



NEWS RELEASE

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Former Owner of Long Beach Hospital Charged in Health Care Fraud Scheme that Paid Tens of Millions of Dollars in Kickbacks for Referrals for Spinal Surgeries Billed to Workers' Comp Programs

Santa Ana, California – The former owner of Pacific Hospital in Long Beach was charged today in a long-running health care fraud scheme that involved tens of millions of dollars in illegal kickbacks in exchange for referrals of thousands of patients who received spinal surgeries. The referrals to the hospital led to more than \$500 million in bills being fraudulently submitted during last five years of the scheme, much of which was paid by the California worker's compensation system.

Michael D. Drobot, 69, of Corona Del Mar, was charged this morning in a criminal information with orchestrating a wide-ranging conspiracy and with paying illegal kickbacks.

In a plea agreement also filed this morning, Drobot agreed to plead guilty to the two counts which could send him to federal prison for as long as 10 years.

From 1997 to 2013, Drobot, who owned Pacific Hospital until late last year, ran a scheme in which he billed workers' compensation insurers hundreds of millions of dollars for spinal surgeries performed on patients who had been referred by dozens of doctors, chiropractors and others who were paid illegal kickbacks. For referrals for spinal surgeries, Drobot typically paid a kickback of \$15,000 per lumbar fusion surgery and \$10,000 per cervical fusion surgery. Some of the patients lived as much as hundreds of miles away from Pacific Hospital, and closer to other qualified medical facilities. The patients were not informed that the medical professionals had been offered kickbacks to induce them to refer the surgeries to Pacific Hospital.

Drobot and his co-conspirators concealed the kickback payments by entering into bogus contracts with the doctors, chiropractors, and others who received kickbacks. In reality, the contracts merely provided a cover story for the kickback payments.

The kickbacks were financed largely by money generated from inflated prices for medical devices implanted into state workers' comp patients during spinal surgeries.

Drobot set up a scheme that exploited a now-repealed California law known as the spinal “pass-through” legislation, which permitted hospitals to pass on to workers’ comp insurers the full cost of medical devices implanted in spinal surgery patients. Specifically, Drobot used shell companies to inflate the costs of those devices and then billed the insurers at the inflated rates.

“The spinal pass-through, the provision of California law that allowed Pacific Hospital to fraudulently inflate the cost of the medical hardware used during spinal surgeries, was a vital component of defendant Drobot’s ability to pay kickbacks to the doctors, chiropractors, marketers, and others who had referred patients to Pacific Hospital for surgeries and other medical services,” according to the charging document filed today.

As part of the health care fraud scheme, Drobot admitted in his plea agreement that he paid bribes to California State Senator Ronald Calderon in exchange for Calderon performing official acts to keep the spinal pass-through law on the books. Calderon was indicted on federal charges yesterday for allegedly accepting bribes from Drobot, as well as undercover FBI agents seeking official acts in relation to other matters.

As part of his plea agreement, Drobot has agreed to cooperate in the government’s ongoing investigation of the health care fraud scheme, which has been dubbed Operation “Spinal Cap.” Drobot has also agreed to cooperate in the government’s prosecution of Ronald Calderon and his brother, who was also indicted yesterday.

“Drobot has agreed to plead guilty in the health care fraud scheme, and as part of this agreement, he admits paying bribes to Ron Calderon in exchange for the senator’s help in keeping alive a law that brought massive profits to Drobot’s companies,” said United States Attorney André Birotte Jr. “Drobot also paid kickbacks, which are illegal under both California and federal law because they corrupt the doctor-patient relationship and may encourage medical professionals to recommend procedures that are not necessary, not in the patients’ best interest or actually harmful to the patient.”

Drobot has agreed to surrender and be arraigned in this case in United States District Court in Santa Ana on March 31.

“The charges allege that the defendant used kickbacks and other tactics to ensure the system worked to his advantage,” said Bill Lewis, the Assistant Director in Charge of the FBI’s Los Angeles Field Office. “The insurance scheme victimized multiple sectors of society, including insurance companies, the taxpayers and spinal patients.”

California Insurance Commissioner Dave Jones said: “Insurance fraud is a multi-billion dollar drain on California’s economy, which results in higher insurance premiums for California businesses and consumers. The co-conspirators lined their pockets by

ripping off insurance companies to the tune of hundreds of millions of dollars. This is one of the largest workers' compensation fraud cases in the history of the Department of Insurance – our successful investigation of this complex criminal scheme underscores our commitment to bring law breakers to justice regardless of who they are.”

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; IRS – Criminal Investigation; the California Department of Insurance; and the United States Postal Service, Office of Inspector General.

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