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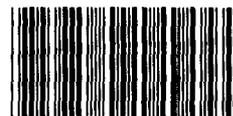
Testimony

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Alleged Misconduct by International  
Medical Centers, Inc. Officials

Statement of  
David C. Williams, Director  
Office of Special Investigations

Before the  
Subcommittee on Intergovernmental  
Relations and Human Resources  
Committee on Government Operations  
House of Representatives



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Mr. Chairman and Members of the Subcommittee:

I appreciate this opportunity to appear before this Subcommittee. At your request, the Office of Special Investigations, U.S. General Accounting Office, investigated allegations of misconduct by officials of International Medical Centers, Inc. (IMC), a Florida-based health maintenance organization (HMO). We focused much of our investigation on allegations of wrongdoing by the former president of IMC, Miguel Recarey Jr. Today, I will discuss the results of our investigation.

IMC, an HMO licensed by both the U.S Department of Health and Human Services (HHS) and the state of Florida, had a history marked by turbulence and financial crisis. By January of 1986, IMC claimed to have 197,000 subscribers, which made it the largest HMO in Florida and one of the largest HMOs in the United States. During the period August 1, 1982, through July 1, 1986, IMC received over \$781 million in Medicare payments from the federal government. However, today IMC has been declared insolvent by the state of Florida, and its Medicare contract with the federal government has been terminated. IMC's medical plan and many of its assets have been acquired by the Humana Medical Plan, Inc.

Our investigation revealed that IMC had administrative costs that were significantly higher than the industry average. We also

found that IMC's failure to meet the Medicare and Medicaid enrollment requirements of the Health Care Financing Administration (HCFA) led directly to the termination of its Medicare contract. I will discuss these issues later in greater detail.

Miguel Recarey Jr., IMC's former president, has been indicted by a federal grand jury in Miami and is presently a fugitive from justice. At this time, I would like to address specifically Miguel Recarey's involvement with IMC and the charges brought against him for crimes he allegedly committed while serving as IMC's president.

Miguel Recarey, Jr.

Miguel Recarey arrived in the United States in 1961 as a Cuban refugee. After he graduated from college, Recarey was employed by a CPA firm in Miami and within a few years became the director of Fiscal Affairs at Variety Children's Hospital in Miami. Recarey left Variety Children's Hospital amidst allegations of embezzlement of hospital funds. While he was still employed at Variety, Recarey was asked to join with twenty investors, including some physicians from the hospital, who had established Associated Doctors Hospital (ADH), to build their own hospital. Due to his financial expertise, Recarey was asked to participate

in promoting construction of a new International Hospital, which was later to become Miami General Hospital.

According to a hospital official, Recarey frequently bragged about his relationship with Florida organized crime boss Santos Trafficante and eventually hired Trafficante's attorney, Frank Ragano, to help obtain financing for International Hospital. According to this source, one financing proposal, which involved a loan from a Teamsters' union pension fund, fell through when our source refused to pay a bribe to Teamsters officials, despite Recarey's insistence that the bribe be paid. A second financing proposal, involving fugitive financier Robert Vesco, also failed to materialize. Police agencies in southern Florida have additionally received intelligence information alleging a prior relationship between Recarey and the now-deceased Trafficante.

Former business associates and employees of Recarey advised us that they believed Recarey hired them primarily because of their political influence and did not utilize their expertise. When they attempted to make meaningful contributions, their services were terminated. One former associate stated that his consulting contract was terminated and he was forced to sign a release after being confronted by armed bodyguards. We have learned that Recarey frequently surrounded himself with bodyguards who carried firearms.

In 1973, Recarey was arrested on charges of failing to file income tax returns for the years 1969 and 1970. Recarey entered a guilty plea to one of these charges and was subsequently sentenced to a jail term.

A former business associate of Recarey's informed us that Recarey obtained his original interest in IMC solely because of debts that were owed to International Hospital by IMC. Recarey, while he was acting on behalf of International Hospital, reportedly settled a law suit out of court in exchange for receiving a personal interest in IMC.

Prior to the demise of IMC, Recarey managed to expand his financial interest by assembling over 20 corporations under the umbrella of the parent company, Recarey Enterprises, Inc. (REI). IMC is a wholly owned subsidiary of REI. Recarey is REI's chairman of the board and, until recently, was president of IMC. REI and IMC also owned Miami General Hospital, which provided hospital care to IMC patients. Many of REI's subsidiary corporations are those that also provide IMC patients with services such as respiratory therapy, diagnostic examinations, anesthesiology, pathology, dental care, optical care, etc.

On April 22, 1987, Miguel Recarey Jr., his brother Jorge Recarey, and two other defendants were indicted by a federal grand jury in Miami. All were charged with various offenses including

conspiracy, unlawful payments to persons associated with a labor union health and welfare fund, bribery of a potential grand jury witness, and obstruction of justice. The indictment stemmed from the defendants' alleged conspiracy to make illegal payments and promises in exchange for securing a contract between IMC and the South Florida Hotel and Culinary Employees Welfare Fund.

On October 6, 1987, Miguel Recarey was charged in a superceding indictment with an additional five counts relating to wiretapping violations. The grand jury found that Recarey attempted to identify individuals who were cooperating with the government and to obtain their loyalty by offering them employment with IMC. To further identify those individuals who may have been cooperating with the government, Recarey and other co-conspirators conducted an illegal eavesdropping and wiretapping operation, according to the indictment. The indictment further alleges that Recarey and other co-conspirators surreptitiously installed an electronic listening device in a conference room at IMC and audio transmitting and recording devices on selected telephone lines at IMC and Miami General Hospital. The wiretapping activity is alleged to have occurred between January 1981 and September 1984, a period that coincides with audit and evaluation site visits made by representatives of HHS and GAO to the IMC offices.

Miguel Recarey Jr. failed to surrender on the wiretapping charges and cannot be located by law enforcement authorities. A warrant

has been issued for his arrest. He is presumed to have fled the country.

### IMC's Administrative Costs

I stated earlier that our investigation revealed that IMC's administrative costs were significantly higher than the industry average. Florida State Insurance Commissioner Bill Gunter has, in fact, stated that IMC's "runaway" administrative costs were central to its downfall.

Between 1981 and 1986, a period in which HHS was making key decisions concerning IMC, numerous HHS employees left government service for employment with IMC, either directly or as consultants providing services to IMC. Mr. Chairman, you asked us to identify the former HHS employees who left government service and later became employees or consultants to IMC, and the salaries and fees they received. The following is a list of several such individuals that we have identified whose salaries totaled nearly \$1 million:

. Juan del Real, the former HHS general counsel, became chief of staff and chief legal officer for IMC at an annual starting base salary of \$325,000. A former senior IMC official has advised us that Juan del Real,

while employed at IMC, was instrumental in arranging meetings during the summer of 1985 between IMC and C. McClain Haddow, who was then the chief of staff at HHS. Shortly thereafter, Haddow was named the acting administrator of HCFA.

- . Claire del Real, the former deputy assistant secretary for Public Affairs at HHS, became a senior vice president at IMC at a starting salary of \$130,000. Claire is married to Juan del Real. For a period of time she continued to occupy her key position at HHS while her husband was employed at IMC.
- . Wayne Fowler, the director of Group Health Plan Operations at HCFA, became the supervisor of Health Plan Operations at IMC at an annual starting salary of \$165,000. Fowler's office at HCFA was directly responsible for overseeing many of IMC's operations.
- . William Landress, a supervisory operations specialist at HCFA, became the vice president of Government Operations at IMC at an annual starting salary of \$80,000.
- . Frances Paris, the deputy assistant press secretary for Public Affairs at HHS, became the director of

Government Relations at IMC at a starting salary of \$85,000.

- . Richard Lucibella, a program analyst at HHS, became an assistant to the president at IMC at an annual salary of \$40,000.
  
- . Denise Rodriguez, a former attorney at HHS, became a special legal counsel for Health Law at IMC at an annual salary of \$75,000.
  
- . Arthur Goulet, a qualifications officer in the HHS Office of Health Maintenance Organizations, became the associate executive director at IMC at an annual salary of \$55,000. Goulet was responsible for supervising a review of IMC that led to its federal certification as a qualified HMO in 1980. Mr. Goulet informed us that a financial statement he reviewed shortly after he was employed by IMC was not consistent with financial information provided to him and his staff during their review of IMC while he was employed at HHS.
  
- . C. McClain Haddow was the former chief of staff to former HHS Secretary Margaret Heckler and later was the acting administrator of HCFA. While he was employed with HCFA, Haddow made critical decisions regarding IMC

and the 50/50 waiver exception. One of the decisions excused IMC from demonstrating progress toward the 50/50 goal. A knowledgeable HCFA official advised us that Haddow consistently sided with IMC in this regard and that the majority of the HCFA staff members involved disagreed with his decisions concerning IMC. Haddow was paid over \$38,000 as a consultant for IMC during 1986.

Fees paid to various firms for such services as consulting, lobbying, and legal work also contributed to IMC's administrative costs. A senior HHS administrator told us that the extensive lobbying on behalf of IMC was "unprecedented" in his considerable experience with HMOs.

Mr. Chairman, you also asked us to identify what fees were paid for lobbying, consulting, and legal representation before federal and state agencies. The following is a list of firms we have identified that have performed these services. Some of these firms employed Florida political figures of past prominence as partners or associates.

- . The Washington law firm of Kaye, Scholer, Fierman, Hays and Handler received nearly \$800,000 in 1986. This firm also employed at one time Juan del Real, the former HHS general counsel who later went to work

directly for IMC, and Samuel Turner, the former deputy general counsel at HHS.

- . The Florida law firm of Sparber, Shevin, Shapo and Heilbronner received over \$744,000 in 1986.
- . The law firm of Fine, Jacobson, Schwartz, Nash, Block and England received over \$452,000 in 1986.
- . The Washington lobbying firm of Nofziger and Bragg Communications received \$300,000 in 1986. Lynn Nofziger is a former White House aide to President Ronald Reagan.
- . Black, Manafort and Stone, a Washington-based lobbying firm, received over \$60,000 in 1986.
- . The law firm of John Sears, a former campaign manager for President Reagan, received over \$54,000 in 1986.

A former IMC official told us that Recarey, in an apparent attempt to leverage his political influence, required senior IMC officials to make substantial personal political campaign contributions, which were later reimbursed to them by IMC.

IMC and HHS

Our investigation revealed that IMC's failure to meet HCFA's Medicare and Medicaid enrollment requirements was a major factor in its downfall.

IMC began its relationship with the Medicare program in 1981. At that time, IMC negotiated an agreement with HCFA to be a demonstration project to determine its ability to attract and service Medicare and Medicaid beneficiaries. HMOs are required to limit their enrollment of Medicare and Medicaid beneficiaries to no more than 50 percent of total enrollment, according to a provision of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). The purpose of the 50/50 requirement is to ensure quality of care and to ensure that HMOs are not totally dependent on federal funds. TEFRA regulations allow a three-year period for HMOs to meet the 50/50 standard. In April 1985, IMC signed a TEFRA contract and was granted an allowable exception to the 50/50 requirement because IMC was perceived as making reasonable progress toward that goal. This waiver was for a period of three years, providing that IMC continue to make progress in enrolling individuals who were not Medicaid or Medicare beneficiaries. IMC did not achieve this standard during its first three years. In fact, IMC was never able to achieve this standard. Moreover, during the period from June 1986 through April 1987, the Medicare share of IMC's enrollment increased from 71 to 78 percent.

The Department of HHS, Office of the Inspector General, conducted an audit of IMC and recommended in a report dated April 15, 1987, that HCFA terminate its contract with IMC because it violated certain contract requirements, including the requirement that no more than 50 percent of its subscribers can be Medicare enrollees. On May 1, 1987, HCFA notified IMC that its Medicare contract with IMC would be terminated effective July 31, 1987.

On May 14, 1987, a Florida state court declared IMC insolvent at the request of the Florida Insurance Commissioner and placed it in receivership. It later received court approval to sell certain assets of IMC to Humana Medical Plan, Inc., which is today operating the IMC health plan.

Mr. Chairman, this concludes my statement. I will be pleased to respond to any questions that you may have at this time.