California Hospital to Pay More Than $3.2 Million to Settle Allegations That It Violated the Physician Self-Referral Law

Tri-City Medical Center, a hospital located in Oceanside, California, has agreed to pay $3,278,464 to resolve allegations that it violated the Stark Law and the False Claims Act by maintaining financial arrangements with community-based physicians and physician groups that violated the Medicare program's prohibition on financial relationships between hospitals and referring physicians, the Justice Department announced today.

The Stark Law generally forbids a hospital from billing Medicare for certain services referred by physicians who have a financial relationship with the hospital unless that relationship falls within an enumerated exception. The exceptions generally require, among other things, that the financial arrangements do not exceed fair market value, do not take into account the volume or value of any referrals and are commercially reasonable. In addition, arrangements with physicians who are not hospital employees must be set out in writing and satisfy a number of other requirements.

"The settlement of this matter reflects not only our commitment to protect the integrity of the healthcare system through enforcement of the Stark Law, but also our willingness to work with providers who disclose their own misconduct," said Principal Deputy Assistant Attorney General Benjamin C. Mizer, head of the Justice Department's Civil Division.

The settlement announced today resolves allegations that Tri-City Medical Center maintained 97 financial arrangements with physicians and physician groups that did not comply with the Stark Law. The hospital identified five arrangements with its former chief of staff from 2008 until 2011 that, in the aggregate, appeared not to be commercially reasonable or for fair market value. The hospital also identified 92 financial arrangements with community-based physicians and practice groups that did not satisfy an exception to the Stark Law from 2009 until 2010 because, among other things, the written agreements were expired, missing signatures or could not be located.

"Patient referrals should be based on a physician's medical judgment and a patient's medical needs, not on a physician's financial interests or a hospital's business goals," said U. S. Attorney Laura E. Duffy of the Southern District of California. "This settlement reinforces that hospitals will face consequences when they enter into financial arrangements with physicians that do not comply with the law. We will continue to hold health care providers accountable when they shirk their legal responsibilities to the detriment of tax payer-funded health care programs."

"Together with our law enforcement partners, our agency's investigators and attorneys will continue to work with health care providers who use the self-disclosure protocol to resolve their billing misconduct," said Special Agent in Charge Chris Schrank of the U.S. Department of Health and Human Services Office of Inspector General (HHS-OIG), Los Angeles region."

This settlement illustrates the government's emphasis on combating health care fraud and marks another achievement for the Health Care Fraud Prevention and Enforcement Action Team (HEAT) initiative, which was announced in May 2009 by the Attorney General and the Secretary of Health and Human Services. The partnership between the two departments has focused efforts to reduce and prevent Medicare and Medicaid financial fraud through enhanced cooperation. One of the most powerful tools in this effort is the False Claims Act. Since January 2009, the Justice Department has recovered a total of more than $27.1 billion through False Claims Act cases, with more than $17.1 billion of that amount recovered in cases involving fraud against federal health care programs.

This matter was handled by the U.S. Attorney's Office of the Southern District of California, the Civil Division's Commercial Litigation Branch and HHS-OIG. The claims settled by this agreement are allegations only, and there has been no determination of liability.