

PRESS RELEASE

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Monday, December 21, 2020

Two Owners of New York Pharmacies Charged in \$30 Million Covid-19 Health Care Fraud and Money Laundering Scheme

BROOKLYN, NY – An indictment was unsealed in federal court in Brooklyn today charging the two owners of over a dozen pharmacies in New York City and on Long Island, for their roles in a \$30 million health care fraud and money laundering scheme in which they exploited emergency codes and edits in the Medicare system that went into effect due to the COVID-19 pandemic in order to submit fraudulent claims for expensive cancer drugs that were never provided, ordered or authorized by medical professionals. Peter Khaim and Arkadiy Khaimov are charged with one count of conspiracy to commit health care fraud and wire fraud, and one count of conspiracy to commit money laundering. Khaim was separately charged with two counts of concealment money laundering and one count of aggravated identity theft. Khaimov was separately charged with two counts of concealment money laundering. The defendants were arrested this morning and will be arraigned this afternoon before Magistrate Judge Vera M. Scanlon.

Seth D. DuCharme, Acting United States Attorney for the Eastern District of New York; Brian Rabbitt, Acting Assistant Attorney General of the Justice Department's Criminal Division; William F. Sweeney, Jr., Assistant Director-in-Charge, Federal Bureau of Investigation, New York Field Office (FBI); Scott Lampert, Special Agent-in-Charge, Health and Human Services-Office of Inspector General, New York Region (HHS-OIG); Jonathan D. Larsen, Special Agent-in-Charge, Internal Revenue Service-Criminal Investigation, New York (IRS-CI); and Patricia Tarasca, Special Agent-in-Charge, Federal Deposit Insurance Corporation, Office of Inspector General (FDIC-OIG), announced the arrests and indictment.

"As alleged in the indictment, the defendants manipulated information in over a dozen pharmacies to defraud the Medicare program, including by taking advantage of systems that were intended to assist patients during the COVID-19 pandemic, and then went to great lengths to hide their ill-gotten gains through a network of sham companies," stated Acting United States Attorney DuCharme. "This Office and our law enforcement partners are committed to holding accountable those who seek to enrich themselves at the expense of vital taxpayer-funded health care programs upon which so many rely."

"These defendants allegedly lined their own pockets by exploiting Medicare flexibilities that were designed to ensure that patients obtained access to needed medications during the COVID-19 crisis," stated Acting Assistant Attorney General Rabbitt. "Together with our law enforcement partners, the Criminal Division is working to aggressively identify, investigate and prosecute scammers who seek to take advantage of the COVID-19 crisis to defraud our public health care programs."

"We allege Mr. Khaim and Mr. Khaimov used the COVID-19 pandemic as cover to exploit changes in the Medicare system," stated FBI Assistant Director-in-Charge Sweeney. "The changes to this program, funded by taxpayers, were put in place to help fellow citizens obtain needed medications during the pandemic, not line the pockets of fraudsters. Those who attempt to illegally profit from our public funded healthcare programs should remember that taxpayers also fund courts and jails, and behavior like the type announced today will be met with swift action from the FBI and our law enforcement partners. If you are aware of frauds like the one announced today, please contact us at 1-800-CALL-FBI."

"Fraudsters who target the Federal health care system attempt to undermine the integrity of programs that serve millions of individuals. When they leverage a public health emergency to perpetrate schemes, their wanton disregard for the programs and beneficiaries is glaringly clear," stated HHS-OIG Special Agent-in-Charge Lampert. "We are responding aggressively with our law enforcement partners to pursue bad actors and to warn the public about these ongoing scams."

"The defendants allegedly carried out a \$30 million health care fraud and money laundering scheme, siphoning funds meant for patients during the COVID-19 pandemic," stated IRS-CI Special Agent-in-Charge Larsen. "While Americans across the country are in dire need of medical and financial assistance, the defendants allegedly used the stolen proceeds to purchase real estate and luxury items. IRS-CI and our law enforcement partners will continue to work tirelessly to expose COVID-19 schemes and bring those responsible to justice."

"This indictment describes allegations of crimes that are especially egregious and caused significant harm to the programs designed to protect the most medically vulnerable, jeopardizing the health of our Medicare system and then using our nation's financial system to launder proceeds of the fraud," stated FDIC-OIG Special Agent-in-Charge Tarasca. "We appreciate the cooperation of our fellow law enforcement partners as we work to identify and investigate fraud of this type."

According to the indictment, the defendants used COVID-19 emergency override billing codes in order to submit fraudulent claims to Medicare, for which they were paid over \$30 million for cancer medication Targretin Gel 1% including for claims where the medication never was purchased by the pharmacies, prescribed by physicians or dispensed to patients – often during periods when pharmacies were non-operational – and using doctors' names on prescriptions without their permission. The defendants allegedly acquired control over more than a dozen New York pharmacies by paying others to pose as the owners of the pharmacies and hiring pharmacists to pretend to be supervising pharmacists at the pharmacies for the purpose of obtaining pharmacy licenses. Targretin Gel 1% has an average wholesale price of approximately \$34,000 for each 60 gram tube.

The indictment also alleges that with the proceeds of the fraud, the defendants engaged in a money laundering conspiracy by creating sham pharmacy wholesale companies which they named after pre-existing pharmacy wholesalers, and fabricated references to invoices to make it appear that funds transferred from the pharmacies to the sham pharmacy wholesale companies were for legitimate pharmaceutical drug purchases. In the first phase of this conspiracy, the defendants conspired with an international money launderer who arranged for funds to be wired from the sham pharmacy wholesale companies to companies in China for distribution to individuals in Uzbekistan. In exchange, the defendants received cash from an unlicensed money transfer business, minus a commission that was deducted by the money launderer. In the second phase of this conspiracy, when the fraudulent proceeds exceeded the amount of cash available, the defendants caused others to transfer funds back from the sham wholesale companies to the defendants, their relatives, or their designees, in the form of certified cashier's checks and cash that was dropped off at their residences in the middle of the night. The defendants used the proceeds of the scheme to purchase real estate and luxury items.

This case was investigated by HHS-OIG's New York Field Office, the FBI's New York Field Office, the IRS-CI's New York Field Office and the FDIC. It is being handled by the Medicare Fraud Strike Force under the supervision of the U.S. Attorney's Office for the Eastern District of New York and the Criminal Division's Fraud Section. Assistant Chief Jacob Foster of the Criminal Division's Fraud Section's National Rapid Response Strike Force and Trial Attorney Andrew Estes of the Fraud Section's Brooklyn Strike Force are in charge of the prosecution. Former Fraud Section Trial Attorney Patrick Mott previously worked on the investigation.

The Fraud Section leads the Health Care Fraud Strike Force. Since its inception in March 2007, the Health Care Fraud Strike Force, which maintains 15 strike forces operating in 24 districts, has charged more than 4,200 defendants who have collectively billed the Medicare program for nearly \$19 billion. In addition, the HHS Centers for Medicare & Medicaid Services, working in conjunction with the HHS-OIG, are taking steps to increase accountability and decrease the presence of fraudulent providers.

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