2024

Fiscal Year Agency Financial Report

ASSISTANT SECRETARY OF DEFENSE (HEALTH AFFAIRS) - DEFENSE HEALTH PROGRAM


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AGENCY HEAD MESSAGE

Our Fiscal Year (FY) 2024 Defense Health Program (DHP) President's Budget request was fully enacted at $40.3 billion. The FY 2024 budget enabled us to invest $1.4 billion in clinical mental health programs that 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 of Defense (DoD) include Primary Care Behavioral Health, Tele-Behavioral Health, National Intrepid Center of Excellence and Intrepid Spirit Centers, various substance abuse programs, and research on mental health aimed to accelerate preventive interventions and treatments for traumatic brain injuries, post-traumatic stress disorder, and other conditions.

The Military Health System (MHS) continues to be crucial in responding to public health emergencies, disaster management, and achieving unprecedented outcomes on the battlefield. This year we developed new business rules establishing policy, assigning responsibilities, and developing procedures for planning and programming for the uniformed medical and dental workforce within military medical treatment facilities and dental treatment facilities. We also published a series of business rules to stabilize our medical cadre in a transparent and cohesive manner.

I issued the MHS Strategic Plan for FY 2024-2029 in early FY 2024. It explains the organization's mission, vision, and responsibilities to its stakeholders. The MHS Strategic Plan set into action steps to transform the MHS into an integrated system of health and medical readiness. The MHS invested in digital health technologies to enhance access to healthcare from home to the clinic, and to the battlefield and back. We prioritized medical research and development in blood and blood products, pharmaceuticals, vaccines, biomedical equipment and new pathways of care to save future lives on the battlefield, restore warfighters, and aid military responses to national emergencies. We focused on promoting health awareness, discovering and resolving environmentally based health threats and providing comprehensive healthcare services all of which contribute to how the organization improves the health of our country's fighting force.

Focusing on stabilizing, modernizing and integrating the health system, our financial statements illustrate how we employed resources entrusted to us to carry out the MHS healthcare mission. Expenditures reflect investments in a myriad of initiatives, including new and expanded military construction projects with pathologic, dental, surgical, and administrative equipment in collective pursuit of providing world class healthcare and dental services. We remain focused on readiness and healthcare for all beneficiaries. The two are inseparable—when our medical workforce takes care of patients, the readiness of the Total Force is enhanced.

As the seventh annual DHP financial statement audit concludes, I have every confidence that we are on the path to remediate audit findings and strengthen internal controls. The MHS is pleased to have achieved its fourteenth unmodified opinion in FY 2024 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, the auditor closed 2 of 10 auditor-reported material weaknesses and downgraded one material weakness to a significant deficiency—a substantial accomplishment that evidences our progress towards an unmodified opinion for the entire DHP appropriation. We have re-established a clear audit roadmap that enabled us to resolve 29 Notices of Findings and Recommendations. While work remains to be done, we are committed to obtaining an unmodified audit opinion.

As a healthcare organization supporting our nation's Warfighters and their families, we wholeheartedly recognize that we are charged with the responsibility of being good stewards of the taxpayer funds entrusted to us. 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.

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Lester Martínez-López, M.D., M.P.H.
Assistant Secretary of Defense for Health Affairs

ABOUT THE ASD(HA)-DHP AGENCY FINANCIAL REPORT

The Office of the Assistant Secretary of Defense for Health Affairs (ASD(HA)) over DHP Agency Financial Report (AFR) provides financial and summary performance results enabling the President, Congress, and the American people to assess DHP accomplishments and to understand financial results and operational functions.

This AFR uses the following reporting requirements of the following:

- Chief Financial Officers Act of 1990 (CFO Act, Public Law (P.L.) 101-576, codified as 31 United States Code (U.S.C.) §501 note) as amended by the Government Management Reform Act of 1994 (GMRA, P.L. 103-356, codified as 31 U.S.C. §3301 note);
- Department of Defense (DoD) 7000.14R Financial Management Regulation (FMR), Volume 6B;
- Office of the Under Secretary of Defense (Comptroller) ((OUSD(C)) Memo, FY 2022 DoD Reporting Entities;
- Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements
- OMB Bulletin 24-01, Audit Requirements for Federal Financial Statements;
- Treasury Financial Manual (TFM) Volume I, Part 2, Chapter 4700, Federal Entity Reporting Requirements for the Financial Report of the U.S. Government; and
- OUSD(C) DoD Financial Reporting Guidance Attachment 103, Standard Note Disclosures.

ASD(HA) chooses to produce an AFR over its use of DHP funding rather than the alternative Performance and Accountability Report (PAR). **The Department of Defense Annual Performance Report**, with detailed performance information that meets the requirements of the Government Performance and Results Modernization Act of 2010 (P.L. 111-352), will be published in February 2025. This AFR may be viewed online at **www.health.mil/About-MHS/OASDHA/ASDHA/DHP-AFR**. The AFR consists of three primary sections:

1. Management's Discussion and Analysis

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

2. Financial Section

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

3. Other Information

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

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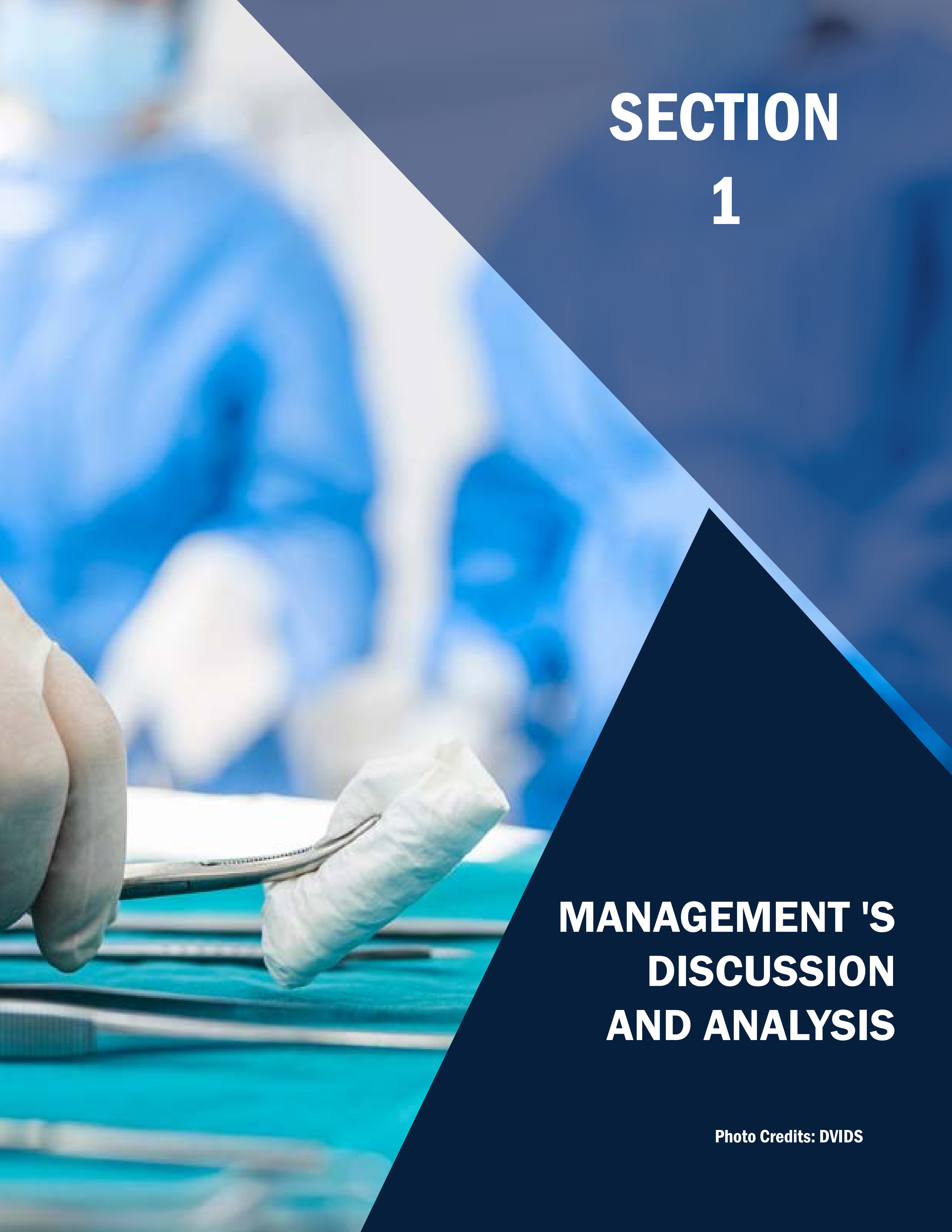

SECTION 1

MANAGEMENT 'S DISCUSSION AND ANALYSIS

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MISSION AND ORGANIZATION STRUCTURE

The Military Health System (MHS) strategy aligns to and supports the National Defense Strategy (NDS), the National Military Strategy, and the National Biodefense Strategy and Implementation Plan by providing a Medically Ready Force, a Ready Medical Force, and improving the health of all those entrusted to its care. The missions of the MHS builds on three fundamental and interrelated pillars:

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

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

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

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

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

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

KEY EVENTS IN MODERN MILITARY HEALTHCARE

KEY EVENTS IN MODERN MILITARY HEALTHCARE

1947

The National Security Act of 1947 consolidated the Military Departments into a single Department of Defense.

1956

The 1956 Dependents' Medical Care Act officially established the availability of healthcare services to Active Duty dependents, retirees and their dependents at MTFs and authorized the SECDEF to contract with civilian healthcare providers for hospital services.

1966

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

1972

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

1993

Effective FY 1993, 10 U.S.C. § 1100 established the DHP appropriation.

1993 - 1997

The FY 1994 DoD Appropriations Act review resulted in the first TRICARE contract being awarded in 1995, replacing CHAMPUS as the civilian healthcare benefit for eligible dependents and retirees. TRICARE preventive healthcare coverage was fully implemented in 1997.

2013

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

2017 - 2022

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

MISSION AND BACKGROUND

What is the Defense Health Program?

To fund the peacetime operation of the MHS, the "Defense Health Program" account was established within the Department of the Treasury with a Treasury Account Symbol (TAS) of 097 0130. All sums appropriated to carry out the functions of the SECDEF with respect to medical and healthcare programs of the DoD are appropriated to that account. The SECDEF may obligate or expend funds from the account for purposes of conducting programs and activities under title 10 U.S.C., Chapter 55, including contracts entered under §§ 1079, 1086, 1092 or 1097. The ASD(HA) is the principal advisor to the SECDEF and the Under Secretary of Defense for Personnel and Readiness for all DoD health and force health protection policies and programs. The ASD(HA) serves as resource manager for all DoD health and medical financial and other resources and prepares the Unified Medical Program for the annual President's Budget submission to request appropriations for the MHS. Consistent with applicable law, the ASD(HA) accounts for all funding for the MHS, including the DHP appropriations account. The ASD(HA) ensures DHP funding is issued to the two MHS financial statement reporting components through the DHA. The two component reporting entities that make up the ASD(HA)-DHP financial statements are (1) DHA (inclusive of DHA Headquarters, MTFs and USUHS); and (2) DHA – Contract Resource Management (CRM) which includes TRICARE/private sector care.

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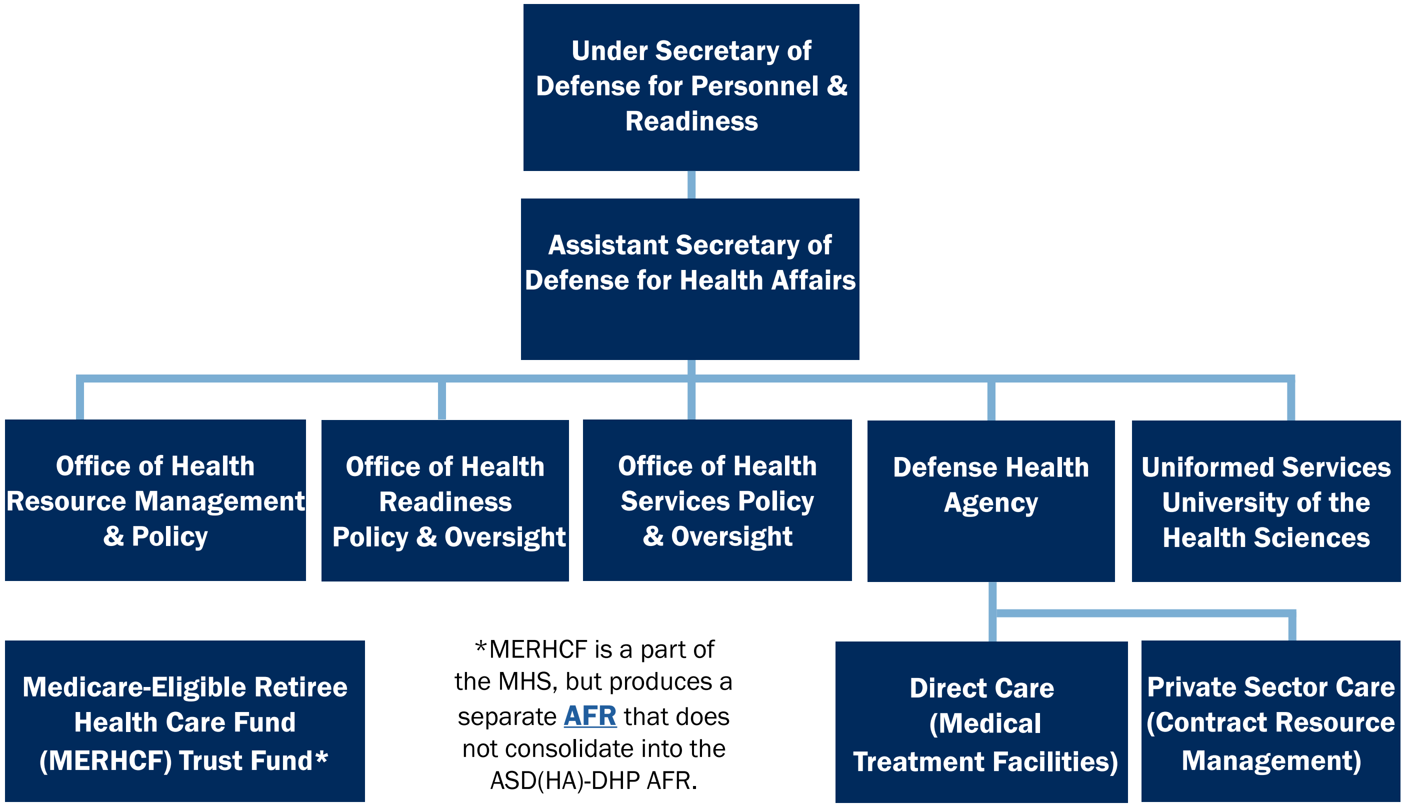
MILITARY HEALTH SYSTEM ORGANIZATIONAL STRUCTURE

Figure 1 — 1: MHS Organization Chart



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

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

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

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

MILITARY HEALTH SYSTEM WORKLOAD

Major Programs

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

- Healthcare delivery is provided in garrison and during contingency operations. This includes a focus on trauma care and developing interoperability with partner nations through our global health engagements program. Figure 1 — 2 provides a summary of the number of healthcare delivery cases completed in FY 2023.
- Medical education is provided through the Medical Education and Training Campus and the USUHS. We support the readiness of America's war fighter and the health and well-being of the military community by educating and developing uniformed health professionals, scientists, and leaders; by conducting cutting edge military-relevant research, and by providing operational support to units around the world.
- Public health capability provided is lean, efficient, effective, forward-leaning, and strategically positioned to fully meet MHS and customer needs.
- Private sector partnerships are leveraged to build strong support with the civilian healthcare sector through our TRICARE program, which is vital to our success.
- Cutting-edge medical Research, Development, Testing, & Evaluation (RDT&E) is supported through the DHA's Research and Development directorate, the U.S. Army Medical Research and Development Command, the Air Force Research Laboratory, and through partnerships with various organizations, including those established with Cooperative Research and Development Agreements.

Figure 1 – 2: TRICARE Workload and Population

TRICARE Workload and Population Summary – FY 2023*	
Type of Care	**Annual Workload Summary**
Inpatient Admissions	Total: 850,400 Direct Care: 145,900 Private Sector Care: 330,500 TRICARE For Life: 374,000
Outpatient Encounters	Total: 87,900,000 Direct Care: 21,700,000 Private Sector Care: 36,100,000 TRICARE For Life: 30,100,000
Births	Total: 89,200 Direct Care: 13,800 Private Sector Care: 75,400
Prescriptions Filled	Total: 101,700,000 Direct Care: 30,700,000 Retail Pharmacies: 24,800,000 Home Delivery: 5,800,000 TRICARE For Life: 40,400,000
Emergency Department Encounters	Total: 3,962,600 Direct Care: 1,226,000 Private Sector Care: 1,560,400 TRICARE For Life: 1,176,200

- FY 2024 statistics are not currently available; therefore FY 2023 amounts are reported

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. The DHA manages the execution of policy as issued by ASD(HA) and exercises authority, direction, and control over all MTFs. Senior DoD leadership, the Joint Staff Surgeon, MILDEP Surgeons General, and DHA leadership continuously examine the DHA's fundamental purpose, vision, and strategies to ensure alignment with DoD's goals, objectives and overall mission.

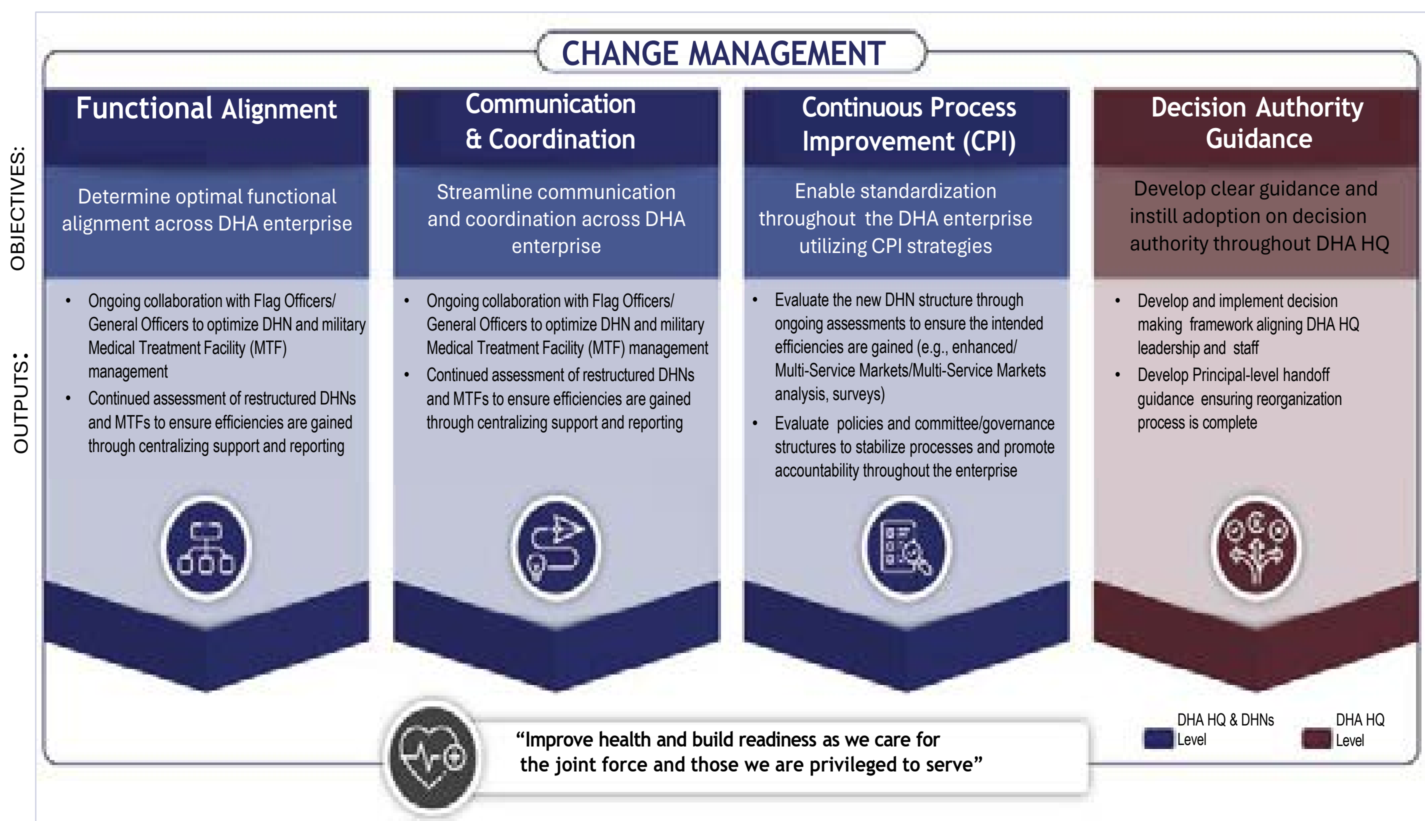
The DHA is refocusing efforts on its core business, ensuring an integrated medical team that provides optimal health services in support of our nation's military mission—anytime, anywhere. The DHA has taken bold steps to redefine how we work with the Department of Veterans Affairs (VA) and our civilian partners to improve coordinated care for wounded warriors and all whom we have the honor to serve. Beginning October 1, 2018, 10 U.S.C. § 1073c, as added by Section 702 of the NDAA for FY 2017 (P.L. 114-328), the Director of DHA took responsibility for the administration of each MTF. Centralization for the management and administration of the MTFs under DHA transforms the MHS into an integrated readiness and health system.

In keeping with the provisions of NDAA FY 2017, section 702, the DHA continues to refine strategies to streamline its organizational alignment. Initially, DHA managed hospitals and clinics as a market-based structure. These markets were responsible for the medical readiness of service members and healthcare of beneficiaries in their respective regions. DHA's recent decision to transition to "Networks" was a fundamental shift in the management of healthcare delivery, combat readiness, and enterprise support. These critical advancements reinforce the DHA Strategic Plan and the focus on ready, reliable care. As a High Reliability Organization (HRO), these changes alleviate gaps, empower decision-making at the appropriate echelon, align key functions, and streamline processes key to improving workplace healthcare provisions. The transition has accomplished a significant enterprise-wide change, including realignment of 20 direct reporting markets to nine Flag Officer/General Officer (FO/GO)-led Defense Health Networks (DHN).

DHA capitalizes on FO/GO decision-making to enhance capabilities and compel standardization of common practices. DHN Directors serve in dual-hatted roles, with delegated authorities from their respective MILDEPs and from the DHA Director. The DHN Directors maintain authority, direction, and control over MTF policy, business planning, and resourcing decisions at each of the nine networks. The new role of the DHNs will drive the development and execution of performance planning that optimizes standardized practices and improves performance. All stakeholders play an important and active role to improve processes and exhibit behaviors that not only push decisions to the right level; but also gives leaders the information they need to make informed decisions. Figure 1 — 3 and Figure 1 — 4 provides an overview of the DHN Structure supporting MTFs across the enterprise as of October 1, 2023:

Figure 1 — 3 Defense Health Network

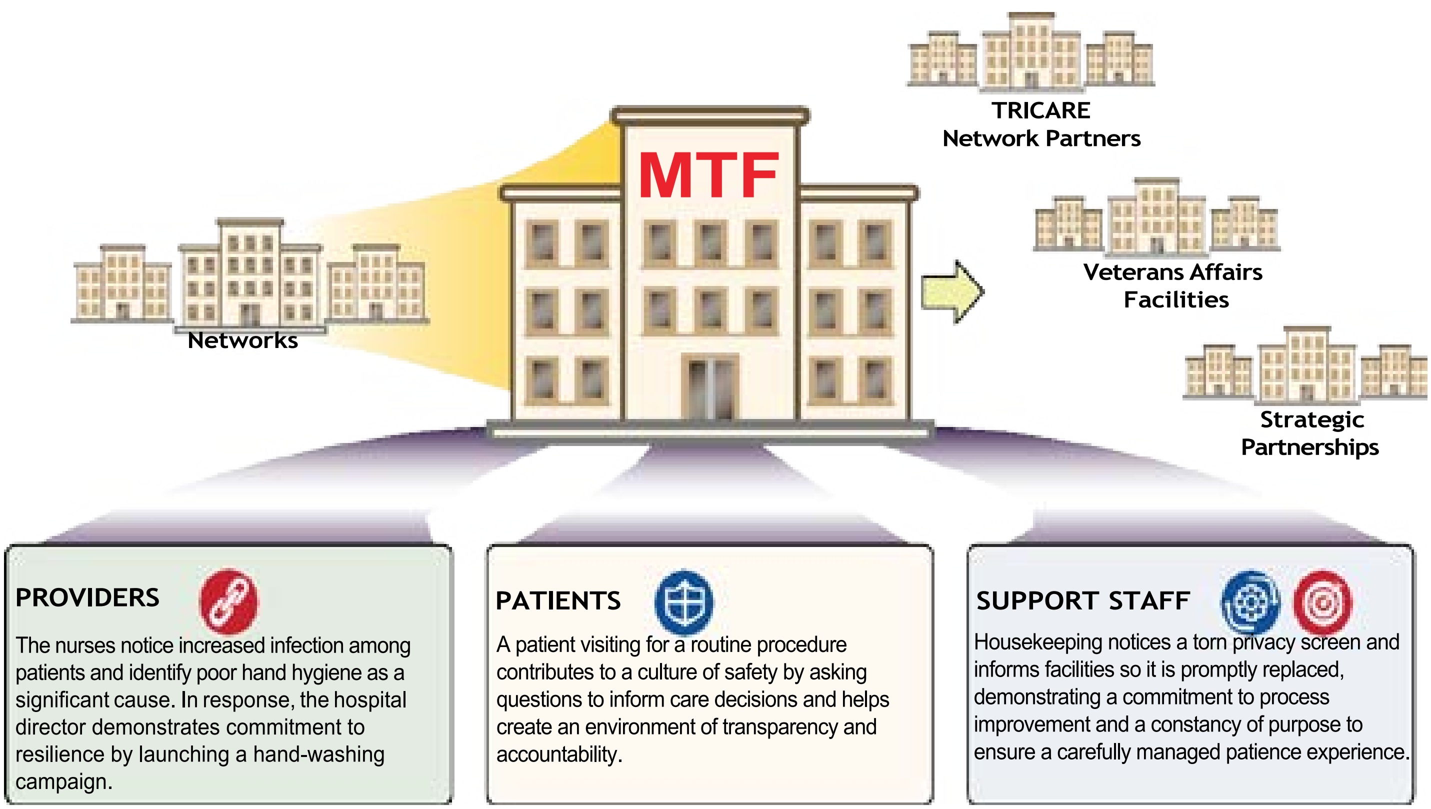
Figure 1 — 4 The Pillars of DHA Advancement Success



High Reliability Organization (HRO) Journey

The MHS has continued incorporating the principles of high reliability while completing the Congressionally-mandated transition of operational control of the MTFs from the MILDEPs to DHA. HROs achieve top outcomes despite operating in complex or high-risk environments. HROs commonly seen in aviation and nuclear industries achieve top outcomes by: improving standardization and reducing variability; mitigating errors to achieve zero harm; embracing transparency and accountability; and valuing the contributions of all individuals, regardless of rank. The graphic below illustrates how the MHS embraces the tenets of an HRO to compel organizational cultural shifts. In DHA, this journey to HRO is called "Ready, Reliable Care."

Figure 1 — 5: Driving High Reliability at MTFs and with our Partners



Ready Reliable Care

Since 2014, the MILDEPs and DHA have taken actions to improve healthcare access, quality, safety, transparency, and patient engagement. Following completion of the transfer of military MTFs to the DHA from the MILDEPs, DHA has been working to standardize and expand these efforts in a coordinated, collaborative approach aimed at effectively managing system-wide processes and rooting out the potential for error and waste. Increasing standardization will enable the delivery of consistent high-quality care from one facility to the next, one patient to the next. These efforts are motivated by three key drivers: promoting the integration of HRO across the MHS, establishing an MHS-wide culture of safety focused on achieving zero harm, and enhancing the MHS through Continuous Process Improvement (CPI).

Defense Health Program Appropriation

When enacted, the annual Appropriations Act reflects the amount of funding appropriated for peacetime MHS operations via the DHP appropriation. The DHP account (TAS 097 0130) contains amounts appropriated to carry out the functions of the SECDEF with respect to medical and healthcare programs of the DoD. The SECDEF may obligate or expend funds from the account for purposes of conducting programs and activities under 10 U.S.C., Chapter 55, including contracts entered into under §§ 1079, 1086, 1092 and 1097. The DHP appropriation is sub-divided as follows:

- **Operation and Maintenance (O&M) funds:** DHP O&M provides for worldwide medical and dental services to active forces and other eligible beneficiaries, veterinary services, occupational and industrial healthcare, specialized services for the training of medical personnel, and medical command headquarters.

- **Procurement funds:** DHP Procurement funds acquisition of capital equipment in MTFs and other selected healthcare activities which include equipment for initial outfitting of newly constructed, expanded, or modernized healthcare facilities; equipment for modernization and replacement of uneconomically repairable items; and MHS information technology (IT) requirements.

- **RDT&E funds:** DHP RDT&E is executed in response to the needs of the NDS and Joint Capabilities Integration and Development System. The goal is to advance the state of medical science in those areas of most pressing need and relevance to today's battlefield experience and emerging threats. The objectives are to discover and explore innovative approaches to protect, support, and advance the health and welfare of military personnel and individuals eligible for care in the MHS; to accelerate the transition of medical technologies into deployed products; and to accelerate the translation of advances in knowledge into new standards of care for injury prevention, treatment of casualties, rehabilitation, and training systems that can be applied in deployed environments or in MTFs.

Military Construction (MILCON) Funding

The Military Construction (MILCON) appropriation is enacted to finance major DoD projects such as missile storage facilities, maintenance facilities, medical and dental clinics, and military family housing, when DoD is the primary user. The MILCON appropriation is distinct from the DHP appropriation.

The ASD(HA) receives a portion of MILCON to support the MHS infrastructure. This funding ensures that healthcare facilities are optimally sized for their missions, constructed in locations that are most efficient and effective for healthcare provision and force readiness, and are sustained and maintained to facilitate world-class healthcare operations globally. The ASD(HA)'s allocation is detailed in the ASD(HA)-DHP financial statements.

In FY 2024, the ASD(HA) utilized MILCON funding to construct and renovate ambulatory care centers, and medical and dental clinics in locations such as California, Maryland, and Germany. Furthermore, the FY 2024 NDAA authorized funding for the establishment of a new whole blood processing laboratory at Dover Air Force Base, Delaware.

How We Accomplish Our Mission

In addition to receiving funding via the DHP appropriation, the MHS provides care in government-owned or leased MTFs focused on sustaining readiness of the military medical workforce and the medical readiness of deployable forces. MTFs are the heart of military medicine, where military, civilian and contract personnel provide care for DoD healthcare beneficiaries and gain the skills and training to support operational units. With 45 inpatient hospitals and Medical Centers; 574 ambulatory care and occupational health clinics; 117 dental clinics, located on military installations around the world, the MHS is one of the nation's largest health systems – it operates more hospitals than any nonprofit hospital system in the nation.

Additionally, the MHS purchases a majority of the total care provided for beneficiaries through tailored contracts such as the Managed Care Support Contracts responsible for the administration of the TRICARE benefit. The MHS also receives a transfer of funds from the MERHCF. The MERHCF is a trust fund established pursuant to law to pay for the health-care costs of beneficiaries who are Medicare-eligible and their family members.

Defense Health Agency - Contract Resource Management

CRM is a directorate of the DHA. For financial reporting purposes, DHA-CRM is a component within the consolidated financial statements of the DHP. Within the DoD, Office of the Under Secretary of Defense for Personnel and Readiness (OUSD(P&R)), through Office of the Assistant Secretary of Defense for Health Affairs, maintains operational oversight of the MHS, including direct care, private sector care, and the MERHCF for those beneficiaries eligible for both Medicare and TRICARE.

DHA-CRM is headquartered in Aurora, Colorado, and is responsible for the accounting, financial support, and financial reporting for TRICARE's centrally-funded private sector healthcare 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 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 and prior year spending and program developments. It also assists the DHA's Office of the Inspector General (OIG) Health Care Fraud Division (HCFD) with case recoupment activities related to private sector care. DHA-CRM expends both DHP funds and MERHCF to reimburse private sector healthcare providers for services rendered to TRICARE beneficiaries. Note: CRM is allocated nearly half of the DHP appropriation, is its own disbursing office (does not utilize the Defense Finance and Accounting Service (DFAS)), prepares its own financial statements, and is audited separately from ASD(HA)-DHP. CRM publishes its own financial statements, which are consolidated into the larger ASD(HA)-DHP financial statements.

BENEFICIARY TRENDS AND DEMOGRAPHICS

In FY 2023, 9.5 million beneficiaries were eligible for DoD medical care, including Active-Duty and their families, military retirees and their families, survivors, and certain former spouses. Figures 1 — 6 to Figure 1 — 9 on the following page depicts excerpts from the FY 2023 Evaluation of the TRICARE Program Report and provide a summary of the trends and demographics of eligible beneficiaries of the MHS. Due to the release date of the Evaluation of the TRICARE Program Report, not all figures represents FY 2024 amounts; however, the latest information available has been presented.

Beneficiary Trends and Demographics

Figure 1 — 6: FY 2024 TRICARE Projected Facts and Figures

System Characteristics

	PROJECTED FOR FY 2024[a]	FY 2023 ACTUALS
Total Beneficiaries	**9.5 million worldwide[b]**	9.4 million worldwide[b]
MILITARY FACILITIES—DIRECT CARE SYSTEM[c]		
Inpatient Hospitals and Medical Centers	**45 (32 in U.S.)**	45 (32 in U.S.)
Ambulatory Care and Occupational Health Clinics[d]	**572 (481 in U.S.)**	574 (481 in U.S.)
Dental Clinics	**115 (88 in U.S.)**	117 (88 in U.S.)
Military Health System (MHS) Defense Health Program Personnel	**129,853**	123,164
Military	**72,544** **26,771 Officers** **45,773 Enlisted**	68,260 25,340 Officers 42,920 Enlisted
Civilian (including Foreign National)	**57,309**	54,904
CIVILIAN RESOURCES—PRIVATE SECTOR CARE SYSTEM[e]		
Network Primary Care, Behavioral Health (BH), and Specialty Care Providers (i.e., individual, not institutional, providers)	**931,679**	932,091
Network BH Providers (shown separately, but included in above)	**182,006**	181,437
TRICARE Network Acute Care Hospitals	**4,158**	4,626
BH Facilities	**2,148**	2,221
Contracted (Network) Retail Pharmacies	**41,500**	41,874[f]
Contracted Worldwide Pharmacy Home Delivery Vendor	**1**	1
TRICARE Dental Program (TDP) (for Active Duty families, Reserve members and their families)	**Approximately 2 million covered lives**	Approximately 2 million covered lives
TDP Network Dentists	**105,000 total dentists, including: 80,000 general dentists and 25,000 specialty dentists**	100,520 total dentists, including: 76,721 general dentists and 23,799 specialty dentists
Total Requested FY 2023 Unified Medical Program (UMP) (including Projected Trust Fund Receipts)	**$58.38 billion[g]**	$55.41 billion[g]
Projected Receipts from Medicare-Eligible Retiree Health Care Fund (MERHCF) Trust Fund	**$9.74 billion**	$9.34 billion

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

[b] Department of Defense (DoD) healthcare beneficiary population projected for the end of FY 2023 is 9,446,069, rounded to 9.4 million. This projection is based on the DoD Comptroller's Budget End Strength, the DoD Actuary's forecast of the retiree population, and the family members per sponsor from the Defense Manpower Data Center Defense Enrollment Eligibility Reporting System (DEERS) as of January 2024.

[c] Military medical treatment facility (MTF) clinic count includes occupational health, community-based, embedded behavioral health, Active Duty troop, centers of excellence, and joint DoD-Department of Veterans Affairs (VA) clinics, and excludes leased/contracted facilities and Aid Stations. Military facility counts are that of the number of facilities based on the Defense Medical Information System Identifiers ID, not clinical functions Source: Defense Health Agency (DHA)/Resources & Management (J-1/J-8)/Budget and Execution and Programming Divisions, 12/12/2023.

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

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

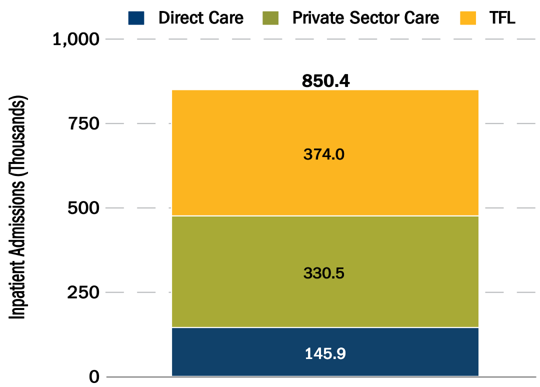
[f] This number is only accurate at the time of the data pull (9/30/2023).

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

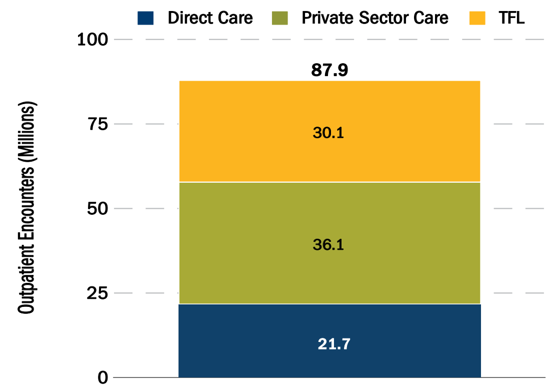
Beneficiary Trends and Demographics

Figure 1 — 7: FY 2023 TRICARE Workload and Population Summary

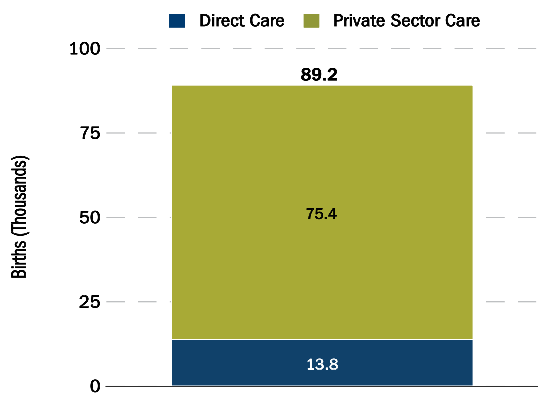
INPATIENT ADMISSIONS[a]



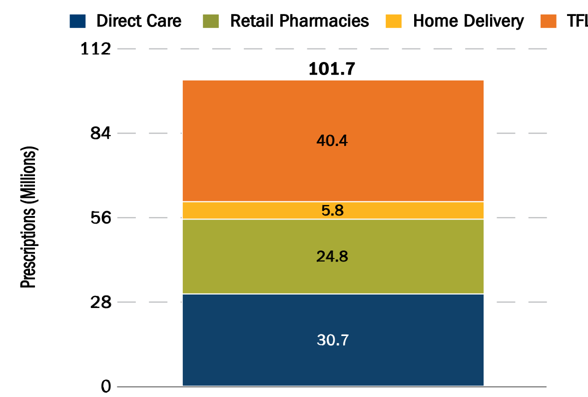
OUTPATIENT ENCOUNTERS[a]



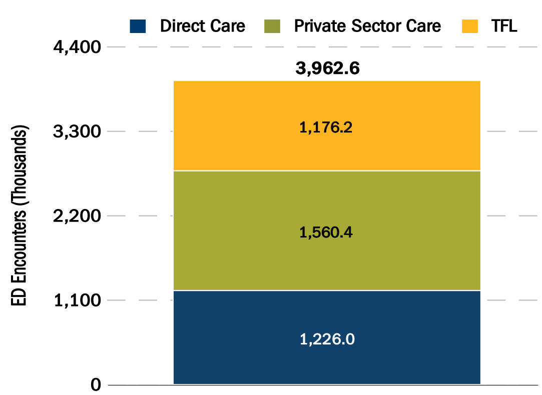
BIRTHS[a]



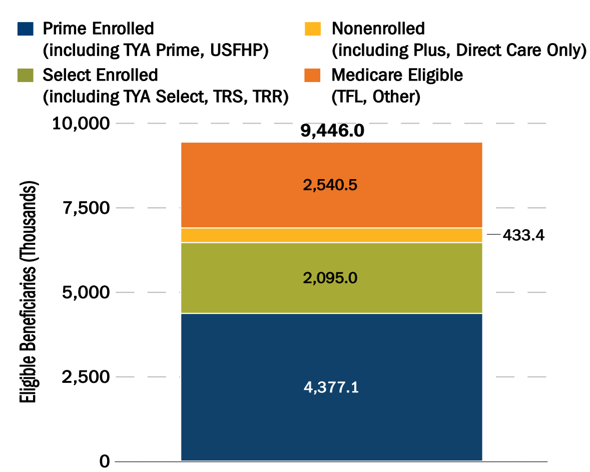
PRESCRIPTIONS[a]



EMERGENCY DEPARTMENT (ED) ENCOUNTERS[a]



ELIGIBLE BENEFICIARIES



Sources: MHS administrative data, 1/4/2024, and DEERS, 1/4/2024

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

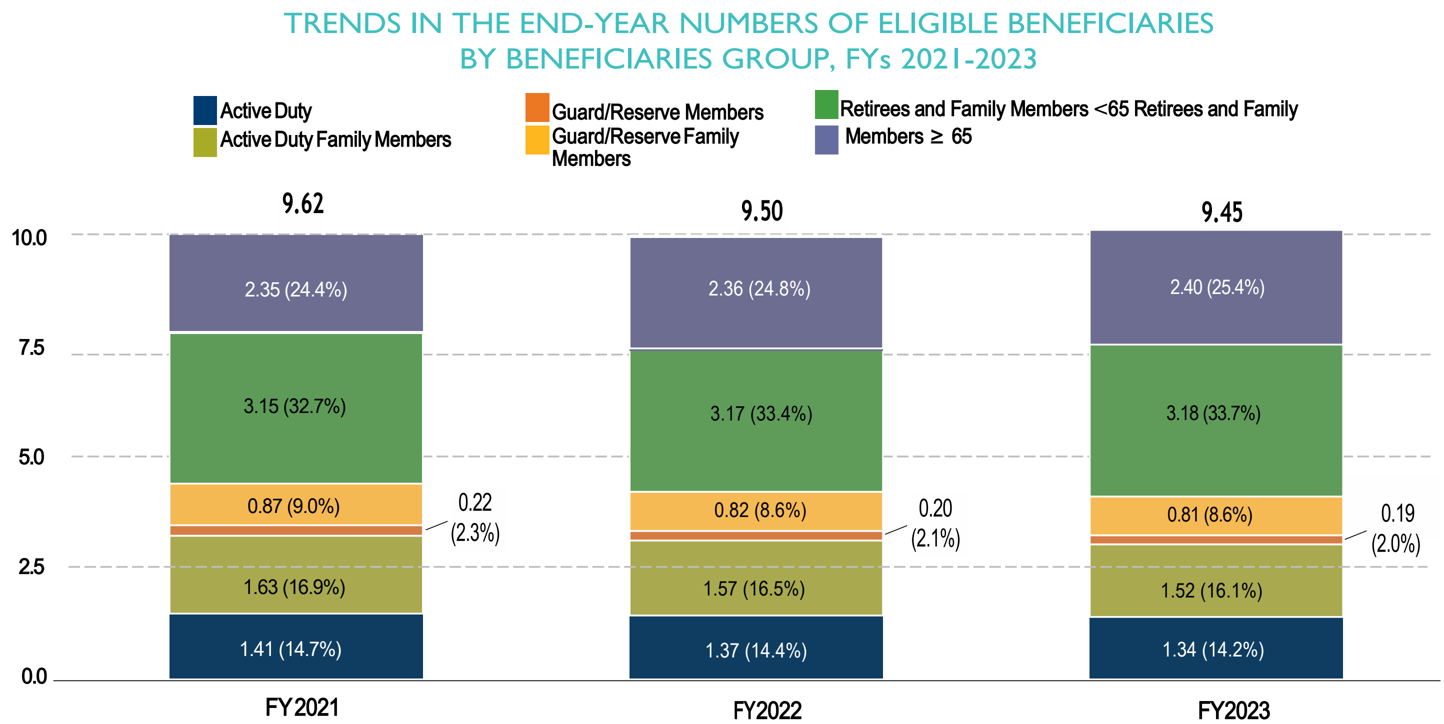
Notes:

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

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

Beneficiary Trends and Demographics

Figure 1 — 8: Eligible Beneficiaries



Beneficiary Trends and Demographics

Figure 1 — 9: FY 2023 TRICARE Workload and Population Summary

MHS POPULATION: ENROLLEES AND TOTAL POPULATION BY STATE

STATE	TOTAL POPULATION	TRS ENROLLED	PRIME ENROLLED				
			ACTIVE DUTY AND GUARD/RESERVE ON ACTIVE DUTY	DEPENDENTS OF ACTIVE DUTY AND GUARD/RESERVE ON ACTIVE DUTY	RETIRED	RETIRED FAMILY MEMBERS/ OTHERS	TOTAL
AK	82,129	1,532	23,581	22,091	4,406	8,011	58,089
AL	210,814	9,563	11,979	20,340	17,585	30,886	80,790
AR	84,966	5,108	6,482	7,929	4,709	8,266	27,386
AZ	207,606	9,329	21,278	24,658	15,444	27,677	89,057
CA	736,142	22,095	173,455	130,345	36,124	69,386	409,310
CO	246,079	11,286	43,071	41,064	16,678	29,958	130,771
CT	47,178	2,916	8,169	6,565	2,076	3,494	20,304
DC	23,685	852	13,183	2,854	733	828	17,598
DE	33,789	1,863	4,439	4,366	2,509	3,844	15,158
FL	746,581	27,943	73,798	79,294	59,542	99,904	312,538
GA	438,751	16,542	73,582	64,402	34,995	62,210	235,189
HI	148,625	2,046	46,825	40,329	4,950	8,323	100,427
IA	48,352	5,328	2,311	3,175	760	1,476	7,722
ID	57,550	4,238	5,055	5,556	2,966	5,425	19,002
IL	146,667	9,412	26,888	15,808	8,174	14,231	65,101
IN	96,422	10,522	4,535	7,380	4,260	8,254	24,429
KS	117,931	5,735	22,966	23,064	6,061	12,133	64,224
KY	144,028	6,381	35,412	20,608	7,261	12,960	76,241
LA	115,878	6,633	18,284	17,774	6,351	11,071	53,480
MA	68,209	5,802	6,275	7,115	5,606	8,881	27,877
MD	239,184	8,499	38,096	41,617	26,485	40,159	146,357
ME	38,641	2,331	1,427	3,060	6,981	10,111	21,579
MI	102,537	6,332	5,044	6,743	3,596	6,125	21,508
MN	70,533	9,576	3,747	3,828	96	304	7,975
MO	156,336	12,121	20,039	17,393	8,031	15,058	60,521
MS	111,412	6,748	15,879	11,914	5,724	9,494	43,011
MT	37,881	2,539	4,335	3,961	862	1,498	10,656
NC	505,647	14,934	98,099	89,654	27,457	49,258	264,468
ND	32,969	2,334	8,195	6,561	1,136	1,973	17,865
NE	60,541	4,638	7,727	7,875	3,480	6,336	25,418
NH	31,266	2,008	2,376	2,324	4,488	6,721	15,909
NJ	84,899	6,123	11,654	13,059	4,906	9,786	39,405
NM	80,208	2,173	14,722	12,733	5,105	8,483	41,043
NV	106,666	3,974	13,504	13,774	7,691	12,608	47,577
NY	172,540	7,453	30,063	27,245	9,353	16,807	83,468
OH	173,967	13,225	12,611	14,285	6,927	12,426	46,249
OK	155,524	6,267	26,711	21,666	10,201	18,620	77,198
OR	63,549	3,186	3,490	3,573	961	1,651	9,675
PA	161,950	9,898	7,217	10,869	7,392	13,045	38,523
RI	24,678	1,263	5,156	3,705	1,435	2,327	12,623
SC	262,466	10,512	50,156	28,612	16,079	27,648	122,495
SD	35,734	4,469	4,400	4,253	1,305	2,266	12,224
TN	203,731	12,567	6,367	21,092	10,782	19,342	57,583
TX	937,830	49,617	127,466	127,024	78,697	145,596	478,783
UT	78,472	9,464	7,037	9,972	4,472	9,247	30,728
VA	730,479	17,081	135,995	123,725	50,092	80,447	390,259
VT	13,094	1,146	887	1,204	1,290	1,866	5,247
WA	328,896	8,941	62,131	58,652	24,646	42,195	187,624
WI	77,056	8,622	3,321	4,754	1,017	1,723	10,815
WV	36,529	2,835	1,934	2,036	1,050	1,669	6,689
WY	23,755	1,628	3,735	3,506	1,183	1,999	10,423
Subtotal	**8,940,352**	**417,630**	**1,355,089**	**1,245,386**	**574,110**	**1,004,006**	**4,178,591**
Overseas	**505,717**	**2,622**	**177,103**	**104,590**	**281**	**11,696**	**293,670**
Total	**9,446,069**	**420,252**	**1,532,192**	**1,349,976**	**574,391**	**1,015,702**	**4,472,261**

Source: MHS administrative data systems, as of 1/4/2024 for end of FY 2023

Note: Prime Enrolled includes Prime (MTF and network PCMs), TRICARE Prime Remote (and Overseas equivalent), TYA Prime, and USFHP; and excludes members in TRICARE Select, TYA Select, TRS, TRR, TRICARE Plus, and TFL.

ANALYSIS OF PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

MHS QUADRUPLE AIM—STRATEGIC DIRECTION AND PRIORITIES

Since 2009, the MHS Quadruple Aim has served as the enduring framework to align the priorities of the Army, Navy, Air Force, and DHA to improve readiness, better care, better health, and lower costs.

- **Improved Readiness:** Readiness means ensuring that the total military force is medically ready to deploy and that the medical force is ready to deliver health services at a moment's notice in support of the full range of military operations, on the battlefield or during disaster response and humanitarian aid missions.

- **Better Care**: We are proud of our track record and recent improvements, but there is always more to accomplish. We continue to advance healthcare that is safe, timely, effective, efficient, equitable, and patient- and family-centered.

- **Better Health**: Our goal is to improve, maintain, and restore the health of the fighting force as well as all entrusted to our care. Doing so reduces the frequency of visits to our military hospitals and clinics by keeping the people we serve healthy. We are making the transformation from healthcare to health by encouraging healthy behaviors, increasing health resilience, and decreasing the likelihood of illness through focused prevention.

- **Lower Cost**: To lower costs, we increase value by focusing on quality, eliminating waste, and reducing unnecessary variation. As the industry moves toward value-based healthcare, we begin to consider the total cost of care over time, not just the cost of care at a single point in time. We are becoming more agile in our decision making and are implementing longer-term opportunities to improve the value of health services for all we serve.

DHA FY 2026 Future State

As a Combat Support Agency, the DHA supports the MHS by providing a medically ready force and a ready medical force to our service partners and Combatant Commanders. DHA sees readiness as its top priority and is committed to delivering joint functions and activities to enable the rapid adoption of proven practices, reduce unwanted variation, and improve coordination of joint healthcare for the warfighter. To do this, we will leverage the military, civilian, and contract personnel assigned and attached to the military medical, dental, and veterinary treatment facilities, research labs, public health organizations, military networks, and the capability of our federal partners and the worldwide network of civilian healthcare providers. Our objective is to optimize value, improve outcomes, sustain readiness, and secure resources to accomplish our worldwide mission of supporting the NDS. DHA is committed to ensuring warfighters are healthy and safe from potential health threats, and that our medical workforce receive optimized training, education, and relevant clinical settings to build skills for deployment. Without our medical cadre, the MHS cannot deliver the optimal care our beneficiaries expect and deserve. This commitment is organized around four strategic priorities.

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

- **Ready Medical Force** - As we face the challenges and opportunities ahead, DHA must enable our health delivery platforms to serve as forums for both obtaining and sustaining medical currency and competency requirements.

- **Satisfied Patients** - We must continue to provide our patients with an exemplary care experience and make the MHS the destination of choice.

- **Fulfilled Staff -** Our vision can only be achieved through the committed work of all DHA personnel. Over the next 5 years, we will continue to advance human capital life cycle management to support a Fulfilled Staff.

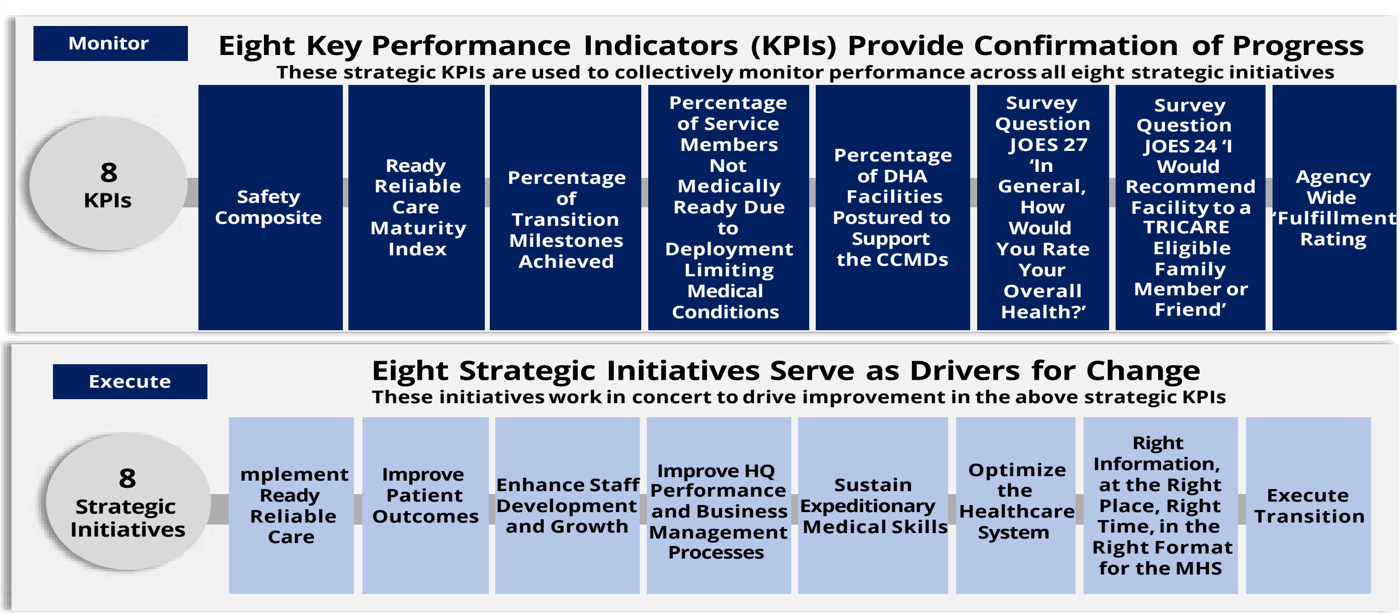
These four priorities will remain enduring as the DHA drives to achieve its future state. DHA will improve health service support across the spectrum, integrate operations with partners in other federal agencies, particularly with the VA, and the civilian health system, in a manner that brings value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

Performance Management Framework

DHA's success in advancing the four strategic priorities, illustrated in Figure 1 — 10, will be measured through the Performance Management Framework of eight Strategic Key Performance Indicators (KPIs) driven by eight Strategic Initiatives, illustrated in Figure 1 — 11. The Strategic Initiatives will be monitored by the Corporate Executive Board and executed through the Executive Steering Committee. All progress will be reported to the Director through a series of quarterly DHA Performance Reviews. These Reviews will provide data-driven insights into DHA's performance against our approved strategic measures and will highlight areas of success and areas for continuing improvement. The eight Strategic Initiatives contain operational measures and projects that serve as force multipliers for change, and define resourcing requirements for DHA's future. The Strategic Initiatives are interdependent and together comprise DHA's strategic portfolio.

Figure 1 — 10: MHS Quadruple Aim & DHA Priorities

Figure 1 — 11: MHS Quadruple Aim & DHA Priorities



ANALYSIS OF FINANCIAL STATEMENTS AND STEWARDSHIP INFORMATION

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

Overview of Financial Position

Figure 1 — 12: ASD(HA)-DHP Financial Position (dollars in thousands)

ASD(HA)-DHP Major Financial Position Classifications	FY 2024	FY 2023	Increase / (Decrease)	
			$	%
Costs				
Gross Program Costs	53,671,092	44,664,239	9,006,853	20%
Less Earned Revenue	(4,334,382)	(4,127,019)	(207,363)	5%
Plus: Losses from Actuarial Assumption Changes	36,772,454	17,844,389	18,928,065	106%
Net Cost of Operations	**$86,109,164**	**$58,381,609**	**$27,727,555**	**47%**
Assets				
Fund Balance with Treasury (Note 3)	21,486,056	21,553,170	(67,114)	<(1%)
Cash and Other Monetary Assets (Note 4)	1,011	38	973	2,561%
Accounts Receivable, Net (Note 5)	827,418	784,240	43,178	6%
General and Right-to-use Property, Plant, and Equipment, Net (Note 7)	3,866,924	3,486,042	380,882	11%
Inventory and Related Property, Net (Note 6)	326,717	268,408	58,309	22%
Other Assets (Note 8)	4,492	18,138	(13,646)	(75%)
Total Assets	**$26,512,618**	**$26,110,036**	**$402,582**	**2%**
Liabilities				
Accounts Payable (Note 9)	1,511,909	1,161,107	350,802	30%
Advances from Others and Deferred Revenue (Note 13)	28,928	31,217	(2,289)	(7%)
Federal Employment Salary, Leave, and Benefits Payable (Note 10)	498,203	440,169	58,034	13%
Pensions, Other Post Employment, and Veterans Benefits Payable (Note 10)	364,180,304	317,861,750	46,318,554	15%
Other Liabilities (Note 13)	100,843	292,108	(191,265)	(65%)
Total Liabilities	**$366,320,187**	**$319,786,351**	**$46,533,836**	**15%**
Net Position				
Unexpended Appropriations	19,961,217	20,281,803	(320,586)	(2%)
Cumulative Results of Operations	(359,768,786)	(313,958,118)	(45,810,668)	15%
Total Net Position	**$(339,807,569)**	**$(293,676,315)**	**$(46,131,254)**	**16%**
Total Liabilities and Net Position	**$26,512,618**	**$26,110,036**	**$402,582**	**2%**
Budgetary Resources	**$51,259,184**	**$49,380,562**	**$1,878,622**	**4%**

The accompanying notes are an integral part of the statements.

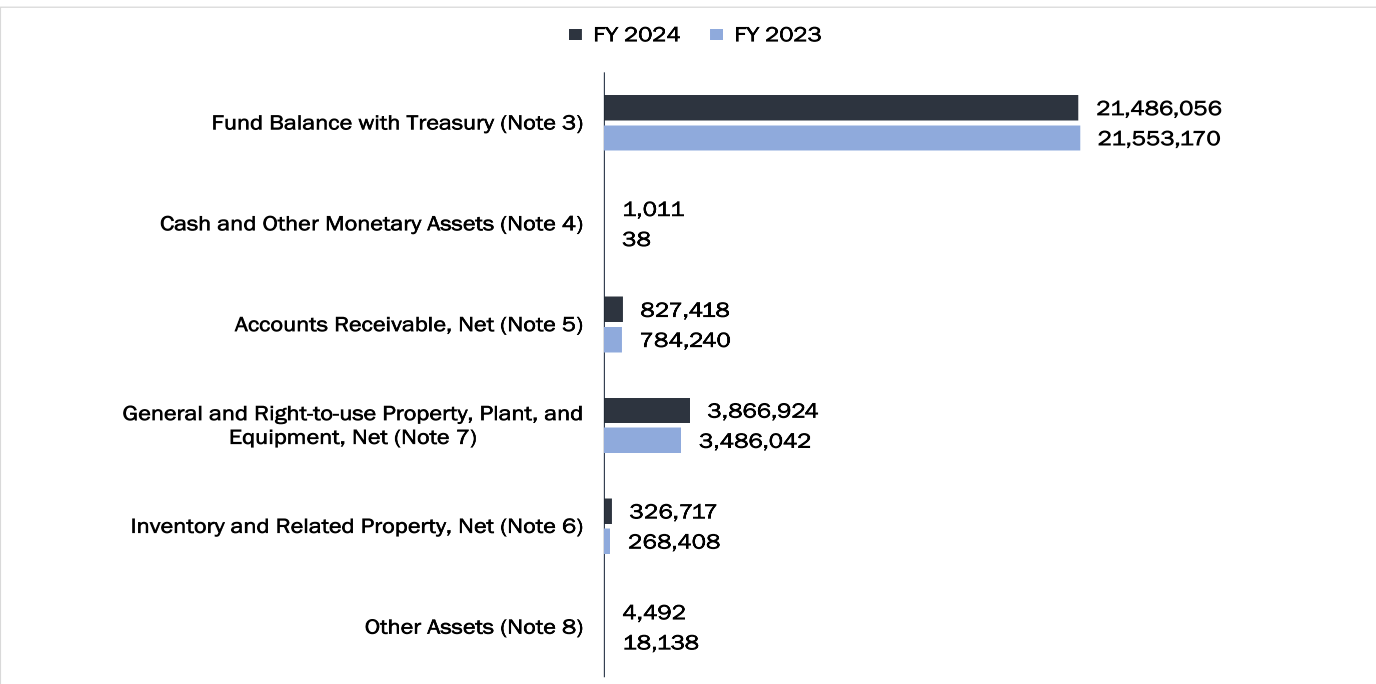
Preparing ASD(HA)-DHP financial statements are a vital component of sound financial management and provides information that is useful for assessing performance, allocating resources, and targeting areas for future programmatic emphasis. MHS leadership are responsible for the integrity of the financial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

A summary of ASD(HA)-DHP's major financial activities as of September 30, 2024, is presented in Figure 1—12. This table represents the resources available, assets on hand to pay liabilities, and the corresponding net position. The net cost of operations is the cost of operating the programs of ASD(HA)-DHP, less earned revenue. Budgetary resources include funds available to ASD(HA)-DHP to incur obligations and fund operations, as well as certain funds which have already been obligated.

Balance Sheets Summary

Assets – What We Own and Manage

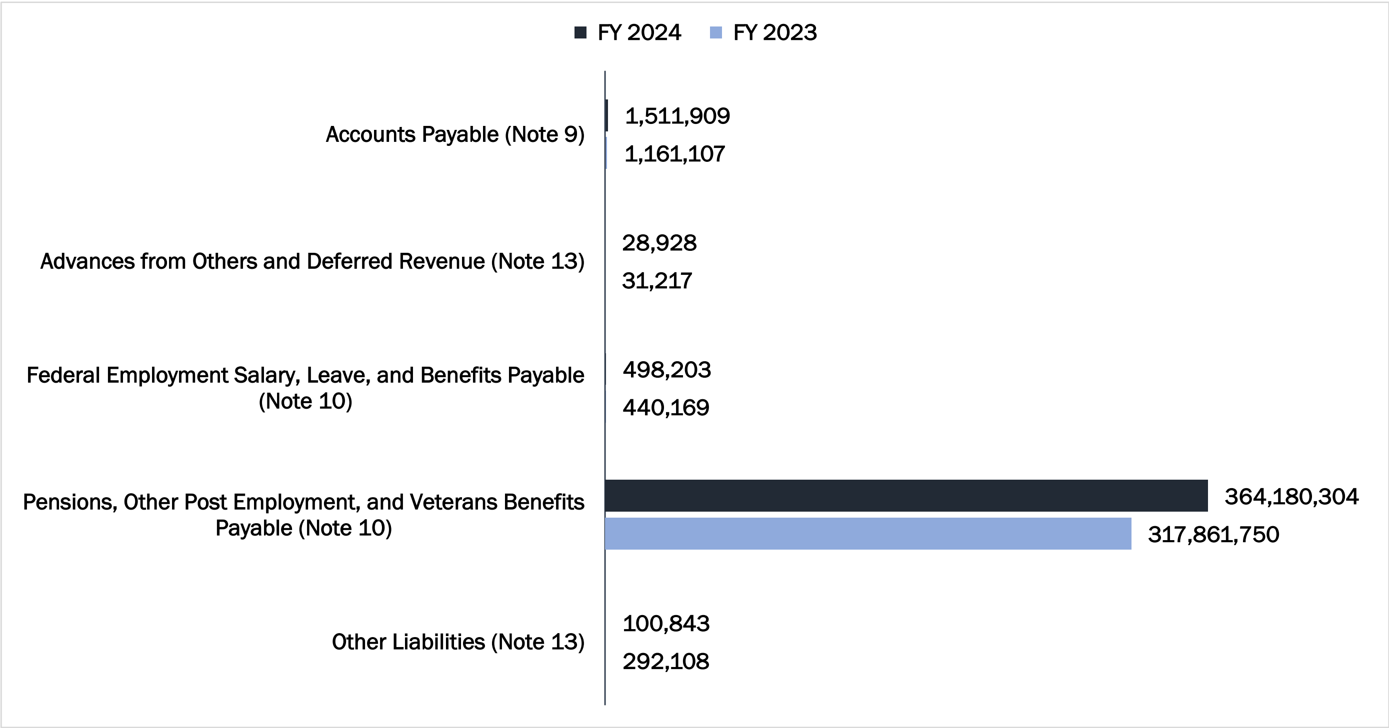
Figure 1 — 13: Summary of ASD(HA)-DHP Assets (in thousands)



As summarized in Figure 1 — 13, total assets were $26.5 billion as of September 30, 2024. The most significant assets are the Fund Balance with Treasury (FBwT) and General and Right-to-use Plant, Property and Equipment (PP&E), net, which represent a combined 96% of ASD(HA)-DHP's total assets. The largest, FBwT, consists of funds appropriated to DoD by Congress or transferred from other federal agencies and held in the U.S. Department of Treasury's accounts that are accessible to pay for DoD medical obligations. Inventory and Related Property increased $58 million (22%) due to a reclassification from Stockpile Materials to OM&S - Held for Future Use (HFFU) and a corresponding shift from historical cost to deemed cost. General and Right-to-use PP&E increased $380.9 million (11%) primarily by an increase in construction-in-progress capitalization by the U.S. Army Corps of Engineers. Furthermore, the ASD(HA)-DHP saw a decrease of $14 million (75%) in Advances and Prepayments related to In-House Care, Health Support and Information Management.

Liabilities – What We Owe

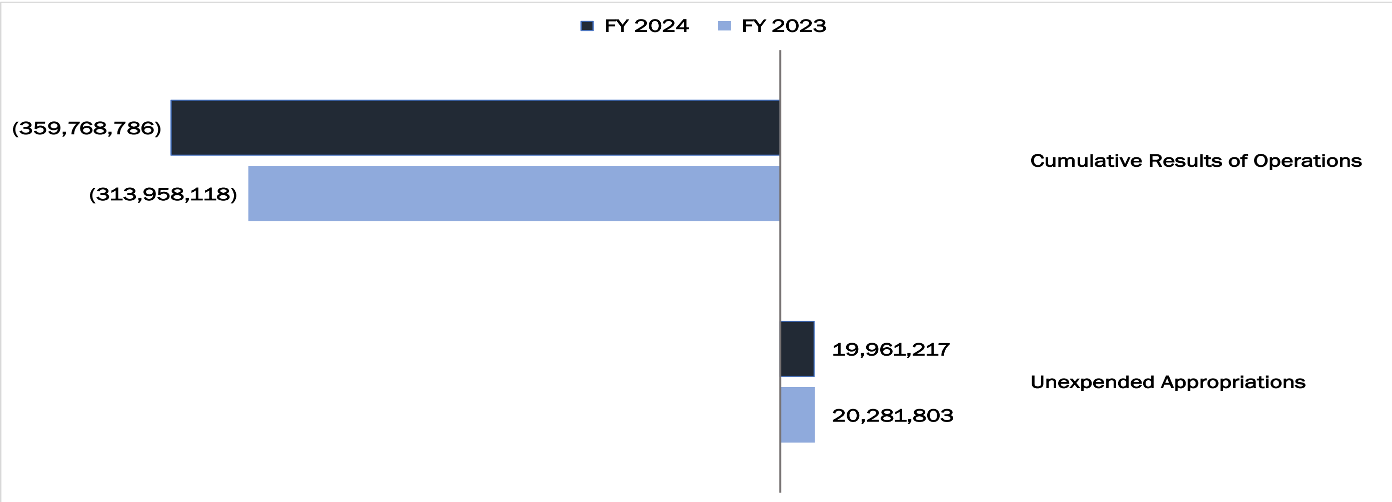
Figure 1 — 14: Summary of ASD(HA)-DHP Liabilities (in thousands)



As summarized in Figure 1 — 14, total liabilities are $366.3 billion as of September 30, 2024, of which $364.2 billion, or 99%, comprises federal employee and veteran benefits payable. These liabilities represent funds calculated by the DoD's Office of the Actuary at the end of each fiscal year using the current active and retired military population plus assumptions (inflation, discount rate, and medical trend) about future demographic and economic conditions. The increase of $46.3 billion (15%) in Veteran, Pensions, and Post Employment-Related Benefits Payable is attributable to an overall increase to ASD(HA)-DHP's actuarial liability. Accounts Payable increased $350.8 million (30%) due to improvements in accrual methodology, implemented on both the direct and purchase care programs. Other Liabilities decreased $191.3 million (65%) due to the clearing of the contingent legal liability.

Net Position – What We Have Done Over Time

Figure 1 — 15: Summary of ASD(HA)-DHP Net Position (in thousands)



As summarized in Figure 1 - 15, total net position is $339.8 billion as of September 30, 2024. ASD(HA)-DHP received an appropriation increase of $597 million (2%). Appropriations transferred out increased $231.5 million (91%) from the prior year due to expired funding transferred to the Foreign Currency Fluctuations fund. Other Adjustments increased $95 million (14%) due to a reduction in cancelling funds returned to US Treasury. Appropriations used increased by $2.0 billion driven by an increase in spending authority from offsetting collections.

Results of Program Cost

Net Costs – What Cost We Incurred for the Year

The net results of operations are reported in the consolidated Statements of Net Cost (SNC) and the consolidated SCNP. The consolidated SNC represent the cost of operating (net of earned revenues) ASD(HA)-DHP's major appropriate groupings. In FY 2024, ASD(HA)-DHP operated the following four fund types and are illustrated in Figure 1 — 16:

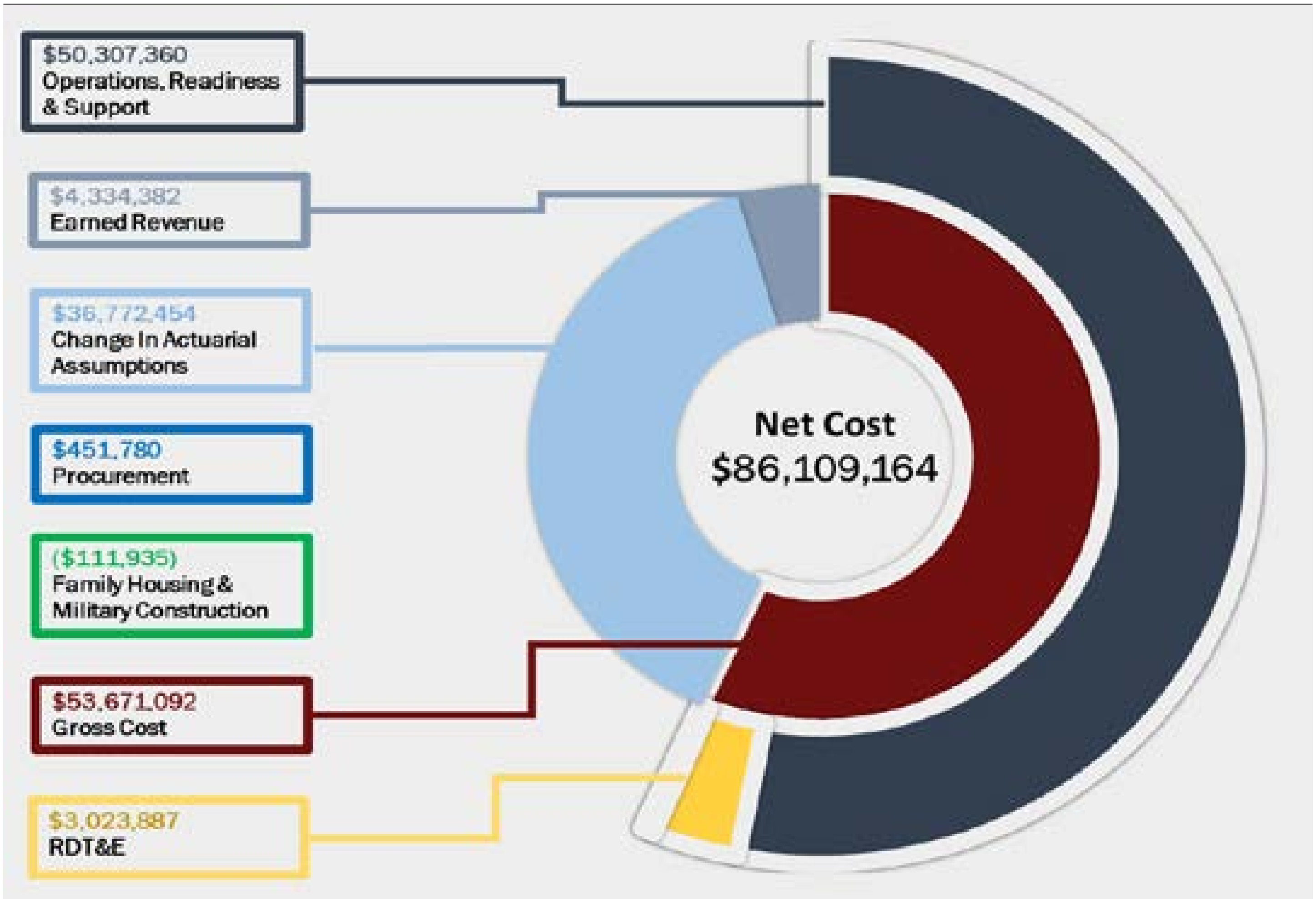
- **Operations, Readiness, and Support:** Support the total military force by ensuring the medical force is medically ready and prepared to deliver healthcare anytime, anywhere in support of the full range of military operations, including humanitarian missions.

- **Procurement:** ASD(HA)-DHP appropriation procurement program funds acquisition of capital equipment in MTFs and other selected healthcare activities.

- **RDT&E:** Supports the medical force through effective and accountable investments in education and research to establish sustainable improvements in the well-being and productivity of the MHS.

- **MILCON:** Assist military forces based on need according to principles of universality, impartiality, and human dignity to save lives, alleviate suffering, and minimize the economic costs of conflict, disasters, and displacement.

Figure 1 — 16: Summary of ASD(HA)-DHP Net Costs (in thousands)



Gross Costs increased $9.0 billion (20%) based on an increase in actuarial calculations related to the ASD(HA)-DHP's health insurance liability, as well as an increase in operating expenses, due to the rising cost of healthcare. Losses from Actuarial Assumption Changes increased $18.9 billion (106%) primarily due to FY 2024 changes in trend assumptions.

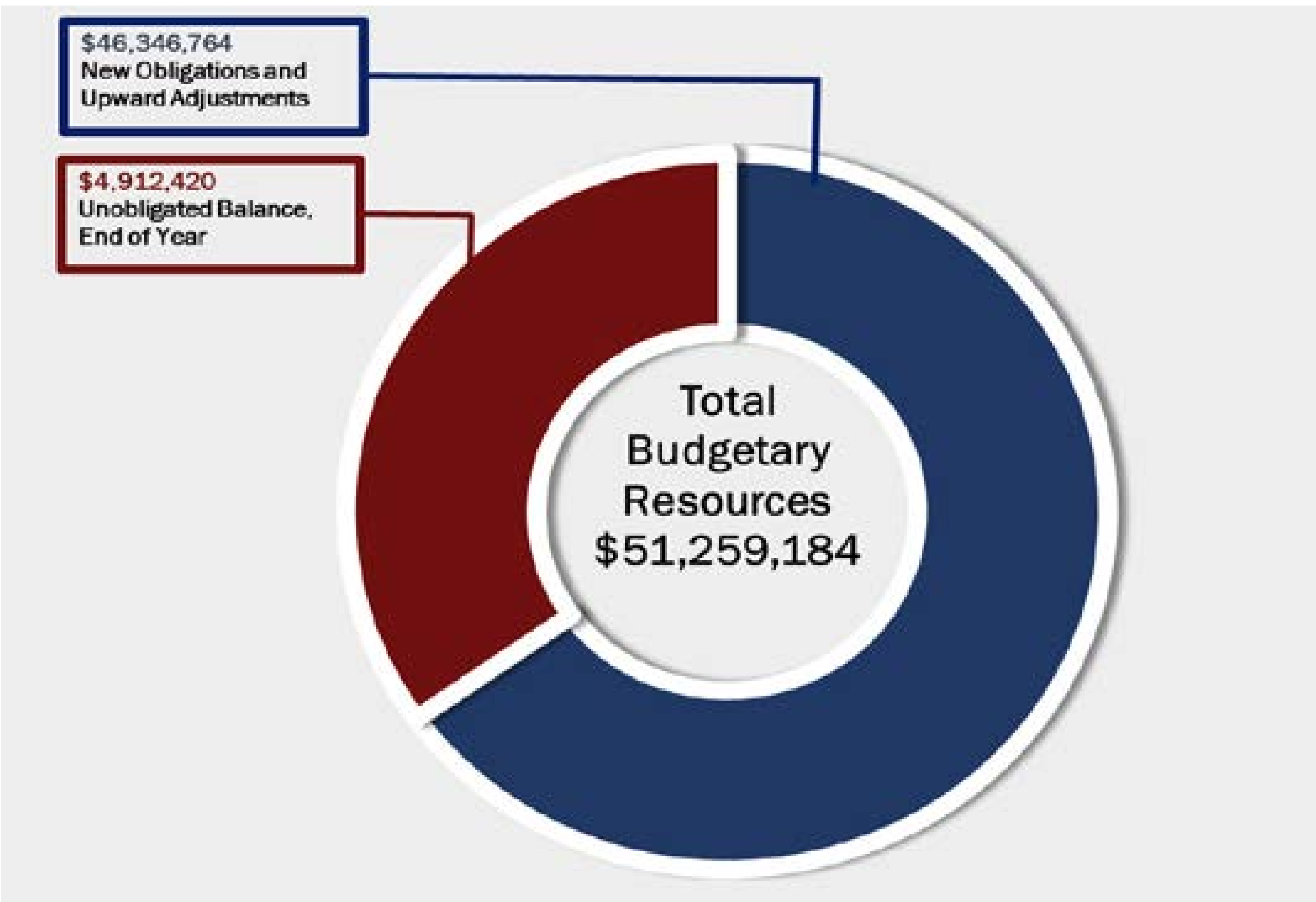
Budgetary Resources

Our Funds

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

Figure 1 — 17 shows the obligations incurred, unobligated balances, and total budgetary resources for ASD(HA)-DHP as of September 30, 2024. ASD(HA)-DHP has received $51.3 billion in cumulative budgetary resources as of September 30, 2024, of which it has obligated $46.3 billion, to date.

Figure 1 — 17: Summary of ASD(HA)-DHP Budgetary Resources (in thousands)



DHA: 10 YEARS BUILT ON A LEGACY OF GREATNESS

Lieutenant General Telita Crosland
Director, DHA

Chief Master Sergeant Tanya Y. Johnson
Senior Enlisted Leader

Defense Centers for Public Health – Aberdeen, located at Aberdeen Proving Ground South, hosted more than 500 staff, guests and officials for a ribbon-cutting for the new 280,000-square-foot Public Health Laboratory, which took 8 years to complete and cost nearly $248 million.

In celebration of DHA's 10th Anniversary, FY 2024 marked a decade of the DHA's commitment to support the nation by improving military health and building readiness. Since beginning its journey on October 1, 2013, DHA experienced a tremendous evolution in becoming the military medical enterprise it is today. Over 700 military hospitals and clinics located around the world successfully transitioned from the MILDEPS to the DHA, creating a more accessible, integrated and efficient healthcare system.

Under the leadership of Lieutenant General Crosland and Chief Master Sergeant Johnson, DHA completed its worldwide deployment of MHS GENESIS, the DoD's single health record solution for Service members and veterans, and their families. MHS GENESIS was a 7-year deployment feat that is now fully operationalized across the joint military medicine enterprise. The MHS GENESIS platform is a key cornerstone in enhancing the care for our beneficiaries.

Ten years in the making, the DHA:

- Oversees 9 DHNs, 45 hospitals, 574 clinics and 117 dental facilities
- Manages and executes the DoD's unified medical budget
- Administers the DoD military health plan--TRICARE
- Manages the medical supply chain, supplying close to 560,000 medical devices to the joint force
- Oversees medical education and training
- Conducts cutting-edge medical research and development through partnerships and grant programs
- Leads force health protection through Defense Public Health initatives
- Leads a global workforce of approximately 130,000 military and civilian healthcare professionals

With major organizational changes completed, the DHA is focused on a patient-centered, value-based model of care by empowering healthcare teams, improving integration of the TRICARE civilian provider network, employing digital-first options when possible, and using real-time business intelligence to enhance the patient experience. The accomplishments attained over the first 10-years have positioned the DHA for continued success in delivering healthcare ***Anytime, Anywhere – Always***.

LIMITATIONS OF FINANCIAL STATEMENTS

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

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

Summary of Internal Control Assessment

ASD(HA)-DHP conducted its assessment of risk and internal controls in accordance with OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," the Government Accountability Office (GAO) Green Book, "Standards for Internal Control in the Federal Government," and the Federal Managers' Financial Integrity Act (FMFIA) of 1982. The objectives of the system of internal control of ASD(HA)-DHP are to provide reasonable assurance of:

- Effectiveness and efficiency of operations
- Reliability of financial and non-financial reporting
- Compliance with applicable laws and regulations
- Financial information system compliance with FMFIA
- Anti-fraud and data analytics systems in compliance with the Fraud Reduction and Data Analytics Act of 2015

ASD(HA)-DHP assessed the system of internal controls in accordance with the guidelines stated above. Based on the results of the assessment, the DHP is unable to provide assurance that internal controls over operations, reporting, and compliance are operating effectively or that the above-mentioned objectives were achieved as of September 30, 2024.

ASD(HA)-DHP 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. Each evaluation occurred at the component level and was reported to ASD(HA)-DHP with the results and testing methodology used to evaluate the effectiveness and efficiency of internal controls over operations. Based on the results of the assessment, ASH(HA)-DHP is unable to provide assurance that internal controls over operations and compliance are operating effectively as of September 30, 2024.

ASD(HA)-DHP assessed the effectiveness of internal controls over reporting, including internal and external financial reporting, in accordance with OMB Circular No. A-123, Appendix A, Internal Control over Financial

Reporting. Each evaluation occurred at the component level and was reported to ASD(HA)-DHP with the results and testing methodology used to evaluate the effectiveness of internal controls over reporting. Based on the results of the assessment, ASD(HA)-DHP is unable to provide assurance that internal controls over reporting, including internal and external reporting, and compliance are operating effectively as of September 30, 2024.

ASD(HA)-DHP 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. Additionally, ASD(HA)-DHP has undergone an external Financial Statement Audit performed in accordance with standards set forth by the Federal Accounting Standards Advisory Board (FASAB), OMB Circular No. A-123, Appendix D, and National Institute of Standards and Technology (NIST) 800-53 Revision 5. Based on the results of ASD(HA)-DHP internal review and the external Financial Statement Audit performed by the Independent Public Accountant, ASD(HA)-DHP is unable, at this time, to provide assurance that the internal controls over the financial systems are in compliance with the FMFIA, Section 4; Federal Financial Management Improvement Act of 1996 (FFMIA), Section 803; and OMB Circular No. A-123, Appendix D, as of September 30, 2024.

ASD(HA)-DHP assessed entity-level controls including fraud controls in accordance with the GAO Green Book, OMB Circular No. A-123, the Payment Integrity Information Act of 2019, and the GAO Fraud Risk Management Framework. Based on the results of the assessment, only two of the five components of the internal control framework are operating effectively. As of September 30, 2024, the ASD(HA)-DHP is unable to provide assurance that entity-level controls are operating effectively.

While a formal framework for the ASD(HA)-DHP Risk Management Internal Control (RMIC) Program has been established, implementation efforts remain ongoing to address all principles of internal controls in accordance with FMFIA and the GAO Green Book, including internal controls necessary in the information system environment. The ASD(HA)-DHP RMIC Program is focused on refining and improving the system of internal controls moving into FY 2025. Improving Entity-Level Controls and proactively identifying and correcting design failures through Enterprise Risk Management and continuous control monitoring should help ASD(HA)-DHP enhance oversight and strengthen internal controls over operations, reporting, and compliance. The MHS Senior Assessment Team has been established to provide oversight and accountability for the implementation of internal controls over operations, financial reporting, and financial systems.

Material weaknesses identified in the following areas are a result of the financial statement audit:

- Entity-Level Controls
- Financial Reporting Journal Vouchers and Adjustments
- Fund Balance with Treasury
- Medical Revenue and Associated Receivables
- Property, Plant, and Equipment
- Liabilities and Related Expenses
- Monitoring and Reporting of Obligations and Adjustments

Management's assessment of FFMIA compliance was completed prior to the results of the FY 2024 financial statement audit. Our auditor has noted ASD(HA)-DHP did not comply with the (1) federal financial management system's requirements, (2) applicable federal accounting standards promulgated by FASAB, and (3) application of the United States Standard General Ledger (USSGL) at the transaction level, because of material weaknesses noted in the Independent Auditor's Report on Internal Control over Financial Reporting. ASD(HA)-DHP has planned remediation activities to address material weaknesses noted in the Independent Auditor's Report on Internal Control over Financial Reporting by FY 2028 that effect FFMIA compliance. Planned activities are underway to remediate the (1) Financial Reporting – Universe of Transactions material weakness in FY 2024, (2) Entity-Level Controls material weakness in FY 2025, (3) Information Systems material weakness in FY 2027, (4) Financial Reporting – Defense Departmental Reporting System Adjustments material weakness in FY 2028, and (5) Medical Revenue and Associated Receivables material weakness in FY 2028.

ASD(HA)-DHP has concentrated resources and management attention to priority remediation areas and established a more focused and efficient approach to correcting findings and improving the reliability of its financial information. As a result, ASD(HA)-DHP expects to reduce material weaknesses, increase the accuracy of financial disclosures, and ultimately achieve an audit opinion. Planned activities have been established for each priority remediation area and are underway through various remediation efforts.

Significant accomplishments for FY 2024 include:

- ASD(HA)-DHP established the Health Resource Management Council (HRMC) SAT to achieve Principle 3, Establish Structure, Responsibility, and Authority, of the GAO Green Book. The HRMC is chaired by the Deputy of the Deputy Assistant Secretary of Defense (DASD) Health Resources Management & Policy (HRMP) and is responsible for providing enterprise-wide strategic direction and oversight of MHS resource planning and allocation, including serving as resource manager for all DoD health and medical financial, and other resources. The SAT is chaired by HRM&P representative and the Deputy Chief, DHA Financial Reporting and Compliance and is responsible for assisting the ASD(HA) in executing fiduciary and oversight responsibilities for the DHP appropriation and to implement and execute the RMIC program.

- ASD(HA)-DHP continued to implement its Federal Information System Controls Audit Manual strategy to address audit and compliance gaps identified in critical financial and financial feeder systems, as well as systems owned by third-party service providers that impact ASD(HA)-DHP financial statements. ASD(HA)-DHP submitted 18 IT corrective action plans to the auditor for closure, with over half pertaining to implementation of Complimentary User Entity Controls (CUEC) and access controls. Access controls are a primary Secretary of Defense priority and help to safeguard sensitive data from unauthorized access and misuse. ASD(HA)-DHP implemented corrective action plans to establish monitoring and oversight policies, procedures, and analysis for third-party systems and processes (e.g., System and Organization Control reports and CUECs) in accordance with OMB Circular No. A-123.

- ASD(HA)-DHP made significant improvements to the completeness, availability, and reliability of Universe of Transactions. This included developing a series of reconciliations that tie the General Ledger (GL) details from its accounting systems to the financial statements. In collaboration with DFAS and Defense Enterprise Accounting and Management System (DEAMS) Financial Management Office, ASD(HA)-DHP designed and implemented reconciliations between

DEAMS Subledgers (SL) and General Ledger (GL), achieving a 95% effectiveness threshold for each SL to GL module. In addition, ASD(HA)-DHP was able to analyze DHA specific data within the Department of Defense Integrated Management Engineering System (DIMES) error population, establishing oversight of error transactions and impact to the DEAMS general ledger. ASD(HA)-DHP also developed a Standard Material Accounting System (SMAS) reconciliation to quantify the value of missing SMAS reports and mitigate their effect General Accounting and Financial System (GAFS) consumable populations.

Compliance with Laws and Regulations

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

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

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

Pay and Allowance System for Civilian Employees as provided in 5 U.S.C. Chapters 51–59 codify the statutory provisions concerning the pay and allowances afforded federal employees. ASD(HA)-DHP has a number of internal controls as they relate to payroll, timecard entry, review, approval and special pay. ASD(HA)-DHP is fully committed to complying with these provisions, periodically reviewing its compliance with them, and taking appropriate action to achieve compliance if any errors are identified. Link to 5 U.S.C. Chapter 51.

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

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

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

DCIA, as amended by the DATA Act, requires that Federal agencies refer delinquent debts to Treasury within 120 days and take all appropriate steps prior to discharging debts. ASD(HA)-DHP follows applicable requirements for establishing and collecting validated debts and ensuring compliance with Debt Collection statutes and regulations. DHA in coordination with DHA Office of General Counsel continued the process of implementing a Debt Adjudication process for FY 2024 to address the FY 2019 U.S. Army Medical Command (MEDCOM) reported material weakness on Medical Delinquent Debt Management; (a) lack Command of compliance with financial regulations with respect to debt management, including requirements associated with transfer of debt, timeliness, and debt assignment, and (b) information systems support for Uniform Business Office processes. The process will determine what patient debt may be suspended, compromised, or terminated in accordance with current Federal Statutes and FMR.

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

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

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

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

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

The FFMIA requires agencies to implement and maintain financial systems that comply substantially with Federal Financial System requirements, applicable federal accounting standards, and the USSGL at the transaction level. In FY 2024, ASD(HA)-DHP's financial management systems did not substantially comply with the requirements within FFMIA, as asserted to by management due to the asserted departures from GAAP and USSGL requirements.

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

The FMFIA requires agencies to establish and maintain internal control and financial management systems to provide reasonable assurance that the three objectives of internal control: 1) effectiveness and efficiency of operations, 2) compliance with applicable laws and regulations, and 3) reliability of financial reporting are achieved. In FY 2024, ASD(HA)-DHP's financial management systems did not substantially comply with the requirements within FMFIA, as asserted to by management due to the lack of establishment and implementation of controls as detailed in the SOA.

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

The DATA Act expands the FFATA to increase accountability and transparency in federal spending, making federal expenditure information more accessible to the public. It directs the Federal Government to use government-wide data standards for developing and publishing reports and to make more information, including award-related data, available on the **USASpending.gov** website. The standards and web site allow stakeholders to track federal spending more effectively. Among other goals, the DATA Act aims to improve the quality of the information on **USASpending.gov** as verified through regular audits of the posted data, and to streamline and simplify reporting requirements through clear data standards. ASD(HA)-DHP complies with the DATA Act; making its expenditures accessible to the public on **USASpending.gov**. In addition to compliance with the original legislation and subsequent guidance from OMB over the DATA Act, a revised Appendix A to Circular A-123 was released in June 2018. The revised Appendix was accompanied with a cover letter that requires DATA Act reporting agencies to create Data Quality Plans. Consideration of this plan must be included in agencies' existing annual assurance statement for internal controls over reporting beginning in FY 2021 and continuing through the assurance statement covering FY 2023 at a minimum or until agencies determine that they can provide reasonable assurance over the data quality controls that support achievement of the reporting objectives in accordance with the DATA Act.

Data Quality Management Control Program: The effectiveness of MHS-wide programs, performance-based management, TRICARE contracts, resource allocation, decision-making at all levels, patient safety, and the optimization of many other operations and management activities across the healthcare system is contingent upon the integrity of MHS data. The DHA oversees the MHS Data Quality Management Control (DQMC) Program to ensure standard data business rules are utilized throughout the MHS. In order to promote uniform and consistent information throughout the MHS, each MTF is required to effectively administer the DQMC Program. Upholding DQMC performance metrics ensures accurate, complete and timely data.

The DHA monitors data quality through routine collection, aggregation, and analysis of data. Each MTF that submits data to the Medical Expense and Performance Reporting System is required to submit data quality performance metrics for all activities within its control, including primary hospital, branch clinics, and subordinate MTFs. The DQMC Program Manager assesses enterprise data quality metrics and determines whether there are material deficiencies to report in the annual Statement of Assurance. Data Quality metrics may also be employed by oversight organizations, such as the DoD Inspector General or Government Accountability Office, as part of their audit activities.

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

The Grants Oversight and New Efficiency (GONE) Act requires the head of each agency to submit to Congress, in coordination with the Secretary of Health and Human Services, a report on Federal grant cooperative agreement awards that have not yet been closed out and for which the period of performance, including any extensions, elapsed for more than 2 years. The GONE Act also sets forth follow-on reporting and analysis requirements by various entities.

The ASD(HA) oversees DHP-funded programs such as the Congressionally Directed Medical Research Program (CDMRP), a favorably assessed program by the GAO. The CDMRP supports innovative and impactful research to advance healthcare for DoD beneficiaries and the American public through various mechanisms and instruments including the award of Grants and Agreements pursuant to Title 2, Code of Federal Regulations, section 200 (2 CFR 200). The CDMRP and information about the cutting-edge research it funds is available on the CDMRP site.

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

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

MANAGEMENT ASSURANCE

The Annual Statement of Assurance (SOA) for ASD(HA)-DHP on the following page was provided for FMFIA compliance for FY 2024.

STATEMENT OF ASSURANCE

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE

1200 DEFENSE PENTAGON
WASHINGTON, DC 20301-1200

HEALTH AFFAIRS

Statement of Assurance Memorandum

DATE: October 4, 2024

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

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

SUBJECT: Annual Statement of Assurance Required Under the Federal Managers' Financial Integrity Act (FMFIA) for Fiscal Year 2024

- As the Deputy Assistant Secretary of Defense for Health Resources Management and Policy, Office of the Assistant Secretary of Defense for Health Affairs (OASD(HA)), of the Military Health System (MHS), I recognize the MHS 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 MHS 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 MHS is unable to provide assurance that internal controls over operations, reporting, and compliance are operating effectively as of September 30, 2024.

  - The MHS conducted its assessment of the effectiveness of internal controls over operations in accordance with OMB Circular No. A-123, the GAO Green Book, and the FMFIA. The *"Summary of Management's Approach to Internal Control Evaluation (Appendix C)"* section provides specific information on how the MHS conducted this assessment. Based on the results of the assessment, the MHS is unable to provide assurance that internal controls over operations and compliance are operating effectively as of September 30, 2024.

  - The MHS 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 MHS conducted this assessment. Based on the results of the assessment, the MHS is unable to provide assurance that internal controls over reporting (including internal and external reporting) and compliance are operating effectively as of September 30, 2024.

- The MHS 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 MHS conducted this assessment. Based on the results of this assessment, the MHS is unable to provide assurance that the internal controls over the financial systems are in compliance with the FMFIA, Section 4; FFMIA, Section 803; and OMB Circular No. A-123, Appendix D, as of September 30, 2024.

- The MHS 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 MHS is unable to provide assurance that entity-level controls including fraud controls are operating effectively as of September 30, 2024.

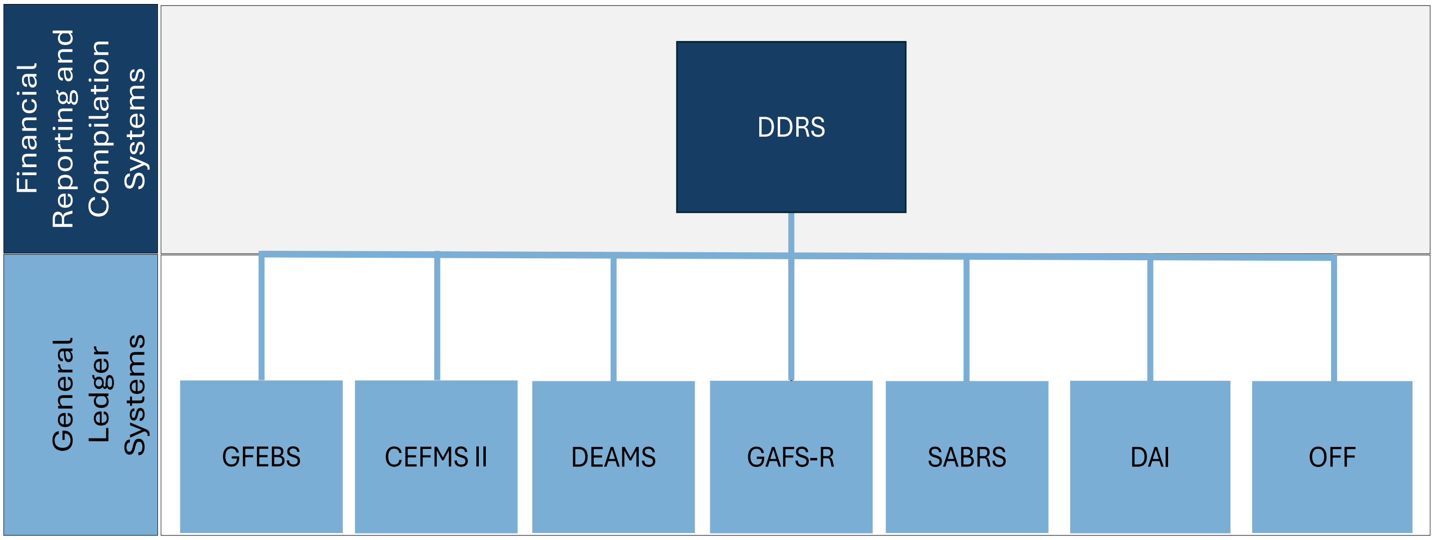
- The MHS is hereby reporting that no Anti-Deficiency Act (ADA) violation has been discovered/identified during our assessments of the applicable processes.

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

If there are any questions regarding this Statement of Assurance for FY 2024, my point of contact is Ms. Candace Farrow and can be reached at (703) 681-6757 or candace.p.farrow.civ@health.mil.

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

FINANCIAL SYSTEMS FRAMEWORK



Financial Management Systems Framework Systems

Enterprise Resource Planning (ERP) systems are integral to implementing the Financial Management business process improvements, achieving the planned target environment, reducing the number of vulnerable systems, and sustaining an auditable systems environment. These ERPs provide a broad range of functionality to support DHA business operations in areas such as supply chain management, logistics, human resource management, and financial management. Accordingly, DHA maintains a number of financial management and ERP systems. DHA is working to tackle one of its greatest audit challenges, managing a disparate financial reporting environment with various GL systems. To help overcome this challenge and improve its financial management system landscape, the DHP enterprise embarked on a multi-year effort to reduce the number of GL systems. In FY 2024, the organization took significant strides by migrating most new funding and execution from Air Force general ledger systems (DEAMS and GAFS), to the Army's GL system GFEBS. Although expired year funding and execution remain in DEAMS, any new funding and financial transactions will be reflected in GFEBS. Transitioning all new funding and execution from DEAMS and GAFS to GFEBS will be completed in FY 2025. This marks the migration away from two additional financial management systems since divesting from Navy's Standard Accounting and Reporting System - Field Level in FY 2022, and phasing out Defense Agencies Initiative (DAI) which is expected to be completed in FY 2026. Additionally, DHA is working to expand the internal control testing and audit remediation over relevant ERP systems to better facilitate compliance with FFMIA standards.

In addition to reducing the number of GL systems used to manage its funds management and accounting, the DHP enterprise is aligned with DoD and federal initiatives to improve the financial reporting environment. In coordination with the DHA, USUHS and Army, the ASD(HA) will begin implementing U.S. Treasury's G-Invoicing application in FY 2025.

Financial Statement Reporting and Compilation System

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

General Ledger Systems

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

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

Defense Enterprise Accounting and Management System (DEAMS) is a Major Automated Information System that uses COTS ERP software to provide accounting and management services for the U.S. Air Force Medical Service (AFMS). DEAMS is intended to improve financial accountability by providing a single, standard, automated financial management system that is compliant with the CFO Act of 1990 and other mandates. DEAMS performs the following core accounting functions: Core Financial System Management, GL Management, Funds Management, Payment Management, Receivable Management, Cost Management, and Reporting. The DHP enterprise migrated new funding and execution from DEAMS to GFEBS for 68 MTFs in FY 2024. Expired year funding and execution will sunset as funds cancel and are no longer available for use.

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

Standard Accounting, Budgeting, and Reporting System (SABRS) is a GL accounting system used by the Naval Facilities Engineering Systems Command (NAVFAC), a United States Navy organization. The Department of Navy is migrating from SABRS to Navy ERP in FY 2025.

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

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

Other Key Financial Feeder Systems

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

Revenue Cycle Expansion (RevCycle) includes multiple capabilities that will replace ABACUS and CCE. RevCycle is a patient-level accounting system allowing for the capture of itemized cost of care for every medical service or product within an encounter, through the utilization of an embedded DoD-specific charge description master. CCE will be replaced by another 3M™ product called 3M™ 360 Encompass™, which will include a natural language processor and autosuggested coding.

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

MHS GENESIS is the electronic health record for the MHS. MHS GENESIS integrates inpatient and outpatient solutions that connect medical and dental information across the continuum of care, from point of injury to MTF.

FORWARD LOOKING INFORMATION

The FY 2025 ASD(HA)-DHP budget continues the MHS reform efforts underway by focusing on improving access and availability to services for our patients by stabilizing the workforce and incorporating technology platforms in the direct care system. Stabilization of the workforce, along with standardization, will lead to improved safety and increased availability of options for patients to manage their healthcare within the direct care system.

The FY 2025 budget continues to support the DHA building of a modernized, integrated, and resilient health delivery system, focusing on digitizing healthcare for the MHS. The Information Management / Information Technology (IM/IT) portfolio within the ASD(HA)-DHP provides the technology enablers critical to the DHA's modernization goals for the MHS. The IM/IT mission is executed by collaboration between the DHA Deputy Assistant Director for Information Operations / Chief Information Officer and the Program Executive Office for the Defense Healthcare Management System.

Private Sector Care (PSC) continues to be a vital part of the MHS in FY 2025 and represents over half of the ASD(HA)-DHP O&M requirement. In FY 2024, the Department focused on funding for PSC requirements using the latest execution data, National Health Expenditure rates, beneficiary population forecasts, and current policy/compensation assumptions. Based on FY 2023 execution, the much higher PSC baseline update was valid. In FY 2025, the Department is investing in stabilizing MTFs, limiting program growth in PSC to inflation assumptions only. The FY 2025 request fully funds the Department's anticipated PSC requirements to reduce risk to other DoD programs. PSC will continue to represent an essential part of the overall health system in FY 2025 and beyond.

The DHP appropriation funds RDT&E programs to support the NDS and Joint Capabilities Integration and Development System. The goal is to advance the state of medical science in those areas of most pressing need and relevance to today's battlefield experience and emerging threats. The objectives are to discover and explore innovative approaches to protect, support, and advance the health and welfare of military personnel and individuals eligible for care in the MHS; to accelerate the transition of medical technologies into deployed products; and to accelerate the translation of advances in knowledge into new standards of care for injury prevention, treatment of casualties, rehabilitation, and training systems used in deployment environments or in MTFs.

Our FY 2025 ASD(HA)-DHP O&M budget request reflects a myriad of initiatives, some of which are:

- $380.5 million increase to sustain and improve the MTFs direct care capabilities that were significantly diminished by a severe hiring lag that resulted in a shortage of medical staffing

- $125.6 million funds increase to direct care Pharmaceuticals allowing MTF pharmacies to fill more prescriptions and expand their formularies, making them competitive with the private sector

- $62.3 million funding increase to Facilities, Sustainment, Restoration and Modernization programs due to the additional square footage added to the DHP from recently opened MILCON projects and growth in repair costs

- $58.8 million increase addresses critical gaps in MHS GENESIS product support: enterprise sustainment, health informatics training, and hardware refresh

- $48.7 million increase for Microsoft 365 Enterprise E5 licensing necessary to support clinical and business systems

- $46.8 million funds increase to implement the Suicide Prevention and Response Independent Review Commission's recommendations as directed by the Secretary of Defense

- $26.9 million provides non-enduring Overseas Operations funds to directly support pre/post deployment activities such as medical records reviews, hearing and vision exams, medical evaluations, pharmaceutical immunizations, and behavioral health screening for all deploying and returning soldiers

Consideration and Mitigation of Risks

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

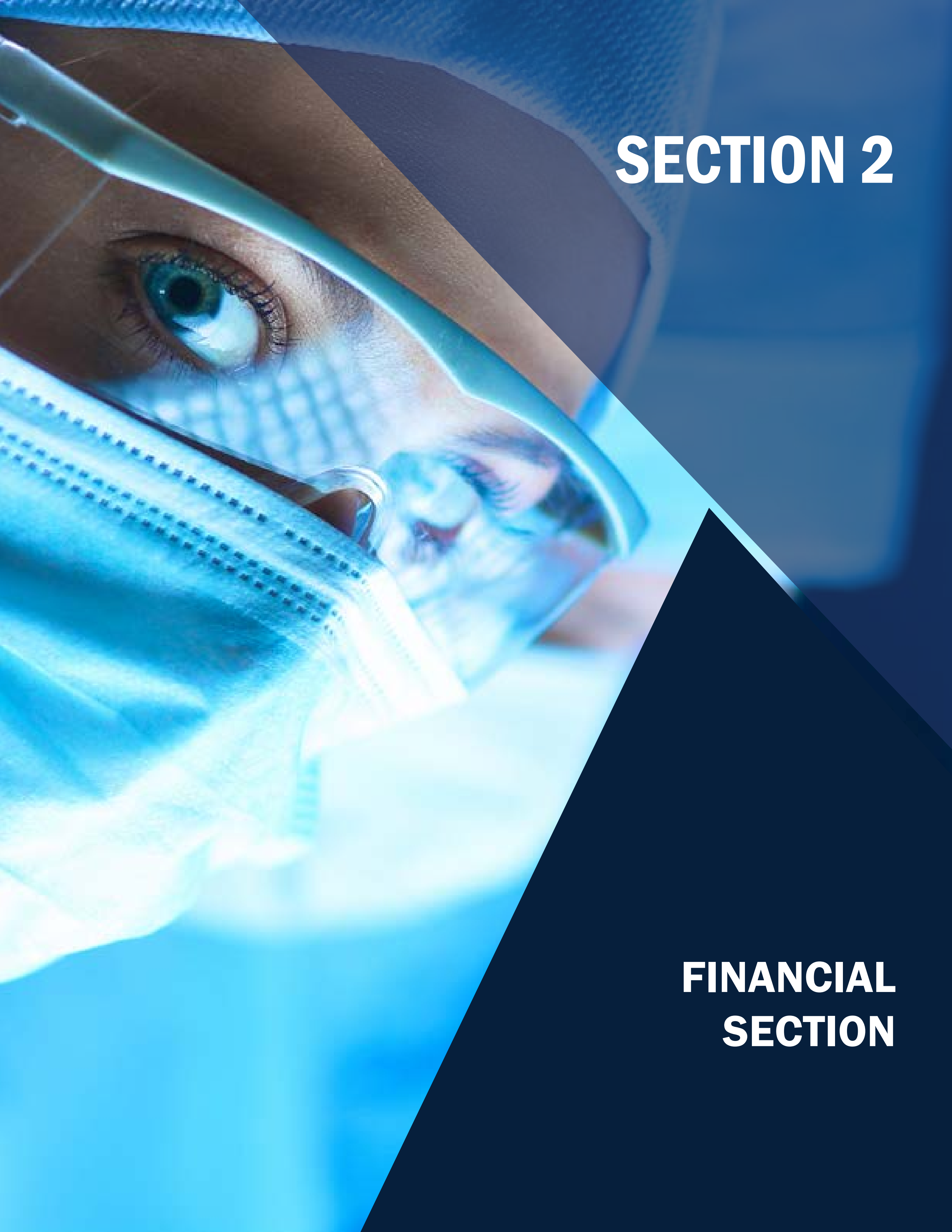
Risks Related to Achieving Goals and Objectives

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

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

Risk Mitigation

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



SECTION 2

FINANCIAL SECTION

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

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

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

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

Consolidated Balance Sheets

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

Consolidated Statements of Net Cost

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

Consolidated Statements of Changes in Net Position

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

Combined Statements of Budgetary Resources

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

Notes to Financial Statements

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

Balance Sheets

Department of Defense

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

Consolidated Balance Sheets (Unaudited)

As of September 30, 2024 and 2023

(dollars in thousands)

Figure 2 — 1: Consolidated Balance Sheets

Assets (Note 2)	Q4 2024	Q4 2023
Intragovernmental		
Fund Balance with Treasury (Note 3)	21,486,056	21,553,170
Accounts Receivable, Net (Note 5)	145,379	25,681
Total Intragovernmental	21,631,435	21,578,851
Other than Intragovernmental/With the Public:		
Cash and Other Monetary Assets (Note 4)	1,011	38
Accounts Receivable, Net (Note 5)	682,039	758,559
Inventory and Related Property, Net (Note 6)	326,717	268,408
General Property, Plant, and Equipment, Net (Note 7)	3,866,924	3,486,042
Advances and Prepayments (Note 8)	4,492	18,138
Total Other than Intragovernmental/With the Public	4,881,183	4,531,185
Total Assets	**$26,512,618**	**$26,110,036**
Liabilities (Note 9)		
Intragovernmental		
Accounts Payable	309,162	182,061
Advances from Others and Deferred Revenue	1,353	1,075
Other Liabilities (Note 13)	82,597	72,762
Total Intragovernmental	393,112	255,898
Other than Intragovernmental/With the Public:		
Accounts Payable	1,202,747	979,046
Federal Employment Salary, Leave, and Benefits Payable (Note 10)	498,203	440,169
Veterans, Pensions, and Post Employment-Related Benefits Payable (Note 10)	364,180,304	317,861,750
Advances from Others and Deferred Revenue	27,575	30,142
Other Liabilities (Note 13)	18,246	219,346
Total Other than Intragovernmental/With the Public	365,927,075	319,530,453
Total Liabilities	**$366,320,187**	**$319,786,351**
Net Position		
Unexpended Appropriations	19,961,217	20,281,803
Cumulative Results of Operations	(359,768,786)	(313,958,118)
Total Net Position	$(339,807,569)	$(293,676,315)
Total Liabilities and Net Position	**$26,512,618**	**$26,110,036**

The accompanying notes are an integral part of the statements.

Statements of Net Cost

Department of Defense
Assistant Secretary of Defense (Health Affairs) - Defense Health Program
Consolidated Statements of Net Cost (Unaudited)
As of September 30, 2024 and 2023
(dollars in thousands)

Figure 2 — 2: Consolidated Statements of Net Cost

DHP Consolidated Statement of Net Cost	Q4 2024	Q4 2023
Gross Program Costs (Note 16)	53,671,092	44,664,239
Operations, Readiness & Support	50,307,360	41,236,253
Procurement	451,780	716,634
Research, Development, Test & Evaluation	3,023,887	2,506,739
Family Housing & Military Construction	(111,935)	204,613
(Less: Earned Revenue)	(4,334,382)	(4,127,019)
Net Program Costs before Losses/(gains) from Actuarial Assumption Changes for Military Retirement Benefits	**$49,336,710**	**$40,537,220**
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	36,772,454	17,844,389
Net Program Costs Including Assumption Changes	86,109,164	58,381,609
Net Cost of Operations	**$86,109,164**	**$58,381,609**

The accompanying notes are an integral part of the statements.

Statements of Changes in Net Position

Department of Defense
Assistant Secretary of Defense (Health Affairs) - Defense Health Program
Consolidated Statements of Changes in Net Position (Unaudited)
As of September 30, 2024 and 2023
(dollars in thousands)

Figure 2 — 3: Consolidated Statements of Changes in Net Position

Unexpended Appropriations	Q4 2024	Q4 2023
Beginning Balance	20,281,803	19,035,675
Budgetary Financing Sources		
Appropriations Received	40,387,956	39,790,883
Appropriations Transferred-In/Out (+/-)	(487,079)	(255,579)
Other Adjustments	(588,899)	(684,178)
Appropriations Used	(39,632,564)	(37,604,998)
Net Change in Unexpended Appropriations	(320,586)	1,246,128
Total Unexpended Appropriations	**$19,961,217**	**$20,281,803**
Cumulative Results of Operations		
Beginning Balances	(313,958,118)	(292,513,747)
Adjustments		
Changes in Accounting Principles (+/-)	52,352	-
Beginning Balances, as Adjusted	**$(313,905,766)**	**$(292,513,747)**
Budgetary Financing Sources		
Appropriations Used	39,632,564	37,604,998
Nonexchange Revenue	2,476	24,271
Donations and forfeitures of cash and cash equivalents	873	-
Other Adjustments	(53,794)	(2,526)
Transfers In/Out without Reimbursement	(45,930)	(1,062,238)
Imputed Financing	713,007	377,685
Other	(3,052)	(4,952)
Net Cost of Operations	86,109,164	58,381,609
Net Change in Cumulative Results of Operations	(45,863,020)	(21,444,371)
Cumulative Results of Operations	(359,768,786)	(313,958,118)
Net Position	**$(339,807,569)**	**$(293,676,315)**

The accompanying notes are an integral part of the statements.

Statements of Budgetary Resources

Department of Defense

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

Combined Statements of Budgetary Resources (Unaudited)

As of September 30, 2024 and 2023

(dollars in thousands)

Figure 2 — 4: Combined Statements of Budgetary Resources

Budgetary Resources	Q4 2024	Q4 2023
Unobligated balance from prior year budget authority, net	6,432,396	5,502,926
Appropriations (discretionary and mandatory)	40,201,291	39,608,637
Spending Authority from offsetting collections (discretionary and mandatory)	4,625,497	4,268,999
Total Budgetary Resources	**$51,259,184**	**$49,380,562**
Status of Budgetary Resources		
Total New obligations and upward adjustments	46,346,764	44,572,079
Unobligated balance, end of year		
Apportioned, unexpired accounts	3,325,833	3,419,219
Unapportioned, unexpired accounts	441	-
Unexpired unobligated balance, end of year	3,326,274	3,419,219
Expired unobligated balance, end of year	1,586,146	1,389,264
Total Unobligated balance, end of year	4,912,420	4,808,483
Total Status of Budgetary Resources	**$51,259,184**	**$49,380,562**
Outlays, net		
Total outlays, net (discretionary and mandatory)	39,325,297	37,881,747
Agency Outlays, net	**$39,325,297**	**$37,881,747**

The accompanying notes are an integral part of the statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.A. Reporting Entity Mission and Overall Structure

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

The DoD includes the OSD, Joint Chiefs of Staff, DoD OIG, Military Departments, Defense Agencies, DoD Field Activities, and CCMDs, which are considered, and may be referred to as, DoD Components. The Military Departments consist of the Departments of the Army, the Navy (of which the Marine Corps is a component), and the Air Force. The Department was established by the National Security Act of 1947. Since the creation of America's first army in 1775, the Department and its predecessor organizations have evolved into a global presence with a worldwide infrastructure dedicated to defending the U.S. by deterring and defeating aggression and coercion in critical regions. In 2011, the Deputy Secretary of Defense's Task Force on Reform of the MHS led to the creation of the DHA, a Combat Support Agency (CSA) and a component of the ASD(HA)-DHP. In 2013, the DoD issued a directive in accordance with the Deputy Secretary of Defense memorandum formally establishing DHA as part of the ASD(HA)-DHP, which achieved full operating capability by 2015. In early 2017, in fulfillment of FY 2017 *NDAA* (P.L. 114-328), DHA began preparing to assume responsibility for the administration, direction, and control of MTFs worldwide. The Deputy Secretary of Defense directed all MTFs and Dental Treatment Facilities in the 50 United States and Puerto Rico transfer from the MILDEPs to the DHA effective October 25, 2019. ASD(HA)-DHP receives its appropriation from Congress, apportioned by OMB to the OUSD(C), who allots these funds to the ASD(HA). The ASD(HA) issues Funding Authorization Documents to fund the two financial reporting entities that exist within ASD(HA)-DHP. These financial reporting entities collectively support the ASD(HA) mission. With this appropriation, ASD(HA)-DHP strives to promote a medically ready force by supporting a better, stronger, and more agile MHS, providing healthcare support for the full range of military operations, and sustaining the health of all those entrusted to its care. The accompanying financial statements are evaluated annually to determine compliance with Statement of Federal Financial Accounting Standards (SFFAS) 47, *Reporting Entity*, and to ascertain whether Federal funds under the control of ASD(HA)-DHP are being appropriately consolidated into the financial statements of the enterprise, or whether identified disclosure entities or related parties are being appropriately disclosed. Any disclosure entities or related parties identified pertaining to ASD(HA)-DHP will be discussed in Note 21, Disclosure Entities and Related Parties. Additionally, it should be noted that military personnel from each of the MILDEPs staff the MTFs and are part of the manpower used to generate healthcare services for ASD(HA)-DHP.

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

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

DHA: DHA is a joint, integrated CSA that enables its components to provide a medically ready force and ready medical force to CCMDs in both peacetime and wartime. As of October 1, 2021, the Service Medical Activities and the USUHS have all been consolidated under DHA. DHA's mission is to lead the MHS integration of readiness and health to deliver the MHS Quadruple Aim: increased readiness, better health, better care, and lower cost. DHA continues to centralize functions and integrate policies, systems, and processes as part of the transition of the MTFs. DHA oversees the execution of the ASD(HA)-DHP budgetary resources to support the delivery of integrated, affordable, and high-quality health services to the DoD eligible beneficiaries in both peacetime and wartime.

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

1.B. Basis of Accounting and Presentation

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

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

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

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

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

ASD(HA)-DHP presents the Consolidated Balance Sheet, SNC, and SCNP on a consolidated basis, which is the summation of the Components less the eliminations of intra ASD(HA)-DHP activity. The SBR is presented on a combined basis, which is the summation of the Components; therefore, intra ASD(HA)-DHP activity has not been eliminated. The financial transactions are recorded on a proprietary accrual and a budgetary basis of accounting. Under the proprietary accrual basis, revenues are recognized when earned and expenses are recognized when incurred, without regard to the timing of receipt or payment of cash. Under the budgetary basis, the legal commitment or obligation of funds is recognized in advance of the proprietary accruals and in compliance with legal requirements and controls over the use of federal funds.

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

- SFFAS 47, *Reporting Entity*: Issued December 23, 2014; Effective for periods beginning after September 30, 2017. The DHA conducted an analysis and has found that the Henry Jackson Foundation (HJF) can be considered a related party that will be disclosed in Note 20. The DHA continues to assess agreements to determine if there are additional related parties in need of disclosure.
- SFFAS 48, Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials: Issued on January 27, 2016; for periods beginning after September 30, 2016. In FY 2024, the ASD(HA)-DHP implemented SFFAS 48, using deemed cost to value FY24 beginning balances for inventory and related property. Manual processes have been implemented in concert with revalued opening balances at the transaction-level to accommodate reporting requirements for current year activity. ASD(HA)-DHP has made an unreserved assertion for this line item as of September 30, 2024.
- SFFAS 49, *Public-Private Partnerships*: Disclosure Requirements Issued on April 27, 2016; Effective for periods after September 30, 2018.
- SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment*: *Amending SFFAS 6, 10, and 23, and Rescinding SFFAS 35*: Issued August 4, 2016; Effective for periods beginning after September 30, 2016. ASD(HA)-DHP plans to utilize deemed cost to value beginning balances for General and Right-to-Use PP&E, as permitted by SFFAS 50. However, systems required to account for historical cost for General and Right-to-Use PP&E in accordance with SFFAS 6, *Accounting for Property, Plant, and Equipment*, are not yet fully implemented. Therefore, ASD(HA)-DHP is not making an unreserved assertion with respect to this line item.
- SFFAS 53, *Budget and Accrual Reconciliation: Amending SFFAS 7 and 24, and Rescinding SFFAS 22*: Issued October 27, 2017; Effective for periods beginning after September 30, 2018.
- SFFAS 54, *Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government and SFFAS 6 Accounting for Property, Plant, and Equipment*: Issued April 17, 2018; Effective for periods beginning after September 30, 2023 under SFFAS 58, *Deferral of the Effective Date of SFFAS 54, Leases*: Issued June 19.

- SFFAS 61, Omnibus Amendments 2023: Leases-Related Topics II: Issued April 7, 2023; Effective for periods beginning after September 30, 2023. SFFAS 62, Transitional Amendment to SFFAS 54: Issued on November 30, 2023; Effective for periods beginning after September 30, 2023.
- SFFAS 63, Omnibus Amendments 2024-1, Amending SFFAS 38, 49 and Technical Bulletin 2011-1: Issued on April 12. 2024; Effective upon issuance.
- FASAB Interpretation of SFFAS 9, *Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 & 6*: Issued August 16, 2019; Effective for periods beginning after September 30, 2019. Early adoption is permitted.
- Technical Bulletin 2002-1, *Assigning to Component Entities Costs and Liabilities that Result from Legal Claims Against the Federal Government*: Issued July 24, 2002; Effective for periods ending after September 30, 2001
- Technical Bulletin 2017-1, *Intragovernmental Exchange Transactions*: Issued November 1, 2017; Effective upon issuance.
- Technical Bulletin 2017-2, *Assigning Assets to Component Reporting Entities*: Issued November 1, 2017; Effective upon issuance.
- Technical Bulletin 2020-1, *Loss Allowance for Intragovernmental Receivables*: Issued February 20, 2020; Effective upon issuance.
- Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*: Issued September 28, 2006; Effective for periods beginning after September 30, 2012.
- Technical Release 9, *Implementation Guide for Statement of Federal Financial Accounting Standards 29: Heritage Assets and Stewardship Land*: Issued February 20, 2008; Effective immediately.
- Technical Release 13, I*mplementation Guide for Estimating the Historical Cost of General Property, Plant, and Equipment:* Issued June 1, 2011; Effective upon issuance.
- Technical Release 14, *Implementation Guidance on the Accounting for the Disposal of General Property, Plant, and Equipment*: Issued October 6, 2011; Effective upon issuance.
- Technical Release 15, *Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment and Allocation*: Issued September 26, 2013; Effective upon issuance.
- Technical Release 16, *Implementation Guidance for Internal Use Software*: Issued January 19, 2016; Effective upon issuance.
- Technical Release 17, *Conforming Amendments to Technical Releases for SFFAS 50, Establishing Opening Balances for General Property, Plant, and Equipment*: Issued April 10, 2017; Effective upon issuance.
- Technical Release 18, I*mplementation Guidance for Establishing Opening Balances*: Issued October 2, 2017; Effective upon issuance.
- Technical Release 20, *Implementation Guidance for Leases*: Issued November 4, 2021; Effective for reporting periods beginning after September 30, 2023.
- Technical Release 21, Omnibus Technical Release Amendments 2022: Conforming Amendments: Issued on September 6, 2022; Effective upon issuance.
- Technical Release 22, Leases Implementation Guidance Updates: Issued October 12, 2023; Effective for periods beginning after September 30, 2023.
- Technical Release 23, Omnibus Technical Release Amendments 2024: Conforming Amendments to Technical Releases 10, 16, 20, and 21: Issued on July 22, 2024; Effective for periods beginning after September 30, 2023.
- Staff Implementation Guidance 6.1: *Clarification of Paragraphs 40-41 of SFFAS 6, As Amended:* Issued July 17, 2018; Effective upon issuance.

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

For additional information, see Note 2, Non-Entity Assets.

Intragovernmental and Intergovernmental Activities: SFFAS 1, *Accounting for Selected Assets and Liabilities*, defines Intragovernmental and Intergovernmental assets and liabilities. Intragovernmental Activities: TFM, Volume I, Part 2, Chapter 4700, provides guidance for reporting and reconciling intragovernmental balances. Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements to prevent overstatement caused by the inclusion of business activity between entity components. Intragovernmental cost and exchange revenue represent transactions made between two reporting entities within the federal government. Cost and earned revenue with the public represent exchange transactions made between the reporting entity and a non-federal entity. ASD(HA)-DHP is implementing replacement systems and a standard financial information structure incorporating the necessary elements to enable ASD(HA)-DHP to correctly report, reconcile, and eliminate intragovernmental balances.

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

For additional information, see Note 16, Disclosures Related to the SNC.

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

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

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

1.C. Departures from GAAP

Financial management systems and operations continue to be refined as ASD(HA)-DHP strives to record and report its financial activity in accordance with GAAP. ASD(HA)-DHP is determining the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with GAAP. One such action is the current revision of its accounting systems to record transactions based on the USSGL.

ASD(HA)-DHP has identified the following departures from GAAP, several of which are pervasive problems within DoD that may not be remediated at ASD(HA)-DHP level.

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

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

General and Right-to-Use PP&E, Net (Note 1.M. and Note 7): Supportable General and Right-to-Use PP&E, net beginning balances have not been established for equipment or internal use software (IUS) using the alternative valuation methods permitted by SFFAS 50. ASD(HA)-DHP did not have compliant processes in place to account for General and Right-to-Use PP&E, net, at historical cost, in accordance with SFFAS 6 and SFFAS 10, *Accounting for Internal Use Software*. ASD(HA)-DHP has not fully implemented policies, procedures, or controls to effectively record GE acquisitions, disposals, and transfers. ASD(HA)-DHP does not have sufficient supporting documentation to demonstrate that GE is appropriately valued under SFFAS 6. ASD(HA)-DHP also did not have compliant processes in place to record Construction in Progress (CIP) and is currently not assessing projects to determine if there are capitalizable construction costs in accordance with SFFAS 6. ASD(HA)-DHP did not have compliant processes in place to account for impairment of facilities and equipment in accordance with SFFAS 44, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*.

Leases (Note 1.M. Note 14): ASD(HA)-DHP did not have compliant processes in place to account for right-to-use and operating leases in accordance with SFFAS 5, SFFAS 6, SFFAS 10, and SFFAS 54.

Accounts Payable and Expenses (Note 1.P.): ASD(HA)-DHP did not have compliant processes in place to account for accounts payable, accruals, and the related expenses in accordance with SFFAS 1 and SFFAS 5. The current accounts payable accrual methodology developed and utilized by ASD(HA)-DHP is not a comprehensive assessment of all its business processes to determine if an accrual of ASD(HA)-DHP's goods and services received but not yet billed is appropriate or necessary. Furthermore, the ASD(HA)-DHP does not validate receipt or acceptance of goods and services received from intragovernmental trading partners prior to payment or validate intragovernmental payment activity when receipt and acceptance cannot be performed prior to payment.

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

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

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

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

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

1.D. Appropriations and Funds

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

Deposit Funds: ASD(HA)-DHP maintains immaterial deposit funds. These funds are used to record amounts held temporarily until paid to the appropriate government or public entity and not available for ASD(HA)-DHP execution. ASD(HA)-DHP is acting as an agent or a custodian for funds awaiting distribution.

1.E. Revenue and Other Financing Sources

As a component of the Government-wide reporting entity, ASD(HA)-DHP is subject to the Federal budget process, which involves appropriations that are provided annually. The financial transactions that are supported by budgetary resources, which include appropriations, are generally the same transactions reflected in agency and the Government-wide financial reports.

Child Reporting: ASD(HA)-DHP is a party to allocation transfers with other federal agencies as a receiving (child) entity. An allocation transfer is an entity's legal delegation of authority to obligate budget authority and outlay funds on its behalf. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account and subsequent allocations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to allocation transfers (e.g., budget authority, obligations, and outlays) is reported in the financial statements of the parent entity. Exceptions to this general rule apply to specific funds for which OMB has directed that all activity be reported in the financial statements of the child entity. These exceptions include U.S. Treasury-Managed Trust Funds, Executive Office of the President, and all other funds specifically designated by OMB. In addition to the specific ASD(HA)-DHP Appropriation, ASD(HA)-DHP also receives allocation transfers, as the child, and executes funds from the DoD Acquisition Workforce Development Fund (97-0111) (DAWDF), the Global HIV/AIDS Initiative Fund (19-1030), also known as the U.S. President's Emergency Plan for AIDS Relief, and the Global Health Program (19-1031). ASD(HA)-DHP's budgetary resources reflect past congressional action and enable the entity to incur budgetary obligations, but they do not reflect assets to the Government as a whole. Budgetary obligations are legal obligations for goods, services, or amounts to be paid based on statutory provisions (e.g., Social Security benefits). After budgetary obligations are incurred, Treasury will make disbursements to liquidate the budgetary obligations and finance those disbursements in the same way it finances all disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

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

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

Appropriations Used: Most of ASD(HA)-DHP's operating funds are provided by congressional appropriations of budget authority. ASD(HA)-DHP receives appropriations on annual, multiple FY, and no-year bases. Upon expiration of an annual or multiple FY appropriation, the obligated and unobligated balances retain their fiscal identity, and are maintained separately within an expired account. The unobligated balances can be used to make legitimate adjustments to prior year obligations but are otherwise not available for new obligations. Annual and multiple FY appropriations are canceled at the end of the fifth FY after expiration. No-year appropriations do not expire or cancel. Appropriation of budget authority is recognized as used when costs are incurred, for example, when goods and services are received, or benefits and grants are provided. When authorized by legislation, these appropriations are supplemented by revenues generated by sales of goods or services. Per U.S.C. code 1095, ASD(HA)-DHP is permitted to collect payment from third party insurers for medical services rendered to eligible beneficiaries. Additionally, ASD(HA)-DHP receives reimbursable orders as authorized in allocation documentation. ASD(HA)-DHP recognizes revenue as a result of costs incurred for goods and services provided to other federal agencies and the public. ASD(HA)-DHP bills for services rendered using authorized billing rates for medical care – full cost pricing is standard for nonmedical services provided. Full cost pricing is DHA-CRM's standard policy for services provided as required by OMB Circular A-25, *User Charges*. In some instances, revenue is recognized when bills are issued.

Imputed Financing Sources from Cost Absorbed by Others and Imputed Cost: In certain cases, operating costs of ASD(HA)-DHP are paid in full or in part by funds appropriated to other federal entities. ASD(HA)-DHP includes applicable imputed costs in the Consolidated Statements of Net Cost. In addition, Imputed Financing Sources from Cost Absorbed by Others is recognized on the Consolidated Statements of Changes in Net Position as other financing source (non-exchange revenue).

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

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

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

For additional information, see Note 16, Disclosures Related to the SNC.

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

1.F. Recognition of Expenses

For financial reporting purposes, DoD policy requires that ASD(HA)-DHP estimates expenses for major items such as payroll expenses, accounts payable, environmental liabilities, and unbilled revenue in the period in which it is incurred. Estimates are made for major items such as payroll expenses, accounts payable, IBNR liabilities, and unfunded actuarial liabilities. ASD(HA)-DHP acknowledges a departure from GAAP in its ability to accurately estimate and accrue for accounts payable. In the case of OM&S in the hands of the end user for use in normal operations, DHP recognizes expenses when items are purchased, in accordance with SFFAS No. 3, under the purchase method of accounting. OM&S encompasses pharmaceuticals, pharmaceutical medical supplies, and non-pharmaceutical medical supplies.

1.G. Transactions with Foreign Governments and International Organizations

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

1.H. Fund Balance with Treasury

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

The FBwT represents the aggregate amount of ASD(HA)-DHP's available budget spending authority available to pay current liabilities and finance future authorized purchases. The Department's monetary resources of collections and disbursements are maintained in Department of the Treasury (Treasury) accounts. The disbursing offices of DFAS, the Military Departments, the USACE, and the Department of State's financial service centers currently process the majority of ASD(HA)-DHP's cash collections, disbursements, and adjustments worldwide. Monthly, each disbursing station reports to the Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

The U.S. Treasury Department performs cash management activities for all Federal Government agencies. FBwT represents ASD(HA)-DHP's right to draw funds from the Treasury for allowable expenditures. FBwT is increased by the receipt of appropriations and collections and decreased by outlays and fund transfers.

The U.S. Treasury maintains and reports fund balances at the Treasury Account Symbol level. While nearly all of DHP funding is included in account symbol 0130, the military construction component is housed within a shared DoD account symbol, 0500, at an aggregate level that does not provide identification of the separate defense agencies contained within. As a result, the U.S. Treasury does not separately report an amount for the DHP.

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

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

FBwT and the accompanying liability for deposit funds are not reported by individual ODOs, but rather reported in the consolidated ODOs. As such, ASD(HA)-DHP does not report deposit fund balances on its financial statements.

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

For additional information, see Note 3, FBwT.

1.I. Cash and Other Monetary Assets

Cash is the total of cash resources under the control of ASD(HA)-DHP, including coins, paper currency, negotiable instruments, and amounts held for deposit in banks and other financial institutions. Foreign currency consists of the total U.S. dollar equivalent of foreign currency exchanged for U.S. dollars and foreign currency received as payment for goods or services. Foreign currency is valued using the Treasury prevailing rate of exchange. The TFM Volume I, Part 2, Chapter 3200, provides guidance for accounting and reporting foreign currency. Cash and other monetary assets reported consist of undeposited collections (received by one of ASD(HA)-DHP's components- CRM) before month-end but after the U.S. Treasury month-end cutoff. A corresponding liability is recorded because CRM is not entitled to the funds until deposited with the U.S. Treasury. The majority of cash and all foreign currency is classified as "non-entity" and is restricted. Amounts reported consist primarily of cash and foreign currency held by disbursing officers to carry out their paying, collecting, and foreign currency accommodation exchange missions.

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

1.J. Undistributed Disbursements and Collections

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

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

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

For additional information, see Note 3, FBwT

1.K. Accounts Receivable, Net

Accounts receivable are amounts due to ASD(HA)-DHP from other federal entities or the public. Gross receivables, including federal receivables, must be reduced to net realizable value by an allowance for doubtful accounts in accordance with SFFAS 1. FASAB issued Technical Bulletin 2020-1, Loss Allowance for Intragovernmental Receivables. Allowances for uncollectible accounts due from the public are based upon historical analysis of outstanding receivables and collections data (i.e. Third party collections, Medical Services Account (MSA)-Public, Medical Affirmative Claims). Non-federal claims receivable are associated with TPCP for beneficiaries that have other health insurances. Claims with other federal agencies are resolved in accordance with the business rules published in Appendix 5 of TFM, Volume I, Part 2, Chapter 4700. Federal accounts receivable represent reimbursable work performed for other agencies that have been billed but not collected. For FY 2024, the ASD(HA)-DHP only recognizes an allowance for uncollectible amounts from the public.

ASD(HA)-DHP is required to transfer the collection of accounts receivable at 120 days to the U.S. Treasury Department for additional collection efforts. Accounts receivable that are transferred to the U.S. Treasury Department for collection should remain on ASD(HA)-DHP's books until the U.S. Treasury Department acknowledges that the debt is uncollectible. Once the U.S. Treasury acknowledges that the debt is uncollectible, ASD(HA)-DHP will close out the bad debt and take it off their books.

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

For additional information, see Note 5, Accounts Receivable.

1.L. Inventory and Related Property, Net

ASD(HA)-DHP is required to maintain various medications and supplies for the DoD Military population in the event of a medical epidemic in the United States or as needed for deployment operations. In FY 2024, the ASD(HA)-DHP reclassified this material, from Stockpile Materials, to OM&S Held in Reserve for Future Use. Such OM&S assets are maintained because there is more than a remote chance that they will eventually be needed, although not necessarily in the normal course of operations. In accordance with SFFAS 3, OM&S held in reserve for future use assets are accounted for through the consumption method using historical cost valuation or on a basis that reasonably approximates historical cost.

For additional information, see Note 6, Inventory and Related Property.

1.M. General and Right-to-Use Property, Plant, and Equipment

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

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

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

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

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

Leases: Lease payments for the rental of equipment, IUS, and operating facilities are classified as either capital or operating leases. When a lease substantially transfers all the benefits and risks of ownership to ASD(HA)-DHP (a capital lease) and the value equals or exceeds the relevant capitalization threshold, ASD(HA)-DHP has not designed or implemented formal policies and procedures to ensure that leases are accurately reported and disclosed on its financial statements and related footnotes in accordance with SFFAS 54.

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

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

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

For additional information, see Note 7, General and Right-to-Use PP&E.

For additional information, see Note 14, Leases.

1.N. Other Assets

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

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

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

1.O. Stewardship Property, Plant, and Equipment

Disclosures for stewardship PP&E are required under SFFAS 29. ASD(HA)-DHP has heritage assets. Heritage assets are unique for one or more of the following reasons: (1) historical or natural significance, (2) cultural, educational, or artistic importance, or (3) significant architectural characteristics. Heritage assets are generally expected to be preserved indefinitely. ASD(HA)-DHP operates the National Museum of Health and Medicine (NMHM).

1.P. Liabilities

Liabilities represent the probable future outflow or other sacrifice of resources as a result of past transactions or events. However, no liability can be paid by DHA absent proper budget authority. Liabilities covered by budgetary resources are appropriated funds for which funding is otherwise available to pay amounts due. Budgetary resources include new budget authority, unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, spending authority from offsetting collections, and recoveries of unexpired budget authority through downward adjustments of prior year obligations. Liabilities not covered by budgetary resources are liabilities that will require budgetary resources.

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

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

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

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

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

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

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

1.Q. Military Retirement and Other Federal Employment Benefits

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

ASD(HA)-DHP applies SFFAS 33, Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates, in selecting the discount rate and valuation date used in estimating Military Retirement Benefit actuarial liabilities. In addition, gains and losses from changes in long-term assumptions used to estimate the actuarial liability are presented separately on the SNC.

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

The majority of ASD(HA)-DHP employees hired prior to January 1, 1984, participate in the Civil Service Retirement System (CSRS), while the majority of ASD(HA)-DHP employees hired after December 31, 1983 are covered by the Federal Employees Retirement System (FERS) and Social Security. Employees hired between January 1, 1984 and December 31, 2012 are covered by the FERS basic annuity benefit. A primary feature of FERS is that it also offers a defined contribution plan (Thrift Savings Plan) to which ASD(HA)-DHP automatically contributes one percent of base pay and matches employee contributions up to an additional four percent of base pay. The ASD(HA)-DHP also contributes to the employer's Social Security matching share for FERS participants. Similar to CSRS and FERS, OPM reports the liability for future payments to retired employees who participate in the Federal Employee Health Benefit (FEHB) Program and the Federal Employees' Group Life Insurance (FEGLI) Program. ASD(HA)-DHP reports both the full annual cost of providing these Other Retirement Benefits (ORB) for its retired employees and reporting contributions made for active employees. In addition, ASD(HA)-DHP recognizes the cost for Other Post-employment Benefits (OPEB), including all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents.

The difference between the full annual cost of CSRS and FERS retirement, ORB, and OPEB and the amount paid by ASD(HA)-DHP is recorded as an imputed cost and offsetting imputed financing source in the accompanying financial statements. For the September 30, 2020, financial statement valuation, the application of SFFAS 33 required the DoD OACT to set the long-term inflation, the Consumer Price Index, ASD(HA)-DHP actuarial liability is adjusted at the end of each FY. The 4th Quarter, FY 2023 balance represents the September 30, 2023, amount that will be effective through 3rd quarter of FY2024.

For additional information, see Note 10, Current and Former Employee and Veteran Benefits Payable and Note 16, General Disclosures Related to the SNC.

1.R. Accrued Unfunded Annual Leave

Accrued leave includes salaries, wages, and other compensation earned by employees, but not disbursed as of September 30, 2023. Annually, as of September 30, the balances of accrued unfunded annual leave are adjusted to reflect current pay rates. Sick leave and other types of non-vested leave are expensed as taken. These liabilities are not covered by budgetary resources because funding has not yet been made available.

1.S. Other Liabilities

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

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

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

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

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

The life insurance program, FEGLI plan is a term life insurance benefit with varying amount of coverage selected by the employee. The FEHB program is comprised of different types of health plans that are available to Federal employees for individual and family coverage for healthcare. Those employees meeting the criteria for coverage under FEHB may also enroll in the Federal Employees Dental and Vision Insurance

Program (FEDVIP). FEDVIP allows for employees to have dental insurance and vision insurance to be purchased on a group basis.

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

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

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

The majority of TRICARE premiums are paid on a monthly or quarterly basis. Since these payments are received during the period to which the services relate, recognizing the revenue of these premiums when received does not affect annual financial reporting or result in a liability for unearned premiums. For premiums paid on an annual basis, a determination is made each year to assess whether a liability for unearned premiums should be recognized.

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

1.T. Commitments and Contingencies

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

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

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

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

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

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

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

1.U. Net Position

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

Unexpended Appropriations: Unexpended appropriations represent the amounts of budgetary resources that are unobligated and have not been rescinded or withdrawn. Unexpended appropriations also represent amounts obligated for which legal liabilities for payments that have not been incurred. Cumulative Results of Operations: Cumulative Results of Operations represent the net difference between expenses and losses, and financing sources (including appropriations, revenue, and gains), since inception. The cumulative results of operations also include transfers in and out of assets that were not reimbursed.

For additional information, see Note 17, Disclosures Related to the SCNP.

1.V. Treaties for Use of Foreign Bases

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

1.W. Consolidated Statements of Net Cost

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

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

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

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

1.X. Tax Status

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

1.Y. Fiduciary Activities

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

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

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

Certain presentations have been modified to conform to OMB Circular No. A-136. Federal Employee and Veteran Benefits Payable was split into two lines: “Federal Employee Salary, Leave, and Benefits Payable” and “Veterans, Pensions, and Post Employment-related Benefits.” As a part of this breakout, USSGL 221000 Accrued Funded Payroll and Leave will be moved from Other than Intragovernmental Other Liabilities to Federal Employee Salary, Leave, and Benefits Payable. The presentation of the fiscal year 2023 Balance Sheet and the related footnotes was modified to be consistent with the fiscal year 2024 presentation. The mapping of U.S. Standard General Ledger (USSGL) accounts, in combination with their attributes, to particular Balance Sheet lines and footnotes is directed by the guidance published periodically under TFM, USSGL Bulletins, Section V. Additionally, the structure of footnote 19, Reconciliation of Net Cost to Net Budgetary Outlays has been updated to align with Treasury’s Budget and Accrual Reconciliation Crosswalk. Related mapping changes were made based on Treasury’s guidance, and the related comparative data is shown consistently with the new presentation.

NOTE 2. NON-ENTITY ASSETS

Department of Defense
Assistant Secretary of Defense (Health Affairs) - Defense Health Program
Non-Entity Assets (Unaudited)
As of September 30, 2024 and 2023
(dollars in thousands)

Figure 2 — 5: Non-Entity Assets

	Q4 2024	Q4 2023
Intragovernmental Assets		
Total Intragovernmental Assets	-	-
Non-Entity		
Accounts Receivable	-	855
Total Other Than Intragovernmental Assets	-	855
Total Non-Entity Assets	-	855
Total Entity Assets	26,512,618	26,109,181
Total Assets	**$26,512,618**	**$26,110,036**

Non-entity assets are not available for use in ASD(HA)-DHP's normal operations. ASD(HA)-DHP has stewardship accountability and reporting responsibility for non-entity assets, which are included on the Balance Sheet.

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

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

NOTE 3. FUND BALANCE WITH TREASURY

Department of Defense
Assistant Secretary of Defense (Health Affairs) - Defense Health Program
Fund Balance with Treasury (Unaudited)
As of September 30, 2024 and 2023
(dollars in thousands)

Figure 2 — 6: Fund Balance with Treasury

	Q4 2024	Q4 2023
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	3,325,833	3,419,219
Unavailable	1,586,587	1,389,264
Total Unobligated Balance	4,912,420	4,808,483
Obligated Balance not yet Disbursed	17,042,246	16,989,816
Non FBwT Budgetary Accounts		
Unfilled Customer Orders without Advance	(320,269)	(219,479)
Reimbursments and Other Income Earned - Receivables	(148,341)	(25,650)
Total Non-Budgetary FBwT	(468,610)	(245,129)
Total FBwT	**$21,486,056**	**$21,553,170**

The Treasury records cash receipts and disbursements on ASD(HA)-DHP's behalf; funds are available only for the purposes for which the funds were appropriated. ASD(HA)-DHP's fund balances with treasury consist of solely appropriation accounts. The Status of FBwT reflects the reconciliation between the budgetary resources supporting FBwT (largely consisting of Unobligated Balance and Obligated Balance Not Yet Disbursed) and those resources provided by other means. The Total FBwT reported on the Balance Sheet reflects the budget authority remaining for disbursements against current or future obligations.

Unobligated and obligated balances presented in this note may not equal related amounts reported on the Combined SBR because unobligated and obligated balances reported on the Combined SBR are supported by FBwT and other budgetary resources that do not affect FBwT. Non-FBwT budgetary accounts reduce budgetary resources. This amount is comprised of unfilled customer orders without advance of $320.3 million and Reimbursements and Other Income Earned - Receivables of $148.3 million.

The FBwT reported in the financial statements has been adjusted with undistributed adjustments to reflect ASD(HA)-DHP's balance as reported by Treasury. The difference between FBwT in ASD(HA)-DHP's GL and FBwT reflected in the Treasury accounts is attributable to transactions that have not been posted to the individual detailed accounts in ASD(HA)-DHP's GL or transactions that have been received, but not yet matched to the correct detailed accounts in ASD(HA)-DHP's GL. The difference is a result of timing differences or the inability to obtain valid accounting information prior to the issuance of the financial statements. When research is completed, these transactions will be recorded in the appropriate individual detailed accounts in ASD(HA)-DHP's GL accounts. By using a historical lookback analysis, the ASD(HA)-DHP estimates the amounts of Suspense and Statements of Difference transactions that should clear to the ASD(HA)-DHP should be $5.3 million and $31.0 million respectively.

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

NOTE 4. CASH AND MONETARY ASSETS

Department of Defense
Assistant Secretary of Defense (Health Affairs) - Defense Health Program
Cash and Monetary Assets (Unaudited)
As of September 30, 2024 and 2023
(dollars in thousands)

Figure 2 — 7: Cash and Monetary Assets

Cash and Other Monetary Assets	Q4 2024	Q4 2023
Cash	1,011	38
Total Cash, Foreign Currency & Other Monetary Assets	**$1,011**	**$38**

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

NOTE 5. ACCOUNTS RECEIVABLE, NET

Department of Defense
Assistant Secretary of Defense (Health Affairs) - Defense Health Program
Accounts Receivable, Net (Unaudited)
As of September 30, 2024 and 2023
(dollars in thousands)

Figure 2 — 8: Accounts Receivable, Net for September 30, 2024

Accounts Receivable, Net	Gross Amount Due	Allowance For Estimated Uncollectible	Accounts Receivable, Net
Intragovernmental Receivables	145,379	-	145,379
Non-Federal Receivables (From the Public)	1,147,226	(465,187)	682,039
Total Accounts Receivable	**$1,292,605**	**$(465,187)**	**$827,418**

Figure 2 — 9: Accounts Receivable, Net for September 30, 2023

Accounts Receivable, Net	Gross Amount Due	Allowance For Estimated Uncollectible	Accounts Receivable, Net
Intragovernmental Receivables	25,681	-	25,681
Non-Federal Receivables (From the Public)	1,182,872	(424,313)	758,559
Total Accounts Receivable	**$1,208,553**	**$(424,313)**	**$784,240**

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

For FY 2024, the ASD(HA)-DHP only recognizes an allowance for uncollectible amounts from the public. Claims with other federal agencies are resolved in accordance with the business rules published in Appendix 5 of TFM, Volume I, Part 2, Chapter 4700. Allowances for uncollectible accounts due from the public are based upon historical analysis of outstanding receivables and collections data.

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

Accounts receivable due from the public: Arises from the provision of care by MTFs which is comprised of the following:

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

Additionally, as of September 30, 2024, CRM had recorded $367.2 million related to the Standard Discount Program (SDP) and the Additional Discount Program (ADP). The SDP resulted from the implementation of the Federal Ceiling Program for the TRICARE Retail Pharmacy Refunds Program as required by the FY 2008 NDAA, Section 703. The ADP resulted from voluntary agreements between TRICARE and the pharmaceutical manufacturers providing additional discounts above the SDP.

Also in FY24, through coordination with OMB and OUSD Offices of the General Counsel, the DHP implemented a new policy related to collections from the Department of VA. This policy, which recognizes authority under 38 USC 8111 and 10 USC 1095, states that the DHP will deposit collections from the VA for healthcare services provided through DoD facilities into the current appropriations of those DoD facilities. The previous policy related to collections from the Department of VA required crediting the appropriations that were charged at the time of providing the services.

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

NOTE 6. INVENTORY AND RELATED PROPERTY

Department of Defense
Assistant Secretary of Defense (Health Affairs) - Defense Health Program
Inventory and Related Property, Net (Unaudited)
As of September 30, 2024 and 2023
(dollars in thousands)

Figure 2 — 10: Inventory and Related Property, Net

Inventory and Related Property	Q4 2024	Q4 2023
Operating Materials & Supplies, Net	326,717	268,408
Total Inventory and Related Property	**$326,717**	**$268,408**

In FY 2024, ASD(HA)-DHP adopted SFFAS No. 48, Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials, applying alternative valuation methods in revaluing OM&S Held in Reserve for Future Use. As a result, ASD(HA)-DHP recorded a $52.4 million prior period adjustment, increasing the FY 2024 Inventory and Related Property beginning balance. The adjustment was made in accordance with SFFAS 21 and SFFAS 48.

OM&S assets that are maintained because they are not readily available in the market or because it is likely they will be needed in the future are classified as OM&S Held in Reserve for Future Use (OM&S HFFU).

OM&S assets that exceed the amount expected to be used; are no longer needed because of changes in technology, laws, customs, or operations; or are damaged physically and cannot be consumed in operations are classified as OM&S – Excess, Obsolete, and Unserviceable (EOU). ASD(HA)-DHP uses this account to record assets that are deemed unusable but are awaiting viability testing and/or disposition. An equal and offsetting allowance account – OM&S – Allowance – Excess, Obsolete and Unserviceable – is used to draw down the asset balance prior to disposition. In FY 2024, ASD(HA)-DHP recorded $2.3 million in OM&S EOU, accompanied by an offsetting $2.3 million OM&S – Allowance – EOU.

ASD(HA)-DHP uses the consumption method to account for OM&S Held for Future Use materials. The $326.7 million of OM&S Held for Future Use recorded reflects remediation efforts to record OM&S Held for Future Use material using the consumption method of accounting as required by SFFAS 3. ASD(HA)-DHP assesses cost flow assumptions for current year activity using the First-In, First-Out method using historical cost.

Restrictions on the use of materials: OM&S HFFU are held for use by DHA military treatment facilities to treat DoD beneficiaries only.

NOTE 7. GENERAL AND RIGHT-TO-USE PROPERTY, PLANT, AND EQUIPMENT, NET

Department of Defense

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

General and Right-to-Use Property, Plant and Equipment, Net (Unaudited)

As of September 30, 2024 and 2023

(dollars in thousands)

Figure 2 — 11: General and Right-to-Use Property, Plant and Equipment, Net for September 30, 2024

Major Fixed Asset Classes	Acquisition Value	Accumulated Depreciation/Amortization	Net Book Value
Software	1,625,659	(1,050)	1,624,609
General Equipment	1,271,291	(1,248,580)	22,711
Assets Under Right-to-Use Lease	3,347	(3,347)	-
Construction-in-Progress	2,219,604	-	2,219,604
Total General and Right-to-Use PP&E, Net	**$5,119,901**	**$(1,252,977)**	**$3,866,924**

Figure 2 — 12: General and Right-to-Use Property, Plant and Equipment, Net for September 30, 2023

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

Starting in FY 2024, Federal reporting entities are required to report a right-to-use lease asset and a lease liability for non intragovernmental, non-short-term contracts or agreements when the entity has the right to obtain and control access to economic benefits or services from an asset under the terms of the contract or agreement. Most of ASD(HA)-DHP's General and Right-to-Use PP&E, net owned or leased by ASD(HA)-DHP is primarily used to provide high quality, cost effective healthcare services to active forces and other eligible beneficiaries. The total and Right-to-Use PP&E and accumulated depreciation for the current year as shown in the reconciliation above.

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

MHS GENESIS is the new electronic health record system that manages military patient health information. MHS GENESIS integrates inpatient and outpatient solutions that will connect medical and dental information across the continuum of care, from point of injury to the MTFs. As of March 2024, MHS GENESIS has reached full deployment. ASD(HA)-DHP has ceased accumulating costs associated with the development of MHS GENESIS. However, administrative approval from management to classify MHS GENESIS as "in service" has not been received. Therefore, amortization of the asset has not commenced.

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

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

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

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

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

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

HERITAGE ASSETS

Department of Defense
Assistant Secretary of Defense (Health Affairs) - Defense Health Program
Heritage Assets (Unaudited)
As of September 30, 2024 and 2023

Figure 2 — 13: Heritage Assets (units in thousands)

Categories	Beginning Balance	Additions	Deletions	Ending Balance
Museum Collection Items (Objects, Not Including Fine Art)	104	43	-	147
Total Heritage Assets	**104**	**43**		**147**

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

The ASD(HA)-DHP FY 2024 beginning unit count matches the FY 2023 ending unit count for Heritage Assets.

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

ASD(HA)-DHP's stewardship policies for heritage assets: NMHM's stewardship policies for heritage assets are codified in its collections management policy. The current version was updated in July 2020. The document establishes policies and guidelines by which objects and collections enter and are eliminated from holdings; outlines the ethical and legal responsibilities of the NMHM and its staff, with respect to its collections, also referred to as Heritage Assets in Federal law and DoD regulations; and sets forth policies for both use and access to the collections. All polices and guidelines conform to Federal law and DoD regulations, which will be referenced where appropriate.

Major Categories of Heritage Assets

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

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

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

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

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

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

Methods of Acquisition and Withdrawal

Acquisition: The NMHM acquires collection items by a variety of methods, including gift donations (including bequests), exchange, Federal property transfer, and field collecting. NMHM only acquires unrestricted collections as a general rule. Certain restrictions are routinely accepted, such as retention of intellectual property rights or instances in which the country or agency of origin places restrictions on use and disposal. Any restrictions on use or disposal must be reviewed and approved by the director and must be documented in museum records at the time of acquisition. Acquisitions are generally initiated by curators or collections managers with a proposal to the Collections Advisory Committee (CAC). The CAC provides recommendations to the NMHM director for approval to acquire. Authority to accept gifts for NMHM is held by the director, DHA. Signatory authority is delegated to the deputy director, DHA. NMHM also accepts transfers from federal agencies. Signatory authority to accept transfers of Federal property from U.S. government entities is held by the director, NMHM, and by the logistics manager, NMHM. The director may delegate signatory authority to the registrar or other Federal staff. All Federal property transferred to the collections will be reclassified as heritage assets and managed in accordance with this policy. NMHM does not assign value as a general rule to any collections items except for loan insurance purposes. Any values known at time of acquisition or determined for insurance will be recorded and maintained by the registrar.

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

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

Transfers of heritage assets and stewardship land between Federal entities (by the number of physical units by major category):

- 9 donations
- 6 transfers
- 4 field collections

The number of units of heritage assets and or number of acres (in thousands) of stewardship land acquired through donation or devise during the fiscal year shall be disclosed. Fair market value for donations was not provided by donors at time of donations, transfers, and collecting by staff; therefore, dollar value reported is $0.00. Total dollar value documented by the museum is $15,148 for costs associated with shipping items to the museum.

Other Disclosures: ASD(HA)-DHP has the use of overseas facilities that are obtained through various international treaties and agreements negotiated by the Department of State. Generally, treaty terms allow ASD(HA)-DHP continued use of these properties until the treaties expire. There are no other known restrictions on use or convertibility of General and Right-to-Use PP&E. Depreciation and amortization expense for the period ended, September 30, 2024, totaled $309.1 million.


LINCOLN'S
FINAL HOURS
THE CARE
THE INJURY

GENERAL AND RIGHT-TO-USE PP&E, NET SUMMARY OF ACTIVITY

Department of Defense
Assistant Secretary of Defense (Health Affairs) - Defense Health Program
General and Right-to-Use PP&E, Net - Summary of Activity (Unaudited)
As of September 30, 2024 and 2023
(dollars in thousands)

Figure 2 — 14: General and Right-to-Use PP&E, Net - Summary of Activity

General and Right-to-Use PP&E, Net	Q4 2024	Q4 2023
General and Right-to-Use PP&E, Net Beginning of Year, Unadjusted	3,486,042	4,138,795
Balance Beginning of Year, Adjusted	3,486,042	4,138,795
Capitalized Acquisitions	784,151	691,687
Dispositions	(48,243)	(5,892)
Transfers In/(Out) without Reimbursement	(45,929)	(1,062,249)
Revaluations (+/-)	-	(1,621)
Depreciation Expense	(309,097)	(274,678)
General and Right-to-Use PP&E, Net End of Year	**$3,866,924**	**$3,486,042**

Information concerning deferred maintenance and repairs is discussed in the unaudited requirement supplementary information.

NOTE 8. OTHER ASSETS

Department of Defense
Assistant Secretary of Defense (Health Affairs) - Defense Health Program
Other Assets (Unaudited)
As of September 30, 2024 and 2023
(dollars in thousands)

Figure 2 — 15: Other Assets

Intragovernmental	Q4 2024	Q4 2023
Net Intragovernmental	-	-
Other than Intragovernmental/With the Public		
Advances and Prepayments	4,492	18,138
Subtotal	4,492	18,138
Less: “Advances and Prepayments”	(4,492)	(18,138)
Net Other Than Intragovernmental	-	-
Total Other Assets	**$**	**$**

Advances and Prepayments are made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures, or receipt of other assets, excluding those made as Outstanding Contract Financing Payments. Advances and Prepayments are excluded from Other Assets in FY 2024 as they are presented discretely on the Balance Sheet.

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

NOTE 9. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Department of Defense

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

Liabilities Not Covered by Budgetary Resources (Unaudited)

As of September 30, 2024 and 2023

(dollars in thousands)

Figure 2 — 16: Liabilities Not Covered by Budgetary Resources

Intragovernmental Liabilities	Q4 2024	Q4 2023
Accounts Payable	2,402	1,069
Other	54,727	50,298
Total Intragovernmental Liabilities Not Covered by Budgetary Resources	57,129	51,367
Other than Intragovernmental/With the Public Liabilities		
Accounts payable	111,354	113,153
Federal employee and veteran benefits payable	364,538,056	318,162,490
Other Liabilities	13,000	216,200
Total Liabilities Other than Intragovernmental/With the Public Not Covered by Budgetary Resources	364,662,410	318,491,843
Total Liabilities Not Covered by Budgetary Resources	364,719,539	318,543,210
Total Liabilities Covered by Budgetary Resources	1,599,637	1,243,103
Total Liabilities Not Requiring Budgetary Resources	1,011	38
Total Liabilities	**$366,320,187**	**$319,786,351**

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

Intragovernmental Liabilities: Other consists primarily of unfunded liabilities for FECA, Judgement Fund and unemployment compensation.

Other than Intragovernmental Liabilities: Accounts Payable represents liabilities in canceled appropriations, which if paid, will be disbursed using current year funds.

Other than Intragovernmental Liabilities: Federal employee and veteran benefits payable consist of various employee actuarial liabilities not due and payable during the current FY.

Other than Intragovernmental Liabilities: Environmental and Disposal Liabilities represent liability for existing and estimates related to future events for environmental and clean up and disposal. ASD(HA)-DHP does not currently have environmental and disposal liabilities to report

Other than Intragovernmental Liabilities: Other Liabilities represent ASD(HA)-DHP's liability for contingent liabilities.

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

NOTE 10. CURRENT AND FORMER EMPLOYEE AND VETERANS BENEFITS PAYABLE

Department of Defense
Assistant Secretary of Defense (Health Affairs) - Defense Health Program
Current and Former Employee and Veterans Benefits Payable (Unaudited)
As of September 30, 2024 and 2023
(dollars in thousands)

Figure 2 — 17: Current and Former Employee and Veterans Benefits Payable

Pension and Health Benefits	Q4 2024	Q4 2023
Military Pre Medicare-Eligible Retiree Health Benefits	361,667,842	315,587,360
Total Pension and Health Benefits	**$361,667,842**	**$315,587,360**
Federal Employment Benefits		
FECA	267,264	255,818
Other	2,743,401	2,458,741
Total Other Employee Benefits	3,010,665	2,714,559
Federal Employee and Veterans Benefits Liability	**$364,678,507**	**$318,301,919**
Other Benefit-Related Payables Included in Intragovernmental Accounts Payable on the Balance Sheet	82,597	71,906
Total Federal Employee Benefits and Veterans Benefits Payable	**$364,761,104**	**$318,373,825**

Department of Defense
Assistant Secretary of Defense (Health Affairs) - Defense Health Program
Summary of Actuarial Liability (Unaudited)
As of September 30, 2024 and 2023
(dollars in thousands)

Figure 2 — 18: Summary of Actuarial Liability

Actuarial Liability	Q4 2024	Q4 2023
Beginning Actuarial Liability	315,587,360	295,085,561
Expenses		
Normal Cost	15,767,343	14,522,694
Interest Cost	9,435,888	8,810,344
Actuarial Experience Gains	(3,850,616)	(8,985,512)
Total Expenses before Gains from Actuarial Assumptions Changes	**$21,352,615.00**	**$14,347,526.00**
Actuarial Assumption Changes		
Changes in Trend Assumptions	37,834,002	20,987,034
Changes in Assumptions Other than Trend	(1,061,548)	(3,142,645)
Losses / (Gains) from Actuarial Assumption Changes	**$36,772,454.00**	**$17,844,389.00**
Total Expenses	58,125,069	32,191,915
Less: Benefit Outlays	12,044,587	11,690,116
Total Changes in Actuarial Liability	46,080,482	20,501,799
Ending Actuarial Liability	**$361,667,842**	**$315,587,360**

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

The schedules above reflect two distinct types of liabilities related to Military Retirement and Other Federal Employment Benefits. The line entitled “Military Pre Medicare-Eligible Retiree Health Benefits” represents the actuarial (or accrued) liability for future healthcare benefits provided to non-Medicare-eligible retired beneficiaries that are not yet incurred. The line entitled “Other” includes two reserves, a small retiree life insurance reserve ($165 thousand in FY 2024) for a closed group of USUHS retirees and the IBNR, which is an estimate of benefits already IBNR to DoD for all ASD(HA)-DHP beneficiaries (excluding those from the retiree population who are
Medicare-eligible).

Effective FY 2010, the ASD(HA)-DHP implemented requirements of SFFAS 33, which directs that the discount rate, underlying inflation rate, and other economic assumptions be consistent with one another. A change in the discount rate may cause other assumptions to change as well. For the September 30, 2024, financial statement valuation, the application of SFFAS 33 required the DoD OACT to set the long-term inflation (Consumer Price Index) to be consistent with the underlying Treasury spot rates used in the valuation.

The ASD(HA)-DHP actuarial liability is adjusted at the end of each FY. The 4th Quarter, FY 2024 balance represents the September 30, 2024 amount that will be effective through 3rd quarter of FY 2025.

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

Assumptions: For the FY 2024 financial statement valuation, the long-term assumptions include a 3.0% discount rate and medical trend rates that were developed using a 2.8% 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 2023 financial statement valuation, the long-term assumptions included a 2.9% discount rate and medical trend rates that were developed using a 2.6% inflation assumption.

The change in the long-term assumptions is due to the application of SFFAS 33. This applicable financial statement standard is discussed further below. The standard is discussed further below. Other assumptions used to calculate the actuarial liabilities, such as mortality and retirement rates, were based on a blend of actual experience and future expectations. Because of reporting deadlines and as permitted by SFFAS 33, the current year actuarial liability is rolled forward from the prior year valuation results using accepted actuarial methods. This roll-forward process is applied annually. In calculating the FY 2024 “rolled-forward” actuarial liability, the following assumptions in FIgure 2 - 19 were used:

Figure 2 — 19: Inflation Rates

Discount Rate	**3.0%**	
Inflation	**2.8%**	
Medical Trend (Non-Medicare)	**FY 2023 - FY 2024**	**Ultimate Rate FY 2047**
Direct Care Inpatient	**6.60%**	**4.8%**
Direct Care Outpatient	**6.08%**	**4.8%**
Direct Care Prescription Drugs	**7.35%**	**4.8%**
Purchased Care Inpatient	**6.09%**	**4.8%**
Purchased Care Outpatient	**5.03%**	**4.8%**
Purchased Care Prescription Drugs	**8.74%**	**4.8%**
Purchased Care USFHP	**6.40%**	**4.8%**

After a 25 year select period, an ultimate trend rate is assumed for all future projection years. The ASD(HA)-DHP actuarial liability increased $25.6 billion (125%). This resulted from the net effect of: an increase of $10.3 billion due to expected increases (interest cost plus normal cost less benefit outlays), an increase of $37.4 billion due to changes in key assumptions; and an increase of $1.5 billion due to actual experience being different from what was assumed (demographic and claims data).

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

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

For the September 30, 2024 financial statement valuation, the DoD OACT determined a single equivalent discount rate of 3.0% 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, 2014 through March 31, 2024.

For the September 30, 2024, financial statement valuation, the DoD OACT determined a single equivalent medical cost trend rate of 5.1% can be used to reproduce the total Military Retiree Health Benefits liability. The total Military Retiree Health Benefits liability includes MERHCF and DHA Direct and Purchase Care.

NOTE 11. ENVIRONMENTAL AND DISPOSAL LIABILITIES

Department of Defense
Assistant Secretary of Defense (Health Affairs) - Defense Health Program
Environmental and Disposal Liabilities (Unaudited)
As of September 30, 2024 and 2023
(dollars in thousands)

Figure 2 — 20: Environmental and Disposal Liabilities

Other than Intragovernmental/With the Public	Q4 2024	Q4 2023
Total Environmental and Disposal Liabilities	-	-

ASD(HA)-DHP did not have Environmental and Disposal Liabilities to report as of September 30, 2024 and 2023. ASD(HA)-DHP will continue to assess for Environmental and Disposal Liabilities to determine whether or not to disclose in future reports.

Applicable laws and regulations for cleanup requirements:

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

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

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

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

For ASD(HA)-DHP, the environmental liabilities and disposal liabilities cost estimation and sustainment process is owned and maintained by the Department of Navy, Department of the Army and Department of the Air Force. These Military Departments capture and record environmental liabilities allowing the environmental liabilities to be consolidated and reported on the quarterly Departments Financial Statements. As a result, BUMED, MEDCOM and AFMS report a zero balance for environmental liabilities and disposal liabilities on the quarterly financial statements. There are instances when a component reporting entity recognizes General and Right-to-Use PP&E during its useful life differs from the component reporting entity that will eventually be responsible for the future outflow of resources required for cleanup when the asset is removed from service. FASAB Interpretation 9 clarifies during the asset's useful life the reporting entity owning the asset must continue to recognize inter-period operating costs on its SNC and accrue the liability for General and Right-to-Use PP&E on its Balance Sheet. When the asset is transferred to the entity designated responsible by law, statute or policy for cleanup, the General and Right-to-Use PP&E and the associated liability must be de-recognized by the component reporting entity that recognized them during the General and Right-to-Use PP&E's useful life and recognized by the component reporting entity responsible for clean-up and liquidating the liability. De-recognition and recognition of the General and Right-to-Use PP&E and liability must be performed in accordance with existing accounting standards. The Component recording the environmental liability must have sufficient supporting documentation to establish its responsibility for the liability.

NOTE 12. INSURANCE PROGRAMS

Department of Defense
Assistant Secretary of Defense (Health Affairs) - Defense Health Program
Insurance Programs (Unaudited)
As of September 30, 2024 and 2023
(dollars in thousands)

Figure 2 — 21: Changes in the Liability Balance for Unpaid Insurance Claims

Insurance Programs	Q4 2024	Q4 2023
Beginning Balance	2,383,514	2,436,933
Claims Expense	17,728,729	16,750,821
Claims Adjustment Expenses	(34,475)	(26,465)
Payments to Settle Claims	(17,418,748)	(16,775,908)
Recoveries and Other Adjustments	2,542	(1,867)
Ending Balance	**$2,661,562**	**$2,383,514**

Premium Base Health Plans consist of several programs with coverage offered to Active Duty, Active-Duty Family Member(s), Retirees and Reserve members. The programs include TRICARE Continued Healthcare Benefit Program (CHCBP), TRICARE Young Adult (TYA), TRICARE Reserve Select (TRS), TRICARE Retired Reserve (TRR), and TRICARE Prime Remote (TPR) and TRICARE Select which together make up the TRICARE Insurance Portfolio. Most of these programs are intended to be budget neutral, meaning that the premiums should match the outlays, and are exchange transaction insurance programs. Premiums are adjusted either upward or downward for each calendar year to maintain this neutrality. Increases or decreases in the number of beneficiaries enrolling in the programs would cause minimal effects on program cost or premiums collected. Premium rate calculations are based on the benefit cost from prior calendar years. Premiums are based on the Program's benefit cost, which eliminates any inherent risk to third parties, including the beneficiary and the Managed Care Support Contractors who provide healthcare claims processing and the initial collections on behalf of DHA-CRM. The total amount of Insurance Premium collections in FY 2024 was $991.4 million and $957.7 million for FY 2023. The benefit cost for FY 2024 correlate to the premium collections reported.

Monthly Premium Rates are established on an annual basis. The Monthly Premium Rates for calendar year 2024 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 FY 2017; P.L. 114 328. The enrollment fee and or premium collections are credited to DHP appropriation available for the FY collected.

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

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

NOTE 13. OTHER LIABILITIES

Department of Defense
Assistant Secretary of Defense (Health Affairs) - Defense Health Program
Other Liabilities (Unaudited)
As of J September 30, 2024 and 2023
(dollars in thousands)

Figure 2 — 22: Other Liabilities as of September 30, 2024

Other Liabilities	Current Liability	Noncurrent Liability	Total
Intragovernmental			
Other Liabilities reported on Note 10, Federal Employee and Veteran Benefits Payable	51,046	31,551	82,597
Total Intragovernmental Other Liabilities	**51,046**	**31,551**	**82,597**
Other than Intragovernmental/With the Public			
Deposit Funds & Suspense Accounts	1,012	-	1,012
Contract Holdbacks	4,234	-	4,234
Contingent Liabilities	13,000	-	13,000
Total Other than Intragovernmental/With the Public Other	**18,246**		**18,246**
Total Other Liabilities	**$69,292**	**$31,551**	**$100,843**

Figure 2 — 23: Other Liabilities as of September 30, 2023

Other Liabilities	Current Liability	Noncurrent Liability	Total
Intragovernmental			
Liabilities for Non Entity Assets	-	855	855
Subtotal	-	855	855
Other Liabilities reported on Note 10, Federal Employee and Veteran Benefits Payable	42,282	29,625	71,907
Total Intragovernmental Other Liabilities	**42,282**	**30,480**	**72,762**
Other than Intragovernmental/With the Public			
Deposit Funds & Suspense Accounts	38	-	38
Contract Holdbacks	3,101	-	3,101
Contingent Liabilities	216,200	-	216,200
Other Liabilities without Related Budgetary Obligations	7	-	7
Total Other than Intragovernmental/With the Public Other	**219,346**		**219,346**
Total Other Liabilities	**$261,628**	**$30,480**	**$292,108**

Other Liabilities reported on Note 10, Current and Former Employee and Veteran Benefits Payable
This balance represents the employer portion of benefit contributions for health benefits, retirement, life insurance and voluntary separation incentive payments.

Intragovernmental Other Liabilities: This balance primarily consists of unemployment compensation liabilities.

Contract Holdbacks: Contract Holdbacks are amounts withheld from grantees or contractors pending completion of related contracts. For FY 2024 and FY 2023 contract holdbacks include $4.2 and $3.1 million for contracts authorization progress payments based on cost as defined in the Federal Acquisition Regulation. It includes accrued funded payroll and benefits.

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

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

NOTE 14. LEASES

Right-to-Use Leases: ASD(HA)-DHP is reporting Right-to-Use lease equipment and related amortization related to an arrangement that is covered by budgetary resources, allowing DHP access to digital radiographic systems and full body computed tomography scanning systems.

Future Payments Due for Federal and Non-Federal Right-to-Use Leases: ASD(HA)-DHP currently has no significant Right-to-Use lease payments with terms longer than one year.

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

NOTE 15. COMMITMENTS AND CONTINGENCIES

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

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

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

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

There is one possible case or claim pending and one reasonably probable case or claims pending with ASD(HA)-DHP meeting the requirements for disclosure.

4DD Holdings, LLC and T4 Data Group, LLC v. United States (Court of Federal Claims).

Plaintiffs allege infringement of its copyrights by cloning, copying and installing 4DD's proprietary software program - TETRA® Healthcare Federator ("TETRA) – on servers and other computing devices with thousands of processor cores for which licenses were not purchased. The complaint does not request a specific monetary amount. Based on information exchanged in discovery and negotiations and a judgmental assessment of potential damages, the amount of potential liability is estimated to be at least $1 billion. The Complaint was filed on August 28, 2015, and an Amended Complaint on March 14, 2016. The Government filed its Answers. On June 24, 2016, the Government filed a partial Motion to Dismiss for Lack of Jurisdiction, which the Court denied near the close of discovery on April 23, 2019. On the same day, the Court granted plaintiffs' motion for sanctions upon finding that the Government failed to properly preserve relevant evidence. The Court denied motions for summary judgment, and a trial was held in November 2022. Both parties have exchanged post-trial briefs. The Court held oral argument on the briefs for June 6, 2023, and rendered a verdict for the plaintiffs. Exact damages are still being determined but the estimated damages were stated to be $13 million. Since the loss is probable and estimable, ASD(HA)-DHP has recorded an expense and liability for the full amount of the expected loss. Since the Judgment Fund is the likely source for the payment of the claim, the liability will be removed from the financial statements and an "other financing source" amount would be recognized as prescribed by Interpretation of SFFAS 2.

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

Class action, but not certified, arises out of a settlement agreement to resolve hospital outpatient radiology claims. Plaintiffs' First Amended Complaint was filed on November 17, 2014. It alleges breach of express contract, breach of implied contract, mutual mistake, breach of the covenant of good faith and fair dealing, and violations of a statutory mandate under the TRICARE statute. The suit alleges 5,200 hospitals were underpaid for outpatient procedures. Plaintiffs seek reformation damages of approximately $13.8M in underpaid overhead. Plaintiffs also seek certification of a class of all hospitals nationwide (approximately 1,600) that separately had entered into similar settlement agreements with DoD. Extrapolating from the size of the uncertified class and extrapolating, the amount sought equals or exceeds $99.3 million. On March 22, 2016, the Court of Federal Claims issued its decision granting the Government's Motion to Dismiss Plaintiffs' Amended Complaint. Plaintiffs appealed to the Court of Appeals for the Federal Circuit. On November 3, 2017, the Court of Appeals reversed the dismissal of Ingham's breach of contract claim and remanded the case to the trial court for further proceedings. On March 20, 2018, the Government filed its Answer. Discovery has since closed, and the parties briefed multiple motions including the Government's Motion for Summary Judgment. In late November 2022, the judge approved, in large part, the Government's request for Summary Judgment. Plaintiffs have filed a motion to re-open discovery, to submit a completely new expert opinion report, and to renew their class certification motion. The Government's response brief was filed on April 21, 2023. A hearing is scheduled for July 19, 2023. The estimated amount or range of potential loss is $13 million – $22.4 billion.

Furthermore, medical malpractice claims and settlements arising from the activities of BUMED, AFMS, and MEDCOM are paid either by funds appropriated directly to the MILDEPs lines and/or the Department of Treasury's Judgement Fund. The table below summarizes DHP's probable and reasonably possible contingent liabilities as of September 30, 2024 and 2023:

Figure 2 — 24: Commitments and Contingencies as of September 30, 2024

Legal Contingencies	Accrued Liabilities	Lower End	Upper End
Probable	13,000	-	-
Reasonably Possible	-	13,000	22,400,000
Total Contingencies	**$13,000**	**$13,000**	**$22,400,000**

Figure 2 — 25: Commitments and Contingencies as of September 30, 2023

Legal Contingencies	Accrued Liabilities	Lower End	Upper End
Probable	216,200	-	-
Reasonably Possible	-	13,000	22,400,000
Total Contingencies	**$216,200**	**$13,000**	**$22,400,000**

NOTE 16. DISCLOSURES RELATED TO THE STATEMENTS OF NET COST

Department of Defense
Assistant Secretary of Defense (Health Affairs) - Defense Health Program
Disclosures Related to the Statements of Net Cost (Unaudited)
As of September 30, 2024 and 2023
(dollars in thousands)

Figure 2 — 26: Costs and Exchange Revenue by Appropriation Category

Program Costs and Exchange Revenue by Appropriation Category	Q4 2024	Q4 2023
Operations, Readiness, & Support		
Gross Costs	50,307,360	41,236,253
Less: Earned Revenue	(4,222,143)	(4,084,737)
Losses/(Gains) from Adjustments due to changes in Actuarial Assumptions	36,772,454	17,844,389
Net Program Cost	$82,858,671	$54,995,905
Procurement		
Gross Cost	451,780	716,634
Less: Earned Revenue	(906)	(411)
Net Program Cost	$450,874	$716,223
Research, Development, Test, & Evaluation		
Gross Cost	3,023,887	2,506,739
Less: Earned Revenue	(111,333)	(41,871)
Net Program Cost	$2,912,554	$2,464,868
Family Housing & Military Construction		
Gross Cost	(111,935)	204,613
Net Program Cost	$(111,935)	$204,613
Total Gross Cost	**$53,671,092**	**$44,664,239**
Less: Total Earned Revenue	**$(4,334,382)**	**$(4,127,019)**
Changes for Military Retirement Benefits	**36,772,454**	**17,844,389**
Net Cost of Operations	**$86,109,164**	**$58,381,609**

The $111.9 million abnormal balance for the Family Housing and Military Construction Gross Cost line is driven by a timing issue in which Naval Facilities Engineering Systems Command (NAVFAC) is not able to capitalize expenses in the same period in which the expenses are incurred. Due to NAVFAC's transition to Navy ERP, it is currently unable to align expenses with construction in progress projects in a timely fashion. This often results in expenses incurred drastically exceeding capitalization or capitalization drastically exceeding expenses incurred in a given fiscal year.

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

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

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

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

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

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

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

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

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

In FY 2024, ASD(HA)-DHP made a change in accounting principle converting Stockpile Materials to OM&S HFFU. As a result, ASD(HA)-DHP recorded a $52.4 million prior period adjustment, increasing the FY 2024 Inventory and Related Property beginning balance. The offset was to the USSGL for Prior Period Adjustments Due to Changes in Accounting Principles impacting the Cumulative Results of Operations, Beginning Balances, as Adjusted line. The adjustment was made in accordance with SFFAS 21 and SFFAS 48.

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

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

Disclosures related to the SBR consisted of the following as of September 30, 2024 and 2023:

ASD(HA)-DHP does not have available borrowing and contract authority at the end of the period.

Undelivered Orders at End of the Period: UDOs consist of goods and services obligated that have been ordered but not received. Unpaid UDOs represent obligations for goods and services that have not been received or paid. Paid UDOs represent obligations for goods and services that have been paid for in advance of receipt. The budgetary resources obligated for UDOs as of September 30, 2024 and 2023 consisted of:

Figure 2 — 27: Undelivered Orders

Undelivered Orders	Q4 2024	Q4 2023
Intragovernmental		
Undelivered Orders – Unpaid	3,403,409	3.390,977
Total Intragovernmental Undelivered Orders	3,403,409	3,390,977
Other than Intragovernmental/With the Public		
Undelivered Orders – Unpaid	12,066,633	12,387,423
Undelivered Orders – Paid	4,492	18,138
Total Undelivered Orders Other than Intragovernmental/With the Public	12,071,125	12,405,561
Total Undelivered Orders	**$15,474,534**	**$15,796,538**

For purposes of the above table, the breakout of the total Budgetary Resources Obligated for Undelivered Orders at the End of the Period are estimated allocations between Intragovernmental and Non-Federal and between Unpaid and Prepaid/Advanced.

Legal Arrangements Affecting the Use of Unobligated Balances

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

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

Difference Between Prior Year Ending Unobligated Balance and Current Year Beginning Balance

The beginning balance of Unobligated Balance reported on the FY 2024 SBR Line 1071 of $6.4 billion is different than the ending balance of $4.8 billion reported on the FY2023 SBR Line 2490. This is mainly from increases caused by downward adjustments of $2.6 billion offset by $1.0 billion decrease caused by cancelling year authority and prior year transfers.

BUDGET OF THE U.S. GOVERNMENT

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

The reconciliation between the Combined SBR and the Budget of the U.S. Government (Budget) is presented below. The U.S. Government Budget amounts used in the reconciliation below represents the FY 2023 balances. The budget with FY 2024 actual values and will be available at a later date at [President's Budget | OMB | The White House]

Figure 2 — 28: Budget of the U.S Government as of September 30, 2023

Disclosures Related to the Combined Statements of Budgetary Resources	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays, Net
Combined Statements of Budgetary Resources	49,380,562	44,572,079	-	37,881,747
Shared Appropriations with Others included in the SBR but excluded from DHP direct appropriations presented in the President's Budget	(1,203,048)	(552,552)	-	(446,162)
Unobligated Balance brought forward from prior year included in the SBR but not included in the President's Budget	(1,529,115)	-	-	-
Other	(572,399)	473	-	415
Budget of the U.S. Government	**$46,076,000**	**$44,020,000**		**$37,436,000**

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

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

NOTE 19. RECONCILIATION OF NET COST TO NET OUTLAYS

SFFAS 53 requires a reconciliation of net outlays on a budgetary basis to its net cost of operations (reported on an accrual basis) during the reporting period. Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position, so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting. The analysis below illustrates this reconciliation by listing the key differences between net cost and net outlays. The Reconciliation of Net Cost to Net Outlays explains how budgetary resources outlaid during the period relate to the net cost of operations for ASD(HA)-DHP.

The schedule was updated based on the OUSD's working group with DoD stakeholders for both FY 2024 and FY 2023. This reclassification yields a net-zero impact on Net Outlays reported in the note schedules.

Net Cost of Operations

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

Components of net outlays that are not part of net cost: are primarily amounts provided in the current reporting period that fund costs incurred in prior years and amounts incurred for goods or services that have been capitalized on the Balance Sheet (e.g., plant, property, and equipment acquisition and inventory acquisition). Due to ASD(HA)-DHP's financial system limitations, budgetary resources obligated during the period could not be reconciled to ASD(HA)-DHP's Net Cost of Operations. The difference is a previously identified deficiency.

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

Reconciling Difference: Represents the difference between the amount of net outlays as calculated by the Budget and Accrual Reconciliation presented above and Line 4210 of ASD(HA)-DHP's SBR. For FY 2024 an unreconciled difference of $54.1 million exists due to a $52.4 million prior period adjustment related to a change in accounting principle in reclassifying stockpile materials to OM&S HFFU. For FY 2023, there is no unreconciled difference.

Figure 2 — 29: Reconciliation of Net Cost to Net Outlays as of September 30, 2024
(dollars in thousands)

	Intragovernmental	With the Public	Total
Net Operating Cost	**5,941,628**	**80,167,536**	**86,109,164**
Components of Net Operating Cost not part of the Budgetary Outlays			
Property, plant, and equipment depreciation expense	-	(309,097)	(309,097)
Property, plant, and equipment disposals and revaluations	(45,930)	(48,243)	(94,173)
Inventory disposals and revaluations	-	(52,352)	(52,352)
Applied overhead / cost capitalization offset			
a. Inventory and related property	-	8,113	8,113
b. Property, plant, and equipment	-	783,639	783,639
Increase / (Decrease) in Assets not affecting Budgetary Outlays			
Accounts Receivable, Net	119,698	(76,521)	43,177
Advances and Prepayments	-	(13,646)	(13,646)
Other Assets	-	974	974
(Increase) / Decrease in Liabilities not affecting Budgetary Outlays			
Accounts Payable	(127,102)	(223,700)	(350,802)
Federal employee salary, leave, and benefits payable	-	(58,035)	(58,035)
Veterans, pensions, and post employment-related benefits	-	(46,318,553)	(46,318,553)
Advances from Others and Deferred Revenue	(277)	2,567	2,290
Other Liabilities	(10,691)	201,100	190,409
Financing Sources			
Imputed cost	(713,007)	-	(713,007)
Total Components of Net Operating Cost Not Part of the Budgetary Outlays	**$(777,310)**	**$(46,103,754)**	**$(46,881,064)**
Components of Budgetary Outlays not part of Net Operating Cost			
Acquisition of capital assets	-	512	512
Donated Revenue	-	(873)	(873)
Financing Sources			
Transfers out (in) without reimbursements	45,930	-	45,930
Total Components of Net Operating Cost Not Part of the Budgetary Outlays	**$45,930**	**$(361)**	**$45,569**
Miscellaneous Reconciling Items			
Custodial / Non-exchange Revenue	-	(2,476)	(2,476)
Total Other Reconciling Items	**$**	**$(2,476)**	**$(2,476)**
Total Net Outlays (Calculated Total)	**$5,210,248**	**$34,060,945**	**$39,271,193**
Budgetary Agency Outlays, Net, (SBR 4210)			**$39,325,297**
Unreconciled Difference			**$(54,102)**

Figure 2 — 30: Reconciliation of Net Cost to Net Outlays as of September 30, 2023
(dollars in thousands)

	Intragovernmental	With the Public	Total
Net Operating Cost	**1,077,588**	**57,304,021**	**58,381,609**
Components of Net Operating Cost not part of the Budgetary Outlays			
Property, plant, and equipment depreciation expense	-	(93,706)	(93,706)
Property, plant, and equipment disposals and revaluations	-	(1,181)	(1,181)
Applied overhead / cost capitalization offset			
a. Inventory and related property	-	12,020	12,020
b. Property, plant, and equipment	-	(559,046)	(559,046)
Increase / (Decrease) in Assets not affecting Budgetary Outlays			
Accounts Receivable, Net	(62,749)	100,097	37,348
Advances and Prepayments	-	4,437	4,437
Other Assets	-	36	36
(Increase) / Decrease in Liabilities not affecting Budgetary Outlays			
Accounts Payable	(90,919)	135,349	44,430
Environmental and disposal liabilities	-	4,457	4,457
Federal employee salary, leave, and benefits payable	-	99,951	99,951
Veterans, pensions, and post employment-related benefits	-	(20,494,585)	(20,494,585)
Advances from Others and Deferred Revenue	(874)	(16,307)	(17,181)
Other Liabilities	11,286	(214,543)	(203,257)
Financing Sources			
Imputed cost	(377,685)	-	(377,685)
Total Components of Net Operating Cost Not Part of the Budgetary Outlays	**$ (520,940)**	**$ (21,023,022)**	**$(21,543,961)**
Components of Budgetary Outlays not part of Net Operating Cost			
Financing Sources			
Transfers out (in) without reimbursements	1,062,238	-	1,062,238
Total Components of Net Outlays That are not Part of Net Cost	**$1,062,238**		**$ 1,062,238**
Miscellaneous Reconciling Items			
Custodial / Non-exchange Revenue	-	(24,271)	(24,271)
Other Temporary Timing Differences	241	5,892	6,133
Total Other Reconciling Items	**$ 241**	**$(18,380)**	**$ (18,139)**
Total Net Outlays (Calculated Total)	**$1,619,127**	**$36,262,619**	**$37,881,747**
Budgetary Agency Outlays, Net, (SBR 4210)			**$37,881,747**
Unreconciled Difference			**$**

NOTE 20. PUBLIC-PRIVATE PARTNERSHIP

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

NOTE 21. DISCLOSURE ENTITIES AND RELATED PARTIES

ASD(HA)-DHP has implemented SFFAS 47. This standard defines the federal reporting entity as inclusive of the consolidation entity, disclosure entities, and related parties. ASD(HA)-DHP consolidation entity includes accounts administratively assigned by the OMB to ASD(HA)-DHP in the Budget of the U.S. Government. ASD(HA)-DHP consolidation entity did not change as a result of SFFAS 47 implementation. Consolidation accounts reported in FY 2023 are consistent with accounts reported within ASD(HA)-DHP's financial statements for FY 2024. ASD(HA)-DHP also has disclosure entities which are similar to consolidation entities, however they have a greater degree of autonomy with the federal government than a consolidation entity.

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

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

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

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

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

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

DoD Acquisition Workforce Development Fund, Transfer Account

DAWDF was established under Section 1705 of Title 10 of the US Code. The law requires that not more than 30 days after the end of the first quarter of each FY, the head of each Military Department and Defense Agency shall remit to the SECDEF, from amounts available to such Military Department or Defense Agency, as the case may be, for contract services for O&M, an amount equal to the applicable percentage for such FY. This amount may be adjusted by the SECDEF. ASD(HA)-DHP transfers money to this fund as mandated by federal law but has no other control.

The purpose of the DAWDF is to ensure the DoD acquisition workforce has the capacity, in both personnel and skills, needed to (1) properly perform its mission; (2) provide appropriate oversight of contractor performance; and (3) ensure that the Department receives the best value for the expenditure of public resources. Given that the components of ASD(HA)-DHP makes use of DoD acquisition personnel, their transfer of funds in support of this program provides them with these same potential benefits as well.

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

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

Global Health Programs, State

The DoD's global health engagement efforts are part of a whole-of-government approach, conducted in close coordination with other U.S. Government agencies, including the Department of State, Department of Health and Human Services, Department an annual basis but has no other elements of control.

Global HIV/AIDS Initiative, Transfer Account

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

Defensive Institute for Medical Operations

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

Fisher House Foundation

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

Federally Funded Research and Development Centers (FFRDCs)

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

- Research and Development Laboratories,
- Systems Engineering and Integration Centers, and
- Study and Analysis Centers.

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

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

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

James Lovell Federal Health Center

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

Medicare-Eligible Retiree Health Care Fund

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

NOTE 22. SUBSEQUENT EVENTS

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

REQUIRED SUPPLEMENTARY INFORMATION

This section provides the deferred maintenance and repairs (DM&R) disclosures for ASD(HA)-DHP, required in accordance with SFFAS 42, Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29, and 32, and the Combined SBR.

Deferred Maintenance and Repairs

DM&R are maintenance and repairs that were delayed for a future period. ASD(HA)-DHP tracks and reports DM&R of its PP&E in accordance with SFFAS 42, Deferred Maintenance and Repairs. DM&R relate solely to capitalized General and Right-to-Use PP&E and stewardship PP&E. Since DHA is not a land holding Agency, DHA does not report real property & General and Right-to-Use PP&E to DoD. All Real Property reporting is done through the Military Departments. DHA Facilities Enterprise provides DM&R statistics to inform the Command of the requisite ASD(HA)-DHP sustainment restoration and modernization funds necessary to keep DHA assets safe and able to support DHA's medical mission.

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

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

While BUILDER is the primary predictive modeling tool used, it is not the sole decision-making tool for DM&R funding decisions. Changes in mission (new or rescinded services), budgetary reductions, emerging threats (COVID), and operational issues (beneficiary changes that effect staffing), are several of the considerations that go into which DM&R corrective actions are completed. The BUILDER program was chosen by the DoD because its condition standards, related assessment methods, and reporting formats are consistently applied across the DoD inventory. BUILDER uses standards and policies to predict and track work items (Sections / Equipment) that are nearing or have passed the end of their useful life. Please refer to Interim Procedures Memorandum 19-005, BUILDER Sustainment Management System (SMS) June 18, 2019, Para. 3.e-j for a full description of standards and procedures development, annual work plan development, and AWI remediation.

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

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

DHA operates over 2,891 facilities throughout the world and includes 135 historical buildings. Most of the facilities are predominantly used to support the MHS mission for healthcare delivery.

Figure 2 — 31: DHP Structures Assets as of September 30, 2024

	Count	Historical	Non-Historical
DHP Assets (4th Qtr)	2,891	135	2,756

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

Facility Categories defined:

Category 1: Buildings, Structures, and Linear Structures that are enduring and required to support an ongoing mission
Category 2: Buildings, Structures, and Linear Structures (Excess Facilities or Planned for Replacement)
Category 3: Buildings, Structures, and Liner Structures that are Heritage assets (historical, cultural, or architectural)

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

Figure 2 — 32: ASD(HA)-DHP Deferred Maintenance as of September 30, 2024
(dollars in thousands)

	UNAUDITED FY2024 Q4		
Property Type	**Plant Replacement Value**	**Required Work (Deferred Maintenance & Repair)**	**Percentage**
Category 1	54,458	9,491	17%
Category 2 (Excluded)	-	-	-
Category 3	4,593	1,314	29%
Total	**$59,051**	**$10,805**	**18%**

Figure 2 — 33: ASD(HA)-DHP Deferred Maintenance as of September 30, 2023
(dollars in thousands)

	UNAUDITED FY2023 Q4		
Property Type	**Plant Replacement Value**	**Required Work (Deferred Maintenance & Repair)**	**Percentage**
Category 1	53,640	5,638	11%
Category 2 (Excluded)	-	-	-
Category 3	4,376	868	20%
Total	**$58,016**	**$6,506**	**11.2%**

Calculating Deferred Maintenance and Repairs

To facilitate DM&R reporting, the DoD mandates the use of the BUILDER program for all Condition and Facility Condition Index (FCI) reporting effective September 10, 2013. The ASD(HA) directed the implementation of the BUILDER program in a memo dated January 10, 2014 and charged the DHA Facility Director with the responsibility of completing the implementation.

FCI is the primary metric used by DHP to measure/score the condition of real property and is calculated as shown in Figure 2 — 34 below.

Figure 2 — 34: Metric for Calculating Deferred Maintenance and Repairs

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

The FCI formula numerators make up the total deferred Real Property Maintenance & Repair while the addition of a multiplication of 100 creates a scoring of 100 (good) to 0 (bad) ranking system for easy identification of each building's condition. Condition index formulas are outlined in both the Federal Real Property Council Inventory and Reporting requirements (2013) and in the updated Federal Real Property Council Data Dictionary (2024).

Maintenance and Repair Acceptable Condition Standards and Prioritization

Acceptable Condition Standards

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

UNIFORMAT is the accepted standard used for classifying building specifications, cost estimating, and cost analysis in the US and Canada. This standard adheres to the American Society for Testing and Materials 1557 Building Standards and was developed by the General Service Administration and the American Institute of Architects in 1972.

The current “Standard” is measured by RSL, that assumes, all sustainment activities have occurred during the equipment’s life and that the equipment has not failed early, and that the reliability of the equipment is diminished enough that the equipment should be replaced (Restored).

UNIFORMAT types are common to all facilities regardless of real property categories and Figure 2 — 35 provides clarification. DHP Sustainment Restoration and Modernization (SMR) funding is used on all UNIFORMATs.

Figure 2 — 35: DHA UNIFORMAT Facilities Classification Type

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

Maintenance and Repair Prioritization

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

UNIFORMATs with long service lives do not trigger replacement work items until they are near the end of their useful life – two years. For example, foundations have a useful life of between 70 & 120 years and applying the policy would not generate a replacement work item until the foundation was 68 or 118 years old.

UNIFORMATs with shorter service lives, but that carry a greater risk should the equipment fail, generate a replacement work item three years before the end of their useful life. This includes super structures such as doors and windows.

UNIFORMATs with shorter service lives, but that carry a severe risk should the equipment fail, generate a replacement work item four years before the end of their useful life. This includes a cross-section of UNIFORMAT types such as fire protection systems, boilers and chillers, and roofs.

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

Significant Changes in Deferred Maintenance and Repair

FY 2024: DHA-Facility Enterprise (DHA-FE) used SMS-BUILDER to generate the annual Work Item Work Plan (previously the Annual Work Plan). This initially reflected in a higher count of work items and the resultant increase in DM&R. Throughout the year, the asset inventory was adjusted based on the latest quarterly Real Property Report (usually two quarters in arrears). Additionally, work statuses were updated along with remediation and validation of the Work Item Work Plan. The Annual FY 2024 RSMeans cost data update increased the average work item cost by approximately 6 percent, and the traditional 1.65 percent inflation factor for working in occupied healthcare was increased to 2.5 percent. Both of these factors combined led to an increase of the DM&R reported at year-end from $6.5B in FY 2023, to $10.8B in FY 2024.

FY 2023: DHA-FE completed its effort to bring the legacy services' BUILDER data into conformance with the DHA SMS-BUILDER Reference Guide using the BUILDER Data Realignment contract. Realignment efforts continued throughout FY 2023. The annual Work plan was completed at the end of the 1st quarter with changes incorporated into the audit. The cost book was updated in the 2nd quarter. Significant changes in the number of assets occurred in the 2nd quarter due to the release of the DHA Real Property SOP and the publishing of the updated SRM guidance. The combination of these changes combined produced increases in Inventory and DM&R. Asset Plant Replacement Values were updated in the 3rd quarter using version 25.2 of the DoD FY 2023 Facility Sustainment Model.

C

Combining Statements of Budgetary Resources

Department of Defense
Assistant Secretary of Defense (Health Affairs) - Defense Health Program
Combining Statements of Budgetary Resources (Unaudited)
As of September 30, 2024
(dollars in thousands)

Figure 2 — 36: Combining Statements of Budgetary Resources for September 30, 2024

	Operations, Readiness & Support	Procurement	Research, Development, Test & Evaluation	Family Housing and Military Construction	Combined Totals
Budgetary Resources					
Unobligated Balance from Prior Year Budget Authority, Net (discretionary and mandatory)	2,153,230	442,076	2,827,845	1,009,245	6,432,396
Appropriations (discretionary and mandatory)	36,429,056	381,881	2,872,871	517,483	40,201,291
Spending Authority from Offsetting Collections (discretionary and mandatory)	4,442,829	4,273	178,395	-	4,625,497
Total Budgetary Resources	**$43,025,115**	**$828,230**	**$5,879,111**	**$1,526,728**	**$51,259,184**
Status of Budgetary Resources					
New Obligations and Upward Adjustments (total)	41,612,582	504,091	3,599,613	630,478	46,346,764
Unobligated Balance, End of Year					
Apportioned, Unexpired Accounts	76,930	264,351	2,128,831	855,721	3,325,833
Unapportioned, Unexpired Accounts	-	-	441	-	441
Unexpired Unobligated Balance	76,930	264,351	2,129,272	855,721	3,326,274
Expired Unobligated Balance	1,335,603	59,788	150,226	40,529	1,586,146
Unobligated Balance, End of Year (total)	1,412,533	324,139	2,279,498	896,250	4,912,420
Total Budgetary Resources	**$43,025,115**	**$828,230**	**$5,879,111**	**$1,526,728**	**$51,259,184**
Outlays, Net					
Outlays, Net (total) (discretionary and mandatory)	35,571,954	434,301	2,890,905	428,137	39,325,297
Agency Outlays, Net (discretionary and mandatory)	**$35,571,954**	**$434,301**	**$2,890,905**	**$428,137**	**$39,325,297**

C

Combining Statements of Budgetary Resources

Department of Defense
Assistant Secretary of Defense (Health Affairs) - Defense Health Program
Combining Statements of Budgetary Resources (Unaudited)
As of September 30, 2024
(dollars in thousands)

Figure 2 — 37: Combining Statements of Budgetary Resources for September 30, 2023

	Operations, Readiness & Support	Procurement	Research, Development, Test & Evaluation	Family Housing and Military Construction	Combined Totals
Budgetary Resources					
Unobligated Balance from Prior Year Budget Authority, Net (discretionary and mandatory)	1,858,911	404,610	2,606,594	632,811	5,502,926
Appropriations (discretionary and mandatory)	35,539,218	461,741	3,037,441	570,237	39,608,637
Spending Authority from Offsetting Collections (discretionary and mandatory)	4,129,480	24,028	115,491	-	4.268,999
Total Budgetary Resources	**$41,527,609**	**$ 890,379**	**$5,759,526**	**$1,203,048**	**$49,380,562**
Status of Budgetary Resources					
New Obligations and Upward Adjustments (total)	40,281,084	498,912	3,239,531	552,552	44,572,079
Unobligated Balance, End of Year					
Apportioned, Unexpired Accounts	196,296	336,255	2,338,468	548,200	3,419,219
Unexpired Unobligated Balance	196,296	336,255	2,338,468	548,200	3,419,219
Expired Unobligated Balance	1,050,229	55,212	181,527	102,296	1,389,264
Unobligated Balance, End of Year (total)	1,246,525	391,467	2,519,995	650,496	4,808,483
Total Budgetary Resources	**$ 41,527,609**	**$ 890,379**	**$5,759,526**	**$1,203,048**	**$49,380,562**
Outlays, Net					
Outlays, Net (total) (discretionary and mandatory)	34,281,541	685,872	2,468,172	446,162	37,881,747
Agency Outlays, Net (discretionary and mandatory)	**$34,281,541**	**$685,872**	**$2,468,172**	**$446,162**	**$37,881,747**

Office of Inspector General Transmittal

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

November 8, 2024

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

SUBJECT: Transmittal of the Independent Auditor's Reports on the Defense Health Program Financial Statements and Related Notes for FY 2024 and FY 2023 (Project No. D2024-D000FT-0061.000, Report No. DODIG-2025-034)

We contracted with the independent public accounting firm of Kearney & Company, P.C. (Kearney) to audit the Defense Health Program (DHP) Financial Statements and related notes as of and for the fiscal years ended September 30, 2024, and 2023. The contract required Kearney to provide a report on internal control over financial reporting and compliance with provisions of applicable laws and regulations, contracts, and grant agreements, and to report on whether the DHP's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract required Kearney to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," Volume 1, June 2024; Volume 2, June 2024; and Volume 3, July 2024. Kearney's Independent Auditor's Reports are attached.

Kearney's audit resulted in a disclaimer of opinion. Kearney could not obtain sufficient, appropriate audit evidence to support the reported amounts within the DHP Financial Statements. As a result, Kearney could not conclude whether the financial statements and related notes were presented fairly and in accordance with Generally Accepted Accounting Principles. Accordingly, Kearney did not express an opinion on the DHP FY 2024 and FY 2023 Financial Statements and related notes.

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

- meet the standards for an effective internal control system;
- establish effective policies or procedures for the review and approval of accounting adjustments;
- fully reconcile Fund Balance with Treasury;
- account for revenue or Accounts Receivable for medical services provided in the military treatment facilities in a consistent manner, or implement effective medical coding procedures to ensure the accuracy of medical coding applied to health care encounters;
- accurately value Property, Plant, and Equipment;
- sufficiently account for its liabilities and related expenses; or
- implement sufficient controls to properly monitor and account for the validity, accuracy, and completeness of Undelivered Orders transactions.

Kearney's additional report, "Independent Auditor's Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements," discusses two instances of noncompliance with provisions of applicable laws and regulations, contracts, and grant agreements. Specifically, Kearney's report concluded that the DHP did not comply with the Federal Managers' Financial Integrity Act of 1982 and the Federal Financial Management Improvement Act of 1996. In addition, the report discusses potential violations of the Antideficiency Act and discusses an increased risk of noncompliance with the Debt Collection Improvement Act of 1996.

In connection with the contract, we reviewed Kearney's reports and related documentation and discussed them with Kearney's representatives. Our review, as differentiated from an audit of the financial statements and related notes in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the DHP FY 2024 and FY 2023 Financial Statements and related notes.

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

Furthermore, we do not express conclusions on the effectiveness of internal controls over financial reporting, on whether the DHP's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with provisions of applicable laws and regulations, contracts, and grant agreements. Our review disclosed no instances where Kearney did not comply, in all material respects, with GAGAS. Kearney is responsible for the attached November 8, 2024 reports and the conclusions expressed within the reports.

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

FOR THE INSPECTOR GENERAL:

Lorin T. Venable

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

Attachments:
As stated

Independent Auditor's Report

KEARNEY& COMPANY

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of Financial Statements

Disclaimer of Opinion

We were engaged to audit the consolidated financial statements of the Defense Health Program (DHP), which comprise the consolidated Balance Sheets as of September 30, 2024 and 2023, the related consolidated Statements of Net Cost and Changes in Net Position, and the combined Statements of Budgetary Resources (hereinafter referred to as the "financial statements") for the years then ended, and the related notes to the consolidated financial statements.

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

Basis for Disclaimer of Opinion

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

- Accrual accounting requirements per Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities*, and SFFAS No. 5, *Accounting for Liabilities of the Federal Government*
- Liability requirements set forth in SFFAS No. 5
- Recognition and valuation requirements set forth in SFFAS No. 6, *Accounting for Property, Plant, and Equipment*
- Lease classification and reporting requirements set forth in SFFAS No. 54, *Leases*, as amended by SFFAS No. 62, *Transition Amendment to SFFAS 54*

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- Revenue recognition requirements set forth in SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*
- Recognition and valuation requirements set forth in SFFAS No. 10, *Accounting for Internal Use Software*
- Accounting and reporting requirements associated with SFFAS No. 31, *Fiduciary Activities*
- The full cost provisions of SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts*, as amended by SFFAS No. 55, *Amending Inter-Entity Cost Provisions*
- Recognition and valuation requirements set forth in SFFAS No. 44, *Accounting for Impairment of General Property, Plant and Equipment Remaining in Use*.

We were unable to obtain sufficient appropriate evidential matter as to the completeness and accuracy of the financial statements reported as of September 30, 2024. This includes $21.5 billion of Fund Balance with Treasury (FBWT), $1.5 billion of Accounts Payable (AP) ($309 million Federal and $1.2 billion Non-Federal), and $29 million in Advances from Others and Deferred Revenue ($1.4 million Federal and $27.6 million Non-Federal) on the Balance Sheet.

We were unable to obtain sufficient appropriate evidential matter to enable us to perform audit procedures to support the completeness and accuracy of the financial statements in accordance with accounting principles generally accepted in the United States of America and Department of the Treasury (Treasury) Standard General Ledger (SGL) reporting requirements. The DHP and its financial reporting service organization are unable to support, and do not have underlying transaction-level data available for, material adjustments recorded during the financial statement compilation process.

We were unable to obtain sufficient appropriate evidential matter to enable us to perform audit procedures to satisfy ourselves that the Property, Plant, and Equipment (PP&E) opening balances as of October 1, 2023 or ending balances as of September 30, 2024 were free of material misstatements. Our work identified issues related to the existence, completeness, accuracy, and disclosure of PP&E. As of September 30, 2024, the DHP reported $3.9 billion in net PP&E on its Balance Sheet.

We were unable to obtain sufficient appropriate evidential matter as to the existence, completeness, and accuracy of revenue and associated Accounts Receivable (AR). The DHP does not account for all revenue and AR transactions using the accrual basis of accounting, recording certain activity on the cash basis of accounting. As of September 30, 2024, the DHP reported $827.4 million of AR ($145.4 million Federal and $682 million Non-Federal), net on its Balance Sheet and $4.3 billion of earned revenue on its Statement of Net Cost.

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We were unable to obtain sufficient appropriate evidential matter to support the existence, completeness, and accuracy of Gross Costs. For the period ended September 30, 2024, the DHP reported $53.7 billion in Gross Costs on its Statement of Net Cost.

We were unable to obtain sufficient appropriate evidential matter to support the existence, completeness, and accuracy of Unobligated balance from prior-year budget authority, net. As of September 30, 2024, the DHP reported $6.4 billion of Unobligated balance from prior-year budget authority, net on its Statement of Budgetary Resources.

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

Emphasis of Matter

Adoption of Accounting Standard

As discussed in Note 1 to the financial statements, the DHP adopted a new accounting standard in fiscal year 2024 for establishing opening balances for Inventory and Related Property (I&RP), complying with the Federal Accounting Standards Advisory Board's (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*. The DHP's reported balance of $326.7 million in I&RP as of September 30, 2024 reflects the application of alternative methods permitted by FASAB in establishing opening balances. The DHP's adoption of SFFAS No. 48 also impacts Note 6, *Inventory and Related Property*. Our disclaimer of opinion is not modified with respect to this matter.

Other Matter

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

Effective for periods beginning after September 30, 2016, FASAB released SFFAS No. 50, *Establishing Opening Balances for General Property, Plant, and Equipment*, which allows a reporting entity, under specific conditions, to apply alternative methods in establishing opening balances for its PP&E. As of September 30, 2024, the DHP's implementation of SFFAS No. 50 remained in process. We planned and performed our audit procedures over PP&E opening balances accordingly.

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Responsibilities of Management for the Financial Statements

Management is responsible for: 1) the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; 2) the preparation, measurement, and presentation of required supplementary information (RSI) in accordance with U.S. generally accepted accounting principles; 3) the preparation and presentation of other information included in the DHP's Agency Financial Report, as well as ensuring the consistency of that information with the audited financial statements and the RSI; and 4) the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the DHP's financial statements in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*, and to issue an auditor's report. However, because of the matters described in the ***Basis for Disclaimer of Opinion*** section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements. We are required to be independent of the DHP and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit.

Required Supplementary Information

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

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 24-02, we have also issued reports, dated November 8, 2024, on our consideration of the DHP's internal control over financial reporting and on our tests of the DHP's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements, as well as other matters for the year ended September 30, 2024. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance and other matters. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 24-02 and should be considered in assessing the results of our audit.

Kearney & Company

Alexandria, Virginia
November 8, 2024

KEARNEY& COMPANY

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*, the financial statements and the related notes to the financial statements of the Defense Health Program (DHP) as of and for the year ended September 30, 2024, which collectively comprise the DHP's financial statements, and we have issued our report thereon dated November 8, 2024. Our report disclaims an opinion on such financial statements because we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. The DHP also asserted to departures from Generally Accepted Accounting Principles.

Report on Internal Control over Financial Reporting

In planning and performing our engagement to audit the financial statements, we considered the DHP's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the DHP's internal control. Accordingly, we do not express an opinion on the effectiveness of the DHP's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 24-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying **Schedule of Findings**, we identified certain deficiencies in internal control that we consider to be material weaknesses, as well as a significant deficiency.

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. We consider the deficiencies in the DHP's internal

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control, as described in the accompanying **Schedule of Findings** as Items I – VII, to be material weaknesses.

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. We consider the deficiency in the DHP's internal control, as described in the accompanying **Schedule of Findings** as Item VIII, to be a significant deficiency.

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

The Defense Health Program's Response to Findings

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

Purpose of this Report

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

Kearney & Company

Alexandria, Virginia
November 8, 2024

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Schedule of Findings

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

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

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

Exhibit 1: Material Weaknesses Identified

Accounting Area	Material Weakness
Entity-Level Controls	I. Entity-Level Controls
Financial Reporting	II. Financial Reporting Journal Vouchers and Adjustments
Fund Balance with Treasury	III. Fund Balance with Treasury
Accounts Receivable	IV. Medical Revenue and Associated Receivables
Property, Plant, and Equipment	V. Property, Plant, and Equipment
Accounts Payable and Related Liabilities	VI. Liabilities and Related Expenses
Budgetary Resources	VII. Monitoring and Reporting of Obligations and Adjustments

Our audit engagement also identified one significant deficiency associated with the DHP's information systems environment.

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Material Weaknesses

I. Entity-Level Controls (*Repeat Condition*)

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

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

Condition: The DHP did not meet the standards for an effective internal control system, as defined in GAO's Green Book. Entity-level internal control design failures exist across three components of internal control (i.e., control activities, information and communication, and monitoring).

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

The DHP was unable to provide assurance that internal controls over operations, reporting, and compliance are operating effectively across the Enterprise for fiscal year (FY) 2024 in accordance with OMB Circular A-123, GAO's Green Book, and FMFIA. Additionally, the DHP is unable to provide assurance that the internal controls over the financial systems are in compliance with FMFIA, Section 4; the Federal Financial Management Improvement Act of 1996 (FFMIA), Section 803; and OMB Circular A-123, Appendix D.

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

The ongoing implementation of the DHP's RMIC Program has resulted in internal control deficiencies across various accounting and financial reporting areas. The DHP has developed

Corrective Action Plans (CAP) and is performing remediation activities to address noted control gaps, design failures, and/or controls that are not operating effectively.

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

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

Additionally, incomplete internal control documentation impedes the DHP's ability to monitor the design, implementation, and operating effectiveness of its control environment over time.

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

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

1. Conduct periodic review of changes that occur within the DHP and review policies, procedures, and related control activities to mitigate risk of control gaps to ensure the controls are effectively designed and implemented.
2. Evaluate both internal and external sources of data for reliability to be used for monitoring controls and control gaps throughout the DHP.
3. Continue to design and implement appropriate types of control activities, including, but not limited to, the DHP's IS environment.
4. Based on approved procedures, evaluate the operating effectiveness of each ELC that has been determined to be effectively designed and implemented; this may require sample-based test procedures to confirm operating effectiveness.
5. Establish a mechanism to ensure adequate review and finalization of business process narratives. In addition to helping ensure stakeholders continue to document business processes completely and identify internal control activities accurately, the Defense Health Agency (DHA) RMIC Team should retain any finalized documentation from subcomponents and markets to support review and understanding of current processes.

II. Financial Reporting Journal Vouchers and Adjustments (*Repeat Condition*)

Background: The DHP's service organization for financial reporting posts monthly journal voucher (JV) adjustments in the Defense Departmental Reporting System (DDRS) – Budgetary (B) and quarterly JV adjustments in DDRS – Audited Financial Statements (AFS). The financial reporting service organization self-classifies each DDRS-AFS and DDRS-B JV as either

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"supported" or "unsupported." The DHP, in coordination with its service organization, is responsible for ensuring all adjustments to its financial records contain adequate support and approvals.

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

On behalf of the DHP, its service organization prepares, preprocesses, and posts the Cash Management Report (CMR) to DDRS-B. The CMR feeder file is designed to quantify the difference between the DHP's general ledger (GL) records and the disbursement and collection data reported by the U.S. Department of the Treasury (Treasury). The temporary, monthly CMR adjustment records disbursement and collection activity to be reflected in the DHP's financial statements. Although the adjustment is now temporary, historical balances remain from legacy CMR processes in prior years that were not reversed or resolved. As a result, the impact of the CMR on the DHP's financial statements includes both current-year activity and historical balances.

Adjustments recorded for financial reporting purposes should be sufficiently and appropriately supported to meet the requirements prescribed by FFMIA to comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger (USSGL) at the transaction level.

Condition: The DHP's financial statements contain material JVs and adjustments. Unsupported adjustments, as self-classified by the DHP's service organization, were posted on behalf of DHA. During FY 2024, the DHP's service organization posted over 1,000 JVs on behalf of DHA in Quarter (Q) 1 and Q2, 11 of which were classified as unsupported. The review and approval of DDRS-B JV adjustments by DHA is not operating effectively. Testing identified instances where the DHP's service organization did not provide the DHP with the JV for review prior to the JV being posted.

The DHP's service organization records unsupported trading partner adjustments on behalf of the DHP to agree intra-governmental balances from DHP trading partners to balances reported on the DHP trial balance if differences are identified. These adjustments are in lieu of fully reconciling buyer/seller balances with these trading partners and recording appropriate adjustments in accordance with the Treasury Financial Manual (TFM).

The monthly CMR adjustment recorded in the DHP's financial statements to reconcile amounts between the Treasury and the DHP's GL systems is unsupported, as the reconciliation cannot be supported with source transactions.

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

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

The CMR feeder file consists of summary-level details at the Line of Accounting (LOA) level, representing a calculation of GL-reported balances compared to Treasury-reported balances, as Treasury does not report Fund Balance with Treasury (FBWT) below the Treasury Account Symbol (TAS) level. Accordingly, the CMR does not have a supported Universe of Transactions (UoT) to produce sufficient details for the purposes of tracking the recorded adjustments to source transactions representing true economic events (i.e., valid obligations, orders, collections, disbursements). The DHP, in coordination with its service organization, is currently in the process of working to support CMR feeder file adjustments within the Office of the Under Secretary of Defense (Comptroller)'s (OUSD[C]) Advancing Analytics (Advana) platform. However, the reconciliation process within Advana has not been effectively designed, implemented, or documented. In addition, resulting UoTs are not yet suitable for testing CMR feeder file adjustments.

Effect: As a result of the magnitude of unsupported JVs and other adjustments recorded during financial statement preparation, the DHP cannot attest to the accuracy, validity, and completeness of its financial statement balances impacted by such adjustments recorded during FY 2024.

The unsupported CMR adjustment impacts to the DHP financial statements as of March 31, 2024 included: $600 million in Total Assets as reported on the Balance Sheet, $300 million in Unexpended Appropriations on the Statement of Changes in Net Position (SCNP), and $700 million in Budgetary Resources on the Statement of Budgetary Resources (SBR).

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

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

1. Continue efforts to reduce the number and dollar amount of JVs recorded in DDRS by coordinating with DHP and GL system owners to migrate monthly and quarterly adjustments, such as collections and disbursements, budget, and accountable property system of record (APSR) adjustments, to the DHP GL systems which can accommodate USSGL reporting and transaction-level details.
2. Continue to perform semi-annual analyses of the DDRS-B JVs, DDRS-AFS JVs, and trial balance input adjustments (TBIA) to determine the nature of the adjustments. The DHP and its service organization should use the results of this analysis to identify the nature of the missing underlying support related to the unsupported adjustments. Upon completion of each analysis, the DHP and its service organization should develop and update a remediation plan by JV category to set a path forward for resolution.
3. Implement policies and procedures at the DHP Enterprise to ensure that the trading partner coordination and reconciliation process, as well as the process to review and approve adjustments and eliminations, are consistently applied.
4. Continue efforts at the DHA level to formalize policies and procedures to perform reconciliations for both buyer- and seller-side trading partner activity at the transaction level on a monthly basis and coordinate directly with trading partners to resolve differences.
5. Continue efforts to formalize policies and procedures requiring DHA to coordinate with its service organization and trading partners to review and adjust balances, as necessary, to reflect the actual amounts incurred and owed to trading partners based on the provision of goods and/or the receipt of services.
6. Research root causes for the historical balances representing a significant portion of the amounts reported within the CMR.
7. Identify and obtain source transactions that reconcile to the summary-level data reported by the CMR. Transactions should have sufficient detail to allow for traceability to source documents representing valid obligations, orders, disbursements, or collections.
8. Assess, evaluate, and revise business processes over recording, reconciling, and reporting collections and disbursements to better support balances reported on the CMR feeder file adjustment to DDRS and align with the DHP's GL.
9. Continue working with OUSD(C) to develop and implement an effective process within Advana to support CMR feeder file adjustments.

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

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

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All Treasury Index (TI)-97 Other Defense Organizations (ODO), including DHP Components, are assigned specific TASs and limits. TFM, Volume 1, Chapter 5100, *Fund Balance with Treasury Accounts*, requires the DHP to perform monthly reconciliations of its FBWT GL accounts to the balances recorded in Treasury's Central Accounting Reporting System (CARS). The DHP utilizes a service organization to perform monthly reconciliations, using the Advana FBWT WebApp module, between recorded amounts and those reported to Treasury at the TAS and limit level. The results of the reconciliation provide an output classified within four reconciliation tiers. Advana's Tier 3 FBWT reconciliation identifies unmatched disbursements and collections between Treasury reporting systems and the DHP's record systems that must be resolved timely to support the completeness and accuracy of the DHP's FBWT. Reconciling differences may require undistributed collection or disbursement adjustments to be recorded to bring the DHP's records into agreement with Treasury.

In addition to supporting FBWT reconciliations, the service organization processes collections and disbursements and reports the DHP's total expenditure activity to Treasury on behalf of the Enterprise. When reported transactions cannot be linked to a specific appropriation or reporting entity, they are placed into a DoD budget clearing (suspense) account for research and resolution.

Condition: The DHP and its service organizations have not designed, implemented, or documented an effective FBWT reconciliation process. The DHP does not have sufficient oversight of the ingestion of the DHP's FBWT source data into Advana, which is used to perform the DHP's FBWT reconciliation procedures. Specifically, the DHP's unmatched disbursements and collections are not resolved in a timely manner. The DHP, with its service organization, reported over 168,000 reconciling items associated with the DHP Enterprise, totaling $564.1 million net and $5.8 billion absolute, which were aged over 60 days.

The DHP's FBWT reconciliation process does not fully support undistributed adjustments recorded during the financial statement compilation process performed by its service organization. The DHP initially communicated that unsupported undistributed balances were recorded in standard GL accounts designated for undistributed activity (1010.0140 and 1010.0150) totaling $(150.4) million, net, and $3.6 billion, absolute, as of June 30, 2024. The DHP subsequently identified additional undistributed adjustments recorded in standard GL accounts designated for collections and disbursements activity (1010.0110 and 1010.0120) totaling $159.7 million, net, and $14.2 billion, absolute, as of June 30, 2024.

The DHP, in coordination with its service organization, has not implemented sufficient internal control activities to ensure the accuracy and completeness of the DHP's financial statements with respect to transactions recorded in suspense accounts that should be recognized in the DHP accounting records.

Cause: The DHP and its service organization have not fully designed, implemented, or documented FBWT monitoring, reporting, and reconciliation policies and procedures. The DHP and its service organization indicated that the migration and transition of the DHP's FBWT reconciliation processes, which utilized legacy ISs, to Advana in FY 2022 created challenges and delays in researching and resolving unmatched transactions, particularly those associated with

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the backlog of historical data. As of March 31, 2024, of the 168,000 unmatched transactions, more than 122,000 were attributed to systemic or logic issues in Advana, and more than 63,000 were attributable to FY 2021 and prior. While the DHP and its service organizations are in the process of resolving issues resulting from the migration and transition to Advana, they have not developed a timeline to estimate when unmatched transactions will be consistently resolved within the 60-day prescribed window.

A significant portion of the DHP's undistributed adjustments are attributable to historical undistributed reporting processes related to legacy reporting systems used that were previously under operational control of the Military Services. The DHP's undistributed adjustments reconciliation remediation efforts remain in process. The Advana FBWT reconciliation process and the related Undistributed Report have not been effectively designed, implemented, or documented to ensure that the underlying data sources support the undistributed adjustment.

Suspense UoTs are not available after quarter-end in a timely manner for financial reporting and often do not identify the responsible entity for each transaction. DoD suspense accounts continue to contain a high volume of collections and disbursements which require manual research and resolution. That manual research and resolution supports the production of the final UoTs. Additionally, at the time of UoT availability, there is historically a significant volume of transactions, for a material dollar amount, in suspense that have not been matched to an entity and are listed in the UoTs as "to be determined" (TBD). While efforts continue to identify root causes of suspense transactions to reduce balances and clear transactions to DoD entities timely, shared TIs, Agency Location Codes (ALC), and lack of LOA information continue to make it difficult to resolve differences timely.

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

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

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

1. Develop documentation to support the existence and completeness of FBWT and demonstrate that amounts recorded are appropriate to include in the FBWT balance.
2. Coordinate with DHP stakeholders and service organizations responsible for the accounting and financial reporting of FBWT, expenses, AR, budgetary resources, and

budgetary execution to assess and review underlying business processes to determine and remediate root causes of high-volume and material undistributed adjustments.

3. Research and resolve suspense transactions by correcting the transactions in source systems and assist with necessary supporting documentation for corrections, if needed.
4. Pursuant to receiving the necessary information and documentation, develop and implement procedures to identify the DHP's suspense account balances for recording and reporting into the GLs and financial statements.
5. Consider any limitations to the suspense processes and develop compensating controls to reconcile suspense balances to minimize the risk of a potential material misstatement.
6. Continue to monitor and track the resolution of suspense activity cleared to the DHP to enable the entity to perform root cause analysis. This includes further research and resolution over the transactions not resolved in the UoTs and listed as "TBD."

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

Deficiencies in two related areas define this material weakness:

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

Background: DHA Military Treatment Facilities (MTF) process both billable and non-billable medical encounters that arise from providing medical care. Medical encounters are billable when services are provided to non-TRICARE patients. In order to make this determination, the DHA Patient Administration Department (PAD) checks patient eligibility and affiliation information against the Defense Enrollment Eligibility Reporting System (DEERS).

After confirming eligibility, patients receive care which is logged by medical practitioners to facilitate medical billing. Medical coding consists of translating notes from the medical practitioners for care rendered into billable codes using DHA-distributed coding tables. Medical coding is the basis for all subsequent billing that occurs.

Medical encounter billing is processed in the Composite Health Care System (CHCS) and MHS GENESIS. For CHCS encounters, information is transmitted to the Armed Forces Billing and Collection Utilization Solution (ABACUS), which is DHA's legacy medical billing system. MHS GENESIS encounters are processed through the Revenue Cycle Expansion (RevX) module of MHS GENESIS. Bills are subsequently generated in ABACUS and RevX and remitted to the debtor(s) for reimbursement.

In lieu of encounter-level billing, the United States Coast Guard (USCG) and Medicare-Eligible Retiree Health Care Fund (MERHCF) elect to make prospective payments to DHA to fund patient care for USCG and MERHCF beneficiaries.

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Statement of Federal Financial Accounting Standards (SFFAS) No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, requires that revenue be recognized at the time that goods or services are provided (i.e., accrual basis of accounting).

A. Accounting and Reporting of Medical Services Provided

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

- Some of the DHP's medical activities are accounted for on the cash basis of accounting, including all non-Federal encounters processed in MHS GENESIS, encounters for Department of Veterans Affairs (VA) beneficiaries processed in MHS GENESIS, and all Federal encounters provided by Air Force (AF)-affiliated MTFs
- The DHP's portfolio of AR from medical services is not consistently adjusted to net realizable value (NRV). DHA does not consider the collectability of its Federal AR or of its non-Federal encounters processed in MHS GENESIS
- Prospective payments made by the MERHCF are recognized as revenue upon receipt rather than being deferred until earned by the DHP.

The DHP does not have effective internal controls for business processes associated with medical services provided to beneficiaries. Specifically:

- The DHP does not have a process to effectively reconcile transactions and account balances for medical activity between its subledgers (i.e., ABACUS and MHS GENESIS) and GL systems
- DHA MTFs have not consistently implemented internal controls regarding their billing programs to require proper segregation of duties, including supervisory review and approval for adjustments and corrections to medical billings
- The DHP does not have a sufficient process in place for pre-authorization of services provided to VA beneficiaries. Patient billings that are denied by the VA for lack of pre-authorization may not be processed and/or collected timely from applicable third parties (e.g., VA beneficiaries or other health insurance)
- DHA has not designed an effective and consistent process related to the Patient Identification Process (PIP), which supports the determination and identification of who is responsible for paying for health care received at DHA medical facilities (e.g., MERHCF, USCG, VA, individual, third party).

The DHP did not provide or maintain sufficient documentary evidence to support the validity of Unfilled Customer Orders (UFCO), AR, Revenue, and collection activity within the billing and collection subledgers and GL systems.

Cause: The DHP has not formulated or implemented complete Enterprise-wide accounting policies or guidance for its MTFs to ensure consistent and accurate accounting of medical

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services provided in accordance with Federal accounting standards. The DHP remains in the process of implementing its RMIC Program across the Enterprise. The entity does not have sufficient internal control activities in place to properly account for the existence, completeness, and accuracy of transactions and account balances associated with medical activity.

Effect: The DHP cannot assert to the existence, completeness, and accuracy of its AR and Revenue on its Balance Sheet and Statement of Net Cost, respectively. Utilization of the cash basis of accounting creates a significant risk of material misstatement on the DHP's financial statements. Additionally, unrecorded Federal AR may misstate Spending Authority from Offsetting Collections on the SBR.

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

1. Recognize revenue when services are performed for both Federal and non-Federal billable encounters in accordance with applicable Federal Accounting Standards. Revenue and corresponding AR should be recognized with transactional activity recorded in the GL system or, as appropriate, in an associated subledger.
2. Implement a consistent methodology for the calculation of allowance for uncollectible accounts, ensuring that all DHP AR is subject to review and adjustment. Separate allowance methodologies should be considered by AR category based on historical collection analysis. The methodology should adjust gross AR and associated Revenue to reflect NRV.
3. Establish a periodic validation of prospective payments made for USCG and MERHCF beneficiary care. Validation efforts should include encounter data from both CHCS and MHS GENESIS to determine whether any changes to the payment methodology or frequency are required.
4. Implement and document a recurring reconciliation of medical AR in the subledger to medical AR in the GL. Monitoring controls should include performing a reconciliation between aged AR balances in the subledger and collections in the GL to ensure that collected AR is appropriately closed and removed from the financial statements.
5. Update and implement policies and procedures to require segregation of duties, including supervisory review and approval, for all medical billing efforts.
6. Develop and implement a process to ensure pre-authorization occurs for all VA beneficiaries before care is provided. Pre-authorization should be documented and retained to assist with subsequent billing and collection efforts.
7. Review current procedures related to patient eligibility and incorporate formalized verification procedures that demonstrate the eligibility determination occurred at the time of patient check-in or at an appropriate point during the patient encounter.
8. Review and update documentation retention policies for medical billings to ensure the DHP can substantiate the value of its AR and Revenue on the financial statements.

B. Medical Coding Accuracy

Condition: DHA contracts with a third party to perform annual audits over the MTFs' medical coding accuracy in accordance with DoD Instructions (DoDI) 6040.40, *MHS Data Quality Management Control (DQMC) Program*, and 6040.42, *Management Standards for Medical Coding of DoD Health Records*. During the audit, approximately 500 coded encounters were selected for testing, consisting of both billable and non-billable claims, across all MTFs. Results demonstrated that DHA has not implemented effective medical coding procedures to ensure the accuracy of medical coding applied over inpatient (IP), outpatient (OP), ambulatory procedure visits (APV), and inpatient professional services round (IPSR) health care encounters.

Cause: The findings and recommendations included in the FY 2023 medical coding audit indicate that DHA does not have sufficient clinical supporting documentation that clearly and specifically addresses the procedures performed during patient encounters for accurate medical coding. DHA's coding program is impacted by the national shortage of medical coders, with the DHA Medical Coding Program Office (MCPO) experiencing high turnover as a result. DHA MCPO continues to be understaffed and unable to meet its scope of responsibilities.

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

Recommendations: Kearney recommends that the DHP perform the following:

1. Continue to review the third-party audit findings and recommendations and formally develop appropriate CAPs, as necessary, to remediate coding accuracy deficiencies. When developing CAPs, all DHA stakeholders should collaborate on the path forward for resolution.
2. Utilizing the coding accuracy results for billable encounters, assess the financial reporting impact of coding inaccuracies found during the third-party audits. Appropriate analysis of the error rates should be conducted to determine the impact of error rates over applicable financial statement line items (e.g., AR and Revenue).

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

Background: The DHP owns, operates, and maintains stewardship of a diverse and significant portfolio of Property, Plant, and Equipment (PP&E). The DHP has determined the asset classes for its PP&E as follows: General Equipment (GE); Real Property Construction in Progress (CIP); Internal Use Software (IUS); IUS in Development (IUSD); Leases; and Leasehold Improvements. The DHP reported PP&E, net of accumulated depreciation and accumulated amortization, to be $3.9 billion.

In August 2016, the Federal Accounting Standards Advisory Board (FASAB) issued SFFAS No. 50, *Establishing Opening Balances for General Property, Plant, and Equipment*, amending existing PP&E accounting standards to allow a reporting entity, under specific conditions, to apply alternative valuation methods in establishing opening balances for PP&E. The alternative valuation methods available under SFFAS No. 50 may be applied in the first reporting period in which the reporting entity makes an unreserved assertion that its financial statements are presented fairly in accordance with GAAP. As SFFAS No. 50 is applicable to the valuation of opening balances only, all changes to the DHP PP&E portfolio as a result of current-year transactions are subject to the valuation requirements set forth in SFFAS No. 6, *Accounting for Property, Plant, and Equipment*.

Condition: The DHP PP&E valuation as of September 30, 2024 is not in accordance with GAAP. The PP&E balances have not been sufficiently valued at historical cost in accordance with valuation techniques promulgated by SFFAS No. 6 or SFFAS No. 10, as appropriate. Further, the DHP did not record valuation adjustments over PP&E using alternative valuation techniques (i.e., deemed cost) in accordance with SFFAS No. 50. Specifically:

- The DHP has not fully implemented DoD and DHA policies regarding the acquisition and disposal of capital GE. Effective controls are not in place to ensure GE additions and disposals are properly recorded
- The DHP has not finalized an assessment of IUS or IUSD to properly identify and account for IUS and IUSD for financial reporting purposes. The opening balance of the DHP's IUSD, recorded at $1.6 billion as of October 1, 2023, consisted primarily of MHS GENESIS. MHS GENESIS is not valued in accordance with historical cost requirements prescribed within SFFAS No. 10, *Accounting for Internal Use Software*. Inventory efforts over IUS and IUSD are ongoing; therefore, DHA has not recorded IUS or IUSD for financial reporting. Outside of valuing MHS GENESIS, the DHP has not begun valuation efforts over remaining IUS or IUSD using alternative valuation techniques in accordance with SFFAS No. 50
- DHA, in coordination with the Naval Facilities Engineering Systems Command (NAVFAC), was unable to provide transaction-level data associated with DHA NAVFAC CIP expenditures reported within the DHP's financial statements
- The DHP has not designed or implemented formal policies and procedures to ensure that leases are accurately reported and disclosed on its financial statements and related footnotes in accordance with SFFAS No. 54, *Leases*, nor to describe how it obtains assurance over the accuracy and completeness of its leased assets.

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

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

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

NAVFAC has been unable to provide DHA with transaction-level expenditure data to support Military Construction (MILCON) CIP projects. Without transaction-level data, DHA has been unable to implement control activities over NAVFAC-executed MILCON expenditures to ensure CIP project balances reported by DHA are complete and accurate. Additionally, DHA has not developed sufficient procedures surrounding project-level documentation used in support of its quarterly reconciliation procedures.

DHP management has not yet performed an assessment to determine the completeness and significance of leases held by the DHP, nor has management developed policies and procedures related to the changes in scope and definition of a lease in accordance with SFFAS No. 54.

Effect: The DHP is unable to accurately and appropriately value its PP&E assets for FY 2024 in accordance with GAAP. The absence of accounting policy has resulted in a lack of preparedness to re-value FY 2024 PP&E opening balances in accordance with SFFAS No. 50, as well as a lack of preparedness to implement SFFAS No. 54 for its lease portfolio. The DHP's PP&E as of September 30, 2024 does not reflect historical cost as required by SFFAS No. 6 or SFFAS No. 10, and the DHP's opening balances for FY 2024 do not reflect historical cost under alternative valuation techniques as allowable under SFFAS No. 50. The DHP's recorded balance for PP&E, net of accumulated depreciation and accumulated amortization, of $3.9 billion may be materially misstated, as presented within the DHP's financial statements.

Recommendation: Kearney recommends that the DHP perform the following:

1. Develop an Enterprise-wide accounting policy for PP&E, which specifically addresses historical cost valuation in accordance with SFFAS No. 6, SFFAS No. 10, and SFFAS No. 50. In its determination to implement alternative cost valuation for opening balances under SFFAS No. 50, the DHP should implement PP&E processes with supporting internal controls that are both designed and operating effectively to value new PP&E acquisitions at historical cost in compliance with SFFAS No. 6 and SFFAS No. 10. In developing its alternative cost valuation, the DHP should:

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   a. Reference FASAB's Federal Financial Accounting Technical Release (TR) No. 18, *Implementation Guidance for Establishing Opening Balances*, dated October 2, 2017.
   b. Retain appropriate supporting documentation for underlying valuation methodology.
   c. Document the valuation technique by asset class for all assets currently in the DHP PP&E portfolio.
   d. Establish a timeline for the valuation and define roles and responsibilities required for execution.
   e. Detail requirements for valuation of new acquisitions that are compliant with SFFAS No. 6 and SFFAS No. 10.
2. Implement guidance at the MTF level to standardize processes to record GE additions, disposals, transfers-in, and transfers-out consistently.
3. Continue to develop and implement a strategy to verify the existence and completeness of IUS or IUSD through training and implementation of developed policy over IUS.
4. Design and implement formalized internal controls for proper cost classification associated with IUSD to facilitate the identification and reporting of capitalizable costs.
5. Coordinate with NAVFAC to obtain transaction-level project expenditure data to support MILCON CIP projects. The DHP should implement control activities over the NAVFAC expenditure data to ensure CIP projects reported by DHA are complete and accurate prior to financial reporting.
6. Document a formalized methodology (i.e., scoring criteria) to ensure that the treatment of leases and leasehold improvements is consistent with the new scope and definition of a lease under SFFAS No. 54 and develop policies and procedures to meet established requirements for accounting and reporting lease assets and liabilities. In establishing the methodology, the DHP should:
   a. Inventory all current leases and determine the source and type of lease for appropriate accounting treatment in accordance with SFFAS No. 54.
   b. Determine whether existing contracts or agreements convey the right to control the use of the underlying asset.
   c. Record assets and liabilities associated with the DHP's lease portfolio on the financial statements and adjust balances as lease payments are made in accordance with SFFAS No. 54.

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

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

Accounts Payable (AP) represent amounts owed for goods and services received from other entities, excluding those services rendered by employees. SFFAS No. 1 and SFFAS No. 5 , *Accounting for Liabilities of the Federal Government*, promulgate GAAP for liability

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recognition, including that recognition must occur when an entity accepts goods or services, regardless of whether the entity has received an associated invoice.

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

The DHP does not have a process for validating receipt and acceptance (R&A) of goods and services received from its intra-governmental trading partners prior to payment, nor a process to validate intra-governmental payment activity when R&A cannot be performed prior to payment.

The DHP has not established internal control activities to ensure the proper accounting of liabilities associated with advance payments. The DHP receives prospective payments in advance of medical care provided; however, the entity does not record advances for such payments.

The DHP is unable to sufficiently support the substantive validity, accuracy, and completeness of non-payroll expenses recorded in USSGL Account 610000, *Operating Expenses/Program Costs*. Interim testing for the period ended March 31, 2024 identified exceptions in 47 of 90 non-payroll expense sampled transactions. The most common findings are presented below (Note: Certain samples contained exceptions in multiple categories presented below):

- Forty-three exceptions were noted because DHA did not provide sufficient or valid documentation to validate the R&A of goods against the invoice (e.g., timesheets, packing slips, contract performance statement with current-period incurred charges)
- Twenty exceptions were noted as a result of DHA not providing a third-party invoice or equivalent to support the sampled amount
- Three exceptions were noted as a result of DHA not providing sufficient documentation or information to accurately substantiate the sampled amount
- Ten exceptions were noted in which the sample data incorrectly recorded the transaction as "Non-Federal;" however, the documentation provided supported that the transaction was "Federal"
- Two exceptions were noted in which the sampled expense was not recorded in the correct accounting period. Documentation provided indicated the expense should have been recorded prior to FY 2024
- Two exceptions were noted in which the sample amounts represent costs related to equipment purchases, construction, and maintenance projects over $250,000 which should have been capitalized rather than expensed.

Cause: The DHP has not designed and implemented an effective system of internal control within respective procurement processes to ensure goods and services received but not yet paid for are appropriately accrued across all relevant business processes. The DHP remains in the process of developing a comprehensive AP accrual methodology which takes into consideration

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a materiality assessment and all business processes, as determined necessary for financial reporting.

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

The DHP has not implemented internal control activities to properly classify expenditures as Federal or Non-Federal. While system limitations have inhibited proper trading partner identification, compensating internal controls or processes have not been identified. The entity also did not provide documentation to determine that monitoring of expenses is occurring to ensure costs related to equipment and construction and maintenance projects are properly capitalized when appropriate.

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

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

Recommendations: Kearney recommends that the DHP perform the following:

1. Complete planned efforts to include Federal trading partner transactions in the AP accrual estimate.
2. Analyze, evaluate, document, and update, as appropriate, policies and procedures to require the execution of internal control activities for the complete and accurate recording of liabilities, including AP and any estimates needed for goods and services received but not recorded.
3. Coordinate with trading partners to ensure Support Agreements (SA), Inter-Agency Agreements (IAA), Memorandums of Understanding (MOU), or equivalent include language requiring cooperation of the trading partner to provide any required documentation necessary for the DHP to validate the accuracy of the amounts it has been billed.
4. Evaluate the current control environment and design/establish control activities to verify R&A of services prior to entitlement and disbursement or through timely post-payment

reviews. These control activities should be designed in a manner that allows management to have reasonable assurance that the risk of material misstatement will be reduced to a sufficiently low level.

5. Improve record retention over receipt of goods and services and supporting documentation over non-payroll expense transactions. The DHP should implement sufficient supporting documentation requirements to demonstrate proper R&A has occurred for payment processing (e.g., timesheets, packing slips, contract performance statements).
6. Assess current business operations to implement compensating control activities to address proper cost classification between Federal and Non-Federal transactions, as well as capital and non-capital expenses. The DHP should coordinate any newly designed controls activities with remediation efforts planned to address system limitations for cost classification.
7. Address accounting policy to recognize prospective payments submitted in excess of actual care provided as a liability at year-end, as appropriate.

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

Background: Undelivered Orders (UDO) represent goods and/or services ordered which have not been actually or constructively received and for which amounts have not been prepaid or advanced. At DHA, typical UDO activities are associated with Contract Pay, Vendor Pay, Government Purchase Cards, Travel Pay, RWOs, or other goods and services business processes.

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

Within DHA, Navy Bureau of Medicine and Surgery (BUMED) is directly responsible for Non-MTF commands, such as medical research commands and medical training and support commands which fall outside of the administration of DHA. BUMED non-MTF commands receive readiness funding from the DHP and primarily execute the readiness funding in Navy Enterprise Resource Planning (ERP), while BUMED Headquarters (HQ) receives and executes readiness funding in the General Fund Enterprise Business Solutions (GFEBS). In order to utilize DHP appropriated funds to meet the needs of BUMED Non-MTF command operations in the Navy ERP accounting system, BUMED created the Self-Military Interdepartmental Purchase Request (MIPR) process that allows DHP funding to be executed in Navy ERP without utilization of a Funds Authorization Document (FAD).

As a result of the Sales Order Close Program in the DHP's GL system, GFEBS, DHA established the Reservation of Funded Reimbursable Authority (RFA) process to prevent the loss of funding authority by creating a sales order and corresponding obligation to cover projected expenses, execute end-of-year billing transactions, process cost transfers, and perform other

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corrections not yet processed by September 30. This allows DHA to utilize current-year reimbursable authority in subsequent FYs for existing reimbursable agreements. DHA is responsible for monitoring and tracking its reimbursable authority, obligations, and sales orders to ensure that budget authority is utilized, obligations are incurred, and sales orders are established in accordance with congressional mandates, legal requirements, and limits.

The GAO Green Book directs entity management to design and implement internal control activities that ensure transactions are recorded at the correct amount in the right account (and on a timely basis).

Condition: DHA is unable to sufficiently support the substantive validity, accuracy, and completeness of UDOs in USSGL Account 4801, *Undelivered Orders- Obligations, Unpaid.* Beginning balance testing as of October 1, 2023 identified exceptions in 173 of 548 balances tested. The most common findings are presented below (Note: Certain samples contained exceptions in multiple categories presented below):

- Eighty-five exceptions were noted to present stale obligations without activity or correspondence over the past 90 days, and DHA could not support that the obligation should remain open as of October 1, 2023
- Twenty-two exceptions were noted as a result of liquidating transactions not posting within the GL after the liquidating transaction was posted within the subledger
- Forty-two exceptions were noted where the sampled amounts were overstated as of October 1, 2023. DHA did not properly deobligate the outstanding balances for these samples as of October 1, 2023 based on the documentation provided
- Eighty-four exceptions were noted where DHA did not provide sufficient documentation to support the UDO balances as of October 1, 2023.

The DHP is unable to sufficiently support the substantive accuracy of downward adjustments recorded in USSGL Account 4871, *Downward Adjustments of Prior-Year Unpaid Undelivered Orders – Obligations, Recoveries*. Testing identified exceptions in 25 of 45 sampled transactions. The most common findings are presented below (Note: Certain samples contained exceptions in multiple categories presented below):

- Three exceptions were noted to be obligations which should have been recovered prior to FY 2024
- Twenty-four exceptions were noted because the DHP did not prepare and/or maintain sufficient documentation to support the transactions recorded
- Seven exceptions were noted as a result of the DHP not providing evidence to support that the recovery amount was recorded to the same LOA as the original contract.

The DHP has not designed or implemented an effective process to distribute DHP funding to BUMED Non-MTF commands. The DHP currently utilizes a Self-MIPR, rather than a FAD, to provide DHP funds to BUMED Non-MTF commands. This Self-MIPR process incorrectly recognizes an obligation of funds within the GL system, even though no actual obligation has been identified at the time of recording.

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DHA is incorrectly reporting UFCOs and UDOs based on available, anticipated reimbursable authority remaining at year-end (September 30), rather than actual projected needs based on funded reimbursable agreements. Testing over UFCOs, UDOs, and recoveries identified $19.6 million associated with DHA's RFA process. DHA was unable to sufficiently and appropriately support UFCOs, UDOs, or recoveries recorded as part of the RFA process.

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

The DHP's decentralized control environment lacks clear policy and procedures for standard treatment of deobligations and adjustments to prior-year obligations. Additionally, the DHP has not developed a process to evaluate entries to USSGL Account 4871 that are automatically generated in the GL system but require reversal for administrative changes.

The DHP has not developed a process to ensure liquidating transactions posted within the subledger are also posted within the GL timely. When process owners identify stale obligations during the Dormant Account Review-Quarterly (DAR-Q), the DHP does not process corresponding deobligation actions timely. Additionally, the DHP has not sufficiently enforced the deobligation actions which must coincide with the detection of stale obligations.

The DHP did not perform a sufficient risk assessment to appropriately address the financial reporting risks associated with the Self-MIPR process. The entity did not develop or establish internal control activities to properly account for non-MTF command execution of DHP funding.

DHA did not perform a sufficient and appropriate risk assessment for the RFA process to address financial reporting risks and properly account for reimbursable authority. The RFA amount is based on the end-of-year reimbursable authority balance and not on valid funded or future funded reimbursable agreements. DHA has not established a monitoring process to determine if additional reimbursable funding documents will be received from trading partners in support of established SAs.

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

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

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The DHP is unable to determine the accuracy, validity, or completeness of the budgetary resources, obligations, and expenses incurred by BUMED Non-MTF commands. Additionally, the entity is unable to provide a reconciliation or audit trail to verify the execution or closure of funds in Navy ERP against GFEBS.

DHA cannot assert to the validity of its RFA entry or to the accuracy of corresponding UFCOs and UDOs as part of beginning balances or recovery transactions recorded in the current year. The RFA process results in an overstatement of the Unobligated Balance from Prior-Year Budget Authority, New Obligations and Upward Adjustments, and Spending Authority from Offsetting Collections line items on the SBR.

Recommendations: Kearney recommends that the DHP perform the following:

1. Develop internal control procedures and revise existing policies and procedures to ensure that the liquidating transactions posted within the subledger are timely posted within the GL system.
2. Perform internal control monitoring and testwork under the RMIC Program to determine if policies and procedures have been implemented effectively.
3. Develop standardized policies and/or guidelines that ensure proper documentation is prepared, reviewed, approved, and retained in accordance with 31 United States Code (U.S.C.) Section 1501, *Documentary evidence requirement for Government obligations*. This should include internal controls that ensure transactions are accurate and properly supported.
4. Evaluate the current internal control environment and design/establish control activities to verify the validity, accuracy, and completeness of UDO transactions recorded in USSGL Account 4801.
5. Evaluate processes currently in place to adjust obligations in each DHP GL system to identify procedural and documentation gaps. This analysis should include administrative adjustments, financial adjustments, and deobligations.
6. Improve record retention over UDO transactions and implement sufficient supporting documentation requirements to demonstrate proper accounting for validity, accuracy, and completeness of UDO transactions recorded within USSGL Account 4801.
7. Perform a full-scope analysis of open obligations which require deobligation. DHA should inform Components of the deobligation initiative and establish cut-off dates for mandatory deobligation and process the deobligation actions to remove the stale obligations.
8. Design and implement a recurring analysis to identify and reverse improper entries to USSGL Account 4871 resulting from administrative changes to previously recorded obligations. The DHP should consider whether this process would benefit from the design and release of a standard data call to identify activity to be reversed.
9. Expand DAR-Q monitoring procedures, as well as conduct follow-up procedures to verify deobligation actions have occurred.
10. Revise existing policies and procedures to allow the distribution of DHP funds to BUMED Non-MTF commands, rather than utilizing the Self-MIPR process.

11. Design and implement a reconciliation process to validate that the funds executed in Navy ERP are appropriately reflected in GFEBS.

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Significant Deficiency

VIII. Information Systems (*Repeat Condition*)

Background: The Defense Health Program (DHP) operates a complex information system (IS) environment to execute its mission and record transactions timely and accurately using several accounting systems and a mixture of health information technology (IT) and non-medical systems. This includes third-party systems owned and operated by organizations outside of the DHP that affect the Enterprise's business processes and financial statements. Department of Defense (DoD) Instruction (DoDI) No. 8510.10, *Risk Management Framework (RMF) for DoD Systems*, Section 2.7, requires the DHP to implement security controls in accordance with National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Revision 5.

Because of the sensitive nature of the DHP's IS 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 DHP management and relevant stakeholders through Notices of Findings and Recommendations (NFR).

Condition: The DHP has several deficiencies in the implementation and operating effectiveness of internal controls related to financially significant systems and service organization systems. While no single control deficiency meets the level of a significant deficiency, in combination, these deficiencies elevate to a significant deficiency due to the pervasiveness of the weaknesses throughout the IS environment, the DHP's reliance on these systems for financial reporting, and the nature of the deficiencies repeating from the prior year. Internal control deficiencies exist in 11 financially significant systems, including one GL system, one health IT system, and nine other key feeder systems.

The following is a summary of control deficiencies included in this significant deficiency:

- Access Controls
  - Account management policies, procedures, and controls for managing and monitoring access to key financial management applications and third-party systems for privileged and non-privileged users are not consistently implemented and/or operating effectively across the DHP Enterprise
  - User account recertification controls to verify the continued appropriateness of access of privileged and non-privileged users are inconsistently implemented and documented or not operating effectively across the DHP Enterprise
- Entity-Level Controls – Oversight and Monitoring
  - Policies and procedures for monitoring third-party service organizations and Complementary User Entity Controls (CUEC) are not fully implemented.

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

- Policies and procedures over account management, user recertification controls, and CUEC monitoring and have not been consistently communicated or implemented across the DHP Enterprise
- Although control activities in key financial management systems related to account management and user recertification have been properly designed, documented, and implemented, they are not consistently operating effectively.

Effect: Without complete and consistent implementation, monitoring, and enforcement of IT security policies, procedures, and external IS CUECs, control weaknesses may exist and be overlooked, thus increasing the risk of inaccurate financial reporting. Without sufficient account management and user recertification controls throughout the IS environment, users may possess or retain unauthorized access to systems, as well as intentionally or unintentionally abuse computer resources, process unauthorized transactions, or perform other actions that jeopardize the confidentiality, integrity, or availability of systems and data without timely detection in the normal course of business.

Recommendations: Kearney recommends that the DHP perform the following:

1. Continue communication to reinforce IT policies and procedures to the DHP program owners and offices, networks, Military Treatment Facilities (MTF), and service organizations.
2. Provide training to users and privileged users regarding the consistent implementation of IT security policy, procedures, and practices for DHP systems.
3. Continue to monitor and enforce implementation of entity-level IT policies, procedures, and practices throughout the Enterprise, as well as adjust training and communication, where needed.
4. Continue to implement and execute policies and procedures to document and test key controls identified to mitigate CUEC risks for service organization systems.

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APPENDIX A: STATUS OF PRIOR-YEAR DEFICIENCIES

In the *Independent Auditor's Report on Internal Control over Financial Reporting* included in the Defense Health Program's (DHP) fiscal year (FY) 2023 Agency Financial Report (AFR), we noted several issues that were related to internal control over financial reporting. The statuses of the FY 2023 internal control findings are summarized in ***Exhibit 2***.

Exhibit 2: Status of Prior-Year Findings

Control Deficiency		FY 2023 Status	FY 2024 Status
I.	**Accounting and Financial Reporting Governance and Entity-Level Controls**	Material Weakness	Modified Repeat Material Weakness
II.	**Financial Reporting – Universe of Transactions**	Material Weakness	Partially remediated and consolidated under Material Weakness III
III.	**Financial Reporting – Defense Departmental Reporting System Adjustments**	Material Weakness	Modified Repeat Material Weakness
IV.	**Fund Balance with Treasury**	Material Weakness	Material Weakness
V.	**Medical Revenue and Associated Receivables**	Material Weakness	Material Weakness
VI.	**Property, Plant, and Equipment**	Material Weakness	Material Weakness
VII.	**Stockpile Materials**	Material Weakness	Remediated
VIII.	**Liabilities and Related Expenses**	Material Weakness	Material Weakness
IX.	**Monitoring and Reporting of Obligations and Adjustments**	Material Weakness	Material Weakness
X.	**Information Systems**	Material Weakness	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 were engaged to audit, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*, the financial statements, and the related notes to the financial statements of the Defense Health Program (DHP) as of and for the year ended September 30, 2024, which collectively comprise the DHP's financial statements, and we have issued our report thereon dated November 8, 2024. Our report disclaims an opinion on such financial statements because we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. The DHP also asserted to departures from Generally Accepted Accounting Principles.

Report on Compliance and Other Matters

In connection with our engagement to audit the financial statements of the DHP, we performed tests of its compliance with certain provisions of applicable 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 disclosures, including the provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA). However, providing an opinion on compliance with those provisions was not an objective of our engagement; accordingly, we do not express such an opinion. The results of our tests, exclusive of those referred to in FFMIA, disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 24-02, which are described in the accompanying **Schedule of Findings** as Items I, III, and IV.

The results of our tests of compliance with FFMIA disclosed that the DHP's financial management systems did not comply substantially with Section 803(a) requirements related to Federal financial management system requirements, applicable Federal accounting standards, or application of the United States Standard General Ledger at the transaction level, as described in the accompanying **Schedule of Findings** as Item II.

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

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The Defense Health Program's Response to Findings

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

Purpose of this Report

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

Kearney & Company

Alexandria, Virginia
November 8, 2024

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Schedule of Findings

Noncompliance and Other Matters

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

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

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

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

- The DHP has not fully implemented processes to support the effective design and operation or evaluation of its entity-level internal controls. The DHP did not achieve the GAO-prescribed principles for an effective internal control system
- The DHP remains in the process of establishing a Risk Management Internal Control (RMIC) Program across the Enterprise. The DHP's Statement of Assurance provided no assurance that internal controls over operations, financial reporting, and compliance were operating effectively as of September 30, 2024.

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

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

- Federal financial management system requirements
- Applicable Federal accounting standards
- United States Standard General Ledger (USSGL) at the transaction level.

The DHP's financial management systems do not substantially comply with the requirements within FFMIA, as asserted to by management, and as discussed below.

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Federal Financial Management Systems Requirements

FFMIA requires reliable financial reporting, including the availability of timely and accurate financial information, and maintaining internal control over financial reporting and financial system security. The matters described in the "Basis for Disclaimer of Opinion" section in the accompanying *Independent Auditor's Report*, as well as the material weaknesses reported in the accompanying *Report on Internal Control over Financial Reporting*, represent noncompliance with the requirement for reliable financial reporting.

Federal Accounting Standards

FFMIA requires that agency management systems maintain data to support reporting in accordance with Generally Accepted Accounting Principles (GAAP). As identified through our audit procedures and as noted by the DHP in Note 1, *Summary of Significant Accounting Policies*, the DHP disclosed several instances where it departed from GAAP. The DHP asserted to the following departures from GAAP:

- Accrual accounting requirements per Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities*, and SFFAS No. 5, *Accounting for Liabilities of the Federal Government*
- Liability requirements set forth in SFFAS No. 5
- Recognition and valuation requirements set forth in SFFAS No. 6, *Accounting for Property, Plant, and Equipment*
- Lease classification and reporting requirements set forth in SFFAS No. 54, *Leases*, as amended by SFFAS No. 62, *Transition Amendment to SFFAS 54*
- Revenue recognition requirements set forth in SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*
- Recognition and valuation requirements set forth in SFFAS No. 10, *Accounting for Internal Use Software*
- Accounting and reporting requirements associated with SFFAS No. 31, *Fiduciary Activities*
- The full cost provisions of SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts*, as amended by SFFAS No. 55, *Amending Inter-Entity Cost Provisions*
- Recognition and valuation requirements set forth in SFFAS No. 44, *Accounting for Impairment of General Property, Plant and Equipment Remaining in Use*.

United States Standard General Ledger at the Transaction Level

FFMIA requires that financial events shall be recorded, applying the requirements of the USSGL guidance in the Treasury Financial Manual (TFM). The DHP's financial management systems do not always record financial events in accordance with the requirements of USSGL at the transaction level. The DHP has not complied with USSGL requirements in the following instances:

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- The DHP's financial statements contain material unsupported adjustments processed and recorded during financial statement compilation procedures. The unsupported adjustments do not contain sufficient supporting documentation and/or underlying source data for recording financial events in accordance with USSGL requirements at the transaction level
- Property, Plant, and Equipment (PP&E) capital expenditures were recorded as operating expenses within the core accounting system. The DHP was unable to completely identify capitalized expenses from non-capital expenses to appropriately record PP&E expenditures in accordance with USSGL requirements. For additional details, see Section V, "Property, Plant, and Equipment," in the accompanying *Report on Internal Control over Financial Reporting*
- The DHP did not consistently track and accumulate revenue and Accounts Receivable (AR) data to post general ledger (GL) transactions consistent with USSGL requirements. The DHP had revenue and AR transactions recorded in subsidiary systems which were not recorded in the GL. For additional details, see Section IV, "Medical Revenue and Associated Receivables," in the accompanying *Report on Internal Control over Financial Reporting*
- The DHP's financial statements included summarized amounts for revenue associated with patient care provided for which no underlying transactional activity is maintained.

III. The Debt Collection Improvement Act of 1996 (*Repeat Condition*)

The Debt Collection Improvement Act of 1996 (DCIA), as amended by the Digital Accountability and Transparency Act of 2014 (DATA Act), requires that any non-tax debt or claim owed to the U.S. Government that is over 120 days delinquent is required to be reported to the Department of the Treasury (Treasury) for purposes of administrative offset. As discussed in Section IV, "Medical Revenue and Associated Receivables," of the accompanying *Report on Internal Control over Financial Reporting*, the Defense Health Agency (DHA) and its Military Treatment Facilities (MTF) are not able to support the validity of debt balances associated with medical services provided, which are recorded in the DHA MTFs' subsidiary billing and collection system. The internal control weaknesses described demonstrate an increased risk of noncompliance with the requirements of the DCIA. The DHP's inability to sufficiently support the validity of recorded debts limited the extent of audit procedures which could be performed over DCIA requirements.

IV. The Antideficiency Act (*Repeat Condition*)

The Antideficiency Act (ADA) prohibits Federal agencies from: 1) making or authorizing an expenditure from, or creating or authorizing an obligation under, any appropriation or fund in excess of the amount available in the appropriation or fund unless authorized by law; 2) involving the Government in any obligation to pay money before funds have been appropriated for that purpose, unless otherwise allowed by law; or 3) making obligations or expenditures in excess of an apportionment or reapportionment or in excess of the amount permitted by agency regulations. Per 31 United States Code (U.S.C.) §1351, management is required to immediately report violations to the President and Congress, including all relevant

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facts and a statement of actions taken, as well as transmit a copy of each report to the Comptroller General on the same date.

The DHP subordinate organizations, including MTFs, recorded obligations in excess of their suballotments, allocations, and suballocations as of June 30, 2024 across 19 locations. Such activity may represent violations of the ADA, as prescribed within the Assistant Secretary of Defense for Health Affairs' (ASD[HA]) policy memorandum, entitled *Formal Administrative Subdivisions of the Defense Health Program Appropriation Subject to the Antideficiency Act*. Furthermore, the DHP has not identified the recording of obligations in excess of its suballotments, allocations, and suballocations as possible ADA violations.

* * * * *

Management's Response to the Independent Auditor's Report

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE

1200 DEFENSE PENTAGON
WASHINGTON, DC 20301-1200

HEALTH AFFAIRS

November 8, 2024

Mr. Daniel Scarola
Kearney & Company, P.C.
1701 Duke Street, Suite 500
Alexandria, VA 22314

Dear Mr. Scarola:

The Defense Health Program (DHP) reviewed the Independent Auditor Report prepared by Kearney and Company, P.C., for the Fiscal Year (FY) 2024 audit of the DHP financial statements and acknowledges and concurs with the issuance of a disclaimer of opinion. Please accept our gratitude for your team's insights and recommendations regarding audit findings included in your "Independent Auditor's Report on Internal Control Over Financial Reporting" and "Independent Auditor's Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements" reports. We are committed to remediating audit findings and sustaining progress of our accounting processes, internal controls, financial systems, and financial reporting.

The DHP has completed seven full financial statement audit cycles and continues to refine its audit response strategy to concisely focus on the remediation of material weaknesses and scope limitations. In response to your findings, our teams designed and implemented corrective action plans to help achieve our FY 2024 audit remediation objectives. These efforts positioned the DHP to successfully remediate 29 Notices of Findings and Recommendations, close two material weaknesses for Universe of Transactions and Stockpile Materials, and to downgrade a third material weakness for Information Systems to a significant deficiency. As a result of our remediation over Information Systems, no non-compliance with the Federal Information Security Modernization Act was identified during the fiscal year. In addition, we sustained an unmodified opinion over our DHP-Contract Resource Management financial statements—which covers the private sector care program, for the fourteenth consecutive year. We will continue building on our successes and proactively seek opportunities to improve the design and operating effectiveness of our financial processes, systems, and internal controls to achieve an unmodified audit opinion of our DHP financial statements.

We appreciate and extend our sincere thanks to you and your team for their due diligence, professionalism, and commitment.

Sincerely,

Darrell W. Landreaux

Darrell W. Landreaux, SES
Deputy Assistant Secretary of Defense for
Health Resources Management and Policy

SECTION 3

OTHER INFORMATION

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

Summary of Financial Statement Audit[1]

Figure 3 — 1

Audit Opinion	**Disclaimer**				
Restatement	**No**				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Accounting and Financial Reporting Governance Structure, Entity Level Controls	1	-	-	-	1
Financial Reporting - Universe of Transaction Reconciliations	1	-	-	1	-
Financial Reporting - Journal Vouchers and Adjustments	1	-	-	-	1
Fund Balance With Treasury	1	-	-	-	1
Medical Revenue and Associated Receivables	1	-	-	-	1
Property, Plant, and Equipment	1	-	-	-	1
Stockpile Materials	1	-	1	-	-
Liabilities and Related Expenses	1	-	-	-	1
Monitoring and Reporting of Obligations and Adjustments	1	-	-	-	1
Information System	1	-	1	-	-
Total Material Weakenesses	10		2	1	7

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

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

Figure 3 — 2

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

2. The total number of material weaknesses for Internal Controls Over Reporting for Financial Reporting (ICOR-FR) are self-identified by ASD(HA)-DHP management and exclude material weaknesses identified by the IPA. As referenced in Management's Response to the Independent Auditor's Report, management agrees with the auditor identified material weaknesses. Also, per OMB Circular A-136, significant deficiencies are not required to be disclosed.

3. In coordination with OSD, ASD(HA)-DHP performed a review FY 2023 internally identified MWs and concluded that six (6) material weaknesses for ICOR-FR should be reclassified as control deficiencies, rather than MWs, and reported on ASD(HA)-DHP's risk assessment. ASD(HA)-DHP is developing a process, to be implemented in FY 2025, to appropriately classify internally identified deficiencies as MWs upon the performance of a root cause analysis in which the severity of impact and risk of material misstatement will be assessed

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

Figure 3 — 3

Statement of Assurance	**No Assurance**					
Material Weaknesses (Assessable Unit)	Beginning Balance	Reclassified	New	Resolved	Consolidated	Ending Balance
Acquisition	6	4	-	-	-	2
Comptroller and Resource Management	6	6	-	-	-	-
Communications	-	-	-	-	-	-
Contract Administration	4	3	-	-	-	2
Information Technology—Business System Modernization	3	3	-	-	-	1
Personnel and Organizational Management	9	7	-	-	-	2
Legacy	1	-	-	-	-	-
Supply Operations	2	2	-	-	-	-
Support Services	4	2	-	-	-	2
Force Readiness	1	1	-	-	-	-
Security	1	-	-	-	-	1
Other	7	6	-	-	-	9
Total Material Weaknesses	44	34	-	-	-	19

4. The total number of material weaknesses for Internal Controls Over Reporting for Operations (ICOR-O) are self-identified by ASD(HA)-DHP management and exclude material weaknesses identified by the IPA. As referenced in Management's Response to the Independent Auditor's Report, management agrees with the auditor identified material weaknesses. Also, per OMB Circular A-136, significant deficiencies are not required to be disclosed.

5. In coordination with OSD, ASD(HA)-DHP performed a review FY 2023 internally identified MWs and concluded that 25 material weaknesses for ICOR-O should be reclassified as control deficiencies, rather than MWs, and reported on ASD(HA)-DHP's risk assessment. ASD(HA)-DHP is developing a process, to be implemented in FY 2025, to appropriately classify internally identified deficiencies as MWs upon the performance of a root cause analysis in which the severity of impact and risk of material misstatement will be assessed. Additionally, 9 MWs reported in FY 2023 were reclassified to an updated accessible unit in FY 2024.

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

Figure 3 — 4

Statement of Assurance	**No Assurance**					
Material Weaknesses (Assessable Unit)	Beginning Balance	Reclassified	New	Resolved	Consolidated	Ending Balance
Access Controls	1	1	-	-	-	-
Continuity Planning	1	1	-	-	-	-
Data Management Controls	-	-	-	-	-	-
Compliance	1	1	-	-	-	-
Total Material Weaknesses	3	3				

6. The total number of material weaknesses for Internal Controls Over Reporting for Financial Systems (ICOR-FS) are self-identified by ASD(HA)-DHP management and exclude material weaknesses identified by the IPA. As referenced in Management's Response to the Independent Auditor's Report, management agrees with the auditor identified material weaknesses. Also, per OMB Circular A-136, significant deficiencies are not required to be disclosed.

7. In coordination with OSD, ASD(HA)-DHP performed a review FY 2023 internally identified MWs and concluded that 3 material weaknesses for ICOR-FS should be reclassified as control deficiencies, rather than MWs, and reported on ASD(HA)-DHP's risk assessment. ASD(HA)-DHP is developing a process, to be implemented in FY 2025, to appropriately classify internally identified deficiencies as MWs upon the performance of a root cause analysis in which the severity of impact and risk of material misstatement will be assessed.

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

Figure 3 — 5

	Agency	Auditor
1. Federal Financial Management System Requirements	Lack of Compliance Noted	Lack of Compliance Noted
2. Applicable Federal Accounting Standards	Lack of Compliance Noted	Lack of Compliance Noted
3. USSGL at Transaction Level	Lack of Compliance Noted	Lack of Compliance Noted

Management's assessment of FFMIA compliance was completed prior to the results of the FY 2024 financial statement audit. Our auditor has noted ASD(HA)-DHP financial management systems did not comply substantially with the federal financial management system's requirements, applicable federal accounting standards, or application of the USSGL at the transaction level, because of material weaknesses noted in the Independent Auditor's Report on Internal Control over Financial Reporting. ASD(HA)-DHP is in the process of evaluating the FY 2024 audit findings contributing to noncompliance to continue the process of formulating and implementing remediation plans necessary to bring the financial managements systems into substantial compliance.

MANAGEMENT CHALLENGES

In the DoD OIG FY 2024 Top DoD Management Challenges Report, the DoD identifies the challenges of protecting the health and wellness of service members and their families. This section is a synopsis of the report.

National security requires a healthy, medically ready force, and a ready medical force to support it. The 2022 National Security Strategy states, “Service members are the backbone of America’s national defense and we are committed to their wellbeing.” In his 2023 message to the force, the SECDEF reaffirmed his commitment to “taking care of people” as one of his top priorities.

Adding to the complexity of ensuring the health and wellness of the force is the impact of the COVID-19 pandemic and ensuing strain on the MHS. DoD OIG work on these topics identified several issues, which were also raised to DoD stakeholders in response to a DoD OIG request for input on management and performance challenges: a shortage of healthcare providers, unclear policy, and inaccurate patient data.

Shortage of Providers

Consistent with Hotline complaints received by the Service Inspectors General and the DoD OIG, U.S. Indo-Pacific leaders conveyed consistent concern to the Inspector General during his travels in the region in 2023: Service members and DoD civilians face challenges to accessing healthcare, especially in the area of specialty care, due in part to a shortage of medical professionals. Personnel have been referred to local providers off-installation, but still have been unable to receive care in a timely fashion. Similarly, the COVID-19 MHS Review Panel’s 2023 Report of the Congressional Defense Committees found that the DoD had “chronic shortages” of the specialty providers needed for warfighting, which were exacerbated by the pandemic. This was supported by Report No. DODIG-2022-081, “Evaluation of Department of Defense Military Medical Treatment Facility (MTF) Challenges During the Coronavirus Disease-2019 (COVID-19) Pandemic in Fiscal Year 2021,” April 5, 2022, which found that during the pandemic “26 out of 30 MTFs reported staffing and manpower shortages as the most serious challenge encountered by medical personnel.” MTF officials stated that the shortages were not a result of the pandemic but were compounded by it; they related that DoD-directed personnel cuts planned before the pandemic led to the shortages. These shortages caused burnout and decreased readiness for medical personnel, as well as delays in care and increased risk to patients.

Regarding specialty care, Report No. DODIG-2022-071, “Audit of Active Duty Service Member Alcohol Misuse Screening and Treatment,” March 10, 2022, found that the DHA and Services failed to adhere to prescribed timelines for screening and treatment for alcohol misuse because, among other reasons, “Services substance abuse centers, MTFs, or residential treatment facilities were understaffed,” resulting in delays in diagnosis and care, and risks to health and readiness.

Unclear Healthcare Policies

Vague healthcare policy has had negative effects on patient care in a variety of areas. DODIG-2022-071 found that DHA and Services did not clearly identify timeline requirements for substance abuse specialty care, which resulted in significant variance in assessment and treatment for Service members. For example, the timeline to provide assessment of a substance abuse disorder following a referral might be 7 days, 12 days, or even 28 days. Another variable was the frequency of screenings for alcohol use disorder.

The report found that because of the lack of clear and consistent guidance, "Service members were not assessed and treated in a timely manner."

Report No. DODIG-2022-030, "Evaluation of the Department of Defense's Implementation of Suicide Prevention Resources for Transitioning Uniformed Service Members," November 9, 2021, stated, "DoDI 6490.10 lacks a clear definition of a warm handoff, provider training protocols, standardized documentation methods, and oversight procedures to ensure compliance." As a result, Service members may experience interruptions in care and their safety may be jeopardized. Report No. DODIG-2002-006, "Evaluation of Traumatic Brain Injuries in the U.S. Central Command Area of Responsibility," November 1, 2021, discovered failures to report potentially concussive events to the U.S. Central Command because the governing document, CCR 40-1, was unclear and did not, "specify how often, or to whom to report potentially concussive events." Report No. DODIG-2023-059, "Evaluation of the DoD's Management of Traumatic Brain Injury," March 28, 2023, found that the "DoD did not implement consistent processes for the management of Traumatic Brain Injuries (TBI) care because DHA-Procedural Instructions 6490.04 does not clearly define 72-hour follow-up requirements." Consequently, only 31 percent of mild TBI patients received a follow-up within 72 hours, and 41 percent of patients received no follow-up care at all.

Inaccurate or Incomplete Data

Modern data systems such as the MHS GENESIS electronic health record (EHR) should enable the MHS to better track and manage patient care, provided data is available and accurate. While the DoD is tracking the timeline of the MHS GENESIS roll-out in its Strategic Management Plan, it makes no mention of accuracy. Report No. DODIG-2022-090, "Management Advisory: DoD Healthcare Provider Concerns Regarding the Access to Complete and Accurate Electronic Health Records," May 5, 2022, found that 91 percent of healthcare provider respondents reported inaccurate or incomplete patient healthcare information in MHS GENESIS. Furthermore, 56 percent of respondents employing medical devices stated that the transfer of data to MHS GENESIS produced inaccurate or incomplete results. DODIG-2023-059 found that officials at nearly half of the MTFs examined reported inaccuracies in TBI data. Similarly, DODIG-2022-006 found that U.S. Central Command was using EHRs to track potentially concussive events, but the data was incomplete, which could result in Service members being denied benefits and treatment for TBI.

In September 2023, the DoD OIG and the Inspectors General of the Departments of Justice, Health and Human Services, and VA, published the joint "Review of Personnel Shortages in Federal Healthcare Programs During the COVID-19 Pandemic." The DoD OIG has multiple ongoing projects related to health and wellness, including a management advisory dealing with concerns with access to healthcare in the MHS. Planned work for FY 2024 includes an evaluation of the use of multidisciplinary teams for suicide prevention and related care at the command and installation levels.

National security requires a healthy, medically ready force, and a ready medical force to support it. The 2022 National Security Strategy states, "Service members are the backbone of America's national defense and we are committed to their wellbeing." In his 2023 message to the force, the Secretary of Defense reaffirmed his commitment to "taking care of people" as one of his top priorities.

Adding to the complexity of ensuring the health and wellness of the force is the impact of the COVID-19 pandemic and ensuing strain on the MHS. DoD OIG work on these topics identified several issues, which were also raised to DoD stakeholders in response to a DoD OIG request for input on management and performance challenges: a shortage of healthcare providers, unclear policy, and inaccurate patient data.

PAYMENT INTEGRITY INFORMATION ACT REPORTING

In accordance with the Payment Integrity Information Act of 2019 (P.L. 116-117, 31 U.S.C. § 3352 and § 3357) and Appendix B of OMB Bulletin No. 24-02, Audit Requirements for Federal Financial Statements, dated July, 31, 2024, 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/afr.**

FRAUD REDUCTION REPORT

As a healthcare organization, the MHS is just as susceptible to healthcare fraud schemes as any other medical organization. Several federal laws governing fraud and abuse exist that specify the criminal, civil, and administrative penalties and remedies the government may impose on individuals or entities that commit fraud and abuse federal programs such as TRICARE. Violating these laws may result in nonpayment of claims, Civil Monetary Penalties, exclusion from all Federal healthcare programs, and criminal and civil liability. Government agencies, including the U.S. Department of Justice (DOJ), Health and Human Services (HHS), the HHS OIG, and the Centers for Medicare and Medicaid Services, enforce these laws. Within DoD and pursuant to DoD Directive 5106.01, the DoD OIG serves as the principal advisor to the SECDEF on all audit and criminal investigative matters and for matters relating to the prevention and detection of fraud, waste, and abuse in the programs and operations of the DoD. The DoD OIG initiates, conducts, supervises, and coordinates such audits, investigations, evaluations, and inspections within the DoD, including the Military Departments, as the DoD OIG considers appropriate. In addition, the DoD OIG provides policy and direction for audits, investigations, evaluations, and inspections relating to fraud, waste, abuse, program effectiveness, and other relevant areas within DoD OIG responsibilities.

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

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

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

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

The DHA OIG maintains a DHA Hotline Program, which includes inquiries addressing ASD(HA)-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 medium for individuals to report fraud, waste, and abuse; violations of law, rule, or regulation; mismanagement; and classified information leaks, including those involving ASD(HA)-DHP.

The term "improper payment" are payments made by the government to the wrong person, in the wrong amount, or for the wrong reason. Although not all improper payments are fraud, and not all improper payments represent a loss to the government, all improper payments degrade the integrity of government programs and compromise citizens' trust in government. The definition is found in the *Payment Integrity Information Act of 2019 (P.L. 116-117)* and the *OMB Circular A-123, Appendix C (OMB M-18-20)*.

The Payment Integrity Information Act of 2019 and OMB Circular A-123, Appendix C, require Federal agencies to report information related to improper payments. A program is designated by OMB as 'high-priority' when its annual improper payments estimate resulted in projected monetary losses that exceeded $100 million. OMB requires high-priority programs to submit semi-annual or quarterly scorecards on PaymentAccuracy.gov. These scorecards describe the root causes of improper payments, lists the planned corrective actions, and tracks the status of the high-priority program's progress towards reducing monetary loss.

DoD successfully closed out all three 'high-priority' programs, including Military Health Benefits, in FY 2023 by reducing monetary losses and restructuring programs to better align with program objectives. Therefore, DoD did not have to submit scorecards for any of the programs in FY 2024

BIENNIAL REVIEW OF USER FEES

Biennial Review of User Fees

ASD(HA) does not currently have a formal biennial review of fees, royalities, rents, or any other charges imposed as required by by 31 U.S.C. § 902. During FY 2025, ASD(HA) will assess current procedures to incorporate a formal biennial review process.

GRANTS PROGRAMS

Grants Programs

Title 2, Code of Federal Regulations, section 200.344 (2 CFR 200.344) requires federal agencies that issue grants and cooperative agreements (awards) to close the award once they determine that the required work and applicable administrative actions have been completed. To close the award, the awarding agency collects and reviews the required financial and performance reports from the awardee to ensure the terms and conditions were met (e.g., the appropriate use of awarded funds). Figure 3 — 6 provides data related to the ASD(HA)-DHP's awards and balances for which the closeout has not yet occurred and the period of performance has elapsed by two or more years.

Figure 3 — 6: Expired ASD(HA)-DHP Grant and Cooperative Agreement Awards Requiring Closeout (counts and amounts are reported as actual values)

CATEGORY	2-3 Years	4-5 Years	More than 5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	164	175	150
Number of Grants/Cooperative Agreements with Undisbursed Balances	25	2	0
Total Amount of Undisbursed Balances	$332,787	$88,062	$0

Challenges to closing out awards include DHA staffing levels and positive resolution of the Invention and Subcontracts Report. ASD(HA)-DHP will continue to pursue additional actions as necessary to progress toward a timelier closeout of awards after the period of performance.

Significant FY 2024 MHS Fraud Events (Source DCIS)

August 7, 2024

Ohio Doctor Sentenced for Conspiring to Accept Kickbacks in Connection with Fraudulent Telemarketing Scheme that Harmed Medicare and TRICARE Patients in Eastern Washington

Vanessa R. Waldref, the United States Attorney for the Eastern District of Washington, announced today that Thomas Andrew Webster, M.D., age 51, of Sylvania, Ohio, pleaded guilty to conspiring to accept kickbacks in connection with a fraudulent telemarketing and medical supply scheme throughout Washington and in other states. United States District Judge Mary K. Dimke imposed a sentence of 24 months in federal custody to be followed by 3 years of supervised release, as well as restitution of $839,566.44. In addition, Judge Dimke imposed a fine of $50,000.

July 16, 2024

Cooperating Cancer Testing Company Agrees to Pay Over $900,000 to Resolve Allegations of False Claims for Lab Tests

Guardant Health, Inc., a precision oncology company based in Palo Alto, has agreed to settle allegations that it knowingly violated the False Claims Act (FCA), 31 U.S.C. §§ 3729-31, and regulations of the Defense Health Agency (DHA), announced United States Attorney Ismail J. Ramsey, U.S. Department of Health and Human Services Office of the Inspector General (HHS-OIG) Acting Special Agent in Charge Jeffrey McIntosh, and Department of Defense Office of Inspector General, Defense Criminal Investigative Service (DCIS), Western Field Office, Special Agent in Charge Bryan D. Denny.

June, 5, 2024

Chronic Disease Management Provider to Pay $14.9M to Resolve Alleged False Claims

Bluestone Physician Services of Florida LLC, Bluestone Physician Services, P.A. and Bluestone National LLC, operating in Florida, Minnesota and Wisconsin, respectively, have agreed to pay $14,902,000 to resolve allegations that they knowingly submitted claims for certain Evaluation and Management (E&M) codes for services related to the management of chronic care patients in assisted living and other care facilities that were not provided in conformity with applicable Medicare, Medicaid and TRICARE requirements.

April 12, 2024

Final Defendants Sentenced in $65 Million TRICARE Fraud

The final two members of a massive conspiracy to bilk TRICARE, the military's healthcare program, out of more than $65 million have been sentenced in federal court.

March 1, 2024

Husband and Wife Sentenced for Defrauding TRICARE and Medicare out of $75 Million

Charles Ronald Green Jr. and his wife, Melinda Elizabeth Green, were sentenced in federal court today to 27 months each for fraudulently billing government healthcare programs more than $125 million for medically unnecessary treatments.

February 28, 2024

Doctor Pleads Guilty to Conspiring to Accept Kickbacks in Connection with Fraudulent Telemarketing Scheme Victimizing Medicare and TRICARE Patients in Eastern Washington

Vanessa R. Waldref, the United States Attorney for the Eastern District of Washington, announced today that Thomas Andrew Webster, M.D., age 51, of Sylvania, Ohio, pledge guilty to conspiring to accept kickbacks in connection with a fraudulent telemarketing and medical supply scheme throughout Washington and in other states. District Judge Mary K. Dimke accepted Dr. Webster's guilty plea and set sentencing for June 26, at 1:15 in Spokane, Washington. The Medicare program provides health insurance coverage for elderly and disabled Americans.

January 30, 2024

Government Contractors Agree to Pay $3.9 Million to Resolve Claims of Misrepresenting Women-Owned Small Business

QuarterLine Consulting Services, LLC, and its parent company, Planned Systems International, Inc. (PSI), both located in Arlington, agreed to pay $3.9 million to resolve allegations that QuarterLine made false statements about its women-owned small business (WOSB) status to obtain a Defense Health Agency (DHA) task order that was set aside for WOSBs to provide physicians to an Air Force military treatment facility. "This settlement demonstrates my office's commitment to ensuring a fair and honest playing field for companies who are called on to support the Department of Defense, and in this case, provide medical care to those serving our country," said Jessica D. Aber, U.S. Attorney for the Eastern District of Virginia.

January 25, 2024

Husband and Wife Sentenced for $65 Million TRICARE Fraud

Jimmy and Ashley Collins, a married couple living in Birchwood, Tennessee, were sentenced in federal court today for orchestrating a healthcare fraud scheme that bilked TRICARE – the healthcare program that covers United States service members – out of more than $65 million.

January 18, 2024

Former Pharmacy President Sentenced to Three Years in Prison for $32 Million Healthcare Kickback Scheme

A former president of a pharmacy business was sentenced today to 36 months in prison for his role in a healthcare kickback conspiracy involving prescriptions for Medicare and TRICARE beneficiaries, Attorney for the United States Vikas Khanna announced today. Elan Yaish, 54, of Israel, previously pleaded guilty on Aug. 16, 2023, before U.S. District Judge Esther Salas to an information charging him with conspiracy to violate the Federal Anti-Kickback statute. Judge Salas imposed the sentence today in Newark federal court.

December 22, 2023

Phillips Respironics Pays $2.4 Million for Allegedly Giving Kickbacks

Phillips Respironics, a manufacturer of durable medical equipment based in Pennsylvania, has paid $2,471,359.25 to resolve allegations that it violated the False Claims Act by giving kickbacks to sleep laboratories. The Anti-Kickback Statute prohibits paying money or giving goods to induce referrals for medical services or items covered by a federal healthcare program, such as Medicare, Medicaid or TRICARE. Claims submitted to these programs in violation of the Anti-Kickback Statute give rise to liability under the False Claims Act.

December 4, 2023

Doctor Charged in $14M Medicare and TRICARE Fraud Scheme

Vanessa R. Waldref, the United States Attorney for the Eastern District of Washington, announced today that Thomas Andrew Webster, M.D., age 50, of Sylvania, Ohio, has been charged by Filing of Information on one count of Conspiracy to Violate the Anti-Kickback Statue in connection with a fraudulent medical supply scheme that targeted elderly Medicare and TRICARE beneficiaries throughout Washington and in other states.

November 14, 2023

Three Men Sentenced for $54M Fraudulent Prescriptions Scheme

Three men were sentenced today in connection to 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. David Byron Copeland, 55, of Tallahassee, Florida, was sentenced to four years and three months in prison following his conviction at trial in June for paying and receiving healthcare kickbacks. James Wesley Moss, 60, of Huntsville, Alabama, and Michael Gordon, 60, of Fort Myers, Florida, were sentenced to two years and three months and one year and six months in prison, respectively, following their guilty pleas to a kickback and fraud conspiracy, among other charges.

November 7, 2023

Former San Antonio Health Services Employee Sentenced for Receiving Kickbacks

A San Antonio woman was sentenced in a federal court today to 10 years of probation and fined $200,000 for two charges related to healthcare kickbacks. According to court documents, from June 2014 to April 2019, Amber Ashley Price, 40, engaged in a conspiracy to pay and receive kickbacks in return for sending prescriptions to specific pharmacies. Some prescriptions were paid for by federal insurance programs including Medicare, Medicaid, the Federal Employees Health Benefits (FEHB) Program, and TRICARE. Price, an employee of Kindred Home Health, would also refer patients to other home health agencies in the San Antonio area for a kickback payment. At least some of the patients referred were Medicare beneficiaries.

October 26, 2023

Man Convicted of $55M Fraud Scheme

A federal jury in the Northern District of Texas convicted a medical marketer today for his role in a $55 million fraud conspiracy involving TRICARE, a federal program that provides health insurance benefits to active duty and retired service members and their families, and several other federal healthcare programs. According to court documents and evidence presented at trial, Quintan Cockerell, 42, of Palos Verdes Estates, California, worked with others to create and market expensive compounded medications, which are medications intended to be custom-tailored to individual patient needs. However, instead of custom-tailoring these medications, a local pharmacy designed formulations to maximize TRICARE and other federal healthcare program reimbursements regardless of patient need or medical efficacy. Pharmacy owners and others paid illegal kickbacks to individuals like Cockerell, who recruited area doctors to write prescriptions for these expensive compounded medications, including by creating so-called investment opportunities so that doctors who wrote prescriptions to the pharmacy could profit from the pharmacy operations. Cockerell then spent the proceeds of the scheme on expensive vacations, trips on private jets, and a yacht charter.

October 26, 2023

Putnam Community Medical Center Of North Florida Agrees To Pay One Million Dollars To Settle False Claims Liability Related To Its Former Sleep Center

United States Attorney Roger B. Handberg announces today that Putnam Community Medical Center of North Florida, who owns and operated Putnam Community Medical Center, LLC, a 99-bed hospital located in Palatka, Florida, has agreed to pay the United States $1million to resolve allegations that they violated the False Claims Act by submitting claims to Medicare and TRICARE in connection with a now-closed sleep center that were alleged to have operated with inadequate physician supervision. According to the settlement agreement, Putnam Community Medical Center provided diagnostic sleep testing services at its nowclosed sleep center, which the United States and the State of Florida allege were not provided with adequate physician supervision as required under certain Medicare coverage determinations and regulations during the period from December 2013 through February 2019.

October 18, 2023

Jena Medical Group, LLC, Its Principals And Physician Agree To Pay Over $1.7 Million To Settle False Claims Act Liability For Improperly Performed Procedures

United States Attorney Roger B. Handberg announces today that Jena Medical Group, LLC, Benjamin Weiss, Moishe Hoffman, and Jason Schultz have agreed to pay the United States $1,724,986.08 to resolve allegations that they violated the False Claims Act by submitting claims to Medicare and TRICARE for radiofrequency ablations that were performed by an unqualified technician. According to the settlement agreement, Jena Medical, through its principals, Benjamin Weiss, Moishe Hoffman, and through Dr. Jason Schutlz, billed Medicare and TRICARE for radiofrequency ablations that were not medically necessary, not provided by a qualified provider, or both, during the period from January 1, 2018, through December 31, 2020. According to the allegations, patients referred to the unqualified technician as “doctor” and were led to believe he was qualified to perform their procedures. Jena Medical also permitted the washing and re-use of catheters that were designed for a single use.

CLIMATE-RELATED FINANCIAL RISK

Climate change continues to increase the demand and scope for military operations at home and around the world. The DoD missions and operations are adversely impacted by climate change through amplifying operational demands on the force, degrading installations, infrastructure, and systems, and increasing health risks to Service members.

Climate adaptation efforts must align with and support the Department's warfighting requirements. Reducing climate risks and bolstering installation resilience is critical to prevent disruptions to DoD's operational plans, enable rapid recovery from extreme weather and climate impacts, and maintain mission readiness. The progress of the DoD Climate Adaptation Plan can be found at: **https://www.sustainability.gov/dod.html**

DHA-FE oversees the evaluation of climate-related risks in the life cycle of our supported facilities. Mechanisms have been put in place to assess the risk and impact of climate change. Planning efforts include an assessment of climate related changes during the early stages of a facility's planning and programming and reviewed by senior leaders for completeness. During FY 2025, DHA-FE will continue to assess the need for further climate related risks and strategies to incorporate into facilities management.

Agency Audit Resolution Reports

The DoD publishes the **Audit Oversight Report**. Included in the report, is the summary of the audit opinions of the financial statements audits for the MILDEPs and ODOs with stand-alone audits. Furthermore, a summary of root causes, progress made, and remaining challenges are highlighted. DHA provides input to OSD regarding resolution made to the Agency's financial statement audits. For FY 2024, details were provided regarding ASD(HA)-DHP's actions in addressing existing audit conditions. The efforts of the ASD(HA)-DHP closed 2 of the 10 auditor-reported MWs and downgraded one MW to a significant deficiency.

Financial Reporting-Related Legislation

Section 716 of the James M. Inhofe National Defense Authorization Act for FY 2023

Section 716 of the James M. Inhofe National Defense Authorization Act for Fiscal Year 2023, titled "Improvements to Processes to Reduce Financial Harm Caused to Civilians for Care Provided at Military Medical Treatment Facilities," amended section 1079b of title 10, United States Code. These amendments apply to care provided at DoD military MTFs on or after June 21, 2023. Section 716 introduced financial protections for civilians (non-beneficiaries) receiving medical care at DoD MTFs. Key aspects include: (1) Fee Reductions – The Director of the DHA is required to reduce fees for certain civilians at risk of financial harm by implementing a sliding fee discount program and a catastrophic cap waiver; and (2) Discretionary Waivers – The Director of DHA has the authority to waive fees under specific conditions.

To implement Section 716, the ASD(HA), in collaboration with the DHA, developed a new proposed federal rule, the Military Health System Modified Payment and Waiver Program (MHS-MPWP). It provides a comprehensive approach to mitigate financial harm caused by medical bills generated at MTFs. The financial impact of implementing Section 716 and how it is reported in the ASD(HA)-DHP Agency Financial Report will be determined when the Final Rule is published, after the DoD considers public comments.

The proposed MHS-MPWP represents a significant step towards ensuring fair and reasonable medical billing practices for civilian non-beneficiaries at MTFs. By offering sliding scale discounts, catastrophic caps, and waivers, the DoD aims to substantially reduce the financial burden on civilian patients while maintaining the quality of care and educational opportunities for healthcare providers.

APPENDIX

ACRONYMS AND ABBREVIATIONS

ABACUS	Armed Forces Billing and Collection Utilization Solution
ADA	Anti-deficiency Act
ADP	Additional Discount Program
AFR	Agency Financial Report
ASD(HA)	Assistant Secretary of Defense (Health Affairs)
BUMED	Navy Bureau of Medicine and Surgery
CAC	Collections Advisory Committee
CCE	Coding and Compliance Editor
CCMDs	Combatant Commands
CEFMS II	Corps of Engineers Financial Management System II
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act
CFO	Chief Financial Officer
CHAMPUS	Civilian Health and Medical Program of the Uniformed Services
CHCBP	Continued Health Care Benefit Program
CIP	Construction In Process
COTS	Commercial Off-the-Shelf
COVID-19	Coronavirus Disease 2019
CPI	Continous Process Improvement
CRM	Contract Resource Management
CSA	Combat Support Agency
CSRS	Civil Service Retirement System
CY	Current Year
DAI	Defense Agencies Initiative
DASD	Deputy Assistant Secretaries of Defense
DATA Act	Digital Accountability and Transparency Act of 2014
DAWDF	DoD Acquisition Workforce Development Fund
DCIA	Debt Collection Improvement Act of 1996
DCIS	Defense Criminal Investigative Service
DDRS	Defense Departmental Reporting System
DDRS-AFS	Defense Departmental Reporting System - Audited Financial Statements
DEAMS	Defense Enterprise Accounting and Management System
DFAS	Defense Finance and Accounting Service
DHA	Defense Health Agency
DHA-FE	Defense Health Agency Facility Enterprise
DHA-HCFD	DHA-Health Care Fraud Division
DHAPP	Department of Defense HIV/AIDS Prevention Program
DHN	Defense Health Network
DHP	Defense Health Program
DIMO	Defense Institute for Medical Operations

ACRONYMS AND ABBREVIATIONS

DM&R	Deferred Maintenance and Repairs
DML-ES	Defense Medical Logistics – Enterprise Solution
DMLSS	Defense Medical Logistics Standard Support
DoD	Department of Defense
DOJ	Department of Justice
DOL	Department of Labor
DSCA	Defense Security Cooperation Agency
DVIDS	Defense Visual Information Distribution Service
EHR	Electronic Health Record
ELCs	Entity Level Controls
EOU	Excess, Obsolete, and Unserviceable
ERP	Enterprise Resource Planning
FASAB	Federal Accounting Standards Advisory Board
FBwT	Fund Balance with Treasury
FCI	Facility Condition Index
FECA	Federal Employees' Compensation Act
FEDVIP	Federal Employees Dental and Vision Insurance for Program
FEGLI	Federal Employee Group Life Insurance
FEHB	Federal Employee Health Benefit
FFATA	Federal Funding Accountability and Transparency Act of 2006
FFMIA	Federal Financial Management Improvement Act
FFRDC	Federally Funded Research and Development Centers
FISMA	Federal Information Security Modernization Act
FLTCIP	Federal Long-Term Care Insurance Program
FMFIA	Federal Managers' Financial Integrity Act
FMR	Financial Management Regulation
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAFS-R	General Accounting and Finance System – Reengineered
GAO	Government Accountability Office
GFEBS	General Fund Enterprise Business System
GL	General Ledger
GMRA	Government Management Reform Act
GONE Act	Grants Oversight and New Efficiency Act
HA	Health Affairs
HCFD	Health Care Fraud Division
HFFU	Held for Future Use
HHS	Health and Human Services
HJF	Henry M. Jackson Foundation

ACRONYMS AND ABBREVIATIONS

HRO	High Reliability Organization
IBNR	Incurred But Not Reported
ICO	Internal Controls Over Operations
ICOR-FR	Internal Controls Over Reporting for Financial Reporting
ICOR-FS	Internal Controls Over Reporting for Financial Systems
ICOR-O	Internal Controls Over Reporting for Operations
IPA	Independant Public Auditor
IUS	Internal Use Software
KPI	Key Performance Indicator
MEDCOM	U.S. Army Medical Command
MERHCF	Medicare-Eligible Retiree Health Care Fund
MHS	Military Health System
MHS-MPWP	Military Health System Modified Payment and Waiver Program
MILCON	Military Construction
MILDEP	Military Departments
MSA	Medical Services Accounts
MTFs	Military Medical Treatment Facilities
NDAA	National Defense Authorization Act
NDS	National Defense Strategy
NIST	National Institute of Standards and Technology
NMHM	National Museum of Health and Medicine
O&M	Operation and Maintenance
OACT	Office of the Actuary
ODO	Other Defense Organizations
OIG	Office of Inspector General
OM&S	Operating Materials & Supplies
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OSD	Office of the Secretary of Defense
OUSD	Office of the Under Secretary of Defense
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)
PP&E	Property, Plant, and Equipment
RCRA	Resource Conservation and Recovery Act
RDT&E	Research, Development, Test & Evaluation
RSI	Required Supplementary Information
RSL	Remaining Service Life
SABRS	Standard Accounting, Budgeting, and Reporting System

ACRONYMS AND ABBREVIATIONS

SARA	Superfund Amendments and Reauthorization Act
SBR	Statements of Budgetary Resources
SCNP	Statements of Changes in Net Position
SDP	Standard Discount Program
SECDEF	Secretary of Defense
SF	Standard Form
SFFAS	Statement of Federal Financial Accounting Standards
SL	Subledger
SME	Subject Matter Expert
SMS	Sustainment Management System
SNC	Statements of Net Cost
SOA	Statement of Assurance
SRM	Sustainment Restoration and Modernization
TAS	Treasury Account Symbol
TBI	Traumatic Brain Injuries
TED	TRICARE Encounter Data
TFM	Treasury Financial Manual
TPCP	Third-Party Collection Program
TPR	TRICARE Prime Remote
TRR	TRICARE Retired Reserve
TRS	TRICARE Reserve Select
TYA	TRICARE Young Adult
U.S.C.	United States Code
UDOs	Undelivered Orders
UMP	Unified Medical Program
USACE	United States Army Corps of Engineers
USFHP	Uniformed Services Family Health Plan
USSGL	United States Standard General Ledger
USUHS	Uniformed Services University of the Health Sciences
VA	Veterans Affairs

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Thank you for interest in ASD(HA) - DHP FY 2024 AFR. We welcome your comments on how we can make this report more informative for our readers. Electronic copies of this report and prior years' reports are available through the Agency's website. Please send your comments to:
dha.ncr.bus-resource-mgt.mbx.dhp-afr- team@health.mil

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