April 20, 2011

TO: Francis S. Collins, M.D., Ph.D.
    Director
    National Institutes of Health

FROM: /Daniel R. Levinson/
      Inspector General

SUBJECT: Appropriations Funding for National Institutes of Health Office of Acquisitions
         Contract HHSN263-2006-000111 With Computer Packages Inc. (A-03-10-03102)

The attached final report provides the results of our review of appropriations funding for
National Institutes of Health Office of Acquisitions contract HHSN263-2006-000111 with
Computer Packages Inc.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that the Office of Inspector
General (OIG) post its publicly available reports on the OIG Web site. Accordingly, this report
will be posted at http://oig.hhs.gov.

If you have any questions or comments about this report, please do not hesitate to call me,
or your staff may contact Lori S. Pilcher, Assistant Inspector General for Grants, Internal
Activities, and Information Technology Audits, at (202) 619-1175 or through email at
Lori.Pilcher@oig.hhs.gov. We look forward to receiving your final management decision within
6 months. Please refer to report number A-03-10-03102 in all correspondence.

Attachment
Department of Health & Human Services
OFFICE OF
INSPECTOR GENERAL

APPROPRIATIONS FUNDING FOR
NATIONAL INSTITUTES OF HEALTH
OFFICE OF ACQUISITIONS
CONTRACT HHSN263-2006-00011I
WITH COMPUTER PACKAGES INC.

Daniel R. Levinson
Inspector General
April 2011
A-03-10-03102
The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health & Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

**Office of Audit Services**

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

**Office of Evaluation and Inspections**

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

**Office of Investigations**

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

**Office of Counsel to the Inspector General**

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG’s internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.
Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at http://oig.hhs.gov

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.
INTRODUCTION

BACKGROUND

The Office of Logistics and Acquisitions Operations (OLAO) is a component of the Office of the Director of the National Institutes of Health (NIH), an agency of the U.S. Department of Health & Human Services (HHS). The NIH Office of the Director sets policy and plans, manages, and coordinates NIH-wide programs and activities. Like all Federal agencies, OLAO is required to comply with appropriations statutes when acquiring supplies and services with appropriated funds.

Federal Appropriations Statutes

An agency may obligate appropriations for goods and services when (1) the purpose of the obligation or expenditure is authorized, (2) the obligation occurs within the time limits for which the appropriation is available, and (3) the obligation and expenditure are within the amounts provided by Congress.

Federal statutes limit the purpose for which an agency may use appropriations to “the objects for which the appropriations were made except as otherwise provided by law” (31 U.S.C. § 1301(a)). A fiscal year appropriation may be obligated only to meet a legitimate, or bona fide, need arising in, or in some cases arising prior to but continuing to exist in, the appropriation’s period of availability (31 U.S.C. § 1502(a)). Unless otherwise specified in the appropriation, the period of availability for most funds is the fiscal year for which the appropriation was made.

Bona fide needs may involve transactions that cover more than 1 fiscal year, depending on the nature of the services involved: “The general rule is that the fiscal year appropriation current at the time the contract is made is chargeable with payments under the contract, although performance thereunder may extend into the ensuing fiscal year” (23 Comp. Gen. 370, 371 (1943)).¹ Multiyear contracting authority provided by statute is an exception to the bona fide needs rule.

The Comptroller General has held that “the question of whether to charge the appropriation current on the date the contract is made, or to charge funds current at the time the services are rendered, depends on whether the services are ‘severable’ or ‘entire’ [nonseverable].”² When services are continuing and recurring, they are severable, and the agency may fund the contract with fiscal year appropriations from the year in which services are provided, unless otherwise authorized by statute. When services are for a single outcome or effort, they are nonseverable and therefore chargeable to the fiscal year in which the contract was awarded, even though performance may extend into subsequent fiscal years.

Congress determines the amount of funding available to an agency by enacting appropriations to cover programs, projects, purchases, and services needed by the agency during the period for which the funds are made available. The Antideficiency Act prohibits an agency from obligating


**Office of Logistics and Acquisitions Operations Contract Award**

On August 29, 2006, OLAO awarded an indefinite-delivery, indefinite-quantity contract HHSN-263-2006-00011I (the Contract) to Computer Packages Inc. in Rockville, Maryland. The contract requires Computer Packages Inc. to pay patent maintenance and annuity fees related to inventions of NIH and Food and Drug Administration employees in the United States and foreign countries. The Contract totaled $37.6 million3 for a 1-year base period totaling $4.4 million, with four 1-year options.

An indefinite-delivery, indefinite-quantity contract provides for the issuance of orders for the delivery of supplies or services during the fixed period of the Contract. Within set minimum or maximum limits, agencies place orders for individual needs, as they are required. Limits may be stated as number of units or as dollar values.

We determined that the Contract was for severable services because the services were continuing and recurring and OLAO received value when Computer Packages Inc. paid each patent maintenance and annuity fee.

**Departmental Review of National Institutes of Health Contracts**

In 2008, HHS management formed an internal review group of program, contract, and financial personnel called the “Tiger Team.” From November 2008 through February 2009, the Tiger Team assessed 176 HHS contracts, including 21 NIH contracts. The Contract was 1 of the 21 NIH contracts assessed. For 17 of the 21 contracts, the Tiger Team identified instances in which contract funding was not consistent with the current HHS Acquisition Regulation or appropriations law.4 The Tiger Team report did not identify its concerns or quantify funding errors by contract.

**OBJECTIVE, SCOPE, AND METHODOLOGY**

**Objective**

Our objective was to determine whether OLAO funded the Contract in compliance with the purpose, time, and amount requirements specified in appropriations statutes.

---

3 OLAO initially awarded the Contract to Computer Packages Inc. for $23.4 million. Because of fluctuations in foreign currency exchange rates, OLAO modified the Contract on July 30, 2008, to increase the estimated total Contract cost to $37.6 million.

4 *Funding Multiple Year Contracts; Tiger Team Summary Report*, July 29, 2009.
Scope

We reviewed selected obligations and payments made under the Contract during fiscal years 2006 through 2009. We did not review OLAO’s internal controls because our objective did not require such a review.

We performed our fieldwork at OLAO in Rockville, Maryland.

Methodology

To accomplish our objective, we:

- reviewed appropriations and acquisition laws and regulations and Contract requirements;
- reviewed the Tiger Team report;
- reviewed contract file documentation, including the statement of work, to determine the nature of the products or services to be provided; and
- analyzed selected funding documents and payment vouchers to determine what appropriations were obligated, recorded, and expended.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

RESULTS OF AUDIT

OLAO funded the Contract in compliance with the purpose, time, and amount requirements specified in appropriations statutes. OLAO had a bona fide need for the items and appropriately funded the Contract with appropriations from fiscal years 2006 through 2009.