Diagnostic Laboratories and Radiology ("Diagnostic Labs") will pay $17.5 million to settle claims that the California-based company violated the federal and California False Claims Acts by paying kickbacks for referral of mobile lab and radiology services that were thereafter billed to Medicare and Medi-Cal (California's Medicaid program). Diagnostic Labs reportedly took advantage of Medicare's different reimbursement system for inpatient and outpatient services by charging skilled nursing facilities in California discounted rates for inpatient services paid by Medicare in exchange for the facility's referral of outpatient business to Diagnostic Labs. For inpatient services, Medicare pays a fixed rate based on the diagnosis; for outpatients, Medicare pays for each service separately. Diagnostic Labs' billing scheme enabled the skilled nursing facilities to maximize profit earned for providing inpatient services by decreasing their costs of providing these services. It also purportedly allowed Diagnostic Labs to obtain a steady stream of lucrative outpatient referrals that it could directly bill to Medicare and Medi-Cal. The provision of inducements, including discounted rates, to generate referrals is prohibited by federal and state law.

The settlement resolves a lawsuit filed by former Diagnostic Labs employees under whistleblower provisions of the federal and state False Claims Acts. Whistleblower suits allow private citizens with knowledge of fraud to bring civil actions on behalf of the government and to share in any recovery. Two whistleblowers will receive $3.755 million as their share of the federal government's recovery.

Whistleblower ("qui tam") cases have become a crucial weapon on the part of state and federal governments in combating fraud and containing healthcare costs. Individuals with knowledge of fraud committed against any government entity should contact an attorney experienced with False Claims Act cases.