

DEFENSE HEALTH AGENCY

# CONTRACT RESOURCE MANAGEMENT

Agency Financial Report  
Fiscal Year 2025



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## Agency Head Message

In Fiscal Year (FY) 2025, the Department of War's Military Health System (MHS) remained steadfast in its unwavering commitment to supporting, sustaining, and strengthening the health and readiness of the Joint Force. Every investment within the Defense Health Program (DHP) is purposefully directed towards ensuring America's warfighters—and the families who stand beside them—receive high-quality, accessible healthcare whenever and wherever they need it.

The FY 2025 DHP appropriation was funded via the Full-Year Continuing Appropriations and Extensions Act, 2025, at \$40.4 billion, including \$17.4 million in supplemental funding allocated for disaster relief to offset increased expenditures resulting from Hurricanes Helene and Milton. We also received an additional \$723 million in Research, Development, Test and Evaluation funding for various Congressional Special Interest Projects. These projects included initiatives such as the Joint Civilian-Medical Surge Pilot, Freeze-Dried Platelet Hemostatic Development, Warfighter Musculoskeletal Health, Military-Civilian Trauma Partnerships, and peer-reviewed research for Duchenne Muscular Dystrophy and Rare Cancers.



Further, the One Big Beautiful Bill Act (Public Law 119-21) appropriated to the Secretary of Defense, provides for up to \$2 billion in multiyear funding to advance the DHP mission. Approximately \$1.06 billion was Congressionally-approved for the DHP in FY 2025. Plans are in place for an additional \$940 million in projects, which are subject to Congressional approval. These planned projects are specifically designed to address key DHP priorities, including mitigating pharmacy and supply chain vulnerabilities, alleviating chronic staffing shortages within our military medical treatment facilities (MTFs), supporting the non-underwritten portion of our TRICARE program, and enabling critical repair and modernization efforts to address significant deferred maintenance requirements in aging MTFs.

At the heart of our mission lies a simple yet profound principle: to maintain the health and readiness of service members and to cultivate a premier medical workforce capable of expertly supporting our warfighters both in-garrison and across the full spectrum of military operations. Medical readiness directly translates to combat readiness. To that end, the MHS prioritized resources in FY 2025 on initiatives that enhance combat casualty care, advance trauma training methodologies, and expand mental health support services. These investments are crucial to ensuring our service members are physically fit, mentally resilient, and prepared to defend our Nation. Readiness is not a static objective; it requires continuous vigilance and sustained effort.

As the only healthcare system that goes to war, the MHS must prioritize the preparedness of its medical cadre to meet the unique challenges of the battlefield. The DHP invested significantly in sustaining a clinically proficient medical force, ensuring our professionals remain ready to serve wherever duty calls. This includes strengthening partnerships with academic institutions and the Department of Veterans Affairs to expand clinical experience and maintain hard-earned skills. Providing opportunities for our medical personnel to hone their skills in challenging environments is central to our ability to save lives, return injured warfighters to duty expeditiously, and promote their continued resilience.

Sound stewardship and a commitment to continuous improvement guided our modernization efforts in FY 2025. The DHP advanced key initiatives to optimize TRICARE performance, enhance MTF operations, and expand opportunities for telehealth, data analytics, and artificial intelligence across the enterprise. These investments improved access to care while bolstering the resilience and adaptability of the MHS workforce.

Through deliberate fiscal management and strategic prioritization, we are committed to maximizing the value of every defense health dollar. The MHS remains a medical system ready for any challenge. Driven by our values of readiness, excellence, and compassion, the MHS strengthens our national security by maintaining a ready medical workforce focused on ensuring the Nation's warfighters are fully medically ready to deploy at a moment's notice and providing a highly trained and capable medical cohort to support them, both at home and on the battlefield.

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Stephen Ferrara, M.D.  
Acting Assistant Secretary of War for Health Affairs



## SECTION 1

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Mission and Organization Structure

### *Description of the Reporting Entity*

Contract Resource Management (CRM), is a division of the Defense Health Agency (DHA) within the Department of Defense (DoD). For financial reporting purposes, Defense Health Agency – Contract Resource Management (DHA-CRM) is a component within the consolidated financial statements of the DHP. Within the DoD, the Office of the Assistant Secretary of Defense for Health Affairs (ASD(HA)) over the DHP Agency Financial Report (AFR) provides financial and summary performance results enabling the President, Congress, and the American people to assess its accomplishments and to understand its financial results and operational functions. The Office of the Under Secretary of Defense (OUSD) for Personnel and Readiness (P&R), through the ASD(HA), has as one of its missions, operational oversight of the MHS, including the direct care system (military hospitals), the private sector care system, and the Medicare-Eligible Retiree Health Care Fund (MERHCF) for those beneficiaries dual-eligible for both Medicare and TRICARE.

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

The MHS consists of a combination of MTFs and regional networks of civilian providers that work together to provide care to 9.5 million eligible beneficiaries. The MHS direct care system is staffed by personnel in 47 hospitals, 569 medical clinics, and 110 dental clinics at facilities around the globe. The MHS is a complex system that globally integrates: health care delivery, public health and medical education, private sector partnerships, and cutting-edge medical research and development.

### *Defense Health Agency*

The DHA oversees the execution of the DHP appropriation to support the delivery of integrated, affordable, and high-quality health services to the DoD's 9.5 million eligible beneficiaries and executes responsibility for shared services, functions, and activities of the MHS and other common clinical and business processes. The DHA manages the execution of policy as issued by the ASD(HA) and exercises authority, direction, and control over the inpatient facilities and their subordinate clinics assigned to the DHA.

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

The Quadruple Aim—Improved Readiness, Better Care, Better Health, and Lower Cost—serves as the strategic framework for the MHS. The DHP funds the MHS under the policy direction and guidance of the ASD(HA). The DHA's success will be measured against the FY25-30 DHA Strategic Plan. The FY25-30 DHA Strategic Plan communicates a clear-cut vision and direction for DHA's future. The plan is intended to educate those in DHA and the DoD about DHA's integrated approach for achieving the Director's vision for the organization. The plan outlines DHA's mission, vision, values, and priorities; it gives an in-depth overview of the three strategic priorities, which describe actions or activities to carry out the DHA mission.

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

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

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

The direct care system consists of medical centers, hospitals, and ambulatory clinics located worldwide. Effective October 25, 2019, the DHA is responsible for exercising authority, direction, and control of MTFs in fulfillment of the National Defense Authorization Act (NDAA) for FY 2017, Section 702.

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

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

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

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

### ***Contract Resource Management***

DHA-CRM in Aurora, Colorado, under the leadership of Assistant Director of Resources & Personnel Integration, Alfred K. Flowers Jr., Brigadier General, USAF, MSC, is responsible for the accounting, financial support, and financial reporting for TRICARE's centrally funded private sector health care programs and the TRICARE Retail Pharmacy Refunds Program. DHA-CRM provides budget formulation input, carries out budget execution, and prepares component financial statements and footnotes.

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

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

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

### **DHA-CRM Funding Sources**

Fiscal Year	MERHCF Funding (Billions)	Annual Appropriations (Billions) *
2025	\$11.2	\$20.4

\* DHA-CRM received Funding Authorization Documents (FADs) for FY25/9700 of \$20.4 billion through September 30, 2025.

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

## TRICARE

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

The TRICARE program offers beneficiaries a range of health plans as follows:<sup>1</sup>

- **TRICARE Prime** requires enrollment and is comparable to health maintenance organization (HMO) plans. Each enrollee is assigned a primary care manager (PCM). A PCM is a health care provider who is responsible for managing an enrollee’s care, promoting preventive health services (e.g., routine exams and immunizations), and arranging for specialty provider services as indicated. TRICARE Prime access standards apply to the drive time to reach a primary care or specialty care provider, waiting times to get an appointment, and waiting times in provider offices. TRICARE Prime’s point-of service (POS) option permits enrollees to obtain care from TRICARE-authorized providers other than the assigned PCM without a referral. However, POS deductibles and cost shares are significantly higher than TRICARE Select, and POS charges are not counted toward the enrollee’s catastrophic cap.
  - **TRICARE Prime Remote (TPR)** enrollment is offered to certain Service members remote from MTFs.
  - **TRICARE Prime Remote for Active Duty Family Members (TPRADFM)** enrollment is offered to qualified dependents of Service member sponsors, Active and Reserve, on Active Duty more than 30 days.
  - **Uniformed Services Family Health Plan (USFHP)** is a TRICARE Prime plan offered to non-Active Duty beneficiaries who live in one of six statutorily specified locations: Washington, Texas, Maine, Maryland, Massachusetts, and New York/New Jersey. Enrollees receive all services, including pharmacy, exclusively from their particular enrolled USFHP plan. Enrollees forfeit MTF services.
- **TRICARE Select** requires enrollment and is comparable to preferred provider organization (PPO) health plans. It features access to both network and non-network TRICARE-authorized providers. Referrals are generally not required for coverage. Beneficiaries other than Active Duty Service members and other than TFL may qualify to enroll. Retirees, their families, and certain survivors must pay enrollment fees to participate.
- **TRICARE for Life (TFL)** offers wraparound coverage for TRICARE-eligible beneficiaries who have both Medicare Parts A and B, regardless of age or place of residence. Similar to Medigap policies, TFL pays secondary to Medicare for TRICARE-covered services. TFL started October 1, 2001.
- **Transitional Assistance Management Program (TAMP)** plan provides 180 days of premium-free coverage upon release from Active Duty served more than 30 days by certain Service member sponsors, Active or Reserve.
- **Other Plans and Programs:** Some beneficiaries may qualify for the following depending on their location, Active/Reserve status, and/or other factors:
  - Premium-based health plans, including:
    - TRICARE Young Adult (TYA), available for purchase by qualified former dependent children up to the age of 26. They may choose TRICARE Prime, where offered locally, or TRICARE Select coverage. Cost-sharing level is dependent upon sponsor status.

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

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

#### ***Health Care Purchased From Civilian Providers***

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

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

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

### ***Medicare Eligible Retiree Health Care Plans***

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

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

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

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

### ***DHA OIG Health Care Fraud Division***

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

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

During calendar year 2024, the HCFD actively managed 301 investigative cases, 171 new cases were opened, and the HCFD responded to over 378 lead requests and fraud allegation inquiries.<sup>2</sup>

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<sup>2</sup> The data reported above was obtained from the calendar year 2024 [Health Care Fraud Division Operation Report](#). FY 2025 data will not be available until published in 2026, due to the time required to compile 4th Quarter, FY 2025 data.

## Analysis of Performance Goals, Objectives, and Results

### Performance Measures

#### Stakeholder Perspective<sup>3</sup>

- The \$61.4 billion Unified Medical Program (UMP) presented in the FY 2025 President's Budget, including estimated outlays from the MERHCF, is 2.4% higher than the actual \$59.9 billion in expenditures in FY 2024 and is about 7.0% of total FY 2025 estimated DoD outlays.
- In FY 2024, 9.4 million beneficiaries were eligible for DoD medical care. Of those, almost 4.3 million (46%) enrolled in TRICARE Prime.

#### Utilization Rates and Workload

- Urgent care utilization and emergency department utilization each remained relatively the same in FY 2024 as they did the previous two years.

#### Access to MHS Care

- PCM patient relationship remains a driving force to improve access and quality and to deliver better health outcomes for military medical treatment facility (MTF) beneficiaries. In FY 2024, enrollees saw their PCM during primary care visits 48 percent of the time. In FY 2024, there was an increase in the average number of days to third next available 24-hour (2.8 days) and future (9.6 days) appointments from the previous year. The rate of network urgent care visits by MTF enrollees decreased in FY 2024 from previous year.
- The Joint Outpatient Experience Survey (JOES) shows 73 to 75 percent of MTF users indicated they were able to see a provider when needed (based on quarterly data) in FY 2024.

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

- The DHA requires MTF Directors and staff to report all patient safety events that reach the patient (i.e., harm and no-harm events) and those that do not reach the patient (i.e., near-miss events) to the greatest extent possible through the Joint Patient Safety Reporting system. In FY 2024, a total of 68,125 patient safety reports were submitted from the direct care system.
- The HEDIS rate for DoD colorectal cancer screening improved by 7.1 percentage points; all sectors (MTFs, private sector care, DoD overall) were above the 75th percentile in FY 2024. The HEDIS measure for mental health follow up 30-days increased for MTFs from FY 2023 to FY 2024 and was above the 90th percentile.
- DoD breast cancer screening rates decreased slightly and were below the 50th percentile. Cervical cancer screening rates remain below the 50th percentile across all sectors of care but improvements are noted.
- Glycemic status assessment for patients with diabetes is a two-component measure. The diabetes control measure (HbA1c<8) for MTFs has steadily increased and was above the 75th percentile. The measure for poor diabetes control (HbA1c>9) for MTFs improved (lower score is better) and continues to perform better than the 50th percentile.
- The well-child visit HEDIS measure was below the 50th percentile for all venues in FY 2024.

#### Patient Experience

- Patient (beneficiary) satisfaction with their health plan for those with Select and Prime Network PCM were above the civilian benchmark in FY 2024, but below the benchmark for enrollees in Prime MTF PCM (from the Health Care Survey of Beneficiaries).
- Satisfaction with outpatient care was between 86 and 89 percent in FY 2024, consistent with the three

<sup>3</sup> UMP presented here includes direct and private sector care funding, military personnel, military construction, and the MERHCF ("Accrual Fund"). Budget and expense data from DHA/Resources & Management Directorate (J-8)/Budget & Execution Division, 11/19/2024.

previous years (JOES).

- Overall hospital rating from the inpatient survey shows that for medical and surgical product lines, direct care scores were above the civilian benchmark in FY 2024. Direct care satisfaction scores for the medical product line was 77 percent and for surgical care was 78 percent (benchmark of 72 percent for both). Direct care satisfaction scores for obstetric patients were below the benchmark in FY 2024 at 62 percent satisfaction (benchmark of 72 percent).

The DoD Annual Performance Report, with detailed performance information that meets the requirements of the Government Performance and Results Modernization Act of 2010 (P.L. 111-352), will be published in February 2026.

## Analysis of Financial Statements

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

Contract Resource Management Table of Key Measures		
(\$ In Thousands)	FY 2025	
<b>Costs</b>		
Total Financing Sources	\$	19,798,122
Less: Net Cost		78,848,900
<b>Net Cumulative Results of Operations</b>	\$	(59,050,778)
<b>Net Position</b>		
<b>Assets:</b>		
Fund Balance with Treasury	\$	2,290,920
Accounts Receivable, Net		891,261
<b>Total Assets</b>	\$	<b>3,182,558</b>
<b>Liabilities:</b>		
Accounts Payable	\$	958,321
Pension, Post-Employment, and		360,451,703
Veterans Benefits Payable		
Other		85,377
<b>Total Liabilities</b>	\$	<b>361,495,401</b>
<b>Net Position (Assets minus Liabilities)</b>	\$	<b>(358,312,843)</b>

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

A summary of DHA-CRM's major financial activities as of September 30, 2025 is presented above. This table represents the resources available, assets on hand to pay liabilities, and the corresponding net position. The net cost of operations is the cost of operating the programs administered by DHA-CRM. Budgetary resources include funds available to DHA-CRM to incur obligations and fund operations, as well as certain funds which have already been obligated.

Net cumulative results of operations were \$59.1 billion as of September 30, 2025. Significant components of net cumulative results of operations are Total Financing Sources, and Total Net Cost of Operations. Total Financing Sources were \$19.8 billion as of September 30, 2025. Total Net Cost of Operations was \$78.8 billion as of September 30, 2025. Total Costs consisted of the following significant items. Intragovernmental costs in the amount of \$1.7 billion. Public costs, other than losses/gains from actuarial assumption changes of \$53.3 billion. Losses from actuarial assumption changes were \$25.6 billion as of September 30, 2025. The actuarial liability for Military Pre Medicare-Eligible Retiree Health Benefits has three components that affect net cost, including Expenses Other than Losses/(Gains) from Actuarial Assumption Changes, before Benefit Outlays; Losses/(Gains) from Actuarial Assumption Changes; and Benefit Outlays. The actuarial liability is discussed in detail in Note 6.

Total earned revenue was \$1.8 billion as of September 30, 2025. Total revenue consisted of the following significant items. Intragovernmental revenue in the amount of \$762.7 million, and Public revenue in the amount of \$1.0 billion. Public revenue is derived primarily from Prime Enrollment Fees, Select Enrollment Fees, TYA and TRS.

Total assets were \$3.2 billion as of September 30, 2025. Significant components of total assets are Fund Balance with Treasury (FBWT) and Accounts Receivable, Net, consisting of Intragovernmental Accounts Receivable and Other Than Intragovernmental Accounts Receivable. FBWT was \$2.3 billion as of September 30, 2025. Accounts Receivable, Net was \$891.3 million as of September 30, 2025.

Total liabilities were \$361.5 billion as of September 30, 2025. Significant liabilities are Pension, Post-Employment, and Veterans Benefits Payable in the amount of \$360.5 billion, Accounts Payable in the amount of \$958.3 million, and Other Liabilities in the amount of \$85.4 million as of September 30, 2025. For Pension, Post-Employment, and Veterans Benefits Payable, the DoD Office of the Actuary (OACT) calculates this actuarial liability annually at the end of each fiscal year using the current active and retired population plus assumptions about future demographic and economic conditions. Note 6 of the financial statements reflects two distinct types of liabilities related to Pension, Post-Employment, and Veteran Benefits Payable. The line entitled "Military Pre Medicare-Eligible Retiree Health Benefits" represents the actuarial (or accrued) liability for future health care benefits that are not yet incurred. The line entitled "Other" represents the incurred-but-not-reported (IBNR) reserve amount which is an estimate of benefits already incurred but not yet reported to DoD for all the DHP beneficiaries excluding those from the retiree population. DHA-CRM actuarial liability is adjusted at the end of each fiscal year. The 4<sup>th</sup> Quarter, FY 2025 balance represents the September 30, 2025 amount.

Total net position is \$358.3 billion as of September 30, 2025, consisting of cumulative results of operations and unexpended appropriations.

## 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 2025 Federal Manager's Financial Integrity Act (FMFIA).



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

DATE: September 30, 2025

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

FROM: Kelly Thiel, Director, Contract Resource Management

SUBJECT: Annual Statement of Assurance Required Under the Federal Managers' Financial Integrity Act (FMFIA) for Fiscal Year 2025

- As the Director of the Contract Resource Management (CRM), Defense Health Agency (DHA), I recognize the DHA-CRM is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. The DHA-CRM conducted its assessment of risk and internal control in accordance with the OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control"; and the Green Book, GAO-14-704G, "Standards for Internal Control in the Federal Government." Based on the results of the assessment, the DHA-CRM can provide reasonable assurance that internal controls over operations, reporting, and compliance are operating effectively as of September 30, 2025.
  - 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. 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, 2025.
  - 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. 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, 2025), and compliance are operating effectively as of September 30, 2025.
  - 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. 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, 2025.
- 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



**OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE  
HEALTH AFFAIRS**  
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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, 2025.

- The DHA-CRM is hereby reporting that no Anti-Deficiency Act (ADA) violation has been discovered/identified during our assessments of the applicable processes.
- The DHA-CRM demonstrates commitment to upholding the prescribed guidelines, legal obligations, and business requirements when exercising the Presidential Drawdown Authority (PDA).

If there are any questions regarding this Statement of Assurance for FY 2025, my point of contact is Matthew Finnegan and can be reached at [REDACTED]

Kelly Thiel  
Director, Contract Resource Management  
DHA Aurora, CO

***Status of Audit Findings***

DHA-CRM received unmodified opinions for FY 2010 through FY 2025. No material weaknesses were identified during FY 2024 and FY 2025; however beginning in FY 2019 and through FY 2025 a significant deficiency has been noted.

From FY 2019 through FY 2025, the audit has identified a significant deficiency pertaining to certain Information Systems used by DHA-CRM.

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

The audit identified that DHA-CRM 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 agreed with the audit findings received. Notice of Findings and Recommendations (NFRs) identified during the FY 2018 audit were not remediated in a timely manner which caused repeat findings during the FY 2019 through FY 2025 audits. Corrective Action Plans (CAPs) established in FY 2019 through FY 2025 that failed to be fully implemented are required to be modified with new completion dates. DHA-CRM will implement monitoring activities in coordination with DMDC to ensure CAP milestone dates are met for remediation efforts in FY 2026. For specific details please reference the "Independent Auditor's Report on Internal Control Over Financial Reporting" included in the Financial Section of this report.

#### ***Compliance with Laws and Regulations***

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

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

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

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

appropriately and in compliance with all aspects of the law. DHA-CRM is not aware of any violations of the ADA that must be reported to the Comptroller General, Congress, and the President for the year ended September 30, 2025.

**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 2025, DHA-CRM processed all invoices and disbursements in a timely manner and did not incur any interest penalties dollars, on total net disbursements of \$19.5 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 Act) of 2014)**

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

**Federal Information Security Modernization Act (FISMA) of 2014**

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

**Federal Financial Management Improvement Act (FFMIA) of 1996**

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

**Federal Managers' Financial Integrity Act (FMFIA) of 1982**

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

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

The DATA Act expands the FFATA to increase accountability and transparency in Federal spending, making Federal expenditure information more accessible to the public. It directs the Federal Government to use government-wide

data standards for developing and publishing reports and to make more information, including award-related data, available on the USASpending.gov Web site. The standards and Web site allow stakeholders to track Federal spending more effectively. Among other goals, the DATA Act aims to improve the quality of the information on USASpending.gov, as verified through regular audits of the posted data, and to streamline and simplify reporting requirements through clear data standards. The DHP complies with the DATA Act; making its expenditures accessible to the public on USASpending.gov.

In addition to compliance with the original legislation and subsequent guidance from Office of Management and Budget (OMB) over the DATA Act, a revised Appendix A to Circular A-123 was released in June 2018. The revised Appendix was accompanied with a cover letter that requires DATA Act reporting agencies to create Data Quality Plans. Consideration of this plan must be included in agencies' existing annual assurance statement for internal controls over reporting until agencies determine that they can provide reasonable assurance over the data quality controls that support achievement of the reporting objectives in accordance with the DATA Act.

### ***Systems***

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

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

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

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

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

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

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

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

DHA-CRM is responsible for implementing and maintaining financial management systems that substantially comply with Federal financial management system requirements, Federal accounting standards, and the USSGL at the transaction level. DHA-CRM determined that the financial management systems substantially complied with the Federal financial management systems requirements, Federal accounting standards, and application of the USSGL at the transaction level as of September 30, 2025. DHA-CRM continued to maintain SFIS compliance through FY 2025.

#### *TED System*

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

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

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

#### *E-Commerce*

DHA-CRM E-Commerce System (ECS) is an integrated, centralized major system that improves DHA-CRM's core financial, contracting and business processes by providing a seamless integrated financial and contracting system. It uses commercial off-the-shelf (COTS) software and hardware to provide a network-based, multi-user system with the essential tools to manage and administer the TRICARE financial and contracting activities. The core financial solution embedded in DHA-CRM ECS, OFF, is a Financial Systems Integration Office (FSIO) (formerly

known as the Joint Financial Management Improvement Program [JFMIP]) certified financial system. This component is integrated with a contract management component and a management control component. The management control component enables Web-based queries of TRICARE contracting and financing information directly against a single database and permits direct reporting of program status and tracking information to management.

*OFF*

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

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

The healthcare (TED) claims processing function is performed by the OFF-TCM extension. TCM is a custom built extension to OFF which converts healthcare (TED) data into financial data that can then be processed by standard (COTS) OFF. The TCM conversion of healthcare data is of critical importance to the accuracy of the financial information presented in DHA-CRM's financial statements. TRICARE processed approximately 211 million claims (invoices) through the TED system during FY 2025, valued at approximately \$24.3 billion. The financial conversion, processing and posting of TED data from commitment/obligation through payable/receivable is 100% automated. In addition to creating budgetary and accounting transactions, TCM supports the TED system by providing daily financial data to the TED system. Without the data received from the OFF-TCM extension the TED system would be unable to process and properly edit the contractor's daily data submissions. TED system functions supported by the OFF-TCM data provided include:

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

The OFF application is a current; fully supported Version of Oracle R-12. DHA-CRM ECS Program successfully deployed Version R-12.2.8 technical upgrade in July 2021. DHA-CRM remains compliant through FY 2025.

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

## 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 1<sup>st</sup> (generic drugs) or 2<sup>nd</sup> (formulary brand drugs) tiers of the DoD Uniform Formulary. There are two types of additional discounts:

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

The table on the following page highlights DoD activity since the inception of the Program. DoD has collected \$20.4 billion to date and continues rigorous collection efforts for both programs.

## TRICARE Retail Pharmacy Refunds Program

Program To Date (CY 2008-3rd Quarter, CY 2025)	Total	DHP	Non-DoD	MERHCF
<b>SDP -</b>				
Billed	\$12,055,064,704	\$5,484,901,128	\$194,245,297	6,375,918,279
Collected	(11,705,765,259)	(5,294,915,813)	(187,029,323)	(6,223,820,123)
Net	349,299,445	189,985,315	7,215,974	152,098,156
<b>ADP -</b>				
Billed	9,549,902,705	4,428,200,568	160,391,010	4,961,311,127
Collected	(8,714,610,350)	(3,973,940,044)	(143,837,380)	(4,596,832,926)
Net	835,292,355	454,260,524	16,553,630	364,478,201
UDC <sup>1</sup>	(3,183,906)	(1,742,004)	(63,559)	(1,378,343)
<b>Total -</b>				
Billed	\$21,604,967,409	\$9,913,101,696	\$354,636,307	\$11,337,229,406
Collected	(20,420,375,609)	(9,268,855,857)	(330,866,703)	(10,820,653,049)
UDC	(3,183,906)	(1,742,004)	(63,559)	(1,378,343)
<b>Net</b>	<b>\$1,181,407,894</b>	<b>\$642,503,835</b>	<b>\$23,706,045</b>	<b>\$515,198,014</b>
<b>Aging -</b>				
Current	\$1,094,341,561	\$601,880,431	\$21,894,500	\$470,566,630
61 Days to 2 Years <sup>2</sup>	55,781,614	26,922,035	1,339,859	27,519,720
Over 2 Years	31,284,719	13,701,369	471,686	17,111,664
<b>Total<sup>3</sup></b>	<b>\$1,181,407,894</b>	<b>\$642,503,835</b>	<b>\$23,706,045</b>	<b>\$515,198,014</b>

1. Unapplied Collections (UDC) applied to CY25.

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

3. 3QCY2025 Estimate added to Billings to reconcile with Accounts Receivable: \$262,114,000 MERHCF; \$347,454,000 DHP & Non-DoD.

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

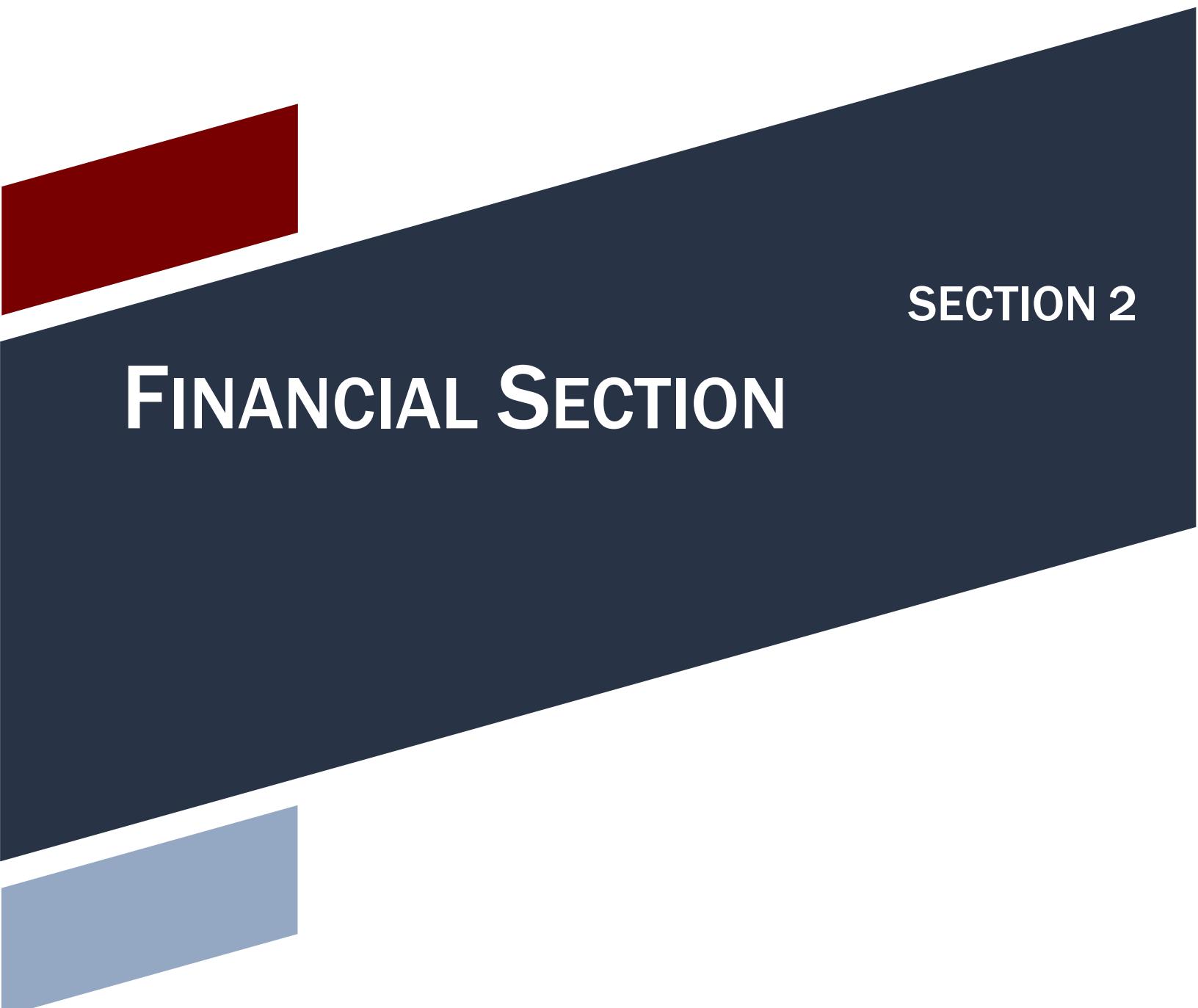
"All refunds and other amounts collected in the administration of the CHAMPUS shall be credited to the appropriation available for that program for the fiscal year in which the refund or amount is collected."

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

DHA-CRM in FY 2025 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%.

## **Limitations of the Financial Statements**

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

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SECTION 2

## FINANCIAL SECTION

**Office of the Inspector General Transmittal 2025****OFFICE OF INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
4800 MARK CENTER DRIVE  
ALEXANDRIA, VIRGINIA 22350-1500**

November 14, 2025

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

SUBJECT: Transmittal of the Independent Auditor's Reports on the Defense Health  
Agency-Contract Resource Management Financial Statements and Related  
Notes for FY 2025  
(Project No. D2025-D000FT-0058.000, Report No. DODIG-2026-012)

We contracted with the independent public accounting firm of Kearney & Company, P.C. (Kearney) to audit the Defense Health Agency-Contract Resource Management (DHA-CRM) Financial Statements and related notes as of and for the fiscal year ended September 30, 2025. The contract required Kearney to provide a report on internal control over financial reporting and compliance with provisions of applicable laws and regulations, contracts, and grant agreements, and to report on whether the DHA-CRM's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract required Kearney to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," Volume 1, June 2025, Volume 2, June 2024, and Volume 3, August 2025. Kearney's Independent Auditor's Reports are attached.

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

Kearney's separate report, "Independent Auditor's Report on Internal Control Over Financial Reporting," did not identify any material weaknesses related to the DHA-CRM's internal controls over financial reporting.<sup>1</sup>

<sup>1</sup> A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting that results in a reasonable possibility that management will not prevent, or detect and correct, a material misstatement in the financial statements in a timely manner.

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

In connection with the contract, we reviewed Kearney's reports and related documentation and discussed them with Kearney's representatives. Our review, as differentiated from an audit of the financial statements and related notes in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the DHA-CRM FY 2025 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal controls over financial reporting, on whether the DHA-CRM's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with provisions of applicable laws and regulations, contracts, and grant agreements. Our review disclosed no instances where Kearney did not comply, in all material respects, with GAGAS. Kearney is responsible for the attached November 14, 2025 reports and the conclusions expressed within the reports.

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



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

Attachments:  
As stated

## Independent Auditor's Report 2025



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### INDEPENDENT AUDITOR'S REPORT

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

#### Report on the Audit of the Financial Statements

##### *Opinion*

We have audited the financial statements of the Defense Health Agency (DHA) – Contract Resource Management (CRM), which comprise the Balance Sheet as of September 30, 2025, the related Statements of Net Cost and Changes in Net Position, and the combined Statement of Budgetary Resources (hereinafter referred to as the “financial statements”) for the year then ended, and the related notes to the financial statements.

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

##### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards are further described in the ***Auditor's Responsibilities for the Audit of the Financial Statements*** section of our report. We are required to be independent of DHA-CRM and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

##### *Responsibilities of Management for the Financial Statements*

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



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

***Auditor's Responsibilities for the Audit of the Financial Statements***

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

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

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



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

***Required Supplementary Information***

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

***Other Information***

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

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards* and OMB Bulletin No. 24-02, we have also issued reports, dated November 14, 2025, on our consideration of DHA-CRM's internal control over financial reporting and on our tests of DHA-CRM's compliance with certain provisions of laws, regulations, contracts, and grant agreements, as well as other matters. The purpose of those reports is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of DHA-CRM's internal control over financial reporting or on compliance and other matters. Those reports are an integral part of an audit performed in accordance with *Government Auditing*



*Standards* and OMB Bulletin No. 24-02 in considering DHA-CRM's internal control over financial reporting and compliance.

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

Alexandria, Virginia  
November 14, 2025



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### **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*, the financial statements, and the related notes to the financial statements of the Defense Health Agency (DHA) – Contract Resource Management (CRM) as of and for the year ended September 30, 2025, which collectively comprise DHA-CRM's financial statements, and we have issued our report thereon dated November 14, 2025.

#### **Report on Internal Control over Financial Reporting**

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

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

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



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

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

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

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

#### **Purpose of this Report**

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

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

Alexandria, Virginia  
November 14, 2025



### Schedule of Finding

#### Significant Deficiency

##### I. Information Systems (*Modified Repeat Condition*)

**Background:** The Defense Health Agency – Contract Resource Management (DHA-CRM) operates in a complex information system (IS) 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) On Premise Network (DOPN) and Defense Enrollment Eligibility Reporting System (DEERS) support key medical benefit payment activities. DOPN and DEERS are administrated by a service organization. DoD Instruction (DoDI) No. 8510.10, *Risk Management Framework (RMF) for DoD Systems*, Section 2.7, requires DHA-CRM to implement security controls in accordance with National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53 Rev. 5.

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

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

Our testing disclosed deficiencies in the following areas:

- Access Controls and Segregation of Duties (SD)
  - Incomplete or not fully implemented policies and procedures for managing and monitoring access to key financial management applications and databases, including third-party systems
  - Incomplete or not fully implemented policies and procedures for the proper SD, including documented business justifications for existing SD conflicts, for key financial management applications
  - Inconsistent implementation of user account recertification to verify the propriety of access to key financial management systems
- Configuration Management
  - Incomplete, inconsistent, or unmaintained documentation of configuration changes for key financial management applications, to support the continuous monitoring of the established baselines.



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

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

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

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

\* \* \* \*



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*, the financial statements, and the related notes to the financial statements of the Defense Health Agency (DHA) – Contract Resource Management (CRM) as of and for the year ended September 30, 2025, which collectively comprise DHA-CRM's financial statements, and we have issued our report thereon dated November 14, 2025.

**Report on Compliance and Other Matters**

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

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 Section 803(a) requirements related to Federal financial management system requirements, applicable Federal accounting standards, or application of the United States Standard General Ledger at the transaction level.



**Purpose of this Report**

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

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

Alexandria, Virginia  
November 14, 2025

## Principal Financial Statements

Department of Defense  
Defense Health Agency  
**Contract Resource Management**  
**BALANCE SHEET**  
As of September 30, 2025  
(\$ In Thousands)

		2025
<b>Assets</b>		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	\$ 2,290,920	
Accounts Receivable, Net (Note 4)	<u>70,091</u>	
Total Intragovernmental	<u>2,361,011</u>	
Other Than Intragovernmental		
Cash and Other Monetary Assets (Note 3)	377	
Accounts Receivable, Net (Note 4)	<u>821,170</u>	
Total Other Than Intragovernmental	<u>821,547</u>	
<b>Total Assets</b>	<b>\$ 3,182,558</b>	
<b>Liabilities</b>		
Intragovernmental:		
Accounts Payable	\$ 12,869	
Total Intragovernmental	<u>12,869</u>	
Other Than Intragovernmental		
Accounts Payable	945,452	
Pension, Post-Employment, and Veterans		
Benefits Payable (Notes 5 and 6)	360,451,703	
Other (Note 7)	<u>85,377</u>	
Total Other Than Intragovernmental	<u>361,482,532</u>	
<b>Total Liabilities</b>	<b>\$ 361,495,401</b>	
Commitments and Contingencies (Note 8)		
<b>Net Position</b>		
Unexpended Appropriations - Other Funds	\$ 1,402,873	
Cumulative Results of Operations – Funds from other than Dedicated		
Collections	<u>(359,715,716)</u>	
Total Net Position	<u>\$ (358,312,843)</u>	
<b>Total Liabilities and Net Position</b>	<b>\$ 3,182,558</b>	

The accompanying notes are an integral part of these statements.

Department of Defense  
Defense Health Agency

**Contract Resource Management**  
**STATEMENT OF NET COST**

For the Year Ended September 30, 2025

(\$ In Thousands)

2025		
<b>Program Costs</b>		
Gross Costs (Note 9)		
Operations, Readiness & Support	\$	22,323,952
Actuarial Non Assumption Costs		32,731,302
Less: Earned Revenue		<u>(1,767,885)</u>
Net Program Costs	\$	<u>53,287,369</u>
(Gain)/Loss from Actuarial Assumption Changes for Military Retirement Benefits (Note 6)		25,561,531
Net Program Costs Including Assumption Changes	\$	<u>78,848,900</u>
<b>Net Cost of Operations</b>	\$	<u><b>78,848,900</b></u>

**The accompanying notes are an integral part of these statements.**

Department of Defense  
Defense Health Agency  
**Contract Resource Management**  
**STATEMENT OF CHANGES IN NET POSITION**  
For the Year Ended September 30, 2025  
(\$ In Thousands)

2025		
<b>Unexpended Appropriations:</b>		
Beginning Balance	\$	965,994
<b>Budgetary Financing Sources:</b>		
Appropriations received		20,402,422
Appropriations transferred-in/out		(85,782)
Other adjustments (rescissions, etc)		(81,639)
Appropriations used		<u>(19,798,122)</u>
Total Budgetary Financing Sources		436,879
<b>Total Unexpended Appropriations</b>	<b>\$</b>	<b>1,402,873</b>
<b>Cumulative Results of Operations:</b>		
Beginning Balance		(300,664,938)
<b>Budgetary Financing Sources:</b>		
Appropriations used		<u>19,798,122</u>
Total Financing Sources		19,798,122
Net Cost of Operations		<u>78,848,900</u>
Net Change		<u>(59,050,778)</u>
<b>Cumulative Results of Operations</b>		<b><u>(359,715,716)</u></b>
<b>Net Position</b>	<b>\$</b>	<b><u>(358,312,843)</u></b>

The accompanying notes are an integral part of these statements.

Department of Defense  
Defense Health Agency  
**Contract Resource Management**  
**STATEMENT OF BUDGETARY RESOURCES**  
For the Year Ended September 30, 2025  
(\$ In Thousands)

2025		
<b>Budgetary Resources</b>		
Unobligated balance from prior year budget authority, net	\$	546,207
Appropriations (discretionary and mandatory)		20,402,422
Spending authority from offsetting collections (discretionary and mandatory)		<u>1,770,024</u>
<b>Total Budgetary Resources</b>	<b>\$</b>	<b><u>22,718,653</u></b>
 <b>Status of Budgetary Resources</b>		
New obligations and upward adjustments (total)	\$	21,969,872
Unobligated balance, end of year		
Unexpired unobligated balance, end of year		333,632
Expired unobligated balance, end of year		<u>415,149</u>
Unobligated balance, end of year (total)		<u>748,781</u>
<b>Total Budgetary Resources</b>	<b>\$</b>	<b><u>22,718,653</u></b>
 <b>Outlays, Net</b>		
Outlays, net (total) (discretionary and mandatory)	\$	19,537,160
<b>Agency Outlays, Net (discretionary and mandatory)</b>	<b>\$</b>	<b><u>19,537,160</u></b>

The accompanying notes are an integral part of these statements.

## Notes to the Financial Statements

### Note 1. Summary of Significant Accounting Policies

#### ***1.A. Reporting Entity***

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

#### ***1.B. Mission of the Reporting Entity***

CRM is a division of the DHA.

The mission of DHA-CRM is:

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

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

#### ***1.C. Basis of Presentation***

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

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

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

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

#### ***1.D. Basis of Accounting***

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

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

#### ***1.E. Accounting for Intragovernmental Activities***

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

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

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

#### ***1.F. Non-Entity Assets***

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

**1.G. Fund Balance with Treasury**

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

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

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

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

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

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

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

**1.H. Cash and Other Monetary Assets**

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

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

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

### ***1.I. Accounts Receivable, Net***

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

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

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

### ***1.J. Liabilities***

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

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

### ***1.K. Other Liabilities***

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

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

SFFAS 51 identifies three categories of insurance programs: 1) exchange transaction insurance programs other than life insurance, 2) nonexchange transaction insurance programs, and 3) life insurance programs. Based on the nature of the TRICARE insurance program, only category number 1 (exchange transaction insurance programs other than life insurance) is applicable to DHA-CRM. The majority of TRICARE premiums are paid on a monthly or quarterly basis. Since these payments are received during the period to which the services relate, recognizing the

revenue of these premiums when received does not affect annual financial reporting or result in a liability for unearned premiums. For premiums paid on an annual basis a determination is made each year to assess whether a liability for unearned premiums should be recognized. For additional information, see Note 12, Insurance Programs.

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

For additional information, see Note 7, Other Liabilities and Note 12, Insurance Programs.

#### ***1.L. Commitments and Contingencies***

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

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

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

#### ***1.M. Federal Employee and Veterans Benefits Payable***

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

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

#### ***1.N. Revenues and Other Financing Sources***

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

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

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

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

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

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

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

### ***1.O. Recognition of Expenses***

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

### ***1.P. Budgetary Resources***

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

The following budgetary terms are commonly used:

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

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

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

Offsetting Collections are payments to the Government that, by law, are credited directly to expenditure accounts and deducted from gross budget authority and outlays of the expenditure account, rather than added to receipts. Usually, offsetting collections are authorized to be spent for the purposes of the account without further action by

Congress. They usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the Government and from intragovernmental transactions with other Government accounts. The authority to spend collections is a form of budget authority.

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

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

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

#### **1.Q. Use of Estimates**

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, accounts payable, IBNR liabilities, and unfunded actuarial liabilities.

#### **1.R. Tax Exempt Status**

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

#### **Note 2. Fund Balance With Treasury**

(\$ In Thousands)	2025
<b>Status of Funds Balance with Treasury</b>	
Unobligated Balance	\$ 748,781
Obligated Balance not yet Disbursed	1,639,461
Non-FBWT Budgetary Accounts	
Unfilled Customer Orders without Advance	(27,231)
Receivables and Other	(70,091)
Total Non-FBWT Budgetary Accounts	<hr style="border-top: 1px solid black;"/> (97,322)
<b>Total FBWT</b>	<hr style="border-top: 1px solid black;"/> <b>\$ 2,290,920</b>

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

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

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

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

Non-FFWT Budgetary Accounts reduces budgetary resources. Non-FFWT budgetary accounts create budget authority and unobligated balances, but do not record to FFWT as there has been no receipt of cash or direct budget authority, such as appropriations comprised of reimbursable accounts receivable of \$70.1 million, and reimbursable undelivered orders of \$27.2 million.

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

### **Note 3. Cash and Other Monetary Assets**

(\$ In Thousands)	2025
Cash	\$ 377
<b>Total Cash and Other Monetary Assets</b>	<b>\$ 377</b>

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

**Note 4. Accounts Receivable, Net**

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

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

FASAB issued Technical Bulletin 2020-1, Loss Allowance for Intragovernmental Receivables, which clarified previously issued guidance. An allowance recorded to recognize an intragovernmental receivable at net realizable value on the financial statements does not alter the underlying statutory authority to collect the receivable or the legal obligation of the other intragovernmental entity to pay. For FY 2025 the intragovernmental allowance was calculated using the same methodology as for public receivables. DHA-CRM developed its policy, related to the allowance for uncollectible accounts for intragovernmental receivables. Based on several years of experience, DHA-CRM concludes that the net realizable value of its intragovernmental receivables is 100%.

As of September 30, 2025, the total net receivables recorded for the SDP and the ADP were \$651.9 million. The SDP resulted from the implementation of the FCP Program for the TRICARE Retail Pharmacy Refunds Program as required by the FY 2008 NDAA, Section 703. The ADP resulted from voluntary agreements between TRICARE and the pharmaceutical manufacturers providing additional discounts above the SDP.

**Note 5. Liabilities Not Covered by Budgetary Resources**

(\$ In Thousands)	2025
Pension, Post-Employment, and Veteran Benefits Payable	\$ 360,451,703
Total Liabilities Not Covered by Budgetary Resources	\$ 360,451,703
Total Liabilities Covered by Budgetary Resources	958,321
Total Liabilities Not Requiring Budgetary Resources	85,377
<b>Total Liabilities</b>	<b>\$ 361,495,401</b>

DHA-CRM has two liabilities not covered by budgetary resources. Pension, Post-Employment, and Veteran Benefits Payable consists of various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities primarily consist of \$360.5 billion in health benefit liabilities, with \$357.3 billion in actuarial liabilities for future health benefits and \$3.2 billion in IBNR health benefits. The DHA, as stated in the Senate Report No. 95-1264 on the Department of Defense Appropriation Bill, FY 1979, does not obligate or fund health care claims until the receipt of an adjudicated claim. Consequently, no funding or obligations occur for these liabilities until health care is rendered and DHA-CRM is in receipt of an adjudicated claim. Refer to Note 6, Federal Employee and Veterans Benefits Payable, for additional details.

Liabilities that do not require the use of budgetary resources are covered by monetary assets that are not budgetary resources to the entity. Total Liabilities Not Requiring Budgetary Resources above includes a contingent liability in the amount of \$85.0 million. For additional information, refer to Note 7, Other Liabilities and Note 8, Commitments and Contingencies.

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

**Note 6. Federal Employee and Veterans Benefits Payable**

(\$ In Thousands)	2025		
	Liabilities	Less Assets Available to Pay Benefits	Unfunded Liabilities
<b>Military Pre Medicare-Eligible Retiree</b>			
Health Benefits	\$ 357,300,448	\$ 0	\$ 357,300,448
Other	<u>3,151,255</u>	<u>0</u>	<u>3,151,255</u>
<b>Total Pension, Post-Employment, and Veteran Benefits Payable</b>			
\$ 360,451,703	\$ 0	\$ 360,451,703	
<b>Total Federal Employee and Veterans Benefits Payable</b>			
\$ 360,451,703	\$ 0	\$ 360,451,703	

**Information Related to Federal Employee and Veterans Benefits Payable**

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

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

Effective FY 2010, the DHA implemented requirements of SFFAS No. 33, which directs that the discount rate, underlying inflation rate, and other economic assumptions be consistent with one another. A change in the discount rate may cause other assumptions to change as well. For the September 30, 2025, financial statement valuation, the application of SFFAS No. 33 required DoD OACT to set the long-term inflation (CPI) to be consistent with the underlying Treasury spot rates used in the valuation.

The DHA actuarial liability is adjusted at the end of each fiscal year. The 4th Quarter, FY 2025 balance represents the September 30, 2025 amount that is effective through 3rd Quarter of FY 2026.

**Actuarial Cost Method**

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

## Assumptions

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

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 2025 "rolled-forward" actuarial liability, the following assumptions were used:

Discount Rate	3.2%
Inflation	3.1%

<u>Medical Trend (Non-Medicare)</u>	<u>FY 2024 - FY 2025</u>	<u>Ultimate Rate FY 2049</u>
Purchased Care Inpatient	4.84%	5.10%
Purchased Care Outpatient	6.60%	5.10%
Purchased Care Prescription Drugs	10.73%	5.10%
Purchased Care USFHP	7.29%	5.10%

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)	2025
Beginning Actuarial Liability	\$ 299,007,615
Plus Expenses:	
Normal Cost	15,475,982
Interest Cost	9,283,848
Plan Amendments	0
Experience Losses/(Gains)	18,090,256
Other Factors	0
Subtotal: Expenses Before Losses/(Gains) From Actuarial Assumption Changes	<hr/> 42,850,086
Actuarial Losses/(Gains) Due To:	
Changes In Trend Assumptions	27,831,726
Changes In Assumptions Other Than Trend	<hr/> (2,270,195)
Subtotal: Losses/(Gains) From Actuarial Assumption Changes	<hr/> 25,561,531
Total Expenses	\$ 68,411,617
Less Benefit Outlays	<hr/> 10,118,784

Total Changes In Actuarial Liability	\$ 58,292,833
<b>Ending Actuarial Liability</b>	<b>\$ 357,300,448</b>

The DHA actuarial liability increased \$58.3 billion (19.5%). This resulted from the net effect of: an increase of \$14.6 billion due to expected increases (interest cost plus normal cost less benefit outlays), an increase of \$25.6 billion due to changes in key assumptions; and an increase of \$18.1 billion due to actual experience being different from what was assumed (demographic and claims data).

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

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

For the September 30, 2025 financial-statement valuation, DoD OACT determined a single equivalent discount rate of 3.2% by using a 10-year average of quarterly zero coupon Treasury spot rates. These spot rates are based on Treasury – Office of Economic Policy's 10-year Average Yield Curve for Treasury Nominal Coupon Issues (TNC yield curve), which represents average rates from April 1, 2015 through March 31, 2025.

For the September 30, 2025, financial statement valuation, DoD OACT determined a single equivalent medical cost trend rate of 5.44% can be used to reproduce the total Military Retiree Health Benefits (MRHB) liability. The total MRHB liability includes the MERHCF and DHA Direct and Purchased Care.

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

**Note 7. Other Liabilities**

(\$ In Thousands)	2025
Nonfederal Other Liabilities	
Liability For Non-Fiduciary Deposit Funds and Undeposited Collections	\$ 377
Contingent Liabilities	<u>85,000</u>
<b>Total Other Liabilities</b>	<b>\$ 85,377</b>

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

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

For Commitments and Contingencies disclosure related information see Note 8.

**Note 8. Commitments and Contingencies**

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

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

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

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

**Ingham Regional Medical Center v. United States (Court of Federal Claims).** Class action, but not certified, arises out of a settlement agreement to resolve hospital outpatient radiology claims. Plaintiffs' First Amended Complaint was filed on November 17, 2014. It alleges breach of express contract, breach of implied contract, mutual mistake, breach of the covenant of good faith and fair dealing, and violations of a statutory mandate under the TRICARE statute. The six plaintiffs are currently seeking a total of \$641,984.09, an average of \$106,997 per plaintiff. If a class of 1,600 hospitals is certified, then, at \$106,997 per plaintiff, that is \$171,195,200. On March 22, 2016, the Court of Federal Claims issued its decision granting the Government's Motion to Dismiss Plaintiffs' Amended Complaint. Plaintiffs appealed to the Court of Appeals for the Federal Circuit. On November 3, 2017, the Court of Appeals reversed the dismissal of Ingham's breach of contract claim and remanded the case to the trial court for further proceedings. On March 20, 2018, the Government filed its Answer. Discovery has since closed, and the parties briefed multiple motions including the Government's Motion for Summary Judgment. In late November 2022, the judge approved, in large part, the Government's request for Summary Judgment. Plaintiffs have filed a motion to re-open discovery, to submit a completely new expert opinion report, and to renew their class certification motion. The Government's response brief was filed on April 21, 2023. Oral arguments on Plaintiffs' discovery motion were held on July 18, 2023. Pursuant to the judge's January 2, 2024, order, the parties reopened discovery on all 1,600 plaintiffs. At the end of the discovery, the Government filed a motion to strike plaintiffs' expert report and a motion for class certification. On April 28, 2025, the Government filed a motion for summary judgment.

**Total Renal Care v. United States (Court of Federal Claims).** On March 14, 2025, Total Renal Care (also known as DaVita) filed a complaint challenging DHA's payment methodology for End Stage Renal Disease (ESRD) dialysis treatments at freestanding dialysis. The suit involves approximately 660 providers and proceeds under the same theory advocated by Bio-Medical Apps of Georgia, Inc. in Bio-Medical Apps of Georgia, Inc., et al, v. U.S., Court of Federal Claims, 19-947C that DHA and DOJ settled for a substantial amount. The estimated amount of potential loss is \$85.0 million. Since the loss is probable and estimable, DHA-CRM has recognized an expense and liability for the full amount of the expected loss. Any amounts ultimately due will likely be paid out of the Treasury Judgment Fund. Once the claim is settled or a court judgment is assessed and the Judgment Fund is confirmed as the source for payment of the claim, the liability will be removed and an "other financing source" amount will be recognized as prescribed by Interpretation of Federal Financial Accounting Standards 2: Accounting for Treasury Judgment Fund Transactions: An Interpretation of SFFAS 4 and SFFAS 5.

For Other Liabilities disclosure related information see Note 7.

**Note 9. Disclosures Related to the Statement of Net Cost**

(\$ In Thousands)	2025
Gross Cost	
Intragovernmental Cost	\$ 1,711,045
Nonfederal Cost	<u>53,344,209</u>
Total Cost	55,055,254
Earned Revenue	
Intragovernmental Revenue	(762,718)
Nonfederal Revenue	<u>(1,005,167)</u>
Total Revenue	(1,767,885)
Losses/(Gains) from Actuarial Assumption	
Changes for Military Retirement Benefits	<u>25,561,531</u>
<b>TOTAL NET COST</b>	<b>\$ 78,848,900</b>

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

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

**Note 10. Disclosures Related to the Statement of Budgetary Resources**

(\$ In Thousands)	2025
Intragovernmental Budgetary Resources Obligated for	
Undelivered Orders Unpaid	67,226
Total Intragovernmental	<u>67,226</u>
Nonfederal Budgetary Resources Obligated for	
Undelivered Orders Unpaid	613,915
Total Nonfederal	<u>613,915</u>
<b>Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period</b>	<b>\$ 681,141</b>

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 Statement of Budgetary Resources and the Standard Form (SF) 133, Report on Budget Execution.

#### Note 11. Reconciliation of Net Cost to Net Outlays

(\$ In Thousands)	2025		
	Intragovernmental	With the Public	Total
Net Cost of Operation (SNC)	\$ 948,327	\$ 77,900,573	\$ 78,848,900
Components of Net Cost That are Not Part of Net Outlays:			
Increase/(decrease) in assets:			
Accounts Receivable, Net	\$ 13,334	\$ 233,407	\$ 246,741
Other Assets		(634)	(634)
(Increase)/decrease in liabilities			
Accounts Payable	12,069	(286,494)	(274,425)
Pension, Post-Employment, and Veteran Benefits Payable		(59,199,056)	(59,199,056)
Other Liabilities		(84,366)	(84,366)
Total Components of Net Cost That Are Not Part of Net Outlays	\$ 25,403	\$ (59,337,143)	\$ (59,311,740)
Net Outlays	\$ 973,730	\$ 18,563,430	\$ 19,537,160
Agency Outlays, Net, Statement of Budgetary Resources			\$ (19,537,160)
Reconciling Difference			\$ 0

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the Federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position, so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting. The analysis above illustrates this reconciliation by listing the key differences between net cost and net outlays.

**Net Cost of Operations** is derived from the SNC.

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

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

#### **Note 12. Insurance Programs**

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

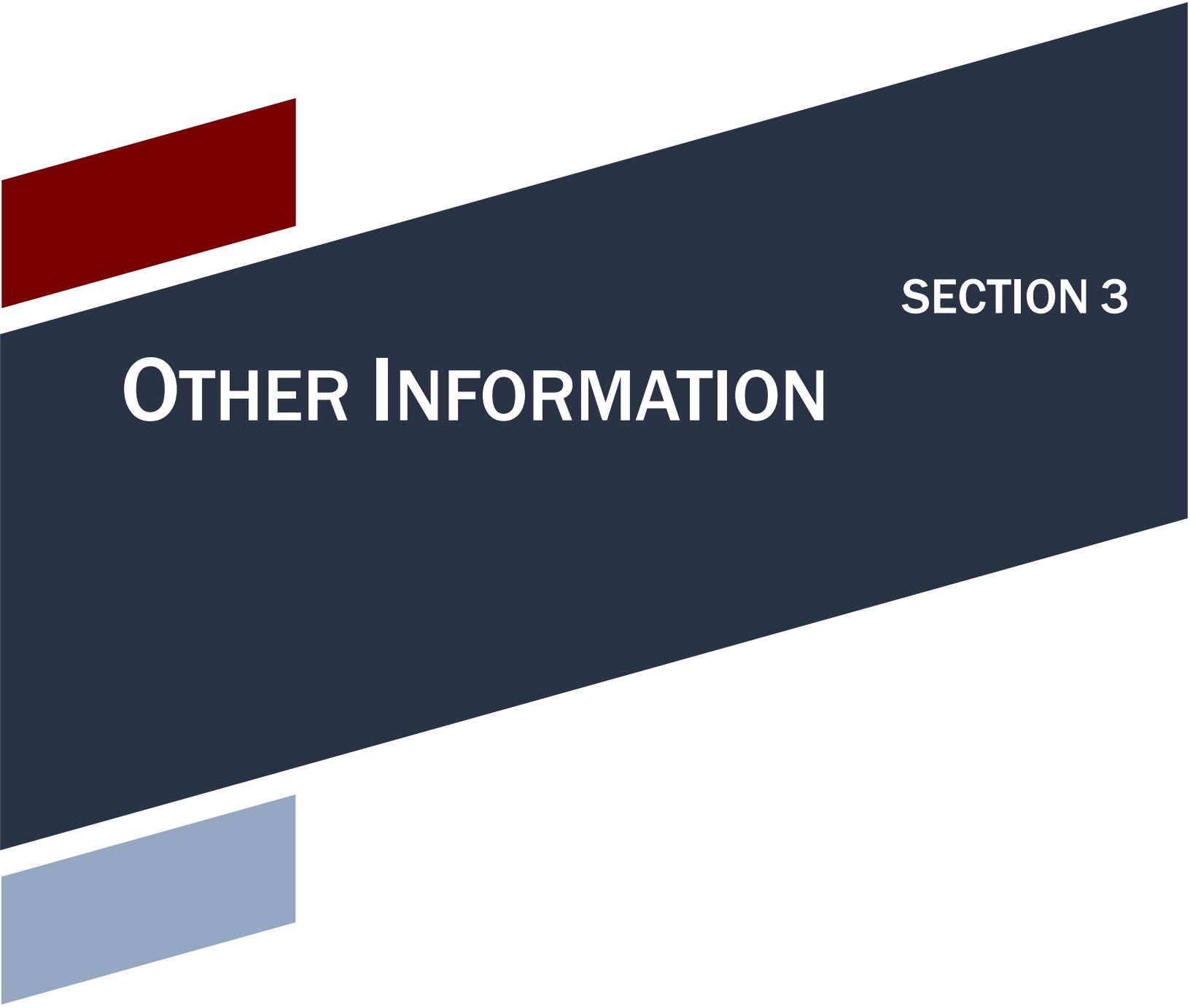
Monthly Premium Rates are established on an annual basis. The Monthly Premium Rates for calendar year 2025 were established in accordance with title 10, U.S.C. Sections 1076d, 1076e, 1078a, and 1110b along with title 32, Code of Federal Regulations, part 199.20, 24, 25 and 26, as enacted by Section 701 of NDAA for Fiscal Year 2017; P.L. 114-328. The enrollment fee and or premium collections are credited to the DHP appropriation available for the fiscal year collected.

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

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

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

(\$ In Thousands)	2025
Beginning Balance	\$ 2,661,562
Claims Expense	18,445,466
Claims Adjustment Expenses	(102,862)
Payments to Settle Claims	(17,276,757)
Recoveries and Other Adjustments	43,295
<b>Ending Balance</b>	<b>\$ 3,770,704</b>



## SECTION 3

# OTHER INFORMATION

## Summary of Financial Statement Audit and Management Assurances

### Summary of Financial Statement Audit

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

### Summary of Management Assurances

#### Effectiveness of Internal Controls over Financial Reporting (FMFIA § 2)

Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
N/A						
<i>Total Material Weaknesses</i>	0	0	0	0	0	0

#### Effectiveness of Internal Controls over Financial Operations (FMFIA § 2)

Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
N/A						
<i>Total Material Weaknesses</i>	0	0	0	0	0	0

#### Conformance with Federal Financial Management System Requirements (FMFIA § 4)

Statement of Assurance	Federal Systems conform to financial management systems requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
N/A						
<i>Total Non-Conformances</i>	0	0	0	0	0	0

#### Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)

	Agency	Auditor
Federal Financial Management Systems Requirements	No lack of compliance noted	No lack of compliance noted
Applicable Federal Accounting Standards	No lack of compliance noted	No lack of compliance noted
USSGL at Transaction Level	No lack of compliance noted	No lack of compliance noted

### **Payment Integrity Information Act Reporting**

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

## Fraud Reduction Report

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

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

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

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

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

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

The DHA OIG maintains a DHA Hotline Program, which includes inquiries addressing DHP. The hotline ensures inquiries resulting from allegations are conducted in accordance with applicable laws and DoD regulations and

policies. The DHA Hotline Program provides a confidential, reliable means for individuals to report fraud, waste and abuse; violations of law, rule or regulation; mismanagement; and classified information leaks, including those involving the DHP.

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

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

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

#### **Significant FY 2025 MHS Fraud Events (Source: DCIS)**

**July 31, 2025: CEO and Medical Director Charged in \$500M COVID-19 Test Billing Fraud.** Two individuals were charged for their involvement in a \$500 million, nationwide scheme that involved billing Medicare, Medicaid, TRICARE, and other health insurance programs for COVID-19 testing services that were never rendered, United States Attorney Jerome F. Gorgon Jr. announced today.

**July 31, 2025: Florida Woman to Pay \$400,000 to Settle Allegations of Falsifying Diagnoses in connection with an Amherst Compounding Pharmacy.** Georgina Exposito of Florida, owner of 3rd Party Services of Florida, agreed to pay \$400,000 to resolve allegations that they violated the False Claims Act (FCA) by submitting false claims to Medicare and TRICARE based on fake medical diagnoses, Acting U.S. Attorney Jay McCormack announces.

**February 28, 2025: Owner of Oahu Physical Therapy Clinic Sentenced to 9 Months in Federal Prison for Health Care Fraud.** Acting United States Attorney Kenneth M. Sorenson announced that Stephen Timothy Wells, 41, of Waialua, was sentenced yesterday in Federal court by U.S. District Judge Jill A. Otake to 9 months of imprisonment followed by 3 years of supervised release for health care fraud. Wells, the owner of Oahu Spine and Rehab, a physical therapy clinic with locations in Kailua and Aiea, pleaded guilty to the charge on September 27, 2024. As part of his sentence, Wells was also ordered to pay restitution to TRICARE, a healthcare program for United States military service members and their families, and Medicare totaling \$392,157.20.

**February 18, 2025: Health Net Federal Services, LLC and Centene Corporation Agree to Pay Over \$11 Million to Resolve False Claims Act Liability for Cybersecurity Violations.** Health Net Federal Services Inc. (HNFS) of Rancho Cordova, California and its corporate parent, St. Louis-based Centene Corporation, have agreed to pay \$11,253,400 to resolve claims that HNFS falsely certified compliance with cybersecurity requirements in a contract with the U.S. Department of Defense (DoD) to administer the Defense Health Agency's (DHA) TRICARE health benefits program

for servicemembers and their families. In 2016, Centene acquired all of the issued and outstanding shares of Health Net Inc., HNFS's corporate parent, and assumed the liabilities of HNFS.

**December 23, 2024: Sartell Woman Pleads Guilty in Bank Fraud Case.** A Sartell woman has pleaded guilty to wire fraud, announced U.S. Attorney Andrew M. Luger. According to court documents, Adelle Starin, 40, engaged in a fraud scheme through a Minnesota business she founded and operated called Baby's on Broadway, which sold baby products and toys. As part of the scheme, Starin submitted fraudulent claims for reimbursement to TRICARE, a healthcare program of the U.S. Department of Defense Military Health System. TRICARE paid out many of Starin's fraudulent claims, but when TRICARE began rejecting those claims, Starin expanded her scheme to bring other sources of revenue into her company.

**December 4, 2024: United States and State of Oklahoma File False Claims Act Complaint Against OKC Laboratory and Director.** The United States and the State of Oklahoma filed a complaint under the Federal False Claims Act and the Oklahoma Medicaid False Claims Act against Coordinated Care Health Solutions, LLC d/b/a HunterCare Coordinated Care Health Solutions (CCHS) and Eric P. Wallis, Ph.D., for submitting or causing the submission of false and/or fraudulent claims for payment to certain Government Health Benefit Programs (Government Programs) for testing services that were not rendered or not reimbursable. The Government Programs harmed by the alleged conduct are Medicare, Oklahoma Medicaid, the TRICARE health plan, the Civilian Health and Medical Programs of the VA, and the Federal Employees Health Benefits Program.

**December 4, 2024: Podiatrist and Patient Recruiter Sentenced for \$8.5M Compounding Fraud Scheme.** A podiatrist and a patient recruiter were sentenced to 45 months and 60 months in prison, respectively, and ordered to pay over \$7 million in restitution for their roles in a scheme to fraudulently bill TRICARE — the health care program for U.S. service members and their families — for compounded creams that were medically unnecessary and procured through kickbacks and bribes.

**November 21, 2024: Fresno Doctors Agree to Pay \$2.4 Million to Resolve Kickback Allegations.** In two separate settlements, Fresno physicians have agreed to collectively pay more than \$2.4 million to resolve allegations that they solicited and received unlawful kickbacks in exchange for directing prescriptions to a group of mail-order pharmacies controlled by an individual named Matthew H. Peters, U.S. Attorney Phillip A. Talbert announced today. The United States contends that these arrangements violated the Anti-Kickback Statute and the False Claims Act. In the first settlement, Fresno podiatrist Dr. Jagpreet Mukker and his medical corporation, Jay Mukker, DPM Inc., have agreed to pay a total of \$1,598,891 to the United States to resolve allegations that they participated in the unlawful kickback arrangement causing Dr. Mukker to issue prescriptions for beneficiaries of Federal health care programs (including Medicare, TRICARE, and Medi-Cal), which the United States alleges violated the False Claims Act.

**November 12, 2024: UCHealth Agrees to Pay \$23M to Resolve Allegations of Fraudulent Billing for Emergency Department Visits.** University of Colorado Health, known as UCHealth and headquartered in Aurora, Colorado, has agreed to pay \$23 million to resolve allegations that it violated the False Claims Act in seeking and receiving payment from Federal health care programs for visits to its emergency departments, by falsely coding certain Evaluation & Management (E&M) claims submitted to the Medicare and TRICARE programs.

**November 1, 2024: Phillips Respironics Pays \$2.4 Million for Allegedly Giving Kickbacks Compound Ingredient Supplier Medisca Inc., to Pay \$21.75M to Resolve Allegations of False and Inflated Average Wholesale Prices for Ingredients Used in Compounded Prescriptions.** The Justice Department announced today that Medisca Inc.

(Medisca), has agreed to pay \$21.75 million to resolve allegations concerning the establishment of false and inflated Average Wholesale Prices (AWPs) for two ingredients used in compound prescriptions. Medisca's pricing scheme allegedly caused pharmacies that purchased those ingredients to submit false prescription claims to the Defense Health Agency, which administers the TRICARE Program for the Department of Defense and the Department of Labor's Office of Workers' Compensation Programs (Federal health care programs).

**October 24, 2024: Arizona Doctor Sentenced to Prison for Health Care Fraud.** U.S. Attorney's Office, District of Arizona — Linh Cao Nguyen, M.D., 51, of Peoria, was sentenced last week by United States District Judge John C. Hinderaker to 24 months in prison. Nguyen pleaded guilty to Health Care Fraud on March 19, 2024. Over the course of several years, Nguyen engaged in a scheme to defraud various health care benefit programs, including Medicare, TRICARE, AHCCCS, Blue Cross Blue Shield, and UnitedHealthcare.

**October 11, 2024: San Diego Physician and Medical Practice Pay \$3.8 Million to Resolve False Claims Act Allegations.** Dr. Janette J. Gray of San Diego and her former medical practice, The Center for Health & Wellbeing in San Diego, have agreed to pay \$3.8 million to settle allegations that they violated the False Claims Act by knowingly submitting false claims to the Medicare and TRICARE programs.

## Biennial Review of User Fees

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

During FY 2025, ASD(HA) identified user fees charged subject to the review outlined in OMB Circular No A-25 including with the VA and Non-Appropriated Fund Instrumentalities for space occupied inside the MTFs. ASD(HA) will coordinate a formal review, required by 31 U.S.C. § 902, in FY 2026 to align with the reviews being done by the MILDEPs, U.S. Army Corps of Engineers, and others in the DoD.

## Agency Audit Resolution Reports

The OMB Circular A-136, Financial Reporting Requirements, require agencies to produce reports from the Agency Head under section 5(b) of the Inspector General Act of 1978, as amended (5 U.S.C. App.). Reports would come from the Office of the Secretary of Defense (OSD) at the DoD level. Please refer to the [FY 2025 DoD Agency Financial Report / Performance and Accountability Report](#) for more information. DHA provides input to OSD regarding resolution made to the Agency's financial statement audits.

## Financial Reporting-Related Legislation

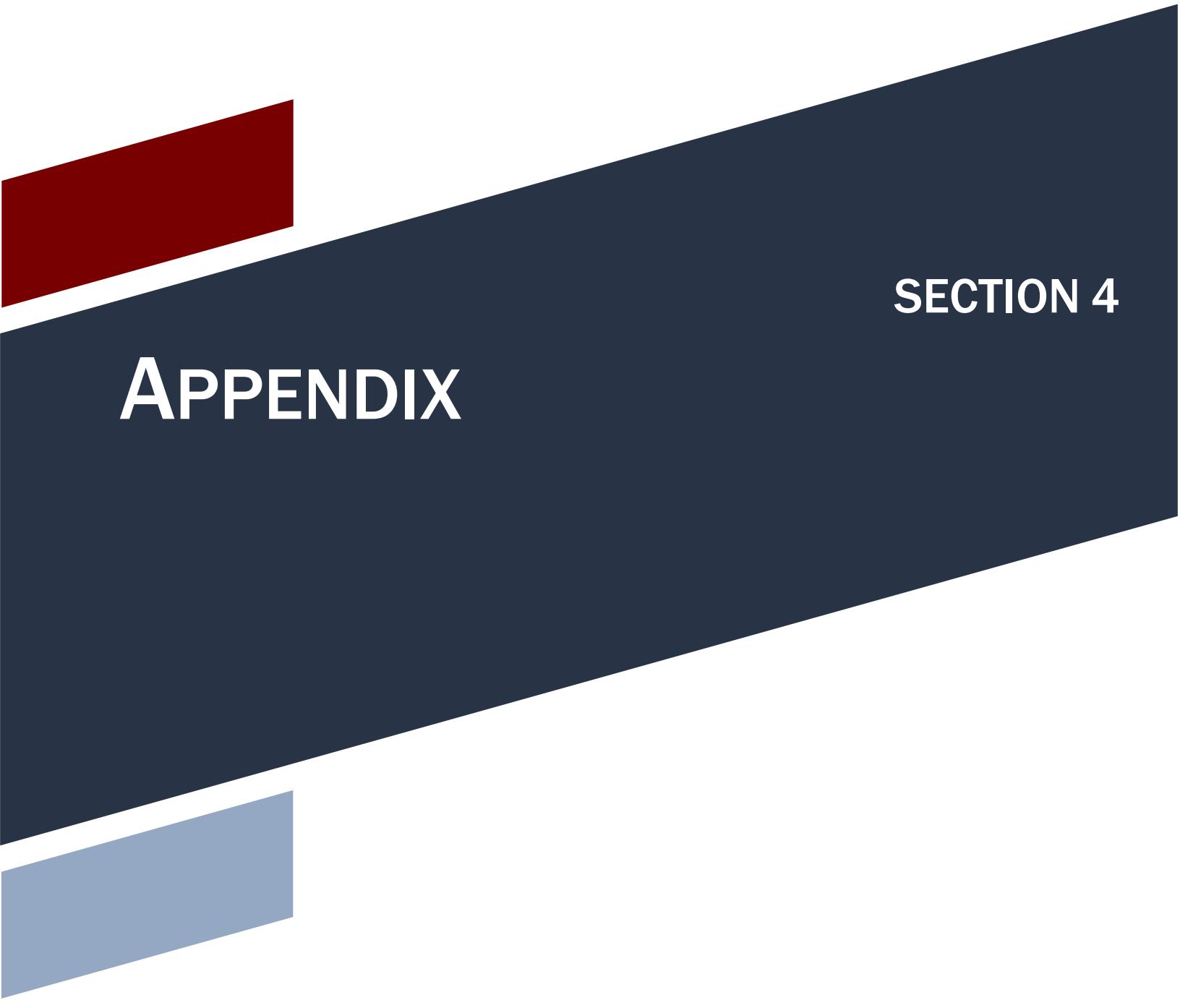
The OMB Circular A-136, Financial Reporting Requirements, require agencies to report any significant agency-specific legislative provisions enacted in the prior or current year that addresses financial accounting, reporting, or auditing issues and that affected its ability to prepare its AFR. The following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

Title III of Public Law 118-158, the American Relief Act, 2025

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

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

This act provided ASD(HA)-DHP multiyear funding of up to \$2 billion. Please refer to the Agency Head Message where details on the activities funded by this act were already discussed.

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SECTION 4

# APPENDIX

## Appendix: Glossary of Acronyms

<b>ADA</b>	Anti-deficiency Act
<b>ADP</b>	Additional Discount Program
<b>AEAN</b>	Aggregate Entry Age Normal
<b>AFR</b>	Agency Financial Report
<b>ASD</b>	Assistant Secretary of Defense
<b>AWPs</b>	Average Wholesale Prices
<b>C.F.R.</b>	Code of Federal Regulations
<b>CAP</b>	Corrective Action Plan
<b>CCHS</b>	Coordinated Care Health Solutions
<b>CHAMPUS</b>	Civilian Health and Medical Program of the Uniformed Services
<b>CHCBP</b>	Continued Health Care Benefit Program
<b>CMS</b>	Centers for Medicare and Medicaid Services
<b>COBRA</b>	Consolidated Omnibus Budget Reconciliation Act
<b>COTS</b>	Commercial off-the-shelf
<b>CRM</b>	Contract Resource Management
<b>DATA Act</b>	Digital Accountability and Transparency Act
<b>DCIA</b>	Debt Collection Improvement Act
<b>DCIS</b>	Defense Criminal Investigative Service
<b>DDRS-B</b>	Defense Department Reporting System-Budgetary
<b>DEERS</b>	Defense Enrollment Eligibility Reporting System
<b>DFAS-IN</b>	Defense Finance and Accounting Service-Indianapolis
<b>DHA</b>	Defense Health Agency
<b>DHA-C</b>	DHA-Comptroller
<b>DHA-CRM</b>	Defense Health Agency - Contract Resource Management
<b>DHP</b>	Defense Health Program
<b>DMDC</b>	Defense Manpower Data Center
<b>DoD / Department</b>	Department of Defense
<b>DoD IG</b>	Inspector General of the Department of Defense
<b>DOJ</b>	Department of Justice
<b>DOPN</b>	DMDC On Premise Network
<b>E&amp;M</b>	Evaluation & Management
<b>ECHO</b>	Extended Care Health Option
<b>ECS</b>	E-Commerce System
<b>ESRD</b>	End Stage Renal Disease
<b>FAD</b>	Funding Authorization Document
<b>FASAB</b>	Federal Accounting Standards Advisory Board
<b>FBWT</b>	Fund Balance with Treasury
<b>FCA</b>	False Claims Act
<b>FCP</b>	Federal Ceiling Price
<b>FECA</b>	Federal Employees' Compensation Act
<b>FEDVIP</b>	Federal Employees Dental and Vision Insurance for Program
<b>FEHB</b>	Federal Employee Health Benefit

<b>FFATA</b>	Federal Funding Accountability and Transparency Act
<b>FFMIA</b>	Federal Financial Management Improvement Act
<b>FISMA</b>	Federal Information Security Modernization Act
<b>FMFIA</b>	Federal Manager's Financial Integrity Act
<b>FMR</b>	Financial Management Regulation
<b>FOD</b>	Financial Operations Division
<b>FSIO</b>	Financial Systems Integration Office
<b>FSS</b>	Federal Supply Schedule
<b>FY</b>	Fiscal Year
<b>GAAP</b>	Generally Accepted Accounting Principles
<b>GAO</b>	Government Accountability Office
<b>GEHA</b>	Government Employees Health Association
<b>HA</b>	Health Affairs
<b>HCDA</b>	Health Care Data Analysis
<b>HCFD</b>	Health Care Fraud Division
<b>HEDIS</b>	Healthcare Effectiveness Data and Information Set
<b>HHS</b>	U.S. Department of Health & Human Services
<b>HMO</b>	Health Maintenance Organization
<b>HNFS</b>	Health Net Federal Services Inc.
<b>IBNR</b>	Incurred but not Reported
<b>IPAC</b>	Intragovernmental Payment and Collection
<b>JFMP</b>	Joint Financial Management Improvement Program
<b>JOES</b>	Joint Outpatient Experience Survey
<b>MARR</b>	Mandatory Agreements Retail Refunds
<b>MCSC</b>	Managed Care Support Contractor
<b>MERHCF</b>	Medicare-Eligible Retiree Health Care Fund
<b>MHS</b>	Military Health System
<b>MOU</b>	Memorandum of Understanding
<b>MRHB</b>	Military Retiree Health Benefits
<b>MSC</b>	Medical Service Corps
<b>MTF</b>	Military Treatment Facility
<b>NDAA</b>	National Defense Authorization Act
<b>NFR</b>	Notice of Finding and Recommendation
<b>NOAA</b>	National Oceanic and Atmospheric Administration
<b>Non-FAMP</b>	Non-Federal Average Manufacturer Price
<b>OACT</b>	Office of the Actuary
<b>OFF</b>	Oracle Federal Financials
<b>OGC</b>	Office of General Counsel
<b>OIG</b>	Office of the Inspector General
<b>OMB</b>	Office of Management and Budget
<b>OPM</b>	Office of Personnel Management

<b>OSD</b>	Office of the Secretary of Defense
<b>OUSD</b>	Office of the Under Secretary of Defense
<b>P&amp;R</b>	Personnel and Readiness
<b>P.L.</b>	Public Law
<b>PCM</b>	Primary Care Manager
<b>PHS</b>	Public Health Service
<b>PIIA</b>	Payment Integrity Information Act
<b>POD</b>	Pharmacy Operations Division
<b>POS</b>	Point of Service
<b>PPA</b>	Prompt Payment Act
<b>PPO</b>	Preferred Provider Organization
<b>SDP</b>	Standard Discount Program
<b>SF</b>	Standard Form
<b>SFFAS</b>	Statement of Federal Financial Accounting Standards
<b>SFIS</b>	Standard Financial Information Structure
<b>SNC</b>	Statement of Net Cost
<b>TAMP</b>	Transitional Assistance Management Program
<b>TCM</b>	TRICARE Claims Management
<b>TDP</b>	TRICARE Dental Program
<b>TED</b>	Tricare Encounter Data
<b>TFL</b>	Tricare for Life
<b>TFM</b>	Treasury Financial Manual
<b>TMA</b>	TRICARE Management Activity
<b>TOP</b>	Tricare Overseas Program

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