

Client Alert: Acquittals in \$1.4B Reliance Labs Fraud Trial

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A federal jury in Florida has acquitted the principals of Reliance Labs, a diagnostic laboratory that once had a major footprint in the Southern California substance use disorder treatment community. Following a four-week trial, the principals were acquitted of charges that they committed \$1.4 billion in healthcare fraud, money laundering, and conspiracy associated with billing commercial insurance programs out of rural, critical access hospitals.

Based on information provided to the Department of Justice by insurance companies responsible for paying the claims, the government alleged that the defendants had a role in falsely billing the claims for lab services out of the critical access and rural hospitals when, in fact, the specimens were drawn at addiction treatment centers nationwide and the testing was performed at independent laboratories.

The jury found that the government's claims were based on false information provided by commercial insurers, as opposed to the defendants, the rural hospitals, or any of the laboratories involved. Specifically, it was documentation provided by insurance companies, rather than the claims submitted by the laboratory, that indicated patients were physically present at the rural hospitals. The laboratory's insurance billings did not contain such a representation. With no actual misrepresentation by the defendants, the jury determined that no fraud had been committed.

Reliance Labs is likely a familiar name, as it once administered diagnostic testing services for many treatment providers in Southern California. It is yet to be seen whether there will be any impact on commercial insurers' claims that they are entitled to massive recoupments related to Reliance Labs' billing. (Last month, two defendants in a related matter were found guilty of healthcare fraud because they represented that diagnostic tests themselves had been administered at rural hospitals, when, in fact, they had been rendered at other labs nationwide). Nor is it clear yet whether this result will impact any of the bankruptcy proceedings initiated by some of the effected rural, critical access hospitals.

The verdict also did not address the fact that Reliance may have paid millions to providers in exchange for specimen referrals. In any event, passage of the Eliminating Kickbacks in Recovery Act ("EKRA") since the events underlying this trial has substantially altered the legal landscape and applicable analysis for laboratory referrals in commercial insurance arrangements.

If you have questions about laboratory marketing and operations, or the impact of this case, reach out to Nelson Hardiman, info@nelsonhardiman.com.