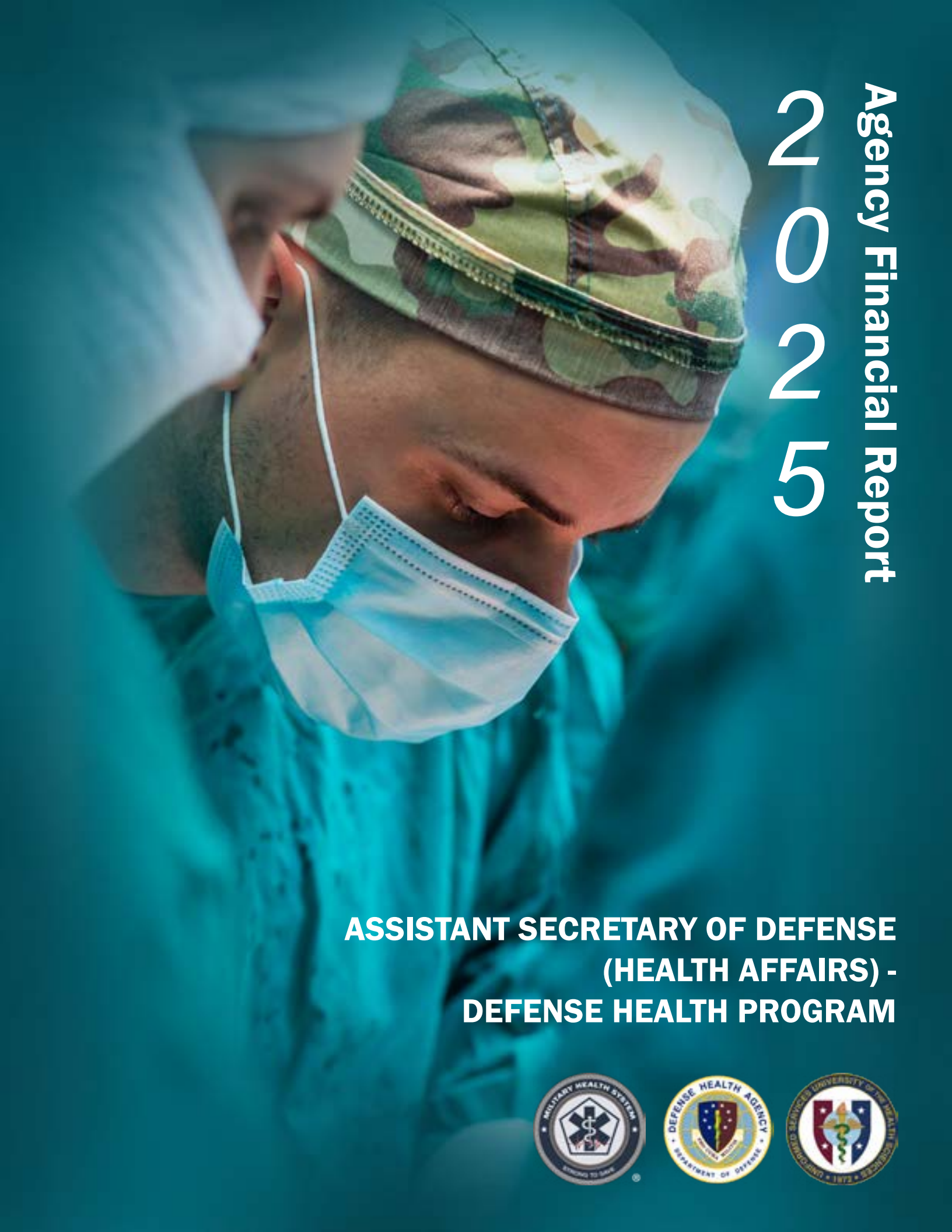

Agency Financial Report

2025

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


MILITARY HEALTH SYSTEM
STRONG TO SAVE
DEFENSE HEALTH AGENCY
PRO CURA MILITIS
DEPARTMENT OF DEFENSE
UNIFORMED SERVICES UNIVERSITY OF THE HEALTH SCIENCES
1972

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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.

//SIGNED//

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

ABOUT THE ASD(HA)-DHP AGENCY FINANCIAL REPORT

This FY 2025 Agency Financial Report (AFR) refers to the Department of Defense (DoD) in accordance with statutory requirements. While mindful of the recent Executive Order 14347 and ongoing legal determinations regarding the Department's name, this report utilizes the designation "Department of Defense" because the AFR is a statutorily mandated report, all relevant legislation designates the Department as the "Department of Defense," and the funding for programs discussed herein were issued to the DoD. We may use the "Department of War" designation in other, non-statutory communications, as allowed by the Executive Order.

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

This AFR uses the following reporting requirements:

- Chief Financial Officers Act of 1990 (CFO Act, Public Law (P.L.) 101-576, codified as 31 United States Code (U.S.C.) §501 note) as amended by the Government Management Reform Act of 1994 (GMRA, P.L. 103-356, codified as 31 U.S.C. §3301 note);
- DoD 7000.14R Financial Management Regulation (FMR), Volume 6B;
- Office of the Under Secretary of Defense (Comptroller) ((OUSD(C)) Memo, FY 2022 DoD Reporting Entities;
- Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements
- OMB Bulletin 24-02, Audit Requirements for Federal Financial Statements;
- Treasury Financial Manual (TFM) Volume I, Part 2, Chapter 4700, Federal Entity Reporting Requirements for the Financial Report of the U.S. Government; and
- OUSD(C) DoD Financial Reporting Guidance Attachment 103, Standard Note Disclosures.

ASD(HA) chooses to produce an AFR to reflect its execution of the DHP appropriation rather than the alternative Performance and Accountability Report. The Department of Defense Annual Performance Report, with detailed performance information that meets the requirements of the Government Performance and Results Modernization Act of 2010 (P.L. 111-352), will be published in February 2026. This ASD(HA)-DHP AFR may be viewed online. The AFR consists of three primary sections:

1. Management's Discussion and Analysis

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

2. Financial Section

Contains financial statements, accompanying notes, Required Supplementary Information (RSI), as well as the independent auditor's report on the financial statements and management's response to the report.

3. Other Information

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

MISSION AND ORGANIZATION STRUCTURE

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

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

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

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

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

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

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

KEY EVENTS IN MODERN MILITARY HEALTHCARE

1947

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

1956

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

1966

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

1972

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

KEY EVENTS IN MODERN MILITARY HEALTHCARE

1993

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

1993 - 1997

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

2013

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

2017 - 2022

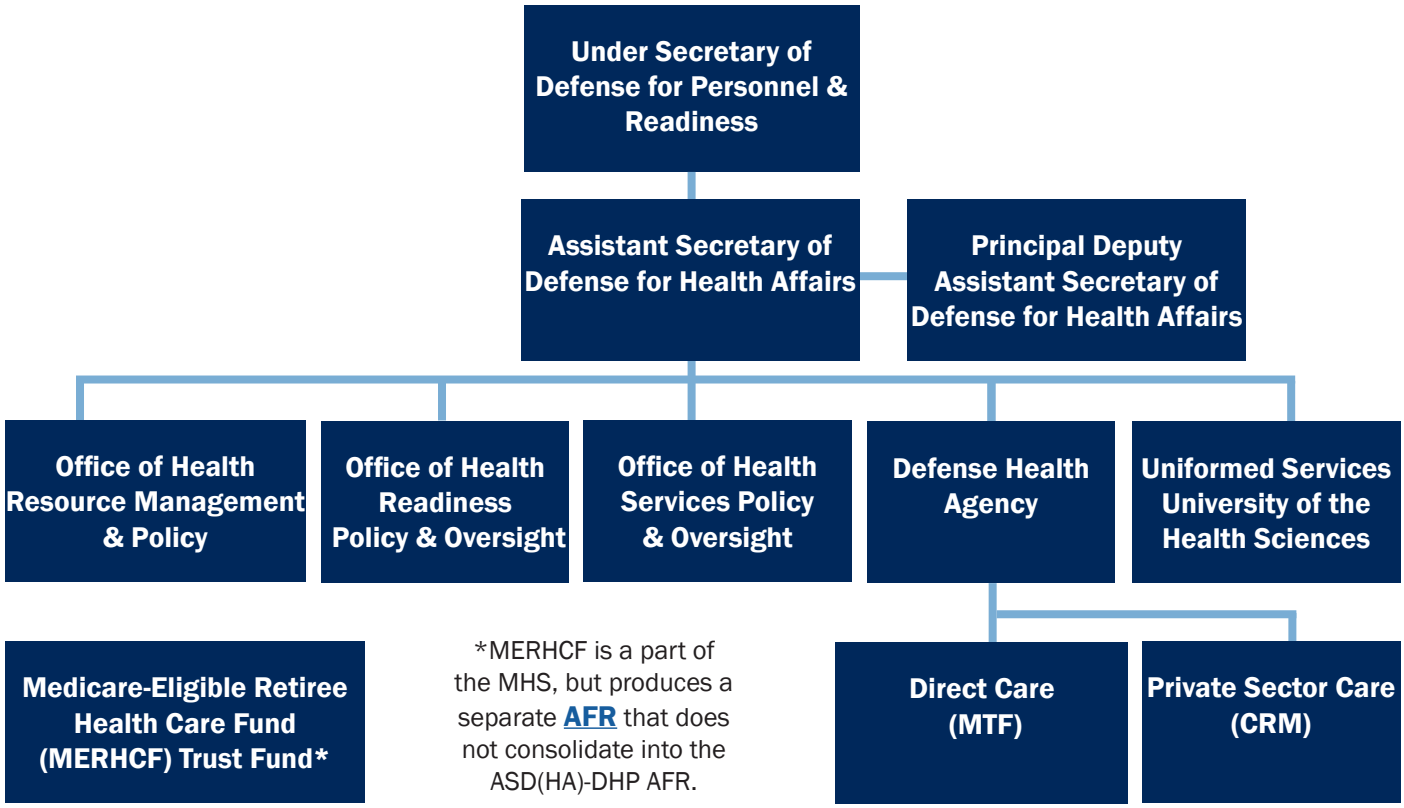
The National Defense Authorization Act of 2017 directed DHA to assume responsibility for the administration and management of healthcare delivery at all MTFs. In October 2022, the DHA transition was completed.

What is the Defense Health Program?

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

MILITARY HEALTH SYSTEM ORGANIZATIONAL STRUCTURE

Figure 1 — 1: MHS Organization Chart (Managerial Representation)



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

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

- Preparation and submission of budget exhibits and justification materials for the DHP appropriation.
- Input to the individual (MILDEP) Military Personnel Appropriations for all medical personnel end-strength.
- Input to the DoD Military Construction (MILCON) appropriation for medical facility projects.
- Input to Medicare-Eligible Retiree Health Care Fund (MERHCF), which funds the cost of healthcare for our Medicare-eligible beneficiaries.

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

Major Programs

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

- Healthcare delivery is provided in garrison and during contingency operations. This includes a focus on trauma care and developing interoperability with partner nations through our global health engagements program. Figure 1 — 2 provides a summary of the number of healthcare delivery cases completed in FY 2024.
- Medical education is provided through the Medical Education and Training Campus and the USUHS. We support the readiness of America's warfighter and the health and well-being of the military community by educating and developing uniformed health professionals, scientists, and leaders; by conducting cutting edge military-relevant research, and by providing operational support to medical units around the world.
- Public health capability provided is lean, efficient, effective, forward-leaning, and strategically positioned to fully meet MHS and customer needs.
- Private sector partnerships are leveraged to build strong support with the civilian healthcare sector through our TRICARE program, which is vital to our success.
- Cutting-edge medical Research, Development, Testing, & Evaluation (RDT&E) is supported through the DHA's Research and Development directorate, the U.S. Army Medical Research and Development Command, the Air Force Research Laboratory, and through partnerships with various organizations, including those established with Cooperative Research and Development Agreements.


COVID-19
CORONAVIRUS
VACCINE

Figure 1 — 2: TRICARE Workload and Population Summary - FY 2024*

Type of Care	Annual Workload Summary
Inpatient Admissions	Total: 738,881 Direct Care: 150,262 Private Sector Care (PSC) - Only: 262,713 TRICARE For Life (TFL) (PSC Only): 325,906
Outpatient Encounters	Total: 109,219,373 Direct Care: 35,787,038 PSC - Only: 39,024,735 TFL (PSC Only): 34,407,600
Deliveries	Total: 92,451 Direct Care: 23,701 PSC - Only: 68,750
Prescriptions Filled	Total: 102,914,680 Direct Care: 31,110.411 PSC - Only: 28,624,781 TFL (PSC Only): 43,179,488
Emergency Department Encounters	Total: 3,500,432 Direct Care: 1,095,162 PSC - Only: 1,372,856 TFL (PSC Only): 1,032,414
* FY 2025 statistics are not currently available; therefore FY 2024 actuals are reported	

Defense Health Agency

The DHA supports our Nation by improving health and building readiness - raising the standard of healthcare by making extraordinary experiences and exceptional outcomes the norm. The DHA executes the DHP appropriation to support the delivery of integrated, affordable, and high-quality health services to the DoD's 9.5 million eligible beneficiaries and executes responsibility for shared services, functions, and activities of the MHS. The DHA implements policy as issued by ASD(HA) and exercises authority, direction, and control over all MTFs. Senior DoD leadership, the Joint Staff Surgeon, MILDEP Surgeons General, and DHA leadership continuously examine the DHA's fundamental purpose, vision, and strategies to ensure alignment with DoD's goals, objectives and overall mission.

The DHA focuses its efforts on ensuring an integrated medical team that provides optimal health services in support of our nation's military mission—anytime, anywhere, and is redefining how it collaborates with the Department of Veterans Affairs (VA) and civilian partners to improve coordinated care for wounded warriors and all whom we have the honor to serve. Centralization for the management and administration of the MTFs under DHA transforms the MHS into an integrated readiness and health system.

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

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

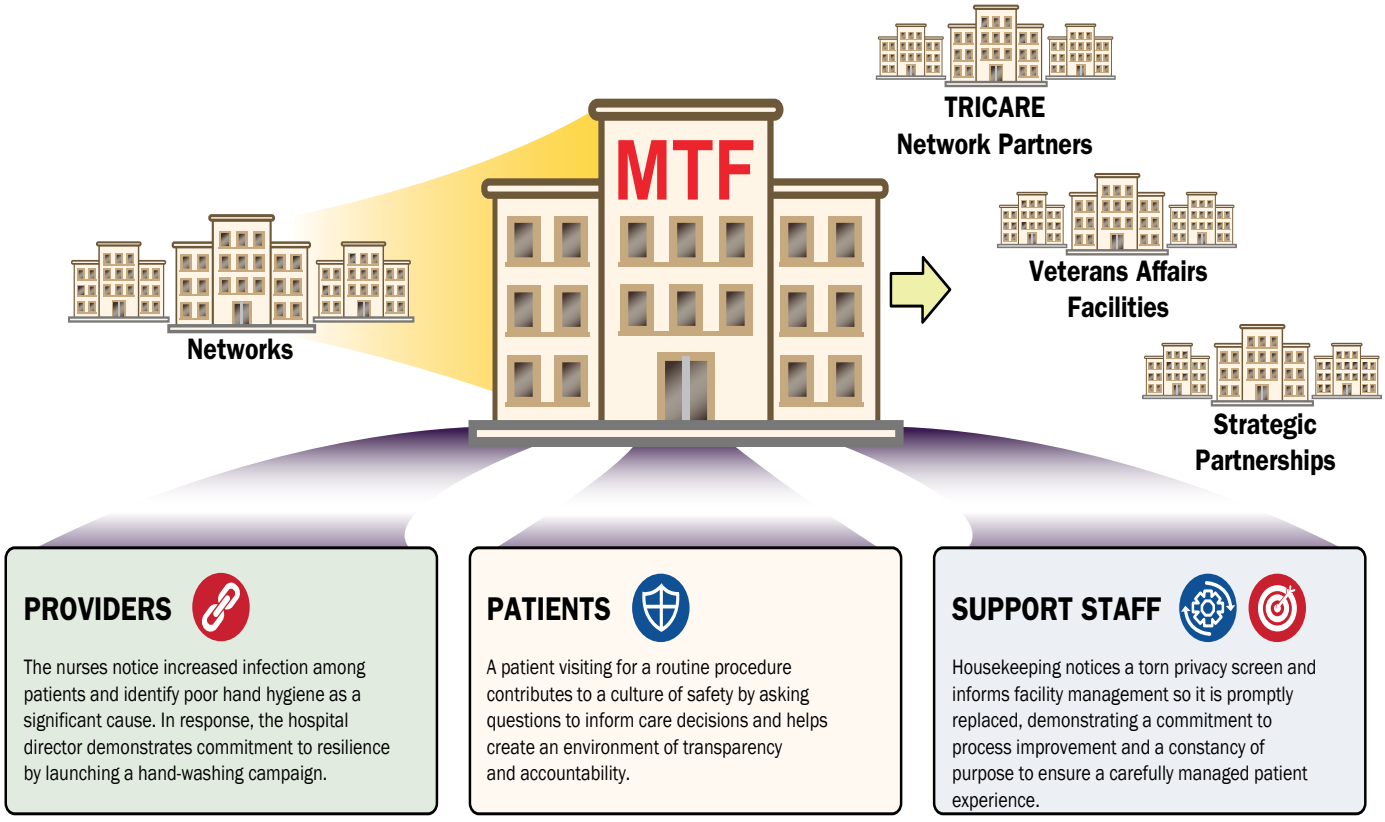
Figure 1 — 3: Defense Health Network

Figure 1 — 4: The Pillars of DHA Advancement Success

High Reliability Organization Journey

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

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



Ready Reliable Care

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

Defense Health Program Appropriation

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

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

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

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

Military Construction Funding

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

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

In FY 2025, the ASD(HA) utilized MILCON funding to continue to construct and renovate a Medical Center addition/alteration project at Bethesda, Maryland; and construct/replace ambulatory care centers at Camp Pendleton, California; Parris Island, South Carolina; and Guantanamo Bay, Cuba.

How We Accomplish Our Mission

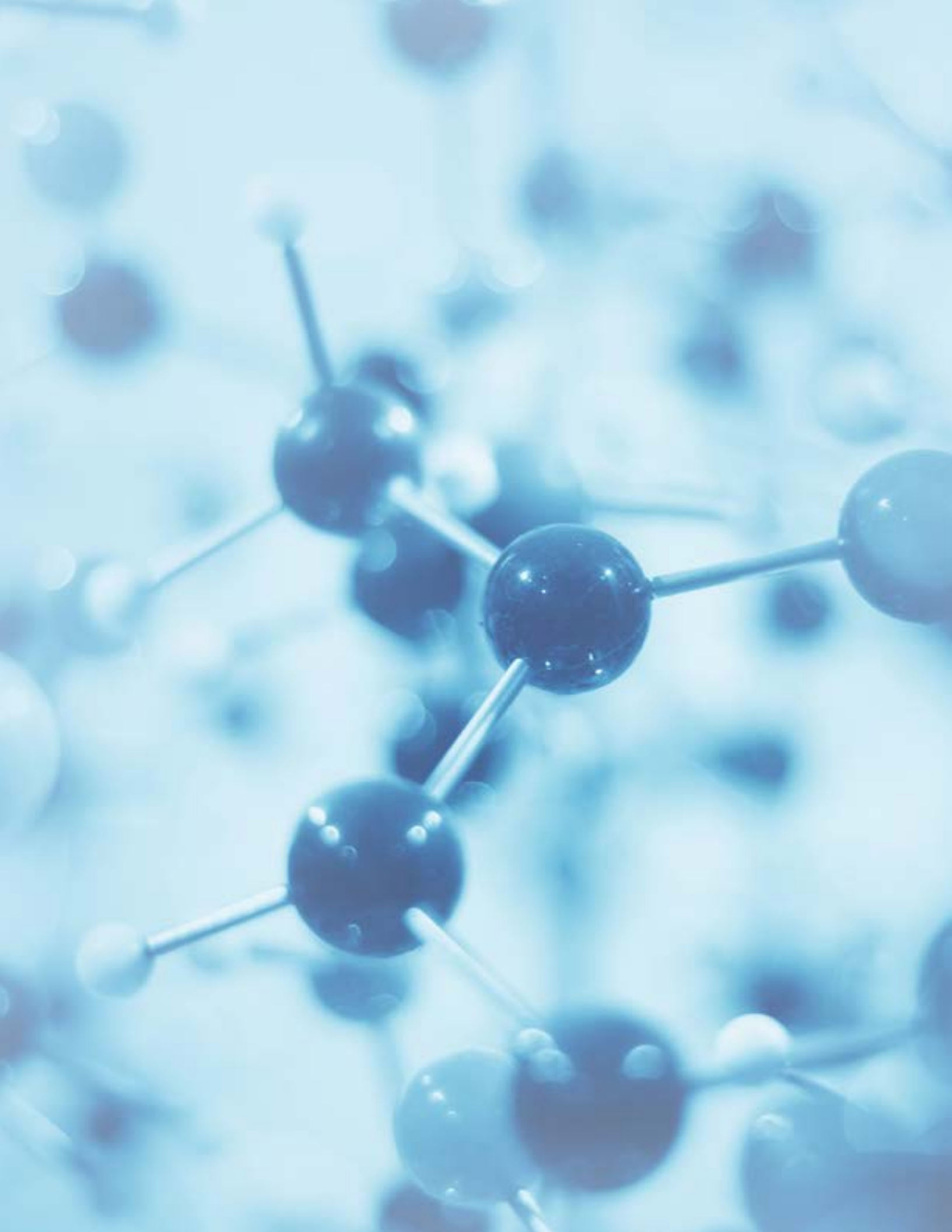
In addition to receiving funding via the DHP appropriation, the MHS provides care in government-owned or leased MTFs focused on sustaining readiness of the military medical workforce and the medical readiness of deployable forces. MTFs are the heart of military medicine, where military, civilian and contract personnel provide care for DoD healthcare beneficiaries and gain the skills and training to support operational units. With 47 inpatient hospitals and Medical Centers; 569 ambulatory care and occupational health clinics; 110 dental clinics, located on military installations around the world, the MHS is one of the nation's largest health systems – it operates more hospitals than any nonprofit hospital system in the nation.

Additionally, the MHS purchases a majority of the total care provided for beneficiaries through tailored contracts such as the Managed Care Support Contracts responsible for the administration of the TRICARE benefit. The MHS also receives a transfer of funds from the MERHCF. The MERHCF is a Trust Fund established pursuant to law (10 U.S.C. §§ 1111 – 1117) to pay for the health-care costs of beneficiaries who are Medicare-eligible.

Defense Health Agency - Contract Resource Management

CRM is a directorate of the DHA. For financial reporting purposes, DHA-CRM is a component within the consolidated financial statements of the DHP. Within the DoD, the USD(P&R), through ASD(HA), maintains operational oversight of the MHS, including direct care, private sector care, and the MERHCF.

DHA-CRM is headquartered in Aurora, Colorado, and is responsible for the accounting, financial support, and financial reporting for TRICARE's centrally-funded private sector healthcare programs and the TRICARE Retail Pharmacy Refunds Program. DHA-CRM provides budget formulation input, carries out budget execution, and prepares component financial statements and footnotes. In addition, DHA-CRM is responsible for processing invoices received from its contractors, and through the TRICARE Encounter Data System (TEDS), and reporting these transactions through accessible electronic media. DHA-CRM provides funds availability certification and financial program tracking for the centrally-funded private sector care programs. DHA-CRM monitors budget execution through analysis of current and prior year spending and program developments. It also provides support for case recoupment activities related to private sector in coordination with and support of the DHA Office of the General Counsel and the DHA OIG Health Care Fraud Division (HCFD). DHA-CRM expends both DHP funds and MERHCF to reimburse private sector healthcare providers for services rendered to TRICARE beneficiaries. *Note: CRM is allocated nearly half of the DHP appropriation, is its own disbursing office (does not utilize the Defense Finance and Accounting Service (DFAS)), prepares its own financial statements, and is audited separately from ASD(HA)-DHP.* CRM publishes its own financial statements, which are consolidated into the larger ASD(HA)-DHP financial statements.



BENEFICIARY TRENDS AND DEMOGRAPHICS

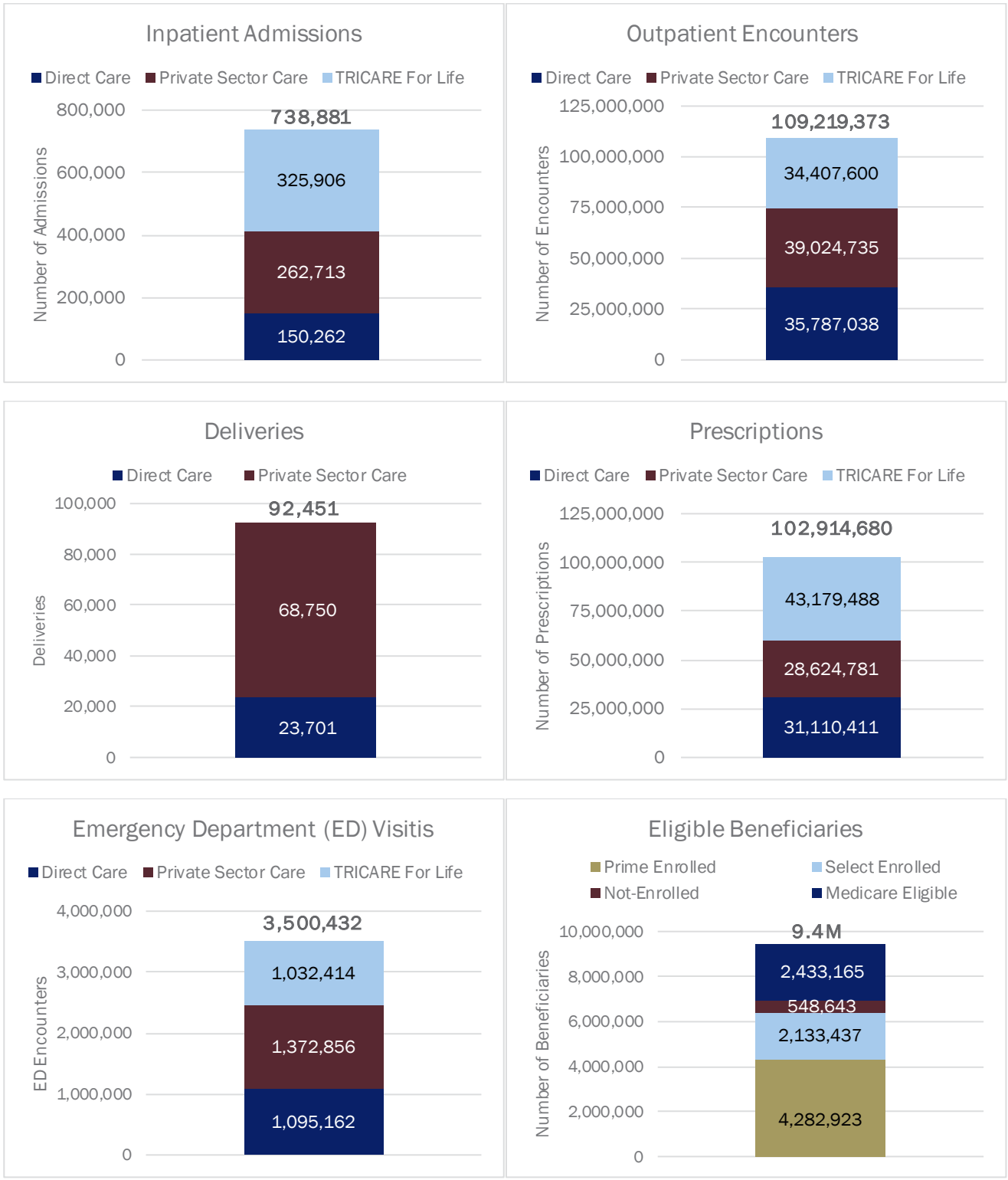
Based on the TRICARE FY 2025 projections, 9.5 million beneficiaries are eligible for DoD medical care, including Active-Duty Service Members and their families, military retirees and their families, survivors, and certain former spouses. Figures 1 — 6 to Figure 1 — 12 on the following page depict excerpts from the FY 2024 Annual Evaluation of the TRICARE Program Report and provides a summary of the trends and demographics of eligible beneficiaries of the MHS. Due to the release date of the Evaluation of the TRICARE Program Report, not all figures represent FY 2025 amounts; however, the latest information available is presented.

Figure 1 — 6: FY 2025 TRICARE Projected Facts and FY 2024 Actual Figures

	Projected For FY 2025[a]	FY 2024 Actuals
Total Beneficiaries	9.5 million worldwide[b]	9.4 million worldwide[b]
MILITARY FACILITIES—DIRECT CARE SYSTEM[c]		
Inpatient Hospitals and Medical Centers	47 (33 in U.S.)	47 (30 in U.S.)
Ambulatory Care and Occupational Health Clinics	569 (481 in U.S.)	555 (443 in U.S.)
Dental Clinics	110 (91 in U.S.)	113 (93 in U.S.)
MHS DHP Personnel	125,788	124,764
Military	72,561	72,337
	26,791 Officers	26,733 Officers
	45,770 Enlisted	45,604 Enlisted
Civilian (including Foreign National)	53,227	52,427
CIVILIAN RESOURCES—PRIVATE SECTOR CARE SYSTEM[d]		
Network Primary Care, Behavioral Health, & Specialty Care Providers (i.e., individual, not institutional, providers)	1,161,027	1,070,660
Network Behavioral Health Providers (shown separately, but included in above)	230,748	210,240
TRICARE Network Acute Care Hospitals	4,451	4,394
Behavioral Health Facilities	5,487	5,200
Contracted (Network) Retail Pharmacies	41,000	41,762[e]
Contracted Worldwide Pharmacy Home Delivery Vendor	1	1
TRICARE Dental Program (TDP) (for Active Duty families, Reserve members, and their families)	Approximately 2 million covered lives	Approximately 2 million covered lives
TDP Network Dentists	115,000 total dentists, including: 85,829 general dentists & 29,208 specialty dentists	114,037 total dentists, including: 85,329 general dentists & 28,708 specialty dentists
Total Requested FY 2024 UMP (including Projected trust Fund Receipts)	$61.36 billion[f]	$59.95 billion[f]
Projected Receipts from MERHCF trust Fund	$11.05 billion	$10.53 billion

a Unless specified otherwise, this report presents budgetary, utilization, and cost data for the DHP/UMP only, not those related to deployment or funded by the MILDEPS.
b DoD health care beneficiary population projected for the end of FY 2024 is 9,398,168 rounded to 9.4 million. This projection is based on the DoD Comptroller's Budget End Strength, the DoD Actuary's forecast of the retiree population, and the family members per sponsor from DEERS as of April 2025.
c MTF clinic count includes occupational health, community-based, embedded behavioral health, Active Duty troop, centers of excellence, and joint DoD-VA clinics, and excludes leased/contracted facilities and Aid Stations. Military facility counts are that of the number of facilities based on the Defense Medical Information System Identifiers, not clinical functions. Source: DHA. J-8, Cost Accounting Division, 6/10/2025.
d As reported by the Managed Care Support Contractors (MCSCs) for contracted network provider and hospital data, 5/12/2025; and TRICARE Dental Program Section, Health Plan Execution and Operations for dental provider data, 11/1/2024.
e This number is as of the time of the data pull (November 2024).
f 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.

Figure 1 — 7: FY 2024 Workload and Population Summary

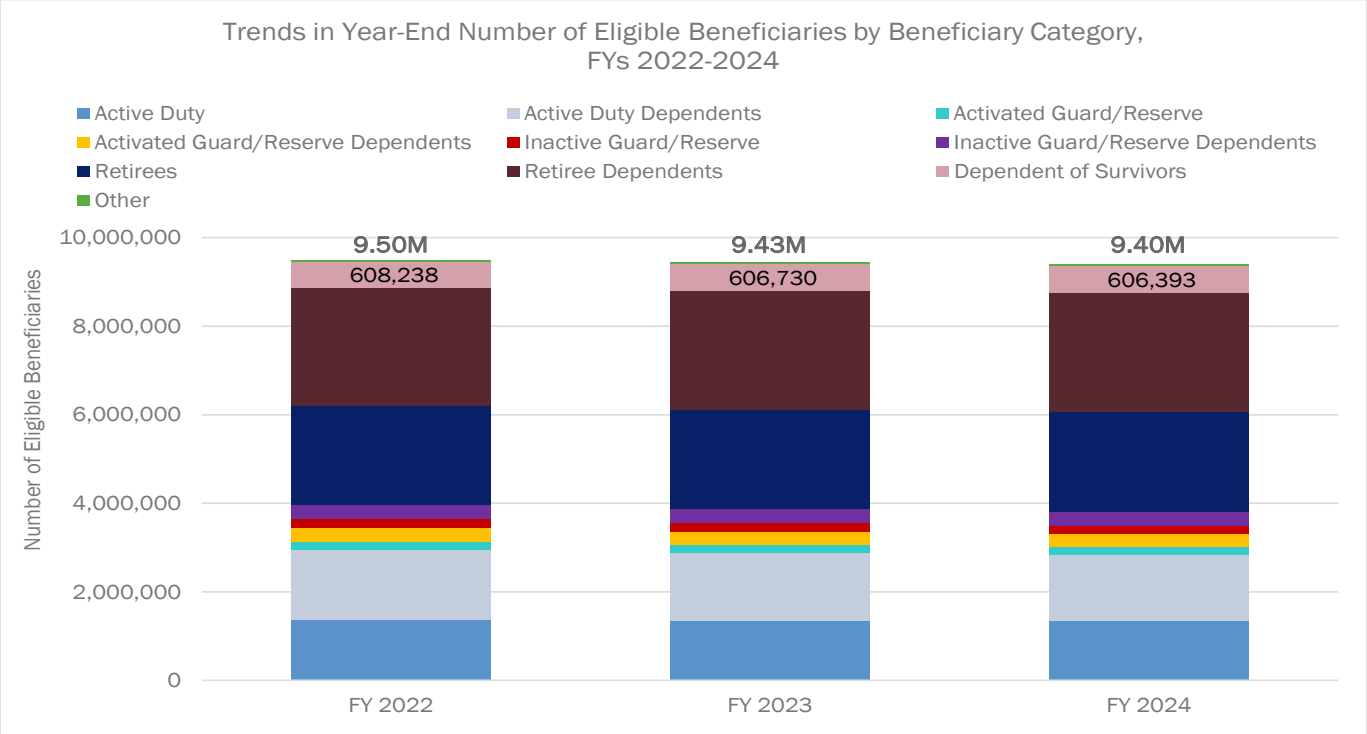


Source: MHS administrative data and DEERS.
Notes:
- TRICARE For Life is from private sector care only.
- Admissions to non-acute-care hospitals in private sector care and TRICARE For Life are not counted
- Percentages may not sum due to rounding.

Figure 1 — 8: Trend in Year-End Numbers of Eligible Beneficiaries

Number of Eligible and Enrolled Beneficiaries Between FY 2022 and FY 2024

The number of beneficiaries eligible for DoD medical care declined slightly from FY 2022 to FY 2023, and again in FY 2024. The percentage of the eligible population by beneficiary category remains relatively the same for the past three years with approximately half of eligible beneficiaries being retirees and their dependents.



Source: DEERS, 4/16/2025
Note: Data labels for beneficiary categories representing small percentages have been removed from the figure for ease of reading. Percentages may not sum due to rounding.

Figure 1 — 9: Trend in Year-End Numbers of Eligible Beneficiaries by Beneficiary Category, FYs 2022-2024

Source: DEERS, 4/16/2025	FY 2022		FY 2023		FY 2024	
Beneficiary Category	Population	Percent of Total	Population	Percent of Total	Population	Percent of Total
Active Duty	1,372,767	14.5%	1,342,103	14.2%	1,333,305	14.2%
Active Duty Dependents	1,573,139	16.6%	1,522,481	16.1%	1,483,868	15.8%
Activated Guard/Reserve	197,147	2.1%	188,100	2.0%	188,185	2.0%
Activated Guard/Reserve Dependents	299,168	3.2%	289,339	3.1%	286,402	3.0%
Inactive Guard/Reserve	207,457	2.2%	205,853	2.2%	203,212	2.2%
Inactive Guard/Reserve Dependents	315,890	3.3%	312,275	3.3%	308,987	3.3%
Retirees	2,234,604	23.5%	2,256,023	23.9%	2,268,563	24.1%
Retiree Dependents	2,649,726	27.9%	2,674,598	28.4%	2,677,193	28.5%
Dependents of Survivors	608,238	6.4%	606,730	6.4%	606,393	6.5%
Other	37,096	.4%	36,680	0.4%	42,060	0.4%
TOTAL	9,495,232		9,434,182		9,398,168	

Figure 1 — 10: MHS Population: Enrollees and Total Population by State, FY 2024

State	Prime	Select	Medicare	Not Enrolled	TOTAL
AL	80,873	47,437	72,574	11,891	212,775
AK	55,278	12,291	8,689	3,709	79,967
AZ	86,843	39,015	68,263	11,679	205,800
AR	25,945	21,459	31,704	4,975	84,083
CA	399,491	118,123	165,552	46,455	729,621
CO	127,829	55,119	51,202	11,509	245,659
CT	20,536	12,131	11,829	3,213	47,709
DE	14,482	5,919	10,914	2,034	33,349
DC	25,599	2,744	1,994	1,511	31,848
FL	306,401	171,218	235,563	37,410	750,592
GA	235,191	82,356	102,548	22,187	442,282
HI	97,503	22,965	18,464	7,425	146,357
ID	18,233	18,433	17,902	2,944	57,512
IL	65,518	37,625	35,378	10,551	149,072
IN	24,323	35,162	30,014	6,711	96,210
IA	7,297	23,303	15,339	2,833	48,772
KS	62,463	24,928	23,712	5,593	116,696
KY	73,622	31,306	31,163	6,579	142,670
LA	51,404	28,256	28,333	6,515	114,508
ME	20,601	6,639	9,116	2,029	38,385
MD	144,130	37,108	42,659	16,155	240,052
MA	28,033	15,242	19,223	6,003	68,501
MI	20,688	39,107	34,888	8,302	102,985
MN	8,055	34,285	23,964	4,449	70,753
MS	40,467	28,887	33,498	5,969	108,821
MO	61,897	44,688	44,409	8,283	159,277
MT	10,302	14,416	11,114	2,078	37,910
NE	24,273	18,320	15,351	2,509	60,453
NV	46,231	20,572	32,723	6,825	106,351
NH	15,098	6,158	7,999	1,884	31,139
NJ	40,383	15,968	20,955	6,787	84,093
NM	39,946	12,253	22,804	4,497	79,500
NY	81,211	33,569	40,371	15,432	170,583
NC	262,433	118,063	107,944	20,976	509,416
ND	17,466	8,308	5,630	1,183	32,587
OH	44,897	66,642	51,868	11,669	175,076
OK	74,869	32,552	39,422	8,169	155,012
OR	10,057	21,509	26,748	5,351	63,665
PA	39,769	48,460	60,860	13,783	162,872
RI	11,582	4,630	6,026	1,762	24,000
SC	122,542	56,821	75,165	12,164	266,692
SD	11,637	12,850	9,906	1,537	35,930
TN	55,444	73,235	65,641	11,544	205,864
TX	468,776	193,229	209,555	51,788	923,348
UT	30,703	25,092	20,407	3,745	79,947
VT	5,267	2,794	4,118	1,056	13,235
VA	372,841	169,481	144,994	33,615	720,931
WA	180,838	51,347	75,089	16,404	323,678
WV	6,909	14,682	12,785	2,731	37,107
WI	10,712	35,299	26,299	5,273	77,583
WY	10,661	6,523	5,923	1,280	24,387
US Territories	12,260	16,772	19,500	8,994	57,526
APO Americas	2,146	405	110	292	2,953
APO Europe	117,850	20,172	3,806	6,305	148,133
APO Pacific	118,501	14,349	2,902	4,576	140,328
Missing or Bad Zip	25,978	23,220	46,895	27,520	123,613
TOTAL	**4,374,284**	**2,133,437**	**2,341,804**	**548,643**	**9,398,168**

Source: MHS administrative data systems, 3/6/2025

INPATIENT UTILIZATION RATES BY PLAN

Figure 1 — 11: Average Annual Inpatient Rate Per 1,000 Beneficiary, FYs 2022 - 2024

Plan	Beneficiary Category	FY	Direct Care (MTF)	Private Sector Care	Total	Percentage of Care Provided in Direct Care
Prime MTF Primary Care Manager (PCM)	Active Duty and Activated Guard/Reserve	2022	22	15	37	59.5%
		2023	19	16	35	54.3%
		2024	17	16	34	50.0%
	Active Duty Dependents and Activated Guard/Reserve Dependents	2022	24	45	69	34.8%
		2023	21	44	65	32.3%
		2024	21	43	65	32.3%
	Retirees, Dependents of Retirees, and Dependents of Survivors	2022	28	53	81	34.6%
		2023	24	53	78	30.8%
		2024	21	53	74	28.4%
Prime Network PCM	Active Duty Dependents and Activated Guard/Reserve Dependents	2022	6	42	48	12.5%
		2023	5	40	45	11.1%
		2024	5	40	45	11.1%
	Retirees, Dependents of Retirees, and Dependents of Survivors	2022	3	69	72	4.2%
		2023	3	67	70	4.3%
		2024	2	66	69	2.9%
Select	Active Duty Dependents and Activated Guard/Reserve Dependents	2022	4	62	65	6.2%
		2023	4	61	65	6.2%
		2024	4	59	63	6.3%
	Retirees, Dependents of Retirees, and Dependents of Survivors	2022	1	56	57	1.8%
		2023	1	54	55	1.8%
		2024	1	52	53	1.9%
TRICARE Plus	Retirees, Dependents of Retirees, and Dependents of Survivors	2022	121	190	311	38.9%
		2023	112	192	304	36.8%
		2024	109	196	305	35.7%
Medicare - TFL (PSC Only)	Retirees, Dependents of Retirees, and Dependents of Survivors	2022	4	230	234	1.7%
		2023	3	234	238	1.3%
		2024	3	238	241	1.2%

Source: MHS administrative data, 5/1/2025

Note: Numbers may not sum due to rounding and the percentages are calculated using the raw numbers versus the direct care rounded numbers reported above.

Figure 1 — 12: Average Annual Outpatients RVUs Per Beneficiary

Plan	Beneficiary Category	FY	Direct Care (MTF)	Private Sector Care	Total	Percentage of Care Provided in Direct Care
Prime MTF PCM	Active Duty and Activated Guard/Reserve	2022	26	11	37	69.9%
		2023	28	13	41	69.3%
		2024	32	13	46	70.8%
	Active Duty Dependents and Activated Guard/Reserve Dependents	2022	13	23	36	37.1%
		2023	14	24	38	38.0%
		2024	17	33	50	34.5%
	Retirees, Dependents of Retirees, and Dependents of Survivors	2022	15	28	42	34.5%
		2023	17	29	46	37.9%
		2024	20	32	52	38.9%
Prime Network PCM	Active Duty Dependents and Activated Guard/Reserve Dependents	2022	2	33	35	5.9%
		2023	2	34	36	6.4%
		2024	3	42	45	6.7%
	Retirees, Dependents of Retirees, and Dependents of Survivors	2022	1	43	44	1.9%
		2023	1	44	45	2.1%
		2024	1	47	48	2.4%
Select	Active Duty Dependents and Activated Guard/Reserve Dependents	2022	1	33	34	3.9%
		2023	2	35	36	4.4%
		2024	2	40	42	4.9%
	Retirees, Dependents of Retirees, and Dependents of Survivors	2022	0	33	33	1.0%
		2023	0	34	34	1.2%
		2024	0	36	37	1.3%
TRICARE Plus	Retirees, Dependents of Retirees, and Dependents of Survivors	2022	28	68	96	29.2%
		2023	33	73	105	31.0%
		2024	37	77	115	32.6%
Medicare- TFL (PSC Only)	Retirees, Dependents of Retirees, and Dependents of Survivors	2022	0	85	86	0.5%
		2023	1	90	91	0.6%
		2024	1	95	96	0.7%

Source: MHS administrative data, 5/1/2025

Note: Numbers may not sum due to rounding and the percentages are calculated using the raw numbers versus the direct care rounded numbers reported above.

KEY FINDINGS FOR FY 2024

Military Health System Worldwide Summary

- The $61.4 billion UMP presented in the FY 2025 Enacted Presidents Budget, including estimated outlays from the MERHCF, is 2.4 percent higher than the actual $59.9 billion FY 2024 expenditures and is about 7 percent of total FY 2025 estimated DoD outlays.
- In FY 2024, 9.4 million beneficiaries were eligible for DoD medical care. Of those, about 4.3 million (46 percent) were 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 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.

Patient Safety

- 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.

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

- 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 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).

f 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.

DHA STRATEGIC PLAN FY2025-FY2030

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 strategic portfolio is composed of the focus areas, strategic initiatives, drivers, and Key Performance Indicators (KPIs) that demonstrate the Agency's approach to stabilize and modernize the healthcare system. This plan also gives an overview of the steps for performance management.

Figure 1 — 13: Defense Health Agency Strategy

MISSION

The Defense Health Agency supports our Nation by improving health and building readiness making extraordinary experiences ordinary and exceptional outcomes routine.

VISION

Unrelenting pursuit of excellence as we care for our joint force and those that we are privileged to serve. Anytime, Anywhere Always

VALUES

Dependability:
We are trustworthy, honest, and follow through on commitments.

Humility:
We listen, show compassion, and understand the needs of others.

Agility:
We adapt quickly and innovate effectively.

PRIORITIES

DOD PRIORITIES

- Revive the warrior ethos and restore trust in our military
- Rebuild our military by matching threats to capabilities
- Reestablish deterrence by defending our homeland — on the ground and in the sky

MHS PRIORITIES

- Support the warfighter, ensuring fitness and access to care
- Sustain clinical skills by increasing volume and complexity of care in our hospitals
- Strengthen our force generation platform with advanced training in our hospitals

DHA PRIORITIES

- Assure the force is medically ready
- In partnership with the Joint Staff and Military Departments, assure our ability to generate and sustain the medical force
  - Increase operational clinical readiness (ready medical force)
  - Reattract beneficiaries to MTFs
- As a combat support agency, optimize support of the Joint Staff, Combatant Commands, and Military Departments

DHA is a joint, integrated Combat Support Agency (CSA) that enables the Army, Navy, and Air Force health services to supply a medically ready force and ready medical force to Combatant Commands (CCMD) in both peacetime and wartime.

DHA Digital Transformation

The technology landscape is rapidly advancing and fundamentally changing how consumers behave across industries. As our beneficiaries adopt new technology, they can expect their healthcare providers to leverage these kinds of innovations. This is why we are pursuing a range of digital tools to not only improve care delivery but also enhance health and wellness for our beneficiaries.

One of our current ventures involves piloting tools that will enable a 'care anywhere' model. In FY 2025, we launched Scheduled Virtual Visits alongside other new telehealth products. Collectively, these new products will "meet patients where they are," improve patient care and the patient experience, and provide flexible healthcare options.

We are pushing innovative, mission-critical solutions with the goal of achieving maximum growth and success to support the modernization of the MHS. Our digital transformation enables all of this by advancing our strategic functions as well as our strategic priorities.

Figure 1 — 14: Defense Health Agency Operations by the Numbers

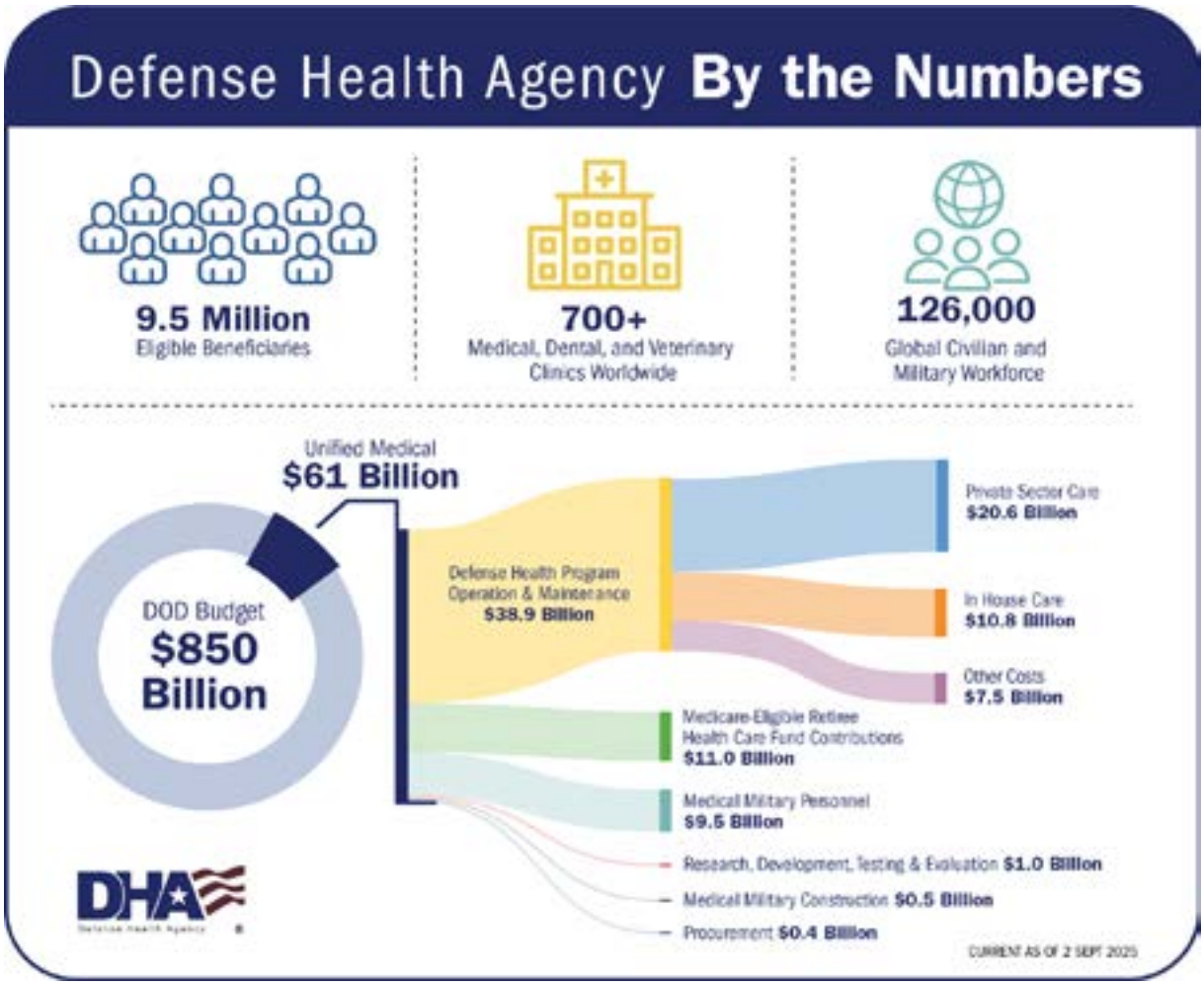
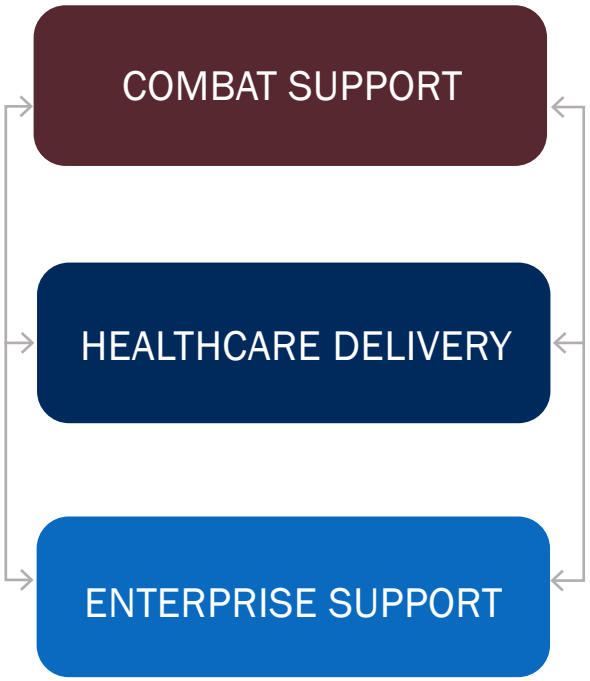


Figure 1 — 15: DHA Strategic Functions



HEALTHCARE DELIVERY:

This function encompasses the combination of people, systems, policies, and resources within the DoD organic medical base that ensures the medically ready force; provides the training and sustainment platforms and capabilities for the ready medical force; and serves as a backbone for the integrated medical force requirements. The health plan drives modernization through the promotion of values-based reimbursement and the development of core-quality performance measures. The health plan offers maximum flexibility to beneficiaries; develops concepts, and experiments through piloting and demonstration projects; and supports direct healthcare delivery by providing flexibility, MIL-CIV integrated healthcare systems, and depth during competition, crisis, or conflict.

COMBAT SUPPORT:

DHA supports CCMDs with CSA functions and capabilities designed to link theater strategic requirements to national strategic medical capacity through defined organizations, processes, and tasks; with planning and mission execution overseen by the Chairman of the Joint Chiefs of Staff; and available for deployment into the CCMD Area of Responsibility against SECDEF approved missions.

ENTERPRISE SUPPORT:

This function integrates across components to produce defense or enterprise-wide, health-related activities during competition, crisis, or conflict; interfaces with the US medical industrial base; provides common services in support of MILDEP Title 10 responsibilities; campaigns across components to produce a resilient defense ecosystem for the health enterprise.

DHA STRATEGIC PLAN FOCUS AREAS

Figure 1 — 16: Performance Management Focus Areas Framework

QUALITY & SAFETY:
Achieve and maintain high reliability practices to enable desired health outcomes, promote adherence to professional standards, and prevent patient harm. This entails the comprehensive application of evidence-based care, strong data governance, and optimized health information systems.

PATIENT EXPERIENCE:
Cultivate a patient-centered healthcare environment that delivers high-quality, accessible, and equitable care to all beneficiaries through integration of evidence-based care, consideration of social determinants of health, and innovative solutions (e.g., telehealth, AI-driven diagnostics, and predictive analytics).

STAFF EXPERIENCE:
Enhance the work environment and overall satisfaction of employees through optimizing staff workflows, operational efficiencies, and care coordination. Efforts include standardizing data governance, enhancing experiences with digital platforms, maximizing resources through strategic partnerships, and boosting workforce performance through modernization initiatives.

RESOURCING:
Enable efficient and effective healthcare delivery by streamlining acquisition processes and optimizing resource management (recruitment, resource allocation, and capacity management).

Leaders conducted a gap analysis exercise to ensure that priority areas such as Research and Development, Workforce shaping, and CSA are adequately represented in the DHA Strategic Plan. Leaders proposed addition of 70 projects to address gaps, bringing the total to 96 projects included in the current integrated portfolio.

Figure 1 — 17: Strategic Portfolio Initiatives and Drivers

Strategic Initiative	Driver
Optimize Health Care Delivery	• My Military Health • Improve Partnerships • Culture of Both Wellnesses and Health
Fully Leverage Technology in the Healthcare Space	• Patient and Staff Experience
Accelerate Modernization of Medical Readiness and Care	• Better Utilization of Resources • Simplification and Standardization of Acquisition Elements • Research & Development
Effective Management of the Agency's Total Workforce	• Improve the Performance of the Workforce
Drive Decision Making at All Levels of the Organization with Data	• Data Governance and Strategy • MHS GENESIS Optimization
Provide Scalable and Agile Capabilities to Meet Validated Combatant Commander Requirements	• Optimize Operational Planning Processes
Implement Ready Reliable Care	• Integrate High Reliability Practices Across DHA

DHA STRATEGIC PLAN PERFORMANCE MANAGEMENT FRAMEWORK

DHA's performance management framework enables enterprise-wide alignment with the overarching DHA strategy. The performance management framework is designed to both empower personnel and drive accountability through every level of the organization.

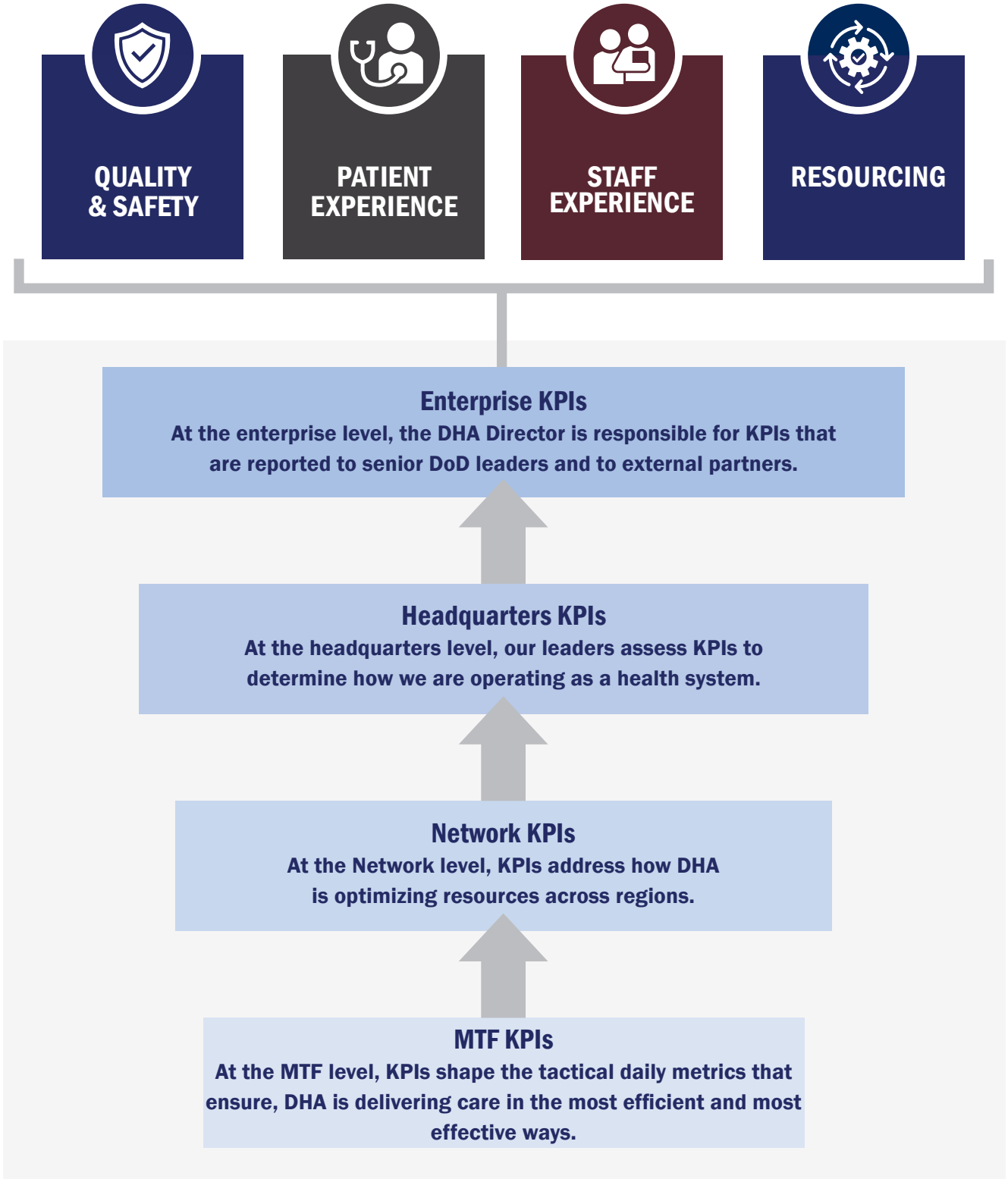
DHA achieves both conditions through a suite of cascading KPIs. The cascade, at each level in DHA, concentrates management around the right measures to collectively move forward as a system. The KPIs link to the four focus areas and track from the MTF level through the DHNs to the Defense Health Headquarters (DHHQ) and, ultimately, to the enterprise level. In this way, DHA can consistently measure the enduring effectiveness of our business.

For example, DHHQ leaders are responsible for tracking Per Member Per Month (PMPM[1]) metrics for fiscal accountability across the Agency. PMPM, however, is not an effective KPI for an MTF leader. Instead, an MTF leader may be accountable for the KPI of appointment availability, which 'ladders up' to the PMPM KPI at the DHA level. In this way, the behaviors and achievements of all our personnel matter. Individual actions tie directly to our organization's strategic success.

The cascading KPIs progressively build, starting from the MTFs and rising all the way through the DHA Director. The KPIs are directly aligned to strategic priorities and represent a system-wide approach to performance. Top-line metrics are intended to be reported within DoD to HA and the SECDEF. The goal is to hold each level of management accountable to the measures they can influence, and to enable a robust, meaningful understanding of strategic progress. Our overall performance management approach is designed to enhance transparency at all levels of the organization and gather data-driven insights to achieve our strategic vision.

1 PMPM is a revenue cycle metric in healthcare management. It is used to assess a monthly average cost or revenue generated per individual enrolled in a health plan.

Figure 1 — 18: Performance Management Process Framework



DHA STRATEGIC PLAN GOVERNANCE FRAMEWORK

The primary objectives of the DHA governance framework are to:

- Provide a transparent, collaborative, and aligned framework of forums to promote unity of effort
- Integrate civilian and military perspectives
- Efficiently and effectively develop, coordinate, and implement DoD policies and programs
- Readily share information
- Provide decision support to the Director on cross-cutting priorities

DHA's governance framework supports enterprise-wide performance management and reinforces accountability. Governance is the structured process of aligning key roles with clear priorities, equipping them with the right data and authority to make informed decisions, and ensuring accountability for execution.

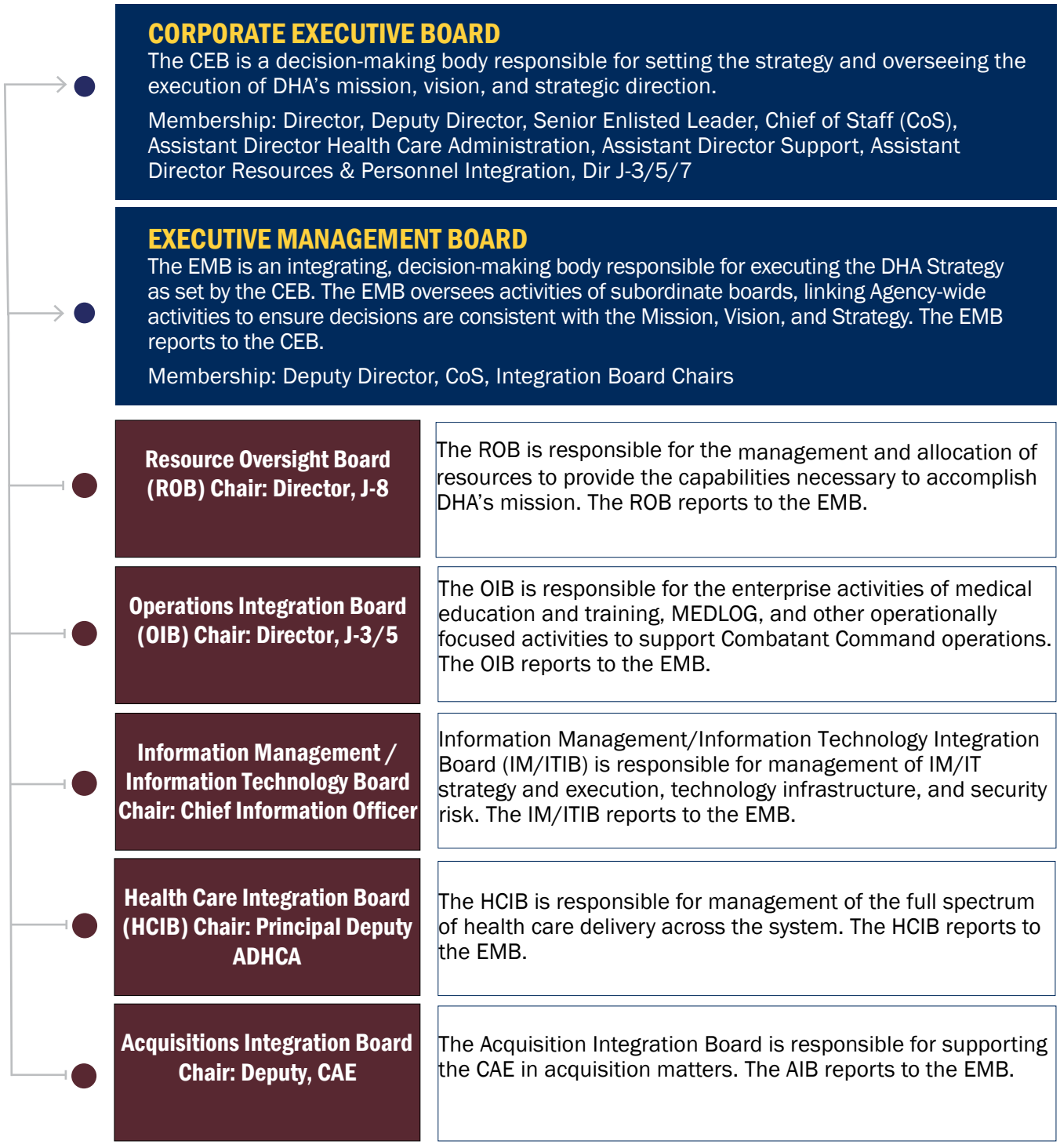
Effective governance connects strategic priorities with planning and execution, ensuring that all decisions align with organizational objectives, and are documented for transparency and follow-through. Decisions made within the governance framework must align with our strategic portfolio, which, in turn, informs policy adjustments and performance management processes.

Our governance framework establishes enterprise-wide processes that funnel complex issues through an integrated process, ultimately driving performance. From the top down, it provides vision, goals, strategy, and resources to achieve breakthrough performance. From the bottom up, it identifies performance gaps in capabilities, evaluates and refines requirements, develops unified courses of action, and forecasts resource options. Outcomes result in recommendations that are fully vetted, assigned risk, and prioritized for final decisions. This structure enables leaders to assess benefits, costs, and risks when making decisions at every level.

The Corporate Executive Board (CEB) and Executive Management Board (EMB) are the highest-level governance bodies in DHA. In addition to these two, our governance framework includes a suite of integration boards that serve as critical connection points across the organization. Each board focuses on a key area; for example, resourcing, operations, or healthcare delivery. Our integration boards embody and facilitate the detailed, operational work of governance. Each board ensures key decision-making information flows seamlessly to the EMB and CEB.

DHA STRATEGIC PLAN GOVERNANCE STRUCTURE

Figure 1 — 19: Governance Executive and Oversight Boards



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

Overview of Financial Position

Figure 1 — 20: ASD(HA)-DHP Financial Position (dollars in thousands)

ASD(HA)-DHP Major Financial Position Classifications	FY 2025
Costs	
Gross Program Costs	77,389,560
Less Earned Revenue	(4,562,748)
Plus: Losses from Actuarial Assumption Changes	30,422,272
Net Cost of Operations	**$103,249,084**
Assets	
Fund Balance with Treasury (Note 3)	21,844,279
Cash and Other Monetary Assets (Note 4)	377
Accounts Receivable, Net (Note 5)	1,118,573
General and Right-to-Use Property, Plant, and Equipment (PP&E), Net (Note 7)	3,803,478
Inventory and Related Property, Net (Note 6)	326,292
Other Assets (Note 8)	6,851
Total Assets	**$27,099,850**
Liabilities	
Accounts Payable (Note 9)	1,543,439
Advances from Others and Deferred Revenue (Note 12)	47,080
Federal Employment Salary, Leave, and Benefits Payable (Note 10)	537,326
Pensions, Other Post Employment, and Veterans Benefits Payable (Note 10)	426,716,914
Other Liabilities (Note 12 and Note 14)	219,636
Total Liabilities	**$429,064,395**
Net Position	
Unexpended Appropriations	20,326,696
Cumulative Results of Operations	(422,291,241)
Total Net Position	**$(401,964,545)**
Total Liabilities and Net Position	**$27,099,850**
Budgetary Resources	**$52,736,694**

The accompanying notes are an integral part of the statements.

Summary of the Analysis of Financial Statements

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

A summary of ASD(HA)-DHP's major financial activities as of September 30, 2025, is presented in Figure 1 — 20. This table represents the resources available, assets on hand to pay liabilities, and the corresponding net position. The net cost of operations is the cost of operating the programs of ASD(HA)-DHP, less earned revenue. Budgetary resources include funds available to ASD(HA)-DHP to incur obligations and fund operations, as well as certain funds which have already been obligated.

Total assets are $27.1 billion as of September 30, 2025. The most significant assets are the Fund Balance with Treasury (FBwT) and General and Right-to-Use Property, Plant and Equipment (PP&E), net, which represent a combined 95% of ASD(HA)-DHP's total assets. The largest, FBwT, consists of funds appropriated to DoD by Congress or transferred from other federal agencies and held in the U.S. Department of Treasury's accounts that are accessible to pay for DoD medical obligations. Accounts Receivable, Net – Intragovernmental increased $76.2 million (52%) from FY 2024 primarily due to delivering more direct care to MERHCF beneficiaries than anticipated. Accounts Receivable, Net – Other than Intragovernmental increased $214.9 million (32%) due to the discovery by DHA-CRM of missing refund claims from first quarter (Q1) 2021 through third quarter (Q3) 2024.

Total liabilities are $429.1 billion as of September 30, 2025. of which $426.7 billion, or 99%, comprises of pensions, other post-employment, and veteran benefits payable. These liabilities represent funds calculated by the DoD's Office of the Actuary (OACT) at the end of each FY using the current active and retired military population plus assumptions (inflation, discount rate, and medical trend) about future demographic and economic conditions. Pensions, Other Post-employment, and Veterans Benefits Payable increased $62.5 billion (17%) from FY 2024, attributable to the annual recalculation of the unfunded actuarial liability by the DoD OACT at fiscal year-end. Other Liabilities increased $109.3 million (599%) due to a contingent legal liability with an unfavorable outcome that is deemed probable.

Total net position is negative $402.0 billion as of September 30, 2025, consisting of the Agency's cumulative results of operations and unexpended appropriations. Appropriations transferred-in increased $227.6 million from FY 2024 because less was transferred-out to the Foreign Currency Fluctuations Fund. Other adjustments decreased $242.9 million due to an increase in cancelling funds returned to US Treasury. Transfers in/out without reimbursement decreased $230.6 million (502%) due to an increase in Construction-in-Progress (CIP) transfers out by United States Army Corps of Engineers (USACE).

The net cost of operations is reported in the consolidated Statement of Net Cost (SNC) and the consolidated Statement of Changes in Net Position (SCNP). The consolidated SNC represents the cost of operating (net of earned revenues) ASD(HA)-DHP's major appropriation groupings (previously listed on page 18). Net Cost of Operations is $103.2 billion as of September 30, 2025. Gross costs increased $23.7 billion (44%) based on an increase in actuarial calculations related to the ASD(HA)-DHP's health insurance liability, as well as an increase in operating expenses, due to the rising cost of healthcare. Losses from Actuarial Assumption Changes decreased $6.4 billion (17%) due to a change in actuarial assumptions.

The combined Statement of Budgetary Resources (SBR) provides information on the budgetary resources that were made available to ASD(HA)-DHP during the FY and the status of those resources at the end of the FY. ASD(HA)-DHP receives most of its funding from general government funds administered by Treasury and appropriated by Congress ($41.8 billion for FY 2025). Budgetary resources consist of the resources available at the beginning of the year, plus the appropriations received, spending authority from offsetting collections, and other budgetary resources received during the year, such as receipts from the MERHCF ($1.8 billion in FY 2025). Apportioned, unexpired accounts decreased $792.5 million (24%) from FY 2024 due to an increase in new obligations, relative to the increase in funding received. Unapportioned, unexpired accounts increased $1.06 billion (240,815%) due to an increase in funding related to P.L. 119-21 received at fiscal year-end.

DHA LEADERSHIP
A CHANGE AT THE TOP

Dr. David Smith
Acting Director, DHA

Chief Master Sergeant Tanya Y. Johnson
Senior Enlisted Leader

On February 28, 2025, Dr. David Smith became DHA's fifth director, succeeding U.S. Army Lt. Gen. (Dr.) Telita Crosland, who served as director since January 2023. Dr. Smith is also serving as Acting Principal Deputy Assistant Secretary of Defense for Health Affairs. Prior to his present role, he was the Deputy Assistant Secretary of Defense for Health Readiness Policy and Oversight. In this role, he directed Department-wide efforts to develop and implement policies and programs relating to DoD deployment medicine, force health protection, national disaster support, medical research and development, international health agreements and missions, and medical readiness for 2.3 million Service members.

Under the leadership of Dr. Smith and Chief Master Sergeant Tanya Johnson, DHA thrived in FY 2025. In Spring 2025, 73% of DoD hospitals received the prestigious "A" grade for Patient Safety from the Leapfrog Group, well above the national average among participating hospitals. Another highlight was the Tele-Critical Care program that supports over 20 MTFs' Intensive Care Units, including meeting requirement for 24/7 intensivist support to meet Leapfrog requirements at 10 of 15 grade "A" hospitals, supporting patients virtually and avoiding deferral of over 1,100 patients to the network and $211.2 million annually.

Additionally, the Global Nurse Advice Line (GNAL) provided clinical advice to 580,000 patients with a 96% satisfaction rate, captured care to MTFs, and avoided $86.1 million in unnecessary expenditures at a net savings per call of $80.46. Furthermore, the GNAL implemented an innovative pilot to provide "wrap around" virtual Urgent Care Center care, supporting more than 600 patients in two months, avoiding $132 thousand in costs. The GNAL also began a process to leverage thousands of unused MTF primary care capability to meet demand for care globally.

Other key performance results in FY 2025 under the direction of Dr. Smith and Chief Master Sergeant Johnson include:

- Delivered 44,520 virtual Personal Health Assessments through the DHA Virtually Integrated Patient Readiness and Remote clinic for active duty personnel
- Successfully piloted regional specialty appointing virtually from three large medical centers to support active duty and their families at isolated geographic locations and reduced Exceptional Family Member Program denials over 80%
- DHA's new Behavioral Health Resources and Virtual Experience tele-behavioral health hotline provided nearly 49,000 behavioral health appointments to active duty personnel and their families in isolated areas, including overseas, avoiding $10.7 million in unnecessary costs annually

DHA LEADERSHIP
A CHANGE AT THE TOP

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

Limitations of Financial Statements

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

Analysis of Systems, Controls and Legal Compliance

The evaluation of internal controls extends to every responsibility and activity undertaken by ASD(HA)-DHP to confirm the integrity of applicable systems and controls over operations and reporting, as well as compliance with applicable laws and regulations. A key element of this responsibility is adherence to the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA), the Federal Managers' Financial Integrity Act of 1982 (FMFIA), OMB Circular Number (No.) A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, and the Government Accountability Office (GAO) – 14-704G, Standards for Internal Control in the Federal Government (the Green Book), which provide the framework for the ASD(HA)-DHP to conduct risk management and internal control activities.

ASD(HA)-DHP implements these requirements through the ASD(HA)-DHP Risk Management and Internal Control (RMIC) Program, which focuses on the implementation of effective and efficient internal controls; effective management of risks to the ASD(HA)-DHP's strategic objectives; and the reliability of financial and non-financial information. The ASD(HA)-DHP continues to design and implement internal control activities to improve the integration of business processes, systems, and financial reporting to eliminate errors that could lead to misstatement or noncompliance with laws and regulations.

Summary of Internal Control Assessment

ASD(HA)-DHP performed its annual assessment of risks and internal controls in accordance with OMB Circular No. A-123 and the GAO Green Book. The objectives of the system of internal control of ASD(HA)-DHP are to provide reasonable assurance of the:

- Effectiveness and efficiency of operations;
- Reliability of financial and non-financial reporting;
- Compliance with applicable laws and regulations; and
- Financial information system compliance with FMFIA.

Based on the results of this assessment, the ASD(HA)-DHP achieved modified assurance due to the following management assurance levels as of September 30, 2025:

- Internal Controls over Reporting for Financial Reporting (ICOR-FR) – unable to provide assurance, due to seven (7) Material Weaknesses (MW) and non-compliance with FFMIA, FMFIA, the Debt Collection Improvement Act of 1996 (DCIA), and the Antideficiency Act (ADA).
- Internal Controls over Reporting for Operations (ICOR-O) – assurance, except for three (3) MWs
- Internal Controls over Reporting for Financial Systems (ICOR-FS) – assurance, except for noncompliance with FFMIA, Section 803
- Entity Level Controls (ELC), including fraud – assurance, except for one (1) MW that is included in the ICOR-FR MWs listed above

Refer to Figure 3-1 in the Other Information: Summary of Financial Statement Audit and Management Assurances section of the AFR for the listing of MWs identified by the Independent Public Accountant (IPA). In its financial statement audit, the IPA does not report on deficiencies (including material weaknesses) in ICOR-O. However, ASD(HA)-DHP management does report ICOR-O material weaknesses identified through management, and GAO and Department of Defense Office of Inspector General (DoDIG) audits and examinations. Note that differences may exist between the MWs identified by the IPA and those identified by ASD(HA)-DHP management as a function of timing between the Statement of Assurance (SoA) issuance and the date of the Auditor's Report. The ASD(HA)-DHP concurs with the material weaknesses identified by the IPA, which are consistent with those identified by ASD(HA)-DHP management after consideration for current year material weakness changes.

Management's assessment of FFMIA compliance was completed prior to the results of the FY 2025 financial statement audit. Our auditor has noted ASD(HA)-DHP did not comply with the (1) federal financial management system's requirements, (2) applicable federal accounting standards promulgated by Federal Accounting Standards Advisory Board (FASAB), and (3) application of the United States Standard General Ledger (USSGL) at the transaction level, because of material weaknesses noted in the Independent Auditor's Report on Internal Control over Financial Reporting. ASD(HA)-DHP has planned remediation activities to address material weaknesses noted in the Independent Auditor's Report on Internal Control over Financial Reporting by FY 2028 that affect FFMIA compliance. Planned activities are underway to remediate the (1) FBwT material weakness in FY 2025, (2) Monitoring and Reporting of Obligations material weakness in FY 2025, (3) Entity-Level Controls material weakness in FY 2026, (4) PP&E material weakness in FY 2026, (5) Liabilities and Related Expenses material weakness in FY 2026, (6) Financial Reporting – Journal Vouchers (JV) and Adjustments material weakness in FY 2027, and (7) Medical Revenue and Associated Receivables material weakness in FY 2028.

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

Internal Control Governance

In FY 2025, ASD(HA)-DHP leveraged the Health Resource Management Council (HRMC) Senior Assessment Team (SAT) to provide oversight and accountability for the ASD(HA)-DHP's internal controls over operations, financial reporting, and financial systems. The HRMC SAT was chartered under the purview of the ASD(HA)-DHP Senior Accountable Official to assist the Assistant Secretary of Defense for Health Affairs (ASD(HA)) in executing fiduciary and oversight responsibilities for the DHP appropriation, which funds the DHA, the USUHS, and part of the MILDEP medical activities, and to implement and execute the RMIC Program. Primary responsibilities of the HRMC SAT include ensuring proper documentation of end-to-end business processes to assess internal controls and improve efficiencies, and assist management implement an internal control framework that promotes continuous awareness and monitoring.

While a formal framework for the ASD(HA)-DHP RMIC Program has been established, implementation efforts remain ongoing to address all principles of internal controls in accordance with FMFIA and the GAO Green Book. The ASD(HA)-DHP RMIC Program is focused on refining and improving the system of internal controls moving into FY 2026. Improving Entity-Level Controls and proactively identifying and correcting design failures through Enterprise Risk Management and continuous control monitoring should enhance ASD(HA)-DHP oversight and strengthen internal controls over operations and reporting, as well as compliance with laws and regulations.

FY 2025 Significant Accomplishments

- The HRMC SAT, established as an Entity-Level Control, continues to make significant progress in documenting ASD(HA)-DHP's end-to-end business processes. In FY 2025, the HRMC SAT prioritized the documentation of ASD(HA)-DHP's end-to-end financial reporting business processes, including the development of process narratives and process flowcharts, to support the implementation of a standardized internal control environment. To date, the HRMC SAT has successfully documented six (6) ASD(HA)-DHP business processes, including three (3) material Assessable Units (AU). End-to-end business process documentation has been completed for: 1) Civilian Payroll, 2) Operating Materials and Supplies, 3) Contract Vendor Pay, 4) Fund Balance with Treasury, 5) Universe of Transactions, and 6) Financial Statement Compilation and Reporting. By documenting ASD(HA)-DHP's end-to-end business processes, the ASD(HA)-DHP will improve Entity-Level Controls across control and monitoring activities.
- ASD(HA)-DHP made significant improvements to its procedures and internal controls to validate the accuracy and completeness of JV adjustments within its primary General Ledger (GL) system, General Fund Enterprise Business System (GFEBS). The ASD(HA)-DHP defined parameters and developed a process to produce populations of JVs for testing. ASD(HA)-DHP also strengthened its internal controls over its JV review procedures and implemented a reconciliation to confirm the completeness of ASD(HA)-DHP's JV population, enhancing oversight and confidence in GFEBS JV balances reported in the financial statements.
- ASD(HA)-DHP made significant progress to report intragovernmental accounts receivable in accordance with federal accounting standards. In FY 2025, ASD(HA)-DHP developed and implemented a quarterly process to analyze GL transactions that make up the intragovernmental accounts receivable balance

and assess the collectability of outstanding accounts receivable balances to determine if a loss allowance adjustment is necessary in the preceding reporting period to value intragovernmental accounts receivable at its Net Realizable Value (NRV). Additionally, ASD(HA)-DHP developed a methodology to calculate a loss allowance for intragovernmental accounts receivable and a quarterly process to record a JV that reports the calculated loss allowance on the financial statements. As a result, ASD(HA)-DHP has partially remediated a material Notification of Finding and Recommendations (NFR) related to "Reporting accounts receivable at NRV).

- ASD(HA)-DHP developed analytical tools in ADVANA that allow ASD(HA)-DHP to generate on-demand audit populations at the appropriate level of detail and analyze financial transactions processed in the GL for revenue, accounts receivable, Unfilled Customer Orders (UFCO), and collections, enhancing ASD(HA)-DHP's oversight of financial data that contribute to the financial statements.
- ASD(HA)-DHP successfully documented and distributed a "GFEBS Aged Unliquidated Obligation Policy" outlining how MHS organizations executing DHP appropriations within GFEBS will perform a continual review of aged Unliquidated Obligations (ULO) and deobligation of invalid aged ULOs. This policy was signed on 02 April 2025 and subsequently distributed, with the goal of improving the process of verifying the validity of obligating documents summarized in the financial statements. In addition to the establishment of formal policy, ASD(HA)-DHP developed an obligation monitoring solution intended to provide improved transparency of ASD(HA)-DHP fiscal health.
- ASD(HA)-DHP implemented new oversight controls utilizing Defense Enterprise Accounting and Management System (DEAMS) Internal Controls over Financial Reporting Tool to monitor variances between Subledgers and the GL and established a threshold to identify variances that require clearing in coordination with the (DFAS). Additionally, DHP established procedures to research and resolve DEAMS Interface Metrics, Error Handling, and Status errors. As a result, the ASD(HA)-DHP, "DEAMS Data" NFR has been closed by the IPA.
- ASD(HA)-DHP enhanced its Civilian Payroll reconciliation process by developing a variance research process in addition to developing a system-level payroll reconciliation process encompassing Defense Cash Accountability System, Defense Civilian Payroll System, and GFEBS. As a result of these efforts, ASD(HA)-DHP has significantly improved oversight of civilian pay cashflow to support the resolution of the "Policies, Procedures, and Controls of DHP's Payroll Reconciliation" NFR.
- ASD(HA)-DHP continued to implement its Federal Information System Controls Audit Manual (FISCAM) strategy to address audit and compliance gaps identified in critical financial and financial feeder systems, as well as systems owned by third-party service providers that impact ASD(HA)-DHP financial statements. ASD(HA)-DHP internally validated and submitted six (6) IT corrective action plans to the auditor for closure, with four (4) pertaining to implementation of Complimentary User Entity Controls (CUEC) and access controls. Access controls are a primary Secretary of Defense priority and help to safeguard sensitive data from unauthorized access and misuse. ASD(HA)-DHP implemented corrective action plans to establish monitoring and oversight policies, procedures, and analysis for third-party systems and processes (e.g., System and Organization Control reports and CUECs) in accordance with OMB Circular No. A-123. To date, four (4) IT NFRs were closed by the IPA in FY 2025: 1) Automated Time Attendance and Production System CUEC Implementation, 2) Defense Civilian Personnel Data System CUEC Implementation, and 3) DHP Monitoring of Defense Manpower Data Center Adoption of National Institute of Standards and Technology SP 800-53, Rev. 5, and 4) Armed Forces Billing and Collection Utilization Solution (ABACUS) Account Management.

Compliance with Laws and Regulations

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

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

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

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

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

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

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

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

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

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

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

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

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

The FFMIA requires agencies to implement and maintain financial systems that comply substantially with Federal Financial System requirements, applicable federal accounting standards, and the USSGL at the transaction level. In FY 2025, ASD(HA)-DHP's financial management systems did not substantially comply with the requirements within FFMIA, as asserted to by management due to the asserted departures from GAAP and USSGL requirements.

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

The FMFIA requires agencies to establish and maintain internal control and financial management systems to provide reasonable assurance that the three objectives of internal control: 1) effectiveness and efficiency of operations, 2) compliance with applicable laws and regulations, and 3) reliability of financial reporting are achieved. In FY 2025, ASD(HA)-DHP's financial management systems did not substantially comply with the requirements within FMFIA, as asserted to by management due to the lack of establishment and implementation of controls as detailed in the SoA.

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

The DATA Act expands the FFATA to increase accountability and transparency in federal spending, making federal expenditure information more accessible to the public. It directs the Federal Government to use government-wide data standards for developing and publishing reports and to make more information, including award-related data, available on the **USASpending.gov** website. The standards and web site allow stakeholders to track federal spending more effectively. Among other goals, the DATA Act aims to improve the quality of the information on **USASpending.gov** as verified through regular audits of the posted data, and to streamline and simplify reporting requirements through clear data standards. ASD(HA)-DHP complies with the DATA Act; making its expenditures accessible to the public on **USASpending.gov**. In addition to compliance with the original legislation and subsequent guidance from OMB over the DATA Act, a revised Appendix A to Circular A-123 was released in June 2018. The revised Appendix was accompanied

with a cover letter that requires DATA Act reporting agencies to create Data Quality Plans. Consideration of this plan must be included in agencies' existing annual assurance statement for internal controls over reporting beginning in FY 2021 and continuing through the assurance statement covering FY 2023 at a minimum or until agencies determine that they can provide reasonable assurance over the data quality controls that support achievement of the reporting objectives in accordance with the DATA Act.

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

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

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

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

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

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

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

MANAGEMENT ASSURANCE

The Annual SoA for ASD(HA)-DHP on the following page was provided for FMFIA compliance for FY 2025.

OFFICE OF THE ASSISTANT SECRETARY OF WAR

1200 DEFENSE PENTAGON
WASHINGTON, DC 20301-1200

HEALTH AFFAIRS

Statement of Assurance Memorandum

DATE: September 30, 2025

TO: Office of the Undersecretary of War (Comptroller) (OUSW(C)) Deputy Chief Financial Officer (DCFO)

FROM: Darrell W. Landreaux, Deputy Assistant Secretary of War for Health Resources Management and Policy

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

- As the Deputy Assistant Secretary of War for Health Resources Management and Policy, Office of the Assistant Secretary of War for Health Affairs (OASW(HA)), I recognize the Defense Health Program (DHP) of the Military Health System is responsible for managing risks and maintaining effective internal controls to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. The DHP conducted its assessment of risk and internal control in accordance with OMB Circular 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 DHP can provide assurance, except for 10 material weaknesses (MWs) as reported in the "Significant Deficiencies and Material Weaknesses Template," that internal controls over operations, reporting, and compliance are operating effectively as of September 30, 2025.

    - The DHP conducted its assessment of the effectiveness of internal controls over operations in accordance with OMB Circular A-123, the GAO Green Book, and the FMFIA. Based on the results of the assessment, the DHP can provide assurance, except for three (3) MWs, that internal controls over operations and compliance are operating effectively as of September 30, 2025.

    - The DHP conducted its assessment of the effectiveness of internal controls over reporting (including internal and external financial reporting) in accordance with OMB Circular A-123, Appendix A. Based on the results of the assessment, the DHP is unable to provide assurance that internal controls over reporting (including internal and external reporting) and compliance are operating effectively as of September 30, 2025, due to seven (7) MWs.

  - The DHP 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 A-123, Appendix D. Based on the results of this assessment, the DHP can provide assurance, except for non-compliance with FFMIA, that the internal controls over the financial systems are in compliance with the FMFIA, Section 4; FFMIA, Section 803; and OMB Circular A-123, Appendix D, as of September 30, 2025. In Fiscal Year 2024, DHP remediated its nonconformance with the Federal Information Security Modernization Act (FISMA).

- The DHP assessed entity-level controls including fraud controls in accordance with the Green Book, OMB Circular A-123, the Payment Integrity Information Act of 2019, and GAO Fraud Risk Management Framework. Based on the results of the assessment, the DHP can provide reasonable assurance, except for one (1) MW, that entity-level controls, including fraud controls, are operating effectively as of September 30, 2025.

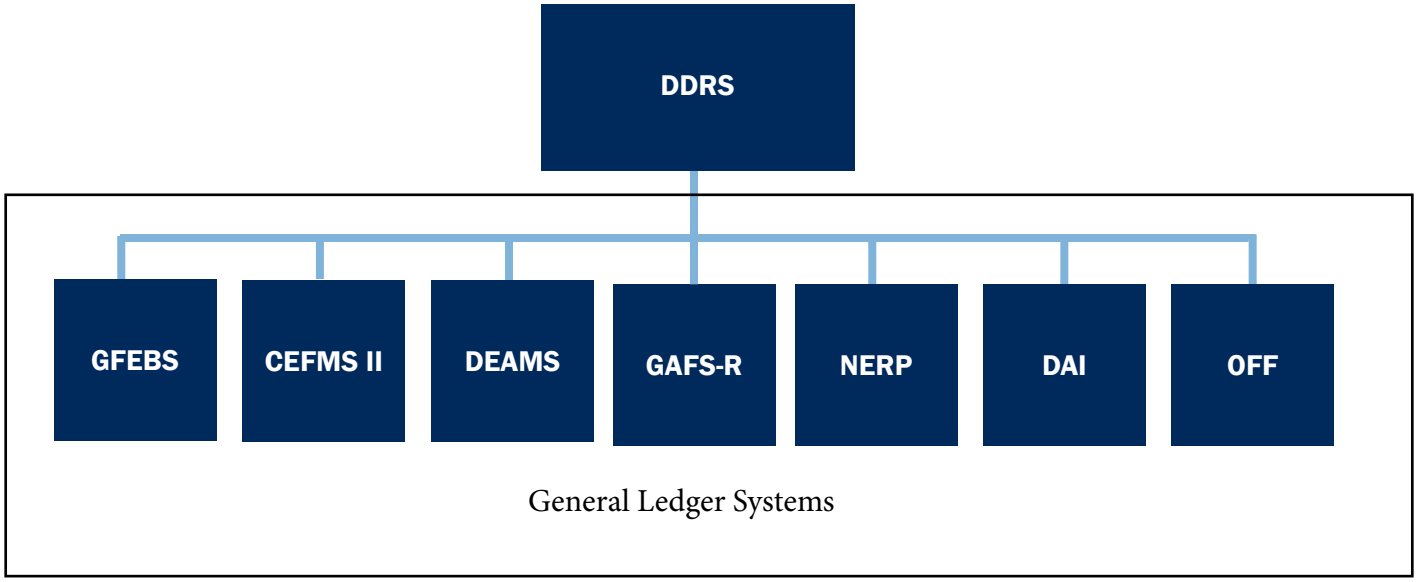
- The DHP is hereby reporting that no Anti-Deficiency Act violation has been discovered/ identified during our assessments of the applicable processes.

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

If there are any questions regarding this Statement of Assurance for FY 2025, my point of contact is Ms. Candace Farrow, (703) 681-6757, or candace.p.farrow.civ@health.mil.

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

Figure 1 — 21: Financial Reporting and Compilation System



Financial Management Systems Framework Systems

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

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

Financial Statement Reporting and Compilation System

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

General Ledger Systems

General Fund Enterprise Business System is a web-based ERP system developed by the Army in 2005 to standardize business processes and transactional input across the Service branches. This Commercial Off-The-Shelf (COTS) software tool built by Systems and Applications and Products provides financial information in real time. GFEBS uses COTS business enterprise software to compile and share accurate,

up-to-date financial and accounting data. DHA deployed GFEBS on April 2, 2018. DHA is in the process of full implementation of GFEBS, and certain legacy systems will brown out in conjunction with their go-live dates.

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

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

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

Navy Enterprise Resource Planning (NERP) is a system comprised of nine end-to-end business scenarios—named for the first activity to the final activity required to accomplish a financial or program management practice in the scenario. From initial budgeting activities, “Budget to Authorize”, through all the steps required to complete the authorization of expenditures to execute that budget, the Navy ERP solution provides a completely integrated set of processes. During FY 2025, the Standard Accounting, Budgeting, and Reporting System, also known as SABRS, transitioned to NERP.

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

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

Other Key Financial Feeder Systems

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

MHS GENESIS is the modern Electronic Health Record (EHR) for the MHS that provides a single health record for service members, veterans, and their families. MHS GENESIS:

- Enhances health, increases readiness, and improves safety
- Focuses on quality, safety, and patient outcomes to help advance enterprise objectives to transform the MHS into a high-reliability organization
- Standardizes clinical and business processes across the services and the MHS
- Enables beneficiaries to be fully engaged in their health care

Revenue Cycle (RevCycle) is within Oracle Health's COTS product and refers to a collection of processes, functionalities and capabilities within MHS GENESIS utilizing a variety of patient and encounter level information and the translation of the clinical events into business, workload and financial data. Embedded tools to support RevCycle consist of pricing, access management, health insurance discovery, patient registration, medical coding, patient accounting, patient statements, claims scrubber and clearinghouse. Collectively, these business tools are integrated together with clinical tools and work together in MHS GENESIS to leverage a clinically driven revenue cycle that enables all MTF staff to collaborate seamlessly on an integrated platform to deliver high quality and reliable patient care, significantly improving communication between the clinical and business communities and increasing understanding of the total cost of care and readiness. RevCycle includes the following processes:

- Scheduling – patient identification/eligibility and appointment creation
- Pre-Registration – encounter creation, Other Health Insurance (OHI) coverage discovery and authorization (if required)
- Registration/Patient Check-In – document capture, patient eligibility verification and validation (Patient Identification Process)
- Charge Services – schedule of clinical event codes and associated rates
- Patient Stay – documented medical services (orders), medications, and consumable items (supplies) delivered to a patient during an episode of care (encounter)
- Coding Review - institutional and professional coding for all qualifying encounters (billable and non-billable)
- Patient Accounting – repository of all patient financial data utilizing configuration of billing rules/logic, claims scrubbing (Alpha II), claims submission (Sophisticated Software Inc.), accounts receivable management, and patient statements and collections to manage the three cost recovery programs (TPC, MSA, and MAC)
- Reporting – Discern and Health Data Intelligence

Defense Medical Logistics - Enterprise Solution (DML-ES) is the single MHS IT Medical Logistics (MEDLOG) program, supporting DoD, VA and other federal agencies with a full line of integrated MEDLOG business and operational capabilities. DML-ES is a Priority Defense Business System and Internal Control Over Financial Reporting designated application, relevant for financial reporting and DoD Audit. It is the Accountable Property System of Record for DHA general property and provides interoperability with MHS GENESIS for item resupply and catalog and equipment synchronization. DML-ES supports MTFs: provides forward depot positioning materiel, and supports deployed operational medical forces across a joint environment; fully integrated MEDLOG functionality from the industrial base to end-user for medical supply, equipment maintenance, property and facility management, and assemblage management; provides full financial integration with the DHA, Services, and VA; enables compliance with DoD, federal regulations, Food and Drug Administration, Drug Enforcement Agency, and Joint Commission standards; provides integration of inventory and management with Shelf Life Extension Program. It is FFMIA, FISCAM, Standard Financial Information Structure, Statement of Federal Financial Accounting Standards (SFFAS), Identity, Credential, and Access Management, and Section 508 compliant. The program consists of legacy applications transitioning to a technically refreshed functional and technical capability known as LogiCole. It provides robust training resources, new feature business training, remote Support/Sustainment model, and tiered help desk support.

Consideration and Mitigation of Risks

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

Risks Related to Achieving Goals and Objectives

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

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

Risk Mitigation

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

2

FINANCIAL SECTION

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

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

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

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

Consolidated Balance Sheet

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

Consolidated Statement of Net Cost

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

Consolidated Statement of Changes in Net Position

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

Combined Statement of Budgetary Resources

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

Notes to Financial Statements

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

Balance Sheet

Department of Defense

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

Consolidated Balance Sheet (Unaudited)

As of September 30, 2025

(dollars in thousands)

Figure 2 — 1: Consolidated Balance Sheet

Assets (Note 2)	Q4 2025
Intragovernmental	
Fund Balance with Treasury (Note 3)	21,844,279
Accounts Receivable, Net (Note 5)	221,593
Total Intragovernmental	22,065,872
Other than Intragovernmental/With the Public:	
Cash and Other Monetary Assets (Note 4)	377
Accounts Receivable, Net (Note 5)	896,980
Inventory and Related Property, Net (Note 6)	326,292
General and Right-to-Use PP&E, Net (Note 7)	3,803,478
Advances and Prepayments (Note 8)	6,851
Total Other than Intragovernmental/With the Public	5,033,978
Total Assets	**$27,099,850**
Liabilities (Note 9)	
Intragovernmental	
Accounts Payable	212,925
Advances from Others and Deferred Revenue (Note 12)	5
Other Liabilities (Note 10 and Note 12)	92,064
Total Intragovernmental	304,994
Other than Intragovernmental/With the Public:	
Accounts Payable	1,330,514
Federal Employee Salary, Leave, and Benefits Payable (Note 10)	537,326
Pensions, Other Post-Employment, and Veterans Benefits Payable (Note 10)	426,716,914
Advances from Others and Deferred Revenue (Note 12)	47,075
Other Liabilities (Note 12)	127,572
Total Other than Intragovernmental/With the Public	428,759,401
Total Liabilities	**$429,064,395**
Net Position	
Unexpended Appropriations	20,326,696
Cumulative Results of Operations	(422,291,241)
Total Net Position	**$(401,964,545)**
Total Liabilities and Net Position	**$27,099,850**

The accompanying notes are an integral part of the statements.

Statement of Net Cost

Department of Defense
Assistant Secretary of Defense (Health Affairs) - Defense Health Program
Consolidated Statement of Net Cost (Unaudited)
As of September 30, 2025
(dollars in thousands)

Figure 2 — 2: Consolidated Statement of Net Cost

DHP Consolidated Statement of Net Cost	Q4 2025
Gross Program Costs (Note 15)	77,389,560
Operations, Readiness & Support	73,446,514
Procurement	457,276
RDT&E	3,361,929
Family Housing & MILCON	123,841
(Less: Earned Revenue)	(4,562,748)
Net Program Costs before Losses/(gains) from Actuarial Assumption Changes for Military Retirement Benefits	**$72,826,812**
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	30,422,272
Net Program Costs Including Assumption Changes	103,249,084
Net Cost of Operations	**$103,249,084**

The accompanying notes are an integral part of the statements.

Statement of Changes in Net Position

Department of Defense
Assistant Secretary of Defense (Health Affairs) - Defense Health Program
Consolidated Statement of Changes in Net Position (Unaudited)
As of September 30, 2025
(dollars in thousands)

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

Unexpended Appropriations	**Q4 2025**
Beginning Balance	19,961,217
Budgetary Financing Sources	
Appropriations Received	41,944,347
Appropriations Transferred-In/Out (+/-)	(259,460)
Other Adjustments	(831,808)
Appropriations Used	(40,487,600)
Net Change in Unexpended Appropriations	**365,479**
Total Unexpended Appropriations	**$20,326,696**

Cumulative Results of Operations	
Beginning Balances	(359,768,786)
Adjustments	
Corrections of Errors (+/-)	(127,220)
Beginning Balances, as Adjusted	**$(359,896,006)**

Budgetary Financing Sources	
Appropriations Used	40,487,600
Nonexchange Revenue	19,152
Donations and forfeitures of cash and cash equivalents	**238**
Other Adjustments	**(4,962)**
Transfers In/Out without Reimbursement	(276,486)
Imputed Financing	662,159
Other	(33,852)
Total Financing Sources	**(40,853,849)**
Net Cost of Operations	**103,249,084**
Net Change	**(62,395,235)**
Cumulative Results of Operations	**(422,291,241)**
Net Position	**$(401,964,545)**

The accompanying notes are an integral part of the statements.

Statement of Budgetary Resources

Department of Defense
Assistant Secretary of Defense (Health Affairs) - Defense Health Program
Combined Statement of Budgetary Resources (Unaudited)
As of September 30, 2025
(dollars in thousands)

Figure 2 — 4: Combined Statement of Budgetary Resources

Budgetary Resources	**Q4 2025**
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)	6,271,823
Appropriations (Discretionary and Mandatory)	41,770,684
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	4,694,187
Total Budgetary Resources	**$52,736,694**

Status of Budgetary Resources	
Total New Obligations and Upward Adjustments	47,425,299
Unobligated Balance, End of Year	
Apportioned, Unexpired Accounts	2,533,357
Unapportioned, unexpired accounts	1,061,317
Unexpired Unobligated Balance, End of Year	3,594,674
Expired Unobligated Balance, End of Year	1,716,721
Total Unobligated Balance, End of Year	5,311,395
Total Status of Budgetary Resources	**$52,736,694**

Outlays, Net	
Total Outlays, Net (Discretionary and Mandatory)	40,489,894
Agency Outlays, Net	**$40,489,894**

The accompanying notes are an integral part of the statements.


WF-25X

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.A. Reporting Entity Mission and Overall Structure

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

The DoD includes the OSD, Joint Chiefs of Staff, DoD OIG, MILDEPs, Defense Agencies, DoD Field Activities, and CCMD, which are considered, and may be referred to as, DoD Components. The MILDEPs consist of the Departments of the Army, the Navy (of which the Marine Corps is a component), and the Air Force. The Department was established by the National Security Act of 1947. Since the creation of America's first army in 1775, the Department and its predecessor organizations have evolved into a global presence with a worldwide infrastructure dedicated to defending the U.S. by deterring and defeating aggression and coercion in critical regions. In 2011, the Deputy Secretary of Defense's Task Force on Reform of the MHS led to the creation of the DHA, a CSA and a component of the ASD(HA)-DHP. In 2013, the DoD issued a directive in accordance with the Deputy Secretary of Defense memorandum formally establishing DHA as part of the ASD(HA)-DHP, which achieved full operating capability by 2015. In early 2017, in fulfillment of FY 2017 *NDAA* (P.L. 114-328), DHA began preparing to assume responsibility for the administration, direction, and control of MTFs worldwide. The Deputy Secretary of Defense directed all MTFs and Dental Treatment Facilities in the 50 United States and Puerto Rico transfer from the MILDEPs to the DHA effective October 25, 2019. ASD(HA)-DHP receives its appropriation from Congress, apportioned by OMB to the OUSD(C), who allots these funds to the ASD(HA). The ASD(HA) issues Funding Authorization Documents to fund the two financial reporting entities that exist within ASD(HA)-DHP. These financial reporting entities collectively support the ASD(HA) mission. With this appropriation, ASD(HA)-DHP strives to promote a medically ready force by supporting a better, stronger, and more agile MHS, providing healthcare support for the full range of military operations, and sustaining the health of all those entrusted to its care. The accompanying financial statements are evaluated annually to determine compliance with SFFAS 47, *Reporting Entity*, and to ascertain whether Federal funds under the control of ASD(HA)-DHP are being appropriately consolidated into the financial statements of the enterprise, or whether identified disclosure entities or related parties are being appropriately disclosed. Any disclosure entities or related parties identified pertaining to ASD(HA)-DHP will be discussed in Note 20, Disclosure Entities and Related Parties. Additionally, it should be noted that military personnel from each of the MILDEPs staff and the MTFs are part of the manpower used to generate healthcare services for ASD(HA)-DHP.

ASD(HA)-DHP's mission is to support our Nation by improving health and building readiness - making extraordinary experiences and exceptional outcomes the norm.

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

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

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

1.B. Basis of Accounting and Presentation

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

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

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

The financial management systems used by ASD(HA)-DHP are unable to meet all full accrual accounting requirements as their components' financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of GAAP. These systems were not designed to collect and record financial information on the full accrual accounting basis as required by GAAP.

These systems were designed to support reporting requirements for maintaining accountability over assets, reporting the status of federal appropriations, and recording information on a budgetary basis, rather than preparing financial statements in accordance with GAAP. Although DoD's continued effort towards full compliancy with GAAP for accrual method of accounting is encumbered by various systems limitations and the sensitive nature of Departmental Activities, ASD(HA)-DHP continues to implement process and system improvements addressing these limitations.

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

ASD(HA)-DHP presents the Consolidated Balance Sheet, SNC, and SCNP on a consolidated basis, which is the summation of the Components less the eliminations of intra ASD(HA)-DHP activity. The SBR is presented on a combined basis, which is the summation of the Components; therefore, intra ASD(HA)-DHP activity has been eliminated. The financial transactions are recorded on a proprietary accrual and a budgetary basis of accounting. Under the proprietary accrual basis, revenues are recognized when earned and expenses are recognized when incurred, without regard to the timing of receipt or payment of cash. Under the budgetary basis, the legal commitment or obligation of funds is recognized in advance of the proprietary accruals and in compliance with legal requirements and controls over the use of federal funds.

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

- SFFAS 53, *Budget and Accrual Reconciliation: Amending SFFAS 7 and 24, and Rescinding SFFAS 22*: Issued October 27, 2017; Effective for periods beginning after September 30, 2018.
- SFFAS 54, *Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government and SFFAS 6 Accounting for PP&E*: Issued April 17, 2018; Effective for periods beginning after September 30, 2023, under SFFAS 58, *Deferral of the Effective Date of SFFAS 54, Leases*: Issued June 19.
- SFFAS 61, Omnibus Amendments 2023: Leases-Related Topics II: Issued April 7, 2023; Effective for periods beginning after September 30, 2023. SFFAS 62, Transitional Amendment to SFFAS 54: Issued on November 30, 2023; Effective for periods beginning after September 30, 2023.
- SFFAS 63, Omnibus Amendments 2024-1, Amending SFFAS 38, 49 and Technical Bulletin 2011-1: Issued on April 12. 2024; Effective upon issuance.
- FASAB Interpretation of SFFAS 9, *Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 & 6*: Issued August 16, 2019; Effective for periods beginning after September 30, 2019. Early adoption is permitted.
- Technical Bulletin 2002-1, *Assigning to Component Entities Costs and Liabilities that Result from Legal Claims Against the Federal Government*: Issued July 24, 2002; Effective for periods ending after September 30, 2001
- Technical Bulletin 2017-1, *Intragovernmental Exchange Transactions*: Issued November 1, 2017; Effective upon issuance.

- Technical Bulletin 2017-2, *Assigning Assets to Component Reporting Entities*: Issued November 1, 2017; Effective upon issuance.
- Technical Bulletin 2020-1, *Loss Allowance for Intragovernmental Receivables*: Issued February 20, 2020; Effective upon issuance.
- Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*: Issued September 28, 2006; Effective for periods beginning after September 30, 2012.
- Technical Release 9, *Implementation Guide for SFFAS 29: Heritage Assets and Stewardship Land*: Issued February 20, 2008; Effective immediately.
- Technical Release 13, I*mplementation Guide for Estimating the Historical Cost of General PP&E:* Issued June 1, 2011; Effective upon issuance.
- Technical Release 14, *Implementation Guidance on the Accounting for the Disposal of General PP&E*: Issued October 6, 2011; Effective upon issuance.
- Technical Release 15, *Implementation Guidance for General PP&E Cost Accumulation, Assignment and Allocation*: Issued September 26, 2013; Effective upon issuance.
- Technical Release 16, *Implementation Guidance for Internal Use Software (IUS)*: Issued January 19, 2016; Effective upon issuance.
- Technical Release 17, *Conforming Amendments to Technical Releases for SFFAS 50, Establishing Opening Balances for General PP&E*: Issued April 10, 2017; Effective upon issuance.
- Technical Release 18, I*mplementation Guidance for Establishing Opening Balances*: Issued October 2, 2017; Effective upon issuance.
- Technical Release 20, *Implementation Guidance for Leases*: Issued November 4, 2021; Effective for reporting periods beginning after September 30, 2023.
- Technical Release 21, Omnibus Technical Release Amendments 2022: Conforming Amendments: Issued on September 6, 2022; Effective upon issuance.
- Technical Release 22, Leases Implementation Guidance Updates: Issued October 12, 2023; Effective for periods beginning after September 30, 2023.
- Technical Release 23, Omnibus Technical Release Amendments 2024: Conforming Amendments to Technical Releases 10, 16, 20, and 21: Issued on July 22, 2024; Effective for periods beginning after September 30, 2023.
- Staff Implementation Guidance 6.1: *Clarification of Paragraphs 40-41 of SFFAS 6, As Amended:* Issued July 17, 2018; Effective upon issuance.

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

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

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

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

For additional information, see Note 15, Disclosures Related to the SNC.

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

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

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

1.C. Departures from GAAP

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

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

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

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

General and Right-to-Use Property, Plant, and Equipment, Net (Note 1.M. and Note 7): Supportable General and Right-to-Use PP&E, net beginning balances have not been established for equipment or IUS using the alternative valuation methods permitted by SFFAS 50. ASD(HA)-DHP did not have compliant processes in place to account for General and Right-to-Use PP&E, net, at historical cost, in accordance

with SFFAS 6 and SFFAS 10, *Accounting for IUS*. ASD(HA)-DHP has not fully implemented policies, procedures, or controls to effectively record, and report capitalized GE. ASD(HA)-DHP does not have sufficient supporting documentation to demonstrate that GE is appropriately valued under SFFAS 6. ASD(HA)-DHP also did not have compliant processes in place to record CIP and is currently not assessing projects to determine if there are capitalizable construction costs in accordance with SFFAS 6 and SFFAS 10. ASD(HA)-DHP did not have compliant processes in place to account for impairment of facilities and equipment in accordance with SFFAS 44, *Accounting for Impairment of General PP&E Remaining in Use*.

Leases (Note 1.M. Note 13): ASD(HA)-DHP did not have compliant processes in place to account for right-to-use and operating leases in accordance with SFFAS 54.

Accounts Payable and Expenses (Note 1.P.): ASD(HA)-DHP did not have compliant processes in place to account for accounts payable, accruals, and the related expenses in accordance with SFFAS 1, and SFFAS 5. The current accounts payable accrual methodology developed and utilized by ASD(HA)-DHP is not a comprehensive assessment of all its business processes to determine if an accrual of ASD(HA)-DHP's goods and services received but not yet billed is appropriate or necessary. Additionally, the ASD(HA)-DHP has not designed or implemented sufficient processes and controls to properly recognize advances to others related to grants, cooperative agreements, and OTAs.

Consolidated Statements of Net Cost (Note 1.W. and Note 15): ASD(HA)-DHP did not have compliant processes in place to ensure its Consolidated SNC was presented in accordance with SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, and SFFAS 55, *Amending Inter-Entity Cost Provisions*.

Lack of Review over the Receipt and Acceptance Processes for Reimbursable Work Orders: ASD(HA)-DHP does not validate receipt and acceptance of goods and services received from intragovernmental trading partners prior to payment or validate intragovernmental payment activity when receipt and acceptance cannot be performed prior to payment in accordance with SFFAS 1 and SFFAS 7.

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

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

1.D. Appropriations and Funds

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

1.E. Revenue and Other Financing Sources

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

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

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

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

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

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

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

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

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

For additional information, see Note 15, Disclosures Related to the SNC.

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

1.F. Recognition of Expenses

For financial reporting purposes, DoD policy requires that ASD(HA)-DHP estimates expenses for major items such as payroll expenses, accounts payable, environmental liabilities, and unbilled revenue in the period in which it is incurred. Estimates are made for major items such as payroll expenses, accounts payable, IBNR liabilities, and unfunded actuarial liabilities. ASD(HA)-DHP acknowledges a departure from GAAP in its ability to accurately estimate and accrue for accounts payable. In the case of Operating Materials and Supplies (OM&S) in the hands of the end user for use in normal operations, DHP recognizes expenses when items are purchased, in accordance with SFFAS 3, under the purchase method of accounting. OM&S encompasses pharmaceuticals, pharmaceutical medical supplies, and non-pharmaceutical medical supplies.

1.G. Transactions with Foreign Governments and International Organizations

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

1.H. Fund Balance with Treasury

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

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

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

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

FBwT is classified as unobligated available, unobligated unavailable, or obligated. Unobligated funds, depending on budget authority, are generally available for new obligations in current operations. The unavailable balance represents funds that were appropriated in prior years which are unavailable to fund new and future obligations. The obligated-not-yet-disbursed balance represents amounts designated for payment of goods and services ordered but not yet received, or goods and services received but for which payments have not been made. In addition, ASD(HA)-DHP reports to the U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records these transactions to the applicable FBwT account. FBwT and the accompanying liability for deposit funds are not reported by individual ODOs, but rather reported in the consolidated ODOs. As such, ASD(HA)-DHP does not report deposit fund balances on its financial statements.

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

For additional information, see Note 3, FBwT.

1.I. Cash and Other Monetary Assets

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

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

For additional information, see Note 4, Cash and Other Monetary Assets.

1.J. Undistributed Disbursements and Collections

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to specific obligations, payables, or receivables in the source systems and those reported by the U.S. Treasury. Supported disbursements and collections have corroborating documentation for the summary-level adjustments made to accounts payable and receivable. Unsupported disbursements and collections do not have supporting documentation for the transaction. However, both supported and unsupported adjustments may have been made to the DoD or component entity in line with DoD accounts payable and receivable trial balances prior to validating underlying transactions. The DoD policy is to allocate supported undistributed disbursements and collections between federal and non-federal categories based on the percentage of distributed federal and non-federal accounts payable and accounts receivable. Supported undistributed disbursements and collections are then applied to reduce accounts payable and receivable accordingly.

Unsupported undistributed disbursements are recorded as disbursements in transit and reduce non-federal accounts payable. Unsupported undistributed collections are recorded in other liabilities due to the public.

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

For additional information, see Note 3, FBwT.

1.K. Accounts Receivable, Net

Accounts receivable are amounts due to ASD(HA)-DHP from other federal entities or the public. Gross receivables, including federal receivables, must be reduced to net realizable value by an allowance for doubtful accounts in accordance with SFFAS 1. FASAB issued Technical Bulletin 2020-1, Loss Allowance for Intragovernmental Receivables. Allowances for uncollectible accounts due from the public are based upon historical analysis of outstanding receivables and collections data (i.e. Third party collections, MSA-Public, MAC). Non-federal claims receivable are associated with TPCP for beneficiaries that have OHIs. Claims with other federal agencies are resolved in accordance with the business rules published in Appendix 5 of TFM, Volume I, Part 2, Chapter 4700. Federal accounts receivable represent reimbursable work performed for other agencies that have been billed but not collected. For FY 2025, the ASD(HA)-DHP recognizes an allowance for uncollectible amounts from the public and developed a methodology for recognizing an allowance for intragovernmental uncollectible amounts. The methodology is explained in detail in Note 5, Accounts Receivable.

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

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

For additional information, see Note 5, Accounts Receivable.

1.L. Inventory and Related Property, Net

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

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

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

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

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

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

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

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

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

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

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

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

For additional information, see Note 13, Leases.

1.N. Other Assets

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

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

1.O. Stewardship Property, Plant, and Equipment

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

1.P. Liabilities

Liabilities represent the probable future outflow or other sacrifice of resources as a result of past transactions or events. However, no liability can be paid by DHA without proper budget authority. Liabilities covered by budgetary resources are appropriated funds for which funding is otherwise available to pay amounts due. Budgetary resources include new budget authority, unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, spending authority from offsetting collections, and recoveries of unexpired budget authority through downward adjustments of prior year obligations. Liabilities not covered by budgetary resources are liabilities that will require budgetary resources.

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

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

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

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

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

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

For additional information, see Note 10, Federal Employee and Veterans Benefits Payable and Note 12, Other Liabilities.

1.Q. Military Retirement and Other Federal Employment Benefits

Federal Employee and Veteran Benefits Payable provide income and medical benefits to covered military personnel and Federal civilian employees. These actuarial liabilities are not covered by budgetary resources because funding has not yet been made available. ASD(HA)-DHP applies SFFAS 33, Pensions, Other Retirement Benefits (ORB), and Other Post-Employment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates, in selecting the discount rate and valuation date used in estimating Military Retirement Benefit actuarial liabilities. In addition, gains and losses from changes in long-term assumptions used to estimate the actuarial liability are presented separately on the SNC.

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

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

The difference between the full annual cost of CSRS and FERS retirement, ORB, and OPEB and the amount paid by ASD(HA)-DHP is recorded as an imputed cost and offsetting imputed financing source in the accompanying financial statements. For the September 30, 2025, financial statement valuation, the application of SFFAS 33 required the DoD OACT to set the long-term inflation, the Consumer PriceIndex, ASD(HA)-DHP actuarial liability is adjusted at the end of each FY. The Q4 FY 2025 balance represents the September 30, 2025, amount that will be effective through Q3 of FY 2026.

For additional information, see Note 10, Federal Employee and Veteran Benefits Payable and Note 15, General Disclosures Related to the SNC.

1.R. Accrued Unfunded Annual Leave

Accrued leave includes salaries, wages, and other compensation earned by employees, but not disbursed as of September 30, 2025. Annually, as of September 30, the balances of accrued unfunded annual leave are adjusted to reflect current pay rates. Sick leave and other types of non-vested leave are expensed as taken. These liabilities are not covered by budgetary resources because funding has not yet been made available.

1.S. Other Liabilities

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

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

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

To provide for the effects of inflation on the liability for Future Workers' Compensation benefits, wage inflation factors (cost-of-living adjustment) and medical inflation factors (consumer price index – medical)

are applied to the calculation of projected future benefits. The actual rates for these factors are also used to adjust the historical payments to current-year constant dollars. These liabilities are not covered by budgetary resources and will require future funding.

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

The life insurance program, FEGLI plan is a term life insurance benefit with varying amount of coverage selected by the employee. The FEHB program is comprised of different types of health plans that are available to Federal employees for individual and family coverage for healthcare. Those employees meeting the criteria for coverage under FEHB may also enroll in the Federal Employees Dental and Vision Insurance Program (FEDVIP). FEDVIP allows for employees to have dental insurance and vision insurance to be purchased on a group basis.

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

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

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

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

For additional information, see Note 11, Insurance Programs, and Note 12, Other Liabilities.

1.T. Commitments and Contingencies

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

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

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

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

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

ASD(HA)-DHP recognizes contingent liabilities on the Balance Sheet for legal actions where management considers an adverse decision to be probable and the loss amount reasonably estimable.

These legal actions are estimated and disclosed in Note 14, Commitments and Contingencies. However, there are cases where amounts have not been accrued or disclosed because the likelihood of an adverse decision is considered remote or the amount of potential loss cannot be estimated. ASD(HA)-DHP's financial statements do not reflect Environmental Liabilities.

For additional information, see Note 14, Commitments and Contingencies.

1.U. Net Position

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

Unexpended Appropriations: Unexpended appropriations represent the amounts of budgetary resources that are unobligated and have not been rescinded or withdrawn. Unexpended appropriations also

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

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

1.V. Treaties for Use of Foreign Bases

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

1.W. Consolidated Statement of Net Cost

The Consolidated SNC represents the net cost of programs that are supported by appropriations or other means. The intent of the Consolidated SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. ASD(HA)-DHP current processes and systems capture costs based on appropriations groups. In FY 2019, the DoD completed implementation of SFFAS 55, which rescinds SFFAS 30, Inter-Entity Cost Implementation: Amending SFFAS 4 and FASAB Interpretation 6, Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS 4. The DoD is in the process of reviewing available data and developing a cost reporting methodology as required by SFFAS 4, as amended.

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

For additional information, see Note 15, Disclosures Related to the SNC.

1.X. Tax Status

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

1.Y. Fiduciary Activities

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

NOTE 2. NON-ENTITY ASSETS

Department of Defense
Assistant Secretary of Defense (Health Affairs) - Defense Health Program
Non-Entity Assets (Unaudited)
As of September 30, 2025
(dollars in thousands)

Figure 2 — 5: Non-Entity Assets

Intragovernmental Assets	Q4 2025
Total Intragovernmental Assets	-
Non-Entity	
Accounts Receivable	-
Total Other Than Intragovernmental Assets	-
Total Non-Entity Assets	-
Total Entity Assets	27,099,850
Total Assets	**$27,099,850**

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

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

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

NOTE 3. FUND BALANCE WITH TREASURY

Department of Defense
Assistant Secretary of Defense (Health Affairs) - Defense Health Program
Fund Balance with Treasury (Unaudited)
As of September 30, 2025
(dollars in thousands)
Figure 2 — 6: Fund Balance with Treasury

	Q4 2025
Status of Fund Balance with Treasury	
Total Unobligated Balance	**5,311,395**
Obligated Balance not yet Disbursed	**17,130,934**
Non FBwT Budgetary Accounts	
UFCO without Advance	(380,511)
Budgetary Receivables from Federal Sources	(217,539)
Total Non-Budgetary FBwT	**(598,050)**
Total FBWT	**$21,844,279**

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

Unobligated and obligated balances presented in this note may not equal related amounts reported on the Combined SBR because unobligated and obligated balances reported on the Combined SBR are supported by FBwT and other budgetary resources that do not affect FBwT. Non-FBwT budgetary accounts reduce budgetary resources. This amount is comprised of UFCO without advance of $380.5 million and Reimbursements and Other Income Earned - Receivables of $217.5 million.

The FBwT reported in the financial statements has been adjusted with undistributed adjustments to reflect ASD(HA)-DHP's balance as reported by Treasury. The difference between FBwT in ASD(HA)-DHP's GL and FBwT reflected in the Treasury accounts is attributable to transactions that have not been posted to the individual detailed accounts in ASD(HA)-DHP's GL or transactions that have been received, but not yet matched to the correct detailed accounts in ASD(HA)-DHP's GL. The difference is a result of timing differences or the inability to obtain valid accounting information prior to the issuance of the financial statements. When research is completed, these transactions will be recorded in the appropriate individual detailed accounts in ASD(HA)-DHP's GL accounts. By using a historical lookback analysis, the ASD(HA)-DHP estimates the amounts of Suspense and Statements of Difference transactions that should clear to the ASD(HA)-DHP should be $4.7 million and $24.8 million respectively.

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

NOTE 4. CASH AND OTHER MONETARY ASSETS

Department of Defense
Assistant Secretary of Defense (Health Affairs) - Defense Health Program
Cash and Monetary Assets (Unaudited)
As of September 30, 2025
(dollars in thousands)

Figure 2 — 7: Cash and Other Monetary Assets

Cash and Other Monetary Assets	Q4 2025
Cash	377
Total Cash, Foreign Currency & Other Monetary Assets	**$377**

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

NOTE 5. ACCOUNTS RECEIVABLE, NET

Department of Defense
Assistant Secretary of Defense (Health Affairs) - Defense Health Program
Accounts Receivable, Net (Unaudited)
As of September 30, 2025
(dollars in thousands)

Figure 2 — 8: Accounts Receivable, Net for September 30, 2025

Accounts Receivable, Net	Gross Amount Due	Allowance For Estimated Uncollectible	Accounts Receivable, Net
Intragovernmental Receivables	245,172	(23,579)	221,593
Non-Federal Receivables (From the Public)	1,369,204	(472,224)	896,980
Total Accounts Receivable	**$1,614,376**	**$(495,803)**	**$1,118,573**

Accounts Receivable represents ASD(HA)-DHP's claim for payment from other entities. Claims with other federal agencies are resolved in accordance with the business rules published in Appendix 5 of TFM, Volume I, Part 2, Chapter 4700. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type.

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

For FY 2025, ASD(HA)-DHP developed its methodology related to the allowance for uncollectible accounts for intragovernmental receivables based upon analyses conducted over GFEBS intragovernmental accounts receivable in second quarter (Q2) through fourth quarter (Q4) of FY 2025. Specifically, in Q2 FY 2025, ASD(HA)-DHP worked with fund owners to review the collectability status of intragovernmental receivables aged 180 days or older and take necessary action. In Q3 and Q4 FY 2025, ASD(HA)-DHP reviewed intragovernmental balances aged 365 days or older for any recent collections that occurred since the Q2 FY 2025 review. ASD(HA)-DHP then calculated a loss allowance for intragovernmental receivables grouped by sales order, that met the following criteria:

- Intragovernmental receivable balances from Q4 FY 2023 or older
- Intragovernmental receivable balances with period of availability of FY 2023 or older
- Intragovernmental receivables with normal debit balances (i.e., excluded abnormal balances from calculation)

In calculating the Q4 FY 2025 intragovernmental loss allowance, ASD(HA)-DHP also incorporated any subsequent collections (after Q4 FY 2023) that occurred for sales orders that met the above criteria.

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

Accounts Receivable Due From the Public: Arises from the provision of care by MTFs which is comprised of the following:

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

Additionally, as of September 30, 2025, CRM has recorded $651.9 million related to the Standard Discount Program (SDP) and the Additional Discount Program (ADP). The SDP resulted from the implementation of the Federal Ceiling Program for the TRICARE Retail Pharmacy Refunds Program as required by the FY 2008 NDAA, Section 703. The ADP resulted from voluntary agreements between TRICARE and the pharmaceutical manufacturers providing additional discounts above the SDP.

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

NOTE 6. INVENTORY AND RELATED PROPERTY

Department of Defense
Assistant Secretary of Defense (Health Affairs) - Defense Health Program
Inventory and Related Property, Net (Unaudited)
As of September 30, 2025
(dollars in thousands)

Figure 2 — 9: Inventory and Related Property, Net

Operating Materials & Supplies	Gross Value	Allowance for Loss	Net
Held in Reserve for Future Use	326,292	-	326,292
Excess, Obsolete, and Unserviceable	5,802	(5,802)	0
Total Operating Materials & Supplies	**$332,094**	**$(5,802)**	**$326,292**

OM&S assets that are maintained because they are not readily available in the market or because it is likely they will be needed in the future are classified as OM&S HRFU. ASD(HA)- DHP identified OM&S HRFU as inventory that is maintained under statutory requirements as part of the Pandemic Influenza Program.

OM&S assets that exceed the amount expected to be used; are no longer needed because of changes in technology, laws, customs, or operations; or are damaged physically and cannot be consumed in operations are classified as OM&S – Excess, Obsolete, and Unserviceable (EOU). ASD(HA)-DHP uses this account to record assets that are deemed unusable but are awaiting viability testing and/or disposition. An equal and offsetting allowance account – OM&S – Allowance – Excess, Obsolete and Unserviceable – is used to draw down the asset balance prior to disposition. In FY 2025, ASD(HA)-DHP recorded $5.8 million in OM&S EOU, accompanied by an offsetting $5.8 million OM&S – Allowance – EOU.

ASD(HA)-DHP uses the consumption method to account for OM&S HRFU materials. The $326.3 million of OM&S HRFU recorded reflects remediation efforts to record OM&S HRFU material using the consumption method of accounting as required by SFFAS 3. ASD(HA)-DHP values current year activity based on the current acquisition cost of inventory.

Restrictions on the use of materials: OM&S HRFU are held in reserve by DHA MTFs to only treat DoD beneficiaries.

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

Department of Defense
Assistant Secretary of Defense (Health Affairs) - Defense Health Program
General and Right-to-Use Property, Plant and Equipment, Net (Unaudited)
As of September 30, 2025
(dollars in thousands)

Figure 2 — 10: General and Right-to-Use Property, Plant and Equipment, Net for September 30, 2025

Major Fixed Asset Classes	Acquisition Value	Accumulated Depreciation/ Amortization	Net Book Value
Software	1,625,659	(1,151)	1,624,508
General Equipment	1,597,912	(1,379,367)	218,545
Right-to-Use Lease Asset	31,446	(21,022)	10,424
Construction-in-Progress	1,950,001	-	1,950,001
Total General and Right-to-Use PP&E, Net	**$5,205,018**	**$(1,401,540)**	**$3,803,478**

Starting in FY 2024, Federal reporting entities are required to report a right-to-use lease asset and a lease liability for non-intragovernmental, non-short-term contracts or agreements when the entity has the right to obtain and control access to economic benefits or services from an asset under the terms of the contract or agreement. Most of ASD(HA)-DHP's General and Right-to-Use PP&E, net owned or leased by ASD(HA)-DHP, is primarily used to provide high quality, cost effective healthcare services to active forces and other eligible beneficiaries. The total General and Right-to-Use PP&E and accumulated depreciation for the current year is shown in the reconciliation above. There are no restrictions on the use or convertibility of General and Right-to-Use PP&E.

In FY 2025, ASD(HA)-DHP recorded a correction of error for $204.5 million related to PP&E GE due to asset acquisitions not accurately accounted for at the end of FY 2024 due to a change in methodology. The variance was discovered during the ASD(HA)-DHP financial statement audit. The offset to PP&E GE was to the USSGL for Prior Period Adjustments Due to Corrections of Errors impacting the Cumulative Results of Operations, Beginning Balances, as Adjusted line.
The majority of General and Right-to-Use PP&E capitalized assets are medical equipment with a useful life and depreciation period of 5 years.

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

MHS GENESIS is the new EHR system that manages military patient health information. MHS GENESIS integrates inpatient and outpatient solutions that will connect medical and dental information across the continuum of care, from point of injury to the MTFs. MHS GENESIS reached full deployment in FY 2024. ASD(HA)-DHP has ceased accumulating costs associated with the development of MHS GENESIS. During FY 2025, administrative approval from management was received to classify MHS GENESIS as "in service." Amortization of the asset is expected to begin in FY 2026.

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

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

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

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

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

In FY 2025, ASD(HA)-DHP recorded a correction of error for $331.7 million related to CIP assets were not accurately accounted for due to a misalignment of various Navy projects from 2011-2014. The variance was identified by IPA and the ASD(HA)-DHP PP&E Team. The offset to CIP was to the USSGL for Prior Period Adjustments Due to Corrections of Errors impacting the Cumulative Results of Operations, Beginning Balances, as Adjusted line.

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

Department of Defense
Assistant Secretary of Defense (Health Affairs) - Defense Health Program
Heritage Assets (Unaudited)
As of September 30, 2025
Figure 2 — 11: Heritage Assets (units in thousands)

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

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

The ASD(HA)-DHP FY 2025 beginning unit count matches the FY 2024 ending unit count for Heritage Assets.

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

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

Major Categories of Heritage Assets

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

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

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

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

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

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

Methods of Acquisition and Withdrawal

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

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

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

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

- 9 donations
- 6 transfers
- 2 field collections

The number of units of heritage assets and or number of acres (in thousands) of stewardship land acquired through donation or devise during the FY shall be disclosed. Fair market value for donations was not provided by donors at time of donations, transfers, and collecting by staff; therefore, dollar value reported is $0.00. Total dollar value documented by the museum is $3,770 for costs associated with shipping items to the museum.

Other Disclosures: ASD(HA)-DHP has the use of overseas facilities that are obtained through various international treaties and agreements negotiated by the Department of State. Generally, treaty terms allow ASD(HA)-DHP continued use of these properties until the treaties expire. There are no other known restrictions on use or convertibility of General and Right-to-Use PP&E. Depreciation and amortization expense for the period ended, September 30, 2025, totaled $286.4 million.

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

Department of Defense
Assistant Secretary of Defense (Health Affairs) - Defense Health Program
General and Right-to-Use PP&E, Net - Summary of Activity (Unaudited)
As of September 30, 2025
(dollars in thousands)

Figure 2 — 12: General and Right-to-Use PP&E, Net - Summary of Activity

General and Right-to-Use PP&E, Net	Q4 2025
General and Right-to-Use PP&E, Net Beginning of Year, Unadjusted	3,866,924
Balance Beginning of Year, Adjusted	3,866,924
Capitalized Acquisitions	921,646
Right-to-Use Lease Assets	28,099
Amortization of Right-to-Use Lease Assets	(17,675)
Dispositions	(310,288)
Transfers In/(Out) Without Reimbursement	(276,486)
Revaluations (+/-)	(122,305)
Depreciation Expense	(286,437)
General and Right-to-Use PP&E, Net End of Year	**$3,803,478**

Information concerning Deferred Maintenance and Repairs (DM&R) is discussed in the unaudited requirement supplementary information.

NOTE 8. OTHER ASSETS

Department of Defense
Assistant Secretary of Defense (Health Affairs) - Defense Health Program
Other Assets (Unaudited)
As of September 30, 2025
(dollars in thousands)

Figure 2 — 13: Other Assets

Other Assets	Q4 2025
Advances and Prepayments	-
Net Intragovernmental	-
Other than Intragovernmental/With the Public	
Advances and Prepayments	6,851
Subtotal	**6,851**
Less: "Advances and Prepayments"	(6,851)
Net Other Than Intragovernmental	-
Total Other Assets	**$-**

Advances and Prepayments are made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures, or receipt of other assets, excluding those made as Outstanding Contract Financing Payments. Advances and Prepayments are excluded from Other Assets in FY 2025 as they are presented discretely on the Balance Sheet.

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

NOTE 9. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Department of Defense

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

Liabilities Not Covered by Budgetary Resources (Unaudited)

As of September 30, 2025

(dollars in thousands)

Figure 2 — 14: Liabilities Not Covered by Budgetary Resources

Intragovernmental Liabilities	Q4 2025
Accounts Payable	4,640
Other	59,187
Total Intragovernmental Liabilities Not Covered by Budgetary Resources	**63,827**
Other than Intragovernmental/With the Public Liabilities	
Accounts Payable	119,790
Federal Employee and Veteran Benefits Payable	374,098
Pension, Post-Employment, and Veterans Benefits Payable	426,716,914
Total Liabilities Other Than Intragovernmental/With the Public Not Covered by Budgetary Resources	**427,210,802**
Total Liabilities Not Covered by Budgetary Resources	**427,274,629**
Total Liabilities Covered by Budgetary Resources	**1,691,389**
Total Liabilities Not Requiring Budgetary Resources	**98,377**
Total Liabilities	**$429,064,395**

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

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

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

Federal employee salary, leave, and benefits payable: Consists of various employee actuarial liabilities not due and payable during the current FY. These liabilities include $374.1 million in unfunded leave. Unfunded leave is the amount recorded by an employer federal entity for unpaid leave earned that an employee is entitled to upon separation which will be funded by future years' budgetary resources.

Pension, post-employment, and veterans benefits payable: Consists of various actuarial liabilities not due and payable during the current FY. These liabilities include $423.3 billion in pension liabilities and health benefit liabilities, $3.2 billion in IBNR health benefits, and $255.0 million in FECA liabilities. The FECA actuarial liability includes the expected liability for death, disability, medical, and other approved costs. Refer to Note 10, Federal Employee and Veteran Benefits Payable, for additional details.

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

NOTE 10. FEDERAL EMPLOYEE AND VETERANS BENEFITS PAYABLE

Department of Defense
Assistant Secretary of Defense (Health Affairs) - Defense Health Program
Federal Employee and Veterans Benefits Payable (Unaudited)
As of September 30, 2025
(dollars in thousands)

Figure 2 — 15: Federal Employee and Veterans Benefits Payable

Pension and Health Benefits	Q4 2025
Military Pre Medicare-Eligible Retiree Health Benefits	423,310,481
Total Pension and Health Benefits	**423,310,481**
Other Benefits	
FECA	255,013
Other	3,151,420
Total Other Employee Benefits	**3,406,433**
Pensions, other Post-employment, and Veteran Benefits Payable	**$426,716,914**
Federal Employee Salary, Leave, and Benefits Payable	537,326
Other Benefit-Related Payables Included in Intragovernmental Accounts Payable on the Balance Sheet	90,187
Total Federal Employee Benefits and Veteran Benefits Payable	**$427,344,427**

Information Related to Pension, Post-Employment, and Veteran Benefits Payable

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

The schedules above reflect two distinct types of liabilities related to 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 healthcare benefits provided to non-Medicare-eligible retired beneficiaries that are not yet incurred. The line entitled "Other" includes two reserves, a small retiree life insurance reserve ($165 thousand in FY 2025) for a closed group of USUHS retirees and the IBNR, which is an estimate of benefits already IBNR to DoD for all ASD(HA)-DHP beneficiaries (excluding those from the retiree population who are Medicare-eligible).

Effective FY 2010, the ASD(HA)-DHP implemented requirements of SFFAS 33, which directs that the discount rate, underlying inflation rate, and other economic assumptions be consistent with one another. A change in the discount rate may cause other assumptions to change as well. For the September 30, 2025, financial statement valuation, the application of SFFAS 33 required the DoD OACT to set the long-term inflation (Consumer Price Index) to be consistent with the underlying Treasury spot rates used in the valuation.

The ASD(HA)-DHP actuarial liability is adjusted at the end of each FY. The Q4 FY 2025 balance represents the September 30, 2025, amount that will be effective through Q3 of FY 2026.

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

Assumptions: For the FY 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 rates are often used interchangeably in this context.

The change in the long-term assumptions is due to the application of SFFAS 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 33, the CY actuarial liability is rolled forward from the prior year valuation results using accepted actuarial methods. This roll-forward process is applied annually.

In calculating the FY 2025 "rolled-forward" actuarial liability, the following assumptions in Figure 2 — 16 were used:

Figure 2 — 16: Inflation Rates

Discount Rate	3.2%	
Inflation	3.1%	
Medical Trend (Non-Medicare)	FY 2024 - FY 2025	Ultimate Rate FY 2049
Direct Care Inpatient	5.58%	5.1%
Direct Care Outpatient	6.60%	5.1%
Direct Care Prescription Drugs	9.75%	5.1%
Purchased Care Inpatient	4.84%	5.1%
Purchased Care Outpatient	6.60%	5.1%
Purchased Care Prescription Drugs	10.73%	5.1%
Purchased Care Uniformed Services Family Health Plan	7.29%	5.1%

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

Department of Defense
Assistant Secretary of Defense (Health Affairs) - Defense Health Program
Summary of Actuarial Liability (Unaudited)
As of September 30, 2025
(dollars in thousands)
Figure 2 — 17: Summary of Actuarial Liability

Actuarial Liability	Q4 2025
Beginning Actuarial Liability	361,667,842
Expenses	
Normal Cost	18,666,322
Interest Cost	11,223,245
Actuarial Experience Gains	13,875,511
Other Factors	1
Total Expenses before Gains from Actuarial Assumptions Changes	**43,765,079**
Actuarial Assumption Changes	
Changes in Trend Assumptions	34,462,213
Changes in Assumptions Other than Trend	(4,039,941)
Losses / (Gains) from Actuarial Assumption Changes	**30,422,272**
Total Expenses	**74,187,351**
Less: Benefit Outlays	12,544,712
Total Changes in Actuarial Liability	**61,642,639**
Ending Actuarial Liability	**$423,310,481**

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

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

For the September 30, 2025, financial statement valuation, the 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 the U.S. Department of the Treasury – Office of Economic Policy's 10-year Average Yield Curve for Treasury Nominal Coupon Issues, which represents average rates from April 1, 2015, through March 31, 2025.

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

NOTE 11. INSURANCE PROGRAMS

Department of Defense
Assistant Secretary of Defense (Health Affairs) - Defense Health Program
Insurance Programs (Unaudited)
As of September 30, 2025
(dollars in thousands)

Figure 2 — 18: Changes in the Liability Balance for Unpaid Insurance Claims

Insurance Programs	Q4 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
Ending Balance	**$3,770,704**

Premium Base Health Plans consist of several programs with coverage offered to Active Duty, Active Duty Family Member(s), Retirees and Reserve members. The programs include TRICARE Continued Health Care Benefit Program (CHCBP), TRICARE Young Adult (TYA), TRICARE Reserve Select (TRS), TRICARE Retired Reserve (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 FY 2017; P.L. 114 328. The enrollment fee and or premium collections are credited to the DHP appropriation available for the FY collected.

TRS and TRR rates are calculated from enrollment-weighted average annual costs based on the actual cost of benefits provided during the preceding calendar year. Renewal in a specific plan is automatic unless declined. A member, and the dependents of the member, of the Selected Reserve of the Ready Reserve of a reserve component of the armed forces are eligible for health benefits under TRS program. Termination of coverage in TRS is based upon the termination of the member's service in the Selected Reserve. TRR 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 MHS Data Repository based on enrollees for the previous 24 month period. Dependents under the age of 26 and who are not eligible to enroll in an eligible employer-sponsored plan can enroll in the TYA program. Coverage is terminated once the dependent turns 26 years of age. CHCBP premium rates are calculated from total premiums under Government Employees Health Association Standard plan within the FEHB Program.

The plan provides temporary health care coverage for 18 to 36 months when a Service member and/or Family member(s) are no longer entitled to TRICARE. TRICARE Prime and Select premium rates are established on an annual basis in accordance with title 10 U.S.C. 1075 and 1075a.
An enrollment of a covered beneficiary in TRICARE Prime and Select is automatically renewed upon the expiration of the enrollment unless the renewal is declined. The enrollment of a dependent of the member of the uniformed services may be terminated by the member or the dependent at any time. Active duty service members must enroll in Prime. Family members may choose to enroll in Prime or Select.

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

Figure 2 - 18 presents the changes in the liability balance for unpaid insurance claims.

NOTE 12. OTHER LIABILITIES

Department of Defense
Assistant Secretary of Defense (Health Affairs) - Defense Health Program
Other Liabilities (Unaudited)
As of September 30, 2025
(dollars in thousands)

Figure 2 — 19: Other Liabilities as of September 30, 2025

Intragovernmental	Current Liability	Noncurrent Liability	Total
Other Liabilities reported on Note 10, Federal Employee and Veteran Benefits Payable	56,896	33,291	90,187
Other Liabilities	1,877	-	1,877
Total Intragovernmental Other Liabilities	**58,773**	**33,291**	**92,064**
Other than Intragovernmental/With the Public			
Liability for Non-fiduciary Deposit Funds & Undeposited Collections	377	-	377
Contract Holdbacks	1,096	-	1,096
Contingent Liabilities	98,000	-	98,000
Right-to-Use Lease Liability	28,099	-	28,099
Total Other than Intragovernmental/With the Public Other Liabilities	**127,572**	**-**	**127,572**
Total Other Liabilities	**186,345**	**33,291**	**219,636**

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

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

Liabilities for Non-Fiduciary Deposit Funds and Undeposited Collections: This balance represents undeposited collections received by ASD(HA)-DHP before month-end but after the U.S. Treasury month-end cutoff. A corresponding liability is recorded because ASD(HA)-DHP is not entitled to the funds until deposited with the U.S. Treasury.

Contract Holdbacks: Contract Holdbacks are amounts withheld from grantees or contractors pending completion of related contracts. For FY 2025 Contract Holdbacks include $1.1 million for contracts authorization progress payments based on cost as defined in the Federal Acquisition Regulation. It includes accrued funded payroll and benefits.

Contingent Liabilities: Contingent Liabilities include legal contingent liabilities. Legal liabilities reported in this note correspond to accrued probable contingencies. Refer to Note 14, Commitments and Contingencies.

Right-to-Use Leases: Right-to-Use Leases represent the present value of lease payments required to be paid to a lessor for the lease term when the lease is established, modified, or terminated.

NOTE 13. LEASES

Right-to-Use Leases: Right-to-Use Leases: ASD(HA)-DHP is reporting Right-to-Use lease medical and information technology equipment, facilities, and vehicles. ASD(HA)-DHP is not in compliance with SFFAS 54 regarding leases from governmental entities.

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

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

NOTE 14. COMMITMENTS AND CONTINGENCIES

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

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

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

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

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

4DD Holdings, LLC and T4 Data Group, LLC v. United States (Court of Federal Claims), No. 15-945C.

Plaintiffs allege infringement of its copyrights by cloning, copying and installing 4DD's proprietary software program - TETRA® Healthcare Federator ("TETRA) – on servers and other computing devices with thousands of processor cores for which licenses were not purchased. The complaint does not request a specific monetary amount. Based on information exchanged in discovery and negotiations and a judgmental assessment of potential damages, the amount of potential liability is estimated to be at least $1 billion. The Complaint was filed on August 28, 2015, and an Amended Complaint on March 14, 2016. The Government filed its Answers. On June 24, 2016, the Government filed a partial Motion to Dismiss for Lack of Jurisdiction, which the Court denied near the close of discovery on April 23, 2019. On the same day, the Court granted plaintiffs' motion for sanctions upon finding that the Government failed to properly preserve relevant evidence. The Court denied motions for summary judgment, and a trial was held in November 2022. Both parties have exchanged post-trial briefs. The Court held oral argument on the briefs for June 6, 2023. On August 22, 2023, the Court issued its opinion under seal finding in favor of the Plaintiffs while assessing damages at approximately $12 million. On December 26, 2023, Plaintiffs filed a motion for reconsideration and awarding Plaintiffs 50% of their requested expert's fees relating to spoliation, resulting damages at approximately $13 million. Plaintiffs appealed the initial damages award to the United States Court of Appeals for the Federal Circuit, and the parties have briefed the appeal. Although damages have been accessed at approximately $13 million, a final determination of the amount in controversy cannot be made reliably while Plaintiffs' appeal is pending. Should they succeed in the appeal, Plaintiffs' damages could reach as much as $5 billion.

Total Renal Care, et al. v. U.S., Court of Federal Claims, No. 25-476.

On March 14, 2025, Total Renal Care (also known as DaVita) filed a complaint challenging DHA's payment methodology for End Stage Renal Disease dialysis treatments at freestanding dialysis centers. 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 the U.S. Department of Justice (DOJ) settled for a substantial amount. The parties are in discussions, and DHA is gathering information to evaluate the claim.

Since the Judgment Fund is the likely source for the payment of these claims, the liability will be removed from the financial statements and an "other financing source" amount would be recognized as prescribed by Interpretation of SFFAS 2.

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

Class action, but not certified, arises out of a settlement agreement to resolve hospital outpatient radiology claims. Plaintiffs' First Amended Complaint was filed on November 17, 2014. It alleges breach of express contract, breach of implied contract, mutual mistake, breach of the covenant of good faith and fair dealing, and violations of a statutory mandate under the TRICARE statute. The 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. 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' export report and a motion for class certification. On April 28, 2025, the Government filed a motion for summary judgment. The estimated amount or range of potential loss is $642.0 thousand – $171.2 million.

Furthermore, medical malpractice claims and settlements arising from the activities of BUMED, AFMS, and MEDCOM are paid either by funds appropriated directly to the MILDEPs lines and/or the Department of Treasury's Judgement Fund.

The table below summarizes DHP's probable and reasonably possible contingent liabilities as of September 30, 2025:

Figure 2 — 20: Commitments and Contingencies as of September 30, 2025

Legal Contingencies	Accrued Liabilities	Lower End	Upper End
Probable	98,000	-	-
Reasonably Possible	-	642	171,195
Total Contingencies	**$98,000**	**$642**	**$171,195**

NOTE 15. DISCLOSURES RELATED TO THE STATEMENT OF NET COST

Department of Defense
Assistant Secretary of Defense (Health Affairs) - Defense Health Program
Disclosures Related to the Statement of Net Cost (Unaudited)
As of September 30, 2025
(dollars in thousands)

Figure 2 — 21: Costs and Exchange Revenue by Appropriation Category

Program Costs and Exchange Revenue by Appropriation Category	Q4 2025
Operations, Readiness, & Support	
Gross Costs	73,446,514
Less: Earned Revenue	(4,370,673)
Losses/(Gains) from Adjustments due to changes in Actuarial Assumptions	30,422,272
Net Program Cost	99,498,113
Procurement	
Gross Cost	457,276
Net Program Cost	457,276
Research, Development, Test, & Evaluation	
Gross Cost	3,361,929
Less: Earned Revenue	(186,884)
Net Program Cost	3,175,045
Family Housing & Military Construction	
Gross Cost	123,841
Less: Earned Revenue	(5,191)
Net Program Cost	118,650
Total Gross Cost	**$77,389,560**
Less: Total Earned Revenue	**$(4,562,748)**
Changes for Military Retirement Benefits	**$30,422,272**
Net Cost of Operations	**$103,249,084**

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

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

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

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

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

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

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

NOTE 16. DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION

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

In FY 2025, ASD(HA)-DHP recorded a correction of error for $204.5 million related to PP&E GE due to asset acquisitions not accurately accounted for at the end of FY 2024 due to a change in methodology. The variance was discovered during the ASD(HA)-DHP financial statement audit. The offset to PP&E GE was to the USSGL for Prior Period Adjustments Due to Corrections of Errors impacting the Cumulative Results of Operations, Beginning Balances, as Adjusted line.

In FY 2025, ASD(HA)-DHP recorded a correction of error for $331.7 million related to CIP assets were not accurately accounted for due to a misalignment of various Navy projects from 2011-2014. The variance was identified by IPA and the ASD(HA)-DHP PP&E Team. The offset to CIP was to the USSGL for Prior Period Adjustments Due to Corrections of Errors impacting the Cumulative Results of Operations, Beginning Balances, as Adjusted line.

Other Disclosures

P.L. 119-21, the One Big Beautiful Act, is a reconciliation act that provides multiyear funding, in part, for DHP initiatives. This funding was appropriated to the Secretary of Defense and, in coordination with Congress, Treasury, and OMB, may be subsequently re-warranted to the DHP. The funding distribution process for reconciliation act funds differs from that of standard discretionary appropriations. Typically, discretionary appropriations are issued directly to the Department and subsequently transferred to components like the DHA. In contrast, these reconciliation act funds are subject to Congressional review and OMB approval through a detailed spend plan outlining the proposed use of the appropriated amounts. The FY 2025 ASD(HA)-DHP financial statements include $1.06 billion in appropriated funding from P.L. 119-21 based on a Congressionally-approved spend plan. The remaining $0.94 billion appropriated to the Secretary of Defense specified for DHP initiatives in P.L. 119-21 remains subject to spend plan approval and have not yet been apportioned for DHP initiatives as of September 30, 2025.

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

NOTE 17. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

Disclosures related to the SBR consist of the following as of September 30, 2025:

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

Undelivered Orders at End of the Period: UDOs consist of goods and services obligated that have been ordered but not received. Unpaid UDOs represent obligations for goods and services that have not been received or paid. Paid UDOs represent obligations for goods and services that have been paid for in advance of receipt. The budgetary resources obligated for UDOs as of September 30, 2025 consisted of:

Figure 2 — 22: Undelivered Orders

Undelivered Orders	Q4 2025
Intragovernmental	
Undelivered Orders – Unpaid	3,974,927
Total Intragovernmental Undelivered Orders	**3,974,927**
Other Than Intragovernmental/With the Public	
Undelivered Orders – Unpaid	11,538,564
Undelivered Orders – Paid	6,851
Total Undelivered Orders Other than Intragovernmental/With the Public	**11,545,415**
Total Undelivered Orders	**$15,520,342**

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

Legal Arrangements Affecting the Use of Unobligated Balances

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

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

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

The beginning balance of Unobligated Balance reported on the FY 2025 SBR Line 1071 of $6.3 billion is different than the ending balance of $4.9 billion reported on the FY2024 SBR Line 2490. This is mainly from an increase caused by downward adjustments of $2.1 billion. Additionally, as identified through the ASD(HA)-DHP financial statement audit, the ASD(HA)-DHP has been unable to sufficiently support the validity, accuracy, and completeness of UDOs recorded in USSGL 480100 (UDO - Obligations Unpaid). Through audit sample testing, auditors cited a large percentage of exceptions related to stale obligations without activity in a 90-day period, and the ASD(HA)-DHP could not support that those obligations should remain open. Therefore, the ASD(HA)-DHP pursued a prior period adjustment of $155.5 million to drawdown all balances that were identified as invalid to accurately state USSGL 480100 FY 2025 opening balance. Conversely, these are offset by decreases of $835.8 million in cancelling year authority and prior year transfers out of $85.8 million.

Figure 2 — 23: Reconciliation of Unobligated Beginning Balance for FY 2025

Reconciliation of Unobligated Balance	FY 2025
Unobligated balance, prior year budget authority (2025)	**$6,271,823**
Prior year transfers in/out	(85,797)
Cancelling year authority	(836,770)
Recoveries of PY Obligations (Paid and Unpaid)	2,126,518
Prior Period Adjustment for FY 2024 UDO Adj	155,452
Total Adjustments	**1,359,403**
Unobligated balance, end of year (2024)	**$4,912,420**

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

The reconciliation between the Combined SBR and the Budget of the U.S. Government (Budget) is presented below. The U.S. Government Budget amounts used in the reconciliation below represents the FY 2024 balances. The budget with FY 2025 actual values and will be available at a later date online at the President's Budget.

Figure 2 — 24: Budget of the U.S Government as of September 30, 2024

Disclosures Related to the Combined Statement of Budgetary Resources	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays, Net
Combined Statement of Budgetary Resources (FY24)	51,259,184	46,346,764	-	39,325,297
Shared Appropriations with Others included in the SBR but excluded from DHP direct appropriations presented in the President's Budget	(1,486,447)	(419,939)	-	(320,955)
Unobligated Balance Brought Forward from prior year included in the SBR but not included in the President's Budget	(2,227,151)	-	-	-
Other	(116,586)	(209,825)	-	(107,342)
Budget of the U.S. Government	**$47,429,000**	**$45,717,000**	**$-**	**$38,897,000**

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

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

Other Disclosures

P.L. 119-21, the One Big Beautiful Act, is a reconciliation act that provides multiyear funding, in part, for DHP initiatives. This funding was appropriated to the Secretary of Defense and, in coordination with Congress, Treasury, and OMB, may be subsequently re-warranted to the DHP. The funding distribution process for reconciliation act funds differs from that of standard discretionary appropriations. Typically, discretionary appropriations are issued directly to the Department and subsequently transferred to components like the DHA. In contrast, these reconciliation act funds are subject to Congressional review and OMB approval through a detailed spend plan outlining the proposed use of the appropriated amounts. The FY 2025 ASD(HA)-DHP financial statements include $1.06 billion in appropriated funding from P.L. 119-21 based on a Congressionally-approved spend plan. The remaining $0.94 billion appropriated to the Secretary of Defense specified for DHP initiatives in P.L. 119-21 remains subject to spend plan approval and have not yet been apportioned for DHP initiatives as of September 30, 2025.

NOTE 18. RECONCILIATION OF NET COST TO NET OUTLAYS

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

Net Cost of Operations

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

Components of net outlays that are not part of net cost: are primarily amounts provided in the current reporting period that fund costs incurred in prior years and amounts incurred for goods or services that have been capitalized on the Balance Sheet (e.g., plant, property, and equipment acquisition and inventory acquisition).

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

Reconciling Difference: Represents the difference between the amount of net outlays as calculated by the Budget and Accrual Reconciliation presented in Figure 2 — 25 and the Outlays, Net line of ASD(HA)-DHP's SBR. For FY 2025 no unreconciled difference exists.

Figure 2 — 25: Reconciliation of Net Cost to Net Outlays as of September 30, 2025
(dollars in thousands)

	Intragovernmental	Other Than Intragovernmental	Total
Net Operating Cost	**$6,784,490**	**$96,464,594**	**$103,249,084**
Components of Net Operating Cost Not Part of the Budgetary Outlays			
Property, plant, and equipment depreciation expense	-	(286,437)	(286,437)
Property, plant, and equipment disposals and revaluations	-	(709,079)	(709,079)
Lessee Lease Amortization	-	(17,675)	(17,675)
Increase / (Decrease) in Assets Not Affecting Budgetary Outlays			
Accounts Receivable, net	74,536	214,941	289,477
Advances and Prepayments	-	2,359	2,359
Other Assets	-	(634)	(634)
(Increase) / Decrease in Liabilities Not Affecting Budgetary Outlays			
Accounts Payable	97,917	(127,767)	(29,850)
Federal employee salary, leave, and benefits payable	-	(39,122)	(39,122)
Veterans, pensions, and post employment-related benefits	-	(62,536,611)	(62,536,611)
Advances from Others and Deferred Revenue	1,347	(19,501)	(18,154)
Other Liabilities	(9,467)	(81,227)	(90,694)
Financing Sources			
Imputed cost	(662,159)	-	(662,159)
Total Components of Net Operating Cost Not Part of the Budgetary Outlays	**$(497,826)**	**$(63,600,753)**	**$(64,098,579)**
Components of Budgetary Outlays That are not Part of Net Operating Cost			
Acquisition of capital assets	-	921,646	921,646
Donated Revenue	-	(238)	(238)
Acquisition of inventory	-	33,426	33,426
Financing Sources			
Transfers out (in) without reimbursements	276,486	-	276,486
Total Components of Net Operating Cost Not Part of the Budgetary Outlays	**$276,486**	**$954,834**	**$1,231,320**
Miscellaneous Reconciling Items			
Custodial / Non-exchange revenue	-	(19,151)	(19,151)
Other Temporary Timing Differences	-	127,220	127,220
Total Other Reconciling Items	**$-**	**$108,069**	**$108,069**
Total Net Outlays (Calculated Total)	**$6,563,150**	**$33,926,744**	**$40,489,894**
Budgetary Agency Outlays, Net, (SBR 4210)			**$40,489,894**
Unreconciled Difference			**$-**

NOTE 19. PUBLIC-PRIVATE PARTNERSHIP

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

NOTE 20. DISCLOSURE ENTITIES AND RELATED PARTIES

ASD(HA)-DHP has implemented SFFAS 47. This standard defines the federal reporting entity as inclusive of the consolidation entity, disclosure entities, and related parties. ASD(HA)-DHP consolidation entity includes accounts administratively assigned by the OMB to ASD(HA)-DHP in the Budget of the U.S. Government. ASD(HA)-DHP consolidation entity did not change as a result of SFFAS 47 implementation. Consolidation accounts reported in FY 2024 are consistent with accounts reported within ASD(HA)-DHP's financial statements for FY 2025. ASD(HA)-DHP also has disclosure entities which are similar to consolidation entities, however they have a greater degree of autonomy with the federal government than a consolidation entity.

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

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

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

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

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

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

DoD Acquisition Workforce Development Fund, Transfer Account

DAWDF was established under Section 1705 of Title 10 of the US Code. The law requires that not more than 30 days after the end of the Q1 of each FY, the head of each Military Department and Defense Agency shall remit to the SECDEF, from amounts available to such Military Department or Defense Agency, as the case may be, for contract services for O&M, an amount equal to the applicable percentage

for such FY. This amount may be adjusted by the SECDEF. ASD(HA)-DHP transfers money to this fund as mandated by federal law but has no other control.

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

DoD-VA Health Care Sharing Incentive Fund, Transfer Account

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

Global Health Programs, State

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

Global HIV/AIDS Initiative, Transfer Account

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

Defensive Institute for Medical Operations

The Defense Institute for Medical Operations (DIMO) is a dual-service agency comprised of Air Force and Navy personnel committed to providing world class, globally focused, healthcare education and training to partners around the world. DIMO utilizes subject matter experts throughout the DoD to develop curriculum and teach courses around the world. DIMO was realigned under AFMS from Defense Security Cooperation Agency in 2010. DIMO receives an immaterial amount of DHP funding transferred to them to support two General Schedule Personnel at DIMO warranting disclosure within ASD(HA)-DHP's financial statements.

Fisher House Foundation

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

Federally Funded Research and Development Centers

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

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

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

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

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

James Lovell Federal Health Center

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

Medicare-Eligible Retiree Health Care Fund

A portion of receipts from MERHCF are transferred into DHP O&M account annually as outlined in ASD(HA)-DHP budget justification.

NOTE 21. SUBSEQUENT EVENTS

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

This section provides the DM&R disclosures for ASD(HA)-DHP, required in accordance with SFFAS 42.

Deferred Maintenance and Repairs

DM&R are needed maintenance and repairs that were delayed to a future period. ASD(HA)-DHP tracks and reports DM&R for its PP&E in accordance with SFFAS 42. DM&R relate solely to capitalized General and Right-to-Use PP&E and stewardship PP&E. Since DHA is not a land holding Agency, DHA does not report any real property & General and Right-to-Use PP&E to DoD. All Real Property reporting is done through MILDEPs. DHA Facilities Enterprise provides DM&R statistics to inform the MILDEPs of the requisite ASD(HA)-DHP Sustainment Restoration and Modernization (SRM) funds necessary to keep DHA assets in good working order and able to support DHA's medical mission.

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

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

While BUILDER is the primary predictive modeling tool used, it is not the sole decision-making tool for DM&R funding decisions. Changes in mission (new or rescinded services), budgetary reductions, emerging threats (COVID), and operational issues (beneficiary changes that affect staffing), are several of the factors used to determine which DM&R corrective actions are completed. The BUILDER program was chosen by the DoD because its condition standards, related assessment methods, and reporting formats are consistently applied across the DoD inventory. BUILDER uses standards and policies to predict and track work items (Sections/Equipment) that are nearing or have passed the end of their useful life. Refer to DHA Procedural Instruction Number 4270.01 Sustainment Management System Site Support for Real Property Assets dated August 18, 2022, for a full description of standards and procedures development, annual work plan development, and Annual Work Item remediation.

Please note that not all DHP assets are currently listed in BUILDER due to inventory discrepancies resulting from ongoing real property reconciliation efforts and operational readiness facility negotiations with the MILDEPs.

DHP funded assets are continuously added and removed from the inventory due to ongoing mission changes. The DHA real property team continues to work with the MILDEPs to reflect these changes in their Accountable Property System of Record.

DHA operates over 2,940 facilities throughout the world; this includes 131 historical buildings. Most of the facilities are predominantly used to support the MHS healthcare delivery mission.

Figure 2 — 26: DHP Structures Assets as of September 30, 2025

	Count	Historical	Non-Historical
DHP Assets (4th Qtr)	2,940	131	2,809

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

Facility Categories defined:

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

In reporting DM&R, Category 1 & 3 assets are included in the DM&R calculation. Category 2 assets are excluded in the DM&R calculation since the assets are appropriated through the MILCON funding program.

Figure 2 — 27: ASD(HA)-DHP Deferred Maintenance as of September 30, 2025
(dollars in thousands)

	UNAUDITED FY2025 Q4		
Property Type	**Plant Replacement Value**	**Required Work (Deferred Maintenance & Repair)**	**Percentage**
Category 1	69,023	10,860	16%
Category 2 (Excluded)	-	-	-
Category 3	5,741	1,634	28%
Total	**$74,764**	**$12,494**	**17%**

Calculating Deferred Maintenance and Repairs

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

FCI is the primary metric used by DHP to measure and score the condition of real property and is calculated as shown in Figure 2 — 28 below.

Figure 2 — 28: Metric for Calculating Deferred Maintenance and Repairs

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

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

Maintenance and Repair Acceptable Condition Standards and Prioritization

Acceptable Condition Standards

DHP's current maintenance and repair prioritization policy is based on the number of years of Remaining Service Life (RSL) categorized by equipment type using the UNIFORMAT classification system.

UNIFORMAT is the accepted standard used for classifying building specifications, cost estimating, and cost analysis in the US and Canada. This standard adheres to the American Society for Testing and Materials 1557 Building Standards and was developed by the General Service Administration and the American Institute of Architects in 1972. UNIFORMAT classifies building systems or assemblies based on their function/type (e.g., foundation, walls, HVAC).

The current "Standard" as measured by RSL, assumes all sustainment activities occur during the equipment's life, the equipment has not failed early, and the reliability of the equipment is diminished enough at the end of its RSL that it should be replaced or restored.
UNIFORMAT types are common to all facilities regardless of real property categories as depicted in Figure 2 – 29. DHP SRM funding is used for all UNIFORMAT types

Figure 2 — 29: DHA UNIFORMAT Facilities Classification Type

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

Maintenance and Repair Prioritization

DHP's current maintenance and repair prioritization policy is based on the number of years of RSL and categorized by UNIFORMAT type.

UNIFORMATs with long service lives do not trigger replacement work items until they are within 2 years of the end of their useful life. For example, foundations have a useful life between 70 & 120 years and applying the policy would not generate a replacement work item until the foundation was 68 or 118 years old.

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

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

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

As previously stated, maintenance and repair prioritization are also adjusted based on factors other than BUILDER condition standards including changes in mission, budgetary reductions, emerging threats, strategic priorities, and operational issues.

Significant Changes in Deferred Maintenance and Repair

FY 2025: There have been no significant activities other than program maintenance. During 4Q FY 2025, changes included additional inventory adjustments, annual plant replacement value, and cost book adjustments.

Combining Statement of Budgetary Resources

Department of Defense
Assistant Secretary of Defense (Health Affairs) - Defense Health Program
Combining Statement of Budgetary Resources (Unaudited)
As of September 30, 2025
(dollars in thousands)

Figure 2 — 30: Combining Statement of Budgetary Resources for September 30, 2025

Budgetary Resources	Operations, Readiness & Support	Procurement	Research, Development, Test & Evaluation	Family Housing and Military Construction	Combined Totals
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)	2,144,457	415,577	2,788,301	923,488	6,271,823
Appropriations (Discretionary and Mandatory)	39,164,951	398,867	1,695,436	511,430	41,770,684
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	4,418,255	19,152	256,780	-	4,694,187
Total Budgetary Resources	**$45,727,663**	**$833,596**	**$4,740,517**	**$1,434,918**	**$52,736,694**
Status of Budgetary Resources					
New Obligations and Upward Adjustments (total)	42,947,389	510,939	3,462,365	504,606	47,425,299
Unobligated Balance, End of Year					
Apportioned, Unexpired Accounts	367,554	229,291	1,060,873	875,639	2,533,357
Unapportioned, Unexpired Accounts	1,061,317	-	-	-	1,061,317
Unexpired Unobligated Balance	1,428,871	229,291	1,060,873	875,639	3,594,674
Expired Unobligated Balance	1,351,403	93,366	217,279	54,673	1,716,721
Unobligated Balance, End of Year (total)	2,780,274	322,657	1,278,152	930,312	5,311,395
Total Budgetary Resources	**$45,727,663**	**$833,596**	**$4,740,517**	**$1,434,918**	**$52,736,694**
Outlays, Net					
Outlays, Net (total) (Discretionary and Mandatory)	36,421,882	434,098	3,179,508	454,406	40,489,894
Agency Outlays, Net (Discretionary and Mandatory)	**$36,421,882**	**$434,098**	**$3,179,508**	**$454,406**	**$40,489,894**

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

November 21, 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 Program Financial Statements and Related Notes for FY 2025
(Project No. D2025-D000FT-0056.000, Report No. DODIG-2026-010)

We contracted with the independent public accounting firm of Kearney & Company, P.C. (Kearney) to audit the Defense Health Program (DHP) Financial Statements and related notes as of and for the fiscal 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 DHP's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract required Kearney to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," Volume 1, June 2025, Volume 2, June 2024, and Volume 3, August 2025. Kearney's Independent Auditor's Reports are attached.

Kearney's audit resulted in a disclaimer of opinion. Kearney could not obtain sufficient, appropriate audit evidence to support the reported amounts within the DHP Financial Statements. As a result, Kearney could not conclude whether the financial statements and related notes were presented fairly and in accordance with Generally Accepted Accounting Principles. Accordingly, Kearney did not express an opinion on the DHP FY 2025 Financial Statements and related notes.

Kearney's separate report, "Independent Auditor's Report on Internal Control Over Financial Reporting," discusses seven material weaknesses related to the DHP's internal controls over financial reporting.*

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

In connection with the contract, we reviewed Kearney's reports and related documentation and discussed them with Kearney's representatives. Our review, as differentiated from an audit of the financial statements and related notes in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the DHP FY 2025 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal controls over financial reporting, on whether the DHP's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with provisions of applicable laws and regulations, contracts, and grant agreements. Our review disclosed no instances where Kearney did not comply, in all material respects, with GAGAS. Kearney is responsible for the attached November 21, 2025 reports and the conclusions expressed within the reports.

* 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.

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

//S//

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

Attachments:
As stated

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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 Financial Statements

Disclaimer of Opinion

We were engaged to audit the consolidated financial statements of the Defense Health Program (DHP), which comprise the consolidated Balance Sheet as of September 30, 2025, the related consolidated 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 consolidated financial statements.

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

Basis for Disclaimer of Opinion

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

- Accrual accounting requirements per Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities*, and SFFAS No. 5, *Accounting for Liabilities of the Federal Government*
- Liability requirements set forth in SFFAS No. 5
- Recognition and valuation requirements set forth in SFFAS No. 6, *Accounting for Property, Plant, and Equipment*
- Lease classification and reporting requirements set forth in SFFAS No. 54, *Leases*, as amended by SFFAS No. 62, *Transition Amendment to SFFAS 54*
- Revenue recognition requirements set forth in SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*

- Recognition and valuation requirements set forth in SFFAS No. 10, *Accounting for Internal Use Software*
- The full cost provisions of SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts*, as amended by SFFAS No. 55, *Amending Inter-Entity Cost Provisions*
- Recognition and valuation requirements set forth in SFFAS No. 44, *Accounting for Impairment of General Property, Plant and Equipment Remaining in Use*.

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

We were unable to obtain sufficient appropriate evidential matter to enable us to perform audit procedures to satisfy ourselves that the Property, Plant, and Equipment (PP&E) opening balances as of October 1, 2024 or ending balances as of September 30, 2025 were free of material misstatements. Our work identified issues related to the existence, completeness, accuracy, and disclosure of PP&E. As of September 30, 2025, the DHP reported $3.8 billion in net PP&E on its Balance Sheet.

We were unable to obtain sufficient appropriate evidential matter as to the existence, completeness, and accuracy of revenue and associated Accounts Receivable (AR). The DHP does not account for all revenue and AR transactions using the accrual basis of accounting, recording certain activity on the cash basis of accounting. As of September 30, 2025, the DHP reported $1.1 billion of AR ($221.6 million Federal and $897 million Non-Federal), net on its Balance Sheet and $4.6 billion of Earned Revenue on its Statement of Net Cost.

We were unable to obtain sufficient appropriate evidential matter to support the existence, completeness, and accuracy of expenses and Accounts Payable (AP). As of September 30, 2025, the DHP reported $1.5 billion of AP ($212.9 million Federal and $1.3 billion Non-Federal) on its Balance Sheet and $77.4 billion of Gross Costs on its Statement of Net Cost.

We were unable to obtain sufficient appropriate evidential matter to support the existence, completeness, and accuracy of Unobligated balance from prior-year budget authority, net. As of September 30, 2025, the DHP reported $6.3 billion of Unobligated balance from prior-year budget authority, net on its Statement of Budgetary Resources.

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

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necessary with respect to recorded or unrecorded amounts within the elements of the financial statements.

Other Matter

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

Effective for periods beginning after September 30, 2016, the Federal Accounting Standards Advisory Board (FASAB) released SFFAS No. 50, *Establishing Opening Balances for General Property, Plant, and Equipment*, which allows a reporting entity, under specific conditions, to apply alternative methods in establishing opening balances for its PP&E. As of September 30, 2025, the DHP's implementation of SFFAS No. 50 remained in process. We planned and performed our audit procedures over PP&E opening balances accordingly.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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Required Supplementary Information

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

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 21, 2025, on our consideration of the DHP's internal control over financial reporting and on our tests of the DHP's compliance with certain provisions of 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 the DHP'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 the DHP's internal control over financial reporting and compliance.

Alexandria, Virginia
November 21, 2025

KEARNEY & COMPANY

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*, the financial statements and the related notes to the financial statements of the Defense Health Program (DHP) as of and for the year ended September 30, 2025, which collectively comprise the DHP's financial statements, and we have issued our report thereon dated November 21, 2025. Our report disclaims an opinion on such financial statements because we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. The DHP also asserted to departures from Generally Accepted Accounting Principles (GAAP).

Report on Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying **Schedule of Findings**, we identified certain deficiencies in internal control that we consider to be material weaknesses, in addition to a significant deficiency.

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

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or detected and corrected, on a timely basis. We consider the deficiencies in the DHP's internal control, as described in the accompanying **Schedule of Findings** as Items I, II, III, IV, V, VI, and VII, to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in the DHP's internal control, as described in the accompanying **Schedule of Findings** as Item VIII, to be a significant deficiency.

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

The Defense Health Program's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the DHP's response to the findings identified in our engagement. The DHP's response is described in a separate memorandum attached to this report in the Financial Section of the Agency Financial Report. The DHP concurred with the findings identified in our engagement. The DHP's response was not subjected to the other auditing procedures applied in the engagement 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 the DHP's internal control. This report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* and OMB Bulletin No. 24-02 in considering the DHP's internal control. Accordingly, this report is not suitable for any other purpose.

Alexandria, Virginia
November 21, 2025

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Schedule of Findings

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

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

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

Exhibit 1: Material Weaknesses Identified

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

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

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Material Weaknesses

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

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

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

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

The DHP has not fully implemented an effective oversight process of its RMIC environment to ensure monitoring of all RMIC Managers within the DHP Statement of Assurance (SOA) reporting structure. Additionally, the DHP has not implemented an effective process to assess and monitor the adequacy of its components' internal control programs in support of the DHP SOA. As a result, the DHP was unable to provide reasonable assurance that internal controls over reporting are operating effectively across the Enterprise for fiscal year (FY) 2025 in accordance with OMB Circular A-123.

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

The ongoing implementation of the DHP's RMIC Program has resulted in internal control deficiencies across various accounting and financial reporting areas. The DHP has developed Corrective Action Plans (CAP) and is performing remediation activities to address noted control gaps, design failures, and/or controls that are not operating effectively.

The DHP's monitoring activities also remain in the process of implementation. These monitoring activities set out to continuously assess the entity's business processes to address

identified risks, monitor control gaps, and respond to self-reported deficiencies and/or auditor-

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

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

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

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

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

II. Financial Reporting Adjustments (*Repeat Condition*)

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

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

Adjustments recorded for financial reporting purposes should be sufficiently and appropriately supported to meet the requirements prescribed by the Federal Financial Management Improvement Act of 1996 (FFMIA) to comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Standard General Ledger (USSGL) at the transaction level.

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

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

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

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

Effect: As a result of the magnitude of unsupported adjustments recorded during financial statement preparation, the DHP cannot assert to the existence, completeness, and accuracy of its financial statement balances impacted by such adjustments recorded during FY 2025.

Unsupported trading partner eliminations of $2.4 billion were recorded by the DHP's service organization during Quarter (Q) 2 of FY 2025. As a result, the DHP cannot assert to the existence, completeness, and accuracy of intra-governmental activity reported in the DHP financial statements.

The unsupported ODO Undistributed adjustment impacts to the DHP financial statements as of March 31, 2025 included: $187 million in Total Assets as reported on the Balance Sheet, $189 million in Unexpended Appropriations on the Balance Sheet and Statement of Changes in Net Position (SCNP), and $193 million in Budgetary Resources on the Statement of Budgetary Resources (SBR).

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

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

1. Implement policies and procedures at the DHP Enterprise to ensure that the trading partner coordination and reconciliation process, as well as the process to review and approve adjustments and eliminations, are consistently applied.
2. Continue efforts at the DHP Enterprise level to formalize policies and procedures to perform reconciliations for both buyer- and seller-side trading partner activity at the transaction level on a monthly basis and coordinate directly with trading partners to resolve differences.
3. Continue efforts to formalize policies and procedures requiring DHA to coordinate with its service organization and trading partners to review and adjust balances, as necessary, to reflect the actual amounts incurred and owed to trading partners based on the provision of goods and/or the receipt of services.
4. Research root causes for the historical balances representing a significant portion of the amounts reported within the ODO Undistributed adjustment.
5. Identify and obtain source transactions that reconcile to the summary-level data reported by the ODO Undistributed adjustment. Transactions should have sufficient detail to allow for traceability to source documents representing valid obligations, orders, disbursements, or collections.
6. Assess, evaluate, and revise business processes over recording, reconciling, and reporting collections and disbursements to better support balances reported on the ODO Undistributed feeder file adjustment to DDRS and align with the DHP's GL.
7. Continue working with OUSD(C) to develop and implement an effective process within Advana to support ODO Undistributed feeder file adjustments.

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

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

All Treasury Index (TI)-97 ODO, including DHP Components, are assigned specific TASs and limits. TFM, Volume 1, Chapter 5100, *Fund Balance with Treasury Accounts*, requires the DHP to perform monthly reconciliations of its FBWT GL accounts to the balances recorded in Treasury's Central Accounting Reporting System (CARS). The DHP's service organization generates the CMR that provides a summary cash position by appropriation, FY, basic symbol, and limit. The Advana FBWT WebApp reconciles details sourced from the DHP's GLs to the CMR. The DHP utilizes service organizations to perform monthly reconciliations, using the Advana FBWT WebApp module, between recorded amounts and those reported to Treasury at the TAS and limit level. Reconciling differences may require undistributed collection or disbursement adjustments to be recorded to bring the DHP's records into agreement with Treasury.

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

Condition: The DHP has not fully designed, implemented, or documented an effective FBWT reconciliation process. Specifically, as of June 30, 2025, the DHP identified variances totaling $983 million between the CMR and Advana, as well as $2.2 billion between the DHP TB and Advana. Additionally, the DHP's unmatched reconciling items are not addressed in a timely manner. The DHP, with its service organization, reported over 33,000 unmatched reconciling items associated with the DHP, totaling $200 million, net, and $11 billion, absolute, which were aged over 60 days.

The DHP's FBWT reconciliation process does not fully support undistributed adjustments recorded during the financial statement compilation process performed by its service organization. As of June 30, 2025, a variance of $33 million was identified between the DHP's Undistributed Adjustment financially reported within DDRS-B and the DHP's Advana Undistributed UoT. Additionally, the DHP, in coordination with both of its service organizations, remains in the process of resolving undistributed adjustments and clearing Advana undistributed activity that does not have a financial statement impact.

The DHP, in coordination with its service organization, has not implemented sufficient internal control activities to ensure the accuracy and completeness of the DHP's financial statements with respect to transactions recorded in suspense accounts in a timely manner. As of FY 2025 Q3,

over 17,000 (76%) transactions, totaling $124 million, net, and $521 million, absolute, were categorized as "to be determined" (TBD) in the final suspense UoTs across four TIs used by the DHP.

Cause: The DHP and its service organization have not fully designed, implemented, or documented FBWT monitoring, reporting, and reconciliation policies and procedures. The DHP and its service organization indicated that the migration and transition of the DHP's FBWT reconciliation processes, which utilized legacy ISs, to Advana in FY 2022 created challenges and delays in researching and resolving unmatched transactions, particularly those associated with the backlog of historical data. While the DHP and its service organizations are in the process of resolving issues resulting from the migration and transition to Advana, they have not developed a timeline to estimate when unmatched transactions will be consistently resolved within the 60-day prescribed window.

A significant portion of the DHP's undistributed adjustments are attributable to historical undistributed reporting processes related to legacy reporting systems that were previously under operational control of the Military Services. The DHP's undistributed adjustments reconciliation remediation efforts remain in process.

Suspense UoTs are not available after quarter-end in a timely manner for financial reporting and often do not identify the responsible entity for each transaction. DoD suspense accounts continue to contain a high volume of collections and disbursements which require manual research and resolution. That manual research and resolution supports the production of the final UoTs. Additionally, at the time of UoT availability, there is typically a significant volume of transactions, for a material dollar amount, in suspense that have not been matched to an entity and are listed in the UoTs as "TBD."

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

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

The DHP cannot identify and record its suspense activity into its GL and financial statements pursuant to quarterly financial reporting timelines. Without additional compensating internal controls or monitoring procedures and analyses, the lack of a reliable analysis to determine the financial reporting impact of the suspense balances inhibits the DHP's ability to assert to the

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completeness and accuracy of reported FBWT on its Balance Sheet and other financial statement line items, as applicable.

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

1. Continue to refine existing processes and procedures to ensure the completeness and accuracy of DHP FBWT source data used in the monthly Advana FBWT reconciliations.
2. Continue to refine existing processes and procedures to ensure an effective and timely reconciliation process for identifying and resolving unmatched disbursements and collections which impact the DHP and ensure that all resulting adjustments are fully supported within the Advana FBWT reconciliation tool.
3. Develop documentation to support the existence and completeness of FBWT and demonstrate that amounts recorded are appropriate to include in the FBWT balance.
4. Coordinate across the DHP Enterprise and service organizations to formally conduct root cause analyses to determine if changes are required to underlying business processes to mitigate future undistributed adjustments.
5. Research and resolve suspense transactions by correcting the transactions in source systems and assist with necessary supporting documentation for corrections, if needed.
6. Pursuant to receiving the necessary information and documentation, develop and implement procedures to identify the DHP's suspense account balances for recording and reporting into the GLs and financial statements.
7. Consider any limitations to the suspense processes and develop compensating controls to reconcile suspense balances to minimize the risk of a potential material misstatement.
8. Continue to monitor and track the resolution of suspense activity cleared to the DHP to enable the entity to perform root cause analysis. This includes further research and resolution over the transactions not resolved in the UoTs and listed as "TBD."

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

Deficiencies in two related areas define this material weakness:

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

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

After confirming eligibility, patients receive care, which is logged by medical practitioners to facilitate medical billing. Medical coding consists of translating notes from the medical

practitioners for care rendered into billable codes using DHA-distributed coding tables. Medical coding is the basis for all subsequent billing that occurs.

Medical encounter billing is processed in the Revenue Cycle Expansion (RevX) module of Military Health System (MHS) GENESIS. Bills are subsequently generated in Armed Forces Billing and Collection Utilization Solution (ABACUS) and RevX and remitted to the debtor(s) for reimbursement.

In lieu of encounter-level billing, the Medicare-Eligible Retiree Health Care Fund (MERHCF) elects to make prospective payments to DHA to fund patient care for MERHCF beneficiaries.

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

A. Accounting and Reporting of Medical Services Provided

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

- Some of the DHP's medical activities are accounted for on the cash basis of accounting, including all non-Federal encounters processed in MHS GENESIS, as well as encounters for Department of Veterans Affairs (VA) beneficiaries processed in MHS GENESIS
- The DHP's portfolio of AR from medical services is not consistently adjusted to net realizable value (NRV). DHA does not consider the collectability of its Federal AR or of its non-Federal encounters processed in MHS GENESIS.

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

- The DHP does not have a process to effectively reconcile transactions and account balances for medical activity between its subledgers (i.e., ABACUS and MHS GENESIS) and GL systems
- The DHP does not have a consistent process in place for pre-authorization of services provided to VA beneficiaries. Patient billings that are denied by the VA for lack of pre-authorization may not be processed and/or collected timely from applicable third parties (e.g., VA beneficiaries or other health insurance)
- DHA has not designed an effective and consistent process related to the Patient Identification Process (PIP), which supports the determination and identification of who is responsible for paying for health care received at DHA medical facilities (e.g., MERHCF, United States Coast Guard, VA, individual, third party)

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- DHA MTFs have not implemented internal controls regarding their billing programs to require proper segregation of duties (SD), including an effective supervisory review and approval internal control for adjustments and corrections to medical billings
- The DHP does not have a process in place to ensure that medical service revenue is reported timely and in the proper period
- The MERHCF quarterly distribution methodology and reconciliation could not properly validate the completeness and accuracy of Direct Care revenue.

The DHP did not provide or maintain sufficient documentary evidence to support the validity of Unfilled Customer Orders (UFCO), AR, revenue, and collection activity within the billing and collection subledgers and GL systems. Additionally, sufficient and appropriate audit evidence was not provided to demonstrate the completeness and accuracy of MERHCF distributions made to the DHP.

Cause: The DHP has not formulated or implemented complete Enterprise-wide accounting policies or guidance for its MTFs to ensure consistent and accurate accounting of medical services provided in accordance with Federal accounting standards. The DHP remains in the process of implementing its RMIC Program across the Enterprise. The entity does not have sufficient internal control activities in place to properly account for the existence, completeness, and accuracy of transactions and account balances associated with medical activity.

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

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

1. Recognize revenue when services are performed for both Federal and non-Federal billable encounters in accordance with applicable Federal Accounting Standards. Revenue and corresponding AR should be recognized with transactional activity recorded in the GL system or, as appropriate, in an associated subledger.
2. Implement a consistent methodology for the calculation of allowance for uncollectible accounts, ensuring that all DHP AR is subject to review and adjustment. Separate allowance methodologies should be considered by AR category based on historical collection analysis. The methodology should adjust gross AR and associated revenue to reflect NRV.

3. Implement and document a recurring reconciliation of medical AR in the subledger to medical AR in the GL. Monitoring controls should include performing a reconciliation between aged AR balances in the subledger and collections in the GL to ensure that collected AR is appropriately closed and removed from the financial statements.
4. Develop and implement a process to ensure pre-authorization occurs for all VA beneficiaries before care is provided. Pre-authorization should be documented and retained to assist with subsequent billing and collection efforts.
5. Review current procedures related to patient eligibility and incorporate formalized verification procedures that demonstrate the eligibility determination occurred at the time of patient check-in or at an appropriate point during the patient encounter.
6. Develop and/or update, as appropriate, policies and procedures to require the execution of internal control activities to ensure that revenue is reported timely in the proper period. An assessment of historical billing activity should be conducted to determine whether an unbilled accrual is appropriate to properly account for time lags in services provided and billings.
7. Review and update documentation retention policies for medical billings to ensure the DHP can substantiate the value of its AR and revenue on the financial statements.

B. Medical Coding Accuracy

Condition: DHA contracts with a third party to perform annual audits over the MTFs' medical coding accuracy in accordance with DoD Instructions (DoDI) 6040.40, *MHS Data Quality Management Control (DQMC) Program*, and 6040.42, *Management Standards for Medical Coding of DoD Health Records*. During the audit, approximately 2,000 coded encounters, consisting of both billable and non-billable claims, were selected for testing across all MTFs. Results demonstrated that DHA has not implemented effective medical coding procedures to ensure the accuracy of medical coding applied over inpatient (IP), ambulatory (AMB), Day Surgery (DS), and inpatient professional services (IPS) health care encounters.

Cause: The findings and recommendations included in the FY 2024 medical coding audit indicate that DHA does not have sufficient clinical supporting documentation that clearly and specifically addresses the procedures performed during patient encounters for accurate medical coding. Additionally, DHA's coding program is impacted by the national shortage of medical coders, with the DHA Medical Coding Program Office (MCPO) experiencing high turnover as a result. DHA MCPO continues to be understaffed and unable to meet its scope of responsibilities.

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

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Recommendations: Kearney recommends that the DHP perform the following:

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

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

Background: The DHP owns, operates, and maintains stewardship of a diverse and significant portfolio of Property, Plant, and Equipment (PP&E). The DHP has determined the asset classes for its PP&E as follows: General Equipment (GE), Real Property Construction-in-Progress (CIP), Internal Use Software (IUS), IUS in Development (IUSD), Heritage Assets, Leases, and Leasehold Improvements. The DHP reported PP&E, net of accumulated depreciation and accumulated amortization, to be $3.8 billion.

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

Condition: The DHP PP&E valuation as of September 30, 2025 is not in accordance with GAAP. The PP&E balances have not been sufficiently valued at historical cost in accordance with valuation techniques promulgated by SFFAS No. 6 or SFFAS No. 10, *Accounting for Internal Use Software*, as appropriate. Further, the DHP did not record valuation adjustments over PP&E using alternative valuation techniques (i.e., deemed cost) in accordance with SFFAS No. 50. Specifically:

- The DHP has not fully implemented DoD and DHA policies and procedures regarding the acquisition, reporting, and disposal of capital GE. Effective controls are not in place to ensure GE additions and disposals are properly recorded
- The DHP has not finalized an assessment of IUS or IUSD to properly identify and account for IUS and IUSD for financial reporting purposes. The opening balance of the DHP's IUSD, recorded at $1.6 billion as of October 1, 2024, consisted primarily of MHS GENESIS. MHS GENESIS is not valued in accordance with historical cost requirements

prescribed within SFFAS No. 10. Inventory efforts over IUS and IUSD are ongoing; therefore, DHA has not recorded IUS or IUSD for financial reporting. Outside of valuing MHS GENESIS, the DHP has not begun valuation efforts over remaining IUS or IUSD using alternative valuation techniques in accordance with SFFAS No. 50

- DHA, in coordination with the Naval Facilities Engineering Systems Command (NAVFAC), was unable to provide transaction-level data from the Navy GL that reconciles to the DHA NAVFAC CIP expenditures reported within the DHP's financial statements
- The DHP has not designed or implemented formal policies and procedures to ensure that leases are accurately reported and disclosed on its financial statements and related footnotes in accordance with SFFAS No. 54, *Leases*, nor to describe how it obtains assurance over the accuracy and completeness of its leased assets.

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

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

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

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

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

Effect: The DHP is unable to accurately and appropriately value its PP&E assets for FY 2025 in accordance with GAAP. The absence of accounting policy has resulted in a lack of preparedness to re-value FY 2025 PP&E opening balances in accordance with SFFAS No. 50, as well as a lack of preparedness to implement SFFAS No. 54 for its lease portfolio. The DHP's PP&E as of September 30, 2025 does not reflect historical cost as required by SFFAS No. 6 or SFFAS No. 10, and the DHP's opening balances for FY 2025 do not reflect historical cost under alternative valuation techniques as allowable under SFFAS No. 50. The DHP's recorded balance for PP&E, net of accumulated depreciation and accumulated amortization, of $3.8 billion may be materially misstated, as presented within the DHP's financial statements.

Recommendation: Kearney recommends that the DHP perform the following:

1. Develop an Enterprise-wide accounting policy for PP&E, which specifically addresses historical cost valuation in accordance with SFFAS No. 6, SFFAS No. 10, and SFFAS No. 50. In its determination to implement alternative cost valuation for opening balances under SFFAS No. 50, the DHP should implement PP&E processes with supporting internal controls that are both designed and operating effectively to value new PP&E acquisitions at historical cost in compliance with SFFAS No. 6 and SFFAS No. 10. In developing its alternative cost valuation, the DHP should:
   a. Reference FASAB's Federal Financial Accounting Technical Release (TR) No. 18, *Implementation Guidance for Establishing Opening Balances*, dated October 2, 2017.
   b. Retain appropriate supporting documentation for underlying valuation methodology.
   c. Document the valuation technique by asset class for all assets currently in the DHP PP&E portfolio.
   d. Establish a timeline for the valuation and define roles and responsibilities required for execution.
   e. Detail requirements for valuation of new acquisitions that are compliant with SFFAS No. 6 and SFFAS No. 10.
2. Issue guidance to all organizations that procure GE, including the MTFs, to standardize processes to record GE additions, disposals, transfers-in, and transfers-out consistently.
3. Continue to develop and implement a strategy to verify the existence and completeness of IUS or IUSD through training and implementation of developed policy over IUS.
4. Design and implement formalized internal controls for proper cost classification associated with IUSD to facilitate the identification and reporting of capitalizable costs.
5. Coordinate with NAVFAC to obtain transaction-level project expenditure data to support MILCON CIP projects. The DHP should implement control activities over the NAVFAC expenditure data to ensure CIP projects reported by DHA are complete and accurate prior to financial reporting.
6. Document a formalized methodology (i.e., scoring criteria) to ensure that the treatment of leases and leasehold improvements is consistent with the new scope and definition of a lease under SFFAS No. 54 and develop policies and procedures to meet established

requirements for accounting and reporting lease assets and liabilities. In establishing the methodology, the DHP should:

a. Inventory all current leases and determine the source and type of lease for appropriate accounting treatment in accordance with SFFAS No. 54.
b. Determine whether existing contracts or agreements convey the right to control the use of the underlying asset.
c. Record assets and liabilities associated with the DHP's lease portfolio on the financial statements and adjust balances as lease payments are made in accordance with SFFAS No. 54.

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

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

AP represents amounts owed for goods and services received from other entities, excluding those services rendered by employees. SFFAS No. 1 and SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, promulgate GAAP for liability recognition, including that recognition must occur when an entity accepts goods or services, regardless of whether the entity has received an associated invoice.

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

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

The DHP is unable to sufficiently support the substantive validity, accuracy, and completeness of non-payroll expenses recorded in USSGL Account 610000, *Operating Expenses/Program Costs*. Interim testing for the period ended March 31, 2025 identified exceptions in 33 of 90 non-payroll expense sampled transactions. The most common findings are presented below (Note: Certain samples contained exceptions in multiple categories presented below):

- Thirty-two exceptions were noted in which the sampled transaction was incorrectly classified as Federal or Non-Federal
- Twenty-five exceptions were noted because DHA did not provide sufficient or appropriate R&A documentation

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- Eight exceptions were noted as a result of DHA not providing a third-party invoice or equivalent to support the sampled amount
- Three exceptions were noted in which the sample amounts represent costs related to equipment purchases, construction, and maintenance projects over $250,000 which should have been capitalized rather than expensed.

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

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

The DHP remains in the process of developing and implementing processes to ensure that proper R&A is performed and that costs related to equipment and construction and maintenance projects are properly capitalized when appropriate. Additionally, the DHP has not implemented internal control activities to properly classify expenditures as Federal or Non-Federal. While system limitations have inhibited proper trading partner identification, compensating internal controls or processes have not been identified.

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

Recommendations: Kearney recommends that the DHP perform the following:

1. Complete planned efforts to include Federal trading partner transactions in the AP accrual estimate.
2. Analyze, evaluate, document, and update, as appropriate, policies and procedures to require the execution of internal control activities for the complete and accurate recording of liabilities, including AP and any estimates needed for goods and services received but not recorded.

3. Coordinate with trading partners to ensure Support Agreements (SA), Inter-Agency Agreements (IAA), Memorandums of Understanding (MOU), or equivalent include language requiring cooperation of the trading partner to provide any required documentation necessary for the DHP to validate the accuracy of the amounts it has been billed.
4. Conduct a risk assessment of the current control environment and design/establish control activities to verify R&A of services prior to entitlement and disbursement or through timely post-payment reviews. These control activities should be designed in a manner that allows management to have reasonable assurance that the risk of material misstatement will be reduced to a sufficiently low level.
5. Improve record retention over receipt of goods and services and supporting documentation over non-payroll expense transactions. The DHP should implement sufficient supporting documentation requirements to demonstrate proper R&A has occurred for payment processing (e.g., timesheets, packing slips, contract performance statements).
6. Develop a centralized location, repository, or system to retain R&A documentation. The DHP should revise existing policies and procedures to communicate the requirements change and monitoring to ensure that Contracting Officer's Representatives (COR) are complying with the new requirements.
7. Assess current business operations to implement compensating control activities to address proper cost classification between Federal and Non-Federal transactions, as well as capital and non-capital expenses. The DHP should coordinate any newly designed controls activities with remediation efforts planned to address system limitations for cost classification.

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

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

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

As a result of the sales order close process in the DHP's GL system, DHA established a process to reserve reimbursable authority to prevent the loss of funding authority by creating a sales order and corresponding obligation to cover projected expenses, execute end-of-year billing transactions, process cost transfers, and perform other corrections not yet processed by September 30. DHA is responsible for monitoring and tracking its reimbursable authority, obligations, and sales orders to ensure that budget authority is utilized, obligations are incurred,

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and sales orders are established in accordance with congressional mandates, legal requirements, and limits.

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

Condition: DHA is unable to sufficiently support the substantive validity, accuracy, and completeness of UDOs in USSGL Account 4801, *Undelivered Orders- Obligations, Unpaid.* Beginning balance testing as of October 1, 2024 identified exceptions in 92 of 477 balances tested. The most common findings are presented below (Note: Certain samples contained exceptions in multiple categories presented below):

- Fifty-eight sampled obligations had no related liquidation activity over the preceding 90 days, and DHA could not provide evidence (e.g., correspondence with the vendor) to support that the obligation should remain open as of October 1, 2024
- Sixteen sampled obligations were overstated as of October 1, 2024. DHA did not properly deobligate the invalid balances on these obligations as of September 30, 2024 based on the documentation provided
- Seventy exceptions were noted where DHA did not provide sufficient documentation to support the UDO balances as of October 1, 2024.

The DHP is unable to sufficiently support the substantive accuracy of downward adjustments recorded in USSGL Account 4871, *Downward Adjustments of Prior-Year Unpaid Undelivered Orders – Obligations, Recoveries*. Testing identified exceptions in 72 of 195 sampled transactions. The most common findings are presented below (Note: Certain samples contained exceptions in multiple categories presented below):

- Forty-four exceptions were noted because the DHP did not prepare and/or maintain sufficient documentation to support the transactions recorded
- Twenty-four sampled transactions were the result of administrative modifications and should not have generated a financial transaction
- Thirteen sampled transactions should have been recorded prior to FY 2025.

DHA captures reimbursable authority in the GL system at FY-end without valid funded or future funded reimbursable agreements to prevent the loss of reimbursable funding authority. Testing over UFCOs, UDOs, and recoveries identified unsupported entries associated with reimbursable authority. Specifically:

- Two UFCOs, totaling $18 million, were not supported by a valid agreement
- Three UDOs, totaling $26 million, were not supported by a valid obligating document
- Four recoveries, totaling $33 million, were not supported by approved downward adjustment documentation.

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

The DHP has not implemented effective policy and procedures to address documentation requirements to substantiate transactions recorded to adjust prior-year obligations (i.e., recoveries). Additionally, the DHP has not addressed underlying business practices that generate recovery transactions without an economic event occurring.

The DHP has not developed a process to ensure liquidating transactions posted within the subledger are also posted within the GL prior to quarter-end. When process owners identify stale obligations during the Dormant Account Review-Quarterly (DAR-Q), the DHP does not process corresponding deobligation actions timely.

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

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

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

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

Recommendations: Kearney recommends that the DHP perform the following:

1. Develop internal control procedures and revise existing policies and procedures to ensure that the liquidating transactions posted within the subledger are timely posted within the GL system.

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2. Perform internal control monitoring and testwork under the RMIC Program to determine if policies and procedures have been implemented effectively.
3. Develop standardized policies and/or guidelines that ensure proper documentation is prepared, reviewed, approved, and retained in accordance with 31 United States Code Section 1501, *Documentary evidence requirement for Government obligations*. This should include internal controls that ensure transactions are accurate and properly supported.
4. Evaluate the current internal control environment and design/establish control activities to verify the validity, accuracy, and completeness of UDO transactions recorded in USSGL Account 4801.
5. Evaluate processes currently in place to adjust obligations in each DHP GL system to identify procedural and documentation gaps. This analysis should include administrative adjustments, financial adjustments, and deobligations.
6. Improve record retention over UDO transactions and implement sufficient supporting documentation requirements to demonstrate proper accounting for validity, accuracy, and completeness of UDO transactions recorded within USSGL Account 4801.
7. Design, document, and implement a recurring analysis to identify and reverse improper entries to USSGL Account 4871 resulting from administrative changes to previously recorded obligations. The DHP should consider whether this process would benefit from the design and release of a standard data call to identify activity to be reversed.
8. Expand DAR-Q monitoring procedures, as well as conduct follow-up procedures to verify deobligation actions have occurred.

* * * * *

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Significant Deficiency

VIII. Information Systems (*Repeat Condition*)

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

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

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

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

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

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- Segregation of Duties (SD)
  - Policies, procedures, and controls for the proper SD within applications, databases, and operating systems are not consistently implemented, enforced, and/or operating effectively across the DHP Enterprise.

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

- Control Implementation
  - Policies and procedures over account management, user recertification controls, CUEC implementation and testing, and SD have not been consistently communicated, implemented, and monitored for effective implementation across the DHP Enterprise
- Control Operation
  - Although control activities in key financial management systems related to account management, user recertification, and SD have been properly designed, documented, and implemented, they have not been appropriately monitored to ensure effective operation.

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

Recommendations: Kearney recommends that the DHP perform the following:

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

* * * * *

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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 were engaged to audit, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*, the financial statements and the related notes to the financial statements of the Defense Health Program (DHP) as of and for the year ended September 30, 2025, which collectively comprise the DHP's financial statements, and we have issued our report thereon dated November 21, 2025. Our report disclaims an opinion on such financial statements because we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. The DHP also asserted to departures from Generally Accepted Accounting Principles.

Report on Compliance and Other Matters

In connection with our engagement to audit the financial statements of the DHP, we performed tests of the DHP'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). We limited our tests of compliance to these provisions and did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the DHP. However, providing an opinion on compliance with those provisions was not an objective of our engagement; accordingly, we do not express such an opinion. The results of our tests, exclusive of those referred to in FFMIA, disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 24-02, which are described in the accompanying **Schedule of Findings** as Items I, III, and IV.

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

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

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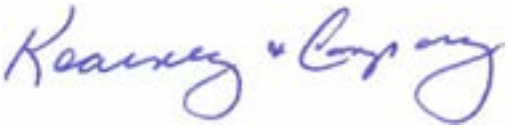
The Defense Health Program's Response to Findings

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

Purpose of this Report

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



Alexandria, Virginia
November 21, 2025

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Schedule of Findings

Noncompliance and Other Matters

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

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

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

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

- The DHP has not fully implemented processes to support the effective design and operation or evaluation of its entity-level internal controls. The DHP did not achieve the GAO-prescribed principles for an effective internal control system
- The DHP remains in the process of establishing a Risk Management Internal Control (RMIC) Program across the Enterprise. The DHP's Statement of Assurance provided no assurance that internal controls over financial reporting were operating effectively as of September 30, 2025.

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

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

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

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

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Federal Financial Management Systems Requirements

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

Federal Accounting Standards

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

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

United States Standard General Ledger at the Transaction Level

FFMIA requires that financial events shall be recorded, applying the requirements of the USSGL guidance in the Treasury Financial Manual (TFM). The DHP's financial management systems do not always record financial events in accordance with the requirements of USSGL at the transaction level. The DHP has not complied with USSGL requirements in the following instances:

- The DHP's financial statements contain material unsupported adjustments processed and recorded during financial statement compilation procedures. The unsupported

adjustments do not contain sufficient supporting documentation and/or underlying source data for recording financial events in accordance with USSGL requirements at the transaction level

- Property, Plant, and Equipment (PP&E) capital expenditures were recorded as operating expenses within the core accounting system. The DHP was unable to completely identify capitalized expenses from non-capital expenses to appropriately record PP&E expenditures in accordance with USSGL requirements. For additional details, see Section V, "Property, Plant, and Equipment," in the accompanying *Report on Internal Control over Financial Reporting*
- The DHP did not consistently track and accumulate revenue and Accounts Receivable (AR) data to post general ledger (GL) transactions consistent with USSGL requirements. The DHP had revenue and AR transactions recorded in subsidiary systems which were not recorded in the GL. For additional details, see Section IV, "Medical Revenue and Associated Receivables," in the accompanying *Report on Internal Control over Financial Reporting*
- The DHP's financial statements included summarized amounts for revenue associated with patient care provided for which no underlying transactional activity is maintained.

III. The Debt Collection Improvement Act of 1996 (*Repeat Condition*)

The Debt Collection Improvement Act of 1996 (DCIA), as amended by the Digital Accountability and Transparency Act of 2014 (DATA Act), requires that any non-tax debt or claim owed to the U.S. Government that is over 120 days delinquent is required to be reported to the Department of the Treasury (Treasury) for purposes of administrative offset. As discussed in Section IV, "Medical Revenue and Associated Receivables," of the accompanying *Report on Internal Control over Financial Reporting*, the Defense Health Agency (DHA) and its Military Treatment Facilities (MTF) are not able to support the validity of debt balances associated with medical services provided, which are recorded in the DHA MTFs' subsidiary billing and collection system. The internal control weaknesses described demonstrate an increased risk of noncompliance with the requirements of the DCIA. The DHP's inability to sufficiently support the validity of recorded debts limited the extent of audit procedures which could be performed over DCIA requirements.

IV. The Antideficiency Act (*Repeat Condition*)

The Antideficiency Act (ADA) prohibits Federal agencies from: 1) making or authorizing an expenditure from, or creating or authorizing an obligation under, any appropriation or fund in excess of the amount available in the appropriation or fund unless authorized by law; 2) involving the Government in any obligation to pay money before funds have been appropriated for that purpose, unless otherwise allowed by law; or 3) making obligations or expenditures in excess of an apportionment or reapportionment or in excess of the amount permitted by agency regulations. Per 31 United States Code (U.S.C.) §1351, management is required to immediately report violations to the President and Congress, including all relevant facts and a statement of actions taken, as well as transmit a copy of each report to the Comptroller General on the same date.

The DHP subordinate organizations, including MTFs, recorded obligations in excess of their suballotments, allocations, and suballocations as of June 30, 2025 across six locations. Such activity may represent violations of the ADA, as prescribed within the Office of the Assistant Secretary of Defense for Health Affairs (ASD[HA]) policy memorandum, entitled *Formal Administrative Subdivisions of the Defense Health Program Appropriation Subject to the Antideficiency Act*. Furthermore, the DHP has not identified the recording of obligations in excess of its suballotments, allocations, and suballocations as possible ADA violations.

* * * * *

OFFICE OF THE ASSISTANT SECRETARY OF WAR

1200 DEFENSE PENTAGON
WASHINGTON, DC 20301-1200

HEALTH AFFAIRS

November 21, 2025

Mr. Daniel Scarola
Kearney & Company, P.C.
1701 Duke Street, Suite 500
Alexandria, VA 22314

Dear Mr. Scarola:

The Defense Health Program (DHP) reviewed the Independent Auditor Report prepared by Kearney and Company, P.C., for the Fiscal Year (FY) 2025 audit of the DHP financial statements and acknowledges and concurs with the issuance of a disclaimer of opinion. Please accept our gratitude for your team's insights and recommendations regarding audit findings included in your "Independent Auditor's Report on Internal Control Over Financial Reporting" and "Independent Auditor's Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements" reports. We are committed to remediating audit findings and sustaining progress of our accounting processes, internal controls, financial systems, and financial reporting.

This completes DHP's eighth financial statement audit cycle. We continue to refine our audit response strategy to focus on the remediation of material weaknesses and scope limitations, e.g., in response to your findings and recommendations, DHP successfully remediated its Fund Balance with Treasury scope limitation. FY 2025 represented the first time ever that DHP was able to support test work for revenue arising from medical encounters for Medicare-eligible retirees. While remediation is ongoing, this represents a significant step towards auditability for the Medicare-Eligible Retiree Health Care Fund activity with the DHP.

DHP successfully remediated 10 Notices of Findings and Recommendations. DHP-Contract Resource Management continues to sustain an unmodified opinion—which covers the private sector care program, for the 15th consecutive year. We will continue building on our successes and proactively seek opportunities to improve the design and operating effectiveness of our financial processes, systems, and internal controls to achieve an unmodified audit opinion of our DHP financial statements.

We appreciate and extend our sincere thanks to you and your team for their due diligence, professionalism, and commitment.

Sincerely,

//S//

Darrell W. Landreaux
Deputy Assistant Secretary of War,
Health Resources Management and Policy

3

OTHER INFORMATION

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

Summary of Financial Statement Audit[1]

Figure 3 — 1

Audit Opinion	**Disclaimer**				
Restatement	**No**				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Accounting and Financial Reporting Governance Structure, Entity Level Controls	1	-	-	-	1
Financial Reporting Adjustments	1	-	-	-	1
Fund Balance with Treasury	1	-	-	-	1
Medical Revenue and Associated Receivables	1	-	-	-	1
PP&E	1	-	-	-	1
Liabilities and Related Expenses	1	-	-	-	1
Monitoring and Reporting of Obligations and Adjustments	1	-	-	-	1
Total Material Weaknesses	7	-			7

1. The summary of financial statement audit of material weaknesses is from the IPA ASD(HA)-DHP Report on Internal Controls Over Financial Reporting. Per OMB Circular A-136 significant deficiencies are not required to be disclosed.

EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING (FMFIA § 2)[2]

Figure 3 — 2

Statement of Assurance	No Assurance					
Material Weaknesses (Assessable Unit)	Beginning Balance	Reclassified	New	Resolved	Consolidated	Ending Balance
Accounts Receivable	-	-	-	-	-	-
Financial Reporting	-	-	-	-	-	-
Equipment Assets	-	-	-	-	-	-
Real Property Assets	-	-	-	-	-	-
Internal Use Software	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total Material Weaknesses	-	-	-	-	-	-

2. The total number of material weaknesses for ICOR-FR are self-identified by ASD(HA)-DHP management and exclude material weaknesses identified by the IPA. As referenced in Management's Response to the Independent Auditor's Report, management agrees with the auditor identified material weaknesses. Also, per OMB Circular A-136, significant deficiencies are not required to be disclosed.

3. DHP did not perform assessments of its financial reporting controls in FY 2025 due to a lack of available business process documentation and documented internal controls. DHP will leverage key controls identified in the HRMC SAT approved business process documentation to perform financial reporting internal control assessments beginning in FY 2026 and will consider IPA-identified ICOR-FR material weaknesses when developing the scope for FY 2026 testing.

EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS (FMFIA § 2)[2]

Figure 3 — 3

Statement of Assurance	No Assurance					
Material Weaknesses (Assessable Unit)	Beginning Balance	Reclassified	New	Resolved	Consolidated	Ending Balance
Acquisition	2	2	-	-	-	-
Contract Administration	2	-	-	2	-	-
IT—Business System Modernization	1	1	-	-	-	-
Personnel and Organizational Management	2	1	-	-	-	1
Support Services	2	1	-	-	-	1
Security	1	1	-	-	-	-
Other	9	3	-	4	1	1
Total Material Weaknesses	19	9	-	6	1	3

4. The total number of material weaknesses for ICOR-O are identified by GAO and DoDIG and exclude material weaknesses identified by the IPA. As referenced in Management's Response to the Independent Auditor's Report, management agrees with the auditor identified material weaknesses. Also, per OMB Circular A-136, significant deficiencies are not required to be disclosed.

5. In FY 2025, ASD(HA)-DHP performed an assessment of ICOR-O material weaknesses reported in FY 2024 to determine their impact on the organization's ability to achieve mission objectives. Based on the results of the assessment, nine (9) prior-year material weaknesses were reclassified to significant deficiencies, which per OMB Circular A-136, are not required to be disclosed.

6. In FY 2025, ASD(HA)-DHP, in coordination with GAO and DoDIG, resolved three (3) GAO-identified material weaknesses and three (3) DoDIG material weaknesses.

7. ASD(HA)-DHP performed a review GAO and DoDIG identified material weaknesses reported in FY 2024 and identified one (1) GAO material weakness that was double reported in prior-year. These duplicate material weaknesses were consolidated into one (1) material weakness for reporting in FY 2025.

CONFORMANCE WITH FEDERAL FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS (FMFIA &

Figure 3 — 4

Statement of Assurance	No Assurance					
Material Weaknesses (Assessable Unit)	Beginning Balance	Reclassified	New	Resolved	Consolidated	Ending Balance
Access Controls	-	-	-	-	-	-
Continuity Planning	-	-	-	-	-	-
Data Management Controls	-	-	-	-	-	-
Compliance	-	-	-	-	-	-
Total Material Weaknesses	-	-	-	-	-	-

8. The total number of material weaknesses for(ICOR-FS are self-identified by ASD(HA)- DHP management and exclude material weaknesses identified by the IPA. As referenced in Management's Response to the Independent Auditor's Report, management agrees with the auditor identified material weaknesses. Also, per OMB Circular A-136, significant deficiencies are not required to be disclosed.

CONFORMANCE WITH SECTION 803 (A) OF THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)

Figure 3 5

Category	Agency	Auditor
1. Federal Financial Management System Requirements	Lack of Compliance Noted	Lack of Compliance Noted
2. Applicable Federal Accounting Standards	Lack of Compliance Noted	Lack of Compliance Noted
3. USSGL at Transaction Level	Lack of Compliance Noted	Lack of Compliance Noted

Management's assessment of FFMIA compliance was completed prior to the results of the FY 2025 financial statement audit. Our auditor has noted ASD(HA)-DHP financial management systems did not comply substantially with the federal financial management system's requirements, applicable federal accounting standards, or application of the USSGL at the transaction level, because of material weaknesses noted in the Independent Auditor's Report on Internal Control over Financial Reporting. ASD(HA)-DHP is in the process of evaluating the FY 2025 audit findings contributing to noncompliance to continue the process of formulating and implementing remediation plans necessary to bring the financial managements systems into substantial compliance.

The DoD OIG annual statement summarizes the DoD's most serious management and performance challenges. To fulfill this requirement, the DoD OIG analyzed completed, ongoing, and planned DoD OIG oversight work; input from leaders across the DoD; and the DoD's strategic documents. The DoD OIG also reviewed congressional testimonies, analyses from professional research institutes, and oversight work from the GAO.

The following is a synopsis for the DoD OIG FY2025 Top Management and Performance Challenges Report outlining the challenges related to protecting the health and wellness of service members and their families that were reflected in the challenges to which they directly apply.

Challenge 1: Increasing Military Readiness

Medical Readiness of the Armed Forces

The health of military personnel, including their mental health, is another key aspect of readiness, as it directly affects the ability to successfully execute missions. Service members may be subject to frequent relocations, deployments, and stressful experiences due to combat and time away from family, which can have long-lasting effects on physical and mental health.

According to the DHA, mental health disorders, including substance abuse, were associated with the highest rates of hospitalization for active-duty Service members in 2023. However, despite the benefits of treatment, approximately 60 to 70 percent of military personnel who experience mental health problems do not seek mental health services. The DoD continues to encourage Service members to seek help and, in September 2023, reissued guidance for maintaining the confidentiality of Service members seeking treatment for mental health or substance misuse.

The DoD's shortage of healthcare workers has made it difficult for Service members to receive care where and when they need it. A 2024 DoD OIG report about the shortage of health care personnel included several recommendations to the DoD, such as establishing competitive pay rates for nurses and hard-to fill medical positions, providing incentives to attract entry level registered nurses, and updating policies that delay or prevent hiring qualified medical personnel. Under DHA policy, if an MTF is unable to provide Service members with timely care, Service members can be referred to civilian network providers. However, a GAO report from 2024 stated that the DHA was not effectively monitoring mental health referrals to ensure that Service members received prompt care with the civilian providers.

Recent DoD OIG oversight work also addressed health-related issues that can affect force readiness. A 2023 report found that DoD healthcare providers were not consistently implementing policies and procedures for determining the care needed for Service members with Traumatic Brain Injuries. In 2024, the DoD OIG announced a project to evaluate the Navy's efforts to prevent and respond to incidents of suicide, suicide attempts, and suicidal ideation, following work conducted on the subject by the Navy Inspector General.

Operational Readiness of the Medical Force

The MHS has a dual mission to provide both expeditionary care to combat casualties and high-quality clinical care in MTFs to Service members. However, military personnel are increasingly referred to the private sector for medical care, due to shortages of personnel in the MHS and difficulties in providing timely care. The resultant decrease in case volume at MTFs has raised concerns about the clinical readiness of the military medical force; as short-staffed providers may have to fulfill the duties of support personnel and contend with a decrease in elective procedures, providers' ability to gain and maintain experience and skills is negatively affected. Changing patterns of care have also decreased the volume of trauma patients and non-trauma surgical procedures at most MTFs, which can lead to an erosion of critically important combat medicine skills-a phenomenon known as the "peacetime effect.

In a December 2023 memorandum, “Stabilizing and Improving the MHS,” the Deputy Secretary of Defense emphasized the need for the MHS to rebuild its medical capabilities and increase clinical readiness to reattract patients and beneficiaries. The directive states that one of the DoD’s priorities is ensuring the MHS supports readiness of the total force, which requires “a stable, predictable workforce sufficiently staffed, trained, and routinely available to provide health care to our beneficiaries.”

The DoD OIG’s current oversight work reflects the importance of ensuring the proficiency and availability of the DoD’s medical force. In a May 2024 audit, the DoD OIG reported the prevalence of personnel vacancies at MTFs and limitations imposed by civilian hiring policies; staffing shortages and inability to access care were also documented as concerns in a November 2023 management advisory. The DoD OIG announced a project in December 2023 to evaluate the DoD’s plans to assign Service members to locations with sufficient clinical workload to generate, maintain, or increase critical wartime medical readiness skills and core competencies. In FY 2025, the DoD OIG plans to conduct an evaluation of the DHA’s implementation of medical manpower requirements in compliance with the memorandum issued by the Deputy Secretary of Defense. Furthermore, the DoD OIG continues to engage with the DHA to address outstanding recommendations from prior oversight work related to the policies, procedures, and structure of the medical force, as well as healthcare access issues affecting the medical readiness of the armed forces and Service members families.

Challenge 5: Improving Quality of Life for Military Families

Healthcare

The MHS is one of America's largest and most complex healthcare institutions and provides the direction, resources, and personnel necessary for promoting the health of Service members and their families. As a key element of the MHS, the DHA directs and controls all DoD hospitals and clinics worldwide. However, the MHS faces challenges in providing consistent, timely care to its beneficiaries, either directly or when patients are referred to the private sector for services that the MHS is unable to deliver.

In November 2023, the DoD OIG issued a management advisory providing DoD leadership with a summary of concerns previously reported to the DHA about access to care and medical staff shortages. The advisory included the following prior findings.

- Service members and their beneficiaries are often unable to access medical care at MTFs in a timely manner.
- Staff allocation across MTFs is unequal, resulting in a surplus of providers at some MTFs, while others are understaffed.
- Beneficiaries who are required to seek local care while stationed overseas often encounter inadequate pharmacy services, upfront medical expenses that are cost prohibitive, and, sometimes, denial of care.

In addition, the advisory includes recommendations from a 2020 DoD OIG report related to the clarification or establishment of appropriate policies for providing mental health services, which remain open. In 2024, the DoD OIG began an audit of the DHA's management of MTFs outside the continental United States. The audit will assess effectiveness in meeting access to care standards for DoD beneficiaries at overseas locations.

The DoD recognizes access to healthcare as a vital quality-of-life issue and is working to make improvements. In October 2023, the DHA stood up nine new DHNs to help standardize medical command leadership and improve the delivery and continuity of health services. In December 2023, the MHS released its strategic plan for FY 2024 through FY 2029, which includes goals to better meet demand for healthcare, improve civilian hiring and retention in medical career fields, reinvest in MTFs, and improve access to primary and specialty care.

Payment Integrity Information Act Reporting

In accordance with the Payment Integrity Information Act of 2019 (P.L. 116-117, 31 U.S.C. § 3352 and § 3357) and Appendix B of OMB Bulletin No. 24-02, Audit Requirements for Federal Financial Statements, dated July, 31, 2024, DoD reports payment integrity information (i.e., improper payments) at the agency-wide level in the consolidated DoD AFR. For detailed reporting on DoD payment integrity, refer to the "Other Information" section of the consolidated DoD AFR.

Fraud Reduction Report

As a healthcare organization, the MHS is just as susceptible to healthcare fraud schemes as any other medical organization. Several federal laws governing fraud and abuse exist that specify the criminal, civil, and administrative penalties and remedies the government may impose on individuals or entities that commit fraud and abuse federal programs such as TRICARE. Violating these laws may result in nonpayment of claims, Civil Monetary Penalties, exclusion from all Federal healthcare programs, and criminal and civil liability. Government agencies, including the U.S. DOJ, HHS, the HHS OIG, and the Centers for Medicare and Medicaid Services, enforce these laws. Within DoD and pursuant to DoD Directive 5106.01, the DoD OIG serves as the principal advisor to the SECDEF on all audit and criminal investigative matters and for matters relating to the prevention and detection of fraud, waste, and abuse in the programs and operations of the DoD. The DoD OIG initiates, conducts, supervises, and coordinates such audits, investigations, evaluations, and inspections within the DoD, including the MILDEPs, as the DoD OIG considers appropriate. In addition, the DoD OIG provides policy and direction for audits, investigations, evaluations, and inspections relating to fraud, waste, abuse, program effectiveness, and other relevant areas within DoD OIG responsibilities.

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

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

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

Investigations, Army Criminal Investigations Command, Naval Criminal Investigative Service, and Air Force Office of Special Investigations. Other OIG partners include Department of VA, HHS, and DOJ. The DHA-HCFD in Aurora, Colorado is responsible for healthcare anti-fraud to safeguard beneficiaries and protect benefit dollars. DHA-HCFD develops and executes anti-fraud and abuse policies and procedures, provides oversight of contractor program integrity activities, and coordinates investigative activities. DHA-HCFD also develops cases for criminal prosecutions, civil litigations, and initiates administrative measures. Through a Memorandum of Understanding, DHA-HCFD refers its fraud cases to the DCIS. DHA-HCFD also coordinates investigative activities with Military Criminal Investigative Offices and other federal, state, and local agencies.

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

The term “improper payment” are payments made by the government to the wrong person, in the wrong amount, or for the wrong reason. Although not all improper payments are fraud, and not all improper payments represent a loss to the government, all improper payments degrade the integrity of government programs and compromise citizens’ trust in government. The definition is found in the *Payment Integrity Information Act of 2019 (P.L. 116-117)* and the *OMB Circular A-123, Appendix C (OMB M-18-20)*.

The Payment Integrity Information Act of 2019 and OMB Circular A-123, Appendix C, require Federal agencies to report information related to improper payments. A program is designated by OMB as ‘high-priority’ when its annual improper payments estimate resulted in projected monetary losses that exceeded $100 million. OMB requires high-priority programs to submit semi-annual or quarterly scorecards on PaymentAccuracy.gov. These scorecards describe the root causes of improper payments, lists the planned corrective actions, and tracks the status of the high-priority program’s progress towards reducing monetary loss.

DoD prevented all of the Phase 2 programs from becoming ‘high-priority’ programs including Military Health Benefits, through continued efforts to identify error root causes, focus on controls that detect and prevent over payments, implement, and reinforce applicable processes and procedures, and train staff on travel policy guidance and best practices.

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.

Grants Programs

Title 2, Code of Federal Regulations, section 200.344 (2 CFR 200.344) requires federal agencies that issue grants and cooperative agreements (awards) to close the award once they determine that the required work and applicable administrative actions have been completed. To close the award, the awarding agency collects and reviews the required financial and performance reports from the awardee to ensure the terms and conditions were met (e.g., the appropriate use of awarded funds). Figure 3 — 6 provides data related to the ASD(HA)-DHP's awards and balances for which the closeout has not yet occurred and the period of performance has elapsed by two or more years.

Figure 3 — 6: Expired ASD(HA)-DHP Grant and Cooperative Agreement Awards Requiring Closeout (counts and amounts are reported as actual values)

CATEGORY	2-3 Years	4-5 Years	More than 5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	235	71	152
Number of Grants/Cooperative Agreements with Undisbursed Balances	25	1	0
Total Amount of Undisbursed Balances	$4,667,633.30	$106,788.17	$0

The closeout process continues to be a challenge due to the heavy workload specialists carry. Unique challenges arose from staffing reduction due to the Deferred Resignation Program and the Voluntary Early Retirement Authority offered in FY 2025. Several of the awards included in the table above are in various stages of the closeout process, which includes review of the final DD882 and final technical report by the customer.

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 $400K 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 thousand to resolve allegations that they violated the False Claims Act 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 healthcare 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 thousand.

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 $11.3 million to resolve claims that HNFS falsely certified compliance with cybersecurity requirements in a contract with the DoD to administer the DHA TRICARE health benefits program for Service members 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 DoD MHS. 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 Hunter Care Coordinated Care Health Solutions 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 healthcare 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 $1.6 million 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 healthcare 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

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 $21.8 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 DHA, which administers the TRICARE Program for the DoD and the Department of Labor's Office of Workers' Compensation Programs (federal healthcare 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.

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.

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 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. For FY 2025, details were provided regarding ASD(HA)-DHP's actions in addressing existing audit conditions. The efforts of the ASD(HA)-DHP closed 9 NFRs in FY 2025.

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 P.L. 118-158, 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.

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.

4

APPENDIX

ACRONYMS AND ABBREVIATIONS

Acronym	Description
ABACUS	Armed Forces Billing and Collection Utilization Solution
ADA	Anti-deficiency Act
ADP	Additional Discount Program
AFMS	Air Force Medical Service
AFR	Agency Financial Report
ASD(HA)	Assistant Secretary of Defense (Health Affairs)
ASD(HA)-DHP	Assistant Secretary of Defense (Health Affairs) - Defense Health Program
BUMED	Navy Bureau of Medicine and Surgery
CAC	Collections Advisory Committee
CCMD	Combatant Commands
CDMRP	Congressionally Directed Medical Research Program
CEB	Corporate Executive Board
CEFMS II	Corps of Engineers Financial Management System II
CFO	Chief Financial Officer
CHAMPUS	Civilian Health and Medical Program of the Uniformed Services
CHCBP	Continued Health Care Benefit Program
CIP	Construction-In-Progress
CoS	Chief of Staff
COTS	Commercial Off-The-Shelf
CRM	Contract Resource Management
CSA	Combat Support Agency
CSRS	Civil Service Retirement System
CUEC	Complimentary User Entity Controls
DAI	Defense Agencies Initiative
DASD	Deputy Assistant Secretaries of Defense
DATA	Digital Accountability and Transparency Act
DAWDF	DoD Acquisition Workforce Development Fund
DCIA	Debt Collection Improvement Act
DCIS	Defense Criminal Investigative Service
DDRS	Defense Departmental Reporting System
DDRS-AFS	Defense Departmental Reporting System - Audited Financial Statements
DEAMS	Defense Enterprise Accounting and Management System
DFAS	Defense Finance and Accounting Service
DHA	Defense Health Agency
DHA-CRM	Defense Health Agency-Contract Resource Management

ACRONYMS AND ABBREVIATIONS

Acronym	Description
DHAPP	Department of Defense HIV/AIDS Prevention Program
DHHQ	Defense Health Headquarters
DHN	Defense Health Network
DHP	Defense Health Program
DHP-CRM	Defense Health Program-Contract Resource Management
DIMO	Defense Institute for Medical Operations
DM&R	Deferred Maintenance and Repairs
DML-ES	Defense Medical Logistics – Enterprise Solution
DoD	Department of Defense
DoDIG	Defense Office of Inspector General
DOJ	Department of Justice
DOL	Department of Labor
DQMC	Data Quality Management Control
EHR	Electronic Health Record
ELC	Entity Level Controls
EMB	Executive Management Board
EOU	Excess, Obsolete, and Unserviceable
ERP	Enterprise Resource Planning
FASAB	Federal Accounting Standards Advisory Board
FBwT	Fund Balance with Treasury
FCI	Facility Condition Index
FECA	Federal Employees' Compensation Act
FEDVIP	Federal Employees Dental and Vision Insurance for Program
FEGLI	Federal Employee Group Life Insurance
FEHB	Federal Employee Health Benefit
FERS	Federal Employees Retirement System
FFATA	Federal Funding Accountability and Transparency Act
FFMIA	Federal Financial Managers' Improvement Act
FFRDC	Federally Funded Research and Development Centers
FISCAM	Federal Information System Controls Audit Manual
FISMA	Federal Information Security Modernization Act
FLTCIP	Federal Long-Term Care Insurance Program
FMFIA	Federal Managers' Financial Integrity Act
FMR	Financial Management Regulation
FO/GO	Flag /General Officer
FY	Fiscal Year

ACRONYMS AND ABBREVIATIONS

Acronym	Description
GAAP	Generally Accepted Accounting Principles
GAFS	General Accounting and Finance System
GAFS-R	General Accounting and Finance System-Reengineered
GAO	Government Accountability Office
GFEBS	General Fund Enterprise Business System
GL	General Ledger
GMRA	Government Management Reform Act
GNAL	Global Nurse Advice Line
GONE	Grants Oversight and New Efficiency Act
HA	Health Affairs
HCFD	Health Care Fraud Division
HCIB	Health Care Integration Board
HEDIS	Healthcare Effectiveness Data and Information Set
HHS	Health and Human Services
HJF	Henry Jackson Foundation
HNFS	Health Net Federal Services
HRFU	Held in Reserve for Future Use
HRMC	Health Resource Management Council
HRO	High Reliability Organization
IBNR	Incurred But Not Reported
ICOR-FR	Internal Controls Over Reporting for Financial Reporting
ICOR-FS	Internal Controls Over Reporting for Financial Systems
ICOR-O	Internal Controls Over Reporting for Operations
IPA	Independent Public Auditor
IT	Information Technology
ITIB	Information Technology Integration Board
IUS	Internal Use Software
JOES	Joint Outpatient Experience Survey
JV	Journal Vouchers
KPI	Key Performance Indicator
MAC	Medical Affirmative Claims
MCSC	Managed Care Support Contractors
MEDCOM	U.S. Army Medical Command
MEDLOG	Medical Logistics
MERHCF	Medicare-Eligible Retiree Health Care Fund
MHS	Military Health System

ACRONYMS AND ABBREVIATIONS

Acronym	Description
MILCON	Military Construction
MILDEP	Military Departments
MSA	Medical Services Accounts
MTF	Military Medical Treatment Facilities
MW	Material Weaknesses
NDAA	National Defense Authorization Act
NDS	National Defense Strategy
NERP	Navy Enterprise Resource Planning
NFR	Notification of Finding and Recommendations
NMHM	National Museum of Health and Medicine
NRV	Net Realizable Value
O&M	Operations and Maintenance
OACT	Office of the Actuary
ODO	Other Defense Organizations
OFF	Oracle Federal Financials
OHI	Other Health Insurance
OIB	Operations Integration Board
OIG	Office of Inspector General
OM&S	Operating Materials & Supplies
OMB	Office of Management and Budget
OPEB	Other Post-Employment Benefits
OPM	Office of Personnel Management
ORB	Other Retirement Benefits
OSD	Office of the Secretary of Defense
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)
P.L.	Public Law
PCM	Primary Care Manager
PMPM	Per Member Per Month
PP&E	Property, Plant, and Equipment
PSC	Private Sector Care
Q1	First Quarter
Q2	Second Quarter
Q3	Third Quarter
Q4	Fourth Quarter
RDT&E	Research, Development, Test & Evaluation
RevCycle	Revenue Cycle
RMIC	Risk Management Internal Control

ROB	Resource Oversight Board
RSI	Required Supplementary Information
RSL	Remaining Service Life
SAT	Senior Assessment Team
SBR	Statements of Budgetary Resources
SCNP	Statements of Changes in Net Position
SDP	Standard Discount Program
SECDEF	Secretary of Defense
SFFAS	Statement of Federal Financial Accounting Standards
SNC	Statement of Net Cost
SoA	Statement of Assurance
SRM	Sustainment Restoration and Modernization
TAS	Treasury Account Symbol
TDP	TRICARE Dental Program
TEDS	TRICARE Encounter Data Systems
TFL	TRICARE for Life
TFM	Treasury Financial Manual
TPC	Third-Party Collection
TPCP	Third-Party Collection Program
TRR	TRICARE Retired Reserve
TRS	TRICARE Reserve Select
TYA	TRICARE Young Adult
U.S.C.	United States Code
UDO	Undelivered Orders
UFCO	Unfilled Customer Orders
ULO	Unliquidated Obligations
UMP	Unified Medical Program
USACE	United States Army Corps of Engineers
USD(P&R)	Under Secretary of Defense (Personnel & Readiness)
USSGL	United States Standard General Ledger
USUHS	Uniformed Services University of the Health Sciences
VA	Veterans Affairs
WWII	World War II
ULO	Unliquidated Obligations
VA	Veterans Affairs
WWII	World War II

LINK REFERENCES

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Thank you for interest in ASD(HA) - DHP FY 2025 AFR. We welcome your comments on how we can make this report more informative for our readers. Electronic copies of this report and prior years' reports are available through the Agency's website. Please send your comments to:
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