



The United States Attorney's Office

Central District of California



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Return to the [2011 Press Release Index](#)
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Authorities Arrest 16 Linked to \$18 Million Health Care Fraud Scheme Involving Bogus Prescriptions for Expensive Anti-Psychotic Drugs

LOS ANGELES – Sixteen people associated with a Glendale medical clinic, including a doctor and the owners of a San Marino pharmacy, were arrested this morning on criminal charges related to an \$18 million scheme to defraud Medicare and Medi-Cal by, among other things, fraudulently prescribing expensive anti-psychotic medications, and then re-billing the government for those drugs over and over.

A federal criminal complaint unsealed this morning charges 17 defendants and alleges a scheme in which people associated with Manor Medical Imaging Clinic and pharmacies in and around the San Gabriel Valley participated in a "prescription harvesting" scheme that defrauded Medicare and Medi-Cal, causing at least \$7.3 million in actual losses to the government health care programs. Fifteen of the 17 federal defendants were arrested this morning, and authorities arrested an additional defendant charged by the California Attorney General's Office, for a total of 16 arrests today. One federal defendant was arrested earlier this month in relation to another Medicare fraud case, one person named in the federal case remains a fugitive.

This is the first case in the nation alleging an organized scheme to defraud government health care programs through fraudulent claims for anti-psychotic medications, a type of scheme that investigators say is on the increase around the nation. Court documents outline a conspiracy in which Manor operated a bogus clinic authorized to make claims to Medicare, employed a doctor to write prescriptions, and had close relationships with pharmacies and a fraudulent drug wholesale company that was used to funnel prescription drugs back to the pharmacies participating in the scheme.

The affidavit in support of the criminal complaint alleges that Manor used "cappers" to recruit Medicare and Medi-Cal beneficiaries – including veterans, the homeless, low-income patients and the elderly – whose beneficiary information was used to bill Medicare and Medi-Cal for millions of dollars

worth of illegitimate medical services and prescriptions for expensive anti-psychotic drugs. The drugs that were dispensed by the pharmacies allegedly did not go to the beneficiaries but, rather, were diverted to black market wholesalers and back to the pharmacies, where members of the conspiracy re-labeled, re-packaged and re-dispensed bottles of the medications so they could submit new bills to Medicare and/or Medi-Cal as though the drugs had never been dispensed.

As a result of this scheme, more than \$18 million in fraudulent claims were submitted to Medicare and Medi-Cal, which paid out approximately \$7.3 million.

While Manor recruited beneficiaries, many other beneficiaries had their identities stolen and used in the fraudulent scheme without their knowledge. As a result of the drugs being fraudulently dispensed in the names of those beneficiaries, some were denied Medicare and Medi-Cal coverage for drugs that they legitimately needed.

Dr. Peter Budetti, Deputy Administrator for Program Integrity, Centers for Medicare and Medicaid Services (CMS), stated: "Today's arrests further signal CMS' commitment to preventing fraud in Medicare and Medicaid. In this situation, our beneficiaries played a pivotal role in rooting out fraud, reporting their suspicions to their Medicare Prescription Drug plan. Beginning in 2007, CMS' anti-fraud units opened investigations and made referrals to law enforcement. Since then, CMS has actively supported the investigation by our law enforcement partners and will continue to work with them to minimize the theft of taxpayer dollars while maximizing criminal consequences to thieves."

The anti-psychotic medications that are the subject of the fraudulent prescriptions alleged in this case include Abilify, Seroquel and Zyprexa. Ninety-pill bottles of these drugs can bring a pharmacy reimbursements of up to \$2,800, which is why there is a wholesale black market for these products where the drugs can be purchased for as little as several hundred dollars.

"Today's coordinated arrests and searches are yet another blow against highly-profitable drug trafficking financed by taxpayers," said Glenn Ferry, Special Agent in Charge of the United States Department of Health and Human Services, Office of Inspector General's region based in Los Angeles. "Federal, State and Local law enforcement agencies will work together to investigate and prosecute these schemes."

The primary pharmacy involved in the case, Huntington Pharmacy in San Marino, saw a huge spike in claims to Medi-Cal – going from just under \$45,000 in 2009 to nearly \$1.5 million in 2010 – and the vast majority of claims were the result of prescriptions written by Manor's in-house doctor, according to the criminal complaint, which alleges that the owners of Huntington Pharmacy were receiving kickbacks and "structuring" cash deposits totaling hundreds of thousands of dollars into their personal and business accounts.

"The U.S. Food and Drug Administration's Office of Criminal Investigations (OCI) is fully committed to investigations such as this, whereby a coordinated network of individuals are alleged to have conspired to widely distribute misbranded prescription drugs which placed the public's health and safety at risk. The security of our nation's drug supply chain is one of OCI's top priorities," said Thomas Emerick, Special Agent in Charge, U. S. Food and Drug Administration's Office of Criminal Investigations, Los Angeles Field Office. "We commend our law enforcement partners for their dedicated and collaborative efforts in pursuing this multifaceted investigation."

In conjunction with today's arrests, authorities executed search warrants at five pharmacies, offices belonging to a drug wholesale company, the Manor clinic and residences of several conspirators. More than 200 agents from across the country participated in this morning's enforcement action.

Leslie P. DeMarco, Special Agent in Charge for IRS-Criminal Investigation, commented: "By pursuing

financial leads in this case, IRS-CI tackled the structuring and laundering of illegal funds used to promote the health care fraud scheme in this case. Today's arrests affirm our commitment to contribute our financial expertise in these important investigations."

All 17 defendants named in the federal criminal complaint are charged with conspiracy to commit health care fraud, a charge that carries a statutory maximum penalty of 30 years in federal prison. The 15 federal defendants arrested this morning are expected to make their initial appearances this afternoon in United States District Court in Los Angeles.

A criminal complaint contains allegations that a defendant has committed a crime. Every defendant is presumed innocent until and unless proven guilty in court.

The investigation in this case, which was called Operation "Psyched Out," was conducted by the San Marino Police Department; the California Department of Justice, Bureau of Medi-Cal Fraud and Elder Abuse; the United States Food and Drug Administration, Office of Criminal Investigations; IRS - Criminal Investigation; the United States Department of Health and Human Services, Office of the Inspector General; U.S. Immigration and Customs Enforcement; the Glendale Police Department, Organized Crime Team; and the California Department of Health Care Services, Audits and Investigations Branch.

Also participating in Operation Psyched Out were: the United States Marshals Service; the California Pharmacy Board; the Los Angeles County Sheriff's Department, HALT Team; and the Drug Enforcement Administration.

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ReleaseNo. 11-157

Return to the 2011 Press Release Index