

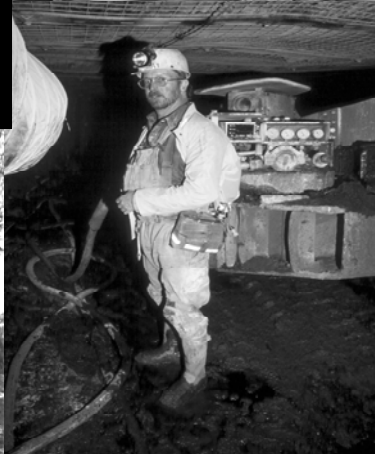


DEPARTMENT OF HEALTH & HUMAN SERVICES · USA



**Performance and
Accountability Report**

Fiscal Year 2004



U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Administration for Children and Families (ACF)

Administration on Aging (AoA)

Agency for Healthcare Research and Quality (AHRQ)

Agency for Toxic Substances and Disease Registry (ATSDR)

Centers for Disease Control and Prevention (CDC)

Centers for Medicare & Medicaid Services (CMS)

Food and Drug Administration (FDA)

Health Resources and Services Administration (HRSA)

Indian Health Service (IHS)

National Institutes of Health (NIH)

Substance Abuse and Mental Health Services Administration (SAMHSA)

For more information about the Department of Health and Human Services and its major components, please visit our website at <http://www.hhs.gov>

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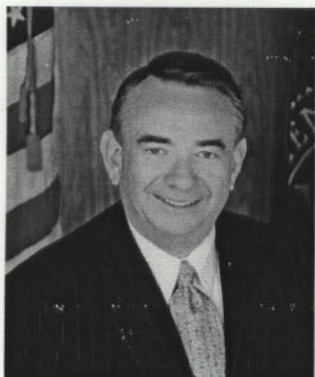
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MESSAGE FROM THE SECRETARY



The 2004 fiscal year saw a culmination of efforts in many key areas throughout the Department of Health and Human Services (HHS). Working together, the agencies of our Department achieved remarkable results. HHS is one of the largest Departments of the Federal government, representing almost a quarter of all Federal outlays and administering more than 300 programs through our HHS Agencies. But no longer is HHS merely a collection of separate agencies. Today we are One Department, working as a team toward coherent goals, and achieving more than we have ever done in the

past. In the last four years, we have transformed our performance in some of the mission areas most important to our nation:

- In FY 2004, the Medicare Modernization Act was passed, the most significant improvement for Medicare since it was created in 1965. We immediately launched the enormous task of implementing this legislation, which will provide outpatient drug coverage for America's older and disabled citizens. Discount drug cards were made available within months of enactment, and the task of creating a major new benefit for more than 40 million Americans is well underway.
- The Nation's preparedness for public health emergencies continued to grow, and our capacity today is incalculably greater than it was when America was attacked on September 11, 2001. In 2004, President Bush signed the \$5.6 billion BioShield Act into law, a new ten-year initiative to ensure that America will have the medical countermeasures it needs to handle possible bioterror attacks.
- The President's Emergency Plan for AIDS Relief was put into action, an unprecedented \$15 billion commitment over five years to provide treatment and prevention resources to countries that need it most. In combination with U.S. commitments to the Global Fund, the administration's commitment to confronting global AIDS is many times higher than any previous efforts.
- Working with the private sector, HHS launched a ten-year plan to transform health care delivery through the use of health information technology. The President called for Electronic Health Records for Americans within a decade. By linking these records nationwide, American health care quality can be improved even as costs are reduced.

- HHS increased the public's awareness of our Nation's epidemic of overweight and physical inactivity. A national advertising campaign was launched, advocating achievable steps each person can take to protect individual health.

This annual report provides an overview of these and many other activities and achievements of HHS.

It is my assertion that the financial information contained in this report is complete and reliable, supported by the underlying records of the Department, and is reported in conformance with accounting principles generally accepted in the United States. The independent public accounting firm, Ernst & Young, LLP, contracted by our Inspector General, issued an unqualified ("clean") audit opinion for FY 2004, marking the sixth consecutive year that HHS has earned a clean opinion. Further, it is my assertion that the program performance information contained in this report is complete and reliable, except as noted in agency performance plans, based on information from the HHS component organizations and comprehensive and ongoing reviews conducted by Department officials.

This report includes information that satisfies the reporting requirements for the Federal Managers' Financial Integrity Act (FMFIA) of 1982. Except for the weaknesses and nonconformances identified in this report, HHS' management controls are in compliance with FMFIA and provide reasonable assurance that the Department's resources are protected from fraud, abuse, and mismanagement. Under Section 2 of the Act, HHS is reporting three material weaknesses. The first was based on a Department-level significant deficiency finding under the Federal Information Security Management Act. The other two material weaknesses, Departmental Payroll System and Departmental Financial Reporting, were identified through the CFO audit process. Under Section 4, we are reporting one material nonconformance at the Department level, which specifies that our financial management information systems and reporting processes, as well as our Medicare contractor systems, are not in conformance with FMFIA. Our systems implementation projects discussed in this report - including a new Medicare financial system - provide for long-term achievement of compliance with FMFIA. In Appendix D of this report, we present the complete FMFIA report.

Given our broad and diverse missions, we have a special responsibility to be accountable for the funds we manage and for achieving results. We have established long-term strategic goals to help steer our efforts on behalf of Americans. This report is structured in accordance with our strategic goals allowing our customers and stakeholders to track our performance more clearly.

I welcome your interest in this report. Working as One Department, we have achieved remarkable results, and these accomplishments provide us a new foundation to continue our progress together. With all 66,000 employees of the Department of Health and Human Services, I pledge our continued commitment to ambitious goals and real results.



Tommy G. Thompson



MESSAGE FROM THE CHIEF FINANCIAL OFFICER



I am pleased to present the U.S. Department of Health and Human Services (HHS) FY 2004 Performance and Accountability Report. This report presents critical aspects of the Department's performance during the past fiscal year, as well as the Department's financial results and program management and accountability information in a single, integrated document. Our intent is to provide a comprehensive picture of HHS' efforts over the past year in pursuing its strategic and performance objectives, and to demonstrate accountability for the resources entrusted to HHS.

It is my assertion that the financial information contained in this report is complete and reliable, supported by the underlying records of the Department, and is reported in conformance with accounting principles generally accepted in the United States. Our independent accounting firm, Ernst & Young, LLP, selected by our Inspector General, issued an unqualified ("clean") audit opinion for FY 2004, marking the sixth consecutive year that HHS has earned a clean opinion.

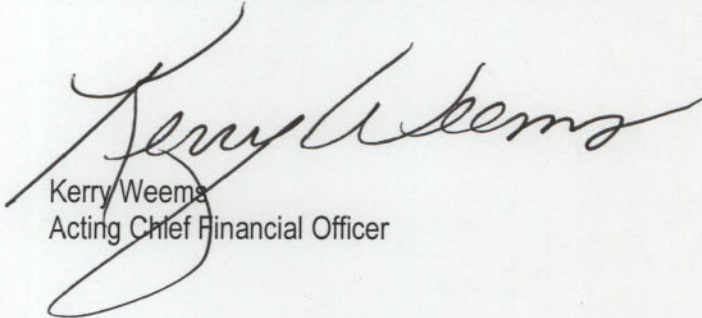
While we are proud of these accomplishments, much work and opportunities for improvement remain. As such, this report not only reflects on our many accomplishments of FY 2004, but also looks ahead to the challenges of the future. We consider the ongoing development and implementation of a Unified Financial Management System (UFMS), as discussed in this report, to be the foundation for continued improvement in our financial management and reporting capabilities. Our intent is that the full implementation of UFMS by FY 2007 will enable us to resolve the remaining controls and systems issues under the Federal Managers' Financial Integrity Act and the Federal Financial Management Improvement Act, respectively, and will greatly enhance the efficiency of our financial management processes. Significant modules of UFMS became operational in the past year, including the general ledgers for payroll at the Centers for Disease Control and Prevention and the Food and Drug Administration, with continued progress expected in the near future.

HHS is committed to providing timely and accurate financial information to HHS managers and stakeholders, and to ensuring that our business processes are efficient and customer-driven. HHS has also undertaken numerous efforts to improve program and resource management processes, to help support those who depend on HHS' many services.

As discussed in the Secretary's message, FY 2004 has been a year marked by significant program and management accomplishments. First and foremost, seniors will now have outpatient drug coverage, the most significant change to Medicare since its inception. Also, HHS is pursuing major new initiatives for AIDS relief, bio-terrorism preparedness, and is devoting renewed attention to such important health issues as inactivity and obesity. HHS has made considerable progress, and

is proud of its accomplishments, in achieving budget and performance integration. The work HHS completed during FY 2004 lays the foundation for solid decision-making and paves the way for making even further progress as these accomplishments are refined and realized. To name just a few major milestones: HHS developed and submitted a preliminary FY 2006 performance budget for each program, designed and implemented a pilot methodology for calculating marginal costs, completed a total of 65 assessed programs through the Program Rating Assessment Tool (PART), implemented a process for tracking PART recommendations, implemented performance measures for 100 percent of the performance program areas identified in the FY 2006 performance budgets, and published its updated five-year Strategic Plan.

This report contains comprehensive information on the Department's program performance, resource management, and stewardship responsibilities. It addresses the strides that HHS has made relative to the President's Management Agenda, including our progress in addressing such critical issues as managing the Department's improper payments and improving our financial reporting and management processes. This document fully demonstrates our accountability and stewardship. In closing, I would like to acknowledge the dedication and professionalism of HHS staff throughout the Department who contributed to the production of this report.



Kerry Weems
Acting Chief Financial Officer