

1 BENJAMIN C. MIZER  
Principal Deputy Assistant Attorney General  
2 EILEEN M. DECKER  
United States Attorney  
3 DOROTHY A. SCHOUTEN, AUSA  
Chief, Civil Division  
4 DAVID K. BARRETT, AUSA  
Chief, Civil Fraud Section  
5 LINDA A. KONTOS, AUSA  
Deputy Chief, Civil Fraud Section  
6 LYNN HEALEY SCADUTO, AUSA  
California State Bar No. 205291  
7 Room 7516, Federal Building  
300 North Los Angeles Street  
8 Los Angeles, California 90012  
Tel: (213) 894-7395; Fax: (213) 894-5139  
9 E-mail: Lynn.Scaduto@usdoj.gov  
MICHAEL D. GRANSTON  
10 DANIEL R. ANDERSON  
MARIE V. BONKOWSKI  
11 Attorneys, Civil Division  
United States Department of Justice  
12 601 D Street NW, Room 9116  
Washington, DC 20004  
13 Tel: (202) 514-6833; Fax: (202) 305-7797  
E-mail: Marie.Bonkowski@usdoj.gov  
14 Attorneys for the United States of America

15 UNITED STATES DISTRICT COURT  
16 FOR THE CENTRAL DISTRICT OF CALIFORNIA  
WESTERN DIVISION

17 UNITED STATES OF AMERICA *ex*  
18 *rel.* KARIN BERNTSEN,

19 Plaintiff,

20 v.

21 PRIME HEALTHCARE SERVICES,  
INC.; *et al.*,

22 Defendants.

NO. CV 11-08214 PJW (MG)

NOTICE OF MOTION AND  
UNOPPOSED MOTION OF THE UNITED  
STATES TO PARTIALLY INTERVENE  
FOR GOOD CAUSE; MEMORANDUM  
OF POINTS AND AUTHORITIES AND  
DECLARATION OF LYNN HEALEY  
SCADUTO IN SUPPORT THEREOF

[FILED OR LODGED CONCURRENTLY:  
[PROPOSED] ORDER; [PROPOSED]  
NOTICE OF ELECTION OF THE  
UNITED STATES TO INTERVENE IN  
PART AND DECLINE TO INTERVENE  
IN PART AND [PROPOSED] ORDER  
THEREON]

Date: June 21, 2016  
Time: 1:30 p.m.  
Place: Courtroom 23

The Honorable Patrick J. Walsh

PLEASE TAKE NOTICE that on June 21, 2016, at 1:30 p.m. or as soon thereafter as the matter may be heard, the United States of America ("United States") will and hereby does move this Court for an order granting the United States leave to partially intervene in this action for good cause pursuant to 31 U.S.C. § 3730(c)(3) and Rule 24(b) of the Federal Rules of Civil Procedure, and allowing the United States to file a complaint in intervention within 30 days after the date of the Court's order. The United States' Motion To Partially Intervene For Good Cause will be made before the Honorable Patrick J. Walsh, Chief United States Magistrate Judge, in Courtroom 23, located at the United States Courthouse, 312 N. Spring Street, Los Angeles, California 90012.

This motion is made on the grounds that good cause exists to permit the United States to intervene pursuant to 31 U.S.C. § 3730(c)(3). This motion is made upon this Notice of Motion and Motion, the attached Memorandum of Points and Authorities, all pleadings, records, and other documents on file with the Court in this action, and upon such oral argument as may be presented at the hearing of this motion. This motion is made following the conference of counsel under Local Rule 7-3, which took place on May 16, 2016.

Dated: May 23, 2016

Respectfully submitted,

BENJAMIN C. MIZER  
Principal Deputy Assistant Attorney General  
EILEEN M. DECKER  
United States Attorney  
DOROTHY A. SCHOUTEN, AUSA  
Chief, Civil Division  
DAVID K. BARRETT, AUSA  
Chief, Civil Fraud Section  
LINDA A. KONTOS, AUSA  
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MARIE V. BONKOWSKI  
Attorneys, Civil Division  
United States Department of Justice

/s/ Lynn Healey Scaduto  
LYNN HEALEY SCADUTO, AUSA  
Attorneys for the United States of America

## **MEMORANDUM OF POINTS AND AUTHORITIES**

The United States of America (“United States”) respectfully requests pursuant to 31 U.S.C. § 3730(c)(3) and Rule 24(b) of the Federal Rules of Civil Procedure that the Court permit the United States to partially intervene for good cause in this *qui tam* action with respect to claims and allegations that the Defendants submitted or caused the submission of claims to Medicare for unnecessary inpatient stays as pled against all defendants other than defendants Luis Leon and Prime Healthcare Foundation. Relator Karin Berntsen (“Relator”) supports intervention, and Defendants Prime Healthcare Services, Prime Healthcare, fourteen hospitals operated by Prime in California, Dr. Prem Reddy, Prime’s founder and chairman of the board, and Luis Leon, the CEO of Alvarado Hospital (collectively, “Defendants”) have informed the United States that they will not oppose this motion.

### **I. BACKGROUND**

On October 3, 2011, Relator filed this *qui tam* action alleging that Defendants had submitted claims to Medicare in violation of the False Claims Act, 31 U.S.C. §§ 3729 - 3733 (“FCA”). Relator works at one of the fourteen defendant hospitals and alleges, among other things, that Defendants routinely submit, or cause to be submitted, inflated claims to Medicare for reimbursement for services rendered to beneficiaries who were admitted as inpatients when they should have been treated as outpatients on “observation” status at the hospital and/or who did not actually have the complications and comorbidities that increased the Medicare reimbursement amount.

On December 26, 2013, the Court unsealed the action after the United States filed a notice on December 23, 2013, informing the Court that it could not make an election decision before the Court’s deadline. Docket Nos. 43, 42. In that notice, the Government reserved the right to intervene for good cause at a later date pursuant to 31 U.S.C. § 3730(c)(3) and advised the Court and Defendants that “the Government’s investigation w[ould] continue.” Docket No. 42. Defendants subsequently moved to dismiss Relator’s *qui tam* action. Docket No. 91. The Court denied their motion on

1 November 20, 2014. Docket No. 102.

2 Since then, the United States' investigation has continued and has yielded  
3 sufficient evidence to support partial intervention in Relator's *qui tam* action with  
4 respect to claims and allegations that the Defendants submitted or caused the submission  
5 of claims to Medicare for unnecessary inpatient stays as pled against all defendants other  
6 than defendants Luis Leon and Prime Healthcare Foundation. Declaration of Lynn  
7 Healey Scaduto ("Scaduto Decl."), ¶ 2. For example, we have learned since December  
8 23, 2013 that multiple witnesses who have worked at different Prime hospitals state that  
9 defendant Reddy would, among other things: (1) criticize Emergency Department  
10 ("ED") doctors and demand their termination if he decided they were passing up  
11 opportunities to cause the admission of Medicare beneficiaries; (2) request increased  
12 work schedules for ED doctors whose patients had a relatively high rate of admission;  
13 (3) request decreased or discontinued work schedules for ED doctors whose patients had  
14 a relatively low rate of admission; (4) tell ED doctors to find a way to admit all patients  
15 over 65 because they all have insurance; and (5) tell ED doctors that an insured patient  
16 who would be in the ED for more than two hours waiting for test results should be  
17 admitted but an uninsured patient could stay in the ED for 6 to 8 hours awaiting results  
18 and then be discharged. Scaduto Decl., ¶ 3.

19 Additionally, the Office of the Inspector General of the Department of Health and  
20 Human Services has issued more than 10 subpoenas in this investigation since December  
21 23, 2013, including two to Prime and several to ED physician groups that provide staff  
22 for Prime hospital EDs. Among the many things the United States obtained were  
23 "PEPPER" reports produced by Prime that had been prepared by a Medicare contractor  
24 and put Prime on notice of the same pattern of seemingly unnecessary inpatient  
25 admissions that Relator later alleged. Scaduto Decl., ¶ 4.

26 After December 23, 2013, the United States also obtained the results of a medical  
27 review of more than 600 admissions that had been underway for several months but not  
28 completed as of that date. Scaduto Decl., ¶ 5. The United States also served after that

1 date a subpoena for additional medical records and obtained a medical review of more  
 2 than 100 medical records taken from the responsive production. *Id.* The United States  
 3 also conducted additional analyses of Medicare claims data that revealed, among other  
 4 things, that hospital billings for beneficiaries treated on “observation” status would  
 5 plummet after Prime acquired a hospital. *Id.*

6 Settlement prospects have now been exhausted. Scaduto Decl., ¶ 7. Relator  
 7 supports the United States’ partial intervention, and Defendants have informed the  
 8 United States that they will not oppose this motion. *Id.* at ¶ 8.

## 9 **II. ARGUMENT**

10 The FCA provides that, even when the United States elects not to proceed with a  
 11 *qui tam* action, a court may “permit the Government to intervene at a later date upon a  
 12 showing of good cause.” 31 U.S.C. § 3730(c)(3). In enacting § 3730(c)(3), the U.S.  
 13 Congress recognized that the “limited opportunity for Government involvement [during  
 14 the investigation period] could in some cases work to the detriment of the Government’s  
 15 interests.” S. Rep. No. 99-345, at 26-27 (reprinted at 1986 U.S.C.C.A.N. 5266, at 5291-  
 16 92). Here, the United States submits that it has good cause to intervene on the  
 17 allegations in the complaint that Defendants routinely submit, or cause to be submitted,  
 18 inflated claims to Medicare for beneficiaries who were admitted to the hospital as  
 19 inpatients when they should have been treated as outpatients.

20 In *United States ex rel. Stone v. Rockwell Int’l Corp.*, 950 F. Supp. 1046 (D. Colo.  
 21 1996) and *United States ex rel. Hall v. Schwartzman*, 887 F. Supp. 60 (E.D.N.Y. 1995),  
 22 the courts found good cause for the United States’ intervention after the United States  
 23 initially declined to intervene. In both *Rockwell* and *Schwartzman*, the courts found that  
 24 new evidence obtained by the United States after it initially declined to intervene  
 25 justified intervention at a later date. *See* 950 F. Supp. at 1049; 887 F. Supp. at 62.

26 Here, as discussed in detail above, additional investigation has yielded additional  
 27 evidence to support Relator’s allegations and undermine Defendants’ articulated  
 28 defenses. Scaduto Decl., ¶¶ 2-5. In addition, like Relator here, the relators in both

1 *Rockwell* and *Schwartzman* supported intervention by the United States, a fact to which  
2 the *Rockwell* court assigned substantial weight. *See* 887 F.Supp. at 61-62; 950 F.Supp.  
3 at 1049. And both actions were at an early stage when the United States sought  
4 intervention, which supported the courts' conclusions that intervention would not unduly  
5 prejudice the defendants or delay the proceedings. *Id.* Here, likewise, allowing  
6 intervention is unlikely to further delay the proceedings because formal discovery had  
7 not yet gotten underway when it was stayed pending the outcome of the parties'  
8 settlement efforts.

9 Another factor that weighed in favor of intervention in *Rockwell* and was "of  
10 paramount importance" to the court there was the public interest. The court in *Rockwell*  
11 found that "participation in [the action] by the government will add significantly to the  
12 completeness and fairness of any trial." 950 F.Supp. at 1049. Allowing the United  
13 States to participate in the trial of this action is likewise in the public interest.

### 14 **III. CONCLUSION**

15 For the reasons set forth above, the United States respectfully requests that this  
16 Court issue an order granting the United States' motion to partially intervene in this

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1 action, finding good cause for intervention and allowing the United States to file a  
2 complaint in intervention within 30 days after the date of the Court's order.

3 Dated: May 23, 2016

Respectfully submitted,

4 BENJAMIN C. MIZER  
Principal Deputy Assistant Attorney General  
5 EILEEN M. DECKER  
United States Attorney  
6 DOROTHY A. SCHOUTEN, AUSA  
Chief, Civil Division  
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DANIEL R. ANDERSON  
10 MARIE V. BONKOWSKI  
Attorneys, Civil Division  
11 United States Department of Justice

12  
13 /s/ Lynn Healey Scaduto

14 LYNN HEALEY SCADUTO, AUSA  
Attorneys for the United States of America  
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**DECLARATION OF LYNN HEALEY SCADUTO**

I, Lynn Healey Scaduto, declare:

1. I am an Assistant United States Attorney (“AUSA”) in the United States Attorney’s Office for the Central District of California. Since December 2015, I have been the attorney within the Office with primary responsibility for the instant case filed by *qui tam* plaintiff Karin Berntsen (“Relator”). I have personal knowledge of the facts stated herein, and if called as a witness, I could and would testify competently thereto.

2. The United States’ investigation has continued since it filed on December 23, 2013, a Notice of the United States That It Is Not Intervening At This Time. The continued investigation has included, among other things, numerous witness interviews, analysis of documents and work with medical and coding consultants to evaluate the validity of numerous claims for reimbursement that Prime has submitted to Medicare. This investigation has yielded additional evidence to support Relator’s allegations and undermine Defendants’ articulated defenses with respect to claims and allegations that the Defendants submitted or caused the submission of claims to Medicare for unnecessary inpatient stays as pled against all defendants other than defendants Luis Leon and Prime Healthcare Foundation.

3. For example, we have learned since December 23, 2013 that multiple witnesses who have worked at different Prime hospitals state that defendant Reddy would, among other things: (1) criticize Emergency Department (“ED”) doctors and demand their termination if he decided they were passing up opportunities to cause the admission of Medicare beneficiaries; (2) request increased work schedules for ED doctors whose patients had a relatively high rate of admission; (3) request decreased or discontinued work schedules for ED doctors whose patients had a relatively low rate of admission; (4) tell ED doctors to find a way to admit all patients over 65 because they all have insurance; and (5) tell ED doctors that an insured patient who would be in the ED for more than two hours waiting for test results should be admitted but an uninsured patient could stay in the ED for 6 to 8 hours awaiting results and then be discharged.

