HHS FY 2002 Financial Management Five Year Plan

July 2002

Introduction

This FY 2002 HHS Financial Management Five Year Plan continues the tradition of evolving to reflect current strategies in Federal financial management and financial management within HHS, in particular. We continue to prepare this document for a largely internal Federal audience to communicate the HHS' financial management priorities to OMB (as part of the FY 2004 budget submission process), GAO, and HHS financial managers. We also continue to present our strategies, goals and targets in a format supportive of the Government Performance and Results Act (GPRA), similar to the approach taken by HHS program areas.

As this Plan is finalized, HHS adapting to new OMB on scoring elements of the President's Management Agenda Scorecard. Future financial management plans will be restructured to reflect a greater emphasis on those scoring elements. In the meantime, HHS will be providing information to OMB, usually quarterly, reflecting our progress on improving the status of elements of the scorecard.

At the beginning of FY 2002, the functions of the Office of the Assistant Secretary for Management and Budget (ASMB), which also served as the Department's Chief Financial Officer, were reorganized into two separate offices: the Assistant Secretary for Budget, Technology, and Finance (ASBTF), and the Assistant Secretary for Administration and Management (ASAM). This structure facilitates the focus of the ASBTF on two of our primary financial management objectives: retaining a "clean" opinion on the Department's financial statements, and building the Unified Financial Management System.

In keeping with the Secretary's "One HHS" philosophy, the HHS Five Year Plan will address only those financial management functional areas that are the responsibility of the HHS ASBTF/CFO. For example, Information Resources issues are not addressed here because such non-financial functions are also reporting extensively to OMB via the President's Management Agenda and OIRM strategic planning avenues. However, the Office of the ASBTF/CFO will continue to monitor such issues.

Improving Financial Performance

Strong financial management provides a solid and necessary foundation for effective program performance. Improving federal agencies' financial management is a President's Management Agenda item. Likewise, improving HHS' financial management and related infrastructure is one of Secretary Thompson's highest priorities. The Department's efforts to improve financial management are focused in two key areas: maintaining clean opinions on the HHS annual financial statements and implementing an integrated financial management system across the Department.

Accelerating Financial Reporting and Maintaining Clean Opinions

HHS has achieved "clean" opinions on its Department-wide audited financial statements annually since FY 1999. However, this achievement is no "true" reflection on the overall state of the Department's financial management systems. Each year inordinate amounts of manual intervention are required to reconcile financial accounts with supporting documentation and subsidiary systems, and to develop adjusting entries to correct account balances provided by various departmental systems. The manual interventions necessarily are labor intensive, thereby consuming substantial amounts of HHS personnel time. Historically, the manual efforts have taken five to six months after fiscal yearend to complete.

In contrast, good financial management and OMB guidance dictates that annual financial statements be routinely available on a much more timely basis. For the FY 2001 audited statements, the Department's goal was to complete and publish them (within the HHS Accountability Report) by February 1, 2002. However, due to various factors, the Department did not deliver the statements to OMB until February 26. (The deadline established by OMB was February 27.) Obviously, the Department's processes need to be significantly improved in order for it to meet OMB's more aggressive reporting deadline of February 1, 2003, for the FY 2002 statements. In addition, future Accountability Reports are to be combined with Departmental GPRA Performance Reports, further complicating the processes to complete the reporting requirements. Additionally, OMB has publicly announced that for FY 2004, the reporting deadline for agencies' audited annual financial statements will be November 15 – just 45 days after fiscal yearend. Furthermore, OMB has directed federal agencies to prepare interim financial statements for the first time in FY 2002, in essence placing more "pressure" on HHS to produce more financial reports in compressed timeframes.

HHS faces significant challenges in maintaining its clean opinions in light of the accelerated reporting dates, particularly the November 15 annual financial statements deadline. Options to meet the dates must be examined, particularly since per current planning the Department's unified financial management system (discussed below) will not be operational across all of the component agencies until at least FY 2007. Potential options could include:

- requesting relief from OMB in order to perform a balance sheet only audit for the Department,
- using a "top down" approach, reducing the number of smaller HHS agencies receiving full audits (perhaps considering review services by CPA firms),
- increasing the level of audit work performed throughout the year to reduce the amount of work done after yearend,
- weighing the value (to the Department) of the clean opinions vs. the timeliness capabilities during the years before the unified system is operational.

In addition to re-engineering departmental reporting and auditing processes to accommodate accelerated reporting, HHS will also be working to resolve audit findings (material weaknesses and reportable conditions) at both the Department and the component agency levels.

Beginning with the quarter ending March 31, 2002, the Department began submitting quarterly Corrective Action Plans (CAPs) to OMB. These CAPs address findings from the Department's financial statement audits, the FMFIA, and FFMIA processes in an integrated manner, to reduce redundant reporting and tracking procedures. Quarterly progress is detailed in order to support OMB's quarterly scorecard rating for HHS on financial management.

Developing and Implementing a Unified Financial Management System

Over the last few years, HHS financial auditors have cited the Department's lack of an integrated accounting system as a material weakness and a specific impediment in preparing timely financial reports and statements. Secretary Thompson has directed a "One HHS" approach to managing the Department. One of the major tenets of the Secretary's approach is the development and implementation of a Unified Financial Management System (UFMS) for the Department. In accordance with Secretary Thompson's June 2001 direction, the UFMS is to be composed of two primary components--an accounting system for the Centers for Medicare & Medicaid (CMS) and another system for the rest of the Department. The two components will be integrated to provide for Department-wide financial reporting. The unified system is to generate interim and annual financial statements, as well as other required external and internal financial reports. Effective design and implementation of the UFMS should resolve the Office of the Inspector General audit finding regarding current financial system weaknesses. However, until the system is fully operational, HHS will continue to confront significant challenges in meeting accelerated financial reporting dates established by OMB.

HHS management has defined a number of strategic objectives related to the UFMS initiative:

- Eliminate redundant and outdated financial systems by implementing a modern integrated HHS-wide system.
- Produce reliable, timely and relevant financial information to help HHS managers make fact-based decisions to improve service to customers.

- Comply with federal financial management system requirements, as well as accounting standards and financial reporting requirements.
- Strengthen internal controls by instituting business rules, data standards and accounting policies across HHS.
- Continue to achieve unqualified audit opinions on annual financial statements.

We have identified the following Critical Success Factors for the UFMS:

- Sustaining commitment from HHS top leadership;
- Developing and articulating of a clearly-defined scope;
- Obtaining dedicated staffing resources (Departmental and contractor) with the knowledge, skills and abilities to successfully accomplish program objectives;
- Defining and meeting HHS business requirements;
- Securing adequate funding to sustain the project;
- Coordinating with other Department-wide initiatives;
- Creating a unified team comprised of highly qualified representatives from HHS component agencies;
- Developing and executing a comprehensive implementation plan, to include:
    - Acquisition Planning,
    - Change/Communication Management,
    - Financial Management,
    - Performance Management,
    - Quality Control, and
    - Risk Management.

Making Progress in Addressing Improper Payments

HHS takes the matter of erroneous payments seriously. Due to the large number of payments HHS manages, a small percentage of erroneous payments can cause a large dollar volume of erroneous payments. Therefore, reducing erroneous payments is a priority for the entire Department and a Presidential management agenda item.

For the period of this plan, HHS is focusing on its largest programs, CMS and ACF. CMS has reduced the erroneous payment rate for the Medicare fee-for-service program from 14 percent in 1996 to 6.3 percent in 2001. Its goal is to reach an error rate of no more than 5 percent by 2002. CMS is also working with the states on a pilot study to measure and ultimately reduce Medicaid error rates.

ACF has a number of initiatives relating to erroneous payments. Included in this is an assessment of the Foster Care Federal/State joint payment review. Also, ACF is working with OMB to identify ways that OMB Circular A-133 (which establishes uniform audit requirements) might be revised to facilitate the identification of erroneous payments through audits.

Improving Other Financial Performance Measures

In addition to the two key priorities highlighted above, HHS is also committed to monitoring and improving:

- timeliness of travel card payments,
- compliance with A-133 audit requirements and resolution of audits,
- interpretation and development of Federal cost policy, and
- debt collection and referral activities.

	FY 2002 Target	FY 2003 Target	FY 2004 Target	FY 2005 Target	FY 2006 Target	FY 2007 Target	Performance/Comments:
HHS Accountability Report and audited financial statements for CMS are submitted to OMB by deadline.	Yes – Feb 1	Yes – Feb 1	Yes – Nov 15	Yes – Nov 15	Yes – Nov 15	Yes – Nov 15	Baseline: No for the FY 1996 audited financial statements. More recently, the FY 2001 HHS and CMS (formerly HCFA) statements were submitted timely on 2/26, though we had been striving to meet an internal goal of 2/1. Other HHS components will submit their audited financial statements to OMB based on the agreed upon audit due dates.
Number of department-level material weaknesses	2	2	2	2	2	0	Baseline: FY 1997 - 5 material weaknesses were cited in the HHS audit opinion. More recently, in FY 2001, the audit opinion cited 2 material weaknesses: financial systems/processes and Medicare contractor EDP controls. The material weakness for financial systems and processes will not be resolved until the implementation of the Unified Financial Management System (UFMS) in FY 2007. CMS will make progress on mitigating the EDP control weakness in the FY 2002 cycle; it is likely to continue to be cited as a material weakness.
Number of department-level reportable conditions	2	2	2	2	2	0	Baseline: FY 1997 - 3 reportable conditions. More recently, in FY 2001, there were 3 reportable conditions. In FY 2002, we expect to resolve the finding for Management Systems Planning and Development, leaving findings for Medicaid Improper Payments and Departmental Information Systems Controls. Reportable conditions are identified in the HHS auditor's opinion.

	FY 2002 Target	FY 2003 Target	FY 2004 Target	FY 2005 Target	FY 2006 Target	FY 2007 Target	Performance/Comments:
Percentage of Medicare contractors that will be subjected to a SAS 70	20%	20%	20%	20%	20%	20%	Baseline: FY 2000 - 26 of 50 contractors had SAS-70 reviews; 19 of the contractor's SAS 70 reviews covered Part A; 16 covered Part B. Statement of Accounting Standard No 70 (SAS 70) is intended for all entities that outsource tasks for conducting accounting transactions and related services. It requires accountability and internal control assessments. Based on the results of the SAS 70s (Type I) performed in FY 2000, CMS will continue SAS 70s of Medicare contractors using a more detailed approach (Type II). CMS plans to review all Medicare contractors remaining in the program at least once in the five-year period.
Number of department-level instances of FFMIA non-compliance	2	2	2	2	2	0	Baseline: FY 1997 – 4 instances of non-compliance. More recently, in FY 2001, HHS had 2 non-compliances with the Federal Financial Management Improvement Act. These two items are duplicates of the financial statement audit material weaknesses: financial systems and processes, and Medicare EDP controls. See 6/30/02 (or subsequent) Corrective Action Plan.
Percent of vendor payments made on time	96%	97%	97%	97%	97%	97%	Baseline: FY 1998: 91%. More recently, in FY 2001, 97.7% was achieved. Because of the volume of their activities, NIH, IHS, and PSC are the HHS components that have a critical impact on meeting these targets.

	FY 2002 Target	FY 2003 Target	FY 2004 Target	FY 2005 Target	FY 2006 Target	FY 2007 Target	Performance/Comments:
Timely payment of approved travel vouchers within 30 calendar days of submission to first-level reviewing official	95%	96%	96%	96%	96%	96%	Baseline: FY 2001 – Effective FY 2000, federal agencies are required to pay proper travel vouchers within 30 calendar days or pay a late payment fee to the employee. Since FY 2001 is the first full year of implementation, it will be used as the baseline year.
Percent of individually billed travel accounts that are past due 61 or more days	4%	1%	1%	1%	1%	1%	Baseline: FY 2000 – 10% were past due. In FY 2001, 3.5% measured in dollars were past due at year end (1.1% of card holders). Employees are responsible for paying their travel card bills timely. HHS components can influence this statistic by paying proper travel vouchers timely and by educating their employees about travel card responsibilities. This measure reflects the CFO Council's approach by using 61 instead of the former 60 days to calculate the percentage past due.
Percent of centrally billed travel accounts that are past due 61 or more days	.5%	0%	0%	0%	0%	0%	Baseline: FY 2000 – 19% were past due. In FY 2001, 15.5% were past due at year end. The goal is to pay bills timely and reach 0% as soon as possible. This measure and targets were revised to be consistent with the CFO Council's approach by using 61 instead of the former 60 days to calculate the percent of vouchers past due.
Increase percent of collections over prior year	10% increase	10% increase	10% increase	10% increase	10% increase	10% increase	Baseline: FY 1998: $13.3 billion. More recently, in FY 2001, $14.4 billion in debts was collected. Basis for measure/target: The target is to have an increase of 10% in total dollars collected over the prior year. CMS's performance is critical to achieving this target.

	FY 2002 Target	FY 2003 Target	FY 2004 Target	FY 2005 Target	FY 2006 Target	FY 2007 Target	Performance/Comments:
Percent of eligible non-waived delinquent debt referred for cross-servicing to Treasury	100%	100%	100%	100%	100%	100%	Baseline: FY 1998: 0% referred as we were anticipating designation as a government-wide Debt Collection Center. More recently, in FY 2001, 67.8% of eligible debt was referred to Treasury for cross-servicing. Targets of 100% are in accordance with law (DCIA of 1996). CMS is a key HHS component in achieving these targets.
Percent of eligible waived delinquent debt referred to PSC for cross-servicing	100%	100%	100%	100%	100%	100%	Baseline. FY 1999: 3.7%. PSC received approval in January 1999 to act as a debt collection center for certain debts. More recently, in FY 2001, 46.7% of eligible delinquent debt was referred to PSC. The target is in accordance with law (DCIA of 1996). Baseline and targets are actual dollars referred as a percentage of eligible dollars. CMS is a key HHS component in achieving these targets.
Percent of eligible delinquent debt referred to the Department of the Treasury for offset	100%	100%	100%	100%	100%	100%	Baseline: FY 1998: 20.2% (2nd quarter baseline established in FY 1998 Plan). More recently, in FY 2001, 59.1% was referred to Treasury. Targets of 100% are in accordance with law (DCIA of 1996). Baseline and targets are actual dollars referred as a percentage of eligible dollars. CMS is a key HHS component in meeting these targets.

	FY 2002 Target	FY 2003 Target	FY 2004 Target	FY 2005 Target	FY 2006 Target	FY 2007 Target	Performance/Comments:
Number of Department level FMFIA material weaknesses/non-conformances pending at year end							Baseline: FY 1997: 7. More recently in FY 2001, 2 material weaknesses were pending (FDA and NIH), and 1 systems non-conformance was cited (including the elements of financial systems and Medicare EDP controls). The systems non-conformances are covered in the quarterly corrective action plan.
Section 2	0	0	0	0	0	0	
Section 4	1	1	1	1	1	0	

Improving Cost Policy

HHS works closely with its partners including states, local governments, and tribes, to provide services to those who need them. Since all are accountable to taxpayers for use of the federal funds, audits of the use of those funds are conducted at the partner level as well as the HHS level. In addition to the other grants management improvements discussed above, HHS has committed to timely audit resolution in the HHS ASMB GPRA plan. Also, HHS provides assurance of the quality of audits performed by non-federal auditors via a multi-tiered approach as follows:

- Quality Control Reviews performed by the Office of Inspector General's (OIG) National External Audit Review Center (NEAR), discussed below,
- Maintenance of an up-to-date HHS Audit Compliance Supplement providing complete coverage of major programs and guidance to the auditor,
- Referral of non-federal auditors to the NEAR center and/or state societies for disciplinary review as a result of findings during the normal audit resolution process, and
- Technical assistance provided at various association meetings, state societies, internet-posted questions and answers, and individual discussion.

The OIG's NEAR center performs desk reviews on all single audit reports received from the Census Bureau. The findings and recommendations are summarized and identified by federal department officials responsible for the resolution. A written response to the HHS resolution official is requested within 30 days from the date the letter was sent out by NEAR. In addition, quality control reviews (QCR's) of states, local governments, and non-profit organizations audits under OMB Circular A-133, are performed during the year. See summary of number of QCR's completed and scheduled below:

OIG/NEAR	FY 2002 Planned	FY 2003 Planned	FY 2004	FY 2005	FY 2006	FY 2007	Performance/Comments:
QCR-OIG Lead Agency	15	15	TBD	TBD	TBD	TBD	In FY 1999 and FY 2000, 14 reviews were completed.
QCR-OIG Supporting Agency	1	1	TBD	TBD	TBD	TBD	In FY 1999, 3 reviews were completed, and 1 was completed in FY 2000.
QCR-Contractor Personnel	15	20	TBD	TBD	TBD	TBD	In FY 1999, 7 reviews were completed, and 0 were completed in FY 2000.

HHS and HHS Components Audit History APPENDIX A

Entity	FY 1996		FY 1997		FY 1998		FY 1999		FY 2000		FY 2001	
	Scope of Review/ Audit	**Opinion/ Report Rendered**	**Scope of Review/ Audit**	**Opinion/ Report Rendered**	**Scope of Review/ Audit**	**Opinion/ Report Rendered**	**Scope of Review/ Audit**	**Opinion/ Report Rendered**	**Scope of Review/ Audit**	**Opinion/ Report Rendered**	**Scope of Review/ Audit**	**Opinion/ Report Rendered**
HHS	Full scope	**Disclaim**	Full Scope	**Qualified**	Full Scope	**Qualified**	Full Scope	**Clean**	Full Scope	**Clean**	Full Scope	Clean
CMS (formerly HCFA)	Full scope	Disclaim	Full Scope	Qualified	Full Scope	Qualified	Full Scope	Clean	Full Scope	Clean	Full Scope	Clean
ACF	Full scope	Qualified	Full Scope	Qualified	Full Scope	Split	Full Scope	Clean	Full Scope	Clean	Full Scope	Clean
NIH	Internal Control Assessment	Management Report	Full Scope	Qualified	Full Scope	Split	Full Scope	Clean	Full Scope	Clean	Full Scope	Clean
HRSA	Full scope	Qualified	Full Scope	Qualified	Full Scope	Split	Full Scope	Clean	Full Scope	Clean	Full Scope	Clean
CDC/ ATSDR	Internal Control Assessment	Management Report	Full Scope	Qualified	Full Scope	Clean	Full Scope	Clean	Full Scope	Clean	Full Scope	Clean
SAMHSA	Full Scope	Qualified	Full Scope	Qualified	Full Scope	Split	Full Scope	Clean	Full Scope	Clean	Full Scope	Clean
IHS	Full Scope	Qualified	Full Scope	Qualified	Full Scope	Split	Full Scope	Qualified	Full Scope	Qualified	Full Scope	Clean
FDA	Full Scope	Qualified	Full Scope	Qualified	Full Scope	Clean	Full Scope	Clean	Full Scope	Clean	Full Scope	Clean
PSC	SAS 70s	N/A	SAS 70s	N/A	Balance Sheet only	N/A	Full Scope	Clean	Full Scope	Clean	Full Scope	Clean
AoA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Balance Sheet Only	N/A	Full Scope	Clean
AHRQ	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
OS	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

N/A = Not Applicable TBD = To Be Determined Split = Statements of Custodial Activity, Budgetary Resources and/or Financing Disclaimed

APPENDIX B

SUMMARY OF FY 2001 AUDIT FINDINGS BY HHS COMPONENT

	HHS	ACF	CDC	FDA	CMS	HRSA	IHS	NIH	PSC	SAMHSA	AoA	1
Financial systems and processes	MW	RC	RC		MW	RC	MW	MW	RC	RC	RC	10
Medicare EDP	MW				MW							2
Medicare regional office oversight												
Medicaid error rate	RC				RC							2
EDP	RC	RC (2)		RC		RC (2)	RC (2)		RC	RC (2)	RC	12
Property								RC (2)				2
Medicare Entitlement Benefits Due & Payable					RC							1
Fund balance with Treasury							MW	RC				2
Grant financial management		RC				RC		RC		RC		4
Reimbursable agreements			RC				RC (2)	RC (2)		RC		6
Investments in Management Systems	RC							MW				2
Controls over grants			RC (2)									2
Overhead rate												
Biological products inventory												
Service & Supply and Mgmt Fund Trans.												
Treasury 2108/SF 133 reporting reqmts								RC				1
Accounts payable and unliquidated obligations												
Open document file												
Required authorizations								RC				1
Cash Collections												
Receipt and acceptance procedures								RC				1
Duplicate and Over Payments												
Accurate and timely posting of transactions												
Payroll								RC				1
Personnel Actions								RC				1
Health profession student loan program												
Accounting for litigation claims						RC						1
Elimination entries												
Inventory and cost of goods sold												
Accounts receivable							RC					1
Possible anti-deficiency												
FFMIA	CLR (2)	CLR		CLR	CLR (2)	CLR	CLR	CLR		CLR	CLR	7
TOTAL	2 MW 3 RC 2 CLR	4 RC 1 CLR	4 RC	1 RC 1CLR	2 MW 2 RC 2 CLR	5 RC 1 CLR	2 MW 5 RC 1 CLR	2 MW 11 RC 2 CLR	2 RC	5 RC 1 CLR	2 RC 1 CLR	

MW = Material Weakness CLR = Compliance with Laws and Regulations RC = Reportable Condition
1, 2, etc = Total number of findings per category

Changes since 2000 Audit results.

HHS - Reportable conditions increased from two to three, as Investments in Management Systems was added to those previous conditionds.

ACF - Grant Financial Management improved to reportable condition.

CDC - Financial systems and processes improved to reportable condition.

FDA - No change.

CMS - No change.

HRSA - Grant Financial Management improved to reportable condition.

IHS - Audit completed on time for this report.

NIH - Material weaknesses held constant at two as reportable conditions decreased from 13 to 11. Control over grants and cash collections were the reportable conditions that were dropped.

PSC - Reportable conditions reduced from 3 to 2 as fund balance with Treasury reportable condition removed.

SAMHSA - Grant Financial Management improved to reportable condition.

AoA - First full scope audit in 2001, FY 2000 results were for balance sheet audit only.