

13 MAG 2869

Approved: _____
NIKETH VELLAMOOR
Assistant United States Attorney

Before: HONORABLE DEBRA FREEMAN
United States Magistrate Judge
Southern District of New York

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: SEALED
UNITED STATES OF AMERICA : COMPLAINT
:
- v. - : Violations of
: 18 U.S.C. §§ 1349, 1956
PURNA CHANDRA ARAMALLA, :
: COUNTY OF OFFENSE:
Defendant. : BRONX
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- - - - - x

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COUNTY OF NEW YORK )
STATE OF NEW YORK ) ss.:
SOUTHERN DISTRICT OF NEW YORK )

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ARTHUR F. LEPORE, JR., being duly sworn, deposes and says that he is a Special Agent with the Federal Bureau of Investigation ("FBI") and charges as follows:

COUNT ONE
(Conspiracy to Commit Health Care Fraud)

1. From at least in or about 2009, up to and including at least in or about October 2013, in the Southern District of New York and elsewhere, PURNA CHANDRA ARAMALLA, the defendant, and others known and unknown, willfully and knowingly did combine, conspire, confederate, and agree together and with each other to commit wire fraud, in violation of Title 18, United States Code, Section 1343, and health care fraud, in violation of Title 18, United States Code, Section 1347, to wit, ARAMALLA conspired with others to obtain reimbursement from Medicaid and Medicare programs for illegally diverted pharmaceuticals he sold to customers of his pharmacies.

2. It was a part and an object of the conspiracy that PURNA CHANDRA ARAMALLA, the defendant, and others known and unknown, willfully and knowingly, having devised and intending to devise a scheme and artifice to defraud, and for obtaining money and property by means

of false and fraudulent pretenses, representations, and promises, would and did transmit and cause to be transmitted by means of wire and radio communication in interstate and foreign commerce, writings, signs, signals, pictures, and sounds for the purpose of executing such scheme and artifice, in violation of Title 18, United States Code, Section 1343.

3. It was a part and an object of the conspiracy that PURNA CHANDRA ARAMALLA, the defendant, willfully and knowingly, would and did execute and attempt to execute a scheme and artifice to defraud a health care benefit program and to obtain, by means of false and fraudulent pretenses, representations, and promises, money and property owned by, and under the custody and control of, a health care benefit program, in connection with the delivery of and payment for health care benefits, items and services, in violation of Title 18, United States Code, Section 1347.

(Title 18, United States Code, Section 1349.)

COUNT TWO
(Money Laundering)

4. From at least in or about 2010, up to and including at least in or about March 2013, in the Southern District of New York and elsewhere, PURNA CHANDRA ARAMALLA, the defendant, and others known and unknown, in an offense involving and affecting interstate and foreign commerce, and knowing that the property involved in certain financial transactions represented the proceeds of some form of unlawful activity, willfully and knowingly conducted and attempted to conduct such financial transactions which in fact involved the proceeds of specified unlawful activity with the intent to promote the carrying on of specified unlawful activity, to wit, ARAMALLA purchased approximately \$2 million worth of Metrocards, using the proceeds of the wire fraud offense charged in Count One, and then sold the Metrocards to generate cash he then used to facilitate additional wire fraud transactions.

(Title 18, United States Code, Section 1956(a)(1)(A)(i).)

The basis for my knowledge of the foregoing charges are, in part, as follows:

5. I have been a Special Agent with the FBI for approximately five years. I am currently responsible for investigating health care fraud, among other crimes. The information contained in this affidavit is based upon my personal knowledge and my review of documents and records gathered during the course of this investigation, as well as information obtained, directly or indirectly, from other sources and agents,

including information provided to me by witnesses who participated in conversations with the defendant. Because this affidavit is being submitted for the limited purpose of establishing probable cause, it does not include all of the facts that I have learned during the course of the investigation. Where the contents of documents and the actions, statements and conversations of others are reported herein, they are reported in substance and in part, except where otherwise indicated.

OVERVIEW OF THE INVESTIGATION

6. I have been involved in an investigation of a health care fraud scheme involving PURNA CHANDRA ARAMALLA, the defendant, among other individuals. Specifically, based on the investigation and as detailed below, ARAMALLA, the owner of pharmacies in Queens, New York and the Bronx, New York, has conducted a multi-million dollar scheme to defraud New York State Medicaid ("Medicaid") and Medicare programs through the sale of diverted pharmaceutical drugs, that is, drugs not obtained from legitimate sources. As part of the scheme, ARAMALLA purchased pharmaceuticals, including high-cost medications used to treat HIV, that were obtained from patients who sold the pharmaceuticals rather than use them to treat their illnesses. ARAMALLA then resold those pharmaceuticals to his customers at a profit, as if the pharmaceuticals were new drugs obtained from legitimate sources. ARAMALLA requested and received reimbursement from Medicaid or Medicare in connection with these sales, even though Medicaid or Medicare likely already paid for many of these pharmaceuticals in connection with the initial sales and would not, in any event, have been willing to reimburse the cost of second-hand drugs.

7. In a related aspect of the scheme, ARAMALLA has sought reimbursement for pharmaceuticals that were never even distributed to customers; instead, customers with prescriptions for pharmaceuticals essentially "sold" their prescriptions to ARAMALLA, agreeing not to take delivery of the pharmaceuticals in exchange for a share of the reimbursed proceeds.

BACKGROUND

8. Based on my training, experience, and familiarity with the investigation and Medicaid and Medicare programs, I know the following:

a. The Medicaid program is a federal and state health care program that provides health care benefits to individuals and families who meet specified financial and other eligibility requirements, and certain other individuals who lack adequate resources

to pay for medical care. The Centers for Medicare and Medicaid Services ("CMS"), a federal agency under the United States Department of Health and Human Services, is responsible for overseeing the Medicaid program in New York State. Individuals who receive benefits under Medicaid are referred to as "beneficiaries."

b. The Medicare program is a federal health care program providing benefits to persons who are over the age 65 or disabled. Medicare is also administered by CMS. Individuals who receive benefits under Medicare are also referred to as beneficiaries.

c. When a beneficiary of Medicare or Medicaid seeks to obtain medication from a pharmacy, the pharmacy provides the medication to the beneficiary at little or no cost to the beneficiary. The cost to the pharmacy is typically reimbursed in whole or in part by the Medicaid and Medicare programs.

d. In the normal course, pharmacies purchase the prescription medications they sell to patients from licensed wholesalers. When dispensing drugs to their patients, pharmacies affix to the medication bottles patient labels that include, among other things, identifying information about the pharmacy and patient and dosage instructions.

e. Diverted drugs are potentially dangerous to consumers. Among other things, diverted drugs may have been stored in uncontrolled conditions, which may not be sufficient to maintain the medical efficacy of such drugs over time, and the drugs themselves may have expired. For example, some HIV medications require constant storage in conditions between 25 and 30 degrees Celsius to maintain their efficacy. In addition, as set forth below, the use of solvents to remove patient labels from pharmaceuticals involves the treatment of medication bottles with potentially hazardous chemicals.

f. Schemes involving the distribution of diverted drugs can result in Medicaid and/or Medicare being defrauded multiple times. The Medicaid and Medicare programs would not pay benefits on behalf of their beneficiaries if the beneficiaries had disclosed that they intended to sell the drugs to others. Each Medicaid beneficiary's Medicaid card contains a disclaimer that "fraudulent use of this card is a punishable offense." Similarly, each Medicare beneficiary's Medicare card provides that "intentional misuse of this card is unlawful and will make the offender liable to penalty." Moreover, these health care benefit programs, as well as insurance companies, would not

knowingly reimburse pharmacies the cost of diverted drugs that are resold to new customers.

ARAMALLA'S SCHEME TO DEFRAUD MEDICAID AND MEDICARE

9. Based on my review of publicly available records, I know that PURNA CHANDRA ARAMALLA, the defendant, is the owner of A Fair Deal Pharmacy Inc. ("AFD"), a retail pharmacy located in Corona, Queens. I further know that a relative of ARAMALLA is the owner of Quality Health Drug Inc. ("QHD"), a pharmacy located in the Bronx, New York.

10. Based on my discussions with a cooperating witness ("CW-1")¹, I have learned, among other things, the following:

a. CW-1 is an employee of a pharmacy that is located a short distance from AFD.

b. For the past several years, CW-1 has regularly purchased prescription pharmaceuticals from low-income individuals, many of whom have described themselves as Medicaid/Medicare beneficiaries. CW-1 then sold the pharmaceuticals to AFD, so that AFD could resell them to its customers at a profit.

c. In particular, on many occasions, a pharmacist who works for PURNA CHANDRA ARAMALLA, the defendant, at AFD ("CW-2") called CW-1 with "orders" for diverted drugs, identifying specific branded (as opposed to generic)² medications and quantities. CW-2 often asked CW-1 for HIV medications, but CW-1 has also supplied CW-2 and AFD with significant quantities of non-HIV medications as well.

1 CW-1 has been cooperating with the Government since August 2013. CW-1 has not yet been charged, but it is anticipated that he will be charged in the future. CW-1 is cooperating with the Government in hopes of receiving a cooperation agreement and a more lenient sentence. The information provided by CW-1 during the course of this investigation has proven to be reliable and corroborated by other evidence.

2 According to CW-2, ARAMALLA generally does not purchase and distribute generic, diverted pharmaceuticals because the profit margins on generic drugs make it less profitable to traffic in diverted, generic drugs.

d. If CW-1 did not have the requested medications on hand, CW-1 would then purchase them on the street. Once CW-1 obtained the requested medications, CW-1 delivered, or caused to be delivered, the medications to AFD.

e. CW-1 has delivered diverted pharmaceuticals to CW-2 and to ARAMALLA directly. CW-1 has delivered pharmaceuticals both with and without patient labels still attached to medication bottles. CW-1 used lighter fluid to remove patient labels from medication bottles, to facilitate their resale to others.

f. On many occasions, CW-1 has received payment for the medications he has sold to AFD from ARAMALLA himself. Typically, ARAMALLA has paid CW-1 with checks drawn on a bank account held in the name of AFD.

11. Based on my discussions with CW-2³, I have learned, among other things, the following:

a. CW-2 has been working for PURNA CHANDRA ARAMALLA, the defendant, as a pharmacist at AFD since approximately 2004-2005.

b. AFD's primary sources of legitimate, branded (as opposed to generic) pharmaceuticals, including HIV medications, are two licensed wholesalers ("Wholesaler-1" and "Wholesaler-2"). In AFD, there are computers dedicated to facilitating communications directly between AFD and Wholesaler-1, Wholesaler-2 and Medicaid/Medicare.

c. After joining AFD, and particularly in the last few years, ARAMALLA has instructed CW-2 to purchase prescription drugs from CW-1. ARAMALLA and CW-2 have discussed the fact that CW-1 was not a licensed wholesaler and was purchasing the pharmaceuticals on the street. CW-1 is the primary -- but not the only -- unlicensed supplier of pharmaceuticals to AFD. ARAMALLA has explained to CW-2 that AFD earns much more significant profits on pharmaceuticals purchased from CW-1, because CW-1's prices are well below the prices charged by licensed wholesalers.

3 In 1993, CW-2 was convicted of a felony prescription drug fraud offense. In October 2013, CW-2 was charged in the Southern District of New York with participating in a conspiracy to commit health care fraud and wire fraud for conduct related to the scheme described herein. He is cooperating with the Government's investigation in hopes of obtaining a more lenient sentence. The information he has provided has been reliable and corroborated by other evidence.

d. Usually, the patient labels have been removed from the pharmaceuticals before CW-1 delivers them to AFD. If not, they are removed at AFD. ARAMALLA showed CW-2 how to remove the labels using lighter fluid. CW-2 has observed ARAMALLA removing patient labels from pharmaceutical bottles, and has removed patient labels himself while in ARAMALLA's presence. At AFD, patient labels are usually removed in an unenclosed area of the pharmacy behind the pharmacy counter.

e. Once the labels are removed, AFD combines the diverted pharmaceuticals with legitimately obtained pharmaceuticals, and sells them to customers without disclosing to customers that they contain second-hand, illegally diverted drugs.

f. Although a relative of ARAMALLA is the nominal owner of QHD, QHD is operated by ARAMALLA and another relative of ARAMALLA ("Relative-1"). ARAMALLA and Relative-1 frequently transport diverted pharmaceuticals from AFD to QHD, to be sold at QHD.

g. On occasion, AFD will accept prescriptions from customers, obtain the customers agreement not to take delivery of the pharmaceuticals, obtain reimbursement from Medicaid or Medicare for the prescribed pharmaceuticals and then share the proceeds of the reimbursement with the customers. ARAMALLA, CW-2 and other employees of AFD refer to this as giving the customer a "loan." In addition, sometimes junior employees exchange family members' prescriptions for cash from AFD. CW-2 has observed ARAMALLA authorize payment on such "loans" to customers and employees of AFD.

h. AFD purchases thousands of dollars worth of Metrocards per week from New York City Transit, and sells those Metrocards to AFD customers. AFD also sells bulk quantities of Metrocards to two individuals at a discount, so that the individuals can sell the Metrocards to others. ARAMALLA has explained to CW-2 that at least one purpose of selling Metrocards is to generate cash for AFD. AFD then uses the cash to, among other things, pay "loans" to customers of AFD. Some of the Metrocards purchased by AFD are transported by Relative-1 to QHD, where they are sold.

i. On multiple occasions, CW-2 has suggested to ARAMALLA that they stop the illegal activity. In response, ARAMALLA has stated, in sum and substance, that CW-2 should not worry and that nothing will happen.

12. Since in or about October 2013, CW-1 has engaged in multiple consensually recorded telephone conversations with PURNA CHANDRA ARAMALLA, the defendant. Based on my discussions with CW-1, my review of the recordings, and my training, experience, and familiarity with the investigation, I learned that:

a. In or about October 2013, while CW-2 was out of the country and on vacation from AFD, ARAMALLA initiated conversations with CW-1. During the consensually-recorded calls, in sum and substance, ARAMALLA asked CW-1 to obtain additional diverted pharmaceuticals for ARAMALLA. During one of the conversations, CW-1 listed the names of various kinds of pharmaceuticals and ARAMALLA said he would take "whatever" CW-1 had. CW-1 then delivered additional diverted pharmaceuticals to ARAMALLA on two separate occasions.⁴

b. In or about December 2013, CW-1 engaged in a consensually monitored and recorded conversation with ARAMALLA. During the conversation, CW-1 offered to provide additional diverted pharmaceuticals to ARAMALLA. CW-1 named particular medications during the call. CW-1 further explained that the medications were "not clean" and had a lot of "labels" but that CW-1 could not get the "liquid" to remove them. In response, ARAMALLA told CW-1 to bring the pharmaceuticals "after 6 or 5." ARAMALLA asked CW-1 if the person from whom CW-1 was getting the pharmaceuticals was "safe" because ARAMALLA did "not want to get into trouble" and CW-1 assured ARAMALLA that the person gets the pharmaceuticals from patients who don't want to use the medicines. ARAMALLA said "okay."

13. Based on my review of records obtained from Medicaid, Medicare, Wholesaler-1 and Wholesaler-2, I know the following:

a. In or about December 2011, Wholesaler-1 sold AFD quantities of Truvada, which is an HIV medication, at a price of \$1041

4 When CW-1 began cooperating with the Government, agents instructed him that he was not to participate in any further illegal transactions unless specifically authorized by agents. Thereafter, following CW-1's October 2013 conversations with ARAMALLA (described in paragraph 12.a above), which CW-1 caused to be recorded, CW-1 delivered diverted pharmaceuticals to ARAMALLA, per ARAMALLA's instructions during the recorded conversations, even though CW-1 had not specifically been authorized by agents to do so. CW-1 subsequently informed law enforcement agents about those deliveries, and agents reiterated to CW-1 that he was not permitted to participate in any illegal activity without specific authorization.

per bottle and Wholesaler-2 sold AFD Truvada at a price of \$1124 per bottle. During that same month, the Medicaid reimbursement rate for Truvada was \$1110 per bottle, and the Medicare reimbursement rate was \$1136. In the case of Medicaid reimbursement, this results in a profit to AFD of \$69, or a profit margin of 6%, on Truvada purchased from Wholesaler-1, and a loss to AFD of \$14, or a profit margin of -1%, on Truvada purchased from Wholesaler-2. In the case of Medicare reimbursement, this results in in a profit to AFD of \$95, or a profit margin of 8%, on Truvada purchased from Wholesaler-1, and a profit of \$12, or a profit margin of 1%, on Truvada purchased from Wholesaler-2.

b. From in or about October 2010 through in or about August 2012, AFD billed Medicaid more than approximately \$3.21 million in connection with sales of twenty-four branded HIV medications, including Truvada. AFD billed Medicare more than approximately \$1.18 million in connection with sales of the same HIV medications. In total, AFD billed Medicaid and Medicare a total of more than approximately \$4.39 million in connection with sales of these medications.

c. From in or about October 2010 through in or about August 2012, AFD purchased approximately \$715,000 worth of the same HIV medications from Wholesaler-1. From in or about October 2010 through in or about August 2012, AFD purchased approximately \$965,000 worth of the same medications from Wholesaler-2, for a total of approximately \$1.68 million worth of these medications.

d. Based on these figures, during this time period, AFD earned a profit of at least more than approximately \$2.71 million on these HIV medications, assuming that Medicaid and Medicare were the sole source of revenue to AFD for these medications. This represents a profit margin of approximately 62%.

14. Based on my review of bank records, I know, among other things, the following:

a. From in or about January 2010 through in or about September 2013, AFD received more than \$6.38 million from Medicaid. From in or about January 2010 through in or about March 2013, AFD received more than \$1.49 million from Medicare.

b. From in or about 2009 through in or about March 2013, CW-1 received checks from AFD totaling more than \$590,000, checks from CW-2 totaling more than \$19,000, checks from the personal bank account of PURNA CHANDRA ARAMALLA, the defendant, totaling more than \$85,000, and checks from QHD totaling more than \$11,000.

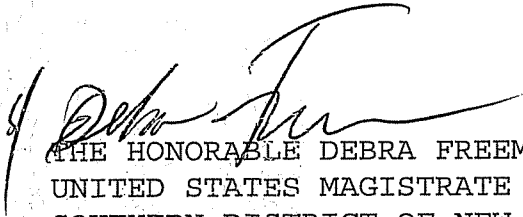
c. From in or about May 2010 through in or about March 2013, AFD has transferred almost \$2 million to New York City Transit for Metrocards.

WHEREFORE, deponent respectfully requests that a warrant be issued for PURNA CHANDRA ARAMALLA, the defendant, and that he be arrested and imprisoned, or bailed, as the case may be.



ARTHUR F. LEPORE, JR.
SPECIAL AGENT
FEDERAL BUREAU OF INVESTIGATION

Sworn to before me this
11th day of December 2013



THE HONORABLE DEBRA FREEMAN
UNITED STATES MAGISTRATE JUDGE
SOUTHERN DISTRICT OF NEW YORK

DEC 11 2013