

**DEPARTMENT OF HEALTH AND HUMAN SERVICES,
ADMINISTRATION FOR CHILDREN AND FAMILIES**

**FINANCIAL STATEMENTS
September 30, 2002 and 2001**

TABLE OF CONTENTS

	PAGE
Consolidated Balance Sheets	17
Consolidated Statements of Net Cost	18
Consolidated Statement of Changes in Net Position	19
Combined Statement of Budgetary Resources	20
Consolidated Statement of Financing	21
Notes to Financial Statements.....	22
 Supplemental Information:	
Required Supplementary Stewardship Information	34
Required Supplementary Information	36
• Trading Partner Information.....	37
• Management Discussion and Analysis (Appendix B).....	44
Other Accompanying Information:	39
• Consolidating Balance Sheet.....	40
Consolidating Statement of Net Cost.....	41
Consolidating Statement of Changes in Net Position	42

**DEPARTMENT OF HEALTH AND HUMAN SERVICES,
ADMINISTRATION FOR CHILDREN AND FAMILIES
CONSOLIDATED BALANCE SHEETS
As of September 30, 2002 and 2001
(Dollars in thousands)**

	2002	2001
ASSETS		
Intragovernmental:		
Fund balance with Treasury (Note 2)	\$ 24,443,428	\$ 29,277,443
Accounts receivable, net (Note 3)	2,754	784
Total intra-governmental	24,446,182	29,278,227
Accounts receivable, net (Note 3)	43,811	89
Property and equipment, net (Note 4)	60	193
TOTAL ASSETS	\$ 24,490,053	\$ 29,278,509
LIABILITIES		
Intragovernmental:		
Accounts payable	\$ 10,301	\$ 2,667
Accrued payroll and benefits	1,653	1,542
Total intra-governmental	11,954	4,209
Accounts payable	21,281	22,627
Accrued payroll and benefits	6,610	6,168
Accrued grant liability (Note 5)	1,769,959	1,515,143
Accrued FECA liability (Notes 6)	4,643	5,082
Accrued annual leave (Note 6)	11,214	11,052
Liability for deposit funds (Note 7)	9,418	36,186
Total liabilities	1,835,079	1,600,467
NET POSITION		
Unexpended appropriations	22,661,164	27,690,182
Cumulative results of operations	(6,190)	(12,140)
Total Net Position	22,654,974	27,678,042
TOTAL LIABILITIES AND NET POSITION	\$ 24,490,053	\$ 29,278,509

The accompanying notes are an integral part of
these financial statements.

**DEPARTMENT OF HEALTH AND HUMAN SERVICES,
ADMINISTRATION FOR CHILDREN AND FAMILIES
CONSOLIDATED STATEMENTS OF NET COST
For The Years Ended September 30, 2002 and 2001
(Dollars in thousands)**

	2002	2001
GPR PROGRAM COSTS		
Temporary Assistance for Needy Families	\$ 19,069,036	\$ 17,886,274
Developmental Disabilities	142,191	105,251
Refugee Resettlement	488,364	385,723
Social Services Block Grant	1,764,638	1,859,959
Child Support Enforcement	4,056,166	3,270,104
Child Care	4,512,180	4,118,955
Head Start	6,502,537	6,014,077
Child Welfare	6,739,651	7,014,178
Youth	95,414	140,953
Community Services	665,923	661,803
Domestic Violence	105,692	30,233
Low-Income Home Energy Assistance	1,760,110	2,167,894
Native American	49,120	29,956
Individual Development Accounts	8,126	908
Net Costs – GPR Programs	45,959,148	43,686,268
OTHER ACTIVITIES		
Community Schools	(18)	(66)
Net Cost – Other Activities	(18)	(66)
NET COST OF OPERATIONS (Note 8)	\$ 45,959,130	\$ 43,686,202

The accompanying notes are an integral part of
these financial statements.

**DEPARTMENT OF HEALTH AND HUMAN SERVICES,
ADMINISTRATION FOR CHILDREN AND FAMILIES
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For The Year Ended September 30, 2002
(Dollars in thousands)**

	<u>Cumulative Results of Operations</u>	<u>Unexpended Appropriations</u>
BEGINNING BALANCES	\$ (12,140)	\$ 27,690,182
BUDGETARY FINANCING SOURCES:		
Appropriations received	-	45,450,758
Appropriations transferred in/out	-	(21,627)
Other adjustments (Note 2)	(16,119)	(4,696,711)
Appropriations used	45,761,438	(45,761,438)
Non-exchange revenue – other (Note 3)	202,574	-
OTHER FINANCING SOURCES:		
Imputed financing from costs absorbed by others	9,708	-
Other	<u>7,479</u>	<u>-</u>
TOTAL FINANCING SOURCES	<u>45,965,080</u>	<u>(5,029,018)</u>
NET COST OF OPERATIONS	<u>(45,959,130)</u>	<u>-</u>
ENDING BALANCES	<u>\$ (6,190)</u>	<u>\$ 22,661,164</u>

The accompanying notes are an integral part of
these financial statements.

**DEPARTMENT OF HEALTH AND HUMAN SERVICES,
ADMINISTRATION FOR CHILDREN AND FAMILIES
COMBINED STATEMENT OF BUDGETARY RESOURCES
For The Year Ended September 30, 2002
(Dollars in thousands)**

	Budgetary
BUDGETARY RESOURCES:	
Budget authority:	
Appropriations received	\$ 45,450,758
Net transfers	19,492
Other (Note 2)	1,957,898
Unobligated balances – beginning of period:	
Beginning of period	4,240,380
Net transfers, actual	(1,957,898)
Spending authority from offsetting collections:	
Earned:	
• Collected	\$ 185,805
• Receivable from Federal sources	<u>45,122</u>
Subtotal	230,927
Recoveries of prior year obligations	116,749
Temporarily not available pursuant to Public Law (Note 2)	(2,559,682)
Permanently not available (Note 2)	<u>(158,263)</u>
Total Budgetary Resources	<u>\$ 47,340,361</u>
 STATUS OF BUDGETARY RESOURCES:	
Obligations incurred – direct	\$ 44,982,762
Unobligated balances – available – other	597,855
Unobligated balances – not available	<u>1,759,744</u>
Total Status of Budgetary Resources	<u>\$ 47,340,361</u>
 RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:	
Obligated balance, net – beginning of period	\$ 20,832,834
Obligated balance, net – end of period:	
• Accounts receivable (Note 3)	45,122
• Undelivered orders	19,809,686
• Accounts payable	<u>31,602</u>
Outlays:	
• Disbursements	45,857,540
• Collections	<u>(185,805)</u>
Net Outlays	<u>\$ 45,671,735</u>

The accompanying notes are an integral part of
these financial statements.

**DEPARTMENT OF HEALTH AND HUMAN SERVICES,
ADMINISTRATION FOR CHILDREN AND FAMILIES
CONSOLIDATED STATEMENT OF FINANCING
For The Year Ended September 30, 2002
(Dollars in thousands)**

RESOURCES USED TO FINANCE ACTIVITIES

Budgetary Resources Obligated:

Obligations incurred	\$ 44,982,762	
Less: spending authority from offsetting collections and recoveries	<u>(347,676)</u>	
Obligations net of offsetting collections and recoveries		\$ 44,635,086

Non-budgetary Resources:

Imputed financing from costs absorbed by others	9,708	
Other	<u>7,479</u>	
Net non-budgetary resources used to finance activities		<u>17,187</u>

Total Resources Used to Finance Activities		44,652,273
--	--	------------

RESOURCES USED TO FINANCE ITEMS NOT PART OF THE COST OF OPERATIONS

Change in budgetary resources obligated for goods, services and benefit orders not yet received or benefits not yet provided	1,108,000	
Resources that fund expenses recognized in prior periods	(27,044)	
Budgetary offsetting collections and receipts that do not affect net cost of operations - other	<u>202,574</u>	

Total Resources Used to Finance Items Not Part of the Net Cost of Operations		<u>1,283,530</u>
--	--	------------------

Total Resources Used to Finance the Net Cost of Operations		<u>45,935,803</u>
--	--	-------------------

COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD

Components Requiring or Generating Resources in Future Period:

Increase in exchange revenue receivable from the public	43,800	
Other	<u>350</u>	
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods		44,150

Components Not Requiring or Generating Resources:

Depreciation and amortization	285	
Other	<u>(21,108)</u>	<u>(20,823)</u>

Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period		<u>23,327</u>
--	--	---------------

NET COST OF OPERATIONS		<u>\$ 45,959,130</u>
-------------------------------	--	-----------------------------

The accompanying notes are an integral part of these financial statements.

**DEPARTMENT OF HEALTH AND HUMAN SERVICES,
ADMINISTRATION FOR CHILDREN AND FAMILIES
NOTES TO FINANCIAL STATEMENTS
September 30, 2002 and 2001
(Dollars in thousands)**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Administration for Children and Families (ACF) have been prepared from its accounting records to report its financial position, net cost, changes in net position, budgetary resources, and reconciliation of net cost to budgetary resources. Such statements have been prepared in accordance with generally accepted accounting principles (GAAP), and the form and content requirements specified by the Office of Management and Budget's (OMB) Bulletins entitled *Form and Content of Agency Financial Statements* (No. 01-09). GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which has been designated as the official accounting standards-setting body for the U.S. Federal Government by the American Institute of Certified Public Accountants.

ACF uses both the accrual basis and budgetary basis of accounting to record transactions. Under the accrual basis, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. These financial statements were prepared following accrual accounting. Budgetary account balances are included in certain statements as appropriate. Budgetary accounting principles ensure that funds are obligated according to legal requirements. Balances on these statements may therefore differ from those on financial reports prepared pursuant to other OMB directives that are primarily used to monitor and control ACF's use of budgetary resources.

Reporting Entity

ACF is an operating division (OPDIV) of the Department of Health and Human Services (HHS), which is a Cabinet agency of the Executive Branch of the United States Government. ACF was established in 1991 to merge two major HHS OPDIVs: the Family Support Administration and the Office of Human Development Services. The purpose of the merger was to bring together under one agency all service and assistance payments that support children and families. ACF provides national leadership and direction to plan, manage and coordinate the nationwide administration of comprehensive and supportive programs for vulnerable children and families, Native Americans, persons with developmental disabilities, refugees and legalized aliens, to help them achieve stability, economic security, responsibility and self-sufficiency.

HHS's Chief Financial Officer's (CFO) office provides the Department-wide accounting policy oversight. The Division of Financial Operations (DFO) of the Program Support Center (PSC) provides the accounting and fiscal services, including the preparation of the financial statements, on a fee for service basis. DFO is considered part of the ACF's management.

**DEPARTMENT OF HEALTH AND HUMAN SERVICES,
ADMINISTRATION FOR CHILDREN AND FAMILIES
NOTES TO FINANCIAL STATEMENTS
September 30, 2002 and 2001
(Dollars in thousands)**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The majority of ACF's appropriated funds are used to support authorized entitlement and discretionary grant programs. Such programs are carried out by state, county, city and tribal governments as well as public and private local agencies. In addition, ACF also utilizes a number of receipt, deposit, and/or budget clearing accounts.

Budgets and Budgetary Accounting

Financing sources are provided through Congressional appropriations on an annual, multi-year and no-year basis. Annual appropriations are available for incurring obligations during a specified year; and multi-year appropriations are generally available for two or more years. No-year or "X-year" appropriations are available for obligations until the purpose for which they are provided are carried out, and therefore, are for an indefinite period. For financial statement purposes, appropriations are recognized as financing sources as expenses are incurred.

Other financing sources are provided in the form of gifts from the public, interest on investments, and miscellaneous sales. All of these financing sources may be used to finance operating expenses and for capital expenditures, as specified by law.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions. These estimates affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

Fund Balances with the U. S. Treasury

ACF maintains all cash accounts with the U.S. Treasury. The account "Fund Balance With Treasury" represents appropriated, revolving, trust and other funds available to pay current liabilities. The U.S. Treasury processes cash receipts and disbursements for ACF.

Accounts Receivable and Earned Revenues

Accounts receivable, including interest receivable, consists of amounts owed to ACF by other Federal agencies and the public. These balances are presented net of allowances for uncollectable accounts, if needed. The allowance estimates are based on past collection experience and/or an aging analysis of the outstanding balances. Earned revenues associated with programs are immaterial and are netted in the Statement of Net Cost.

**DEPARTMENT OF HEALTH AND HUMAN SERVICES,
ADMINISTRATION FOR CHILDREN AND FAMILIES
NOTES TO FINANCIAL STATEMENTS
September 30, 2002 and 2001
(Dollars in thousands)**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accrued Grants

Accrued Grants generally can be classified into two categories, block and non-block grants. Block grant expenses are recorded as the grantees draws funds. Therefore, the year-end accrual for block grants is equal to the amount of funds drawn that have not already been recorded as expenditures. Non-block grantee draw funds to meet their immediate cash needs and the grantees report actual disbursements (cash expenditures) quarterly. Hence, the year-end accrual for non-block grants is equal to the estimate of the fourth quarter expenditures, plus an average of two weeks expenditures for expenses incurred prior to cash withdraws. However, the Foster Care Program estimate for expenses incurred prior to cash withdraws is an average of one week of expenditures. This exception is made because 50 percent of this program's costs are paid in the beginning of each month; thus, there is no accrual at the end of the reporting period for these costs.

Some ACF grants are technically block grant programs, but have expenditure cycles similar to non-block grant programs. The year-end accruals for these grants are a combination of the two accruals mentioned above. The year-end accrual for these grants is the estimate of the fourth quarter expenditure. However, it does not include the two weeks of average expenditures because the grant cycle is essentially complete at the end of the fourth quarter. These programs are Temporary Assistance for Needy Families and Child Care Development Fund.

Equipment

Equipment purchases are valued at cost and are capitalized when cost is \$25 or more with a useful life of more than two years. Equipment, buildings and capital improvements are depreciated on a straight-line basis over the estimated useful life of the asset. Routine maintenance and repair costs are expensed as incurred.

Liabilities

Liabilities are recognized for amounts of probable future outflows or other sacrifices of resources as a result of past transactions or events. Since ACF is a component of the U. S. Government, a sovereign entity, its liabilities cannot be liquidated without legislation that provides resources to do so. Payment of all liabilities other than contracts can be abrogated by the sovereign entity.

Unfunded liabilities are incurred when funding has not yet been made available through Congressional appropriations or current earnings. These type liabilities are referred to as Liabilities Not Covered By Budgetary Resources. ACF recognizes such liabilities for employee annual leave earned but not taken, and amounts billed by the Department of Labor (DOL) for the

**DEPARTMENT OF HEALTH AND HUMAN SERVICES,
ADMINISTRATION FOR CHILDREN AND FAMILIES
NOTES TO FINANCIAL STATEMENTS
September 30, 2002 and 2001
(Dollars in thousands)**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

worker's compensation benefits. In accordance to Public Law and existing Federal accounting standards, a liability is not recorded for any future payment made on behalf of current workers contributing to the Medicare Hospital Insurance Trust Fund.

FECA Liability

The liability for future workers' compensation benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The amount of this liability is provided to ACF by DOL's Employment Standards Administration, pursuant to the Federal Employees' Compensation Act (FECA). The liability 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 past practice, these projected annual benefit payments have been discounted to present value using the OMB's economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized economic assumptions for 10-year Treasury notes and bonds. Accordingly, discounting is 5.2% for year one and thereafter.

Employee Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. To the extent that current or prior year funding is not available to cover annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of non-vested leave are expensed as taken. Any liability for sick leave that is accrued but not taken by a CSRS-covered employee is transferred to the Office of Personnel Management upon the retirement of that individual. No credit is given for sick leave balances upon the retirement of FERS-covered employees.

Retirement Plans

Most ACF employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Under CSRS, ACF makes matching contributions equal to 7.4 percent of basic pay. Under FERS, ACF contributes the employer's matching share for Social Security and an amount equal to one percent of employee's pay to a savings plan. ACF will also match an employee's savings plan contribution up to an additional 4 percent of pay. Employees hired after December 31, 1983 are automatically covered by FERS. The Office of Personnel Management (OPM) is responsible for reporting on CSRS and FERS plan assets, accumulated plan benefits, and unfunded liabilities, if any, applicable to Federal civilian employees.

**DEPARTMENT OF HEALTH AND HUMAN SERVICES,
ADMINISTRATION FOR CHILDREN AND FAMILIES
NOTES TO FINANCIAL STATEMENTS
September 30, 2002 and 2001
(Dollars in thousands)**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The FASAB's SFFAS Number 5, "Accounting for Liabilities of the Federal Government," requires that employing agencies recognize the full cost of pensions, health and life insurance benefits, during their employees' active years of service. OPM, as the administrator of the CSRS and FERS plans, the Federal Employees Health Benefits Program and the Federal Employees Group Life Insurance Program, must provide the "cost factors" that adjust the agency contribution rate to the full cost for the applicable benefit programs. Accordingly, an imputed financing source and corresponding imputed personnel cost is reflected in the Statements of Changes in Net Position, the Statement of Net Cost, and the Statement of Financing, respectively. These imputed balances do not affect ACF's net position.

Payroll Processing

The HHS centralized payroll system (i.e. Accounting for Pay System) computes employee payroll and benefits.

Canceled Appropriations

Payments may be required of up to 1% of current year appropriations for valid obligations incurred against canceled appropriations. ACF is not aware of any valid obligations incurred against cancelled appropriations. One percent of current year appropriations are \$415,000 and \$404,000 for fiscal year 2002 and 2001, respectively.

Non-Entity Transactions

Non-entity assets and revenues are held by ACF, with no authority for use. In most cases, these represent custodial/fiduciary activities for the General Fund of the U.S. Treasury. Offsetting liabilities are recorded to ensure that these balances are not recognized as equity of ACF. The presentation of non-entity assets, custodial liabilities and revenues in a separate, self-balancing set of subsidiary accounts ensures that the net position presents only those resources which will be consumed in current or future operating cycles. The current year's collections and disbursements are reported in Note 7.

Contingencies

A contingency is an existing condition, situation or set of circumstances involving uncertainty as to possible gain or loss to the Department/OPDIV. 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

**DEPARTMENT OF HEALTH AND HUMAN SERVICES,
ADMINISTRATION FOR CHILDREN AND FAMILIES
NOTES TO FINANCIAL STATEMENTS
September 30, 2002 and 2001
(Dollars in thousands)**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 likely, and the related future outflow or sacrifice of resources is measurable.

NOTE 2 - FUND BALANCES WITH TREASURY

ACF's undisbursed account balances at September 30, 2002 and 2001 are listed below by fund type. Other funds include deposit, suspense, clearing and related non-spending accounts. The non-entity amount consists of funds transferred from the Internal Revenue Service to ACF. These amounts are then subsequently forwarded to the States for Child Support payments. During FY 2002, these amounts increased substantially due to timing differences; amounts received on the last day of the fiscal year were not disbursed until a few days later, after fiscal year end. The amounts received from the Internal Revenue Service also included "tax rebate" amounts, which were also subject to withholding for Child Support payments.

	2002	2001
Fund types:		
Trust	\$ 15,883	\$ 29,967
Appropriated	24,416,867	29,206,349
Other	10,678	41,127
Total	\$ 24,443,428	\$ 29,277,443
Status of Fund Balance with Treasury		
Unobligated balance:		
Available	\$ 597,855	\$ 710,548
Unavailable	4,319,426	7,786,533
Obligated balance not yet disbursed	19,526,147	20,780,362
Total	\$ 24,443,428	\$ 29,277,443

Unobligated Appropriations are either available for obligation or not available (permanently or temporarily) pursuant to a specific provision in law. Undelivered Orders represents appropriations obligated (i.e. legally reserved) for the amount of goods or services ordered but not yet received. The Unobligated Balances Unavailable below includes appropriations of approximately \$2,717,945 in 2002 and \$2,560,682 in 2001 not available, permanently or temporarily, pursuant to public law.

**DEPARTMENT OF HEALTH AND HUMAN SERVICES,
ADMINISTRATION FOR CHILDREN AND FAMILIES
NOTES TO FINANCIAL STATEMENTS
September 30, 2002 and 2001
(Dollars in thousands)**

NOTE 2 - FUND BALANCES WITH TREASURY (CONTINUED)

The Other Adjustment of approximately \$4,700,000 in the Statement of Changes in Net Position consists of \$3,200,000 funds returned to Treasury for adjustments to Unexpended Appropriations related to TANF and \$1,500,000 for the return of 'M' year funds.

At September 30, 2002, the following Appropriated Funds were either temporarily or permanently unavailable pursuant to Public Law 107-116 (unless otherwise specified):

- Contingency Fund for State Welfare Program (75 7/2 1522), unavailable amount of \$1,956,898, with no obligations.
- Low Income Energy Assistance (75 2 1502), temporarily unavailable of \$200,000.
- Promoting Safe and Stable Families (75 2 1512), permanently unavailable of \$14.
- Child Care and Development Block Grants (75 2 1515), permanently unavailable of \$52.
- Children and Family Services Programs (75 2 1536), permanently unavailable of \$2,327.
- Payments to States for Foster Care and Adoption Assistance (75 2 1545), permanently unavailable of \$8.
- Child Care Entitlement to States (75 2 1550), permanently unavailable amount of \$5.
- Children's Research and Technical Assistance (75 2 1553), permanently unavailable amount of \$21,026.
- Refugee and Entrant Assistance (75 2/4 1503), permanently unavailable amount of \$48.
- Temporary Assistance to Needy Families (75 9/3 1552), temporarily unavailable amount of \$400,000. (Pursuant to Public Law 104-193).
- Temporary Assistance to Needy Families (75 8/1 1552), temporarily unavailable amount of \$2,784.
- Payments to States for Child Support Enforcement and Family Support Programs (75 X 1501), permanently unavailable amount of \$134,283, pursuant to Public Law 106-554.

NOTE 3 - ACCOUNTS RECEIVABLE, NET

	2002			2001		
	Accounts Receivables Principal	Allowance	Net Accounts Receivable	Accounts Receivables Principal	Allowance	Net Accounts Receivable
From the public	\$ 45,237	\$ (1,426)	\$ 43,811	\$ 116	\$ (27)	\$ 89
Intra-governmental	<u>2,754</u>	<u>-</u>	<u>2,754</u>	<u>784</u>	<u>-</u>	<u>784</u>
Total	<u>\$ 47,991</u>	<u>\$ (1,426)</u>	<u>\$ 46,565</u>	<u>\$ 900</u>	<u>\$ (27)</u>	<u>\$ 873</u>

**DEPARTMENT OF HEALTH AND HUMAN SERVICES,
ADMINISTRATION FOR CHILDREN AND FAMILIES
NOTES TO FINANCIAL STATEMENTS
September 30, 2002 and 2001
(Dollars in thousands)**

NOTE 3 - ACCOUNTS RECEIVABLE, NET (CONTINUED)

ACF does not have intra-OPDIV eliminations relating to accounts receivable. Non-exchange revenue of \$202,574 reflected in the Statement of Changes in Net Position, and the receivables shown in the above table from the Public, principally relate to amounts paid or owed by the States of California and Maine for the over advances and penalties relating to ACF's Child Support Enforcement Program.

NOTE 4 - PROPERTY AND EQUIPMENT

ACF's equipment is summarized as follows:

	2002	2001
Equipment	\$ 405	\$ 558
Accumulated depreciation	(345)	(365)
Net	\$ 60	\$ 193

Most buildings occupied by ACF are provided by the General Services Administration (GSA). GSA charges ACF a Standard Level Users Charge (SLUC), which approximates commercial rental rates for similar properties. Expense for SLUC was approximately \$14,000 in both FY 2002 and FY 2001.

NOTE 5 - ACCRUED GRANT LIABILITY

Liability advances relate to grant program funds provided primarily to state and local governments, as well as universities and non-profit organizations. Grant recipients are paid through the Division of Payment Management's (DPM) Payment Management System (PMS), the manager of HHS's central grants payment system.

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 reported therein. ACF adopted a Department-wide accrual methodology to estimate and accrue amounts due grantees for their expenditures made through September 30th, for which expenditure reports (principally SF-272 Reports) have not been received from such grantees as of September 30th and not reported by that date. These estimated accrual amounts were determined by DPM.

**DEPARTMENT OF HEALTH AND HUMAN SERVICES,
ADMINISTRATION FOR CHILDREN AND FAMILIES
NOTES TO FINANCIAL STATEMENTS
September 30, 2002 and 2001
(Dollars in thousands)**

NOTE 5 - ACCRUED GRANT LIABILITY (CONTINUED)

Advances and prepayments at September 30, 2002 and 2001 are summarized as follows:

	<u>2002</u>	<u>2001</u>
Grant advances outstanding	\$ 9,243,716	\$ 8,162,908
Less estimated accrual for amounts due to grantees	<u>(11,013,675)</u>	<u>(9,678,051)</u>
Net grant advance liability	<u>\$ (1,769,959)</u>	<u>\$(1,515,143)</u>

NOTE 6 – LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

	<u>2002</u>	<u>2001</u>
Accrued FECA liability	\$ 4,643	\$ 5,082
Accrued leave	11,214	11,052
Liability for deposit funds (Note 7)	<u>9,418</u>	<u>36,186</u>
Total	<u>\$ 25,275</u>	<u>\$ 52,320</u>

NOTE 7 – CHILD SUPPORT ENFORCEMENT

ACF receives monies from the Internal Revenue Service for outlay to the states for Child Support. These monies represent delinquent child support payments withheld from Internal Revenue tax refunds. Receipts are transferred to appropriation 75 X 1501 to cover outlays. Activity for the year ended September 30, 2002 and 2001 is summarized as follows:

	<u>2002</u>	<u>2001</u>
Receipts	<u>\$ 1,466,194</u>	<u>\$ 1,598,078</u>
Outlays	<u>\$ 1,493,760</u>	<u>\$ 1,561,611</u>
Fund balance with Treasury (Note 2)	<u>\$ 13,919</u>	<u>\$ 41,485</u>

Monies remaining at September 30th are included in the Liability for Deposit Funds on the Balance Sheet (Note 6).

**DEPARTMENT OF HEALTH AND HUMAN SERVICES,
ADMINISTRATION FOR CHILDREN AND FAMILIES
NOTES TO FINANCIAL STATEMENTS
September 30, 2002 and 2001
(Dollars in thousands)**

NOTE 8 – NET COST BY BUDGET FUNCTION

The following is a summary of ACF's net cost for the year ended September 30, 2002 by budget function. Offsetting earned revenues and intra-entity transactions were approximately \$8,718 in FY 2002 and \$15,747 in FY 2001.

	2002		
	<u>Intra- governmental</u>	<u>With the Public</u>	<u>Total</u>
<u>Budget Function</u>			
Education, training and social services	\$ 77,990	\$ 16,062,124	\$ 16,140,114
Income security	23,781	29,767,740	29,791,521
Criminal justice	-	27,495	27,495
Total	<u>\$ 101,771</u>	<u>\$ 45,857,359</u>	<u>\$ 45,959,130</u>
	2001		
	<u>Intra- governmental</u>	<u>With the Public</u>	<u>Total</u>
<u>Budget Function</u>			
Education, training and social services	\$ 68,035	\$ 15,769,256	\$ 15,837,291
Income security	14,854	27,739,417	27,754,271
Criminal justice	557	94,083	94,640
Total	<u>\$ 83,446</u>	<u>\$ 43,602,756</u>	<u>\$ 43,686,202</u>

NOTE 9 - GRANT AWARDS

The Single Audit Act of 1984, as revised, provides that recipients receiving \$300 or more in Federal financial assistance have an annual audit of its activities performed by an independent non-Federal auditor. The result of these audits furnish information to awarding agencies about the validity of their financial assistance award expenditures, adequacy of internal controls over Federal assistance, and the extent of compliance with grant rules and regulations. Disallowed costs identified pursuant to these audits are used to reduce future years' grant awards, or returned to the awarding agency or general receipt funds, as required by appropriation law. Such reduction or returned awards are reported in the year the determination is made.

**DEPARTMENT OF HEALTH AND HUMAN SERVICES,
ADMINISTRATION FOR CHILDREN AND FAMILIES
NOTES TO FINANCIAL STATEMENTS
September 30, 2002 and 2001
(Dollars in thousands)**

NOTE 9 - GRANT AWARDS (CONTINUED)

The final determination of allowable costs relating to grants provided by ACF in FY 2002 and 2001 has not been completed. Accordingly, awards issued and expensed may ultimately be adjusted for recipients' costs determined disallowed pursuant to the audit. As a result, later reviews may identify disallowances of FY 2002 and 2001 expenditures after the financial statements have been issued. Even though the periods are not compatible, it should be noted that the FY 2002 and 2001 audit disallowances are summarized as follows:

	2002	2001
Disallowance	\$ 82,128	\$ 263,100
Total grants	<u>43,195,891</u>	<u>41,500,000</u>
Percent	<u>.19%</u>	<u>.63%</u>

NOTE 10 – ADJUSTMENTS TO BEGINNING BALANCE BUDGETARY RESOURCES

At September 30, 2001, the ending unobligated balance was approximately \$6,500,000. At September 30, 2002, the beginning unobligated balance brought forward was approximately \$2,300,000. The difference of \$4,200,000 represents the cancellation of 1997 annual appropriations, of which \$2,800,000 relates to the return of a fiscal 1997 TANF unobligated balance.

NOTE 11 – APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

Fiscal 2002 obligations (all direct, none reimbursable) incurred by apportionment categories are as follows:

Apportionment Category:	
A	\$41,015,970
B	<u>3,966,792</u>
Total Obligations Incurred	<u>\$44,982,762</u>

**DEPARTMENT OF HEALTH AND HUMAN SERVICES,
ADMINISTRATION FOR CHILDREN AND FAMILIES
NOTES TO FINANCIAL STATEMENTS
September 30, 2002 and 2001
(Dollars in thousands)**

**NOTE 12 – BUDGETARY RESOURCE COMPARISONS TO THE BUDGET OF THE
U.S. GOVERNMENT**

A reconciliation of budgetary resources, unobligated balance, obligations incurred and outlays, as presented in the Combined Statement of Budgetary Resources (SBR), to amounts included in the Budget of the United States Government (President's Budget) for the year ended September 30, 2001 is shown below. A reconciliation is not presented for the period ended September 30, 2002 since ACF FY 2002 Annual Report will be published in December 2002 and the President's Budget is expected to be published in January 2003. The 'actual' President's Budget for fiscal 2002 is available on OMB website under, *Budget of U.S. Government, Fiscal Year 2004-Appendix*. The reconciliation of fiscal 2002 SBR will be prepared in the fiscal 2003 Notes.

For fiscal 2001, the President's Budget total budgetary resources available had \$47,000,000 and ACF has \$48,800,000. The difference of \$1,800,000 is primarily due to expired Unobligated balances brought forward, and permanently/temporarily unavailable funds due to Public Law being deducted from budgetary resources on the SBR. Obligations incurred are \$43,100,000 per Budget and \$42,800,000 per SBR. The difference of \$300,000 is related to downward adjustments made to obligations on the SBR. The Unobligated balance is \$1,000,000 per Budget and \$5,900,000 per SBR. The difference of \$4,900,000 is related to the inclusion of expired Unobligated balances on the SBR. There are no differences between the Presidents Budget and SBR for outlays.

**NOTE 13 - EXPLANATION OF DIFFERENCES BETWEEN LIABILITIES NOT
COVERED BY BUDGETARY RESOURCES AND COMPONENTS
REQUIRING OR GENERATING RESOURCES IN FUTURE PERIODS**

The liabilities not covered by budgetary resources on the balance sheet include the unfunded FECA liability, environmental and disposal liabilities, accrued leave, and other liabilities. The unfunded FECA liability and environmental and disposal liabilities decreased from FY 2001 to FY 2002 and are reported as resources that fund expenses recognized in prior years rather than component requiring resources in future periods. The accrued leave consists of unfunded annual leave, unfunded compensatory leave and unfunded credit hours. The unfunded compensatory leave decreased from FY 2001 to FY 2002 and is reported as resources that fund expenses recognized in prior years. The component requiring resources in future period on the Statement of financing represents the increase in annual leave and unfunded credit hours. The other liabilities include the amount due to inventors and to the general trust funds and are not components on the Statement of Financing.

This information is an integral part of
the accompanying financial statements.

**REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION
(RSSI)**

**DEPARTMENT OF HEALTH AND HUMAN SERVICES,
ADMINISTRATION FOR CHILDREN AND FAMILIES
REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION
For The Year Ended September 30, 2002
(Dollars in thousands)**

INVESTMENTS IN HUMAN CAPITAL

By definition, "Investment in Human Capital" refers to those expenses incurred for programs for education and training of the public that are intended to maintain or increase national productive capacity.

ACF is able to estimate investment in human capital for the Administration for Developmental Disabilities (ADD) using existing data collection activities. Under ADD fifty-five grants were awarded for Projects of National Significance (PNS). PNS grants are awarded to public or private, non-profit institutions to enhance the independence, productivity, integration and inclusion into the community of people with developmental disabilities. Monies also support the development of national and state policy to serve this community. Grants awarded during the last four years are summarized as follows:

<u>Year</u>	<u>Amount</u>
2002	\$ 5,658
2001	6,070
2000	8,412
1999	7,927

INVESTMENTS IN RESEARCH AND DEVELOPMENT

ACF oversees research and development programs that contribute to a better understanding of how to improve the economic and social well being of families and children so that they may lead more healthy and productive lives. ACF invested in research and development during the year ended September 30, 2002 and 2001 as follows:

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Applied research	\$ 27,283	\$ 30,693	\$ 29,287	\$ 17,580
Administrative Costs	<u>1,704</u>	<u>1,167</u>	<u>1,200</u>	<u>1,220</u>
Total	<u>\$ 28,987</u>	<u>\$ 31,860</u>	<u>\$ 30,487</u>	<u>\$ 18,800</u>

REQUIRED SUPPLEMENTARY INFORMATION (RSI)

**DEPARTMENT OF HEALTH AND HUMAN SERVICES,
ADMINISTRATION FOR CHILDREN AND FAMILIES
REQUIRED SUPPLEMENTARY INFORMATION
TRADING PARTNER INFORMATION
As of and For The Year Ended September 30, 2002
(Dollars in thousands)**

Agency	Treasury Financial Mgmt. Dept. Code	Assets			
		Fund Balance w/Treasury	Investments	Accounts Receivable	Other
Dept. of Agriculture	12	\$ -	\$ -	\$ -	\$ -
Dept. of Commerce	13	-	-	-	-
Dept. of Defense	17,21,57,97	-	-	-	-
Dept. of Education	91	-	-	1,010	-
Dept. of Energy	89	-	-	-	-
Dept. of Housing and Urban Development	86	-	-	-	-
Dept. of Health and Human Services	75	-	-	1,493	-
Dept. of the Interior	14	-	-	-	-
Dept. of Justice	15	-	-	-	-
Dept. of Labor	16	-	-	-	-
Dept. of State	19	-	-	-	-
Dept. of Transportation	69	-	-	-	-
Dept. of the Treasury	20	24,443,428	-	-	-
Dept. of Veterans Affairs	36	-	-	-	-
Agency for International Development	72	-	-	-	-
Environmental Protection Agency	68	-	-	-	-
Federal Emergency Mgmt. Agency	58	-	-	-	-
General Services Administration	47	-	-	-	-
National Aeronautics and Space Admin	80	-	-	-	-
National Science Foundation	49	-	-	-	-
Nuclear Regulatory Commission	31	-	-	-	-
Office of Personnel Mgmt	24	-	-	-	-
Small Business Administration	73	-	-	-	-
Social Security Administration	28	-	-	251	-
All other Federal agencies	-	-	-	-	-
TOTALS		<u>\$ 24,443,428</u>	<u>\$ -</u>	<u>\$ 2,754</u>	<u>\$ -</u>

Liabilities					Fiscal 2002 Activity			
Accounts Payable	Environmental and Disposal Costs	Debt	Accrued Payroll & Benefits	Other Liabilities	Earned Revenue	Gross Cost	Non-exchange Revenue	
							Transfers-In	Transfers-Out
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25	\$ -	\$ -
-	-	-	-	-	-	653	-	-
-	-	-	-	-	-	44	-	-
-	-	-	-	-	2,148	1,377	-	-
-	-	-	-	-	-	302	-	-
-	-	-	-	-	-	172	-	-
7,815	-	-	-	-	3,875	27,041	-	-
3	-	-	-	-	-	10,083	-	-
-	-	-	-	-	-	1,457	-	-
18	-	-	-	-	123	536	-	-
-	-	-	-	-	-	50	-	-
-	-	-	-	-	-	1,117	-	-
17	-	-	1,653	-	510	422	-	-
-	-	-	-	-	-	596	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
727	-	-	-	-	-	35,373	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
607	-	-	-	-	-	23,324	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	2,062	5,469	-	-
1,114	-	-	-	-	-	2,448	-	-
<u>\$ 10,301</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,653</u>	<u>\$ -</u>	<u>\$ 8,718</u>	<u>\$ 110,489</u>	<u>\$ -</u>	<u>\$ -</u>

OTHER ACCOMPANYING INFORMATION

**DEPARTMENT OF HEALTH AND HUMAN SERVICES,
ADMINISTRATION FOR CHILDREN AND FAMILIES
CONSOLIDATING BALANCE SHEET
As of September 30, 2002
(Dollars in thousands)**

	Education, Training and Social Services	Income Security	Admin of Justice	Consolidating Totals
ASSETS				
Intra-governmental:				
Fund balance with Treasury	\$ 8,425,642	\$16,001,903	\$ 15,883	\$ 24,443,428
Accounts receivable, net	2,546	208	-	2,754
Total intra-governmental	8,428,188	16,002,111	15,883	24,446,182
Accounts receivable, net	37	43,774	-	43,811
Property and equipment, net	57	3	-	60
TOTAL ASSETS	\$ 8,428,282	\$16,045,888	\$ 15,883	\$ 24,490,053
LIABILITIES				
Intra-governmental:				
Accounts payable	\$ 9,374	\$ 927	\$ -	\$ 10,301
Accrued payroll and benefits	1,651	2	-	1,653
Total intra-governmental	11,025	929	-	11,954
Accounts payable	12,485	8,786	10	21,281
Accrued payroll and benefits	6,602	8	-	6,610
Accrued grant liability	806,874	912,816	50,269	1,769,959
Accrued FECA liability	4,643	-	-	4,643
Accrued annual leave	11,214	-	-	11,214
Liability for deposit funds	(3,326)	12,710	34	9,418
Total liabilities	849,517	935,249	50,313	1,835,079
NET POSITION				
Unexpended appropriations	7,549,125	15,112,039	-	22,661,164
Cumulative results of operations	29,640	(1,400)	(34,430)	(6,190)
Total Net Position	7,578,765	15,110,639	(34,430)	22,654,974
TOTAL LIABILITIES AND NET POSITION	\$ 8,428,282	\$16,045,888	\$ 15,883	\$ 24,490,053

Note –Intra-entity transactions are not material.

**DEPARTMENT OF HEALTH AND HUMAN SERVICES,
ADMINISTRATION FOR CHILDREN AND FAMILIES
CONSOLIDATING STATEMENT OF NET COST
For The Year Ended September 30, 2002
(Dollars in thousands)**

	<u>Education, Training and Social Services</u>	<u>Income Security</u>	<u>Admin of Justice</u>	<u>Consolidated Totals</u>
GPRA PROGRAM COSTS:				
Temporary Assistance to Needy Families	\$ 22,301	\$19,046,735	\$ -	\$ 19,069,036
Developmental Disabilities	142,131	60	-	142,191
Refugee Resettlement	4,054	484,310	-	488,364
Social Services Block Grant	1,763,277	1,361	-	1,764,638
Child Support Enforcement	46,636	4,009,530	-	4,056,166
Child Care	21,754	4,490,426	-	4,512,180
Head Start	6,501,916	621	-	6,502,537
Child Welfare	6,739,442	209	-	6,739,651
Youth	68,157	64	27,193	95,414
Community Services	665,861	62	-	665,923
Domestic Violence	105,352	20	320	105,692
Low Income Home Energy Assistance	2,027	1,758,083	-	1,760,110
Native American	49,080	40	-	49,120
Individual Development Accounts	8,126	-	-	8,126
Net Costs – GPRA Programs	<u>16,140,114</u>	<u>29,791,521</u>	<u>27,513</u>	<u>45,959,148</u>
OTHER ACTIVITIES:				
Other, net	<u>-</u>	<u>-</u>	<u>(18)</u>	<u>(18)</u>
Total Other Activities	<u>-</u>	<u>-</u>	<u>(18)</u>	<u>(18)</u>
NET COST OF OPERATIONS	<u>\$ 16,140,114</u>	<u>\$29,791,521</u>	<u>\$ 27,495</u>	<u>\$ 45,959,130</u>

Note –Intra-entity transactions are not material.

**DEPARTMENT OF HEALTH AND HUMAN SERVICES,
ADMINISTRATION FOR CHILDREN AND FAMILIES
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For The Year Ended September 30, 2002
(Dollars in thousands)**

	Cumulative Results of Operations			
	Education Training and Social Services	Income Security	Admin of Justice	Consolidated Totals
BEGINNING BALANCES	\$ (13,231)	\$ 1,091	\$ -	\$ (12,140)
BUDGETARY FINANCING SOURCES				
Other adjustments	(16,119)	-	-	(16,119)
Appropriations used	16,174,725	29,586,713	-	45,761,438
Non-exchange revenue – other revenue	7,192	202,317	(6,935)	202,574
OTHER FINANCING SOURCES				
Imputed financing from costs absorbed by others	9,708	-	-	9,708
Other	7,479	-	-	7,479
TOTAL FINANCING SOURCES	<u>16,182,985</u>	<u>29,789,030</u>	<u>(6,935)</u>	<u>45,965,080</u>
NET COST OF OPERATIONS	<u>(16,140,114)</u>	<u>(29,791,521)</u>	<u>(27,495)</u>	<u>(45,959,130)</u>
ENDING BALANCES	<u>\$ 29,640</u>	<u>\$ (1,400)</u>	<u>\$ (34,430)</u>	<u>\$ (6,190)</u>

	Unexpended Appropriations			
	Education Training and Social Services	Income Security	Admin of Justice	Consolidated Totals
BEGINNING BALANCES	\$ 7,996,372	\$ 19,700,063	\$ (6,253)	\$ 27,690,182
BUDGETARY FINANCING SOURCES (USES)				
Appropriations received	17,122,655	28,328,103	-	45,450,758
Appropriations transferred in/out	-	(21,627)	-	(21,627)
Other adjustments	(1,395,177)	(3,307,787)	6,253	(4,696,711)
Appropriations used	<u>(16,174,725)</u>	<u>(29,586,713)</u>	<u>-</u>	<u>(45,761,438)</u>
TOTAL FINANCING USES	<u>(447,247)</u>	<u>(4,588,024)</u>	<u>6,253</u>	<u>(5,029,018)</u>
ENDING BALANCES	<u>\$ 7,549,125</u>	<u>\$ 15,112,039</u>	<u>\$ -</u>	<u>\$ 22,661,164</u>

**APPENDIX A
MANAGEMENT RESPONSE TO AUDITOR'S
INTERNAL CONTROL REPORT
DECEMBER 9, 2002**

APPENDIX A
DEPARTMENT OF HEALTH AND HUMAN SERVICES,
ADMINISTRATION FOR CHILDREN AND FAMILIES
MANAGEMENT RESPONSE TO AUDITOR'S
INTERNAL CONTROL REPORT
DECEMBER 9, 2002

The following represents Management's Response to the Conditions and Recommendations included in the Independent Auditor's Report on Internal Control dated December 9, 2002, beginning on page 6 of this document. The specific Condition and Recommendation should be read in connection with the following Management Responses.

INTERNAL CONTROLS

1. PREPARATION AND ANALYSIS OF FINANCIAL STATEMENTS:

Management Response: ACF concurs with the auditor's recommendation that ACF needs to expand its financial analysis throughout the year and make changes to the internal review process with respect to the financial statements. ACF contracts its financial statement preparation function and many of the related analysis functions to the Program Support Center (PSC). ACF has made substantial progress in the financial analysis of the Statement of Net Cost and is currently making plans to expand the analysis to more thoroughly review the Statement of Budgetary Resources and Statement of Financing.

- **Financial Statement Preparation and Analysis Can be Improved**

ACF will meet with its accounting services provider, PSC, to determine the steps necessary, if any, to more accurately and efficiently produce and review the Statement of Budgetary Resources and Statement of Financing and more timely implement new OMB format changes as they occur.

- **Review and Analysis of Budgetary and Net Position Accounts Needs Improvement**

ACF will meet with its accounting services provider, PSC, to determine the steps necessary, if any, to more accurately and efficiently produce and review the Statement of Budgetary Resources and Statement of Financing and more timely implement the new OMB format changes. ACF will review the propriety of mid-year adjustments to Net Position accounts on a more timely basis as suggested by the auditors. ACF will investigate the lack of a periodic reconciliation of Appropriated Capital Used and Expended Authority within its accounting services provider.

APPENDIX A
DEPARTMENT OF HEALTH AND HUMAN SERVICES,
ADMINISTRATION FOR CHILDREN AND FAMILIES
MANAGEMENT RESPONSE TO AUDITOR'S
INTERNAL CONTROL REPORT
DECEMBER 9, 2002

- **FACTS II Preparation Process Needs To Be Linked to Financial Statement Preparation Process**

The initial FACTS II submission is made prior to the completion of the Financial Statement preparation process. This initial submission includes only financial data from the accounting system. Journal vouchers prepared to adjust the data from a cash basis to an accrual basis are not included in this initial submission. These adjustments are inputted at a later date when the financial statements have been finalized. The Program Support Center will investigate how to overcome this timing difference. This timing difference may be resolved through the use of the Unified Financial Management System (UFMS) that the Department of Health and Human Services is currently implementing. ACF is not scheduled to be fully migrated until FY 2007; therefore, an interim solution will be investigated.

- **Year-end Adjustments to Fund Balance w/Treasury (FBWT)**

ACF will make certain that unique programmatic regulations are communicated more effectively to its accounting services provider.

- **Grant Financial Analysis Needs Improvement**

ACF will seek assistance from within the Department to ascertain the proper methodology for the review of grant related accounts that are predominantly affected by the Departmental Regression Model. ACF currently does not have the resources to efficiently and effectively review the Regression Model nor can ACF independently explain differences between actual SF-272 data from the grantees and the grant accrual entry.

2) ELECTRONIC DATA PROCESSING CONTROLS (GATES RELATED):

Management Response: ACF concurs with the finding. ACF has, however, made significant progress in this area. ACF developed a draft System Security Plan and Contingency Plan for GATES as required by OMB Circular A-130, Appendix III. Based on these draft Plans, on July 15, 2002, following OMB and Departmental policy, ACF's Deputy Chief Information Officer officially granted "conditional approval and deferral of certification and accreditation" of GATES for one year. The "conditional approval" stipulated that a formal IT Security Certification and Accreditation (C&A) be conducted on GATES. ACF's Information Technology Security Unit (ITSU) is currently conducting the formal C&A, which includes performing a risk assessment of GATES, as well as updating, and testing of the GATES Contingency Plan.