

President’s Management Agenda

The President’s Management Agenda articulates the Administration’s strategy “for improving the management and performance of government.” It established five government-wide and nine program-specific initiatives. Agencies develop and implement action plans to achieve goals related to these initiatives.

Through the use of scorecards, agencies are publicly held accountable for achieving established goals. The scorecards, released quarterly, employ a simple grading system of green for success, yellow for mixed results, and red for unsatisfactory to measure status and progress toward attainment of goals. (For more information about the President’s Management Agenda, visit www.results.gov.)

HHS participates in five government-wide and five program-specific initiatives. It consistently has been a high performer on the scorecard. For FY 2006, the Department finished the fiscal year with green progress ratings for nine of the ten initiatives it is scored on, signifying its commitment to achieving its goals. The Department’s scorecard as of September 30, 2006 and accomplishments during FY 2006 are presented below.

Status	Progress	Initiative	Fiscal Year 2006 Accomplishments
G	G	<p>Strategic Management of Human Capital</p> <p>To build, sustain, and effectively deploy a skilled, knowledgeable, diverse, and high-performing workforce to meet current and emerging needs, and align strategies with organizational mission, vision, core values, goals, and objectives.</p>	<ul style="list-style-type: none"> Revised HHS Comprehensive human capital plan. Implemented one Performance Management Appraisal Program for all non-Senior Executive Service and bargaining unit employees throughout the Department. Developed and implemented performance appraisal plans that adhere to merit system principles. Completed a beta site for the new Performance Management Appraisal Program. Met competency gap targets for grants management. Reduced hiring timelines. Developed an Accountability and Implementation Policy and Program. Met leadership hiring targets for Senior Executive Service and Emerging Leaders. Identified and validated 10 core competencies that all HHS employees will need to possess in upcoming years.
G	G	<p>Competitive Sourcing</p> <p>To achieve efficient and effective competition between public and private sources by simplifying and improving the procedures for evaluating public and private sources, better publicizing the activities subject to competition, and ensuring senior-level agency attention to the promotion of competition.</p>	<ul style="list-style-type: none"> Reported an estimated \$365 million of competitive sourcing savings based on competitive sourcing studies completed in FY 2003 - FY 2005 in its Section 647 Report to Congress. These studies estimated savings, when fully implemented over the next several fiscal years, will provide greater benefit to HHS programs and the American taxpayer. Completed independent analyses that successfully validated savings for a standard competition at NIH and a restructuring effort at CDC. Followed the Office of Management and Budget, Office of Federal Procurement Policy, and Office of Personnel Management’s lead by developing an all-day symposium to enhance communications between the disciplines entitled “Partnerships for the American Workforce.” The symposium, developed by HHS competitive sourcing and human resources, was well received and featured a number of guest speakers discussing pertinent staff issues.
R	G	<p>Improved Financial Performance</p> <p>To ensure financial systems produce accurate and timely information to support operating, budget, and policy decisions by improving timeliness, enhancing usefulness, and ensuring reliability by obtaining and sustaining clean audit opinions.</p>	<ul style="list-style-type: none"> Fully implemented the Unified Financial Management System (UFMS) at the CDC and the FDA in 2005, and implementation was begun in 2006 for the Program Support Center, which provides financial services to HHS components. Delivered federally mandated reports (i.e., five principal financial statements) via UFMS for Program Support Center using Oracle’s reporting tool, Discoverer. Completed Indian Health Service specific requirements for UFMS. Completed UFMS interface to E-Travel for FDA and CDC. Added new Grants functionality to UFMS for FDA and CDC. Consolidated infrastructure platform for UFMS and NBS at National Institutes of Health Center for Information Technology. Met quarterly financial statement reporting requirements. Implemented revised Office of Management and Budget Circular A-123, <i>Management’s Responsibility for Internal Controls</i>: strengthened controls. Presented the Statement of Social Insurance as a principal financial statement for the first time.

Status	Progress	Initiative	Fiscal Year 2006 Accomplishments
R	Y	<p>Expanded Electronic Government</p> <p>To leverage the use of information technology to significantly improve the government's ability to serve citizens, reduce the costs of delivering those services, and ensure electronic transactions are private and secure.</p>	<ul style="list-style-type: none"> Executed all required e-Gov/Line of Business Memoranda of Understanding and transferred funds. Completed and issued Capital Planning and Investment Control and Earned Value Management Policy and Procedures documents and Governance Charters. Developed draft standard Work Breakdown Structure template. More than 90 percent of major information technology investments were within 10 percent of cost, schedule, and performance objectives. Conducted review of Independent Baseline Validations, Corrective Action Plans, and Re-Baseline Requests of Major, Tier-One investments. Aligned the HHS components' Federal Information Security Management Act Plan of Action and Milestones process with Secure One HHS program and reported alignment metrics. Fully certified and accredited all Department systems reported via the Federal Information Security Management Act. Maintained tested contingency plans for all Federal Information Security Management Act systems. Finalized security configuration policy and ensured all applicable systems were maintained in accordance with this policy. Conducted and posted Privacy Impact Assessments for at least 90 percent of applicable systems. Developed and published system of records notices for at least 90 percent of applicable systems.
Y	G	<p>Budget and Performance Integration</p> <p>To use performance information to inform funding and management decisions and to improve program performance and create a more effective and efficient Federal government.</p>	<ul style="list-style-type: none"> Submitted integrated performance budgets to Congress. Completed and submitted performance sections for the FY 2005 Performance and Accountability Report. Increased the percent of Program Assessment Rating Tool (PART) programs with an efficiency measure from 50 percent to over 90 percent. Demonstrated that four programs can calculate marginal cost, using HHS' marginal cost methodology. Identified cost savings associated with PART program efficiency measures. Prepared Results Not Demonstrated PART programs for reassessment. Developed and implemented PART follow-up actions in PARTWeb.
R	G	<p>Eliminating Improper Payments</p> <p>To eliminate improper payments in government programs.</p>	<ul style="list-style-type: none"> Reduced the Medicare FY 2005 paid claims error rate of 5.2 percent, or \$12.1 billion, in gross improper payments to 4.4 percent, or \$ 10.8 billion, in FY 2006. Reported a Head Start improper payment rate of 3.1 percent or \$210 million. Finalized the Foster Care FY 2005 error rate. Reduced the FY 2004 error rate of 10.33 percent, or \$186 million to 8.6 percent, or \$152 million in FY 2005. Reported an FY 2006 error rate of 7.86 percent of \$134 million. Ensured states participating in the Payment Error Rate Measurement pilot determined Medicaid payment error rates. Also, HHS finalized a plan for estimating an improper payment error rate in the Medicaid program. Ensured states participating in the Payment Error Rate Measurement pilot determined SCHIP payment error rates. Also, HHS finalized a plan for estimating an improper payment error rate in SCHIP. Developed a plan to measure improper payments in TANF. Initiated the identification of a methodology for estimating improper payments for various Child Care activities. Engaged in recovery auditing activities in which an insignificant amount of improper payments was identified. Completed FY 2006 program risk assessments.
Y	G	<p>Broadening Health Insurance Coverage through State Initiatives</p> <p>To increase the number of individuals with access to affordable health insurance by increasing state flexibility and encouraging public-private partnerships to provide health insurance to low-income individuals while ensuring prudent management of Federal Medicaid and State Children's Health Insurance Program funds.</p>	<ul style="list-style-type: none"> Estimated that CMS Health Insurance Flexibility and Accountability (HIFA) demonstrations, if fully implemented, could result in as many as 954,920 new enrollees. Approved the CMS Arkansas HIFA demonstration. Awarded a contract to the University of Minnesota and its partners to complete an evaluation of the relationship between the demonstrations and the number and rate of uninsured in states that implement the HIFA demonstrations.
G	G	<p>Faith-Based and Community Initiative</p> <p>To create an environment within the Department that welcomes the participation of faith-based and</p>	<ul style="list-style-type: none"> Contributed to a report released by the White House Office of Faith-Based and Community Initiatives on grant awards made to faith-based organizations in FY 2005. The report noted that HHS awarded \$780 million through 884 grants to faith-based organizations in FY 2005. This was a 64 percent increase in the amount of funding awarded to faith-based organizations from 2002 and an 83 percent increase in the number of grants awarded over the same period.

Status	Progress	Initiative	Fiscal Year 2006 Accomplishments
		community organizations as valued and essential partners in helping Americans in need.	<ul style="list-style-type: none"> Participated in regional conferences on the Faith-Based and Community Initiative and has maintained web resources and information to help organizations increase their capacity and improve grant applications. Worked with other Federal agencies to develop guidance for state and local administrators of Federal funds on the implementation of Charitable Choice and Equal Treatment regulations. This effort will level the playing field for grassroots organizations at all levels of government. Implemented pilot programs, including Compassion Capital Fund, Mentoring Children of Prisoners, and Access to Recovery Program. HHS has started the evaluation process on HHS pilot programs and results are being demonstrated and documented by these programs.
Y	G	Real Property Asset Management To improve asset management and right-size inventory.	<ul style="list-style-type: none"> Implemented an Office of Management and Budget-approved Real Property Asset Management Plan. Implemented the HHS Automated Real Property Inventory System consistent with Federal Real Property Council standards, provided required data at the constructed asset level to the government-wide database. Implemented Council-required (facility cost, utilization, condition and mission dependency) and HHS-specific performance measures (construction) and advised use data analyzed in daily real property management decision-making. All projects meet scope, budget, and schedule as stated on the HHS Facility Project Approval Agreement. Published the HHS Real Property Human Capital Plan and distributed to each HHS component for implementation.
G	G	Research and Development Investment Criteria To develop objective investment criteria for Federal research and development projects that will better focus the government's research programs on performance.	<ul style="list-style-type: none"> Used research and development criteria to develop replacement Government Performance and Results Act performance goals. Achieved a PART rating of "effective" for the NIH Intramural Research Program and for the NIH Building & Facilities Program. Continued to incorporate research and development investment criteria of quality, relevance and performance into the peer-review process.

FY 2007 Action Plan

For the coming year, the Department established the following goals to further its progress relating to the President's Management Agenda initiatives:

Strategic Management of Human Capital

- Fully implement the Performance Management Appraisal Program throughout the Department.
- Fully close the competency gap in human resources management.
- Identify key Departmental focus areas resulting from the Federal Human Capital Survey and develop action plans to address these areas.

Competitive Sourcing

- Utilize a combination of standard studies, streamlined studies, and restructuring efforts to review an estimated 1,000 commercial positions in FY 2007.
- Encourage increased private sector participation.
- Review completed studies and take action as necessary, in order to determine competitive sourcing study requirements are met.
- Run consistent competitions to encourage increased private sector participation.
- Review competitions performed to determine that performance standards are met and take necessary corrective actions.

Improved Financial Performance

- Develop a comprehensive “Green Plan” for meeting the President’s Management Agenda standards for getting to green.
- Complete FY 2007 assessments of internal controls as required under OMB Circular A-123, Appendix A.
- Improve internal controls over financial reporting by correcting deficiencies identified in OMB Circular A-123, Appendix A assessments.
- Fully implement the Unified Financial Management System at PSC in October 2006, implement core financial management systems at IHS, and implement SUNFLOWER, PRISM and iProcurement systems at NIH.

Expanded Electronic Government

- Demonstrate use of Earned Value Management variance data in Information Technology (IT) management decision processes, including capital planning and budgeting, and integrate IT portfolio and earned value management tools.
- Formalize the process for the Capital Planning and Investment Control/budget formulation integration.
- Secure all systems through the proper application of the certification and accreditation methodology.
- Retain a tested IT contingency plan for each appropriate system.
- Ensure that at least 98 percent of employees and contractors receive general security awareness training.
- Ensure that at least 90 percent of employees and contractors with significant security responsibilities receive appropriate role-based training.
- Ensure that at least 90 percent of applicable systems have a Privacy Impact Assessment that is publicly posted.
- Ensure that at least 90 percent of systems with personally identifiable information have appropriate systems of records developed and published notices.

Budget and Performance Integration

- Meet the green standard for documenting that senior management meetings use performance and financial information to improve program performance and efficiency.
- Decrease the percentage of PART programs rated Results Not Demonstrated.
- Ensure all completed PART programs have an efficiency measure with baseline data and targets.

Eliminating Improper Payments

- Identify and implement appropriate corrective action to further reduce the FY 2006 reported payment errors rates for Medicare, Foster Care and Head Start.
- Implement methodology to estimate error rates for Medicaid, SCHIP, and TANF.
- Continue to develop a methodology for estimating payment errors in Child Care.
- Identify vulnerabilities that continue to improper payments in the Medicare Advantage and Medicare Prescription Drug Benefit programs.
- Continue HHS recovery auditing activities.

Broadening Health Insurance Coverage

- Implement the evaluation to determine the relationship between the Health Information Flexibility and Accountability (HIFA) demonstrations and the number and rate of uninsured in states that implement the HIFA demonstrations.
- Continue to work with states to expand coverage and provide state flexibility through available waivers under the Medicaid Plan.

Faith-Based and Community Initiative

- Report on the participation of faith-based and community organizations in select grant programs for FY 2006. This report will include data on the amount granted to organizations and an analysis of the applicants to select grant programs.
- Implement opportunities for faith-based and community organizations to access federal, state, and local funds.
- Continue to work with Office of General Counsel and operating components to provide regulatory training for staff throughout the Department, new grantees, and outside organizations.
- Continue to explore opportunities to implement individual choice in select HHS programs.
- Continue evaluation of pilot programs to showcase results achieved by grantees in pilot programs.

Real Property Asset Management

- Develop workplace competencies by delivering to at least 60 staff a facilities management course to better implement Executive Order 13327 and Departmental and component plans and policies, to result in cost avoidance savings, better recruitment, retention, and succession plans.
- Identify and initiate disposal of excess owned and leased underutilized and non-mission critical property.
- Implement a strategy to reduce annual operating costs by 5 percent by FY 2011 (\$10-\$12 million cost avoidance savings per year) by linking real property operating costs to the budget decision-making process for Real Property Asset Management.
- Implement a strategy to improve the average Condition Index of the Department’s portfolio to 90 by FY 2016. The ultimate goal is for all facilities to achieve a minimum Condition Index of 90 to improve the Departmental staff health and productivity.
- Transmit a complete and accurate profile of the Department’s Automated Real Property Inventory System that includes disposal activity data elements to the Government-wide Federal Real Property Profile.

Research and Development Investment Criteria

- Peer-review all NIH grants competitively based on quality, relevance and performance.
- Develop replacement Government Performance and Results Act goals for the FY 2009 Congressional Justification using the R&D investment criteria.

Analysis of Financial Statements and Stewardship Information

For the eighth consecutive year, HHS received an unqualified or “clean” audit opinion on its financial statements. These statements have been prepared from the Department’s financial records using an accrual basis in conformity with accounting principles generally accepted in the United States and audited by the independent accounting firm of PricewaterhouseCoopers, LLP. Preparation and audit of these statements are required by the Chief Financial Officers (CFO) Act of 1990 and is part of the Department’s goal to improve financial management and to produce accurate and reliable information that is useful in assessing performance and allocating resources.

Financial Condition

The Department’s audited principal financial statements and notes are presented in Section III of this report. The following chart summarizes assets, liabilities, net position, and net cost of operations for FY 2005 and FY 2006 and increases/decreases from FY 2005.

FINANCIAL CONDITION (Millions)	FY 2006	FY 2005	Increase (Decrease)	% CHANGE
Total Assets	\$ 513,909	\$ 428,487	\$ 85,422	19.9%
Total Liabilities	\$ 78,425	\$ 70,959	\$ 7,466	10.5%
Net Position	\$ 435,484	\$ 357,528	\$ 77,956	21.8%
Net Cost of Operations	\$ 623,937	\$ 581,320	\$ 42,617	7.3%