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Inspector General
United States
Department of Defense

Financial Data Processed by the Medical Expense and Performance Reporting System

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Acronyms

CHCS	Composite Health Care System
CRIS	Commander's Resource Integration System
DFAS	Defense Accounting and Finance Service
DHMRSi	Defense Medical Human Resource System-internet
EAS-SA	Expense Assignment System Stand Alone
EAS IV	Expense Assignment System version IV
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
HA/TMA	Assistant Secretary of Defense for Health Affairs/TRICARE Management Activity
MEPRS	Medical Expense and Performance Reporting System
MERHCF	Medicare-Eligible Retiree Health Care Fund
MTF	Military Treatment Facility
SPMS	Standard Personnel Management System
STANFINS	Standard Finance System
STARS-FL	Standard Accounting and Reporting System Field Level
TMA	TRICARE Management Activity
UCAPERS	Uniform Chart of Accounts Personnel System

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202–4704

March 21, 2007

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE
(COMPTROLLER)/CHIEF FINANCIAL OFFICER
ASSISTANT SECRETARY OF DEFENSE FOR HEALTH AFFAIRS
SURGEON GENERAL OF THE ARMY
SURGEON GENERAL OF THE NAVY
SURGEON GENERAL OF THE AIR FORCE
DIRECTOR, DEFENSE FINANCIAL ACCOUNTING SERVICE

SUBJECT: Report on the Financial Data Processed by the Medical Expense and Performance Reporting System (Report No. D2007-073)

We are providing this draft report for review and comment. We considered management comments from the Assistant Secretary of Defense for Health Affairs, the Chief of Staff of the Army Medical Command, the Assistant Secretary of the Navy (Manpower and Reserve Affairs), and the Surgeon General of the Air Force when preparing the final report.

The management comments received from the Assistant Secretary of Defense for Health affairs were partially responsive. The management comments received from the Surgeons General of the Army, Navy and the Air Force were responsive. We redirected, revised, and renumbered the report recommendations based on the management comments received. Specifically, we redirected a report recommendation to the Under Secretary of Defense (Comptroller)/Chief Financial Officer. DoD Directive 7650.3 requires that all issues be resolved promptly. We request that management provide the comments by April 23, 2007.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to Audcolu@dodig.mil. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Questions should be directed to me at (614) 751-1400, ext. 211 or Mr. Mark Starinsky at (614) 751-1400, ext. 231. See Appendix C for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

Paul J. Granetto, C.P.A.
Assistant Inspector General and Director
Defense Financial Auditing Service

Department of Defense Office of Inspector General

Report No. D2007-073 **March 21, 2007**
(Project No. D2005-D000FJ-0200.000)

Financial Data Processed by the Medical Expense and Performance Reporting System

Executive Summary

Who Should Read This Report and Why? Healthcare personnel who are responsible for administering the Military Health System should read this report. It discusses data the Medical Expense and Performance Reporting System processes, which is used to track and display the cost of healthcare provided by Military Departments' military treatment facilities.

Background. DoD military treatment facilities use the Medical Expense and Performance Reporting System for recording health care costs. The Medical Expense and Performance Reporting System contains expense data for all Military Department medical costs and corresponding personnel and workload data. The Medical Expense and Performance Reporting System contained approximately $15.6 billion in costs that were incurred by 70 inpatient facilities and 826 clinics during FY 2005. The audit focused on the adequacy of the financial data processed by the Medical Expense and Performance Reporting System. Also, the audit included an analysis of data provided to the Medical Expense and Performance Reporting System by systems owned by the Military Departments. We visited one military treatment facility in each of the Military Departments.

Results. The treatment facilities we visited could not provide sufficient evidence that the Medical Expense and Performance Reporting System contained data that were accurate and complete. None of the facilities followed the generally accepted accounting principles needed to capture, record, and verify the accuracy of the expenses that those facilities incurred in FY 2005. The military treatment facilities used multiple accounting and personnel systems to document the cost of labor, supplies, and materials; used cash-based accounting procedures instead of accrual-based accounting procedures to record costs; did not have adequate cut-off procedures for capturing and reporting expenses; did not prepare accounting reports, including a trial balance that would show aggregate costs; and did not document processes that would permit reconciliation of expense data to accounting systems and financial data. Finally, the military treatment facilities were not able to produce source documents to fully support hours worked.

The Office of the Assistant Secretary of Defense for Health Affairs and the Surgeons General were aware of these weaknesses and developed ongoing initiatives to improve the data in the Medical Expense and Performance Reporting System. However, further actions were needed. The Under Secretary of Defense (Comptroller)/Chief Financial Officer needed to issue DoD Financial Management Regulation and guidance addressing military treatment facilities accounting and reporting. The Assistant Secretary of Defense for Health Affairs and the Military Departments Surgeons General needed to implement additional and improved controls to ensure that military treatment facilities

follow the generally accepted accounting principles needed to capture, record, and verify the accuracy of the expenses that those facilities incurred. Until the weaknesses are fully corrected, the Assistant Secretary of Defense for Health Affairs and the Military Departments Surgeons General will not be able to assert that the underlying cost data are reliable, making it difficult to achieve an unqualified opinion for the Medicare-eligible Retiree Health Care Fund financial statements. (See the Finding section for the detailed recommendations.)

Management Comments and Audit Response. The Assistant Secretary of Defense for Health Affairs did not concur with the finding and stated that the report misrepresented the purpose of the Medical Expense and Performance Reporting System. He also did not concur that Health Affairs had a material weakness. He stated that the system provides detailed uniform performance indicators, common expense classification by work center/cost center, uniform reporting of personnel utilization data by work centers, and a standardized labor cost assignment methodology. He stated that the Medical Expense and Performance Reporting System was not designed to support financial accounting, financial reporting, or patient-level accounting. The Chief of Staff of the Army Medical Command added that DoD did not design the Medical Expense and Performance Reporting System to perform accrual accounting. He stated that it is a cost accounting system based on cash disbursement as the expense factor. The Assistant Secretary of the Navy (Manpower and Reserve Affairs) concurred with the finding except in the area of civilian leave and military pay. Specifically, the Assistant Secretary believed that the Navy is following applicable accounting policies related to accruing civilian leave and calculating military pay.

We agree with the Assistant Secretary of Defense for Health Affairs and the Chief of Staff of the Army Medical Command comments about the design of the Medical Expense and Performance Reporting System. The system was not designed to support financial accounting, financial reporting on an accrual basis, or patient-level accounting. However, the accounting information contained in it forms the basis of the direct care costs that Health Affairs reports on DoD health-care related financial statements. For that reason, Health Affairs needs to ensure that detailed records that support the Medical Expense and Performance Reporting System cost information are readily available. Additionally, Health Affairs needs to ensure that health care financial information is reported on an accrual basis of accounting and that proper cut-off procedures exist. We disagree with the Assistant Secretary of the Navy (Manpower and Reserve Affairs) comments regarding civilian leave expenses and calculating military pay. The DoD Financial Management Regulation does not preclude the Navy from expensing annual leave in the accounting period an employee earns it or from accruing leave in future accounting periods. Additionally, the Navy military treatment facility that we visited could not demonstrate that the composite military pay expense was representative of the amount paid to the military treatment facility employees.

Based on comments from the Assistant Secretary of Defense for Health Affairs, we redirected some recommendations to the Under Secretary of Defense (Comptroller)/Chief Financial Officer. We request that Under Secretary of Defense (Comptroller)/Chief Financial Officer provide comments by April 23, 2007. Also, we request that the Assistant Secretary of the Navy (Manpower and Reserve Affairs) and the Air Force Surgeon General provide additional comments on this report by April 23, 2007. See the Finding section of the report for a discussion of the management comments and the Management Comments section of the report for the complete text of the comments.

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Background

The Military Health System falls under the purview of the Assistant Secretary of Defense for Health Affairs and includes the TRICARE Management Activity and the Military Departments' Surgeons General. These organizations oversee the delivery of DoD healthcare.

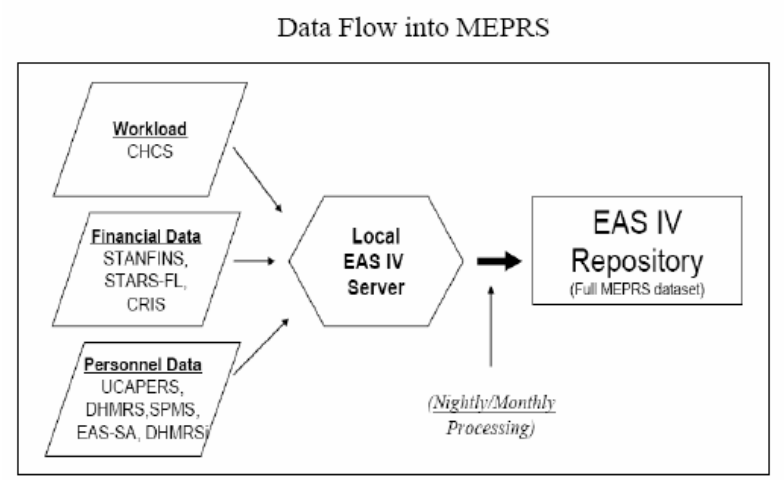
Responsibility for establishing policy, procedures, and standards that govern DoD medical programs rests with the Assistant Secretary of Defense for Health Affairs. He is responsible for executing the DoD medical mission. The DoD medical mission is to provide medical services and support to members of the Armed Forces, their dependents, and others entitled to DoD medical care.

TRICARE Management Activity (TMA) is a DoD field activity operating under the authority, direction, and control of Assistant Secretary of Defense for Health Affairs. TMA manages and executes the Defense Health Program appropriation and the DoD Unified Medical Program and supports the Military Departments in the implementation of the TRICARE Program. The TRICARE program consists of managed health care for active duty and retired members of the uniformed services, their families, and survivors. The TRICARE program includes the in-house health care resources of the Army, Navy, and Air Force military treatment facilities (MTFs) and a private-care network of civilian health care professionals. The TRICARE program provides medical care to about 9.2 million eligible beneficiaries.

The MTFs used a cost allocation and tracking system, the Medical Expense and Performance Reporting System (MEPRS), to capture and report approximately $15.6 billion in costs that were incurred by 70 inpatient facilities and 826 clinics during FY 2005.

The primary objective of MEPRS is to standardize the cost data that are used in managing the DoD Military Health System. The MTFs transfer these data from their Military Departments' financial systems into MEPRS along with personnel and workload data. MEPRS includes a hierarchy of data by which all of the Military Departments' medical costs and corresponding personnel and workload data are collected through an assignment system. This expense assignment system in MEPRS is called the Expense Allocation System version IV (EAS IV).

MTFs enter workload, financial, and personnel data into a local EAS IV server, which then allocates the costs and integrates all the data monthly. Once processed at the MTF level, these data are transmitted to the EAS IV Repository. The exhibit on the following page illustrates the flow of data, which is then described in more detail.



The Military Department accounting and personnel systems used to populate MEPRS with data via the EAS IV include the TMA Composite Health Care System (CHCS), the Army Standard Finance System (STANFINS), the Navy Standardized Accounting and Reporting System-Field Level (STARS-FL), the Air Force Commander's Resource Integration System (CRIS), the Army Uniform Chart of Accounts–Personnel System (UCAPERS), the Navy Standard Personnel Management System (SPMS), the Air Force Expense Assignment System–Stand Alone (EAS-SA), and the Defense Medical Human Resource System-internet (DHMRSi).

One of the key financial processes that the MEPRS data are used to support is the Medicare-eligible Retiree Health Care Fund (MERHCF). The MERHCF was established to accumulate sufficient funds to finance, on an actuarially sound basis, liabilities of DoD under uniformed Services health care programs for these specific Medicare-eligible beneficiaries. MEPRS data are included in the calculations used to determine the future year funding requirements for the MERHCF.

To help estimate the future-year cost of the MERHCF, TMA developed estimation techniques to arrive at the cost of the care provided to the Medicare-Eligible retirees. Approximately 6 months after the fiscal year end, TMA performs a "level-of-effort" process, which results in an estimate of the prior year MTFs cost and workload by patient groups. The process is used because the MTFs do not have a capability to track patient-level cost accounting data. The MTF costs are allocated to the patient groups based on the medical coding of each of the inpatient and outpatient encounters. The results of the level-of-effort process are used to determine future year payments by the MERHCF to the MTFs for care to be provided to the Medicare-eligible retiree beneficiaries. The accuracy of the level-of-effort calculations depends on MEPRS and related data systems providing accurate, timely, and complete cost and workload data.

Objectives

The objective of the audit was to determine the adequacy of management controls over the military treatment facility financial data processed by the Medical Expense and Performance Reporting System. We reviewed the management control program as it relates to the overall audit objective and compliance with applicable laws and regulations. See Appendix A for a discussion of the scope and methodology, and Appendix B for prior coverage related to the objectives.

Managers' Internal Control Program

DoD Directive 5010.38, "Management Control Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.[1]

Scope of the Review of the Management Control Program. We reviewed the adequacy of the Office of the Assistant Secretary of Defense for Health Affairs/TRICARE Management Activity (HA/TMA) and the Military Department Surgeons General management controls over the financial data processed by the Medical Expense and Performance Reporting System. We reviewed management's self-evaluation applicable to those controls.

Adequacy of Management Controls. We identified material management control weaknesses for HA/TMA and the Military Department Surgeons General as defined by DoD Instruction 5010.40. HA/TMA and the Military Department Surgeons General management controls over the MEPRS processes were not adequate to ensure that the resulting data used for resource management were accurate and complete. Recommendations 1.a. and b. and 2.a.-d., if implemented, will improve the accuracy and completeness of data resulting from the MEPRS process. A copy of the report will be provided to the senior official responsible for management controls in HA/TMA, and to the Surgeons General of the Army, Navy, and Air Force.

Adequacy of Management's Self-Evaluation. The HA/TMA and the Military Department Surgeons General officials did not identify the Medical Expense and Performance Reporting System process or the related feeder systems as an assessable unit and, therefore, did not identify or report the material management control weaknesses identified by the audit.

[1] As of January 2006, DoD Directive 5010.38 "Management Control Program," August 26, 1996 has been canceled and DoD Instruction 5010.40 "Management Control (MC) Program Procedures," August 28, 1996, was revised and renamed "Managers' Internal Control (MIC) Program Procedures. However, these criteria were applicable at the time of the OIG's audit. Further, the cancellation and revision had no impact on the audit findings.

Adequacy of Military Treatment Facilities Cost Data

The MTFs we visited could not provide sufficient evidence that the Medical Expense Performance and Reporting System contained data that were accurate and complete. This occurred because none of the facilities followed the generally accepted accounting principles (GAAP) needed to capture, record, and verify the accuracy of the $1.4 billion of expenses that those facilities incurred in FY 2005. Specifically, the MTFs used multiple accounting and personnel systems to document the cost of labor, supplies, and materials; used cash-based accounting procedures instead of accrual-based accounting procedures to record costs; did not have adequate cut-off procedures for capturing and reporting expenses; did not prepare accounting reports, including a trial balance that would show aggregate costs; and did not document processes that would permit reconciliation of expense data to accounting systems and financial data. Additionally, the MTFs were not able to produce source documents to fully support hours worked. HA/TMA and the Surgeons General were aware of these weaknesses and have ongoing initiatives to improve the data entering the Medical Expense Performance and Reporting System. Until the weaknesses are fully corrected, the HA/TMA and the Military Departments Surgeons General will not be able to assert that the underlying cost data are reliable, making it difficult to achieve an unqualified opinion for the Medicare-Eligible Retiree Health Care Fund financial statements.

Military Treatment Facilities Direct Care Data Flow

The cost data from the MTFs, termed direct care within DoD, resides in multiple databases and systems. Each MTF inputs electronic workload, financial and personnel files, and other manually entered data into the Expense Allocation System (EAS). The data entry facilitates the MEPRS process. The individual patient (inpatient and outpatient) workload data are provided by the Composite Health Care System (CHCS). The financial data used in the MEPRS are derived from MTF budgetary transactions recorded in Military Department-specific financial systems and processed by the Defense Finance and Accounting Service. The personnel data are maintained in Military Department-specific systems. Additionally, some MTFs have converted to a new DoD-wide system called the Defense Medical Human Resource System-internet. Each MTF has a local EAS IV server where the MEPRS data reside. The MTFs use local servers to reconcile the workload, financial, and personnel data. The MTFs subsequently transmit the reconciled data to a central EAS IV repository. Data transmitted to the EAS IV central repository go through additional electronic data checks before they are maintained in the repository.

Assessing Military Treatment Facility Managerial and Financial Controls

We visited three MTFs: Brooke Army Medical Center, Navy Medical Center San Diego, and David Grant Air Force Medical Center to assess the management controls over the financial data processed by the Medical Expense and Performance Reporting System. The MTFs visited incurred $1.4 billion of expenses and there were approximately 11,830 full time personnel equivalents in FY 2005. We sampled 116 transactions at the three MTFs. Our observations about the processes used to populate the MEPRS with data and the results of our tests of transactions were as follows.

Use of Appropriate Accounting, Measurement, and Recognition Methods. Records at the MTFs and discussions with cognizant personnel showed that none of the facilities followed the GAAP needed to capture, record, and verify the accuracy of the $1.4 billion of expenses that MEPRS showed those facilities incurred in FY 2005.

Standardized Accounting Practices. HA/TMA and the Military Department Surgeons General had not implemented standard business rules and standard accounting methods at the MTFs. The lack of standardization of the business rules impaired the financial and managerial uses of the data from each location. Each of the three MTFs used a different accounting system and different personnel systems for providing data to MEPRS. The unique accounting systems were not compliant with the OMB guidance (OMB Circular A-127) and there were multiple personnel systems being used to capture personnel data. Specifically, the Army used the Uniform Chart of Accounts–Personnel System, the Navy used the Standard Personnel Management System, and the Air Force used the Expense Assignment System–Stand Alone. The inconsistency among the Military Departments' systems made it difficult to document processes, develop audit tests, and develop comparisons between activities audited.

Accrual-basis of Accounting. In addition to a lack of standardization of feeder systems, the MTFs did not follow the generally accepted accrual basis of accounting. Instead they used a budget execution (cash) basis of accounting. As a result, MTF expenses were not necessarily recognized in the proper accounting period. Under the accrual basis of accounting, an expense is recognized, measured, and recorded in the time period when incurred, regardless of when the cash outflow occurs. The use of budget execution-based accounting data increased the risk that the MEPRS monthly expense data were incomplete or posted to the incorrect month; that the operating materials and supplies were expensed when paid rather than when used; and that the annual leave expense was not properly recorded.

We observed specific departures from accrual-based accounting, particularly in the process of accounting for Operating Materials and Supplies (OM&S), contract labor, and annual leave.

In general, the MTFs did not maintain an account balance for OM&S. Under accrual-based accounting OM&S should be treated as an asset and expensed

when issued to the end user (such as a patient or clinic within the facility). Specifically, Statement of Federal Financial Accounting Standards No. 3, "Accounting for Inventory and Related Property," requires that OM&S be recorded as an asset on the financial statements and recorded as an expense only after the materials and supplies are issued to the end user. The MTFs were not complying with this standard and this departure could cause the expenses in the financial system and MEPRS to be recorded in the wrong month.

Additionally, MTF accounting of contract labor cost was not in compliance with GAAP in that the MTFs did not recognize the cost of the contract labor in the period in which the contract labor was performed. Rather, the labor costs were posted in MEPRS after the Defense Finance and Accounting Service (DFAS) (or designated payment office) contract payment data (expenditure) were imported into MEPRS by the MTF. Depending on the timing of the contractor's submission of the invoice, the generated payment, and subsequent MTF processing of the payment file into MEPRS, the transmission of the data into the EAS IV repository could take months.

MTF recording of annual leave also did not adhere to accrual accounting principles. Specifically, MTFs expensed annual leave when the leave was taken, not when the leave was earned, as required by Statement of Financial Accounting Standards No. 43. The standards require that the expense and the associated liability for the annual leave be recorded when the benefit is earned, not when the leave is taken. The potential effect of this is the mismatching of expenses to the wrong period in MEPRS. This noncompliance with GAAP created a risk that the MTFs may not be recording the full cost of civilian personnel.

Accounting Period Cut-Off Procedures. MTF cut-off procedures were not in compliance with generally accepted accounting principles. The MTFs we visited did not have compliant cut-off procedures for capturing and reporting personnel data in EAS IV. Specifically, the MTFs lacked cut-off procedures as of a fixed point in time, such as at the end of the month, and the data could be retroactively changed. Statement of Federal Financial Accounting Concepts No. 1, "Objectives of Federal Financial Reporting," September 2, 1993, states that costs that apply to an entity's operations for the current accounting period are recognized as expenses of that period.

At each of the three MTFs, we reviewed monthly procedures to capture and record personnel data (timekeeping and associated pay) and the controls to ensure that data were captured in the proper period. Although each of the MTFs we visited had procedures for capturing and reporting personnel data on a monthly basis, internal controls related to manual operations and correcting discrepancies were not adequate. Specifically, a prior month's EAS IV data could be overwritten through multiple transmissions of the data when any corrections were needed. Determining what existed as of a particular point in time was difficult because it required backing out several transmissions of data to EAS IV.

A particular problem for the Navy was that the monthly cut-off procedures may not be consistent for all MTFs. For example, Naval Medical Center San Diego representatives had noted that some timekeepers were submitting time sheets that used different 30-day time periods than other MTFs, sometimes ending 5 days prior to the end of the month in order to meet the reporting requirements needed

for the monthly EAS IV transmissions. Typically, an auditor would expect to review a file that is recorded "as of" the end of an accounting period (month or quarter) in order to perform tests to determine whether a period's costs were reported in the proper period.

Availability of Accounting Reports. The individual MTFs in each Military Department did not prepare accounting reports that financial statement auditors could use to assess whether the MTF had used sound financial management. For example, the MTFs did not have typical accounting reports such as consolidated trial balances, statements of financial position, or statements of change in financial position. The Brooke Army Medical Center, Naval Medical Center San Diego, and David Grant Air Force Medical Center did not maintain consolidated accounting reports for all sources of funds that were organized by general ledger accounts. Although each MTF maintained DFAS accounting reports that provided the status of obligations, the DFAS reports were not in the format of a typical trial balance accounting report.

The Naval Medical Center San Diego did maintain a management tool that provided additional financial data for reporting. Specifically, the Navy MTF in San Diego had access to a web-based system called the Summarized Medical Analysis Resource Tool, which the MTF could use for financial visibility over total expenses, regardless of the appropriation (funding source). However, the Summarized Medical Analysis Resource Tool data were not in the format of a typical general ledger-based accounting report, and it was unclear whether accrual accounting principles were used.

The three MTFs relied on accounting reports provided by DFAS that were based on the execution of appropriations reports rather than MTF-level financial reports that would be commonplace in public accounting. Due to the absence of general ledger-based accounting reports, the calculation of total operating costs of each MTF was very time consuming and difficult, especially when the MTF funding came from multiple appropriations. The availability of general ledger-based accounting reports would allow financial auditors to trace costs and other data back to the supporting data.

Documentation of Processes and Transactions. The Surgeons General did not document the processes in place or the associated controls over transactions to ensure that the aggregate MEPRS expense data were reconcilable to Military Department accounting systems and financial data. In addition, MTFs were not always able to support the labor hours worked and the labor cost to source documents.

Controls Over Processes. Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control," December 21, 2004, requires activities to assess and document internal controls over financial management. It requires that a control process be in place that ensures management promptly records and properly accounts for transactions so that reliable financial reports are prepared. In addition, management must ensure that documentation for transactions and management controls are clear and readily available for examination. The Surgeons General and MTFs we visited did not use processes and controls that fully complied with Office of Management and Budget Circular A-123 and generally accepted accounting principles.

DoD Instruction 6040.40, "Military Health System Data Quality Management Control Procedures," November 26, 2002, requires each MTF to establish a program to ensure data accuracy, completeness, and timeliness and to ensure uniformity and standardization of data across the Military Health System. Additionally, The MTFs were required by DoD Manual 6010.13-M, "Medical Expense and Performance Reporting System for Fixed Military Medical and Dental Treatment Facilities," November 21, 2000, to reconcile the expenses in MEPRS to official records. At each of the MTFs we visited, we confirmed that a financial reconciliation occurred with expenditure data. However, there were differences among the MTFs in the supporting documentation available and the internal controls over the reconciliation processes. We attributed the weaknesses to unclear guidance.

DoD Manual 6010.13-M needed improvement to included better information on financial reconciliations. Specifically, the guidance did not provide adequate direction for MTFs on performing a full financial reconciliation, on what documentation and controls should be implemented to ensure consistency across all MTFs, or, in general, on what constitutes acceptable compliance with generally accepted accounting principles.

Controls Over Labor Transactions. We performed control tests of personnel data (hours and cost) and concluded that the MTFs did not have adequate support for all 116 of the labor transactions selected during our review. The results of our sample are as follows:

- Civilian Labor. We reviewed 18 civilian records. We confirmed that the civilian pay expense reported by DFAS was reflected in MEPRS feeder systems for the Army and Navy MTFs. However, the Air Force MTF was unable to provide an explanation as to how they determined the civilian pay expense entered into their feeder system.

- Military Labor. For the Army and Navy MTFs, we reviewed 16 military personnel records and noted that in most cases, the MTFs used current DoD military composite pay rates (not actual pay) to apply to a standard work schedule. The Air Force did not use the published DoD monthly composite rate. The Air Force MTF was unable to provide an explanation for how the military labor expense was calculated. The MTFs did not have procedures to reconcile the composite labor expenses with the actual pay. The potential for military pay variances (composite versus actual) created a risk that the MTFs may not be recording the full costs of military personnel.

- Contracted Labor. We reviewed 19 contracted personnel records and determined that the MTFs did not always have documentation supporting the contracted employee's hours and the associated expenses. The MTFs did not always maintain adequate supporting documentation for the hours or dollar values billed and entered into EAS IV.

Military Health System Initiatives

DoD has ongoing initiatives to improve the Military Health System financial accounting processes and to resolve known weaknesses. The initiatives will affect the information provided to MEPRS. The improvements to financial operations include efforts described below.

Medical Expense and Performance Reporting System Improvement Plan. HA/TMA and the Surgeons General established a working group called the MEPRS Management Improvement Group. The MEPRS Management Improvement Group facilitates communication of MEPRS-related issues and the implementation of MEPRS improvement initiatives, and it fosters greater awareness of accounting requirements.

Workload Initiatives

Composite Health Care System II. DoD was implementing a new hospital management data system throughout the Military Health System that will produce better data for MEPRS. One of the functions of the new Composite Health Care System II **i**s to replace hard copy patient records with electronic patient records. Another function of the system is to have the electronic records available worldwide, which may resolve weaknesses related to the availability of medical records and improve medical record coding accuracy.

Coding. HA/TMA and the Surgeons General have taken multiple actions to improve the quality of medical records coding.

Management Reports. The MTFs prepare monthly data quality management reports for HA/TMA, and an external coding contractor performs audits of the accuracy of the medical records coding. In addition, HA/TMA plans to provide MTFs with software called the "Coding Compliance Editor" in an effort to improve coding accuracy.

Coding of Medical Records. HA/TMA has issued policies designed to improve the accuracy of medical records coding and has taken a number of other actions. These actions include:

- establishing a coding compliance plan within each MTF,
- incorporating external auditing as part of the compliance plan,
- ensuring that all MTFs have the appropriate coding resources available and that tools are available to assist in the correct coding of encounters (e.g., coding assist software),
- ensuring that certified coders are available to assist in the correct coding, and
- ensuring that coding instructors and auditors are current in coding terminology and adhere to DoD coding policy.

Financial Data Initiatives

The Financial Improvement and Audit Readiness Plan was established with the objective of achieving sound financial management by improving internal controls, resolving material weaknesses, correcting financial management deficiencies, and improving the ability of DoD to excel at fiscal stewardship. Healthcare is one of the focus areas of the plan. The MERHCF Financial Improvement and Audit Readiness Plan focuses on improving medical coding to improve cost management. The goals and capabilities supported by the initiative include managing military health services, managing financial assets and liabilities, and improving financial reporting. The increased focus on these areas should lead to improvements in financial data provided to MEPRS.

Personnel Data Initiatives

The Defense Medical Human Resource System-internet is a human resource management system that will centralize medical personnel information for Army, Navy, and Air Force. It is being implemented across the Department in hospitals, clinics, and dental facilities. The system should improve the accuracy of personnel/workload information provided to MEPRS.

Other Initiatives

In 2005, HA/TMA contracted with a consulting firm, Bradson Corporation, for assistance in improving Military Health System financial statements. Bradson was to assess TMA transaction processes, review systems interfaces and capacities, and evaluate audit trails and adjustments to establish a baseline of financial reporting performance and capabilities. In addition, Bradson is tasked with providing an assessment of TMA, MERHCF, and Defense Health Program financial statements.

Use of MEPRS Data for Management Decisions and Preparing Financial Statements

Managers throughout the military health care system use MEPRS direct care data to make policy decisions, evaluate program effectiveness, and track costs. Additionally, these data eventually form the basis of the direct care portion of the healthcare liabilities reported on the DoD Consolidated Financial Statement and the Medicare-Eligible Retiree Health Care Fund. Auditors have identified weaknesses with the underlying MEPRS data (see Appendix B). These weaknesses increase the risk that healthcare managers are relying on inaccurate data, that discrepancies exist between summary and source documentation, and that elements of financial statements derived from MEPRS data are not fully supportable.

Asserting on the Reliability of MEPRS Data. Until critical weaknesses associated with MEPRS data are addressed and fully corrected, it will be difficult for HA/TMA to assert that the data are reliable and audit-ready. Current business rules established by the Office of the Under Secretary of Defense

(Comptroller)/Chief Financial Officer require that reporting entities prepare assertion packages that demonstrate to management and auditors that financial records are audit-ready. However, the MERHCF financial statements, which are based on MEPRS data, have been prepared and audited since FY 2003 without meeting this requirement. This occurred because the current business rules had not been established when the decision was made to seek an opinion on the MERHCF financial statements. The DoD Comptroller currently requires that assertion packages include documentation of processes, accounting control, and testing of transactions and balances, and that an independent auditor perform an assessment of them. These requirements provide assurance that financial data are reliable and ready for audit. HA/TMA was attempting to fully consider known system weaknesses during the assertion process for the Service Medical Activity financial statements.

Risk Associated with Use of MEPRS Data. Due to the weaknesses associated with MEPRS data, there is a risk that healthcare managers are relying on inaccurate data and that discrepancies exist between summary and source documentation. Presently, there are few assurances that the MTF budgetary data and the MEPRS managerial data are comparable because the systems and processes are not integrated or fully reconciled with available supporting documentation. As a result, weaknesses such as differences between the financial data processed into MEPRS/EAS IV and data recorded in the Military Department financial systems can occur.

Weaknesses in the accuracy and completeness of MTF cost data can also impair a manager's ability to evaluate alternate approaches to providing care to military beneficiaries. For example, MTF commanders regularly need reliable data to decide when to provide care at the MTF and when to seek private sector alternatives.

A risk also exists that inaccurate data will be used to calculate DoD healthcare liabilities. The total liability is currently stated at about $833.9 billion. These liability amounts are significant and represent a social commitment that the U.S. Government has made to military personnel. A seemingly small increase of 1 percent in direct care costs can result in approximately $1 billion of additional MERHCF liability. Therefore, efforts should continue to be made to improve the accuracy of the current direct care costs in order to ensure the accuracy of the direct care portion of the liability.

Achieving an Unqualified Audit Opinion on Financial Statements. Until Health Affairs, TMA, and the Military Department Surgeons General correct the weaknesses in the direct care managerial and financial accounting process, achieving unqualified audit opinions on healthcare financial statements that rely on MEPRS data will be difficult. The prerequisites for auditable financial statements include maintaining data integrity from the time the care is provided until the financial statements are prepared, complying with relevant accounting standards, and establishing comparability between managerial and financial data. Correcting the weaknesses will substantially improve HA/TMA and the Military Departments' ability to assert that the direct care data are accurate and meet Federal and DoD reporting requirements.

Management Comments on the Finding and Audit Response

We received management comments on the finding from the Assistant Secretary of Defense for Health Affairs, the Chief of Staff of the Army Medical Command, and the Assistant Secretary of the Navy (Manpower and Reserve Affairs).

Assistant Secretary of Defense for Health Affairs Comments. The Assistant Secretary of Defense for Health Affairs nonconcurred with the finding and conclusions in the draft report and commented that the report misrepresented the purpose of MEPRS. He also nonconcurred that the Assistant Secretary of Defense for Health Affairs/TMA had a material weakness. He stated that MEPRS provides detailed uniform performance indicators, common expense classification by work center/cost center, uniform reporting of personnel utilization data by work centers, and a standardized labor cost assignment methodology. He stated that MEPRS was not designed to support financial accounting, financial reporting, or patient-level accounting.

Audit Response. We agree that MEPRS was not designed to support financial accounting, financial reporting, and patient-level accounting. However, the accounting information contained in MEPRS forms the basis of the direct care costs that Health Affairs reports on DoD health care-related financial statements. Health Affairs needs to ensure that compensating controls are fully implemented so that the detailed records that support MEPRS cost information are readily available. Additional controls are needed to ensure that health care financial information is reported on an accrual basis of accounting and that proper cut-off procedures exist. In addition, health care managers must be able to demonstrate that the detailed source records support subsequent summary records and the financial statements. Until the needed corrections are made, we believe that a material weakness exists.

Army Medical Command Comments. The Chief of Staff of the Army Medical Command emphasized that DoD did not design MEPRS to perform accrual accounting. He stated that MEPRS is a cost accounting system based on cash disbursement as the expense factor. He stated that MEPRS does not prepare or certify the official financial statements. He added that the Army Medical Command complies with all established DFAS accounting procedures.

Audit Response. We agree that MEPRS was not designed to perform accrual accounting and represents a cash-basis system of accounting. However, accrual accounting is the established basis of accounting for Federal reporting entities. To ensure compliance, Federal entities need to establish procedures to report financial data under accrual accounting conventions, even when the financial systems only maintain cash basis information.

Also, while MEPRS does not prepare or certify the official financial statements, accurate MTF cost data are needed to compute the MERHCF and Service Medical Activity liability amounts reported on the DoD Consolidated Financial Statements. The scope of our audit did not include tests of whether the Army Medical Command complied with all DFAS accounting procedures.

Assistant Secretary of the Navy Comments. The Assistant Secretary of the Navy (Manpower and Reserve Affairs) concurred with the finding except in the area of the civilian leave and military pay. He stated that the Navy is following applicable accounting policies related to accruing civilian leave and calculating military pay and suggested that the issues be referred to the Under Secretary of Defense (Comptroller)/Chief Financial Officer for review and assessment. He also stated that the weaknesses identified related to business process issues were attributed to insufficient system capabilities. He stated that ongoing efforts with the Business Enterprise Architecture and Standard Financial Information Structure will help correct the deficiencies.

Audit Response. While we understand that DoD did not design MEPRS with the necessary capabilities required for accrual accounting and GAAP-compliant financial reporting, we disagree with the Assistant Secretary's comments regarding civilian leave expenses. Volume 8 of the DoD Financial Management Regulation does not preclude the Navy from expensing annual leave in the accounting period an employee earns it. In addition, Navy reporting of leave expense would not prevent the Navy from accruing leave in future accounting periods. We disagree that this issue should be referred to the Under Secretary of Defense (Comptroller)/Chief Financial Officer.

We also disagree with the Assistant Secretary's comments about calculating military pay. The Navy MTF that we visited could not demonstrate that the composite military pay expense was representative of the amount paid to the MTF employees. Without this information, it would be premature to recommend a change to DoD policy to use composite pay rates for reimbursable operations. We do not agree that this issue should be referred to the Under Secretary of Defense (Comptroller)/Chief Financial Officer until more information is obtained.

Recommendations, Management Comments, and Audit Response

Redirected, revised, and renumbered recommendations. We redirected, revised, and renumbered the draft report recommendations based on management comments received. Specifically, we redirected draft report recommendations 1.a.1 and 1.a.2 to the Under Secretary of Defense (Comptroller)/Chief Financial Officer. We also revised these recommendations. We renumbered draft report recommendations 1.a.1. and 1.a.2. to 1.a and 1.b., respectively. Additionally, we renumbered draft report recommendation 1.b., which discusses the revision of DoD Manual 6010.13 M, to recommendation 2. Lastly, we renumbered draft report recommendation 2 to recommendation 3.

Recommendations

1. We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer work with the Assistant Secretary of Defense for Health Affairs to:

a. Issue DoD Financial Management Regulations covering the financial accounting operations of the Department's medical and dental programs at the military treatment facilities. Specifically, develop regulations that detail the appropriate accounting, measurement, and recognition methods for the data used in the MEPRS allocation process at the military treatment facilities, and

b. Issue guidance to ensure that the Business Enterprise Architecture and Standard Financial Information Structure efforts support financial statement reports and trial balances at the military treatment facility level.

Assistant Secretary of Defense for Health Affairs Comments. The Assistant Secretary concurred with the recommendations. The Assistant Secretary commented that the responsibility for establishing financial statement reporting requirements rests with the Under Secretary of Defense (Comptroller)/Chief Financial Officer. The Assistant Secretary agreed that the appropriate accounting, measurement, and recognition methods for the data used in the MEPRS allocation process at the military treatment facilities should be specified.

Assistant Secretary of the Navy Comments. The Assistant Secretary of the Navy (Manpower and Reserve Affairs) concurred with recommendation 1.a. and stated that the new DoD Financial Management Regulation chapter should be developed in tandem with the planned implementation of the future target accounting systems. Furthermore, he offered support to the Assistant Secretary of Defense for Health Affairs in the development of an expanded financial management regulation for medical operations. The Surgeon General stated that the Defense Health Program medical community has been actively involved in the Business Enterprise Architecture and Standard Financial Information Structure efforts.

Audit response. We redirected the draft report recommendation to the Under Secretary of Defense (Comptroller)/Chief Financial Officer. We revised the recommendation based on management comments about the Business Enterprise Architecture and Standard Financial Information Structure.

2. We recommend that the Assistant Secretary of Defense for Health Affairs revise the DoD Manual 6010.13 M to ensure that full costs are captured and reported consistently across the Military Health System in accordance with Federal GAAP. The manual should specify compliant accounting practices to record military treatment facility data for MEPRS-related financial transactions including consistent cut-off procedures and establishment of accrual processes where necessary.

Assistant Secretary of Defense for Health Affairs Comments. The Assistant Secretary of Defense for Health Affairs concurred with the recommendation and planned to revise the guidance to capture full costs, implement cut-offs, and establish accrual procedures.

Assistant Secretary of the Navy Comments. The Assistant Secretary of the Navy concurred with the recommendation and offered to assist with the revision.

3. We recommend that the Surgeons General of the Army, Navy, and Air Force:

a. Establish a military treatment facility MEPRS monthly reconciliation policy so that: all data used in the MEPRS allocation process are reconciled to source records; any differences are researched, corrected, and supported; and supporting documentation is readily available.

Army Medical Command Comments. The Chief of Staff of the Army Medical Command concurred and stated that the General Fund Enterprise Business System should be implemented as early as the third quarter of FY 2008. The system will have the capability to reconcile from the transaction event to the posting of the transaction to the general ledger.

Assistant Secretary of the Navy Comments. The Assistant Secretary concurred and indicated that a reconciliation will be a part of future financial management initiatives.

Air Force Surgeon General Comments. The Surgeon General of the Air Force concurred with the recommendation and stated that they are revising Air Force Instruction 41-102, "Air Force Medical Expense and Reporting System."

Audit response. The management comments met the intent of the recommendation.

b. In coordination with the Service Medical Activities Financial Improvement and Readiness Group, report all known military treatment facility departures from GAAP.

Army Medical Command Comments. The Chief of Staff of the Army Medical Command concurred and stated that the Army Medical Command is working with the TRICARE Management Activity to identify accounting weaknesses and develop corrective actions.

Assistant Secretary of the Navy Comments. The Assistant Secretary did not specifically address this recommendation. However, he did comment that the financial data reported in MEPRS should be consistent with the accounting standards. The Assistant Secretary agreed to assist in revising DoD Manual 6010.13M so that military treatment facility financial data complies with accounting requirements.

Air Force Surgeon General Comments. The Surgeon General of the Air Force concurred with the recommendation and stated that the Surgeon General of the Air Force Financial Management Division is updating the FIAR plan.

Audit response. The management comments met the intent of the recommendation.

c. Provide each Military Department's Financial Improvement Readiness Group with military treatment facility accrual accounting and reporting requirements that need to be integrated into the Military Department's accounting system improvement initiatives.

Army Medical Command Comments. The Chief of Staff of the Army Medical Command concurred and stated that the Command is working with the TRICARE

Management Activity and Defense Finance and Accounting Service to identify and resolve various accounting issues.

Assistant Secretary of the Navy Comments. The Assistant Secretary did not provide specific comments to this recommendation. He did state that the Navy strongly concurs with the recommendations in the draft report. In addition, the Assistant Secretary stated that the Navy is willing to assist in developing financial management regulations for the medical operations and to revise DoD Manual 6010.13 M to improve the auditability of MEPRS information.

Air Force Surgeon General Comments. The Surgeon General of the Air Force stated that the recommendation had already been implemented and that the Financial Management Division provides updates to the FIAR plan.

Audit response. The Army Medical Command comments met the intent of the recommendation. The Navy comments did not specifically address our recommendation. Therefore, we request that the Assistant Secretary of the Navy (Manpower and Reserve Affairs) provide additional comments addressing the Navy medical activity FIAR plan. The Air Force response did not specifically address the recommendation. Therefore, we request that the Surgeon General of the Air Force provide additional comments on incorporating known weaknesses and systemic issues into their FIAR plan.

The accuracy of the MEPRS data is contingent on the quality of the financial feeder data from the service-specific accounting systems. For improvements to occur and be measured, the Military Departments need to communicate their accounting data requirements in their respective FIAR plans.

d. In coordination with their respective Military Departments that own the systems, work with the Defense Finance and Accounting Service to develop periodic military treatment facility-level financial reports and establish processes for the reconciliation of the financial reports to EAS IV summary reports.

Army Medical Command Comments. The Chief of Staff of the Army Medical Command concurred and stated that the Command intends to achieve corporate-level financial statements and ensure that medical service accounting requirements are properly developed and implemented. He stated that as military treatment facility-level financial stewardship is strengthened, the quality of military treatment facility data will be greatly improved and supported.

Assistant Secretary of the Navy Comments. The Assistant Secretary of the Navy concurred and stated that the target accounting systems should correct the deficiencies.

Air Force Surgeon General Comments. The Surgeon General of the Air Force stated that the recommendation had already been implemented because existing financial reports allow for financial reconciliation. He stated that MTFs are required to reconcile monthly and report on the results of the financial reconciliation as part of the Commander's Data Quality Statement.

Audit response. The Army and Navy comments met the intent of our recommendation. The Surgeon General of the Air Force comments did not meet

the intent of the recommendation since his reference is to existing budget execution-based information, which is not adequate for financial reporting purposes and cannot be used to fully support a financial audit of the accounting information accumulated at the Air Force military treatment facilities.

Appendix A. Scope and Methodology

We evaluated the adequacy of management controls over the financial data processed by the MEPRS, including those Military Department-specific systems that provide MEPRS data. Specifically, we reviewed the status of prior reported material weaknesses in direct care cost data, the accounting and measurement methods used, and the adequacy of documentation of processes and transactions over the data. In addition, we reviewed ongoing initiatives to improve the Military Health System financial accounting processes and known data weaknesses. We reviewed the expense-related data processed into MEPRS.

Prior Weaknesses. To determine the status of prior weaknesses over direct care data, we reviewed reports from Government Accountability Office, Department of Defense Office of Inspector General, and Deloitte and Touche, and compared them with guidance, memorandums, and Standard Operating Procedures from TMA/HA, the Military Department Surgeons General, and each of the three MTFs visited. We also reviewed Management Control Program reports to determine if prior reported weaknesses were included.

Accounting, Measurement, and Recognition Methods. We evaluated the use of accounting, measurement, and recognition methods used by three MTFs, one from each Military Department. We judgmentally sampled 116 May 2005 personnel records from three MTFs: Brooke Army Medical Center, San Diego Naval Medical Center, and David Grant Air Force Medical Center. The sample was selected from the EAS Personnel Data Report (Army), SPMS (Navy), and EAS-SA (Air Force). We reviewed monthly procedures to capture and record personnel data and controls over civilian, military, and contract labor transactions at each MTF. Our evaluation included:

- reviewing MTF-level data to determine whether generally accepted accrual-based accounting was used,
- reviewing business rules for consistent application,
- ensuring that evidence existed to show appropriate cut-off of accounting activity at the MTF-level, and
- ensuring standard accounting reports complied with generally accepted accounting principles.

Military Health System Initiatives. We reviewed ongoing initiatives to improve the Military Health System financial accounting processes and known data weaknesses.

We performed this audit from June 2005 through September 2006 in accordance with generally accepted government auditing standards.

Use of Computer-Processed Data. We did not review the computer systems used to process data for the Medical Expense and Performance Reporting System.

We reviewed the hard copy documentation produced by those systems and performed an analytical review on the data.

Government Accountability Office High-Risk Area. The Government Accountability Office has identified several high-risk areas in DoD. This report provides coverage of the financial management high-risk area.

Appendix B. Prior Coverage

During the last several years, The Government Accountability Office (GAO), Department of Defense Office of Inspector General, Army Audit Agency, and independent auditors have reported material weaknesses in the internal controls over the military treatment facilities direct care data quality. The Army Audit Agency reports can be obtained from https://www.aaa.army.mil/reports.htm. Unrestricted DoD IG reports can be accessed at http://www.dodig.mil/audit/reports. The reports are summarized below. In addition, the FY 2005 MERHCF Financial Statements, including the independent auditor's report, are available at http://www.dod.mil/comptroller/cfs/fy2005.html.

GAO

GAO/HEHS-99-39, "Medicare Subvention Demonstration, DoD Data Limitations May Require Adjustments and Raise Broader Concerns," May 1999, available at http://www.gao.gov, recommends that the Secretary of Defense direct HA/TMA to improve cost and workload data quality because DoD also uses this data in managing its general health care operations. The effort should identify specific actions needed by the Assistant Secretary and the Military Departments to correct current cost and workload data collection and reporting problems. It should also ensure, by maintaining all source data and documents, that MEPRS can be audited.

Other contributing factors cited include: a lack of consistent command emphasis on ensuring that workload and other data reports are complete, timely, and accurate; the paucity of business rules, standardized training, and procedural guidelines for clerical and professional staff; the segmentation of functions and staffing, as well as cultural and operational differences among the Military Departments and their facilities; and conversion to a data-driven managed care environment involving new management methods that require accurate, relevant data.

DoD OIG

DoD OIG Memorandum, "Endorsement of the Management Letter on Internal Controls Over Financial Reporting for the FY 2005 DoD Medicare-Eligible Retiree Health Care Fund Financial Statements," January 26, 2006. The DoD OIG endorsed the Deloitte and Touche management letter on internal controls over financial reporting for the FY 2005 DoD Medicare-Eligible Retiree Health Care Fund.

DoD OIG Report No. D-2006-021, "Endorsement of the Qualified Opinion on the FY 2005 DoD Medicare-Eligible Retiree Health Care Fund Financial Statements," November 8, 2005. We concurred with the qualified audit opinion issued by Deloitte and Touche on November 7, 2005.

DoD OIG Report No. D-2005-031, "Endorsement of the Management Letter on Internal Controls Over Financial Reporting for the FY 2004 DoD Medicare-Eligible Retiree Health Care Fund Financial Statements," January 31, 2005. The report is marked "For Official Use Only." For Official Use Only Reports can be requested by filing a Freedom of Information Act request**.**

DoD OIG Report No. D-2005-019, "Endorsement of the Qualified Opinion on the FY 2004 DoD Medicare-Eligible Retiree Health Care Fund Financial Statements," November 8, 2004.

Army Audit Agency

In "Audit of Medical Decision Support Systems, U.S. Army Medical Command," Report No. AA 01-215, March 15, 2001, auditors evaluated the use of automated systems data available for managing healthcare costs at Army military treatment facilities and found that substantial amounts of data were available to commanders and resource managers at Army medical activities. However, key elements that were needed to effectively manage healthcare costs were dated, missing, or difficult to extract. The report stated that although managers generally could obtain the data, they encountered many obstacles that hindered ready access to current, useful, and relevant data. The auditors recommended that regional medical commands have their subordinate medical activities: (1) submit complete data for inpatient and ambulatory data records, and the Medical Expense Performance Reporting System in accordance with prescribed timeframes; and (2) identify and resolve problems that cause missed deadlines.

In "Audit of Medical Decision Support Systems, Great Plains Regional Medical Command," Report No. AA 00-311, June 22, 2000, the audit objective was to determine whether existing automated systems provided sufficient data for effective management of healthcare costs. The auditors found that access to useful and relevant data was impaired. The impairment occurred because:

- systems were not easy to use, did not communicate with each other, and had reliability problems;
- personnel were not always aware of available systems and capabilities, and MTF personnel did not always have the necessary training and skills to extract pertinent data;
- sources of data were scattered within military treatment facilities and throughout medical regions, lead agents, and DoD; and
- different systems with common or similar purposes were developed and purchased by facilities even though standard DoD systems were available to meet the same requirements.

In "Audit of Medical Decision Support Systems, North Atlantic Regional Medical Command," Report No. AA 00-318, July 3, 2000, the audit objective was to determine whether existing automated systems provided sufficient data for

effective management of healthcare costs. The report concluded that access to useful and relevant data was impaired because:

- systems were not easy to use, did not communicate with each other, and had reliability problems;
- MTF personnel did not always have the necessary training and skills to extract pertinent data, and
- sources of data were scattered within military treatment facilities and throughout medical regions, lead agents and DoD.

Independent Auditors

The DoD OIG contracted with the independent auditing firm of Deloitte and Touche to audit the MERHCF, with DoD OIG oversight. Deloitte and Touche issued qualified audit opinions on the FY 2003, 2004, and 2005 MERHCF financial statements. Deloitte and Touche reported that material weaknesses had existed in the direct care data since FY 2003. The reported direct care weaknesses remain uncorrected.

Management Letter on Internal Controls over Financial Reporting for the FY 2005 DoD Medicare-Eligible Retiree Health Care Fund Financial Statements, November 7, 2005. D&T issued a management letter that cites material weaknesses as well as other reportable conditions. The letter outlines material weaknesses regarding direct care cost data used in the compilation of the Fund's financial statements and internal control deficiencies that resulted in a backlog of unprocessed purchase care claims. The letter also described internal control deficiencies that could adversely affect the Fund managers' ability to record, process, and summarize financial data. The letter cites the weaknesses and reportable conditions in more specific detail than what was stated in the independent auditor's report and makes recommendations to DoD management for corrective action. The independent auditor's report contains an overview of the deficiencies.

Independent Auditor's Report, November 7, 2005. Deloitte and Touche audited the financial statements of the MERHCF as of September 30, 2005 and 2004. Deloitte and Touche qualified its opinion because it was unable to obtain patient-level data from transaction-based accounting systems that support the costs of direct care provided by DoD-managed MTFs. Deloitte and Touche also noted deficiencies in the controls over the systems used to process the purchased care claims. Deloitte and Touche was unable to obtain patient level data from compliant, transaction-based accounting systems in support of the costs of direct care provided by the DoD-managed MTFs.

Deloitte and Touche noted that the MTFs do not have compliant, transaction-based accounting systems and therefore cannot report the costs of an individual patient's care. Deloitte and Touche reported that while activity-based costing techniques have been used to apply total program costs to individuals, there is insufficient evidence that adequate controls exist and have been implemented to

ensure the timeliness and accuracy of the medical record coding processes at the MTFs, a significant factor in the allocation processes.

Deloitte and Touche reported that the costs being allocated cannot be related to specific appropriations, and there is insufficient evidence that adequate controls exist and have been implemented to ensure the completeness, validity, recording and cutoff of the costs reported. Consequently, Deloitte and Touche was not able to audit the direct care component of the reported amount of the actuarial liability for Medicare-eligible retiree benefits.

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)/Chief Financial Officer
    Deputy Chief Financial Officer
    Deputy Comptroller (Program/Budget)
Director, Program Analysis and Evaluation
Assistant Secretary of Defense for Health Affairs

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
Auditor General, Department of the Army
Surgeon General of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Naval Inspector General
Auditor General, Department of the Navy
Surgeon General of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force
Surgeon General of the Air Force

Combatant Command

Inspector General, U.S. Joint Forces Command

Other Defense Organizations

Director, Defense Finance and Accounting Service
Chief Actuary, Office of the Actuary

Non-Defense Federal Organization

Government Accountability Office
Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Oversight and Government Reform
House Subcommittee on Government Management, Organization, and Procurement, Committee on Oversight and Government Reform
House Subcommittee on National Security and Foreign Affairs, Committee on Oversight and Government Reform

Assistant Secretary of Defense for Health Affairs Comments

HEALTH AFFAIRS

THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D C 20301-1200

DEC 8 2006

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL
PROGRAM DIRECTOR, DEFENSE FINANCIAL
AUDITING SERVICES

SUBJECT: "Audit of the Financial Data Processed by the Medical Expense and Performance Reporting System," Project No D2005-D000FJ-0200.000

Thank you for the opportunity to review and provide comments on the Draft Report "Audit of the Financial Data Processed by the Medical Expense Reporting System" Standard Financial Information Structure (SFIS) (D2005-D000FJ-0200.000), dated October 25, 2006.

I non-concur with the findings and conclusions detailed in the Draft Report which are inconsistent with the purpose of the Department's Medical Expense and Performance Reporting System (MEPRS). The Draft Report misrepresents the intended purpose of MEPRS which was developed and fielded to provide a uniform system of healthcare "managerial accounting."

MEPRS provides detailed uniform performance indicators, common expense classification by work center/cost center, uniform reporting of personnel utilization data by work centers, and a standardized labor cost assignment methodology. MEPRS follows Generally Accepted Accounting Principles (GAAP) in accordance with Financial Accounting Standards Advisory Board (FASAB) as reflected in the Statements of Federal Financial Accounting Standards (SFFAS) #4, "Managerial Cost Accounting Standards and Concepts for the Federal Government." Specifically, Item #61 states that managerial cost accounting should provide cost information that is appropriate for the intended use of the information. Item #62 states when managerial cost accounting is used to supply information for the preparation and review of budgets, lost data should be consistent with the basis of accounting and recognition/measurement used in financial reporting. In addition, Item #60 states the decision to use accrual accounting for any given purpose must be carefully evaluated.

MEPRS was not designed to support financial accounting, financial reporting, or patient level accounting as inferred by the DoD IG Draft Report. The Department relies upon the Defense Finance and Accounting Service (DFAS) for financial accounting services. The Department does not have a patient level accounting system nor are there

plans to develop and implement such a system. Any changes to the Department's accounting structure/systems would have to be directed by the Under Secretary of Defense (Comptroller). I cannot implement a new accounting system nor publish Financial Management Regulations (FMR).

I do concur that there should be consistent cut-off procedures for capture of workload, cost and performance data. We are currently evaluating the materiality of making monthly or annual accrual adjustments to MEPRS data. However, implementation of accrual processing should be incorporated into the Military Departments' Standard Financial Information Structure (SFIS) compliant Enterprise Resource Planning Systems (ERP) migration strategies.

I non-concur that HA/TMA has a material weakness associated with the MEPRS process or the related feeder systems due to lack of an Assessable Unit in the HA/TMA Managers' Internal Control Program. TMA assessable units apply to the TMA entity; TMA does not have command and control over Military Department operations.

My points of contact are Mr. Patrick Wesley (Functional POC) and Mr. Gunther Zimmerman (Audit Liaison) both of whom can be reached at (703) 681-3492.

William Winkenwerder, Jr., MD

Attachments:
As stated

Final Report Reference

DEPARTMENT OF DEFENSE INSPECTOR GENERAL
DRAFT REPORT
D2005-D000FJ-0200.000

Agency Comments on Draft Report, "Financial Data Processed by the Medical Expense and Performance Reporting System"

TRICARE MANAGEMENT ACTIVITY (TMA) COMMENTS

Recommendation 1: We recommend that the Assistant Secretary of Defense (Health Affairs):

a. Issue DoD Financial Management Regulations covering the financial accounting operations of the Department's medical and dental programs at the Military Treatment Facilities. Specifically, develop regulations that:

Recom 1.a revised and redirected

1. Specify the appropriate accounting, measurement, and recognition methods for the data used in the MEPRS allocation process at the Military Treatment Facilities.

2. Establish a requirement for the Military Departments, the Department Surgeons General, and DFAS to work together to produce financial statement reports and trial balances at the Military Treatment Facility level.

b. Revise the DoD Manual 6010.13 M1 to ensure that full costs are captured and reported consistently across the Military Department Surgeons General, in accordance with generally accepted accounting principles and Federal Accounting Standards. Specifically, the manual should specify standardized accounting practice to record Military Treatment Facility data in accordance with federal accounting standards for MEPRS related financial transactions including consistent cut-off procedures, and establishment of accrual processes where necessary.

Recom 1.b renumbered to recom 2.

DoD Response:

1a. **Non-Concur.** The issuance of Financial Management Regulations is the responsibility of the Under Secretary of Defense (Comptroller). Modification to existing FMR sections addressing MTF operations would have to be accomplished in concert with OUSD(C) since the OASD(HA) cannot promulgate financial regulations.

1a1. **Concur.** Concur that appropriate accounting, measurement, and recognition methods for the data used in MEPRS allocation process at the MTF should be specified. Implementation of such processes (i.e, accrual processing) should be incorporated into

Final Report Reference

the Military Departments' Standard Financial Information Structure (SFIS) compliant Enterprise Resource Planning Systems (ERP) migration strategies.

1a2. **Non-Concur.** Responsibility for establishing financial statement reporting requirements resides with the Under Secretary of Defense (Comptroller) and not the Assistant Secretary of Defense (Health Affairs). This recommendation should be forwarded to OUSD(C). The ASD(HA) does not have command and control responsibility over the Military Departments' Surgeons General nor the Defense Finance and Accounting Service (DFAS). Furthermore, recent direction from OUSD(C) Enterprise Financial Management Roles and Responsibilities (EFMR&R) memo of October 25, 2006 directs DFAS to work together with the Military Departments to support management cost accounting processes.

1b. **Concur.** DoD Manual 6010.13 M1 (MEPRS Manual), will be revised to reflect full cost and reporting across the Military Departments' Surgeons General in accordance with Generally Accepted Accounting Principles (GAAP) where appropriate and consistent with managerial cost reporting and cost benefit and materiality.

Recom 2. renumbered as recom 3.

Recommendation 2: We recommend that the Surgeon General of the Army, Navy, and Air Force:

a. Establish a Military Treatment Facility MEPRS monthly Reconciliation policy so that all data used in the MEPRS allocation process are reconciled to source records; any differences are researched, corrected, and supported; and supporting documentation is readily available.

b. In coordination with the Service Medical Activities Financial Improvement and Readiness Group, report known Military Treatment Facilities departures from generally accepted accounting principles.

c. Provide the respective Military Department's Financial Improvement Readiness Group with the Military Treatment Facilities accrual accounting and reporting requirements for inclusion into the Military Department's accounting system improvement initiatives.

d. In coordination with their respective Military Departments that own the systems, work with the Defense Finance and Accounting Service to develop periodic Military Treatment Facility level financial reports and establish processes for the reconciliation of MTF level financial reports to EAS IV summary reports.

DoD Response:

The Military Department Surgeons General will respond directly to the DoD IG.

Final Report Reference

DOD IG DRAFT REPORT – DATED OCTOBER 25, 2006
D2005-D000FJ-0200.000

Agency Comments on Draft Report, "Financial Data Processed by the Medical Expense and Performance Reporting System"

TRICARE MANAGEMENT ACTIVITY (TMA) COMMENTS

TECHNICAL CHANGES:

- **Page i :Executive Summary. "Background" section. Second sentence.** "DoD Military Treatment Facilities use the Medical Expense and Performance Reporting System for recording health care costs accounting data
  Comment: MEPRS is a managerial accounting system, not a financial accounting system.
  Recommendation: The sentence be rewritten to read "DoD Military Treatment Facilities use the Medical Expense and Performance Reporting System for recording health care expenses." — text revised

- **Page 1. Background. First sentence.** "The Military Health System falls under the purview of the Assistant Secretary of Defense for Health Affairs and includes the Tricare Management Activity and the Military Departments' Surgeons General.
  Comment: TRICARE is capitalized (change throughout the draft report)
  Recommendation: The sentence should be rewritten to read "...and includes the TRICARE Management Activity and the Military Department's Surgeons General." — text revised

Army Medical Command Comments

DEPARTMENT OF THE ARMY
HEADQUARTERS, U.S. ARMY MEDICAL COMMAND
2050 WORTH ROAD
FORT SAM HOUSTON, TEXAS 78234-6000

REPLY TO ATTENTION OF

MCIR

18 DEC 2006

MEMORANDUM THRU ASSISTANT SECRETARY OF THE ARMY (MANPOWER AND RESERVE AFFAIRS)

FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL, ATTN: MR. MARK STARINSKY, 830 MORRISON ROAD, SUITE 310, GAHANNA, OH 43230

SUBJECT: Reply to Draft Audit Report on Financial Data Processed by the Medical Expense and Reporting System (Project D2005-D000FJ-0200)

1. Thank you for the opportunity to review this report. Our comments are enclosed for your consideration.

2. Our point of contact is COL Daryl Spencer, Director, Resource Management, US Army MEDCOM, commercial (210) 221-6410 or DSN 471-6410.

FOR THE COMMANDER:

Encl

WILLIAM H. THRESHER
Chief of Staff

U.S. Army Medical Command (MEDCOM) AND
Office Of The Surgeon General (OTSG)

Comments on DODIG Draft Report - "Financial Data Processed by the Medical Expense and Performance Reporting System (MEPRS)"
(Code D2005-D000FJ-0200.0000), 25 October 2006

Additional Facts: The report indicates that MEPRS did not follow the generally accepted accrual-basis of accounting. While this is correct, it is important to note DoD did not design MEPRS to perform accrual accounting. The MEPRS is a cost accounting system based on cash disbursement as the expense factor. MEPRS records the expense at the time it is paid. Expenses are not accrued in the month when the benefit was received nor when the liability occurred. MEPRS performs cost allocation using historical data that was certified and reconciled within the Standard Army Finance Information System (STANFINS) prior to being interfaced into Expense Assignment System IV (EAS IV). Further, MEPRS does not prepare or certify the official financial statements. MEDCOM complies with all established DFAS accounting procedures.

Recommendation 2.a.: Establish a Military Treatment Facility (MTF) MEPRS monthly Reconciliation policy so that all data used in the MEPRS allocation process are reconciled to source records; any differences are researched, corrected, and supported; and supporting documentation is readily available.

Response: Concur with comment. The General Fund Enterprise Business System (GFEBS) which should be implemented as early as 3rd Quarter, FY 2008, will have the capability to reconcile from the transaction event all the way through the process until posting at the general ledger. GFEBS will have sufficient audit trails to trace each transaction. MEDCOM is working to strengthen reconciliation processes at the MTF level and thereby enhance financial stewardship on the part of its Resource Managers. As data quality improves through the reconciliation efforts and GFEBS implementation, MTF financial stewardship will improve as we work toward audit assertion.

Recommendation 2.b.: In coordination with the Service Medical Activities (SMA) Financial Improvement and Readiness (FIAR) Group, report known MTF departures from generally accepted accounting principles.

Response: Concur with comment. The current GFEBS mapping initiative focuses on required data gathering and reporting between the financial systems and the military healthcare systems. By design, GFEBS will subsume many military healthcare systems and then facilitate unique feeder systems. MEDCOM is working with the TRICARE Management Activity (TMA) to prepare for audit assertion. MEDCOM is in the early stages of discovery to identify deficiencies and develop corrective actions. As the discovery process identifies weaknesses in both our audit assertion and OMB Circular A-123, Appendix A, activities, we will develop corrective actions and milestones which will be monitored through the DoD FIAR tool.

Attachment Page 1

U.S. Army Medical Command (MEDCOM) AND
Office Of The Surgeon General (OTSG)

Comments on DODIG Draft Report - "Financial Data Processed by the Medical Expense and Performance Reporting System (MEPRS)" (Code D2005-D000FJ-0200.0000), 25 October 2005

Recommendation 2.c.: Provide the respective Military Department's Financial Improvement Readiness Group with the Military Treatment Facilities accrual accounting and reporting requirements for inclusion into the Military Department's accounting system improvement initiatives.

Response: Concur with comment. The GFEBS incorporates funds checks which will prevent unfunded transactions and will also instill an accrual basis of accounting. MEDCOM is working with the TRICARE Management Activity (TMA) and the various DFAS organizations to identify and resolve various accounting issues discovered during our quarterly review of SMA Army financial statements. SMA Army is moving from a strictly budgetary accounting based world to incorporate the concepts and structures required for proprietary financial reporting.

Recommendation 2.d.: In coordination their respective Military Departments that own the systems, work with the Defense Finance and Accounting Service (DFAS) to develop periodic Military Treatment Facility level financial reports and establish processes for the reconciliation of MTF level financial reports to EAS IV summary reports.

Response: Concur with comment. The current intent is to achieve corporate level financial statements and perhaps, when fully matured, the MEDCOM could work with DFAS to provide MTF level statements. MEDCOM has allocated Subject Matter Expert resources to the GFEBS project to ensure that medical service accounting requirements are properly developed and incorporated into the new system. As MTF level financial stewardship is strengthened, the quality of data at the MEDCOM component level will likewise be greatly improved and better supported.

Attachment Page 2

Assistant Secretary of the Navy (Manpower and Reserve Affairs) Comments

DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
1000 NAVY PENTAGON
WASHINGTON, D.C. 20350-1000

DEC 11 2006

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL

SUBJECT: Financial Data Processed by the Medical Expense and Performance Reporting System

Department of the Navy (DON) has reviewed the draft report on Financial Data Processed by the Medical Expense and Performance Reporting System. DON concurs with the findings in the report except in the area of Civilian Leave and Military Labor reporting. Specific DON comments from the Bureau of Medicine and Surgery are provided at attachment 1.

My point of contact in this matter is LCDR Karen Leahy, MSC, USN, Special Assistant for Health Affairs, Office of the Assistant Secretary of the Navy (Manpower & Reserve Affairs) at 703-693-0238 or Karen.leahy@navy.mil.

William A. Navas, Jr.
Assistant Secretary of the Navy
(Manpower and Reserve Affairs)

Attachment:
As stated

cc:
Chief, Bureau of Medicine and Surgery

DEPARTMENT OF THE NAVY
BUREAU OF MEDICINE AND SURGERY
2300 E STREET NW
WASHINGTON DC 20372-5300

IN REPLY REFER TO
7000
Ser M8/06UGEN-010974g
20 Nov 2006

From: Chief, Bureau of Medicine and Surgery
To: Department of Defense, Inspector General
Via: Assistant Secretary of the Navy (Manpower and Reserve Affairs)

Subj: REPORT ON THE FINANCIAL DATA PROCESSED BY THE MEDICAL EXPENSE AND PERFORMANCE REPORTING SYSTEM (PROJECT NO. D2005-D000FJ-200 000)

Ref: (a) email of of 30 Oct 06 Katrina Mintz (NAVIG) to Ms. Pat Pristavec (BUMED M09BB3)
(b) Draft of A Proposed Report Financial Data Processed by the Medical Expense and Performance Reporting System

Encl: (1) Proposed memo for ASN(M&RA) submission to DoDIG forwarding Navy Medicine's comments/recommendations

1. Per reference (a), concur with the findings in reference (b) except in the area of Civilian Leave and Military Labor reporting. Enclosure (1) provides in detail our comments and recommendations.

2. For additional assistance, please contact Ms. Pristavec at (202)762-3786.

J. M. MATECZUN
Vice Chief

BUREAU OF MEDICINE AND SURGERY COMMENTS

SUBJECT: Report on the Financial Data Processed by the Medical Expense and Performance Reporting System (Project No. D2005-D000FJ-0200 000)

We are providing the following comments and proposed action for the findings and recommendations contained in the subject report.

We concur with the findings in the report except in the area of Civilian Leave and Military Labor reporting.

Accrual basis of Accounting-Civilian Leave. The report stipulates that medical activities should be expensing leave earned vice leave taken. The Navy Medical department is complying with DoD Financial Management regulation Volume 8 that specifies that leave taken will be expensed and that leave earned (accrued) will be booked as a future liability. Since a change to this policy has ramifications far beyond the Navy medical community, we believe this issue should be referred to the DoD Comptroller for review and assessment.

Controls over Labor Transactions-Military Labor. The report implies that medical activities should be reconciling and recording the cost of actual military pay in the medical financial systems. Currently military payroll is paid by a centralized DoD activity and not by the various field activities. The Navy Medical Department is complying with the current DoD policy as established in DoD Financial Management Regulation Volume 11A specifying use of the DoD military composite pay rate tables for recording statistical costs used for reimbursable operations. Since a change to this policy has ramifications far beyond the Navy medical community, we believe this should be referred to the DoD Comptroller for review and assessment.

As a general comment, we note that although a significant number of the findings appear to be business process issues, a review reveals that the underlying cause of most of them are linked to missing system capabilities. The DHP medical community has been a strong participant in the Business Enterprise Architecture and Standard Financial Information Structure efforts and is making every effort to ensure medical requirements are incorporated within the target architecture. As a result, the DoD Enterprise Transition Plan (ETP) will provide standard systems that will significantly improve our ability to comply with generally accepted accounting procedures and produce timely accurate data. However, significant challenges are still expected because each service medical component will be operating on a different financial system and slightly differing cost accounting requirements with implementation spanning thru 2014. These factors will continue to pose a significant challenge to the creation and implementation of interim standard medical financial processes that can be easily audited.

We strongly concur with the recommendations provided in the report. The Navy and Navy Medical Department stands by to assist the Assistant Secretary of Defense for Health Affairs in developing an expanded Financial Management Regulation for medical operations and in

Attachment (1)

Final Report Reference

revising the DOD Manual 6010 to improve the auditability of the financial data used for MEPRS reporting.

Additionally, the three services do not currently have standard accounting practices due to: a) the requirement to follow service component processes and financial practices, and b) the use of service specific accounting systems. While this situation is expected to improve as we move to the Business Enterprise Architecture (BEA) target accounting systems and implement the Standard Financial Infrastructure System (SFIS) data elements, it is unclear whether this will result in totally standard accounting processes across all three services. Additionally, this does not resolve the problem with the use of multiple service unique feeder systems which complicates documenting and validating the business process and data. To improve this, the DOD Comptroller and OASD(HA) will need to issue specific medical accounting guidance. Further, OASD(HA) should require the service medical components to migrate to standard feeder systems in the areas of personnel management, plant property, procurement and logistics and not leave service unique system processes as an alternative.

We recommend that the Assistant Secretary of Defense (Health Affairs):

A. Issue DoD Financial Management Regulations covering the financial accounting operations of the Department's medical and dental programs at the Military Treatment Facilities, Specifically, develop regulations that:

1. Specify the appropriate accounting, measurement, and recognition methods for the data used in the MEPRS allocation process at the Military Treatment Facilities, and

2. Establish a requirement for the Military Departments, the Department Surgeons General, and DFAS to work together to produce financial statement reports and trial balances at the Military Treatment Facility level.

- Concur in principle; the current DODFMR chapter on Medical Accounting needs to be expanded. Be advised that this may be costly and hard to do under the current environment of multiple systems that operate differently. Recommend that this be developed in tandem with the planned implementation of the future target accounting systems.

renumbered as recom 2.

B. Revise the DoD Manual 6010.13M to ensure that full costs are captured and reported consistently across the Military Department Surgeons General in accordance with generally accepted accounting principles and Federal Accounting Standards. Specifically, the manual should specify standardized accounting practices to record Military Treatment Facility data in accordance with federal accounting standards for MEPRS related financial transactions including consistent cut-off procedures, and establishment of accrual processes where necessary.

- Concur. The major areas of concern noted for the Navy are: Contract Expense accruals, military and civilian timekeeping and medical accounting collection. The military pay reconciliation issue is a global DoD issue with regard to GAAP compliance. Additionally, please be advised that MEPRS managerial reports do not need to be GAAP compliant. However,

Attachment (1)

Final Report Reference

we agree the financial data reported in MEPRS should be consistent with the accounting standards.

2. We recommend that the Surgeon General of the Army, Navy, and Air Force:

renumbered as recom 3.

A. Establish a Military Treatment Facility MEPRS monthly Reconciliation policy so that MEPRS data are reconciled to source records, any differences are researched, corrected, and supported, and supporting documentation is readily available.

- Concur. The reconciliation process is a good start. However, MEPRS will need some changes in base philosophy as we implement the BEA and SFIS strategies. The implementation of the BEIS database linking the financial data to the budget will require that any data we use in rate development and in the budget process be consistent and reconcilable to the official financial report and data in the BEIS database. The current ability to correct and reprocess EAS data will conflict with that requirement and should be reconsidered.

B. In coordination with the Defense Finance and Accounting Service develop periodic MTF level financial reports and establish processes for the reconciliation of MTF level financial reports to EASIV summary reports.

- Concur. The corrections for the current SGL and financial report deficiencies are expected to be incorporated within the BEA target accounting systems. DOD has determined that this strategy provides the best and most economic alternative to trying to retrofit the current systems to correct the deficiencies. Unfortunately, this problem would not be resolved until all three services have transitioned to their new compliant platform. For Navy Medicine, that would be 2012/2013.

Attachment (1)

Air Force Surgeon General Comments

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON DC

8 December 2006

MEMORANDUM FOR DEPARTMENT OF DEFENSE OFFICE OF THE INSPECTOR GENERAL ATTN: Mr Starinski
TRICARE MANAGEMENT ACTIVITY ATTN: Mr Greener

FROM: HQ USAF/SG
1780 Air Force Pentagon
Washington DC 20330-1780

SUBJECT: Report on the Financial Data Processed by the Medical Expense and Performance Reporting System (Project No. D2005-D000FJ-0200.000)

The following management comments are provided to the service-specific recommendations in the above mentioned audit report.

Recommendation: Establish a MTF MEPRS monthly Reconciliation policy so that all data used in the MEPRS allocation process are reconciled to source records; any differences are researched, corrected, and supported; and supporting documentation is readily available.

Comment: Recommendation implemented. Air Force Instruction 41-102, Air Force Medical Expense and Performance Reporting System (MEPRS), is being revised to include a financial reconciliation requirement between MEPRS and the financial system.

Recommendation: In coordination with the Service Medical Activities Financial Improvement and Readiness Group, report known MTFs departures from generally accepted accounting principles.

Comment: Recommendation implemented. USAF/SGY (Financial Management Division) reports/updates the Service Medical Activities Financial Improvement /Audit Readiness (SMA FIAR) Plan to report service specific issues with generally accepted accounting principles; however, MEPRS was not designed as an accrual based accounting system. MEPRS changes are a function of OASD(HA/TMA), who provide specific implementation guidance for Air Force, Army, and Navy medical services.

Recommendation: Provide the respective Military Department's Financial Improvement Readiness group with the MTFs accrual accounting and reporting requirements for inclusion into the Military Department's accounting system improvement initiatives.

Comment: Recommendation implemented. As with item b, USAF/SGY (Financial Management Division) reports/updates the SMA FIAR Plan. MEPRS process changes are a function of OASD(HA/TMA).

SG DOC: 06-0340

Recommendation: In coordination with their respective Military Departments that own the systems, work with the DFAS to develop periodic MTF level financial reports and establish processes for the reconciliation of MTF level financial reports to EAS IV summary reports.

Comment: Recommendation implemented. Existing financial reports allow for financial reconciliation. MTFs are required to reconcile monthly and report on the financial reconciliation as part of the Commander's Data Quality Statement. The Commander's Resources Integration System (CRIS) EAS Output Query is reconciled to the EAS Direct Expense Schedule in the EASIV System, ensuring data correctly transferred from CRIS to EAS.

My point of contact for this matter is Maj Carrie Cooper, AFMOA/SGYR, 703-681-6355 or carrie.cooper@pentagon.af.mil.

JAMES G. ROUDEBUSH
Lieutenant General, USAF, MC, CFS
Surgeon General

Team Members

The Department of Defense Office of the Deputy Inspector General for Auditing, Defense Financial Auditing Service prepared this report. Personnel of the Department of Defense Office of Inspector General who contributed to the report are listed below.

Paul J. Granetto
Patricia A. Marsh
James L. Kornides
Mark Starinsky
Ted R. Paulson
John H. Gartland
Peter G. Bliley

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Inspector General
Department of Defense

Text Here