

**SECTION II:**

**OVERVIEW OF FINANCIAL MANAGEMENT:  
ISSUES AND ACCOUNTABILITY**

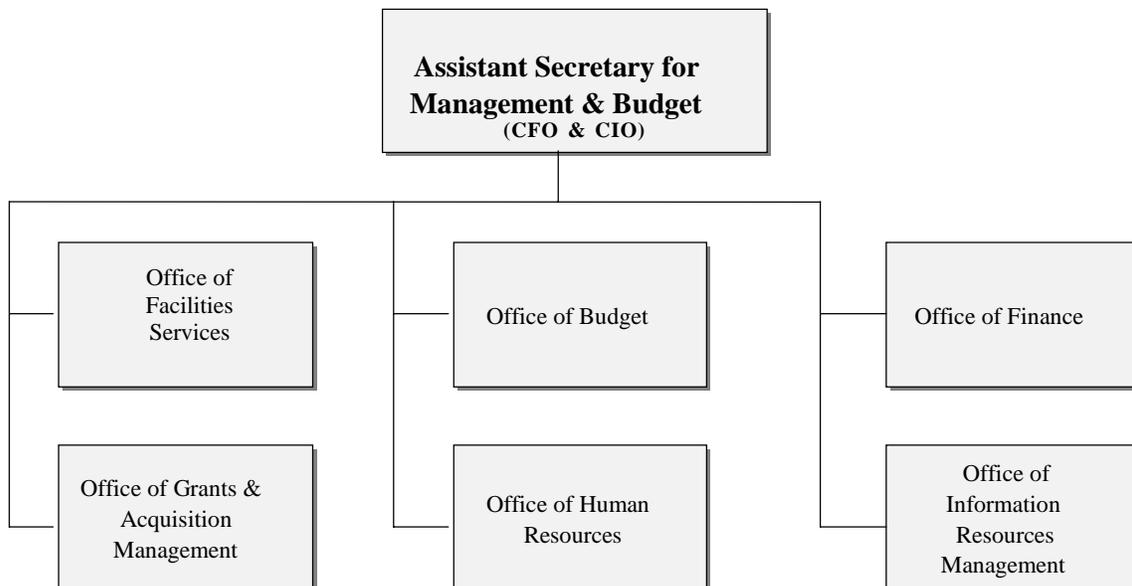


## Overview of Financial Management: Issues and Accountability

### FINANCIAL MANAGEMENT RESPONSIBILITY AND ORGANIZATION

Given that HHS had net outlays of \$350.6 billion in FY 1998 (21.2% of the Federal budget), we have an enormous responsibility for financial accountability. HHS is a key player in the Governmentwide financial statement audit, which was prepared for the first time for FY 1997. In 1993, the Administration first promoted the idea of a Governmentwide financial statement audit in the Vice President's National Performance Review accompanying report on "Improving Financial Management" (Recommendation FM 10.1). The Administration also strongly supported the Government Management Reform Act (GMRA) of 1994, which amended the CFO Act of 1990, and expanded financial statement audit coverage to include Departmentwide and Governmentwide audited financial statements. This Accountability

Report demonstrates our involvement in, and our dedication to, the Administration's commitment to strong financial management. All HHS managers with responsibility for Federal resources are, to some degree, financial managers. However, official responsibility for financial management matters is delegated from the Secretary to the Senate-confirmed CFO who also holds the titles of Assistant Secretary for Management and Budget (ASMB) and Chief Information Officer (CIO). The Offices of the ASMB are illustrated in the accompanying organization chart. Other ASMB responsibilities include the functions of budget, human resources, grants, acquisitions, and facilities services. Related financial management goals are included in this section.



The Office of Finance, which prepares this Accountability Report, is headed by the Deputy Assistant Secretary for Finance who is also the Deputy Chief Financial Officer (DCFO). This office is responsible for implementation of an ever-increasing volume of Federal financial legislation and initiatives within an environment of evolving technologies, limited staffing, and cost containment. The list of legislation related to financial management includes:

- Prompt Pay Act of 1982
- Federal Managers Financial Integrity Act (FMFIA) of 1982
- Chief Financial Officers (CFOs) Act of 1990
- Cash Management Improvement Act (CMIA) of 1990
- Government Performance and Results Act (GPRA) of 1993
- Government Management Reform Act (GMRA) of 1994
- Federal Financial Management Improvement Act (FFMIA) of 1996

- Debt Collection Improvement Act (DCIA) of 1996
- Information Technology Management Reform Act (ITMRA) of 1996
- Travel and Transportation Reform Act of 1998
- Federal Activities Inventory Reform Act (FAIRA) of 1998

The Office of Finance has responsibility (in partnership with our OPDIVs) for many new and ongoing initiatives such as: developing and implementing accounting and financial policies, systems and reports; resolving financial statement audit findings; implementing financial and program performance measurement; prompt payment; budget execution; improving reliability of financial information; policy development and coordination for debt collection; implementing all financial management legislation; and integrating all of the financial management initiatives. These initiatives are coordinated with the various OPDIVs of HHS through the policy-level HHS CFO Council and the operational-level Financial Policies Group (FPG).

## **FINANCIAL MANAGEMENT PERFORMANCE : HIGHLIGHTS OF FY 1998 ACCOMPLISHMENTS AND FINANCIAL MANAGEMENT STATUS**

In FY 1998, financial managers from across HHS developed a more performance-oriented plan for improving the Department's financial management. This new plan resulted in a reformatted *CFO Financial Management Status Report and Five Year Plan (the CFO Five Year Plan)*, showing performance targets for each of the next five years, as well as baseline information for each performance measure (where available). HHS developed two broad strategic goals for financial management that will help build the Department's financial management infrastructure and carry out its mission. All of the report's strategies, activities,

and performance measures support one or the other of these two goals. The FY 1998 *CFO Five Year Plan* is organized by these two broad strategic goals, which are supported by eight comprehensive strategies and approximately 100 financial performance measures and targets. The two strategic goals and eight corresponding strategies are presented below, with some key performance measures. FY 1998 served as the baseline year for most financial management measures, though in a few instances FY 1998 actual results could be compared to goals.

### **Financial Management Strategic Goals**

- Goal I: Decision Makers Have Timely, Accurate, and Useful Program and Financial Information**
- Goal II: All Resources are Used Appropriately, Efficiently, and Effectively**

### **A Human Resources Survey of HHS CFO Offices**

Since our employees are our key assets, in FY 1998 we undertook a major initiative to determine the training, recruitment, and retention issues that affect our ability to attract and retain a highly skilled, motivated financial management workforce. We surveyed all of the HHS CFOs for their comprehensive perspective, and in FY 1999 we will be responding to our findings. The survey has revealed that we have serious problems in the areas of training, recruitment, and retention. On the basis of a workforce analysis that was done at the same time, some components appear to have problems with workforce/succession planning. In the area of training, the survey indicated a need for professional financial/accounting training. In the areas of recruitment and retention, the needs seem to vary by OPDIV.

### **Quality of Work Life**

Because employees are our key asset, the Secretary launched a Quality of Work Life (QWL) Initiative, with the stated goals of improving employee satisfaction, enhancing workplace learning, and better managing change and transition. The HHS Union-Management Partnership Council, which serves as the steering committee for the effort, issued the first Annual report on the initiative in August 1998.

Among the HHS-wide accomplishments for the first year were the establishment of a model Work/Life Center, elimination of sign-in sheets, provision of Internet access to all employees, establishment of a Work/Life site on the HHS Home Page, and the successful avoidance of all but a handful of involuntary separations. (Only the Indian Health Service was affected by involuntary separations as a result of turning over service provision to the tribes under the Indian Self-Determination Act.) In addition, since most QWL improvement activities took place at the Operating Division (OPDIV) level accomplishments were reported there as well. These ranged from the institution of maxi-flex schedules at the Food and Drug Administration, to starting a program to train all supervisors in new leadership skills over a three year period in the Indian Health Service, to tripling the investment in individual development and a full-scale problem-solving effort involving the entire staff in one of our smallest OPDIVs, the Agency for Health Care Policy and Research. And the efforts are paying off – the results of our annual employee survey showed a slight, but statistically significant, improvement in employee satisfaction from 1997 to 1998.

**Financial Management Strategic Goal I: Decision Makers Have Timely, Accurate, and Useful Program and Financial Information**

- **Obtaining an Unqualified Opinion on Departmentwide Financial Statements**

**Measure:** HHS receives clean audit opinion

**FY 1998 Target:** Qualified Opinion (A clean opinion is the FY 1999 goal).

**FY 1998 Actual:** Qualified Opinion

- **Improving, Enhancing, and Integrating Financial Management**

**Measure:** Number of mission critical systems/applications that are Y2K compliant.

**FY 1998 Baseline/Actual:** 43 of 87 as of 9/30/98

- **Developing and Disseminating Policy Guidance and Related Information Impacting Financial Management**

**Measure:** Number of Departmental Accounting Manual Chapters posted on the Intranet.

**FY 1998 Baseline/Actual:** 13 of 52

- **Improving Budget Formulation**

**Measure:** Improve timeliness, reliability, and usefulness of HHS Office of Budget monitoring and implementation services, as assessed by OPDIV and STAFFDIV focus groups in annual meeting.

**FY 1998 Baseline:** Under development

**Financial Management Strategic Goal II:  
All Resources are Used Appropriately,  
Efficiently, and Effectively**

- **Strengthening Our Business Practices**

**Measure:** Percent of Departmentwide vendor payments made on time.

**FY 1997 Baseline:** 89.7%

**FY 1998 Target:** 95%

**FY 1998 Actual:** 91% (Source: HHS FY 1998 Prompt Pay Report)

*Comment: Systems problems at NIH which continued into the first part of the year brought the Departmentwide average down. We expect the FY 1999 rate to be higher.*

- **Improving Physical Asset Management**

**Measure:** Number of OPDIVs with established IT architecture and investment analysis/capital planning processes.

**FY 1998 Baseline/Actual:** 5 (AoA, ACF, CDC, NIH, & SAMHSA)

- **Strengthening Internal Controls**

**Measure:** Number of Department-level FMFIA material weaknesses pending at year end.

**FY 1997 Baseline:** 9

**FY 1998 Actual:** 6

**Financial Management Strategic Goal II:  
All Resources are Used Appropriately,  
Efficiently, and Effectively (continued)**

**Strengthening Internal Controls (continued)**

**Measure:** Amount of Departmentwide outlay variance compared with outlay estimate.

**FY 1997 Baseline:** 1.5%

**FY 1998 Target:** +/- 1.0%

**FY 1998 Actual:** -1.6%

*Comment: Variance was largely due to lower outlays in HI, SMI & TANF programs.*

**Measure:** Number of Department level EDP material weaknesses identified in financial statement audit.

**FY 1997 Baseline:** 1

**FY 1998 Target:** 0

**FY 1998 Actual:** 1

*Comment: EDP resources were dedicated to Y2K compliance.*

**Measure:** Percent of improper Medicare Fee-for-Service payments.

**FY 1997 Actual:** 11%

**FY 1998 Target:** 9%

**FY 1998 Actual:** 7.1%

- **Developing and Retaining a Highly Skilled, Strongly Motivated Financial Management Staff**

**Measure:** Number of in-house training hours offered to Department financial management staff by HHS Office of Finance times number of attendees at HHS annual training session.

**FY 1998 Baseline/Actual:** 480

More financial management performance measures, and a brief description of their status or actual performance as of the end of FY 1998, are presented in Section VI of this report.

### **EDP Controls**

HHS recognizes an increase in the need to protect the security of information technology systems and the data contained therein as it continues to adopt and employ new technological solutions to conduct business, and as the widespread transmission of information over networks increases. The need to protect against unwarranted interruption of operations, to assure the integrity and privacy of automated information, and to protect against the potential for fraud and abuse is vital. To deal with increasing security and privacy needs, HHS in FY 1998 revised Departmental security policies and guidance to keep pace with new developments (e.g., Internet use) with particular emphasis on the need to implement safeguards to detect fraud attempts early, as well as, to prevent the abuse of sensitive HHS information and systems.

In addition, in FY 1998, HHS' major OPDIVs were required to implement corrective action plans to address each specific material and reportable "Electronic Data Controls" weakness identified as a result of the Department's FY 1997 audits and reviews. As a result, HHS' OPDIVs developed policies and implemented procedures and controls to:

- Prevent the use of easily guessed passwords,
- Assure that passwords are changed frequently,
- Limit, control, and monitor all access to sensitive data bases,
- Assure that system privileges and authorizations are tightly controlled and granted on a "need-to-have" basis, i.e., only to employees whose duties require such capabilities, and
- Assure that user access privileges and authorizations are revoked quickly when the need no longer exists.

### **Travel**

During FY 1998, HHS selected a new VISA credit card vendor, U.S. Bank, to replace American Express as of November 30, 1998 for use during employees' official travel. HHS began taking steps to prepare for implementation of the new card in FY 1998, and implementation continues into FY 1999. Also during FY 1999, HHS will be working to implement the Travel and Transportation Reform Act of 1998.

The HHS Cash and In Kind Travel Reimbursement Report for the period ending September 30, 1998 cited 2,283 trips and accepted in-kind amounts of \$2.9 million. The bulk of the trips and dollar amounts are attributed to NIH, FDA, and CDC. The report is filed with the U.S. Office of Government Ethics.

### **Debt Collection**

FY 1998 was a transition year for improving debt collection efforts as HHS and Treasury maintained an on-going negotiation to agree on how best to manage cross-servicing of debts owed to HHS. PSC was being considered as a debt collection center, and alternatively as a limited cross-servicing center. Until a final determination was made (in the Fall of 1998), only a minimal amount of debt was sent to Treasury. According to the agreement and terms of the waiver that was not received until FY 1999, we will work with Treasury to develop appropriate performance measures. Once these measures/targets are developed in FY 1999, we will begin to report on actual performance in the Accountability Report in FY 2000.

## THE PROGRAM SUPPORT CENTER'S (PSC'S) FINANCIAL MANAGEMENT SERVICE



The PSC's Financial Management Service (FMS) supports the financial operations of several HHS OPDIVs and other departments through the provision of payment management services for grant and program activities; accounting and fiscal services; debt management services; and the review, negotiation, and approval of rates. These rates include indirect cost rates, research patient care rates, and fringe benefit rates. The FMS also provides specialized Automated Data Processing systems development in the area of workforce management.

Significant FY 1998 accomplishments include:

- Completed 2,101 rate negotiations resulting in cost avoidance of \$436 million and program disallowances of \$53 million.
- Conducted a recent customer satisfaction survey which reported 90% "fully" or "very satisfied" with Division of Cost Allocation service.
- Processed 500,000 commercial payments with an on-time rate of 97.4%.
- Program for administrative offset.
- Processed 261,653 grant payments totaling \$165 billion, virtually all of which were electronic funds transfer.
- Completed 134 audit resolutions in support of the Single Audit Act.
- Received designation as one of only two civilian Federal grants Payment Systems for the entire Federal Government.
- Received an independent auditor's (SAS 70 Review) report on the control structure policies and procedures of the Payment Management System (PMS), which concluded (for the third consecutive year) that the controls were suitably designed to achieve the specified control objectives defined by management.