



NEWS RELEASE

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Five People, including Two Doctors, Charged in Kickback Schemes Involving nearly \$600 Million in Fraudulent Claims by SoCal Hospitals

Doctors, a former Hospital Exec and Two Others Admit Roles, Agree to Cooperate

Santa Ana, California – In a series of related cases announced today, the former CFO of a Long Beach hospital, two orthopedic surgeons and two others have been charged in long-running health care fraud schemes that illegally referred thousands of patients for spinal surgeries and generated nearly \$600 million in fraudulent billings over an eight-year period.

Two of the defendants have previously pleaded guilty, and three others have agreed to plead guilty in the coming weeks. All five have agreed to cooperate in the government's ongoing investigation into kickbacks for patient referrals and fraudulent bills for spinal surgeries.

The schemes involved tens of millions of dollars in illegal kickbacks to dozens of doctors, chiropractors and others. As a result of the illegal payments, thousands of patients were referred to Pacific Hospital in Long Beach, where they underwent spinal surgeries that led to more than \$580 million in bills being fraudulently submitted during the last eight years of the scheme alone. Many of the fraudulent claims were paid by the California worker's compensation system and the federal government.

In a second, similar scheme – also involving spinal surgeries – doctors received illegal kickbacks for referrals to a Hawaiian Gardens hospital.

Today, federal prosecutors today filed two cases related to the scheme, and yesterday three other cases were unsealed by a federal judge. Those named in the cases are:

- James L. Canedo, 63, of San Pedro, the former chief financial officer of Pacific Hospital of Long Beach, who pleaded guilty on September 4 to a criminal information charging him with participating in a conspiracy that engaged in mail fraud, honest services fraud, money laundering, paying or receiving kickbacks in connection with a federal health care program, and violating the Travel Act

(specifically, interstate travel in aid of a racketeering enterprise). The case against Canedo was unsealed yesterday by United States District Judge Josephine L. Staton, who is scheduled to sentence the defendant on June 17, 2016.

- Philip Sobol, 61, of Studio City, an orthopedic surgeon, who has agreed to plead guilty to conspiracy (to commit mail fraud, honest services fraud, and violations of the Travel Act) as well as a separate, substantive Travel Act violation. The information against Sobol and a related plea agreement were filed today in United States District Court, where the defendant is expected to be arraigned next month.
- Alan Ivar, 55, of Las Vegas, a chiropractor who formerly resided in San Juan Capistrano and owned several businesses based in Costa Mesa, was charged today in a criminal information that alleges one count of conspiracy (to commit mail fraud, honest services fraud, money laundering, and violations of the Travel Act). In a plea agreement also filed today, Ivar admitted that for well over a decade, he had an agreement with the owner of Pacific Hospital to refer patients in exchange for a monthly retainer. Ivar, who also has agreed to plead guilty, is expected to be arraigned next month.
- Paul Richard Randall, 56, of Orange, a health care marketer previously affiliated with Pacific Hospital and Tri-City Regional Medical Center in Hawaiian Gardens, who pleaded guilty on April 16, 2012 before Judge Staton to conspiracy to commit mail fraud. Randall, who admitted recruiting chiropractors and doctors to refer patients to Tri-City in exchange for kickbacks, is scheduled to be sentenced on April 8, 2016.
- Mitchell Cohen, 55, of Irvine, an orthopedic surgeon, was charged last week with filing a false tax return. Cohen, who in a plea agreement also filed on November 16 admits the he failed to report income received from kickback payments, is expected to be arraigned next month.

All five defendants have agreed to cooperate with the government's ongoing investigation – dubbed "Operation Spinal Cap" – into the kickback schemes, which involved dozens of surgeons, orthopedic specialists, chiropractors, marketers and other medical professionals.

Under the terms of their plea agreements, Sobol faces a federal prison term of up to 10 years; Canedo, Ivar and Randall could be sentenced to as much as five years; and Cohen faces up to three years in prison on the tax charge. All defendants will be required to pay restitution to the victims of the scheme, which in Canedo's case will be at least \$20 million.

The former CEO and owner of Pacific Hospital of Long Beach, Michael D. Drobot, pleaded guilty in April 2014 to participating in the scheme (see: <http://go.usa.gov/cjqtF>). Drobot is also cooperating with the investigation.

As described in court documents, Drobot, who was the owner and/or CEO of Pacific Hospital of Long Beach until late 2013, ran a 15-year-long scheme in which he and others billed workers' compensation insurers and the U.S. Department of Labor hundreds of millions of dollars for spinal surgeries and other procedures performed on patients who had been referred by dozens of doctors, chiropractors and others who were paid illegal kickbacks.

As part of the scheme, the conspirators typically paid a kickback of \$15,000 for each lumbar fusion surgery and \$10,000 for each cervical fusion surgery. Some of the patients lived hundreds of miles away from Pacific Hospital, and closer to other qualified medical facilities. The patients were not informed that medical professionals had been offered kickbacks to induce them to refer the surgeries to Pacific Hospital. From 2005 through 2013 (which is only part of the overall scheme), Pacific Hospital billed insurers more than \$580 million for spinal surgeries on over 4,400 patients. Insurers paid the hospital more than \$226 million for the surgeries performed as a result of illegal kickbacks.

"Health care fraud and kickback schemes burden our healthcare system, drive up insurance costs for everyone, and corrupt both the doctor-patient relationship and the medical profession itself," said United States Attorney Eileen M. Decker. "The members of this scheme treated injured workers and their spines as commodities, to be traded away to the highest bidder. This investigation should send a message to the entire industry: patients are not for sale."

The conspirators in the Pacific Hospital scheme concealed the kickback payments by entering into bogus contracts to provide a "cover story" for the doctors, chiropractors and others who received illegal payments. For example, a number of doctors entered into agreements with a Drobot-owned company, Pacific Specialty Physician Management (PSPM), under which the doctors received as much as \$100,000 per month from PSPM in return for the right to purchase their medical practices – an option that was never exercised. PSPM paid some doctors inflated prices for the right to operate their practices and collect on their insurance claims. In still other cases, Pacific Hospital entered into contracts with doctors under which the doctors were to help the hospital collect on its surgery bills to insurance companies, but the hospital's own collection staff, rather than the doctors, actually performed the collections work. Several doctors entered into lease agreements under which PSPM or Pacific Hospital paid rent for the use of office space, but rarely used the space. And other doctors had agreements to provide consulting services to Drobot's companies, but did not actually provide the services. Still others, including marketers who introduced doctors to Pacific Hospital, had additional agreements with Drobot's companies.

Canedo, as Pacific Hospital's CFO from 1999 through October 2013, was responsible for tracking payments made directly to doctors by the hospital, as well as the number of patients each doctor referred to the hospital and the amounts the hospital

collected for those patients' procedures. Canedo also communicated directly with a number of the doctors regarding the payments and surgeries, and sometimes mediated disputes between different doctors who claimed credit for the same referrals.

Sobol, Ivar and Cohen each received, respectively, \$5.2 million, \$1.24 million, and \$1.64 million in kickbacks. Together they referred more than 200 patients to Pacific Hospital.

"The defendants carried out this elaborate scheme by callously gathering patients, remaining indifferent to patient needs, and greedily lining their pockets with a cut of the cash from taxpayer-funded health care systems," said David Bowdich, the Assistant Director in Charge of the FBI's Los Angeles Field Office. "The effort by investigators and prosecutors in this case cannot be overstated and, as it continues, will play a part in restoring confidence in the medical marketplace."

Two other Drobot companies, California Pharmacy Management (CPM) and its successor, Industrial Pharmacy Management (IPM), were also important players in the scheme. Both companies set up and managed what were essentially mini-pharmacies within doctors' offices. CPM and IPM bought and dispensed medication that the doctors prescribed to their patients, and these businesses received a portion of the money reimbursed by insurance companies for the medications. Drobot, along with others at CPM and IPM, often agreed to increase the doctors' shares of the insurance claims in return for those doctors' referral of patients to Pacific Hospital. In many cases, for doctors who made such referrals, the conspirators "advanced" payments from CPM and IPM before the companies had collected any money for the medications or even prescribed them, and often simply "wrote off" payments as losses when collections fell short.

"Injured workers were treated like livestock by doctors and hospitals who paid or accepted kickbacks and bribes in exchange for referrals," said California Insurance Commissioner Dave Jones. "Injured workers are put at risk when their medical treatment is based on kickbacks and bribes instead of their medical needs. Detectives from the Department of Insurance worked closely with federal law enforcement agencies to investigate and expose this illegal conspiracy, which is one of the largest workers compensation insurance fraud cases we have ever seen."

Randall, who also facilitated the Pacific Hospital scheme by introducing doctors to Drobot and coordinating kickback arrangements, pleaded guilty to participating in a separate, similar scheme involving Tri-City Regional Medical Center. According to his plea agreement, Randall acted as a "marketer" for Tri-City and conspired with hospital executives to pay kickbacks to doctors and chiropractors to refer workers' compensation patients Tri-City for spinal surgeries. As in the Pacific Hospital scheme, the surgeries at Tri-City involved use of spinal surgery hardware that Randall distributed to Tri-City at inflated prices through his company Summit Medical Group, knowing that the cost would be passed on to insurers. Using proceeds from the sale of the hardware, Randall

paid a 5 percent kickback to Tri-City and kickbacks of up to \$20,000 per surgery to the doctors and chiropractors who referred the patients. In addition, through a separate company, Platinum Medical, Randall paid kickbacks to doctors in return for referrals of patients for toxicology tests. The scheme resulted in several million dollars in losses to insurers.

“Medical referrals should be based on what’s best for the patient – not what’s best for the doctor’s bank account,” said IRS-Criminal Investigation Special Agent in Charge Erick Martinez. “In paying the kickbacks and submitting the resulting claims for spinal surgeries and medical services, the defendants acted with the intent to defraud workers’ compensation insurance carriers and to deprive the patients of their right to honest services.”

Tom Frost, Special Agent in Charge with the Postal Service Office of Inspector General, stated: “We are committed to preserving Postal Service resources by vigorously investigating allegations of fraud and corruption. We are grateful for the efforts of the U.S. Attorney’s Office and our State and Federal partners in this investigation.”

The ongoing investigation into abuses involving the spinal pass-through law and kickbacks paid for spinal surgery patients is being conducted by the Federal Bureau of Investigation; the United States Postal Service, Office of Inspector General; IRS Criminal Investigation; and the California Department of Insurance.

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