



South Texas Health System settles fraud lawsuit

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McALLEN — Hidalgo County's largest hospital system agreed to pay \$27.5 million to the federal government to settle allegations that the hospital system paid doctors illegal kickbacks to refer patients to its facilities, the U.S. Justice Department announced Friday.

South Texas Health System, which operates as McAllen Hospitals LP, allegedly disguised the payouts as sham contracts that included leasing office space, awarding bogus medical directorships and rewarding doctors who increased their referrals of patients, according to the government.

"Improper financial relationships between health care providers and their referral sources can corrupt a physician's judgment about the patient's true health care needs," said Tony West, the assistant attorney general for the department's civil division. "This settlement should deter similar conduct in the future and help make health care more affordable for patients."

The settlement Friday ends a nearly four-year investigation into South Texas, which operates McAllen Medical Center, McAllen Heart Hospital, Edinburg Regional Medical Center, Edinburg Children's Hospital and Cornerstone Regional Hospital. The company has long denied any wrong doing and asserted that it was never the target of the investigation.

South Texas is a subsidiary of the Pennsylvania-based Universal Health Services Inc.

The allegations came to light in 2005, when Bruce Moilan, the former director of managed care for South Texas, turned whistleblower for the FBI. He filed a whistleblower lawsuit against South Texas in 2005 alleging Medicare and Medicaid fraud.

Under the False Claims Act, private citizens can file suit on behalf of the government and share in any settlement. Moilan will receive \$5.5 million, the justice department said. The state of Texas will receive \$2.2 million.

Moilan could not be reached for comment Friday evening.

"Improper financial arrangements like these can increase the cost of health care by shifting provider attention to the quantity of treatments, rather than keeping it focused on the quality of care," said Daniel Levinson, inspector general for the Department of Health and Human Services.

Medical care in McAllen garnered national interest earlier this year after an article in the *New Yorker* alleged that the area's high cost of Medicare care is the result of an "across-the-board overuse of medicine."

The article relied on the Dartmouth Atlas of Health Care, which found that average Medicare spending per enrollee in McAllen is nearly twice the national average at nearly \$15,000 per enrollee.

South Texas allegedly violated laws that govern Medicare and Medicaid between 1999 and 2006. Those federal laws prohibit individuals or entities paying, soliciting or receiving kickbacks to induce referrals for Medical care or services covered by a federally funded program.

A violation of the law is a felony offense that carries criminal fines up to \$25,000 per violation,

imprisonment for up to five years and exclusion from government health programs such as Medicare and Medicaid.

The company first disclosed the investigation in 2006, months after the FBI first subpoenaed the company in November 2005.

Don McClean, then chief executive of the system, said at the time, "We've asked the question whether we're the target and so on and have been told no."

The next year, in 2007, FBI agents raided the health system's corporate offices in Edinburg and seized boxes of files. The company said in filings with the U.S. Securities and Exchange Commission that the documents were taken as part of a related criminal investigation into how it produced documents in response to the subpoenas. It's unclear if a separate investigation is still ongoing. A spokesperson for the U.S. Attorney's Office for the Southern District of Texas could not be reached for comment Friday afternoon.

As part of the settlement reached Friday, South Texas will enter into a five-year Corporate Integrity Agreement, which requires that they establish procedures to track and evaluate financial arrangements between its health care facilities and their referral sources. South Texas employees will also be required to undergo training regarding financial arrangements.

They will also be subject annual review of their compliance with the agreement by an outside party which must file a report to the Inspector General for the Department of Health and Human Services.

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