



U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

# PERFORMANCE AND ACCOUNTABILITY REPORT



Fiscal Year  
**2005**

## PURPOSE OF THIS REPORT

The Department of Health and Human Services' (HHS) fiscal year 2005 Performance and Accountability Report provides performance and financial information that enables the President, Congress, and the American people to assess the performance of the Department relative to its mission and stewardship of the resources entrusted to it. HHS prepares this document pursuant to the reporting requirements of the following legislation:

- ◆ Chief Financial Officers Act of 1990 (CFO)
- ◆ Federal Financial Management Improvement Act of 1996 (FFMIA)
- ◆ Federal Managers' Financial Integrity Act of 1982 (FMFIA)
- ◆ Government Management Reform Act of 1994 (GMRA)
- ◆ Government Performance and Results Act of 1993 (GPRA)\*
- ◆ Improper Payments Information Act of 2002 (IPIA)
- ◆ Inspector General Act of 1978 (IG)
- ◆ Reports Consolidation Act of 2000

\*Additional GPRA requirements are addressed in the Department's annual budget submission to Congress.

## HOW THIS REPORT IS ORGANIZED

This report presents the Department's activities for fiscal year 2005, which occurred during the period October 1, 2004 – September 30, 2005. In addition to messages from the Secretary and Chief Financial Officer, the report contains four sections.

***Section I: Management Discussion and Analysis*** - This section contains information on the Department's mission, scope of services, and Agencies, as well as performance highlights. Additionally, this section contains discussions on the Department's President's Management Agenda initiatives, financial analysis, and systems, controls, and legal compliance.

***Section II: Program Performance Report*** - This section contains an overview of the Department's program performance along with detailed discussions for each of the Department's strategic goals.

***Section III: Financial Section (contains two components):***

- ***Independent Auditor's Report on Financial Statements and Management Response*** - This component contains the Independent Auditor's Report on the Department's financial statements.
- ***Financial Statements, Notes, Supplemental and Other Accompanying Information*** - This component contains the Department's financial statements, notes to the principal financial statements, required supplementary stewardship information, required supplementary information, and other accompanying information.

***Section IV: Appendices*** - This section contains detailed information on the Department's Top Management Challenges, Net Costs of Key Programs, Improper Payment and Recovery Auditing Initiatives, FMFIA Report, FFMIA Report, Management Report on Final Action, Civil Monetary Penalties, and financial management performance measures. Other appendices list key HHS financial management and performance officials and a glossary of acronyms.

**TABLE OF CONTENTS**

|  |            |
|--|------------|
| <i>Message from the Secretary .....</i>  | <i>iii</i> |
| <i>Message from the Chief Financial Officer .....</i>  | <i>iv</i>  |
| <br>   |            |
| <b>Section I: <i>Management Discussion and Analysis</i></b>  |            |
| Introduction .....   | I.1        |
| Mission, Strategic Goals, and Scope of Services.....   | I.2        |
| HHS Organization – Structured to Accomplish the Department’s Mission .....   | I.5        |
| An Overview of HHS Program Performance .....   | I.17       |
| President’s Management Agenda .....  | I.35       |
| Analysis of Financial Condition and Results of Operations .....  | I.46       |
| Systems, Controls, and Legal Compliance .....  | I.53       |
| Looking Ahead to 2006 – HHS Management Challenges and High Risk Areas....  | I.58       |
| <br>   |            |
| <b>Section II: <i>Program Performance</i></b>  |            |
| Overview .....   | II.1       |
| Goal 1: Reduce the Major Threats to the Health and Well-being of Americans....   | II.4       |
| Goal 2: Enhance the Ability of the Nation’s Health Care System to Effectively<br>Respond to Bioterrorism and Other Public Health Challenges .....        | II.13      |
| Goal 3: Increase the Percentage of the Nation’s Children and Adults who have<br>Access to Regular Health Care Services and Expand Consumer Choices ..... | II.21      |
| Goal 4: Enhance the Capacity and Productivity of the Nation’s Health Science<br>Research Enterprise.....   | II.39      |
| Goal 5: Improve Quality of Health Care Services .....  | II.44      |
| Goal 6: Improve the Economic and Social Well-being of Individuals, Families,<br>and Communities, Especially Those Most in Need .....                     | II.50      |
| Goal 7: Improve the Stability and Healthy Development of Our Nation’s<br>Children and Youth .....  | II.56      |
| Goal 8: Achieve Excellence in Management Practices .....   | II.66      |
| Program Assessment Rating Tool .....   | II.71      |
| <br>   |            |
| <b>Section III: <i>Financial Section</i></b>   |            |
| Independent Auditor’s Report on Financial Statements and Management<br>Response  |            |
| Financial Statements, Notes, Supplemental and Other Accompanying<br>Information  |            |
| Principal Financial Statements .....   | III.A.1    |
| Notes to the Principal Financial Statements .....  | III.B.1    |
| Required Supplementary Stewardship Information .....   | III.C.1    |
| Required Supplementary Information .....   | III.D.1    |
| Other Accompanying Information .....   | III.E.1    |



TABLE OF CONTENTS - CONTINUED

*Section IV: Appendices*

Appendix A - FY 2005 Top Management Challenges Identified by the Office of  
Inspector General ..... IV.A.1

Appendix B - Net Costs of Key HHS Programs ..... IV.B.1

Appendix C - Improper Payments Information Act of 2002 ..... IV.C.1

Appendix D - Federal Managers' Financial Integrity Act Report on Systems and  
Controls..... IV.D.1

Appendix E - Federal Financial Management Improvement Act Report on  
Compliance ..... IV.E.1

Appendix F - Management Report on Final Action..... IV.F.1

Appendix G - Civil Monetary Penalties ..... IV.G.1

Appendix H - Financial Management Performance Measures ..... IV.H.1

Appendix I - Acronyms ..... IV.I.1

Appendix J - Key HHS Financial Management and Performance Officials ..... IV.J.1







THE SECRETARY OF HEALTH AND HUMAN SERVICES  
WASHINGTON, D.C. 20201

MESSAGE FROM THE SECRETARY



The Department of Health and Human Services (HHS) has done much over the 2005 fiscal year to achieve our Nation's noblest human aspirations for safety, compassion, and trust. HHS has made great advances toward a healthier, stronger America while upholding fiscal responsibility and good stewardship of the people's money.

For fiscal year 2005, HHS was accountable for \$581 billion in net outlays. As evidenced by our most recent clean audit opinion, the seventh in a row, HHS' commitment to strong and transparent financial management is clear.

Our accomplishments include new steps taken to advance health information technology by leading a public-private collaboration that will help develop standards and achieve interoperability of health information in the areas of electronic health records, e-prescribing, and systematic adverse drug event reporting. These efforts are contributing to a safer, more efficient health care system for all Americans.

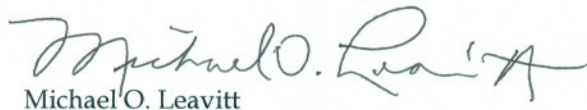
HHS also took several steps to reduce medical errors and improve the quality of health care as evidenced by the use of bar codes on the labels of thousands of human drugs and biological products to help doctors, nurses, and hospitals ensure that they give their patients the right drugs at the appropriate dosage.

As part of the continuing transformation of HHS, great strides have been made in implementing important new Medicare benefits that will, for the first time, include broad coverage of prescription drugs for Medicare beneficiaries. A compassionate health care system is one that treats pain and disease before they become debilitating, and this new benefit, along with other new Medicare preventive benefits such as a Welcome to Medicare Physical, will help Americans live healthier and longer lives.

In response to two of America's most devastating Gulf Coast hurricanes in 2005, Katrina and Rita, HHS ensured prompt access to benefits and services, augmented medical care in affected hospitals and shelters, and enhanced and expedited the delivery of human and mental health services to the evacuee population. These efforts to assist the hundreds of thousands of evacuees in the aftermath of Hurricanes Katrina and Rita, which began before the hurricanes made landfall, exhibit HHS' dedication and commitment to the health and well-being of all Americans.

While much of the initial burden and responsibility for providing an effective response to natural disasters and terrorism rests with medical and public health professionals and local governments, HHS plays a key role in our Nation's overall effort to protect itself from these dangers. Recognizing that local and state resources may be challenged or overwhelmed by disease outbreaks or acts of terrorism of sufficient magnitude, HHS has done much over the past year to protect our home front, including bolstering our Nation's Strategic National Stockpile, so that, as a Nation, we are better prepared to deliver the medical countermeasures as prescribed in President Bush's strategy for "Biodefense in the 21st Century."

In summary, as of September 30, 2005, the management accountability and control systems of the U.S. Department of Health and Human Services provide reasonable assurance that the objectives of the Federal Managers' Financial Integrity Act were achieved, with the exception of the material weakness in internal controls and the material nonconformance of the financial management system noted in this report. This statement is based on the results of a Department-wide management control assessment and input from senior officials. In Appendix D of this report, we present the complete FMFIA report. A detailed discussion of the material inadequacies and actions that HHS is taking to resolve them is provided in this report. In addition, I hereby state that the financial and performance data in the FY 2005 HHS Performance and Accountability Report are reliable and complete, except where noted in the Program Performance Report.

  
Michael O. Leavitt







## MESSAGE FROM THE CHIEF FINANCIAL OFFICER



As Chief Financial Officer of the Department of Health and Human Services, I recognize that our Department must be accountable to our ultimate stakeholders - the American Public. We are obligated to use our resources to improve the current health and well being of Americans and to invest in a way to improve future outcomes. Incorporating the goals of the President's Management Agenda into our daily routines is a very important aspect of how we intend to accomplish our ambitious goals.

Our Agency's work revolves around eight strategic goals. In these pages we provide information on what we have accomplished in the past year in support of these important goals. In addition, we discuss the challenges ahead and how we will address those challenges.

This report also contains our audited financial statements. For the seventh year in a row our auditors have issued an unqualified or clean audit opinion. Although we have an unqualified opinion, our report also discloses that we still have financial weaknesses that must be corrected. The primary catalyst for improvement will be our Unified Financial Management System. We are already well down a path that will culminate in FY 2007 when the new system will have replaced all five outdated accounting systems now in use throughout the Department. Please see Appendices D and E of this report for a detailed discussion of HHS' plans and timelines (including UFMS implementation) for correcting the Department's systems and controls material weaknesses and nonconformances.

Finally, I want to thank our employees and our partners for our recent achievements and together we look forward to tackling our ambitious future agenda in 2006.

  
Charles E. Johnson