

PRESS RELEASE

U.S. Settles False Claims Act Lawsuit Against Cardiologist And His Medical Practice For Paying Millions In Kickbacks For Referrals

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For Immediate Release

U.S. Attorney's Office, Southern District of New York

Cardiologist Agrees to Pay \$6.5 Million, Relinquish Ownership of Practice, and Will Be Prohibited from Seeking Payments from Federal Healthcare Programs

Damian Williams, the United States Attorney for the Southern District of New York, and Naomi Gruchacz, the Special Agent in Charge of the New York Office of the U.S. Department of Health and Human Services, Office of Inspector General ("HHS-OIG"), announced today that the United States has filed and settled a civil fraud lawsuit against KLAUS PETER RENTROP and his medical practice GRAMERCY CARDIAC DIAGNOSTIC SERVICES P.C. ("GRAMERCY CARDIAC") for paying millions of dollars in kickbacks to physicians and their practices for patient referrals. The kickbacks took the form of inflated office "rental payments" and fees paid to contracted cardiologists. Specifically, the Complaint alleges that, from 2010 to 2021, RENTROP and Gramercy Cardiac entered into office space rental agreements, often in excess of fair market value, with primary care and other physicians (or their medical practices) in order to induce these physicians to refer patients to GRAMERCY CARDIAC-contracted cardiologists who saw patients at the rented office space. These cardiologists then regularly ordered diagnostic tests and procedures that were performed at GRAMERCY CARDIAC locations and were paid a flat fee for each referral. GRAMERCY CARDIAC provides cardiac diagnostic imaging services, including PET and SPECT scans, and previously operated four offices in New York City. RENTROP founded and owns GRAMERCY CARDIAC and serves as its President.

Under the settlement approved today by U.S. District Judge Jesse M. Furman, RENTROP and GRAMERCY CARDIAC will pay \$4,510,678 to the United States and have admitted and accepted responsibility for conduct alleged in the Complaint as further described below. RENTROP and GRAMERCY CARDIAC have also agreed to pay \$1,989,362 to the State of New York to resolve the State's claims, for a total recovery of \$6.5 million. The settlement amount is based on the Office's assessment of RENTROP's and GRAMERCY CARDIAC's ability to pay based on the financial information they provided. The parties have also executed a Consent Judgment in the amount of \$64,416,515, which may be enforced if Defendants do not make the payments required under the settlement agreement. In addition, RENTROP has agreed to relinquish his ownership and control over GRAMERCY CARDIAC by the end of the calendar year and will pay a portion of the proceeds of any sale of the practice to the United States. Further, RENTROP is indefinitely barred from working for any entity that bills federal healthcare programs. He also entered into a Voluntary Exclusion Agreement with HHS-OIG, which prohibits him from, among other things, participating in Medicare, Medicaid, or other federal healthcare programs for five years.

U.S. Attorney Damian Williams said: "Over more than a decade, Klaus Peter Rentrop and Gramercy Cardiac paid millions of dollars to doctors and their medical practices in exchange for patient referrals for cardiac testing and procedures. The Anti-Kickback Statute is meant to ensure that when making medical decisions, a doctor considers only the patient's best interests — not the doctor's or others' financial interests. The defendants violated those doctor-patient relationships through their kickback arrangements, and now they are being held to account."

HHS-OIG Special Agent in Charge Naomi Gruchacz said: "Individuals and entities that participate in the federal healthcare system are required to obey the laws meant to preserve the integrity of program funds and the provision of appropriate, quality services to patients. Certain violations of the Anti-Kickback Statute can induce medically unnecessary testing and influence physicians' decision-making inappropriately."

According to the Complaint, from 2010 through 2021:

RENTROP and GRAMERCY CARDIAC offered and paid physicians and their practices millions of dollars in kickbacks in the form of inflated "rental payments" and referral fees to induce them to refer patients to Gramercy-contracted cardiologists and to Gramercy

Cardiac for diagnostic tests and procedures, in violation of the Anti-Kickback Statute and the Stark Law.

RENTROP and GRAMERCY CARDIAC's scheme worked as follows. RENTROP and GRAMERCY CARDIAC entered into office space rental agreements, often in excess of fair market value, with primary care and other physicians or their medical practices (the "Rental Practices"). These agreements typically provided for the use of an exam room once or twice a month, as well as for the use of basic equipment (e.g., a telephone and a computer) and front desk staff to assist with scheduling. The defendants often agreed to pay thousands of dollars each month in rent. RENTROP and GRAMERCY CARDIAC also entered into independent contractor agreements with dozens of cardiologists (the "Gramercy-Contracted Cardiologists") who were sent to see patients at the Rental Practices. In exchange for the purported "rental payments," the Rental Practices referred patients to the Gramercy-Contracted Cardiologists, who in turn referred many of these patients to a GRAMERCY CARDIAC office to undergo cardiac diagnostic tests and procedures. RENTROP and GRAMERCY CARDIAC paid the Gramercy-Contracted Cardiologists a flat fee for each test or procedure performed on referred patients at a Gramercy Cardiac location, with larger fees paid for tests and procedures for which GRAMERCY CARDIAC received a greater reimbursement. These per-procedure fees were the only compensation paid to some Gramercy-Contracted Cardiologists.

To ensure the kickbacks paid to the Rental Practices were working, RENTROP directed his staff to calculate GRAMERCY CARDIAC's return on investment from the "rental payments" paid to each Rental Practice. RENTROP insisted on a minimum return on investment of at least 300% from the kickbacks.

These Rental Practices referred tens of thousands of patients to the Gramercy-Contracted Cardiologists, who in turn referred more than 23,000 patients for PET and SPECT scans at GRAMERCY CARDIAC. A significant proportion of these patients were Medicare or Medicaid beneficiaries: GRAMERCY CARDIAC billed Medicare or Medicaid for tests or procedures provided to tens of thousands of Medicare or Medicaid beneficiaries who were referred by the Rental Practices, including for PET and SPECT scans for many thousands of these beneficiaries. As a result, the claims submitted for payment for these tests and procedures were false and violated the federal False Claims Act.

As part of the settlement, RENTROP and GRAMERCY CARDIAC each admits, acknowledges, and accepts responsibility for the following conduct:

- From 2010 through 2021, GRAMERCY CARDIAC, at RENTROP's direction, entered into rental agreements (the "Rental Agreements") with more than 130 physicians

and medical practices (the "Rental Practices") under which GRAMERCY CARDIAC leased a portion of the practice's office space, usually one or two exam rooms for certain days or hours each month. RENTROP took part in the negotiation of the Rental Agreements and signed them on behalf of GRAMERCY CARDIAC. GRAMERCY CARDIAC paid a total of more than \$11 million to the Rental Practices pursuant to the Rental Agreements.

- From 2010 through 2021, GRAMERCY CARDIAC, at RENTROP's direction, entered into independent contractor agreements (the "Independent Contractor Agreements") with more than 50 cardiologists (the "Gramercy-Contracted Cardiologists") or their medical practices. RENTROP took part in the negotiation of the Independent Contractor Agreements and signed them on behalf of GRAMERCY CARDIAC.
- GRAMERCY CARDIAC sent the Gramercy-Contracted Cardiologists to the rented office space one or more times each month to see patients who were referred for an assessment by the healthcare providers at the Rental Practice. The Gramercy-Contracted Cardiologists in turn referred these patients to GRAMERCY CARDIAC to undergo diagnostic tests and procedures, such as PET and SPECT scans.
- GRAMERCY CARDIAC paid many of the Gramercy-Contracted Cardiologists a flat fee for each diagnostic test or procedure which the cardiologist referred to GRAMERCY CARDIAC provided that the patient received the test or procedure at a GRAMERCY CARDIAC location. These "per procedure" fees were the only compensation GRAMERCY CARDIAC provided to the Gramercy-Contracted Cardiologists.
- Certain versions of Independent Contractor Agreements stated that the Gramercy-Contracted Cardiologist was to be paid not for the referrals to GRAMERCY CARDIAC, but rather for the "[a]dministration and supervision" of the PET and SPECT scans to be performed at GRAMERCY CARDIAC. However, in many cases, the Gramercy-Contracted Cardiologists did not, in fact, administer and supervise the PET and SPECT scans and were nonetheless paid by GRAMERCY CARDIAC based solely on the number of tests and procedures referred.
- At the time the Rental Agreements were executed, it was understood that the Rental Practices would refer their patients to the Gramercy-Contracted Cardiologists. Indeed, GRAMERCY CARDIAC calculated the number of hours per month that GRAMERCY CARDIAC leased the office space based on the volume of expected patient referrals.

- GRAMERCY CARDIAC calculated its return on investment from its Rental Agreements — which it internally referred to as the “efficiency” of the Rental Agreements — by comparing the revenue GRAMERCY CARDIAC generated from the patient referrals to the payments it made to the Rental Practice.
- When a Rental Agreement’s return on investment fell below the minimum threshold, GRAMERCY CARDIAC, at RENTROP’s direction, would often refuse to pay the Rental Practice the amounts due under the Rental Agreement. In addition, at RENTROP’s direction, GRAMERCY CARDIAC Physician Liaisons advised Rental Practice physicians that if the volume of referrals to Gramercy-Contracted Cardiologists did not increase, rent would be decreased, or the Rental Agreement would be terminated. GRAMERCY CARDIAC terminated a number of Rental Agreements because the return on investment through patient referrals was too low.
- When negotiating or re-negotiating the monthly rental payment to be made under a Rental Agreement, GRAMERCY CARDIAC took into account the expected or historic return on investment based on the volume of patient referrals generated from the Rental Practice.
- The rental fees paid by GRAMERCY CARDIAC under the Rental Agreements were in excess of fair market value for at least some Rental Agreements.

In connection with the filing of the lawsuit and settlement, the Government joined a private whistleblower lawsuit that had been filed under seal pursuant to the False Claims Act.

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Mr. Williams praised the outstanding investigative work of HHS-OIG, and he thanked the Medicaid Fraud Control Unit at the New York State Attorney General’s Office for its extensive collaboration in the investigation.

The case is being handled by the Office’s Civil Frauds Unit. Assistant U.S. Attorney Jacob Lillywhite is in charge of the case.

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