



*United States Attorney
District of New Jersey*

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**MARGATE, NEW JERSEY, DOCTOR PLEADS GUILTY IN HEALTHCARE FRAUD
CONSPIRACY TARGETING NEW JERSEY HEALTH BENEFITS PROGRAMS**

CAMDEN, N.J. – A doctor with a medical practice in Margate, New Jersey, today admitted defrauding New Jersey state health benefits programs and other insurers by signing prescriptions for patients he never saw, Acting U.S. Attorney William E. Fitzpatrick and New Jersey Attorney General Christopher S. Porrino announced.

John Gaffney, 55, of Linwood, New Jersey, pleaded guilty before U.S. District Judge Robert B. Kugler in Camden federal court to an information charging him with conspiracy to commit health care fraud.

“Dr. Gaffney sold phony prescriptions for unnecessary medications to patients he never examined as part of a sophisticated scheme to defraud a prescription benefits program available to New Jersey state and municipal employees,” Acting U.S. Attorney Fitzpatrick said. “In an era when many Americans work hard to maintain affordable health insurance for their families, Dr. Gaffney and his conspirators criminally exploited the health care system and left New Jersey tax payers on the hook for approximately \$25 million in losses.”

“New Jersey’s families are the ones who pay the cost for healthcare fraud,” said Attorney General Porrino. “In New Jersey, law enforcement partners are working together to fight back against those who use their positions to steal millions of dollars from our healthcare system for personal gain. I want to thank the United States Attorney's Office for the District of New Jersey, Acting U.S. Attorney Fitzpatrick and all of our federal partners for aggressively attacking incidents of insurance fraud and for successfully prosecuting these often complicated schemes.”

“This is another demonstration of the FBI’s commitment to aggressively pursue healthcare fraud, along with our federal, state, and local law enforcement partners and the U.S. Attorney’s Office,” stated Special Agent in Charge Timothy Gallagher of the Newark FBI Field Office. “We will not

tolerate unscrupulous healthcare professionals who are entrusted with providing honest services to the citizens of New Jersey.”

“Doctors play a trusted and vital role in the American healthcare system. John Gaffney broke this trust when he wrote and accepted payment for prescriptions that were medically unnecessary. This fraudulent conduct creates risks for patients and undermines the system. The U.S. Department of Labor Office of Inspector General remains committed to combating illegal prescription drug schemes, like compounded medication fraud, particularly when they victimize programs administered by the Department of Labor. We will continue to work with our law enforcement partners to aggressively investigate allegations of this nature,” said Michael C. Mikulka, Special Agent-in-Charge, New York Region, U.S. Department of Labor, Office of Inspector General.

According to documents filed in this case and statements made in court:

Compounded medications are supposed to be specialty medications mixed by a pharmacist to meet the specific medical needs of an individual patient. Although compounded drugs are not approved by the Food and Drug Administration (FDA), they are properly prescribed when a physician determines that an FDA-approved medication does not meet the health needs of a particular patient, such as if a patient is allergic to a dye or other ingredient.

From January 2015 through April 2016, Gaffney’s conspirators persuaded individuals in New Jersey to obtain very expensive and medically unnecessary compounded medications from an out-of-state pharmacy, identified in the information as the “Compounding Pharmacy.” The conspirators learned that certain compound medication prescriptions – including pain, scar, antifungal, and libido creams, as well as vitamin combinations – were reimbursed for thousands of dollars for a one-month supply.

The conspirators also learned that some New Jersey state and local government and education employees, including teachers, firefighters, municipal police officers, and state troopers, had insurance coverage for these particular compound medications. An entity referred to in the information as the “Pharmacy Benefits Administrator” provided pharmacy benefit management services for the State Health Benefits Program, which covers qualified state and local government employees, retirees, and eligible dependents, and the School Employees’ Health Benefits Program, which covers qualified local education employees, retirees, and eligible dependents. The Pharmacy Benefits Administrator would pay prescription drug claims and then bill the State of New Jersey for the amounts paid.

Once they had recruited an employee covered by the Pharmacy Benefits Administrator, Gaffney’s conspirators would obtain the employee’s insurance information and fill out a Compounding Pharmacy prescription form. They then had Gaffney sign prescriptions for compounded medications for numerous individuals, even though Gaffney never saw the individuals or evaluated whether they had a medical necessity for the compounded medication. Gaffney also signed a blank prescription form, which other conspirators copied and used to submit additional fraudulent prescriptions to the Compounding Pharmacy.

Other conspirators submitted fraudulent prescriptions bearing Gaffney's signature for over 200 individuals, and the Pharmacy Benefits Administrator paid just under \$25 million for those prescriptions. Gaffney received payments of thousands of dollars in cash and other benefits to reward him for his role in the scheme.

As part of his plea agreement, Gaffney must forfeit \$25,000 in criminal proceeds and pay restitution of at least \$24,956,435.08. He faces a maximum penalty of 10 years in prison and a \$250,000 fine, or twice the gain or loss caused by the offense. Sentencing is scheduled for Jan. 5, 2018.

Five other conspirators – Matthew Tedesco, Robert Bessey, Michael Pepper, Thomas Hodnett, and Steven Urbanski – pleaded guilty in August 2017 and await sentencing.

Acting U.S. Attorney Fitzpatrick credited agents of the FBI's Atlantic City Resident Agency, under the direction of Special Agent in Charge Gallagher in Newark, agents of the IRS – Criminal Investigation, under the direction of Jonathan D. Larsen in Newark, and agents of the Department of Labor, Office of Inspector General, under the direction of Special Agent in Charge Mikulka in New York, for their roles in the investigation leading to the guilty plea. He also thanked the Division of Pensions and Financial Transactions in the State Attorney General's Office, under the direction of Attorney General Porrino and Division Chief Eileen Schindwein Den Bleyker, for its assistance in the investigation.

The government is represented by Assistant U.S. Attorneys R. David Walk, Jr. and Jacqueline M. Carle of the U.S. Attorney's Office in Camden.

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Defense counsel: Michael Engle Esq., Philadelphia

- [John.Gaffney.Information.pdf](#)
- [John.Gaffney.Plea.Agreement.pdf](#)