

FOR IMMEDIATE RELEASE

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Prime Healthcare Services and CEO to Pay \$65 Million to Settle False Claims Act Allegations

Prime Healthcare Services, Inc., Prime Healthcare Foundation, Inc., and Prime Healthcare Management, Inc. (collectively Prime), and Prime's Founder and Chief Executive Officer, Dr. Prem Reddy, have agreed to pay the United States \$65 million to settle allegations that 14 Prime hospitals in California knowingly submitted false claims to Medicare by admitting patients who required only less costly, outpatient care and by billing for more expensive patient diagnoses than the patients had (a practice known as "up-coding"), the Justice Department announced today. Under the settlement agreement, Dr. Reddy will pay \$3,250,000 and Prime will pay \$61,750,000.

"This settlement reflects our ongoing commitment to ensure that health care providers appropriately bill Medicare," said Acting Assistant Attorney General Chad A. Readler of the Justice Department's Civil Division. "Charging the government for higher cost inpatient services that patients do not need, and for higher-paying diagnoses than the patients have, wastes the country's valuable health care resources."

Headquartered in Ontario, California, Prime Healthcare Services and not-for-profit Prime Healthcare Foundation constitute one of the largest hospital systems in the nation, with 45 acute-care hospitals located in 14 states. The following 10 hospital defendants owned by Prime Healthcare Services are parties to the settlement agreement: Alvarado Hospital Medical Center, Garden Grove Medical Center, La Palma Intercommunity Hospital, Desert Valley Hospital, Chino Valley Medical Center, Paradise Valley Hospital, San Dimas Community Hospital, Shasta Regional Medical Center, West Anaheim Medical Center and Centinela Hospital Medical Center. The following 4 hospital defendants, owned by Prime Healthcare Foundation, are also parties to the settlement agreement: Sherman Oaks Hospital, Montclair Hospital Medical Center, Huntington Beach Hospital and Encino Hospital Medical Center. Prime Healthcare Management, a subsidiary of Prime Healthcare Services, provides management, consulting and support services to hospitals owned and operated by Prime.

The settlement resolves allegations that from 2006 through 2013, Prime engaged in a deliberate corporate-driven scheme to increase inpatient admissions of Medicare beneficiaries who originally presented to the Emergency Departments at 14 Prime hospitals in California. The government claimed that the inpatient admission of these beneficiaries was not medically necessary because their symptoms and treatment needs should have been managed in a less costly outpatient or observation setting. Hospitals generally receive significantly higher payments from Medicare for inpatient admissions as opposed to outpatient treatment; therefore, the admission of beneficiaries who do not need inpatient care, as alleged here, can result in

substantial financial harm to the Medicare program. The settlement also resolves allegations that, from 2006 through 2014, Prime engaged in up-coding by falsifying information concerning patient diagnoses, including complications and comorbidities, in order to increase Medicare reimbursement.

“Patients and taxpayers who finance health care programs such as Medicare deserve to know that doctors are making decisions solely based on medical need – and not based on a corporate desire to increase billings,” said First Assistant United States Attorney Tracy Wilkison for the Central District of California. “The Justice Department is committed to preserving the integrity of public health programs and preventing improper billing practices.”

Prime also entered into a Corporate Integrity Agreement with the U.S. Department of Health and Human Services Office of Inspector General (HHS-OIG) requiring the company to engage in significant compliance efforts over the next five years. Under the agreement, Prime is required to retain an independent review organization to review the accuracy of the company’s claims for services furnished to Medicare beneficiaries.

“When health care companies try to boost their profits by billing federal health care programs for more expensive services than they needed to provide, the Office of Inspector General will ensure they are held accountable for their deceptive schemes,” said Christian J. Schrank, Special Agent in Charge for the HHS-OIG’s, Los Angeles Regional Office.

“Those who engage in health care fraud, including corrupt doctors and medical professionals driven by greed, exploit helpless or unwitting patients in violation of the oath they took to protect us - and often American taxpayers are the victims,” said Paul D. Delacourt, the Assistant Director in Charge of the FBI’s Los Angeles Field Office. “By reaching this settlement, the FBI and our partners are holding Prime Healthcare accountable for exaggerating patients’ needs and inflating the severity of their symptoms while handsomely lining their pockets. This case should send a clear message to others who intend to engage in similar schemes that rout the American healthcare system.”

This settlement resolves a lawsuit filed under the False Claims Act (FCA) in the U.S. District Court for the Central District of California by Karin Berntsen, former Director of Performance Improvement at Alvarado Hospital Medical Center in San Diego. Under the *qui tam* or whistleblower provisions of the FCA, private citizens are permitted to bring lawsuits on behalf of the United States and obtain a portion of the government’s recovery. The FCA also permits the government to intervene and take over the lawsuit, as it did in this case as to some of Ms. Berntsen’s allegations. Ms. Berntsen will receive \$17,225,000 as her portion of the settlement amount.

The government’s resolution of this matter illustrates the government’s emphasis on combating health care fraud. One of the most powerful tools in this effort is the False Claims Act. Tips and complaints from all sources about potential fraud, waste, abuse and mismanagement can be reported to the Department of Health and Human Services at 800-HHS-TIPS (800-447-8477).

The settlement was a result of a coordinated effort by the Civil Division’s Commercial Litigation Branch, the United States Attorney’s Office for the Central District of California, the Federal

Bureau of Investigation's Los Angeles Field Office, FBIHQs Major Provider Response Team, and the HHS-OIG.

The case is captioned *United States ex rel. Karin Berntsen v. Prime Healthcare Services, Inc.*, et al. No. CV 11-08214 PJW (C.D. Cal.). The claims resolved by this settlement are allegations only and there has been no determination of liability.