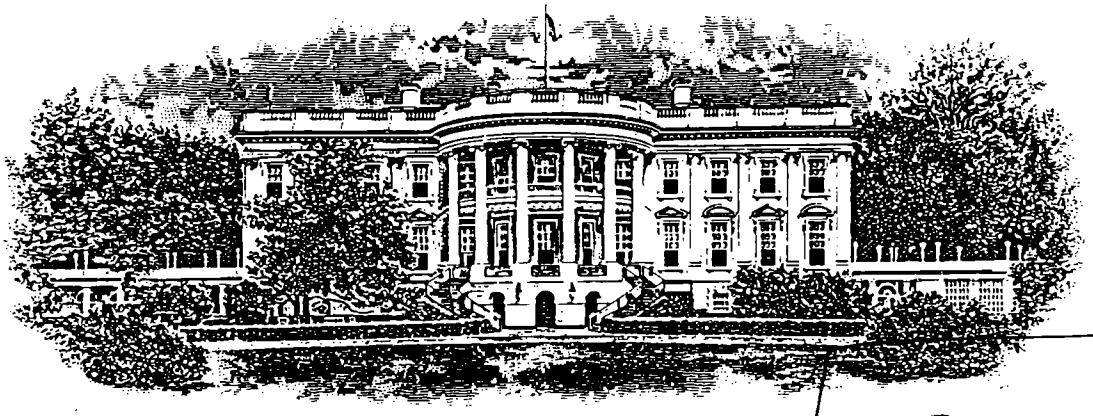
FAX COVER SHEET

Health Division

Executive Office of the President
Office of Management and Budget
OEOB, Room 262
Washington, D.C. 20503



DATE: 4/21/95

TO: Lavarne Burton

AGENCY: _____

FAX NO: (4[illegible] 5435

FROM: Nancy-Ann Min
Associate Director for Health and Personnel

Phone number (202) 395-5178

Fax number (202) 395-7289

Number of pages (including cover) 5

COMMENTS: Tried to reach you to discuss — see my cover memo!

CC: Diana Fortuna
Chris J /
Jen Klein —
This is FYI
for the cover
memo — we're
on for the
3rd. Nan

E X E C U T I V E O F F I C E O F T H E P R E S I D E N T

21-Apr-1995 03:40pm

TO: ~~Alice M. Rivlin~~ Lavarne Burton

FROM: Nancy-Ann E. Min
Office of Mgmt and Budget, HP

SUBJECT: HHS REGO II Rollout

We had a REGO II Steering Committee meeting today to discuss a number of pending issues, including the HHS Rollout. Alice, Elaine, John Koskinen, and Bob Stone decided that:

1. The attached "Fact Sheet" represents the decisions that have been made, and that can go forward on May 3rd, with the exception of two things they want us to add: PHS Performance Partnerships (even though it is in the 96 budget, they want it to be mentioned), and the HCFA regulatory reform items. Barry Clendenin is drafting paragraphs on these and will send them to you, perhaps as early as tonight--but I wanted you to have this ASAP.

2. There was concern about the level of savings being very low compared with other departments that have been announced--the others have met their outyear targets. People realize that most of the original savings we had came from Medicare and from LIHEAP. Therefore, they are willing to let this go--but we have increased the FTE savings from OASH/OS consolidation to reflect a higher number, 400 instead of 190. It was felt that this number could be taken (i.e., an additional 200) from the leftover 628, with the remainder being reallocated within HHS.

3. The President will probably talk about the fraud demos in his remarks to the Aging Conference on the morning of May 3--the current thinking is that the Secretary could then brief on the remainder of the REGO package* that afternoon. Elaine is coordinating with White House Communications and the First Lady's Office. I imagine there will be a meeting on this next week that would involve the Department.

4. They have asked us to come up with some numbers of how many dollars can be saved from the program integrity stuff. We are trying to determine how much is already in the baseline--since this is just a reclassification, the savings would just be the additional dollars over that baseline, based on some formula--presumably your 8:1. We will be back to you on this on Monday.

* including the demos, of course

5. The items that aren't included in the package should not be mentioned (i.e., HRSA/HCFA/SAMHSA consolidation) because they have not been approved for release. We will need to discuss how you handle the consolidation because that will surely be raised, as a result of the leak to the Post.

6. For the announcement, OMB/NPR will draft a press release from the White House, which we will share with you next week. HHS should draft one page descriptions of each of the proposals that you could give out at the Secretary's briefing; we will need to review these.

That's all for now. Please call me.

Missing: Perf. Partnerships HCFA Regulatory items

DRAFT

FACT SHEET
DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS)
NATIONAL PERFORMANCE REVIEW, PHASE II

The Department and its Mission

The Department of Health and Human Services (HHS) is the Federal Government's principal agency for providing essential human services and furthering the health of all Americans. With approximately ___ programs, HHS has the largest budget among all domestic Federal departments, accounting for ___ percent of all federal spending. With the departure of the Social Security Administration on March 31, 1995, HHS now employs roughly _____ FTEs.

HHS' mission is to protect and promote the health and economic security of all Americans and in particular those least able to help themselves -- children, the elderly, persons with disabilities, and the disadvantaged -- by helping them and their families develop and maintain healthy, productive, and independent lives. In partnership with States, tribes, localities and other important community institutions, HHS attempts to accomplish this mission in a way that provides the highest qualify of service to the American people, assures fairness and equity to all people, and protects the public investment in our programs.

The HHS/National Performance Review Process

HHS has systematically assessed and applied the National Performance Review (NPR) decision tree to each of its activities. Each Assistant Secretary and agency head personally reviewed their agencies and programs, and presented the results to an internal group made up of senior staff from across HHS. That group also conducted a departmental-wide review, starting initially by identifying the key federal roles that HHS must perform, and critically examining the agency specific reviews in that light. The effort was guided on a daily basis by the Deputy Secretary, and by a Policy Group consisting of HHS Assistant Secretaries and others at the policy level, including the Secretary. Nothing was "off the table" in these reviews.

The process has yielded great dividends and bold proposals to: eliminate non-core functions; eliminate an entire organizational layer; consolidate major programs to better serve the public; offer more flexibility to our partners in state, local and tribal governments; cut administrative overhead; and enhance the government's ability to detect and prevent health care fraud and abuse.

Summary of Major NPR Proposals

HHS' NPR Phase II proposals would result in savings of about $420 million and reductions of about 2,380 FTE over five years. These savings come from the major departmental restructuring and the elimination, consolidation and privatization of activities highlighted below. Some of these proposals can be accomplished administratively, and some will require legislation which HHS will submit to Congress by July 4, 1995.

- *Create a Streamlined HHS Corporate Structure*: HHS would develop a single HHS corporate structure by eliminating the Office of the Assistant Secretary for Health (OASH) and merging its functions with the Office of the Secretary (OS). Currently OASH has 1,153 FTEs and OS has 1,276 FTEs. By FY 2000, the new HHS corporate structure will have 58 percent fewer FTEs than in FY 1993.

- *Consolidation of Surveys and Development of Data Standards:* HHS would fix the following major problems with its current data information systems: inefficient and overlapping survey efforts, high burden on respondents, and inadequate survey data. Through this REGO proposal, HHS plans to improve vastly the analytic capacity of HHS programs, fill in major data gaps, and establish a survey consolidation framework--highlighted by the integration of the national Health Interview Survey and the National Medical Expenditures Survey--in which HHS data activities are streamlined and rationalized.

- *Consolidate Certain Aging Programs:* HHS would consolidate programs for seniors in the Administration on Aging and in other parts of HHS to achieve more coordinated service delivery. Exploratory discussions are underway with other Federal Departments to determine whether additional program consolidations are possible and can lead to service improvements for seniors. Under the consolidation, State and local communities would be granted increased flexibility to determine the types of aging services that are most useful locally, in exchange for greater accountability for program results."

- ~~*Consolidate Internal HHS American Indian/Alaska Native Programs:*~~ This is out for now

- *Strengthen Medicare Program Integrity:* HHS will take a two-step approach to prevent fraud and abuse in Medicare. First, Secretary Shalala will initiate a demonstration program led by the HHS Inspector General in five key states -- Texas, California, Florida, Illinois and New York -- where health care fraud is of particular concern. Second, HHS will be proposing a new funding source for Medicare fraud and abuse activities. This source will ensure that funding for these activities is maintained at sufficient levels to help protect the Medicare trust funds.

- *Privatizing National Institutes of Health (NIH) Clinical Center Management:* HHS proposes to begin a 24-month phase-in toward contracting out the replacement of the facility and non-research operations of the NIH clinical center.

- *Other Privatizations:* HHS proposes to privatize certain other functions including {the Federal Employees Occupational Health (FEOH) program, pending DPC guidance}, Clinical Practice Guidelines, and Technology Assessment.

- *Food and Drug Administration (FDA) Regulatory Reform:* The reforms announced on March 16, 1995 for FDA's regulation of foods, drugs, biologics, and medical devices are

expected to yield savings for the regulated industries and the agency.

- *Additional Proposals:* HHS also proposes to reduce management control positions at NIH and FDA and to merge the Agency for Toxic Substances and Disease Registry (ASTDR) with the Centers for Disease Control (CDC)

HHS Estimate of Total 5-year Savings:	$420 million
HHS Estimate of Total FTE Savings:	2,380
Office Closings:	Some, pending further HHS study

April 20, 1995

Health Division

Office of Management and Budget
Executive Office of the President
Washington, DC 20503

Please route to:
Nancy-Ann Min
Ken Apfel

Decision needed	XX
Please sign	____
Per your request	____
Please comment	____
For your information	____

Through:
Barry Clendenin BC

With informational copies for: BW, KF, RT, MM

Subject:
HHS REGO II Rollout -- **Decision Needed:** Proposals to be Included in the Rollout -- *Let's Meet Today to Discuss*

From: Chris Jordan CJ

Phone:	202/395-4926
Fax:	202/395-3910
Room:	#7025

We understand that HHS' REGO II proposals are scheduled for a May 3, 1995 rollout. The Budget Review Division requested that the MAX REGO II database be updated by April 19th. We were unable to meet that deadline due to incomplete savings estimates from HHS. *To get back on schedule and complete the items listed at Attachment A*, the following steps need to be taken:

- **By today**, a decision by OMB policy officials on which HHS proposals will be in the rollout. At Attachment B is a summary of each of the HHS proposals. This document will be used as the basis for preparing any other materials.

- **By Friday**, HD and HRD examiners must update the MAX REGO II database to reflect these decisions. As of April 19th, we have received savings estimates from HHS that are incomplete and differ from the FY 1996 Budget. At Attachment C is the HHS savings estimate table and a table that was used for the meeting with the Vice President with HHS' new estimates immediately under the earlier estimate for each proposal.

- **By Tuesday, April 25th**, finalize with HHS the information in the database and the

information for a fact sheet and a one-page highlights document. Attachment D is a draft Fact Sheet that is consistent with our understanding of which HHS proposals will be included in the rollout.

- **By Thursday, April 27th,** HHS (or Larry Haas?) prepares draft HHS press materials. OMB/White House prepares White House press materials.

Outstanding Issues

You also need to be aware of the following issues:

- *Savings estimates are down.* The memo from the Vice President to the President (March 17, 1995) highlighted HHS' savings estimates of $2.5 billion over five years and 2,400 FTEs by FY 2000. Based on our understanding of Nancy-Ann's earlier comments, HHS savings estimates would *only be approximately $500 million* over five years (savings associated with Program Integrity and MTS would not be included). Also, of the 2,400 FTEs, approximately 1,800 are associated with the contracting out of the management of the NIH Clinical Center.

- *Some HHS proposals cost money.* HHS estimates that the Inspector General demonstration project under Program Integrity will cost $7.9 million over two years. OMB estimates the Data Integration Proposal will cost $62 million above the amount in the FY 1996 Budget over five years.

- *HHS staff is not aware of REGO II decisions.* The HHS savings estimates table we received yesterday included the HCFA/HRSA/SAMHSA merger proposal, the termination of the Office of Consumer Affairs, and $396 million in annual savings from the Program Integrity proposal. HHS staff believes that these items are still under consideration.

- *None of the consultations with other agencies on HHS' cross-agency proposals are completed.*

We recommend meeting *today* to discuss the HHS REGO II situation. Only after we meet will we be able to update the MAX database and initiate the process toward the HHS REGO II rollout.

Attachments

Attachment

A

Steps that Must be Completed Prior to the HHS Rollout

1) Decisions by OMB Policy Officials

2) HHS Savings Estimates must be made consistent with Policy Officials' decisions

3) MAX Database Updated

4) Fact Sheet

5) One-page Highlights Paper

6) OMB/White House Press Materials

7) Agency Press Materials

Attachment

B

HHS REGO II Proposals for Roll-out

Notes:

- **Savings were last estimated by HHS April 19th. HHS will be updating some of these estimates. These savings estimates are from OBRA baseline. Any known costs associated with those proposals expected to require additional resources have been included.**

- **BRD has requested updates to the MAX system reflecting final savings estimates by COB April 19th. We have not been able to complete that exercise.**

- **Per earlier comments from Nancy-Ann, items that she would not include in the roll-out have been indicated.**

- **Items that could or would require legislation to implement, are so noted. Items that have cross agency implications are also noted.**

[Not included by NEM.] Improving Services to Children, American Indians/Native Alaskans, and the Aged. Currently, services for children, Native Americans, and senior citizens are fragmented in several HHS agencies as well as across the Federal government. To relieve the burden on customers and improve the effectiveness of these programs, HHS proposes to consolidate programs along population lines.

Children's Programs: Convene an HHS governing board to develop a unified budget and policy strategy for all HHS programs affecting children.

_____ **In** _____**Out**

American Indians/Native Alaskans: Consult with tribes regarding the concept of merging all Native American programs in HHS under one umbrella. HHS will discuss the possible inclusion of some Interior Department activities into HHS with Secretary Babbitt and with tribal organizations.

Portion of this proposal is a cross-agency issue.
Could require legislation to implement.

_____ **In** _____**Out**

Aging: Consolidate into Performance Partnerships many programs in HHS and other agencies affecting senior citizens. HHS discussed this proposal with affected agencies (DOT, HUD, USDA, Labor) on April 19th. It was the first time any of the agencies, other than DOL, had been informed of this proposal.

Cross-agency issue.
Could require legislation to implement.

_____ **In** _____ **Out**

HHS estimate of 5-year Savings: $19 million
HHS Estimate of Total 5-year FTE Reduction: 9
Office Closings:

Contracting Out NIH Clinical Center Management. HHS proposes to begin a 24-month phase-in toward contracting out the replacement of the facility and non-research operations of the NIH Clinical Center. HHS proposes issuing an RFP for a contractor to build and lease back to the government a 250-bed hospital on the NIH campus in Bethesda, Maryland, and issuing a long term contract for management of the existing and new hospital. HHS estimates first year (FY 1997) FTE savings of approximately 300-500 positions from downsizing staff and contracting out. Additional FTE savings will occur in the outyears through this contracting out process.

Could require legislation to implement.

HHS estimate of 5-year Savings: $87.2 million
HHS Estimate of Total 5-year FTE Reduction: 1,800
Office Closings:

_____✓_____ **In** _____ **Out**

[Not included by NEM.] Privatize the FEOH. HHS proposes to privatize the Federal Employee Occupational Health (FEOH) program, which provides reimbursable health consultation and services to over 4,000 departments, agencies, and offices. HHS estimates that this proposal will result in 100 Federal FTE savings by FY 2000.

Chew w/ Elaine

HHS estimate of 5-year Savings:
HHS Estimate of Total 5-year FTE Reduction: 100
Office Closings:

_____ **In** _____ **Out**

Privatizing Clinical Practice Guidelines. Currently, HHS' Agency for Health Care Policy and Research develops clinical practice guidelines. HHS proposes establishing four private-sector guideline centers to develop multiple guidelines simultaneously, allowing economies of scale, efficiencies in process, and improvements in product consistency. The centers will also be available to develop guidelines for private-sector customers (professional societies, managed care organizations, etc.).

Could require legislation to implement.

HHS estimate of 5-year Savings: $14.8 million
HHS Estimate of Total 5-year FTE Reduction: 5
Office Closings:

_____✓_____ **In** _____ **Out**

Privatizing Technology Assessment. Currently, HHS' Agency for Health Care Policy and Research reviews and assesses new technologies under consideration for reimbursement by Federal agencies. HHS proposes to shift technology assessments to the private sector through collaborative arrangements with health care organizations, payers, manufacturers, clinicians, and assessors. HHS projects a 50% savings over a five year period by downsizing and streamlining current activities and leveraging private sector funding.

Could require legislation to implement.

HHS estimate of 5-year Savings: $3.3 million
HHS Estimate of Total 5-year FTE Reduction: 3
Office Closings:

_____✓_____ **In** _____ **Out**

OS/OASH Consolidation. HHS' current extended management structure does not integrate Human Services and Health functions. This proposal would eliminate the Office of the Assistant Secretary for Health (OASH) and merge its functions with the Office of the Secretary (OS), developing a single HHS corporate structure. Currently OASH has 1,153 FTEs and OS has 1,276 FTEs. By FY 2000, the new HHS corporate structure will have 58% fewer FTEs compared to the OS/OASH base for FY 1993. This reflects streamlining changes from REGO I and FTE reductions in the FY 1996 Budget, as well as the merger proposed in the current option.

The merger itself proposes outright elimination of 190 FTEs. Another 698 FTEs would be privatized, franchised, or devolved to HHS operating components. How many of these 698 FTEs would result in bottom line FTE savings is not certain. To the extent that larger HHS FTE savings are desirable, some or all of these 698 FTEs could be used.

HHS estimate of 5-year Savings: $69.4 million
HHS Estimate of Total 5-year FTE Reduction: 190 — Go back to HHS 400 FTEs?
Office Closings: 1 (or more depending on HHS)

_____ **In** _____ **Out**

Program Integrity and HHS OIG Fraud and Abuse Demo. Currently, HHS spends nearly $400 million per year to prevent fraud, waste and abuse. HHS believes that there is substantial evidence that investing in these activities has significant returns in reduced program costs. Two options to prevent fraud and abuse in Medicare are being proposed:

$100M, RIO money

(1) Per Nancy-Ann's decision of April 18, Secretary Shalala will initiate a demonstration program led by the HHS Inspector General in several key states -- Texas, California, Florida, Illinois, New York -- where health care fraud is of particular concern. Next steps include HHS development, and submission to OMB, of an apportionment request, including a detailed financial plan linked to performance measures as well as responses OMB questions on the demo (submitted to HHS on April 13th).

(2) The HHS will propose a more reliable funding source for program integrity activities to better protect the Medicare trust funds. Per Nancy-Ann's recommendation, next steps include discussions between her, the Director and Elaine Kamarck concerning options for the type of funding source to be created under this proposal.

Budget neutral. No Medicare cuts to pay for this.

Would require legislation to implement. + existing $s

HHS estimate of 5-year Costs: $7.9 million in mandatory spending for the OIG demo.
HHS Estimate of Total 5-year FTE Reduction: ? Why not shifting FTEs

_____ **In** _____ **Out**

Projected recapture ? They say 8 to 1.

$56 M Fraudulent $

- want PR person to go with each team
  $20,000 for media travel

What are you diverting this $4 from -- not pay go but on mandatory side
Why trust fund ?
-- Why not using discretionary funds ?

[Not included by NEM] PHS Consolidations. The President's FY 1996 Budget proposes to consolidate 107 Public Health Service (PHS) programs into 6 Performance Partnerships and 10 consolidated clusters to give states and local communities more flexibility in administering PHS grants. FTE savings of 723 by FY 2000 were proposed in the FY 1996 Budget.

Already in budget

Would require legislation to implement.

HHS estimate of 5-year Savings: $218 million (Included in the FY 1996 Budget)
HHS Estimate of Total 5-year FTE Reduction: 723 (Included in the FY 1996 Budget, but below the HHS October Streamlining Plan)

Office Closings:

_____ **In** _____ **Out**

[Not included by NEM.] Health Care Financing Administration, Medicare Transaction System (MTS). Ample opportunity exists within the Medicare program to streamline administration and reduce costs by utilizing new technologies and reducing duplication in the claims processing environment. HHS proposes to continue developing the Medicare Transaction System (MTS), begun in 1991 as a single, integrated Medicare claims processing system replacing the 11 systems and 60 operating sites currently processing Medicare claims.

NOTE: The savings estimate is HHS' current "best guess" of the level of efficiency achieved in claims processing through implementation of MTS. The estimate is not measured against any existing budget baseline and does not include start-up and transition costs, which are likely to offset any savings in FY97, FY98 and FY99. Therefore, we believe that HHS should not show any savings for this proposal.

HHS estimate of 5-year Savings: $320 million
HHS Estimate of Total 5-year FTE Reduction:
Office Closings:

_____ In _____ Out

Reduction of Management Control Positions -- NIH and FDA. HHS proposes to increase the proportion of its already planned FTE reductions from management control positions (as defined by NPR). Dollar savings from this proposal are a pricing-out of the existing HHS streamlining plan and are assumed in the FY 1996 Budget, and an additional savings of 130 FTEs from NIH control positions, below the streamlining plan. Also, the savings estimate doubled for this proposal in HHS' April 19th estimate.

HHS estimate of 5-year Savings: $105.7 million
HHS Estimate of Total 5-year FTE Reduction: 130
Office Closings:

_____ In _____ Out

Integration of Surveys and Development of Data Standards. HHS spends nearly $250 million per year on multiple program-specific and all-purpose surveys. These efforts are generally inefficient and overlapping and do not always result in timely availability of reliable health information. HHS proposes to solve these problems by integrating HHS survey activities, establishing an HHS data and statistics entity and creating an HHS data council to coordinate health data standards development.

NOTE: This initiative will increase spending for health survey related activities at HHS by nearly $62 million above the FY 1996 President's budget, between FY 1996 and FY 2000. The proposal also needs to be integrated with the federal statistical crosscut REGO proposal being coordinated by Kathy Walman in OIRA.

HHS estimate of 5-year Cost: $62 million
HHS Estimate of Total 5-year FTE Reduction:
Office Closings:

_____ **In** _____ **Out**

CDC/ATSDR Merger. Merges two Public Health Service agencies, the Agency for Toxic Substances and Disease Registry (ATSDR) and the Centers for Disease Control and Prevention (CDC), both with headquarters in Atlanta and currently headed by the Director of CDC. Consolidates CDC's and ATSDR's environmental expertise and gives ATSDR better access to CDC's relationships with State and local governments. HHS estimates the merger will result in $2 million and 40 FTE in annual administrative savings to HHS.

HHS estimate of 5-year Savings: $8 million
HHS Estimate of Total 5-year FTE Reduction: 40
Office Closings:

_____ **In** _____ **Out**

[Not included by NEM.] National Training Accounts. Medicare payments are not always managed with clear direction for health professions training priorities and goals, contributing to support for unneeded types of providers and facilities. Similar to last year's Health Security Act, the HHS proposal pools Medicare's resources into two National Training Accounts to rationalize and align federal resources with national purposes and the general public benefit. These accounts would direct support to institutions and training most needed (e.g., primary care health providers) on a national basis.

HHS estimate of 5-year Savings:
HHS Estimate of Total 5-year FTE Reduction:
Office Closings:

_____ **In** _____**Out**

Point out to Chris

FDA Regulatory Reform. Proposals to reform FDA's regulation of foods, drugs, biologics, and medical devices were annnounced on March 16, 1995. These reforms are expected to yield savings for the regulated industries and for FDA. This proposal provides no net FTE savings and only modest dollar savings because the savings from the reforms are recycled within FDA.

The substance of this item was included in reg. reform. However, no savings were associated with this proposal as part of that process. Therefore, HHS is counting the savings here.

HHS estimate of 5-year Savings: $ 37.1 million
HHS Estimate of Total 5-year FTE Reduction:
Office Closings:

_____ In _____Out

[We understand that these items were not included in the materials sent from the Vice President to the President on March 17, 1995. HHS has included the proposals as part of their April 19th savings estimate]

Consolidation of SAMHSA, HCFA, HRSA. HHS proposes to consolidate activities in the Substance Abuse and Mental Health Services Administration (SAMHSA), the Health Care Financing Administration (HCFA), the Health Resources and Services Administration (HRSA), and perhaps other HHS units into a single health services and financing agency. HHS' proposal would coordinate Federal funding streams to States, institutions in States and beneficiaries to streamline administration of health, mental health and substance abuse delivery systems. These consolidations would facilitate state efforts to reform their own health care systems and would better leverage Federal funds to assure continued health care access for vulnerable populations even as the market place is increasingly dominated by managed care. HHS estimates that this proposal will achieve 200 Federal FTE savings by FY 2000. These are in addition to FTE reductions already agreed to as part of streamlining and FY 1996 budget cuts.

HHS estimate of 5-year Savings: $38.1 million
HHS Estimate of Total 5-year FTE Reduction: 200
Office Closings:

_____ **In** _____✓_____ **Out**

Terminate Smaller HHS Programs. HHS proposes to eliminate the following programs (Total: $27 million/yr.):

--Public Health Service
- Pacific Basin Initiative (Health Services) ($1 million/yr.)
- Trauma Care ($5 million/yr.)
- Payments to Hawaii (Hansen's Disease) ($3 million/yr.)
- Native Hawaiian Health Care ($4 million/yr.)
- Prostate Cancer Screening (CDC) ($4 million/yr.)
- HEAL
- HRSA support for HUD's 242 Program **(Cross-agency)**
- Hansen's Disease (Carville?) ($8 million/yr.)

--Office of Consumer Affairs ($2 million/yr.)

HHS estimate of 5-year Savings: $114 million
HHS Estimate of Total 5-year FTE Reduction: 13
Office Closings:

_____ **In** _____✓_____ **Out**

Attachment

C

DRAFT

REGO Proposals
$'S in Millions

	1997	1998	1999	2000	
HRSA/SAMHSA/HCFA	-3.5	-7.2	-11.4	-16.0	
Survey and Data Standards	-	-	-	-	
Population-based Initiatives					
Children	-	-	-	-	
Native Americans	-	-	-	-	
Aging-AoA	-4.4	-4.4	-4.4	-4.4	STILL REQUIRES DEADLINE UPDATE
OS/OASH Consolidation	-7.5	-15.2	-23.2	-23.5	
Consolidations					
PHS	-23.0	-29.0	-41.0	-50.0	
CDC/ATSDR	-2.0	-2.0	-2.0	-2.0	
Terminations					
OCA	-1.8	-1.8	-1.8	-1.8	STILL REQUIRES DEADLINE UPDATE
HEAL Phase-out	-	-	-	-	
Privatize/Franchise					
AHCPR Clinical Guidelines	-1.3	-2.9	-4.5	-6.1	
AHCPR Technology Assessment	-0.3	-0.5	-1.0	-1.5	
NIH Clinical Center	-2.8	-25.3	-29.0	-30.1	
Hansen's Disease	-7.8	-8.0	-8.2	-8.5	
Fed. Employ. Occup. Health Pro	-	-	-	-	
HRSA 242 Program					
Management Improvements					
FDA Regulatory Reform		-7.1	-14.6	-15.4	
FDA Management Cnt'l Positions	-1.5	-3.2	-6.7	-7.0	
NIH Management Cntl' Positions	-9.8	-20.4	-12.7	-44.4	
Program Integrity	-396.3	-396.3	-396.3	-396.3	STILL REQUIRES DEADLINE UPDATE
Medicare Transaction System		-70.0	-100.0	-150.0	STILL REQUIRES DEADLINE UPDATE
REGO Totals	$ (462)	$ (593.3)	$ (656.8)	$ (757.0)	

DRAFT

66 197.3 260. 361 4/19
(127) (160) (111) 1:30 pm
62.5 119.8

19-Apr-95
09:16 PM

Department of Health and Human Services
Reinventing Government - Phase II
(in millions of dollars)

	Actual FY 1993	Actual FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	Preliminary Net Savings FY 97-2000
Freeze Discretionary BA at the FY 1996 level*	29,494	32,133	32,556	33,960	33,960	33,960	33,960	33,960	
FY 1996 President's Budget Discretionary BA	--	--	--	33,960	33,128	32,519	31,944	31,384	
Difference: Final FY 1996 Budget less Freeze	--	--	--	--	-832	-1,441	-2,016	-2,576	-6,865
REGO Savings in the FY 1996 Budget	--	--	--	-15	-38	-44	-56	-65	-218
April 19 HHS estimate					-23	-29	-41	-50	
Other Savings Required	--	--	--	--	-794	-1,397	-1,960	-2,511	-6,647
Agency Recommendations (1)									
Option 1: Combine HCFA/HRSA/SAMHSA	--	--	--	--	-3	-7	-11	-16	-38
April 19 HHS estimate					-4	-7	-11	-16	-38
Option 2: Consolidate Health Surveys and Data	--	--	--	--	--	--	--	--	0
April 19 HHS estimate					--	--	--	--	0
Option 3: Consolidate programs by population served	--	--	--	--	-5	-5	-5	-5	-19
April 19 HHS estimate					-4	-4	-4	-4	-18
Option 4: Streamline management structure	--	--	--	--	-6	-14	-21	-22	-63
April 19 HHS estimate					-8	-15	-23	-24	-69
Option 5: Terminate non-critical functions	--	--	--	--	-19	-20	-21	-21	-82
April 19 HHS estimate					-2	-2	-2	-2	-7
Option 6: Consolidations incl. Performance Partnerships	--	--	--	--	-2	-2	-2	-2	-9
April 19 HHS estimate					-2	-2	-2	-2	-8
Option 7: Privatize and franchise certain functions:	--	--	--	--	-12	-36	-43	-47	-138
April 19 HHS estimate					-12	-37	-43	-46	-138
Option 8: Management Improvements	--	--	--	--	-420	-513	-573	-665	-2,172
April 19 HHS estimate					-408	-497	-530	-613	-2,048
Total Agency Recommendations	--	--	--	--	-500	-665	-761	-872	-2,798
Total, April 19 HHS Estimate					-439	-564	-616	-707	-2,326

Proposed FTE Savings 2,383

* Does not include trust fund transfers from HCFA to SSA or other non-HHS entities. Does not include funds from the VCRTF.

1) Savings estimates associated with Agency recommendations were provided by HHS. Savings estimates are changes from the OBRA baseline.

Attachment

D

FACT SHEET
DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS)
NATIONAL PERFORMANCE REVIEW, PHASE II

The Department and its Mission

The Department of Health and Human Services (HHS) is the Federal Government's principal agency for providing essential human services and furthering the health of all Americans. With approximately ___ programs, HHS has the largest budget among all domestic Federal departments, accounting for ___ percent of all federal spending. With the departure of the Social Security Administration on March 31, 1995 employs roughly _____ FTEs.

HHS' mission is to protect and promote the health and economic security of all Americans and in particular those least able to help themselves -- children, the elderly, persons with disabilities, and the disadvantaged -- by helping them and their families develop and maintain healthy, productive, and independent lives. In partnership with States, tribes, localities and other important community institutions, HHS attempts to accomplish this mission in a way that provides the highest qualify of service to the American people, assures fairness and equity to all people, and protects the public investment in our programs.

The HHS/National Performance Review Process

HHS has systematically assessed and applied the National Performance Review (NPR) decision tree to each of its activities. Each Assistant Secretary and agency head personally reviewed their agencies and programs, and presented the results to an internal group made up of senior staff from across HHS. That group also conducted a departmental-wide review, starting initially by identifying the key federal roles that HHS must perform, and critically examining the agency specific reviews in that light. The effort was guided on a daily basis by the Deputy Secretary, and by a Policy Group consisting of HHS Assistant Secretaries and others at the policy level, including the Secretary. Nothing was "off the table" in these reviews.

The process has yielded great dividends and bold proposals to eliminate non-core functions; eliminated an entire organizational layer; consolidated major programs to better serve the public; offer more flexibility to our partners in state, local and tribal governments; and cut administrative overhead.

Summary of Major NPR Proposals

HHS' NPR Phase II proposals would result in savings of ($.4-$1 billion) and reductions of about (1800-2400) FTE over five years. These savings come from the major departmental restructuring and the elimination, consolidation and privatization of activities highlighted below. Some of these proposals can be accomplished administratively, and some will require legislation which HHS will submit to Congress by July 4th, 1995.

Departmental Restructuring

- *Consolidate Programs Serving Seniors into Performance Partnership Grants*: HHS would consolidate ___ programs serving seniors into Performance Partnership Grants (PPGs). Programs include all Administration on Aging (AOA) programs within HHS, as well as those serving seniors in the Public Health Service, the Department of Agriculture, Department of Treasury, Department of Transportation, Department of Housing and Urban Development, EPA and the Corporation for National Service. These programs were appropriated a total of $___ in FY 1995.

  These categorical and formula grant programs would be brought under the umbrella of the AOA. The proposal creates one Federal focal point for social services and applied research related to the elderly and their caregivers, resolving longstanding problems articulated by States about the fragmentation and lack of coordination of multiple Federal programs. State and local communities would be granted increased flexibility to determine the types of aging services that are most useful locally, in exchange for greater accountability for program results.

  [List of included agencies still to be determined]

- *Merge all HHS Native American Activities:* To relieve administrative burden on customers and improve program effectiveness, HHS would consolidate all activities serving Native Americans under one umbrella. [HHS would also consult with tribes and Secretary Babbitt about the inclusion Department of Interior programs serving native Americans in HHS.]

- *Create a Streamlined HHS Corporate Structure*: HHS would develop a single HHS corporate structure by eliminating the Office of the Assistant Secretary for Health (OASH) and merging its functions with the Office of the Secretary (OS). Currently OASH has 1,153 FTEs and OS has 1,276 FTEs. By FY 2000, the new HHS corporate structure will have 58 percent fewer FTEs compared to the OS/OASH base for FY 1993.

- *Consolidation of Surveys and Development of Data Standards:* HHS would consolidate survey activities, establish an HHS data and statistics entity, and create a HHS data council to coordinate health data standards development.

- *Consolidate Health Services Provided Through Medicaid and Public Health Clinics:* HHS proposes to consolidate activities in the Substance Abuse and Mental Health Services Administration (SAMHSA), the Health Care Financing Administration (HCFA) and the Health Resources and Services Administration (HRSA) into one health services and financing agency. The proposal would coordinate Federal funding streams to States, institutions in States, and beneficiaries to streamline administration of health, mental health and substance abuse delivery systems.

- *Convene an Unified Children's Program Board:* HHS would convene a governing board to develop a unified budget and policy strategy for all HHS programs affecting children.

Consolidations/Eliminations/Privatizations

- *Strengthen Medicare Program Integrity:* HHS will take a two-step approach to prevent fraud and abuse in Medicare. First, Secretary Shalala will initiate a demonstration program led by the HHS Inspector General in five key states -- Texas, California, Florida, Illinois and New York -- where health care fraud is of particular concern. Second, HHS will be proposing a new funding source for Medicare fraud and abuse activities. This source will ensure that these activities are maintained at sufficient levels to ensure the protection of the Medicare trust funds.

- *Privatizing National Institutes of Health (NIH) Clinical Center Management:* HHS proposes to begin a 24-month phase-in toward contracting out the replacement of the facility and non-research operations of the NIH clinical center.

- *Other Privatizations:* HHS proposes to privatize other certain functions including the Federal Employees Occupational Health (FEOH) program, Clinical Practice Guidelines and Technology Assessment.

- *Public Health Service (PHS) Consolidations:* The President's FY 1996 Budget proposes to consolidate 107 PHS activities into six Performance Partnerships and 10 consolidated performance-based clusters to give states and local communities more flexibility in administering PHS grants.

- *Develop a Medicare Transaction System (MTS):* HHS proposes to continue developing the Medicare Transaction System (MTS), an integrated Medicare claims processing system that will eventually replace 11 systems and 60 operating sites currently processing Medicare claims.

- *Food and Drug Administration (FDA) Regulatory Reform:* The reforms announced on March 16, 1995 for FDA's regulation of foods, drugs, biologics, and medical devices are expected to yield savings for the regulated industries and the agency.

- *Additional Proposals:* HHS also proposes to reduce management control positions at NIH and FDA; merge the Agency for Toxic Substances and Disease Registry (ASTDR) with the Centers for Disease Control (CDC); and eliminate the Health Education Assistance Loan (HEAL) and HUD 242 medical facility construction program within the Health Resources and Services Administration (HRSA).

HHS Estimate of Total 5-year Savings:	$.4--$1 billion
HHS Estimate of Total FTE Savings:	1800-2400
Office Closings:	Some, pending further HHS study

April 17, 1995

Health Division

Office of Management and Budget
Executive Office of the President
Washington, DC 20503

Please route to: Nancy-Ann Min

Decision needed X
Please sign ___
Per your request ___
Please comment ___
For your information ___

Through: Barry Clendenin BC
Mark Miller

With informational copies for:
HD Chron, Mike Dost, Alison Eydt, Joe Wholey, CS, HF13 Chron

Subject: HHS' OIG Demonstration Project

From: Tim Hill TH

Phone: 202/395-7831
Fax: 202/395-3910
Email: hill_t@1.eop.gov
Room: #7026

Secretary Shalala has requested OMB approval of HHS's "Health Care Anti-Fraud Demonstration Project". The Secretary is seeking to finance the demonstration through a direct tap on the Medicare trust funds, rather than through OIG or HCFA appropriations. We met, on April 10th, with HHS staff from the Office of the Inspector General, HCFA, AoA and ASMB to discuss the proposal in greater detail. We have also received input from OIRA staff and Joe Wholey on various aspects of the proposal. On April 12th, we requested HHS' response to several questions that address some issues, which are noted in this memorandum.

Secretary Shalala would like to move forward with this proposal as soon as possible, as the tentative date for the HHS REGO II "rollout" is May 3rd. In addition to the concerns outlined in this memorandum, we believe there are two outstanding issues:

- If this project is approved, is it appropriate to finance it through HHS' demonstration authority, i.e. using apportioned trust fund resources?
- Does this project merit involvement of the White House thus requiring a Presidential event before implementation?

Background

This proposed demonstration is one piece of the HHS REGO II proposal to combat health care fraud, waste and abuse. HHS transmitted, on March 31st, a letter to the Director seeking OMB approval of the proposed project in advance of sending OMB a formal apportionment request. See Tab A for a copy of the HHS letter and Tab B for a short description of the demonstration.

The HHS request is for $7.9 million over two years. The project officer is HHS Inspector General June Gibbs Brown. The demonstration will be in addition to, and will complement, HHS' continuing efforts to combat health care fraud through Medicare contractor payment safeguard activities and other existing IG programs.

The demonstration is authorized under HHS' general demonstration authority (section 402(a), PL90-248,) which contemplates demonstrations in areas such as payment and coverage policy, as well as fraud and abuse prevention. However, the particular authority for a fraud and abuse demonstration (402(a)(1)(J)) has not been used since passage of the amendments in 1967.

Analysis

Funding Issues. The budget for the demonstration is $7.9 million in new Medicare trust fund spending to pay for OIG, HCFA and AoA travel (for media events and investigatory activities), equipment, contractor employees, medical record review, and office space. Generally, this spending will not support development of innovative methods for the investigation and prosecution of fraud. The mandatory Medicare funds will be used to increase current OIG and HCFA investigation and prosecution activities, typically funded through the OIG and HCFA appropriations. *This demonstration merely represents a new funding stream for these activities.* HHS IG staff as much as conceded this position in our discussions of the proposal.

In addition, HHS expects, but has not identified, that some existing federal resources (such as DoJ investigative and Medicare contractor) will be allocated to the project and that States will contribute resources in the form of state Medicaid agency participation. HHS has also not clarified the number of FTEs to be allocated from each of the participating federal entities.

Performance Measurement and Evaluation. HHS has not provided a clear set of hypotheses, a clear evaluation design, nor clear criteria for success or failure of the demonstration. The proposal should more clearly specify the input, process, output, outcome, and impact measures to be used to assess project performance. The measures should include both quantitative measures (such as rate of return or the time it takes to conclude cases) and qualitative measures (such as descriptions of the provider reaction and behaviors in the health care industry). The proposal should also include a set of comparisons (for example, between the five projects states and other states) over a multi-year time period and plan for analyzing the resulting data.

Management. HHS has not provided a very clear description of the demonstration's management structure and management plan, including performance measures to be used; data sources in demonstration and non-demonstration states; and management actions to be taken to keep the project on track, produce the types of results intended, and test whether the results are different from the results that would have been achieved without the demonstration project.

Congressional Concerns. House and Senate appropriations committees have been reluctant to look favorably on such funding proposals in the past, preferring that HHS simply ask for the funds that they think they will need. Given the current state of the Medicare Trust Funds, it is also likely that Congress will closely scrutinize any activities, including this demonstration, that may increase trust fund expenditures.

Deliverables. HHS has not set a deliverable schedule allowing for thorough, ongoing evaluation of the demonstration.

Decisions Needed

Issue 1: *Approval of the demonstration and apportionment of funds.* HHS is requesting approval of the demonstration program which requires OMB apportionment of $4.9 million in the first year and $3.0 million in the second year from the Medicare trust funds. (Note: A financial plan that includes a breakdown of the funds by fiscal year has not been made available to OMB.) The following options relate to the apportionment.

____ **Option A:** *Do not approve the demonstration.* HHS should conduct its payment safeguard activities using the organizational/management systems that achieve the greatest return on investment. These activities should be funded through current discretionary resources.

✓ **Option B:** *Approve the demonstration, and apportion according to a detailed financial plan with performance measures.* As a condition of approval, HHS will provide information that satisfies the OMB concerns discussed above. This is an approach taken with other demonstration activity at HHS (see Tab C).

____ **Option C:** *Approve the request with no restrictions.*

Issue 2: *If we agree with the HHS demonstration proposal, does it merit a Presidential announcement?* Concern was raised that the President not announce the HHS Program Integrity proposal, which is similar to this demonstration in that they are each merely creating new funding mechanisms for existing program. If we agree with the HHS demonstration proposal, should HHS:

✓ **Option A:** *Include this proposal as part of a broader Presidential HHS REGO II announcement;* or

____ **Option B:** *Have Secretary Shalala initiate this project without a White House event?*

Please let us know how you would like to proceed.

Attachments (3)

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

c: Official File (HFB)
DO Records
Nancy-Ann Min
Barry Clendenin
HD Chron

HD/HFB/THill/dy/4-18-95
File Name: I:HDIM\Hill.T\Kamark

MEMORANDUM FOR ALICE RIVLIN

FROM: Nancy-Ann Min

SUBJECT: Discretionary Offset Options for HHS REGO II Program Integrity Spending

This memorandum follows up on our recent conversations regarding the HHS REGO II program integrity initiative. I specifically want to raise to you a concern raised by Elaine Kamarck.

Background: As you recall, HHS originally proposed to "terminate" their discretionary Medicare program integrity program and create a new mandatory program in its place. HHS proposed PAYGO offsets (Medicare MSP savers) so that they could claim 3/5/7/9 "credit". However, we are reluctant to use Medicare savings to pay for this proposal at this time.

Therefore, another way to accomplish HHS' objective--moving program integrity activities to the mandatory "side" of the budget---is to use existing authority within the Budget Enforcement Act (BEA) allowing us to "reclassify" discretionary activities as mandatory. As you know, the BEA permits such conceptual changes as long as the discretionary caps are lowered one-for-one by the amount of new mandatory spending. In this case, the reductions, approximately $400 million per year, will come from the HHS discretionary budget. However, under this method, HHS will not be able to claim 3/5/7/9 credit.

Elaine Kamarck's Concern: As I mentioned, I have described the above proposal to Elaine Kamarck and she agrees it makes sense. However, Elaine has suggested that HHS' proposal be structured so that program integrity spending could increase more or less automatically in the out-years. Her suggestion is rooted in the observation that since there is such a high return to the Trust Funds for these activities (HHS argues 8:1), we might wish to increase our investment in the outyears to yield greater savings for the Medicare program as a whole.

Options to Structure "Reclassified" Spending for Program Integrity: I have consulted with Barry Anderson and believe that there are three options to authorize any new "reclassified" mandatory spending, two of which could increase spending in the out years.

1. "Capped Entitlement". New mandatory spending for program integrity will be "capped" and be paid for by reducing the discretionary caps by the amount of new entitlement spending. Mandatory spending levels will remain at roughly

$400 million per year, the current amount of HHS discretionary spending for program integrity activities. (This is what we assumed would be the proposal.)

2. "Formulaic Entitlement". New mandatory spending will be adjusted in the out-years by a formula created in the authorizing legislation. The discretionary caps will be reduced each year by the projected amount of new spending. For example, growing the HHS FY 1996 request for program integrity ($396 million) by inflation and the growth in beneficiaries using services achieves mandatory spending levels of nearly $500 million per year by FY2000.

Growing spending in such a manner means that HHS will need to put forward larger discretionary cuts than the $400 million per year needed under the "capped" approach in order to do this, i.e allow the mandatory program to "grow" in the outyears on a budget neutral basis. In short, HHS could be required to take deeper cuts in discretionary spending than they are willing to take.

3. Direct Spending--An Open Ended Entitlement. New mandatory spending will be authorized as direct spending, a la Social Security. In this case, at the time the law is passed OMB and CBO would estimate the amount of anticipated program integrity spending for the budget window and the discretionary caps would be reduced by that amount.

Obviously, this option allows for significant increases in spending for program integrity in the years beyond the budget window, depending upon CBO and OMB projections. However, the Administration will not know by how much the discretionary caps will need to be reduced, and consequently by how much HHS will need to reduce their spending, until OMB and CBO score the proposal.

Some general observations for each of these options: Creating a new, possibly open-ended entitlement in the current Congressional environment may not be feasible. Congress could easily ask the question "why not just rearrange priorities within current discretionary spending levels?", arguing that creating a new mandatory program is fundamentally a budget gimmick, as no new activities are being performed.

Recommendation: If we move forward with the initiative, I recommend structuring it as a "capped entitlement" with spending at $400 million per year. If HHS wishes to increase funding in the outyears, they will need to finance it by reducing other discretionary spending or by producing Medicare or Medicaid offsets.

This approach does not allow program integrity spending to grow in an open-ended fashion, or according to a formula. However, it does permanently stablize funding for program integrity activities at at least $400 million per year.

I think we should discuss this with Elaine. Please let me know if you need additional information.

April 20, 1995

Health Division

Office of Management and Budget
Executive Office of the President
Washington, DC 20503

Please route to:

Nancy-Ann Min
Ken Apfel

Decision needed	XX
Please sign	____
Per your request	____
Please comment	____
For your information	____

Through:

Barry Clendenin BC

With informational copies for: BW, KF, RT, MM

Subject:

HHS REGO II Rollout -- **Decision Needed:** Proposals to be Included in the Rollout -- *Let's Meet Today to Discuss*

From: Chris Jordan CJ

Phone:	202/395-4926
Fax:	202/395-3910
Room:	#7025

We understand that HHS' REGO II proposals are scheduled for a May 3, 1995 rollout. The Budget Review Division requested that the MAX REGO II database be updated by April 19th. We were unable to meet that deadline due to incomplete savings estimates from HHS. *To get back on schedule and complete the items listed at Attachment A*, the following steps need to be taken:

- **By today**, a decision by OMB policy officials on which HHS proposals will be in the rollout. At Attachment B is a summary of each of the HHS proposals. This document will be used as the basis for preparing any other materials.

- **By Friday**, HD and HRD examiners must update the MAX REGO II database to reflect these decisions. As of April 19th, we have received savings estimates from HHS that are incomplete and differ from the FY 1996 Budget. At Attachment C is the HHS savings estimate table and a table that was used for the meeting with the Vice President with HHS' new estimates immediately under the earlier estimate for each proposal.

- **By Tuesday, April 25th**, finalize with HHS the information in the database and the

information for a fact sheet and a one-page highlights document. Attachment D is a draft Fact Sheet that is consistent with our understanding of which HHS proposals will be included in the rollout.

- **By Thursday, April 27th,** HHS (or Larry Haas?) prepares draft HHS press materials. OMB/White House prepares White House press materials.

Outstanding Issues

You also need to be aware of the following issues:

- *Savings estimates are down.* The memo from the Vice President to the President (March 17, 1995) highlighted HHS' savings estimates of $2.5 billion over five years and 2,400 FTEs by FY 2000. Based on our understanding of Nancy-Ann's earlier comments, HHS savings estimates would *only be approximately $500 million* over five years (savings associated with Program Integrity and MTS would not be included). Also, of the 2,400 FTEs, approximately 1,800 are associated with the contracting out of the management of the NIH Clinical Center.

- *Some HHS proposals cost money.* HHS estimates that the Inspector General demonstration project under Program Integrity will cost $7.9 million over two years. OMB estimates the Data Integration Proposal will cost $62 million above the amount in the FY 1996 Budget over five years.

- *HHS staff is not aware of REGO II decisions.* The HHS savings estimates table we received yesterday included the HCFA/HRSA/SAMHSA merger proposal, the termination of the Office of Consumer Affairs, and $396 million in annual savings from the Program Integrity proposal. HHS staff believes that these items are still under consideration.

- *None of the consultations with other agencies on HHS' cross-agency proposals are completed.*

We recommend meeting *today* to discuss the HHS REGO II situation. Only after we meet will we be able to update the MAX database and initiate the process toward the HHS REGO II rollout.

Attachments

Attachment

A

Steps that Must be Completed Prior to the HHS Rollout

1) Decisions by OMB Policy Officials

2) HHS Savings Estimates must be made consistent with Policy Officials' decisions

3) MAX Database Updated

4) Fact Sheet

5) One-page Highlights Paper

6) OMB/White House Press Materials

7) Agency Press Materials

Attachment

B

HHS REGO II Proposals for Roll-out

Notes:

- **Savings were last estimated by HHS April 19th. HHS will be updating some of these estimates. These savings estimates are from OBRA baseline. Any known costs associated with those proposals expected to require additional resources have been included.**

- **BRD has requested updates to the MAX system reflecting final savings estimates by COB April 19th. We have not been able to complete that exercise.**

- **Per earlier comments from Nancy-Ann, items that she would not include in the roll-out have been indicated.**

- **Items that could or would require legislation to implement, are so noted. Items that have cross agency implications are also noted.**

[Not included by NEM.] Improving Services to Children, American Indians/Native Alaskans, and the Aged. Currently, services for children, Native Americans, and senior citizens are fragmented in several HHS agencies as well as across the Federal government. To relieve the burden on customers and improve the effectiveness of these programs, HHS proposes to consolidate programs along population lines.

Children's Programs: Convene an HHS governing board to develop a unified budget and policy strategy for all HHS programs affecting children.

_____ **In** _____**Out**

American Indians/Native Alaskans: Consult with tribes regarding the concept of merging all Native American programs in HHS under one umbrella. HHS will discuss the possible inclusion of some Interior Department activities into HHS with Secretary Babbitt and with tribal organizations.

Portion of this proposal is a cross-agency issue.
Could require legislation to implement.

_____ **In** _____**Out**

Aging: Consolidate into Performance Partnerships many programs in HHS and other agencies affecting senior citizens. HHS discussed this proposal with affected agencies (DOT, HUD, USDA, Labor) on April 19th. It was the first time any of the agencies, other than DOL, had been informed of this proposal.

Cross-agency issue.
Could require legislation to implement.

_____ In **_____Out**

HHS estimate of 5-year Savings: $19 million
HHS Estimate of Total 5-year FTE Reduction: 9
Office Closings:

Contracting Out NIH Clinical Center Management. HHS proposes to begin a 24-month phase-in toward contracting out the replacement of the facility and non-research operations of the NIH Clinical Center. HHS proposes issuing an RFP for a contractor to build and lease back to the government a 250-bed hospital on the NIH campus in Bethesda, Maryland, and issuing a long term contract for management of the existing and new hospital. HHS estimates first year (FY 1997) FTE savings of approximately 300-500 positions from downsizing staff and contracting out. Additional FTE savings will occur in the outyears through this contracting out process.

Could require legislation to implement.

HHS estimate of 5-year Savings: $87.2 million
HHS Estimate of Total 5-year FTE Reduction: 1,800
Office Closings:

_____ In **_____Out**

[Not included by NEM.] Privatize the FEOH. HHS proposes to privatize the Federal Employee Occupational Health (FEOH) program, which provides reimbursable health consultation and services to over 4,000 departments, agencies, and offices. HHS estimates that this proposal will result in 100 Federal FTE savings by FY 2000.

HHS estimate of 5-year Savings:
HHS Estimate of Total 5-year FTE Reduction: 100
Office Closings:

_____ In **_____Out**

Privatizing Clinical Practice Guidelines. Currently, HHS' Agency for Health Care Policy and Research develops clinical practice guidelines. HHS proposes establishing four private-sector guideline centers to develop multiple guidelines simultaneously, allowing economies of scale, efficiencies in process, and improvements in product consistency. The centers will also be available to develop guidelines for private-sector customers (professional societies, managed care organizations, etc.).

Could require legislation to implement.

HHS estimate of 5-year Savings: $14.8 million
HHS Estimate of Total 5-year FTE Reduction: 5
Office Closings:

_____ **In** _____ **Out**

Privatizing Technology Assessment. Currently, HHS' Agency for Health Care Policy and Research reviews and assesses new technologies under consideration for reimbursement by Federal agencies. HHS proposes to shift technology assessments to the private sector through collaborative arrangements with health care organizations, payers, manufacturers, clinicians, and assessors. HHS projects a 50% savings over a five year period by downsizing and streamlining current activities and leveraging private sector funding.

Could require legislation to implement.

HHS estimate of 5-year Savings: $3.3 million
HHS Estimate of Total 5-year FTE Reduction: 3
Office Closings:

_____ **In** _____ **Out**

OS/OASH Consolidation. HHS' current extended management structure does not integrate Human Services and Health functions. This proposal would eliminate the Office of the Assistant Secretary for Health (OASH) and merge its functions with the Office of the Secretary (OS), developing a single HHS corporate structure. Currently OASH has 1,153 FTEs and OS has 1,276 FTEs. By FY 2000, the new HHS corporate structure will have 58% fewer FTEs compared to the OS/OASH base for FY 1993. This reflects streamlining changes from REGO I and FTE reductions in the FY 1996 Budget, as well as the merger proposed in the current option.

The merger itself proposes outright elimination of 190 FTEs. Another 698 FTEs would be privatized, franchised, or devolved to HHS operating components. How many of these 698 FTEs would result in bottom line FTE savings is not certain. To the extent that larger HHS FTE savings are desirable, some or all of these 698 FTEs could be used.

HHS estimate of 5-year Savings: $69.4 million
HHS Estimate of Total 5-year FTE Reduction: 190
Office Closings: 1 (or more depending on HHS)

_____ **In** _____**Out**

Program Integrity and HHS OIG Fraud and Abuse Demo. Currently, HHS spends nearly $400 million per year to prevent fraud, waste and abuse. HHS believes that there is substantial evidence that investing in these activities has significant returns in reduced program costs. Two options to prevent fraud and abuse in Medicare are being proposed:

(1) Per Nancy-Ann's decision of April 18, Secretary Shalala will initiate a demonstration program led by the HHS Inspector General in several key states -- Texas, California, Florida, Illinois, New York -- where health care fraud is of particular concern. Next steps include HHS development, and submission to OMB, of an apportionment request, including a detailed financial plan linked to performance measures as well as responses OMB questions on the demo (submitted to HHS on April 13th).

(2) The HHS will propose a more reliable funding source for program integrity activities to better protect the Medicare trust funds. Per Nancy-Ann's recommendation, next steps include discussions between her, the Director and Elaine Kamarck concerning options for the type of funding source to be created under this proposal.

Would require legislation to implement.

HHS estimate of 5-year Costs: $7.9 million in mandatory spending for the OIG demo.
HHS Estimate of Total 5-year FTE Reduction:

_____ **In** _____**Out**

[Not included by NEM] PHS Consolidations. The President's FY 1996 Budget proposes to consolidate 107 Public Health Service (PHS) programs into 6 Performance Partnerships and 10 consolidated clusters to give states and local communities more flexibility in administering PHS grants. FTE savings of 723 by FY 2000 were proposed in the FY 1996 Budget.

Would require legislation to implement.

HHS estimate of 5-year Savings:	$218 million	(Included in the FY 1996 Budget)
HHS Estimate of Total 5-year FTE Reduction:		723 (Included in the FY 1996 Budget, but below the HHS October Streamlining Plan)
Office Closings:		
_____ **In**		_____**Out**

[Not included by NEM.] Health Care Financing Administration, Medicare Transaction System (MTS). Ample opportunity exists within the Medicare program to streamline administration and reduce costs by utilizing new technologies and reducing duplication in the claims processing environment. HHS proposes to continue developing the Medicare Transaction System (MTS), begun in 1991 as a single, integrated Medicare claims processing system replacing the 11 systems and 60 operating sites currently processing Medicare claims.

NOTE: The savings estimate is HHS' current "best guess" of the level of efficiency achieved in claims processing through implementation of MTS. The estimate is not measured against any existing budget baseline and does not include start-up and transition costs, which are likely to offset any savings in FY97, FY98 and FY99. Therefore, we believe that HHS should not show any savings for this proposal.

HHS estimate of 5-year Savings:	$320 million
HHS Estimate of Total 5-year FTE Reduction:	
Office Closings:	
_____ In	_____Out

Reduction of Management Control Positions -- NIH and FDA. HHS proposes to increase the proportion of its already planned FTE reductions from management control positions (as defined by NPR). Dollar savings from this proposal are a pricing-out of the existing HHS streamlining plan and are assumed in the FY 1996 Budget, and an additional savings of 130 FTEs from NIH control positions, below the streamlining plan. Also, the savings estimate doubled for this proposal in HHS' April 19th estimate.

HHS estimate of 5-year Savings: $105.7 million
HHS Estimate of Total 5-year FTE Reduction: 130
Office Closings:

_____ In _____ Out

Integration of Surveys and Development of Data Standards. HHS spends nearly $250 million per year on multiple program-specific and all-purpose surveys. These efforts are generally inefficient and overlapping and do not always result in timely availability of reliable health information. HHS proposes to solve these problems by integrating HHS survey activities, establishing an HHS data and statistics entity and creating an HHS data council to coordinate health data standards development.

NOTE: This initiative will increase spending for health survey related activities at HHS by nearly $62 million above the FY 1996 President's budget, between FY 1996 and FY 2000. The proposal also needs to be integrated with the federal statistical crosscut REGO proposal being coordinated by Kathy Walman in OIRA.

HHS estimate of 5-year Cost: $62 million
HHS Estimate of Total 5-year FTE Reduction:
Office Closings:

_____ **In** _____ **Out**

CDC/ATSDR Merger. Merges two Public Health Service agencies, the Agency for Toxic Substances and Disease Registry (ATSDR) and the Centers for Disease Control and Prevention (CDC), both with headquarters in Atlanta and currently headed by the Director of CDC. Consolidates CDC's and ATSDR's environmental expertise and gives ATSDR better access to CDC's relationships with State and local governments. HHS estimates the merger will result in $2 million and 40 FTE in annual administrative savings to HHS.

HHS estimate of 5-year Savings: $8 million
HHS Estimate of Total 5-year FTE Reduction: 40
Office Closings:

_____ **In** _____ **Out**

[Not included by NEM.] **National Training Accounts.** Medicare payments are not always managed with clear direction for health professions training priorities and goals, contributing to support for unneeded types of providers and facilities. Similar to last year's Health Security Act, the HHS proposal pools Medicare's resources into two National Training Accounts to rationalize and align federal resources with national purposes and the general public benefit. These accounts would direct support to institutions and training most needed (e.g., primary care health providers) on a national basis.

HHS estimate of 5-year Savings:
HHS Estimate of Total 5-year FTE Reduction:
Office Closings:

_____ **In** _____**Out**

FDA Regulatory Reform. Proposals to reform FDA's regulation of foods, drugs, biologics, and medical devices were annnounced on March 16, 1995. These reforms are expected to yield savings for the regulated industries and for FDA. This proposal provides no net FTE savings and only modest dollar savings because the savings from the reforms are recycled within FDA.

The substance of this item was included in reg. reform. However, no savings were associated with this proposal as part of that process. Therefore, HHS is counting the savings here.

HHS estimate of 5-year Savings: $ 37.1 million
HHS Estimate of Total 5-year FTE Reduction:
Office Closings:

_____ In _____Out

[We understand that these items were not included in the materials sent from the Vice President to the President on March 17, 1995. HHS has included the proposals as part of their April 19th savings estimate]

Consolidation of SAMHSA, HCFA, HRSA. HHS proposes to consolidate activities in the Substance Abuse and Mental Health Services Administration (SAMHSA), the Health Care Financing Administration (HCFA), the Health Resources and Services Administration (HRSA), and perhaps other HHS units into a single health services and financing agency. HHS' proposal would coordinate Federal funding streams to States, institutions in States and beneficiaries to streamline administration of health, mental health and substance abuse delivery systems. These consolidations would facilitate state efforts to reform their own health care systems and would better leverage Federal funds to assure continued health care access for vulnerable populations even as the market place is increasingly dominated by managed care. HHS estimates that this proposal will achieve 200 Federal FTE savings by FY 2000. These are in addition to FTE reductions already agreed to as part of streamlining and FY 1996 budget cuts.

HHS estimate of 5-year Savings: $38.1 million
HHS Estimate of Total 5-year FTE Reduction: 200
Office Closings:

_____ **In** _____ **Out**

Terminate Smaller HHS Programs. HHS proposes to eliminate the following programs (Total: $27 million/yr.):

--Public Health Service
- Pacific Basin Initiative (Health Services) ($1 million/yr.)
- Trauma Care ($5 million/yr.)
- Payments to Hawaii (Hansen's Disease) ($3 million/yr.)
- Native Hawaiian Health Care ($4 million/yr.)
- Prostate Cancer Screening (CDC) ($4 million/yr.)
- HEAL
- HRSA support for HUD's 242 Program **(Cross-agency)**
- Hansen's Disease (Carville?) ($8 million/yr.)

--Office of Consumer Affairs ($2 million/yr.)

HHS estimate of 5-year Savings: $114 million
HHS Estimate of Total 5-year FTE Reduction: 13
Office Closings:

_____ **In** _____ **Out**

Attachment

C

DRAFT

REGO Proposals
$'S in Millions

	1997	1998	1999	2000	
HRSA/SAMHSA/HCFA	-3.5	-7.2	-11.4	-16.0	
Survey and Data Standards	-	-	-	-	
Population-based Initiatives					
Children	-	-	-	-	
Native Americans	-	-	-	-	
Aging-AoA	-4.4	-4.4	-4.4	-4.4	STILL REQUIRES DEADLINE UPDATE
OS/OASH Consolidation	-7.5	-15.2	-23.2	-23.5	
Consolidations					
PHS	-23.0	-29.0	-41.0	-50.0	
CDC/[illegible]SR	-2.0	-2.0	-2.0	-2.0	
Terminations					
OCA	-1.8	-1.8	-1.8	-1.8	STILL REQUIRES DEADLINE UPDATE
HEAL Phase-out	-	-	-	-	
Privatize/Franchise					
AHCPR Clinical Guidelines	-1.3	-2.9	-4.5	-6.1	
AHCPR Technology Assessment	-0.3	-0.5	-1.0	-1.5	
NIH Clinical Center	-2.8	-25.3	-29.0	-30.1	
Hansen's Disease	-7.8	-8.0	-8.2	-8.5	
Fed. Employ. Occup. Health Pro	-	-	-	-	
HRSA 242 Program					
Management Improvements					
FDA Regulatory Reform		-7.1	-14.6	-15.4	
FDA Management Cnt'l Positions	-1.5	-3.2	-6.7	-7.0	
NIH Management Cntl' Positions	-9.8	-20.4	-12.7	-44.4	
Program Integrity	-396.3	-396.3	-396.3	-396.3	STILL REQUIRES DEADLINE UPDATE
Medicare Transaction System		-70.0	-100.0	-150.0	STILL REQUIRES DEADLINE UPDATE
REGO Totals	$ (462)	$ (593.3)	$ (656.8)	$ (757.0)	

DRAFT

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(127) (160) (111) 1:30 pm
62.5 119.8

19-Apr-95
09:16 PM

Department of Health and Human Services
Reinventing Government - Phase II
(in millions of dollars)

	Actual FY 1993	Actual FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	Preliminary Net Savings FY 97-2000
Freeze Discretionary BA at the FY 1996 level*	29,494	32,133	32,556	33,960	33,960	33,960	33,960	33,960	
FY 1996 President's Budget Discretionary BA	--	--	--	33,960	33,128	32,519	31,944	31,384	
Difference: Final FY 1996 Budget less Freeze	--	--	--	--	-832	-1,441	-2,016	-2,576	-6,865
REGO Savings in the FY 1996 Budget	--	--	--	-15	-38	-44	-56	-65	-218
April 19 HHS estimate					-23	-29	-41	-50	
Other Savings Required	--	--	--	--	-794	-1,397	-1,960	-2,511	-6,647
Agency Recommendations (1)									
Option 1: Combine HCFA/HRSA/SAMHSA	--	--	--	--	-3	-7	-11	-16	-38
April 19 HHS estimate					-4	-7	-11	-16	-38
Option 2: Consolidate Health Surveys and Data	--	--	--	--	--	--	--	--	0
April 19 HHS estimate					--	--	--	--	0
Option 3: Consolidate programs by population served	--	--	--	--	-5	-5	-5	-5	-19
April 19 HHS estimate					-4	-4	-4	-4	-18
Option 4: Streamline management structure	--	--	--	--	-6	-14	-21	-22	-63
April 19 HHS estimate					-8	-15	-23	-24	-69
Option 5: Terminate non-critical functions	--	--	--	--	-19	-20	-21	-21	-82
April 19 HHS estimate					-2	-2	-2	-2	-7
Option 6: Consolidations incl. Performance Partnerships	--	--	--	--	-2	-2	-2	-2	-9
April 19 HHS estimate					-2	-2	-2	-2	-8
Option 7: Privatize and franchise certain functions:	--	--	--	--	-12	-36	-43	-47	-138
April 19 HHS estimate					-12	-37	-43	-46	-138
Option 8: Management Improvements	--	--	--	--	-420	-513	-573	-665	-2,172
April 19 HHS estimate					-408	-497	-530	-613	-2,048
Total Agency Recommendations	--	--	--	--	-500	-665	-761	-872	-2,798
Total, April 19 HHS Estimate					-439	-564	-616	-707	-2,326

Proposed FTE Savings 2,383

* Does not include trust fund transfers from HCFA to SSA or other non-HHS entities. Does not include funds from the VCRTF.

1) Savings estimates associated with Agency recommendations were provided by HHS. Savings estimates are changes from the OBRA baseline.

Attachment

D

FACT SHEET
DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS)
NATIONAL PERFORMANCE REVIEW, PHASE II

The Department and its Mission

The Department of Health and Human Services (HHS) is the Federal Government's principal agency for providing essential human services and furthering the health of all Americans. With approximately ___ programs, HHS has the largest budget among all domestic Federal departments, accounting for ___ percent of all federal spending. With the departure of the Social Security Administration on March 31, 1995 employs roughly _____ FTEs.

HHS' mission is to protect and promote the health and economic security of all Americans and in particular those least able to help themselves -- children, the elderly, persons with disabilities, and the disadvantaged -- by helping them and their families develop and maintain healthy, productive, and independent lives. In partnership with States, tribes, localities and other important community institutions, HHS attempts to accomplish this mission in a way that provides the highest qualify of service to the American people, assures fairness and equity to all people, and protects the public investment in our programs.

The HHS/National Performance Review Process

HHS has systematically assessed and applied the National Performance Review (NPR) decision tree to each of its activities. Each Assistant Secretary and agency head personally reviewed their agencies and programs, and presented the results to an internal group made up of senior staff from across HHS. That group also conducted a departmental-wide review, starting initially by identifying the key federal roles that HHS must perform, and critically examining the agency specific reviews in that light. The effort was guided on a daily basis by the Deputy Secretary, and by a Policy Group consisting of HHS Assistant Secretaries and others at the policy level, including the Secretary. Nothing was "off the table" in these reviews.

The process has yielded great dividends and bold proposals to eliminate non-core functions; eliminated an entire organizational layer; consolidated major programs to better serve the public; offer more flexibility to our partners in state, local and tribal governments; and cut administrative overhead.

Summary of Major NPR Proposals

HHS' NPR Phase II proposals would result in savings of ($.4-$1 billion) and reductions of about (1800-2400) FTE over five years. These savings come from the major departmental restructuring and the elimination, consolidation and privatization of activities highlighted below. Some of these proposals can be accomplished administratively, and some will require legislation which HHS will submit to Congress by July 4th, 1995.

Departmental Restructuring

- *Consolidate Programs Serving Seniors into Performance Partnership Grants*: HHS would consolidate ___ programs serving seniors into Performance Partnership Grants (PPGs). Programs include all Administration on Aging (AOA) programs within HHS, as well as those serving seniors in the Public Health Service, the Department of Agriculture, Department of Treasury, Department of Transportation, Department of Housing and Urban Development, EPA and the Corporation for National Service. These programs were appropriated a total of $___ in FY 1995.

  These categorical and formula grant programs would be brought under the umbrella of the AOA. The proposal creates one Federal focal point for social services and applied research related to the elderly and their caregivers, resolving longstanding problems articulated by States about the fragmentation and lack of coordination of multiple Federal programs. State and local communities would be granted increased flexibility to determine the types of aging services that are most useful locally, in exchange for greater accountability for program results.

  [List of included agencies still to be determined]

- *Merge all HHS Native American Activities:* To relieve administrative burden on customers and improve program effectiveness, HHS would consolidate all activities serving Native Americans under one umbrella. [HHS would also consult with tribes and Secretary Babbitt about the inclusion Department of Interior programs serving native Americans in HHS.]

- *Create a Streamlined HHS Corporate Structure*: HHS would develop a single HHS corporate structure by eliminating the Office of the Assistant Secretary for Health (OASH) and merging its functions with the Office of the Secretary (OS). Currently OASH has 1,153 FTEs and OS has 1,276 FTEs. By FY 2000, the new HHS corporate structure will have 58 percent fewer FTEs compared to the OS/OASH base for FY 1993.

- *Consolidation of Surveys and Development of Data Standards:* HHS would consolidate survey activities, establish an HHS data and statistics entity, and create a HHS data council to coordinate health data standards development.

- *Consolidate Health Services Provided Through Medicaid and Public Health Clinics:* HHS proposes to consolidate activities in the Substance Abuse and Mental Health Services Administration (SAMHSA), the Health Care Financing Administration (HCFA) and the Health Resources and Services Administration (HRSA) into one health services and financing agency. The proposal would coordinate Federal funding streams to States, institutions in States, and beneficiaries to streamline administration of health, mental health and substance abuse delivery systems.

- *Convene an Unified Children's Program Board:* HHS would convene a governing board to develop a unified budget and policy strategy for all HHS programs affecting children.

Consolidations/Eliminations/Privatizations

- *Strengthen Medicare Program Integrity:* HHS will take a two-step approach to prevent fraud and abuse in Medicare. First, Secretary Shalala will initiate a demonstration program led by the HHS Inspector General in five key states -- Texas, California, Florida, Illinois and New York -- where health care fraud is of particular concern. Second, HHS will be proposing a new funding source for Medicare fraud and abuse activities. This source will ensure that these activities are maintained at sufficient levels to ensure the protection of the Medicare trust funds.

- *Privatizing National Institutes of Health (NIH) Clinical Center Management:* HHS proposes to begin a 24-month phase-in toward contracting out the replacement of the facility and non-research operations of the NIH clinical center.

- *Other Privatizations:* HHS proposes to privatize other certain functions including the Federal Employees Occupational Health (FEOH) program, Clinical Practice Guidelines and Technology Assessment.

- *Public Health Service (PHS) Consolidations:* The President's FY 1996 Budget proposes to consolidate 107 PHS activities into six Performance Partnerships and 10 consolidated performance-based clusters to give states and local communities more flexibility in administering PHS grants.

- *Develop a Medicare Transaction System (MTS):* HHS proposes to continue developing the Medicare Transaction System (MTS), an integrated Medicare claims processing system that will eventually replace 11 systems and 60 operating sites currently processing Medicare claims.

- *Food and Drug Administration (FDA) Regulatory Reform:* The reforms announced on March 16, 1995 for FDA's regulation of foods, drugs, biologics, and medical devices are expected to yield savings for the regulated industries and the agency.

- *Additional Proposals:* HHS also proposes to reduce management control positions at NIH and FDA; merge the Agency for Toxic Substances and Disease Registry (ASTDR) with the Centers for Disease Control (CDC); and eliminate the Health Education Assistance Loan (HEAL) and HUD 242 medical facility construction program within the Health Resources and Services Administration (HRSA).

HHS Estimate of Total 5-year Savings:	$.4--$1 billion
HHS Estimate of Total FTE Savings:	1800-2400
Office Closings:	Some, pending further HHS study

E X E C U T I V E O F F I C E O F T H E P R E S I D E N T

03-May-1995 01:29pm

TO: (See Below)

FROM: Jason S. Goldberg
Office of Cabinet Affairs

SUBJECT: PRESIDENT LAUNCHES ATTACK ON MEDICARE, MEDICAID FRAUD 5/3

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release May 3, 1995

PRESIDENT LAUNCHES ATTACK ON MEDICARE, MEDICAID FRAUD

Initiative a Product of Vice President's Effort to Reinvent Government

President Clinton announced today a three-pronged crackdown on fraud and abuse in Medicare and Medicaid -- an outgrowth of Vice President Gore's effort to reinvent government.

"These initiatives are the right way to control health care costs and protect Medicare for our senior citizens," the President said. "They will help ensure that Medicare dollars, on which so many of our seniors rely, go to the people who deserve them."

These initiatives represent a fundamental change in how the federal government targets fraud and waste in Medicare and Medicaid, the government's two main health care programs.

While they intensify the government's efforts to prosecute wrongdoers, the initiatives also enhance the incentives for investigators to attack fraud by allowing them to reinvest a portion of the recoveries they collect to finance future fraud investigations. In addition, they create a more stable funding source for Medicare program-integrity activities in order to prevent fraud and abuse before it occurs.

HHS estimates that each $1 spent on anti-fraud activities

will recover $6-$8 for the federal government and deter fraud that could be worth millions of dollars more.

"Cracking down on fraud and abuse will save millions of taxpayer dollars and protect Medicare for senior citizens," the Vice President said. "There could be no more important result of our efforts to create a government that works better and costs less."

Of the three initiatives:

First, Health and Human Services Secretary Donna Shalala, with the help of Attorney General Janet Reno, will launch a partnership of federal and state agencies to crack down on Medicare and Medicaid fraud, waste, and abuse associated with home health agencies, nursing homes, and durable medical

equipment suppliers.

The anti-fraud project, "Operation Restore Trust," will first focus on five states -- New York, Florida, Illinois, Texas, and Florida -- where nearly 40 percent of all Medicare beneficiaries live.

This operation builds on the success of an anti-fraud effort in Medicare that last year generated the largest federal health care settlement in history, with $379 million in government savings. It involved efforts by a team of HHS and Justice officials, state representatives, and Medicare contractors to investigate illegal treatments of patients at psychiatric hospitals across the nation.

Second, HHS will create a new, more stable budget mechanism to fund Medicare program-integrity activities, such as the Medicare secondary payer program, medical reviews, and audits.

And third, the HHS Office of Inspector General (IG) will receive enhanced authority to retain a portion of its recoveries from Medicare and Medicaid fraud and waste activities to support and enhance future investigations and prosecution activities.

Currently, the HHS IG spends an estimated $18 million a year on health care fraud investigations. The new "Health Care Fraud Reinvestment Fund" will add about $2 million a year.

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Jen: FYI - Rego II Back-up Info

Please do Not distribute

—Chris

HHS REGO II Proposals for Roll-out

Notes:

- **Savings were last estimated by HHS April 19th. HHS will be updating some of these estimates. These savings estimates are from OBRA baseline. Any known costs associated with those proposals expected to require additional resources have been included.**

- **BRD has requested updates to the MAX system reflecting final savings estimates by COB April 19th. We have not been able to complete that exercise.**

- **Per earlier comments from Nancy-Ann, items that she would not include in the roll-out have been indicated.**

- **Items that could or would require legislation to implement, are so noted. Items that have cross agency implications are also noted.**

[Not included by NEM.] Improving Services to Children, American Indians/Native Alaskans, and the Aged. Currently, services for children, Native Americans, and senior citizens are fragmented in several HHS agencies as well as across the Federal government. To relieve the burden on customers and improve the effectiveness of these programs, HHS proposes to consolidate programs along population lines.

Children's Programs: Convene an HHS governing board to develop a unified budget and policy strategy for all HHS programs affecting children.

__________ In X Out

American Indians/Native Alaskans: In Consult with tribes regarding the concept of merging all Native American programs in HHS under one umbrella. [HHS will discuss the possible inclusion of some Interior Department activities into HHS with Secretary Babbitt and with tribal organizations.] out

Portion of this proposal is a cross-agency issue.
Could require legislation to implement.

__________ In X Out

NEM - out
WPR - in

sort language
Jeff to prepare

Aging: Consolidate into Performance Partnerships many programs in HHS and other agencies affecting senior citizens. HHS discussed this proposal with affected agencies (DOT, HUD, USDA, Labor) on April 19th. It was the first time any of the agencies, other than DOL, had been informed of this proposal.

Cross-agency issue.
Could require legislation to implement.

_____ **In** __X__ **Out**

HHS estimate of 5-year Savings: $19 million
HHS Estimate of Total 5-year FTE Reduction: 9
Office Closings:

Contracting Out NIH Clinical Center Management. HHS proposes to begin a 24-month phase-in toward contracting out the replacement of the facility and non-research operations of the NIH Clinical Center. HHS proposes issuing an RFP for a contractor to build and lease back to the government a 250-bed hospital on the NIH campus in Bethesda, Maryland, and issuing a long term contract for management of the existing and new hospital. HHS estimates first year (FY 1997) FTE savings of approximately 300-500 positions from downsizing staff and contracting out. Additional FTE savings will occur in the outyears through this contracting out process.

Could require legislation to implement.

HHS estimate of 5-year Savings: $87.2 million
HHS Estimate of Total 5-year FTE Reduction: 1,800
Office Closings:

__X__ **In** _____ **Out**

[Not included by NEM.] Privatize the FEOH. HHS proposes to privatize the Federal Employee Occupational Health (FEOH) program, which provides reimbursable health consultation and services to over 4,000 departments, agencies, and offices. HHS estimates that this proposal will result in 100 Federal FTE savings by FY 2000.

HHS estimate of 5-year Savings:
HHS Estimate of Total 5-year FTE Reduction: 100
Office Closings:

__X__ **In** _____ **Out**

(for now → wait for Elaine's cut.)

Clinical Practice Guidelines. Currently, HHS' Agency for Health Care Policy and Research develops clinical practice guidelines. HHS proposes establishing four private-sector guideline centers to develop multiple guidelines simultaneously, allowing economies of scale, efficiencies in process, and improvements in product consistency. The centers will also be available to develop guidelines for private-sector customers (professional societies, managed care organizations, etc.).

Could require legislation to implement.

HHS estimate of 5-year Savings: $14.8 million
HHS Estimate of Total 5-year FTE Reduction: 5
Office Closings:

X **In** _____ **Out**

Privatizing Technology Assessment. Currently, HHS' Agency for Health Care Policy and Research reviews and assesses new technologies under consideration for reimbursement by Federal agencies. HHS proposes to shift technology assessments to the private sector through collaborative arrangements with health care organizations, payers, manufacturers, clinicians, and assessors. HHS projects a 50% savings over a five year period by downsizing and streamlining current activities and leveraging private sector funding.

Could require legislation to implement.

HHS estimate of 5-year Savings: $3.3 million
HHS Estimate of Total 5-year FTE Reduction: 3
Office Closings:

X **In** _____ **Out**

OS/OASH Consolidation. HHS' current extended management structure does not integrate Human Services and Health functions. This proposal would eliminate the Office of the Assistant Secretary for Health (OASH) and merge its functions with the Office of the Secretary (OS), developing a single HHS corporate structure. Currently OASH has 1,153 FTEs and OS has 1,276 FTEs. By FY 2000, the new HHS corporate structure will have 58% fewer FTEs compared to the OS/OASH base for FY 1993. This reflects streamlining changes from REGO I and FTE reductions in the FY 1996 Budget, as well as the merger proposed in the current option.

, merger itself proposes outright elimination of 190 FTEs. Another 698 FTEs would be privatized, franchised, or devolved to HHS operating components. How many of these 698 FTEs would result in bottom line FTE savings is not certain. To the extent that larger HHS FTE savings are desirable, some or all of these 698 FTEs could be used.

HHS estimate of 5-year Savings: $69.4 million
HHS Estimate of Total 5-year FTE Reduction: ~~190~~ 400
Office Closings: 1 (or more depending on HHS)

_____ **In** _____ **Out**

Per conversation w/ Alice Rivlin. Remainder will be redistributed/transferred.

Program Integrity and HHS OIG Fraud and Abuse Demo. Currently, HHS spends nearly $400 million per year to prevent fraud, waste and abuse. HHS believes that there is substantial evidence that investing in these activities has significant returns in reduced program costs. Two options to prevent fraud and abuse in Medicare are being proposed:

(1) Per Nancy-Ann's decision of April 18, Secretary Shalala will initiate a demonstration program led by the HHS Inspector General in several key states -- Texas, California, Florida, Illinois, New York -- where health care fraud is of particular concern. Next steps include HHS development, and submission to OMB, of an apportionment request, including a detailed financial plan linked to performance measures as well as responses OMB questions on the demo (submitted to HHS on April 13th).

(2) The HHS will propose a more reliable funding source for program integrity activities to better protect the Medicare trust funds. Per Nancy-Ann's recommendation, next steps include discussions between her, the Director and Elaine Kamarck concerning options for the type of funding source to be created under this proposal. → Re-classification.

Would require legislation to implement.

HHS estimate of 5-year Costs: $7.9 million in mandatory spending for the OIG demo.
HHS Estimate of Total 5-year FTE Reduction:

_____ **In** _____ **Out**

NEM will call LaVerne. WH must veto (trust fund spending.

- trust funds.

[Not included by NEM] **PHS Consolidations.** The President's FY 1996 Budget proposes to consolidate 107 Public Health Service (PHS) programs into 6 Performance Partnerships and 10 consolidated clusters to give states and local communities more flexibility in administering PHS grants. FTE savings of 723 by FY 2000 were proposed in the FY 1996 Budget.

Would require legislation to implement.

HHS estimate of 5-year Savings: $218 million (Included in the FY 1996 Budget)
HHS Estimate of Total 5-year FTE Reduction: 723 (Included in the FY 1996 Budget, but below the HHS October Streamlining Plan)

Office Closings:

_____ **In** ____X____ **Out**

[Included by NEM.] **Health Care Financing Administration, Medicare Transaction System (MTS).** Ample opportunity exists within the Medicare program to streamline administration and reduce costs by utilizing new technologies and reducing duplication in the claims processing environment. HHS proposes to continue developing the Medicare Transaction System (MTS), begun in 1991 as a single, integrated Medicare claims processing system replacing the 11 systems and 60 operating sites currently processing Medicare claims.

The savings estimate is HHS' current "best guess" of the level of efficiency achievable in claims processing through implementation of MTS. The estimate is not measured against any existing budget baseline and does not include start-up and transition costs which are likely to offset any savings in FY97, FY98 and FY99. Therefore, we believe HHS should not show any savings for this proposal.

HHS estimate of 5-year Savings: $320 million
HHS estimate of Total 5-year FTE Reduction:
Office Closings:

_____ In ____X____ Out

Reduction of Management Control Positions -- NIH and FDA. HHS proposes to increase the proportion of its already planned FTE reductions from management control positions (as defined by NPR). Dollar savings from this proposal are a pricing-out of the existing HHS streamlining plan and are assumed in the FY 1996 Budget, and an additional savings of 130 FTEs from NIH control positions, below the streamlining plan. Also, the savings estimate doubled for this proposal in HHS' April 19th estimate.

HHS estimate of 5-year Savings: $105.7 million
HHS Estimate of Total 5-year FTE Reduction: 130
Office Closings:

X In _____ Out

Integration of Surveys and Development of Data Standards. HHS spends nearly $250 million per year on multiple program-specific and all-purpose surveys. These efforts are generally inefficient and overlapping and do not always result in timely availability of reliable health information. HHS proposes to solve these problems by integrating HHS survey activities, establishing an HHS data and statistics entity and creating an HHS data council to coordinate health data standards development. Budget neutral.

NOTE: This initiative will increase spending for health survey related activities at HHS by nearly $62 million above the FY 1996 President's budget, between FY 1996 and FY 2000. The proposal also needs to be integrated with the federal statistical crosscut REGO proposal being coordinated by Kathy Walman in OIRA.

HHS estimate of 5-year Cost: ~~$62 million~~
HHS Estimate of Total 5-year FTE Reduction:
Office Closings:

X **In** _____ **Out**

CDC/ATSDR Merger. Merges two Public Health Service agencies, the Agency for Toxic Substances and Disease Registry (ATSDR) and the Centers for Disease Control and Prevention (CDC), both with headquarters in Atlanta and currently headed by the Director of CDC. Consolidates CDC's and ATSDR's environmental expertise and gives ATSDR better access to CDC's relationships with State and local governments. HHS estimates the merger will result in $2 million and 40 FTE in annual administrative savings to HHS.

HHS estimate of 5-year Savings: $8 million
HHS Estimate of Total 5-year FTE Reduction: 40
Office Closings:

X **In** _____ **Out**

[Not included by NEM.] National Training Accounts. Medicare payments are not always managed with clear direction for health professions training priorities and goals, contributing to support for unneeded types of providers and facilities. Similar to last year's Health Security Act, the HHS proposal pools Medicare's resources into two National Training Accounts to rationalize and align federal resources with national purposes and the general public benefit. These accounts would direct support to institutions and training most needed (e.g., primary care health providers) on a national basis.

HHS estimate of 5-year Savings:
HHS Estimate of Total 5-year FTE Reduction:
Office Closings:

_____ **In** __X__ **Out**

FDA Regulatory Reform. Proposals to reform FDA's regulation of foods, drugs, biologics, and medical devices were annnounced on March 16, 1995. These reforms are expected to yield savings for the regulated industries and for FDA. This proposal provides no net FTE savings and only modest dollar savings because the savings from the reforms are recycled within FDA.

The substance of this item was included in reg. reform. However, no savings were associated with this proposal as part of that process. Therefore, HHS is counting the savings here.

HHS estimate of 5-year Savings: $ 37.1 million
HHS Estimate of Total 5-year FTE Reduction:
Office Closings:

__X__ In _____ Out

[We understand that these items were not included in the materials sent from the Vice President to the President on March 17, 1995. HHS has included the proposals as part of their April 19th savings estimate]

Consolidation of SAMHSA, HCFA, HRSA. HHS proposes to consolidate activities in the Substance Abuse and Mental Health Services Administration (SAMHSA), the Health Care Financing Administration (HCFA), the Health Resources and Services Administration (HRSA), and perhaps other HHS units into a single health services and financing agency. HHS' proposal would coordinate Federal funding streams to States, institutions in States and beneficiaries to streamline administration of health, mental health and substance abuse delivery systems. These consolidations would facilitate state efforts to reform their own health care systems and would better leverage Federal funds to assure continued health care access for vulnerable populations even as the market place is increasingly dominated by managed care. HHS estimates that this proposal will achieve 200 Federal FTE savings by FY 2000. These are in addition to FTE reductions already agreed to as part of streamlining and FY 1996 budget cuts.

HHS estimate of 5-year Savings: $38.1 million
HHS Estimate of Total 5-year FTE Reduction: 200
Office Closings:

_____ **In** _____ **Out**

Terminate Smaller HHS Programs. HHS proposes to eliminate the following programs (Total: $27 million/yr.):

--Public Health Service
- Pacific Basin Initiative (Health Services) ($1 million/yr.)
- Trauma Care ($5 million/yr.)
- Payments to Hawaii (Hansen's Disease) ($3 million/yr.)
- Native Hawaiian Health Care ($4 million/yr.)
- Prostate Cancer Screening (CDC) ($4 million/yr.)
- HEAL
- HRSA support for HUD's 242 Program **(Cross-agency)**
- Hansen's Disease (Carville?) ($8 million/yr.)

--Office of Consumer Affairs ($2 million/yr.)

HHS estimate of 5-year Savings: $114 million
HHS Estimate of Total 5-year FTE Reduction: 13
Office Closings:

_____ **In** _____ **Out**

URGENT

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503-0001
2/27/95
LEGISLATIVE REFERRAL MEMORANDUM

LRM NO: 478
FILE NO: 504
Total Page(s): 13

TO: Legislative Liaison Officer - See Distribution below:
FROM: Janet FORSGREN (for) Connie Bowers
Assistant Director for Legislative Reference
OMB CONTACT: Melissa COOK 395-3924
Legislative Assistant's line (for simple responses): 395-7362

URGENT

SUBJECT: HEALTH AND HUMAN SERVICES Proposed Testimony on Reinventing Government II

DEADLINE: C.O.B. Monday, February 27,1995

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President.

Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

COMMENTS: Attached is Secretary Shalala's Testimony for the 3/1 hearing before the H. Subcommittee on Human Resources and Intergovernmental Relations.

AGENCIES:
- - EOP Review Only, See Distribution -

EOP:
Nancy-Ann Min
Barry Clendenin
Mark Miller (3)
Richard Turman (3)
Barry White
Doug Steiger
Keith Fontenot
Jack Smalligan
Carter Dutch
Naomi Tinklepaugh
Richard Green
Edwin Lau
Bob Damus
Margaret Yao
Jonathan Breul
Joe Wholey
Ed DeSeve
Wendy Zenker
Shannah Koss
Allison Eydt
Laura Oliven
Steve Semenuk
John Kamensky
Jeremy Ben-Ami
Chris Jennings
Jennifer Klein
Clarissa Cerda
Chuck Konigsberg
Jim Murr
Janet Forsgren
Connie Bowers
Bob Pellicci

RESPONSE TO
LEGISLATIVE REFERRAL MEMORANDUM

LRM NO: 478
FILE NO: 504

If your response to this request for views is simple (e.g., concur/no comment), we prefer that you respond by e-mail or by faxing us this response sheet.

If the response is simple and you prefer to call, please call the branch-wide line shown below (NOT the analyst's line) to leave a message with a legislative assistant.

You may also respond by:

(1) calling the analyst/attorney's direct line (you will be connected to voice mail if the analyst does not answer); or
(2) sending us a memo or letter.

Please include the LRM number shown above, and the subject shown below.

TO: Melissa COOK 395-3924
Office of Management and Budget
Fax Number: 395-6148
Branch-Wide Line (to reach legislative assistant): 395-7362

FROM: _____ (Date)

_____ (Name)

_____ (Agency)

_____ (Telephone)

SUBJECT: HEALTH AND HUMAN SERVICES Proposed Testimony on Reinventing Government II

The following is the response of our agency to your request for views on the above captioned subject:

_____ See proposed edits on pages _____

_____ Other: _____

_____ FAX RETURN of ____ pages, attached to this response sheet

DRAFT TESTIMONY

DONNA E. SHALALA

SECRETARY OF HEALTH AND HUMAN SERVICES

SUBCOMMITTEE ON HUMAN RESOURCES AND INTERGOVERNMENTAL RELATIONS

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

U.S. HOUSE OF REPRESENTATIVES

MARCH 1, 1995

GOOD MORNING MR. CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE:

I am very pleased to be here, Mr. Chairman, and participate in your subcommittee's effort to make government more effective and efficient.

We believe that one of the keys is working together--and we look forward to doing just that with you and your colleagues on the subcommittee.

We believe that government must focus on the everyday needs of the American people.

We believe that local communities know what their problems are and are best able to fix them.

We believe that some jobs now done by the Federal government should be turned back to the states.

But we also believe some issues cross state boundaries and require leadership at the federal level.

By its very definition, the mission of the Department of Health and Human Services promotes the health and well-being of every single American.

Our mission includes everything from ground-breaking research at NIH, to assuring the safety of Americans' food and

drugs, to providing a Head Start for our children, to enhancing the Medicare program for America's seniors.

These are crucial duties, Mr. Chairman, and they demand world-class performance for government. That is our responsibility to the American people.

We must be tough, disciplined and responsive to the American public. We must learn to do more with less.

The Reinventing Government initiative, led by Vice President Al Gore, is part of our effort to be more responsive and more efficient. We are just now beginning the second phase of Reinventing Government.

We are re-looking at everything we do with a view toward answering the fundamental questions that President Clinton and Vice President Gore asked every Department and agency to address:

- Are our programs or functions critical to the agency's mission based on "customer" input?

- Can the program or function be done as well or better at the State or local level?

- Is there a way to cut cost or improve performance by

introducing competition?

- Can the program be improved by putting customers first, cutting red tape and empowering employees?

We are using this second phase to focus on what the Department should be in the business of doing, and what activities we should no longer do.

I have challenged my senior staff to develop bold options for changing what we do. This is a collaborative process, and we meet regularly with the Administration's National Performance Review team, which includes representatives from OMB and the Domestic Policy Council.

For the past several weeks, a number of senior staff have been devoted to a round-the-clock process to ensure that each of our proposals not only achieves substantial gains in effectiveness and efficiency, but also serves the customer better. These proposals will be presented to Vice President Gore later this month.

Although we have not reached the end of the second phase, I can talk about our successes, our ongoing initiatives, and the challenges we see ahead.

First, we have accomplished a great deal in reducing the size of the Department.

Every Department and agency was required to develop a streamlining plan to achieve its share of the government-wide reduction of 272,000 full-time employees by 1999. Our plan will realize our target by reducing our workforce by more than 7,000 employees.

In addition, legislation passed last year removes the Social Security Administration from the Department and establishes it as an independent agency in the Executive Branch, effective March 31 of this year.

I am very pleased with the leadership of my senior officials -- especially Social Security Administration Commissioner Shirley Chater -- who have worked effectively to create what history will record as a resounding success. The GAO agrees with this assessment.

At the same time we are streamlining our operations, we are also taking on major new national initiatives and strengthening existing programs.

Consider the President's Childhood Immunization Initiative. Our goal is to raise the pre-school immunization rate for the

most basic vaccines up to 90 percent by 1996, and we are starting to see real results. Between 1992 and 1993 alone, the immunization rates for two-year-old children for the initial and most crucial vaccines rose from 55 percent to 67 percent. That's the best rate in American history.

We're also improving and expanding the Head Start program. With bipartisan support, last year we passed the most comprehensive Head Start agenda in history.

We've worked hard to improve the quality of services at Head Start centers, and now over 90 percent of Head Start grantees meet our quality performance standards. We've given grantees more flexibility so the projects are more responsive to local needs. And we have made the program more responsive to the special needs of working families.

We have made big gains in breast cancer research, prevention, and treatment -- including the landmark implementation of the National Action Plan on Breast Cancer.

And recently, we learned that breast cancer mortality rates declined 5 percent among all women -- and by 18 percent since 1987 among women in their thirties.

Breast cancer screening rates are at their highest levels in

history, due, in part, to increased funding for the CDC National Breast and Cervical Cancer Program and the National Cancer Institute's education and outreach efforts.

One reason for these accomplishments is that we are committed to thinking about all of our programs and services from our customers' perspective.

Let me tell you about just a few of the strong measures that we have taken to put the American people first:

We are waging an all-out attack on waste, fraud, and abuse. In 1994, our Inspector General helped recover and save 5.4 billion dollars in Medicare and Medicaid. And, across the entire Department, we recovered and saved more than 8 billion dollars -- that's the largest amount ever by HHS in one year!

We are also working to promote efficiency and consolidate services, and doing more with less.

We believe firmly in the concept of "performance

We are working on innovative approaches for getting our work done faster, smarter, and better. One example of that is the Health Care Financing Administration's overhauling of its claims processing system for Medicare.

The new privately-run system will answer questions more quickly and accurately, and will reduce regional inconsistencies in the acceptance and denial of claims. Once this project is completed, we will provide more effective service -- and we will cut administrative costs.

We are working to change the way Medicare and Medicaid work, to improve quality, promote efficiency, lower costs, and give the American people more health choices.

More and more states are taking advantage of new opportunities to offer managed care programs under Medicaid. And, more and more health plans and individuals are choosing the managed care option under Medicare.

Last year, Medicaid had a 63 percent increase in the number of Americans enrolled managed care plans -- from 4.8 million in 1993 to 7.8 million in 1994.

The number of seniors choosing managed care through the Medicare program grew by 16 percent -- from about 2.7 million

people in 1993 to more than 3.1 million in 1994. And we expect it to grow another 20 to 25 percent this year.

This customer perspective has been fundamental in planning the White House Conference on Aging. In preparation for this event, we asked seniors from across the country about their ideas on better government and better customer service.

We are also demanding more leadership and creative thinking from our employees. At HHS, we established a Continuous Improvement Program that involves the entire Department in the process of change.

One workgroup conducted an in-depth review of the regulatory development process and proposed major reforms which will cut in half the average time to publish a regulation.

Mr. Chairman, I would now like to speak about the challenges before us.

One is to respond to the charge given us by President Clinton and Vice President Gore in the second phase of the reinventing government initiative to re-think all that we do in HHS.

That is an enormous task -- but it is also easier in some

ways than the other challenge I see ahead, because it is fairly well-defined.

In my view, the more formidable challenge is to change the culture of government--and not necessarily Federal government alone.

The essence of that change is to move government away from its traditional, bureaucratic mode of operation -- that is, working from the top-down to manage the activities of field staff, other levels of government and the public as well.

Rather, government must operate in a manner that fits with the information-age: It must work from the bottom-up through staff who deal with and understand what customers want. It must listen and respond rather than direct and control.

We must work in partnership with other levels of government -- especially the States, the private sector, and local communities to help communities meet their own needs.

We do not have any options or choice in whether or not we will move in this direction, Mr. Chairman.

As Vice President Gore said when he spoke to government executives a few weeks ago about the reinventing government

initiative, "If America is to regain trust in her government, America's government must reinvent itself based on trust. That is what the government of the future is all about: trust and opportunity."

I appreciate being asked to appear before you today, and I will be happy to answer any questions you may have.