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From Guns that Do Not Shoot to Foreign Staplers

HAS THE SUPREME COURT'S MATERIALITY STANDARD UNDER ESCOBAR PROVIDED CLARITY FOR THE HEALTH CARE INDUSTRY ABOUT FRAUD UNDER THE FALSE CLAIMS ACT?

Deborah R. Farringer†

INTRODUCTION

It all started out simply enough. Members of Congress became aware of stories involving rampant fraud against the federal government: Brooks Brothers, a government contractor that during the Civil War contracted to manufacture 12,000 uniforms for the Union Army, glued together “shredded, often decaying rags, pressed them into a semblance of cloth, and sewed the pieces into uniforms,” which promptly disintegrated upon being exposed to rain for the first time, all in an effort to maximize profit on the contract;1 Army Quartermasters purchased the same mules again and again from suppliers; the government procured infantry boots for Union soldiers that were made of cardboard and would wear out after only a mile’s long march.2 Thus, in an effort to curb the “grossest frauds upon the Government,”3 the U.S. Congress enacted the False Claims Act

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3 CONG. GLOBE, 37th Cong., 3d Sess. 956.
Utilizing a legal mechanism originating in England known as a *qui tam* suit, the FCA, enacted March 2, 1863, permits both private individuals and the federal government (through the U.S. district attorneys’ offices) to file an action in court on behalf of the United States against a government contractor believed to have knowingly submitted false claims to the federal government for payment.

During the 150-plus years since enactment of the FCA, it has become one of the federal government’s most successful enforcement mechanisms against government contractors and in no industry has it been more impactful than in health care. While it was clear in 1863 that selling the same mule to the federal government over and over was fraud, in the complicated and highly regulated structure of the U.S. health care system, with multiple federal health care programs that provide payment and services to individuals in various forms, identifying fraud has become increasingly challenging. If knowingly billing the federal government for a physician visit that never actually took place is the submission of a “false claim” to the federal government, what about billing for a service that,...
under applicable state licensure law, was required to be provided by a licensed psychiatrist but was instead provided by a registered nurse? If knowingly billing the federal government for a service to a complex patient with multiple co-morbidities when the service was actually provided to a non-complex patient with no co-morbidities is the submission of a “false claim,” what about billing for a home health service on a date that is prior to when a physician actually certifies the need for such home health services in a face-to-face visit as required under applicable Medicare regulations?

For health care entities subject to the FCA, these questions are not just an academic exercise, but present real issues and problems for purposes of compliance. Not only might noncompliance with regulations present potential FCA liability as a result of a qui tam relator claim, but retention of known overpayments is also actionable as a false claim. Thus, entities subject to the FCA need to know and understand when and in what circumstances noncompliance with regulations constitutes a false or fraudulent claim in order to not only correct the problem, but also remit known overpayments. Clear guidance and direction regarding what does or does not constitute fraud under the FCA is paramount.

While the U.S. Department of Justice (DOJ) and qui tam relators’ counsel have been arguing for over twenty years that

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10 See Universal Health Servs., Inc. v. United States ex rel. Escobar, 136 S. Ct. 1989, 1997 (2016) (involving a claim that certain false representations, such as a nurse prescribing medication as a psychiatrist without appropriate licensing, violate the False Claims Act).

11 See, e.g., United States v. Larm, 824 F.2d 780, 782 (9th Cir. 1987) (involving a case in which the physician and his wife billed for an examination or evaluation related to a new treatment or illness for routine allergy shots that were administered only by the physician’s nurse). This sort of scheme is often referred to as upcoding, or “DRG creep,” in the hospital context, in which the hospital bills for a service at a higher reimbursement rate than is necessary for the patient. See DAVID E. MATYAS ET AL., LEGAL ISSUES IN HEALTHCARE FRAUD AND ABUSE: NAVIGATING THE UNCERTAINTIES 267–68 (4th ed. 2012).

12 See United States ex rel. Prather v. Brookdale Senior Living Cmty., Inc., 838 F.3d 750, 758–59 (6th Cir. 2016) (involving a case in which home health service was provided before the required physician certification of the service).


14 Id.

15 A qui tam relator is the name given to those individuals who file a lawsuit under the FCA on behalf of the federal government. 31 U.S.C. § 3730(b)(1). These individuals are also often referred to as whistleblowers. Mikes v. Straus, 274 F.3d 687, 692 (2d. Cir. 2001), abrogated by Escobar, 136 S. Ct. 1989; see also Thomas R. Lee, The Standing of Qui Tam Relators Under the False Claims Act, 57 U. CHI. L. REV 543, 543 (1990) (“The qui tam provision of the Act authorizes private individuals to adopt the government’s cause of action and sue on behalf of the United States. These qui tam plaintiffs, or ‘relators,’ receive a ‘bounty’ of up to thirty percent of the damage award or settlement, plus expenses, attorney fees, and costs of suit.” (footnotes omitted)).
all of the above-referenced instances are false claims, the various federal circuit courts have not shared widespread agreement on whether all such examples necessarily constitute “fraud” under the FCA in all instances. The distinction between these examples lies in whether the alleged fraud is based on misleading or fraudulent facts submitted on the claim form regarding the services provided or based on misleading or fraudulent certification on the claim form implying that the claimant provided such services in compliance with all applicable underlying laws, rules, and regulations. Courts have referred to the latter example as an “implied false certification.” While most courts were in agreement that FCA liability did extend to cover at least some forms of implied false certification claims, there was a lack of consensus about how far to extend such liability in these sorts of claims. Then, in the case of Universal Health Services, Inc. v. U.S. ex rel. Escobar, the Supreme Court sought to clarify (a) whether the FCA could be used by both qui tam relators and the government to sustain a claim that a contractor’s failure to comply with certain underlying regulatory
requirements constitutes a false claim by virtue of the implied certification that the contractor makes in order to receive payment; and, if yes, (b) whether such underlying regulation is required to be a precondition to payment (i.e., the government will not pay the claim unless the claimant complies with such regulation).\textsuperscript{22}

The Court quieted at least part of the existing debate, finding that the implied false certification theory can be utilized as a basis for liability under the FCA in certain instances.\textsuperscript{23} It perhaps fueled a greater debate, however, in rejecting the strict limitation regarding such underlying law, rule, or regulation being a precondition to payment and holding instead that any liability requires a showing that the claimant’s “misrepresentation about compliance with a statutory, regulatory, or contractual requirement . . . be \textit{material} to the Government’s payment decision.”\textsuperscript{24}

Abandoning the need for a detailed analysis into the basis and intention behind myriad regulations,\textsuperscript{25} the unanimous Court indicated a need to return to legal fundamentals, providing guidance based on common law principles for establishment of materiality.\textsuperscript{26} Seemingly, the Court’s guidance

\textsuperscript{22} Id. at 1995–96.

\textsuperscript{23} Id. at 1999.

\textsuperscript{24} Id. at 1996 (emphasis added). With this holding, the Court abrogated Mikes, which held that the “implied false certification is appropriately applied only when the underlying statute or regulation upon which the plaintiff relies \textit{expressly} states the provider must comply in order to be paid.” Mikes, 274 F.3d at 700 (emphasis in original). Recognition of the idea that liability could exist under the FCA was adopted by nearly all circuits. See United States ex rel. Quinn v. Omnicare, Inc., 382 F.3d 432, 441 (3d Cir. 2004). Only some courts, however, have also recognized that such claims would be limited to those regulations that are a condition to payment. See Chesbrough v. VPA, P.C., 655 F.3d 461, 467–68 (6th Cir. 2011) (acknowledging that the theory of implied false certification was adopted by United States ex rel. Augustine v. Century Health Servs., Inc., 289 F.3d 409, 415 (6th Cir. 2002), but failing to find liability under the implied false certification theory because the plaintiffs failed to allege that the Medicare regulation in question did not “require compliance with an industry standard as a prerequisite to payment.”); United States ex rel. Hendow v. Univ. of Phoenix, 461 F.3d 1166, 1170 (9th Cir. 2006) (recognizing that the theory of implied false certification was recognized by United States ex rel. Hopper v. Anton, 91 F.3d 1261, 1266 (9th Cir. 1996); Harrison v. Westinghouse Savannah River Co., 176 F.3d 776, 784 (4th Cir. 1999); United States ex rel. Thompson v. Columbia/HCA Healthcare Corp., 125 F.3d 899, 902 (5th Cir. 1997); Ab-Tech Constr., Inc., 31 Fed. Cl. at 434. But see United States ex rel. Hutcheson v. Blackstone Medical, Inc., 647 F.3d 377, 385–88 (1st Cir. 2011) (finding that a regulation be a precondition of payment is not found in the text of the FCA); United States v. Sci. Applications Int’l Corp., 626 F.3d 1257, 1268–69 (D.C. Cir. 2010); United States ex rel. Conner v. Salina Regional Health Center, Inc., 543 F.3d 1211, 1218 (10th Cir. 2008).

\textsuperscript{25} The usual analysis for determining whether a regulation was a condition of participation or a condition of payment often involved detailed analysis about where in the statute such regulation was located. See United States ex rel. Wilkins v. United Health Group, Inc., 659 F.3d 295, 309 (3d Cir. 2015).

\textsuperscript{26} See Joan H. Krause, \textit{Reflection on Certification, Interpretation, and the Quest for Fraud that “Counts” Under the False Claims Act}, 5 \textit{UNIV. OF ILL. L. REV.} 1811, 1813 (2017).
was intended to assist contractors in understanding what might matter for purposes of compliance with a vast number of federal and state laws and regulations to which government contractors are subject, especially federal health care program participants.27

So, as federal district courts and courts of appeals attempt to apply the Court’s dictates in Escobar, it is necessary to ask whether the Court succeeded in easing the complexity of this aspect of the FCA. Have lower courts been able to consistently apply the new standards to assess materiality? Or, has the opinion, which arguably both broadened and narrowed application of the implied false certificate theory and when liability might attach,28 further muddied the waters for courts and parties attempting to determine whether behavior is of the sort that qualifies as “fraud”? Most importantly, what impact has the Escobar opinion had on providers and other government contractors for purposes of trying to determine whether noncompliance with a regulation of any sort constitutes fraud for purposes of the FCA?

In reviewing lower court opinions analyzing FCA claims in accordance with the dictates of Escobar, this article argues that while Escobar does seem to be motivating lower courts to apply a rigorous and demanding materiality standard, the Court’s “back-to-basics” approach in determining materiality seems to be providing little consistency regarding what type of evidence would need to be proffered to satisfy the new materiality standard. To the extent such lack of consistency endures, providers, suppliers, manufacturers, and other parties potentially subject to application of the FCA in the health care setting will continue to struggle to determine how to consider Escobar for purposes of assessing and prioritizing compliance risk.

Part I of this article briefly examines the history of the FCA and explores how the FCA has evolved as the primary enforcement tool for health care fraud and abuse. This Part

27 Escobar, 136 S. Ct. at 2001. The Court adopted a two-part test for what sorts of claims might qualify as viable implied false certification claims under the FCA. Id. The details of the two-part test and how lower courts are interpreting such test is addressed in Part II, infra.

28 As will be explored more fully in Part II, infra, the opinion seems to broaden application of the implied false certification theory on the basis that it potentially opened up the possibility of types of implied false certification claims that would have been rejected under a stricter application requiring that only such regulations that are conditions of payment, and not conditions of participation, would qualify for purposes of implied false certification liability. See Mikes, 274 F.3d at 700. The Court then narrowed application of this theory, however, when it stated definitively that such claims must be limited by materiality and such materiality standards should be demanding, so as to avoid application of the FCA as “an all-purpose antifraud statute.” See Escobar, 136 S. Ct. at 2003 (quoting Allison Engine v. United States ex rel. Sanders, 553 U.S. 662, 672 (2008)).
further examines the origins of the implied false certification theory and the various splits and issues among the circuit courts that prompted the Supreme Court to review this issue in Escobar. In Part II, this article examines the details of the Escobar case and outlines the specific findings of the Supreme Court as well as how the DOJ, federal district courts, and federal courts of appeals have interpreted the Escobar opinion. Then, Part II analyzes the approaches of various courts in applying the new materiality standard to examine the impact the standard will have on future FCA cases relying on the implied false certification theory. It further highlights consistent themes, open questions, or distinctions that have emerged since the issuance of the Escobar opinion. Next, Part III argues that while Escobar may succeed in ensuring a more exacting and demanding standard for claims relying on an implied false certification theory, and thus a broader number of defenses available to defendants involved in FCA cases, the lack of consistency for specific types of proof that constitute materiality will have a detrimental effect on ongoing compliance efforts by those entities subject to the FCA. These challenges will be particularly acute for health care entities, including providers and suppliers, in trying to prioritize and assess risk and in operation of effective compliance programs under the countless regulations to which such entities are subject. Finally, this article concludes by offering some suggestions for potentially mitigating or lessening some of the confusion that might arise through the Centers for Medicare and Medicaid Services (CMS) and other state regulatory agencies by issuing clear and precise communication about what types of fraud those agencies believe should be actionable under the FCA.

I. Background

A. History of the False Claims Act

Although use and application of the FCA has gone through various changes since its 1863 enactment, the goals of the FCA today are not too dissimilar to this description of the purpose of the law declared in 1943:

[The False Claims Act] is intended to protect the treasury against the hungry and unscrupulous host that encompasses it on every side, and should be construed accordingly. It was passed upon the theory . . . that one of the least expensive and most effective means of preventing frauds on the treasury is to make the perpetrators of them
liable to actions by private persons acting . . . under the strong
stimulus of personal ill will or the hope of gain.29

The concept of incentivizing private individuals to report
suspected fraud may be somewhat novel under the bulk of
today’s laws, but this legal mechanism was actually quite
common in the early history of the United States.30 Adopted from
English tradition, laws that not only relied on, but also
encouraged and incentivized private individuals to seek recovery
and reward on behalf of the federal government were rather
typical and found to be a relatively effective means of
prosecuting crimes.31 When enacting what was sometimes
referred to as the “Informer’s Act” or “Lincoln’s Law,”32 Congress
recognized that a monetary reward (then 50 percent of the
recovery amount) would be strong incentive for an individual to
“betray[] his co-conspirator.”33 By the mid-1940s, the federal
government had established the Department of Justice (DOJ)
and the need for private citizens to alert the government to bad
actors as a means for prosecution began to lessen due to the new
role of a federal prosecutor.34

As a result of the new agency and the thought that the
DOJ should be able to appropriately prosecute fraud against the
government, many began to become concerned that the FCA was
actually feeding “parasitic” lawsuits.35 Thus, a 1943 amendment
greatly cut back on the incentives, and consequently the use of
the FCA by qui tam relators.36 For the next forty-plus years, use

29 United States v. Griswold, 24 F. 361, 366 (D. Or. 1885); see also Hughes
States ex rel. Marcus v. Hess, 317 U.S. 537, 541 n.5 (1943)).
30 See Helmer, supra note 2, at 1263 (noting that ten to twelve of the first fourteen
laws to be enacted under the first Continental Congress of the United States authorized qui
tam suits).
31 Id. at 1263–64.
32 See United States ex rel. Graber v. City of New York, 8 F. Supp. 2d 343, 352
33 Helmer, supra note 2, at 1265–66 (quoting CONG. GLOBE, 37th CONG., 3D
SESS. 955 (1863) (statement of Sen. Howard)).
34 Id. at 1267 (“As a result of WWII, a whole new class of war profiteers
surfaced. But unlike 1863, by 1943 the federal government had a Department of Justice,
including the Federal Bureau of Investigation, which pursued criminal prosecutions
against some government contractors.”).
35 In re United States ex rel. S. Prawer and Co. v. Fleet Bank of Maine, 24 F.3d
320, 324 (1st Cir. 1994) (“During the New Deal and World War II, there was a notable
increase in the number of contracts awarded by the government to private individuals
and entities. Along with this increase came a concomitant surge in the number of qui
tam actions brought by relators under the FCA. This litigational surge, in turn, brought
to the fore the fact that the qui tam provisions then in effect were too susceptible to abuse
by ‘parasitic’ relators.” (internal citations omitted)).
36 Id. at 325 (noting that the amendment essentially prohibited any claim by a
relator that was “based on evidence or information the Government had when the action
was brought” (quoting 31 U.S.C. § 3730(b)(4) (1982))).
of the FCA as a mechanism for identifying and prosecuting fraud was extremely limited.\textsuperscript{37} In fact, it was so limited that, due to Congress’s concern that widespread fraud was draining the public fisc, it amended the FCA in 1986 to strike a better balance between incentivizing relators to report fraud and also preventing parasitic lawsuits.\textsuperscript{38}

Although the FCA has been amended on a few occasions since 1986, it was this more extensive amendment in 1986 that gave rise to the modern day application of the FCA.\textsuperscript{39} Indeed, with an average annual recovery of almost $4 billion in federal money since 2009,\textsuperscript{40} there is little question that in recent years the FCA has become an extremely powerful tool for the federal

\textsuperscript{37} Id.

\textsuperscript{38} False Claims Amendments Act of 1986, Pub. L. No. 99-562, 100 Stat. 3153 (codified as amended at 31 U.S.C. § 3729 \textit{et seq.} (2012)). These changes were accomplished primarily by adding an original source provision as an exception to the prohibition against government knowledge and enacting other provisions that attempted to achieve the “twin goals of rejecting suits which the government is capable of pursuing itself, while promoting those which the government is not equipped to bring on its own.” United States \textit{ex rel.} Springfield Terminal Railway Co., \textit{v.} Quinn, 14 F.3d 645, 651 (D.C. Cir. 1994); see also James B. Helmer, Jr. & Robert Clark Neff, Jr., \textit{War Stories: A History of the Qui Tam Provisions of the False Claims Act, The 1986 Amendments to the False Claims Act, and their Application in the United States \textit{ex rel.} Gravitt v. General Electric Co. Litigation,} 18 OHIO N.U. L. REV. 35, 44 (1991). Helmer and Neff note that the changes to the FCA included loosening the knowledge requirement, increasing penalties for violations of the FCA, permitting the \textit{qui tam} relator to pursue the claim even if the federal government chose not to intervene, increasing the relator’s share of the proceeds from no greater than 10 percent to 25 percent and an even greater recovery for relators proceeding on his/her own, and altering the bar against claims in which the government had prior knowledge (often referred to as the public disclosure bar) to permit these claims to the extent that the relator could claim to be an “original source,” as defined in the statute. \textit{Id.} at 45–50.

\textsuperscript{39} See Press Release, U.S. Dep’t of Justice, Justice Department Celebrates 25th Anniversary of False Claims Act Amendments of 1986 (Jan. 31, 2012), https://www.justice.gov/opa/pr/justice-department-celebrates-25th-anniversary-false-claims-act-amendments-1986 [http://perma.cc/BMSA-CX7N] (“The False Claims Act has been called the single most important tool that American taxpayers have to recover funds when false claims are made to the federal government, including health care fraud, mortgage fraud, and procurement fraud. ‘In the last quarter century, the False Claim Act’s success has been unparalleled with more than $30 billion dollars recovered since it was amended in 1986 and $8.8 billion since January 2009,’ said Attorney General Eric Holder.”).

\textsuperscript{40} Justice Dep’t Recovers Over $4.7 Billion, \textit{supra} note 7. 31 U.S.C. § 3729 \textit{et seq.} can be used to recover money improperly paid to or retained by entities or person who contract with the federal government. There are certain programs, such as state Medicaid programs, that involve a mix of federal and state funding and therefore many False Claims Act cases include allegations regarding not just fraud against the federal government, but also against state programs that include both state and federal funding. Thus, utilizing similar state false claims statutes, there are often portions of a recovery that inure back to states. Robin Rudowitz, \textit{Medicaid Financing: The Basics,} KAISER FAMILY FOUND. (Dec. 22, 2016), https://www.kff.org/report-section/medicaid-financing-the-basics-issue-brief/ [https://perma.cc/DTE2-8EBC] (describing the Medicaid program as a program in which the “federal government matches state spending for eligible beneficiaries and qualifying services”); see also Medicaid Fraud Control Units—MFCUs, U.S. DEPT OF HEALTH & HUM SERVS., https://oig.hhs.gov/fraud/medicaid-fraud-control-units-mfcu/index.asp [https://perma.cc/WDS4-W59P].
government to identify fraud and recover money that has been improperly paid to, or retained by, government contractors. The DOJ has reported that 60 percent of its FCA recoveries since 1986 have come in the last eight years and the total recovery since 1986 is over $36 billion.  

B. Health Care and the False Claims Act

Much of the $36 billion recovery has arisen out of claims from the health care industry, which includes providers (e.g., hospitals, physicians, nursing homes, etc.), pharmaceutical companies, medical device manufacturers, and suppliers (e.g., laboratories, durable medical equipment companies, ambulance services, etc.). Any entity or individual participating in a federal health care program, including Medicare and Medicaid, or any entity or individual supplying items, goods, or services that are reimbursable by a federal health care program—even if such entity or individual does not, by itself, contract with the federal government—is potentially liable under the FCA. Given the breadth of the FCA’s language and the structure of the U.S. health care system, it is not surprising that the FCA has become the primary enforcement mechanism for confronting health care fraud for the federal government and has become equally big business for relators. With over fifty-eight million

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41 Justice Dep’t Recovers Over $4.7 Billion, supra note 7.
42 Id.; Justice Dep’t Recovers Over $3.7 Billion, supra note 7.
44 See, e.g., Justice Dep’t Recovers Over $4.7 Billion, supra note 7 (stating that in 2016, of the $4.7 billion recovered of federal dollars, almost $2.5 billion was monies recovered from the health care industry); Justice Dep’t Recovers Over $3.7 Billion, supra note 7 (stating that in 2017, of the $3.7 billion recovered of federal dollars, almost $2.4 billion was monies recovered from the health care industry).
45 31 U.S.C. § 3729(a)(1) (applies to “any person who (A) knowingly presents, or causes to be presented, a false or fraudulent claim for payment or approval; (B) knowingly makes, uses, or causes to be made or used, a false record or statement material to a false or fraudulent claim; . . . (G) knowingly makes, uses, or causes to be made or used, a false record or statement material to an obligation to pay or transmit money or property to the Government, or knowingly conceals or knowingly and improperly avoids or decreases an obligation to pay or transmit money or property to the Government”).
46 Justice Dep’t Recovers Over $4.7 Billion, supra note 7.
47 Id. (noting that of the 702 qui tam cases that were filed, 501 of them (71 percent) were health care related and recovery from health care qui tam relators accounted for 93 percent of the total health care recovery of almost $2.5 billion total recovery amount). It should be noted that although the percentage of FCA cases that are filed by a qui tam relator are high, the recovery amount for cases in which the federal government declines to intervene remain low. In 2016, the percentage of recovery that was attributed to non-intervened cases was 2 percent. This percentage is consistent with the average percentage of recovery in years’ past, with the exception of 2015 in which
Medicare beneficiaries and over seventy-two million Medicaid beneficiaries in the United States, there are few hospitals, physicians, or other providers or suppliers that do not participate in federal health care programs. Thus, application of the FCA extends nearly universal reach over all players in the health care industry.

In addition to the ability to apply FCA provisions to nearly all sectors of the health care industry, the potential damages and liability that could be imposed under the FCA is a further factor that has made the FCA such a powerful and effective enforcement tool. Violations of the FCA include (1) an obligation to remit to the federal government any payments made by the government pursuant to a claim that is considered to be false, (2) the ability for the federal government to seek treble damages on the total amount of the payments to be remitted to the government, and (3) the ability for the federal government to impose fines ranging from $10,781.40 to $21,562.80 per claim submitted. Additionally, to the extent

relators in cases in which the federal government declined to intervene accounted for 32 percent of the total recovery. FRAUD STATISTICS, supra note 43. While it is difficult to tell for sure, it seems likely that 2015 was an outlier as opposed to a new trend.


49 Id. at 8–9. According to Centers for Medicare and Medicaid Services (CMS), in calendar year 2016, there were 6,146 total hospitals participating in Medicare, along with 11,956 home health agencies, 15,274 skilled nursing facilities, 254,133 labs, 2,080 outpatient physical therapy/speech pathology facilities, 4,153 rural health clinics, 7,723 federally qualified health centers, 5,529 ambulatory surgical centers, 193 comprehensive outpatient rehabilitation facilities, and 4,473 hospices. Also, there are 1,249,691 total non-institutional providers (e.g., physicians and nurse practitioners) participating in the Medicare program. It is difficult to glean what such participation is as a percentage relative to total hospitals, as available data does not necessarily track the same data points. For example, the American Hospital Association (AHA) in 2018 states that there is a total of 5,534 “registered” hospitals in the U.S. AM. HOSP. ASS’N, FAST FACTS ON U.S. HOSPITALS (2018), https://www.aha.org/system/files/2018-02/2018-aha-hospital-fast-facts.pdf [https://perma.cc/8N78-HVZ2]. “Registered hospitals are those hospitals that meet the AHA’s criteria for registration” that may or may not also be members of the AHA. Id. Individual provider statistics are also challenging, but based on census data there were approximately 916,264 actively licensed physicians in the U.S. See Aaron Young et al., A CENSUS OF ACTIVELY LICENSED PHYSICIANS IN THE UNITED STATES, 2014, 101 J. MED. REG. 8, 11 (2015).

50 31 U.S.C. § 3729(a)(1); False Claims Act Penalties, FINDLAW (2018), http://employment.findlaw.com/whistleblowers/false-claims-act-penalties.html [https://perma.cc/EC2L-AUBT] (“Under the text of the FCA, those who submit fraudulent claims to the government are subject to a civil penalty of between $5,000 and $10,000 for each claim. However, because the Act allows for inflationary adjustments, as of 2016, violators now face penalties of between $10,781.40 and $21,562.80 per claim.”). The civil penalty assessed per claim was increased as of February 3, 2017 to the limits referenced above. Civil Monetary Penalties Inflation Adjustment for 2017, 82 Fed. Reg. 9131, 9133 (Feb. 3, 2017) (to be codified at 28 C.F.R. § 85.3(a)(9)). Note that with respect to what amounts are necessary to be remitted, courts have taken different approaches regarding what might constitute the amount of the overpayment. Some prosecutors have sought, and
that an FCA claim is based on an underlying violation of the Antikickback Statute\textsuperscript{51} or knowing violation of the Physician Self-Referral Statute (otherwise known as the Stark Law).\textsuperscript{52} not only would the penalties under the FCA apply, but penalties for violations of the Antikickback Statute and Stark Law would also apply, adding additional penalties of $21,916 per claim for each violation of the Antikickback Statute\textsuperscript{53} and penalties ranging from a maximum of $24,253 per claim or $161,692 for a fraudulent scheme under the Stark Law.\textsuperscript{54}

Given the potential penalties and damages associated with the FCA, not to mention reimbursement of funds (often for services that were in fact rendered), liability under the FCA is an incredibly high-stakes game for those in the health care industry. It also means the possibility of a very lucrative monetary “reward,” or windfall, to a potential whistleblower who might be willing to bring the claim.\textsuperscript{55} It is this combination of factors that has made the FCA such an effective tool for the federal government and such a source of stress and consternation for providers, suppliers, manufacturers, and courts have awarded, any and all monies paid to a provider pursuant to any claim that is considered fraudulent. Other courts have sought only the difference between the amount that was paid in excess of the amount that would have been paid if the service had been billed properly (e.g., the difference between the reimbursement paid for the appropriate DRG level vs. the amount paid for the highest DRG level). See United States v. Mackby, 339 F.3d 1013, 1017 (9th Cir. 2003) (noting that the judgment against the plaintiff did not exceed the Excessive Fines Clause because the government could have sought damages for 8,499 claims “[s]ince the use of [fraudulent use of Mackby’s father’s UPIN] led to liability, all 8,499 claims constitute violations of the FCA” but the government chose to only seek damages for the claims that were submitted that exceeded a billing cap).

\textsuperscript{51} The federal Antikickback Statute imposes penalties for “knowingly and willfully [offering or paying] any remuneration (including any kickback, bribe, or rebate) directly or indirectly, overtly or covertly, in cash or in kind” in return for referring “an individual to a person for the furnishing or arranging for the furnishing of any item or service for which payment may be made in whole or in part under a Federal health care program . . . .” 42 U.S.C. § 1320a-7b(b)(2) (2012).

\textsuperscript{52} The Stark Law prohibits a physician (or the physician’s immediate family member, as defined in the statute) from making referrals for certain services known as “designated health services” to any entity with which the physician has a “financial relationship.” 42 U.S.C. § 1395nn(a)(1).

\textsuperscript{53} 28 C.F.R. § 85.3(a)(13) (2017). The penalties were increased on February 3, 2017. Civil Monetary Penalties Inflation Adjustment for 2017, 82 Fed. Reg. at 9133 (Feb. 3, 2017) (to be codified at 28 C.F.R. § 85.3(a)(13)).


\textsuperscript{55} While the percentage of the qui tam relator’s “award” has varied since 1863, current recovery amounts under Section 3730(d)(1) are “at least 15 percent but not more than 25 percent of the proceeds of the action or settlement of the claim” for suits in which the federal government intervenes and under Section 3730(d)(2) are “not less than 25 percent and not more than 30 percent of the proceeds of the action or settlement.” 31 U.S.C. § 3730(d)(1)–(2).
others potentially liable under this statute.56 Facing penalties and damages sometimes upward of hundreds of millions of dollars, these devastating outcomes have pushed a majority of defendants to settle their claims.57 Even if the claims may be explainable or defensible or when the relators might have only part of the facts, when faced with the possibility of an FCA suit many entities will settle such claims with the federal government in lieu of taking their chances with the court system.58 In fact, of the “Significant False Claims Act Settlements & Judgment” reported by the federal government for years 2009–2016, only one of the forty reported cases were judgments as opposed to settlements.59

This is not to say that the mere filing of an FCA claim equals success on the merits or that a defendant is unable to ever successfully defeat an FCA claim. On the contrary, the vast majority of amounts recovered in FCA cases result from cases in which the U.S. government has intervened, amounting to only about 25 percent of all qui tam cases.60 While there has been an upward trend in success of qui tam relators who proceed on their own (i.e., achieve settlement or a favorable judgment after the DOJ has declined to intervene), defendants are ultimately successful in defeating most qui tam claims that qui tam relators


57 It is difficult to glean from existing public data sources the sheer number of settlements versus judgments under the FCA, as the data that is reported is reported as amounts recovered from both settlements and judgments. Reading between the lines a little on some of the information reported, it seems the vast majority of major cases are settled and thus a majority of the monetary recovery amounts are settlements as opposed to successful judgments in court. See generally U.S. DEPT OF JUSTICE, FACT SHEET: SIGNIFICANT FALSE CLAIMS ACT SETTLEMENTS & JUDGEMENTS FISCAL YEARS 2009–2016 (2016) [hereinafter FACT SHEET], https://www.justice.gov/opa/press-release/file/918366/download [http://perma.cc/HKY8-D2RX] (citing to a total of forty major recoveries in seven years and $19.3 billion in recovery amounts and noting that only one of the forty cases involved a judgment versus a settlement agreement).

58 See id.

59 Id. It should be noted that of those cases that were considered “Health Care Fraud” all reported cases involved settlements. The one case that resulted from a judgment was part of the “Other Fraud Recoveries” category and involved a global financial institution that was found to have violated the Department of Agriculture’s Supplier Credit Guarantee Program. Id. at 10–11.

60 Eric Topor, Intervention in False Claims Act Lawsuits: Is It Make or Break?, BLOOMBERG LAW (Apr. 24, 2017), https://www.bna.com/intervention-false-claims-n73014460786/ [https://perma.cc/4W4B-F6DA]. Note that there are also a portion of FCA claims that are filed directly by the DOJ in its capacity. For example, in the year 2016, approximately 4 percent of the total amount recovered under the FCA resulted from non-qui tam cases. Id.; see also Justice Dep’t Recovers Over $3.7 Billion, supra note 7 (noting that $3.4 billion of the $3.7 billion in total recovery was due to qui tam lawsuits and a total of 669 qui tam lawsuits filed).
pursue in their own capacity.\textsuperscript{61} Thus, while the threat of the
government intervening in the claim often encourages settlement,
the ability to avoid a government intervention may actually
result in greater ability of the defendant to succeed in defeating
the claim. The threat of the potential penalties and likelihood of success \textit{after} the
government has intervened, however, is so
great that despite some success in non-intervened cases,\textsuperscript{62} entities
are nevertheless motivated to settle any alleged claims.

1. The Rise of Implied False Certification Cases

As use of the FCA increased following the 1986
amendments, so too did the sophistication and expansion of the
types of claims that might be actionable under the FCA. In
reviewing FCA jurisprudence between 1986 and 1994, most
claims alleged fraud through factual misrepresentations
regarding the services themselves, such as physicians billing for
services that were never rendered,\textsuperscript{63} clinics billing for services
that were not medically necessary,\textsuperscript{64} or providers billing for
higher levels of care than were actually provided.\textsuperscript{65} In addition
to allegations of these “factualy false” claims,\textsuperscript{66} prosecutors and relators began alleging fraud arising out of misrepresentations
related to compliance with an underlying statute, law, or regulation.67 This was first recognized as a viable claim in the case of Ab-Tech Construction, Inc. v. United States. In Ab-Tech, the alleged false claim was that an executive certified compliance with the eligibility requirements under the then-current version of the Small Business Act,68 but the company was not in compliance with certain aspects of such law.69

As the viability of this type of claim began to take hold in various courts, it also made its way into the health care context, with the United States Court of Appeals for the Second Circuit providing the most comprehensive analysis of this issue—in the case of Mikes v. Straus.70 The Mikes court ultimately concluded that the allegations—the relator alleged that her former physician partners were violating the FCA because of their failure to properly calibrate a piece of medical equipment in accordance with industry guidelines—did not constitute a violation of the FCA.71 The court nevertheless recognized that violations of the FCA could encompass not only claims that make misrepresentations about the facts of a particular claim, but misrepresentations about legal compliance related to the rendering of services in connection with a claim, otherwise known as an implied false certification.72

In recognizing this as a viable claim, however, the Mikes court was quick to identify its hesitancy about permitting this rule to be too expansive in the health care context:

The Ab-Tech rationale, for example, does not fit comfortably into the health care context because the False Claims Act was not designed as a blunt instrument to enforce compliance with all medical regulations—but rather only those regulations that are a precondition to payment.73

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67 Id. at 699.
69 See Ab-Tech Constr., Inc. v. United States, 31 Fed. Cl. 429, 434 (Fed. Cl. 1994), aff’d, 57 F.3d 1084 (Fed. Cir. 1995) (“The payment vouchers represented an implied certification by Ab-Tech of its continuing adherence to the requirements for participation in the 8(a) program. Therefore, by deliberately withholding from SBA knowledge of the prohibited contract arrangement with Pyramid, Ab-Tech not only dishonored the terms of its agreement with that agency but, more importantly, caused the Government to pay out funds in the mistaken belief that it was furthering the aims of the 8(a) program. In short, the Government was duped by Ab-Tech’s active concealment of a fact vital to the integrity of that program. The withholding of such information—information critical to the decision to pay—is the essence of a false claim.”).
70 Mikes, 274 F.3d at 696–702.
71 Id. at 699.
72 Id. (“An implied false certification claim is based on the notion that the act of submitting a claim for reimbursement itself implies compliance with governing federal rules that are a precondition to payment.”).
to payment—and to construe impliedly false certification theory in an expansive fashion would improperly broaden the Act’s reach.\textsuperscript{73}

Thus, in an attempt to limit the application of this theory of liability, the court noted that for a plaintiff to sustain an implied false certification claim, the plaintiff must show that the underlying statute, rule, or regulation is a condition of payment.\textsuperscript{74} Moreover, the court specified that its requirement that the underlying regulation be a condition of payment was distinct from a requirement of materiality, which was a requirement that many courts already imposed on claims arising under the FCA.\textsuperscript{75} The court did not determine how to apply the materiality requirement or if it should be implied, rather, it stated: “We rule simply that not all instances of regulatory noncompliance will cause a claim to become false. We need not and do not address whether the Act contains a separate materiality requirement.”\textsuperscript{76}

\textsuperscript{73} Id. The court went on to also state that health care and regulation of the provision of health services has typically been a matter of local law and thus should not necessarily be enforced on a wide-spread basis by the federal government. Id. at 700.

\textsuperscript{74} Id. at 697. The court noted that it was following the Fourth, Fifth, Ninth, and District of Columbia Circuits in its position regarding condition of payment; however, it is not clear that those circuits have necessarily maintained that position. Id. The District of Columbia Circuit later reversed its position regarding implied false certifications. See United States v. TDC Mgmt. Corp., 288 F.3d 421, 426 (D.C. Cir. 2002). Further, the Supreme Court in its opinion in Escobar cited to the District of Columbia as holding in the case of United States v. Science Applications Int’l Corp. that “conditions of payment need not be expressly designated as such to be a basis for False Claims Act liability.” Escobar, 136 S. Ct. at 1999 (citing United States v. Sci. Applications Int’l Corp., 626 F.3d 1257, 1269 (D.C. Cir 2010)). Likewise, while the \textit{Mikes} court mentions the Fifth Circuit for supporting the theory of implied certification based on violations of conditions of payment and the Seventh Circuit case in \textit{United States v. Sanford-Brown, Ltd.} for seemingly rejecting the theory of implied false certification, the Fifth Circuit has not really asserted a specific position that aligns with either circuit. See United States v. Sanford-Brown, Ltd., 788 F.3d 696, 711–12 (7th Cir. 2015); \textit{Mikes}, 274 F.3d at 697; see also United States \textit{ex rel.} Steury v. Cardinal Health, Inc., 625 F.3d 262, 268 (5th Cir. 2010) (“The implied-certification theory of liability under the FCA ‘is based on the notion that the act of submitting a claim for reimbursement itself implies compliance with governing federal rules that are a precondition to payment.’ This Court has not yet recognized the implied-certification theory. . . . We need not resolve the issue today, because in any event the factual allegations in Steury’s amended complaint provide no basis for implying a false certification.” (quoting \textit{Mikes}, 274 F.3d at 699)).

\textsuperscript{75} See, e.g., Harrison v. Westinghouse Savannah River Co., 176 F.3d 776, 785 (4th Cir. 1999) (“Liability under each of the provisions of the False Claims Act is subject to the further, judicially-imposed, requirement that the false statement or claim be material. Materiality depends on ‘whether the false statement has a natural tendency to influence agency action or is capable of influencing agency action.’” (footnote omitted) (quoting United States \textit{ex rel.} Berge v. Bd. of Trustees of Univ. of Ala., 104 F.3d 1453, 1459 (4th Cir. 1997))).

\textsuperscript{76} \textit{Mikes}, 274 F.3d at 697.
2. Circuit Splits Abound

As more and more cases alleging FCA violations related to underlying laws, rules, or regulations made their way through various courts, the courts have developed differing approaches to the theory of implied false certification. Several circuit courts agreed with the Mikes court, finding that an implied false certification claim must be based on noncompliance with a condition of payment.\(^77\) Contrary to the position of the Mikes court, however, the First Circuit in United States ex rel. Hutcheson v. Blackstone Medical, Inc. abandoned the Mikes court’s categories and labels on the basis that such terms were not supported by the actual text of the FCA and might narrow the FCA in unintended ways.\(^78\) The Blackstone Medical court further held that FCA already imposes limitations in the form of the materiality requirement and the scienter requirement.\(^79\) In addition to the First Circuit, the District of Columbia Circuit reversed one of its earlier opinions, adopting the more liberal standard first articulated in Ab-Tech and later adopted by the First Circuit, that implied false certification claims are subject to existing scienter and materiality requirements.\(^80\) Finally, it should be noted that at least one circuit formerly rejected the theory of implied false certification entirely. The Seventh Circuit took the position that it was declining to join other circuits recognizing an implied false certification theory on the basis that it seemed unreasonable that an institution—in this case, an educational institution under Department of Education regulations—would be required on an ongoing basis to comply with thousands of pages of federal statutes and regulations for the purpose of assessing liability under the FCA.\(^81\)

In the midst of this circuit split, the question of the viability of an implied false certification claim and how one would analyze it under the FCA was further complicated when Congress enacted amendments to the FCA in 2009 under the Fraud Enforcement and Recovery Act of 2009 (FERA).\(^82\) Section 3729(b)(4) resolved a separate circuit split regarding the proper

\(^77\) See, e.g., United States ex rel. Wilkins v. United Health Grp., Inc., 659 F.3d 295, 309-10 (3d Cir. 2011); United States ex rel. Chesbrough v. VPA, P.C., 655 F.3d 461, 468 (6th Cir. 2011).


\(^79\) Id. at 388.


\(^81\) United States v. Sanford-Brown, Ltd., 788 F.3d 696, 711–12 (7th Cir. 2015).

definition of materiality under the FCA by adopting a formal statutory definition that reads: “having a natural tendency to influence, or be capable of influencing, the payment or receipt of money or property.”83 The DOJ and courts have treated such definition as a relatively low bar for materiality.84 Although two circuits had adopted the position that the plaintiff must prove materiality in order to sustain an implied false certification claim, the changes to FERA did not necessarily affect or impact the ongoing circuit split regarding the viability or application of implied false certification claims.85 This was due to the fact that it was not obvious after the change to “materiality” under FERA whether the new definition actually applied to implied false certification claims.86 Specifically, the word “material” does not actually appear in Section 3729(a)(1)(A), which is the statute under which implied false certification claims are typically brought.87 Rather, the word “material” appears in Section 3729(a)(1)(B), addressing fraud by a party causing another party to submit a claim88 and Section 3729(a)(1)(G), addressing so-called reverse false claims in which a party knowingly retains money to which it was not entitled.89 Thus, for those courts that

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83 31 U.S.C. § 3729(b)(4) (2012). FERA was enacted primarily for the purposes of addressing perceived accountability lapses that led to the economic collapse of 2008, but included in its provisions “important clarifications to current criminal and civil fraud statutes to ensure that law enforcement has the tools it needs to prevent and punish these frauds, as well as to recover taxpayer money lost to these frauds.” S. Rep. No. 111-10, at 1–2 (2009) https://www.congress.gov/111/crpt/srpt10/CRPT-111srpt10.pdf [https://perma.cc/Z23Z-T9WW]. Prior to enactment of FERA, there was no definition of “material” under the statute and thus there was a split among the circuits about what “material” meant for purposes of claims under the FCA. Under FERA, Congress ultimately adopted the definition utilized by the Seventh Circuit in United States v. Rogan. United States v. Rogan, 517 F.3d 449, 452 (7th Cir. 2008) (quoting Kungys v. United States, 485 U.S. 759, 770 (1988)) (citing Neder v. United States, 527 U.S. 1, 16 (1999)). This was contrary to some other circuits that proposed a stricter “outcome materiality” definition; that is, “a falsehood or misrepresentation must affect the government’s ultimate decision whether to remit funds to the claimant in order to be ‘material.’” United States v. Southland Mgmt. Corp., 288 F.3d 665, 676 (5th Cir. 2002), reh’g en banc granted by United States v. Southland Mgmt. Corp., 307 F.3d 352 (5th Cir. 2002).
84 See Joan H. Krause, Holes in the Triple Canopy: What the Fourth Circuit Got Wrong, 68 S. C. L. REV. 845, 851 (2017) (“While FERA’s ‘natural tendency’ test did not specifically address the debate, many courts nonetheless interpreted the legislation as adopting the lower ‘claim materiality’ threshold.”).
85 Id.
86 Id. at 850–51.
87 Id.
88 31 U.S.C. § 3729(a)(1)(B) (any person who “knowingly makes, uses, or causes to be made or used, a false record or statement material to a false or fraudulent claim”).
89 Id. § 3729(a)(1)(G) (any person who “knowingly makes, uses, or causes to be made or used, a false record or statement material to an obligation to pay or transmit money or property to the Government, or knowingly conceals or knowingly and improperly avoids or decreases an obligation to pay or transmit money or property to the Government”). A good example of a “reverse false claim” that might be actionable under Section 3729(a)(1)(G) is when a hospital becomes aware that it has violated the
had adopted the position that implied false certification claims should simply be limited by the existing materiality standard, the new statutory definition provided some further confusion about whether such standard would thus apply to implied false certification claims.\textsuperscript{90}

II. THE ESCOBAR OPINION AND ITS AFTERMATH

A. The Escobar Opinion

It was with this backdrop that the case of Universal Health Services v. United States ex rel. Escobar made its way to the Supreme Court.\textsuperscript{91} Amid confusion about whether the theory of implied false certification was even valid, and, if so, how one assesses whether liability should attach to the underlying law, statute, or regulation on which the claim is premised, the Supreme Court opted to review and decide a case involving an analysis of state Medicaid regulations.\textsuperscript{92} Escobar involved allegations against a Massachusetts mental health clinic owned and operated by Universal Health Services that had treated a teen-aged girl, a Massachusetts Medicaid beneficiary, for mental health issues over the period of five years.\textsuperscript{93} After seeing several different providers at the clinic, the girl, Yarushka Rivera, was diagnosed with bipolar disorder and was later prescribed treatment medication by an individual at the clinic claiming to be a doctor.\textsuperscript{94} Unfortunately, Ms. Rivera had an adverse reaction to the medication, causing seizures and her eventual death.\textsuperscript{95} After Rivera’s death, the family was notified that only one of the

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\textsuperscript{90} Escobar, 136 S. Ct. at 2002 (“We need not decide whether § 3729(a)(1)(A)’s materiality requirement is governed § 3729(b)(4) or derived directly from the common law.”).

\textsuperscript{91} Id. at 1989. Simultaneous to Escobar, there were three other cases that had also petitioned the Supreme Court for certiorari regarding the theory of implied false certification. See United States ex rel. Miller v. Weston Educ., Inc., 784 F.3d 1198 (8th Cir. 2015) (holding that defendant could be liable under the FCA because noncompliance with Title IV is material); United States ex rel. Nelson v. Sanford-Brown, Ltd., 788 F.3d 696 (7th Cir. 2015) (holding that the implied false certification theory is not valid under the FCA); United States ex rel. Badr v. Triple Canopy, Inc., 775 F.3d 628 (4th Cir. 2015) (holding that the government pleads an implied false certification claim when it alleges facts that a request for payment is made and the requestor has knowingly withheld information about its noncompliance with material contractual requirements in submission of such claim).

\textsuperscript{92} Escobar, 136 S. Ct. at 1996–97.

\textsuperscript{93} Id. at 1996–97.

\textsuperscript{94} Id.

\textsuperscript{95} Id.
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five providers who saw Rivera was actually properly licensed in accordance with Massachusetts law and that the nurse who had prescribed the medication did so without authority.\footnote{Id. The Court noted that “the practitioner who prescribed medication to Yarushka, and who was held out as a psychiatrist, was in fact a nurse who lacked authority to prescribe medications absent supervision” and further observed that the person who diagnosed Rivera with bipolar disorder represented herself as a psychologist with a PhD, but she had obtained her degree from an online unaccredited institution and had been rejected for licensure in the state. Id.} In all, twenty-three of the employees of the mental health clinic did not have appropriate licenses and lacked appropriate qualifications, all of which was in violation of applicable regulations under the state’s Medicaid program.\footnote{Id.}

Following a complaint by Rivera’s family, the state Medicaid agency issued a report identifying over twelve violations of state Medicaid regulations, and Universal Health Services subsequently agreed to a remedial plan.\footnote{Id.} The family then filed a lawsuit alleging that Universal Health Services’ violation of Massachusetts Medicaid regulations was an implied false certification and thus a violation of the FCA.\footnote{Id. at 1997–98. State Medicaid regulations require clinics such as the one at which Rivera was treated to have certain types of providers on staff based on their licensure classification and also require certain supervision of other staff members. Universal Health Services was not following these rules, but was nevertheless billing for services rendered to patients as if such rules were being followed. Id. at 1998.} The district court in the case dismissed the claim on the basis that while the implied false certification theory was valid, the underlying regulations were not conditions of payment.\footnote{Id.} The First Circuit reversed, however, finding that submission of a bill is an implicit communication that it is conforming to all relevant rules and the regulations were clearly material “because they identified adequate supervision as an ‘express and absolute’ condition of payment and ‘repeated[ly] reference[d]’ supervision.”\footnote{Id. at 1998–99.} In granting the petition for certiorari, the Supreme Court thus defined the purpose of its review to determine the scope and validity of the implied false certification theory of liability.\footnote{Id. at 1999.}

In Escobar, the Court established two major holdings. First, in response to the validity of the implied false certification theory, the Court acknowledged the viability of the theory, but noted that such viability was not absolute.\footnote{Id.} Relying on a back-to-basics approach, the Court stated that absent a specific
definition in the statute of what might constitute “fraud,” courts should look to those meanings established under common law fraud claims, which have always included “misrepresentations by omission” if such claims are materially misleading. Thus, in order to distinguish between the types of claims that might be actionable as fraud and the types of claims that would not, the Court established the following two-part test: “first, the claim does not merely request payment, but also makes specific representations about the goods or services provided; and second, the defendant’s failure... makes those misrepresentations misleading half-truths.”

In the second major holding, in response to the scope of the implied false certification theory, the Court rejected the position of the majority of circuits in holding that such claims could only be maintained to the extent that the underlying law or regulation was expressly designated as a condition of payment. Rather, the Court stated, there is no statutory basis for limiting claims only to violations of express conditions of payment and that appropriate limitations already exist to ensure that not every violation of any underlying statute, regulation, or contractual provision would somehow trigger FCA liability. The Court gave the following example in connection with the limitation of scienter: “If the Government failed to specify that guns it orders must actually shoot, but the defendant knows that the Government routinely rescinds contracts if the guns do not shoot, the defendant has ‘actual knowledge.’” Therefore, the federal government should not necessarily be required to label a particular rule or regulation as an express condition of payment in order to signal to contractors what rules or regulations may be material. Such information can be gleaned based on a showing of the government’s past actions or communications and the defendant’s knowledge of such communications.

Indeed, the Court reiterated this position when it provided guidance regarding what might constitute materiality. Although the FCA contains a definition of “material” in the statute, the

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104 Id. at 2001.
105 Id. at 2001.
106 Id.
107 Id.
108 Id. The Court went on to specify that scienter was an additional limitation when it stated, “Likewise, because a reasonable person would realize the imperative of a functioning firearm, a defendant’s failure to appreciate the materiality of that condition would amount to ‘deliberate ignorance’ or ‘reckless disregard’ of the ‘truth or falsity of the information’ even if the Government did not spell this out.” Id. at 2001–02.
109 Id. at 2002–04.
110 31 U.S.C. § 3729(b)(4) (2012) (defining material as “having a natural tendency to influence, or be capable of influencing, the payment or receipt of money or property.”).
Court did not specifically answer the question as to whether such definition was applicable under the implied false certification theory.\textsuperscript{111} Rather, it stated, “We need not decide whether the § 3729(a)(1)(A) materiality requirement is governed by § 3729(b)(4) or derived directly from the common law.”\textsuperscript{112} Instead, the Court looked to the common law understanding of materiality to conclude that to determine if something is material, one “look[s] to the effect on the likely or actual behavior of the recipient of the actual misrepresentation.”\textsuperscript{113}

Using such definition, the Court provided three examples of what might prove whether a claim is or is not material under an FCA claim.\textsuperscript{114} The examples are all based on what the government has communicated is material and what the defendant knows about the government’s past payment actions. First, the Court stated that to prove materiality one might show that “the defendant knows that the Government consistently refuses to pay claims in the mine run of cases based on noncompliance with the particular statutory, regulatory or contractual requirement.”\textsuperscript{115} Second and alternatively, for a defendant to show that a claim is not material, one might show that “the Government pays a particular claim in full despite its actual knowledge that certain requirements were violated.”\textsuperscript{116} Third, a defendant could also show a claim is not material if it shows that “the Government regularly pays a particular type of claim in full despite actual knowledge that certain requirements were violated, and has signaled no change in position.”\textsuperscript{117} Thus, while an underlying statute or regulation being an express condition of payment may be evidence of materiality, it is not dispositive.\textsuperscript{118}

The Court also refused to adopt the government’s more expansive view of materiality. That is, a violation of a statute, regulation, or contractual provision is material if the defendant knows that the government could withhold payment if it became aware of such violation.\textsuperscript{119} In rejecting this more expansive view of materiality, the Court specifically mentioned an example that

\textsuperscript{111} Implied false certification claims are typically brought under Section 3729(a)(1)(A), which provision under the FCA does not contain the word “material” within its language. \textit{Id.} § 3729(a)(1)(A).
\textsuperscript{112} \textit{Escobar}, 136 S. Ct. at 2002.
\textsuperscript{113} \textit{Id.} (alteration in original) (quoting 26 \textsc{Williston on Contracts} § 69:12 (4th ed. 2003)).
\textsuperscript{114} \textit{Id.} at 2003.
\textsuperscript{115} \textit{Id.}
\textsuperscript{116} \textit{Id.} at 2003.
\textsuperscript{117} \textit{Id.} at 2003–04.
\textsuperscript{118} \textit{Id.} at 2003.
\textsuperscript{119} \textit{Id.} at 2004.
had come up in oral argument—the American-made stapler.\textsuperscript{120} The Court noted that it did not think that the FCA was intended to extend liability to a situation in which a regulation requires contractors to purchase American-made staplers, but a contractor subsequently fails to disclose use of foreign stapler.\textsuperscript{121} These examples and similar limitations are littered throughout the opinion: the FCA is “not an all-purpose antifraud statute;”\textsuperscript{122} the materiality standard set forth in the case is “demanding;”\textsuperscript{123} and the FCA is intended to capture fraud and not medical malpractice.\textsuperscript{124}

Thus, a few things are clear from the opinion. First, based on principles of common law fraud, FCA liability can include fraud that is related to a material misrepresentation of a misleading half-truth, which further includes express misrepresentations and also omissions (i.e., implied false certifications).\textsuperscript{125} Second, when contemplating what types of implied false certification claims should be actionable, claims should not be limited to those premised on an express condition of payment, but rather should extend to any misleading half-truth that is material to the government as part of the contract—like guns that do not shoot.\textsuperscript{126} Third, materiality should be a demanding standard based on the effect on the government’s behavior (likely or actual) of the alleged misrepresentation.\textsuperscript{127} Accordingly, the government’s knowledge that a contractor used a foreign-made stapler in violation of a regulation would not result in FCA liability.\textsuperscript{128}

Like many Supreme Court opinions, the \textit{Escobar} opinion answered a few questions and raised a few more. Now, nearly two years removed from \textit{Escobar}, the lower courts are grappling with how to apply the guidelines. While some aspects of the opinion appear to be easily applied across jurisdictions, there are a number of other areas that are causing a great deal of confusion and variability in terms of application of the new materiality standard.
B. Reaction of the Department of Justice

Following a Supreme Court opinion, one of the biggest drivers of how the case is interpreted is the DOJ’s position in subsequent cases and briefs regarding how such opinion should be viewed by lower courts. It could be said that the DOJ was both a winner and a loser in the Escobar opinion. Perhaps the most successful aspect of Escobar from the DOJ’s perspective is the fact that the case does extend liability under the FCA to implied false certification cases and goes so far as to include underlying rules or regulations that could be conditions of payment or conditions of participation. In contrast, however, the Court rejected a broad materiality standard and instead stressed that the materiality standard should be demanding and should protect against reading Escobar as significantly expanding liability under the FCA. Consequently, Escobar seems to be the new favorite defense for entities accused of violations of the FCA. The DOJ, on the other hand, seems to be focused on trying to convince courts that Escobar actually changes very little in terms of FCA precedent and that the opinion simply reiterated how lower courts were always interpreting implied false certification claims. Indeed, one case noted in its opinion, “[t]he United States argues that ‘nothing in Escobar purports to overrule preexisting cases like Wilkins that affirmed a broader view of implied certification than the Supreme Court needed to address in Escobar.’”

1. “Specific Misrepresentations”

There are two primary aspects of the Escobar opinion that the DOJ has focused on in its briefs and in arguments to the court. First, in an effort to keep the ability to bring implied false certification claims as expansive as possible, the DOJ has taken the position that the two-part test articulated by the Supreme Court for what may be necessary to show when alleging an implied false certification is simply one way to plead

131 See id.; see also Krause, supra note 84, at 851.
132 Baruch & Wollenberg, supra note 129.
133 Id.
an implied false certification claim. Specifically, the DOJ has seized onto the introductory phrase in the two-part test: “[W]e hold that the implied certification theory can be a basis for liability, at least where two conditions are satisfied.” In an effort to retain the ability to bring an implied false certification claim that does not necessarily involve a claim making a “specific representation,” the DOJ has been arguing in some cases that the requirements set forth in Escobar are not exclusive. By way of example, the DOJ has argued in certain pleadings: “Although Escobar affirmed the implied false certification theory in situations where the defendant provides some description of the goods or services that render the claim misleading, the Court did not suggest that this is the only circumstance when the implied false certification theory applies.” At this point, most courts seem to be applying both conditions set forth in Escobar, either without discussion of the phrase “at least” or, instead, rejecting altogether the argument that Escobar provides merely one circumstance for proving an implied false certification claim. The DOJ position has been

135 The government has been most successful making this argument in California because of an existing case, United States ex rel. Ebeid v. Lungwitz, in which the Ninth Circuit held that it is not necessary for the plaintiff to provide an express representation in order to sustain an implied false certification claim. United States ex rel. Ebeid v. Lungwitz, 616 F.3d 993 (9th Cir. 2010). Therefore, after Escobar, the DOJ and relators’ counsel have all been arguing that the two-part test articulated in Escobar does not overrule Ebeid, but rather specifies another means by which an implied false certification case can be proven. See United States’ Statement of Interest Regarding Universal Health Services, Inc. v. United States ex rel. Escobar at 5, United States ex rel. Mateski v. Raytheon Co., No. 2:CV06-3614ODW(FMOx)(C.D. Cal. Aug. 16, 2016), ECF No. 163 [hereinafter United States’ Statement of Interest] (“[T]he United States urges the Court to find that the Ninth Circuit’s decision in Ebeid remains good law, and that claims for payment by a contractor impliedly certify that the contractor has complied with all material terms of its contract.”).

136 Escobar, 136 S. Ct. at 2001 (emphasis added).

137 Baruch & Wollenberg, supra note 129 (citing United States’ Statement of Interest, supra note 135, at 1–2).

138 Id.

139 See, e.g., United States ex rel. Kelly v. Serco, Inc., 846 F.3d 325, 332 (9th Cir. 2017) (affirming the grant of summary judgment for the defendant on the basis that there was no “specific representation” about Serco’s performance made by its submission of public vouchers to the Department of Defense); United States ex rel. Sheet Metal Workers Int’l Ass’n v. Horning Investments, LLC, 828 F.3d 587, 592–93 (7th Cir. 2016) (applying the test while omitting the “at least in certain circumstance” caveat); United States v. Sanford-Brown, Ltd., 840 F.3d 445, 447 (7th Cir. 2016) (applying the test as if the conditions must be met); United States ex rel. Schimelpfenig, Civil Action No. 11-4607, 2017 WL 1133956, at *5–6 (E.D. Pa. Mar. 27, 2017) (holding that despite the arguments from the government on this issue, the Third Circuit already adopted Escobar’s requirements regarding specific representations in the case of United States ex rel. Whatley v. Eastwick College, 657 Fed. App’x 89, 94 (3d Cir. 2016)); but see United States ex rel. Badr v. Triple Canopy, Inc., 857 F.3d 174, 178 (4th Cir. 2017) (holding that “specific representation” requirement related to falsity of the claim and that an invoice that simply lists the number of guards and hours worked could be considered false because of its omissions).
successfully adopted by a few district courts, however, and the specific question as to whether presentation of the two conditions are required in each implied false certification theory has been certified as a question to the Ninth Circuit.

While this appears to be a significant issue for the DOJ relative to the FCA generally, it is not entirely clear that it will actually be a significant issue in cases involving health care companies. Many of the courts that have addressed this issue have compared the “specific representations” in Escobar—which contains specific codes regarding the types of services that were provided and corresponding regulations about the types of licensed providers who were supposed to provide the service—to rather vague representations such as invoices or reports. Unlike some situations involving the Department of Defense or the Department of Education, which often involve submission of reports or submission of simple invoices, health care claims seem to automatically involve a “specific representation” based on the

140 As noted above, the DOJ has been most successful in making this argument in California because of existing case law that held that it was not necessary for a claim to make specific representations to be actionable under the FCA. See Ebeid, 616 F.3d at 995; see also supra note 135 and accompanying text. For examples of cases in which this has been an issue, see United States v. Celgene Corp., 226 F. Supp. 3d 1032, 1044–45 (C.D. Cal. Dec. 28, 2016) (“Celgene argues that Brown cannot proceed on an implied certification theory because she cannot satisfy the two conditions mentioned in Escobar. Celgene misreads that decision. The Court explicitly declined to ‘resolve whether all claims for payment implicitly represent that the billing system is legally entitled to payment.’Nor were the two conditions intended to describe the outer reaches of FCA liability: the Court stated that liability could be found ‘at least where these conditions were satisfied.’” (citation omitted) (quoting Universal Health Servs., Inc. v. United States, 136 S. Ct. 2001 (2016))); United States ex rel. McBride v. Halliburton Co., 848 F.3d 1027, 1034 (D.C. Cir. 2017); United States v. DynCorp Int’l, LLC, 253 F. Supp. 3d 89, 99–100 (D.D.C. 2017); United States ex rel. Landis v. Tailwind Sports Co., 234 F. Supp. 3d 180 (D.D.C. 2017); but see United States ex rel. Mateski v. Raytheon Co., Case No. 2:06-cv-03614-ODW(KSx), 2017 WL 1954942, at *3 (C.D. Cal. Feb. 10, 2017) (“Raytheon argues that Escobar limits the implied false certification theory to instances where the claim for payment contains specific representations regarding the goods or service rendered, as opposed to merely requesting payment. Mateski and the Government respond that Escobar’s holding is not so broad, and that the Supreme Court expressly withheld judgment on whether an implied false certification theory of liability could encompass claims that simply request payment—thus leaving intact the Ninth Circuit’s prior case law on that specific issue. After briefing on this Motion was complete, the Ninth Circuit issued its opinion in United States ex rel. Kelly v. Serco, Inc. which applied Escobar to an FCA claim under an implied false certification theory. The Court concludes that Escobar, as interpreted by Kelly, requires that the claim contain specific representations to be actionable.” (internal citation omitted)).

141 Rose v. Stephens Inst., No. 09-CV-05966-PJH, 2016 WL 6393513, at *3 (N.D. Cal. Oct. 28, 2016). The district court certified the following question to the Ninth Circuit, “whether Escobar’s ‘two conditions’ are necessary conditions for liability.” The court also certified three other questions to the Ninth Circuit with this question. As of April 13, 2018, the Ninth Circuit has not issued an opinion in this case.

142 Badr, 857 F.3d at 178 (noting that representations were invoices); Kelly, 846 F.3d at 332 (noting that the reports contained no “specific representations” as was the case in claims submitted in Escobar).
fact that each claim will include information regarding the service that was claimed to be rendered and applicable regulations typically tied to how the service is rendered.\textsuperscript{143} Even FCA allegations that might stem from the filing of cost reports would likely be interpreted to contain a distinct representation regarding specific costs that were reported to the Centers for Medicare and Medicaid Services (CMS) based on the understanding of the regulations regarding what costs are and are not reimbursed.\textsuperscript{144} Thus, while this may be an issue in connection with FCA claims involving Department of Defense or Department of Education, it seems most health care claims will already meet the test set forth in \textit{Escobar}. Given that, even if a majority of courts adopt the position that the two-part test set forth in \textit{Escobar} is not exclusive, it is unlikely to affect the ability to bring health care claims because they appear to meet both the \textit{Escobar} test and any other less exacting test that could be applied in the courts.

2. Existing “Materiality” Definition

The second issue that the DOJ has focused on in subsequent briefs and oral arguments relates to how the materiality inquiry that the Court articulated in \textit{Escobar} relates to the definition of “material” in the statute and whether the directive that the standard be “demanding” changes how a court should assess materiality.\textsuperscript{145} Consistent with its position generally on the impact of \textit{Escobar} on existing FCA enforcement, the DOJ is largely taking the position that the opinion does not indicate a change to the manner in which courts have been assessing materiality; that is, “materiality” under the FCA should be assessed based on whether the fraud (or in the case of implied false certification, the noncompliance) has a “natural tendency to influence” the government in its payment decision.\textsuperscript{146}


\textsuperscript{145} Baruch & Wollenberg, supra note 129.

\textsuperscript{146} See United States \textit{ex rel.} Johnson v. Golden Gate Nat’l Senior Care, L.L.C., 223 F. Supp. 3d 882, 891 (D. Minn. 2016) (holding that the requirement of materiality as defined by Section 3729(b)(4) of the FCA must be met to maintain a claim under Section 3729(a)(1)(A) or 3729(a)(1)(B) and the materiality factors set forth in \textit{Escobar} are to be used as a guide). As noted above, the “natural tendency to influence” standard
Although the Court in Escobar specifically declined to opine as to whether that specific statutory definition of material applied to implied false certification cases, the DOJ is taking the position that the standard applied in Escobar is not a heightened standard beyond the usual standard of a “natural tendency.”

Thus, the DOJ argues the Escobar materiality inquiry is simply for the purpose of determining whether the omission or misrepresentation has the natural tendency to influence.

While lower courts do universally seem to be embracing the assertion set forth in Escobar that the materiality standard should be demanding, courts have expressed some confusion and have taken varied approaches regarding whether Escobar’s clarification on how to assess materiality in implied false certification cases is a new standard or should be assessed somehow in conjunction with an historical standard. For example, some courts have taken the position that the standard set forth in Escobar has little distinction from the “natural tendency” standard:

In analyzing materiality, we noted that a material falsehood was one that was capable of influencing the Government’s decision to pay. We explained that the standard was a high one intended to keep FCA liability from attaching to “noncompliance with any of potentially hundreds of legal requirements” in a contract. Applying the standard, we found Triple Canopy’s omissions material for two reasons: common

arises out of the definition of “material” under Section 3729(b)(4) of the FCA that was enacted as part of FERA, which itself was adopted based on long-standing application of that definition under applicable case law. See supra notes 69–71 and accompanying text. The definition that was adopted under FERA arose out of case law, as courts for years had viewed the materiality standard as one simply being capable or having a natural tendency to influence and not requiring a showing that such influence was successful. See United States v. Rogan, 517 F.3d 449, 452 (7th Cir. 2008) (“Instead [Rogan] argues that the omissions were not material. By this he does not mean the usual definition, under which a ‘statement is material if it has “a natural tendency to influence, or [is] capable of influencing, the decision of the decisionmaking body to which it was addressed.”’” (quoting Neder v. United States, 527 U.S. 1, 16 (1999))).


sense and Triple Canopy’s own actions in covering up the noncompliance. That conclusion perfectly aligns with [Escobar].

Some other courts have analyzed materiality under both the definitional standard and independently under the Escobar standard. In the case of United States ex rel. Petratos v. Genentech, Inc., the United States Court of Appeals for the Third Circuit identified that the FCA defines materiality as “having a natural tendency to influence” and described the Supreme Court’s ruling in Escobar as providing “guidance as to how the materiality requirement should be enforced.” The court goes on to seemingly analyze the “guidance” potentially as its own test—separate and apart from the statutory definition—to state that the “Supreme Court’s guidance . . . also militates against a finding of materiality.” Many courts seem to be taking an approach similar to that of the Third Circuit, viewing the standard set forth in Escobar as the factors necessary for the purpose of meeting the statutory definition under the FCA.

Two observations arise in connection with this particular issue. First, the Escobar Court’s decision not to address the relationship between the statutory definition of “material” found in Section 3729(b)(4) and the guidance it set forth regarding how to assess materiality has caused confusion among the lower courts about how to square these two standards. Despite the Court’s clear choice not to utilize the statutory definition in Escobar, many courts seem compelled by either precedent or statutory interpretation to utilize the definition as part of any analysis. It would seem then, that the DOJ is realizing some success as it relates to its argument that Escobar has not really altered the broadly-applied natural tendency standard. It does appear, however, that while courts may be applying the statutory definition, they are simultaneously endorsing the idea that Escobar firmly establishes that the materiality standard for FCA cases is intended to be demanding and rigorous. Consequently, when courts continue to utilize the statutory definition, the manner in which such courts are considering whether an omission or misrepresentation has a natural tendency to influence or is capable of influencing the decision maker is analyzed through a more rigorous and exacting lens.

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150  Badr, 857 F.3d at 178 (quoting United States ex rel. Badr v. Triple Canopy, 775 F.3d 628, 637 (4th Cir. 2015), vacated and remanded by 136 S. Ct. 2504 (2016)).

151  Petratos, 855 F.3d at 489.

152  Id. at 490 (emphasis added).

153  See supra note 149 and accompanying text.

154  See supra notes 149–152.

155  See supra note 140.
III. FINDING PROOF OF MATERIALITY

Predictably, one of the most closely watched aspects of the Escobar opinion is how lower court cases interpret the guidelines for materiality and the type of proof that may be necessary (or is not sufficient) to meet this demanding standard. While the Court has instructed that selling the government guns that do not shoot despite no express regulation indicating such would be material and using foreign-made staplers notwithstanding a law requiring use of American-made staplers would not be material, the opinion itself does not provide examples for what might fall in between these two extremes.\(^\text{156}\)

In this middle area lies the Court’s direction regarding regulations that are expressly conditions of payment. The Court made clear that a regulation that is expressly a condition of payment is relevant to materiality, although not dispositive.\(^\text{157}\) In order to reconcile the previously common analysis regarding whether a regulation was a condition of payment with the new position under Escobar,\(^\text{158}\) some lower courts have dedicated a great deal of analysis to whether a regulation is an express condition of payment and how that conclusion might affect the materiality analysis.\(^\text{159}\) While lower courts have continued to analyze whether a regulation is an express condition of payment, how courts have utilized their conclusion on this issue for purposes of assessing materiality has varied, with some using it as evidence of materiality and others utilizing it to hold that Escobar made clear this finding alone does not establish materiality.\(^\text{160}\) Although this seems to have made it more difficult to determine prior to the filing of any FCA claim whether a particular regulation is or is not material, the outcome certainly seems to be in furtherance of the Supreme Court’s intention that lower courts look more at whether the fraud is the type that would rise to the level of common law fraud.

\(^{157}\) Id. at 2001.
\(^{158}\) Many of the cases analyzing the Escobar opinion have done so on a remand from a higher court because the lower court holding was based on a finding that the implied certification theory did or did not apply based on the fact that the regulation was or was not an express condition of payment. See, e.g., Badr, 857 F.3d at 177–78; United States ex rel. Miller v. Weston Educ., Inc., 840 F.3d 494, 503–04 (8th Cir. 2016).
\(^{159}\) Miller, 840 F.3d at 504.
A. Treatment of Conditions of Payment

In *United States v. Triple Canopy, Inc.*—a case that the United States Court of Appeals for the Fourth Circuit remanded back to the lower court on the same day that the Supreme Court released its *Escobar* opinion—the specific regulation upon which the claim was premised was not an express condition of payment. Based on *Escobar*, the Fourth Circuit reaffirmed its previous conclusion that, absent an express condition of payment, materiality could be proven based on “commons sense” and Triple Canopy’s own actions to conceal any noncompliance. In support of its assertion that its previous holding was consistent with the materiality standard in *Escobar*, the court stated that “Guns that do not shoot are as material to the Government’s decision to pay as guards that cannot shoot straight.” Similarly, the Eighth Circuit held in *United States ex rel. Miller v. Weston Educational, Inc.* that although falsifying grade records and attendance records was not expressly a condition of payment, the misrepresentation was clearly material because recordkeeping itself was a precondition—in three different ways—for participation in the government program and thus payment under the program.

In contrast, the Third Circuit analyzed a regulation that was expressly a condition of payment, but relied on *Escobar*’s holding that such finding was not dispositive to find that the plaintiff failed to plead that CMS consistently refused to pay the type of claims set forth in the complaint. Rather, the plaintiff conceded that such claims were consistently reimbursed. The plaintiff had argued that whether a claim is material should not focus on the government’s decision to pay, but instead should look to whether the false statements were material to those submitting the claims—the providers in this instance. In support of this position, the plaintiff cited to the following line in *Escobar*: “materiality ‘look[s] to the effect on the likely or actual behavior of the recipient of the alleged misrepresentation.’”

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161 *Badr*, 857 F.3d at 179.
162 *Id.* at 178.
163 *Id.* at 179.
164 *Miller*, 840 F.3d at 504.
165 *Petratos*, 855 F.3d at 485.
166 *Id.* at 485–86 (involving claims against a pharmaceutical company that it was causing providers to make claims for the drug Avastin that were not “reasonable and necessary”).
167 *Id.* at 490–91.
168 *Id.* at 491 (alteration in original) (quoting *Universal Health Servs., Inc. v. United States ex rel. Escobar*, 136 S. Ct. 1989, 2002 (2016)).
The court specifically rejected this idea, however, stating that such reference in the context of the *Escobar* opinion was referring to fraud against the federal government (not fraud against a third party who then bills the federal government), which the Third Circuit claimed was most consistent with other holdings. Similar to the Third Circuit, the Ninth Circuit also analyzed a regulation that was determined to be a condition of payment. Despite this finding, the court nevertheless dismissed the claim on the basis that, among other things, the government’s behavior in the past reflected the fact that it did not view the allegedly falsified reports as helpful or necessary for purposes of payment. In both instances, the court found that the fact that the regulation was an express condition of payment was irrelevant due to the evidence presented that the federal government had consistently paid similar types of claims in the past despite awareness of fraudulent activity.

As the cases above demonstrate, while conditions of payment and how such finding affects materiality remains a common issue, it seems that the thrust of the *Escobar* opinion—and thus the primary emphasis with lower courts—is the newly established focus on the government’s behavior and the defendant’s knowledge of such behavior. Moreover, these cases seem to also indicate a shift away from the statutory “natural tendency” standard, which would only require proof that the misrepresentation *would have a tendency* to affect the government’s decision to pay, toward a materiality standard that requires evidence that the government was in fact influenced—it knew of the noncompliance and chose to pay the claim regardless.

Because the Supreme Court provided guidance regarding both what might be necessary to substantiate materiality and what might negate materiality, some courts have used evidence to prove a claim is material and some have used evidence to prove a claim is not material. For example, in *Abbott v. BP Exploration & Production, Inc.*, the Fifth Circuit dismissed the FCA claim on the basis that the government was aware of BP Exploration & Production, Inc.’s actions and chose not to

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169 *Id.* at 491–92 (citing United States *ex rel.* Garzione v. PAE Gov’t Servs., Inc., 670 Fed. App’x 126, 127 (4th Cir. 2016)); see United States v. Sanford-Brown, Ltd., 840 F.3d 445, 447 (7th Cir. 2016).
171 *See id.* at 334.
172 *See generally Kelly, 846 F.3d 325; Petratos, 855 F.3d 481.*
173 *Escobar, 136 S. Ct.* at 2002–03.
174 *See, e.g., Kelly, 846 F.3d at 334.*
suspend operations or to revoke the contract. This government inaction thus showed that the government did not find BP Exploration & Production, Inc.’s noncompliance material.\textsuperscript{175} Quoting Escobar’s directive that “courts need not opine in the abstract when the record offers insight into the Government’s actual payment decisions,” the District of Columbia Circuit has found similarly that a claim did not establish materiality because it was not clear that the government actually used the alleged fraudulent data for purposes of payment.\textsuperscript{176} Likewise, an allegation of a regulation as a condition precedent to payment was insufficient for proving materiality absent additional evidence that the government found this material through its payment actions.\textsuperscript{177} In contrast, evidence used to show materiality—as opposed to a showing that a regulation was not material—has included language in the regulations and testimony from regulators themselves about whether or not such regulations are material to the government’s payment decision\textsuperscript{178} or a lack of knowledge on the part of the government during the time that claims were paid.\textsuperscript{179}

\textit{B. The Impact of “Timing”}

While the Supreme Court in Escobar provided guidelines about types of evidence that would prove materiality, it provided little information regarding when such behavior might occur,

\begin{itemize}
\item \textsuperscript{175} Abbot v. BP Expl. & Prod., Inc., 851 F.3d 384, 388 (5th Cir. 2017). The case involved allegations that BP had inadequate documentation and further documentation that was not appropriately approved by engineers in connection with the building of an oil production platform. U.S. Congress conducted an investigation into the matter, as did the Department of Interior. The Department of Interior concluded in a report in 2011 that the allegations were without merit. \textit{Id.} at 386.
\item \textsuperscript{176} United States \textit{ex rel.} McBride v. Halliburton Co., 848 F.3d 1027, 1032 (D.C. Cir. 2017) (citing Escobar, 136 S. Ct. at 2002).
\item \textsuperscript{177} See United States \textit{ex rel.} Scharff v. Camelot Counseling, No. 13-cv-3791 (PKC), 2016 WL 5416494, at *8 (S.D.N.Y. Sept. 28, 2016) (finding that the plaintiff had failed to plead materiality in connection with alleged violations of mental health regulations due to failure to keep adequate notes, incorrectly billing time spent with patients, and maintenance of records that contained patient signatures).
\item \textsuperscript{178} See United States v. Dynamic Visions, Inc., 216 F. Supp. 3d 1, 16 (D.D.C. 2016) (“Finally, Plaintiff provides the declaration of the Medicaid Director of the District of Columbia Medicaid Program that states that DHCF does not, in fact, reimburse providers for services provided where there is no plan of care, where the plan of care has not been signed by a physician or advanced practice nurse, where the plan of care has been signed but only after services had been rendered, or where a signed plan of care exists but the services billed exceed the scope of that plan.”).
\item \textsuperscript{179} See United States \textit{ex rel.} Escobar v. Universal Health Servs., Inc., 842 F.3d 103, 111–12 (1st Cir. 2016) (holding on remand that the claims were material even though there was evidence that the government continued to pay the claims because it was during a time of a lack of government knowledge).
\end{itemize}
either before or after the fraud has been alleged.\textsuperscript{180} For example, in \textit{Triple Canopy, Inc.}, in addition to the Fourth Circuit's finding that materiality was simply "common sense," the court found that the defendant's own behavior substantiated materiality.\textsuperscript{181} Specifically, the court found that the defendant's attempt to conceal that many of its guards did not possess the necessary certification as marksman pursuant to the contract was clearly representative of the fact that the defendants knew that the government would not pay the claims if it knew the guards did not have such qualifications.\textsuperscript{182} In other words, the defendant would never have felt compelled to make the fraudulent representations unless the defendant suspected that the government would not pay the claims if it knew.\textsuperscript{183} The court also cited to the government's behavior as evidence, noting that when the government became aware that it was possible that Triple Canopy's guards did not meet necessary qualifications, the federal government did not renew the contract with the company and also immediately intervened in the FCA case after the whistleblower filed the claim.\textsuperscript{184} In this case, the court used prospective knowledge of the defendant and retrospective behavior of the government to show materiality.

A similar example of when a court looked to the retrospective behavior of the government for purposes of proving materiality is the First Circuit's analysis on remand of the \textit{Escobar} case.\textsuperscript{185} Universal Health Services argued that the state Medicaid program was aware of the company's violations because the plaintiffs, prior to filing the FCA case, had actually filed a complaint with the state Medicaid program and the Medicaid program continued to pay claims despite being made aware of the allegations by the family.\textsuperscript{186} The First Circuit rejected this reasoning, however, on the basis that "mere awareness of allegations concerning noncompliance with

\textsuperscript{180} See, e.g., United States \textit{ex rel.} Badr v. Triple Canopy, Inc., 857 F.3d 174, 179 (4th Cir. 2017) (utilizing the fact that the DOJ intervened on the FCA case after it was filed as proof of materiality); United States \textit{ex rel.} Kelly v. Serco, Inc., 846 F.3d 325, 337 (9th Cir. 2017) (holding that although the federal government had noted a particular recordkeeping requirement as a condition of payment prior to the filing, this was nevertheless not dispositive of a finding of materiality because the government did not rely on the reports for purpose of payment); \textit{Escobar}, 842 F.3d at 112 (holding that although the state of New York was arguably aware of the fraud after investigation of the provider following a complaint, the fact that the state continued to pay the claim despite this knowledge was not determinative of a finding that the claims were not material).

\textsuperscript{181} \textit{Badr}, 857 F.3d at 176–78.

\textsuperscript{182} \textit{Id.} at 176.

\textsuperscript{183} \textit{Id.}

\textsuperscript{184} \textit{Id.} at 179.

\textsuperscript{185} \textit{See Escobar}, 842 F.3d at 105.

\textsuperscript{186} \textit{Id.} at 111–12.
regulations is different from knowledge of actual noncompliance” and there was no evidence of actual knowledge by the government such that it would negate a finding of materiality.\textsuperscript{187} The court does not opine as to whether its finding of materiality would be negated if the government continued to pay the claims despite actual knowledge, but the opinion does seem to suggest that to the extent that one intends to prove a claim is not material, actual knowledge of noncompliance would be a necessary prerequisite.\textsuperscript{188}

Most of the cases analyzing materiality based on the government’s knowledge of the noncompliance have relied on evidence regarding the government’s knowledge and action or inaction prior to the filing of the FCA claim, and few at this point have identified the scheme itself as indicative of materiality.\textsuperscript{189} Thus, while it appears that most courts are examining past behavior, the possibility that evidence of behavior retrospective to the filing of an FCA claim or, indeed the alleged fraud itself, does have the potential for confusion and challenges. Distinct from an express condition of payment, which would have put a government contractor on notice as to whether violation of such regulation would be subject to liability under the FCA, the new materiality standard requires a case-by-case analysis as to the government’s knowledge of each action and the defendant’s awareness of the government’s knowledge. While the materiality standard might more closely resemble claims asserting common law fraud, it provides potentially less clarity to contractors regarding the types of behavior that may or may not be actionable under the FCA and what interactions with government regulators might mean for future FCA liability.

\textsuperscript{187} Id. at 112 (“[T]here is no evidence in the complaint that MassHealth, the entity paying Medicaid claims, had actual knowledge of any of these allegations (much less their veracity) as it paid UCH’s claims.”).

\textsuperscript{188} Id. (“Because we find no evidence that MassHealth had actual knowledge of the violations at the time it paid the claims at issue, we need not decide whether actual knowledge of the violations would in fact be sufficiently strong evidence that the violations were not material to the government’s payment decision so as to support a motion to dismiss in this case.”).

\textsuperscript{189} See, e.g., United States ex rel. Petratsos v. Genentech Inc., 855 F.3d 481, 492 (3d Cir. 2017); United States ex rel. Campie v. Gilead Sci., Inc., 862 F.3d 890, 905–06 (9th Cir. 2017) (holding that, while the FDA was at least aware of the noncompliance because of a warning letter and an inspection and noncompliance letter and the government continued to pay claims, FDA’s failure to withdraw approval of the drug does not suffice to provide the claims were material for purposes of FCA); A1 Procurement, LLC v. Thermoct, Inc., No. 2:15cv15, 2017 WL 2881350, at *6 (E.D. Va. July 5, 2017). But see Badr, 857 F.3d at 178.
IV. ARGUMENT: THE IMPACT OF ESCOBAR ON HEALTH CARE COMPANIES

As courts of appeals and district courts wade through allegations against contractors with the Department of Defense, Department of Education, and Department of Health and Human Services under the FCA, the Escobar opinion has provided helpful guidance by affirming the validity of implied false certification claims and by emphasizing that the materiality standard under the FCA is demanding and rigorous and thus should be applied strictly. Like many Supreme Court opinions, however, it has also raised a number of questions and issues, resulting in inconsistent application of different aspects of implied false certification claims. The DOJ seems to be doing its best to argue that Escobar has changed little to nothing about the legal analysis for implied false certification claims. While this has had at least some success, it does seem that most courts view Escobar not simply as affirmation to permit implied false certification claims, but a directive to apply a stricter and more precise application of implied false certification claims. As such, most courts appear to be at least considering Escobar to require analyzing regulations and materiality with a different lens.

It should be noted, however, that while many courts appear to be giving credence to this more demanding standard, it is not entirely clear whether these same cases would have come out differently had Escobar instead adopted the position of the majority of circuits permitting implied false certification claims to proceed only in connection with regulations expressly designated as conditions of payment. While a few courts have in fact permitted claims to proceed that are seemingly based on

\[190\] See Justice Dep’t Recovers Over $3.7 Billion, supra note 7 (noting that FCA recoveries arise out of the health care industry, but also from “defense and national security, food safety and inspection, federally insured loans and mortgages, highway funds, small business contracts, agricultural subsidies, disaster assistance, and import tariffs”).


\[192\] Baruch & Wollenberg, supra note 129.

\[193\] See discussion supra note 140.

\[194\] In perhaps one of the most notable examples of this application to date, a district judge in Florida negated a $350 million judgment against a nursing home operator for alleged violations of the FCA on the basis that “[t]he defendants argue persuasively that the relator failed to offer evidence of materiality, defined unambiguously and required emphatically by Universal Health Services, Inc. v. Escobar.” See Jeff Overley, Escobar Erases Nursing Co.’s $350M FCA Verdict, LAW360 (Jan. 11, 2018, 6:27 PM), https://www.law360.com/articles/1001439 [https://perma.cc/38RG-NYPN].
violations of conditions of participation, the large bulk of FCA claims that actually proceed to court—in lieu of settlement—are typically dismissed on a motion for summary judgment. Further, in the bulk of these cases, the government has reviewed the case and chosen not to intervene, and thus the relator is proceeding on his/her own. While intervention in a case should not be used in all instances as a marker for the viability of the case itself, there are many cases in which the government declines to intervene or proceed to settlement because the claim does not have sufficient merit to be successfully argued in court. Thus, given that the vast majority of the examples of the application of Escobar are in cases making their way through the court system—and thus have been unsealed due to the government’s declination to intervene—it is challenging to understand and fully comprehend the impact that Escobar and the new materiality standard actually has on FCA claims. The bulk of legal analysis and interpretation of Escobar has thus far and will continue to arise out of claims that may have been flawed or legally unsustainable for entirely other reasons. Given that, it is somewhat dubious or dangerous to claim that Escobar has entirely changed the legal landscape such that the new exacting standard is dismissing vastly more claims than would be dismissed prior to Escobar. Courts seem to be aware that Escobar stands for the notion that implied false certification claims must

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196 In a review of cases from the federal courts of appeals in the twelve months following the Escobar opinion that cited to Escobar in some manner in their opinion, there were only six cases of the thirty-two that did not affirm the district court opinion and, of those twenty-nine cases, nearly all affirmed the dismissal of the FCA claim in the district court. Note that while the vast majority of these cases were FCA cases, at least a few were related to another law, but utilized Escobar for purposes of analyzing materiality. See, e.g., In re Vivendi, S.A. Securities Litigation, 838 F.3d 223 (2d. Cir. 2016) (citing to Escobar to support the legal premise that “half-truths . . . can be actionable misrepresentations” (quoting Universal Health Servs. v. United States ex rel. Escobar, 136 S. Ct. 1989, 2000 & n.3 (2016))). Many of the cases involved dismissal of the claim for failure to plead with particularity or failure to state a claim and were not actually dismissed based on either failure to plead a specific representation in an implied false certification claim or meet the new materiality standard. See, e.g., United States ex rel. McGrath v. Microsemi Corp., 690 Fed. App’x 551, 552 (9th Cir. 2017) (affirmed dismissal under Rules 8(a) and 9(b) of the Federal Rules of Civil Procedure); Olson v. Fairview Health Servs. of Minnesota, 831 F.3d 1063, 1066 (8th Cir. 2016) (affirmed dismissal under Rule 12(b)(6) of the Federal Rules of Civil Procedure); United States & Wisconsin ex rel. Presser v. Acacia Mental Health Clinic, LLC, 836 F.3d 770, 772–73 (7th Cir. 2016) (affirmed dismissal of the bulk of claims for failure to state a claim under Rule 9(b) of the Federal Rules of Civil Procedure).

197 See FRAUD STATISTICS, supra note 43, at 1.

be viewed rigorously, but this does not appear to be the sole or singular reason that courts are dismissing FCA claims.\textsuperscript{199}

It is possible that there could be some clarity on this front, given the DOJ’s current position regarding how department prosecutors should address FCA claims in which the DOJ has chosen not to intervene.\textsuperscript{200} In an internal memorandum dated January 10, 2018, Director Michael D. Granston noted to attorneys in the Commercial Litigation Branch, Fraud Section that while the number of \textit{qui tam} cases has increased greatly over the last few years, the DOJ’s intervention rate has “remained relatively static.”\textsuperscript{201} Because the government still expends a substantial amount of money to monitor and participate in non-intervened cases, Director Granston instructed prosecutors to consider whether to seek a dismissal of claims that the prosecutors believe lack substantial merit.\textsuperscript{202} While Granston stated that dismissal should be used “only where truly warranted,” the memorandum is a directive to prosecutors to be more proactive regarding not just declining to intervene in meritless cases, but actively working towards curbing meritless claims.\textsuperscript{203} Thus, while this directive will not eliminate all non-intervened cases, there should be perhaps fewer meritless claims applying the \textit{Escobar} analysis. This may in turn provide a more accurate assessment of how stringently \textit{Escobar} will be applied to meritorious claims.

\textbf{A. Assessing Common Law Fraud}

Regardless of whether the reason certain cases are dismissed is standards set forth in \textit{Escobar} or because of other pleading or evidentiary challenges, there is nevertheless a great body of precedent that is building regarding the impact of \textit{Escobar} on implied false certification claims. Beyond the umbrella themes related to a rigorous and demanding standard, the Supreme Court seems to be attempting to steer FCA application, which

\textsuperscript{199} See, e.g., D’Agostino v. EV3, Inc., 845 F.3d 1, 6 (1st Cir. 2016) (affirming dismissal based on plaintiff being barred by the public disclosure bar); Hagerty \textit{ex rel.} United States v. Cyberonics, Inc., 844 F.3d 26 (1st Cir. 2016) (affirming dismissal based on failure to plead with particularity); United States \textit{ex rel.} Whatley v. Eastwick College, 657 Fed. App’x 89 (3d Cir. 2016).


\textsuperscript{201} Id. at 1.

\textsuperscript{202} Id.

\textsuperscript{203} Id. at 2–3.
has ballooned into what can be described as “big business” for the federal government, towards a back-to-basics application akin to common law fraud. As is the case of common law fraud, the Court’s new analysis advises lower courts that there is no strict definition of “fraud,” rather the court must look at whether a particular admission or omission of certain details was a misrepresentation made for the purpose of misleading or defrauding. The Court’s examples bear this out: contractors that are selling the government guns, but such guns do not actually shoot, are perpetuating a fraud and contractors that are selling the government guns, but are using foreign-made staplers to staple their invoices as opposed to American-made staplers, even if in violation of a federal regulation, are not perpetuating a fraud. Thus, the Court is telling relators, prosecutors, and courts alike that they should stop focusing on the regulation and the characteristics of the regulation and instead focus on the act itself and whether such act is intended to defraud.

There is no doubt that Escobar has changed the manner in which implied false certification claims are pleaded and the type of evidence that parties are putting forth in order for the claims to be successful—or at least to survive the summary judgment stage. Certainly, the prosecutors’ bar and relators’ bar are closely monitoring lower court cases analyzing Escobar for purposes of litigation strategy and careful pleading.

In addition to their watchful eyes, however, there are a whole host of health care transactional attorneys, compliance officers, medical coding professionals, and health care regulatory experts trying to also determine how Escobar is changing the legal landscape. Specifically, those entities most commonly subject to the FCA, particularly health care providers and suppliers, are paying considerably close attention for purposes of assessing compliance risk and managing legal liability. With thousands of statutes and regulations—both federal and state—governing the services and operations of

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204 See supra notes 7, 39–40 and accompanying text.

205 See RESTATEMENT (SECOND) OF TORTS § 525 (AM. LAW INST. 1977) (defining common law fraud as “[o]ne who fraudulently makes a misrepresentation of fact, opinion, intention or law for the purpose of inducing another to act or to refrain from action in reliance upon it, is subject to liability to the other in deceit for pecuniary loss caused to him by his justifiable reliance upon the misrepresentation”).


207 See generally Paul F. Khoury et al., Government Contractors Deal with the Uncertain Shadow of Universal Health Services, Inc. v. United States ex rel. Escobar, 52 PROCUREMENT LAW. 12 (2017).
health care providers and suppliers, such entities might submit hundreds of claims per day all impliedly certifying compliance with any number of statutes, rules, and regulations to which such provider or supplier is subject.\footnote{Entities that participate in the Medicare program (both providers and suppliers) are subject to federal Medicare statutes, rules, and regulations as participants. See DEPT OF HEALTH & HUMAN SERVS., MEDICARE ENROLLMENT APPLICATION (CMS-855A) 48 (Expires Aug. 2019), https://www.cms.gov/Medicare/CMS-Forms/CMS-Forma/Downloads/cms855a.pdf [http://perma.cc/46CE-ATNE] (“I agree to abide by the Medicare laws, regulations and program instructions that apply to this provider. The Medicare laws, regulations and program instructions are available through the Medicare contractor. I understand that payment of a claim by Medicare is conditioned upon the claim and the underlying transaction complying with such laws, regulations, and program instructions . . . , and on the provider’s compliance with all application conditions of participation in Medicare.”). Entities may also choose—separately—to participate in state Medicaid programs. Because the Medicaid program is a program that is jointly operated and funded by the states and the federal government, there are both federal statutes, rules, and regulations that govern Medicaid providers and also state statutes, rules, and regulations that govern Medicaid providers operating in a particular state. See generally Federal Policy Guidance, MEDICAID.GOV, https://www.medicaid.gov/federal-policy-guidance/federal-policy-guidance.html [http://perma.cc/CVNB-MY52]; see also, e.g., TENN. CODE ANN. § 71-5-102 (2017) et seq.; TENN. COMP. R. & REGS. 1200-13-01 (2016) et seq.; see also Financing & Reimbursement, MEDICAID.GOV, https://www.medicaid.gov/medicaid/financing-and-reimbursement/ [https://perma.cc/235B-JZ8H] (“The Medicaid program is jointly funded by the federal government and states.”).}

Based on the Escobar opinion, at least some of these underlying statutes, rules, and regulations (collectively, the “regulations”) are clearly material enough that noncompliance with such regulations could result in FCA liability.\footnote{Escobar, 136 S. Ct. at 1996, 2002–04.} It is equally clear, however, that some of these regulations are more for purposes of dictating how care should be delivered or certain operations should take place, but are not entirely material to the government’s payment decision. Trying to now decipher the distinction between those regulations based on the guidance from Escobar and the opinions analyzing Escobar, all with unique facts and unique regulations, may be the biggest challenge yet to be faced.

One argument consistently averred by defendants prior to the opinion in Escobar was that to the extent that implied false certification claims are viable, liability must be limited to express false certification claims in order to provide defendants with “fair notice” regarding what might be fraudulent under the FCA.\footnote{Id. at 2002.} In response to Universal Health Service’s use of this argument in Escobar, the Court stated:

Universal Health’s approach [of limiting implied false certification claims to regulations that are expressly designated conditions of payment] risks undercuts [the FCA’s] policy goals. The Government might respond by designating every legal requirement
an express condition of payment. But billing parties are often subject to thousands of complex statutory and regulatory provisions. Facing False Claims Act liability for violating any of them would hardly help would-be defendants anticipate and prioritize compliance obligations. And forcing the Government to expressly designate a provision as a condition of payment would create further arbitrariness. Under Universal Health’s view, misrepresenting compliance with a requirement that the Government expressly identified as a condition of payment could expose a defendant to liability. Yet, under this theory, misrepresenting compliance with a condition of eligibility to even participate in a federal program when submitting a claim would not.  

It is certainly a valid point that to the extent that implied false certification claims were limited to express conditions of payment that one reaction from the government could be simply to identify all claims as conditions of payment. It seems unlikely, however, that CMS would revise the myriad regulations to designate all regulations as conditions of payment merely to create liability under the FCA. This is especially true if the government is truly only interested in litigating FCA claims that are material to the government’s decision to pay the claim and there is a genuine interest in preventing parasitic lawsuits under the FCA. Further, to the extent that all regulations were reclassified or amended to be expressly designated as conditions of payment, there would be no need for a materiality standard or a scienter requirement at all under an FCA claim.

To the extent that all regulations were expressly designated as conditions of payment, then essentially all such regulations would be considered automatically material and all defendants would have the necessary scienter because they would be on notice that all regulations are expressly designated as condition of payment. Thus, two of the most basic, necessary FCA pleading requirements—excluding other general pleading requirements such as particularity or failure to state a claim or other procedural challenges such as the public disclosure bar—would be met without any requirement that the plaintiffs have to actually prove such requirements. Given the efforts

211 Id.
212 Id.
213 See generally Joel D. Hesch, Restating the “Original Source Exception” to the False Claims Act’s “Public Disclosure Bar” in Light of the 2010 Amendments, 51 U. RICH. L. REV. 991 (2017); Aaron Rubin, To Present Bills or Not to Present? An In-Depth Analysis of the Burden of Pleading in Qui Tam Suits, 8 SETON HALL CIR. REV. 467 (2012).
214 The Court in Escobar discussed the relationship between the requirements of materiality and scienter in connection with a FCA claim. The Court stated, “A defendant can have ‘actual knowledge’ that a condition is material without the Government expressly calling it a condition of payment.” Escobar, 136 S. Ct. at 2001. “What matters is not the label the Government attaches to a requirement, but whether
over the years to ensure the proper balance between capturing fraud against the federal government and protecting against parasitic lawsuits, it seems an unlikely result that Congress or administrative agencies would adopt a position that would make all regulations preconditions to payment or effectively eliminate the need to affirmatively prove materiality and scienter.

B. Escobar’s Effect on Compliance and Risk Management

The question remains, then, even if it may be unlikely that the federal government would actually have adopted the tactic of expressly designating each regulation as a condition of payment, how will the Court’s rejection of a bright-line rule under Escobar affect compliance and risk management? Will contractors be able to adequately assess risk and prioritize compliance based on the guidance and dictates of Escobar? Because the health care industry represents the entity with the largest FCA remittance to the federal government, this industry seems an appropriate example for purposes of exploring the potential compliance impact of the Escobar opinion. With the thousands of regulations that apply to health care providers and suppliers, compliance programs and prospective efforts to reduce legal liability—primarily related to billing and collection—have become a fairly substantial part of the operation of health care entities. Indeed, each year, the Office of Inspector General of the Department of Health and Human Services releases work plans that provide information

the defendant knowingly violated a requirement that the defendant knows is material to the Government’s payment decision.” Id. at 1996. To the extent that the Court had adopted a position that implied false certification claims were required to be conditions of payment, this would meet both materiality and scienter requirements.

215 See supra note 7 and accompanying text.

216 The Office of Inspector General has a webpage dedicated to compliance titled, “Compliance 101” in which it advises providers and suppliers about “health care fraud and abuse laws and the consequences of violating them.” Compliance Education Materials: Compliance 101, Office of Inspector Gen., https://oig.hhs.gov/compliance/101/ [http://perma.cc/VX7B-HZP7]. Compliance and the need for compliance programs has its roots in the 1990s and stems largely from language in the U.S. Sentencing Commission’s promulgation of Federal Sentencing Guidelines for Organizations, which would reduce sanctions against a corporation if such corporation adopted “an effective program to prevent and detect violations of law.” Thomas E. Bartrum & L. Edward Bryant, Jr., The Brave New World of Health Care Compliance Programs, 6 Annals Health L. 51, 55 (1997) (quoting United States Sentencing Guidelines Manual § 8C2.5(f) (1995)). The requirement for an effective compliance program was tested in the settlement proposal to the Delaware Supreme Court in which the court approved a settlement proposal because the court found that that Board of Directors for Caremark International, Inc. was not aware that the company had been violating certain provisions of a federal antibribery law and once the board discovered such issue, it exercised reasonable oversight in accordance with its existing and effective compliance program. See In re Caremark Intern., Inc. Derivative Litigation, 698 A.2d 959 (Del. Ch. 1996).
and guidance to various types of providers and suppliers for the sole purpose of informing such industries about the government’s concerns regarding legal compliance priorities for that particular industry.\footnote{217}

With the myriad regulations governing operations and the exceedingly varied operations of health care entities,\footnote{218} the simple reality is that it is exceptionally difficult for providers and suppliers to be in constant and complete compliance with all health care regulations at all times. This can be seen from the Office of Inspector General (OIG) Work Plan and compliance guidance itself; at any given time, for any given sector of health care, there are a number of different concerns that the OIG cites to regarding what its area of compliance focus is for that particular time period.\footnote{219} Thus, compliance offices must assess all of the various risk factors identified and then not only correct the noncompliance and address the processes going forward, but also prioritize the order in which such action steps will occur.

For example, to the extent that a compliance officer uncovers four to five risk areas during a routine internal audit—or worse yet during an audit by a Medicare contractor or the OIG—the compliance officer must determine which of the risk areas should be addressed first and the manner in which the issues will be addressed.\footnote{220}

\footnote{217}{See Work Plan, U.S. DEPT OF HEALTH & HUM. SERVS., https://oig.hhs.gov/reports-and-publications/workplan/ [http://perma.cc/2QLP-5MAK]. “The Office of Inspector General’s (OIG) work planning process is dynamic and adjustments are made throughout the year to meet priorities and anticipate and respond to emerging issues with the resources available. . . . The OIG Work Plan sets forth various projects including OIG audits and evaluations that are underway or planned to be addressed during the fiscal year and beyond by OIG’s Office of Audit Services and Office of Evaluation and Inspectors.” Id.}

\footnote{218}{A large hospital or health system might operate an inpatient hospital, outpatient clinics, post-acute services, ancillary services (such as imaging services), or other physician services and would be responsible for billing and compliance for each of these types of services that are all governed by unique and distinct rules and regulations. Even if owned by (and all services billed by) a single legal entity, each type of entity is subject to separate Medicare regulations and applicable state regulations. For example, a hospital operating in the state of Tennessee alone would be required to comply with applicable state law. See, e.g., TENN. CODE ANN. § 68-11-1601 et seq. (2017) (establishing a health care facility); id. § 68-11-201 et seq.; TENN. COMP. R. & REGS. 1200-08-01. The hospital would also have to comply with applicable federal law. See, e.g., 42 C.F.R. § 485.50 et seq. (2017) (governing conditions of participation for hospitals). As such health system may increase services, additional laws and regulations become applicable.}

\footnote{219}{The most recent Work Plan, updated in July 17, 2017, lists six different topics in its “What’s New” area. See Work Plan, supra note 217; see also Compliance Guidance, U.S. DEPT OF HEALTH & HUM. SERVS., https://oig.hhs.gov/compliance/compliance-guidance/index.asp [http://perma.cc/2FBS-23BG] (providing links to compliance program guidance for nursing homes, researchers, hospitals, ambulance suppliers, etc.).}

\footnote{220}{See Bartrum & Bryant, supra note 216, at 60–61 (“Few facilities, however, have the resources necessary to adopt an all-inclusive compliance program in one fell
Typically, compliance offices can prioritize risk based on the level of legal exposure for the risk areas. For instance, discovery of errors in billing processes that have resulted in higher reimbursement than is warranted or discovery that a number of leases with referring physicians have expired would result not only in immediate action both to correct the errors on a go-forward basis, but also likely assessment of whether any amounts need to be remitted to the government for overpayments. Thus, what may or may not be actionable under the FCA is of vital importance to a compliance office or officer when assessing risk and trying to prioritize how to and in what manner to assess such risk.

While the result in Escobar may be a better assessment of the kind of fraud that the government is actually concerned about preventing under the FCA, which may ultimately lead to less arbitrary application of the FCA, it is nevertheless a larger challenge for the purpose of utilizing the opinion as guidance on whether a particular instance of noncompliance is or is not actionable under the FCA. Based on the Escobar guidance, it seems that a contracting entity must, at all times, assess the entity’s own knowledge about the government’s position on regulations whether or not the government has communicated in some manner (thus putting the entity “on notice”) about if a particular regulation is material to the government’s decision to pay. Likewise, the entity must monitor the government for communication, both personal to the company as demonstrated by analysis in Triple Canopy, Inc. and on a more general level as demonstrated by analysis in Dynamic Visions, Inc.

Once a billing error has been discovered by an entity, retaining any amounts that have been paid to the entity in excess of amounts the entity is actually owed are considered an overpayment. Under the FCA, it is a violation of the FCA to retain such amounts any longer than sixty days from the date such overpayments were discovered. 31 U.S.C. § 3729(a)(1)(G) (2012). Similarly, permitting a referring physician to lease space without a lease in place—subject to certain exceptions such as certain holdover allowances—may be a violation of either or both the Antikickback Statute and the Stark Law. See 42 U.S.C. § 1320a-7b(b)(2) (2012); 42 U.S.C. § 1395nn(a)(1).

Communication that is “personal” to the company is specific information that may be communicated regarding its particular behavior. In Badr, part of what the Fourth Circuit relied on in arriving at its conclusion was that the government had not renewed its contract with the defendant company and that the DOJ had intervened in the case. These are communications that are specific to Triple Canopy, Inc. itself, not general communication about a statute or rule as it might apply across the industry. See United States ex rel. Badr v. Triple Canopy, Inc., 857 F.3d 174, 179 (4th Cir. 2017).

More general communication is communication that the federal government, specifically the Department of Health and Human Services through CMS
Additionally, the entity must monitor for communication both prior to the alleged fraud and potentially also after the alleged fraud—such as the cancelling of a contract or decision to intervene in the case— to determine whether the government has communicated in some manner regarding its position on whether it will reimburse despite certain noncompliance. While the federal government (and state governments to some extent) publishes guidance and compliance resources, such as the OIG Work Plan and Compliance Program Guidance for various industries, there is no doubt that the government cannot and does not address or communicate about each regulation on a regular basis. Moreover, it is not entirely clear what sort of communication from the government would be sufficient to constitute materiality to the extent that such communication was not specific as to materiality for purposes of FCA. As can be seen from some of the cases mentioned above, there have been cases in which the plaintiff did provide evidence of at least some government communication, but such communication was not sufficient to constitute materiality.

The DOJ has subsequently issued an internal memorandum, since made public, which perhaps will provide some clarity for courts regarding the types of communication on which courts can rely for purposes of application of Escobar’s materiality test. While not specifically tied to FCA cases, the memorandum was issued for the purpose of instructing DOJ attorneys about the impact of what the memorandum refers to as “guidance documents” and their use by the DOJ in connection with litigation. By way of background, the Attorney General had issued an earlier memorandum on November 16, 2017, which prohibited departments “from issuing guidance documents that effectively bind the public without undergoing the notice-and-comment rulemaking process.”

and OIG, communicates about a particular rule, regulation, or compliance within a certain industry. See United States v. Dynamic Visions, Inc., 216 F. Supp. 3d 1, 16 (D.D.C. 2016) (presenting evidence from the Medicaid director about statements she had made regarding the Medicaid department’s position regarding whether a regulation is material to payment).

See Badr, 857 F.3d at 179.

See Compliance Guidance, supra note 219; Work Plan, supra note 217.

See, e.g., cases set forth in supra note 180.


Id. at 1.

Id. The memorandum defines “guidance documents” as “any agency statement of general applicability and future effect, whether styled as ‘guidance’ or otherwise, that is designed to advise parties outside the federal Executive Branch about
General, Rachel Brand, states in the memorandum that the directives set forth in a November 16, 2017, memorandum issued by Attorney General Jeff Sessions applies to the DOJ litigators for purposes of determining the use of guidance documents in affirmative civil enforcement (ACE) actions. Specifically, the 2018 memorandum states, “effective immediately for ACE cases, the [DOJ] may not use its enforcement authority to effectively convert agency guidance documents into binding rules. Likewise, [DOJ] litigators may not use noncompliance with guidance documents as a basis for violations of applicable law in ACE cases.” The 2018 memorandum notes that while such guidance documents cannot be used as if they were binding law, they can be used as evidence to show that a party “had the requisite knowledge” of whatever legal mandate as may be referenced in the guidance documents. The 2018 memorandum will have the effect of likely reducing the number of cases that meet Escobar standards, on the basis that the guidance documents will not be able to be applied in the same ways as if they were a rule or law. But, the intended use of the documents is to aid in being able to prove knowledge of compliance requirements, and thus, knowledge of one’s actions for failure to comply. While these documents might assist in proof of scienter, they might not help in addressing the issues noted above regarding whether such communication is sufficiently clear to indicate materiality.

C. Need for Clarification on Timing

Similarly, it is not entirely clear as to whether the government’s actions can be either general prospective communication or retrospective communication based on the misrepresentation itself. In United States ex rel. Petratos v. Genentech, Inc., the Third Circuit found that although the regulation in question was expressly designated as a condition legal rights and obligations. This memorandum does not apply to adjudicatory actions that do not have aim or effect of bind anyone beyond the parties involved, documents informing the public of agency enforcement priorities or factors considered in exercising prosecutorial discretion, or internal directives, memoranda, training materials for agency personnel.”

\[230\] Id. at n.1.

\[231\] Id. at 2.

\[232\] Id.

\[233\] Id.
of payment (potentially an example of a prospective communication regarding materiality), the plaintiff had failed to provide evidence that the misrepresentations were material to the government’s payment decision because the plaintiff conceded that the government did continue to pay the claims. In contrast, Abbott v. BP Exploration & Production, Inc. relied on an investigation and report conducted by the Department of Interior regarding some specific reporting practices in order to prove that the government’s lack of punishment or change in practices following the issuing of the report was insufficient in showing that compliance with the regulations in question was material.

Thus, trying to decipher the type of communication that will suffice for purposes of proving materiality and at what point such communications are rendered to health care contractors for purposes of the filing of an FCA action appears easier in a courtroom setting—with ample time for the court to consider the various issues and consequences before making a determination—than in the fast-paced and multifaceted setting of the compliance office. This is not to say, however, that the Court’s Escobar decision should have either completely rejected the possibility of implied false certification claims or, alternatively, adopted the position that all implied false certification claims must be based on regulations that are expressly designated as conditions of payment. Certainly, there are cases like that of Yaruska Rivera in which the misrepresentations or fraudulent behavior are so egregious that it would seem to fly in the face of the entire intention behind the FCA to claim that simply because the fraud was against the law instead of related to a specific fact that it should not be actionable. Likewise, consistent with the Court’s stated concerns (and what would have also resulted in a dismissal in the Escobar case), adopting a bright-line rule that limits the applicability of implied false certification claims may arbitrarily create liability for certain regulations over the other, with no basis in the origins or underpinnings of the FCA.

It should be noted that Escobar misrepresentations could be classified as both factual falsities and legal falsities because not only was the clinic in violation of application Medicaid regulations because they did not have the appropriate and properly licensed staff as required by law, but it also lied about the factual nature of the credentials of the individuals working at the clinic. This is characterized as a legal falsity, however, because of how the claim was brought under the FCA and the specific regulation that the clinic was alleged to have violated. Universal Health Servs., Inc. v. United States ex rel. Escobar, 136 S. Ct. 1989, 1997–98 (2016).
Thus, this article does not argue that *Escobar* was wrongly decided or that adopting a different position entirely would have been a better result. Rather, it argues that understanding when a regulation may or may not be material under the FCA is extremely important not just for litigants, but for health care entities and their compliance offices and that the *Escobar* Court’s guidance does not go far enough in providing sufficient details about what liability may lie between guns that do not shoot and foreign-made staplers. While lower court cases are starting to provide a bit more detail regarding what types of noncompliance might look like closer to errant guns and what types of noncompliance look more like foreign staplers, it may take quite some time for courts to arrive at a consensus position on certain regulations or types of regulations. Moreover, to the extent that most cases involve situations in which the federal government has declined to intervene, the majority of cases are dismissed prior to trial and thus it might be easier to determine what is not material as opposed to what is material.\(^{237}\) Through this process, health care entities are thrust into the position of assuming, as least absent very clear evidence to the contrary, that noncompliance with most regulations could be material under the FCA. Entities can feel some comfort in the fact that *Escobar* seems to impose a stricter standard on claims, but that is not helpful for purposes of trying to assess and prioritize risk and compliance concerns in real time.

Given the nature of FCA claims and the time that it takes to bring an FCA claim to resolution, this lack of clarity may also affect settlements—the primary means by which most FCA cases are resolved.\(^{238}\) While *Escobar* enables potential defendants the possibility of arguing against liability, even to the extent that the underlying rule or regulation is an express condition of payment, the opinion also enables the DOJ to argue that nearly any regulation could be sufficiently material for purpose of establishing an FCA claim.\(^{239}\) Without sufficient clarity regarding materiality and an ability to manage risk, entities under investigation might feel greater pressure to settle—despite the possibility of imposition of a stricter standard in court—because the scope of regulations that are potentially material is broader. To the extent that parties feel compelled to settle because of a lack of either knowledge or confidence

\(^{237}\) See *Fraud Statistics*, supra note 43, at 1.

\(^{238}\) See *Fact Sheet*, supra note 57.

\(^{239}\) *Escobar*, 136 S. Ct. at 1995 (holding that implied false certification can be a basis for liability, but it is not limited to claims based only on conditions of payment, but can also include claims based on conditions of participation).
regarding what may be actionable under the FCA, the possibility of parasitic lawsuits will greatly increase.

Moreover, to the extent that materiality can be proven based on evidence of the government’s communication subsequent to the misrepresentations, such as whether or not the government intervened in the case as in *Triple Canopy, Inc.*, the communication between the parties prior to the unsealing of the case and whether a defendant can convince the government to intervene may become even more critical.\footnote{240} To the extent government intervention is proof of materiality, then it would seem that all the government has to do during settlement negotiations is make clear to the defendant its intention to intervene and the defendant will likely feel pressure to settle or face the possibility of a long and protracted litigation—at least unless there are other grounds for dismissal at the pleading stage.

While parties can simply wait and monitor cases in the hopes that enough clarity eventually evolves from the district courts and courts of appeals as they analyze *Escobar*, the more expedient solution might be to encourage greater and more specific clarity from CMS and other state agencies regarding what they really believe to be material. To the extent that this communication is precise and directed, this could be helpful for providers and suppliers to appropriately manage risk and compliance initiatives. If CMS and other state agencies share the same opinions about *Escobar* and how it should impact FCA liability as the DOJ, however, it seems unlikely that this clarity is coming. The DOJ is trying to convince courts to reject those aspects of *Escobar* that would result in greater scrutiny of claims, while at the same time embracing the broader view that implied false certification claims encompass both conditions of payment and conditions of participation.\footnote{241} Nevertheless, greater communication and clarity regarding materiality remains potentially the most expedient and efficient way of providing some much needed detail and transparency for compliance offices about how to assess what may or may not be actionable under the FCA and thus prioritize compliance initiatives and legal risk. Absent this communication, materiality under the FCA may be clear in the more extreme and egregious instances of noncompliance (or alternatively in the most obviously insignificant instances of noncompliance) only, but will remain opaque in the vast amount of the cases in the middle.


\footnote{241} *See supra* notes 196–99 and accompanying text.
CONCLUSION

WILLISTON ON CONTRACTS states: “a misrepresentation must be material in order that the law may take notice of it as a fraud.”242 It is with this backdrop that the Supreme Court tried to ensure that application of the FCA was consistent with its roots: the statute was established to capture fraud against the federal government and that “fraud” is and should be based on the common law principles of what courts know and recognize fraud to be.243 Further, under such common law principles, the legal system is only concerned about fraud that may cause another to take action to their detriment that they otherwise would not have taken but for the fraud.244 And thus, the Court through Escobar is steering lower courts into a back-to-basics approach in which they examine not the type of regulation or the section of a particular code, rule book, or statute in which the regulation happens to be located, but the regulation itself and the government’s communication regarding whether that regulation is or is not material to its payment decision. Such approach does seem most consistent with the origins of the FCA and a good way of assuring that courts and prosecutors stay focused on fraud or misrepresentations that seem to go to the “essence of the bargain.”245 Despite all of this, there are significant challenges in the type of approach that the Court has adopted in Escobar.

While it is clear that violation of a law, rule, or regulation that is part and parcel of the necessary performance of the contract (e.g., if you are selling the government guns, the guns should shoot, even if there is not a statute or regulation that expressly provides that failure to comply would result in the government’s refusal to pay the claim) is material and that a violation of a law, rule, or regulation that is largely unrelated to the necessary performance of the contract (like whether or not the contractor is using American-made office products) is not material, it is not entirely clear what precisely stands in the middle of these two extremes. While being able to argue this point in the context of litigation strategy might be less problematic, trying to use the words of Escobar and some of the interpretations of the lower courts to determine what the compliance risk might be related to a discovery of noncompliance

242 WILLISTON, supra note 113, at § 69:12.
244 See WILLISTON, supra note 113, at § 69:12.
is significantly more difficult. Although adoption of a bright line may have led to arbitrary results, there does need to be an increased emphasis on assisting government contractors, especially providers and suppliers who participate in federal health care programs, with a more clearly articulated position on the types of noncompliance that lie in the mysterious middle of “material.”

Given the types of cases and claims under the FCA that are typically reviewed and analyzed by courts, and also the slow and rather confusing and meandering method and process of developing guidance through case law, it seems necessary to be able to assist compliance offices and companies in prioritizing and assessing risk. This can be done by providing more detail and comment regarding those regulations that CMS and state agencies are truly most concerned. Not only will this communication be key for ongoing compliance and general operations, but it will further guard against dangers that contractors will be compelled in almost all instances to settle for fear of government intervention and how that might impact materiality. Providing this increased communication and direction will assist in assuring that the FCA continues for years to come and strikes the right balance between capturing fraud against the government while protecting innocent actors against parasitic lawsuits.