COMMONWEALTH OF PENNSYLVANIA
COUNTY OF:PHILADELPHIA

Magisterial District Number:
MDJ: Hon. Arraignement Court
Address: Criminal Justice Center
Philadelphia, PA 19107

Telephone: (215)683-7293

POLICE CRIMINAL COMPLAINT
COMMONWEALTH OF PENNSYLVANIA
VS.

DEFENDANT: *(NAME and ADDRESS):*

NEW JOURNEYS IN (First Name) | RECOVERY (Middle Name) | (Last Name) | Gen.

3396-3398 Miller Street, Philadelphia PA 19134

NCIC Extradition Code Type

- ☒ 1-Felony Full
- ☐ 2-Felony Limited
- ☐ 3-Felony Surrounding States
- ☐ 4-Felony No Extradition
- ☐ 5-Felony Pending Extradition
- ☐ 6-Felony Pending Extradition Determ.
- ☐ A-Misdemeanor Full
- ☐ B-Misdemeanor Limited
- ☐ C-Misdemeanor Surrounding States
- ☐ D-Misdemeanor No Extradition
- ☐ E-Misdemeanor Pending Extradition
- ☐ F-Misdemeanor Pending Extradition
- ☐ Distance: _____

DEFENDANT IDENTIFICATION INFORMATION

Docket Number	Date Filed	OTN/LiveScan Number	Complaint/Incident Number	Request Lab Services?
	/ /		MF125-037	☐ YES ☒ NO

GENDER	DOB / /	POB	Add'l DOB / /	Co-Defendant(s) ☒
☐ Male ☐ Female	First Name	Middle Name	Last Name	Gen.
	AKA			

RACE ☐ White ☐ Asian ☐ Black ☐ Native American ☐ Unknown

ETHNICITY ☐ Hispanic ☐ Non-Hispanic ☐ Unknown

Hair Color
☐ GRY (Gray) ☐ RED (Red/Aubn.) ☐ SDY (Sandy) ☐ BLU (Blue) ☐ PLE (Purple) ☐ BRO (Brown)
☐ BLK (Black) ☐ ONG (Orange) ☐ WHI (White) ☐ XXX (Unk./Bald) ☐ GRN (Green) ☐ PNK (Pink)
☐ BLN (Blonde / Strawberry)

Eye Color
☐ BLK (Black) ☐ BLU (Blue) ☐ BRO (Brown) ☐ GRN (Green) ☐ GRY (Gray)
☐ HAZ (Hazel) ☐ MAR (Maroon) ☐ PNK (Pink) ☐ MUL (Multicolored) ☐ XXX (Unknown)

DNA	☐ YES ☐ NO	DNA Location	WEIGHT (lbs.)
FBI Number		MNU Number	
Defendant Fingerprinted	☐ YES ☐ NO		Ft. HEIGHT In.
Fingerprint Classification:			

DEFENDANT VEHICLE INFORMATION

Plate #	State	Haz mat	Registration Sticker (MM/YY) /	Comm'l Veh. Ind. ☐	School Veh. ☐	Oth. NCIC Veh. Code	Reg. same as Def. ☐
		☐					

VIN	Year	Make	Model	Style	Color

Office of the attorney for the Commonwealth ☒ Approved ☐ Disapproved because: _____

(The attorney for the Commonwealth may require that the complaint, arrest warrant affidavit, or both be approved by the attorney for the Commonwealth prior to filing. See Pa.R.Crim.P. 507).

SDAG ERIC J STRYD
(Name of the attorney for the Commonwealth)

Eric Stryd
(Signature of the attorney for the Commonwealth)

6/23/2021
(Date)

I, SSA JAMES CONN (Name of the Affiant) BADGE 577 (PSP/MPOETC -Assigned Affiant ID Number & Badge #)

of Pennsylvania Office of Attorney General (Identify Department or Agency Represented and Political Subdivision) PA0222400 (Police Agency ORI Number)

do hereby state: (check appropriate box)

1. ☒ I accuse the above named defendant who lives at the address set forth above
   ☐ I accuse the defendant whose name is unknown to me but who is described as _____
   ☐ I accuse the defendant whose name and popular designation or nickname are unknown to me and whom I have therefore designated as John Doe or Jane Doe

with violating the penal laws of the Commonwealth of Pennsylvania at [301] (Subdivision Code) 3396-3398 Miller Street, (Place-Political Subdivision) Philadelphia Pa 19134

in PHILADELPHIA County [51] (County Code) on or about JANUARY 13, 2016 TO JANUARY 20, 2021

POLICE CRIMINAL COMPLAINT

Docket Number:	Date Filed: / /	OTN/LiveScan Number	Complaint/Incident Number MF125-037
Defendant Name:	First: NEW JOURNEYS IN	Middle: RECOVERY	Last:

The acts committed by the accused are described below with each Act of Assembly or statute allegedly violated, if appropriate. When there is more than one offense, each offense should be numbered chronologically.
(Set forth a *brief* summary of the facts sufficient to advise the defendant of the nature of the offense(s) charged. A citation to the statute(s) allegedly violated, without more, is not sufficient. In a summary case, you must cite the specific section(s) and subsection(s) of the statute(s) or ordinance(s) allegedly violated. The age of the victim at the time of the offense may be included if known. In addition, social security numbers and financial information (e.g. PINs) should not be listed. If the identity of an account must be established, list only the last four digits. 204 PA.Code §§ 213.1 – 213.7.)

Inchoate Offense	☐ Attempt *18 901 A*	☐ Solicitation *18 902 A*	☐ Conspiracy *18 903*	Number of Victims Age 60 or Older _____

Lead?	Offense #	Section	Subsection		PA Statute (Title)	Counts	Grade	NCIC Offense Code	UCR/NIBRS Code
☒	1	1407	A(2)	of the	62 P.S.	1	F-3	2699	

PennDOT Data (if applicable)	Accident Number _____	☐ Interstate	☐ Safety Zone	☐ Work Zone

Statute Description (include the name of statute or ordinance): **MEDICAID FRAUD - 1 CONTINOUS COUNTS. SOLICIT OR RECEIVE OR TO OFFER OR PAY ANY REMUNERATION, INCLUDING ANY KICKBACK, BRIBE OR REBATE, DIRECTLY OR INDIRECTLY, IN CASH OR IN KIND FROM OR TO ANY PERSON IN CONNECTION WITH THE FURNISHING OF SERVICES**

Acts of the accused associated with this Offense: See Affidavit of Probable cause attached hereto and incorporated herein by reference

Inchoate Offense	☐ Attempt *18 901 A*	☐ Solicitation *18 902 A*	☐ Conspiracy *18 903*	Number of Victims Age 60 or Older _____

Lead?	Offense#	Section	Subsection		PA Statute (Title)	Counts	Grade	NCIC Offense Code	UCR/NIBRS Code
☐				of the					

PennDOT Data (if applicable)	Accident Number _____	☐ Interstate	☐ Safety Zone	☐ Work Zone

Statute Description (include the name of statute or ordinance): .

Acts of the accused associated with this Offense:

Inchoate Offense	☐ Attempt *18 901 A*	☐ Solicitation *18 902 A*	☐ Conspiracy *18 903*	Number of Victims Age 60 or Older _____

Lead?	Offense#	Section	Subsection		PA Statute (Title)	Counts	Grade	NCIC Offense Code	UCR/NIBRS Code
☐				of the					

PennDOT Data (if applicable)	Accident Number _____	☐ Interstate	☐ Safety Zone	☐ Work Zone

Statute Description (include the name of statute or ordinance):

Acts of the accused associated with this Offense:

POLICE CRIMINAL COMPLAINT

Docket Number:	Date Filed: / /	OTN/LiveScan Number	Complaint/Incident Number MF125-037
Defendant Name:	First: NEW JOURNEYS IN	Middle: RECOVERY	Last:

2. I ask that a warrant of arrest or a summons be issued and that the defendant be required to answer the charges I have made.

3. I verify that the facts set forth in this complaint are true and correct to the best of my knowledge or information and belief. This verification is made subject to the penalties of Section 4904 of the Crimes Code (18 Pa.C.S. § 4904) relating to unsworn falsification to authorities.

4. This complaint consists of the preceding page(s) numbered 1 through 2.

5. I certify that this filing complies with the provisions of the *Case Records Public Access Policy of the Unified Judicial System of Pennsylvania* that require filing confidential information and documents differently that non-confidential information and documents.

The acts committed by the accused, as listed and hereafter, were against the peace and dignity of the Commonwealth of Pennsylvania and were contrary to the Act(s) of the Assembly, or in violation of the statutes cited.
(Before a warrant of arrest can be issued, an affidavit of probable cause must be completed, sworn to before the issuing authority, and attached.)

(Signature of Affiant)

(Date) (Year)

AND NOW, on this date 29 June 2021 I certify that the complaint has been properly completed and verified.

An affidavit of probable cause must be completed before a warrant can be issued.

(Magisterial District Court Number)

(Issuing Authority)

SEAL

POLICE CRIMINAL COMPLAINT

Docket Number:	Date Filed: / /	OTN/LiveScan Number	Complaint/Incident Number MF125-037
Defendant Name:	First: NEW JOURNEYS IN	Middle: RECOVERY	Last:

AFFIDAVIT of PROBABLE CAUSE

James Conn, Supervisory Special Agent, Badge #577, Office of Attorney General, Bureau of Criminal Investigations assigned to the Medicaid Fraud Control Section, being duly sworn and according to law, depose and say:

Your Affiant is empowered by law to conduct investigations of and to make arrests for offenses involving, among other things, violations of the Medicaid Fraud Control Act and the Pennsylvania Crimes Code.

On May 18, 2021, the 45th Statewide Investigating Grand Jury issued Presentment No. 23 recommending the arrest of New Journeys in Recovery for violations of the Medicaid Fraud Control Act and the Pennsylvania Crimes Code. The aforementioned Presentment was accepted by the Honorable Richard A. Lewis, Supervising Judge of the 45th Statewide Investigating Grand Jury by order dated May 19, 2021. A copy of the Presentment and the Order accepting the Presentment are attached hereto and incorporated herein by reference.

Having read and reviewed the Presentment, and after having participated in this investigation and considering all the facts and circumstances, your Affiant is adopting the presentment and incorporating it into this Affidavit of Probable Cause. Your Affiant avers that the testimony of the individuals who appeared before the 45th Statewide Investigating Grand Jury is consistent with the information contained within Presentment No. 23 and the information developed within the course of the investigation specified herein. Furthermore, Presentment No. 23 shows on its face that it is based upon evidence which the 45th Statewide Investigating Grand Jury reviewed and evaluated which included sworn testimony of witnesses appearing and physical evidence presented to it. Your Affiant reviewed the evidence presented before the 45th Statewide Investigating Grand Jury and finds that it comports with the findings of the general investigation.

I, SSA JAMES CONN, BEING DULY SWORN ACCORDING TO THE LAW, DEPOSE AND SAY THAT THE FACTS SET FORTH IN THE FOREGOING AFFIDAVIT ARE TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

I CERTIFY THAT THIS FILING COMPLIES WITH THE PROVISIONS OF THE *CASE RECORDS PUBLIC ACCESS POLICY OF THE UNIFIED JUDICIAL SYSTEM OF PENNSYLVANIA* THAT REQUIRE FILING CONFIDENTIAL INFORMATION AND DOCUMENTS DIFFERENTLY THAT NON-CONFIDENTIAL INFORMATION AND DOCUMENTS.

(Signature of Affiant)

Sworn to me and subscribed before me this 29 day of June 2021

Date , Magisterial District Judge

My commission expires first Monday of January,

SEAL

INTRODUCTION

We, the members of the Forty-Fifth Statewide Investigating Grand Jury, having received and reviewed evidence pertaining to violations of the Public Welfare Code occurring in and around Philadelphia and Dauphin Counties in Pennsylvania pursuant to Notice of Submission of Investigation No. 19, do hereby make the following findings of fact and recommendation of charges:

FINDINGS OF FACT

Pennsylvania law prohibits Medicaid providers from paying kickbacks to procure patients in order to inflate the provider's patient rolls, and thus the amount of money the provider can charge the government. This investigation focused on drug and alcohol treatment facilities in Philadelphia that were supposed to provide quality care to persons with addictions, but instead operated primarily in order to maximize their government compensation by paying off residential "recovery" homes to steer their residents to particular facilities, where they received substandard treatment. Residents who declined to attend the "right" treatment facilities – that is, the ones making the payoffs – were summarily kicked out of their recovery homes.

During the course of the investigation, investigators learned that at least two intensive out-patient ("IOP") providers participated in this scheme of providing illegal kickbacks: Southwest Nu-Stop Philadelphia, Inc. ("Southwest") and New Journeys in Recovery ("New Journeys"). The investigation revealed that for several years, Southwest and New Journeys paid recovery homes over $1.6 million to provide them with Medicaid patients. In exchange, these patients were required to attend poor quality treatment at Southwest or New Journeys and, if they decided not to do so, they were evicted from the recovery homes. During the course of this scheme, Southwest and New Journeys billed Medicaid more than 13 million dollars for IOP services.

Pennsylvania's anti-kickback statute provides that it is unlawful for any person to pay any remuneration, including any kickback, directly or indirectly, from any person in connection with the furnishing of services for which payment may be under the medical assistance program, or in connection with referring an individual to a person for the furnishing of any services for which payment may be made under the medical assistance program. *See* 62 Pa.C.S.A. § 1407(a)(2). Pennsylvania's anti-kickback statute mirrors the language contained in the federal anti-kickback statute, *See* 42 U.S.C. § 1320a-7b(b). Additionally, numerous jurisdictions across the United States have similar anti-kickback statutes, including Pennsylvania's surrounding states.[1] The anti-kickback laws were implemented to ensure that all patients, especially patients receiving medical services from government funded programs like Medicaid, receive high quality services based upon their medical needs – and not based on the improper financial motivations of providers.

Southwest is licensed by the Pennsylvania Department of Drug and Alcohol Programs to provide outpatient drug and alcohol treatment. Southwest is a member of the provider network administered by the City of Philadelphia through an organization called Community BehaviorAl KM Health (CBH). Southwest operated two treatment locations in Philadelphia: 1609 Poplar Street and 5616 Woodland Avenue. Southwest is a registered corporation, founded and owned by Dr. Lloyd Reid ("Dr. Reid").

New Journeys is licensed by the Pennsylvania Department of Drug and Alcohol Programs to provide outpatient drug and alcohol treatment. New Journeys is a member of CBH's provider network. New Journeys is located at 3396-3398 Miller Street, Philadelphia, PA 19134. New Journeys is a non-profit corporation, founded and owned by Lawrence Gallagher ("Gallagher").

[1] These states include Delaware (31 Del.C. § 1005), Maryland (MD Code, Criminal Law, § 8-511), New Jersey (N.J.S.A. 30:4D-17), New York (N.Y. Soc. Serv. Law § 366-d(2)), Ohio (Ohio Rev. Code Ann. §3999.22(B)), and West Virginia (W.Va. Code § 9-7-5(a)).

I. Background

A. *Philadelphia Inquirer* Articles

In 2016 and 2017, the *Philadelphia Inquirer* published a series of articles about the funneling of drug addicts into so-called recovery homes, where conditions were inadequate and residents were forced to surrender all forms of identification and benefits so that the recovery homes could maintain control and discourage them from leaving. The recovery home operators then cashed in on the addicts' benefits, such as their food stamps, and generated money by referring them to designated IOP drug-treatment centers for group therapy. The IOP providers paid the recovery homes weekly stipends – kickbacks – for providing them with patients. Thus the recovery houses sought treatment centers to keep them afloat financially by receiving illegal payments from the treatment centers, while the treatment centers depended on the recovery houses to feed them drug addicts.

Following these media reports, Community Behavior Health ("CBH") conducted a system-wide audit of all of its IOP providers to review the quality of care provided and to examine illegal arrangements between recovery homes and the IOP providers.

B. CBH's Audit of IOP Providers

CBH is a not-for-profit 501(c)(3) corporation contracted by the City of Philadelphia to provide mental health and substance abuse services for Philadelphia County Medicaid recipients. CBH in turn contracts with drug and alcohol treatment providers to supply treatment to those individuals who are receiving Medicaid. CBH operates under the Philadelphia Department of Behavioral Health and Intellectual Disability Services ("DBHIDS") and has a network of approximately 175 facilities for Medicaid recipients in Philadelphia requiring drug or alcohol treatment.

The Grand Jury learned that in 2018, CBH conducted a city-wide audit of its IOP providers that primarily focused on: (1) the quality of services provided by the IOP providers; and (2) the connections between the IOP providers and recovery houses. During the audit, CBH discovered that several IOP providers had an unusually high level of patients who resided at particular recovery homes, and that some IOP providers had significant issues related to the quality of services provided.

1. Quality of Services by IOP Providers

CBH officials testified that its audit consisted of a review of 10% of total billing from a two-month period from every IOP provider in the CBH provider network. One of the goals of the audit was to confirm that the IOP provider had sufficient documentation for services that were billed, such as clinical notes. CBH's standard was that a generally accepted error rate was 5-10% for an IOP provider, meaning that out of 100 claims, the IOP provider would only be missing documentation for 5-10 claims. Anything over a 20% error rate would be considered problematic.

CBH found significant problems with missing documentation at both of Southwest's locations. In fact, Southwest's error rates were astronomical. The Poplar Street location had an 86% error rate and the Woodland Avenue location had an error rate of 96%. Southwest had a history of failing to provide appropriate documentation. Without sufficient documentation, CBH was in many cases unable to determine whether Southwest was providing any services at all.

The file review at Southwest also revealed that it consistently overcrowded its group therapy sessions, thereby reducing if not eliminating the value of the group. While CBH regulations requires that group therapy consist of 15 patients or less, CBH found that Southwest often had group therapy sizes of 30 patients or more.

The Grand Jury heard testimony from Donna Bailey ("Bailey"), an administrator at CBH, that after the IOP provider audit, Southwest was put on a Corrective Action Plan (CAP) due to its pervasive lack of documentation and its large group therapy sizes. CBH met with Southwest numerous times (in August 2018, October 2018, March 2019 and August 2019) to address the CAP and to try to get Southwest back on track. Southwest, however, showed little improvement. Southwest's files still omitted documentation and group therapy sizes exceeded the 15-person limit.

In April 2019, after Southwest failed to meet the requirements of the CAP, Dr. Reid, the owner of Southwest, met with CBH officials. Dr. Reid, it turned out, not only owned Southwest; he also owned recovery homes where some of his patients lived. When CBH suggested closing one of the Southwest locations to new admissions, so that Dr. Reid could focus on providing proper treatment at his remaining facility, he protested that closing one of his treatment facilities to new admissions would impact his recovery homes. Dr. Reid's comment, therefore, in effect admitted that the Medical Assistance recipients who lived in his recovery houses were required to attend the treatment clinic that he also owned, and vice versa. That is illegal under Medicaid provisions.

The CBH administrator explained to the Grand Jury that CBH prepared a report after completing its fifth CAP visit and file review at Southwest in August 2019. Based upon Southwest's continued failure to improve its performance and meet the requirements of the CAP, CBH concluded that Southwest must be terminated from CBH's provider network. Southwest appealed that decision to the Philadelphia Department of Behavioral Health, which overturned the termination and reinstated Southwest.

Southwest's documentation and service deficiencies, however, continued after the reinstatement. In January 2020, for example, a Southwest client fatally overdosed while at

Southwest's treatment facility. Southwest employees did not have Narcan immediately available to attempt to save the patient's life. CBH requires that all IOP providers have Narcan available on site and also requires all providers to have a Narcan trained staff member present during all shifts to administer Narcan if necessary.

In comparison to Southwest, the New Journeys treatment facility demonstrated somewhat fewer deficiencies with documentation, but still showed an error rate of 75%. Moreover, New Journeys consistently had group therapy sizes above the CBH maximum of 15 patients.

2. Connections Between IOP Provider and Recovery Houses

While CBH has no oversight over private recovery homes, it does have oversight over IOP providers. CBH recognized that illegal tying arrangements between treatment facilities and recovery homes deny Medicaid recipients their right, known as Patient's Freedom of Choice, *see* 62 P.S. § 1405, to select a provider of their own choice. Patients cannot be required to attend treatment at a specific facility (unless court ordered); a Medicaid recipient has the right to choose any provider within CBH's network. The kickbacks also create an additional concern: treatment facilities and recovery homes are thereby incentivized to direct residents into intensive out-patient treatment – even if they no longer need that level of treatment.

Accordingly, CBH tried to uncover illegal arrangements between recovery homes and treatment facilities by analyzing addresses of IOP patients to identify patient "clusters." If a large number of patients were clustered around a particular address, it was likely the address was a boarding home, group home or recovery home. Using this approach, the agency was able to identify 148 recovery homes in Philadelphia. These 148 residences were likely just a portion of the recovery homes in Philadelphia, many of which are unlicensed and unsupervised. CBH then compared the addresses of patients receiving IOP treatment to the addresses that CBH identified

as recovery homes, and found five IOP treatment facilities with unusually high numbers of patients residing at a small number of particular recovery homes. These five outliers included the two Southwest locations and New Journeys.

a. Southwest

The Southwest location at Woodland Avenue had 70.55% of its patients residing at one of the 148 recovery homes on the CBH list. The Southwest location at Poplar Street had 84.91% of its patients residing at one of the 148 recovery homes on CBH's list. This congruence was not merely coincidence, but was instead evidence that residents at these homes were being pushed into specific treatment facilities. Indeed, during CBH's audit at Southwest, CBH found documents revealing that patients who resided at a recovery home were required to receive treatment at a specific IOP provider. On November 20, 2017, for example, patient R.R. told her therapist that she moved into a residential facility that required her to transfer her outpatient drug and alcohol treatment to another provider. According to the therapist, R.R. was making very good progress at Men and ~~Woman~~ Woman KM for Human Excellence; nonetheless, she then enrolled in IOP treatment at Southwest. Similarly, a handwritten note, dated January 10, 2018, in patient J.L.'s file stated, "I am leaving the Wedge (discharge) to start at Nu Stop [Southwest] because I am at 'Everything must Change' recovery house and you have to go to IOP there." J.L. was discharged from treatment at the Wedge and began treatment at Southwest.

CBH also discovered that Southwest improperly redirected special COVID Medicaid funds to recovery homes. In March 2020, in light of the COVID-19 crisis, CBH instituted an Alternate Payment Arrangement plan to ensure that its providers were able to maintain staff and facilities so that Medical Assistance recipients could still access treatment during the pandemic. Rather than reimbursing providers based upon actual claims submitted, CBH provided a monthly payment to

providers based upon average monthly billing from the previous year. Instead of using all the funds to ensure that clients could receive treatment during the pandemic, however, Southwest diverted tens of thousands of dollars to several recovery homes. A CBH administrator testified before the Grand Jury that under no circumstances should that money have been used to pay recovery homes.

b. New Journeys

Like Southwest, New Journeys was also found to be an outlier: 84.91% of its clients resided at one of the 148 recovery homes on the CBH list.

II. Grand Jury Investigation

Building on the audit by Community Behavior Health, the Grand Jury reviewed evidence including bank records and treatment files, and received testimony from numerous witnesses who appeared before it.

The investigation revealed that, over a period of several years, Southwest and New Journeys paid recovery homes over $1.6 million to furnish them with Medicaid patients. In exchange, these patients were required to attend treatment at Southwest or New Journeys, where the conditions were substandard, and if they decided not to do so, they were kicked out of the recovery homes. Southwest and New Journeys then billed Medicaid over 13 million dollars for IOP services through CBH.

Each recovery home resident eligible for IOP services received 9.75 hours of therapy a week. Southwest and New Journeys received $35.80 per hour of IOP service. Thus, to Southwest or New Journeys, a single recovery house resident on Medicaid and approved for IOP services was worth $349.05 in billing every week. For a single recovery house with only 12 residents who attended IOP treatment, Southwest or New Journeys could bill CBH $16,754 a month for IOP

treatment, whether it was medically necessary or not. Along the same lines, an oversized three-hour group therapy session (which was standard at Southwest) consisting of 35 patients would net Southwest $3,759 in Medicaid funds for a single therapy session.

A. Bank Records

1. Southwest

A review of Southwest's bank records reflects that from December 27, 2016 to June 14, 2019, Southwest paid a total of $1,178,453.34 to at least 26 recovery home managers or landlords. Southwest provided the recovery homes with monthly checks signed by Dr. Reid (its owner) to supply it with patients. The homes were identified by reviewing Southwest's patient records and bank records, conducting patient/employee interviews, assessing CBH records, and through the testimony of Fred Way, the executive director of the Pennsylvania Alliance of Recovery Residences (PARR). These 26 homes do not include, but are in addition to, those recovery homes that were owned directly by Dr. Reid. The memo lines on the checks to these homes falsely noted that the payments were for "rent," or "case management," or "transportation," when in reality they were simply for patient trafficking.

A review of CBH billing from December 27, 2016 to June 14, 2019 reflects that CBH paid Southwest $12,662,864.00 in Medicaid money for the drug and alcohol treatment services that Southwest provided to these recovery home residents.

2. New Journeys

A review of New Journeys' bank records reflects that from January 13, 2016 to January 20, 2021, New Journeys paid 20 Philadelphia recovery home managers or landlords monthly checks totaling $629,640.49. The memo lines of New Journeys' checks, signed by Lawrence Gallagher (New Journeys' owner) falsely noted that the payments were for "bed lease," or "rent,"

or "case management" or "transportation." A review of CBH billing from January 13, 2016 to January 20, 2021 reflects that New Journeys was paid $2,934,732.00 in Medicaid funds for treatment of residents from these homes.

B. Interviews/Witness testimony

Don Martin

The Grand Jury heard the audio-recorded interview of Don Martin ("Martin"), a therapist who conducted individual and group therapy at Southwest from approximately 2003 to 2017. Martin stated that Southwest employees regularly cut corners on paperwork and failed to complete patient records because of the high caseload. Martin stated that many therapists resorted to cookie cutting (copying and pasting) therapy notes from one file to another in order to generate a note for each patient. If a therapist had 35-40 patients in a group therapy session, the therapist had to prepare over 100 therapy notes a week. If the therapist conducted two group therapy sessions three days a week, then he/she had to prepare over 200 therapy notes a week. Unable to keep real records on each individual patient, therapists had to just make it up.

Martin also discussed instances where Southwest leadership had therapists come to the office to prepare for a CBH audit. Martin explained that many patient files were missing progress notes and other documents, so therapists were encouraged to prepare paperwork to fill in the gaps. Martin called this practice "repairing the files" or doing "creative writing." Martin described a workplace where Southwest employees were physically and emotionally drained and inadequately supervised, and struggled to provide quality care to their clients, but were pushed to see and bill for as many clients as possible.

Martin further stated that, while at Southwest, he also worked at House of Healing, a recovery house owned by Southwest. Martin explained that Southwest paid "rent" to House of

Healing, and all of the House of Healing residents attended treatment at Southwest. Additionally, Southwest paid "rent" or a stipend to other recovery homes that were not owned by Southwest. Martin explained that, in each instance, if you did not attend treatment at Southwest, you would be kicked out of the recovery house.

Martin explained that providers are supposed to conduct assessments to determine if an individual needs treatment and, if so, at what level. The provider determines whether an individual is eligible for intensive outpatient services (IOP) services or regular outpatient services (OP). An individual who is approved for IOP receives more hours of services and the IOP provider can bill CBH at a much higher rate. IOP services are billed at a rate of $35.80 an hour. In addition, IOP services are bundled, meaning that the IOP provider can bill $35.80 an hour for group therapy, individual therapy or any other service. Every IOP service can be billed at the same rate. OP services, in contrast, are billed separately for each individual service. OP group therapy can be billed only at $22.80 an hour. An individual receiving group therapy can receive only five hours of OP service a week. There is no oversight of the provider's determination on whether a patient qualifies for treatment, or whether treatment will be IOP versus OP; the assessment is not reviewed by CBH or any other entity.

Martin stated that recovery home operators took food stamps from residents and made residents pay rent if they had other sources of income, such as employment or Social Security Disability benefits.

Henry Garcia

Henry Garcia ("Garcia"), who started working at Southwest as a substance abuse counselor in 2012, also testified before the Grand Jury. Garcia told the Grand Jury that he was promoted to

a lead counselor, then an assistant clinical supervisor, and finally the clinical supervisor at Southwest. Garcia resigned from his position at Southwest in September 2017.

Garcia confirmed that group therapy sessions at Southwest consistently had 25 to 30 individuals and that the therapists were overwhelmed by the number of progress notes they were required to generate. Garcia stated that the high group numbers greatly impacted the quality of services that were provided and that while Southwest was aware of CBH's requirement that a group session have a maximum of 15 people, it continued to pack clients into overcrowded group sessions.

Garcia explained to the Grand Jury that Southwest used sign-in sheets for group therapy that included a box identifying the patient's recovery home. The sign-in sheets allowed Southwest and the recovery homes to keep track of how many residents attended treatment at Southwest so that the recovery homes could collect the correct amount of money from Southwest at the end of the month. Like witness Martin, Garcia told the Grand Jury that Southwest paid the recovery homes to provide it with patients and the amount paid to the recovery homes depended upon the number of residents who attended treatment there. If a recovery home was identified on the sign-in sheet, it meant that Dr. Reid (Southwest's owner) had arranged with the owner or operator of the recovery home to provide payment in exchange for residents attending treatment at Southwest.

Garcia also told the Grand Jury that if a recovery home resident chose not to go to Southwest for treatment, Dr. Reid would not pay the recovery home for that resident. The recovery house manager then forced the patient to leave the recovery house. This practice happened both at recovery houses owned by Southwest and at other recovery homes that Southwest paid for providing patients.

Garcia further explained that he knew of other IOP providers (besides Southwest) that had a similar arrangement. In fact, in some cases, if residents successfully completed treatment at a particular IOP provider, like Southwest, some recovery house owners would find another IOP provider and send the resident there in exchange for additional funds.

While working at Southwest (and before becoming the clinical supervisor there), Garcia operated a recovery house called Casa Transito. While operating Casa Transito, Garcia received a monthly "case management" fee from Southwest, or Southwest paid the home directly to cover the rent of residents who went to Southwest for treatment. Garcia was also often asked to work as a liaison between Southwest and recovery homes serving largely Latino residents. Garcia later transferred operations of Casa Transito to Pedro Hernandez.

Pedro Hernandez

Pedro Hernandez ("Hernandez"), a Puerto Rican native, testified before the Grand Jury regarding his experience living in a Philadelphia recovery home while attending treatment at Southwest, and later operating a recovery home himself.

Hernandez told the Grand Jury that he was addicted to heroin and that, while living in Puerto Rico, the local police told him about a drug rehabilitation program in Philadelphia. Based upon what the police told him about the program, Hernandez's mother paid for a one-way flight to Philadelphia. Upon arriving in Philadelphia, Hernandez was placed in a recovery home with approximately 19 other individuals. He and his fellow residents attended treatment therapy at Southwest three times a week. Southwest paid rent for the residents provided they attended treatment at Southwest.

After about five months, Hernandez moved to Garcia's recovery house (Casa Transito). In 2015, after completing his own treatment, Hernandez began running Casa Transito.

Hernandez testified that if the Casa Transito residents stopped attending treatment, they had to leave the recovery house. If that occurred, he would try to help them find another place to live; but they could not stay at Casa Transito without going to treatment at Southwest. Dr. Reid provided him with a rent check every month and paid Casa Transito's bills. Hernandez explained that he also took residents' food stamps to partially cover expenses, but the recovery house charged no other rent provided the resident was in treatment. Hernandez's arrangement with Southwest ended in 2018. From June 2, 2017 to January 2, 2018, while Hernandez was the house manager of Casa Transito, Southwest paid Hernandez a total of $25,500.

Hernandez presently has a similar relationship with New Journeys. Hernandez sends his Casa Transito recovery home residents to New Journeys and, in return, New Journeys pays him monthly. From April 15, 2018 to January 20, 2021, New Journeys has paid Hernandez (or Casa Transito) a total of $78,469.21.

J.L.

J.L was one of the patients whose treatment file was reviewed by Community ~~Health~~ Behavior KM during its audit of Southwest. The file noted that she had to stop attending treatment at the Wedge (another IOP provider) because she was staying at "Everything Must Change," a recovery house that required its residents to attend treatment at Southwest.

J.L. subsequently gave a recorded interview, presented to the Grand Jury, in which she confirmed the information in her Southwest file. She stated that, when she lived at Everything Must Change, she was required to attend treatment at Southwest. She was told that, if she ever chose to leave that particular facility, she would be evicted from the home.

Darryl Robinson

Darryl Robinson ("Robinson"), who owns and operates Everything Must Change recovery homes, also testified before the Grand Jury. Robinson told the Grand Jury that he received monthly payments from Southwest in exchange for sending his residents to Southwest for treatment. At one point, Robinson was sending 150-200 residents to Southwest. Robinson further told the Grand Jury that Southwest provided him with a "case management" fee (which he used to obtain identification for residents and purchase supplies for the house), and a "transportation" fee.

During the course of this Grand Jury investigation, an agent visited the Everything Must Change recovery home in order to conduct interviews. While there, the agent observed a list of house rules on the wall. The number one house rule was "IOP at Nu-Stop [Southwest] is mandatory for all clients."

A review of Southwest bank records from January 6, 2017 to May 24, 2019 reflects that Southwest paid Everything Must Change $156,639.00 in monthly checks.

Renee Payton

Another Grand Jury witness was Renee Payton ("Payton"), who owns and operates several recovery houses under the name Women Walking in Victory ("WWIV"). Payton testified that she had an agreement with Southwest pursuant to which she sent her residents to Southwest for IOP services and, in exchange, Dr. Reid would "donate" thousands of dollars to WWIV every month. Southwest's bank records revealed that from June 8, 2017 to January 17, 2018, Southwest paid WWIV a total of $128,585.00 in monthly checks.

Dr. Lloyd Reid

Dr. Reid, the owner of Southwest, conducted a recorded interview that was heard by the Grand Jury. Dr. Reid stated that he founded Southwest as a licensed out-patient treatment facility in 1999. After cash assistance was reduced during Governor Corbett's administration, Dr. Reid

claimed that he began an initiative to help provide housing for people receiving treatment at Southwest. Dr. Reid stated that he made arrangements with numerous recovery homes to pay "case management" fees and "transportation" costs in exchange for sending residents to Southwest for treatment. If a recovery home or a resident stopped attending Southwest, Dr. Reid stopped making payments to the recovery home. Dr. Reid stated that he "would not put them in a house that I am supporting and send them to another treatment facility."

In the interview, Dr. Reid acknowledged, as he had to CBH officials, that he had been paying recovery homes in exchange for providing Southwest with patients whose Medicaid reimbursements generated a large income stream to Reid's corporation.

Dr. Reid made similar admissions in a prior judicial proceeding, transcripts from which were presented to the Grand Jury. In 2017, Dr. Reid was a defendant in a landlord/tenant dispute in Philadelphia Municipal Court. The plaintiff, Debbie Roe (Roe), owned a house that Dr. Reid leased for use as a recovery home. Testimony in the proceeding revealed that Henry Garcia (mentioned above) was responsible for managing the recovery house, but Roe's agreement was with Dr. Reid. Dr. Reid paid Roe monthly rent in exchange for sending numerous residents to Southwest for treatment. Although Roe's home was a three-bedroom row house zoned for only six individuals, there were actually 22 people living in the house. Roe, who did not live in the house, was unaware of the dangerous overcrowding, although Reid, who was paying on a per-resident basis, would necessarily have known.

Dr. Reid testified in the court proceeding that he paid a "case management" fee to his recovery home operators to ensure that residents went to Southwest for treatment. Reid acknowledged that he paid different amounts depending upon the number of people living in the recovery house. He further acknowledged that he used Medicaid money to finance these payments.

The judge presiding over the landlord/tenant matter was sufficiently concerned by Dr. Reid's testimony that he took the unusual step of sending the court transcripts to the United States Department of Health and Human Services (HHS), because of the apparent Medicaid fraud. HHS, in turn, then forwarded the information to the state agents participating in this investigation.

As a result, agents interviewed Debbie Roe, the other party in the landlord-tenant matter, and her recorded statement was heard by the Grand Jury. Roe stated that, when she was first approached by Southwest about brokering addicts, she was offered two different payment options. The first was that Southwest would pay a flat rate of $1500 a month and a Southwest employee (Garcia) would manage the property. The second option was that Southwest would pay Roe a weekly rate of $80.00 for each resident who was sent to Southwest for treatment. Roe chose the flat rate and thus received a monthly check of $1500 from Southwest. Roe reiterated that the Philadelphia rowhouse she rented to Dr. Reid was intended for a maximum of six residents, but housed, as she later learned, over 20. As a result, the house was left in a state of disrepair, and was infested with bed bugs. Roe stated that she was disgusted by the conditions of her property, and, having heard complaints from residents about the quality of treatment at Southwest, believed that many of the patients would have been more successful in treatment if only they had been provided good care.

Instead, the numbers indicate that patients were a source of profit. If Reid paid $1,500 (for rent or "case management") to a recovery house containing a dozen residents (not to mention the two dozen at Roe's home), each of those residents would have attended IOP treatment at Southwest for 9.75 hours a week. Southwest could then bill Medicaid $16,754.00 – more than ten times the cost of the kickback paid to secure those patients.

Dr. Reid claimed in his statement that he was just doing a public service, providing patients with a place to stay so they did not have to live on the street. The evidence indicated, however, that the primary beneficiary of the arrangement was Reid himself. Southwest's bank records, and reports from the Pennsylvania Department of Labor and Industry, showed that from 2017 to 2020, Dr. Reid was paid $674,500 by Southwest. During that same time period, his wife, Theresa Reid, was paid $302,760.[2] Throughout this time, moreover, Dr. Reid used the Southwest business account to pay for personal vehicles, including a Mercedes-Benz and Jaguar. Additionally, as of May, 2021, Dr. Reid owns at least 10 properties in Philadelphia County, one residence in Montgomery County, and a vacation home in South Carolina just outside of Myrtle Beach. In November 2020, Dr. Reid sold the Southwest building on Poplar Street for $2,000,000. From the proceeds of that sale, he wired $1,044,033.88 from the Southwest bank account to his personal bank account.

Fred Way

On March 18, 2021, Fred Way, an employee of the Pennsylvania Association of Recovery Residences ("PARR"), also testified before the Grand Jury. Way's organization, PARR, received funding from the City of Philadelphia. PARR then gave a grant to Southwest. Southwest was the only organization to which PARR provided a grant. In exchange, Dr. Reid gave Way a position at Southwest. Way was given immunity before he testified.

Before PARR, Way worked at the Philadelphia Mental Health Care Corporation (PMHCC) for 18 years. There he helped oversee government grants used to fund a number of recovery houses.

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[2] These figures are based upon wages that were reported to the Pennsylvania Department of Labor and Industry. They do not include any money that Dr. Reid or Theresa Reid received directly from Southwest's bank account that was not reported as wages to the Department.

When Way left PMHCC in 2011, such grants were funding 18 recovery homes. These funded houses, however, were only a small portion of the recovery homes operating in Philadelphia.

Way informed the Grand Jury that anyone can open a recovery house. An unfunded recovery house is unregulated, unlicensed and unsupervised. The only oversight is through the minimal provisions of the zoning code: to operate legally, a recovery home must be zoned as a rooming house. Absent a complaint to the Philadelphia Department of Licenses and Inspections, however, no government agency involves itself in a recovery home's operations. Unfunded houses survive financially by relying upon cash assistance when available, resident fees, food stamps and other payments from the residents. Today, the city funds only 21 recovery houses. Way estimates that there are currently over 300 unfunded recovery houses in Philadelphia.

Way explained to the Grand Jury that funded recovery houses receive grants based upon the number of individuals living in the house. Funding also provides a recovery home with legitimacy and a steady stream of income. If funded by the government, the recovery house is required to permit inspections and allow access to the property.

After Way left ~~PHMCC~~ PMHCC in 2011, he started the Philadelphia Association of Recovery Residences, which later became the Pennsylvania Association of Recovery Residences (PARR). PARR's goal was to create standards applicable to all recovery homes, both funded and unfunded. PARR worked with recovery house operators to enhance their operations, to improve their administration, records, and maintenance, and to ensure the property was properly licensed. Way told the Grand Jury that many recovery house owners and operators throughout the Commonwealth now want to join PARR, because its certification makes a home more legitimate and marketable to both the community and treatment providers. PARR is largely financed by the government, which will no longer fund a house that does not meet PARR requirements.

When Way started PARR in 2011, he also began working at Southwest as a consultant, and a "recovery house coordinator." Way met Dr. Reid weekly to discuss Southwest recovery house operations. Way assisted Southwest by reviewing potential recovery home sites and connecting Southwest to landlords who were interested in leasing their properties to Southwest.

Way was aware that many IOP providers in Philadelphia provided recovery home lodging to residents who were then tied to those IOP providers for treatment. Way was also aware that such arrangements violated patient freedom of choice, which is an important hallmark of the Medicaid program.

When Way began meeting regularly with Dr. Reid, Reid's comments confirmed that Southwest insisted on such arrangements with recovery homes. Reid revealed that the monthly fee Southwest paid to the recovery home operators was labeled as "case management" or "rent," when in actuality it was to ensure that the residents attended treatment at Southwest. When Way confronted Dr. Reid about this scheme, reminding him that it violated the patients' right to choose their treatment provider, Dr. Reid stated: "I'm paying for them. I'm feeding them, and I'm transporting them. So I'm not going to let them go to another IOP."

Way testified that Southwest had a particularly large number of Latino patients, including new patients who arrived directly from Puerto Rico. At one point, Southwest had over 100 Latino IOP residents residing in Southwest funded recovery houses.

Way explained to the Grand Jury that, once Community Behavior Health started auditing Southwest, its business model began to become untenable. The CBH audits resulted in shutting down admissions, which then prevented Southwest from filling its leased or owned recovery houses and capturing a patient population. And since Southwest could no longer provide them with the kind of kickbacks to which they had become accustomed, some recovery houses began

sending their residents to other IOP providers, including New Journeys. But Way discovered, from his work in the recovery homes community and from speaking to residents at recovery homes, that New Journeys was paying off recovery houses as well.

Indeed, Way told the Grand Jury that kickbacks between IOP providers and recovery homes are a well-known secret in Philadelphia. While other IOP providers may be more creative in disguising the payments, or may provide higher quality services, in the end, they are doing the same thing. Way believed that Southwest got caught because it provided such poor services, and because Dr. Reid talked so brazenly about the scheme.

Way testified that, while providing housing for treatment patients may in theory be a positive thing, Southwest used substandard, unsupervised, unlicensed and overcrowded recovery homes to create a captured patient base. Southwest provided recovery home residents a place to stay, but only at the cost of locking themselves into a poor quality, overcrowded treatment center. Way pointed out that if you provided a good treatment experience, patients would stay at your recovery home whether it was required or not.

The Grand Jury reviewed Southwest's banks records, which revealed that from December 27, 2016 to June 14, 2019, the following kickbacks were paid to 26 recovery homes totaling ~~$1,178,45.34~~. During that same time period, Southwest submitted claims for reimbursement with 1,178,453.34 KM
Medical Assistance funds totaling $12,662,864.00.

SouthWest Nu Stop	
Recovery Houses	**Kickbacks**
AP	$89,760.00
AT	$112,174.88
APE	$29,601.00
ASI	$59,100.00
BGDTH	$2,723.00
CDA	$6,840.00
CMDLV	$2,040.00

Everything Must Change	$156,639.00
FH	$11,309.54
HH	$9,128.00
HOU	$3,500.00
JDR	$65,777.00
MG	$39,862.00
OAN	$30,855.50
Pedro Hernandez	$25,500.00
PHO	$47,311.00
SB	$53,800.00
SE	$33,600.00
SOTL	$7,232.00
SS	$101,475.42
COL	$35,175.00
TP	$63,850.00
WNP	$11,411.00
Women Walking in Victory	$128,585.00
YWC	$29,871.00
YM	$21,333.00
Total Kickbacks to Recovery Houses	**$1,178,453.34**
Total Paid to SWNU by MA	**$12,662,864.00**

New Journeys' bank records revealed that from January 13, 2016 to January 20, 2021, the following kickbacks were paid to twenty recovery homes totaling $629,640.49. During that same time period, New Journeys submitted claims for reimbursement with Medical Assistance funds totaling $2,934,732.00.

New Journeys in Recovery	
Recovery Houses	**Kickbacks**
AB	$260.00
CDA	$20,520.83
CMDLV	$1,274.00
Casa Transito	$78,469.21
ER	$2,734.33
FCCR	$39,999.26
FR	$986.00

HA	$12,701.62
JB	$11,774.99
JG	$2,789.65
JR	$3,771.99
MDG	$1,340.00
NB	$380.00
NC	$51,938.21
NLNB	$35,352.60
RHC	$192,703.44
SNTM	$70,086.99
SOTL	$17,079.91
SSL	$10,906.59
TRN	$74,570.87
Total Kickbacks to Recovery Houses	**$629,640.49**
Total Paid to NJIR by MA	**$2,934,732.00**

C. The Medicaid Fraud Statute

The Medicaid Fraud statute explicitly provides that it is a crime for any individual to make payments in exchange for procuring Medicaid patients. Section 1407(a)(2) of the Medicaid Fraud statute provides in pertinent part:

> It is unlawful for any person to: solicit or receive or to offer to pay any remuneration, including any kickback, bribe or rebate, directly or indirectly, in cash or in kind from any person in connection with the furnishing of services or merchandise for which payment may be in whole or in part under the medical assistance program or in connection with referring an individual to a person for the furnishing or arranging for the furnishing of any services or merchandise for which payment may be made in whole or in part under the medical assistance program.

62 Pa.C.S.A. § 1407(a)(2)[3].

In direct violation of the Medicaid Fraud statute, Southwest and New Journeys made substantial payments – in excess of $1.6 million – to at least 26 recovery homes or recovery home

[3] 62 Pa.C.S.A. § 1407(a)(2) applies only to Medicaid providers, like Southwest and New Journeys. Recovery homes are not Medicaid providers.

operators in exchange for providing them with patients. Through this scheme, the patients have been deprived of their right to choose their treatment provider and, instead, have been forced to attend treatment with a designated IOP provider or else face being put out on the street.

On December 19, 2017, Governor Wolf signed Senate Bill 446, entitled "Standards for Drug and Alcohol Recovery House Licensure." The bill (not yet implemented) focuses on establishing uniform standards for recovery homes and requires that recovery houses obtain a license under the following circumstances:

1) All referrals from State agencies or State-funded facilities shall be to licensed or certified drug and alcohol recovery houses
2) Only licensed or certified drug and alcohol recovery houses may be eligible to receive Federal or State funding to deliver drug and alcohol recovery housing services.
3) Individuals whose treatment is funded with Federal or State funding shall only be referred to a certified drug and alcohol recovery house.
4) A state or county court shall give first consideration to a certified drug and alcohol recovery house when residential recommendations are made for individuals under their supervision.

The bill would apply to recovery houses that receive county/state funding or referrals. Recovery houses that receive funding from the City of Philadelphia would in all cases be required to get licensed.

However, for the hundreds of unfunded, unlicensed and unsupervised recovery homes in Philadelphia, things would remain the same.