A BRIEF HISTORY

OF THE

HHS OFFICE OF INSPECTOR GENERAL

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INTRODUCTION

The concept of an Inspector General is not a new one. The first known Inspector General was designated by King Louis XIV of France in 1668 to review his troops and report to him on the condition of the army. A century later, the revolutionary Continental Congress named Thomas Conway, an Irish soldier of fortune serving as a Major General in the Continental Army, as the first Inspector General (IG). The Army’s main concern was to ensure that our fledgling republic’s scarce dollars were properly spent for wartime munitions and supplies. Conway remained in the job only briefly, owing to disagreements with his Commander-in-Chief, General George Washington. The next year, in 1778, Baron Frederick William Augustus von Steuben was appointed as the Inspector General of the Army. Despite some initial resistance from the Continental Army colonels, he soon earned the respect of his subordinates and superiors, as well as a place in history as the “Father of the Inspector General system.”\(^1\) In fact, the idea of oversight of spending by Federal agencies remains much the same as in George Washington’s time. Our founding fathers dealt with the problems of defective or shoddy military equipment, mismanagement and graft, just as our current Inspectors General deal with waste, fraud and abuse in Federally-funded programs. For over a century after the Revolution, Federal government fiscal oversight took the form of account ledger and voucher reviews by relatively few auditors and accountants, and even fewer means of enforcement.\(^2\) But as the country grew, so did its need for Federal oversight.

Following the landslide election of 1920 that swept Republican Warren G. Harding into the White House, Congress passed the Budget and Accounting Act of 1921, which separated the two functions into two separate entities: the Bureau of the Budget (now Office of Management and Budget) and the General Accounting Office (GAO). This Act was the cornerstone in the creation of the future Inspector General Acts of 1976 and 1978. The second critical block was set in 1959, when amendments to the Mutual Security Act created the Office of the Inspector General and Comptroller (OIGC), which was physically located within the International Cooperation Administration. This Inspector General was appointed by the Secretary of State and the Office was envisioned as a potential information resource for the GAO and Congress. Of special significance to modern IG concepts is the fact that the Office was granted access to all Government records, and charged with reporting deficiencies in program operations, so that appropriate corrective actions could be taken.

\(^1\) U.S. Army Inspector General website: http://www.mdw.army.mil/IG.

Under authority granted by the Foreign Assistance Act of 1961, the comptroller function was dropped and the OIGC’s name was changed to Office of Inspector General, Foreign Assistance (IGA). The Act also elevated the Office by making the position a Presidential appointment, thus laying the groundwork for future statutory IG positions. The IGA position lasted ten years, and was replaced by the Agency for International Development’s non-statutory IG in the mid-seventies.

It is generally agreed that the first official inspector general for a Federal agency was the U.S. Department of Agriculture’s (USDA) Administrative Office of Inspector General, appointed in 1962. That office had a false start, however, and was eliminated twelve years later by Secretary of Agriculture Earl Butz, in the name of management efficiency, and replaced by offices of investigation and audit. Because the USDA IG and other early Inspector Generals were not mandated by statute, they reported directly to the Agency Secretary and other Department officials, a fact that significantly weakened the IG’s authority. The USDA Inspector General position had been created as a “stop-gap measure,” a direct result of the Billie Sol Estes scandals and subsequent Congressional investigations. Estes was an unscrupulous Texas businessman who had enriched himself through fraudulent dealings with the USDA’s grain storage program which had gone unnoticed by the agency’s ineffectual audit mechanisms.

The political climate in the late 1960’s and early 1970’s was ripe for a wave of Government reforms. The shooting of four Kent State college students at a anti-war protest, the environmental disasters of Love Canal and Three Mile Island, and the Jonestown cult deaths marked the tempestuous era and left the public fearful of crime, pollution, and politics. Faith in the Government’s ability to police itself was at its lowest ebb, a response in part to the Estes scandals and resulting Congressional hearings which revealed the extent of the corruption. The hearings, conducted by Representative L. H. Fountain (D-NC) as Chairman of the House Intergovernmental Relations subcommittee, virtually ensured that he would be the future author of IG legislation. At the same time, Senator Frank Moss had held hearings with the Senate Finance Committee that examined the $1.8B of fraudulent billings and overcharges in the Medicaid program. The country had just ended a long and divisive war in Vietnam, the aftershocks of the “hippie” generation’s anti-establishment movement were still being felt, and the economy was recovering from a recession inspired by the oil shortages of 1973. The Watergate affair, with President Nixon’s resignation in its aftermath, was the coup de grace to the public’s confidence in Federal agencies and officials. The time was finally right for a consensus on the need for Federal agencies to have fully discrete Inspector General offices with a mandate to provide oversight of the agencies’ programs. It was into this receptive milieu that the HEW Inspector General Act of 1976 was born.

A Brief History of the HHS Office of Inspector General
STATUTORY FOUNDATION OF THE HHS INSPECTOR GENERAL

There are fifteen separate legislative documents regarding Inspectors General, some establishing a single Federal agency IG, others mandating a broad category of Federal inspectors general. Discussed below are the three major laws affecting the HHS Office of Inspector General and additional sources of IG authority.

The HEW Inspector General Act of 1976

As part of the comprehensive review of the Department of Health, Education and Welfare (HEW) undertaken by the Fountain committee and others, it was determined that a serious deficiency in all Federal agencies was the lack of an efficient mechanism for coordinating efforts to identify and mitigate fraud and waste. Audit and investigation functions have always existed within modern government entities. In our own Federal government system, what was lacking prior to IG legislation was formal collaboration and communication between these two functions. Fountain and his committee members set about the task of designing an entity that would combine the existing audit and investigative components into a twentieth-century version of an Inspector General. Equally important was the delegation of authorities to the Inspector General’s office. The draft legislation for the Inspector General Act of 1976 specified four chief criteria: the independence and objectivity of the Office; a semiannual requirement for reporting to Congress; direct access to all agency records and information; and subpoena authority for information and documents outside the agency. As a guarantee that the independence of the office was not compromised, the Inspector General’s Office was also provided management authorities such as direct contracting for goods and services and full personnel management authority. To ensure its passage, the legislation had been intentionally attached as an amendment to the non-controversial H.R. 11347, an Act to convey Federal land to the Shriner’s Hospital for Crippled Children. The bill was signed into law by President Gerald Ford on October 15, 1976, and the following year newly-elected President Jimmy Carter nominated Thomas D. Morris as the first Inspector General at the Department of Health, Education, and Welfare (HEW).

The HEW Inspector General Act of 1976, Public Law 94-505, mandated the creation of the Office of Inspector General under the Department of Health, Education and Welfare (HEW) Secretary. This first Federal IG was to be a Presidential appointment, subject to removal only by the President, and only with a written explanation to Congress. The IG was to be selected on the basis of demonstrated abilities in auditing, accounting,


4 Telephone conversation with James R. Naughton, June 12, 2001. Naughton served as Counsel to the Committee from 1955 – 1983 and was one of the primary authors of the legislation.
investigation, administration and public management. Most importantly, the HEW OIG was to be charged with auditing, investigating and supervising oversight of Agency programs, and was to provide annual reports to Congress. This first attempt at a systematic approach to internal monitoring of the Department placed the Office directly under the purview of, and reporting directly to, the HEW Secretary.

The authors of the legislation recognized the inherent conflicts of an Inspector General position, and sought to buffer the office from pressures originating both inside and outside of the agency. For this reason, Inspectors General were accorded authority to “enter into contracts and other arrangements for audits, studies, analyses and other services with public agencies and with private persons, and to make such payments as may be necessary to carry out the provisions of the [IG] Act.” Furthermore, the Act stipulated that the IG “reports to and is under the general supervision of the Secretary…but shall not report to or be subject to supervision by any other officer of the Department, and went even further to specify that the Secretary may not “prevent or prohibit the Inspector General from initiating, carrying out, or completing any audit or investigation.” This was a critical point in defining the IG role, since functional autonomy is the heart of any truly independent oversight.

The Inspector General Act of 1978

The Inspector General Act of 1978 (P.L. 95-452) created fourteen additional inspector general positions in the major Federal agencies, essentially recognizing the success of the HEW experiment and extending IG authority to other agencies. The proposed legislation had been met with unanimous opposition from the agency heads, as well as some Congressional representatives. Agency executives were clearly uncomfortable with an audit and investigation organization over which they had little or no control. Moreover, there was a concern that inspector general audits could have the effect of demonstrating that the agency needed less than its current budget. Nevertheless, the legislation was enacted, proving that the inspector general concept was here to stay. The Act became law exactly two centuries after the appointment of the first Inspector General by the Continental Congress.

The Act mandated certain reporting requirements such as annual and semi-annual reporting to Congress, as well as immediate (within 7 days) reports of any particularly serious or flagrant problems to the agency Secretaries and to Congress. Other mandated duties include review of legislation and regulations, establishment and coordination of

5 5 U.S.C. App. § 6(a) (9), The Inspector General Act.
6 Ibid.
7 Ibid.
working relationships with Federal, State, local and private entities, and the authority to audit and investigate all Departmental programs. This last authority has been the linchpin for the Office’s functions, and the primary tool to battle what has been called “the three horsemen of the IG: fraud, waste, and abuse.”

Specific authorities outlined in the legislation have given the Inspectors General their clout. These authorities include the authority to: subpoena records; have unrestricted access to relevant agency records; request assistance from other Federal, State or local government agencies; administer oaths; and receive complaints and provide whistleblower protection.

**The Inspector General Act Amendments of 1988**

The Amendments of 1988 provided the final statutory foundation for the Inspectors General and created another twenty-eight inspector general positions. These Amendments created different categories of Inspectors General: “establishment” IGs, which are Presidential appointments and “designated Federal entity” IGs, which are appointed by the agency heads. Other, usually smaller, Federal entities are simply required to report to Congress on their internal audits and investigations – no formal Inspector General is required. Such Federal entities are not covered by most of the provisions of the Act.

The Amendments added new responsibilities to their existing tasks, requiring management reports of actions taken in response to OIG findings, in addition to the previously required OIG audits and evaluations. The Act retained requirements for the OIG to review proposed regulations and provide recommendations concerning the regulatory impact.

**Additional Sources of OIG Legal Authority**

The HHS OIG is also authorized to conduct investigations and audits under several statutes other than the Inspector General Acts:

**Civil Monetary Penalties** -- Title XI of the Social Security Act (Section 1128A) includes provisions that authorize the HHS OIG to levy civil monetary penalties against entities found to have acted improperly in dealings with HHS programs, including submitting false claims to Medicare and Medicaid programs. The Program Fraud Civil Remedies Act (31 U.S.C. Sections 3801-12) also authorizes the OIG to levy civil monetary penalties and assessments in cases of entities making false statements or claims.

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to any Federal agency. Since most health care related matters are covered under the Social Security Act statutes, this latter Act is rarely invoked.

**Exclusions from Federal Programs** -- Under Title XI of the Social Security Act (Sections 1128, 1156, and 1892), entities convicted of program-related crimes, patient abuse or neglect, and other felonies may be excluded from participation in any Federal health care program, including Medicare and Medicaid. These cases are litigated by the Office of Counsel to the Inspector General.

**Medicaid Fraud Control Units (MFCUs)** – The Anti-Fraud and Abuse Amendments of 1977 to Title XIX of the Social Security Act authorize the Secretary to establish a financial partnership with the State MFCUs to share some of the operating costs of the MFCUs. In 1979, administrative control of the MFCUs was transferred from the Health Care Financing Administration (HCFA) to the OIG’s Office of Investigation, which currently certifies and funds the units and reviews the grants.

**Superfund Audits** -- The Superfund Audit statute, 42 U.S.C. 9611(k), requires all Inspectors General to conduct annual audits of all monies derived from the Fund, and an annual audit report is required to be submitted to Congress.

**Child Support Enforcement** -- The Child Support Recovery Act (18 U.S.C. Section 228), has made interstate delinquency on court-ordered child support a Federal crime. The appropriation for the OIG specifically authorizes the Inspector General to conduct investigations under Section 228.

**Secretarial Security and Protection Services** -- Responsibility for security and protection services for the Secretary, and selected Department executives such as the Surgeon General, has been assigned to the HHS OIG by delegation from the Secretary and deputation from the Justice Department. Secretarial protection is now explicitly recognized in the IG’s appropriation.

**CFO Audits** -- The Chief Financial Officer’s Act of 1990 (31 U.S.C. Section 3515), as amended by the Government Management Reform Act of 1994, directed the heads of covered executive agencies to submit to the Office of Management and Budget an annual audited financial statement covering all of the agency’s accounts and activities. In addition to the agency-wide financial statement, the law also directed OMB to identify those components required to have individual audited financial statements. At HHS, these include HCFA, ACF, FDA, and NIH. A portion of OIG’s financial statement audit work is funded by the audited program agencies, through reimbursable agreements with the HHS OIG.

**The Health Insurance Portability and Accountability Act of 1996 (HIPAA)** created Sections 1128C and 1128D of the Social Security Act, authorizing the HHS OIG to
conduct investigations, audits, and evaluations relating to health care fraud, generally not limited to HHS programs. HIPAA expanded the OIG duties to include coordination of Federal, State and local enforcement efforts targeting health care fraud; to provide industry guidance concerning fraudulent health care practices; and to establish a national data bank to report final adverse actions against health care providers. Significantly, HIPAA authorizes the OIG to investigate cases that involve private (vs. Federally-funded) health care fraud, but present policies restrict the investigative focus to cases of fraud affecting Federally-funded programs.

THE FORMATIVE YEARS

The first HEW Inspector General, Thomas D. Morris, had been appointed while a senior staff member of the Brookings Institution, where he served as a management expert with a distinguished record of executive positions in the military, industry, and government. In keeping with statutory requirements of the HEW Inspector General Act, Morris was nominated by President Jimmy Carter and received Senate confirmation in 1977.

Significantly, Morris had also served as Assistant Comptroller General of the United States and Assistant Director of the U.S. Bureau of the Budget (now OMB). The choice of Morris for IG was accompanied by the appointment of a highly qualified deputy, Charles F. C. Ruff, who had been the special prosecutor on the Watergate Special Prosecution Force. This first Inspector General’s Office was completed by three other appointments: Edward Stepnick, Assistant Inspector General for Auditing; Nathan Dick, Assistant Inspector General for Investigations; and Bryan Mitchell, Assistant Inspector General for Health Care and Systems Review. By all accounts, Morris was an accomplished and extremely conscientious manager, whose legendary handwritten task-assignment notes to his staff would mysteriously appear on employees’ desks after every weekend, even after Christmas.

Morris had come into the Department on the back of a tiger --- HEW. The Fountain hearings of 1976 painted a picture of a hopelessly inadequate number of HEW staff overwhelmed by an ever-increasing backlog of ongoing audits and investigations directed at attempting to keep the perpetrators of fraud, waste and abuse at bay. Morris’ first Report to Congress had estimated that between $6.3 to $7.4 billion Federal dollars were lost to health care fraud and abuse annually, yet HEW had only ten investigators. With the unprecedented surge in Federal aid program spending and health care costs increasing annually, something clearly had to be done, and the Secretary of HEW, Joseph Califano, had taken the first steps with the 1977 Departmental re-organization which merged the
Social Security Administration’s Investigative Branch into OIG’s Office of Investigations.

In October 1977, the Medicare and Medicaid Anti-Fraud and Abuse Amendments were passed by Congress, and HEW was directed to establish State Medicare/Medicaid Fraud Control Units (MFCUs). Morris also launched several investigative initiatives, of which three are especially noteworthy: Project Integrity, which screened Medicaid provider charges for improper billing; Project Match, which identified fraudulent or ineligible welfare payments; and Project Cross-Check, which identified individuals who had defaulted on their student loans. All of these projects used state-of-the-art computer search and analysis tools to obtain the necessary information, making it clear that the OIG had formally entered the computer age.

Pundits often remark that “no good deed goes unpunished.” When Morris issued the first IG Annual Report, some in Congress reacted to the data by suggesting that HEW’s budget be cut by the same amounts as those of the waste, fraud, and abuse reported. Although such drastic cuts were not made, HEW program officials rued the OIG’s reporting of the fraud, waste, and abuse data, especially since most of the amount represented waste, which would have required legislation to correct. Around the same time, OMB officials were recommending increases in IG staffing, but action on these recommendations had been stymied by President Carter’s imposition of a Government-wide hiring freeze. Dick Kusserow, the next IG to be appointed after Morris, remarked that the $7.4 billion figure reported that first year continued to “haunt” the OIG many years later. 9 Significantly, the IG’s Annual Report the following year provided more carefully calculated figures which indicated that only fifteen percent of the losses were due to intentional fraud, abuse of services, or program violations.

Morris served as the Inspector General for two years (1977 – 1979) before returning to the private sector. He resigned shortly after President Carter’s removal of Secretary Joseph Califano, a long-time friend of Morris. In the 18-month interim between Morris’ resignation and the appointment of the next IG, Richard B. Lowe III and Bryan Mitchell served as the Acting Inspector General for HHS.

1979 was a year of dramatic changes for the OIG. Secretary Califano had overhauled HEW and eliminated the original Social Rehabilitation Services organization. Its functions were distributed among several new agencies: the Social Security Administration, the Health Care Financing Administration (HCFA), the Family Support Administration, and the Office of Human Development Services, which included the Head Start Program, the Children’s Bureau, the Youth Program, and the Aging Program. The first HHS OIG toll-free Hotline for fraud, waste, and abuse reporting was established in January 1979, and had a nomadic existence for its first few years. The Hotline was

established first in the Executive Assistant IG’s office, later moved to the Office of Investigations, and finally settled in the Office of Evaluation and Inspections, where it remains today.

In 1980, Ronald Reagan won a landslide victory over Jimmy Carter and the resulting change of administration would be felt by all the Federal agencies and organizations -- especially by the Inspectors General. Also in 1980, the Department of Health, Education, and Welfare (HEW) was transformed into the Department of Health and Human Services (HHS) and the Education component became a separate agency, the Department of Education. Buffeted by the prevailing forces, the OIG was struggling to define itself and establish its credibility.

DEFINING THE TERRITORY

The unique role of the IG has been described as “straddling a barbed wire fence”\(^\text{10}\) because the IG must interact routinely with the Secretary and other Department officials, yet remain independent and objective to effectively evaluate and investigate Department and agency programs. Also critically important is the fact that Inspectors General in establishment agencies are appointed by the President, who alone has the power to remove them, albeit not without written notification to the Congress. This precarious position was spotlighted in 1981 when President Reagan dismissed all fifteen Inspectors General, an action which Paul Light described as having a “chilling effect”\(^\text{11}\) on the new IGs’ sense of security. Not only were all inspectors general removed, but an OIG hiring freeze was also put into place for six months. President Reagan had campaigned in the 1980 election on a platform pledged to root out fraud, waste and abuse, and one of his first decisions as a newly-elected President was to hire “meaner junkyard dogs”\(^\text{12}\) for the IG positions. Of the fifteen IGs removed at the time, five were brought back and either reinstated at the same agencies, or reassigned to other agencies. June Gibbs Brown was one of the five to be brought back and was appointed as IG to NASA. Richard (“Dick”) Kusserow, a former FBI agent, was appointed by President Reagan to fill the vacancy at the HHS OIG. A June 1982 article in The Washingtonian identified HHS IG Richard P. Kusserow as one of the five “junkyard dogs,” who served key roles in Reagan’s war on


\(^{11}\) Ibid.

\(^{12}\) Reagan’s White House Press Secretary Karna Small first used the term in a press release on the newly created President’s Council on Integrity and Efficiency (PCIE).
waste, fraud, and abuse in Federal programs. The moniker stuck, and the HHS Inspectors General have prided themselves on their abilities to persist doggedly in their investigations, regardless of pressures from industry or their congressional representatives.

The “junkyard dogs” from left to right – Thomas McBride, Dept. of Labor, Richard P. Kusserow, Dept. of HHS, John V. Graziano, Dept. of Agriculture, Charles L. Dempsey, Dept. of HUD, Paul Boucher, SBA.

President Reagan’s removal of all Federal Inspectors General received a great deal of criticism, especially from those who saw the IGs as the only mechanism for real accountability in the Government. Washington Post columnist Matthew S. Watson decried the removals, and suggested a fixed term of eight years for the position, noting that only “the inspectors general can report that the king has no clothes.”

Creation of the PCIE

The mass firings of 1981, otherwise known as “The Big Raid,” were not completely detrimental to the mission of the Inspectors General. Out of the ashes of the IG firestorm rose a new and beneficial creation, the newly-formed “President’s Council on Integrity and Efficiency (PCIE),” which continues to provide a government-wide forum for sharing knowledge and resources. Established by President Reagan in Executive Order 12301, the PCIE was envisioned as a means of establishing a continuing dialogue among Federal IGs that would enable them to increase their efficiency through collaboration and coordination of government-wide efforts to fight fraud, waste and abuse. The PCIE coordinates inter-agency policy issues, sets professional standards for OIG work, coordinates studies on topics of Government-wide concern, and provides training for OIG executives, managers, and staff. Currently, the PCIE is composed of twenty-nine Presidential-appointees Inspectors General, and various other Federal officials including

the Director of the Office of Special Counsel, the Director of the Office of Government Ethics, the Deputy Director of the Office of Personnel Management, and the Director of the FBI’s Criminal Division. In addition to sharing of mission-related information and strategies, the PCIE helps foster collegial relationships and esprit de corps among Inspectors General. The HHS IG has played a prominent role in the PCIE, with two IGs, Kusserow and Brown, serving as the Vice Chair under the Chair of the PCIE. The permanent Chair of the PCIE is the Deputy Director for Management at the Office of Management and Budget (OMB).

First Tasks, Friends and Foes

The 1980s were marked by transitions, internationally as well as nationally. In Berlin the wall came down, and on Wall Street the markets went up -- the U.S. economy was booming. Terrorism, though not the “bio” variety, became a household word. Solidarity was born and Communism was dying, and the Iran-Iraq War was in its early stages and jeopardizing the world’s oil supplies. Not insignificantly, another Federal agency scandal was looming on the horizon – this time at the Department for Housing and Urban Development (HUD). The HUD scandal of 1989 was instructive for all Federal inspectors general, since it demonstrated how a management team laden with political appointees far out of proportion to its work force might be inclined to disregard any interference from its IG. HUD managers had fabricated accomplishments and obfuscated misspent funds in their annual reports, and had rebuffed any attempts at oversight by HUD OIG Paul Adams. Congressional hearings exposed a nest of influence-peddling, slush funds, and illegal perks.

The decade also heralded an era of unparalleled technological innovation, as prophesied in Alvin Toffler’s best-sellers “Future Shock” and “The Third Wave.” From industry leaders and bureaucrats to dayworkers, Americans began to dream of jobs made easier through the use of robotics, powerful computers and advances in electronic communication. For the HHS OIG, the expanding uses of computer technology was a sorcerer’s apprentice: although use of computer cross-checks enabled auditors and investigators to identify certain types of fraud more easily, concurrent electronic billing also created new opportunities for unscrupulous providers to obscure unnecessary Medicare and Medicaid charges. The Anti-Fraud and Abuse Amendments of 1978 had solidified the partnership between HHS and the States, but the challenge remained to support State programs yet provide adequate oversight. In the scientific and medical communities, the identification of the Acquired Immune Deficiency Syndrome (AIDS) in 1981 signaled the beginning of what would soon be termed an “epidemic.” At that early date, it was still considered a rare disease affecting very few patients. Few realized at that time the potential budgetary impact of the disease: in 2001, AIDS-related programs cost the Federal Government $10.8 billion.
Dick Kusserow’s longevity as the HHS Inspector General was critical to the ability of the HHS OIG to establish its credibility and reputation. He served as Inspector General from 1981 to 1992, and during that time amply demonstrated his abilities to win the support of the Secretary, the Congress, and other Federal agencies. By focusing on tangible goals, Kusserow was able to fulfill the spirit of the IG Act, forging the OIG into a highly productive and efficient organization that serves as a reliable information resource for Congress. Kusserow’s stature among the Federal IGs was based on several factors, including a high rate of return on operating expenses; high quality and credibility of OIG annual and semi-annual reports; and frequent testimony before Congress. This last factor served to convince Congress that the OIG was a necessary entity; in 1990, the OIG testified before Congress twenty-four times.

Change in Federal bureaucracies, as in any other venue, does not happen in a void. The decade of the 1980s was marked by the birth of managed care, tremendous growth in health insurance plans, and dramatic increases in the cost of prescription drugs and health care. The HHS Office of Inspector General was also establishing itself as a force to be reckoned with.

Legislative and political events of the time helped to solidify the OIG’s presence, and several important pieces of legislation define this era. The Federal Manager’s Financial Integrity Act (FMFIA) of 1982, the imposition of civil monetary penalties under the Social Security Act, and the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) and its 1986 Amendments, and the Medicare and Medicaid Patient and Program Protection Act of 1987 all provided authorities that extended the OIG’s influence and increased its effectiveness.

In 1987, the GAO issued a report to the Subcommittee on Oversight and Investigations, Committee on Energy and Commerce recommending that the HHS OIG be involved in criminal investigations relating to FDA activities.14 By 1988, the benefits of having an Inspector General Office in Federal agencies were widely accepted. The institution of the Inspector General had become a permanent fixture on the bureaucratic landscape, and with good reason. The Federal OIGs were already proving that they were earning their keep, as shown by PCIE Progress report data15 that demonstrated almost $120 billion in cost savings and recoveries over an eight-year period.

The OIG’s efforts to fight waste, fraud, and abuse met some challenges along the way. In early 1989, the HHS OIG and FDA signed a memorandum of understanding under which the OIG agreed to investigate cases of criminal fraud against FDA programs, including

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fraud in generic drug approvals. Later that year, Douglas Kmiec, the Assistant Attorney General for legal counsel at the Department of Justice, questioned an OIG’s authority to investigations “pursuant to regulatory statutes,”\textsuperscript{16} in a document that became known simply as the “Kmiec Memo.” Though the memo specifically addressed programs of the Labor Department, it had a powerful effect on investigative operations of all Federal OIGs. Very generally, the Kmiec Memo interpreted the IG Act as directing IGs to investigate “employees and operations” of the Department, as well as contractors, grantees and other recipients of Department monies. However, the IG was precluded from conducting investigations pursuant to the regulatory statutes of the Department. Instead, the Inspector General would have an oversight authority only in those matters – monitoring the program agency charged with enforcing those statutes. This opinion had the effect of curtailing much of the HHS OIG’s work involving fraud in FDA’s regulatory programs.

Despite this more limited interpretation of the HHS OIG’s investigative jurisdiction, significant progress was made during Kusserow’s eleven-year tenure. His personal dynamism increased the visibility of the office, and his professional affiliations brought credibility to his role. He served as President of the Association of Federal Investigators in 1984, and was a speaker at numerous national conferences and events. Before his resignation in 1992, he was able to witness OIG achievements in all of the traditional indicators of success: cost savings ($5.9B), return-on-investment per dollar ($72), sanctions (1700) and staffing (1426).

ORGANIZATIONAL EVOLUTION

The Office of Inspector General grew steadily in size and function in its first two decades. The first OIG was composed of the Audit Agency and the Office of Investigations and Security, both of which had existed in one form or another from the creation of the Department. In addition, a new office was added, the Office of Health Care and Systems Review. Although the Audit and Investigations components have retained their original functions, this latter component (Health Care and Systems Review) eventually became the Office of Evaluation and Inspections. The Audit Agency held the longest tenure as a HEW organization: it was created in 1965, the same year Medicare and Medicaid came into existence.

Although there have always been differences in the actual visibility of each agency OIG owing in large degree to the personality and charisma of the individual inspector general, all Federal OIGs have the dual statutory functions of audit and investigation of the agency’s programs and activities. The HHS OIG and some others include an additional

\textsuperscript{16} Cf: 3/9/89 memo from Douglas Kmiec, Asst. Attorney General, Office Of Legal Counsel, to Jerry Thorn, Acting Solicitor, Department of Labor.
evaluation function, one that has been critical to the HHS OIG’s reputation and credibility. In addition, the Office of Counsel to the IG (OCIG) is distinctive for the important role it plays in providing industry guidance and corporate integrity agreements.

**Office of Audit Services (OAS)**

Edward Stepnik, the first Assistant IG for the HEW Audit Agency (as it was then called), oversaw an organization that divided its audit efforts among three main categories: extramural (universities, non-profits receiving HHS funding); State and local units; and Social Security. Later, under the direction of Tom Roslewicz, new computer capabilities were harnessed to enhance productivity of OIG’s limited staffing and travel budgets. The automation of HHS systems enabled the use of new analytical techniques and stratified sampling pilot projects, and the development of HEWCAS (Health, Education, and Welfare Computer Audit System) in 1978 definitively brought the Agency into the computer age. In 1981, OMB guidance began requiring that State and local governments arrange for audits of their operations by non-Federal auditors. Single audits proved to be a reliable method of determining that organizations met Federal accountability requirements, and their use quickly expanded with the Single Audit Act of 1984. As a result, the Office of Audit Services was able to redirect its resources to internal controls and reviews of the efficiency and effectiveness of the Department’s three massive programs – Social Security, Medicare, and Medicaid.

The Chief Financial Officer Audit Act of 1990 had a dramatic impact both on the OIG and on how the Federal agencies would view the OIG mandate. The Act reinforced the OIG’s authority to audit Federal agencies from a management performance perspective as well as from a fiscal accounting perspective, and required the preparation and audit of agency-wide financial statements. That same year, the HEW Audit Agency took its present name, the Office of Audit Services (OAS). The increased efforts to improve accountability for Federal funds grew throughout the 1990’s and still a high priority of the Administration today. Today, OAS is a critical cost-saving component within the OIG and currently employs almost 700 staff. OAS audits make a significant contribution to the estimated $16.5 billion in annual savings for Medicare, Medicaid, and other Departmental programs, as the result of OIG work.

**Office of Investigations (OI)**

The Office of Investigations traces its operational timeline back to April 1973, when the Office of Investigations and Security (OIS) was created by HEW Secretary Casper Weinberger and put under the control of the Assistant Secretary for Administration and Management. Although this action was within the authority of the Secretary and a Federal Register Notice was published announcing the establishment of the new office, controversy emerged after prominent Washington columnist Jack Anderson criticized the Secretary for creating a “Plumber’s Unit.” Subsequent Congressional hearings created the
undeserved impression that the Office was clandestine and unauthorized, and OIS staffing was reduced as a result, leaving a total of only ten investigators.

Nathan (“Don”) Dick was appointed as Assistant IG for Investigations and head of the new office, which consisted of only the twenty-six staff of the Office of Investigations in 1977. Within six months, seven regional offices were added. The number of regional offices was ten at the highest point, but later decreased to eight due to consolidation of resources. In the early days, regional offices were required to submit criminal cases to the HEW Assistant Secretary for review, since OIS did not have its own criminal investigators, and relied on the FBI and State law enforcement agencies to do the actual investigations. One of the earliest OIG cases was presented in the Southern Regional District of New York to the Assistant U.S. Attorney Rudy Giuliani.

HEW Secretary Richard S. Schweiker’s reorganization of the Agency in 1982 was a boon to the OIS, which nearly doubled in size after the Social Security Administration’s Investigation Branch merged into the OIG’s workforce. From that point, OIS was shortened to “Office of Investigations (OI)” and increased both its size and visibility. In 1983, HCFA’s Office of Health Financing Integrity (OHFI) was merged into the OIG, eventually adding almost 200 staff to OI. Jack Hartwig has served in the Office of Investigations continuously since 1979, and is currently the Deputy IG for Investigations. Hartwig also cites 1985 as a pivotal year for OI because it marked the first deputation of an OI Agent by the U.S. Marshals Service, conferring upon OI Agents law enforcement capabilities, including the authority to carry firearms, make arrests, and enforce search warrants.

Office of Evaluation and Inspections (OEI)

Precursors of the Office of Evaluation and Inspections can be found in several earlier organizations. The Office of Health Care Systems Review, headed by Assistant IG Bryan Mitchell, was one of the original components of the first HEW Inspector General’s Office in 1977. It was merged with other offices and re-named several times over the years, first as the Office of Program Inspections, next as the Office of Systems Integrity, later as the Office of Analysis and Inspections, and finally as the present Office of Evaluation and Inspections.

Departmental evaluations are conducted by, or prepared under the supervision of, numerous offices within the agencies of the Department. Generally, their agendas are coordinated by the Assistant Secretary for Planning and Evaluation. Studies and analyses are commonly out-sourced to contractors, who normally take two or three years to complete the studies. In 1977, Secretary Califano realized that he needed a more focused information resource, and created an office that would provide program assessments to the Secretary from the point of service delivery, and with a quick turnaround. This was called the Office of Service Delivery Assessment (SDA). While part of the OIG

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function, it consisted of small units within each of the Department’s regional offices, under the immediate supervision of the Principal Regional Official. Michael Mangano served first as the Director of the Philadelphia Office, and later as Director of the SDA headquarters office in Washington, D.C. The SDA’s function was to visit service sites and report on beneficiary and local service provider satisfaction; by all accounts, this function was very effectively performed. However, since administrative and hiring authorities resided in the regions, this at times created conflicting lines of authority in relation to the IG’s purview.

In 1982, Secretary Schweiker was faced with a need to cut staffing levels, and the SDA office was one of the selected targets. SDA staffing was decimated, with over half the positions eliminated, and the remaining twenty staff were assigned to the OIG. In 1985, it was renamed the Office of Analysis and Inspections. Mangano was instrumental in guiding the evolution of this office, in which he served almost continuously from 1983 through 1994, as the Deputy IG for the Office of Analysis and Inspections. By 1988, these transformations had culminated in the present-day Office of Evaluation and Inspections. George Grob has been the Deputy IG for this component since 1994.

OEI has broadened its evaluation scope over the years and is renowned for issuing reports on topics with far-reaching impact that extends beyond Departmental program providers and consumers to the entire health care community. Examples are OEI reports on organ donation, tissue banks, human subject protection, and HIV/AIDS.

Office of Counsel to the Inspector General (OCIG)

Prior to 1996, the OIG obtained legal guidance from a designated division within the Office of the Secretary’s (OS) Office of the General Counsel (OGC). However, after passage of the Health Insurance Portability and Accountability Act in 1996, the expanded scope of OIG responsibilities resulting from HIPAA’s legislative mandates necessitated greater legal support than the OGC was able to provide. June Gibbs Brown, HHS IG in 1997, exercised her statutory prerogative for a separate Office of Counsel assigned exclusively to OIG matters, and housed within the OIG. This discrete function was in keeping with the intent of the original IG Act to ensure the Inspector General’s autonomy and impartiality. Prior to HIPAA, the OGC division assigned to serve the IG had been cut in half, leaving only fourteen staff. However, the newly-formed Office of Counsel to the Inspector General (OCIG) absorbed the OIG’s Office of Litigation Coordination, Office of Enforcement and Compliance, and twelve additional regional administrative staff.

OCIG has been an integral part of the OIG functions, specifically charged with the HIPAA-mandated provision of industry guidance, monitoring of corporate integrity agreements, as well as provision of legal counsel and representation for OIG staff in health care fraud enforcement. OCIG Chief Counsel D. McCarty (“Mac”) Thornton
notes that while most other inspectors general have an in-house counsel, they function mainly as a legal advice branch. In contrast, what has defined the HHS OIG in the 1990s is its ability to influence behavior of outside groups, especially through voluntary fraud and abuse prevention and compliance. The success of this OIG goal was measured in a 1999 survey done by the American Hospital Association, indicating that 96% of their members had undertaken active compliance programs.

**Office of Management and Policy (OMP)**

The Office of Management and Policy was known simply as the Executive Management office in its early years. From its inception, the office has provided administrative support, public affairs liaison, and operations and technological support. The Office’s Directorship was later elevated to an SES level, and the first Assistant Inspector General of the office was Jane Tebbut. Today, the OMP’s main functions are operation of the OIG Executive Secretariat, which provides correspondence control; formulation and execution of the OIG budget; development of OIG policy; dissemination of OIG information; liaison with the Department, Congress, and external organizations, and management of OIG information technology resources. The latter function has been particularly critical to the OIG’s efficiency and effectiveness. The OMP also assists in preparing Congressional testimony, publishes public affairs documents and recruitment materials. Deputy IG for OMP Dennis Duquette, who has headed the Office since 1995, credits former IG Dick Kusserow with laying the groundwork for a robust OIG organization by setting tangible goals and raising the visibility of the office. Duquette describes OMP as a service organization, whose goal is to help OIG auditors, investigators, and evaluators to be as effective as possible.

**BALANCING OIG ROLES**

The Department of Health and Human Services continued to evolve and expand in the 1990s in response to changing public and Congressional expectations. For the first time in American history, the health care industry was becoming big business, on a par with automotive and manufacturing industries, and by the end of the decade, accounted for almost 14% of the economy. The number of single-family households was on the rise, and the percentage of minorities, women and the elderly living at poverty levels was at an all-time high. Changing demographics and economic indicators required new approaches to Federal social services, and in 1991, Secretary Sullivan authorized the creation of a new operating division within the Department that would combine the Family Support Administration and Office of Human Development Service functions. The new office was called the Administration for Children and Families, and administers Temporary Assistance for
Needy Families (formerly Aid to Families and Dependent Children), the Head Start Program, and aid programs for Native Americans, child welfare, and community services.

Donna E. Shalala was sworn in as Secretary of HHS in early 1993, but Dick Kusserow’s retirement from Federal service in 1992 had left a void in the OIG, which was not to be filled until late 1993. June Gibbs Brown, a seasoned veteran who had served as IG for NASA, Department of the Interior, and DOD, was waiting in the wings to be confirmed as the third HHS Inspector General. In the meantime, the OIG along with the rest of the Federal Government, was enduring a modified hiring freeze and stagnant budgets which permitted few projects to be initiated. Bryan Mitchell, a longtime Deputy Inspector General, served as Acting Inspector General for the OIG until June Gibbs Brown’s confirmation.

Focusing on Accountability

June Gibbs Brown was sworn in as HHS Inspector General just as the National Performance Review (NPR) was beginning to cause tremors in Federal management circles. With a goal of “reinventing Government,” Federal agencies were encouraged to become more accountable, an effect of increasing trends toward Deming-based total quality management principles. Fortunately, the OIG’s cost savings accomplishments at this time were unprecedented. Projects such as LABSCAM, which identified medically unnecessary laboratory tests, reaped impressive results from investigative receivables – in the first year alone, an $100 million settlement agreement was reached. Total savings in taxpayer dollars in 1994 were $6 billion, a record amount. Although the OIG had accomplished a great deal, Brown recognized that there was still room for improvement in OIG office functions as well as productivity.

June Gibbs Brown was well-equipped for the job as HHS IG. An attorney as well as a certified public accountant, her long experience as an inspector general for various Federal agencies made her ideally qualified for the HHS IG position. Equally important was her personal integrity and commitment, which resulted a strong working relationship with Secretary Shalala. Brown began her term at HHS at a time when the OIG budget was declining and the workforce was shrinking due to hiring freezes, buyouts, and the normal attrition. By late 1995, the Federal workforce had been furloughed for almost a month while Congress debated the budget. Under these circumstances, Brown’s innovative and collaborative approach to the OIG mission became all the more noticeable.

The OIG was becoming a tighter, more efficient, organization. One of the critical elements of this process was a gradual change in the organizational culture of the OIG. IG Brown actively encouraged greater support and involvement among components that had previously tended to operate more or less independently of each other. This greater
collaboration between components had the effect of maximizing staff resources and resulted in greater productivity. To use technological advances to fullest advantage, an Internal Resource Management (IRM) Strategic Plan was prepared for the first time, and formed the basis for the future IRM Office. Greater emphasis on inter-office collaboration in the work planning process was to yield enormous benefits for OIG and ensured a steady stream of innovative reports, projects and initiatives that were highly valued by the Department, Congress and the general public. Similarly, consensus development among components in planning and execution of the budget brought a fresh approach to the traditional processes.

IG Brown believed that the success of the OIG was dependent upon its ability to maintain cooperative partnerships, not only among the components of the OIG and operating divisions of HHS, but with other Federal agencies, State and local entities, and the health care community at large. An example of this was cross training for OIG audit staff at the Federal Law Enforcement Training Center. Also during this time, the OIG’s Office of Investigations was able to obtain full law enforcement authority pursuant to blanket deputation from DOJ. Under Brown’s leadership, the OIG established working relationships that facilitated provider compliance and quality improvement, engendered a climate of teamwork within the OIG and the Department, and allowed for employee cross-training and sharing of resources. To strengthen employee morale, an OIG Newsletter was created and continues to be a source of esprit de corps at the OIG. Brown also demonstrated her concern for employee welfare by instituting periodic employee surveys and initiating alternative work scheduling. The results were apparent in the increase in productivity – greater cost savings, and more prosecutions and sanctions.

**HHS OIG Milestones**

After a quarter of a century of battling waste, fraud, and abuse, the HHS OIG has a large number of significant cases and subsequent settlements to its credit. Of these, the most noteworthy are the National Medical Enterprises case, which at that time was the largest health care settlement ever and netted over $370 million for the Government coffers, and the Columbia/HCA case, which obtained a unprecedented $745 million in settlement monies. Another important case that stands out among investigative accomplishments is the Caremark, Inc. case involving kickbacks and fraud in human growth hormones and home infusion, which was settled for $161 million.

But not all benefits and accomplishments can be represented solely by a dollar value. Many reports done by the OIG brought much-needed national attention to previously low-profile issues including addiction and alcoholism in the Social Security Insurance program; abuses of durable medical equipment billing; patient dumping practices; problems in managed care administration; insufficient FDA monitoring of blood establishments, and many other critical patient safety and health care quality issues.
Two events were to have a tremendous impact on HHS in 1995. The first was the separation of the Social Security Administration and its re-designation as a separate agency. This event had an adverse effect on OIG staffing, since SSA took 260 OIG staff with them. The second event was the implementation of Operation Restore Trust (ORT), a demonstration project involving five States, multiple Federal agencies, and the nursing home, home health, and DME industries.

Operation Restore Trust was one of the most persuasive arguments for increasing OIG funding, because of its extraordinary success and visibility. In fact, it was so successful that it has since been expanded to all States. ORT also changed the way the OIG does business, placing a far greater emphasis on interdisciplinary teams and partnerships both internally and with other Federal agencies, State and local law enforcement entities. The original two-year demonstration project accomplished $188 million in receivables, 74 criminal convictions, 58 civil settlements, and 218 exclusions. IG Brown testified numerous times before Congress on this and other OIG work and consistently made a case for a stable source of funding for the OIG. In 1996, an opportunity presented itself in the form of the Health Insurance Portability and Accountability Act (HIPAA).

The Health Insurance Accountability and Portability Act of 1996 (HIPAA) was the portal through which the HHS OIG moved into a new era. The Act not only guaranteed a stable funding source for the OIG, but also provided for funding increases. Almost immediately, the IG exercised her statutory authority by creating a new component within OIG, the OIG Office of Counsel. The new HIPAA funding also permitted OIG to open offices in six more States in 1997, raising the number of States with an IG presence to twenty-six. This number continued to grow, eventually increasing the number of States with OIG offices to forty-seven by 2001, with plans to expand to all fifty States, the District of Columbia, and Puerto Rico in 2002. To keep up with the increasing workload in 1997, HIPAA funds were used to hire 240 new staff, which brought total OIG staffing levels from 929 to 1203 within a year. These changes dramatically enhanced OIG capabilities for initiating new projects and studies and concluding those already in existence. In 2001, OIG staffing is robust, and numbers almost 1500.

HIPAA permitted the OIG to achieve many of its expressed goals. In keeping with the IG’s support for voluntary compliance, the OIG began a program of voluntary compliance guidance for hospitals, nursing homes, and other health care providers and suppliers. Also, as part of fraud settlement agreements, providers and other health care entities have mandatory compliance obligations. Other HIPAA-mandated initiatives include the Healthcare Integrity and Protection Data Bank (a national adverse action data bank), and the HCFA Medicare Integrity Program (MIP). At the same time, large settlements with abusive and fraudulent providers continued apace. An example was the 1996 settlement with ABC Home Health, a comprehensive investigation that resulted in $225 million in recoveries to the Government.
By 1997, the OIG was receiving national attention for its cost-saving initiatives and innovative and far-reaching audits and evaluations. The Balanced Budget Act of 1997 (BBA) took many of the OIG’s Red Book recommendations and made them law. Some of these are specific fraud, waste and abuse prevention measures; others represented broad restructuring of programs that made them less vulnerable to abuse, such as changing reimbursement from cost-based to prospective payment for nursing homes and home health. The legislation had especially significant impact on nursing homes, home health agencies, and DME suppliers and according to the Congressional Budget Office, saved almost $70 billion over a five year period.

The HCFA was beginning to be seen as a “problem child” within the Department, owing in great part to a monumental workload that outpaced its ability to recruit and retain qualified staff. The OIG’s HCFA Financial Statement Review was designed to hone in on the most serious weaknesses in HCFA’s oversight process and produced a financial statement review and error rate report. The 14% improper payment rate reported in 1996 was viewed with alarm by Congress and the Department, and the OIG assisted HCFA in cutting the rate by half (7%) within four years. The combined effect of the BBA, the large settlements, and the reduction of the payment error rate was to greatly reduce wasteful Medicare expenditures. The Congressional Budget Office cited anti-fraud activities as one of the reasons underlying a thirty-year extension of the life of the Medicare Trust Fund.

The OIG’s last two years of the century were marked with special projects aimed at protecting consumers, patients, and vulnerable populations. The Save Our Children project breathed new life into child support enforcement, resulting in 393 convictions and over $22.8 million in restitutions and settlements over a six-year period. The New York Foster care agency was fined for failure to provide case management for children, and enforcement of the Emergency Medical Treatment and Active Labor Act (EMTALA) statute brought in almost $2 million in settlements. The OIG Hotline was ringing off the hook: by 1998, the Hotline received as many as 50,000 calls a month. The Health Care Fraud Control Account (HCFAC) program was beginning to pay off for OIG, too, and the rate-of-return had increased to 118 to one by 1999. Meanwhile, the OIG’s success in obtaining criminal and civil settlements continued, and included $140 million from the Health Care Services Corporation, and $38.5 million from Pennsylvania Blue Shield. More recently, in 2000, the nation’s largest provider of dialysis facilities, Fresenius Medical Care Holdings, Inc., settled with the Federal Government for $486 million in recoveries for kickbacks, improper billings and other fraud.

External organizations were also sharing their resources with OIG to achieve common goals, and there is no better example of this than the HHS partnership with the AARP in the “Who Pays? You Pay” campaign. This initiative provided nationwide training to seniors to enable them to identify health care fraud, waste, and abuse. Advocacy groups were also appreciative of the OIG reports on institutional review boards (IRBs), which
oversee human subject clinical trials. This seminal work, which is still acknowledged by FDA as one of the first alerts to endemic human subject protection problems, has had a far-reaching effect on government oversight and policies on IRBs.

**HHS OIG in the 21st Century**

The accomplishments of the HHS OIG over the past quarter of a century are undisputed. The OIG’s work in audits, evaluations, and investigations has earned the respect of the academic community, other Federal agencies, the patient advocacy organizations, and the health care industry. In addition, the organization is characterized to a high degree by the perceived value of OIG involvement in development of regulatory and legislative proposals. But if numbers alone can tell a story, the evidence is ample: in FY 2000, we reported savings of over $15 billion, comprising $14 billion in implemented recommendations, $142 million in audit disallowances, and $1.2 billion in recoveries from investigations. Implicit in these figures are substantial numbers of exclusions (3,350), convictions (414) and civil actions (357) against individuals or entities engaged in fraud against, or abuse of, Federal programs.

The HHS OIG’s credibility is built upon the solid foundation of its reports, reviews and recommendations, which reflect the national thirst for quantifiable results, and have become the mainstay of the Office’s work. These annual and semi-annual reports -- “The Red Book” (OIG’s cost savings recommendations), “The Orange Book” (OIG’s non-monetary recommendations), and the Semi-Annual reports, address program management reviews, economy and efficiency of Department administration, and program integrity. The “Red” and “Orange” books are summaries of all of the OIG work in a given year, while the semi-annual reports are comparable to a Departmental “report card” for program cost effectiveness and efficiency. As we look to the future, the OIG bears the heavy burden of providing the most accurate audits and recommendations that will figure prominently in the sustained preservation of the Medicare Trust Fund. Previous OIG cost recoveries have contributed significantly to an estimated preservation of the Trust Fund through the year 2029.

Over the past twenty-five years, HHS OIG staff members have made significant contributions to what is now, in 2001, a vital and dynamic IG organization. The increased emphasis on expert qualification and experience in hiring of staff has created a powerful organizational infrastructure that is capable of responding swiftly to new tasks and marshalling its component resources to accomplish OIG objectives. The HHS OIG now has the distinction of being the largest, and quite possibly the most effective, Federal IG office. When June Gibbs Brown retired from Federal Service on January 3, 2001, she left behind a legacy of teamwork, partnership and a highly motivated OIG workforce, which is well-equipped to face the future challenges. In the twenty-first century, these will be myriad.