

Iowa's Covenant Medical Center Settles False Claims Act Suit with DOJ

In a new display of the government's recent crackdown against physician compensation arrangements that do not satisfy fair market value and commercial reasonableness thresholds, an Iowa hospital has settled with the Department of Justice (DOJ) for \$4.5 million in response to alleged violations of the Stark Law and the False Claims Act.¹ In a press release, the DOJ stated that Covenant Medical Center in Waterloo, Iowa, submitted claims for reimbursement to Medicare for services that violated the Stark Law.² The violations stemmed from compensation that Covenant paid to five of physicians employed by the hospital who referred patients to it.³

The DOJ alleged that the Covenant physicians—specifically, two orthopedic surgeons, two neurosurgeons, and a gastroenterologist—were reportedly among the highest-paid physicians in the entire U.S.,⁴ making as much as \$2.1 million, despite Covenant's non-profit status.⁵ These salaries were three times greater than the compensation being paid to other physicians who referred patients to Covenant, according to the CEO of Cedar Valley Medical Specialists, a competing independent physician group in Waterloo, IA who brought the issue to the attention of the DOJ.⁶

While the DOJ would not comment on *how* it determined Fair Market Value (FMV), the significant discrepancies between the compensation of the five Covenant physicians and other physicians in the region and around the country led the US Attorney's Office for the Northern District of Iowa to conclude that the hospital was paying the physicians for referrals, in violation of the Stark Law.⁷ Violations of the Stark Law, a civil statute, are frequently prosecuted under the False Claims Act, whereby the government can prosecute anyone who knowingly submits a false claim for reimbursement to the government and potentially obtain damages equaling triple the amount of the false claim.⁸

While Covenant denies any wrongdoing, citing the settlement as a business decision "*to avoid the uncertainty of litigation,*"⁹ the hospital did reveal that the physicians were specialists who had been working in understaffed areas.¹⁰ As explained in the Winter 2008 issue of *Health Capital Topics*, if a specialized physician is receiving compensation within the higher range of FMV to perform duties that a less skilled practitioner could perform for less compensation, the arrangement may not be deemed to be *commercially reasonable* despite the fact that it is within the range of FMV for that specialist.

Under the physician employment exception to the Stark Law, a hospital may receive referrals from physicians who it employs (and bill Medicare for those services) as long as the compensation paid to the employee physicians is both at Fair Market Value and commercially reasonable.¹¹ The U.S. Department of Health and Human Services has interpreted "*commercially reasonable*" to mean an arrangement which appears to be "*a sensible, prudent business agreement, from the perspective of the particular parties involved, even in the absence of any potential referrals.*"¹²

The Covenant settlement clearly reflects the government's readiness to seek remuneration related to physician compensation arrangements that do not meet Fair Market Value and commercial reasonableness thresholds. As U.S. Attorney Matt Dummermuth confirmed, "*We are actively working with our investigative partners to ensure Medicare funds are properly spent, and we will continue to aggressively pursue all types of fraud in order to protect federal health care dollars.*"¹³

¹ Source: "Covenant Medical Center to Pay U.S. \$4.5 Million to Resolve False Claims Act Allegations," Press Release, United States Department of Justice, August 25, 2009,

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<http://www.usdoj.gov/opa/pr/2009/August/09-civ-849.html> (Accessed 9/11/09).

² Source: "Covenant Medical Center to Pay U.S. \$4.5 Million to Resolve False Claims Act Allegations," Press Release, United States Department of Justice, August 25, 2009,

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⁵ Source: "Covenant to pay feds \$4.5M to settle fraud allegations," by Courier Staff, Waterloo Cedar Falls Courier, August 25, 2009, http://www.wfcourier.com/articles/2009/08/25/news/breaking_news/doc4a94156271f78380125347.txt (Accessed 9/11/09).

⁶ Source: "Reflections on the Covenant Settlement," By Martie Ross, House Calls: The Lathrop & Gage, Health Law Blog, August 31, 2009, <http://www.lathrophealthlawyers.com/2009/08/articles/fraud-and-abuse/reflections-on-the-covenant-settlement/> (Accessed 9/11/09).

⁷ Source: "Iowa Hospital Pays \$4.5 Million in Fraud Case," By Nigel Duara, Associated Press, August 25, 2009 (Accessed 9/11/09).

⁸ Source: "False Claim Act" 31 U.S.C. 3729-3733.

⁹ Source: "Iowa Hospital Pays \$4.5 Million in Fraud Case," By Nigel Duara, Chicago Tribune, August 25, 2009,

<http://www.chicagotribune.com/news/chi-ap-ia-iowahospital-frau,0,7910766,print.story> (Accessed 9/11/09).

¹⁰ Source: "Covenant to pay feds \$4.5M to settle fraud allegations," by Courier Staff, Waterloo Cedar Falls Courier, August 25, 2009,

¹¹ Source: 63 Fed. Reg. 1700-1703 (Jan. 9, 1998).

¹² Source: 63 Fed. Reg. 1700 (Jan. 9, 1998).

¹³ Source: "Covenant Medical Center to Pay U.S. \$4.5 Million to Resolve False Claims Act Allegations," Press Release, United States Department of Justice, August 25, 2009,

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Robert James Cimasi, MHA, ASA, FRICS, MCBA, AVA, CM&AA, serves as President of **HEALTH CAPITAL CONSULTANTS (HCC)**, a nationally recognized healthcare financial and economic consulting firm headquartered in St. Louis, MO, serving clients in 49 states since 1993. Mr. Cimasi has over thirty years of experience in serving clients, with a professional focus on the financial and economic aspects of healthcare service sector entities including: valuation consulting and capital formation services; healthcare industry transactions including joint ventures, mergers, acquisitions, and divestitures; litigation support & expert testimony; and, certificate-of-need and other regulatory and policy planning consulting.

Mr. Cimasi holds a Masters in Health Administration from the University of Maryland, as well as several professional designations: Accredited Senior Appraiser (ASA – American Society of Appraisers); Fellow Royal Intuition of Chartered Surveyors (FRICS – Royal Institute of Chartered Surveyors); Master Certified Business Appraiser (MCBA – Institute of Business Appraisers); Accredited Valuation Analyst (AVA – National Association of Certified Valuators and Analysts); and, Certified Merger & Acquisition Advisor (CM&AA – Alliance of Merger & Acquisition Advisors). He has served as an expert witness on cases in numerous courts, and has provided testimony before federal and state legislative committees. He is a nationally known speaker on healthcare industry topics, the author of several books, the latest of which include: *“The U.S. Healthcare Certificate of Need Sourcebook”* [2005 - Beard Books], *“An Exciting Insight into the Healthcare Industry and Medical Practice Valuation”* [2002 – AICPA], and *“A Guide to Consulting Services for Emerging Healthcare Organizations”* [1999 John Wiley and Sons].

Mr. Cimasi is the author of numerous additional chapters in anthologies; books, and legal treatises; published articles in peer reviewed and industry trade journals; research papers and case studies; and, is often quoted by healthcare industry press. In 2006, Mr. Cimasi was honored with the prestigious *“Shannon Pratt Award in Business Valuation”* conferred by the Institute of Business Appraisers. Mr. Cimasi serves on the Editorial Board of the Business Appraisals Practice of the Institute of Business Appraisers, of which he is a member of the College of Fellows.



Todd A. Zigrang, MBA, MHA, ASA, FACHE, is the Senior Vice President of **HEALTH CAPITAL CONSULTANTS (HCC)**, where he focuses on the areas valuation and financial analysis for hospitals and other healthcare enterprises. Mr. Zigrang has significant physician integration and financial analysis experience, and has participated in the development of a physician-owned multi-specialty MSO and networks involving a wide range of specialties; physician-owned hospitals, as well as several limited liability companies for the purpose of acquiring acute care and specialty hospitals, ASCs and other ancillary facilities; participated in the evaluation and negotiation of managed care contracts, performed and assisted in the valuation of various healthcare entities and related litigation support engagements; created pro-forma financials; written business plans; conducted a range of industry research; completed due diligence practice analysis; overseen the selection process for vendors, contractors, and architects; and, worked on the arrangement of financing.

Mr. Zigrang holds a Master of Science in Health Administration and a Masters in Business Administration from the University of Missouri at Columbia, and is a Fellow of the American College of Healthcare Executives. He has co-authored *“Research and Financial Benchmarking in the Healthcare Industry”* (STP Financial Management) and *“Healthcare Industry Research and its Application in Financial Consulting”* (Aspen Publishers). He has additionally taught before the Institute of Business Appraisers and CPA Leadership Institute, and has presented healthcare industry valuation related research papers before the Healthcare Financial Management Association; the National CPA Health Care Adviser's Association; Association for Corporate Growth; Infocast Executive Education Series; the St. Louis Business Valuation Roundtable; and, Physician Hospitals of America.



Anne P. Sharamitaro, Esq., is the Vice President of **HEALTH CAPITAL CONSULTANTS (HCC)**, where she focuses on the areas of Certificate of Need (CON); regulatory compliance, managed care, and antitrust consulting. Ms. Sharamitaro is a member of the Missouri Bar and holds a J.D. and Health Law Certificate from Saint Louis University School of Law, where she served as an editor for the *Journal of Health Law*, published by the American Health Lawyers Association. She has presented healthcare industry related research papers before Physician Hospitals of America and the National Association of Certified Valuation Analysts and co-authored chapters in *“Healthcare Organizations: Financial Management Strategies,”* published in 2008.