

STATEMENT BEFORE THE
HOUSE LABOR, HEALTH AND HUMAN SERVICES, EDUCATION
APPROPRIATIONS SUBCOMMITTEE

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Good Morning, Chairman Regula, Congressman Obey, and members of the Subcommittee. I am honored to appear before you today to discuss the President's FY 2002 budget for the Department of Health and Human Services.

Several weeks ago, I appeared before your colleagues on the House Budget Committee to discuss the President's FY 2002 budget framework. Since that time, much has been written and said about selected portions of our budget, and some unfair and inaccurate charges have been leveled against it. This is why I am so pleased to have the opportunity to appear here today to discuss our detailed budget proposal. I am confident that a review of the full details of our budget B not selected pieces of it B will demonstrate to one and all that we are proposing a balanced, responsible approach to building a strong and healthy America.

Part of this approach involves taking another look at the way we do things on the national level. We must no longer be content to do things a certain way because that's how we've always done it; but must instead be willing to reform our business practices and seek innovative ways to manage our programs. And while we know that the federal government has an important role to play, we must also recognize that we must look to others B to State, local, and tribal governments, to community and faith-based organizations, to the private sector, and to academic institutions B for new and creative approaches to solving public problems. The President and I share this view, and I am proud to say that it is manifested in the budget he has put forward.

The budget I present to you today keeps the promises the President has made and proposes new and innovative solutions for meeting the challenges that face the nation. Our proposal increases support for America's children and families; enhances the groundbreaking research being sponsored by the National Institutes of Health and protects public health; begins the modernization of Medicare and expands access to health care; and, invests in infrastructure and reforms the way the Department's operations are managed. The HHS budget also reflects the President's commitment to a balanced fiscal framework that puts discretionary spending on a more reasonable and sustainable growth path; protects Social Security, Medicare, and other priority programs; continues to pay down the national debt; and, provides tax relief for all Americans.

Mr. Chairman, the total HHS request for FY 2002 is \$468.8 billion (outlays). The discretionary component totals \$55.5 billion (budget authority). The amount before this Committee totals \$300.7 billion in budget authority, of which \$51.4 billion is discretionary. Let me now discuss some of the highlights of the HHS budget.

INCREASING SUPPORT FOR AMERICA'S CHILDREN AND FAMILIES

The HHS budget substantially increases our investment in children. Overall, the President's budget provides nearly \$3 billion in increased spending for children's programs in this Department. The budget includes both increases for existing programs and investments in a number of new programs designed to fulfill President Bush's commitment to making sure that no child is left behind. This administration recognizes that America's children and families are its strength, and this budget reflects our commitment to helping them thrive and prosper. Our budget also increases support for the charitable organizations that can make such a difference in people's lives.

After School Certificates

One of the lessons I learned during my years as Governor of Wisconsin was that for people to move from dependency to success in the workforce, you had to be willing to invest in programs that support working families. One of the most important things that we as a government can do to help working families is to assist them in obtaining high-quality child care. Last year the Congress voted to provide a substantial increase in child care funding, and this year we are asking you to take another step to help working parents and their children be successful. The President has requested a total of \$2.2 billion for the Child Care and Development Block Grant and has proposed to specifically dedicate \$400 million for After School Certificates within the block grant. These certificates would help low-income working parents to pay for the costs of after school care for up to 500,000 children who are less than 19 years old. We expect these after school activities to also have a strong educational component, helping children to achieve success in school.

Promoting Safe and Stable Families and Independent Living

Our budget takes a number of steps to help protect our most vulnerable and at-risk children and to help them live safe and productive lives. First, we propose to create a new \$67 million discretionary program within the Promoting Safe and Stable Families program to

mentor children of prisoners. This initiative will provide grants through States to assist faith and community-based groups in providing a range of activities to assist children of prisoners and probationers, including family-rebuilding programs that will help to reunite children and parents once the parent is released from prison if it is in the best interests of the child. Our budget also proposes a \$200 million increase in mandatory funding for the Promoting Safe and Stable Families program, which supports State and Tribal child welfare agencies in carrying out family preservation and support services and adoption promotion and support programs. We also propose an additional \$60 million for the Independent Living program. These funds would be used to provide vouchers, worth up to \$5,000, to youths who are aging out of foster care so that they can obtain the education and training they need to lead productive lives. Funds could be used to pay for either college tuition or vocational training.

Maternity Group Homes

One of the toughest problems we face in trying to end the cycle of dependency is children having children. These teenage mothers have often suffered abuse or neglect and may not have a safe and supportive family environment in which to raise their babies. To begin removing the obstacles to success that these mothers and their children face, we are proposing \$33 million for a new Maternity Group Homes program. This program will support efforts to work with organizations that operate community-based, adult-supervised group homes for teenage mothers and their children, as well as to provide certificates to young mothers to obtain supportive services. These homes will provide a safe and nurturing environment for young mothers while offering the support necessary to help them and their children to improve their lives.

Promoting Responsible Fatherhood

Helping young mothers is an important part of our program to assist America's families, but it is also important that we recognize the critical role that fathers play in the lives of their families. The unfortunate reality is that nearly 25 million children do not live with their fathers, and studies show that these children are far more likely to experience poverty and suffer problems in school than children who live with both parents. Our budget framework includes \$64 million to begin an initiative to promote responsible fatherhood by providing competitive grants to faith-based and community-based organizations that work to strengthen the role that fathers play in their families' lives. These funds will be used to support programs that help low-income and unemployed fathers and their families to avoid dependence on welfare, and to fund programs that promote successful parenting and marriage. Of these funds, \$4 million will be used for special projects of national significance.

Compassion and Charitable Giving

The President has been a leader in recognizing the important role that charitable organizations play in delivering services to the public, and we are proposing a number of steps to increase federal support for these groups. First, we are requesting \$89 million to establish a Compassion Capital Fund. Through public and private partnerships, these resources will be used to provide start-up capital and operating funds to qualified charitable organizations so that they can expand or emulate model social services programs. Funds will also support research on Abest practices@ among charitable organizations. Our budget also includes \$3 million to establish a Center for Faith-Based and Community Initiatives in the Department in accordance with the President's recent Executive Order. Finally, we have included a proposal to encourage States to provide tax credits for contributions to designated charities that work to address poverty. Under this proposal, States would be allowed to use federal funds provided through the Temporary Assistance for Needy Families program to partially offset revenue losses that resulted from the tax credits.

Head Start

Head Start is the Nation's largest early childhood education program. The Head Start program helps to ensure that low-income children start school ready to learn and, to that end, provides a range of comprehensive child development and health services. The President proposes to revitalize Head Start by making school readiness skills such as pre-reading and numeracy the program's top priorities. For FY 2002, the budget proposes a total of \$6.3 billion for Head Start, an increase of \$125 million. These funds will allow Head Start to serve 916,000 children, including 55,000 in Early Head Start, and to maintain a competitive salary for teachers.

ENHANCING SCIENTIFIC AND HEALTH CARE QUALITY RESEARCH

Advances in scientific knowledge have provided the foundation for improvements in public health and have led to enhanced health and quality of life for all Americans. Our FY 2002 budget enhances support for scientific research as well as for research to improve the quality of the Nation's health care system.

Biomedical Research Sponsored by the National Institutes of Health

The National Institutes of Health (NIH) is the largest and most distinguished biomedical research organization in the world. The research that is conducted and supported by the NIH, from the most basic research on biological systems to the successful mapping of the human genome, offers the promise of breakthroughs in preventing and treating any number of diseases. A top priority for this Administration is ensuring that the NIH continues to have the resources necessary to help turn these promises into a reality.

This budget keeps the President's commitment to double NIH's FY 1998 funding level by FY 2003. For FY 2002, we are proposing an increase of \$2.75 billion, which will be the largest dollar increase ever for NIH. This funding level will enable NIH to support over 34,000 research project grants, the highest level in the agency's history. NIH will expand its focus on four research areas that show the greatest potential for yielding new scientific breakthroughs: genetic medicine, clinical research, interdisciplinary research, and health disparities.

With any large increase in resources, there also comes the increased challenge of making sure that those resources are managed properly. I take this responsibility very seriously, and NIH will be working to develop strategies to ensure that we are managing taxpayer dollars in the most efficient and effective way.

Patient Safety and Health Care Quality

The Agency for Healthcare Research and Quality (AHRQ) is the Federal agency with primary responsibility for research on the Nation's health care system and is HHS's lead agency for improving patient safety and the quality of everyday health care. The FY 2002 budget provides a total program level of \$306 million for AHRQ, an increase of \$36 million or 13.5% over FY 2001.

AHRQ will devote a total of \$53 million to continue the work this Committee first funded in FY 2001 to identify ways to reduce medical errors. These funds will support activities to research the causes of medical errors, develop and test new technologies to reduce medical errors, test reporting strategies, and improve training. Last week, I announced the establishment of a new Patient Safety Task Force within the Department in which AHRQ will collaborate with FDA, CDC, and HCFA to improve existing reporting systems on patient safety. HHS seeks to develop a robust, anonymous database of information on errors and adverse events that can be used to find new and better ways to improve patient safety.

Our request includes a \$26 million increase for research on health care quality and cost-effectiveness. Like you and many others, we are reviewing the recent recommendations by the Institute of Medicine for research to improve the quality of health care. Once that review is complete, I expect that an appropriate portion of these resources will be directed toward the recommendations that we conclude should be given the highest priority. I also expect the findings of this and other research on patient safety, which have emphasized the importance of encouraging and rewarding the development of health care systems that encourage safer and higher-quality care, to guide our efforts to improve Medicare, Medicaid, and other government health programs.

IMPROVING MEDICARE AND EXPANDING ACCESS TO QUALITY HEALTH CARE

Of all the issues confronting this Department, none has a more direct effect on the well-being of our citizens than the quality of health care. Our budget proposes to improve the health of the American people by taking important steps to improve Medicare, including the addition of a prescription drug benefit, and by directing funds to various initiatives aimed at expanding access to health care.

Modernizing Medicare

The Medicare program has been the center of our society's commitment for ensuring that all of our seniors enjoy a healthy and secure retirement. Honoring this commitment means not only making sure that the program is financially prepared for the wave of new beneficiaries that the aging of the baby-boom generation will bring, but also ensuring that current beneficiaries have access to the highest quality care. As an interim step, the President has put forward an Immediate Helping Hand (IHH) prescription drug proposal. This proposal provides \$46 billion over five years to help States provide prescription drug coverage immediately to beneficiaries with limited incomes or high drug expenses. This proposal, which will sunset in fiscal year 2005 or as soon as legislation to strengthen Medicare including a prescription drug benefit is enacted, would provide immediate coverage for up to 9.5 million beneficiaries.

We also believe, along with many members of Congress who have supported and continue to support bipartisan efforts to strengthen Medicare, that we must take steps to improve Medicare as soon as possible. Inadequate prescription drug coverage is only the most obvious gap in Medicare benefits. Today, Medicare covers only 53 percent of the average senior's annual medical expenses, and the options available to seniors to help them limit these expenditures are declining. In addition, Medicare is facing a looming fiscal crisis. A full assessment of the health of both the Part A and Part B Trust Funds reveals that spending exceeds the total of tax receipts and premiums dedicated to Medicare and that financing gap is expected to widen dramatically. Even without the financing problem, Medicare modernization would be necessary to ensure beneficiaries get high quality health care. President Bush proposes to devote \$156 billion (including funding for Immediate Helping Hand) over the next ten years to a set of improvements in Medicare that are urgently needed. These Medicare modernizations include taking steps to make better coverage options available, to assure that all seniors have affordable access to prescription drugs, to provide better options for high out-of-pocket expenses, particularly for low-income seniors, and to ensure that Medicare has greater overall financial security.

Expanding Community Health Centers

Our budget also proposes steps to strengthen the health care safety net for those most in need. Community Health Centers provide high quality, community based care to approximately 11 million patients, 4.4 million of whom are uninsured, through a network of over 3,000 centers in rural and urban areas. The President has proposed to expand and increase the number of health center sites by 1,200 by FY 2006, and to double the number of individuals without alternative coverage who are served by the centers. As a first installment of this multi-year initiative, we propose to increase funding for Community Health Centers by \$124 million. We will also be looking at ways to reform the National Health Service Corps so as to better target placement of providers in areas experiencing the greatest shortages of health professionals.

Increasing Access to Drug Treatment

The problems caused by substance abuse affect not only the physical and mental condition of the individual, but also the well-being of society as a whole. Nationwide, approximately 2.9 million people with serious substance abuse problems are not receiving the treatment they desperately need. To help close this treatment gap, we propose to increase funding for substance abuse treatment by \$100 million. Of these funds, \$60 million will be used to increase the Substance Abuse Block Grant, the primary vehicle for funding State substance abuse efforts, and \$40 million will go to increase the number of Targeted Capacity Expansion grants, which seek to

address the treatment gap by supporting strategic and rapid responses to emerging areas of need, including grants to organizations that provide residential treatment to teenagers.

Organ Donation

Our budget supports an initiative very close to my heart. Approximately 75,000 patients are awaiting organ transplants, far above the number of available donors. In fact, organ transplants in 2000 totaled 22,827, an increase of 1,172 over the 21,655 transplants that occurred in 1999. The number of living donors rose from 4,747 in 1999 to 5,532 in 2000, an increase of 16.5 percent, the largest one-year jump ever recorded. While I am encouraged by the progress that has been made in the last year, there is still a very long way to go. To tackle this problem, I launched a new national initiative, on April 17th, to encourage and enable Americans to ADonate the Gift of Life@. I am beginning a national AWorkplace Partnership for Life@, in which employers, unions and other employee organizations can join in a nationwide network to promote donation. I released a model organ and tissue donor card, incorporating proven elements from today's donor cards and have ordered an immediate review of the potential of organ and tissue registries where donors' wishes could be recorded electronically and made available to families and hospitals when needed. I have also made a pledge to create a national medal to honor the families of organ donors and will create a model curriculum on donation for use in driver education courses, to be offered to states and counties nationwide. And, let me tell you, this is just the beginning. I intend to do everything I can to increase organ donation throughout America and to create the most comprehensive effort ever in our nation regarding donation and transplantation.

INVESTING IN INFRASTRUCTURE AND REFORMING MANAGEMENT

For any organization to succeed, it must never stop asking how it can do things better, and I am committed to seeking new and innovative ways to improve the management of our programs. But we must also recognize that we do a disservice to all who rely on this Department if we do not provide the resources necessary to effectively administer our programs. In preparing our budget, we began the process of evaluating the programs and business practices of this Department and identifying the areas where we can do a better job of managing taxpayer resources, as well as those areas where new investments are required if we are to successfully administer our operations.

HCFA Management Reform

One of the most important management reforms we will pursue is the improvement of the Health Care Financing Administration (HCFA). I have often referred to HCFA as the agency people love to hate; and I recognize that patients, providers, and States have legitimate complaints about the scope and complexity of the regulations and paperwork that govern the Medicare, Medicaid, and State Children's Health Insurance programs. At the same time, we must recognize that in the last few years HCFA has been tasked with implementing several pieces of major legislation and its responsibilities have grown more complex with each new major healthcare law or budget reconciliation.

Concerns about HCFA's management capabilities have been raised in several General Accounting Office reports, including the *High Risk Series: An Update* (January 2001) and *Financial Management: Billion in Improper Payments Continue to Require Attention* (October 2000). HCFA management reform is an Administration priority. HCFA will undertake a major effort to modernize and streamline its operations to effectively manage current programs and implement new legislation. In particular, HCFA's role in a modernized Medicare program needs to be carefully considered. This may require substantial changes in HCFA's mission and structure. My goal is to assure that HCFA's resources are focused as effectively as possible on improving quality and limiting costs for Medicare beneficiaries, limiting burden for providers, and increasing efficiency for taxpayers.

The budget proposes an increase of \$109 million, or 5 percent, for HCFA program management. Included in the HCFA program management budget is an increase of \$36 million, for a total of \$53 million, to support the development of the HCFA Integrated General Ledger Accounting System (HIGLAS). HCFA currently relies on several financial management systems to account for the hundreds of billions of dollars spent on Medicare benefits, and most contractors do not use double entry accounting methods or claims processing systems with general ledger capabilities. This system requires financial statements to be imputed manually, increasing the risk of administrative and operational errors and misstatements. HIGLAS will provide a uniform Medicare accounting system that will help to detect and collect money owed to the Medicare Trust Funds, retain a clean opinion on financial statements without more expensive, alternative efforts, and comply with financial management statutory requirements.

I am also committed to reforming HCFA's antiquated and inefficient contracting system. We are considering a number of options in this area including: allowing carriers who are not health insurance organizations to become Medicare contractors; allowing the Secretary (as opposed to the Part A provider) to contract for and assign fiscal intermediaries to perform claims processing, claims payment, communications, audit functions, renewing contracts, and transferring functions; and replacing current special provisions for terminating contracts with more standard terms and conditions embodied in the Federal Acquisition Regulation (FAR). In addition, I am including in the budget \$115 million in new proposed user fees for duplicate and paper claims processing. We will work hard to enact these fees, which will help to improve the efficiency and lower the cost of processing Medicare claims.

Revitalizing Laboratories and Scientific Facilities

It is critical that we invest in the modernization of the laboratories and scientific facilities, for obsolete facilities affect our scientific readiness and compromise our ability to retain the top scientists. Our budget includes funds to continue the revitalization of key facilities at the Centers for Disease Control and Prevention and the National Institutes of Health. We are requesting \$150 million for buildings and facilities at the Centers for Disease Control and Prevention, which will support construction of a laboratory facility dedicated to handling the most highly infectious pathogens, such as Ebola, and construction of an Environmental Toxicology Lab. The budget also

requests \$307 million for intramural buildings and facilities at the National Institutes of Health to support projects such as the construction of the John Edward Porter Neuroscience Research Center and a centralized, multi-level animal facility.

Enhancing Coordination and Reducing Duplication of Operating Systems

The only way that this Department can effectively serve its many clients is if we commit to making the necessary investments in our management and infrastructure. One of the challenges in a large, decentralized Department such as HHS is finding ways to bring together diverse activities and to develop coordinated systems for managing our programs. Our budget provides the resources necessary to begin the process of streamlining our financial management and information technology systems so that we can enhance coordination across the Department and eliminate unnecessary and duplicate systems.

For financial management, we propose to invest \$50 million, which includes funding for the new HCFA accounting system, to move toward a unified financial accounting system. The Office of Inspector General has cited problems with the Department's current system structure, which involves five separate accounting systems operated by multiple agencies. We plan to replace these antiquated systems with unified financial management systems that will increase standardization, reduce security risks, allow HHS to produce timely and reliable financial information needed for management decision-making, and provide accountability to our external customers.

In the information technology arena, we are proposing \$30 million for a new Information Technology Security and Innovation fund. Currently, the Department's information technology systems are highly decentralized, heterogeneous, and vulnerable to exploitation. Funds would be used to implement an Enterprise Infrastructure Management approach across the Department that would minimize our vulnerabilities and maximize our cost savings and ability to share information. With this approach, we will be able to reduce duplication of equipment and services and be better able to secure our systems against viruses and network intrusion.

As the largest grant-making agency in the Federal Government, this Department will also continue to play a lead role in the government-wide effort to streamline, simplify, and provide electronic options for the grants management processes. As part of the Federal Grant Streamlining Program, we will work with our colleagues across the government to identify unnecessary redundancies and duplication in the more than 600 Federal grant programs and to implement electronic options for all grant recipients who would prefer to apply for, receive, and close out their Federal grant electronically.

Redirecting Resources and Enhancing Flexibility

Being a wise steward of taxpayer resources means not only recognizing where you need to invest but also where resources can be redeployed to more effective uses. In preparing our budget, we carefully reviewed each agency, identified areas where funding could be redirected, and made targeted reductions in selected programs. The FY 2002 budget eliminates \$475 million in earmarked projects and \$155 million in funding for activities that were funded for the first time in FY 2001. In addition, the budget shifts \$597 million from programs that are duplicative, or whose goals are better met through other avenues, to higher priority activities. And, to assist in financing other high priority activities, the budget expands the use of Public Health Service Evaluation funds. These decisions helped to meet our goal of moderating the large increases in discretionary spending that have occurred over the last few years and putting the budget on a more sustainable growth path for the future.

This Administration is also committed to giving States greater flexibility to manage public health grant programs. Our budget proposes to give States expanded authority to transfer funds among public health grants, thereby enabling them to make more efficient and effective use of Federal resources and to target and reallocate funds to public health priorities identified at the State and local levels. In addition to giving the States greater flexibility, I am seeking to increase my transfer authority from one percent to six percent, to eliminate the restriction that the transfer may not increase an appropriation by more than three percent, and to make it Department-wide. I believe this transfer authority is a valuable tool for managing the Department's resources and will allow me to respond to emergency needs or unforeseen events that would otherwise adversely effect a program or agency.

Continuously Evaluating and Improving Program Performance

The Government Performance and Results Act serves as an important tool for making sure that this Department is not only doing the right things but that we are doing them well. As in previous years, our budget request is accompanied by the annual performance plans and reports. The performance measures and targets in these reports touch nearly every aspect of the Department's multi-faceted mission and detail a number of notable achievements, including:

- HCFA met its FY 2000 target of reducing the Medicare error rate to 7 percent. Auditors estimated improper payments at \$11.9 billion, compared with \$13.5 billion in FY 1999. The error rate has fallen to roughly half of what it was in FY 1996, and HCFA is pursuing increasingly rigorous goals for FY 2001 and FY 2002.
- The Administration for Children and Families (ACF) reported that 42.9 percent of adult recipients of TANF became employed in FY 1999. This is a primary indicator of success in moving families toward self-sufficiency. It improves on the FY 1998 baseline of 38.7 percent and exceeds the target of 42 percent.
- CDC reported a reduction of perinatal Group B streptococcal disease B the most common cause of severe infections in newborns B by 70 percent from 1995 to 1999, exceeding the goal.

These are just a few of the dozens of impressive success stories found in the 13 performance plans and reports. GPRA has been and will continue to be an important part of our effort to improve the management and performance of our programs.

WORKING TOGETHER TO BUILD A STRONG AND HEALTHY AMERICA

Mr. Chairman, the budget I bring before you today contains many different proposals; but, the common thread that binds them all together is the desire to build a strong and healthy America and to improve the lives of the American people. All of our proposals, from enhancing scientific research to modernizing Medicare, from expanding access to care to increasing support for the Nation's children and families, are put forward with these simple goals in mind. I know these are goals we all share.

As you begin to consider our proposals, let me leave you with one final thought. Senator Everett Dirksen said of the legislative process: AYou start from the broad premise that all of us have a common duty to the country to perform. Legislation is always the art of the possible. You could, of course, follow a course of solid opposition, of stalemate, but that is not in the interest of the country.@ Starting from this premise, I am prepared to work with each of you to ensure that we develop a budget for this Department that effectively serves the national interest. I would be happy to address any questions you may have.