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CLERK U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIF.
SANTA ANA, CA

FILED

UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA
SOUTHERN DIVISION

UNITED STATES OF AMERICA,
Plaintiff,
v.
MICHAEL E. BARRI,
Defendant.

SA CR No. 16-00008

I N F O R M A T I O N

[18 U.S.C. § 371: Conspiracy]

The United States Attorney charges:

[18 U.S.C. § 371]

A. INTRODUCTORY ALLEGATIONS

At all times relevant to this Information:

1. Healthsmart Pacific Inc., doing business as Pacific Hospital of Long Beach ("Pacific Hospital"), was a hospital located in Long Beach, California, specializing in surgeries, particularly spinal and orthopedic surgeries. From at least in or around 1997 to October 2013, Pacific Hospital was owned and/or operated by Michael D. Drobot ("Drobot") and/or Executive A.

2. Defendant MICHAEL E. BARRI ("defendant BARRI") was a chiropractor who owned and operated Tri-Star Medical Group ("Tri-

1 Star"), a medical clinic located in Santa Ana, California
2 specializing in treating workers' compensation patients.

3 3. Defendant BARRI also operated and controlled Jojaso
4 Management Company, Inc. ("Jojaso"), a medical group management
5 company based in Santa Ana, California.

6 4. The California Workers' Compensation System ("CWCS") was a
7 system created by California law to provide insurance covering
8 treatment of injury or illness suffered by individuals in the course
9 of their employment. Under the CWCS, employers were required to
10 purchase workers' compensation insurance policies from insurance
11 carriers to cover their employees. When an employee suffered a
12 covered injury or illness and received medical services, the medical
13 service provider submitted a claim for payment to the relevant
14 insurance carrier, which then paid the claim. Claims were submitted
15 to and paid by the insurance carriers either by mail or
16 electronically. The CWCS was governed by various California laws and
17 regulations.

18 5. The California State Compensation Insurance Fund ("SCIF")
19 was a non-profit insurance carrier, created by the California
20 Legislature, that provided workers' compensation insurance to
21 employees in California, including serving as the "insurer of last
22 resort" under the CWCS system for employees without any other
23 coverage.

24 6. California law, including but not limited to the California
25 Business and Professions Code, the California Insurance Code, and the
26 California Labor Code, prohibited the offering, delivering,
27 soliciting, or receiving of anything of value in return for referring
28 a patient for medical services.

1 7. The Federal Employees' Compensation Act ("FECA") provided
2 benefits to civilian employees of the United States, including United
3 States Postal Service employees, for medical expenses and wage-loss
4 disability due to a traumatic injury or occupational disease
5 sustained while working as a federal employee. Benefits available to
6 injured employees included rehabilitation, medical, surgical,
7 hospital, pharmaceutical, and supplies for treatment of an injury.
8 The Department of Labor ("DOL") - Office of Workers' Compensation
9 Programs ("OWCP") was the governmental body responsible for
10 administering the FECA. When a federal employee suffered a covered
11 injury or illness and received medical services, the medical service
12 provider submitted a claim for payment by mail or electronically to
13 Affiliated Computer Services ("ACS"), located in London, Kentucky,
14 which was contracted with the DOL to handle such claims. Upon
15 approval of the claim, ACS sent payment by mail or electronic funds
16 transfer from the U.S. Treasury in Philadelphia, Pennsylvania, to the
17 medical service provider.

18 8. Federal law prohibited the offering, delivering,
19 soliciting, or receiving of anything of value in return for referring
20 a patient for medical services paid for by a federal health care
21 benefit program.

22 B. OBJECTS OF THE CONSPIRACY

23 9. Beginning on a date unknown but at least as early as in or
24 around 2009, and continuing through at least in or around April 2013,
25 in Orange and Los Angeles Counties, within the Central District of
26 California, and elsewhere, defendant BARRI and Drobot, together with
27 others known and unknown to the United States Attorney, knowingly
28 combined, conspired, and agreed to commit the following offenses

1 against the United States: Mail Fraud and Honest Services Mail
2 Fraud, in violation of Title 18, United States Code, Sections 1341
3 and 1346; and Engaging in Monetary Transactions in Property Derived
4 from Specified Unlawful Activity, in violation of Title 18, United
5 States Code, Section 1957.

6 C. MANNER AND MEANS OF THE CONSPIRACY

7 10. The objects of the conspiracy were to be carried out, and
8 were carried out, in the following ways, among others:

9 a. Drobot and other co-conspirators offered to pay
10 kickbacks to defendant BARRI and other doctors, chiropractors,
11 workers' compensation and personal injury attorneys, marketers, and
12 others in return for referring workers' compensation patients to
13 Pacific Hospital for spinal surgeries, other types of surgeries,
14 magnetic resonance imaging, toxicology, durable medical equipment,
15 and other services, to be paid through FECA and the CWCS. For spinal
16 surgeries, typically, Drobot offered to pay a kickback of \$15,000 per
17 lumbar fusion surgery and \$10,000 per cervical fusion surgery,
18 provided that equipment distributed through International Implants
19 was used in the surgery.

20 b. Influenced by the promise of kickbacks, defendant
21 BARRI and other doctors, chiropractors, workers' compensation and
22 personal injury attorneys, marketers, and others referred patients
23 insured through the CWCS and the FECA to Pacific Hospital for spinal
24 surgeries, other types of surgeries, and other medical services. In
25 some cases, defendant BARRI and other doctors, chiropractors, or
26 others referred patients to spinal surgeons, such as Surgeon A and
27 Surgeon B, who understood that the referrals were conditioned on the
28 spinal surgeons' performing the surgeries at Pacific Hospital. The

1 workers' compensation patients were not informed that the medical
2 professionals had been offered kickbacks to induce them to refer the
3 surgeries and other medical services to Pacific Hospital. That
4 information would have been material to those patients, to whom
5 defendant BARRI and other doctors owed a fiduciary duty to disclose
6 any financial conflicts of interest.

7 c. The surgeries and other medical services were
8 performed on the referred workers' compensation patients at Pacific
9 Hospital.

10 d. Pacific Hospital submitted claims, by mail and
11 electronically, to SCIF and other workers' compensation insurance
12 carriers for payment of the costs of the surgeries and other medical
13 services.

14 e. As defendant BARRI and the other co-conspirators knew
15 and intended, and as was reasonably foreseeable to them, in
16 submitting claims for payment, Pacific Hospital concealed material
17 information from SCIF and other workers' compensation insurance
18 carriers, including the fact that Pacific Hospital did not disclose
19 to the insurance carriers that it had offered or paid kickbacks for
20 the referral of the surgeries and other medical services for which it
21 was submitting claims.

22 f. The insurance carriers paid Pacific Hospital's claims,
23 by mail or electronically.

24 g. Drobot and others paid and caused others to pay
25 kickbacks to defendant BARRI and other doctors, chiropractors,
26 marketers, and others who had referred patients to Pacific Hospital
27 for surgeries and other medical services.

1 h. To conceal the nature of the kickback payments from
2 both workers' compensation insurance carriers and patients, Drobot,
3 through one of the companies he owned and/or operated, entered into
4 bogus contracts with the doctors, chiropractors, including defendant
5 BARRI, marketers, and others. The services discussed in those
6 contracts were, in fact, generally not provided; rather, the
7 compensation paid was based on the number and type of surgeries and
8 other medical services referred to Pacific Hospital. Defendant BARRI
9 and Drobot entered into the following bogus contracts in order to
10 hide the kickback payments: a collections agreement and a lease
11 agreement.

12 i. Drobot and others kept records of the number of
13 surgeries and other medical services performed at Pacific Hospital
14 due to referrals from the kickback recipients, as well as amounts
15 paid to the kickback recipients for those referrals. Periodically,
16 Drobot and others amended the bogus contracts with the kickback
17 recipients to increase or decrease the amount of agreed compensation
18 described in the contracts, in order to match the amount of kickbacks
19 paid or promised in return for referrals.

20 D. EFFECTS OF THE CONSPIRACY

21 11. Had SCIF and the other workers' compensation insurance
22 carriers known the true facts regarding the payment of kickbacks for
23 the referral of workers' compensation patients for surgeries and
24 other medical services performed at Pacific Hospital, they would not
25 have paid the claims or would have paid a lesser amount.

26 12. From 2005 to in or around April 2013, Pacific Hospital
27 billed workers' compensation insurance carriers approximately \$580
28 million in claims for spinal surgeries that were the result of the

1 payment of a kickback; and Drobot and other co-conspirators paid
2 kickback recipients between approximately \$20 million and \$50 million
3 in kickbacks relating to those claims.

4 E. OVERT ACTS

5 13. On or about the following dates, in furtherance of the
6 conspiracy and to accomplish the objects of the conspiracy, defendant
7 BARRI and other co-conspirators known and unknown to the United
8 States Attorney, committed various overt acts within the Central
9 District of California, and elsewhere, including, but not limited to,
10 the following:

11 Overt Act No. 1: On or about April 17, 2009, defendant BARRI
12 caused Jojaso to enter into an Outsourced Collection Agreement with
13 Pacific Hospital, under which Jojaso would be paid fifteen percent of
14 any monies collected by Pacific Hospital on patients referred for
15 surgery to Pacific Hospital by defendant BARRI.

16 Overt Act No. 2: On July 13, 2009, defendant BARRI sent an
17 email message to Drobot inquiring about obtaining credentials for
18 Surgeon C to perform spinal surgeries at Pacific Hospital.

19 Overt Act No. 3: On or about June 14, 2011, defendant BARRI
20 caused Jojaso to enter into an Outsourced Collection Agreement with
21 Pacific Hospital under which Jojaso would be paid, within sixty days
22 of surgery, fifteen percent of any monies collected, or estimated to
23 be collected, on patients referred for surgery to Pacific Hospital by
24 defendant BARRI.

25 Overt Act No. 4: On or about June 16, 2011, defendant BARRI
26 sent an email message to Drobot and Attorney A informing Drobot and
27 Attorney A that the surgery to be performed at Pacific Hospital on
28

1 June 22, 2011 by Surgeon D was the result of a referral by defendant
2 BARRI.

3 Overt Act No. 5: On or about January 27, 2012, defendant
4 BARRI caused Jojaso to enter into Amendment One to Outsourced
5 Collection Agreement, increasing the collection fee paid to Jojaso to
6 twenty-five percent of any monies collected on patients referred for
7 surgery to Pacific Hospital by defendant BARRI.

8 Overt Act No. 6: On or about May 1, 2012, defendant BARRI
9 caused Jojaso to enter into a Medical Office Sublease with Pacific
10 Hospital for the medical office located at 2690 Pacific Avenue, Suite
11 300, Long Beach, California.

12 Overt Act No. 7: On or about June 11, 2012, defendant BARRI
13 sent to Attorney A an invoice purported to be for collection services
14 performed by Jojaso related to a spinal surgery performed on Patient
15 A at Pacific Hospital.

16 Overt Act No. 8: On or about November 28, 2012, Pacific
17 Hospital sent to Jojaso a check for \$3,143 in connection with
18 defendant BARRI's referral of Patient A to Pacific Hospital for
19 spinal surgery.

20 Overt Act No. 9: On or about May 29, 2013, Pacific Hospital
21 sent to Jojaso a check for \$26,248.03.

22 Overt Act No. 10: On or about June 14, 2012, Pacific Hospital
23 sent to Jojaso a check for \$20,036.89.

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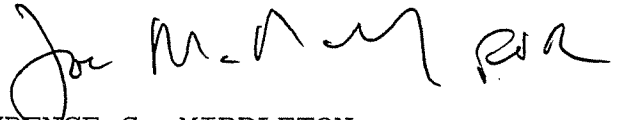
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1 Overt Act No. 11: On or about July 2, 2013, Pacific Hospital
2 sent to Jojaso a check for \$25,613.93.

3
4 EILEEN M. DECKER
5 United States Attorney

6 

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