DEPARTMENT OF HEALTH AND HUMAN SERVICES

Fiscal Year

2008

Office of Inspector General

Justification of Estimates for Appropriations Committees

Message from the Inspector General

I am pleased to present the Office of Inspector General (OIG) fiscal year (FY) 2008 Justification of Estimates for Appropriations Committees. The Congressional Justification includes the FY 2008 Annual Performance Plan and FY 2006 Annual Performance Report, as required by the Government Performance and Results Act of 1993. OIG has been a results-driven organization since its inception and has reported to Congress on performance semiannually since its establishment in 1976 as the first statutorily mandated OIG in the Federal government.

The work of the Department of Health and Human Services (HHS) is carried out through its management of more than 300 programs. OIG protects HHS programs against fraud, waste, and abuse through a broad array of audits, evaluations and inspections, investigations of suspected wrong-doing, and legal advisory and enforcement activities. Together, these activities posture OIG to serve the Department and the American people by ensuring that all monies appropriated to HHS are spent with integrity and in ways that minimize fraud, waste, and abuse.

The broad applicability of OIG functions makes the adoption of performance measures that are applicable across all of HHS possible. OIG therefore utilizes and reports on the following measures to assess the impact of its work activities:

- expected recoveries from audit disallowances and investigations,
- return on investment based on expected recoveries, and
- accepted quality and management improvement recommendations.

Given the increasing risks posed to the Department's more than $600 billion in annual expenditures, we are confident that a strong and capable OIG such as ours will continue to be an important and meaningful investment for taxpayers as we work with Congress, the Department, and our Federal, State, and local partners to safeguard and improve HHS programs in the years ahead.

Daniel R. Levinson
Inspector General

OFFICE OF INSPECTOR GENERAL
FY 2008 PERFORMANCE BUDGET SUBMISSION

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OFFICE OF INSPECTOR GENERAL
FY 2008 PERFORMANCE BUDGET SUBMISSION

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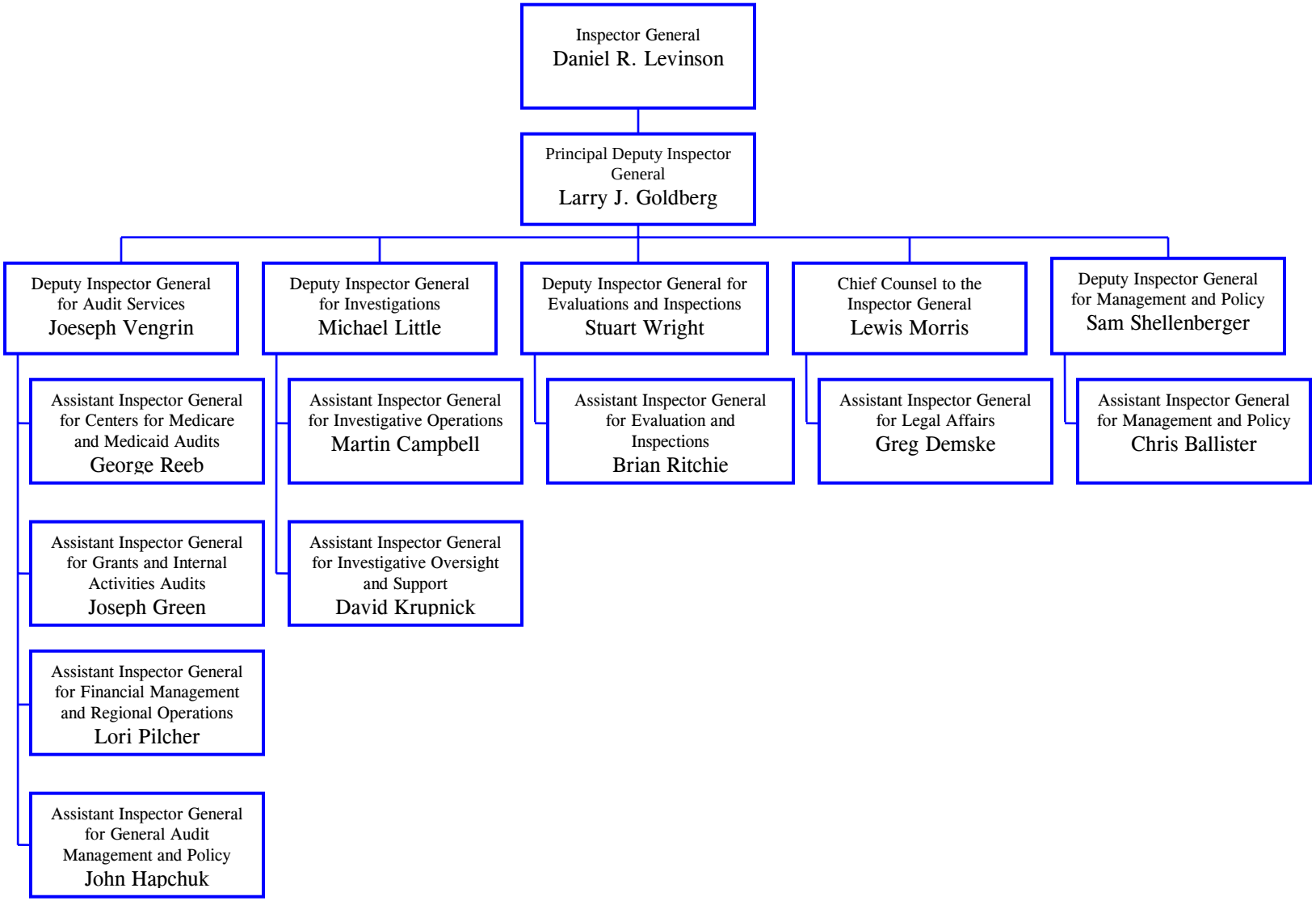
Department of Health and Human Services
Office of Inspector General
Organizational Chart



Statement of Mission

The Office of Inspector General (OIG) is an independent organization within the Department of Health and Human Services (HHS) that has the simultaneous responsibilities of reporting directly to the Secretary and communicating with Congress on issues related to fraud, waste, and abuse. The mission and goals of the OIG derive from the Inspector General Act of 1978 and are formally adopted as part of the OIG Strategic Plan.

> ***Mission***
>
> *Under the Inspector General Act of 1978, we improve HHS programs and operations and protect them against fraud, waste, and abuse. By conducting independent and objective audits, evaluations, and investigations, we provide timely, useful, and reliable information and advice to Department officials, the Administration, Congress, and the public.*

Discussion of Strategic Plan

The OIG Strategic Plan serves as the framework from which annual performance planning is done. It contains three strategic goals, which are:

- Make a positive impact on HHS programs,
- Operate efficiently, and
- Maintain a highly skilled and committed staff.

OIG's first strategic goal, to make a positive impact on HHS programs, reflects the purpose and mission of OIG. The second and third strategic goals are internal management goals that improve OIG's ability to achieve its mission.

The OIG mission is carried out by planning and conducting audits, inspections, enforcement actions, investigations, and beneficiary and industry outreach with the purposes of:

- Detecting and combating fraud, waste, and abuse
- Reducing the risk of insolvency of the Medicare Trust Fund
- Improving the efficiency and effectiveness of HHS programs
- Addressing issues of concern to the Secretary, the President, and Congress.

In carrying out its mission, it is critically important that OIG effectively communicate information and recommendations that significantly affect HHS operations and the delivery of program services, as well as foster cooperation with decision-makers and others who share the OIG commitment to improve HHS programs in a manner consistent with the OIG mission.

Links to HHS Strategic Plan

HHS Strategic Goals:	OIG Direct-Mission Goal: Make a Positive Impact on HHS Programs
1: Reduce the major threats to the health and well-being of Americans.	X
2: Enhance the ability of the nation's health care system to effectively respond to bioterrorism and other public health challenges.	X
3: Increase the percentage of the nation's children and adults who have access to regular health care and expand consumer choices.	X
4: Enhance the capacity and productivity of the nation's health science research enterprise.	X
5: Improve the quality of health care services.	X
6: Improve the economic and social well-being of individuals, families, and communities, especially those most in need.	X
7: Improve the stability and healthy development of our nation's children and youth.	X
8: Achieve excellence in management practices.	X

The work of OIG most directly contributes to HHS Strategic Goal #8: Achieve excellence in management practices, however at the level of each audit, evaluation, investigation, and inspection OIG significantly contributes to the realization of each of the HHS strategic goals.

Overview of Performance

The Inspector General Act of 1978 and its amendments require OIG to carry out its mandate across each of the more than 300 HHS programs. The large number and diversity of these programs makes it possible for OIG to adopt strategic goals and performance measures that are broadly applicable across these diverse programmatic lines. OIG therefore formulated a strategic plan that incorporates a direct-mission strategic goal and performance measures to serve as a framework to guide OIG activities. The Strategic goal is:

Strategic Goal: Make a positive impact on HHS programs.

In support of this broad, direct-mission strategic goal, OIG developed three performance measures to assess progress towards its achievement. They are:

Measure I:	Expected recoveries from audit disallowances and investigative receivables that have been identified and documented as resultant of OIG activities
Measure II:	Return on investment
Measure III:	Number of accepted quality and management improvement recommendations

While these measures highlight important facets of OIG performance, the OIG environment and context poses challenges to their conventional interpretation as performance measures that link directly to budgetary decision making. To this end, OIG has identified three factors that inhibit, but do not entirely prevent, traditional interpretation of the results of these measures. They are the:

- unpredictable and dependent nature of OIG work;
- multi-year lag between budget years and measures of OIG performance; and
- inability to measure the sentinel effect.

Performance Measurement Environment

Unpredictable and dependent nature of OIG work. The nature of OIG's investigative work is such that planning for or predicting the discovery of fraud, waste, or abuse is not plausible. Further confounding the unpredictable nature of OIG work is its dependence on the success of its many partners. The success of OIG's partners – particularly the U.S. Attorneys and other components of the Department of Justice (DOJ), Congress, HHS Operating Divisions, and State authorities – to arrive at criminal and civil case prosecutions, settlement agreements, disallowed misspent funds, or implementation of program improvement recommendations through programmatic or statutory changes is outside the bounds of OIG control. Without effective performance from these partners, the impact and perceived effectiveness of OIG efforts would be greatly reduced.

Multi-year lag between budget years and OIG performance. It takes approximately three years from the time an investigation of fraud allegations begins to the time that court decisions or out of court settlements are completed. Similarly, audit work often spans at least two years from the beginning of an audit to the management decision to disallow a given cost. As a consequence of this multi-year lag, it is not possible to link the results of OIG performance in a given year to the funding level for that year. OIG takes this delay into account by applying a three-year moving average to even out the misleading year-to-year differences and provide a more reliable view of performance.

Inability to measure the sentinel effect. Work done by an OIG with a strong reputation for diligent and aggressive pursuit of its mission can achieve tremendous measurable results. One less measurable result, however, is the deterrence of fraud, waste, and abuse – the sentinel effect. Items identified in the OIG Work Plan in addition to positions taken publicly by the Inspector General, the preventative work of OIG in issuing compliance and industry guidance, Corporate Integrity Agreements, and recommendations for systemic improvements of HHS programs all contribute to the effectiveness of OIG in ways that are not easily measured. OIG does not currently have an accurate method for quantifying this effect.

Performance Measures

OIG's first direct-mission performance measure, expected recoveries, includes court and administratively assessed fines, penalties, out-of-court settlements, and final audit disallowances. Because of the OIG's performance measurement environment described above, OIG uses a three-year moving average to help reduce the inevitable year-to-year variances in results and present data that are more meaningful. OIG has a goal of increasing its performance on this three-year moving average by five percent annually.

OIG annualized expected recoveries for the three-year period ended FY 2006 were $2.68 billion – 3.8 percent higher than the $2.58 billion target. OIG has achieved this goal for each of the three-year periods ending in FY 2004, 2005, and 2006.

OIG's second direct-mission performance measure, return on investment, is a ratio that directly links the cost of operating the OIG to the financial savings accrued as a result of its activities. OIG determines return on investment by dividing the identified and documented expected recoveries by the OIG budget for the same period. The result is a ratio that provides a direct link between budget and performance (e.g., $10:1). This measure has the desirable attributes of an efficiency measure, and because its successful implementation is highly dependent on the work of HHS Operating and Staff Divisions, other Executive level agencies, and State partners it also has the effect of creating a unified mission that fosters cooperation and teamwork across government levels.

Interpreting OIG performance towards this measure once again requires the nuanced consideration of the unpredictability, multi-year lag, and dependency challenges discussed in the previous section. Indeed, between the initiation and resolution of OIG activities, multiple years can pass and the cadre of actors involved can change numerous times. Hence, this measure also is reported using a moving average of three consecutive years for both the financial savings and OIG budgeted amounts.

For the 3-year period ended FY 2006 the average annual return on investment for OIG was $12.9:1 – 11 percent higher than the $11.6:1 target.

OIG's third direct-mission performance measure, number of accepted quality and management improvement recommendations, is an outcome measure that addresses OIG work not directly translatable into monetary results. OIG considers this an intermediate outcome measure because

it counts only those recommendations accepted by management for implementation. Interpretation of this measure as an indicator of OIG performance again emphasizes the unique and dependent context in which OIG performance measurement exists. While OIG can make many recommendations each year, the acceptance and number of recommendations implemented by HHS Operating and Staff Division program managers is dependent on availability of resources, and management decisions, among other factors.

In FY 2006, 116 recommendations were accepted. This was a 60 percent increase over FY 2005 and exceeded the target of 70 accepted recommendations. Most of the increase was attributable to inspection reports, three of which were complex and contained an unusually large number of recommendations.

Program Assessment Rating Tool (PART):

Health Care Fraud Abuse and Control Program (HCFAC). The HCFAC PART assessment conducted in CY 2002 during the FY 2004 budget cycle, listed as an overall concern that the program did not have a measure with a baseline to reflect progress toward reducing or eliminating health care fraud and abuse. OIG has been unable to identify a credible baseline that could serve this purpose.

Overview of Budget Request

The OIG budget request for FY 2008 is $44,687,000 and 265 FTE. This is an increase of $5,316,000 and 24 FTE above the FY 2007 continuing resolution level, and an increase of $927,000 and reduction of 3 FTE compared to the FY 2007 President's Budget level. This request is comprised of mandatory pay and other inflationary increases, including the Unified Financial Management System and other Departmental initiatives. This request includes funding to support the President's Management Agenda e-Gov initiatives and Departmental enterprise information technology initiatives identified through the HHS strategic planning process.

OIG is a level of effort organization that uses the resources available to provide coverage of the Department's approximately 300 non-Medicare and -Medicaid programs to the best advantage. OIG's discretionary funding supports these oversight activities, which had estimated outlays of $107 billion in FY 2006. As these programs continue to increase in size and scope OIG faces a continual struggle to provide the level of coverage needed and to extend its vigilance over the largest and most vulnerable of the Department's programs and operations.

The FY 2008 request also proposes a discretionary cap adjustment for Program Integrity activities. The proposal would provide $17,530,000 in FY 2008. In addition, the ACF budget request includes $3.6 million for OIG to measure the eligibility error rate in the Temporary Assistance to Needy Families program (TANF).

Appropriation Language
OFFICE OF INSPECTOR GENERAL

For expenses necessary for the Office of Inspector General, including the hire of passenger motor vehicles for investigations, in carrying out the provisions of the Inspector General Act of 1978, as amended, $44,687,000: Provided, that of such amount, necessary sums are available for providing protective services to the Secretary and investigating non-payment of child support cases for which non-payment is a Federal offense under 18 U.S.C. Section 228; (Department of Health and Human Services Appropriations Act, 2007)

OFFICE OF INSPECTOR GENERAL
Amounts Available for Obligation

	FY 2006 Actual	FY 2007 CR	FY 2008 Estimate
Discretionary Appropriation	$ 39,813,000	$39,415,000	$44,687,000
Reduction Pursuant P.L. 109-148	-398,000	--	--
1% Transfer	-27,000	--	--
Subtotal, adjusted appropriation	$39,388,000	$39,415,000	$44,687,000
Unobligated balance lapsing	-67,000	--	--
Subtotal, discretionary obligations	$39,321,000	$39,415,000	$44,687,000
Total, discretionary obligations	$39,321,000	$39,415,000	$44,687,000
Mandatory Appropriation Health Care Fraud and Abuse Control Program	$160,000,000	$165,920,000	$169,238,000
Subtotal HCFAC	$160,000,000	$165,920,000	$169,238,000
Unobligated balance lapsing	-661,000	--	--
Total, HCFAC obligations	$159,339,000	$165,920,000	$169,238,000
Offsetting collections from: Trust Funds (MMA) P.L. 108-447 and P.L. 109-77	$ 14,005,000	--	--
Total, offsetting collections	$ 14,005,000	--	--
Discretionary Caps Proposal	--	--	$17,530,000
Total, discretionary caps	--	--	$17,530,000
Medicaid Integrity Program P.L. 109-171	$25,000,000	$25,000,000	$25,000,000
Total, Medicaid integrity	$25,000,000	$25,000,000	$25,000,000
Never Events P.L. 109-432	--	$3,000,000	--
Total, Never Events	--	$3,000,000	--
HIPAA Collections P.L. 104-191	$9,650,000	$9,650,000	$9,650,000
Total, HIPAA Collections	$9,650,000	$9,650,000	$9,650,000
Discretionary Reimbursables	$16,522,000	$16,638,000	$16,995,000
Total, discretionary reimbursables	$16,522,000	$16,638,000	$16,995,000
Total obligations	$263,837,000	$259,623,000	$283,100,000

OFFICE OF INSPECTOR GENERAL
Summary of Changes
DISCRETIONARY APPROPRIATION

2007 Estimate
Total estimated CR budget authority (Obligations).....$39,415,000

2008 Estimate (Obligations).....$44,687,000

Net Change (Obligations).....+$5,272,000

	2007 CR Budget Base		Change from Base	
	FTE	BUDGET AUTHORITY	FTE	BUDGET AUTHORITY
Increases				
A. Built In:				
1. Annualization of January 2007 pay raise	(241)	$27,492,000	(+24)	+$151,000
2. Effect of January 207 pay raise	(241)	$27,492,000	(+24)	+$619,000
3. WIGI/Promotions	(241)	$27,492,000	(+24)	+$274,000
4. Two additional days of pay	(241)	$27,492,000	(+24)	+$217,000
4. Effect of rate changes for various mandatory charges (rent, SSF, IT, UFMS & HHS initiatives, etc.)		$11,879,000	(+24)	+$4,011,000
Subtotal			(+24)	+$5,272,000
Decreases				
B. Program				
1. Reduction in FTE and Administrative Expenses				--
Subtotal				--
Total Decreases				--
Net Change				$5,272,000

OFFICE OF INSPECTOR GENERAL
Budget Authority by Activity
(Dollars in Thousands)

	FY 2006 Actual		FY 2007 CR		FY 2008 Estimate	
	FTE	Amount	FTE	Amount	FTE	Amount
Discretionary	264	$39,388	241	$39,415	265	$44,687
Mandatory	1,087	$160,000	1,085	$165,920	1,071	$169,238
Trust Fund (MMA)	68	$14,005	--	--	--	--
Trust Fund (Caps proposal)	--	--	--	--	113	$17,530
Medicaid Integrity	--	$25,000	231	$25,000	224	$25,000
HIPPA Collections	15	$9,650	15	$9,650	15	$9,650
Never Event	--	--	--	3,000	--	--
Discretionary Reimbursable	13	16,522	13	16,638	13	16,995
Total	1,447	$264,565	1,585	$259,623	1,701	$283,100

OFFICE OF INSPECTOR GENERAL
Budget Authority by Object Class
(Dollars in Thousands)

	2007 CR	2008 Estimate	Increase or Decrease
Full-time Equivalent Employment	241	265	+24
Full-time Equivalent of Overtime & Holiday Hours	1	1	--
Average GS Grade	12	12.1	+0.1
Average GS Salary	$83,283	$86,532	+$3,249
Personnel Compensation:			
Full-time Permanent	$20,209,000	$23,019,000	+$2,810,000
Other than Full-time Permanent	329,000	375,000	+46,000
Other Personnel Compensation	284,000	323,000	+39,000
Total Personnel Compensation	$20,822,000	$23,717,000	+$2,895,000
Civilian Personnel Benefits	6,670,000	7,598,000	+928,000
Benefits to Former Personnel	0	0	0
Subtotal, Pay Costs Current Law	$27,492,000	$31,315,000	+$3,823,000
Travel	1,300,000	1,458,000	+158,000
Transportation of Things	338,000	379,000	+41,000
Rental Payments to GSA	2,751,000	3,085,000	+334,000
Rental Payments to Others	79,000	89,000	+10,000
Communications, Utilities, & Misc. Charges	464,000	520,000	+56,000
Printing and Reproduction	10,000	11,000	+1,000
Advisory and Assistance Services	86,000	96,000	+10,000
Other Services	227,000	255,000	+28,000
Purchases of Goods and Services from Other Government Accounts	5,753,000	6,453,000	+700,000
Operations and Maintenance	216,000	242,000	+26,000
Subtotal, Contractual Services Current Law	$6,282,000	$7,046,000	+$764,000
Supplies and Materials	295,000	331,000	+36,000
Equipment	404,000	453,000	+49,000
Subtotal, Non-pay Costs	$11,923,000	$13,372,000	+$1,449,000
Total BA by Object Class	$39,415,000	$44,687,000	+$5,272,000

OFFICE OF INSPECTOR GENERAL
Salaries and Expenses
(Dollars in Thousands)

	2007 CR	2008 Estimate	Increase or Decrease
Personnel Compensation			
Full-time Permanent (11.1)	$20,209,000	$23,019,000	+$2,810,000
Other than Full-time Permanent (11.3)	329,000	375,000	+46,000
Other Personnel Compensation (11.5)	284,000	323,000	39,000
Total Personnel Compensation (11.9)	$20,822,000	$23,717,000	+$2,895,000
Civilian Personnel Benefits (12.1)	6,670,000	7,598,000	+928,000
Benefits to Former Personnel (13.0)	0	0	0
Subtotal, Pay Costs	$27,492,000	$31,315,000	+$3,823,000
Travel (21.0)	1,300,000	1,458,000	+158,000
Transportation of Things (22.0)	338,000	379,000	+41,000
Rental Payments to Others (23.2)	79,000	89,000	+10,000
Communications, Utilities, and Misc. Charges (23.3)	464,000	520,000	+56,000
Printing and Reproduction (24.0)	10,000	11,000	+1,000
Advisory and Assistance Services (25.1)	86,000	96,000	+10,000
Other Services (25.2)	227,000	255,000	+28,000
Purchases of Goods and Services from Other Government Accounts (25.3)	5,753,000	6,453,000	+700,000
Operations and Maintenance (25.7)	216,000	242,000	+26,000
Subtotal Contractual Services	$6,282,000	$7,046,000	+$764,000
Supplies and Materials (26.0)	295,000	331,000	+36,000
Subtotal, Non-pay Costs	$8,768,000	$9,834,000	+$1,066,000
Total	$36,260,000	$41,149,000	+$4,889,000

OFFICE OF INSPECTOR GENERAL
Authorizing Legislation

	2007 Amount Authorized	2007 Appropriation	2008 Amount Authorized	2008 Budget Request
Office of Inspector General:				
P.L. 95-452, as amended	Indefinite	$39,371,000	Indefinite	$44,687,000
P.L. 104-191	Indefinite	$165,920,000	Indefinite	$169,238,000
P.L. 109-171	$25,000,000	$25,000,000	$25,000,000	$25,000,000
P.L. 109-432	$3,000,000	$3,000,000	--	--

OFFICE OF INSPECTOR GENERAL
Appropriations History Table

	Budget Estimate to Congress	House Allowance	Senate Allowance	Net Enacted Appropriation
FY 1998				
Discretionary	31,921,000	30,921,000	31,921,000	31,921,000
Mandatory	--	--	--	85,680,000
FY 1999				
Discretionary	29,000,000	29,000,000	29,0000,000	29,000,000
Mandatory	--	--	--	100,000,000
Supplemental	--	--	--	5,400,000
FY 2000				
Discretionary	31,500,000	29,000,000	35,000,000	31,500,000
Rescission	--	--	--	-106,000
Mandatory	119,250,000	--	--	119,250,000
FY 2001				
Discretionary	33,849,000	31,394,000	33,849,000	33,849,000
Rescission	-151,000	--	--	-63,000
Mandatory	130,000,000	120,000,000	130,000,000	130,000,000
FY 2002				
Discretionary	35,786,000	35,786,000	35,786,000	35,786,000
Rescission	--	–	–	-228,000
Mandatory	150,000,000	130,000,000	150,000,000	145,000,000
FY 2003				
Discretionary	39,497,000	39,497,000	39,497,000	39,300,000
Rescission	--	--	–	-242,450
Mandatory	160,000,000	160,000,000	160,000,000	160,000,000
FY 2004				
Discretionary	39,497,000	39,497,000	39,497,000	39,094,000
Rescission	--	--	--	-403,000
Mandatory	160,000,000	160,000,000	160,000,000	160,000,000
FY 2005				
Discretionary	40,323,000	40,323,000	40,323,000	39,930,000
Rescission	--	--	--	-393,000
Mandatory	160,000,000	160,000,000	160,000,000	160,000,000
Trust Fund (MMA)	--	--	--	25,000,000
FY 2006				
Discretionary	39,813,000	39,813,000	39,813,000	39,813,000
Rescission	--	--	--	-398,000
Mandatory	160,000,000	160,000,000	160,000,000	160,000,000
Medicaid Integrity Program	25,000,000	25,000,000	25,000,000	25,000,000

OFFICE OF INSPECTOR GENERAL
Appropriations History Table (continued)

	Budget Estimate to Congress	House Allowance	Senate Allowance	Net Enacted Appropriation
FY 2007				
Discretionary	43,760,000	41,415,000	43,760,000	--
Mandatory	160,000,000	160,000,000	160,000,000	165,920,000
Trust Fund (Caps Proposal)	11,336,000	--	--	--
Medicaid Integrity Program	25,000,000	25,000,000	25,000,000	25,000,000
Never Event Funding				3,000,000
FY 2008				
Discretionary	44,687,000			
Mandatory	169,238,000			
Trust Fund (Caps Proposal)	17,530,000			
Medicaid Integrity Program	25,000,000			

Activity Header Table

Office of Inspector General

(Dollars in Thousands)

	2006 Actual	2007 PB Estimate	2007 CR	2008 Estimate	Increase or Decrease
Budget Authority					
Discretionary	$ 39,388,000	$ 43,760,000	$ 39,415,000	$ 44,687,000	+ $ 5,272,000
Mandatory (HCFAC)	160,000,000	165,920,000	165,920,000	169,238,000	+ 3,318,000
Trust Fund (MMA)	14,005,000	--	--	--	--
Trust Fund (CAPS Proposal)	--	11,336,000	--	17,530,000	+ 17,530,000
Medicaid Integrity Proposal	25,000,000	25,000,000	25,000,000	25,000,000	--
HIPAA Collections	9,650,000	9,650,000	9,650,000	9,650,000	--
Never Event Funding	--	3,000,000	3,000,000	--	- 3,000,000
Discretionary Reimbursable	16,522,000	16,638,000	16,638,000	16,995,000	+ 357,000
Total, Budget Authority	$264,565,000	$275,304,000	$259,623,000	$283,100,000	+$23,477,000
FTE					
Discretionary	264	268	241	265	+ 24
Mandatory (HCFAC)	1,087	1,046	1,085	1,071	- 14
Trust Fund (MMA)	68	--	--	--	--
Trust Fund (CAPS Proposal)	--	92	--	113	+113
Medicaid Integrity Proposal	--	164	231	224	- 7
HIPAA Collections	15	15	15	15	--
Never Event Funding	--	--		--	--
Discretionary Reimbursable	13	13	13	13	--
Total, FTE	1,447	1,598	1,585	1,701	+116

General Statement

The FY 2008 President's Budget request of $44,687,000 for this account represents current law requirements. No proposed law amounts are included.

Authorizing Legislation

Office of Inspector General (P.L. 95-452)

Activity Header Table
Office of Inspector General
(Dollars in Millions)

	2006 Actual	2007 PB Estimate	2007 CR	2008 Estimate	Increase or Decrease
Budget Authority					
Discretionary	$ 39,388,000	$ 43,760,000	$ 39,415,000	$ 44,687,000	+ $ 5,272,000
Mandatory (HCFAC)	160,000,000	165,920,000	165,920,000	169,238,000	+ 3,318,000
Trust Fund (MMA)	14,005,000	--	--	--	--
Trust Fund (CAPS Proposal)	--	11,336,000	--	17,530,000	+ 17,530,000
Medicaid Integrity Proposal	25,000,000	25,000,000	25,000,000	25,000,000	--
HIPAA Collections	9,650,000	9,650,000	9,650,000	9,650,000	--
Never Event Funding	--	3,000,000	3,000,000	--	- 3,000,000
Discretionary Reimbursable	16,522,000	16,638,000	16,638,000	16,995,000	+ 357,000
Total, Budget Authority	$264,565,000	$275,304,000	$259,623,000	$283,100,000	+$23,477,000
FTE					
Discretionary	264	268	241	265	+ 24
Mandatory (HCFAC)	1,087	1,046	1,085	1,071	- 14
Trust Fund (MMA)	68	--	--	--	--
Trust Fund (CAPS Proposal)	--	92	--	113	+113
Medicaid Integrity Proposal	--	164	231	224	- 7
HIPAA Collections	15	15	15	15	--
Never Event Funding	--	--		--	--
Discretionary Reimbursable	13	13	13	13	--
Total, FTE	1,447	1,598	1,585	1,701	+116

Statement of the Budget Request

The OIG budget request for FY 2008 is $44,687,000 and 265 FTE. This is an increase of $5,272,000 and 24 FTE above the FY 2007 continuing resolution level, and an increase of $927,000 and reduction of 3 FTE compared to the FY 2007 President's Budget level. This request is comprised of mandatory pay and other inflationary increases, including the Unified Financial Management System and other Departmental initiatives. This request includes funding to support the President's Management Agenda e-Gov initiatives and Departmental enterprise information technology initiatives identified through the HHS strategic planning process.

The FY 2008 request also proposes a discretionary cap adjustment for Program Integrity activities. The proposal would provide $17,530,000 in FY 2008.

Program Description

The OIG's authority for oversight of all HHS programs and offices originates in the Inspector General Act of 1978. Funding to support this oversight, however, is split between mandatory and discretionary budget authorities. OIG's discretionary funding is used for oversight of all HHS programs and operations except for Medicare and Medicaid, which is authorized under the Health Care Fraud and Abuse Control Program created by the HIPAA, and the Medicaid Integrity Program created by the Deficit Reduction Act of 2005.

OIG is headquartered in Washington, D.C., and has additional presence in Baltimore, MD, a nationwide network of eight regional offices, and approximately 90 field offices. More than 80 percent of OIG resources are deployed in regional and field offices. At the headquarters, regional and field office level, OIG accomplishes its statutory and direct-mission responsibilities through audits, evaluations, inspections, investigations, industry guidance, and when appropriate, with the imposition of civil monetary penalties, assessments, and administrative sanctions. OIG is organized into the following component offices to carry out these activities:

- The *Office of Audit Services (OAS)* provides auditing services for the Department, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations to reduce waste, abuse, and mismanagement, and to promote economy and efficiency throughout the Department.

- The *Office of Investigations (OI)* conducts criminal, civil, and administrative investigations of allegations of wrongdoing in HHS programs or to HHS beneficiaries and of unjust enrichment by providers. These investigative efforts lead to criminal convictions, civil False Claims Act recoveries, administrative sanctions, or civil monetary penalties.

- The *Office of Evaluation and Inspections (OEI)* conducts national evaluations to provide the Department, Congress, and the public with timely, useful, and reliable information on significant issues. Specifically, these evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness in departmental programs. To promote impact, the reports also present practical recommendations for improving program operations.

- The *Office of Counsel to the Inspector General (OCIG)* provides legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support in OIG's internal operations. OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within the Department. OCIG also represents OIG in the global settlement of cases arising under the civil False Claims Act, develops and monitors corporate integrity agreements, develops compliance program guidance, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.

- The *Office of Management and Policy (OMP)* provides support services, including budget formulation and execution, strategic planning, policy coordination, information dissemination, information technology, and administrative services.

OIG staff at all locations work in cooperation with the Department, its Operating and Staff Divisions, the Department of Justice and other agencies in the Executive Branch, the United States Congress, and the States to bring about systemic changes, successful prosecutions, negotiated settlements, and recovery of funds.

Rationale for Budget Request

The OIG budget request for FY 2008 is $44,687,000 and 265 FTE. This is an increase of $5,272,000 and 24 FTE above the FY 2007 continuing resolution level, and an increase of $927,000 and reduction of 3 FTE compared to the FY 2007 President's Budget level. This request is comprised of mandatory pay and other inflationary increases, including the Unified Financial Management System and other Departmental initiatives. The OIG request includes funding to support the President's Management Agenda e-Gov initiatives and Departmental enterprise information technology initiatives identified through the HHS strategic planning process.

The outlays of HHS's approximately 300 non-Medicare and Medicaid programs and offices have nearly doubled from FY 1997 to 2006, reaching outlays in FY 2006 of $107 billion. As these programs continue to grow in size and scope, OIG struggles to maintain its capacity to perform Department-wide oversight with audits, evaluations, investigations and inspections of sufficient scope and depth to protect and deter fraud, waste, and abuse in the Department's vast array of programs.

While OIG receives dedicated funding for oversight activities in specific areas related to Medicare and Medicaid, it has a much broader mission to protect the integrity of all HHS programs, as well as the beneficiaries of those programs. This has eroded considerably over the last 10 years. During the period from FY 1997 to 2006, the discretionary budget authority from which OIG conducts all non-Medicare and Medicaid related oversight declined from $579 to $368 for every $1,000,000 of non-Medicare and Medicaid outlays by the Department. Because OIG is a level of effort organization, this represents a 36.6 percent reduction in the capacity of the office to conduct oversight of Departmental activities and leaves an increasing share of HHS outlays susceptible to mismanagement, fraud, waste, and abuse.

Performance Analysis

During the three-year period covering FY 2004 to 2006, OIG expected recoveries of funds averaged $2.68 billion per year. This result exceeded all previous periods and was 12.9 times greater than the annual average of the combined discretionary and mandatory OIG operating budgets over the same period. In addition, 116 of OIG's recommendations to improve HHS program quality and management were accepted by HHS operating and staff divisions in FY 2006.

Selected Performance Measure Example

Performance Goal	Results	Context
Increase by 5% the identified and documented expected recoveries that result from: (1) investigations that led to successful prosecutions or out of court settlements, (2) audit disallowances	OIG exceeded its goal for the following 3-year periods: FY 2002-2004 FY 2003-2005 FY 2004-2006	OIG conducts (1) investigations that lead to indictments, successful prosecutions and out of court settlements resulting in fines, penalties, restitution and other recoveries of funds, and (2) audits that identify improper claims or prohibited use of Federal funds. The expected recovery of funds is reported when the decisions of courts or other authorized entities external to OIG are final.

OIG work that resulted in improved HHS programs and services is equally important. Examples of qualitative accomplishments include improved access to quality care and increased financial security of children receiving support from absentee parents. A table that categorizes and quantifies these accomplishments is on page 27.

Performance Detail

OIG has organized its strategic plan and performance measures around a strategic goal and supporting measures that directly support the HHS Strategic Plan, the Department-wide Top 20 Objectives, and the President's Management Agenda. All targets in the following tables reflect OIG's estimates consistent with funding at the level represented in this budget submission.

Effects of the Continuing Resolution on Performance Targets

Given the uncertainty of the final FY 2007 appropriation levels at the time OIG developed the performance targets for the FY 2008 Congressional Justification, the FY 2007 targets were not modified to reflect differences between the President's Budget and the Continuing Resolution funding levels. Enacted funding may require modifications of the FY 2007 performance targets.

Summary of Performance Targets and Results
OFFICE OF INSPECTOR GENERAL

FY	Total Measures in Plan	Results Reported		Targets			
		Number	%	Met	Not Met		% Met
					Total	Improved	
2002	5	5	100%	5	0	N/A	100%
2003	5	5	100%	3	2	2	60%
2004	6	5[1]	100%[2]	3	2	0	60%
2005	3	2[2]	100%[2]	2	0	N/A	100%
2006	3	3	100%	3	0	N/A	100%
2007	3	Jan 08	Jan 08	Jan 08	Jan 08	Jan 08	Jan 08
2008	3	Jan 09	Jan 09	Jan 09	Jan 09	Jan 09	Jan 09

[1] Unreported result is the developmental measure, for which the baseline was set in FY 2004.

[2] The third measure was developmental; therefore, there was no target for FY 2005.

Performance Analysis

Expected Recoveries
(Dollars in Millions)

Long Term Goal: Make a positive impact on HHS programs			
Performance Measure	**FY**	**Target**	**Result**
Expected recoveries from investigative receivables and audit disallowances **(Outcome Measure)**	2006-2008	$2,716	Jan-09
	2005-2007	$2,586	Jan-08
	2004-2006	$2,580	$2,678
	2003-2005	$2,190	$2,346
	2002-2004	$1,915	$2,024
	2001-2003	$1,908	$1,741
	2000-2002	$1,447	$1,734
Data Source: OIG data systems that track audit disallowances, judicial and administrative adjudications, and out-of-court settlements.			
Data Validation: Audited by GAO in the past. Available for audit by GAO in the future.			
Cross Reference: This performance measure contributes to the achievement of HHS Strategic Goal #8: Achieve excellence in management practices. It also is an accepted measure of the HCFAC PART evaluation.			

Performance Measure Results and Selected Highlights – Expected Recoveries

The average annual expected recoveries for the FY 2004 to 2006 3-year period was nearly $2.68 billion, improving on the target of $2.58 billion by 3.8 percent. The following highlights from OIG's two Semiannual Reports to Congress covering FY 2006 describe the largest contributors to expected recoveries for the most recent year in the FY 2004 to 2006 period:

- *Serono Settlement* - Serono, S.A., along with its U.S. subsidiaries, Serono, Inc., Serono Holdings, Inc., and Serono Laboratories, Inc. (collectively known as Serono), agreed to enter a global criminal, civil, and administrative settlement that included the payment of $704 million plus interest and a 5-year Corporate Integrity Agreement. The global settlement resolved allegations that Serono engaged in the illegal promotion of its AIDS-related drug Serostim, offered, and paid illegal remunerations to physicians and pharmacies to induce them to prescribe and/or purchase Serostim. The company also used an unapproved medical device as a marketing tool to diagnose AIDS-wasting syndrome, the condition that Serostim was approved to treat.

- *SmithKline Beecham Corporation Settlement* - Doing business as GlaxoSmithKline, SmithKline Beecham Corporation agreed to pay the Government $149 million plus interest and enter into a 5-year addendum to its existing Corporate Integrity Agreement with OIG. The settlement resolved allegations that the pharmaceutical manufacturer engaged in certain improper pricing and marketing practices for Zofran and Kytril, two antiemetic drugs used primarily in conjunction with oncology and radiation treatment.

- *Saint Barnabas Settlement* - The Saint Barnabas Health Care System (SBHCS) agreed to pay $265 million and enter into a 6-year corporate integrity agreement (CIA) to resolve its liability under the FCA and other statutes and certain common law causes of action. SBHCS is the largest health care system in New Jersey, currently operating seven acute care hospitals and other ancillary health care providers. The United States alleged that SBHCS artificially inflated its cost-to-charge ratio, triggering the outlier payments to which it was not entitled.

- *AdvancePCS Settlement* - AdvancePCS, a pharmacy benefits manager (PBM), agreed to pay the Government $137.5 million and enter into a 5-year CIA to resolve its liability for allegedly soliciting and receiving kickbacks from pharmaceutical manufacturers and paying kickbacks to potential customers to induce them to contract with the company. This settlement represents the first of its kind with a PBM.

- *Lincare Settlement* - Lincare Holdings, Inc., and its subsidiary Lincare Inc. (collectively, Lincare) agreed to pay $10 million to resolve allegations that Lincare paid illegal kickbacks and violated the Physician Self-Referral Law. OIG alleged that from January 1993 through December 2000, Lincare engaged in a nationwide scheme to pay physicians kickbacks to refer their patients to Lincare. The Lincare settlement represents OIG's largest administrative settlement to date.

FY 2007 and 2008 Targets – Expected Recoveries

Applying the target-setting approach of striving for a five percent increase, the annualized final expected recoveries target for the three-year period ending FY 2007 is $2.586 billion. The initial target for the period ending FY 2008 target is $2.716 billion. The final target for FY 2008 will be determined after results for FY 2007 are available.

Target and Actual Returns per Dollar Invested in the OIG

<table>
<tr><td colspan="4">Long Term Goal: Make a positive impact on HHS programs</td></tr>
<tr><td>Performance Measure</td><td>FY</td><td>Target</td><td>Result</td></tr>
<tr><td rowspan="7">Return on Investment. Calculated by dividing expected recoveries in each 3-year period by OIG budgets over the same period, and expressed as a ratio, (e.g., $10.0:1)
(Efficiency Measure)</td><td>2006-2008</td><td>Sept-07</td><td>Jan-09</td></tr>
<tr><td>2005-2007</td><td>11.4</td><td>Jan-08</td></tr>
<tr><td>2004-2006</td><td>11.9</td><td>12.9</td></tr>
<tr><td>2003-2005</td><td>10.8</td><td>11.6</td></tr>
<tr><td>2002-2004</td><td>10</td><td>10.5</td></tr>
<tr><td>2001-2003</td><td>13.2</td><td>12.1</td></tr>
<tr><td>2000-2002</td><td>15.1</td><td>18.2</td></tr>
<tr><td colspan="4">Data Source: The numerator for return on investment comes from OIG data systems that track audit disallowances, judicial and administrative adjudications, and out-of-court settlements The denominator is the OIG budget.

<u>Note</u>: The Deficit Reduction Act of 2005, which became law during the second quarter of FY 2006, appropriated $25 million per year to OIG from FY 2006 to 2010, to be available until spent. None of the FY 2006 appropriation was spent; therefore, the denominator used to calculate FY 2006 return on investment excludes that amount.</td></tr>
<tr><td colspan="4">Data Validation: Savings have been audited by GAO in the past and are available for future audit.</td></tr>
<tr><td colspan="4">Cross Reference: This measure contributes toward HHS Strategic Goal #8: Achieve excellence in management practices. It also is an accepted measure of the HCFAC PART evaluation.</td></tr>
</table>

<u>Performance Measure Results – Return on Investment</u>

The FY 2006 target based on the methodology described under “Data Source” in the above table was $11.9:1. The actual annualized return on investment for the FY 2004 to 2006 was $12.9:1. The return consisted of an average of over $1.76 billion in investigative receivables and $917 million in audit disallowances. OIG Medicare/Medicaid work led to investigative receivables and audit disallowances averaging $1.75 billion and $582 million respectively. Work <u>not</u> related

to Medicare/Medicaid yielded investigative receivables and audit disallowances averaging $11.8 million and $335 million respectively.

FY 2007 and 2008 Targets – Return on Investment

OIG establishes its return on investment target by dividing the 3-year moving average of the expected recoveries target by the 3-year moving average of the budget. As described in the note in the above table, The FY 2006 portion of the 3-year moving average of the budget excludes $25 million appropriated under the Deficit Reduction Act, but not spent. This resulting return on investment target is $11.4:1 over the FY 2005 to 2007 period.

Number of Accepted Quality and Management Improvement Recommendations

Long Term Goal: Make a positive impact on HHS programs			
Performance Measure	**FY**	**Target**	**Result**
Number of accepted quality and management improvement recommendations **(Outcome Measure)**	2008	75	Jan-09
	2007	75	Jan-08
	2006	70	116
	2005	N/A	73
	2004	N/A	68
	2003	N/A	N/A
	2002	N/A	N/A
Data Source: Counts of accepted recommendations are supplied by OIG staff.			
Data Validation: Proposed counts are reviewed and approved by OIG executive leadership.			
Cross Reference: This performance measure contributes to the achievement of all HHS Strategic Goals.			

Performance Measure Results and Selected Highlights – Accepted Recommendations

In addition to documenting the financial impact of OIG work, in FY 2005 we adopted "number of accepted quality and management improvement recommendations" as a measure of qualitative performance. These recommendations are in OIG audit and evaluation/inspection reports. HHS Operating and Staff Divisions accepted 116-such recommendations during FY 2006. This result is higher than the target of 70 by nearly 60 percent. Most of the increase was attributable to evaluation/inspection reports, three of which were complex and contained an unusually large number of recommendations.

The targets for FY 2007 and 2008 are 75 for each year. Examples of FY 2006 accepted recommendations follow:

- *Dual Eligibles' Transition: Drug Access Under Prescription Drug Plans' Formularies* - This study found that "dual eligibles" - beneficiaries of both Medicare and Medicaid - may need targeted assistance to navigate the transition from Medicaid to the new Medicare Part D drug benefit, given the variation among Part D formularies, as well as the medical and resource challenges faced by this population. Taking advantage of the options available when their drug is not covered requires knowledge and proactive effort by beneficiaries and may require additional assistance from CMS and States to ensure a smooth transition.

- *Universities' Compliance With Select Agent Regulations* - In this summary report, OIG noted that 11 of the 15 universities reviewed did not fully comply with Federal requirements regarding securing and accounting for select agents. Select agents are materials that could pose a severe threat to public health and safety as a result of inadvertent, terrorist or other criminal acts. The Centers for Disease Control and Prevention agreed to resolve the recommendations in OIG's individual reports to the universities.

- *FDA's National Drug Code Directory* - FDA concurred with the following OIG recommendations to: (1) finalize guidance documents for submission of forms to list drug products; (2) assume greater control over the assignment of National Drug Codes; (3) Continue efforts to implement electronic submission of listing forms by drug firms; (4) Implement a mechanism to routinely identify omissions and inaccuracies in the Directory; (5) resolve the status of drug product listings in the pending file; (6) Enhance communication with drug firms, and (7) identify and take appropriate action against drug firms that consistently fail to list drug products and update the information.

- *State Standards and Capacity to Track Frequency of Caseworker Visits with Children in Foster Care* – ACF concurred with our recommendations that, (1) for States with limited or nonexistent automated capacity to record the frequency of caseworker visits and produce statewide reports, ACF should promote the development of automated systems; (2) for States with such automated system capacity, ACF should work with them to ensure that visitation data are recorded in the automated systems.

Qualitative Impact Information

Over the years, OIG has devoted substantial effort to studying and evaluating the quality of HHS programs. The Government Performance and Results Act brought more clearly into focus the importance of developing ways of documenting the impact of OIG recommendations to improve the quality of HHS programs. For this, OIG developed the matrix on the next page as a way to categorize the various types of impact and their associated implications in terms of consumer protection and program administration. OIG's current matrix of impact includes the following actions:

- Legislative, regulatory, policy, or practice changes
- Enforcement Action
- Industry Guidance

Responses to OIG findings or recommendations that are documented in these action categories may occur at the Federal, state, or local level in. A policy change occurs via an official change in written policy. A practice change can take place within the Operating or Staff Division of the Department but does not require any official change in policy. These actions may have one or more of the following implications:

Consumer Protection:

- Increase Safety
- Improve Quality of Care
- Increase Access

Program Administration

- Improve Efficiency/Effectiveness
- Reduce Fraud and Abuse Vulnerability
- Increase Coordination
- Improve Controls
- Increase Compliance
- Improve Reporting

Qualitative impact is not synonymous with the performance measure "Number of Accepted Quality and Management Improvement Recommendations," because (1) many of the accepted recommendations are too recent to have impact and, (2) some may not result in impact. OIG therefore presents the following table and narrative examples for information purposes only. The numbers in the matrix and the narrative examples are not directly associated with the FY 2006 results reported for the "accepted quality and management improvement recommendations" performance measure. They are ways of categorizing qualitative impact and narrative examples of that impact.

MATRIX OF QUALITATIVE IMPACT - FY 2006

IMPACT IMPLICATIONS*	IMPACT ACTIONS						
	Legislative Change	Regulatory Change	Policy Change	Practice Change	Enforcement Action	Industry Guidance	Row Totals
Consumer Protection:							
Increase Safety	0	0	1	3	0	2	6
Improve Quality of Care	0	0	1	2	0	1	4
Increase Access	0	0	0	0	0	0	0
Program Administration:							
Improve Efficiency, Effectiveness	4	3	2	3	0	2	14
Reduce Fraud and Abuse Vulnerability	4	1	2	3	0	1	11
Increase Coordination	0	1	1	1	0	1	4
Improve Controls	1	2	2	3	0	2	10
Increase Compliance	0	1	3	4	0	2	10
Improve Reporting	0	0	1	1	0	2	4
Column Totals	9	9	13	20	0	13	63

*The numbers in the matrix reflect instances of impact documented in FY 2006. Any individual report could result in-multiple impact actions leading to multiple implications; therefore, the numbers in a given cell are not mutually exclusive.

The following are narrative examples of the qualitative impact represented in the matrix:

- *Deficiencies in 340B Drug Discount Program Oversight* - Because of systemic problems with the accuracy and reliability of the Government's record of 340B ceiling prices, OIG found that the Health Resources and Services Administration (HRSA) cannot appropriately oversee the 340B Drug Pricing Program. OIG concluded that it lacks the oversight mechanisms and authority to ensure that 340B entities pay at or below the 340B ceiling price. HRSA and the CMS agreed with most of OIG's recommendations and have already taken steps to improve the calculation of the 340B ceiling price.

- *Series of Inspections on Caseworker Visits for Children in Foster Care* - Caseworker visitation is an element critical to maintaining the safety and well-being of children in foster care. Two related OIG reports found that a significant number of States could not quantify the extent to which children were receiving visits, despite Federal investment in statewide automated systems. The Administration for Children and Families is taking steps to address these issues with the States.

- *Outside Activities of Senior-Level NIH Employees* - An evaluation that looked at outside activities of NIH employees identified several vulnerabilities that inhibit NIH's ability to effectively review those outside activities. As a result of numerous OIG recommendations, NIH has taken actions to reduce vulnerability of scientific research to inappropriate financial influence. The recommendations will lead to enhanced documentation and assurances that research conducted at NIH is free from the appearance of conflicts of interest.

- *Self-Declaration of U.S. Citizenship for Medicaid* - This report created impact by contributing, among other influences, to new requirements associated with the self-declaration of citizenship for Medicaid applicants. The Deficit Reduction Act of 2005 included a list of satisfactory documentary evidence that can be accepted to support citizenship. One of the OIG recommendations contained in our evaluation report was for CMS to issue a complete list of evidence that States reference when determining eligibility. On June 9, 2006 CMS issued relevant guidance on how to implement the DRA changes that were effective on July 1, 2006. This guidance included a list of acceptable documentary evidence. The DRA provision, and CMS's guidance to State Medicaid directors, provide clear requirements for documenting citizenship and identity prior to enrolling in Medicaid. These requirements will strengthen efforts to reduce fraud and abuse of the Medicaid program. The requirements also impose the same standards across the country, thereby improving controls for Medicaid enrollment nationwide.

- *Early Implementation of CMS Chemotherapy Demonstration* - We found that the demonstration project allowed for extremely large reimbursements for some providers, that data were collected in a non-uniform manner, and that the rate paid for demonstration services was completely out-of-line with the amount of work involved. Senator Chuck Grassley issued a letter to President Bush and to his colleagues in the Senate informing them of our findings and urging changes to the demonstration project.

As a result, CMS modified the demonstration program for 2006 to collect different data and to lower the reimbursement per service.

- *State Ombudsman Data: Nursing Home Complaints* - Our report recommended the Administration on Aging (AoA) share our study results with State ombudsmen, and continue clarifying and refining the National Ombudsman Reporting System (NORS) process. In response to our report AoA developed short and long-term actions that were provided to all State ombusdmen and State directors in 2003. In 2004 AoA launched an intensive program for NORS training. Training Part I trained State and local ombudsmen to distinguish between a case, complaint, and consultation. Training Part II consisted of coding complaints, and training Part III consisted on coding complaint outcomes. AoA developed principles and interactive training material for each Part. In December 2005, a notice was published in the Federal Register regarding the proposed revisions to NORS. The information from the National Ombudsman Reporting System will help increase the awareness of concerns about nursing home complaints, licensure, and certification as reported in three additional studies.

Changes and Improvements over Previous Years

The FY 2007 Congressional Justification contained an annualized expected recoveries target for the period FY 2005 to 2007 that was based on striving for a 10 percent improvement over the previous period. As OIG gained experience with the use of 3-year moving averages, it became apparent that a 10 percent improvement for annualized 3-year periods was not realistic. The reason is that the achievement of a 10 percent increase to a 3-year moving average may require far higher than 10 percent increase in the final year of the reporting period. To achieve this 10 percent increase for the FY 2005 – 2007 period, for example, OIG would need to improve performance in FY 2007 by 35 percent over the FY 2004 – 2006 moving average level to have the effect of increasing the 3-year moving average 10 percent. This is not a realistic performance target.

While 10 percent or higher annual improvements have occurred at times in the past, OIG concluded that a more realistic but still challenging percentage improvement for which to strive would be 5 percent.

Because of this change, the annualized FY 2005 to 2007 target for expected recoveries was changed from $2.81 billion to $2.59 billion. This target is higher than the results reported for the FY 2004 to 2006 period.

Inasmuch as expected recoveries is the numerator for the return on investment calculation, that target was also changed compared to the FY 2007 Congressional Justification.

Changes Compared to FY 2007 Congressional Justification
(expected recoveries dollars in millions)

Performance Measure	FY 2007 Congressional Justification	FY 2008 Congressional Justification
Expected Recoveries	$2,810	$2,586
Return on Investment	$12.2:1	$11.4:1

PART Summary Table
CY 2002-2006
(Dollars in Millions)

Program	FY 2007 President's Budget	FY 2008 Request	FY 2008 +/- FY 2007	Narrative Rating
CY 2002 PART				
Health Care Fraud and Abuse Control Program (HCFAC)	$165.92	$169.24	3.320	Results Not Demonstrated

The HCFAC PART assessment done in CY 2002 during the FY 2004 budget cycle, listed as an overall concern the fact that the program did not have a measure with a baseline that could reflect progress toward reducing or eliminating health care fraud and abuse. The OIG has been unable to identify a credible baseline that could be used for this purpose.

The amount of Departmental money saved through the work of the OIG HCFAC program has far exceeded the cost of the program. Over the most recent three year period (FY 2004 to 2006), expected recoveries of funds from OIG investigations and audit disallowances averaged $2.68 billion per year. HCFAC work accounts for most OIG expected recoveries of funds. OIG works continuously to improve the performance of this already high performing program.

OFFICE OF INSPECTOR GENERAL
Detail of Full-Time Equivalent Employment (FTE)

	2006 Actual	2007 CR	2008 Estimate
Discretionary	264	241	265
Mandatory (HCFAC)	1,087	1,085	1,071
Trust Fund (MMA)	68	--	--
Trust Fund (Caps Proposal)	--	--	113
Medicaid Integrity	--	231	224
HIPAA Collections	15	15	15
Discretionary Reimbursable	13	13	13
Total, OIG	1,447	1,585	1,701

Average GS Grade

Fiscal Year	Average Grade
2002	11.4
2003	11.9
2004	11.9
2005	12.1
2006	12.0

OFFICE OF INSPECTOR GENERAL
Detail of Positions

	2006 Actual	2007 CR	2008 Estimate
Executive Level IV	1	1	1
Exec. Level Salaries	$145,400	$145,400	$145,400
SES Positions	15	15	15
ES Salaries	$2,217,000	$2,280,000	$2,425,000
GS-15	66	70	71
GS-14	179	183	189
GS-13	495	507	509
GS-12	449	505	535
GS-11	94	99	126
GS-10	1	1	1
GS-9	98	119	140
GS-8	12	18	18
GS-7	79	80	113
GS-6	7	11	13
GS-5	10	12	6
GS-4	4	6	2
GS-3	1	2	1
GS-2	0	0	0
GS-1	0	0	0
Total - GS Positions	1,495	1,613	1,724
Total Positions	1,511	1,629	1,740
Total FTE EOY	1,447	1,585	1,701
Average ES Salary	$150,500	$151,900	$155,200
Average GS Grade	12.0	12.0	12.1
Average GS Salary	$81,606	$83,283	$86,532

Performance Budget Crosswalk

(Dollars in Millions)

Performance Program Area	Budget Activity	FY 2006 Enacted	FY 2007 CR	FY 2008 Estimate
Office of Inspector General	Discretionary/ HCFAC/MMA/MIP*	$238	$230	$257

* All years exclude reimbursable work. FY 2007 and 2008 exclude "Never Event" Funding

Full Cost Summary Table

(Dollars in Millions)

Performance Program Area: Office of Inspector General	FY 2006	FY 2007	FY 2008
Performance Measure			
1. expected recoveries 2. return on investment	N/A	N/A	N/A
3. number of accepted quality and management improvement recommendations	N/A	N/A	N/A
Full Cost Total (rounded to nearest million)	$238	$230	$257

The work of the OIG consists of audits, investigations, inspections/evaluations, and outreach. The principal products of this work are reports with findings and recommendations. Typically, there is a mix of financial and nonfinancial (i.e., qualitative and/or management improvement) findings and recommendations in any given report. Therefore, it is not possible or meaningful to estimate the split between the financial and nonfinancial nature of the work.

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Financial Management Systems

UFMS Development and Implementation

The Unified Financial Management System (UFMS) is being implemented to replace five legacy accounting systems currently used across the Operating Divisions (Agencies). The UFMS will integrate the Department's financial management structure and provide HHS leaders with a more timely and coordinated view of critical financial management information. The system will also facilitate shared services among the Agencies and thereby, help management reduce substantially the cost of providing accounting service throughout HHS. Similarly, UFMS, by generating timely, reliable and consistent financial information, will enable the component agencies and program administrators to make more timely and informed decisions regarding their operations. UFMS has been in production for the CDC and FDA for over a year, with new functionality releases of Grants and IVR in October 2005 and eTravel in April 2006. The PSC implementation was moved to production on October 16, 2006.

UFMS Operations and Maintenance (O &M)

The PSC has the responsibility for ongoing Operations and Maintenance (O & M) activities for UFMS. The scope of O & M services includes post deployment support and ongoing business and technical operations services. Post-deployment services include supplemental functional support, training, change management and technical help-desk services. On-going business operation services involve core functional support, training and communications, and help desk services. On-going technical services include the operations and maintenance of the UFMS production and development environments, on-going development support, and backup and disaster recovery services. In accordance with Federal and HHS policy, the UFMS application is under an approval to operate through February 16, 2007 by the designated Certifying Authority and Designated Approving Authority (DAA). The UFMS application will be approved for operation for 1 year after this date. After October 2007, when all OPDIVs will be operational on UFMS, then a 3-year certification will be completed. This approval to operate assures that the necessary security controls have been properly reviewed and tested as required by the Federal Information Security Management Act (FISMA). OIG requests $808,490 to support these efforts in FY 2008.

Administrative Systems

With the implementation of a modern accounting system, HHS has efforts underway to consolidate and implement automated administrative systems that share information electronically with UFMS. These systems will improve the business process flow within the Department, improve Funds Control and provide a state of the art integrated Financial Management System encompassing Finance, Budget, Acquisition, Travel and Property. As the UFMS project is nearing completion, the integration of administrative systems is the next step in making these processes more efficient and effective. OIG requests $79,123 to support these efforts in FY 2008.

HHS Consolidated Acquisition System

The HHS Consolidated Acquisition System (HCAS) initiative is a Department-wide contract management system that will integrate with the Unified Financial Management System (UFMS). The applications within the HCAS are Compusearch PRISM and a portion of the Oracle Compusearch Interface (OCI). PRISM is a federalized contract management system that helps streamline the procurement process. The implementation of PRISM includes the functionality of contract writing, simplified acquisitions, electronic approvals and routing, pre-award tracking, contract monitoring, post award tracking, contract closeout and reporting. Major functions once integrated with the UFMS include transfer of iProcurement requisition for commitment accounting and funds verification to PRISM and transmission of the award obligation from PRISM to Oracle Financials.

Benefits:
The following benefits will be realized by the Department and the individual OPDIVs/STAFFDIVs once the HCAS system is fully implemented and integrated with UFMS:

- Commitment Accounting
- Integration to other HHS Administrative Systems
- Decreased Operational Costs
- Increased Efficiency and Productivity
- Improved Decision Making – Unified systems
  – Data Integrity
  – Reporting
  – Performance Measurement
  – Financial Accountability
- Standardization
  – Business Processes
  – Information Technology
- Consistent Customer Service Levels
- Refocus personnel efforts on value-added tasks
- Knowledge Sharing
- System Enabled Work
  – HHS Acquisition Personnel – contracting
  – Customers in requirement preparation – requisitioning
- Meets Organizational Drivers and Goals (e.g., President's Management Agenda, E-Gov initiatives including Lines of Business, and One-HHS)

The HCAS team is working closely with the UFMS PMO and HHS PMO to ensure a smooth roll out of both PRISM and iProcurement. An integrated team, including personnel from UFMS, Acquisition and Assets has been formed to ensure maximum utilization of in-house expertise. OIG requests $179,449 in to support these efforts in FY 2008.

FY 2008 HHS Enterprise Information Technology Fund – PMA e-Gov Initiatives

The OIG will contribute $354,286 of its FY 2008 budget to support Department enterprise information technology initiatives as well as the President's Management Agenda (PMA) Expanding E-Government initiatives. Operating Division contributions are combined to create an Enterprise Information Technology (EIT) Fund that finances both the specific HHS information technology initiatives identified through the HHS Information Technology Capital Planning and Investment Control process and the PMA initiatives. These HHS enterprise initiatives meet cross-functional criteria and are approved by the HHS IT Investment Review Board based on funding availability and business case benefits. Development is collaborative in nature and achieves HHS enterprise-wide goals that produce common technology, promote common standards, and enable data and system interoperability. The HHS Department initiatives also position the Department to have a consolidated approach, ready to join in PMA initiatives.

Of the amount specified above, $54,902 is allocated to support the President's Management Agenda Expanding E-Government initiatives for FY 2008. This amount supports the PMA E-Government initiatives as follows:

PMA e-Gov Initiative	**FY 2007 Allocation**	**FY 2008 Allocation**
Business Gateway	$48,521	$17,213
E-Authentication	$0	$0
E-Rulemaking	$0	$0
E-Travel	$0	$17,425
Grants.Gov	$0	$0
Integrated Acquisition	$13,666	$14,083
Geospatial LOB	$0	$0
Federal Health Architecture LoB	$0	$0
Human Resources LoB	$3,022	$3,022
Grants Management LoB	$0	$0
Financial Management LoB	$855	$1,466
Budget Formulation & Execution LoB	$770	$872
IT Infrastructure LoB	$821	$821
TOTAL	$67,654	$54,902

Prospective benefits from these initiatives are:

Business Gateway: Provides cross-agency access to government information including: forms; compliance assistance resources; and, tools, in a single access point. The site offers businesses various capabilities including: "issues based" search and organized agency links to answer business questions; links to help resources regarding which regulations businesses need to

comply with and how to comply; online single access to government forms; and, streamlined submission processes that reduce the regulatory paperwork burdens. HHS' participation in this initiative provides HHS with an effective communication means to provide its regulations, policies, and forms applicable to the business community in a business-facing, single access point.

E-Travel: The E-Travel Program provides a standard set of travel management services government-wide. These services leverage administrative, financial and information technology best practices. By the end of FY 2006, all but one HHS OPDIV has consolidated services to GovTrip and legacy systems retired. By May 2008, all HHS travel will be conducted through this single system and the last remaining legacy functions will be retired.

Integrated Acquisition Environment: Eliminated the need for agencies to build and maintain their own agency-specific databases, and enables all agencies to record vendor and contract information and to post procurement opportunities. Allows HHS vendor performance data to be shared across the Federal government.

Lines of Business-Human Resources Management: Provides standardized and interoperable HR solutions utilizing common core functionality to support the strategic management of Human Capital. HHS has been selected as a Center of Excellence and will be leveraging its HR investments to provide services to other Federal agencies.

Lines of Business –Financial Management: Supports efficient and improved business performance while ensuring integrity in accountability, financial controls and mission effectiveness by enhancing process improvements; achieving cost savings; standardizing business processes and data models; promoting seamless data exchanges between Federal agencies; and, strengthening internal controls.

Lines of Business-Budget Formulation and Execution: Allows sharing across the Federal government of common budget formulation and execution practices and processes resulting in improved practices within HHS.

Lines of Business–IT Infrastructure: A recent effort, this initiative provides the potential to leverage spending on commodity IT infrastructure to gain savings; to promote and use common, interoperable architectures that enable data sharing and data standardization; secure data interchanges; and, to grow a Federal workforce with interchangeable skills and tool sets.

Health Care Fraud and Abuse Control Program

Efforts to combat fraud were consolidated and strengthened under Public Law 104-191, the Health Insurance Portability and Accountability Act of 1996 (HIPAA). The Act established a comprehensive program to combat fraud committed against all health plans, both public and private. The legislation required the establishment of a national Health Care Fraud and Abuse Control Program (HCFAC), under the joint direction of the Attorney General and the Secretary of the Department of Health and Human Services (HHS) acting through the Department's Inspector General. The HCFAC program is designed to coordinate Federal, State and local law enforcement activities with respect to health care fraud and abuse. The Act requires HHS and DOJ detail in an Annual Report the amounts deposited and appropriated to the Medicare Trust Fund, and the source of such deposits. Reports are located at http://www.oig.hhs.gov/publications.html.

The Tax Relief and Healthcare Act of 2006 (P.L. 109-492) provides annual adjustments over the previous year to the HCFAC appropriation during the FYs 2007 - 2010 based on the percentage increase in the Consumer Price Index for All Urban Consumers (CPI-U). While estimates are used for outyear projections, the current year increases are derived from actual CPI-U data from the Department of Labor, Bureau of Labor Statistics. To calculate the increase to be applied in FY 2007, the monthly CPI-Us (not seasonally-adjusted) for all of the months of FY 2006 were summed and divided by 12, and compared with the sum of the same months for FY 2005, also divided by 12 . The average CPI-U for FY 2005 is subtracted from the average CPI-U for FY 2006. The difference is divided by the average CPI-U for FY 2005. This result (0.037) is then multiplied by 100, (result 3.7%, rounded to the nearest one-tenth of one percent). The increase of 3.7% is applied to the FY 2006 base of $160,000,000 to calculate the FY 2007 appropriation of $165,920,000 (i.e., the $160,000,000 figure is multiplied by 1.037).

Never Event Funding

The Tax Relief and Health Care Act of 2006 (P.L. 109-432) requires OIG to conduct a study on the occurrence of “never events.” A never event is a serious, life endangering or costly medical error that should never have occurred. Examples of never events include amputation of the wrong limb, negligence resulting in a medical or other instrument being left in the patient’s body after surgery and mismatched blood transfusions. Section 203 of the Act requires OIG to conduct a study that examines (i) the incidences of “never events” for Medicare beneficiaries; (ii) the extent to which the Medicare program paid, denied payment, or recouped payment for services furnished in connection with such events; and (iii) the process for detecting such events and denying payment for connected services. The section provides $3 million for the OIG to conduct such a study, and requires that such funds remain available until expended or 2010, whichever is sooner. The statute requires OIG to submit a report to Congress not more than two years after the enactment of the Act that details the results of the study.