U.S. Department of Health and Human Services

Food and Drug Administration
Fiscal Year 2000 CFO's Annual Report

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ACTING PRINCIPAL DEPUTY COMMISSIONER'S STATEMENT

I present to you the Food and Drug Administration's (FDA) annual financial report for fiscal year (FY) 2000. I am pleased to report that FDA has earned its third consecutive "clean" opinion on its audited financial statements. By comparing the fiscal information from these statements with performance information reported under the Government Performance and Results Act, taxpayers will realize that FDA is a good investment and that the dollars we spend yield valuable results.

As a science-based regulatory agency, FDA's mission affects the health and well being of all Americans. FDA is responsible for overseeing a regulated industry that produces over $1 trillion worth of products. Whether at home, or at work or at play, FDA shields us from public health hazards that range from debilitating to the deadly. FDA protects consumers and consumers trust FDA. Surveys show that FDA's good work performance is recognized both by the public and regulated industries, and this performance is accomplished at the low annual cost of about $4 per person.

Fiscal year 2000 brought many successes to the FDA as we took many steps to further protect and promote the public health. FDA continued to strengthen its commitments to stakeholders through improved business practices. Collaboration with regulated industries and public health advocates has produced not only a safer drug and food supply for the nation, but also reduced costs for both government and industry.

More than 3,600 new medical devices were approved or cleared by FDA during FY 2000. Many are first-of-a-kind devices representing breakthrough technology or offer significant advances over existing technology. For new drugs, there were 106 approvals with a median approval time of 11.6 months, a three-percent decrease compared to the FY 1999 approval times. Increasing use of information technology has streamlined application submissions and has opened up the entire decision making process. FDA's award winning web-site now supports this open process by storing over 3 million pages of information, including the transcripts of advisory committee meetings.

There are many challenges facing FDA in the coming year. To maintain the public trust, the Agency must remain vigilant and responsive to ever escalating public health challenges. High-technology industries are expanding at an exponential rate. Billions of dollars are being poured into research and development for new products including those made from biotechnology, food additives, pharmaceuticals, and devices. Our ability to judge the worth and safety of new products is dependent, in part, upon the resources and scientific expertise that we have available to address these issues.

As we look toward the challenges of the future, I am proud of what FDA has accomplished. We continue to successfully tackle numerous initiatives while continuing to fulfill the core missions of serving our customers and protecting the public. I am confident that FDA will continue meeting these challenges well into the 21st century.

BA Schwetz

Bernard A. Schwetz, D.V.M., Ph.D.

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I am pleased to present to you the Food and Drug Administration's Chief Financial Officer's (CFO) Annual Report for fiscal year 2000. This is the third consecutive year in which FDA has received an unqualified financial statement audit opinion from the Office of Inspector General. This notable achievement reflects the Agency's continued commitment to sound financial management practices and compliance with the CFO Act of 1990 and the Government Management Reform Act of 1994.

This report includes FDA's financial statements, an overview of the Agency, and independent auditor reports on our financial statements, internal control structure, and compliance with laws and regulations. The FY 2000 financial statements have been prepared in accordance with all new accounting standards established by the Office of Management and Budget and the Federal Accounting Standards Advisory Board. While we are proud that our achievement reflects the hard work of Agency's management, we recognize the challenges the Agency faces as it regulates in a global business environment. To that end, we continue to upgrade and integrate our financial management systems and improve upon our information technology infrastructure to better support FDA's programs and operations.

Our commitment to maintaining a clean audit opinion underpins our adherence to sound financial management of the Agency's $1.2 billion budget. The independent audit process provides the Agency and taxpayers with reliable information on the adequacy of our internal controls and the accuracy of our financial reporting. This clean audit opinion helps assure the public that we are meeting the growing demands of our public health mission in a business-like manner. To continue to provide the public with such assurances, we must continue to meet the increasingly difficult challenge of competing for investments in an environment of very tight resources.

Working in partnership with FDA's program managers, I support the Commissioner's priorities by providing oversight and cost effective, strategic management of the Agency's limited resources. As CFO, I remain fully committed to the stewardship responsibilities needed to continue to maintain the highest level of accountability for the management of the Agency's financial resources.

We appreciate your interest in this report and hope that you find it useful and informative. Should you wish to discuss this report, please contact Peter Kelchner, Chief, Division of Accounting's CFO Liaison Branch at pkelchne@oc.fda.gov or 301-827-4792.

Robert J. Byrd

Management Discussion and Analysis of FDA

WELCOME TO THE FDA CHIEF FINANCIAL OFFICER'S FY 2000 ANNUAL REPORT

This report presents the Food and Drug Administration's (FDA) financial statements and key accomplishments for FY 2000.

The report describes and discusses FDA's stewardship of resources and how those resources were used to achieve the Agency's mission in the past year.

The Management Discussion and Analysis (MD&A) presents:

- Highlights of Fiscal Year 2000 Performance;
- An overview of FDA's mission, strategic goals, strategies, organization, resources, challenges and trends, and net cost discussion;
- FDA Programs' overview, initiatives, goals, and accomplishments;
- Financial management performance and accomplishments; and systems, controls, and legal compliance; and,
- Discussion on financial analysis and condition.

FDA: An Introduction

The U.S. Food and Drug Administration is a scientific regulatory agency whose mission affects the health and well-being of all Americans. FDA was established in 1927 and is responsible for overseeing a regulated industry that produces over $1 trillion worth of products. The products include the entire national food supply except for meat and poultry; over-the-counter and prescription medications; blood products; vaccines; tissues for transplantation; medical equipment and implantable devices; devices that emit radiation; animal drugs and feeds; and cosmetics. FDA-regulated products account for nearly 25 cents of every consumer dollar spent in the United States each year.

FDA enforces the Federal Food, Drug, and Cosmetic Act and several other public health laws.

HIGHLIGHTS OF FISCAL YEAR 2000 PERFORMANCE

FDA selected several areas to highlight some of its Agency level accomplishments. These are discussed below. A complete review of the FY 2000 performance goals and results may be found in the FDA FY 2000 Performance Report.

Agency Outreach

FDA makes extraordinary efforts to bring its message to the American public and strives to gain the public's trust and support through an open and transparent decision-making process.

FDA takes many approaches to keeping industry and the public well informed. Informational meetings, industry partnerships, safety brochures, and an extensive web-site are all part of the Agency's informational campaign.

Input from all points of view is encouraged and FDA strives to ensure that everyone knows that its decisions are fair and are based on good scientific principles. FDA's extensive and award winning web-site supports its open process by including over three million pages of information, including transcripts of all advisory committee meetings. More than 800,000 people visit the web-site each month.

FDA's outreach efforts have paid off. In a survey conducted this past year by the Pew Research Center, a wide variety of groups judged FDA to be a high performer. More than 75 percent of consumers, health professionals, patients, and industry representatives

said that they trusted FDA to make the right decisions in performing its mission. The survey also found that FDA kept all parties well informed about its procedures, that it kept accurate records, and that it protected the rights of individuals.

The International Arena

The scope of FDA's regulatory activities extends to nations around the world. Food shipments to the United States from overseas have quadrupled in the past decade. Globalization of both the food and drug supply requires intensive efforts on FDA's part.

FDA has a three-pronged approach to ensuring the safety of imports—prevention, detection, and targeting. Collaboration with other nations is essential in carrying out this work. In FY 2000, FDA continued its work in developing agreements with its foreign counterparts for exchanging expertise and for eliminating duplication of efforts. Important work continues in standardizing premarket applications for regulated products across international borders. The ultimate goal is the establishment of a core document that manufacturers can use in each country.

FDA conducts direct inspections of foreign facilities, completing 800 foreign inspections last year. In addition, FDA conducts assessments of foreign food safety systems and targets countries with a high volume of exports to the United States. In FY 2000, assessments were conducted in Chile, El Salvador, and New Zealand. As a final step in protecting the American public, FDA inspects imports as they cross the border, targeting those firms with poor histories of compliance. FDA constantly refines its risk-based criteria for screening imports.

Postmarket Surveillance

Every medicine and medical device that offers a cure to millions also will present a risk to a limited number of others. Because of rare adverse reactions, interactions and many other factors, FDA cannot ensure a totally risk-free approval process. What it can do, however, is to provide the best possible oversight of the effect of drugs and devices once they are marketed nationwide. FDA conducts a similar oversight on the safety of foods.

The Adverse Event Reporting System collected about 300,000 reports last year on human drugs and biological products in the marketplace. When a potential adverse reaction is detected, FDA quickly moves to head off any threat to the public health. Improvement in the surveillance of medical devices continued in FY 2000 through the expansion of the Medical Device Surveillance Network (MeDSuN), a hospital-based reporting system using statistical sampling to improve results.

FDA also combats foodborne illnesses through a variety of approaches, including educational collaborations with industry, consumer groups, and other government agencies. Foodborne illness and death have decreased by 20 percent in recent years.

Fast and Safe Drug and Device Approvals

As many citizens know, FDA has decreased new drug approval review times over the past several years from about 26 months to less than 12 months. Not only has this performance improved the quality of life for millions of Americans, it has saved the pharmaceutical industry billions of dollars. However, FDA efforts to improve the entire drug approval process have not

ended. FDA has been working with industry to shorten the long lead time for drug development by advising firms on how to design effective clinical trials. This advisory role has been effective and according to the most recent data has reduced the total development time by 18 percent.

In FY 2000, FDA approved important medicines treating leukemia and human immunodeficiency virus. The Agency also approved medical devices that treat hearing loss, gall bladder disease, vision problems, an diabetic foot ulcers. The approval time for medical devices has been decreasing – from over two years in 1995 to about one year in FY 2000 – despite the fact that the number of products continues to grow rapidly.

Agency Overview

Mission

FDA's current mission, as adopted in the 1997 FDA's Modernization Act (PL 105-115), sets forth the following responsibilities for the Agency:

1. To promote the public health by promptly and efficiently reviewing clinical research and taking appropriate action on the marketing of regulated products in a timely manner;

2. With respect to such products, protect the public health by ensuring that—

- foods are safe, wholesome, sanitary, and properly labeled;
- human and veterinary drugs are safe and effective;
- there is reasonable assurance of the safety and effectiveness of devices intended for human use;
- cosmetics are safe and properly labeled; and
- public health and safety are protected from electronic product radiation.

3. To participate through appropriate processes with representatives of other countries to reduce the burden of regulation, harmonize regulatory requirements, and achieve appropriate reciprocal arrangements; and

4. As determined to be appropriate by the Secretary, carry out paragraphs (1) through (3) in consultation with experts in science, medicine and public health, and in cooperation with consumers, users, manufacturers, importers, packers, distributors, and retailers of regulated products.

Strategic Goals

To carry out this mission, the Commissioner's strategic management team developed two agency level strategic goals. These are:

- **To help safe and effective new products enter the market rapidly, thus greatly enhancing the Nation's health.**
  To achieve this goal, FDA must continue to work with industry and to use scientific information derived from research and surveillance to support sound review decisions.

- **To assure that products already on the market are safe.**
  To achieve this goal, FDA monitors well over a trillion dollars worth of products that are essential to the health and well being of every U.S. citizen. FDA must judge the suitability of sources of domestic and international production, operate an integrated system of reporting and correcting problems associated with product use, and check advertising and labeling, particularly on the Internet.

These two strategic goals are intended to create a comprehensive safety assurance system that monitors FDA-regulated products throughout their life span -- from conception through consumption. Each of FDA's programs has established the same goals, thus aligning the programs with FDA's overall mission and goals.

Strategies

While the goals of timely premarket review and post-market safety assurance are continuous, their successful pursuit in the 21st century will be seriously challenged by a much more complex technological, economic, and social environment. FDA will not be able to address such complexity in the future by working independently, by relying on its current level of scientific understanding, or by attempting to protect the public from all risk situations. The task is simply too daunting. The key courses of action for FY 2000 and beyond have been and will be to:

- **strengthen science and standards**
  FDA must develop the capacity to regulate products of much greater complexity and sophistication than ever before. Sound science is essential for making timely and crucial regulatory decisions that affect every American citizen. A strong science capability is crucial for:
  - making sound pre-market review decisions;
  - assessing and managing risks of products in the market place; and
  - buttressing the standards that engender world-wide confidence in FDA-backed products, methods and processes.
- **collaborate with partners**
  It is no longer plausible for FDA, working alone, to effectively carry out its mission. Academia, health providers, other government agencies, regulated industries, and consumers all have a role to play. FDA must work with others who share its values and goals to meet FDA's public health and safety mission.
- **focus on highest priority risk**
  In an ideal world, FDA would like to eliminate completely the risk associated with the consumption and use of foods, drugs, biologics, and medical devices. Rather, FDA will focus its attention on the most serious risks first. FDA has, and will continue, to increase the efficiency of "fast track" review processes in order to address the most urgent needs for new medical products. Surveillance and compliance efforts also will continue to be directed toward identifying and taking action on the most serious health threats to U.S. consumers.

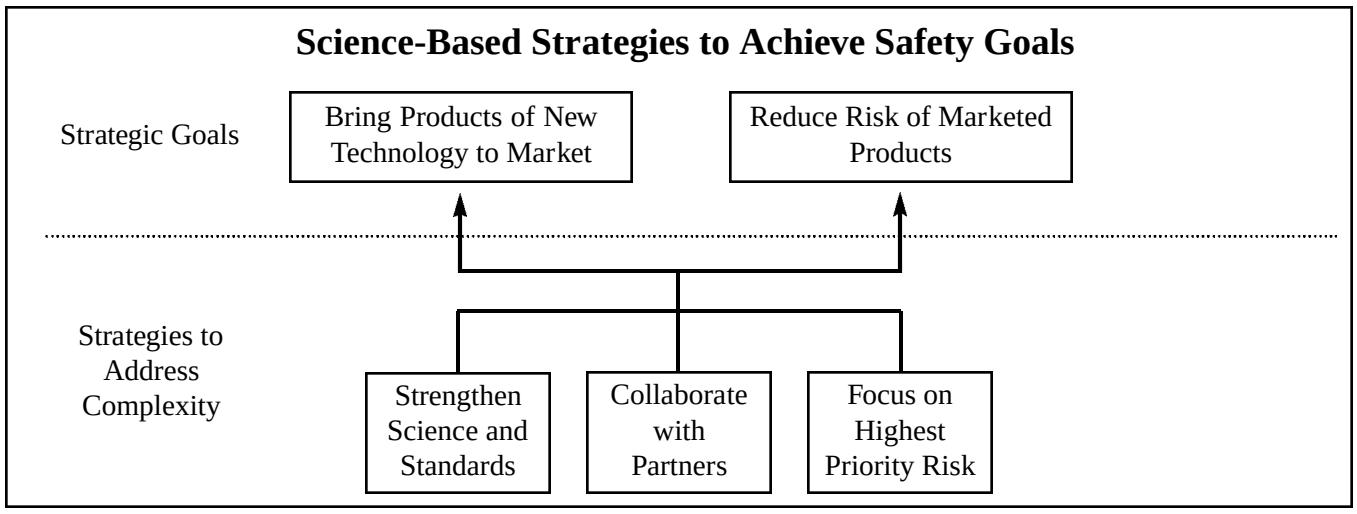


Figure 1

As the graphic above (Figure 1) shows, these strategies will work together to assure safety in a significantly more complex 21st century environment. In addition to carrying out strategies to manage complexity, FDA continues to be responsive to the statutory review and inspection requirements mandated by the Federal Food, Drug and Cosmetic Act, as amended, and reinforced by FDA Modernization Act.

Programs That Will Implement Agency Strategic Goals and Strategies

FDA is organized into the six major program areas[1] listed below. These programs are also budget line items contained in the President's Budget. These programs are managed with the support from the Office of Regulatory Affairs' field offices.

- Foods
- Human Drugs
- Biologics
- Animal Drugs and Feeds
- Medical Devices and Radiological Health
- Toxicological Research

Each of the six programs is highlighted in their own individual sections (following this Overview) displaying mission, net program costs, accomplishments, and performance results. Data validation issues are addressed in the FDA FY 2000 Performance Report.

Organization

FDA is organized into eight major components consisting of an Office of the Commissioner, an Office of Regulatory Affairs (which is responsible for the FDA field force), and the following six Centers as displayed in the organizational chart (Figure 2) below:

- Center for Biologics Evaluation and Research (CBER);
- Center for Drug Evaluation and Research (CDER);
- Center for Devices and Radiological Health (CDRH);
- Center for Food Safety and Applied Nutrition (CFSAN);
- Center for Veterinary Medicine (CVM); and
- National Center for Toxicological Research (NCTR).

The Office of the Commissioner

This component consists of eight subordinate offices

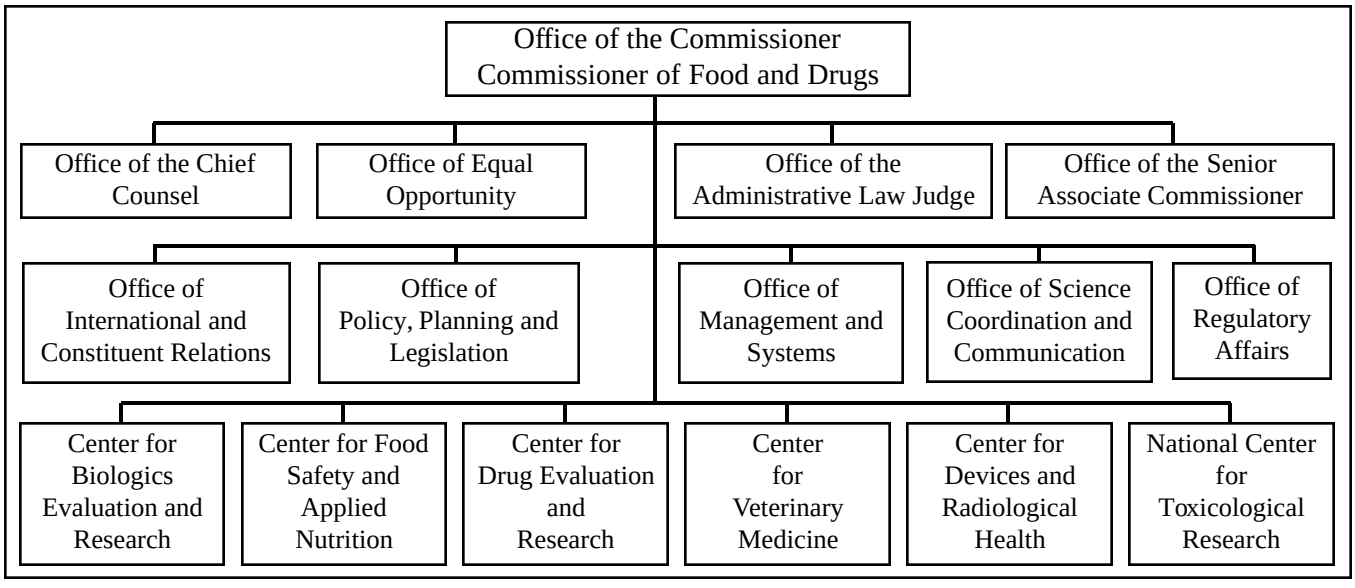


Figure 2

[1] In FY 2000, there were seven programs (the original six plus the Tobacco Program). On March 21, 2000, the U. S. Supreme Court declared the FDA lacked authority to issue and enforce its tobacco regulations. FDA immediately terminated its tobacco program. For information on its results of the tobacco performance goals, see FDA's FY 2000 performance report at: www.fda.gov.

that provide legal guidance, develop plans and policies, direct public and consumer affairs programs, promote the Agency's international relationships among foreign governments, and deliver administrative services.

The Office also includes the Office of Science Coordination and Communication, which was created to advise the Commissioner and other senior officials on scientific issues impacting FDA policy and direction.

The Deputy Commissioner for Management and Systems serves as the FDA's Chief Financial Officer (CFO). The CFO's organization, functions, initiatives, accomplishments, and performance measures are presented in the section on "**Financial Management Performance**."

The Centers

Five of the six centers are product centers that are equipped to perform premarket review, conduct postmarket assurance, take enforcement actions, and provide scientific and administrative support. The remaining one, NCTR, performs regulatory research in support of the product centers. With the exception of NCTR, located in Jefferson,Arkansas, the Office of the Commissioner, the Centers, and the Office of Regulatory Affairs (ORA) are headquartered within the Washington, DC metropolitan area.

The Office of Regulatory Affairs

This component is composed of a headquarters unit and a nationwide field force. The ORA conducts investigational and laboratory functions for all of FDA's major product areas: Foods, Human Drugs, Biologics, Animal Drugs and Feeds, and Medical Devices and Radiological Health products. The ORA has approximately 3,100 full-time equivalents.

Field facilities include Regional Offices, District Offices, laboratories, OCI field offices, and resident posts. The five Regional Offices are staff offices which coordinate FDA activities and also coordinate with state authorities. The 19 District Offices serve as offices for investigators and compliance action staff, and are the main control point for day-to-day operations in their assigned areas. The 13 laboratories provide FDA's basic field product testing capability. A number of these laboratories serve as specialized facilities for certain types of testing and new regulatory methods development.

FDA also maintains over 130 resident posts distributed widely across the country. These are smaller offices which serve primarily as a base for investigators so that FDA can have investigative staff widely dispersed to respond to emergencies whenever they occur, as quickly as possible to minimize any potential harm. With all of these Field facilities combined, FDA maintains offices and staff in 49 of the States, and in the District of Columbia and Puerto Rico. See Figure 3 for a map of ORA's field locations.

Resources

The total FDA resource level for FY 2000 was $1.412 billion.[2] This number includes: appropriations for salaries and expenses (S&E), building and facilities (B&F), user fees; offsetting collections (reimbursables); carry-over balances from prior years; and adjustments. For a description of the user fees, see Appendix 1.

Figure 4 shows the four sources of budgetary resources: S&E, user fees, and B&F. The "other" category includes royalties and other accounts. Over ninety percent of the Agency's resources are dedicated toward salaries and expenses as FDA performs its mission-related activities through a direct work force. The B&F appropriation funds major repairs on existing facilities, as well as the acquisition of new office buildings and laboratory facilities for its headquarters, NCTR, and field operations. User fees supplement S&E activities, especially for the review of certain applications for human drugs.

[2] Source: The amount is from the FY 2000 combined Statement of Budgetary Resources.

Figure 3

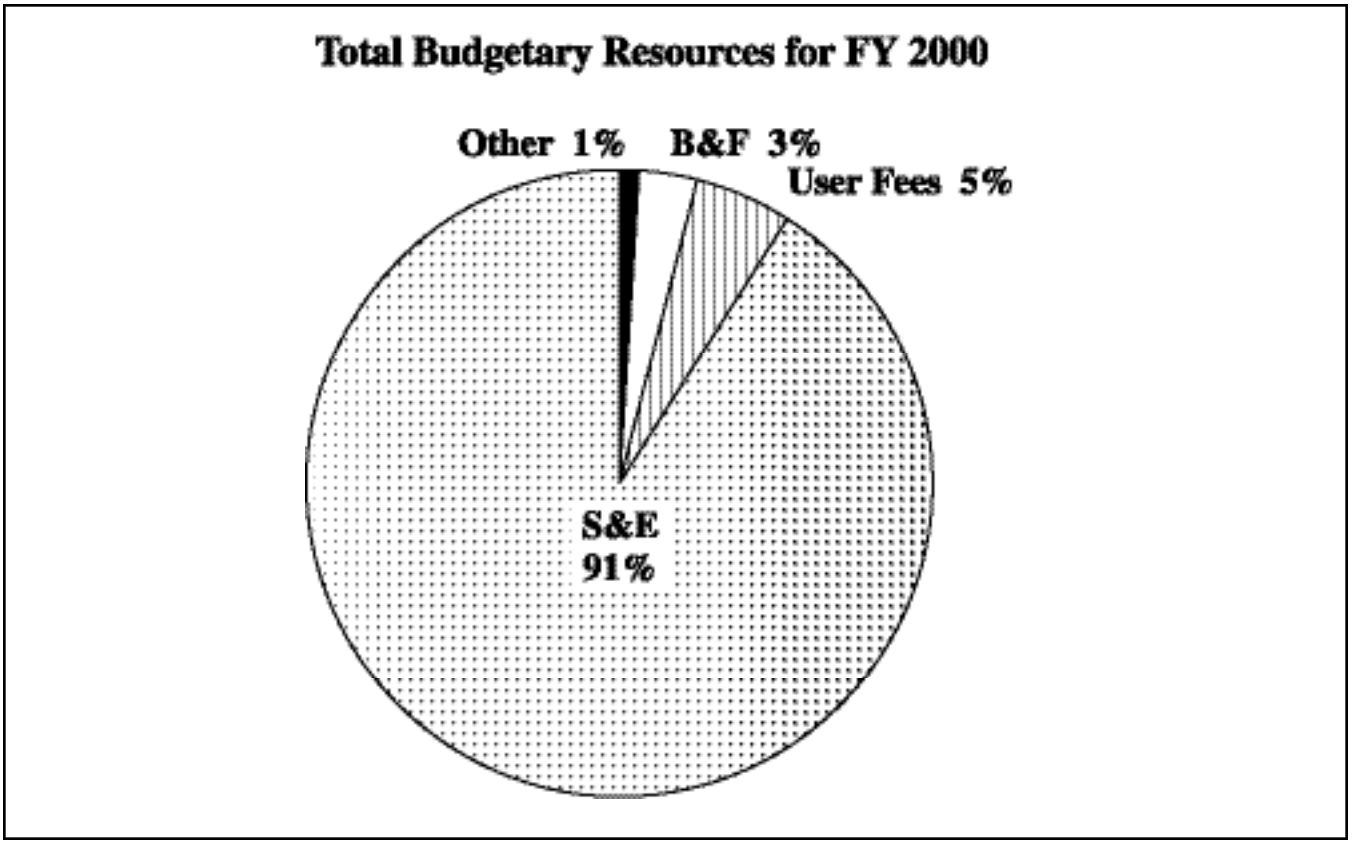


Figure 4

The chart below (Figure 5) displays S&E resources by major program -- human drugs, foods, devices, biologics, animal drugs, NCTR, and Tobacco. The other category includes Other Activities, Central Services, and Rent & GSA rental. The two largest programs, human drugs and foods, represent about fifty percent of FDA's resources. Further discussion of budgetary resources is found in the section on Financial Analysis.

For FY 2000, FDA had approximately 8,917 full-time equivalents (FTEs). Figure 6 displays the percentage of FTEs used by the six centers, ORA, and Office of the Commissioner. Although the ORA is the largest share at 35 percent, its principal purpose is to support the regulatory activities of all the centers except NCTR. The Prescription Drug User Fees Act (PDUFA) user fees support about 1,000 FTEs, mostly within CDER and CBER, while Certification fees support 30 FTEs within CFSAN. Mammography Quality Standards Act (MQSA) fees support 48 FTEs in CDRH and ORA.

Figure 5

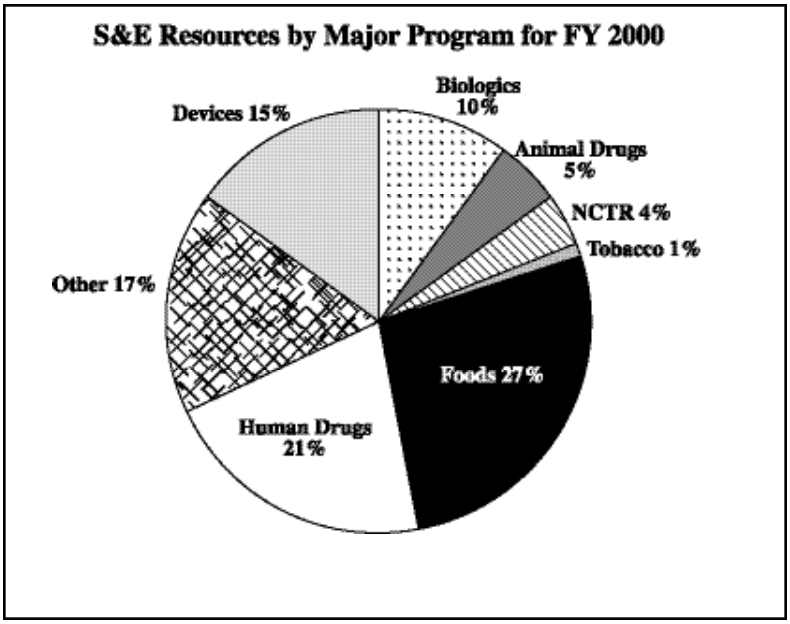
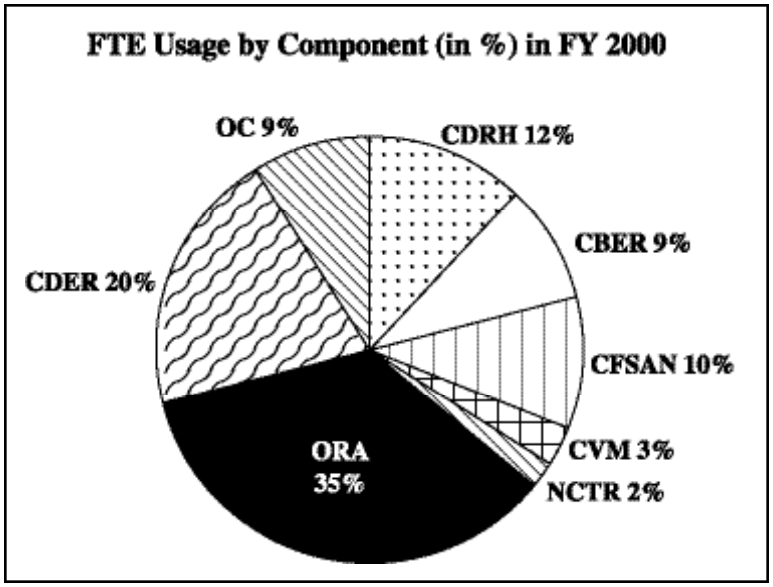


Figure 6



Challenges and Trends

While FY 2000 saw many successes, FDA must overcome a number of hurdles to continue to maintain its high standards of consumer protection. Among these, FDA must address:

- **Scientific breakthroughs** – FDA scientists will need to keep up with rapidly-advancing technologies in all product areas.

- **More sophisticated products** – These technologies will translate into products with new complexities and risks.

- **New public health threats** – FDA needs to be prepared to respond rapidly to unexpected health risks, such as tougher strains of antibiotic-resistant bacteria or more dangerous foodborne illnesses.

- **International Commerce** – Monitoring of imports and cooperation with foreign regulators will become more important as international commerce continues to grow.

- **Consumer information** -- Finally, today's sophisticated consumers and the wide availability of information about FDA-regulated products will challenge us to be sure consumers are getting the information they need from the right sources.

Net Program Costs – A Short Discussion

For the FY 2000 CFO's Annual Report, net program costs will be used in the individual program sections instead of budgetary information (budget authority, user fees, and FTEs) that were used in the FY 1999 Report. Net program cost information comes from the Statement of Net Cost found in the section on financial statements.

Net program costs are defined as the total expenses for a program, including the allocation of indirect expenses (i.e., administrative, field operations, rent, and other overhead), less exchange revenue.

Under the Government Management Reform Act of 1994, Executive Branch agencies are required to determine the full cost of their operations. The Government Performance and Results Act directs Executive Branch agencies to define their mission and set strategic and annual performance goals. The aligning of full cost with performance objectives and results provides a clearer picture on the true cost of program performance. FDA wishes to take a first step in displaying net program costs in the context of a program's performance.

The Statement of Net Cost has been prepared in conformity with generally accepted accounting principles (GAAP) and the form and content for entity financial statements specified by the Office of Management and Budget (OMB). GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board, which is the official accounting standards setting body for the Federal government. The financial statements are different from the financial reports prepared pursuant to OMB directives used to monitor and control the use of budgetary resources.

FDA records transactions on the accrual accounting basis and budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting principles, on the other hand, are designed to recognize the obligation of funds according to legal requirements, which, in many cases, is prior to the occurrence of an accrual-based transaction.

FDA Programs

Foods Program

Foods Program

Background

The Foods Program, administered by the Center for Food Safety and Applied Nutrition (CFSAN) and supported by ORA, is responsible for ensuring that the nation's food supply is safe, nutritious, wholesome, and honestly labeled and that cosmetics are safe and properly labeled.

The Foods Program accomplishes its mission by:

- setting standards and developing regulations for the food industry;
- taking timely and appropriate action on new food ingredients and dietary supplements before they go on the market to ensure their safety and effectiveness;
- conducting research to provide the necessary basis for its regulatory decisions;
- assuring the quality of foods, food ingredients, dietary supplements and cosmetics that are available on the market;
- identifying food-related health hazards; and
- taking corrective action to reduce human exposure to these hazards and the possibility of food-related illnesses and injuries; and expanding food safety education and training for consumers and industry.

The FDA oversees a vast food industry that includes over 55,000 United States (U.S.) food processors and warehouses and comprises a significant segment of the nation's economy. Products regulated by FDA account for about two-thirds of consumer spending on food, with an annual retail value of about $430 billion. Every year, U.S. food processors spend $1.4 billion on research and development and introduce 10,000 to 15,000 new products. In addition, increasing amounts of foods are being imported each year from other countries, including third world countries, which tend to have less sophisticated food processing and regulatory systems.

Cost [3]

Fiscal Year	Net Program Cost
2000	$364,914,000
1999	$320,432,000
1998	$265,469,000

The Foods Program has experienced a 13.9 percent increase in net costs since FY 1999. This increase is attributed to the full implementation of the President's Food Safety Initiative. The net cost provides total expenses of the program including the net exchange of revenues and allocation of indirect expenses such as the Office of the Commissioner costs (e.g., administrative and policy direction), Office of Regulatory Affairs' field operations'costs, rent, and other overhead. For an explanation of net program costs, see the discussion on page I-9.

Selected Initiatives, Goals, and Accomplishments

Foreign Outreach and Education

To enhance the food safety systems in foreign countries and thus, improve the quality of food products imported into the United States, FDA conducted a series of seminars, training, and meetings in Chile, El Salvador, and New Zealand during FY 2000.

[3] Source: Statements of Net Costs for FYs 1998, 1999, and 2000. The source for the remaining programs'cost tables is the Statements of Net Costs for the three fiscal years.

Chile

- CFSAN participated in a joint U.S. – Chile seminar on food safety in June 2000.

- The Joint Institute for Food Safety and Applied Nutrition in conjunction with the Government of Chile held a training program on produce safety, emphasizing good agricultural practices.

El Salvador

- In August, CFSAN conducted dairy farm sanitation and milk safety training, emphasizing on-farm practices.

New Zealand

- A regional food safety meeting was held in Auckland, New Zealand in August 2000.

Proceedings of the outreach meetings in Chile were completed and posted on the Web. The posting was unique for CFSAN in that it included videos of the presentations. The availability of this posting was widely publicized through constituent updates, the Agricultural Research Library, and through food safety education publications.

Structure/Function Claims

FDA published a final rule that defines the types of statements that can be made concerning the effect of a dietary supplement on the structure or function of the body (65 FR 9999; January 6, 2000). FDA held a public meeting on March 30, 2000, addressing pregnancy-related claims under the structure/function rule.

Pearson v. Shalala

FDA published a Federal Register notice on the strategy for responding to petitions for health claims for dietary supplements, including the health claims at issue in *Pearson Court Decision* (65 FR 59855; October 6, 2000). It also issued final determinations on October 10th for two health claims (folic acid and neural tube defects, and fiber and colorectal cancer) and on October 31st for one claim (omega-3 fatty acids).

- **Health Claim Regarding Folic Acid and Neural Tube Defects**

FDA did not approve the proposed health claim, which stated "0.8 mg of folic acid in a dietary supplement was more effective in reducing the risk of neural tube defects than a lower amount in foods." FDA did provide examples of appropriate qualified claims. A copy of the letter is available on our web site at http://vm.cfsan.fda.gov/~dms/ds-ltr7.html.

- **Health Claim Regarding Fiber and Colorectal Cancer**

FDA determined that the proposed health claim about dietary fiber reducing the risk of colorectal cancer could not be authorized because the results of studies about dietary fiber consistently showed a lack of relationship between dietary fiber supplements and the risk of colorectal cancer. Nor could the claim be qualified because the suitable evidence against the claim outweighed the evidence for it. A copy of the letter is available on our web site at http://vm.cfsan.fda.gov/~dms/ds-ltr8.html.

- **Letter regarding Dietary Supplement Health Claim for Omega-3 Fatty Acids and Coronary Heart Disease Letter**

FDA determined that the use of omega-3 fatty acids as dietary supplements is safe and lawful under 21 CFR § 101.14, provided that daily intakes do not exceed three grams per person per day from conventional food and dietary supplement sources. A copy of the letter is available on our web site at http://vm.cfsan.fda.gov/~dms/ds-ltr11.html.

Performance Plan Goals

Food Safety: Premarket Review of Food Ingredients

The first strategic goal of the Foods Program identified in the FDA FY 2000 Final Performance Plan is to provide consumers quicker access to new food ingredients, bioengineered foods, and dietary supplements, while assuring their safety and effectiveness.

The Food Program's key challenge in the premarket area is to expedite review of new food products without jeopardizing public safety. The performance goal below states how FDA would provide the U.S. public with quicker access to new food ingredients and dietary supplements and make timely decisions on new food and color additive petitions.

Performance Goal

Complete the first action on 40% of food and color additive petitions within 360 days of receipt.

Results

CFSAN achieved its goal for those petitions qualifying for expedited review and those who did not:

- Completed the safety evaluation in less than 360 days for all five food and color additive petitions that qualified for expedited review.

- Completed the safety evaluation in less than 360 days for 77% (59 of 77) of food and color additive petitions that did not qualify for expedited review.

Food Safety: Postmarket Surveillance

The second strategic goal identified in the Final Performance Plan is to reduce the health risks associated with food and cosmetic products by preventing human exposure to hazards, monitoring product quality, and correcting problems that are identified.

Compliance monitoring is a critical component of food safety assurance during and after production and through the commercial distribution stage. FDA has the statutory authority to inspect establishments, examine or analyze samples, and conduct investigations to determine whether product safety and quality standards are met at each stage of commercial food production and distribution. The Agency accomplishes its safety assurance for domestic foods and cosmetics through compliance programs that guide surveillance and enforcement activities.

The greatest challenge the Foods Program faces is how to cope with the growth of the regulated industry and the growth and changes in health risks. The FY 2000 performance goal below expresses how FDA targeted products with the highest risk of violating food safety and sanitation standards. FDA also increased the number of domestic establishment inspections to improve the coverage for the entire food supply.

High-risk domestic food establishments include those involved in the manufacture of low acid canned food (LACF) products, infant formula products, heat and serve products, ready to eat products, and other products that do not require heating to a temperature sufficient to kill bacteria prior to consumption.

Performance Goal

Increase the percentage of high-risk domestic food establishments inspected once every year. The performance target for FY 2000 was 90% - 100% of establishments once every one to two years.

Result

The performance target was exceeded for FY 2000 from 3,000 inspections in FY 1999, to 5,710 in FY 2000 (an increase of 90% over 1999).

From HHS News, May 3, 2000

FDA TO STRENGTHEN PRE-MARKET REVIEW OF BIOENGINEERED FOODS

The Food and Drug Administration (FDA) announced today plans to refine its regulatory approach regarding foods derived through the use of modern biotechnology. The initiatives unveiled stem in part from input received during FDA's public outreach meetings held late last year and build upon programs already underway at FDA to help ensure the safety of all foods.

"FDA's scientific review continues to show that all bioengineered foods sold here in the United States today are safe as their non-bioengineered counterparts," said Jane E. Henney, M.D., Commissioner of Food and Drugs. "We believe our initiatives will provide the public with continued confidence in the safety of these foods."

FDA will publish a proposed rule mandating that developers of bioengineered foods and animal feeds notify the agency when they intend to market such products. FDA also will require that specific information be submitted to help determine whether the foods or animal feeds pose any potential safety, labeling, or adulteration issues.

FDA Programs

Human Drugs

Human Drugs Program

Background

The Human Drugs Program, administered by the Center for Drug Evaluation and Research (CDER) and supported by ORA, is responsible for ensuring that all drug products used for the prevention, diagnosis, and treatment of human disease are safe and effective, properly labeled, and that information on proper use is available to all users. To achieve this mandate, premarket review, postmarket assurance, education, research, and other strategies are employed and periodically assessed. The program's specific responsibilities include:

- regulating the testing of investigational new drugs (INDs);
- evaluating new drug applications (NDAs) and abbreviated new drug applications (ANDAs) for generic drugs;
- monitoring the quality of products manufactured in, or imported into the United States;
- collecting and evaluating information on adverse effects experienced with marketed products;
- regulating the advertising and promotion of prescription drugs;
- establishing and monitoring standards for use, labeling, and composition of both prescription and over-the-counter drugs;
- disseminating timely and accurate product information to the medical community and the public;
- identifying drugs that have potential for abuse; and
- making recommendations to the U.S. Department of Justice's Drug Enforcement Administration for drug classification and control.

Costs

Fiscal Year	Net Program Costs
2000	$251,243,000
1999	$223,855,000
1998	$176,531,000

The Human Drugs Program has experienced a 12.2 percent increase in net costs in FY 2000. The net cost provides total expenses of the program including the net exchange of revenues and allocation of indirect expenses such as the Office of the Commissioner costs (e.g., administrative and policy direction), Office of Regulatory Affairs' field operations' costs, rent, and other overhead. For an explanation of net program costs, please see the discussion on page I-9.

Selected Initiatives, Goals, and Accomplishments

Antimicrobial Resistance Initiative

CDER approved Zyvox, the first of a new class of antibiotics with labeling for use against resistant organisms. The labeling encouraged use that would preserve the drug for serious diseases.

A proposed rule, *Labeling Requirements for Systemic Antibacterial Drug Products Intended for Human Use*, was published. CDER staff had a lead role in drafting an interagency Public Health Action Plan to Combat Antimicrobial Resistance. CDER held an Advisory Committee meeting to discuss issues related to testing for development of resistant Human Immunodeficiency virus (HIV-1) in the course of developing new products for the treatment of HIV infection.

Product Quality Research Institute Initiative

The Product Quality Research Institute (PQRI) is a first-ever collaboration among CDER, academic, and

industry scientists to conduct research in the areas of pharmaceutical chemistry, biopharmaceutics, and science management. The purpose of this research is to establish better testing methods, standards, and controls for assessing product quality and manufacturing and management processes. This knowledge aids the Agency in developing consistent and reasonable requirements for product quality information in regulatory filings. Leveraging scientific expertise in this way contributes to streamlining the drug development and approval processes for industry and the FDA while ensuring the highest level of product quality.

In FY 2000, PQRI initiated seven working groups to address the following regulatory issues: blend uniformity, manufacturing changes, packaging changes, bulk drug post-approval changes, drug substance impurity testing, drug substance particle size analysis, and topical and aerosol forms

The Blend Uniformity Working Group is expected to make recommendations to FDA by early next year on science-based changes to regulations for blend uniformity testing. These recommendations will ensure that there is thorough mixing of the drug within the blend and dosage unit. Current regulations advocate the testing of each production batch of a powder-blend drug. However, industry experience suggests that testing every batch is not necessary or meaningful because the current blend sampling technology is flawed and does not necessarily provide representative results.

Pediatric Exclusivity Activities -- Section 111 of the FDA Modernization Act

Section 111 authorizes FDA to grant six months of marketing exclusivity if a sponsor conducts and files pediatric studies responsive to a Written Request for pediatric studies. Fifty-seven Written Requests were issued in FY 2000 with 19 being Pediatric Exclusivity determinations. Twelve were for active ingredients for which pediatric labeling has been approved based on studies conducted to satisfy a Written Request.

CDER updated the annual list of approved drugs for which pediatric information may produce health benefits in the pediatric population. It also maintained and updated a pediatric interactive web page at http://www.fda.gov/cder/pediatric. CDER developed the agenda, and coordinated and participated in Pediatric Advisory Subcommittee meetings of November 1999 and September 2000. Several guidances were published to help in pediatric drug development. [4]

CDER provided training for all the clinical and project management staff on the Pediatric Rule and interactions with industry related to Section 111. It assisted in the organization of, and participated in, the Surgeon General's National Conference on Mental Health in Children and co-sponsored the National Institute of Mental Health and FDA workshop on the development of psychotropic agents for young children.

Web Based Educational and Regulatory Initiative

In keeping with its goal to disseminate timely and accurate information to the medical community and the public, CDER launched the first regulatory web site with a focus on a specific disease. The site, called Oncology Tools, consolidates existing information and developed new material developed to provide cancer-related information for consumers, patients, and health care professionals. See accompanying press release on page I-22.

The purpose of this approach is to emphasize and promote scientific, evidence-based development of drug products for life threatening illnesses. Through this web site, CDER is able to provide educational material and guidance documents in a convenient format to advance the development of cancer therapies, better

[4] Guidance for Industry: Pediatric Oncology, Studies in Response to a Written Request; International Conference on Harmonization: Clinical Investigation of Medicinal Products in the Pediatric Population; Regulations Requiring Manufacturers to Assess the Safety and Effectiveness of New Drugs and Biological Products in Pediatric Patients, Final Rule.

coordinate cancer information among various FDA centers, enhanced service to our constituents, and new information on the services CDER can provide. For the first time, it is now possible to view a list of all approved oncology drug products along with the product label, advisory committee transcripts and summaries of the clinical evidence that supported the marketing claim.

The web-site has received national recognition from news organizations, has been favorably reviewed in the oncology press, and has been linked to by the National Institute's Cancer Net as well as many other cancer related web sites. Comments have been received from around the world, and the web site is now being translated into several languages to broaden its scope. See web site at: http://www.fda.gov/cder/cancer.

Performance Plan Goals

Premarket Review

The first strategic goal of the Human Drugs Program identified by the FDA FY 2000 Final Performance Plan was to reduce human suffering and enhance public health by facilitating access to important, lifesaving drugs, and assuring availability of safe and effective drugs.

Achieving this goal included continued efforts to meet mandated review times for new and generic drug application submissions. This was accomplished through continued communication and collaboration with industry, academia, professional societies, and health care organizations. CDER also continued to develop standards and training for evaluating drugs to ensure continued performance of consistent, high-quality reviews. Several quality assurance efforts were developed to evaluate the quality of reviews.

CDER's ability to meet review times for new drug submissions has been achieved through the Prescription Drug User Fee Act (PDUFA). PDUFA authorized the assessment and collection of user fees for drug applications, establishment registrations, and product listings to enhance and expand FDA's existing review process. FDA (CDER and the Center for Biologics Evaluation and Review) committed to certain performance goals in response to these additional resources. Results have been remarkable. PDUFA proved to be a success for the pharmaceutical industry, FDA, and consumers, and benefited public health. FDA's efforts in exceeding the performance goals established under PDUFA were so successful that, in 1997, Congress authorized PDUFA II under the FDAMA for another five years.

FDA has exceeded the PDUFA performance goals for each successive fiscal year. PDUFA goals are calculated for each fiscal year cohort.[5] Progress related to goal achievement is stated as of a certain date until the cohort is considered closed.[6] The term, "review and act on," is understood to mean the issuance of a complete action letter after the completed review of a filed application. The action letter, if not an approval, details the specific deficiencies and the actions necessary prior to resubmitting the application for consideration of approval. Under PDUFA II, in addition to the 90 percent within-goal performance level, FDA began to transition to shorter review periods for some submission types by introducing secondary goals and performance objectives.

Information is provided on two premarket goals: NDAs and generic drug applications. For the NDA goals, both FY 1999 and FY 2000 preliminary results are shown.

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5 A cohort is defined as the group of submissions received by the Agency during a particular FY. For the FY 2000 cohort, data is considered preliminary. Final data are due pending the performance measure in mid to late 2001.

6 The Agency is allotted time set by PDUFA to review and act on a submission. A one-time three-month extension is allowed only for original NDAs if a major amendment is received. For example, if a standard NDA is received on September 30, 2000 (the last day of FY 2000), the submission is part of the FY 2000 cohort. If not amended, the Agency's work on the submission through September 30, 2001 would be within the 90 percent goal period, after which, completion of review or action would be considered late.

Performance Goal

The FY 1999 cohort review performance goals covered under PDUFA II for NDAs are:

- Review and act on 90 percent of standard NDAs within 12 months of receipt;
- Review and act on 30 percent of standard NDAs within 10 months of receipt; and
- Review and act on 90 percent of priority original NDAs within six months of receipt.

Results

CDER met its FY 1999 performance goals as displayed in Table 1.

Table 1

Fiscal Year 1999 Cohort (as of 10/31/00)[7]

Submission Type	Number of Submissions Filed	Goal (months)	Number of Reviews "On Time"	Percent of Reviews "On Time"
NDAs - Priority	31	90% in 6 mo.	31	100%
NDAs - Standard	94	90% in 12 mo.	92	98%*
		30% in 10 mo.	63	67%

**See footnote.*

CDER also surpassed the 90 percent on-time review goals for New Molecular Entities (NME), reviewing all 17 priority and all 25 standard applications within goal. Also, 56 percent of standard NMEs were reviewed within 10 months, surpassing the 30 percent goal. The number of original NDAs filed for the FY 1999 submission cohort increased nearly 10 percent from FY 1998.

Performance Goal

The FY 2000 cohort review performance goals for NDA submissions under PDUFA II are:

- Review and act on 90 percent of standard NDAs within 12 months of receipt;
- Review and act on 50 percent of standard NDAs within 10 months of receipt; and
- Review and act on 90 percent of priority original NDAs within 6 months of receipt.

Results

In FY 2000,[8] CDER took 239 actions on NDAs, 106 of which were approvals. The median approval time was 11.6 months, a three percent decrease compared with FY 1999. Sixty-five of these NDAs were approved in 12

[7] There are two FY 1999 standard NDAs that are still pending a first action. Both applications have received goal date extensions and are currently within goal. The potential performance for the FY 1999 standard 12 month goal is 100 percent. The FY 1999 table will not be final until all applications are complete.

[8] Accomplishment of the FY 2000 cohort-year performance goals is not immediately measurable at the close of the fiscal year. Some preliminary results are available. Final data will be available mid to late 2001.

months or less. Of these 106 NDA approvals, 39 were for NMEs – drugs that are chemically different in structure from those already on the market. Of the 39 NMEs, 12 were drugs given a priority review (products offering a significant improvement over currently marketed drugs). Drugs approved in FY 2000 under Subpart H (Accelerated Approval) regulations are listed below.

Table 2

NDA's Approved for Accelerated Approval in FY 2000

Drug	Approval Time	Purpose
Mylotarg (gemtuzumab ozogamicin)	6.6 months	Treatment of patients with CD33 positive acute myeloid leukemia in first relapse who are 60 years of age or older and who are not considered candidates for cytotoxic chemotherapy
Kaletra (lopinavir/ritonavir capsule)	3.5 months	In combination with other antiretroviral agents for the treatment of HIV-1 infection in adults and pediatric patients age six months and older
Kaletra (lopinavir/ritonavir oral solution)	3.5 months	In combination with other antiretroviral agents for the treatment of HIV-1 infection in adults and pediatric patients age six months and older
Mifeprex (mifepristone) [9]	18.0 months[10]	For medical termination of intrauterine pregnancy through 49 days' pregnancy

Premarket Review: Generic Drugs

FDA continues to support an active generic drugs program with a focus on expanding the availability of high quality generic drug products to the public. A generic drug product is one that is comparable to the reference listed drug product in dosage form, strength, route of administration, quality, performance characteristics, and intended use. Generic drug applications are termed "abbreviated" in that they generally do not require preclinical (animal) and clinical (human) data to establish safety and effectiveness. These parameters were established upon the approval of the innovator drug product. A Congressional Budget Office report estimates "that the purchase of generic drugs reduced the cost of prescriptions (at retail prices) by roughly $8 to $10 billion in 1994." [11]

[9] Mifeprex was approved under a special provision of the subpart H regulations that provide for restricted distribution.

[10] The total approval time for Mifeprex was adjusted. The time period from 09/18/96 to 08/19/99 was excluded because the sponsor had to find a new manufacturer; the final study report for the U.S. clinical trial was completed and submitted late in the review; and, stability issues had to be addressed before the sponsor could resubmit the application for review. The time period from 02/18/00 to 03/31/00 was excluded while the sponsor prepared for a facilities reinspection.

[11] Congressional Budget Office, A CBO Study: How Increased Competition from Generic Drugs Has Affected Prices and Returns in the Pharmaceutical Industry (ftp://ftp.cbo.gov/6xx/doc655/pharm.pdf, July 1998), p. 13.

Performance Goal

Review and act upon 45 percent of fileable original generic drug applications within six months after the submission date.

Results

Preliminary data indicate CDER may meet its goal for FY 2000. In the six months from November 1999 to April 2000, CDER's Office of Generic Drugs (OGD) acted on 47 percent of original applications. This is an increase from the 31 percent acted on during the previous six months.

During FY 2000, OGD approved 232 ANDAs. This is an increase over the 198 approved last fiscal year. Of these, several represent the first time a generic has been approved for a product. Examples of important first time approvals include:

- Paclitaxel, for treatment of breast, ovarian and other cancer (generic for Taxol by Bristol Myers Squibb);
- Enalapril, for treatment of hypertension (generic for Vasotec by Merck);
- Midazolam, for induction of general anesthesia and sedation (generic for Versed by Roche);
- Digoxin, for congestive heart failure (generic for Lanoxin by Glaxo Wellcome); and
- Doxazosin, used to treat hypertension and benign prostatic hyperplasia (generic for Cardura by Pfizer)

Table 3

Generic Approvals by Fiscal Year

Fiscal Year	Number of Approvals
1993	170
1994	168
1995	201
1996	214
1997	256
1998	230
1999	198
2000	232

Significant strides were made toward a paperless review environment. With $1.5 million in funding earmarked for satisfying information technology needs, CDER purchased upgraded hardware and software, and contractual support for the review of electronic submissions. CDER received 101 ANDAs containing at least a portion of the data in electronic format (30 percent of all submissions). This is an increase over the 88 ANDAs with some portion in electronic format submitted last fiscal year. The increase reflects the commitment of OGD to support the Agency's efforts to increase overall efficiency of the review process.

Postmarket Assurance

The second strategic goal of the Human Drugs Program in FY 2000 was to prevent unnecessary injury and death to the American public caused by adverse drug reactions, injuries, medication errors, and product problems.

CDER uses a number of approaches to monitor and assess postmarketing risk to ensure the continued safe use of drug products. FDA's current Adverse Events Reporting System (AERS) database for drugs and therapeutic biological products contains over two million reports. FDA evaluates spontaneous reporting data from AERS to identify any serious, rare, or unexpected adverse events or an increased incidence of events. Based on its evaluation, FDA may decide to initiate regulatory action requiring, for example, safety-related labeling changes, Dear Healthcare Professional Correspondence, Public Service Announcements, a new risk communication tool such as the Medication Guide, a risk management program, or, as a last resort, recommend market withdrawal.

Information is provided on CDER's status of improving the AERS.

Performance Goal

Expedite processing and evaluation of adverse drug

events through implementation of AERS which allows for electronic periodic data entry and acquisition of fully coded information from drug companies.

Results

CDER implemented a major release of AERS in May 2000. This release provided new functionality by enhancing searching capability, becoming International Conference on Harmonization compliant, and providing better integration for electronic submissions.

These enhancements to AERS allowed CDER to improve its ability to collect and analyze medical products adverse event data to ensure timely and appropriate action. For example, in FY 2000, FDA recommended the withdrawal of two drugs from the market as a result of reported adverse events. Cisapride, a treatment for heartburn, was removed when FDA became aware that its use was associated with 341 reports of heart rhythm abnormalities including 80 reports of deaths. Rezulin was withdrawn when severe liver toxicity became known to occur. An Advisory Committee meeting was held to discuss the effectiveness and possible enhancements to an existing risk management program to prevent fetal exposures to Accutane as well as psychiatric side effects associated with the drug.

FDA Press Release, July 7, 2000

FDA LAUNCHES ONCOLOGY TOOLS WEBSITE
CDER WEBSITE OFFERS ACCESS TO CANCER-RELATED INFORMATION

The U. S. Food and Drug Administration's Center for Drug Evaluation and Research (CDER) internet web site has expanded its capability to provide cancer-related information for consumers, patients, and health care professionals. This new web page, Oncology Tools at http://www.fda.gov/cder/cancer, can be searched by specific types of cancer and by approved drug therapies. This will make it easier for consumers and patients to obtain information about different types of cancer and treatments, as well as clinical trials and patient support groups available to them.

Internet users can now directly access such documents as cancer drug labeling, approval summaries, and advisory committee transcripts. Specialized information is also available for health care professionals and others and includes cancer-related regulatory tools, references for performing clinical studies, and drug dose calculators.

The Oncology Tools page was developed by the Division of Oncology Drug Products with the support of CDER's Office of Training and Communications in order to make the web site more user friendly to the wide range of different groups that use it.

FDA review divisions responsible for oncology products include the Center for Drug Evaluation and Research (CDER), the Center for Biologics Evaluation and Research (CBER), the Center for Devices and Radiological Health (CDRH), the Center for Food Safety and Nutrition (CFSAN) and FDA's Office of Special Health Initiatives (OSHI). The new web site includes a link to each of the other centers. FDA's Office of Special Health Issues (OSHI) works with cancer patients and cancer patient advocacy programs on issues related to the FDA drug approval process, cancer clinical trials and access to investigational therapies.

FDA Programs

Biologics

Biologics Program

Background

The Biologics Program, administered by the Center for Biologics Evaluation and Research (CBER) and supported by ORA, is responsible for ensuring the safety, efficacy, potency, and purity of vaccines, blood products, certain diagnostic products, and other biological and biotechnology-derived human products. Such products are for the treatment, prevention, or cure of diseases in humans, as well as the safety of the Nation's supply of blood and blood products. The program's activities include:

- evaluating biological products before marketing, including monitoring pre-clinical and clinical testing of new biological products;
- licensing biological products and manufacturing establishments, including plasmapheresis centers, blood banks, vaccine and biotechnology manufacturers;
- managing the Acquired Immune Deficiency Syndrome (AIDS) program and policy activities, including research on AIDS therapeutic products, diagnostic tests, and vaccines;
- performing regulatory research to establish product standards and development of improved testing methods to assess the safety of biological products;
- providing regulatory oversight for licensed biological manufacturing establishments;
- regulating the safety and quality of domestic and imported products; and
- reviewing and investigating post-market reporting of product adverse experiences.

Costs

Fiscal Year	Net Program Costs
2000	$132,860,000
1999	$146,773,000
1998	$137,962,000

The Biologics Program has experienced approximately a 9 percent decline in net program costs due to a higher amount of PDUFA fees collected in FY 2000. The net cost provides total expenses of the program including the net exchange of revenues and allocation of indirect expenses such as the Office of the Commissioner costs (e.g., administrative and policy direction), Office of Regulatory Affairs' field operations' costs, rent, and other overhead. For an explanation of net program costs, please see the discussion on page I-9.

Selected Initiatives, Goals, and Accomplishments

Countering Bioterrorism Initiative

The President's initiative on Countering Bioterrorism is comprised of a number of essential elements for which CBER plays an integral role. One role is developing and licensing products to diagnose, treat, or prevent outbreaks from exposure to the pathogens identified as bioterrorist agents. These products must be reviewed and approved prior to the large-scale productions necessary to create and maintain a stockpile. Staff must guide the products through the regulatory process, including manufacturing, pre-clinical testing, clinical trials, and licensing and approval. This process is complex and early involvement by FDA staff is crucial to the success of the expedited review process.

Another role is developing a cohesive and comprehensive response in conjunction with other Federal agencies. CBER participates in numerous meetings, briefings, and conferences representing FDA, with staff from the Department of Defense, the Department of Health and Human Services (DHHS), and the Office of Management and Budget. CBER also works with other DHHS Agencies, including the National Institutes of Health (NIH) and the Centers for Disease Control and Prevention.

CBER is also developing new regulatory models to accommodate the need for preparedness in the case of an emergency attack. For example, procedures and

protocols are being developed to enable the use of INDs in a highly controlled, safe manner for particular emergency situations, such as responding to a bioterrorist attack that exposed individuals to the agent that causes anthrax.

In FY 2000, CBER received one-time funding of $7.5 million from the Department's Public Health and Social Services Emergency Fund to begin the process of developing the necessary expertise and infrastructure to address regulatory activities for the Presidential Initiative to Counter Bioterrorism. The one-time funding was used to expeditiously develop and license new vaccines for anthrax and smallpox and the associated vaccinia immune globulin products used to treat or prevent serious vaccinia infections brought on by the smallpox vaccine.

Human Subject Protection Initiative

The Bio-Research Monitoring (BIMO) program was established in the 1970's to oversee the conduct of clinical trials and the operation of non-clinical laboratories and to ensure that the reporting of research information submitted to the FDA was not fraudulent or falsified. Under the BIMO program, FDA inspects non-clinical laboratories, clinical investigators, institutional review boards, sponsors, contract research organizations, and clinical trial monitors. The compliance goals of the program are achieved through a combination of surveillance, enforcement, and education.

The Biologic's BIMO program has focused on strengthening, and thereby enhancing, the FDA's ability to promote the development and availability of safe and efficient clinical and non-clinical environments, exacting protocols, and investigational products protecting human subjects, and rendering accurate and reliable data. These efforts promote uniformity of action across FDA and provide a comprehensive, integrated BIMO program to oversee emerging products and technologies.

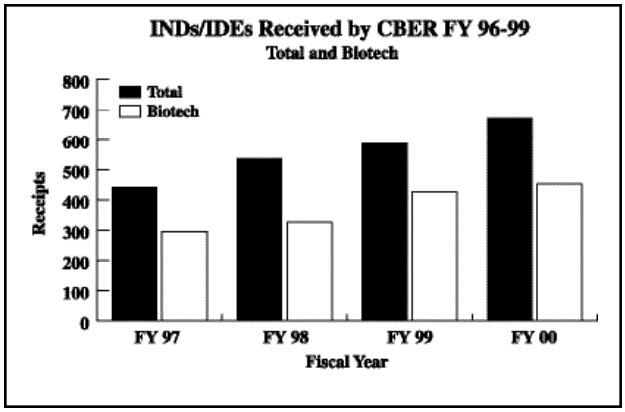
As part of ongoing efforts to ensure patient protection in gene therapy trials, FDA and NIH announced on March 7, 2000, two new initiatives to further strengthen the safeguards for individuals enrolled in clinical studies for gene therapy. These two new initiatives -- the Gene Therapy Clinical Trial Monitoring Plan and the Gene Transfer Safety Symposia -- complement and advance current patient protections.

FDA and NIH have taken both individual and cooperative actions to achieve greater adherence by researchers to existing requirements and guidance and to bolster the protection of study participants and the integrity of gene therapy trials. These include:

- conducting more inspections to increase oversight of INDs in gene therapy;
- issuing a proposed rule on the public disclosure of information regarding gene therapy clinical trials that would provide more information on these trials to the general public;
- enhancing regulatory research to improve product safety; and
- providing guidance documents to industry and other interested parties on gene therapy products and taking action to build upon existing guidance.

The chart below (Figure 7) shows the magnitude of investigational research. The number of INDs and Investigational Device Exemptions (IDEs) received by CBER since 1997 has increased steadily. INDs/IDEs are submitted by sponsors, prior to clinical trials, to determine their safety and efficacy, and to request FDA authorization to administer an investigational drug or biological product to humans.

Figure 7



Biotechnology-produced products have increased dramatically in recent years. The number of INDs received by CBER rose from five in FY 1980 to 453 in FY 2000. During FY 2000, FDA received 11,121 investigational amendments for biotechnology INDs. Much of this growth has been in the area of somatic cell/gene therapy and xenotransplantation products for which there were nine INDs in FY 1989 increasing to 146 INDs in FY 2000. Adjunct procedures used in gene therapy, such as stem cell isolation, are also rapidly increasing, leading to a secondary rise in device and biological submissions related to this area.

Performance Plan Goals

Premarket Review

The first strategic goal of the Biologics Program, identified in the FDA FY 2000 Final Performance Plan, is to ensure the expeditious availability of safe and effective human drugs, including biologics, for the prevention, diagnosis, and treatment of disease.

CBER is responsible for reviewing and approving biologics covered by PDUFA[12] , which are primarily vaccines and therapeutics. CBER also has responsibility for reviewing and approving biologic products not covered by PDUFA. The non-PDUFA biological products are primarily blood and blood products, human tissue for transplantation, allergenic products, and devices associated with their manufacture.

PDUFA established performance goals for the evaluation of applications for marketing drug and certain biological products. Review performance monitoring is being done in terms of cohorts, e.g., the FY 2000 cohort includes applications received from October 1, 1999, through September 30, 2000.

Information is provided on two performance goals that cover PDUFA and non-PDUFA products.

Performance Goal

The FY 2000 cohort review performance goals covered under PDUFA for New Drug Applications (NDA), Product License Application (PLA), and Biologics License Application (BLA) are:

- Review and act on 90 percent of standard original NDAs/PLAs/BLAs filed during FY 2000 within 12 months of receipt and review and act on 50 percent within 10 months or receipt.
- Review and act on 90 percent of priority original NDA and PLA/BLA submissions filed during FY 2000 within 6 months of receipt.

Accomplishment of the cohort-year performance goals is not immediately measurable at the close of the fiscal year. The outcome can be measured either 6 or 12 months after the last submission received in FY 2000, depending upon the category of submission (for 12 month standard applications – November 2001, for ten month standard applications – September 2001, and for priority original applications – April 2001).

Results

CBER has met or exceeded its performance goals in FY 1994 through FY 1999. Table 4 shows CBER's performance on the PDUFA FY 1999 cohort. The data provided are as of September 30, 2000.

The FY 1999 first-action performance goal is to review and issue a comprehensive action letter within the goal on at least 90 percent of the new product applications submitted and filed during FY 1999. This means that not more than 10 percent of new product applications received and filed during FY 1999 should be overdue. Overdue is defined for standard new product as not having issued a comprehensive action letter within 12 months of receipt and filing of the application, and for

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[12] It should be noted that the PDUFA program excluded various process activities that normally are associated with the regulation of biological products. These include: enforcement policy development; post-approval compliance and surveillance activities, including review of adverse drug reports and annual reports; advertising review activities once marketing of the product has begun; and inspections unrelated to the review of covered applications and research.

priority original new products, it is defined as not having issued a comprehensive action letter within 6 months of receipt and filing of the application.

Table 4

Biologics Program FY 1999 PDUFA Cohort as of 9/30/00

Application Type	Number Submitted	Number Filed	RTF, UN or WF	First Action w/in Goal (%)	Submissions Overdue (%)
New Product Standard	6	5	1	100	0
New Product Priority	2	1	1	100	0

RTF = Refuse to File; UN = Unacceptable for filing (User Fee not paid); WF = Withdrawn before filing;
CBE = Change being effected immediately; CBE = Change being effected after 30 days; NA = Not applicable.

Performance Goal

The FY 2000 cohort review performance goal for non-PDUFA products are:

- Review and act on 85 percent of complete blood bank and source plasma PLA/BLA submissions filed during FY 2000 within 12 months of receipt.
- Review and act on 90 percent of PLA/BLA Major supplements within 12 months after submission date.

Final performance results will be available in November 2001 for the FY 2000 cohort.

Results

For FY 1999, the performance targets for blood bank and source plasma PLA/BLA submissions, and major supplements were 60% and 90%, respectively. CBER reported that its actual FY 1999 performance for blood bank and source plasma PLA/BLA and PLA/BLA major supplements exceeded their target. CBER achieved results of 100 percent and 99 percent, respectively. The non-PDUFA review resources in CBER are not protected from cuts as the PDUFA resources are by the PDUFA legislation. CBER's non-PDUFA review resources have been cut in recent years due to unfunded pay raises, increased current service costs, and other budget actions.

Post-Market Quality Assurance

The second strategic goal of the Biologics Program is to reduce the risk of biologics products on the market through assuring product quality and correcting problems associated with their production and use.

FDA is required by law to conduct biennial inspections of all licensed establishments to determine compliance with Current Good Manufacturing Practice (CGMP) regulations and to ensure compliance with applicable product and establishment standards and license commitments. FDA also conducts biomedical research inspections to review pivotal clinical trial data, and inspections of new tissue-cellular based products.

Performance Goal

Assure that FDA inspections of domestic biologics manufacturing, repacking, and blood banks establishments result in a high rate of conformance (at least 90%) with FDA requirements.

Results

CBER reported that a 96% rate of conformance was achieved in FY 2000.

Conformance rate estimates the post-inspection status of establishments inspected in the given year. They are based on the number of establishments inspected, the incidence of serious deficiencies detected (Official Action Indicated), and statistical data on deficiency corrections. This is due to FDA's selection of high risk firms. Since firms inspected are not selected randomly from the entire population, the rates should be applied across that population. However, as coverage of the inventory of firms is improved, the rates will better represent the overall status of the industry sector.

From February 17, 2000 Press Release – HHS News

First Pneumococcal Vaccine Approved for Infants and Toddlers

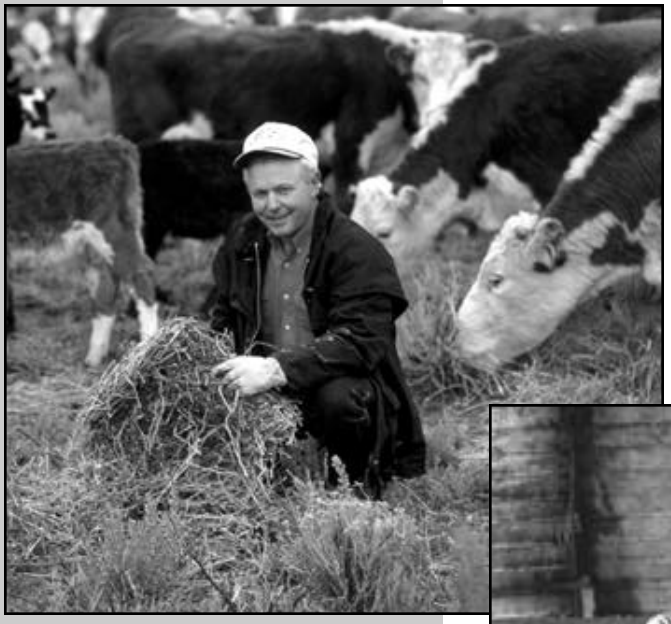
FDA today approved the first vaccine to prevent invasive pneumococcal diseases in infants and toddlers – diseases which can cause brain damage and, in rare cases, death. The vaccine prevents invasive diseases caused by the organism Streptococcus pneumoniae (also known as pneumococcus) including bacteremia (an infection of the bloodstream) and meningitis, an infection of the lining of the brain or spinal cord.

The vaccine will be marketed as Prevnar by a unit of Wyeth-Ayerst Laboratories, a Division of American Home Products Corporation in Philadelphia, Pennsylvania. Infants can receive the vaccine as a series of four inoculations administered at 2, 4, 6, and 12-15 months of age.

"This new vaccine is great news for parents and their children because now, for the first time, we have a highly effective way to prevent a major cause of meningitis and serious blood infections in the most susceptible children – those under two years of age." Said Dr. Jane Henney, Commissioner of Food and Drugs. "When we prevent these infections, we are also preventing brain damage and mortality from pneumococcal diseases.

FDA Programs

Animal Drugs and Feeds



Animal Drugs and Feeds Program

Background

The Animal Drugs and Feeds Program, administered by the Center for Veterinary Medicine (CVM) and supported by ORA, is responsible for protecting the health and safety of all animals that serve either as companions or food sources for mankind and to assure that food from animals is safe for human consumption.

This is accomplished through the review of animal drug applications submitted to FDA and continuous surveillance of all approved animal drugs, devices, and feeds marketed in interstate commerce.

The primary goals of the Animal Drugs and Feeds Program are to:

- assure that only safe and effective animal drugs, devices, feeds and feed additives are marketed;
- assure that foods from animals that are administered drugs and food additives, in accordance with label directions, are safe for human consumption; and
- work pro-actively to increase the availability and diversity of safe and effective products for use in both food producing and non-food producing animals by the veterinary community.

The Animal Drugs and Feeds Program conducts surveillance on marketed products and the regulated industry. This is accomplished through a review of drug experience reports and completion of compliance programs that are implemented by FDA field offices. The field offices also perform inspections, sample collections and analyses, investigations, and other post market activities. Regulatory actions are taken as needed to control violative goods and firms.

In addition, the Animal Drugs and Feeds Program actively pursues educational initiatives in partnership with the major groups representing the feed industry and state government regulators. Increased understanding and knowledge of the regulations concerning animal drugs and feeds improve compliance and overall program efficiency.

Costs

Fiscal Year	Net Program Costs
2000	$63,591,000
1999	$62,579,000
1998	$52,603,000

The Animal Drugs and Feeds Program has experienced approximately a two percent increase in net costs in FY 2000. The net cost provides total expenses of the program including the net exchange of revenues and allocation of indirect expenses such as the Office of the Commissioner costs (e.g., administrative and policy direction), Office of Regulatory Affairs' field operations' costs, rent, and other overhead. For an explanation of net program costs, see the discussion on page I-9.

Selected Initiatives, Goals, and Accomplishments

Food and Drug Administration Modernization Act (FDAMA) Implementation

Section 116 of FDAMA amended the Federal FD&C Act by adding section 506A describing the requirements and procedures for making and reporting post approval manufacturing changes to approved human and animal drug applications.

FDAMA required CVM to amend the section on supplemental new animal drug applications to harmonize with the CDER and CBER requirements and procedures for making and reporting manufacturing changes to approved drug and license applications.

Section 506A was implemented by CVM during FY 2000 as follows:

- A proposed rule amending 21 CFR 514.8 Supplemental new animal drug applications was published in the October 1, 1999, *Federal Register* (64 FR 53281).

- A notice of availability of the draft companion guidance document to the above proposed rule entitled #83 Guidance for Industry: Chemistry, Manufacturing and Controls Changes to an Approved NADA or ANADA was announced in the October 1, 1999, *Federal Register* (64 FR 25492).

Food Safety Initiative

CVM participates in the surveillance, research, risk assessment, outreach, and educational activities of the President's Food Safety Initiative's (FSI).

Under the surveillance activities, CVM has developed and coordinated the National Antimicrobial Resistance Monitoring System (NARMS), a collaborative effort among the FDA, United States Department of Agriculture (USDA), and Centers for Disease Control and Prevention (CDC). The system was initiated in response to public health issues associated with the approval of fluoroquinolone products for use in poultry. NARMS is designed to identify changes over time in the resistance of bacteria that cause foodborne diseases in humans to the antibiotics used to treat them. The system monitors antibiotics used in both humans and animals. The NARMS monitors resistance to 17 antibiotics in Salmonella and E. Coli bacteria and 8 antibiotics in Campylobacter organisms.

Under research activities, CVM is funding cooperative agreements to study the microbiological hazards associated with the food animal production environment, which includes animal feeds. In addition, the following activities were performed:

- The system is now testing non-typhoid *Salmonella, Campylobacter, Enterococcus*, and *E. coli* isolates collected from animal sources. It is also testing non-typhoid *Salmonella, Campylobacter, Enterococcus, Shigella, Salmonella typhi,* and *E. coli* isolates from human clinical samples.

- The veterinary side of NARMS incorporated an isolate collection from two additional state veterinary diagnostic laboratories.

- Limited retail food testing was also done in conjunction with the Centers for Disease Control and Prevention.

- Studies examining the effect of prudent use of antimicrobials on the farm were continued in association with the University of California at Davis and Michigan State University.

Under outreach activities, NARMS was expanded into the international arena. A pilot study was conducted in Mexico that examined the significance of having animal agriculture in close proximity to hospitals. Medical microbiologists and investigators from hospitals of three Mexican states participated in the study. These investigators were initially trained at the USDA's Russell Research Center in Athens, Georgia. They were trained in standardized laboratory methodologies for the isolation, identification, and antimicrobial susceptibility testing of foodborne *Salmonella*. Sample collection and isolation of *Salmonella* took place with clinically ill humans in the Mexican hospitals and from healthy children in community daycare centers.

Under educational activities, CVM initiatives focused on prudent and judicious drug use practices and risk assessments to better quantify uncertainties for development of scientifically sound priorities and policy.

Public Health Action Plan to Combat Antimicrobial Resistance

The Interagency Task Force on Antimicrobial Resistance, co-chaired by FDA, CDC, and NIH, was created in 1999 to develop the Federal government's response to the emerging public health threat of bacteria and other disease-causing organisms that have become resistant to modern antimicrobial drugs. The task force includes Federal partners from the DHHS, Department of Defense, Department of Veterans Affairs, USDA, and the Environmental Protection Agency.

A draft action plan, developed during FY 2000, provides a blueprint for specific, coordinated Federal actions for both the domestic and foreign areas. The domestic issue has four focus areas: surveillance, prevention and control, research, and product development. FDA plays a leadership role in each of the areas.

Performance Plan Goals

Premarket Review

The first strategic goal of the Animal Drugs and Feeds Program identified in the FDA FY 2000 Performance Plan is to increase the availability and diversity of safe and effective animal drugs and feeds.

CVM strives to increase the availability and diversity of animal drugs and feeds by being involved throughout the new animal drug approval process. Working with industry early in the drug approval process in presubmission conferences, workshops, teleconferences, and the availability of CVM guidances through the Internet, help increase industry efficiency, thereby reducing the overall developmental costs.

During FY 2000, CVM acted on 5,497 submissions for new animal drug applications (NADAs), abbreviated new animal drug applications (ANADAs), investigational new animal drug files, and generic investigational new animal drug files. Of the 5,497 applications, 72 were for original applications (and reactivated originals) and 851 were for supplements to previously approved applications. In addition, 367 phased data submissions were completed by the Center during FY 2000.

Of the actions taken in FY 2000, FDA published 43 approval documents, reflecting NADA and ANADA approvals, in the Federal Register. These approvals included some very significant new product approvals, i.e., three new chemical entities, seven products for use in a new animal species, and four products available in new dosage forms. In addition, other approvals included seven original generic approvals, one drug effectiveness study implementation finalization, and nine new product indications.

Information is presented on the performance goal addressing updating guidance documents.

Performance Goal

Revise and develop 14 guidances.

Reform legislation and reinvention initiatives, such as the Results Act and FDAMA, require input from CVM's customers and stakeholders. Input from customer surveys, stakeholder meetings, and other interactions with regulated industry helped CVM target resources toward developing guidance documents which will more accurately reflect the current veterinary medicated feed and drug approval and monitoring processes. These standards reflect changes in the approval processes resulting from the enactment of the Animal Drugs Availability Act and CVM's efforts to reinvent its new animal drug approval processes. Availability of guidance documents facilitates the accurate and complete preparation of drug applications.

Results

CVM met its FY 2000 goal. Specifically, CVM final-

ized four Veterinary International Cooperation on Harmonization (VICH) guidances, drafted five VICH guidances, in the process of finalizing one FDAMA guidance, revised/developed six ADAA guidances and drafted three ADAA guidances.

Postmarket Activities

The second strategic goal of the Animal Drugs and Feeds Program is to reduce the risks associated with marketed animal products.

Once animal drugs and medicated feeds are marketed, the animal drugs and feeds program continues managing public health risks through activities such as inspections and antimicrobial resistance monitoring. These strategies for assuring safety compliance and scientific monitoring are made possible through partnerships with industry and the states.

An outcome of CVM's surveillance systems is the identification of potential human and/or animal health hazards. As part of the President's FSI, CVM along with other FSI partners (USDA and CDC) developed an early warning system that monitors for resistance to antimicrobials that are used to combat foodborne bacteria that cause disease in humans. As mentioned above, NARMS has greatly improved FDA's ability to detect emerging resistance among foodborne pathogens.

Performance Goal

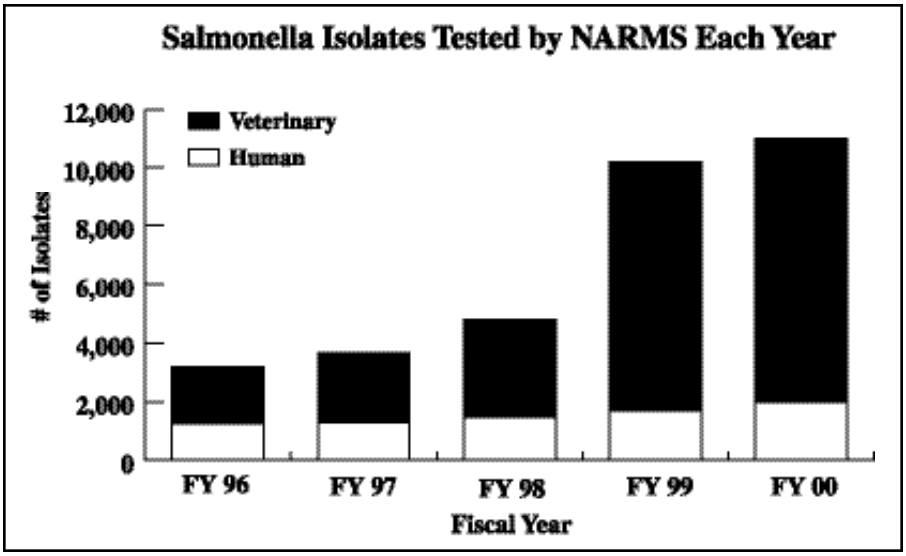
Increase to 6,000 isolates (2,000 – human and 4,000 – veterinary) the overall isolate testing rate for Salmonella in NARMS.

Results

CVM exceeded its measure overall for FY 2000. CVM had a total of 11,000 isolates (2,000 – human and 9,000 – veterinary). Figure 8 illustrates the number of isolates by type for a five year period.

Bacterial isolates (cultures) are collected from human and animal clinical specimens, from healthy farm animals, and from carcasses of food-producing animals at slaughter. The objectives of the system include: to provide descriptive data on the extent and temporal trends of antimicrobial susceptibility in Salmonella and other enteric organisms from human and animal populations; to facilitate the identification of resistance in humans and animals as it arises; identify areas for more investigation; guide research; and to provide timely information to veterinarians and physicians. The ultimate goal of these activities is to prolong the lifespan of approved drugs by promoting prudent and judicious use of antimicrobial drugs and to identify areas for more detailed investigation.

Figure 8



From FDA Consumer Magazine, January – February 2001

Antibiotic Resistance From Down On The Chicken Farm

Poultry growers use fluoroquinolone drugs to keep chickens and turkeys from dying from *Escherichia coli (E. coli)* infection, a disease that they could pick up from their own droppings. But the size of flocks precludes testing and treating individual chickens--so when a veterinarian diagnoses an infected bird, the farmers treat the whole flock by adding the drug to its drinking water. While the drug may cure the E. coli bacteria in the poultry, another kind of bacteria--*Campylobacter*--may build up resistance to these drugs. And that's the root of the problem.

People who consume chicken or turkey contaminated with fluoroquinolone-resistant *Campylobacter* are at risk of becoming infected with a bacteria that current drugs can't easily kill. *Campylobacter* is the most common bacterial cause of diarrheal illness in the United States, according to the Centers for Disease Control and Prevention. It's estimated to affect over 2 million persons every year, or 1 percent of the population.

Commonly found in chickens, *Campylobacter* doesn't make the birds sick. But humans who eat the bacteria-contaminated birds may develop fever, diarrhea, and abdominal cramps. In people with weakened immune systems, *Campylobacter* can be life-threatening. Eating undercooked chicken or turkey, or other food that has been contaminated from contact with raw poultry, is a frequent source of *Campylobacter* infection. Not washing utensils, countertops, cutting boards, sponges, or hands after coming into contact with raw poultry can also spread the bacteria and cause infection. People infected with *Campylobacter* may be prescribed a fluoroquinolone--which may or may not work.

But the damage doesn't stop there. "Cross-resistance occurs throughout this class of drugs," says Stephen F. Sundlof, DVM and Ph.D., director of FDA's Center for Veterinary Medicine (CVM). "So resistance to one fluoroquinolone can compromise the effectiveness of all fluoroquinolone drugs." Considered one of the most valuable drug classes available to treat human infections, fluoroquinolones are used to treat a wide range of diseases, including the gastrointestinal illness caused by *Campylobacter* infection.

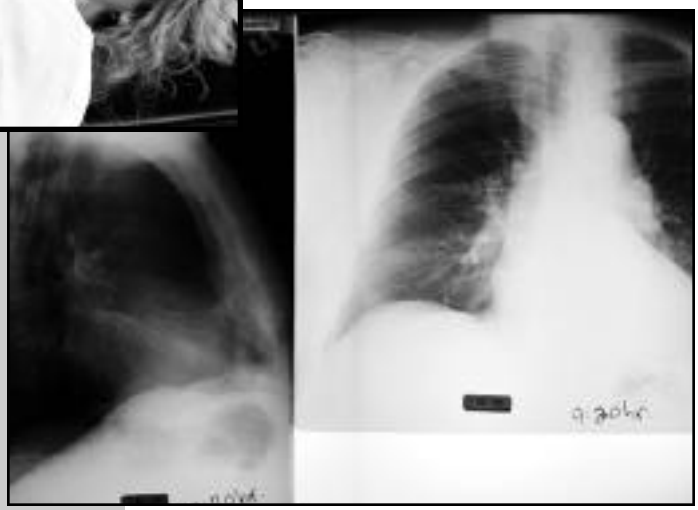
The data to support these findings came from a study by the Minnesota Department of Health and a computerized system called NARMS--the National Antimicrobial Resistance Monitoring System. Data provided by NARMS and other sources were used to develop a risk assessment. The risk assessment quantified, for the first time, the magnitude of the dangers to humans eating chicken contaminated with fluoroquinolone-resistant *Campylobacter*. It showed that the number of people infected with fluoroquinolone-resistant *Campylobacter* from eating chicken rose from an estimated 8,782 in 1998 to 11,477 in 1999.

The risk assessment, completed in October, is only one action CVM has taken to address the antimicrobial resistance problem over the years, says Sundlof. Another part of CVM's proactive program is its proposal to take a stronger regulatory approach when approving new antimicrobial drugs for use in food animals. A "framework document" lays out a plan for evaluating the safety of these drugs based on their importance to human health. If the plan is implemented, the drugs of highest importance--those used to treat a serious or life-threatening disease in humans for which there is no effective alternative treatment--would be subject to the strictest criteria for approval for animal use. Among the studies that would be required by drug sponsors are tests to show their product's potential to induce antibiotic resistance. For more details on the meeting and the framework document, see the CVM Home Page at www.fda.gov/cvm/.

"FDA and CVM will continue to work to put in place a regulatory system that addresses the dangers of antimicrobial resistance and offers better protection to public health," says Sundlof. "At the same time, CVM will strive to assure the safe use of antimicrobial drugs in food-producing animals."

FDA Programs

Medical Devices and Radiological Health



Medical Devices and Radiological Health Program

Background

The Medical Devices and Radiological Health Program is administered by the Center for Devices and Radiological Health (CDRH) with support from ORA. The program is responsible for ensuring the safety and effectiveness of medical devices as well as eliminating unnecessary human exposure to man-made radiation from medical, occupational, and consumer products. There are thousands of types of medical devices, from heart pacemakers to contact lenses. Radiation-emitting products regulated by CDRH include microwave ovens, video display terminals, and medical ultrasound and x-ray machines.

FDAMA has had a major impact on the Medical Device and Radiological Health Program. FDAMA requires the Agency to: conduct more timely and interactive application reviews; improve the quality and timeliness of postmarket surveillance data; expand participation in international harmonization activities; and improve information and education for industry and health professionals. In order to implement these mandates, CDRH has identified and concentrated on high-risk, high-impact products and work areas where its direct intervention can help consumers and health care professionals the most. CDRH is building its device science base to maintain and update the organizational capability to make timely regulatory decisions.

Medical devices, including those which are radiation-emitting products, are regulated by FDA under the FD&C Act. The certification of mammography facilities is regulated under the Public Health Service Act.

The FDA employs a wide variety of regulatory mechanisms to ensure the safety and effectiveness of medical devices. A major activity associated with this goal is the premarket review of device applications. The FDA reviews the following types of applications:

- *Premarket Approval Application (PMA) and PMA supplement* - ensures the data submitted by the manufacturer demonstrate the device is safe and effective. Also included are Humanitarian Device Exemption (HDE) applications, which are similar to PMAs, but are exempt from the PMA effectiveness requirements.
- *Product Development Protocol (PDP)* - alternatives to PMAs in which the manufacturer makes a mutual and binding agreement with FDA in advance. The protocol spells out the criteria that will be used in determining safety and effectiveness, and the pass-fail parameters for each area. PDPs are the easiest to construct for products whose safety and effectiveness is well enough understood so that pass-fail criteria can be readily established in advance.
- *Premarket Notification [510(k)]* - ensures the data submitted demonstrate that the device is substantially equivalent to an eligible product already on the market.
- *Investigational Device Exemption (IDE) application* - ensures proposed investigational studies will be well controlled and will safeguard the rights and safety of human subjects.

All devices are classified into three categories, depending on the level of regulation required to ensure safety and effectiveness, see Table 5.

Table 5

Class I Devices	Subject to general controls, such as good manufacturing practices requirements, labeling requirements, and registration with FDA.
Class II Devices	Subject to special controls, such as performance standards, special postmarket surveillance efforts, and patient registries.
Class III Devices	Required to undergo premarket evaluation and receive FDA approval prior to being marketed.

Costs

Fiscal Year	Net Program Costs
2000	$203,773,000
1999	$192,600,000
1998	$190,446,000

The Medical Device and Radiological Health Program experienced approximately a six percent increase in net costs in FY 2000. The net cost provides total expenses of the program including the net exchange of revenues and allocation of indirect expenses such as the Office of the Commissioner costs (e.g., administrative and policy direction), Office of Regulatory Affairs' field operations' costs, rent, and other overhead. For an explanation of net program costs, see the discussion on page I-9.

Selected Initiatives, Goals, and Accomplishments

The first strategic goal of the Medical Devices and Radiological Health Program identified in the FDA FY 2000 Performance Plan is to provide quicker access to important, life-saving, and health-enhancing medical devices, while assuring their safety and effectiveness.

Premarket Approval Applications

Premarket approval applications involve new products that represent the highest potential risk and benefit to consumers. As such, FDA has redirected its limited resources to reviewing these high-impact products where direct intervention helps consumers and health care professionals most. To accomplish its premarket responsibility, FDA is charged with review of submissions within statutory timeframes. FDA strives to support a stable and predictable review process and meet new FDAMA requirements for reduced review times for PMAs and increased interaction with sponsors.

CDRH is reporting on two premarket performance goals: premarket approval applications and premarket notifications.

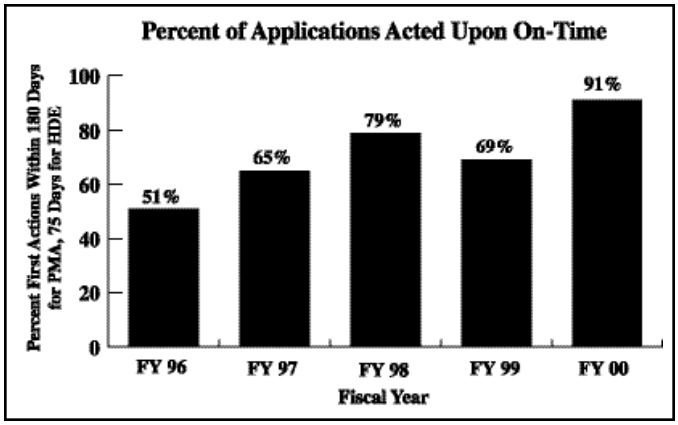
Performance Goal

The FY 2000 performance goal was to complete an on-time percentage of 85 percent for PMA and HDE first actions (combined), within 180 and 75 days respectively.

Results

For applications reviewed and filed during the first six months of FY 2000, CDRH achieved its goal by approving 43 PMAs, including six HDEs, with an on-time percentage of 91 percent for PMAs and HDEs combined. FDA improved its performance considerably from FY 1999 when the on-time percentage was 69 percent. The chart below (Figure 9) presents CDRH's improving performance over the past five years.

Figure 9



Note: Figure 9 is data from all receipt cohorts. Data contained in the chart reflects a cut off date of March 31, 2000, for PMAs and September 30, 2000, for HDEs for all cohorts.

In addition, there were no back logs for new product submissions and turnaround times for processing these submissions improved across the board. Specifically, FDA:

- Received a total of 9,753 major product review submissions in FY 2000.

- PMA average total review time from filing to approval improved to 11.9 months in FY 2000.

Premarket Notifications

A premarket notification [510(k)] is for a device found by FDA to be substantially equivalent to a device already on the market for which premarket approval is not required. About 98 percent of the medical devices marketed in the U.S. are 510(k) devices.

As a result of FDAMA, CDRH continues to implement improvements to the 510(k) review system to make it more efficient and less resource intensive, without compromising the public's health.

In FY 2000, CDRH updated the list of third parties to perform selected 510(k) reviews for low-to-moderate risk devices. FDA is proposing an expansion of the program that would allow third party review of all (460) Class II devices. A Federal Register Notice announcing the proposed expansion was issued on July 18, 2000.

Performance Goal

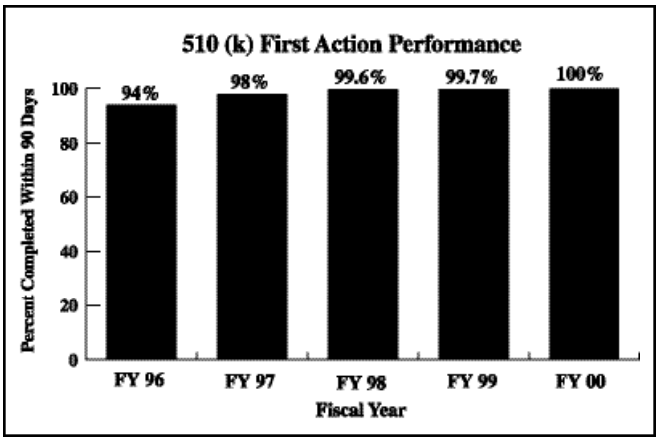
Review and complete 90 percent of 510(k) (Premarket Notification) first actions [13] within 90 days.

Results

The CDRH achieved its FY 2000 performance goal with a 100 percent rate of completion within this time-frame. Figure 10 shows FDA's improved timeliness in completing 510(k) first actions.

In addition, the average total time to process 510(k)s to clearance remained unchanged at 102 days in FY 2000, an improvement from 114 days in FY 1998 and a peak of 216 days in FY 1994. Average FDA review time was 77 days for FY 2000, and it has continued to decrease from a peak of 184 days in FY 1994.

Figure 10



Mammography

The second strategic goal of the Medical Device and Radiological Health Program is to reduce the risk of medical devices and radiation-emitting products on the market by assuring product quality and correcting problems associated with their production and use. CDRH has chosen to report on its mammography performance goal which is under this strategic goal.

The Mammography Quality Standards Act of 1992 (MQSA)

Breast Cancer is the most commonly diagnosed cancer and the second leading cause of cancer deaths among American women. Experts estimate that one in eight American women will contract breast cancer during their lifetime. MQSA was signed into law on October 27, 1992, to address the public health need for safe and reliable mammography, and was amended by the Mammography Quality Standards Reauthorization Act (MQSRA) of 1998.

The MQSA Program certifies mammography facilities and performs annual inspections to ensure that they remain in compliance with established quality stan-

[13] The data are for the first six months of FY 2000.

dards. Through the authorities delegated to FDA to implement MQSA, FDA ensures that women have access to safe and effective mammography services. The Act requires all mammography facilities to be certified by the Secretary of DHHS as meeting quality standards in the areas of equipment, personnel, quality assurance, record keeping, and reporting. It is unlawful for any facility to perform mammography without a certificate.

MQSRA extends MQSA authorization through FY 2002 and makes substantive changes, such as:

1. Requiring all mammography facilities to send reports written in lay person's terms to all patients receiving mammography services;

2. Clarifying the responsibility of the mammography facility to retain mammogram records so women have the ability to obtain the original record of their mammogram;

3. Mandating direct written notification to all patients of their exam results in lay person's terms; and

4. Permitting FDA to conduct a limited demonstration project to determine the feasibility of inspecting mammography centers of excellence on a less than annual basis.

The MQSA requires all of the approximate 10,000 mammography facilities in the U.S. to be inspected annually to ensure that they remain in compliance with quality standards. FDA estimates that one-third of such facilities will need re-certification annually.

Performance Goal

The FY 2000 performance goal is that 97 percent of mammography facilities achieve compliance with inspection standards, with less than 3 percent with Level 1 findings.

This goal helps ensure that mammography facilities remain in compliance with established quality standards and improve the quality of mammography in the United States.

Result

CDRH achieved this goal. It marked the third consecutive year of achieving the 97 percent goal for mammography facilities complying with inspection standards.

From FDA Talk Paper, October 16, 2000

FDA Report on New Medical Devices Approved in FY 2000

FDA's Center for Devices and Radiological Health approved or cleared more than 3,600 new products during FY 2000. Many are first-of-a-kind medical devices representing breakthrough technology; many others offer significant advances over existing technology. Devices were approved to treat hearing loss, gall bladder disease, vision problems, diabetic foot ulcers, and female sexual arousal disorder. Products were also approved to monitor fetal oxygen, to seal air leaks in lungs following lung cancer surgery, and to test cholesterol at home. And almost 800 laboratory test kits were approved, including some that help detect the early stages of alcoholism.

One of the most significant approvals--one that could eventually change the practice of surgery--is a robotic arm that enables a surgeon to perform laparoscopic gall bladder and reflux disease surgery while seated at a console with a computer and video monitor. The product--the first of its kind--represents the first step in the development of new robotic technology.

In another "first," FDA approved a digital mammography system for breast cancer screening in women. Studies showed that the digital system was comparable to the standard use of radiographic film in screening and diagnosing breast cancer. However, the new technology offers several potential advantages over film/screen mammography, including electronic storage and transfer, manipulation of image area, and large dynamic range.

In another significant action, taken after extensive deliberation and review, FDA approved the continued marketing of saline-filled breast implants made by two firms. The manufacturers were required to conduct studies to show that the implants were safe and effective and, as a condition of approval, provide information to patients on risks and benefits. That information is now available on FDA's web site and in patient brochures developed by the companies.

FDA also granted humanitarian device exemptions to six companies to make devices available after only limited testing for patients with rare medical conditions. Included is an implanted device to control chronic nausea and vomiting of patients with a gastrointestinal disorder called gastroparesis. HDEs are intended to benefit patients who have a disease or condition that affects fewer than 4,000 people annually in the United States.

FDA Programs

Toxicological Research

National Center for Toxicological Research

Background

The National Center for Toxicological Research (NCTR) conducts FDA mission-critical, peer-reviewed research to develop a more scientifically sound basis for regulatory decisions and reduce risks associated with FDA-regulated products. Specific aims of NCTR's research are:

- To develop new strategies, methods, and systems to predict toxicity and anticipate new product technology in order to support FDA's commitment to bring this technology to the market rapidly.

- To understand mechanisms of toxicity and design better risk assessment/detection techniques and methods for use in premarket review and product health surveillance.

The NCTR provides FDA with a high-quality, cost-effective, health science research program, which provides new scientific knowledge through the application and leveraging of research findings from NIH, partnerships with other federal agencies, national and international organizations and academia to enhance the Agency's regulatory practices.

As a critical resource for enhancing the science base of the FDA, the NCTR Center Director and scientists foster scientific forums with NCTR's stakeholders, namely the FDA Centers and ORA. These recurring discussions allow NCTR the opportunity to present and validate its planned/ongoing research, as it relates to the Agency's priorities, as well as to solicit the anticipated research needs of the product centers and the ORA.

Costs

Fiscal Year	Net Program Costs
2000	$43,347,000
1999	$40,420,000
1998	$45,755,000

NCTR Program experienced a seven percent increase in net costs in FY 2000. The net cost provides total expenses of the program including the net exchange of revenues and allocation of indirect expenses such as the Office of the Commissioner costs (e.g., administrative and policy direction) and other overhead. For an explanation of net program costs, see the discussion on page I-9.

Selected Initiatives, Goals, and Accomplishments

Development of a State-of-the-Art Phototoxicity Facility

Use of alpha-hydroxy acid containing cosmetics is increasing as the public seeks drugs or cosmetic preparations that will give a more youthful appearance. The impact of continuous use of this type of treatment on the incidence of sunlight-induced skin cancer is not known.

A critical need existed for a FDA phototoxicity facility with the capacity to conduct comprehensive toxicological evaluations on compounds such as skin exfoliants found in many over-the-counter cosmetics and/or drug and cosmetic dyes.

NCTR partnered with the National Institute of Environmental Health Sciences (NIEHS), as part of the National Toxicology Program, to construct the FDA/NIEHS Phototoxicity Research and Testing Laboratory to address this need. The facility is operat-

ed under an Interagency Agreement between FDA and NIEHS and has the distinction of being only the second facility in the nation capable of conducting this type of research. The Phototoxicity facility allows the research subjects (i.e., mice) to be exposed to either simulated solar light or fluorescent tube-generated ultra-violet light.

Input into the design of the facility was obtained from the FDA Photosciences Network and experts in photo-toxicology and physical science. These experts will continue to provide critical advice on the design of the experimental protocols. As a result, the facility will meet the rigors of scientific scrutiny and will generate data for human health risks from the effects of compounds on light-induced skin cancer.

Performance Plan Goals

Risk Assessment for Regulated Products

As identified in the FDA FY 2000 Final Performance Plan, the first strategic goal of NCTR is to develop new strategies and methods to test and predict toxicity and detect and assess risk for FDA regulated products (new and those already on the market).

One of the Agency's and the NCTR's highest priorities is to increase the ability of FDA reviewers to evaluate and predict rapidly and accurately the adverse effects of FDA regulated human products. This capability is critical to the Agency's ability to carry out its mission to analyze the safety and efficacy of FDA-regulated products during the premarket application review process. The human response to a toxic agent is a complex process. To adequately predict the adverse effects of human exposure to a toxic agent, a group of tests must be developed, validated, and applied. NCTR uses a multidisciplinary approach to predict human toxicity and to evaluate human risk using appropriate animal and non-animal models.

Performance Goal

Develop with other organizations gene chip and gene array technology. The performance measure for FY 2000 is to conduct molecular epidemiology studies to identify biomarkers of the most frequently occurring cancers in highly susceptible sub-populations.

The importance of risk chip technology is that it allows researchers to screen large numbers of people simultaneously for different types of biological indicators of effect. Each person is different, having a different genetic profile; therefore, by looking at an individual's enzyme profile or the proteins in their blood, scientists can identify specific markers that distinguish one individual from another. This allows the identification of individuals at risk for adverse drug reactions and facilitates FDA review of individual susceptibility using profiles of agents with known toxicities and allows selection of a diverse group for clinical trials. For instance, this technology will allow scientists to identify people at high risk for various cancers such as pancreatic cancer thus aiding in diagnosis and treatment. These DNA gene expression microarrays are being developed collaboratively with private industry to better understand individual susceptibility and to improve interspecies extrapolation.

Results

Research in FY 2000 involved thirteen major studies to identify bio-markers of the most frequently occurring pancreatic, colorectal, breast, larynx, ovary, lung, urinary bladder, bone marrow, esophagus, and prostate cancers in highly susceptible sub-populations. Patients are being recruited for case control studies involving breast and prostate cancer. Preliminary results with pancreatic cancer patients indicate that patients with a particular genetic profile are at higher risk for developing pancreatic cancer. Research is continuing as scheduled.

This research has focused on the food borne carcinogens, drugs, tobacco usage and natural occurring

chemicals that have hormonal activity. The results of this research are expected to provide an assessment of the relative risks of dietary and environmental carcinogens in humans and result in appropriate recommendations for managing public health risk both in the United States and throughout the world.

Knowledge Bases That Predict Human Toxicity

The second strategic goal of NCTR is to develop computer-based systems (knowledge bases) that predict human toxicity to enhance the efficiency and effectiveness of pre-market product reviews.

An Agency-wide need, as identified by the NCTR stakeholders, is the application of unique computer-based predictive systems to aid in assessing human toxicity to optimize non-clinical and clinical predictability. The FDA reviewers face an ever-increasing quantity and complexity of data in new drug and product applications. Clearly, tools that provide reviewers quick access to relevant scientific information and a capability of predicting toxicity can expedite review decisions. The NCTR, in partnership with other FDA Centers, government agencies, and industries, is developing a computer-based predictive system that can predict the toxicological activity of a compound by using biological indicators of damage, chemical structures via molecular modeling, and advanced mathematical and computational tools.

Performance Goal

Develop computer-based models and infrastructure to predict the health impact of increased exposure to estrogens and anti-estrogen compounds.

Estrogenic activity is found in FDA-regulated products, as well as environmental chemicals, such as plastics and pesticides. Thus, it is important to understand the varying toxicological and pharmacological properties and the mechanisms of action of these regulated compounds. Clearly, tools that provide reviewers quick access to relevant scientific information and a capability for predicting toxicity can expedite review decisions. In order to provide the FDA with computational expertise in this area, the NCTR, in partnership with other FDA centers, government agencies, and private industry, developed an endocrine disrupter knowledge base with the capability of predicting hormonal activity of untested chemicals.

Results

During FY 1999, thirty-six chemicals were used to confirm the predictive value of the computer modeling system for FDA's CDER and CFSAN. Goals for FY 2000 include:

1) development of improved methods and new strategies for detecting and predicting the developmental toxicity in laboratory animals and the human population, focusing on reproductive tract development, whole embryo development, and the molecular biology of development; and

2) development of a knowledge base for the binding of chemicals to the estrogen and androgen receptor. It was reported in medical journals that over 230 chemicals have estrogen receptor binding activity and that this activity may be used to predict whether these compounds are hazardous to females at risk for breast or uterine cancer. Studies on androgen receptor binding, involved in prostrate cancer, are still ongoing.

These models will continue to be applied to specific regulatory issues across a number of FDA product centers. The endocrine disrupter knowledge base will help to identify additional areas in which further research will aid in the making of FDA regulatory decisions.

Methods for Use in FDA Standards Development and Product Risk Surveillance

The third strategic goal of NCTR is to conduct research to understand mechanisms of toxicity, assess new

product technology, and provide methods for use in FDA standards development and product risk surveillance.

In 1997, the President directed members of his Cabinet, including the Secretary of Health and Human Services, to identify specific steps to improve the safety of the food supply. Therefore, FDA sought to strengthen its scientific basis for food safety policies and regulatory decisions through the development of novel, vigorous risk assessment (models and techniques) and through the use of artificial intelligence and computational science for risk assessment.

Performance Goal

Develop methods and build biological dose-response models to replicate bacterial survival in the stomach.

NCTR is developing methods to identify markers of foodborne pathogens and to assess whether these micro-organisms are undergoing change, thus becoming more virulent. To address the question of human risk from food pathogens, NCTR scientists are working to build biologically based dose-response models of microbial infection to assess survival, growth, and infectious components of microbial risks. Research within this goal capitalizes on partnerships with other FDA centers (CVM) and CFSAN) and with other agencies such as the U. S. Department of Agriculture.

Results

An example of the research being conducted under this goal involves competitive exclusion, a process by which healthy chickens are exposed to a known mixture of bacteria, which prevent infection of the chicken with bacteria that may be harmful to humans. Competitive exclusion products have the potential to eliminate or reduce the use of antibiotics in poultry husbandry for prevention of colonization of birds by *Salmonella* sp. The law requires that all components of veterinary drugs, including competitive exclusion products, be defined. It is also desirable that mixed bacterial cultures applied to poultry for internal colonization do not contain human pathogens or antibiotic-resistant bacteria. Therefore, the NCTR research staff have developed a project with CVM for isolation and identification of the bacteria in competitive exclusion cultures, using the most reliable phenotypic and genotypic microbial identification techniques available.

Preliminary results have already alerted CVM to the possibility that competitive exclusion products can introduce bacteria with undesirable antibiotic-resistance into the human food supply.

Scientists have also been evaluating a cell culture model that can determine more quickly and accurately whether a competitive exclusion product can effectively exclude *Salmonella* sp. or other invasive bacteria from intestinal cells. This assay will be available to producers and the FDA to evaluate the efficacy of competitive exclusion products.

Financial Management Performance

Financial Management

Background

FDA measures financial management performance to comply with external requirements, improve internal processes, and strengthen management controls and systems. The results provide timely and accurate information on FDA's financial condition, cost of operation, and future resource assessments.

Financial management performance goals are developed in a number of ways:

- Good management practice within FDA's Office of Management and Systems. This organization, headed by the Deputy Commissioner for Management and Systems and Chief Financial Officer, is responsible for financial management, human resource management, procurement and grants management, information systems, and logistical and facilities services. See Figure 11 for organizational chart.
- FDA's submission to the DHHS Financial Management Plan. This is a forward looking document spanning a five year period by which DHHS and its operating divisions seek to improve financial management processes and systems, and implement new financial requirements. Since 1990, there has been an explosion of laws impacting on financial management. The following list of legislation requires action related to financial manage ment. See Appendix 2 for a brief description for each of these statutes.
- Prompt Pay Act of 1982 (as amended)
- Federal Managers' Financial Integrity Act of 1982
- Chief Financial Officers Act of 1990
- Cash Management Improvement Act of 1990
- Government Performance and Results Act of 1993
- Government Management Reform Act of 1994
- Federal Acquisition Streamlining Act of 1994
- Debt Collection Improvement Act of 1996
- Federal Financial Management Improvement Act of 1996
- Information Technology Management Reform Act of 1996
- Travel and Transportation Reform Act of 1998
- Federal Activities Inventory Reform Act of 1998
- Federal Financial Assistance management Improvement Act of 1999
- Corrective Action Plans arising from annual CFO Act Audits. These plans contain process improvement goals for correcting identified conditions found in the financial statement audits.

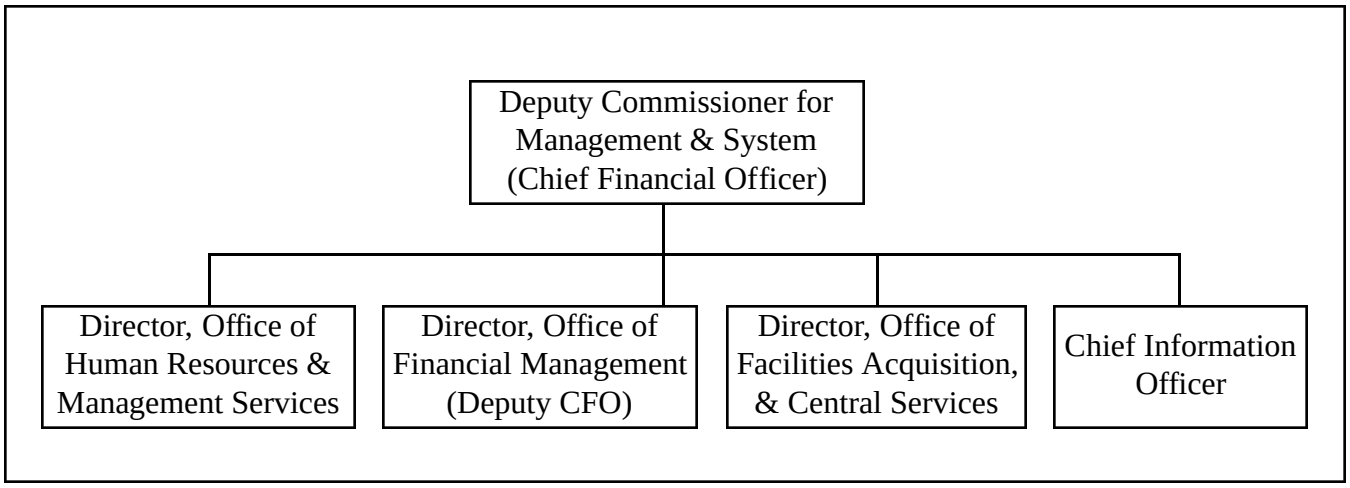


Figure 11

Selected Initiatives, Goals, and Accomplishments

During FY 2000, FDA continued to strengthen its infrastructure through several agency initiatives.

- Strategic Workforce Planning Initiative. The Office of Human Resources and Management Services (OHRMS) coordinated the first Agency-wide workforce planning initiative designed to engage FDA leadership in a systematic process for anticipating future workforce requirements and planning ways to fill the gaps between existing resources and future requirements. OHRMS established an advisory work group with representatives from FDA components and FDA's union, the National Treasury Employees' Union (NTEU). They gathered information on workforce competencies from interviews and focus groups, and developed a planning guide addressing key areas such as leadership development, science workforce development, workforce skills and workforce leveraging. An OHRMS representative also participated in the budget planning process to ensure that workforce planning strategies were considered.

- New Accounting System Initiative. To resolve several audit findings and achieve compliance with he Federal Financial Management Improvement Act (FFMIA), the Office of Financial Management (OFM) began the process for determining the feasibility of upgrading or replacing its accounting system. OFM hired an independent accounting firm to assist in developing the business case analysis. OFM is also participating in a DHHS financial systems workgroup that is analyzing different financial system models currently in use in other agencies. The work group is developing a comprehensive project plan on financial systems activities and a preliminary estimate of out year costs for a new financial management system. The costs and justification information will support requests for funding the new accounting system.

- Headquarters Consolidation. In FY 2000, the plan for the two headquarters campuses is becoming a reality. The Prince George County, Maryland facility located in College Park, Maryland, is approximately 60 percent completed. It will house the Center for Food Safety and Applied Nutrition. The Montgomery County Campus located at White Oak, Maryland will house the CBER, CDER, CDRH, ORA, and OC components. The design of the CDER laboratory will result in approximately 110,000 square feet of space with occupancy projected for late 2002. Design of the CDER office space began in October 2000. Funding for FY 2000 included $35 million for the construction of the CDER laboratory and the design of the CDER offices. The Phase II funding in FY 2001 is $92 million for the construction of office space for approximately 1,600 CDER employees and will result in the total consolidation of CDER at White Oak.

- IT Security: Presidential Decision Directive 63 (Cyber Terrorism). The Chief Information Officer's (CIO) organization is complying with the directive, which calls for a national effort to ensure the security of the Nation's critical infrastructure – defined as those physical and cyber-based systems essential to minimum operations of the economy and the Government. The directive requires all Federal agencies to: (1) assess the risk and vulnerability of their mission-essential infrastructure to cyberterrorism, (2) designate roles and responsibilities, (3) develop a plan of action for addressing the most significant risks first, and (4) monitor progress and performance.

  The CIO has completed the installation of new fire wall hardware and software technologies aimed at detecting and deterring unauthorized network access. The CIO also developed new or revised policies and procedures on responding to and reporting network security threats and virus attacks. The CIO has completed security audits to evaluate access controls to ensure that FDA's information is

not compromised by internal or external threats. The CIO implemented firewall technology and successfully defended the Agency against the "Melissa" and "I LoveYou" virus attacks.

- Year 2000 (Y2K) Compliance. The CIO provided leadership on completing the Agency's Y2K remediation program, and established the Agency's Y2K Day One program for final verification and validation of Y2K compliance. The results were a successful FDA-wide Y2K transition. All critical information technology infrastructure was tested and verified as Y2K compliant prior to the first working day of Year 2000.

Select Financial Management Measures

Financial Statements Audit - Several performance measures address the results of the financial statements audit. These are summarized in Table 6 for the past four years with the number of findings in parenthesis.

For the four reporting periods (FY 1997 through 2000), FDA has received three unqualified[14] or "clean" opinions from the independent audit firm that has audited its financial statements.

The independent auditors also reported on the organization's internal controls and compliance with laws and regulations that impact on the reliability of the financial statements. In the past three periods, FDA received no material weaknesses.[15] FDA has made considerable progress in resolving three material weaknesses that were declared in the FY 1997 CFO audit report. In the subsequent audit reports, these prior findings were lowered to the level of reportable conditions due to corrective efforts implemented by FDA. In the FY 1999 audit report, FDA received three reportable conditions: preparation of financial statements, property and equipment, and information systems controls. While accepting these findings, FDA took a more concerted effort during FY 2000 to aggressively resolve them. For example, it established a new branch organization in the Division of Accounting to prepare financial statements and to interact with the

Table 6

Measures	FY 1997	FY 1998	FY 1999	FY 2000
Timely audit opinion	no	yes	yes	yes
Clean (or inqualified) audit opinion	no	yes	yes	yes
No. of material weaknesses	3	0	0	0
No. of reportable conditions	5	3	3	1
No. of instances of non-compliance with laws and regualtions (excluding FFMIA)	0	0	0	0
No. of instances of non-compliance with FFMIA	1	1	1	1

[14] An unqualified opinion is a statement by the auditor that an entity's financial statements present fairly the financial position, results of operation, and other financial aspects of an organization in conformity with generally accepted accounting principles applicable to the entity.

[15] A CFO material weakness is a significant finding which, in the opinion of the auditors, poses a risk or threat to the internal control systems of an audited entity, such as a program or operation.

independent auditors. Other actions initiated include the process of acquiring a new replacement accounting system. This effort extends beyond the Agency to the Department, and FDA is participating in an intra-departmental workgroup examining replacement accounting systems for DHHS use.

While the auditors found that FDA was generally in compliance with laws and regulations impacting on financial statements, it found that FDA was not compliant with the FFMIA. The auditors are required to report whether the Agency's financial management systems substantially comply with the Federal financial management system requirements, Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. The results of the auditor's tests disclosed instances where the FDA's financial management system did not substantially comply with FFMIA. FDA acknowledged this finding of non-compliance and decided that its resolution would require a thorough review of its requirements and needs for upgrading or acquiring a new accounting system. This multi-year initiative is incorporated in the CFO's Corrective Action Plan.

Payment Processing

Compliance with Prompt Payment Act

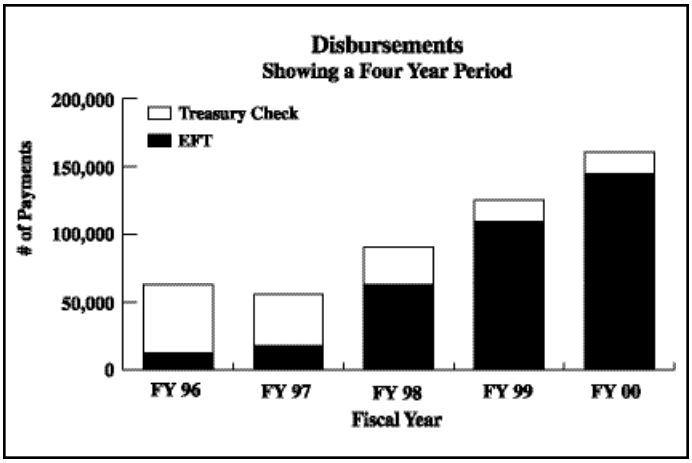
In FY 2000, FDA processed 128,287 commercial invoices, subject to the Prompt Payment Act, totaling approximately $291.2 million. Such payments were made in compliance with the Act and were 99 percent on-time.

In addition to invoices subject to prompt payment regulations, FDA also processes payments for grants and a variety of transfers between government agencies. The majority of transfers are accomplished electronically through the Department of Treasury's On Line Payment and Collections (OPAC) System. There were approximately 2,886 OPAC entries in FY 2000.

Electronic Funds Transfer (EFT)

In response to the Debt Collection Improvement Act of 1996, FDA continued implementation of its policy to require EFT payments in order to enhance its accounts payable system. In FY 2000, FDA completed 144,571 EFT payments related to vendor invoices and travel vouchers (headquarters, district offices, and NCTR combined), and OPAC billings from other Federal agencies. A major reason for the increase is the abandonment of third party draft payment schedules and utilization of FDA's automated payment system. Figure 12 depicts the progress made by FDA in reducing the number of check payments while increasing the total of EFT payments from FY 1996 to FY 2000.

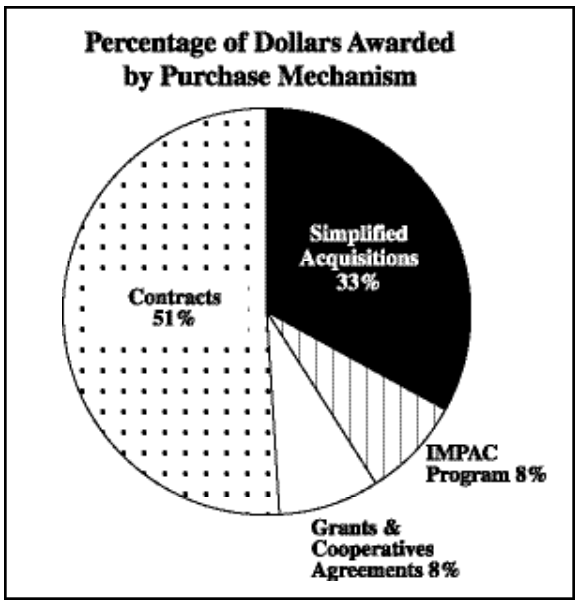
Figure 12



Facilities, Acquisitions, and Central Services Program

The Office of Facilities, Acquisitions, and Central Services (OFACS) administers contracts, small purchases, special government-wide credit card, grants and cooperative agreements. For FY 2000, the total acquisition program purchases were $311.9 million as shown in Figure 13. While the percentage of contract purchases fell, the percentage of International Merchant Purchase Authorization Card program, and grants and cooperative agreements purchases grew to eight percent each.

Figure 13



International Merchant Purchase Authorization Card (IMPAC) Program

FDA has participated in this purchase card program since 1989. Currently, all FDA components are using the cards. Cardholders are authorized for transactions of no more than $2,500 per single purchase, and are subject to monthly cumulative limits. Cardholders can acquire goods and services ordered over the phone, on the Internet, by mail order, or in person, using a special Government-wide VISA card known as the IMPAC card.

FDA's use of IMPAC has grown dramatically since FY 1993, when 844 purchase card transactions occurred. In FY 2000, FDA completed 69,515 purchase card transactions. The Agency's usage trend can be seen graphically in Figure 14.

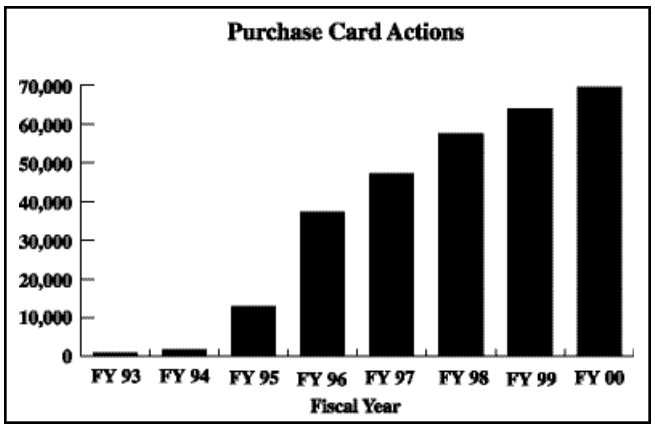


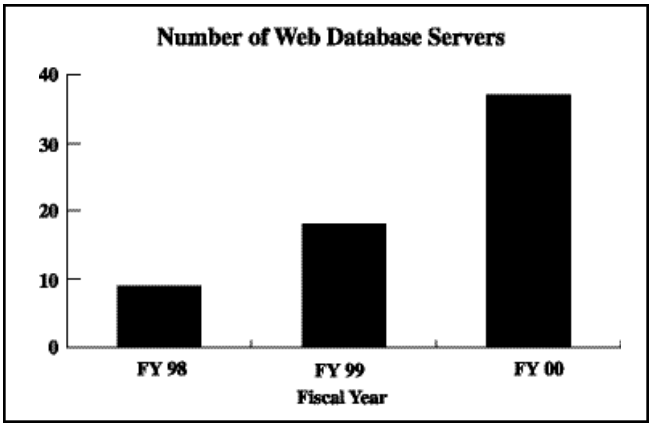
Figure 14

Internet Services and Support

FDA is increasing its use of internet technology to disseminate health information to the public; offer information of interest to health professionals, patients, consumers, industry, state, and local officials and many others; and conduct improved administrative proceedings by accepting comments electronically and allowing the public to electronically register for public meetings.

In FY 2000, the FDA Internet Web Site infrastructure and services provided to the industry and the public were significantly expanded. The number of application and database servers to support additional web-enabled databases continues to grow. This is illustrated in Figure 15.

Figure 15



The number of times per month the web site has been accessed has dramatically increased in the past three year period. There has been a 200 percent jump in the number of hits since FY 1998. This is displayed in Figure 16.

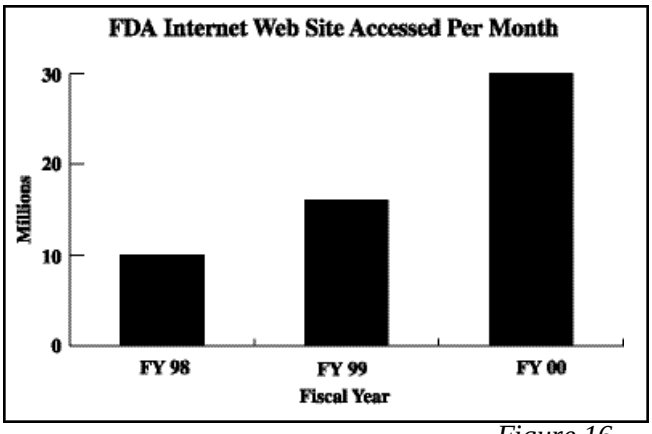


Figure 16

Internet technology has improved FDA's administrative proceedings. Prior to the advent of Internet technology within the FDA, the public was required to submit their comments on proposed regulations in writing to the FDA's Dockets Management Branch. This was a time-consuming process for both the public and Agency units. Now, FDA accepts the electronic submission of comments, and also allows the public to register electronically for open meetings. With the enhancements made to the Dockets Management Branch Web site, the amount and types of data available to the public is tremendous. For example, Advisory Committee Briefing packages are now posted on the Web. Public access to the web site continues to increase, with the number of pages viewed jumping from approximately 500 million in FY 1999 to 3.6 billion in FY 2000. In addition to the benefits provided to the public, FDA components also benefit from the electronic documents by receiving critical rulemaking documents via e-mail in a timely manner.

Systems, Controls and Legal Compliance

The Federal Accounting Standards Advisory Board requires the Management Discussion and Analysis to address the systems, controls and legal compliance [16] that support the preparation of financial statements and financial documentation. This is accomplished through the annual reporting of Federal Managers' Financial Integrity Act (FMFIA) Section II (management controls) and Section IV (financial management systems).

FDA has employed a "bottom-up" approach to allow all levels of management throughout FDA to become involved in the FMFIA review and reporting process. This approach utilizes management control information from a variety of sources to promote greater accountability and self-identification and resolution of organizational weaknesses. This has resulted in controls that benefit rather than encumber FDA management. As such, the Agency is in a better position to identify and aggressively correct weaknesses, and implement proper safeguards to prevent waste, fraud, and mismanagement of Agency resources.

To improve administrative accountability, the Centers and ORA entered into a partnership agreement with the Office of Management and Systems. The agreement, Partnership for Administrative Quality (PAQ), is a structured process for the evaluation of the administrative activities in the Centers, Office of Commissioner's components, and the headquarters offices of ORA. The PAQ review areas include: financial management, procurement, property management, physical security, information technology security, and human resources management. Centers and Offices are beginning to include findings from their internal PAQ reviews in their FMFIA individual assurance statements. As the PAQ program matures, all components will have assessment data available for inclusion in their FMFIA statement.

The components' individual assurance statements are consolidated and summarized in the FDA's FY 2000 assurance statement. No management control material weaknesses were disclosed.

FMFIA Section IV requires a "conformance statement" whether the Agency's financial management systems conform to Executive Branch requirements. FDA reported that its financial systems do not currently conform to these requirements because the prior year's Chief Financial Officer's (CFO) Act audit findings reveal several instances of non-compliance to the FFMIA.

The Offices of Financial Management and Facilities, Acquisition, and Central Services developed a corrective action plan outlining the actions needed to remove the finding of non-compliance to FFMIA. Because FDA's financial management systems are about 30 years old and rely on older technology, FDA management hopes to replace their primary general ledger accounting system with one that meets all of the Federal financial management requirements. This action may take several years from business case analysis, FDA approval, procurement, testing, to operation.

[16] These responsibilities are defined in numerous laws and administrative requirements, including the Federal Financial Management Improvement Act [FFMIA], Federal Managers' Financial Integrity Act [FMFIA], OMB Circulars A-123 and A-127, and OMB Bulletin 98-08.

Financial Analysis

Financial Analysis

The purpose of this section is to provide a discussion on the principal financial statements highlighting significant changes from the prior year conditions.

Financial statement reporting is required to be displayed in several formats as specified by the Federal Accounting Standards Advisory Board and OMB Bulletin 97-01, "Form and Content of Agency Financial Statements," as amended. The purpose of the five required financial statements are summarized in Table 7:

Table 7

Financial Statement	Description
Balance Sheet	Reports the operating assets, liabilities, and net position. Provides a "snap-shot" of FDA's financial condition as of the fiscal year-end.
Changes in Net Position	Provides information on the changes in financial position from year to year and the causes of the changes.
Net Cost	Breaks down total expenses by the seven major programs of FDA's budget, net of exchange revenues and after allocation of indirect expenses such as administrative, field operations, rent, and other overhead.
Budgetary Resources	Provides information on total budgetary resources available, the status of those resources, and outlays. Helps to assess budget execution and whether budgetary accounting rules are being followed. *One must be careful to recognize the differences between expenses recorded on an accrual basis of accounting as compared to obligations reported on the Statement of Budgetary Resources.*
Financing	Discloses the resources used to finance operations and relationship of total resources to the net cost of operations. This statement is designed to explain the relationship of budgetary obligations to costs recorded in the financial statements.

Agency's Financial Condition

The balance sheet reflects a positive net position (assets less liabilities). When compared to the past two fiscal years (FY 1998 and FY 1999), the growth of net position as shown in Figure 17 may be due to a variety of reasons. FDA has been revitalizing its physical infrastructure for several years. New state-of-the-art scientific equipment, office furniture, special security, and building related systems were acquired to outfit new regional laboratories and headquarters consolidation (the Center for Food Safety and Applied Nutrition is moving to College Park, Maryland in fall of FY 2001). FDA received additional appropriated monies for premarket review activities.

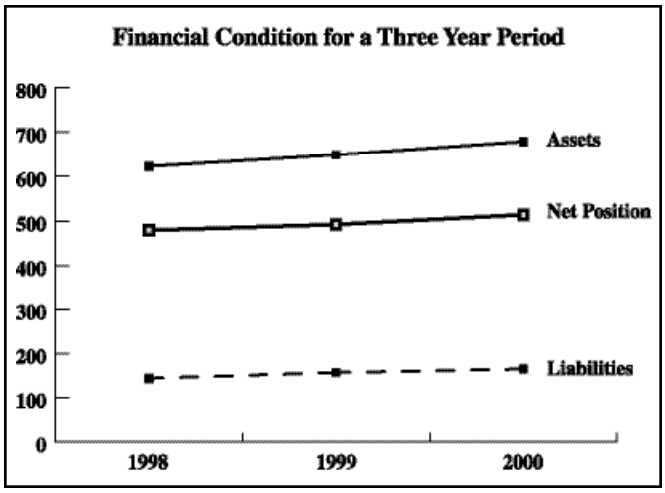


Figure 17

Budgetary Resources and Outlays

As presented in the Statement of Budgetary Resources, FDA's budget authority for FY 2000 was $1,053 million, not including spending authority of $182 million from user fee and reimbursable collections. Total budget authority as of September 30, 2000, including offsetting collections, carry-over balances from prior years and adjustments, was $1,412 million. Of this amount, $1,308 million had been obligated during FY 2000. Figure 18 shows the total of budgetary resources [17] by major type -- salaries and expenses; user fees; buildings and facilities; and other minor accounts, such as certification fund and royalties.

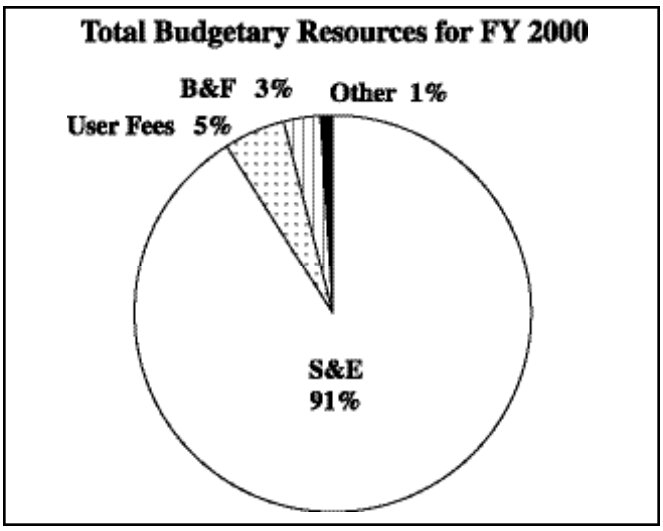


Figure 18

Total outlays were approximately $1,023 million during FY 2000, which represents a 7.6 percent increase over FY 1999 total outlay of $951 million. Figure 19[18] shows FDA's outlay trend over the past five fiscal years. For FY 2000, FDA received budgetary increases to recover the full costs of GSA Rent, to expand the Food Safety Initiative, and a one-time increase to cover FDA's premarket application review.

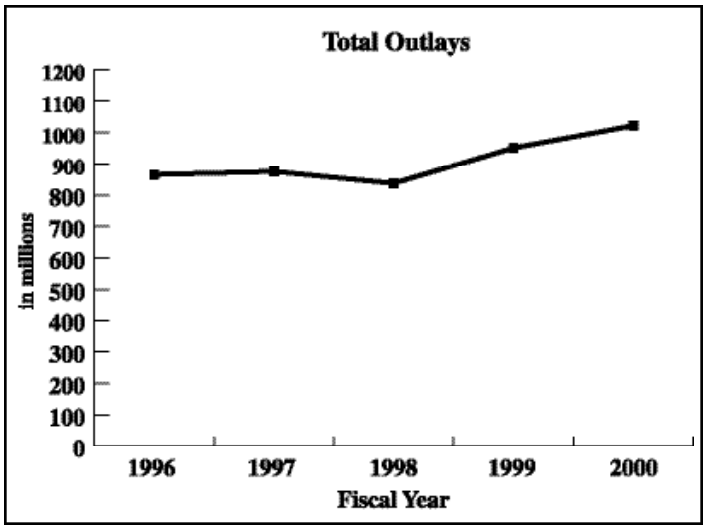


Figure 19

[17] Source: Combining Statement of Budgetary Resources for the Year Ended September 30, 2000.

[18] Source: Combining Statement of Budgetary Resources,FY 2000

Costs

Gross FY 2000 expenses were $1.25 billion, which includes projects funded by user fees. Deducting $180 million in earned revenues, FY 2000 net costs were $1.07 billion. This compares with gross expenses of $1.17 billion and net costs of $1.01 billion for FY 1999. Figure 20[19] and Figure 21[20] illustrate FDA's expenses by type and program. These are the budget programs reported under GPRA, which represent FDA's major responsibility segments as defined by the Statement of Federal Financial Accounting Standard #4, *Managerial Cost Accounting Concepts and Standards.* Amounts reported on the Statement of Net Cost include allocation of expenses incurred by FDA's Office of Commissioner and ORA, both of which provide crosscutting services to the responsibility segments.

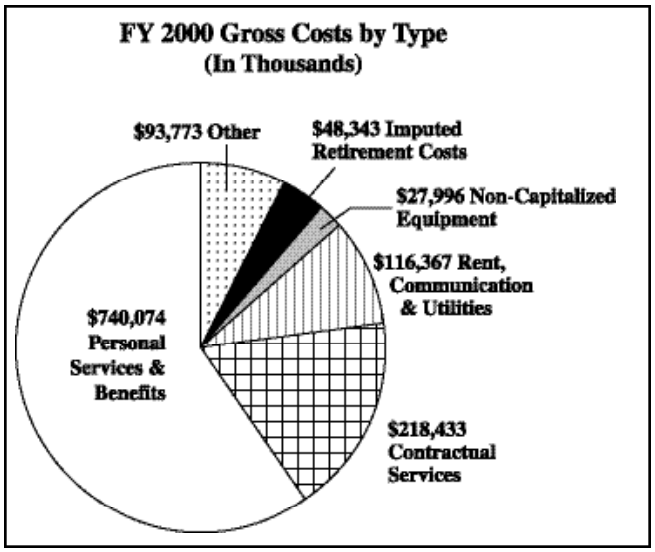


Figure 20

- Personal Services & Benefits rose by eight percent from $686.3 million in FY 1999 to $740 million in FY 2000, due to increases from the Congress on funding the President's Food Safety Initiative and FDA's premarket application review processes.
- Non-capitalized equipment (formerly called expendable equipment) declined in FY 2000 by 12.5 percent from $31.5 million in FY 1999 to $28.0 million in FY 2000, due to process improvements made to the Agency's property management program.

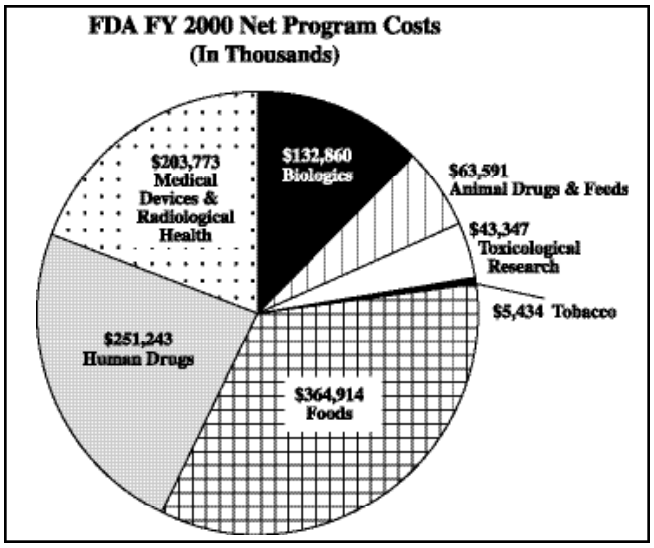


Figure 21

- The Foods Program's FY 2000 net costs increased by 13.9 percent from the FY 1999 due to the expansion of the President's Food Safety Initiative.
- The Human Drugs Program's net costs increased by 12.2 percent due to increases in user fees authorized by PDUFA II and a Congressional increase for FDA's premarket application review processes.
- Biologics programs' net costs decreased approximately by 9 percent due to a larger amount of PDUFA II user fees collected.
- For the Tobacco Program's net costs, there was a 75 percent decline from FY 1999. This was due to the U.S. Supreme Court ruling of March 21, 2000, that held FDA did not have the authority to regulate tobacco. FDA began the process of terminating the Tobacco Program. The net costs represent shut down costs for contracts and other administrative expenses.

[19] Source: Supplemental Statement of Net Cost by Expense Type and Program, FY 2000. Please note that some rounding differences may show a different total than the supplemental statement.
[20] Source: Supplemental Statement of Net Cost by Program Costs by Appropriation, FY 2000.

Use of Financial Statements

For the preparation of the Food and Drug Administration (FDA)'s annual financial report, the Office of Management and Budget (OMB) has asked that the following statements be included to remind readers of the basis for financial statements prepared for Federal Government activities.

The statements should not be interpreted as limitations in the usefulness of financial statements in evaluating Federal operations, but only as a reminder that they cover the activities of a component of a sovereign entity and may differ from results reported in budgetary documents or in style from annual reports prepared by private sector entities.

- The financial statements have been prepared to report the financial position and results of operations of FDA, pursuant to the requirements of 31 U.S.C. 3515(b).
- While the statements have been prepared from the books and records of FDA in accordance with the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.
- The statements should be read with the realization that they are for a component of the U. S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.
- The Required Supplementary Information and Required Supplementary Stewardship Information sections are unique to federal financial reporting. These sections are required under OMB Bulletin 97-01 and are unaudited.

Appendix 1

Description of FDA User Fees

User Fee	Description
Prescription Drug	The Prescription Drug User Fee Act (PDUFA) was passed by Congress in 1992. It provides resources to CDER and CBER to hire additional reviewers and in return, FDA promised to meet various performance goals for reviewing human drugs. The program was a success and, in 1997, Congress re-authorized PDUFA for another five-year period. The user fees are paid by the drug industry. Salary and expenses, including additional rental expenses and certain types of information technology investments, are funded by PDUFA. The amount of PDUFA collections expended in FY 2000 was $147.3 million.
Mammography	Mammography user fees fund annual inspections of mammography facilities and the certification of those facilities. This program was established under the Mammography Quality Standards Act (MQSA) of 1992 (re-authorized by the Mammography Quality Standards Reauthorization Act of 1998). CDRH administers the program. In FY 2000, the amount of MQSA collections expended was $12.8 million.
Export Certification	The newest user fee program was established by the Export Reform and Enhancement Act (EREA) of 1996, which authorized the collection of fees from organizations for which FDA issues a certification relating to human drugs, animal drugs, medical devices, and biologic products, subject to the FD&C Act. The certificates support U.S. commerce by expediting the export of goods to foreign countries. Each of the product centers administers its own program. In FY 2000, the amount of user fees expended was $1.3 million. Export certificates issued for food products are subject to FD&C Act, but are not covered by EREA.
Certification and Other Services	The FD&C Act requires the certification of color additives and 21 CFR 80, Color Additive Certification, prescribes the fees for service. This function, which is administered by CFSAN, involves the assessment of the quality and safety of color additives used in foods, drugs, and cosmetics. Salaries and expenses of employees of the program are funded directly by FDA's Revolving Fund for Certification and Other Services. The fund's activities are financed entirely by fees paid by the affected commercial organizations. In FY 2000, the amount of fees expended was $3.9 million.

Appendix 2

Financial Management Legislation

Federal Managers' Financial Integrity Act of 1982

The Federal Managers' Financial Integrity Act (FMFIA) of 1982, Public Law 97-255, was signed into law on September 8, 1982. It amended the Accounting and Auditing Act of 1950. It requires ongoing evaluations and reports on the adequacy of the systems of internal accounting and administrative control of each executive agency.

Chief Financial Officers Act of 1990

The Chief Financial Officers Act of 1990 focused attention on financial management improvements in the Federal Government by requiring the identification of a responsible official to advise on financial management. The law created a framework for financial organizations to focus on the integration of accounting, budget, and other financial activities under one umbrella; the preparation of audited financial statements; and the integration of financial management systems. It also requires federal agencies to prepare CFO strategic five-year plan. The Act required 14 Cabinet level Departments and ten major agencies to establish the position of a CFO who reports to the agency head.

Government Performance and Results Act of 1993

The Government Performance and Results Act (GPRA) which is to be fully implemented beginning in FY 1999, has placed new management expectations and requirements on federal agencies by creating a framework for more effective planning, budgeting, program evaluation and fiscal accountability for Federal programs. The intent of the Act is to improve public confidence in Federal agency performance by holding agencies accountable for achieving program results and to improve Congressional decision making by clarifying and stating program performance goals, measures and costs up front. Federal agencies are required to implement GPRA through their processes for strategic plans, annual performance plans, and annual performance reports. FY 1999 is the first year that annual performance plans are required. Actual accomplishments for FY 1999 are required to be reported in FY 2000.

Government Management Reform Act of 1994

The Government Management Reform Act (GMRA) amends the CFO Act and expands requirement for audited financial statements to cover all programs. It also provides OMB with the authority to streamline statutory reporting by Federal agencies, requires the use of electronic funds transfer for payments to Federal employees and beneficiaries, and creates the Franchise Fund Pilot program for studying the concept of government enterprise.

Appendix 2 (continued)

Federal Acquisition Streamlining Act of 1994

The Federal Acquisition Streamlining Act (FAS) of 1994 was enacted to revise and streamline the acquisition laws of the Federal government. FASA also expanded the definition of records, placed additional record retention requirements, and gave agencies statutory authority to access computer records of contractors doing business with the government.

Debt Collection Improvement Act of 1996

The Debt Collection Improvement Act (DCIA) of 1996, Public Law 104-134, was signed into law on April 26, 1996. The law's provisions will enhance and improve debt collection government-wide. Key provisions of the Act are:

- Enhanced administrative offset authority, the Treasury Offset Program
- Enhanced salary offset authority
- Taxpayer Identification Numbers required
- General extension of the Debt Collection of 1982 authorities
- Barring delinquent debtors from obtaining Federal credit
- Reporting to credit bureaus
- Government-wide cross servicing
- Establishment of debt collection centers
- Gainsharing
- Tax refund offset program
- Contracting with private attorneys
- Administrative wage garnishment
- Debt sales by agencies

Federal Financial Management Improvement Act of 1996

The Federal Financial Management Improvement Act (FFMIA) of 1996, Public Law 104-208, requires that each agency shall implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level.

Information Technology Management Reform Act of 1996

Information Technology Management Reform Act (ITMRA) ensures that the Federal Government investment in information technology is made and used wisely. The law was designed to increase competition, eliminate burdensome regulations, and help the Government benefit from efficient private sector techniques.

ITMRA requires agencies to develop a formal process for maximizing the benefits of information technology

acquisition, including planning, assessment, and risk management.

The Act created the statutory position of Chief Information Officer in major Federal Government agencies. It requires the Office of Management and Budget, the agencies, and the Chief Information Officers to improve information technology practices. It requires mission and program driven strategic planning for information technology. It requires senior user management guidance to ensure information technology activities align with agency plans and operations. It requires regular assessments of information technology skills inventory, skills requirements, and skills development programs. In short, the ITMRA requires the development of an effective and efficient, mission-oriented, results-oriented information technology practice in each and every Federal agency.

Travel and Transportation Reform Act of 1998

The Travel and Transportation Reform Act of 1998 (TTRA), required Federal employees to use Federal travel charge cards for all payment of official Government travel, to amend title 31, United States Code, to establish requirements for prepayment audits of Federal agency transportation expenses, to authorize reimbursement of Federal agency employees for taxes incurred on travel or transportation reimbursements, and to authorize test programs for the payment of Federal employee travel expenses and relocation expenses.

Federal Activities Inventory Reform Act of 1998

The Federal Activities Inventory Reform Act (FAIRA) requires Federal agencies to list activities eligible for privatization and to make this list available to the public. FAIRA permits prospective contractors and other interested parties to challenge the omission of particular activities from the list. Nevertheless, although agencies are directed to review the list, FAIRA does not actually require agencies to review the activities on the list soon after the list has been made available to the public.

Federal Financial Assistance Management Improvement Act of 1999

The Federal Financial Assistance Management Improvement Act, Public Law 106-107, requires OMB and the Federal agencies to work together with the various grantee communities to streamline, simplify, and provide electronic options for the grants management processes employed by the Federal agencies. The purposes of this Act, signed into law on November 20, 1999, are to improve the delivery of services to the public and the effectiveness and performance of Federal grant programs. Federal agencies are working with OMB to: (1) develop uniform administrative rules; (2) develop common application and reporting processes; (3) replace paper with electronic processing in administration of grant programs; and (4) identify statutory impediments to grants simplification.

Appendix 3

FDA-Related Acronyms and Abbreviations

AIDS	Acquired Immune Deficiency Syndrome
ANADA	Abbreviated New Animal Drug Application
ANDA	Abbreviated New Drug Application
BLA	Biologic License Application
CBER	Center for Biologic Evaluation and Research
CDC	Centers for Disease Control and Prevention
CDER	Center for Drug Evaluation and Research
CDRH	Center for Devices and Radiological Health
CFO	Chief Financial Officer
CFR	Code of Federal Regulations
CFSAN	Center for Food Safety and Applied Nutrition
CVM	Center for Veterinary Medicine
DHHS	Department of Health and Human Services
EFT	Electronic Funds Transfer
ELA	Establishment License Application
FDA	Food and Drug Administration
FFMIA	Federal Financial Management Improvement Act
FMFIA	Financial Managers' Financial Integrity Act
FDAMA	Food and Drug Administration Modernization Act
FSI	Food Safety Initiative
FTE	Full-Time Equivalency
FY	Fiscal Year
GAO	General Accounting Office
GLAS	General Ledger Accounting System
GMRA	Government Management Reform Act
GPRA	Government Performance and Results Act
GSA	General Services Administration
HACCP	Hazard Analysis and Critical Control Point
HDE	Humanitarian Device Exemption
HIV	Human Immunodeficiency Virus
INAD	Investigational New Animal Drug
IDE	Investigational Device Exemption
IND	Investigational New Drug
IMPAC	International Merchant Purchase Authorization Card
JINAD	Generic Investigational New Animal Drug
MQSA	Mammography Quality Standards Act
NADA	New Animal Drug Application
NCTR	National Center for Toxicological Research
NDA	New Drug Application
NIH	National Institutes of Health
NME	New Molecular Entity
NPR	National Performance Review
OFACS	Office of Facilities, Acquisitions and Central Services
OFM	Office of Financial Management
OIG	Office of Inspector General
OIRM	Office of Information Resources Management
OMB	Office of Management and Budget
OMS	Office of Management and Systems
OPDIV	Operating Division
PDP	Product Development Protocol
PDUFA	Prescription Drug User Fee Act
PHS	Public Health Service
PLA	Product License Application
PMA	Premarket Approval Application
PMIS	Property Management Information System
PMS	Payment Management System
SFFAS	Statement of Federal Financial Accounting Standards
SGL	Standard General Ledger
USC	United States Code
USDA	United States Department of Agriculture
Y2K	Year 2000
510 (k)	Premarket Notification

Financial Statements and Footnotes

U.S. Department of Health and Human Services

Food and Drug Administration

CONSOLIDATED BALANCE SHEET

As of September 30, 2000

(In Thousands)

ASSETS	
Intragovernmental:	
Fund Balances with Treasury (Note 2)	$455,618
Accounts Receivable, Net (Note 3)	6,314
Other Assets (Note 6)	14,257
Total Intragovernmental Assets	476,189
With the Public:	
Accounts Receivable, Net (Note 3)	13,617
Cash (Note 4)	155
General Property, Plant & Equipment, Net (Note 5)	188,762
Other Assets (Note 6)	348
Total Assets With the Public	202,882
TOTAL ASSETS	$679,071
LIABILITIES	
Intragovernmental:	
Accounts Payable	$ 14,524
Environmental and Disposal Costs (Note 7)	2,807
Accrued Payroll and Benefits (Note 9)	9,460
Other Liabilities (Note 11 & 15)	985
Total Intragovernmental Liabilities	27,776
With the Public:	
Accounts Payable	23,283
Accrued Payroll and Benefits (Note 9)	88,140
Federal Employee and Veterans Benefits (Note 8)	21,087
Environmental and Disposal Costs (Note 7)	2,927
Accrued Grant Liability (Note 10)	2,182
Other Liabilities (Note 11, 14 & 15)	1,783
Total Liabilities With the Public	139,402
TOTAL LIABILITIES	167,178
NET POSITION	
Unexpended Appropriations	329,795
Cumulative Results of Operations	182,098
Total Net Position (Note 12)	511,893
TOTAL LIABILITIES AND NET POSITION	$679,071

The accompanying notes are an integral part of these statements.

U.S. Department of Health and Human Services

Food and Drug Administration

CONSOLIDATED STATEMENT OF NET COST

For the Year Ended September 30, 2000

(In Thousands)

	Intra-Governmental		With the Public		
Program/Activity	Gross Costs	Less: Exchange Revenue	Gross Costs	Less: Exchange Revenue	Net Program Costs
Net Program/Activity Costs					
Food and Cosmetics	$ 91,459	$ 1,703	$ 279,449	$ 4,291	$ 364,914
Human Drugs	75,938	798	287,598	111,495	251,243
Medical Devices and Radiological Health	57,073	4,869	165,442	13,873	203,773
Biologics	40,522	5,985	121,303	22,980	132,860
Animal Drugs and Feeds	16,660	230	46,944	(217)	63,591
Toxicological Research	9,775	13,679	47,379	128	43,347
Tobacco	3,208	8	2,236	2	5,434
Net Cost of Operations	**$ 294,635**	**$ 27,272**	**$ 950,351**	**$ 152,552**	**$ 1,065,162**

The accompanying notes are an integral part of these statements.

U.S. Department of Health and Human Services

Food and Drug Administration

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Year Ended September 30, 2000

(In Thousands)

Net Cost of Operations	$1,065,162
Financing Sources (other than exchange revenue)	
Appropriations Used	1,009,451
Imputed Financing	47,838
Financing Sources Transferred In Without Reimbursement	258
Financing Sources Transferred Out Without Reimbursement	(44)
Net Results of Operations	(7,659)
Prior Period Adjustments (Note 13)	(2,328)
Net Change in Cumulative Results of Operations	(9,987)
Increase in Unexpended Appropriations	29,694
Change in Net Position	19,707
Net Position - October 1, 1999	492,186
Net Position - September 30, 2000	**$ 511,893**

The accompanying notes are an integral part of these statements.

U.S. Department of Health and Human Services

Food and Drug Administration

COMBINED STATEMENT OF FINANCING

For the Year Ended September 30, 2000

(In Thousands)

RESOURCES USED TO FINANCE ACTIVITIES:	
Budgetary:	
Budgetary resources obligated for orders and services to be received or benefits to be provided to others	$1,307,501
Less: Offsetting collections, recoveries of prior-year authority, and changes in unfilled customer orders	(256,017)
Net Budgetary Resources Used to Finance Activities	1,051,484
Non-budgetary:	
Property received from others without reimbursement	258
Property given to others without reimbursement	(44)
Costs incurred by others for the entity without reimbursement	47,838
Net non-budgetary resources used to finance activities	48,052
Total Resources Used to Finance Activities	1,099,536
RELATIONSHIP OF TOTAL RESOURCES TO THE NET COST OF OPERATIONS:	
Deduct resources used to fund items not part of net cost of operations:	
Increase or (decrease) in budgetary resources obligated to order goods and services not yet provided	58,599
Adjustments other than collections made to compute net budgetary resources that do not affect cost of operations:	
Recoveries of prior-year authority	(30,110)
Decrease in unfilled customer orders	56
Resources that fund expenses recognized in prior periods	7,709
Resources that finance the acquisition of assets or liquidation of liabilities	23,483
Other resources used to fund items not part of net cost of operations	(921)
Total Resources Used to Fund Items Not Part of the Net Cost of Operations	58,816
Resources Used to Finance the Net Cost of Operations	1,040,720
COMPONENTS OF NET COST OF OPERATIONS THAT DO NOT REQUIRE OR GENERATE RESOURCES DURING THE REPORTING PERIOD :	
Expenses or exchange revenue related to the disposition of assets or liabilities, or allocation of their costs over time:	
Expenses related to use of assets	14,095
Increase in exchange revenue received from the public	(4,528)
Subtotal	9,567
Expenses that will be financed with budgetary resources recognized in future periods:	
Annual leave expense from increase in annual leave liability	4,831
FECA, Environmental Cleanup Costs and Legal Contingencies	10,044
Subtotal	14,875
Total Components of Net Cost of Operations That Do Not Require or Generate Resources During the Reporting Period	24,442
Net Cost of Operations	$1,065,162

The accompanying notes are an integral part of these statements.

U.S. Department of Health and Human Services

Food and Drug Administration

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2000

(In Thousands)

Budgetary Resources:	
Budget authority	$1,053,083
Unobligated balances - October 1, 1999 (Note 16)	120,322
Spending authority from offsetting collections	181,958
Adjustments:	
Recoveries of prior year obligations	74,059
Permanently unavailable - rescissions/cancellations	(17,186)
Total budgetary resources	**$1,412,236**
Status of Budgetary Resources:	
Obligations incurred	$1,307,501
Unobligated balances - available	88,550
Unobligated balances - not available	16,185
Total, status of budgetary resources	**$1,412,236**
Outlays:	
Obligations incurred	$1,307,501
Less: spending authority from offsetting collections and adjustments	(256,017)
Obligated balance, net - October 1, 1999 (Note 16)	336,305
Less: obligated balance, net - September 30, 2000	(365,057)
Total Outlays	**$1,022,732**

The accompanying notes are an integral part of these statements.

Food and Drug Administration
U.S. Department of Health and Human Services

Notes to Fiscal Year 2000 Financial Statements

Note 1 - Summary of Significant Accounting Policies

A. Reporting Entity

The Food and Drug Administration (FDA) is a separate reporting entity of the Department of Health and Human Services (DHHS), and is a scientific regulatory agency. FDA's primary objective is to protect and promote the health and well-being of consumers in the United States. FDA's resources are organized into seven"programs" as follows: Foods, Human Drugs, Biologics, Medical Devices & Radiological Health, Animal Drugs & Feeds, Toxicological Research, and Tobacco. In addition to its programs, FDA has separate budgets for buildings and facilities construction and administrative activities.

The agency currently maintains a general fund, deposit fund, revolving fund, trust fund, and several special purpose funds. All appropriations have been consolidated for the purposes of displaying the accompanying principal financial statements. Supplementary information schedules following these notes present budgetary resources and costs by appropriation. Appropriations reported as part of FDA's financial statements are as follows:

Treasury Fund Symbol	Appropriation Description
75_0600	Salaries and Expenses
75X0600	User Fees Account/Contingency Fund
75X0601	Building Delegation
75X0603	Buildings and Facilities
75X4309	Revolving Fund for Certification and Other Services
75X5148	Cooperative Research and Development Agreements
75_/_0600	Patents and Royalties
75X6875.6	Suspense*
75F3875.6 and 75F3885.6	Budget Clearing
753099, 752499, 752449, 751099, 751499	Miscellaneous Receipts

* canceled during FY 2000 and balances transferred to either 75F3875.6 or 75F3885.6

B. Basis of Presentation

The financial statements have been prepared from the accounting records of FDA in conformity with accounting principles generally accepted in the United States of America (GAAP) and the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin 97-01, *Form and Content of Agency Financial Statements*, as amended. GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official accounting standards setting body for the Federal Government. The consolidated statements are different from the financial reports, also prepared by FDA, pursuant to OMB directives, used to monitor and control the use of budgetary resources. FDA has no material intra-entity transactions that need to be eliminated from the financial statements.

C. Basis of Accounting

FDA records transactions on the accrual accounting basis and budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting principles, on the other hand, are designed to recognize the obligation of funds according to legal requirements, which, in many cases, is prior to the occurrence of an accrual-based transaction. Budgetary accounting provides a means to track the status of budgetary authority to help avoid over expending or over obligation of appropriations. Budget authority is the authority to acquire goods and services to make payments in accordance with applicable laws and regulations. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of Federal funds.

D. Budgets and Budgetary Accounting

Each of FDA's funds and appropriations is financed by a combination of sources. These sources include direct appropriations from Congress, Congressional authorization to obligate collections, funding received from other Federal agencies, and receipts received through reimbursable agreements. Recognition and measurement of budgetary resources, for purposes of preparing the Combining Statement of Budgetary Resources, is based on budgetary concepts and definitions provided by OMB Circular A-11 and by Circular A-34, *Instructions on Budget Execution.*

FDA has Cooperative Research and Development Agreements (CRADA), where it has cooperative agreements with academia and private sector companies (collaborators). The purpose of CRADA is to strengthen research efforts and enhance the necessary resources required to achieve scientific objectives while simultaneously transferring new technology to the private sector for development and eventual use by the public. The CRADA appropriation is a no-year type account, and funding is submitted to FDA by the partner for services, facilities, equipment, or other resources to support the research or development efforts outlined in the CRADA. In FY 2000, FDA received about $1 million.

E. Assets

Entity assets are those assets which the reporting entity holds and has the authority to use in its operations. Non-entity assets are assets the entity holds, but does not have authority to use. FDA does not have any non-entity assets. Therefore, all assets reported on the financial statements are entity assets that FDA is able to use in its operations.

Intragovernmental assets are those that arise from transactions with other Federal entities. Assets With the Public are those that arise from transactions with state or local government agencies, or the general public.

F. Fund Balance with Treasury

Fund balance with Treasury is the aggregate amount of appropriated funds available to incur expenditures and pay liabilities. FDA does not maintain cash in commercial bank accounts. Although cash receipts are deposited with commercial banks which have been designated by the Secretary of the Department of the Treasury (Treasury) as official depositories to hold U.S. Government funds, the funds are electronically transferred to Treasury at the end of each day. Treasury processes disbursements, either directly or through the DHHS Payment Management System (PMS).

G. Accounts Receivable, Net

Accounts receivable consist of amounts owed to FDA by other Federal entities and the public. Intragovernmental accounts receivable are mostly related to amounts billed under interagency agreements.

Public accounts receivable primarily represent amounts due from organizations for all user fees billed in accordance with the Prescription Drug User Fee Act and Mammography Quality Standards Act, and user fees related to FDA's issuance of export certificates. Amounts due for public receivables are stated net of an allowance for uncollectible accounts. The allowance is based on past collection experience and an analysis of outstanding balances. No allowance is established for intragovernmental receivables as they are considered fully collectible. All receivables are classified as current.

H. Advances to Grantees

It is FDA's policy to advance funds to grant recipients so that recipients may incur expenses related to the approved grant. Advances are only made within the amount of the recorded grant obligation and are intended to cover immediate cash needs. Other advances with the public are related to travel and emergency salary payments made to FDA employees and are reported in Note 6, "Other Assets." Advances are reported net of accrued grantee expenditures, and "Accrued Grant Liability" is reported when accrued expenditures exceed advances as of September 30. All advances are considered current assets.

I. General Property, Plant & Equipment, Net (PP&E)

All PP&E is capitalized at cost if the initial acquisition cost is $25 or more and has an estimated useful life of two years or more. PP&E with an acquisition cost of less than the capitalization threshold is expensed when purchased. The cost of PP&E acquired under a capital lease is the amount recognized as a liability for the capital lease at its inception. PP&E acquired through donation is recorded at its estimated fair value. The cost of PP&E transferred from other Federal entities is the net book value from the transferring entity.

PP&E is depreciated on a straight-line basis over the estimated useful life of the asset. Land and land rights, including permanent improvements, are not depreciated. Normal maintenance and repair costs are expensed as incurred.

Amounts disbursed for major construction projects that are ongoing at year-end are classified as construction-in-progress. Such expenditures are subsequently reclassified as depreciable real property upon project completion and acceptance.

The majority of space and property that FDA occupies is provided by the General Services Administration (GSA), which charges rent based on commercial rental rates for similar properties. Therefore, the cost of GSA owned properties is not recorded on FDA's financial statements.

J. Liabilities

A liability for Federal accounting purposes is a probable and measurable future outflow or other sacrifice of resources as a result of past transactions or events. Since FDA is a component of the U.S. Government, a sovereign entity, its liabilities cannot be liquidated without legislation that provides resources to do so. Payments of all liabilities other than contracts can be abrogated by the sovereign entity. Intragovernmental liabilities arise from transactions with other Federal entities.

Liabilities Covered by Budgetary Resources are those liabilities funded by available budgetary resources, including: (1) new budget authority, (2) spending authority from offsetting collections, (3) recoveries of unexpired budget authority, (4) unobligated balances of budgetary resources at the beginning of the fiscal year, and (5) permanent, indefinite appropriation or borrowing authority.

Liabilities Not Covered by Budgetary Resources are incurred when funding has not yet been made available through Congressional budget authority. FDA recognizes such liabilities for employees' annual leave earned but not taken, amounts billed to FDA by the Department of Labor for Federal Employee's Compensation Act payments, capital leases, contingent legal liabilities, and environmental cleanup activities scheduled to begin beyond the current fiscal year being reported. For FDA's Revolving Fund for Certification and Other Services, all liabilities are funded by offsetting collections.

K. Accounts Payable

Accounts payable consists of amounts due for goods and services received, progress in contract performance by others, interest due on accounts payable, and other miscellaneous payables.

L. Accrued Grant Liability, Net

Statement of Federal Financial Accounting Standards #5, *Accounting for Liabilities of the Federal Government*, requires the accrual of amounts payable to grantees at year-end. DHHS performs the daily accounting functions for FDA and reports the necessary information on a monthly basis to FDA for grant advances and expenditures. Separate algorithms are used by DHHS to calculate accruals for "block" and "non-block" grant programs and related contracts. The algorithms, which have been approved by the General Accounting Office, compute average daily spending rates for each grant in order to estimate the portion of the unspent grant amount to be accrued at year-end. Only non-block grants apply to FDA.

For non-block grants, grantees draw funds commensurate with their immediate cash needs which are recorded as advances. Grantees submit quarterly reports summarizing bills they paid. The process adopted by DHHS to estimate a year-end grant accrual relies on historical spending patterns to predict unreported grantee expenditures. The method separates the accrual down into two components. The first component represents the amount of expenditures expected to be reported by grantees for the fourth quarter ending September 30. It is calculated with a data regression model that uses historical grantee advance and expenditure data.

To estimate the second component, expenses incurred but not reported (IBNR), DHHS gathered information on spending patterns from four different groups of grantees to identify unreported expenses at fiscal year-end and determined that grantees typically had year-end IBNR expenses equal to approximately two weeks of annual expenditures. Together, the estimated amount of expenditures expected to be reported by grantees for the fourth quarter ending September 30 and the estimated IBNR expenses represent the total amount reported for accrued grants.

M. Deferred Revenue

Statutory provisions require that services provided by FDA's Color Additive Certification Program be performed only upon advance payment of fees by those requesting certification services. Related deposits on-hand are reported on the Balance Sheet as "other liabilities" and are recognized as revenue upon completion of testing of a manufacturer's sample.

N. Accrued Payroll, Unfunded Leave, and Accrued Benefits

These liabilities represent salaries, wages, leave, and benefits earned by employees, but not disbursed as of September 30. Annual leave is accrued as earned and reduced as used. The balance of the accrued annual leave account is adjusted monthly to reflect current pay rates. Sick leave and other types of nonvested leave are expensed as taken.

O. Federal Employee and Veterans' Benefits

The liability for Federal Employee and Veterans' Benefits consists of the actuarial portions of future benefits earned by Federal employees and Veterans, but not yet due and payable. These costs include pensions, other retirement benefits, and other post-employment benefits. These benefit programs are administered by the Office of Personnel Management (OPM) and not by FDA, except as discussed below. Therefore, FDA does not recognize the liability on its Consolidated Balance Sheet for pensions, other retirement benefits, and other post-employment benefits. FDA does, however, recognize the imputed cost and imputed financing related to these benefits in the Consolidated Statement of Net Cost and the Consolidated Statement of Changes in Net Position, respectively.

FDA employs members of the Commissioned Corps, who have their own retirement plan. Congress annually funds this plan with amounts as may be required through the enactment of the Departments of Labor, Health and Human Services, and Education, and Related Agencies Appropriations Acts.

Although FDA contributes toward the provision of pension benefits for eligible employees and makes the necessary payroll withholding, it does not account for the assets of the retirement plans. The FDA also does not have actuarial data with respect to accumulated plan benefits or the unfunded liability relative to its eligible employees. These amounts are reported by the respective plan administrators and are not allocated to the individual employers. The OPM also accounts for all health and life insurance programs for retired eligible employees.

Pensions: Pensions provide benefits upon retirement and may also provide benefits for death, disability, or other termination of employment before retirement. Pension plans may also include benefits to survivors and dependents, and they may contain early retirement or other special features. Most FDA employees participate in the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). Under CSRS, FDA makes matching contributions equal to 8.51 percent of basic pay. For FERS employees, FDA contributes the employer's matching share for Social Security and contributes an amount equal to one percent of employee pay to a savings plan and matches up to an additional four percent of pay. Most employees hired after December 31, 1983, are covered by FERS. OPM reports on CSRS and FERS assets, accumulated plan benefits, and unfunded liabilities, if any, applicable to Federal employees.

Other Retirement Benefits (ORB): Retirement benefits other than pensions are all forms of benefits to retirees or their beneficiaries provided outside the pension plan. Examples include health and life insurance. Retirement health care benefits are the primary ORB expense.

Other Post-employment Benefits (OPEB): Post-employment benefits other than pensions include all types of benefits provided to former or inactive, but not retired, employees, their beneficiaries, and covered dependents. Inactive employees are those who are not currently rendering services to their employers and who have not been terminated, but who are not eligible for an immediate annuity, including those temporarily laid off or disabled. OPEB includes salary continuation, severance benefits, counseling and training, continuation of health care or other benefits, and unemployment and workers'compensation benefits paid by the employer entity.

P. Obligations Related to Canceled Appropriations

Payments may be required of up to one percent of current year appropriations for valid obligations incurred against prior year appropriations that have been canceled. The total potential payments related to canceled appropriations is estimated to be approximately $361 as of September 30, 2000.

Q. Revenues and Other Financing Sources

Funding for FDA is classified as revenue or other financing sources. Revenue is an inflow of resources that the Government demands, earns, or receives by donation. Revenue comes from two sources: exchange transactions and nonexchange transactions. Other financing sources include appropriations used, imputed financing sources, and transfers of assets between FDA and other Federal entities.

Exchange and Non-Exchange Revenue: In accordance with GAAP, FDA classifies revenues as either exchange revenue or non-exchange revenue. Exchange revenues are those that derive from transactions in which both FDA and another party receive value, including (1) firms submitting applications to FDA for review of new human drugs and biologics and manufacturers of human drugs and biologics, (2) owners or lessees of facilities which conduct breast cancer screening or diagnosis through mammography activities, (3) firms requesting certification that drugs or medical devices which they are exporting meet certain requirements, and (4) manufacturers of color additives. These revenues are presented on FDA's Consolidated Statement of Net Cost and serve to reduce the reported cost of operations borne by the taxpayer. Non-exchange revenue derives from the Government's sovereign right to demand payment. Non-exchange revenue is recognized when a reporting entity establishes a specifically identifiable, legally enforceable claim to cash or other asset. It is recognized to the extent that the collection is probable and the amount is reasonably estimable. FDA does not recognize any non-exchange revenues in its operations.

Appropriations Used: Congressional appropriations are the primary funding source for FDA's programs. For financial statement purposes, appropriations used are recognized as a financing source as expenses are incurred. Under accrual accounting, operating expenses are recognized in the current period while expenditures for capital assets are not recognized as expenses until they are consumed. Financing sources for these expenditures, which are derived from both current and prior year appropriations and operations, are recognized on this same basis.

Imputed Financing Sources: These sources are an "other financing source" that reflect costs incurred by one Federal entity and paid by another Federal entity. These are also known as inter-entity costs. OMB is limiting the inter-entity costs to be recognized by Federal agencies to the following: (1) employee's pension benefits, (2) the health, life insurance, and other benefits for retired employees, (3) other post-employment benefits for retired, terminated, and inactive employees, which include severance payments, training, counseling, continued health care, and unemployment and worker's compensation under the Federal Employees' Compensation Act, and (4) losses in litigation proceedings to account for Treasury Judgement Fund transactions. FDA includes applicable imputed costs on the Consolidated Statement of Net Cost, and an imputed financing source is recognized on the Consolidated Statement of Changes in Net Position.

Transfers-In/Out: Intragovernmental transfers of budget authority (i.e. appropriated funds) or of assets without reimbursement are recorded at the book value of the transferring entity.

R. Contingencies

A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to FDA. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. With the exception of pending, threatened, or potential litigation, a contingent liability is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is more likely than not, and the related future outflow or sacrifice of resources is measurable. For pending, threatened, or potential litigation, a liability is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is more likely than not to occur, and the related future outflow or sacrifice of resources is measurable.

S. Use of Estimates in Preparing Financial Statements

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

T. Comparative Data

OMB Bulletin 97-01 provides that comparative financial statements are permitted but not required until reporting periods beginning after September 30, 2000. Therefore, management has elected not to provide comparative data.

U. Tax Status

FDA, as a Federal agency, is not subject to Federal, state, or local income taxes, and accordingly, no provision for income taxes is necessary.

Note 2 - Fund Balances with Treasury

FDA's undisbursed account balances are listed below by fund type:

Appropriated General Funds	$401,556
Other Funds	49,997
Revolving Funds	4,065
Total Fund Balances with Treasury	**$455,618**

No restrictions on Fund Balances with Treasury exist at September 30, 2000.

Note 3 - Accounts Receivable, Net

Accounts Receivable, Net consist of the following:

	Gross Receivable	Allowance	Net Receivable
Intragovernmental			
Interagency Agreements	**$ 6,314**	**$ -**	**$ 6,314**
With the Public			
Prescription Drug User Fee Act	9,521	825	8,696
Mammography Quality Standards Act	2,921	200	2,721
Travel Refunds & Miscellaneous	1,690	17	1,673
Export Reform & Enhancement Act	498	7	491
Interest Receivable	31	-	31
IRS Offsets	5	-	5
Total With the Public	**14,666**	**1,049**	**13,617**
Total Accounts Receivable	**$20,980**	**$1,049**	**$19,931**

Note 4 - Cash

All cash on hand consists of petty cash funds and is considered an entity asset. The petty cash funds are used for miscellaneous reimbursements for local travel, undercover criminal investigations, and other miscellaneous expenses. The total balance of petty cash funds as of September 30, 2000, is $155

Note 5 - General Property, Plant, and Equipment, Net

Balances for the major categories of FDA Property, Plant and Equipment, Net are listed below:

Classes of Fixed Assets	Service Life (Years)	Acquisition Value	Accumulated Depreciation	Net Book Value
Personal Property:				
Laboratory and Office Equipment	10	$ 64,929	$ 39,597	$ 25,332
ADP and Telecom Equipment	8	21,476	11,485	9,991
Capital Lease - Security System	10	1,380	63	1,317
Total Personal Property		87,785	51,145	36,640
Real Property:				
Buildings, Facilities, & Structures	5 - 50	210,466	80,174	130,292
Capital Lease - Structure	30	806	54	752
Land	N/A	8,957	-	8,957
Total Real Property		220,229	80,228	140,001
Construction in Progress	N/A	12,121	-	12,121
Total		**$320,135**	**$131,373**	**$188,762**

Note 6 - Other Assets

Other Assets is comprised of the following:

	Intra-governmental	With the Public
Disputed Cash Advance over GSA Rent	$ 14,019	$ -
Travel and Employee Advances	-	348
Prepaid Subscriptions	238	-
Total Other Assets	**$ 14,257**	**$ 348**

The majority of other assets consist of funds held pending dispute resolution with GSA. The dispute concerns GSA rent charged to FDA that exceeds the cap imposed by Congress for annual GSA rent charges. GSA rent expenses charged FDA through the Online Payment and Collection System that exceed the cap have been charged back to GSA and the resulting cash balance is treated similar to a cash advance.

Note 7 - Environmental and Disposal Costs

Environmental and Disposal Costs are the costs of removing, containing, or disposing of (1) hazardous waste from property, or (2) material or property that consists of hazardous waste at permanent or temporary sites selected for closure or shutdown. FDA's cleanup costs are primarily related to the closure and subsequent decommissioning of laboratory facilities related to its field and headquarters consolidation efforts. In many instances, FDA has performed laboratory operations using various chemical, biological, and/or radiological materials in these facilities for over 30 years. As a result of such use, the decommissioning of each building or facility is planned so the Federal government will take all actions required of it either under the terms of the lease or by all applicable federal, state, and local environmental laws. With respect to the decommissioning of FDA laboratories, the Army Corps of Engineers has been providing technical guidance, based upon its prior base closure experience. FDA currently has several interagency agreements with the Army Corps of Engineers for scope-of-work development and remediation activities.

FDA recognized an estimated liability for government-related future cleanup of hazardous waste related to FDA operations. Such estimates do not consider the effect of future new technology, laws, or regulations. The method of assigning cost is based on estimated costs of similar remediation projects. The following table presents estimated FDA cleanup costs for decommissioned laboratories as of September 30, 2000:

Intragovernmental			With the Public		
Liabilities Covered By Budgetary Resources	Liabilities Not Covered By Budgetary Resources	Total	Liabilities Covered By Budgetary Resources	Liabilities Not Covered By Budgetary Resources	Total
$ 1,102	$ 1,705	$ 2,807	$ 729	$ 2,198	$ 2,927

Note 8 - Federal Employee and Veterans' Benefits

The Federal Employees Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job; employees who have incurred a work-related occupational disease; and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. The FECA program is administered by the U.S. Department of Labor, which initially pays valid claims and unpaid billings and subsequently seeks reimbursement from the Federal agencies employing the claimants.

The actuarial liability for future workers' compensation benefits is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payment related to that period. Consistent with the past practice, these projected annual benefit payments have been discounted to present value using OMB's economic assumptions for 10-year Treasury notes and bonds. The FY 2000 present value of these estimates was calculated using a discount rate of 6.15 percent in the first year, 6.28 percent in the second year, and 6.30 percent in the third year and thereafter.

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) are applied to the calculation of projected future benefits. These factors are also used to adjust the methodology's historical payments to current year dollars. The methodology also includes a discounting formula to recognize the timing of compensation payments per year instead of one lump sum per year. The projected number of years of benefit payments is 37 years.

This liability at September 30, 2000, amounted to $21,087, and is considered a liability not covered by budgetary resources.

Note 9 - Accrued Payroll and Benefits

Accrued Payroll and Benefits consist of the following:

	Intragovernmental			With the Public		
	Liabilities Covered By Budgetary Resources	Liabilities Not Covered By Budgetary Resources	Total	Liabilities Covered By Budgetary Resources	Liabilities Not Covered By Budgetary Resources	Total
Accrued Payroll	$ -	$ -	$ -	$ 36,734	$ -	$ 36,734
Accrued Leave	-	-	-	-	51,406	51,406
Payroll Withholding	6,223	-	6,223	-	-	-
Accrued Workers' Compensation	-	3,237	3,237	-	-	-
Total	**$ 6,223**	**$ 3,237**	**$ 9,460**	**$ 36,734**	**$ 51,406**	**$ 88,140**

Note 10 – Accrued Grant Liability, Net

Grant advances are liquidated upon the grantee's reporting of expenditures on the quarterly SF-272 Report (Federal Cash Transaction Report). In many cases, these reports are received several months after the grantee actually incurs the expense, resulting in an understated grant expense in the financial statements. To mitigate this, FDA estimates and accrues amounts due grantees for their expenditures through September 30, 2000, in accordance with DHHS accounting procedures.

At fiscal year-end when FDA recorded the estimated accrual for amounts due to grantees for their expenses, the accrual amount exceeded the amount of outstanding advances. Therefore, FDA reported a liability for "Accrued

Grant Liability" as of September 30, 2000, as follows:

Grant Advances Outstanding (before year-end grant accrual)	$ 8,711
Less: Estimated Accrual for Amounts Due to Grantees	10,893
Accrued Grant Liability, Net	**$ 2,182**

Note 11 - Other Liabilities

Other Liabilities consist of the following:

	Intragovernmental			With the Public		
	Liabilities Covered By Budgetary Resources	Liabilities Not Covered By Budgetary Resources	Total	Liabilities Covered By Budgetary Resources	Liabilities Not Covered By Budgetary Resources	Total
Capital lease	$ -	$ 985	$ -	$ -	$ 728	$ 728
Contingent Liability	-	-	-	-	505	505
Deferred Revenue	-	-	-	409	-	409
Other	-	-	-	141	-	141
Total	**$ -**	**$ 985**	**$ 985**	**$ 550**	**$ 1,233**	**$ 1,783**

All other liabilities are considered current except for the capital lease liability. The portion of the total capital lease liability of $1,713 considered current is $80, and the remaining balance, $1,633, is considered non-current. Also see Note 15 for more information on capital leases.

Note 12 - Net Position

Net position is the difference between assets and liabilities. This section contains two line items: Unexpended Appropriations, which includes unobligated appropriations and undelivered orders, and Cumulative Results of Operations. Unobligated appropriations are either available for obligation or not available (permanently or temporarily) pursuant to a specific provision in law. Undelivered orders represent appropriations obligated for goods or services ordered but not yet received.

Cumulative results of operations represent the net difference between (1) expenses and losses and (2) financing sources, including appropriated capital used, revenues, and gains since the inception of the activity.

	Appropriated Funds	Revolving Funds	Total
Unexpended Appropriations:			
Unobligated:			
Available	$ 27,361	$ -	$ 27,361
Unavailable	14,130	-	14,130
Undelivered Orders	288,304	-	288,304
Total Unexpended Appropriations	**329,795**	**-**	**329,795**
Cumulative Results of Operations	**177,966**	**4,132**	**182,098**
Total Net Position	**$ 507,761**	**$ 4,132**	**$ 511,893**

Note 13 - Prior Period Adjustments

Prior period adjustments, representing a $2,328 decrease in the September 30, 1999, net position, were recorded to correct errors in prior years' financial statements, and are detailed below.

Unexpended Appropriations	$ 3,249
Personal Property Cost, Net	(1,035)
Real Property Cost, Net	781
Supplemental CSRS Adjustment	(667)
Total	**$ 2,328**

Note 14 - Commitments and Contingencies

Commitments

FDA is committed for goods and services that have been ordered, but have not yet been delivered. As of September 30, 2000, FDA's undelivered orders were $288,304. The entire balance has been funded with budgetary resources received in FY 2000 and prior years.

A summary of long-term commitments for construction projects is as follows:

Fiscal Year	Amount ($ In Millions)
2001	$ 15.8
2002	16.2
2003	12.0
Total	**$ 44.0**

Contingencies

FDA is party in various administrative proceedings, legal actions, and claims brought against it. In the opinion of FDA management, legal counsel, and DHHS legal counsel, the ultimate resolution of these proceedings, actions, and claims will not materially affect the financial position or net costs of FDA. These cases are administered and resolved by the U.S. Department of Justice and any amounts necessary for resolution are obtained from a special Judgement Fund maintained by the U.S. Department of the Treasury under title 31 United States Code, section 1304. Unfavorable judgements do not result in claims against FDA directly. Losses paid by the Judgement Fund on behalf of FDA do not require reimbursement. As of September 30, 2000, FDA has accrued $505 for a legal contingent liability to be paid by the Treasury Judgement Fund.

In addition, there are various pending class action suits against HHS. However, HHS management and legal counsel are unable to determine the impact or the ultimate outcome of these suits at this time. Therefore, the potential impact on FDA's financial statements is unknown.

Note 15. Leases

A summary of assets under capital lease is as follows:

Equipment-Security System	$ 1,380
Structures-Cooling Tower	806
Subtotal	2,186
Less: Accumulated Depreciation	(117)
Total Assets Under Capital Lease (Note 5)	**$ 2,069**

Future lease payments due:

Fiscal Year	Capital Leases	Operating Leases
2001	$ 231	$ 104,734
2002	231	108,229
2003	224	111,855
2004	223	116,233
2005	223	120,803
2006 and Thereafter	2,091	1,612 **
Total Future Lease Payments	3,223	$ 563,466
Less: Imputed Interest	(1,510)	
Total Capital Lease Liability (Note 11)	**$ 1,713**	

** Future Lease payments are expected; however, dollar figures for GSA cannot be reasonably estimated.

As of September 30, 2000, FDA had one personal property capital lease for a security system used at its Jamaica, NY field office. The lease has 19 years remaining of its 20-year life. Real property capital leases consist of two leases for a cooling tower at FDA's Arkansas Regional Laboratory. Both leases have a life of 10 years. The total capital lease liability is considered unfunded as of September 30, 2000. Operating leases for real property cover GSA and non-GSA leased assets. Operating leases comprise the majority of FDA's fiscal year 2000 real property rental expense and have terms of more than two years. GSA charges FDA rates that approximate commercial rates for comparable space. FDA may elect to terminate these leases with 120 days notice to GSA at any time. FDA has the authority to lease its own space for laboratories, testing materials, etc. because, in many cases, GSA does not own property that will satisfy the needs of FDA's scientific and research activities. FDA had eight non-GSA operating leases in FY 2000 consisting mostly of laboratories and office-space.

Operating leases for personal property are for the rental of GSA vehicles at FDA's headquarters and at its field offices. As of September 30, 2000, FDA maintained approximately 250 vehicles leased from GSA. GSA charges FDA rates which are less than commercial rates for comparable vehicles. FDA may elect to terminate these leases within 120 days notice to GSA, at any time.

Note 16 - Combined Statement of Budgetary Resources

Salaries and Expenses (S&E), FDA's largest appropriation, is a one year appropriation. FDA has a number of "no-year" or "permanent indefinite" funds. These funds are the Revolving Fund for Certification, Building and Facilities, and Cooperative Research and Development Agreements. FDA also has a multi-year appropriation to record collections and disbursements for patents and royalties.

FDA received approximately 74.6%, or $1,053,083, of its total FY 2000 budgetary resources of $1,412,236 through appropriations. FDA's S&E account was appropriated $1,040,638, which accounts for 99% of the total appropriations received. Permanent indefinite appropriations are available for FDA to accomplish its mission until expended or Congress enacts legislation to rescind or cancel remaining budget authority. Budgetary resources obligated for undelivered orders as of September 30, 2000, totaled $288,304.

Other sources of funding for FY 2000 included reimbursable programs and unobligated carryovers from prior years. Reimbursable programs, which provide funds from other Federal or private entities in exchange for goods or services, account for about 12.9% of total FY 2000 budgetary resources. Unobligated carryovers represent amounts of spending authority that have not been committed or earmarked for expenditure. Carryovers represent about 8.5% of FY 2000 budgetary resources.

FDA has a Contingency Fund that was established in FY 1983 whereby funds are to be used for unusual direct costs of product emergencies (i.e., Tylenol incident, Breast Implant Hotline, etc.). The fund was justified for costs of overtime, travel, and the cost of buying samples and other supplies for national public health emergencies. Two rules were set for the use of this fund: (1) only for emergency costs exceeding $100 over the normal budget and (2) any use has to be specifically apportioned and approved by OMB. During FY 2000, FDA had funds of $3,040 temporarily not available for national public health emergencies, but was not required to use any of these funds.

During FY 2000, the beginning unobligated balances were decreased by $1 to correct for understated obligations (undelivered orders) in FY 1999. Research into the error uncovered how the difference occurred, and improved edit checks will prevent the problem from recurring.

The obligated carryovers from FY 1999 were restated by $155 on the FY 2000 Statement of Budgetary Resources to correct an error in FY 1999. The obligated balance at September 30, 1999, incorrectly included FDA's imprest fund of $155. Outlays on the Statement of Budgetary Resources did not match the outlays reported on the reports submitted to Treasury. Therefore, the obligated balance at October 1, 1999, was adjusted to exclude the imprest fund in order to arrive at the correct outlay total as of September 30, 2000.

Required Supplementary Information

(Unaudited)

U.S. Department of Health and Human Services
Food and Drug Administration
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2000
(In Thousands)

	User Fees Account 75X0600	Gifts 75X8241	Buildings & Facilities 75X0603	Contribution Fund 75X8064	GSA Bldg. Delegation 75X0601	Salaries & Expenses 75_0600	GSA Rent 75_0601	Royalties 75_7_0600	Total
Budgetary Resources:									
Budget authority	($147,270)	$ 1,103	$11,353	$ 0	$4,945	$1,182,854	$ 0	$ 0	$1,053,085
Unobligated balances - October 1, 1999	75,940	273	24,125	2,011	0	17,002	0	131	120,022
Spending authority from offsetting collections	148,910	2	57	4,101	0	29,977	0	408	181,950
Adjustments:									
Recoveries of prior year obligations	0	10	1,870	670	0	71,000	0	0	73,059
Permanently unavailable - rescissions/cancellation	0	0	0	0	0	(17,100)	0	0	(17,100)
Total budgetary resources	$ 78,880	$ 1,400	$37,405	$ 7,512	$4,945	$1,283,433	$ 0	$539	$1,412,285
Status of Budgetary Resources:									
Obligations incurred	$ 14,111	$ 774	$10,725	$ 4,255	$4,945	$1,272,333	$ 0	$381	$1,317,501
Unobligated balances available	58,729	626	26,684	1,272	0	51	0	100	88,550
Unobligated balances not available	5,040	0	0	2,055	0	11,050	0	0	18,105
Total, status of budgetary resources	$ 78,880	$ 1,400	$37,405	$ 7,512	$4,945	$1,283,433	$ 0	$539	$1,412,285
Outlays:									
Obligations incurred	$ 14,111	$ 774	$10,725	$ 4,255	$4,945	$1,272,333	$ 0	$381	$1,317,501
Less spending authority from offsetting collections and adjustments	(148,910)	(12)	(1,985)	(4,871)	0	(100,038)	0	(408)	(256,217)
Obligated balance, net October 1, 1999	0	216	17,099	1,201	0	316,850	3,572	1	338,303
Less obligated balance, net September 30, 2000	0	(436)	(10,298)	(739)	0	(450,603)	0	0	(465,057)
Total outlays	($134,202)	$ 542	$15,565	($ 154)	$4,945	$1,102,213	$ 3,572	($30)	$1,022,762

U.S. Department of Health and Human Services

Food and Drug Administration

SUPPLEMENTAL CONSOLIDATING STATEMENT OF NET COST

Program Costs by Appropriation

For the Year Ended September 30, 2000

(In Thousands)

(Unaudited)

Program Area	A800 User Fees	5148 CRADA & Other	0603 Bldgs. & Facilities	4309 Cert. Fund	A601 GSA Bldg. Delegation	0600 Salaries & Expenses	Royalties & Misc.	Consolidated Totals
Foods								
Gross Costs	$ (112)	2	3,129	4,002	2,912	69,961	14	370,906
Less: Earned Revenues	-	-	-	(4,069)	-	(1,915)	(10)	(5,994)
Net Program Costs	$ (112)	$ 2	$ 3,129	$ (67)	$ 2,912	$ 389,046	$ 4	$ 364,914
Human Drugs								
Gross Costs	1,002	34	597	-	354	361,551	(2)	363,536
Less: Earned Revenues	(113,970)	-	-	-	-	1,677	-	(112,293)
Net Program Costs	$(112,968)	$ 34	$ 597	$ -	$ 354	$ 363,228	$ (2)	$ 251,243
Medical Devices & Radiological Health								
Gross Costs	12,428	13	753	-	399	208,922	-	222,515
Less: Earned Revenues	(13,716)	-	-	-	-	(5,026)	-	(18,742)
Net Program Costs	$ (1,288)	$ 13	$ 753	$ -	$ 399	$ 203,896	$ -	$ 203,773
Biologics								
Gross Costs	52	14	560	-	126	160,784	289	161,825
Less: Earned Revenues	(23,400)	-	-	-	-	(5,177)	(388)	(28,965)
Net Program Costs	$ (23,348)	$ 14	$ 560	$ -	$ 126	$ 155,607	$ (99)	$ 132,860
Animal Drugs & Feeds		-						
Gross Costs	(4)	-	316	-	1,122	62,179	-	63,604
Less: Earned Revenues	254		-	-	-	(267)	-	(13)
Net Program Costs	$ 250	$ -	$ 316	$ -	$ 1,122	$ 61,903	$ -	$ 63,591
Toxicological Research								
Gross Costs	(20)	483	3,202	-	31	53,412	46	57,154
Less: Earned Revenues	-	-	-	-	-	(13,797)	(10)	(13,807)
Net Program Costs	$ (20)	$ 483	$ 3,202	$ -	$ 31	$ 39,615	$ 36	$ 43,347
Tobacco								
Gross Costs	(1)	-	(1)	-	2	5,444	-	5,444
Less: Earned Revenues	-	-	-	-	-	(10)	-	(10)
Net Program Costs	$ (1)	$ -	$ (1)	$ -	$ 2	$ 5,434	$ -	$ 5,434
Costs Not Assigned to Programs	-	-	-	-	-	-	-	-
Net Cost of Operations	$(137,487)	$ 546	$ 8,556	$ (67)	$ 4,946	$1,188,729	$ (61)	$1,065,162

U.S. Department of Health and Human Services

Food and Drug Administration

REQUIRED SUPPLEMENTARY INFORMATION
As of September 30, 2000
(In Thousands)

Deferred Maintenance (Unaudited)

Deferred maintenance is maintenance that was not performed when it should have been, was scheduled and not performed, or was delayed for a future period. Maintenance is the act of keeping fixed assets in acceptable condition, including preventive maintenance, normal repairs, replacement of parts and structural components and other activities needed to preserve the asset so that it continues to provide acceptable services and achieves its expected life. Maintenance does not include activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, those originally intended. Maintenance expense is recognized as incurred.

FDA used the Condition Assessment Survey method (CAS) to identity and quantify deferred maintenance for all classes of property. CAS employs a periodic inspection of real property to determine its current condition and estimate costs to correct any deficiencies.

FDA operates laboratory facilities and buildings throughout the United States, in which the Agency performs various aspects of its regulatory mission. This includes scientific testing, sampling, methods development and research in connection with evaluation or investigation of regulated products. The following table presents FDA's real property for which deferred maintenance exists as of September 30, 2000:

Category	Asset Condition	Cost to Return to Acceptable Condition	Critical Amount	Non-Critical Amount
Buildings	**Poor**	**$32,508**	**$4,125**	**$28,383**
Laboratories	**Fair**	**$9,486**	**-**	**$9,486**
Utility Systems	**Poor**	**$6,975**	**-**	**$6,975**
Total		**$48,969**	**$4,125**	**$44,844**

U.S. Department of Health and Human Services

Food and Drug Administration
Required Supplementary Information

INTRAGOVERNMENTAL TRANSACTIONS

As of September 30, 2000
(In Thousands)
(Unaudited)

Intragovernmental Assets

Agency	TFM Dept Code	Fund Balance w/ Treasury	Accounts Receivable	Other	Total
Department of Agriculture	12		$591		$591
Department of Commerce	13			$233	233
Department of Defense	17, 21, 57, 97		1,794		1,794
Department of Energy	89		240		240
Department of Health and Human Services	75		2,651		2,651
Department of Justice	15		608		608
Department of Transportation	69		157		157
Department of the Treasury	20	$455,618			455,618
Department of Veterans Affairs	36		31		31
Environmental Protection Agency	68		18		18
Federal Emergency Management Agency	58		47		47
General Services Administration	47		151	14,019	14,170
National Aeronautics & Space Administration	80		25		25
All Other Federal Agencies			1	5	6
TOTAL		**$455,618**	**$6,314**	**$14,257**	**$476,189**

U.S. Department of Health and Human Services

Food and Drug Administration

Required Supplementary Information

INTRAGOVERNMENTAL TRANSACTIONS

As of September 30, 2000

(In Thousands)

(Unaudited)

Intragovernmental Liabilities

Agency	TFM Dept Code	Accounts Payable	Environmental Cleanup	Accured Payroll and Benefits	Other	Total
Department of Agriculture	12	$50	$64			$114
Department of Commerce	13	75				75
Department of Defense	17, 21, 57, 97	13	2,636			2,649
Department of Energy	89	205				205
Department of Health and Human Services	75	4,272				4,272
Department of Labor	16			$3,237		3,237
Department of State	19	13				13
Department of the Treasury	20			1,569		1,569
General Services Administration	47	9,587	107		$985	10,679
Nuclear Regulatory Commission	31	1				1
Office of Personnel Management	24	104		4,654		4,758
All Other Federal Agencies		204				204
TOTAL		**$14,524**	**$2,807**	**$9,460**	**$985**	**$27,776**

U.S. Department of Health and Human Services

Food and Drug Administration
Required Supplementary Information

INTRAGOVERNMENTAL TRANSACTIONS

For the Year Ended September 30, 2000
(In Thousands)
(Unaudited)

Intragovernmental Revenues and Expenses

Agency	TFM Dept Code	Revenues	Imputed Financing	Net Transfers	Expenses
Department of Agriculture	12	$323			$2,296
Department of Commerce	13				166
Department of Defense	17, 21, 57, 97	2,029			1,401
Department of Education	91	8			
Department of Energy	89	536			4,838
Department of Health and Human Services	75	21,614		$(20)	48,696
Department of the Interior	14				21
Department of Justice	15	1,151			
Department of Labor	16				1,726
Department of State	19	8			
Department of Transportation	69	157			30
Department of the Treasury	20		$72		944
Department of Veterans Affairs	36	82			860
Environmental Protection Agency	68	1,114		199	39
General Services Administration	47	204		35	102,306
National Aeronautics & Space Administration	80	41			
Nuclear Regulatory Commission	31				67
Office of Personnel Management	24		47,766		127,609
All Other Federal Agencies		5			3,636
TOTAL		**$27,272**	**$47,838**	**$214**	**$294,635**

Required Supplemntary Stewardship Information

(Unaudited)

U.S. Department of Health and Human Services

Food and Drug Administration

RESEARCH & DEVELOPMENT

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

For the Year Ended September 30, 2000

(Unaudited)

The stewardship objective of Federal financial reporting requires reporting on the Federal Government's accountability over certain resources entrusted to it and certain responsibilities assumed by it that cannot be measured in traditional financial reports. Stewardship investments are substantial investments made by the Federal Government for the benefit of the nation. When incurred, they are treated as expenses in determining the net cost of operations. However, these items merit special treatment so that readers of Federal financial reports know the extent of investments that are made for long-term benefit. Federally-financed research and development is a stewardship investment that should be measured in terms of expenses.

Research and development includes those expenses for basic research, applied research, and development that are intended to increase or maintain the national economic productive capacity or yield other benefits. FDA has two programs that meet the requirements of research and development investments: Orphan Products Development (OPD) Program and FDA Research Grants Program. While FDA's center components conduct scientific studies, FDA does not consider this type of research as "research and development" because it is used to support FDA's regulatory policy and decision-making processes.

Orphan Products Development Program

The OPD Program was established by the Orphan Drug Act (PL 97-414, as amended) with the purpose of identifying orphan products and facilitating their development. An orphan product is a drug, biological product, medical device, or medical food that is intended to treat a rare disease or condition (i.e., one with a prevalence of fewer than 200,000 people in the United States).

The Office of Orphan Products Development (OOPD) operates the OPD Program by administering an orphan product designation process, providing research study design assistance to sponsors of orphan products, encouraging sponsors to conduct open protocols (allowing patients to be added to ongoing studies), and managing a clinical research grants program. The OPD Program has been very successful with more than 200 drugs and biological products for rare diseases have been brought to market since 1983.

The Orphan Drug Act provides for granting special status to a product/indication combination upon a request of a sponsor, and if the product/indication combination meets certain criteria. This status is referred to as orphan designation. Orphan designation qualifies the sponsor to receive certain benefits (i.e., tax credit and marketing exclusively incentives) from the Government in exchange for developing the orphan product.

OOPD also administers a clinical research grants program whose goal is to provide clinical development of

U.S. Department of Health and Human Services

Food and Drug Administration

RESEARCH & DEVELOPMENT
REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION
For the Year Ended September 30, 2000
(Unaudited)

products for use in rare diseases or conditions where no current therapy exists or where current therapy would be improved. In FY 2000, there were 83 active OPD grants. OOPD provides grants to conduct clinical studies intended to provide data acceptable to FDA that will either result in or substantially contribute to the approval of these products under the Federal Food, Drug, and Cosmetics Act. New and continuing OPD studies strive to provide information on human safety and effectiveness of products for diseases and conditions such as dystonia, sickle cell disease, acute leukemia, cystic fibrosis, adrenoleukodystrophy, and tyrosinemia. The majority of research expenses are for salaries, wages, and non-payroll patient care costs.

Research Grants Program

The FDA Research Grants Program is a grants program listed as No. 93-103 under the Catalog of Federal Domestic Assistance, whose purpose is assist public and non-public institutions and for-profit organizations to establish, expand, and improve research, demonstration, education, and information dissemination activities concerned with a wide variety of FDA areas.

Research areas include: acquired immunodeficiency syndrome, biologics, blood and blood products, therapeutics, vaccines, allergenic projects, drug hazards, human and veterinary drugs, clinical trials on drugs and devices for orphan products development, nutrition, sanitation, microbiological hazards, medical devices and diagnostic products, radiation emitting devices and material, food safety, and food additives. Participating with the research grants are colleges, universities, profit-making organizations, nonprofit institutions, hospitals, and State and Local governments.

Examples of funded projects include: Radiation Effects and Exposure Criteria; Analytical Methodology for Animal Drug Tissue in Milk; Post Marketing Surveillance of Adverse Drug Reactions; International Program on Chemical Safety; Tobramycin for Inhalation in Patients with Cystic Fibrosis; Interferon Gamma Treatment of Osteoporosis; and Small Business Innovation Research: Phase 1 - Detection of Campylobacteria in Foods, Phase II - Point of Care Lead Instrument and Sensor.

Expenses

The following table presents the total expenses incurred in the FY's 1998-2000 (including expenses related to the OPD Program's administration, Office of the Commissioner overhead, and grants awarded in previous fiscal years) for each of FDA's research and development activities:

U.S. Department of Health and Human Services

Food and Drug Administration

RESEARCH & DEVELOPMENT

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

For the Year Ended September 30, 2000

(Unaudited)

RESEARCH AND DEVELOPMENT EXPENSES (In Thousands)				
Program	**TYPE**	**Fiscal Year**		
		00	**99**	**98**
Orphan Product Development	Development	$3,070	$2,097	$11,687
Pilot Clinical Pharmacology	Development	--	--	285
Orphan Product Research Grants	Applied Research	17,794	9,605	--
Research Grants Program (excluding Orphan Product grants)	Applied Research	4,752	6,990	8,159
Toxicological Research	Applied Research	--	--	33,233
Total		**$25,616**	**$18,692**	**$53,364**

NOTE:
Pilot Clinical Pharmacology Program is excluded from FY 1999 and FY 2000 since it is used to "train" pharmacologists and does not meet the definition of research and development.

Toxicological Research is excluded from FY 1999 and FY 2000 because it is considered peer-review scientific research that supports FDA's current and future regulatory needs. This does not meet the definition of research and development.

Reports on the Audit of FDA's FY 2000 Financial Statements

DEPARTMENT OF HEALTH & HUMAN SERVICES Office of Inspector General

MAR 28 2001

Memorandum

Date

From Deputy Inspector General
for Audit Services

Subject Report on the Financial Statement Audit of the Food and Drug Administration for Fiscal Year 2000 (A-17-00-00006)

To Bernard A. Schwetz, Ph.D.
Acting Principal Deputy Commissioner
Food and Drug Administration

The attached final report presents the results of audit of the Fiscal Year 2000 financial statements of the Food and Drug Administration (FDA). A certified public accounting firm, KPMG L.L.P, undertook the audit in support of the department-wide financial statement audit by the Office of Inspector General (OIG) and in accordance with the Government Management Reform Act of 1994. The OIG exercised technical oversight and quality control over the audit. The OIG found nothing to indicate that the work was inappropriate or that the report cannot be relied upon.

The audit objectives were to: (1) determine whether the FDA financial statements as of September 30, 2000, are fairly presented; (2) assess FDA internal controls associated with the financial statements; and (3) test FDA compliance with laws and regulations that could have a direct and material effect on the financial statements.

The firm concluded that the FDA consolidated balance sheet, the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources and financing present fairly, in all material respects, the financial position of FDA at September 30, 2000, and its net cost, changes in net position, budgetary resources, and reconciliation of net cost to budgetary obligations for the year then ended, in conformity with generally accepted accounting principles in the United States.

The report on internal controls notes no internal control weakness considered to be material under standards established by the American Institute of Certified Public Accountants.

The firm noted no instances, exclusive of the Federal Financial Management Improvement Act (FFMIA) of 1996, of noncompliance with laws and regulations which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin 01-02. Related to FFMIA, the firm noted instances where FDA financial management systems did not substantially comply with FFMIA Federal financial management systems requirements.

Page 2 - Bernard A. Schwetz, Ph.D.

The firm has incorporated comments to the report where appropriate. Officials in your office have concurred with the recommendations and have or are in the process of taking corrective action. We would like to thank you and your staff for the outstanding cooperation and assistance in working with us and the firm on the FY 2000 financial statement audit.

We would appreciate your views and information on the status of any action taken or contemplated on the recommendations within the next 60 days. Should you wish to discuss this report, please call me or have your staff contact Joseph E. Vengrin, Assistant Inspector General for Audit Operations and Financial Statement Activities, at (202) 619-1157. Please refer to the Common Identification Number A-17-00-00006 in all correspondence relating to this report.

Thomas D. Roslewicz

Attachment

KPMG

2001 M Street, N.W.
Washington, D.C. 20036

Independent Auditors' Report on Consolidated Financial Statements

The Inspector General, U.S. Department of Health and Human Services
and the Commissioner of the Food and Drug Administration:

We have audited the accompanying consolidated balance sheet of the Food and Drug Administration (FDA), an operating division of the U.S. Department of Health and Human Services (DHHS), as of September 30, 2000, and the related consolidated statements of net cost and changes in net position; and combined statements of budgetary resources and financing (all of the FDA's financial statements are hereinafter collectively referred to as "consolidated financial statements") for the year then ended. The consolidated financial statements are the responsibility of the FDA's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance that the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures relating to the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the FDA as of September 30, 2000, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The information in the Management's Discussion and Analysis and Required Supplementary Information sections is not a required part of the consolidated financial statements but is supplementary information required by the Federal Accounting Standards Advisory Board or OMB Bulletin No. 97-01, *Form and Content of Financial Statements*, as amended. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, as part of our limited procedures applied to the Required Supplementary Information, we were unable to assess control risk relevant to DHHS's intragovernmental transactions and balances with non-DHHS trading partners, as required by OMB Bulletin No. 01-02. The DHHS did not confirm

intragovernmental transactions with most of its trading partners to enable the reconciliation of these transactions, as required by the January 7, 2000 technical amendments to OMB Bulletin 97-01. Further, we did not audit the information in the Management's Discussion and Analysis and Required Supplementary Information sections, and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued reports dated January 22, 2001, on our considerations of the FDA's internal control over financial reporting and its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

January 22, 2001

2001 M Street, NW
Washington, D.C. 20036

Independent Auditors' Report on Internal Control

The Inspector General, U.S. Department of Health and Human Services
and the Commissioner of the Food and Drug Administration:

We have audited the consolidated balance sheet of the Food and Drug Administration (FDA), an operating division of the U.S. Department of Health and Human Services, as of September 30, 2000, and the related consolidated statements of net cost and changes in net position, and the related combined statements of budgetary resources, and financing for the year then ended, and have issued our report thereon dated January 22, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audit, we considered the FDA's internal control over financial reporting by obtaining an understanding of the agency's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and *Government Auditing Standards*. We did not test all internal controls as defined by the Federal Managers' Financial Integrity Act of 1982. The objective of our audit was not to provide assurance on the FDA's internal control over financial reporting. Consequently, we do not provide an opinion on internal control over financial reporting.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the FDA's ability to record, process, summarize, and report financial data consistent with the assertions by management in the consolidated financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the consolidated financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected.

We noted a matter, discussed below, involving the internal control over financial reporting and its operation that we consider to be a reportable condition. However, the reportable condition is not believed to be a material weakness.

INTERNAL CONTROLS OVER INFORMATION SYSTEMS SHOULD BE ENHANCED

We reviewed FDA's internal controls over information systems and noted the following items:

Repeat Conditions:

Security Program. We assessed FDA's security program and, although there was noted improvement made by management in this area, we noted that the FDA Office of Financial Management (OFM) does not have an entity wide security plan for the major financial applications, with the exception of the General Ledger Accounting System and the Automated Accounts Payable System, and that the certification and accreditation statements have not been completed for all major financial applications. Therefore, we recommend that the FDA's OFM document a security plan that is compliant with OMB Circular A-130 and the Department of Health and Human Services' (DHHS) Automated Information System Security (AISS) Handbook for all major financial applications. We further recommend that certification and accreditation statements be completed for all major financial applications and the General Support System as a part of the security planning process.

Access Controls. We assessed FDA's financial systems management's efforts and, although we noted improvements by management in this area, we believe the certain matters related to account access and authorizations still need to be resolved. Specifically, FDA OFM has not assigned criticality/sensitivity levels for all major financial applications; and dial up access request forms for all users on the list in OFM were not available. Therefore, we recommend that the FDA OFM assign criticality/sensitivity levels for all major financial applications based on the DHHS AISS Handbook. We further recommend that the FDA OFM enforce and monitor the use of account request forms to ensure they are completed and maintained for all dial-up access users.

Application Change Control. We assessed FDA's controls over software development and change controls and noted that certain change requests did not have the division director's authorization and that FDA does not have a process in place for monitoring the status of each change request. Also, FDA OFM does not have formalized test plan standards, and does not use a test environment for the VAX/VMS operating system (VAX). Therefore, we recommend that the FDA OFM develop and implement a new process that will successfully monitor the change request forms and their status and priority. In addition, we recommend that only requests classified as emergency by the Change Control Board be implemented without having an authorizing signature on the appropriate form. In

addition, we recommend that the FDA OFM formalize test plan standards, and use a test environment for the VAX system. System testing should be conducted on the system testbed using the methodology and test cases described in the System Test Plan. The system testbed should be as close as possible to the actual production system.

New Condition:

Service Continuity. We assessed FDA's service continuity controls and determined that, while FDA OFM has a disaster recovery plan for its major financial applications/resources, it has not been periodically tested. Therefore, we recommend that the FDA OFM periodically test the disaster recovery plan after the Network Control Center (NCC) has been built.

Additional Required Procedures

As required by OMB Bulletin No. 01-02, we considered the FDA's internal control over Required Supplementary Stewardship Information by obtaining an understanding of the FDA's internal control, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls. Our procedures were not designed to provide assurance on internal control over Required Supplementary Stewardship Information, and, accordingly, we do not provide an opinion on such controls.

As further required by OMB Bulletin No. 01-02, with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis section of the Annual Report, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on internal control related to performance measures.

We also noted other matters involving internal control over financial reporting and its operation that we have reported to the management of the FDA in a separate letter dated January 22, 2001.

This report is intended solely for the information and use of the FDA's management; the U.S. Department of Health and Human Services, Office of the Inspector General; OMB; and Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 22, 2001

* This report is a condensed version of the original Independent Auditors' Report on Internal Controls, dated of the same date, that was included in the DHHS Office of Inspector General's audit report submission (number A-17-00-00006), dated March 2001.

KPMG

2001 M Street, N.W.
Washington, D.C. 20036

Independent Auditors' Report on Compliance with Laws and Regulations

The Inspector General, U.S. Department of Health and Human Services
and the Commissioner of the Food and Drug Administration:

We have audited the consolidated balance sheet of the Food and Drug Administration (FDA), an operating division of the U.S. Department of Health and Human Services, as of September 30, 2000, and the related consolidated statements of net cost and changes in net position, and the related combined statements of budgetary resources, and financing for the year then ended, and have issued our report thereon dated January 22, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The management of the FDA is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether the FDA's consolidated financial statements are free of material misstatement, we performed tests of the FDA's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to the FDA. However, providing an opinion on compliance with laws and regulations was not an objective of our audit, and, accordingly, we do not express such an opinion.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph of this report, exclusive of FFMIA, disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 01-02.

Under OMB Bulletin No. 01-02 and FFMIA, as revised on January 4, 2001, we are required to perform tests of compliance with FFMIA section 803(a) requirements, which indicate whether the agency's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. The

results of our tests disclosed three instances, described below, where the agency's financial management systems did not substantially comply with the Federal financial management systems requirements, as revised. The FDA's financial management systems are the responsibility of the Director of the Office of Financial Management (OFM).

Under the revised guidelines, agencies that can prepare financial statements and other required financial and budget reports using information generated by the financial management system(s); provide reliable and timely financial information for managing current operations; account for their assets reliably, so that they can be properly protected from loss, misappropriation, or destruction; and perform these tasks in a way that is consistent with Federal accounting standards and the Standard General Ledger, are considered to be substantially in compliance with FFMIA Federal financial management systems requirements.

Our tests revealed that the FDA's accounts receivable, cost management, and property systems are not in compliance with the revised Federal financial management system requirements as follows:

- The accounts receivable system does not support the calculation, generation, and posting of billings under interagency agreements based on the billing source, event and/or time period.

- The core financial system does not assign indirect costs to interim and final cost objects, or allow for multilevel assignments and reassignments of cost.

- The interface between the Property Management Information System (PMIS) and the general ledger is not electronic. Although an electronic interface is not required under the revised guidelines, this condition results in a reconciliation process between the PMIS and the general ledger that is cumbersome where reconciling items are not always posted timely.

We understand that the FDA OFM is in the process of addressing the aforementioned noncompliance with section 803(a) of FFMIA. The FDA has purchased a new property system and is currently testing the interface between the new property system and the general ledger. The FDA expects this new system to be completely implemented by the end of FY 2001.

We further understand that over the next two fiscal years, and subject to the availability of funding, OFM plans to upgrade the current system and its feeder/subsidiary systems to include funds controls, accounts receivable and debt management, and a greater integration of the field office accounting system. This process will include the replacement of the FDA's accounting system. The FDA is currently seeking budget authority in its FY 2002 budget submission for these financial systems improvements.

This report is intended solely for the information and use of the FDA's management; the U.S. Department of Health and Human Services, Office of Inspector General; OMB; and Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 22, 2001

DEPARTMENT OF HEALTH & HUMAN SERVICES — Public Health Service

Food and Drug Administration
Rockville MD 20857

FEB - 7 2001

To: Joseph Vengrin
Assistant Inspector General for Audit Operations
and Financial Statements

From: Deputy Commissioner for Management and Systems
and Chief Financial Officer

Subject: FDA's Response to Audit Report

We appreciate the opportunity to comment on the audit report of the Food and Drug Administration's (FDA) consolidated financial statements, internal control structure, and compliance with laws and regulations as of and for the fiscal year ending September 30, 2000. We have reviewed the reports and concur with the findings and recommendations.

Through an extensive effort from FDA staff, significant progress was made over the past year. Our combined effort resulted in another unqualified opinion on our FY 2000 consolidated financial statements and no material weaknesses in our internal control reporting.

Despite our outstanding success, FDA still must work to eliminate the remaining reportable condition. As such, we will continue our efforts to resolve the findings in preparation of the FY 2001 audit. Our goal is to continue to receive unqualified opinions on all of our future consolidated financial statements. To this end, we will continue to work with your office, the Department of Health and Human Services, and KPMG LLP, to develop a corrective action plan for the recommendations.

We would like to thank the KPMG LLP audit team for the professional and cooperative manner in which they conducted their audit. We found their suggestions and recommendations to be useful and productive, and we hope to put them in place as soon as possible as we continue to improve FDA's financial management.

Robert J. Byrd