




Accountability Report Fiscal Year 2001

The background of the entire image is a close-up, slightly blurred view of the stars and stripes of the United States flag. The stars are white and five-pointed, set against a dark blue field. The stripes are light-colored, likely white or light blue, and are visible in the lower right and bottom left corners.

For more information
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Health and Human Services
and its major components,
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<http://www.hhs.gov>

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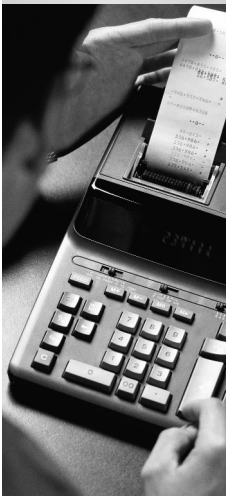
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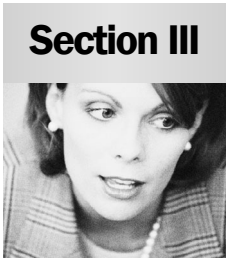
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Message from the Secretary

The events of recent months have highlighted the importance of the U.S. Department of Health and Human Services (HHS) to every American. The work of HHS has never been more significant or visible than it is today, and we will continue to play a vital role in protecting the lives and the health of every citizen. I am very proud of the work done by this Department, and I'm pleased to present a summary of our accomplishments in this Accountability Report.

In Fiscal Year (FY) 2001, HHS was accountable for over \$426 billion, as measured in net outlays. Throughout the year, we continued to serve the American public through our many crucial programs, such as Medicare and Medicaid (our two largest programs accounting for almost \$348 billion in net outlays), medical research, community health services, food and drug safety, and child welfare and child support enforcement.

At a time of national crisis, our programs provided assistance to the search, rescue, and recovery efforts at the World Trade Center and the Pentagon, and we assisted the families affected by the tragic events of September 11, 2001. HHS had the lead public health responsibility in responding to the bioterrorism acts of recent months.

During FY 2001, HHS also began laying the groundwork for reauthorization of welfare reform legislation impacting our Temporary Assistance to Needy Families (TANF) program, our third largest program accounting for almost \$19 billion in net outlays. Working with the states, we helped expand access to health care for up to 1.5 million low-income Americans. We also initiated demonstration projects to develop technology to reduce medical errors and improve patient safety and care. These are only a few highlights out of a host of accomplishments, many of which are described in this report.

In the area of financial management, we achieved our third consecutive unqualified, or "clean" financial statement audit opinion. However, we face significant on-going challenges to improve the timeliness and reliability of our financial information for decision-making purposes, resolve our material weaknesses, and reduce the level of manual intervention needed to prepare financial reports and statements. In response to these challenges, we are developing a Unified Financial Management System (UFMS), a multi-year financial management effort. The new system will not only provide more timely financial information to our managers for decision making, but will also enable us to meet accelerated external reporting deadlines for Departmental financial statements.

This report also presents the financial health of Medicare's Hospital Insurance and Supplementary Medical Insurance Trust Funds separately, based on Financial Accounting Standards Advisory Board (FASAB) standards in effect at the time of the audit. Going forward, the Administration is developing a more comprehensive measure of Medicare's financial position that will analyze Medicare as a whole.

As required by the Reports Consolidation Act of 2000, it is my assertion that the financial information contained in this report is complete and reliable, based upon data contained in the Department's and contractors' financial information systems, and is reported in conformance with generally accepted accounting principles (GAAP). Further, it has been deemed to "fairly represent" the financial condition and results of operations of the Department by our Office of Inspector General. Regarding program performance information, the FY 2003 Performance Plans and Reports of the HHS components will include descriptions of the means HHS programs use to verify and validate performance data and any related data issues, including the completeness and reliability of the data. Where required, the programs have included discussions of any actions planned to improve the completeness and reliability of data.

This report includes information that satisfies the reporting requirements for the Federal Managers' Financial Integrity Act (FMFIA) of 1982. The material weaknesses (as defined by FMFIA) we have identified at the end of FY 2001 are presented in Appendix F of 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, except for specific material weaknesses cited in this report that are being addressed in accordance with their respective corrective action plans. Our financial management systems and reporting processes, as well as our Medicare contractor systems, have internal control weaknesses. As a result, the Department's financial management systems are not in compliance with FMFIA. Our systems implementation projects—including a new Medicare financial system—provide for long term achievement of compliance with FMFIA.

I welcome your interest in HHS and its programs. In these challenging and uncertain times, taxpayers can be assured that HHS stands ready to protect the health and well being of all Americans, and will provide exemplary stewardship over the hundreds of billions of dollars entrusted to us.



Tommy G. Thompson
February, 2002





While this report reflects on our many accomplishments of FY 2001, it also looks ahead to the challenges of the future.

I am pleased to present the U.S. Department of Health and Human Services (HHS) FY 2001 Accountability Report with its third consecutive unqualified, or "clean" opinion on our audited financial statements. The purpose of this report is to demonstrate our accountability for the dollars entrusted to HHS, which represent almost 23 percent of total Federal net outlays. It addresses both financial and programmatic performance targets and compares them with actual results. While this report reflects on our many accomplishments of FY 2001, it also looks ahead to the challenges of the future.

As the Chief Financial Officer (CFO), I am committed to providing accurate financial information to HHS managers and stakeholders on a timely basis, and to ensuring that our business processes are efficient and customer-oriented. Technology is the key to serving our customers and stakeholders, and

we are focused on strengthening our technological infrastructure, in terms of both operating capability and systems security.

This report contains comprehensive information on the Department's program performance and its management of resources. 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.

Janet Hale
Chief Financial Officer

With fiscal year (FY) 2001 budget outlays of over \$426 billion, HHS took vital steps to protect and serve Americans this year. The following FY 2001 highlights of key accomplishments of HHS and its partners are discussed in more detail in this report on the pages cited below.

HHS Program Highlights

HHS manages over 300 programs that contributed to the health and well-being of Americans in FY 2001. These are some key highlights.

Rushed Disaster Assistance After September Terrorist Attacks (page I.6)

HHS moved immediately to declare a state of emergency and to dispatch a 50-ton "Push Package" of pharmaceuticals, medical supplies, respirators, and intravenous supplies to rescuers in New York City.

Prepared for Bioterrorism Attacks (page I.8)

HHS had already begun preparations through stockpiling pharmaceuticals and improving public health surveillance systems and local response capacity.

Ensured Food Safety (page I.10)

HHS continued to safeguard the Nation's food supply.

Continued to Fight Chronic, Infectious, and Environmental Diseases (page I.12)

HHS targeted diseases such as heart disease, diabetes, HIV/AIDS,

West Nile Virus, Mad Cow disease, and asthma. For example, HHS announced the results of a major diabetes study and launched the Diabetes Education Program, which was the first campaign of a multifaceted disease prevention initiative for diabetes, obesity, and asthma.

Addressed Mental Health and Substance Abuse Needs (page I.16)

Provided community mental health grants to aid those affected by terrorists attacks, in addition to on-going services for children and adults, and worked to narrow the drug treatment gap.

Helped Families and Individuals Move from Welfare to Work (page I.18)

The Temporary Assistance for Needy Families (TANF) program has succeeded in reducing the welfare rolls by 56 percent (as of June 2001) since 1997, empowering individuals and families in the process.

Ensured that Head Start and Child Care Quality Continued to Improve (page I.20 and I.22)

HHS continued to work to improve the early development of children by fostering their growth, both physical and intellectual.



Collected \$18.9 Billion in Child Support Payments (page I.20)

Based on preliminary data, HHS helped states to collect a record amount of child support payments to improve children's well being and assist families in moving forward economically.

Reorganized the Medicare & Medicaid Agency (page I.24)

HHS acted to increase responsiveness, customer service, and the flow of needed health information to beneficiaries.

Established a New Education Campaign for Medicare Beneficiaries (page I.25)

A new multi-media advertising campaign for Medicare will help ensure that beneficiaries know where to find information on the program.

Expanded Access to Health Care (page I.27 and I.29)

HHS increased access to Medicaid through amendments and waivers to state plans and expanded Community Health Centers in many states across the country.

Improved Medicare/Medicaid Payments Integrity (page I.28)

HHS has invested time and resources into systems that have resulted in improved payment integrity.

Established the Patient Safety Task Force and Protected Patient Rights and Privacy (page I.31)

The task force will collect data useful for healthcare providers, states and other health agencies to improve patient safety.

Improved the Quality of Care in Nursing Homes (page I.33)

HHS ensured more timely monitoring of nursing homes. As a result of HHS direction, states will now have incentives for conducting surveys timely.

Invested in Basic Research (page I.35)

HHS pioneered new areas of biomedical research, supported the development of the President's policy on stem cell, and succeeded in sequencing the human genome.

Presidential Management Initiatives

This administration has identified five government-wide initiatives aimed at improving the management of the federal government.

Strategic Management of Human Capital (page I.39)

Our human capital initiative supports the President's Management Agenda, looking to de-layer organizations to speed decision-making, consolidate administrative functions, and re-deploy staff to mission-related activities. It is aimed at making the Department more citizen-centered and responsive to the needs of our customers.

Competitive Sourcing (page I.40)

HHS has moved expeditiously to implement the President's Management Agenda item on competitive sourcing. HHS is finalizing its Competitive Sourcing Plan for FY 2002, and has begun implementation. It has developed a comprehensive list of activities subject to competitive sourcing and has identified Full Time Equivalent (FTE) for conversion and cost comparison for FY 2002.

Improving Financial Performance (page I.41)

Secretary Thompson has directed the Assistant Secretary for Budget, Technology and Finance [(ASBTF), formerly Assistant Secretary of Management and Budget (ASMB)]

to begin the planning and implementation of a unified financial system for the Department. This system is intended to produce long-term savings through increased efficiencies. This project has become the top priority of HHS financial management staff, along with continued efforts to achieve "clean" audit opinions on our financial statements each year.

Expanding Electronic Government (e-Gov) (page I.45)

The HHS e-Gov Vision is to employ information technologies in concert with the Department's Strategic Plan and help create "One-HHS" that looks at our programs from the citizens' perspective and closes the performance gap by providing seamless and integrated services to our constituents. The One-HHS program fulfills the ultimate vision of e-Gov, to create a virtual pool of government information and services available from throughout HHS and accessible by all constituents. All levels of HHS will collaborate as equal partners to provide citizen-centric services.

Integrating Budget and Performance (page I.47)

HHS continues to strengthen the integration of budget and performance. Although we work in a challenging environment where health outcomes may not be apparent for several years, and the federal dollar may be just one input to complex programs, HHS can point to several examples that demonstrate to the taxpayer the value they receive for the tax dollars they pay.

This report discusses additional successes, as well as areas where HHS is continuing to work to improve its performance.

This is the sixth annual *Accountability Report* for the U.S. Department of Health and Human Services (HHS). It is our report to our "stockholders," the American public, and as such we are accounting for the return on the taxpayers' investment. We are also providing this information for the wide array of decision-makers who are interested in our performance, including the Office of Management and Budget (OMB) and the Congress.

The HHS *Accountability Report* is produced under the Reports Consolidation Act of 2000. Prior to this act, it was developed under the auspices of the Government Management Reform Act.

This report covers the period of October 1, 2000 through September 30, 2001, Fiscal Year (FY) 2001, and contains a high level overview of:

- What we do,
- What we did with the federal funds entrusted to us; and
- How well we managed them.

To substantiate what we say, the report contains a discussion of key program, management, financial, and performance information (Section I), that constitutes the Management Discussion and Analysis which accompanies financial statements. The report also includes the Department's FY 2001 financial statements that discuss our financial condition (Section II) and includes the auditors' opinion which is an independent, objective assessment of how accurately we have represented our financial condition (Section III). Also this comprehensive report contains other streamlined reports required under various statutes that require accountability for our financial, management, and program performance (Appendices).

For the convenience of the reader, we have also included an executive summary.

By synthesizing all of this information into a single report, we hope to provide a more complete, accurate, and useful understanding of the Department. Most of our components also are issuing similar reports; those will give the reader more detailed program and financial information.

For more information, please contact the appropriate people listed on the back inside page of this report. Web sites are also provided in the front inside cover and back cover for your convenience.

Costs vs. Outlays

Two key concepts are critical for understanding the HHS financial story. Expenses are one of the ingredients of the financial statements that are in Section II of this report:

- Costs are computed using accrual accounting techniques that recognize costs as services are rendered or consumed by HHS during a specific fiscal year, rather than when funds are received or paid.
- Outlays refer to the issuance of checks, disbursements of cash, or electronic transfer of funds made to liquidate an expense regardless of the fiscal year the service was provided or the expense was incurred. Budget outlays are important because they are used to identify budget surpluses or deficits.

Both concepts are important in understanding the financial condition of HHS.