Contract Resource Management

★★★ Agency Financial Report ★★★

Fiscal Year 2020

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Agency Head Message

Despite the challenges the Nation and the world are facing during this unprecedented time, the Military Health System (MHS) continues to deliver on our healthcare mission to support the warfighter and care for our 9.6 million beneficiaries, including serving on the front lines of the Coronavirus disease of 2019 (COVID-19) response. We do this while refocusing our military medical treatment facilities on readiness, providing world-class combat support capabilities, and delivering quality healthcare.

The ability to perform our mission is entirely contingent on the resources we're allocated to carry it out. Protecting and stewarding those resources—whether it's equipment, buildings, people or funding—is our fundamental responsibility. We have a duty to extract maximum value from every taxpayer dollar entrusted to us in order to gain the confidence of Congress and the American people. Prudently managing appropriations through a fiscally sound business environment replete with checks and balances, and in full compliance with fiscal laws and accounting principles, is inherently the duty of every member of our workforce. Further, working to reform our business practices for greater performance and affordability is one of three lines of effort espoused in the National Defense Strategy.

Our financial statement audits are vital in helping us verify that we're properly managing the funds, equipment, property, materials and supplies entrusted to us, while testing vulnerabilities in DoD business systems and validating the accuracy of financial transactions and records. We have now undergone our third consolidated financial statement audit. While our Contract Resource Management audit resulted in an "Unmodified Opinion" for the 11th consecutive year and our Medicare-Eligible Retiree Health Care Fund audit resulted in a sustained "Modified Opinion"; our Defense Health Program (DHP) audit once again yielded a "Disclaimer of Opinion." Although we've not yet resolved the issues identified in the Fiscal Year 2019 DHP audit report, we successfully remediated 42 Notifications of Findings and Recommendations (NFRs) comprising 22 percent of our total NFRs—a compelling accomplishment.

We are committed to ramping up our remediation efforts to successfully implement more corrective actions. We are in the process of refining our audit strategy so as to concisely focus on remediation of material weaknesses and establish a more robust Risk Mitigation and Internal Control program (formerly the Manager's Internal Control Program). We will continue to proactively seek opportunities to enhance and mature the design and operating effectiveness of our financial processes, systems, and internal controls in order to achieve a clean audit opinion of our DHP financial statements.

We have made significant progress in remediating material weaknesses and strengthening our internal controls, but there is much left to do and we cannot achieve it without the hard work of our MHS workforce. Our collective commitment to enhancing fiscal responsibility and efficiency means a stronger MHS to best support our mission, our patients and our Nation.

//SIGNED//

Thomas P. McCaffery

Assistant Secretary of Defense for Health Affairs

I. Management's Discussion and Analysis

Mission and Organization Structure

Description of the Reporting Entity

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

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

The MHS consists of a combination of MTFs and regional networks of civilian providers that work together to provide care to 9.6 million eligible beneficiaries. The MHS direct care system is staffed by more than 138,000 personnel in 50 hospitals, 425 medical clinics, and 497 dental clinics at facilities around the globe. The MHS is a complex system that globally integrates: health care delivery, public health and medical education, private sector partnerships, and cutting-edge medical research and development.

Defense Health Agency

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

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

The DHA has developed three strategic goals:

- Optimize the DHA for Greater Performance
- Co-create Optimal Outcomes for Health, Well-being and Readiness
- Deliver Global Support for Combat Forces

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

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

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

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

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

The most current generation of the TRICARE managed care support contracts went into effect January 1, 2018, which established two TRICARE regions in the United States, East and West, with a single contract for each region. Before January 1, 2018, the private sector care contracts were organized into three geographical regions –North, South, and West. The current generation merged the North and the South regions, now called the East region.

MCSCs are responsible for managing the delivery of health care to TRICARE's beneficiaries by developing and maintaining a civilian provider network consisting of both primary care and specialist providers. The MCSCs are

also responsible for ensuring adequate access to health care, referring and authorizing beneficiaries for health care, educating providers and beneficiaries about TRICARE benefits, credentialing providers, and processing claims.

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

Contract Resource Management

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

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

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

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

DHA-CRM Funding Sources

Fiscal Year	MERHCF Funding (Billions)	Annual Appropriations (Billions) *
2020	$8.4	$16.2
2019	$8.3	$15.1

* DHA-CRM received Funding Authorization Documents (FADs) for FY19/1889 of $15.1 billion through September 30, 2019. DHA-CRM received FADs for FY20/9700 of $16.1 billion through September 30, 2020. DHA-CRM received supplemental FADs for FY20-FY22/9703 of $82.0 million through September 30, 2022. Total appropriated FADS of $16.2 million includes supplemental funding received in FY20.

For FY 2019, the "Department of Defense and Labor, Health and Human Services, and Education Appropriations Act, 2019 and Continuing Appropriations Act, 2019", Public Law (P.L.) No. 115-245, became law September 28, 2018, providing DoD funding for FY 2019.

For FY 2020, the "Consolidated Appropriations Act, 2020", P.L. No. 116-93, became law December 20, 2019, providing DoD funding for FY 2020.

TRICARE

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

TRICARE offers beneficiaries a family of health plans, based on the following primary options:

- ***TRICARE Prime*** is an enrollment plan comparable to health maintenance organization (HMO) plans. Each enrollee is assigned a primary care manager (PCM), a health care provider who is responsible for helping the patient manage his or her care, promoting preventive health services (e.g., routine exams and immunizations), and arranging for specialty provider services as indicated. TRICARE Prime access standards apply to the travel time to reach a primary care or specialty care provider, waiting times to get an appointment, and waiting times in doctors' offices. TRICARE Prime's point-of service (POS) option permits enrollees to obtain care from TRICARE-authorized providers other than the assigned PCM without a referral, but with deductibles and cost shares significantly higher than those under TRICARE Select.
- ***TRICARE Select*** is an enrollment-based, self-managed preferred provider organization (PPO) plan that features access to both network and non-network TRICARE-authorized providers with no referrals required for coverage.
- ***TRICARE for Life (TFL)*** is Medicare wraparound coverage for TRICARE-eligible beneficiaries who have Medicare as their primary health coverage. In most instances, Medicare pays first, then TRICARE pays second.
- ***Other Plans and Programs:*** Some beneficiaries may qualify for other benefit options depending on their location, Active/Reserve status, and/or other factors. Some examples are:
  - Premium-based health plans, including:
    - TRICARE Young Adult (TYA), available for purchase by qualified dependents up to the age of 26
    - TRICARE Reserve Select (TRS), available for purchase by qualified Selected Reserve members
    - TRICARE Retired Reserve (TRR), available for purchase by qualified Retired Reserve members
    - TRICARE Dental Program (TDP), available for purchase by Selected Reserve members and family members, and family members of Active Duty members
    - Continued Health Care Benefit Program (CHCBP), which provides a Consolidated Omnibus Budget Reconciliation Act-like continuation benefit.
    - Federal Employees Dental and Vision Insurance for Program (FEDVIP) offers dental insurance for purchase by retirees and vision insurance for purchase by most TRICARE plan enrollees
  - Other major benefits and plans, including:
    - The Transitional Assistance Management Program (TAMP), which provides 180 days of premium-free continued access to the TRICARE benefit after release from Active Duty for certain Active Component members separating from Active Duty and Reserve Component members who have served more than 30 consecutive days in support of a Contingency Operation
    - Dental benefits (military dental treatment facilities and claims management for Active Duty using civilian dental services)

  - Pharmacy benefits in MTFs, via TRICARE retail network pharmacies, and through the TRICARE Pharmacy Home Delivery program (formerly called TRICARE Mail Order Pharmacy)
  - Overseas purchased care and claims processing services
- Supplemental programs, including:
  - TRICARE Prime Remote (TPR) in the United States and overseas, DoD and VA sharing arrangements, and joint services
  - USFHP, which provides the full TRICARE Prime benefit, including pharmacy (under capitated payment) to non-Active Duty MHS enrollees at six statutorily specified locations: Washington, Texas, Maine, Massachusetts, Maryland, and New York
  - Chiropractic care, limited to Service members (on Active Duty) at certain MTFs only (no private sector chiropractic care is authorized)
  - Clinical and educational services demonstration programs (e.g., chiropractic care, autism services, and the accountable care organization [ACO])

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

Health Care Purchased From Civilian Providers

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

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

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

Medicare Eligible Retiree Health Care Plans

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

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

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

In accordance with DoD 7000.14-R, *Financial Management Regulation (FMR)*, Volume 12, Chapter 16, DHA-CRM reports daily obligations to the MERHCF for healthcare purchased from civilian providers or "purchased care". Daily claims are validated by the voucher edit procedures required by the TRICARE/Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) *Automated Data Processing Manual* 6010.50-M, dated May 1999, to ensure that only costs attributable to Medicare-eligible beneficiaries are included in payments drawn from the MERHCF.

DHA Program Integrity Office

The DHA Office of Program Integrity (PI) manages anti-fraud and abuse activities for the DHA to safeguard beneficiaries and protect benefit dollars. The PI responsibilities include:

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

During calendar year 2019, 875 investigative cases were actively managed, 329 new cases were opened, 353 cases were closed, and 1,485 leads/requests for assistance were responded to. DHA PI Division received and evaluated 429 new qui tams.[1] A qui tam is a provision of the Federal Civil False Claims Act (FCA) that allows private citizens, known as relators, to file lawsuits in the name of the U.S. Government alleging that private companies—usually their employer—have submitted fraudulent claims for government payment. The private whistleblowers who file these qui tam lawsuits receive a percentage of the settlement or judgment amount if a settlement or judgment is reached.

[1] For more information, please refer to DHA's "Program Integrity Operational Report" dated January 1, 2019 through December 31, 2019, available at https://www.health.mil/Reference-Center/Reports/2020/04/17/2019-Annual-Fraud-and-Abuse-Report. The FY 2020 data will not be available until published in April 2021, due to the time required to compile 4th Quarter, FY 2020 data.

Analysis of Performance Goals, Objectives, and Results

Performance Measures

The *Evaluation of the TRICARE Program: Fiscal Year 2020 Report to Congress Access, Cost, and Quality Data through Fiscal Year 2019,* reflects DHA's mission and vision statements, updates and refines descriptions of core values, and presents key results of the metrics supporting DHA's Strategic Plan[2] that focuses on how DHA defines and measures mission success, and how DHA plans to continuously improve performance. DHA-CRM supports these goals through its mission to add value to the DHA by delivering exceptional accounting, financial, and reporting services in support of the TRICARE Private Sector Healthcare and TRICARE Retail Pharmacy Refund programs.

*Stakeholder Perspective**

- The $49.2 billion Unified Medical Program (UMP) presented in the FY 2020 President's Budget, including estimated outlays from MERHCF, is 3% lower than the FY 2019 actual expenditures, and is 7% of total FY 2020 estimated DoD outlays.
- In 2019, 9.6 million beneficiaries were eligible for DoD medical care; almost 4.9 million (51%) enrolled in TRICARE Prime (including TYA Prime and USFHP).
- TYA enrollment increased to over 37,000 beneficiaries under age 26 enrolled in FY 2019, from almost 36,500 in FY 2018, with most enrolled in the TRICARE Select benefit (72%).
- There were almost 391,000 enrollees in the premium-based TRS in 146,500 plans, while retired Reservists and their families in TRR reached just over 3,800 plans and almost 10,500 covered lives.

*MHS Workload and Cost Trends**

- The percentage of beneficiaries using MHS services remained constant between FY 2017 and FY 2019, at 86%.
- Excluding TFL, total MHS workload (direct and purchased care combined) fell from FY 2017 to FY 2019 for inpatient care (-7%) and prescription drugs (-5%) but remained unchanged for outpatient care.
- From FY 2017 to FY 2019, direct care workload decreased for inpatient care (-13%) and outpatient care (-8%) but remained unchanged for prescription drugs. Over the same period, total direct care costs fell by 3%.
- Excluding TFL, purchased care workload fell for inpatient care (-4%) and prescription drugs (-14%) but rose for outpatient care (5%).
- The purchased care portion of total MHS health care expenditures rose from 53% in FY 2017 to 55% in FY 2019.
- In FY 2019, out-of-pocket costs for MHS beneficiary families under age 65 were between $6,500 and $7,100 lower than those for their civilian counterparts, while out-of-pocket costs for MHS senior families were $3,200 lower.

*Lower Cost**

- MHS estimated savings include nearly $861 million in retail pharmacy refunds in FY 2019 and $149 million in PI activities in calendar year 2018.

*Improved Readiness**

- **Force Health Protection:** At the end of FY 2019, the overall medical readiness of the Total Force was at 86%, with the Active Component at 87% and the Reserve Component at 85%, all equaling or exceeding the strategic goal of 85%. Dental readiness, at 94%, was just under the MHS goal of 95%. The MHS surgical community is leading the way in identifying and enumerating critical clinical readiness skill sets.

[2] https://www.health.mil/Reference-Center/Reports/2019/10/17/Defense-Health-Agency-Strategy-Map

*Better Care**

- **Access to Care:** Patient-Centered Medical Home (PCMH) primary care administrative measures indicate that, in FY 2019, MTF enrollees saw their primary care provider 57% of the time and a PCMH team member 83% of the time. Days to third next 24-hour or acute appointments (1.21 days) did not meet the one-day goal, but continued to be shorter than the minimum seven-day standard for future appointments (The direct care system prospectively measures access to primary care by evaluating the average number of days to the third next available 24-hour or acute appointment and third next available future appointment against the MHS goals of 1.0 and 7.0 days, respectively. Measuring third next or a prospective measurement of access to care is considered a more sensitive and accurate measure of access than retrospective analysis of when the appointment was booked). Network urgent care usage increased from 13 visits per 100 enrollees in FY 2018 to 18 visits per 100 enrollees in FY 2019, consistent with the enhanced benefit. Beneficiary enrollment in and MTF responsiveness to secure messaging increased in FY 2019. The standardized Joint Outpatient Experience Survey (JOES) survey shows 76-81% of MTF users in FY 2019 reported they could get care when needed. Administrative data shows that 89% of non-Active Duty enrollees had at least one primary care visit in FY 2019; 81% of those using purchased care had at least one visit during that year.
- **Hospital Quality of Care:** MTFs and MHS civilian network hospital performance perinatal quality measures are comparable to The Joint Commission® (TJC) hospital benchmarks. MHS civilian network hospitals and inpatient MTFs are required to maintain accreditation by a recognized external accreditation organization to demonstrate compliance with national standards of care.
- **Outpatient Care:** MTF Healthcare Effectiveness Data and Information Set (HEDIS®) rates exceed the national standards at the 90th percentile for treatment of children with upper respiratory infection, and surpass the national 75th percentile for cervical cancer screenings, colorectal cancer screening, low back pain imaging, and treating children for pharyngitis. Based on only claims data, purchased care is in the 50th percentile for colorectal cancer screening.
- **Beneficiary Ratings of Inpatient Care - Overall Hospital Rating:** Direct care has shown improved patient hospital ratings from FY 2017 to FY 2019, meeting or exceeding the national Hospital Consumer Assessment of Healthcare Providers and Systems (HCAHPS) benchmark average in the medical and surgical product lines with three MTFs at the 90th percentile and ten MTFs at the 75th percentile. Although ratings continue to improve in the obstetric product line, they remain below the HCAHPS benchmark.
- **Patient Safety:** The MHS direct care system has been focusing on reducing Wrong-Site Surgery Reportable Events (WSS REs) education and leadership engagement, with a goal of zero events. There was a reduction in REs from FY 2018 (45) to FY 2019 (27).
- **MHS Provider Trends:** The number of TRICARE network providers increased by 22% from FY 2015 to FY 2019. The total number of participating providers increased by 11% over the same time period.
- **Access for TRICARE Select (Standard/Extra) Users:** Results from the third year of the congressionally mandated four-year survey (2017–2020) of civilian providers and MHS non-enrolled beneficiaries shows eight of 10 physicians accept new TRICARE Select patients, a higher acceptance rate than reported for behavioral health providers.

*Note: Source of all metrics presented above is the *Evaluation of the TRICARE Program: Fiscal Year 2020 Report to Congress Access, Cost, and Quality Data through Fiscal Year 2019* located at https://www.health.mil/Reference-Center/Reports/2020/06/29/Evaluation-of-the-TRICARE-Program-Fiscal-Year-2020-Report-to-Congress.

Analysis of Financial Statements

Comparative Financial Data

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

Contract Resource Management Table of Key Measures						
(dollars in thousands)		FY 2020		FY 2019	Increase/(Decrease)	
					$	%
Costs						
Total Financing Sources	$	16,160,541	$	15,235,391	$ 925,150	6%
Less: Net Cost		31,593,198		21,225,162	10,368,036	49%
Net Change of Cumulative Results of Operations	**$**	**(15,432,657)**	**$**	**(5,989,771)**	**$ (9,442,886)**	**158%**
Net Position						
Assets:						
Fund Balance with Treasury	$	1,751,939	$	1,344,112	$ 407,827	30%
Accounts Receivable, Net		455,463		477,347	(21,884)	-5%
Total Assets*	**$**	**2,208,531**	**$**	**1,821,603**	**$ 386,928**	**21%**
Liabilities:						
Accounts Payable	$	428,918	$	532,374	$ (103,456)	-19%
Military Retirement and Other Federal Employment Benefits		201,725,216		185,568,584	16,156,632	9%
Total Liabilities*	**$**	**202,155,263**	**$**	**186,101,102**	**$ 16,054,161**	**9%**
Net Position (Assets minus Liabilities)	**$**	**(199,946,732)**	**$**	**(184,279,499)**	**$ (15,667,233)**	**9%**

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

Total Financing Sources

Total Financing Sources increased by $925.2 million (6%) because of an increase in healthcare costs.

Net Cost

Total Net Cost of Operations increased $10.4 billion (49%) for the reasons noted below.

Total Costs

Intragovernmental costs increased $139.2 million (18%) due to increases in the TRICARE Pharmacy Home Delivery benefit program of $137.3 million, accounting for 99% of the increase.

Public costs, other than losses/gains from actuarial assumption changes, increased $1.1 billion (6%) primarily due to a net increase in Actuarial Expense – Other than Losses/(Gains) from Assumption changes of $1.3 billion, accounting for 118% of the increase.

Losses from actuarial assumption changes increased $9.1 billion (376%) (see below).

The actuarial liability for Military Pre Medicare-Eligible Retiree Health Benefits has three components that affect net cost. The first, Expenses Other than Losses/(Gains) from Actuarial Assumption Changes, mentioned above, increased $1.3 billion. The second, Losses/(Gains) from Actuarial Assumption Changes increased $9.1 billion and the third, Benefit Outlays, increased $0.1 billion, netting to an increase in actuarial expenses of $10.3 billion. The actuarial liability is discussed in detail in Note 6.

Total Revenue

Total earned revenue increased $3.9 million (0.3%). Intragovernmental revenue increased $5.6 million (1%) attributable to an increase in revenue from the Coast Guard of $5.1 million, PHS of $0.1 million and NOAA of $0.3 million, accounting for 98% of the increase.

Public revenue decreased $1.7 million attributable to a decrease in revenue from Prime Enrollment Fees of $14.5 million, offset by increases in revenue from CHCBP of $1.0 million, TYA of $6.9 million, and TRS of $5.0 million, accounting for 94% of the decrease.

Net Change in Cumulative Results of Operations

Net Change in Cumulative Results of Operations decreased $9.4 billion (-158%) due to an increase in budgetary financing sources and net costs as discussed above.

Fund Balance with Treasury (FBWT)

FBWT increased $407.8 million (30%). The increase is attributable to an increase in unobligated balance available of $382.1 million (programmatic FAD increase offset by an increase in obligations) and an increase in obligations not yet disbursed of $174.8 million, offset by FAD returns and deobligations of $33.7 million and net appropriation exchanges of $107.5 million, accounting for 102% of the increase.

Appropriations transferred-in/out decreased $636.3 million (-125%) due to net transfers-out within FY 2020 of $125.3 million compared to net transfers-in within FY 2019 of $511.0 million. In FY 2019, DHA-CRM saw an increase in healthcare costs (compared to FY 2018), which required addition funding from other sources. In FY 2020 CRM had anticipated an increase in healthcare costs and therefore had received additional funding.

Accounts Receivable

Accounts Receivable decreased $21.9 million (-5%).

Federal Accounts Receivable decreased $1.2 million (-3%) attributable to decreases in billings to the Coast Guard of $2.3 million and the PHS of $0.1 million, and offset by Cash Management Report changes of $1.2 million, accounting for 100% of the decrease.

Non-Federal Accounts Receivable decreased $20.7 million (-5%), attributable to a decrease in Other Receivables of $42.3 million offset by an increase of $21.6 million in the TRICARE Retail Pharmacy Refunds Program.

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

The decrease in Other Receivables of $42.3 million, mentioned above, was primarily due to net decreases in contractor held debt of $25.8 million and TEDS claims/TRICARE Claims Management (TCM) of $18.5 million, accounting for 105% of the decrease.

Total Assets

Total Assets increased $386.9 million (21%), primarily due to the increase in FBWT of $407.8 million offset by a decrease in Accounts Receivable of $21.9 million.

Accounts Payable

Accounts payable decreased $103.5 million (-19%), primarily attributable to decreases in Managed Care Support Contracts of $29.9 million, MTF Enrollees of $21.3 million, Supplemental Health Care of $26.4 million, and Capital and Direct Medical Education Costs of $31.1 million, 105% of the decrease.

Military Retirement and Other Federal Employment Benefits

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

Note 6 of the financial statements reflects two distinct types of liabilities related to 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 health care benefits that are not yet incurred. The line entitled "Other" represents the incurred-but-not-reported (IBNR) reserve amount which is an estimate of benefits already incurred but not yet reported to DoD for all DHP beneficiaries excluding those from the retiree population.

The DHA-CRM actuarial liability is adjusted at the end of each fiscal year. The 4th Quarter, FY 2020 balance represents the September 30, 2020 amount.

Total Liabilities

Total Liabilities increased $16.1 billion (9%), primarily due to the increase in Military Retirement and Other Federal Employment Benefits, the actuarial (or accrued) liability for future health care benefits that are not yet incurred discussed above.

Net Position

Net Position decreased $15.7 billion (-9%), due to the net increases in liabilities discussed above.

Covid-19 Resources

DHA-CRM received $82.0 million in supplemental funding under the Families First Act (P.L. 116-127 Families First Coronavirus Response Act) to cover co-pay/cost share waivers for COVID-19 diagnostic testing and services. DHA-CRM incurred obligations of $61.2 million during FY 2020 to cover co-pay/cost share waivers for COVID-19 diagnostic testing and services, and an unobligated balance of $20.8 million remains available for FY2021/FY2022 for this purpose.

DHA-CRM received additional supplemental funding of $50.0 million under the CARES Act (P.L. 116-136 Coronavirus Aid, Relief, and Economic Security Act or the CARES Act) to cover the cost of COVID-19 healthcare related expenses. DHA-CRM incurred obligations of $50.0 million for COVID-19 related healthcare costs against supplemental funding under the CARES Act, with no unobligated supplemental funding provided under the CARES Act available for FY 2021.

Total supplemental funding received in response to COVID-19 was not significant to DHA-CRM's appropriation of $16.2 billion for FY 2020. DHA-CRM incurred total COVID-19 related costs of $189.2 million during FY 2020, including $128.5 million of COVID-19 related healthcare costs in excess of the supplemental budgetary resources received under the CARES Act for responding to COVID-19. These COVID-19 related costs have not had a significant financial or performance impact on DHA-CRM’s assets, liabilities, net costs, revenue or net position for FY 2020.

For COVID-19 disclosure related information see Note 14.

Analysis of Systems, Controls, and Legal Compliance

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

Management Assurances

The Assurance Statements below were provided for FY 2020 Federal Manager's Financial Integrity Act (FMFIA).

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

DEFENSE
HEALTH AGENCY

DATE: September 30, 2020

FROM: Dawn Connor, Acting Director, Contract Resource Management

SUBJECT: Annual Statement of Assurance Required Under the Federal Managers' Financial Integrity Act (FMFIA) for Fiscal Year 2020

- As the Acting Director of Contract Resource Management (CRM), Defense Health Agency (DHA), I recognize the DHA-CRM is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. The DHA-CRM conducted its assessment of risk and internal control in accordance with the OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control"; and the Green Book, GAO-14-704G, "Standards for Internal Control in the Federal Government." Based on the results of the assessment, the DHA-CRM can provide reasonable assurance that internal controls over operations, reporting, and compliance are operating effectively as of September 30, 2020.

- The DHA-CRM conducted its assessment of the effectiveness of internal controls over operations in accordance with OMB Circular No. A-123, the GAO Green Book, and the FMFIA. The *Summary of Management's Approach to Internal Control Evaluation* section provides specific information on how the DHA-CRM conducted this assessment. Based on the results of the assessment, the DHA-CRM can provide reasonable assurance that internal controls over operations and compliance are operating effectively as of September 30, 2020.

- The DHA-CRM conducted its assessment of the effectiveness of internal controls over reporting (including internal and external financial reporting) in accordance with OMB Circular No. A-123, Appendix A. The *Summary of Management's Approach to Internal Control Evaluation* section, provides specific information on how the DHA-CRM conducted this assessment. Based on the results of the assessment, the DHA-CRM can provide reasonable assurance that internal controls over reporting (including internal and external reporting) as of September 30, 2020), and compliance are operating effectively as of September 30, 2020.

- The DHA-CRM also conducted an internal review of the effectiveness of the internal controls over the integrated financial management systems in accordance with FMFIA and OMB Circular No. A-123, Appendix D. The *Summary of Management's Approach to Internal Control Evaluation* section provides specific information on how the DHA-CRM conducted this assessment. Based on the results of this assessment, the DHA-CRM can provide reasonable assurance that the internal controls over the financial systems are in compliance with the FMFIA, Section 4; FFMIA, Section 803; and OMB Circular No. A-123, Appendix D, as of September 30, 2020.

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- The DHA-CRM has conducted an assessment of entity-level controls including fraud controls in accordance with the Green Book, OMB Circular No. A-123, the Payment Integrity Information Act of 2019, and GAO Fraud Risk Management Framework. Based on the results of the assessment, the DHA-CRM can provide reasonable assurance that entity-level controls including fraud controls are operating effectively as of September 30, 2020.

If there are any questions regarding this Statement of Assurance for FY 2020, my point of contact is Ms. Kathy Lima and can be reached at (303) 676-3509 or Katheryn.a.lima.civ@mail.mil.

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Dawn Connor
Budget Officer
Acting Director, Contract Resource Management
DHA Aurora, CO

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Status of Audit Findings

The DHA-CRM received unmodified opinions for FY 2010 through FY 2020. FY 2019 and FY 2020 have no material weaknesses, however in FY 2019 and FY 2020 a significant deficiency was noted.

In FY 2019 and FY 2020, the audit identified a significant deficiency pertaining to certain Information Systems used by the DHA-CRM.

The DHA-CRM operates or relies on external providers for administration of multiple key financial management systems, including two core accounting systems and multiple financial support systems. The Defense Manpower

Data Center (DMDC) Core Infrastructure (dCore), Defense Enrollment Eligibility Reporting System (DEERS), and Naval Postgraduate School (NPS) Mainframe systems support key medical benefit payment activities. dCore, DEERS, and NPS Mainframe systems are administrated by a service organization.

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

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

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

Compliance with Laws and Regulations

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

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

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

The Anti-deficiency Act (ADA) prohibits federal employees from obligating in excess of an appropriation, before funds are available or from accepting voluntary services. The ADA provides an exception for obligations authorized by law to be made in excess of or in advance of appropriations. Per Government Accountability Office (GAO) Report B-287619, under 10 U.S.C. §§ 1079 and 1086, obligations to ensure medical care is available for TRICARE beneficiaries are authorized by law regardless of the amount of available budgetary resources and do not violate the ADA. However, the TRICARE program is managed by DHA-CRM in accordance with the ADA requirements. As required by the ADA, DHA-CRM notifies all appropriate authorities of any ADA violations. The DHA-CRM management has taken and continues to take necessary steps to prevent ADA violations. Investigations of any violations will be completed in a thorough and expedient manner. The DHA-CRM remains fully committed to resolving ADA violations appropriately and in compliance with all aspects of the law. The DHA-CRM is not aware of

any violations of the ADA that must be reported to the Comptroller General, Congress, and the President for the year ended September 30, 2020.

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

In 1982, Congress enacted the Prompt Payment Act (PPA) to require federal agencies to pay their bills on a timely basis, to pay interest penalties when payments are made late, and to take discounts only when payments are made by the discount date. DHA-CRM is in full compliance with this statutory requirement.
In FY 2020, DHA-CRM did not process five invoices in a timely manner and was required to pay interest penalties of $508.50, on total net disbursements of $15.5 billion.

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

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

Federal Information Security Modernization Act (FISMA) of 2014

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

Federal Financial Management Improvement Act (FFMIA) of 1996

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

Digital Accountability and Transparency Act of 2014 (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

The DATA Act expands the FFATA to increase accountability and transparency in federal spending, making federal expenditure information more accessible to the public. It directs the Federal Government to use government-wide data standards for developing and publishing reports and to make more information, including award-related data, available on the USASpending.gov Web site. The standards and Web site allow stakeholders to track federal spending more effectively. Among other goals, the DATA Act aims to improve the quality of the information on USASpending.gov, as verified through regular audits of the posted data, and to streamline and simplify reporting requirements through clear data standards. 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 2020 and continuing through the assurance statement covering FY 2021 at a minimum or until agencies determine that they can provide reasonable assurance over the data quality controls that support achievement of the reporting objectives in accordance with the DATA Act.

Systems

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

To track these programs, DHA-CRM uses the TEDS, a financial feeder system, through which all claims are processed to Oracle Federal Financials (OFF). OFF contains TCM, Accounts Receivable, Accounts Payable, Purchase Orders and the General Ledger modules. DHA-CRM sends OFF trial balances to DFAS-IN, through the Defense Department Reporting System-Budgetary (DDRS-B), who reviews the balances for proprietary to budgetary adjustments, prepares journal vouchers in DDRS and compiles the financial statements.

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

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

The DHA-CRM has established consistent business rules for management control impacting disbursing and collection activities, and the related banking and U.S. Treasury reconciliations.

With processes and procedures in place and the continued risk monitoring, monthly reconciliations are performed to ensure balances reconcile to the U.S. Treasury on a monthly, quarterly, and fiscal year basis.

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

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

The DHA-CRM is responsible for implementing and maintaining FMS that substantially comply with Federal financial management system requirements, Federal accounting standards, and the USSGL at the transaction level. The DHA-CRM determined that the FMS substantially complied with the Federal financial management systems requirements, Federal accounting standards, and application of the USSGL at the transaction level as of September 30, 2020.

The September 2007 Defense Business Systems Management Committee (DBSMC) resulted in the Investment Review Board (IRB) directing the DHA-CRM E-Commerce System (DHA-CRM ECS) program, as a Target Accounting System, to "comply with the OUSD (C) memorandum, 'SFIS Implementation Policy' dated August 4, 2005." The DHA-CRM achieved SFIS compliance during FY 2011. The DHA-CRM continued to maintain SFIS compliance through FY 2020.

TEDS

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

The TED Production environment is hosted at Defense Information System Agency - San Antonio (DISA-SATX) and has a Continuity of Operations Plan (COOP) Platform supporting any Disaster Recovery requirements hosted at DISA-OKC.

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

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

E-Commerce

The DHA-CRM ECS is an integrated, centralized major system that improves DHA-CRM's core financial, contracting and business processes by providing a seamless integrated financial and contracting system. It uses commercial off-the-shelf (COTS) software and hardware to provide a network-based, multi-user system with the essential tools

to manage and administer the TRICARE financial and contracting activities. The core financial solution embedded in the DHA-CRM ECS, OFF, is a Financial Systems Integration Office (FSIO) (formerly known as the Joint Financial Management Improvement Program [JFMIP]) certified financial system. This component is integrated with a contract management component and a management control component. The management control component enables Web-based queries of TRICARE contracting and financing information directly against a single database and permits direct reporting of program status and tracking information to management.

OFF

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

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

The healthcare (TEDS) claims processing function is performed by the OFF-TCM extension. TCM is a custom built extension to OFF which converts healthcare (TEDS) data into financial data that can then be processed by standard (COTS) OFF. The TCM conversion of healthcare data is of critical importance to the accuracy of the financial information presented in the DHA-CRM financial statements. TRICARE processed approximately 192 million claims (invoices) through TEDS during FY 2020, valued at approximately $19.5 billion. The financial conversion, processing and posting of TEDS data from commitment/obligation through payable/receivable is 100% automated. In addition to creating budgetary and accounting transactions, TCM supports the TEDS system by providing daily financial data to TEDS. Without the data received from the OFF-TCM extension the TEDS system would be unable to process and properly edit the contractor's daily data submissions. TEDS functions supported by the OFF-TCM data provided include:

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

The OFF application is a current; fully supported Version of Oracle R-12. The DHA-CRM ECS program successfully deployed Version R-12 technical upgrade in January 2016. The DHA-CRM remains compliant through FY 2020.

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

During FY 2020, the DHA-CRM ECS Program continued to sustain and enhance all deployed phases through Phase IV of the Pharmacy Modernization Project. Development efforts for Phase V, which is expected to further streamline the dispute resolution process, is planned for future years.

Forward-Looking Information

For FY 2021, the MHS will be emerging from the first wave of a global military medical response to the COVID-19 pandemic while continuing the transition of military hospital and clinics to the DHA, reforming the TRICARE benefit, and realigning military medical services to best support military readiness.

In response to the NDAA of FY 2017, the DHA continues to find efficiencies through consolidation of health care plans, and integration of the direct health care facilities into the organization. The majority of the changes affected the MTFs, and only to a lesser extent the Private Sector Care contracts. Execution for the MTF transition will provide maximized efficiency (eliminating redundancies) across the landscape, addresses DoD's medical readiness requirements, provides better consistency of higher quality experience, and most importantly, reduces enterprise operational costs. The authority, direction, and control of MTFs will be managed under a market construct, which is designed to leverage and expand on the existing enhanced Multi-Service Market (eMSM) concept to scale optimization and efficiencies across the MHS.

- The Market Construct will drive process standardization, reduce variability, and generate efficiencies and optimization across the MHS
- Sustain a world-class health care system by providing health care services based on population health care demands
- Improve decision-making and execution for improved patient care and experience
- Effect the enterprise culture, enhancing both operations and delivery of care

Under the NDAA FY 2017, another element of MHS Transformation is the ongoing modernization of the private sector care portion of the TRICARE program. DHP has released a draft Request for Proposal (RFP) for new TRICARE contracts. DHP aimed to expand the use of value-based incentives in the next round of RFPs, encourage new entrants to the market, and increase the cost-effectiveness in managing the TRICARE program.

The changes DHA is undertaking unfold as the COVID-19 pandemic remains present throughout the United States and the world. While the Department and the US Government maintain the long-term expectation that a vaccine will become available in 2021, there remains some short-term uncertainty regarding use of health care services.

Other Management Information, Initiatives, and Issues

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

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

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

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

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

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

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

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

The table on the following page highlights DoD activity since the inception of the Program. DoD has collected $13.7 billion to date and continues rigorous collection efforts for both programs.

TRICARE Retail Pharmacy Refunds Program

Program To Date (CY 2008-3rd Quarter, CY 2020	Total	DHP	Non-DoD	MERHCF
SDP -				
Billed	$8,835,786,752	$3,979,342,669	$137,047,318	$4,719,396,765
Collected	($8,542,748,215)	($3,857,980,032)	($132,078,514)	($4,552,689,669)
Net	$293,038,537	$121,362,637	$4,968,804	$166,707,096
ADP -				
Billed	$5,341,381,391	$2,400,171,728	$83,691,603	$2,857,518,060
Collected	($5,154,705,126)	($2,322,518,548)	($80,685,268)	($2,751,501,310)
Net	$186,676,265	$77,653,180	$3,006,335	$106,016,750
UDC [1]	($99,029)	($40,993)	($1,589)	($56,447)
Total -				
Billed	$14,177,168,143	$6,379,514,397	$220,738,921	$7,576,914,825
Collected	($13,697,453,341)	($6,180,498,580)	($212,763,782)	($7,304,190,979)
UDC	($99,029)	($40,993)	($1,589)	($56,447)
Net	$479,615,773	$198,974,824	$7,973,550	$272,667,399
Aging -				
Current	$440,879,673	$182,545,436	$7,033,374	$251,300,863
61 Days to 2 Years[2]	$10,625,011	$4,071,921	$520,023	$6,033,067
Over 2 Years	$28,111,089	$12,357,467	$420,153	$15,333,469
Total[3]	$479,615,773	$198,974,824	$7,973,550	$272,667,399

1. Unapplied Collections (UDC) applied to CY20.
2. Pharmacy debt not delinquent until 70 days. 70-day A/R aging bucket not available; 61-day aging used instead.
3. 3QCY2020 Estimate added to Billings to reconcile with A/R: $125,351,000 MERHCF; $94,564,000 DHP & Non-DoD.

TRICARE has a waiver dated September 23, 1996, 10 U.S.C. 1079a, *CHAMPUS: Treatment of Refunds and Other Amounts Collected* that states:

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

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

The DHA-CRM in FY 2020 continued to aggressively collect pharmacy refunds for both the SDP and ADP. Through the concerted efforts of DHA-CRM, Pharmacy Operations Division (POD), HCDA, and OGC, DHA-CRM's collection rate has continued to average 97% - 99%.

Government Invoicing – G-Invoicing Initiative:

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

Limitations of the Financial Statements

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

II. Financial Section

Office of the Inspector General Transmittal

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

November 9, 2020

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

SUBJECT: Transmittal of the Independent Auditor's Reports on the Defense Health Agency - Contract Resource Management Financial Statements and Related Notes for FY 2020 and FY 2019 (Project No. D2020-D000FT-0091.000, Report No. DODIG-2021-014)

We contracted with the independent public accounting firm of Kearney & Company to audit the Defense Health Agency–Contract Resource Management (DHA-CRM) Financial Statements and related notes as of and for the fiscal years ended September 30, 2020, and 2019. The contract required Kearney & Company to provide a report on internal control over financial reporting and compliance with laws and other matters, and to report on whether the DHA-CRM's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract required Kearney & Company to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency "Financial Audit Manual," June 2018, Updated April 2020. Kearney & Company's Independent Auditor's Reports are attached.

Kearney & Company's audit resulted in an unmodified opinion. Kearney & Company concluded that the DHA-CRM FY 2020 and FY 2019 Financial Statements and related notes as of September 30, 2020, and 2019, and for the years then ended, are presented fairly in all material respects, in conformity with Generally Accepted Accounting Principles.

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

In connection with the contract, we reviewed Kearney & Company's reports and related documentation and discussed them with Kearney & Company's representatives. Our review, as differentiated from an audit of the financial statements in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the DHA-CRM FY 2020 and FY 2019 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal control over financial reporting, on whether the DHA-CRM's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with laws and other matters. Our review disclosed no instances where Kearney & Company did not comply, in all material respects, with GAGAS. Kearney & Company is responsible for the attached November 9, 2020, reports, and the conclusions expressed within the reports.

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

Lorin T. Venable

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

Attachments:
As stated

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

Independent Auditor's Report

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 Financial Statements

We have audited the accompanying financial statements of Defense Health Agency (DHA) – Contract Resource Management (CRM), which comprise the balance sheets as of September 30, 2020 and 2019, the related statements of net cost and changes in net position, and the combined statements of budgetary resources (hereinafter referred to as the "financial statements") for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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. 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DHA-CRM as of September 30, 2020 and 2019, and its net cost of operations, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. Other Information, as named in the Agency Financial Report (AFR), is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements; accordingly, we do not express an opinion or provide any assurance on it.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 19-03, we have also issued reports, dated November 9, 2020, on our consideration of DHA-CRM's internal control over financial reporting and on our tests of DHA-CRM's compliance with provisions of applicable laws, regulations, contracts, and grant agreements, as well as other matters for the year ended September 30, 2020. 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. 19-03 and should be considered in assessing the results of our audits.

Kearney & Company

Alexandria, Virginia
November 9, 2020

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*, the financial statements of Defense Health Agency (DHA) – Contract Resource Management (CRM) as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise DHA-CRM's financial statements, and we have issued our report thereon dated November 9, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered DHA-CRM's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DHA-CRM's internal control. Accordingly, we do not express an opinion on the effectiveness of DHA-CRM's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 19-03. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

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

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

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

DHA-CRM's Response to Findings

DHA-CRM's response to the findings identified in our audit is described in Management's Discussion and Analysis (MD&A) of the Agency Financial Report (AFR). DHA-CRM's response was not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of DHA-CRM's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 19-03 in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 9, 2020

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Schedule of Findings

Significant Deficiency

I. Information Systems (Repeat Condition)

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

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

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

Our testing disclosed deficiencies in the following areas:

- Security Management
  - System Security Plan (SSP) for a key financial management system did not include documentation of data types within the system to support security categorizations, as required by the National Institute of Standards and Technology (NIST) Risk Management Framework (RMF) to establish a NIST Special Publication (SP) 800-53, Revision (Rev.) 4-compliant baseline of security controls
- Access Controls and Segregation of Duties
  - Incomplete or not fully implemented policies and procedures for managing and monitoring access to key financial management applications and databases, including third-party systems
  - Incomplete or not fully implemented policies and procedures for the proper segregation of duties, including documented business justifications for existing segregation of duties conflicts, for key financial management applications

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  - Inconsistent implementation of user account recertification to verify the propriety of access to key financial management systems
  - Inconsistent logging and monitoring of activity for key financial management systems
- Configuration Management
  - Incomplete, inconsistent, or unmaintained documentation of configuration changes for key financial management applications, including an incomplete listing of changes implemented into the production environment.

Cause: The deficiencies are a result of multiple circumstances, including previous deferral of key information system environment improvement projects related to audit logging, lack of integration between business and information technology (IT) stakeholders, incomplete or inconsistent implementation of policies and procedures, ineffective quality control processes to ensure personnel responsible for key information system controls followed documented procedures, secondary impacts of Coronavirus Disease 2019 (COVID-19) precautions, and competing organizational priorities.

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

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

1. Continue to perform information system environment improvement projects related to audit logging.
2. Complete integrated business and IT stakeholder review of business data flow through systems and similarly perform related identification of incompatible duties that require segregation.
3. Develop, update, and implement policies and procedures addressing the security controls required by Department of Defense Instruction (DoDI) 8510.01, NIST SP 800-53, and NIST SP 800-37.
4. Develop and implement a quality control review over the user authorization and user access review processes, to include procedures to ensure the completeness and accuracy of the access request forms and access listings reviewed.
5. Update and implement configuration management procedures to include quality control reviews. These reviews should ensure that all changes follow a defined and controlled process, including maintaining appropriate supporting documentation from initial change request through implementation into the production environment.
6. Design and implement risk management plans for COVID-19 impacted remediation actions.

* * * * *

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APPENDIX A: STATUS OF PRIOR-YEAR DEFICIENCIES

In the *Independent Auditor's Report on Internal Control over Financial Reporting* included in the audit report on the Defense Health Agency (DHA) – Contract Resource Management (CRM) fiscal year (FY) 2019 financial statements,[1] we noted several issues that were related to internal control over financial reporting. The status of the FY 2019 internal control finding is summarized in ***Exhibit 1***.

Exhibit 1: Status of Prior-Year Findings

Control Deficiency	FY 2019 Status	FY 2020 Status
Information Technology (IT)	Significant Deficiency	Significant Deficiency

[1] Independent Auditor's Reports on the Defense Health Agency - Contract Resource Management Financial Statements and Related Notes for FY 2019 and FY 2018 (DODIG-2020-009, November 2019).

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*, the financial statements of the Defense Health Agency (DHA) – Contract Resource Management (CRM) as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise DHA-CRM's financial statements, and we have issued our report thereon dated November 9, 2020.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether DHA-CRM's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and did not test compliance with all laws, regulations, contracts, and grant agreements applicable to DHA-CRM. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 19-03.

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

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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 19-03 in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 9, 2020

Principal Financial Statements

Department of Defense
Defense Health Agency
Contract Resource Management
BALANCE SHEETS
As of September 30, 2020 and 2019
($ In Thousands)

		2020		2019
Assets				
Intragovernmental:				
Fund Balance with Treasury (Note 2)	$	1,751,939	$	1,344,112
Accounts Receivable (Note 4)		46,769		47,996
Total Intragovernmental		1,798,708		1,392,108
Cash and Other Monetary Assets (Note 3)		1,129		144
Accounts Receivable, Net (Note 4)		408,694		429,351
Total Assets	$	2,208,531	$	1,821,603
Liabilities				
Intragovernmental:				
Accounts Payable	$	88,658	$	68,190
Total Intragovernmental		88,658		68,190
Accounts Payable		340,260		464,184
Military Retirement and Other Federal Employment Benefits (Notes 5 and 6)		201,725,216		185,568,584
Other (Note 7)		1,129		144
Total Liabilities	$	202,155,263	$	186,101,102
Commitments and Contingencies (Note 8)				
Net Position				
Unexpended Appropriations - Other Funds	$	625,158	$	859,734
Cumulative Results of Operations - Other Funds		(200,571,890)		(185,139,233)
Total Net Position	$	(199,946,732)	$	(184,279,499)
Total Liabilities and Net Position	$	2,208,531	$	1,821,603

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Health Agency
Contract Resource Management
STATEMENTS OF NET COST
For the Years Ended September 30, 2020 and 2019
($ In Thousands)

		2020		2019
Program Costs				
Gross Costs (Note 9)				
Operations, Readiness & Support	$	16,823,596	$	16,787,861
Actuarial Non Assumption Costs		4,605,657		3,360,538
Less: Earned Revenue		(1,343,275)		(1,339,412)
Net Program Costs	$	20,085,978	$	18,808,987
(Gain)/Loss from Actuarial Assumption Changes for Military Retirement Benefits (Note 6)		11,507,220		2,416,175
Net Program Costs Including Assumption Changes	$	31,593,198	$	21,225,162
Net Cost of Operations	$	31,593,198	$	21,225,162

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Health Agency
Contract Resource Management
STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2020 and 2019
($ In Thousands)

	2020	2019
Unexpended Appropriations:		
Beginning Balance	$ 859,734	$ 950,905
Budgetary Financing Sources:		
Appropriations received	16,191,754	14,790,585
Appropriations transferred-in/out	(125,265)	510,989
Other adjustments (rescissions, etc.)	(140,524)	(157,354)
Appropriations used	(16,160,541)	(15,235,391)
Total Budgetary Financing Sources	(234,576)	(91,171)
Total Unexpended Appropriations	625,158	859,734
Cumulative Results of Operations:		
Beginning Balance	(185,139,233)	(179,149,462)
Budgetary Financing Sources:		
Appropriations used	16,160,541	15,235,391
Total Financing Sources	16,160,541	15,235,391
Net Cost of Operations	31,593,198	21,225,162
Net Change	(15,432,657)	(5,989,771)
Cumulative Results of Operations	(200,571,890)	(185,139,233)
Net Position	$ (199,946,732)	$ (184,279,499)

The accompanying notes are an integral part of these statements.

Department of Defense
Defense Health Agency
Contract Resource Management
STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2020 and 2019
($ In Thousands)

	2020	2019
Budgetary Resources		
Unobligated balance from prior year budget authority, net	$ 370,212	$ 711,744
Appropriations (discretionary and mandatory)	16,191,754	15,099,065
Spending authority from offsetting collections (discretionary and mandatory)	1,352,409	1,340,115
Total Budgetary Resources	$ 17,914,375	$ 17,150,924
Status of Budgetary Resources		
New obligations and upward adjustments (total)	$ 17,322,664	$ 16,800,120
Unobligated balance, end of year		
Apportioned, unexpired accounts	382,756	622
Unexpired unobligated balance, end of year	382,756	622
Expired unobligated balance, end of year	208,955	350,182
Unobligated balance, end of year (total)	591,711	350,804
Total Budgetary Resources	$ 17,914,375	$ 17,150,924
Outlays, Net		
Outlays, net (total) (discretionary and mandatory)	$ 15,518,138	$ 15,193,295
Agency Outlays, Net (discretionary and mandatory)	$ 15,518,138	$ 15,193,295

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies

1.A. Reporting Entity

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

1.B. Mission of the Reporting Entity

The CRM is a division of the DHA.

The mission of DHA-CRM is:

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

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

1.C. Basis of Presentation

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

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

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

1.D. Basis of Accounting

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

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

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

1.E. Accounting for Intragovernmental Activities

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

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

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

1.F. Non-Entity Assets

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

1.G. Fund Balance with Treasury

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

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

When the reporting entity seeks to use FBWT or investments in Government securities to liquidate budgetary obligations, Treasury will finance the disbursements in the same way it finances all other disbursements, which is to borrow from the public if there is a budget deficit (and to use current receipts if there is a budget surplus).

In addition, Defense Finance and Accounting Service (DFAS) 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.

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

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

On March 11, 2020, a novel strain of Corona virus, also known as COVID-19 was declared a pandemic by the World Health Organization (WHO). As a result, a national emergency was declared in the United States concerning the COVID-19 outbreak on March 13, 2020.

In response to the pandemic, the United States Congress passed a series of Bills including the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) which was signed into law by President Trump on March 27, 2020, to provide aid and economic assistance to individuals, families and businesses across the nation impacted by COVID-19.

DHA-CRM was appropriated CARES Act funding, under P.L. 116-136, to prevent, prepare for, and respond to Coronavirus, including to provide additional funds to maintain normal operations and cover other necessary authorized activities during the period that the programs are impacted by the Coronavirus as noted in Note 14.

Additionally, DHA-CRM received additional funding to cover Co-Pay/Cost Share, or the administration of such products under the Families First Coronavirus Response Act (Families First Act), P.L. 116-127. For additional information, see Note 14, COVID-19 Activity.

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

1.H. Cash and Other Monetary Assets

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

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

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

1.I. Accounts Receivable

Accounts receivable from other federal entities or the public include accounts receivable, claims receivable, and refunds receivable. Allowances for uncollectible accounts due from the public are based upon factors such as: aging of accounts receivable, debtor's ability to pay, and payment history.

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

For additional information, see Note 4, Accounts Receivable.

1.J. Liabilities

Liabilities represent the probable future outflow or other sacrifice of resources as a result of past transactions or events. However, no liability can be paid by DHA-CRM absent proper budget authority. Liabilities covered by

budgetary resources are appropriated funds for which funding is otherwise available to pay amounts due. Liabilities not covered by budgetary resources, for example Military Retirement and Other Federal Employment Benefits, 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 funded by the current year appropriation are classified as liabilities not covered by budgetary resources in Note 5, Liabilities Not Covered by Budgetary Resources.

1.K. Other Liabilities

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

SFFAS 51, Insurance Programs, established accounting and financial reporting standards for insurance programs. Office of Personnel Management (OPM) administers insurance benefit programs available for coverage to the Department's civilian employees. The programs are available to Civilian employees, but employees do not have to participate. These programs include life, health, and long-term care insurance.

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

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

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

1.L. Commitments and Contingencies

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

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

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

1.M. Military and Civilian Retirement Benefits

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

Refer to Note 6, Military Retirement and Other Federal Employment Benefits and Note 9, Disclosures Related to the Statement of Net Cost, for additional information.

1.N. Revenues and Other Financing Sources

As a component of the Government-wide reporting entity, the Department is subject to the Federal budget process, which involves appropriations that are provided annually and appropriations that are provided on a permanent basis. The financial transactions that result from the budget process are generally the same transactions reflected in agency and the Government-wide financial reports.

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

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

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

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

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

1.O. Recognition of Expenses

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

1.P. Use of Estimates

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

1.Q. Tax Exempt Status

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

Note 2. Fund Balance With Treasury

($ In Thousands)	2020	2019
Status of Funds Balance with Treasury		
Unobligated Balance		
Available	$ 382,756	$ 622
Unavailable	208,955	350,182
Obligated Balance not yet Disbursed	1,233,825	1,058,997
Non-FBWT Budgetary Accounts		
Unfilled Customer Orders without Advance	(26,828)	(17,693)
Receivables and Other	(46,769)	(47,996)
Total Non-FBWT Budgetary Accounts	(73,597)	(65,689)
Total FBWT	$ 1,751,939	$ 1,344,112

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

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

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

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

Non-FBWT Budgetary Accounts reduces budgetary resources, comprised of reimbursable accounts receivable of $46.8 million, and reimbursable undelivered orders of $26.8 million.

For COVID-19 disclosure related information see Note 14.

Note 3. Cash & Other Monetary Assets

($ In Thousands)	2020	2019
Cash	$ 1,129	$ 144
Total Cash and Other Monetary Assets	$ 1,129	$ 144

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

Note 4. Accounts Receivable

($ In Thousands)	2020		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$ 46,769	$ 0	$ 46,769
Nonfederal Receivables (From the Public)	429,177	(20,483)	408,694
Total Accounts Receivable	$ 475,946	$ (20,483)	$ 455,463

	2019		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$ 47,996	$ 0	$ 47,996
Nonfederal Receivables (From the Public)	459,046	(29,695)	429,351
Total Accounts Receivable	$ 507,042	$ (29,695)	$ 477,347

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

As of September 30, 2020, the total net receivables recorded for the SDP and the ADP were $192.2 million. The SDP resulted from the implementation of the FCP Program for the TRICARE Retail Pharmacy Refunds Program as required by the FY 2008 NDAA, Section 703. The ADP resulted from voluntary agreements between TRICARE and the pharmaceutical manufacturers providing additional discounts above the SDP.

Note 5. Liabilities Not Covered by Budgetary Resources

($ In Thousands)	2020	2019
Military Retirement and Other Federal Employment Benefits	$ 201,725,216	$ 185,568,584
Total Liabilities Not Covered by Budgetary Resources	$ 201,725,216	$ 185,568,584
Total Liabilities Covered by Budgetary Resources	430,047	532,518
Total Liabilities	$ 202,155,263	$ 186,101,102

DHA-CRM has two liabilities not covered by budgetary resources. Military Retirement and Other Federal Employment Benefits consists of various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities primarily consist of $201.7 billion in health benefit liabilities, with $200.0 billion in actuarial liabilities for future health benefits and $1.7 billion in IBNR health benefits. The DHA, as stated in the Senate Report No. 95-1264 on the Department of Defense Appropriation Bill, FY 1979, does not obligate or fund health care claims until the receipt of an adjudicated claim. Consequently, no funding or obligations occur for these liabilities until health care is rendered and DHA-CRM is in receipt of an adjudicated claim. Refer to Note 6, Military Retirement and Other Federal Employment Benefits, for additional details.

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

For COVID-19 disclosure related information see Note 14.

Note 6. Military Retirement and Other Federal Employment Benefits

($ In Thousands)	2020		
	Liabilities	Less Assets Available to Pay Benefits	Unfunded Liabilities
Military Pre Medicare-Eligible Retiree Health Benefits	$ 200,008,009	$ 0	$ 200,008,009
Other	1,717,207	0	1,717,207
Total Military Retirement and Other Federal Employment Benefits	$ 201,725,216	$ 0	$ 201,725,216

	2019		
	Liabilities	Less Assets Available to Pay Benefits	Unfunded Liabilities
Military Pre Medicare-Eligible Retiree Health Benefits	$ 183,895,132	$ 0	$ 183,895,132
Other	1,673,452	0	1,673,452
Total Military Retirement and Other Federal Employment Benefits	$ 185,568,584	$ 0	$ 185,568,584

Information Related to Military Retirement and Other Federal Employment Benefits

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

The schedules above reflect two distinct types of liabilities related to 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 health care benefits provided to non-Medicare-eligible retired beneficiaries that are not yet incurred. The line entitled "Other" includes the IBNR reserve, which is an estimate of benefits already incurred but not yet reported to DoD for all DHP beneficiaries (excluding those from the retiree population who are Medicare-eligible).

Effective FY 2010, DHA implemented requirements of SFFAS No. 33, which directs that the discount rate, underlying inflation rate, and other economic assumptions be consistent with one another. A change in the discount rate may cause other assumptions to change as well. For the September 30, 2020, financial statement valuation, the application of SFFAS No. 33 required DoD OACT to set the long-term inflation to be consistent with the underlying Treasury spot rates used in the valuation.

The DHA actuarial liability is adjusted at the end of each fiscal year. The 4th Quarter, FY 2020 balance represents the September 30, 2020 amount that is effective through 3rd Quarter of FY 2021.

Actuarial Cost Method

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

Assumptions

For the FY 2020 financial statement valuation, the long-term assumptions include a 3.3% discount rate and medical trend rates that were developed using a 1.6% inflation assumption. Note that the term 'discount rate' refers to the interest rate used to discount cash flows. The terms 'interest rate' and 'discount rate' are often used interchangeably in this context.

For the FY 2019 financial statement valuation, the long-term assumptions include a 3.5% discount rate and medical trend rates that were developed using a 1.8% inflation assumption.

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

In calculating the FY 2020 ”rolled-forward” actuarial liability, the following assumptions were used:

Discount Rate	3.3%
Inflation	1.6%

Medical Trend (Non-Medicare)	FY 2019 - FY 2020	Ultimate Rate FY 2044
Purchased Care Inpatient	0.27%	3.60%
Purchased Care Outpatient	0.16%	3.60%
Purchased Care Prescription Drugs	4.63%	3.60%
Purchased Care USFHP	1.28%	3.60%

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

Military Pre Medicare-Eligible Retiree Health Benefits ($ In Thousands)		**2020**		**2019**
Beginning Actuarial Liability	$	183,895,132	$	178,118,419
Plus Expenses:				
Normal Cost		7,494,655		7,110,863
Interest Cost		6,556,463		6,523,901
Plan Amendments		0		0
Experience Losses/(Gains)		(1,250,411)		(2,183,045)
Other Factors		0		(1)
Subtotal: Expenses Before Losses/(Gains) From Actuarial Assumption Changes		12,800,707		11,451,718
Actuarial Losses/(Gains) Due To:				
Changes In Trend Assumptions		8,275,828		1,767,266
Changes In Assumptions Other Than Trend		3,231,392		648,909
Subtotal: Losses/(Gains) From Actuarial Assumption Changes		11,507,220		2,416,175
Total Expenses	$	24,307,927	$	13,867,893
Less Benefit Outlays		8,195,050		8,091,180
Total Changes In Actuarial Liability	$	16,112,877	$	5,776,713
Ending Actuarial Liability	$	200,008,009	$	183,895,132

The DHA actuarial liability increased $16.1 billion (8.8%). This resulted from the net effect of: an increase of $5.9 billion due to expected increases (interest cost plus normal cost less benefit outlays), an increase of $11.5 billion due to changes in key assumptions; and a decrease of $1.3 billion due to actual experience being different from what was assumed (demographic and claims data).

DoD complies with SFFAS No. 33, "Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates." The standard requires the separate presentation of gains and losses from changes in long-term assumptions used

to estimate liabilities associated with pensions, other retirement and other postemployment benefits. SFFAS No. 33 also provides a standard for selecting the discount rate and valuation date used in estimating these liabilities. SFFAS No. 33, as published on October 14, 2008, by the FASAB requires the use of a yield curve based on marketable 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 U.S. Treasury securities.

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

For the September 30, 2020 financial-statement valuation, DoD OACT determined a single equivalent discount rate of 3.3% by using a 10-year average of quarterly zero coupon Treasury spot rates. These spot rates are based on 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, 2010 through March 31, 2020.

For the September 30, 2020, financial statement valuation, DoD OACT determined a single equivalent medical cost trend rate of 4.06% can be used to reproduce the total Military Retiree Health Benefits (MRHB) liability. The total MRHB liability includes the MERHCF, Service Medical Activity (SMA), and DHA-CRM.

Note 7. Other Liabilities

($ In Thousands)	2020	2019
Nonfederal Other Liabilities	1,129	144
Total Other Liabilities	$ 1,129	$ 144

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

For Commitments and Contingencies disclosure related information see Note 8.

Note 8. Commitments and Contingencies

DHA-CRM is a party in various administrative proceedings, legal actions, and other claims awaiting adjudication which may result in settlements or decisions adverse to the Federal government. These matters arise in the normal course of operations; generally relate to environmental damage, equal opportunity, and contractual matters; and their ultimate disposition is unknown. In the event of an unfavorable judgment against the Government, some of the settlements are expected to be paid from the *Treasury Judgment Fund*. In most cases,

DHA-CRM does not have to reimburse the Judgment Fund; reimbursement is only required when the case comes under either the *Contracts Disputes Act* or the *No FEAR Act*.

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

DHA-CRM did not identify an estimate of obligations related to cancelled appropriations for which DHA-CRM has a contractual commitment for payment and amounts for contractual arrangements which may require future financial obligations.

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

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

Ingham Regional Medical Center v. United States (Court of Federal Claims). Class action, but not certified, alleging DoD, in reaching a resolution of hospital outpatient radiology claims, entered into contracts with the named plaintiffs. Plaintiffs' First Amended Complaint was filed on November 17, 2014. The Amended Complaint alleges breach of express contract, breach of implied contract, mutual mistake, breach of the covenant of good faith and fair dealing, and violations of a statutory mandate under the TRICARE statute. The suit alleges 5,200 hospitals were underpaid for outpatient procedures. On March 22, 2016, the Court of Federal Claims issued its decision granting the Government's Motion to Dismiss Plaintiffs' Amended Complaint. Plaintiffs appealed to the Court of Appeals for the Federal Circuit. On November 3, 2017, the Court of Appeals reversed the dismissal of Ingham's breach of contract claim and remanded the case to the trial court for further proceedings. On March 20, 2018, the Government filed its Answer. Discovery has since closed, and multiple motions including Plaintiffs' motion for class certification are pending before the Court.

Bio-Medical Applications of Georgia, Inc., et al. v. United States (Court of Federal Claims). Plaintiffs challenge the DHA's payment methodology for End Stage Renal Disease dialysis treatments at freestanding dialysis facilities. Plaintiffs filed the Complaint on June 28, 2019. The Complaint alleges breach of contract, breach of the covenant of good faith and fair dealings, and violations of a money-mandating regulation. On April 16, 2020, in an oral ruling, the Court of Federal Claims granted the Government's Motion to Dismiss in part and dismissed Counts II (breach of contract) and III (breach of the covenant of good faith and fair dealings). The Government filed its Answer on July 8, 2020, and the parties will proceed with discovery in the near future. The estimated amount or range of potential loss is unknown.

Note 9. Disclosures Related to the Statement of Net Cost

($ In Thousands)	2020	2019
Gross Cost		
Intragovernmental Cost	$ 910,040	$ 770,840
Nonfederal Cost	20,519,213	19,377,559
Total Cost	21,429,253	20,148,399
Earned Revenue		
Intragovernmental Revenue	(587,639)	(582,034)
Nonfederal Revenue	(755,636)	(757,378)
Total Revenue	(1,343,275)	(1,339,412)
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	11,507,220	2,416,175
TOTAL NET COST	$ 31,593,198	$ 21,225,162

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

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

For COVID-19 disclosure related information see Note 14.

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

For FY 2019, Appropriations Received on the Statement of Changes in Net Position (SCNP) does not agree with Appropriations (Discretionary and Mandatory) on the Statement of Budgetary Resources (SBR). The $308.5 million difference is due to an authority transfer in.

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

($ In Thousands)	2020	2019
Appropriations Received, Statement of Changes in Net Position	$ 16,191,754	$ 14,790,585
Transfers - Current-Year Authority Transfers In	0	308,480
Appropriations, Statement of Budgetary Resources	$ 16,191,754	$ 15,099,065

For COVID-19 disclosure related information see Note 14.

Note 11. Disclosures Related to the Statement of Budgetary Resources

($ In Thousands)	2020	2019
Intragovernmental Budgetary Resources Obligated for Undelivered Orders		
Unpaid	17,443	25,324
Total Intragovernmental	17,443	25,324
Nonfederal Budgetary Resources Obligated for Undelivered Orders		
Unpaid	787,463	501,299
Total Nonfederal	787,463	501,299
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 804,906	$ 526,623

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

Appropriations presented on SBR does not agree with Appropriations Received on the SCNP for FY 2019. See Note 10, *Disclosures Related to the Statement of Changes in Net Position* for additional details.

For COVID-19 disclosure related information see Note 14.

Note 12. Reconciliation of Net Cost to Net Outlays

($ In Thousands)	2020		
	Intragovernmental	With the Public	Total
Net Cost of Operation (SNC)	$ 322,406	$ 31,270,792	$ 31,593,198
Components of Net Cost That are Not Part of Net Outlays:			
Increase/(decrease) in assets:			
Accounts Receivable	$ (1,227)	$ (20,657)	$ (21,884)
Other Assets		985	985
(Increase)/decrease in liabilities			
Accounts Payable	(20,468)	123,924	103,456
Other Liabilities		(16,157,617)	(16,157,617)
Total Components of Net Cost That Are Not Part of Net Outlays	$ (21,695)	$ (16,053,365)	$ (16,075,060)
Net Outlays	$ 300,711	$ 15,217,427	$ 15,518,138
Agency Outlays, Net, Statement of Budgetary Resources			$ (15,518,138)
Reconciling Difference			$ 0

($ In Thousands)	2019		
	Intragovernmental	With the Public	Total
Net Cost of Operation (SNC)	$ 188,806	$ 21,036,356	$ 21,225,162
Components of Net Cost That are Not Part of Net Outlays:			
Increase/(decrease) in assets:			
Accounts Receivable	$ (1,820)	$ 30,438	$ 28,618
Other Assets		(2,092)	(2,092)
(Increase)/decrease in liabilities			
Accounts Payable	(1,853)	(38,423)	(40,276)
Other Liabilities		(6,018,117)	(6,018,117)
Total Components of Net Cost That Are Not Part of Net Outlays	$ (3,673)	$ (6,028,194)	$ (6,031,867)
Net Outlays	$ 185,133	$ 15,008,162	$ 15,193,295
Agency Outlays, Net, Statement of Budgetary Resources			$ (15,193,295)
Reconciling Difference			$ 0

The Reconciliation of Net Cost to Net Outlays explains how budgetary resources outlaid during the period relate to the net cost of operations for DHA-CRM.

Net Cost of Operations is derived from the Statement of Net Cost.

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

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

Note 13. Insurance Programs

Premium Base Health Plans consist of several programs with coverage offered to Active Duty, Active Duty Family Member(s), Retirees and Reserve members. The programs include TRICARE CHCBP, TYA, TRS, TRR, Prime and Select which together make up the TRICARE Insurance Portfolio. The majority of these programs are intended to be budget neutral, meaning that the premiums should match the outlays. Premiums are adjusted either upward, or downward for each calendar year to maintain this neutrality. Increases or decreases in the number of beneficiaries enrolling in the programs would cause minimal effects on program cost or premiums collected.

Premium rate calculations are based on the benefit cost from prior calendar years. Premiums are based on the Program's benefit cost, which eliminates any inherent risk to third parties, including the beneficiary and the MCSCs who provide health care claims processing and the initial collections on behalf of DHA-CRM. The total amount of Insurance Premium collections in FY 2020 was $755.6 million and $754.7 million for FY 2019. The benefit cost for FY 2020 correlate to the premium collections reported.

For Calendar Year (CY) 2020 Monthly Premium Rates are established on an annual basis in accordance with title 10, U.S.C. Sections 1076d, 1076e, 1078a, and 1110b along with title 32, Code of Federal Regulations, part 199.24, 25 and 26, as enacted by Section 701 of NDAA for Fiscal Year 2017; P.L. 114 328. The enrollment fee and or premium collections are credited to the DHP appropriation available for the fiscal year collected.

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

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

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

($ In Thousands)		**2020**	**2019**
Beginning Balance	$	2,038,491	1,744,271
Claims Expense		14,040,316	14,170,220
Claims Adjustment Expenses		(30,375)	(27,391)
Payments to Settle Claims		(14,098,748)	(13,852,160)
Recoveries and Other Adjustments		16,353	3,551
Ending Balance	$	1,966,037	2,038,491

Note 14. COVID-19 Activity

On April 10, 2020, the OMB issued implementation guidance for supplemental funding provided in response to the COVID-19. In balancing speed with transparency, OMB Memorandum M-20-21 directed agencies to leverage and continue to employ existing financial transparency and accountability mechanisms wherever possible. OMB M-20-21 further instructed agencies to consider three core principles: (1) mission achievement, by using data and evidence to meet program objectives; (2) expediency in issuing awards to meet crucial needs; and (3) transparency and accountability to the public.

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

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

DHA-CRM received $82.0 million in supplemental funding under the Families First Act (P.L. 116-127 Families First Coronavirus Response Act) to cover co-pay/cost share waivers for COVID-19 diagnostic testing and services. Families First Act funding was provided through Appropriation 9720220130 LIMIT 9703. DHA-CRM incurred obligations of $61.2 million during FY 2020 to cover co-pay/cost share waivers for COVID-19 diagnostic testing and services, and an unobligated balance of $20.8 million remains available for obligation in FY2021/FY2022 for this purpose.

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

Additional supplemental funding of $50.0 million was received through our normal Operating and Maintenance Appropriation 9720200130 9700 under the CARES Act (P.L. 116-136 Coronavirus Aid, Relief, and Economic Security Act or the CARES Act) to cover the cost of COVID-19 healthcare related expenses. In addition, DHA-CRM received funding of $1.1 billion under section 13002 of the CARES Act for contracts entered into under the TRICARE program and not restricted to COVID-19 related healthcare costs. DHA-CRM worked with its contractors to establish special processing codes for COVID-19 healthcare related activity. DHA-CRM incurred obligations of $50.0 million for COVID-19 related healthcare costs against supplemental funding provided under the CARES Act, with no unobligated supplemental funding provided under the CARES Act available for FY 2021.

Total Supplemental Funding and Related Costs

Through 4th Quarter, FY 2020 DHA-CRM had the following activity against the supplemental funding provided for responding to COVID-19: obligations incurred of $111.2 million, consisting of undelivered orders (unpaid obligations) of $50.5 million, as well as liabilities of $5.5 million, and disbursements of $55.2 million for total expenses of $60.7 million. Total supplemental funding received of $132.0 million for responding to COVID-19 was not significant to DHA-CRM's annual appropriation of $16.2 billion for FY 2020.

Total COVID-19 Related Costs

DHA-CRM incurred total COVID-19 related costs of $189.2 million during FY 2020, including $128.5 million of COVID-19 related healthcare costs in excess of the supplemental budgetary resources received under the CARES Act for responding to COVID-19. COVID-19 related costs have not had a significant financial or performance impact on DHA-CRM’s assets, liabilities, net costs, revenue or net position for FY 2020.

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

III. Other Information

Summary of Financial Statement Audit and Management Assurances

Table 1. Summary of Financial Statement Audit

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

Table 2. Summary of Management Assurances

Effectiveness of Internal Controls over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
N/A						
Total Material Weaknesses	0	0	0	0	0	0
Effectiveness of Internal Controls over Financial Operations (FMFIA § 2)						
Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
N/A						
Total Material Weaknesses	0	0	0	0	0	0
Conformance with Federal Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Federal Systems conform to financial management systems requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
N/A						
Total Non-Conformances	0	0	0	0	0	0

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

Payment Integrity Information Act Reporting

In accordance with the PIIA of 2019 (P. L. 116-117, 31 U.S.C § 3352 and § 3357) and Appendix B of the OMB Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*, dated August 27, 2019, DoD reports payment integrity information (i.e., improper payments) at the agency-side 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/afr2020.aspx.

Fraud Reduction Report

OMB Circular No. A-136 requires that, "Under the PIIA of 2019, each agency must include in its AFR or PARs a report on its fraud reduction efforts undertaken in FY 2020." The mission of the DHA Office of Inspector General (OIG) is to improve DHA MHS integration of readiness and health to deliver the Quadruple Aim by providing independent support to deter and prevent fraud, waste, abuse, and mismanagement in order to improve economy, accountability, integrity, and efficiency. The guiding philosophy behind the Defense OIG system is to enhance the readiness, warfighting, and mission capabilities of the DHA. The DHA OIG provides support to the agency director to ensure that systems are functioning according to established requirements within mandatory timelines and to resolve conflicts or issues to enable personnel to focus on their mission.

The DHA OIG does not have the operational capacity to conduct a deliberate assessment on DHP management and performance challenges. The office continues to evolve from a reactive to proactive model by focusing concerted effort in helping the DHP identify and address problems through inspections before occurrence, promoting organizational health, and enabling DHP readiness. The DHA OIG was established in a limited Initial Operating Capability (IOC) in 2016 and continues through FY 2020 to provide partial hotline and investigation programs for DHA HQ and two MTFs at Walter Reed (WRNMMC) and Fort Belvoir (FBCH). During FY 2019, the DHA OIG began transition plans to implement Congressional direction for MHS reform. Under this mandate, USD(P&R) assessed DHA OIG as requiring 54 government personnel to support the entire MHS system and operationalize the four major OIG functions of inspection, investigations, teach and train, and assistance. Delays in workforce resourcing and MHS transition delays due to COVID-19 response have minimized the capability of the DHA OIG, which currently has eight personnel authorized and on hand and is at 15% required capacity.

Allegations of Fraud

DoD Directive 5106.01 provides DHA OIG the authority to maintain the DHA Hotline Program, which includes inquiries addressing the DHA-CRM. The hotline ensures inquiries resulting from allegations are conducted in accordance with applicable laws and DoD regulations and policies. Per Department of Defense Instruction (DoDI) 7050.01, the DHA Hotline Program provides a confidential, reliable means for individuals to report fraud, waste and abuse; violations of law, rule or regulation; mismanagement; and classified information leaks, including those involving DHA-CRM. The DHA OIG derives its authority to inspect and investigate from the director, DHA. The DHA OIG control and reporting relationship may not be further delegated. Approval with written authority must be gained from the director to conduct inspections or full investigations. However, the DHA OIG can respond to requests for assistance and can conduct informal inquiries, generally to gather initial facts to determine if a formal investigation is warranted, without the director's personal approval. Inspections and investigations contain recommendations to improve program management and operations and to address fraud, abuse, mismanagement, and waste of DoD funds.

Performance Metrics and Trend Analysis

Hotline, investigation, and inspections collect trends over multiple years to identify management and process challenges based on a volume of events that can provide an accurate and effective analysis. Effective collection and analysis of data can:

- Identify opportunities to improve the management of hotline complaints from receipt to resolution

- Identify trends that will help DHP decision-makers combat fraud, waste, abuse, and mismanagement in DHP programs and operations more effectively

As of this report, the volume of events supportable by the DHA OIG is insufficient to accurately provide management and performance challenges.

Preventing and Deterring Fraud

The DHA OIG identifies that there are organizations other than the DHA OIG that support fraud deterrence. The PI Office at the DHA in Aurora, Colorado is the central coordinating agency for allegations of fraud and abuse within the TRICARE program. Its mission is to manage antifraud and abuse activities for the DHA to protect benefit dollars and safeguard beneficiaries. The PI Office develops and executes antifraud and abuse policies and procedures, provides oversight of contractor program integrity activities, coordinates investigative activities, develops cases for criminal prosecutions and civil litigations, and initiates administrative measures. The Audit Liaison team, a part of the DHP Financial Reporting & Compliance Division, coordinates with DHA HQ Functional Capabilities (FCs) to identify a DHA point of contact (POC) for any GAO and/or DoD OIG engagement that requires a DHA or DHP coordination. The FC POC coordinates with GAO and/or DoD OIG to support external engagements by those oversight entities and provides visibility of external engagements for DHA. After GAO or DoD OIG publishes its reports, the Audit Liaison team tracks all recommendations and DHA responses through DHA, ASD(HA) and USD(P&R) approval process to verify completion.

Covid-19 Response

The DHA OIG identifies that the COVID-19 threat and response are significant events for DHP. The DHA OIG does not have enough data to provide a response at the time of this report but has utilized four DoD OIG Special Reports to provide awareness to the DHA and DHP (at https://www.dodig.mil/COVID-19/Reports/):

- *Special Report: Controls Implemented by the Defense Health Agency to Control Costs for TRICARE COVID-19 Related Services* (DODIG-2020-125), September 8, 2020
- *Special Report on Best Practices and Lessons Learned for DoD Contracting Officials in the Pandemic Environment* (DODIG-2020-085), June 4, 2020
- *Special Report on Protecting Patient Health Information During the COVID-19 Pandemic* (DODIG-2020-080), April 27, 2020
- *COVID-19 Expenditures – Lessons Learned Regarding Awareness of Potential Fraud, Waste, and Abuse Risk*, April 6, 2020

Appendix: Glossary of Acronyms

A/R	Accounts Receivable
ACO	Accountable Care Organization
ADA	Anti-deficiency Act
ADP	Additional Discount Program
AEAN	Aggregate Entry Age Normal
C.F.R.	Code of Federal Regulations
CAP	Corrective Action Plan
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
CHAMPUS	Civilian Health and Medical Program of the Uniformed Services
CHCBP	Continued Health Care Benefit Program
COOP	Continuity of Operations Plan
COTS	Commercial off-the-shelf
COVID-19	Coronavirus Disease of 2019
CRM	Contract Resource Management
CSA	Combat Support Agency
CY	Calendar Year
DATA Act	Digital Accountability and Transparency Act
DBSMC	Defense Business Systems Management Committee
DCIA	Debt Collection Improvement Act
dCore	DMDC Core Infrastructure
DDRS-B	Defense Department Reporting System-Budgetary
DEERS	Defense Enrollment Eligibility Reporting System
DEFC	Disaster Emergency Fund Code
DFAS	Defense Finance and Accounting Service
DFAS-IN	Defense Finance and Accounting Service-Indianapolis
DHA	Defense Health Agency
DHA-C	DHA-Comptroller
DHA-CRM	Defense Health Agency - Contract Resource Management
DHP	Defense Health Program
DISA-SATX	Defense Information System Agency - San Antonio
DMDC	Defense Manpower Data Center
DoD / Department	Department of Defense
DoDI	DoD Instruction
DOJ	Department of Justice
ECS	E-Commerce System
eMSM	Enhanced Multi-Service Market
FAD	Funding Authorization Document
Families First Act	Families First Coronavirus Response Act
FASAB	Federal Accounting Standards Advisory Board
FBCH	Fort Belvoir
FBWT	Fund Balance with Treasury

FCA	Federal Civil False Claims Act
FCP	Federal Ceiling Price
FCs	Functional Capabilities
FECA	Federal Employees' Compensation Act
FEDVIP	Federal Employees Dental and Vision Insurance for Program
FEHB	Federal Employee Health Benefit
FFATA	Federal Funding Accountability and Transparency Act
FFMIA	Federal Financial Management Improvement Act
FISMA	Federal Information Security Modernization Act
FMFIA	Federal Manager's Financial Integrity Act
FMR	Financial Management Regulation
FMS	Financial Management Systems
FOD	Financial Operations Division
FPAs	Federal Program Agencies
FSIO	Financial Systems Integration Office
FSS	Federal Supply Schedule
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GEHA	Government Employees Health Association
G-Invoicing	Fiscal Services Government Invoicing
HA	Health Affairs
HCAHPS	Hospital Consumer Assessment of Healthcare Providers and Systems
HCDA	Health Care Data Analysis
HEDIS	Healthcare Effectiveness Data and Information Set
HMO	Health Maintenance Organization
IBNR	Incurred but not Reported
IGT	Intragovernmental Transactions
IOC	Initial Operating Capability
IPAC	Intragovernmental Payment and Collection
IRB	Investment Review Board
JFMIP	Joint Financial Management Improvement Program
JOES	Joint Outpatient Experience Survey
MARR	Mandatory Agreements Retail Refunds
MCSC	Managed Care Support Contractor
MERHCF	Medicare-Eligible Retiree Health Care Fund
MHS	Military Health System
MRHB	Military Retiree Health Benefits
MTF	Military Treatment Facility
NDAA	National Defense Authorization Act
NDS	National Defense Strategy
NFR	Notice of Finding and Recommendation

NOAA	National Oceanic and Atmospheric Administration
Non-FAMP	Non-Federal Average Manufacturer Price
NPS	Naval Postgraduate School
OACT	Office of the Actuary
OASD	Office of the Assistant Secretary of Defense
OFF	Oracle Federal Financials
OGC	Office of General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OUSD	Office of the Under Secretary of Defense
P&R	Personnel and Readiness
P.L.	Public Law
PCM	Primary Care Manager
PCMH	Patient-Centered Medical Home
PHS	Public Health Service
PI	Program Integrity
PIIA	Payment Integrity Information Act
POC	Point of Contact
POD	Pharmacy Operations Division
POS	Point of Service
PPA	Prompt Payment Act
PPO	Preferred Provider Organization
RFP	Request for Proposal
SBR	Statement of Budgetary Resources
SCNP	Statement of Changes in Net Position
SDP	Standard Discount Program
SF	Standard Form
SFFAS	Statement of Federal Financial Accounting Standards

SFIS	Standard Financial Information Structure
SMA	Service Medical Activity
SNC	Statement of Net Cost
TAMP	Transitional Assistance Management Program
TCM	TRICARE Claims Management
TDEFIC	TRICARE Dual Eligible Fiscal Intermediary
TDP	TRICARE Dental Program
TEDS	TRICARE Encounter Data Set
TFL	TRICARE for Life
TFM	Treasury Financial Manual
TJC	The Joint Commission
TMA	TRICARE Management Activity
TOP	TRICARE Overseas Program
TPR	TRICARE Prime Remote
TRR	TRICARE Retired Reserve
TRS	TRICARE Reserve Select
TYA	TRICARE Young Adult
U.S.C.	United States Code
UDC	Unapplied Collections
UF-VARR	Uniform Formulary VARR
UMP	Unified Medical Program
USACE	U.S. 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	Department of Veterans Affairs
VARR	Voluntary Agreements Retail Rebates
WAC	Wholesale Acquisition Cost
WHO	World Health Organization
WRNMMC	Walter Reed
WSS REs	Wrong-Site Surgery Reportable Events