6
2022	$9.0	$18.0

* DHA-CRM received FADs for FY22/9700 of $18.0 billion through September 30, 2022. DHA-CRM received FADs for FY23/9700 of $18.6 billion through September 30, 2023.

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

For FY 2023, the "Consolidated Appropriations Act, 2023", P.L. No. 117-328, became law December 29, 2022, providing DoD funding for FY 2023.

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*** requires enrollment and is comparable to health maintenance organization (HMO) plans. Each enrollee is assigned a primary care manager (PCM), a health care provider who is responsible for managing an enrollee's care, promoting preventive health services (e.g., routine exams and immunizations), and arranging for specialty provider services as indicated. 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. However, POS deductibles and cost shares are significantly higher than TRICARE Select, and POS charges are not counted toward the enrollee's catastrophic cap.
    - **TRICARE Prime Remote (TPR)** enrollment is offered to certain 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 who live in one of six statutorily specified locations: Washington, Texas, Maine, Maryland, Massachusetts, and New York/New Jersey. Enrollees receive all services, including pharmacy, exclusively from their particular enrolled USFHP plan, Enrollees forfeit MTF services.
- ***TRICARE Select*** requires enrollment and is comparable to preferred provider organization (PPO) health plans. It features access to both network and non-network TRICARE-authorized providers. Referrals are generally not required for coverage. Beneficiaries other than Active Duty Service members and other than TFL may qualify to enroll. Retirees, their families, and certain survivors must pay enrollment fees to participate.
- ***TRICARE for Life (TFL)*** offers wraparound coverage for TRICARE-eligible beneficiaries who have both Medicare Parts A and B, regardless of age or place of residence. TFL pays secondary to Medicare for TRICARE-covered services.
- **Transitional Assistance Management Program (TAMP)** plan provides 180 days of premium-free coverage upon release from Active Duty served more than 30 days by certain Service member sponsors, active or reserve.
- ***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. Cost-sharing level is dependent upon sponsor status.

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

    - TRICARE Reserve Select (TRS), available for purchase by qualified Selected Reserve members and qualified survivors. TRS delivers TRICARE Select coverage with cost sharing at the Active Duty Family member rate.
    - TRICARE Retired Reserve (TRR), available for purchase by qualified Retired Reserve members with cost sharing at the retiree rate.
    - TRICARE Dental Program (TDP), available for purchase by family members of Active Duty Service members as well as Ready Reserve members and their family members.
    - Continued Health Care Benefit Program (CHCBP), which is comparable to Consolidated Omnibus Budget Reconciliation Act (COBRA) continuation coverage.
    - Federal Employees Dental and Vision Insurance for Program (FEDVIP) offers dental plans for purchase by retirees and offers vision plans for purchase by most non-service member beneficiaries enrolled in a TRICARE health plan. FEDVIP is operated by the U.S. Office of Personnel Management (OPM), not DoD.
- Other benefits and services, including:
    - Dental benefits (military dental treatment facilities and claims management for Active Duty using civilian dental services)
    - Pharmacy: MTFs, TRICARE retail network pharmacies, and TRICARE Pharmacy Home Delivery program
    - Overseas private sector care, customer service, and claims processing services
    - Women, Infants, and Children (WIC) Overseas Program (www.tricare.mil/wic)
    - Extended Care Health Option (ECHO): non-medical benefits available to qualified Active Duty family members with special needs

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 TED file. The TED records are run through a series of automated edits to ensure that the data is accurate and that data standards are met. If the TED records pass these edits, the records are accepted, and payment to the contractor is authorized.

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

In addition to the direct healthcare/MTF systems and the private sector healthcare systems, 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 (including pharmacy contract effective January 1, 2023) & TSM 7950.2-M, Dated February 1, 2008 (pharmacy contract through December 31, 2022), to ensure that only costs attributable to Medicare-eligible beneficiaries are included in payments drawn from the MERHCF.

DHA OIG Health Care Fraud Division

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

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

During calendar year 2022, the HCFD actively managed 445 investigative cases, 103 new cases were opened, and the HCFD responded to over 400 lead requests and fraud allegation inquiries. [2]

[2] The data reported above was obtained from the calendar year 2022 Health Care Fraud Division Operation Report. FY 2023 data will not be available until published in 2024, due to the time required to compile 4th Quarter, FY 2023 data.

Analysis of Performance Goals, Objectives, and Results

Performance Measures

The *Evaluation of the TRICARE Program: Fiscal Year 2023 Report to Congress Access, Cost, and Quality Data through Fiscal Year 2022,* 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 Perspective[3]

- The $58.4 billion Unified Medical Program (UMP) presented in the FY 2023 President's Budget, including estimated outlays from the MERHCF, is 5.4% higher than the $55.4 billion in expenditures in FY 2022 and is about 8% of total FY 2023 estimated DoD outlays.
- In FY 2022, 9.5 million beneficiaries were eligible for DoD medical care. Of those, almost 4.5 million (48%) enrolled in TRICARE Prime (including TYA Prime and USFHP).
- TYA enrollment decreased to just under 36,000 beneficiaries in FY 2022, from about 40,000 in FY 2020, with most enrolled in TRICARE Select.
- In FY 2022, there were 342,256 enrollees in the premium-based TRS, an increase from the previous year (326,867 enrollees in FY 2021). TRR had 12,365 enrollees in FY 2022, an increase from 11,519 in FY 2021.

MHS Workload and Cost Trends

- The percentage of beneficiaries using MHS services remained at 85% from FY 2020 to FY 2022.
- Excluding TFL, total MHS workload (direct and purchased care combined) fell from FY 2020 to FY 2022 for inpatient care (-5%) and prescription drugs (-5%). Outpatient care workload increased by 13% over the same time period.
- From FY 2020 to FY 2022, direct care workload decreased for inpatient care (-16%), outpatient care (-1%), and prescription drugs (-11%). Over the same period, total direct care costs fell by 6%.
- Excluding TFL, private sector care workload increased for inpatient care (1%), outpatient care (24%) and prescription drugs (6%). Overall, private sector care costs rose by 14%.
- The private sector care portion of total MHS health care expenditures rose from 59% in FY 2020 to 63% in FY 2022.
- In FY 2022, out-of-pocket costs for MHS beneficiary families under age 65 were between $6,900 and $7,500 lower than those for their civilian counterparts, while out-of-pocket costs for MHS senior families were $3,800 lower.

Lower Cost

- MHS estimated savings include nearly $1 billion in retail pharmacy refunds in FY 2022 and $556 million in Program Integrity activities in calendar year 2021.

Improved Readiness

- **Force Health Protection:** At the end of FY 2022, the overall medical readiness of the Total Force was at 92%, meeting the strategic goal of 90%. However, the Reserve Component, at 89%, did not meet the goal. Dental readiness, at 91%, was below the MHS goal of 95%. The MHS surgical community is leading the way in identifying and enumerating critical clinical readiness skill sets.

[3] Source of all metrics presented is the Evaluation of the TRICARE Program: Fiscal Year 2023 Report to Congress Access, Cost, and Quality Data through Fiscal Year 2022 located at https://health.mil/Military-Health-Topics/Access-Cost-Quality-and-Safety/Health-Care-Program-Evaluation/Annual-Evaluation-of-the-TRICARE-Program.

Better Care

- **Access to Care:** Patient-Centered Medical Home (PCMH) primary care administrative measures indicate that, in FY 2022, MTF enrollees saw their primary care provider 51% of the time. In FY 2022, there was an improvement in the average number of days to third next available 24-hour (1.04 days) and future (3.36 days) appointments. Network urgent care usage increased substantially from 15.1 visits per 100 enrollees in FY 2021 to 21.4 visits per 100 enrollees in FY 2022 due to confluence of COVID-19, influenza, and respiratory syncytial virus (RSV) infections and immunizations. MTF responsiveness to secure messaging was 78%. The Joint Outpatient Experience Survey (JOES) shows 63 to 75% of MTF users in FY 2022 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 2022.
- **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 FY 2022, MTF Healthcare Effectiveness Data and Information Set (HEDIS®) rates exceed the national 90th percentile for mental health follow-up, surpass the national 75th percentile for colorectal cancer screening, and surpass the national 50th percentile for breast cancer screening and lower back imaging.
- **Beneficiary Ratings of Inpatient Care - Overall Hospital Rating:** Direct care has shown improved patient hospital ratings from FY 2020 to FY 2022, 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 fell from FY 2021 to FY 2022 and are below the HCAHPS benchmark.
- **Patient Safety:** The MHS direct care system is focusing on reducing Wrong-Site Surgery (WSS) Reportable Events (REs) through 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 returned to and remained at 2019 levels from 2021 to 2022 as surgical volumes returned to pre-pandemic levels.
- **MHS Provider Trends:** The number of TRICARE network primary care providers increased by 25% from FY 2018 to FY 2022, while the number of specialists increased by 23%. The total number of participating primary care providers increased by 10% and by 12% for specialist since FY 2018 over the same time period.
- **Access for TRICARE Select (Standard/Extra) Users:** Results from the FY 2022 congressionally mandated four-year survey of civilian providers show 87% of physicians and 51% of behavioral health providers accept new TRICARE patients.

The DoD Annual Performance Report, with detailed performance information that meets the requirements of the Government Performance and Results Modernization Act of 2010 (P.L. 111-352), will be provided within the Annual Performance Plan and Report and transmitted with the release of the Congressional Budget Justification.

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						
($ In Thousands)		**FY 2023**		**FY 2022**	**Increase /(Decrease)**	
					$	**%**
Costs						
Total Financing Sources	$	18,350,786	$	17,307,779	$ 1,043,007	6%
Less: Net Cost		37,207,931		49,054,947	(11,847,016)	-24%
Net Change of Cumulative Results of Operations	**$**	**(18,857,145)**	**$**	**(31,747,168)**	**$ 12,890,023**	**41%**
Net Position						
Assets:						
Fund Balance with Treasury	$	1,519,197	$	1,308,663	$ 210,534	16%
Accounts Receivable, Net		652,933		527,834	125,099	24%
Total Assets	**$**	**2,172,168**	**$**	**1,836,499**	**$ 335,669**	**18%**
Liabilities:						
Accounts Payable	$	508,068	$	454,450	$ 53,618	12%
Federal Employee and Veteran Benefits Payable		251,858,732		233,083,213	18,775,519	8%
Other		204,238		2	204,236	10,211,800%
Total Liabilities	**$**	**252,571,038**	**$**	**233,537,665**	**$ 19,033,373**	**8%**
Net Position (Assets minus Liabilities)	**$**	**(250,398,870)**	**$**	**(231,701,166)**	**$ (18,697,704)**	**-8%**

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

Total Financing Sources

Total Financing Sources increased by $1.0 billion (6%) because of an increase in healthcare costs.

Net Cost

Total Net Cost of Operations decreased $11.8 billion (24%) for the reasons noted below.

Total Costs

Intragovernmental costs increased $25.4 million (3%) due to increases in the TRICARE Pharmacy Home Delivery benefit program of $25.4 million, accounting for 100% of the increase.

Public costs, other than losses/gains from actuarial assumption changes, decreased $11.9 billion (34%) primarily due to a decrease in Actuarial Expense – Other than Losses/(Gains) from Assumption changes of $11.9 billion, accounting for 100% of the decrease.

Losses from actuarial assumption changes increased $91.7 million (1%) (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, excluding Benefit Outlays, decreased $11.2 billion. The second, Losses/(Gains) from Actuarial Assumption Changes increased $91.7 million and the third, Benefit Outlays, increased $705.5 million, netting to a decrease in actuarial expenses of $11.8 billion. The actuarial liability is discussed in detail in Note 6.

Total Revenue

Total earned revenue decreased $67.7 million (4%). Intragovernmental revenue increased $22.1 million (3%) attributable to an increase in revenue from the USCG of $16.1 million and PHS of $5.7 million, accounting for 99% of the increase.

Public revenue increased $45.6 million (5%) attributable to an increase in revenue from Prime Enrollment Fees of $18.4 million, Select Enrollment Fees of $8.8 million, and TRS of $19.7 million, accounting for 103% of the increase.

Net Change in Cumulative Results of Operations

Net Change in Cumulative Results of Operations increased $12.9 billion (41%) due to an increase in budgetary financing sources and a decrease in net costs as discussed above.

Fund Balance with Treasury (FBWT)

FBWT increased $210.5 million (16%). The increase is attributable to an increase in unobligated balance available of $38.5 million, unobligated balance unavailable of $14.3 million, and obligations not yet disbursed of $160.6 million, accounting for 101% of the increase.

Accounts Receivable, Net

Accounts Receivable, Net increased $125.1 million (24%).

Intragovernmental Accounts Receivable, Net increased $1.6 million (3%).

Other than Intragovernmental Accounts Receivable, Net increased $123.5 million (26%), attributable to an increase in Other Receivables of $5.4 million and an increase of $118.1 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.

Total Assets

Total Assets increased $335.7 million (18%), primarily due to the increases in FBWT of $210.5 million and Accounts Receivable, Net of $125.1 million.

Accounts Payable

Accounts payable increased $53.6 million (12%), primarily attributable to increases in other than intragovernmental payables of $48.6 million, 91% of the increase. Other than intragovernmental payables increased primarily due to increases in MCSC of $49.8 million, 101% 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 2023 balance represents the September 30, 2023 amount.

Other Liabilities

Other Liabilities increased $204.2 million, primarily attributable to a legal contingent liability recorded in FY 2023.

Total Liabilities

Total Liabilities increased $19.0 billion (8%), primarily due to the increase in Federal Employee and Veteran Benefits Payable discussed above.

Net Position

Net Position decreased $18.7 billion (8%), due to the increases in liabilities discussed above.

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 2023 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, 2023

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 2023

- 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, 2023.

- 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 "*Internal Control Evaluation (Appendix C)*" 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, 2023.

- 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 "*Internal Control Evaluation (Appendix C)*" 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, 2023), and compliance are operating effectively as of September 30, 2023.

- 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 "*Internal Control Evaluation (Appendix C)*" section provides specific information on how the DHA-CRM conducted this assessment. Based on the results of this assessment, the DHA-CRM can provide reasonable assurance that the internal controls over the financial systems are in compliance with the FMFIA, Section 4; FFMIA, Section 803; and OMB Circular No. A-123, Appendix D, as of September 30, 2023.

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DEFENSE
HEALTH AGENCY

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
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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, 2023.

- 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 2023, my point of contact is Mr. Matthew Finnegan and can be reached at [redacted]

Kelly Thiel
Chief, Contract Resource Management
DHA Aurora, CO

Status of Audit Findings

DHA-CRM received unmodified opinions for FY 2010 through FY 2023. No material weaknesses were identified during FY 2022 and FY 2023; however beginning in FY 2019 and through FY 2023 a significant deficiency has been noted.

From FY 2019 through FY 2023, 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 through FY 2023 audits. Corrective Action Plans (CAPs) established in FY 2019 through FY 2023 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 2024. 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 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, 2023.

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

In 1982, Congress enacted the Prompt Payment Act (PPA) to require federal agencies to pay their bills on a timely basis, to pay interest penalties when payments are made late, and to take discounts only when payments are made by the discount date. DHA-CRM is in full compliance with this statutory requirement. In FY 2023, DHA-CRM did not process two invoices in a timely manner and was required to pay interest penalties of $169 dollars, on total net disbursements of $19.9 billion.

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

The DCIA, as amended by the DATA Act, requires that Federal agencies refer delinquent debts to 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 2023 at a minimum or until agencies determine that they can provide reasonable assurance over the data quality controls that support achievement of the reporting objectives in accordance with the DATA Act.

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 TFL contractor, a foreign claims contractor, and a pharmaceutical contractor to process retail and mail order prescriptions. Contract amendments are made to incorporate policy or administrative changes, as needed.

To process the high volume of electronic invoices and reports, DHA-CRM uses the TED system, a feeder system, through which billing for services or reporting of contractor payments are either accepted or rejected by the government. After TED processing is complete, all invoices and disbursement reports (accepted and rejected) are sent to Oracle Federal Financials (OFF). OFF contains TRICARE Claims Management (TCM), Accounts Receivable, Accounts Payable, Purchase Orders and the General Ledger modules. 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) and Interfund 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, 2023. DHA-CRM continued to maintain SFIS compliance through FY 2023.

TED System

The TED system is the entry point from the Health Care Support Contactors. TED data includes various categories of records that include Institutional, Non Institutional, and Provider health plan information. The TED system 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.

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

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

E-Commerce

DHA-CRM E-Commerce System (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 (TED) claims processing. DHA CRM ECS migrated the entirety of its systems including OFF to Amazon Web Services GovCloud.

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

The healthcare (TED) claims processing function is performed by the OFF-TCM extension. TCM is a custom built extension to OFF which converts healthcare (TED) data into financial data that can then be processed by standard (COTS) OFF. The TCM conversion of healthcare data is of critical importance to the accuracy of the financial information presented in DHA-CRM's financial statements. TRICARE processed approximately 209 million claims (invoices) through the TED system during FY 2023, valued at approximately $23.4 billion. The financial conversion, processing and posting of TED data from commitment/obligation through payable/receivable is 100% automated. In addition to creating budgetary and accounting transactions, TCM supports the TED system by providing daily financial data to the TED system. Without the data received from the OFF-TCM extension the TED system would be unable to process and properly edit the contractor's daily data submissions. TED system functions supported by the OFF-TCM data provided include:

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

The OFF application is a current; fully supported Version of Oracle R-12. DHA-CRM ECS Program successfully deployed Version R-12.2.8 technical upgrade in July 2021. DHA-CRM remains compliant through FY 2023.

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 2023, DHA-CRM ECS Program continued to sustain and enhance the Pharmacy Modernization Program which further streamlined the ingestion, processing and resolution of disputes.

Forward-Looking Information

The FY 2024 DHP budget request presents a balanced, comprehensive strategy that aligns with the Secretary of Defense's priorities. It includes funding for the Department's ongoing efforts to support COVID-19 and pandemic response priorities to integrate essential requirements for prevention, diagnosis, and surveillance health activities.

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

Private sector care continues to be a vital part of the MHS in FY 2024 and represents over half of the DHP O&M requirement. In FY 2022, the Department focused on re-baselined funding for private sector care healthcare requirements using the latest execution data, National Health Expenditure rates, beneficiary population forecasts, and current policy/compensation assumptions. Based on FY 2021 execution and FY 2022 execution, the much higher private sector care baseline update was valid. In FY 2024, the Department is making additional investments in private sector care based on the previous year's execution trends and the FY 2024 request fully funds the Department's anticipated private sector care requirements to reduce risk to other DoD programs. private sector care will continue to represent an important part of the overall health system in FY 2024 and beyond.

Other Management Information, Initiatives, and Issues

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

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

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

The initial rule, published in the Code of Federal Regulations (C.F.R.) at 32 C.F.R. 199.21(q), subjected the TRICARE retail pharmacy program to pricing standards known as FCP by prohibiting pharmaceutical manufacturers from receiving more than the FCPs for pharmaceuticals purchased by 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 USCG; 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 $16.9 billion to date and continues rigorous collection efforts for both programs.

TRICARE Retail Pharmacy Refunds Program

Program To Date (CY 2008-3rd Quarter, CY 2023)	Total	DHP	Non-DoD	MERHCF
SDP -				
Billed	$10,674,432,992	$4,794,649,215	$167,971,651	5,711,812,126
Collected	(10,331,451,088)	(4,633,498,010)	(161,654,836)	(5,536,298,242)
Net	342,981,904	161,151,205	6,316,815	175,513,884
ADP -				
Billed	7,050,797,351	3,165,168,899	112,639,324	3,772,989,128
Collected	(6,601,369,775)	(2,953,581,196)	(104,715,480)	(3,543,073,099)
Net	449,427,576	211,587,703	7,923,844	229,916,029
UDC [1]	(163,585)	(70,429)	(2,696)	(90,460)
Total -				
Billed	$17,725,230,343	$7,959,818,114	$280,610,975	$9,484,801,254
Collected	(16,932,820,863)	(7,587,079,206)	(266,370,316)	(9,079,371,341)
UDC	(163,585)	(70,429)	(2,696)	(90,460)
Net	$792,245,895	$372,668,479	$14,237,963	$405,339,453
Aging -				
Current	$754,181,184	$356,244,465	$13,303,735	$384,632,984
61 Days to 2 Years[2]	7,497,067	3,039,599	474,535	3,982,933
Over 2 Years	30,567,644	13,384,415	459,693	16,723,536
Total[3]	$792,245,895	$372,668,479	$14,237,963	$405,339,453

1. Unapplied Collections (UDC) applied to CY23.
2. Pharmacy debt not delinquent until 70 days. 70-day A/R aging bucket not available; 61-day aging used instead.
3. 3QCY2023 Estimate added to Billings to reconcile with A/R: $188,773,000 MERHCF; $181,369,000 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 2023 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 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 is currently coordinating with its applicable trading partners to test G-Invoicing capabilities and currently expects full implementation during the 2nd Quarter of FY 2024. Although the initial deadline established for G-Invoicing has passed, continuation of legacy processes until full implementation of G-Invoicing is not expected to have any operational or financial implications for DHA-CRM.

Limitations of the Financial Statements

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

SECTION 2

FINANCIAL SECTION

Office of the Inspector General Transmittal 2023

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

November 8, 2023

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

SUBJECT: Transmittal of the Independent Auditor's Reports on the Defense Health Agency–Contract Resource Management Financial Statements and Related Notes for FY 2023 and FY 2022
(Project No. D2023-D000FT-0063.000, Report No. DODIG-2024-008)

We contracted with the independent public accounting firm of Kearney & Company, P.C., (Kearney) 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, 2023, and 2022. The contract required Kearney to provide a report on internal control over financial reporting and compliance with provisions of applicable laws and regulations, contracts, and grant agreements, and to report on whether DHA-CRM's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract required Kearney to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," Volume 1, May 2023, Volume 2, May 2023, and Volume 3, June 2023. Kearney's Independent Auditor's Reports are attached.

Kearney's audit resulted in an unmodified opinion. Kearney concluded that the DHA-CRM FY 2023 and FY 2022 Financial Statements and related notes as of September 30, 2023, and 2022, and for the years then ended, were presented fairly in all material respects, and in accordance with Generally Accepted Accounting Principles.

Kearney's separate report, "Independent Auditor's Report on Internal Control Over Financial Reporting," did not identify any material weaknesses related to DHA-CRM's internal controls over financial reporting.* Kearney's additional report, "Independent Auditor's Report on Compliance with Laws, Regulations, Contracts, and Grant

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

Agreements," 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's reports and related documentation and discussed them with Kearney representatives. Our review, as differentiated from an audit of the financial statements and related notes in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the DHA-CRM FY 2023 and FY 2022 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal controls over financial reporting, on whether 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 did not comply, in all material respects, with GAGAS. Kearney is responsible for the attached November 8, 2023 reports and the conclusions expressed within the reports.

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

FOR THE INSPECTOR GENERAL:

Lorin T. Venable

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

Attachments:
As stated

Independent Auditor's Report 2023

KEARNEY& COMPANY

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

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, 2023 and 2022, 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, 2023 and 2022 and its net cost of operations, changes in net position, and budgetary resources for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 24-01, *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.

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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 a reasonable period of time beyond the financial statement date.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with *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 beyond the financial statement date.

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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 and other RSI be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by OMB and the Federal Accounting Standards Advisory Board, 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 the 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. 24-01, we have also issued reports, dated November 8, 2023, 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, 2023. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance and other matters. Those reports are an integral part of an audit performed in accordance with

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Government Auditing Standards and OMB Bulletin No. 24-01 and should be considered in assessing the results of our audits.

Alexandria, Virginia
November 8, 2023

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 24-01, *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, 2023, and the related notes to the financial statements, which collectively comprise DHA-CRM's financial statements, and we have issued our report thereon dated November 8, 2023.

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. 24-01. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

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

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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.

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

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

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of 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. 24-01 in considering the entity's internal control. Accordingly, this report is not suitable for any other purpose.

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Alexandria, Virginia
November 8, 2023

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Schedule of Findings

Significant Deficiency

I. Information Systems (*Repeat Condition*)

Background: The 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
- 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.

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

* * * * *

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APPENDIX A: STATUS OF PRIOR-YEAR DEFICIENCIES

In the *Independent Auditor's Report on Internal Control over Financial Reporting* included in the audit report on the Defense Health Agency (DHA) – Contract Resource Management's (CRM) fiscal year (FY) 2022 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 2022 internal control finding is summarized in ***Exhibit 1***.

Exhibit 1: Status of Prior-Year Findings

Control Deficiency	FY 2022 Status	FY 2023 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. 24-01, *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, 2023, and the related notes to the financial statements, which collectively comprise DHA-CRM's financial statements, and we have issued our report thereon dated November 8, 2023.

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 amounts, and provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and did not test compliance with all laws, regulations, contracts, and grant agreements applicable to DHA-CRM. However, providing an opinion on compliance with those provisions was not an objective of our audit; accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 24-01.

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 system's requirements, applicable Federal accounting standards, or application of the United States Standard General Ledger at the transaction level.

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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance 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. 24-01 in considering the entity's compliance. Accordingly, this report is not suitable for any other purpose.

Alexandria, Virginia
November 8, 2023

Principal Financial Statements

Department of Defense
Defense Health Agency
Contract Resource Management
BALANCE SHEETS
As of September 30, 2023 and 2022
($ In Thousands)

	2023	2022
Assets		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 1,519,197	$ 1,308,663
Accounts Receivable, Net (Note 4)	59,511	57,877
Total Intragovernmental	1,578,708	1,366,540
Other Than Intragovernmental		
Cash and Other Monetary Assets (Note 3)	38	2
Accounts Receivable, Net (Note 4)	593,422	469,957
Total Other Than Intragovernmental	593,460	469,959
Total Assets	**$ 2,172,168**	**$ 1,836,499**
Liabilities		
Intragovernmental:		
Accounts Payable	$ 16,403	$ 11,374
Total Intragovernmental	16,403	11,374
Other Than Intragovernmental		
Accounts Payable	491,665	443,076
Federal Employee and Veteran Benefits Payable (Notes 5 and 6)	251,858,732	233,083,213
Other (Note 7)	204,238	2
Total Other Than Intragovernmental	252,554,635	233,526,291
Total Liabilities	**$ 252,571,038**	**$ 233,537,665**
Commitments and Contingencies (Note 8)		
Net Position		
Unexpended Appropriations - Other Funds	$ 1,070,740	$ 911,299
Cumulative Results of Operations – Funds from other than Dedicated Collections	(251,469,610)	(232,612,465)
Total Net Position	$ (250,398,870)	$ (231,701,166)
Total Liabilities and Net Position	**$ 2,172,168**	**$ 1,836,499**

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, 2023 and 2022
($ In Thousands)

	2023	2022
Program Costs		
Gross Costs (Note 9)		
Operations, Readiness & Support	$ 19,999,877	$ 19,926,557
Actuarial Non Assumption Costs	3,639,902	15,584,277
Less: Earned Revenue	(1,651,740)	(1,584,080)
Net Program Costs	$ 21,988,039	$ 33,926,754
(Gain)/Loss from Actuarial Assumption Changes for Military Retirement Benefits (Note 6)	15,219,892	15,128,193
Net Program Costs Including Assumption Changes	$ 37,207,931	$ 49,054,947
Net Cost of Operations	**$ 37,207,931**	**$ 49,054,947**

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, 2023 and 2022
($ In Thousands)

	2023	2022
Unexpended Appropriations:		
Beginning Balance	$ 911,299	$ 402,744
Budgetary Financing Sources:		
Appropriations received	18,616,218	18,052,887
Appropriations transferred-in/out	(52,000)	98,127
Other adjustments (rescissions, etc)	(53,991)	(94,030)
Appropriations used	(18,350,786)	(17,548,429)
Total Budgetary Financing Sources	159,441	508,555
Total Unexpended Appropriations	**$ 1,070,740**	**$ 911,299**
Cumulative Results of Operations:		
Beginning Balance	(232,612,465)	(200,865,297)
Budgetary Financing Sources:		
Appropriations used	18,350,786	17,548,429
Transfers-in/out without reimbursement	0	(240,650)
Total Financing Sources	18,350,786	17,307,779
Net Cost of Operations	37,207,931	49,054,947
Net Change	(18,857,145)	(31,747,168)
Cumulative Results of Operations	**(251,469,610)**	**(232,612,465)**
Net Position	**$ (250,398,870)**	**$ (231,701,166)**

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, 2023 and 2022
($ In Thousands)

	2023	2022
Budgetary Resources		
Unobligated balance from prior year budget authority, net	$ 317,163	$ 542,281
Appropriations (discretionary and mandatory)	18,616,218	18,052,887
Spending authority from offsetting collections (discretionary and mandatory)	1,653,015	1,580,635
Total Budgetary Resources	**$ 20,586,396**	**$ 20,175,803**
Status of Budgetary Resources		
New obligations and upward adjustments (total)	$ 20,326,633	$ 19,968,865
Unobligated balance, end of year		
Unexpired unobligated balance, end of year	149,084	110,557
Expired unobligated balance, end of year	110,679	96,381
Unobligated balance, end of year (total)	259,763	206,938
Total Budgetary Resources	**$ 20,586,396**	**$ 20,175,803**
Outlays, Net		
Outlays, net (total) (discretionary and mandatory)	$ 18,299,693	$ 17,919,808
Agency Outlays, Net (discretionary and mandatory)	**$ 18,299,693**	**$ 17,919,808**

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.

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. 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.

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).

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.

1.E. Accounting for Intragovernmental Activities

Intragovernmental Activities: Treasury Financial Manual (TFM), Volume I, Part 2, Chapter 4700, provides guidance for reporting and reconciling intragovernmental balances. Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements to prevent overstatement caused by the inclusion of business activity between entity components. Intragovernmental cost and exchange revenue represent transactions made between two reporting entities within the federal government. Cost and earned revenue with the public represent exchange transactions made between the reporting entity and a non-federal entity. The 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.

Intergovernmental Activities: Goods and services are received from other federal agencies at no cost or at a reduced cost to the providing federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by the Department are recognized as imputed cost in the Statement of Net Cost, and are offset by imputed financing in the Statement of Changes in Net Position. 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 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 U.S. Government General Fund. Similarly, investments in Federal Government securities held by dedicated collections accounts are assets of the Department and liabilities of the U.S. Government General Fund. In both cases, the amounts represent commitments by the U.S. Government to provide resources for programs, but they do not represent net assets to the Government as a whole.

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

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

FBWT and the accompanying liability for deposit funds are not reported by individual Other Defense Organizations 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 reimbursements receivable, claims receivable, and refunds receivable. Allowances for doubtful accounts (estimated uncollectible amounts) due from the public are based upon factors such as: aging of accounts receivable, debtor's ability to pay, and payment history.

Since the beginning of the FCP Program, outpatient pharmaceuticals purchased by 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 Division and posts collections from the manufacturers to the fiscal year of receipt pursuant to Title 10, U.S.C. §1079a.

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

1.J. Liabilities

Liabilities represent the probable future outflow or other sacrifice of resources as a result of past transactions or events. However, no liability can be paid by 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; however, they are not required to participate. These programs include life, health, and long-term care insurance.

SFFAS 51 identifies three categories of insurance programs: 1) exchange transaction insurance programs other than life insurance, 2) nonexchange transaction insurance programs, and 3) life insurance programs. Based on the nature of the TRICARE insurance program, only category number 1 (exchange transaction insurance programs other than life insurance) is applicable to 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 12, 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 12, 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 provided both annually and on a permanent basis. The financial transactions that are supported by budgetary resources, which include appropriations, are generally the same transactions reflected in agency and the Government-wide financial reports.

The Department's budgetary resources reflect past congressional action and enable the Department to incur budgetary obligations, but do not reflect assets to the Government as a whole. Budgetary obligations are legal

obligations for goods, services, or amounts to be paid based on statutory provisions (e.g., Social Security benefits). After budgetary obligations are incurred, Treasury will make disbursements to liquidate the budgetary obligations and finance those disbursements in the same way it finances all disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

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 as an agent or a custodian for funds awaiting distribution.

When authorized by legislation, these appropriations are supplemented by revenues generated by sales of goods or services. 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 recei7pts 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.

Note 2. Fund Balance With Treasury

($ In Thousands)	2023	2022
Status of Funds Balance with Treasury		
Unobligated Balance		
Available	$ 149,084	$ 110,557
Unavailable	110,679	96,381
Total Unobligated Balance	259,763	206,938
Obligated Balance not yet Disbursed	1,348,097	1,187,479
Non-FBWT Budgetary Accounts		
Unfilled Customer Orders without Advance	(29,152)	(27,877)
Receivables and Other	(59,511)	(57,877)
Total Non-FBWT Budgetary Accounts	(88,663)	(85,754)
Total FBWT	**$ 1,519,197**	**$ 1,308,663**

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, 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 is temporarily precluded from obligation by law. 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 $59.5 million, and reimbursable undelivered orders of $29.2 million.

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

Note 3. Cash & Other Monetary Assets

($ In Thousands)	2023	2022
Cash	$ 38	$ 2
Total Cash and Other Monetary Assets	**$ 38**	**$ 2**

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)	2023		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$ 59,511	$ 0	$ 59,511
Nonfederal Receivables (Other than Intragovernmental)	632,693	(39,271)	593,422
Total Accounts Receivable, Net	**$ 692,204**	**$ (39,271)**	**$ 652,933**

	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**

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 HCFD 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 2023 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, 2023, the total net receivables recorded for the SDP and the ADP were $371.0 million. The SDP resulted from the implementation of the FCP Program for the TRICARE Retail Pharmacy Refunds Program as required by the FY 2008 NDAA, Section 703. The ADP resulted from voluntary agreements between TRICARE and the pharmaceutical manufacturers providing additional discounts above the SDP.

Note 5. Liabilities Not Covered by Budgetary Resources

($ In Thousands)	2023	2022
Federal Employee and Veteran Benefits Payable	$ 251,858,732	$ 233,083,213
Other Liabilities	204,200	0
Total Liabilities Not Covered by Budgetary Resources	$ 252,062,932	$ 233,083,213
Total Liabilities Covered by Budgetary Resources	508,068	454,450
Total Liabilities Not Requiring Budgetary Resources	38	2
Total Liabilities	**$ 252,571,038**	**$ 233,537,665**

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 $251.9 billion in health benefit liabilities, with $249.8 billion in actuarial liabilities for future health benefits and $2.0 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. Other liabilities above represent a contingent liability in the amount of $204.2 million. For additional information, refer to Note 7, Other Liabilities and Note 8, Commitments and Contingencies.

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

Note 6. Federal Employee and Veteran Benefits Payable

($ In Thousands)	2023		
	Liabilities	Less Assets Available to Pay Benefits	Unfunded Liabilities
Military Pre Medicare-Eligible Retiree Health Benefits	$ 249,840,375	$ 0	$ 249,840,375
Other	2,018,357	0	2,018,357
Total Federal Employee and Veteran Benefits Payable	$ 251,858,732	$ 0	$ 251,858,732

	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	2,102,632	0	2,102,632
Total Federal Employee and Veteran Benefits Payable	$ 233,083,213	$ 0	$ 233,083,213

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, 2023, 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 2023 balance represents the September 30, 2023 amount that is effective through 3rd quarter of FY 2024.

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

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

The change in the long-term assumptions is due to the application of SFFAS 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 2023 "rolled-forward" actuarial liability, the following assumptions were used:

Discount Rate	2.9%
Inflation	2.6%

Medical Trend (Non-Medicare)	FY 2022 - FY 2023	Ultimate Rate FY 2047
Purchased Care Inpatient	5.31%	4.60%
Purchased Care Outpatient	5.06%	4.60%
Purchased Care Prescription Drugs	9.20%	4.60%
Purchased Care USFHP	5.88%	4.60%

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

Military Pre Medicare-Eligible Retiree Health Benefits

($ In Thousands)	2023	2022
Beginning Actuarial Liability	$ 230,980,581	$ 200,268,111
Plus Expenses:		
Normal Cost	11,221,278	9,064,310
Interest Cost	6,891,133	6,768,628
Plan Amendments	0	0
Experience Losses/(Gains)	(5,253,467)	8,265,419
Other Factors	1	(1)
Subtotal: Expenses Before Losses/(Gains) From		

Actuarial Assumption Changes	12,858,945	24,098,356
Actuarial Losses/(Gains) Due To:		
Changes In Trend Assumptions	18,221,544	9,458,389
Changes In Assumptions Other Than Trend	(3,001,652)	5,669,804
Subtotal: Losses/(Gains) From Actuarial Assumption Changes	15,219,892	15,128,193
Total Expenses	$ 28,078,837	$ 39,226,549
Less Benefit Outlays	9,219,043	8,514,079
Total Changes In Actuarial Liability	$ 18,859,794	$ 30,712,470
Ending Actuarial Liability	**$ 249,840,375**	**$ 230,980,581**

The DHA actuarial liability increased $18.9 billion (8.2%). This resulted from the net effect of: an increase of $8.9 billion due to expected increases (interest cost plus normal cost less benefit outlays), an increase of $15.2 billion due to changes in key assumptions; and a decrease of $5.3 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, 2023 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, 2013 through March 31, 2023.

For the September 30, 2023, financial statement valuation, DoD OACT determined a single equivalent medical cost trend rate of 4.91% 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)	2023	2022
Nonfederal Other Liabilities	204,238	2
Total Other Liabilities	**$ 204,238**	**$ 2**

Liability for non-fiduciary deposit funds and undeposited collections 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.

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

For Commitments and Contingencies disclosure related information see Note 8.

Note 8. Commitments and Contingencies

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 accrued one contingent liability for material contingencies where an unfavorable outcome is considered probable and the amount of potential loss is measurable. No amounts have been accrued for contingencies where the likelihood of an unfavorable outcome is less than probable, where the amount or range of potential loss cannot be estimated due to a lack of sufficient information, or for immaterial contingencies.

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

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

Ingham Regional Medical Center v. United States (Court of Federal Claims). Class action, but not certified, arises out of a settlement agreement to resolve hospital outpatient radiology claims. Plaintiffs' First Amended Complaint was filed on November 17, 2014. It alleges breach of express contract, breach of implied contract, mutual mistake, breach of the covenant of good faith and fair dealing, and violations of a statutory mandate under the TRICARE statute. The suit alleges 5,200 hospitals were underpaid for outpatient procedures. Plaintiffs seek reformation damages of approximately $13.8 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 the parties briefed multiple motions. including the Government's Motion for Summary Judgment. In late November 2022, the judge approved, in large part, the Government's request for Summary Judgment. Plaintiffs have filed a motion to re-open discovery, to submit a completely new expert opinion report, and to renew their class certification motion. The Government's response brief was filed on April 21, 2023. Oral arguments on Plaintiffs' discovery motion were held on July 18, 2023.

Bio-Medical Applications of Georgia, Inc., et al. v. United States (Court of Federal Claims). Plaintiffs challenge the DHA's payment methodology for End Stage Renal Disease dialysis treatments at freestanding dialysis facilities. Plaintiffs filed a Complaint on June 28, 2019. The Complaint alleges breach of contract, breach of the covenant of good faith and fair dealings, and violations of a money-mandating regulation. Plaintiffs did not plead exact damages beyond the $12.5 million identified in section 3 but based on the exchange of information during court sponsored mediation, plaintiff's damages could arguably be estimated as $281 million. On April 16, 2020, in an oral ruling, the Court of Federal Claims granted the Government's Motion to Dismiss in part and dismissed Counts II (breach of contract) and III (breach of the covenant of good faith and fair dealings). The Government filed its Answer on July 8, 2020. Plaintiffs amended its Complaint alleging that the Government illegally invoked a Government debt recovery process to take approximately $12.5 million from Plaintiffs. The Government's Answer was filed on October 14, 2021. Discovery was scheduled to end January 31, 2023, but the parties sought an extension to allow time for mediation. The parties have reached a tentative settlement agreement in principle in the amount of $210 million, and they are currently finalizing settlement terms. Out of $210 million, $204.2 million is allocated to CRM. Since the loss is probable and estimable, DHA-CRM has recognized an expense and liability for the full amount of the expected loss. Any amounts ultimately due will likely be paid out of the Treasury Judgment Fund. Once the claim is settled or a court judgment is assessed and the Judgment Fund is confirmed as the source for payment of the claim, the liability will be removed and an "other financing source" amount will be recognized as prescribed by Interpretation of Federal Financial Accounting Standards 2: Accounting for Treasury Judgment Fund Transactions: An Interpretation of SFFAS 4 and SFFAS 5.

For Other Liabilities disclosure related information see Note 7.

Note 9. Disclosures Related to the Statement of Net Cost

($ In Thousands)	2023	2022
Gross Cost		
Intragovernmental Cost	$ 1,006,756	$ 981,358
Nonfederal Cost	22,633,023	34,529,476
Total Cost	23,639,779	35,510,834
Earned Revenue		
Intragovernmental Revenue	(694,073)	(671,979)
Nonfederal Revenue	(957,667)	(912,101)
Total Revenue	(1,651,740)	(1,584,080)
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	15,219,892	15,128,193
TOTAL NET COST	**$ 37,207,931**	**$ 49,054,947**

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.

Note 10. Disclosures Related to the Statement of Budgetary Resources

($ In Thousands)	2023	2022
Intragovernmental Budgetary Resources Obligated for Undelivered Orders Unpaid	29,196	20,801
Total Intragovernmental	29,196	20,801
Nonfederal Budgetary Resources Obligated for Undelivered Orders Unpaid	810,832	712,228
Total Nonfederal	810,832	712,228
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	**$ 840,028**	**$ 733,029**

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.

Note 11. Reconciliation of Net Cost to Net Outlays

($ In Thousands)	2023		
	Intragovernmental	With the Public	Total
Net Cost of Operation (SNC)	$ 312,683	$ 36,895,248	$ 37,207,931
Components of Net Cost That are Not Part of Net Outlays:			
Increase/(decrease) in assets:			
Accounts Receivable, Net	$ 1,634	$ 123,465	$ 125,099
Other Assets		36	36
(Increase)/decrease in liabilities			
Accounts Payable	(5,029)	(48,589)	(53,618)
Federal employee and veteran benefits payable		(18,775,519)	(18,775,519)
Other Liabilities		(204,236)	(204,236)
Total Components of Net Cost That Are Not Part of Net Outlays	$ (3,395)	$ (18,904,843)	$ (18,908,238)
Net Outlays	$ 309,288	$ 17,990,405	$ 18,299,693
Agency Outlays, Net, Statement of Budgetary Resources			$ (18,299,693)
Reconciling Difference			**$ 0**

($ 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**

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 (proprietary) 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, excluding the repayment to the Treasury of debt principal.

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 12. Insurance Programs

Premium Base Health Plans consist of several programs with coverage offered to Active Duty, Active Duty Family Member(s), Retirees and Reserve members. The programs include TRICARE CHCBP, TYA, TRS, TRR, 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 2023 was $957.7 million and $912.1 million for FY 2022. The benefit cost for FY 2023 correlate to the premium collections reported.

Monthly Premium Rates are established on an annual basis. The Monthly Premium Rates for calendar year 2023 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 the TED system. The liability balance represents unpaid claims received as of the end of the reporting period. The risk for future claim cost are accounted for under the IBNR calculation. The IBNR change is a net result of several factors that increase or decrease the reserve, including change in claims cost and volume per member, changes in administration cost

estimates and required margin, change in population size, and movement of health care delivery to alternative types of service.

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

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

SECTION 3

OTHER INFORMATION

Summary of Financial Statement Audit and Management Assurances

Summary of Financial Statement Audit

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

Summary of Management Assurances

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

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

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

Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
Federal Financial Management Systems Requirements	No lack of compliance noted	No lack of compliance noted
Applicable Federal Accounting Standards	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. 24-01, *Audit Requirements for Federal Financial Statements*, dated October 19, 2023, DoD reports payment integrity information (i.e., improper payments) at the agency-wide level in the consolidated DoD AFR. For detailed reporting on DoD payment integrity, refer to the "Other Information" section of the consolidated DoD AFR at: https://comptroller.defense.gov/odcfo/afr2023.aspx.

Fraud Reduction Report

As a healthcare organization, the MHS is just as susceptible to healthcare fraud schemes as any other medical organization. Several federal laws governing fraud and abuse exist that specify the criminal, civil, and administrative penalties and remedies the government may impose on individuals or entities that commit fraud and abuse federal programs such as TRICARE. Violating these laws may result in nonpayment of claims, Civil Monetary Penalties, exclusion from all Federal healthcare programs, and criminal and civil liability. Government agencies, including the 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 (DoD IG)*, the 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 DoD IG 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 DoD OIG 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 HCFD in Aurora, Colorado is responsible for healthcare anti-fraud to safeguard beneficiaries and protect benefit dollars. The HCFD develops and executes antifraud and abuse policies and procedures, provides oversight of contractor program integrity activities, and coordinates investigative activities. The HCFD also develops cases for criminal prosecutions, civil litigations, and initiates administrative measures. Through a Memorandum of Understanding (MOU), the HCFD refers its fraud cases to the DCIS. The DHA HCFD also coordinates investigative activities with Military Criminal Investigative Offices, as well as other federal, state, and local agencies.
The DHA OIG maintains a DHA Hotline Program, which includes inquiries addressing DHP. The hotline ensures inquiries resulting from allegations are conducted in accordance with applicable laws and 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 2023 MHS Fraud Events (Source: DCIS)

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

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

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

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

as "test billing" to develop the most expensive combination of compounded drugs to maximize reimbursement from TRICARE.

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

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

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

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

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

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

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

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

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

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

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

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

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

December 8, 2022: Florida Man Charged with Conspiring to pay Kickbacks and Commit Health Care Fraud in $64 Million Scheme

Attorney for the United States Vikas Khanna announces that a Florida man was charged for his role in conspiracies to pay illegal kickbacks and to commit health care fraud that caused at least $64 million in losses to federal health care benefit programs.

October 18, 2022: Oklahoma City Home Health Company and Two Former Corporate Officers Agree to Pay $22.9 Million to Settle Federal False Claims Act and Kickback Allegations from Improper Payments to Referring Physicians

United States Attorney Robert J. Troester announces that CHC Holdings, LLC d/b/a Carter Healthcare, an Oklahoma limited liability company that provides home healthcare through subsidiaries in multiple states; including Texas and Oklahoma, as well as Stanley Carter and Brad Carter (collectively Defendants) agreed to pay $22,948,004 to resolve allegations that Carter Healthcare wrongfully paid physicians to induce referrals of home health patients under the guise of medical directorships. The results were the submission of false claims to the Medicare and TRICARE programs.

Climate-Related Financial Risk

In FY 2023, 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.

SECTION 4

APPENDIX

Appendix: Glossary of Acronyms

A/R	Accounts Receivable
ADA	Anti-deficiency Act
ADP	Additional Discount Program
AEAN	Aggregate Entry Age Normal
C.F.R.	Code of Federal Regulations
CAP	Corrective Action Plan
CHAMPUS	Civilian Health and Medical Program of the Uniformed Services
CHCBP	Continued Health Care Benefit Program
CMS	Centers for Medicare and Medicaid Services
COBRA	Consolidated Omnibus Budget Reconciliation Act
COTS	Commercial off-the-shelf
COVID-19	Coronavirus 2019
CRM	Contract Resource Management
DATA Act	Digital Accountability and Transparency Act
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
DFAS-IN	Defense Finance and Accounting Service-Indianapolis
DHA	Defense Health Agency
DHA OIG	DHA Office of the Inspector General
DHA-C	DHA-Comptroller
DHA-CRM	Defense Health Agency - Contract Resource Management
DHP	Defense Health Program
DMDC	Defense Manpower Data Center
DoD / Department	Department of Defense
DoD OIG	DoD Office of the Inspector General
DOJ	Department of Justice
ECHO	Extended Care Health Option
ECS	E-Commerce System
FAD	Funding Authorization Document
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance with Treasury
FCP	Federal Ceiling Price
FECA	Federal Employees' Compensation Act
FEDVIP	Federal Employees Dental and Vision Insurance for Program
FEHB	Federal Employee Health Benefit
FFATA	Federal Funding Accountability and Transparency Act
FFMIA	Federal Financial Management Improvement Act
FISMA	Federal Information Security Modernization Act
FMFIA	Federal Manager's Financial Integrity Act
FMR	Financial Management Regulation
FMS	Financial Management Systems
FOD	Financial Operations Division
FSIO	Financial Systems Integration Office
FSS	Federal Supply Schedule
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GEHA	Government Employees Health Association
G-Invoicing	Fiscal Services Government Invoicing
HA	Health Affairs
HCAHPS	Hospital Consumer Assessment of Healthcare Providers and Systems
HCDA	Health Care Data Analysis
HCFD	Health Care Fraud Division
HEDIS	Healthcare Effectiveness Data and Information Set
HHS	U.S. Department of Health & Human Services
HMO	Health Maintenance Organization
IBNR	Incurred but not Reported
IGT	Intragovernmental Transactions
IPAC	Intragovernmental Payment and Collection
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
NDAA	National Defense Authorization Act
NFR	Notice of Finding and Recommendation
NOAA	National Oceanic and Atmospheric Administration
Non-FAMP	Non-Federal Average Manufacturer Price
OACT	Office of the Actuary
OASD	Office of the Assistant Secretary of Defense
OFF	Oracle Federal Financials
OGC	Office of General Counsel
OIG	Office of the Inspector General
OMB	Office of Management and Budget

OPM	Office of Personnel Management
OUSD	Office of the Under Secretary of Defense
P&R	Personnel and Readiness
P.L.	Public Law
PCM	Primary Care Manager
PCMH	Patient-Centered Medical Home
PHS	Public Health Service
PIIA	Payment Integrity Information Act
POD	Pharmacy Operations Division
POS	Point of Service
PPA	Prompt Payment Act
PPO	Preferred Provider Organization
REs	Reportable Events
RSV	Respiratory Syncytial Virus
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
TDP	TRICARE Dental Program
TED	TRICARE Encounter Data
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
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	Wrong-Site Surgery