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AGENCY FINANCIAL REPORT



DEPARTMENT OF HEALTH
AND HUMAN SERVICES

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The Department of Health and Human Services (HHS) promotes effective and responsible financial management by producing award-winning financial reports, aligning with its strategic plan. For 6 consecutive years HHS has been recognized by the Association of Government Accountants' (AGA) Certificate of Excellence in Accountability Reporting (CEAR) Program for the merit of its Agency Financial Report. The CEAR Program was established in collaboration with the Chief Financial Officers Council and Office of Management and Budget to further performance and accountability reporting. Through the program, agencies improve accountability by streamlining reporting and enhancing the effectiveness of reports to clearly display what an agency accomplished and the challenges that remain.

The CEAR Program also recognizes agencies as Best-In-Class for notable or creative reporting practices that pique the public's interest. In May 2019, AGA presented HHS with a Best-In-Class Award for our Fiscal Year 2018 Agency Head Message.



TABLE OF CONTENTS

| | |
|--|------------|
| <i>Message from the Secretary</i> | 1 |
| <i>About the Agency Financial Report</i> | 4 |
| SECTION 1: MANAGEMENT’S DISCUSSION & ANALYSIS | 5 |
| <i>About the Department of Health and Human Services</i> | 7 |
| <i>Performance Goals, Objectives, and Results</i> | 15 |
| <i>Looking Ahead to 2020</i> | 24 |
| <i>Systems, Legal Compliance, and Internal Control</i> | 27 |
| <i>Management Assurances</i> | 39 |
| <i>Financial Summary and Highlights</i> | 43 |
| SECTION 2: FINANCIAL SECTION | 53 |
| <i>Message from the Principal Deputy Assistant Secretary</i> | 55 |
| <i>Report of the Independent Auditors</i> | 56 |
| <i>Department’s Response to the Report of the Independent Auditors</i> | 76 |
| <i>Principal Financial Statements</i> | 77 |
| <i>Notes to the Principal Financial Statements</i> | 86 |
| <i>Required Supplementary Stewardship Information</i> | 137 |
| <i>Required Supplementary Information</i> | 143 |
| SECTION 3: OTHER INFORMATION | 163 |
| <i>Other Financial Information</i> | 165 |
| <i>Reduce the Footprint</i> | 167 |
| <i>Summary of Financial Statement Audit and Management Assurances</i> | 168 |
| <i>Civil Monetary Penalty Adjustment for Inflation</i> | 170 |
| <i>Payment Integrity Report</i> | 186 |
| <i>FY 2019 Top Management and Performance Challenges Identified By the Office of Inspector General</i> | 246 |
| <i>Department’s Response to the Office of Inspector General</i> | 297 |
| APPENDICES | 299 |
| <i>Appendix A: Acronyms</i> | 301 |
| <i>Appendix B: Connect with HHS</i> | 304 |

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Message from the Secretary

I am pleased to present the Fiscal Year (FY) 2019 Agency Financial Report for the United States Department of Health and Human Services (HHS). This report contains our financial and performance highlights for the FY ended September 30, 2019.

Each day, the men and women of HHS proudly execute our mission to enhance and protect the health and well-being of all Americans. Through more than 300 programs across our Operating Divisions, HHS facilitates effective health care and human services and fosters advances in science and public health. With such a vital mission, it is important to work toward a clearly established vision: a future state where our health care, public health, human services, and science programs work better for the Americans we serve. We identified three particular pillars to support our efforts: facilitating patient-centered markets in health care, protecting life and lives, and promoting independence for all Americans.



Alex M. Azar II

These pillars help us execute the Department’s five strategic goals, represented in our 2018 – 2022 Strategic Plan. This year’s accomplishments and priorities, highlighted here and explored further in the “Management’s Discussion and Analysis” section of this report, fit within those pillars.

Facilitating Patient-centered Markets in Health Care

Strategic Goal 1: Reform, Strengthen, and Modernize the Nation’s Healthcare System

In 2019, HHS took significant steps to deliver the kind of health care system this Administration has envisioned: a personalized, patient-centric, affordable system that puts you, the patient, in control and treats you like a person, not a number. To deliver on this vision, the Department aims to facilitate patient-centered health care markets.

Work on this front included the proposal of an interoperability rule to give patients secure access to their electronic health information at no cost. In addition, the Department took steps toward providing patients with clear, accessible information about the price of their care, and requiring hospitals to make their real prices known to patients. Moreover, HHS made progress toward increasing competition and strengthening negotiations in prescription drug markets, leading to a projected drop in Medicare Part D average basic premiums for the third straight year.

The Centers for Medicare & Medicaid Services also launched an initiative called Primary Cares, which will transform payment models for primary care providers that serve millions of Medicare patients and free the providers to spend more time with their patients. These efforts will lead to lower costs for both patients as well as the federal health care programs, allowing us to better steward taxpayers’ resources.

Protecting Life and Lives

Strategic Goal 2: Protect the Health of Americans Where They Live, Learn, Work, and Play

In 2019, the Department made significant strides on key health challenges affecting the lives of many Americans. The Administration’s continued focus on combating America’s crisis of opioid addiction and overdose through its 5-Point Opioid Strategy is beginning to show results. Provisional counts of drug overdose deaths showed a decline from 2017 to 2018, the first decline in more than two decades.



HHS has also been raising the alarm and educating the medical and educational communities about increasing tobacco use among youth, driven mainly by e-cigarettes. The Youth Tobacco Prevention Plan is a series of actions to stop youth use of tobacco products, especially e-cigarettes, with special focus on three key areas: preventing youth access to tobacco products; curbing marketing of tobacco products aimed at youth; and educating teens about the dangers of using any tobacco product, including e-cigarettes, as well as educating retailers about their key role in protecting youth. The Administration is making it clear that we will not stand idly by as these products become an on-ramp to combustible cigarettes or nicotine addiction for a generation of youth. Similarly, we are warning of the serious dangers the increasing use of marijuana poses for pregnant women and youth. The Surgeon General's advisory cautions the nation about marijuana's dangerous effects, and our targeted communications campaign is ensuring communities have accurate information about marijuana's risks.

Strategic Goal 4: Foster Sound, Sustained Advances in the Sciences

This is an exciting time for biomedical innovation, and HHS is striving to foster medical advancement through our health policies and direct support of biomedical research. Innovation is keenly needed in the area of kidney care. A new HHS initiative, Advancing Kidney Health in America, aims to improve the quality of life and spur innovation to create alternative options available to kidney patients. In FY 2019, HHS awarded multiple winners in the ongoing KidneyX Redesign Dialysis prize competition to accelerate the development of innovative medical products and approaches that can significantly improve how we prevent, diagnose, and treat kidney diseases.

 **Promoting Independence for All Americans**

Strategic Goal 3: Strengthen the Economic and Social Well-Being of Americans Across the Lifespan

The HHS mission goes well beyond supporting Americans' health. Our programs also protect the economic and social well-being of Americans throughout life's duration.

We play a vital role in providing human services to those who are especially vulnerable. In 2019, HHS dealt with significant pressure on its program to care for unaccompanied alien children who arrive at the southern border. By the end of FY 2019, we will have cared for the largest number of unaccompanied children in the program's history. Delivering this care effectively required closely coordinated logistical and financial management, and, with help from Congress, we are now more ready than ever to handle future surges. In partnership with our grantees, we can provide food, shelter, medical services, and education to unaccompanied children, while working to place those children with a safe sponsor as soon as possible.

HHS has taken deliberate steps to protect Americans' fundamental rights, as well. HHS is committed to promoting the rights of conscience and religious liberty in healthcare and human services. The Department issued a new conscience rule, which will help protect individuals' and health care entities' rights of conscience in HHS-funded programs.

Stewardship

Strategic Goal 5: Promote Effective and Efficient Management and Stewardship

HHS is dedicated to ensuring taxpayer resources are spent on effective programs that deliver results efficiently. As the single largest cabinet agency by spending, representing more than one-third of the total federal budget, HHS maintained its reputation for excellence in budgetary management and enhanced its financial practices.

HHS is committed to sound stewardship and ensuring the transparency and accountability of the resources Congress and the taxpayers entrust to us. For the 21st consecutive year, we obtained an unmodified (clean) opinion on the Consolidated Balance Sheets, Statements of Net Cost, Statement of Changes in Net Position, and the Combined

Statement of Budgetary Resources. The auditors disclaimed an opinion on the sustainability financial statements, which encompass the Statement of Social Insurance and the Statement of Changes in Social Insurance Amounts. This disclaimer is primarily due to the uncertainties surrounding provisions of the *Patient Protection and Affordable Care Act* and the impact of potential changes in law that would impact underlying assumptions of financial projections.

These statements were developed based upon current law using information from the 2019 Medicare Trustees Report, as required by standards issued by the Federal Accounting Standards Advisory Board. The “Financial Section” of this report includes more detailed information.

We also evaluated our internal control and financial management systems, as required by the *Federal Managers’ Financial Integrity Act of 1982* and the Office of Management and Budget’s Circular A-123, *Management’s Responsibility for Enterprise Risk Management and Internal Control*. We identified material noncompliances with: the *Improper Payments Information Act* (IPIA), with two instances related to Error Rate Measurement; the *Social Security Act* related to the Medicare appeals process; and the Federal Acquisition Regulation related to contracting for services. The “Management’s Discussion and Analysis” section of this report includes further details. Based on our internal assessments, I can provide reasonable assurance that the financial and performance information contained in this report is complete, reliable, and accurate.

Future Challenges and Priorities

Though we are proud of our accomplishments in 2019, there are always opportunities for improvement. We worked closely with the Office of Inspector General to gain its perspective about our most significant management and performance challenges, which are presented in the “Other Information” section under *FY 2019 Top Management and Performance Challenges Identified by the Office of Inspector General*. We are committed to addressing these challenges, including delivering quality services and benefits, exercising sound fiscal management, safeguarding public health and safety, and enhancing cybersecurity.

Conclusion

Everyone at HHS is proud to serve our fellow Americans. From articulating a strategic vision and executing on that vision through our programs, to reviewing our performance and financial management each year, each HHS employee’s work is essential to our mission of improving the health and well-being of every American.

This report is a clear statement of the progress we have made and the opportunities we have to improve our programs to work better for the people we serve. Each year brings new challenges, but I am confident that the men and women of HHS will continue to meet them in the coming years.

/Alex M. Azar II/

Alex M. Azar II
Secretary
November 13, 2019





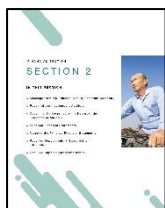
About the Agency Financial Report

The HHS FY 2019 Agency Financial Report (AFR) provides fiscal and summary performance results that enable the President, Congress, and the American people to assess our accomplishments for the reporting period October 1, 2018, through September 30, 2019. This report provides an overview of our programs, accomplishments, challenges, and management's accountability for the resources entrusted to us. We prepared this report in accordance with the requirements of Office of Management and Budget Circular A-136, *Financial Reporting Requirements*. This document consists of three primary sections and supplemental appendices.



Section 1: Management's Discussion and Analysis

This section provides an overview of HHS's mission, activities, organizational structure, and program performance. It also includes an overview of the systems environment; a summary of the Department's financial results and compliance with laws and regulations; and provides management's assurances on HHS's internal control.



Section 2: Financial Section

This section begins with a message from the Principal Deputy Assistant Secretary for Financial Resources. It continues with the independent auditor's report, management's response to the audit report, financial statements with accompanying notes, and required supplementary information, including the Combining Statement of Budgetary Resources, Deferred Maintenance and Repairs, and Social Insurance information.



Section 3: Other Information

This section contains additional financial information and real property footprint data. It also includes a summary of the financial statement audit and management assurances, civil monetary penalties, and a detailed payment integrity report. It concludes with the Inspector General's assessment of the Department's management and performance challenges.



Appendices

This section includes information that supports the sections of the AFR. This includes a glossary of acronyms used throughout the report and resources for connecting with the Department.

The Department produces an AFR and *Annual Performance Plan and Report*. Additional reports that will be available on [our website](#), in conjunction with the release of the *President's Budget* in February 2020 include:

1. FY 2021 *Annual Performance Plan and Report*
2. FY 2021 *Congressional Budget Justification*