

1  **EXPEDITE**  
 (if filing within 5 court days of hearing)  
 2  Hearing is set:  
 Date: \_\_\_\_\_  
 3 Time: \_\_\_\_\_  
 Judge/Calendar: \_\_\_\_\_  
 4

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 6  
 7 **STATE OF WASHINGTON**  
**THURSTON COUNTY SUPERIOR COURT**

8 STATE OF WASHINGTON,  
 9  
 Plaintiff,

10 v.

11 JOHN THOMAS REESE, SHEILA  
 12 JOY REESE, and their marital  
 community; JT EDUCATIONAL  
 13 CONSULTANTS, a Washington Sole  
 Proprietor; JT EDUCATIONAL  
 14 CONSULTANTS, LLC, a Washington  
 Limited Liability Company; JACK  
 15 DOUGLAS HEDGCOCK, PATRICIA  
 GALE HEDGCOCK, and their marital  
 16 community; JH EDUCATIONAL  
 CONSULTING LLC, a Washington  
 17 Limited Liability Company; SCOTT  
 ALAN ADOLF, THERESA RAE  
 18 ADOLF, and their marital community;  
 RANDALL D. HAUFF, JANE DOE  
 19 HAUFF, and their marital community;  
 JANINE WELTY, JOHN DOE  
 20 WELTY, and their marital community;

21 Defendants.

NO. 14-2-02307-1

COMPLAINT FOR DAMAGES AND  
 CIVIL PENALTIES FOR  
 VIOLATIONS OF THE MEDICAID  
 FALSE CLAIMS ACT, RCW 76.66,  
 RCW 74.09.210, AND THE COMMON  
 LAW

COPY

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 LAW

23 The State of Washington, by and through its attorneys, ROBERT W. FERGUSON,  
 24 Attorney General, and, STEVE E. DIETRICH, Senior Counsel, brings this action to recover all  
 25 damages, penalties, and other remedies available for Defendants' violations of the Medicaid  
 26 Fraud False Claims Act, RCW Ch. 74.66, and the anti-fraud provisions of RCW 74.09.210.

1 The State also asserts common law fraud, conversion, civil conspiracy, and unjust enrichment  
2 claims, and alleges as follows:

### 3 I. OVERVIEW

4 Washington's Medicaid program provides a critical safety net of healthcare services to  
5 low income residents. Through a reimbursement program known as the Medicaid  
6 Administrative Claiming (MAC) program, participating school districts may receive Medicaid  
7 reimbursement for administrative costs they incur that directly support the provision of  
8 healthcare services to Medicaid eligible students. This Complaint targets a group of  
9 individuals, including former school administrators and employees, who built a grossly  
10 profitable consulting business by marketing a corrupted version of this program. Rather than  
11 helping school districts obtain reimbursement for legitimate costs incurred helping Medicaid  
12 eligible students obtain necessary health care services, the Defendants gamed the system and  
13 received millions of dollars in "consulting" fees by causing the districts to file tens of millions  
14 of dollars of false claims between 2005 and 2014. They did this by misrepresenting the rules  
15 of the program, including in training presentations, written training materials, and other  
16 communications with the districts, so that the districts would submit false claims for  
17 reimbursement and the Defendants could take a percentage of the ill-gotten funds.

18 Moreover, when the agency responsible for administering Medicaid moved to  
19 implement a computer-based system that would have enabled districts to more easily and  
20 accurately identify costs truly reimbursable under the administrative claiming program, the  
21 Defendants strenuously opposed the effort and fought hard to preserve the paper based system  
22 that was central to the survival of their unlawful enterprise. By way of this Complaint, the State  
23 of Washington seeks judgment against these Defendants for the amounts they received in ill-  
24 gotten Medicaid funds, and for substantial civil penalties imposed by law against those who  
25 submit false Medicaid claims.



1 Medicaid providers. (See WAC 182-537 and [http://www.hca.wa.gov/medicaid/schoolbased/](http://www.hca.wa.gov/medicaid/schoolbased/pages/index.aspx)  
2 [pages/index.aspx](http://www.hca.wa.gov/medicaid/schoolbased/pages/index.aspx)).

3 **B. The Washington School Based Medicaid Administrative Claiming Program**

4 4. In addition to their role as direct medical service providers for Medicaid, about  
5 one-third of Washington's school districts elected to participate in an optional and voluntary  
6 Medicaid administrative cost reimbursement program known as Medicaid administrative  
7 claiming (MAC). The MAC program reimburses government entities such as school districts,  
8 state and local health departments, and federally-recognized Tribes for fifty percent of certain  
9 necessary Medicaid administrative costs incurred by these entities. To qualify for MAC  
10 reimbursement the administrative activity must be necessary and directly support the delivery  
11 of healthcare services covered by the Washington Medicaid State Plan. The MAC program –  
12 not any other direct medical service program – is involved in this case.

13 5. Washington's MAC program is governed by a Cost Allocation Plan (CAP),  
14 which was prepared by the state Health Care Authority and approved by the federal Centers for  
15 Medicare & Medicaid Services in 2005. The Cost Allocation Plan provides a comprehensive  
16 description of the mechanisms and processes by which Washington school districts may claim  
17 Medicaid administrative costs. The purpose of the CAP is to ensure that Medicaid funds are  
18 spent only on administrative activities that actually benefit the federal Medicaid program and  
19 are not spent on activities that benefit other programs. The Cost Allocation Plan includes  
20 forms of the program documents, including the Interagency Agreement, time study form, time  
21 study instructions, and the Quick Reference Guide.

22 6. In general, under the Washington Cost Allocation Plan, reimbursable Medicaid  
23 administrative activities consist of: (1) outreach activities that directly support efforts to  
24 identify and enroll potentially Medicaid-eligible students and their families; (2) Medicaid  
25 program enrollment assistance for students and families; (3) the coordination and monitoring  
26

1 of Medicaid services provided to students; and (4) activities designed to link Medicaid clients  
2 or potential Medicaid clients in need of healthcare services to Medicaid providers.

3 **C. The Health Care Authority – School District Contract for MAC**

4 7. To participate in the Medicaid administrative claiming program, school districts  
5 must first execute a binding contract, known as an Interagency Agreement with the Health  
6 Care Authority. The Interagency Agreement is a fundamental MAC program document that  
7 describes program requirements. It helps ensure that participant school districts submit claims  
8 that comply with the Cost Allocation Plan and other federal requirements.

9 8. The Interagency Agreement identifies reimbursable Medicaid administrative  
10 activities for participating districts. It tells them about the requirements, rules, conditions,  
11 terms, and limitations under which they can claim MAC reimbursement. The form of the  
12 Interagency Agreement has been revised or amended from time to time, although its' key  
13 elements have remained consistent since 2005.

14 9. In the Interagency Agreement, each participating school district acknowledged  
15 that the Agreement's purpose was:

16 *to support the goals and objectives of Washington State's Medicaid Plan*  
17 *and the Medicaid Purchasing Administration mission, by facilitating the*  
*delivery of Medicaid outreach to school children and their families.*

18 10. The Interagency Agreement told participating school districts that "Medicaid  
19 outreach" meant:

20 *Medicaid Administrative Match activities targeted to informing*  
21 *Medicaid eligibles and potential Medicaid eligibles about Medicaid*  
*programs.*

22 11. By signing the Interagency Agreement, among other things, participating school  
23 districts explicitly promised to provide the staff necessary to perform defined Medicaid  
24 administrative activities and actually perform those activities, track the actual work activities  
25 performed by staff on five randomly selected days each quarter, claim reimbursement only for  
26 Medicaid administrative activities that were necessary and directly supported the Washington

1 State Medicaid Plan's outreach objectives, and document that referrals are made to currently  
2 participating Medicaid service providers. Participating school districts promised to ensure that  
3 their staff are properly trained about the time study rules and conduct time studies according to  
4 the rules outlined in a Quick Reference Guide and elsewhere.

5 **D. The School-Based Medicaid Administrative Time Study**

6 12. As set forth in the Cost Allocation Plan and Interagency Agreement, school  
7 districts that choose to participate in the Medicaid Administrative Claiming program agreed to  
8 use a modified random sample time study process developed by HCA, and approved by the  
9 federal government, to measure the amount of resources expended by district staff on  
10 reimbursable Medicaid administrative activities. The process divides the total work day into  
11 well-defined set of activities, which includes some that are Medicaid-related and some that are  
12 not. The amount of Medicaid reimbursement was calculated by multiplying each staff  
13 member's total compensation cost by the fraction of their paid contract time devoted to  
14 reimbursable Medicaid administrative activities.

15 13. Like any other sampling methodology, the Washington time study reflects a  
16 compromise between administrative efficiency and estimating accuracy. Participating school  
17 districts must adhere to the state's time study rules and procedures to ensure bias-free sampling  
18 and acceptably accurate claiming. If a school district fails in a material way to faithfully apply  
19 the time study rules to its time study, it is likely to generate false Medicaid statements and  
20 eventually a false Medicaid administrative claim because such claims request payment for non-  
21 reimbursable activities or overstate the true amount of staff time expended upon Medicaid  
22 administration. Because the results obtained from the sampled days and staff are extrapolated  
23 to estimate the effort of all eligible staff for the entire academic quarter, the introduction of  
24 relatively small error into the time study sample by participants who deviate from the federally  
25 approved state time study rules can result in a large absolute error in the Medicaid claim  
26 submitted by the school district.

1           14. Schools in the Medicaid administrative claiming program generate tens of  
2 thousands of paper time study forms annually. It is impossible for Health Care Authority  
3 program staff to perform an in-depth review of all or even most time sheets each year in  
4 addition to their other program tasks. Compliance depends upon the participating school  
5 districts knowing and following the time study rules that apply to the Medicaid program for  
6 which they volunteered and that fundamental expectation is clearly described in the  
7 Interagency Agreement.

8           15. The Interagency Agreement also required each school district to designate a  
9 Medicaid administrative claiming coordinator, who was supposed to serve as the liaison  
10 between the school district and the Health Care Authority. The Health Care Authority trained  
11 each school district's designated MAC Coordinator. The school district was responsible for  
12 training its time study participants about the Health Care Authority's rules, for ensuring  
13 compliance with all applicable rules and regulations, and for entering its' time study data into  
14 the HCA computer program for claim processing.

15           16. Assigning activities to the proper codes on the paper time study sheet was  
16 challenging for many school personnel, especially instructional staff unaccustomed to  
17 Medicaid or medical billing. To help such participants the HCA provided a three page official  
18 Quick Reference Guide that listed guidelines, terms, and conditions applicable to each time  
19 keeping category. It was designed for distribution to time study participants on time study  
20 days to help ensure that participants coded their forms according to the time study rules. The  
21 official Quick Reference Guide was part of the federally-approved Cost Allocation Plan. ¶5  
22 Time study participants must adhere to the guidelines in the Quick Reference Guide for the  
23 district to obtain a valid time study result.

24           17. There are five randomly selected time study days each academic quarter. Time  
25 study participants are supposed to receive no more than a five day notice of the time study  
26 date. The limited notice rule exists to deter participants from rearranging their schedules to

1 stack reimbursable activities on the time study day. Because the purpose of the time study is to  
2 obtain an acceptably accurate estimate of the district's reimbursable expenditures for an entire  
3 academic quarter, study participants are instructed to adhere to their normal routine or schedule  
4 and to respond to events as they would on any other day. If participants were to intentionally  
5 schedule or arrange for extraordinary reimbursable activities to occur on a randomly selected  
6 time study day, for example, by moving a Medicaid-related meeting to that day or saving up  
7 Medicaid-related activities to perform on a time study day, the amount of district resources  
8 expended on reimbursable Medicaid administrative activities will be overstated. Adherence to  
9 the normal routine requirement helps ensure that the time study produces a sample that is bias  
10 free and an accurate estimate of the district's total quarterly reimbursable Medicaid  
11 administrative activities.

12 18. Time study instructions specifically direct participants that “[d]uring the time  
13 study day staff will maintain their normal routine and respond to events accordingly.”  
14 (Emphasis added). Further reflecting the importance of this rule, the participant certification  
15 statement on the time study form included a reference to the normal routine requirement as  
16 well. (¶23)

17 19. When the time study day arrived, a building coordinator for each school handed  
18 out the paper time study form, which participants used to record and categorize (or ‘code’) the  
19 time devoted to certain activities throughout their contract work day. The time study form was  
20 a critical record in the Medicaid administrative claiming process. School staff who  
21 participated in the time study use that that form to record the amount of time that they devoted  
22 to reimbursable Medicaid administrative activities during the time study day. As the claiming  
23 process proceeded, it was time recorded on the individual time sheets that was used (along with  
24 salary, benefits, overhead, and direct operating cost information) to calculate the school  
25 district's Medicaid administrative time claim.

1           20.     If time study participants incorrectly record too much reimbursable Medicaid  
2 time on their time study form for any reason, the district's Medicaid claim will reflect an  
3 amount that is higher than the district was otherwise entitled to collect. This rule applies to all  
4 time study participants but the effects are amplified for randomly-selected time study  
5 participants because their recorded time is used to calculate the reimbursement generated by  
6 the entire random participant pool. In either scenario, the participant's incorrect coding causes  
7 the school district to misrepresent the amount of school resources that it expended upon  
8 reimbursable Medicaid administrative activities and to overstate its federal reimbursement  
9 claim.

10           21.     Washington's time study uses a parallel coding system that requires participants  
11 to record each activity that consumes 7.5 minutes of continuous time and place that record in  
12 one of several designated categories. The rules for the paper form require the participant to  
13 record one 'tick mark' for each 7.5 minutes of continuous time devoted to the designated  
14 activity.

15           22.     For each reimbursable Medicaid activity recorded, the time study participant  
16 was also required to write a brief description or "narrative" on the form that showed how the  
17 routine Medicaid activity they performed that day was related to reimbursable Medicaid  
18 administration and belonged in the selected category.

19           23.     Once the participant was satisfied that his or her form was accurate, they signed  
20 the form at the designated place. By signing the form, participants certified that:

21                   *[t]his time study form represents the codable activities that I performed*  
22                   *during the "Date of Time Study" above. I did not alter my normal*  
23                   *routine for the time study. I did not use any other form to track my time*  
                      *for purposes of claiming administrative match funds. (Emphasis added).*

24           Program rules required the participant to sign the form within five days of the time  
25 study date.

1 24. The time study participant's supervisor (typically the building principal) also  
2 reviewed and certified the time study form for completeness and compliance with program  
3 guidelines within five working days of the study day. Specifically, the supervisor's signature  
4 certified that:

5 *I reviewed this time study form and it is complete and in compliance*  
6 *with Medicaid Administrative Match program guidelines.* (Emphasis  
added.)

7 **E. Medicaid Administrative Claim Preparation, Certification, and Filing**

8 25. After each time study form was signed by the participant, reviewed, and  
9 certified for completeness and compliance by their supervisor and any other district staff with  
10 Medicaid administrative claiming compliance duties, the school district was supposed to enter  
11 the data from the form into the state's school based MAC claiming program so that its  
12 quarterly time claim can be processed. MAC time study reimbursement was based on actual  
13 staff costs and so the district must also enter its eligible staff salary and benefits information.

14 26. The Health Care Authority has a web-based school MAC claiming portal, which  
15 enables each individual participant to upload his or her time study records. The HCA system  
16 also includes a batch data upload option for larger school districts. After the district enters  
17 accurate staff salary and benefit data for eligible staff and the time study data for all five time  
18 study days in the quarter, it informs HCA program staff and the HCA's pre-claim certification  
19 process ensues

20 27. The pre-claim certification process is intended to focus district attention upon  
21 important claim compliance issues. The certification form asked three questions designed to  
22 ensure that each school district's quarterly claim is based on actual eligible salary and benefit  
23 costs, district time study participants were eligible to participate, and time study participants  
24 actually followed the time study rules.

25 28. After each question, the form required that the district MAC coordinator circle,  
26 "yes" or "no." The form also provided a space for comments or explanation. Above the

1 signature block at the bottom of the form is the statement: "By signing, I certify that the  
2 information provided above is accurate."

3 29. As of March, 2010, the three questions on the pre-claim certification form were:

4 a) For the [quarter] time study claim, have you completed the  
5 verification process to make sure time has been recorded to the  
6 appropriate activity codes on the time sheets submitted and the  
narratives for the 'b' code activities are adequate and indicate the  
Medicaid related service provided?;

7 b) Have you completed the verification process to ensure complete  
8 time for all five time study days for all time study participants have been  
9 recorded on the Detail Time for Staff Report and on the time study claim  
(Comparison of information/data on the Quarter staff list/Detail Time  
for Staff Report, Missing Form report, and time sheets submitted)?

10 c) Concerning ARRA stimulus funds, have you ensured adjustments  
11 have been made to your claim to offset any salaries and benefits paid by  
ARRA stimulus funds?

12 30. After the district's Medicaid administrative claiming coordinator (§15)  
13 answered the three questions, provided any pertinent commentary and signed the pre-claim  
14 certificate, the hours reported in the time study were reviewed by Health Care Authority  
15 program compliance staff who sometimes asked for supporting information or documentation.

16 31. In addition to the quarterly staff time reimbursement claim, participating school  
17 districts were able to claim certain direct operating costs, which they incurred while conducting  
18 the time study.

19 32. Once HCA program staff finished their pre-claim review, the Health Care  
20 Authority issued a draft 'A-19' form that identified the school district's total reimbursable  
21 Medicaid administrative match amount calculated from the time study and compensation  
22 information, and the claimable operating costs reported by school district. By signing the A-  
23 19, the District representative certified "*under penalty of perjury that the items and totals listed*  
24 *herein are proper charges for ... services furnished to the State of Washington*" and that:

25 *all the above invoiced expenses follow Center of Medicare and Medicaid*  
26 *Services (CMS) requirements. The applied matching funds are not already*  
*used as matching funds in other federal programs, being reimbursed by other*

1        *federal grants, and any applied donated matching funds have been*  
2        *preapproved for use by CMS/National Institutional Reimbursement Team.*

3        33. With few exceptions, each school district participating in the Medicaid  
4        administrative claiming program filed three quarterly MAC claims for each academic year.  
5        Each quarterly MAC claim was accompanied by a pre-claim certificate and A-19 form. And  
6        each quarterly claim was based upon dozens or hundreds of certified time study forms.

7        34. Once each year, the federal government required each participating school  
8        district to execute a local match worksheet that contained an additional compliance certificate.

9        35. In 2007-08, according to Health Care Authority records, 46 of the participating  
10       school districts (about 40% of all program participants) identified themselves as clients of  
11       Defendants Tom and Joy Reese's company, JT Educational Consultants (JTEC). At the end of  
12       the 2012-13 school year, 99 participating school districts (about 85% of all program  
13       participants) reported using JTEC's Medicaid consulting services.

14       36. There has been a notable increase in total Medicaid administrative claiming  
15       payments to Washington public school in recent years. For the 2007-08 school year the federal  
16       government paid \$10,947,500 to Washington public school districts, which reimbursed those  
17       districts for half of their purported total Medicaid administrative costs. That payment  
18       increased to \$13,807,700 for 2009-10 and to \$18,723,250 for 2012-13. Over the same time  
19       period, the number of Washington public school or educational service districts participating in  
20       the MAC program remained about constant – varying from approximately 112 in 2007-08 to  
21       about 117 in 2012-13. There are 295 school districts in Washington. Slightly more than 1/3 of  
22       those districts chose to participate in the MAC program during the years addressed by this  
23       Complaint.  
24  
25  
26

1 **F. The Defendants**

2 **1. Tom and Joy Reese and JTEC**

3 37. Defendants John Thomas (Tom) and Sheila Joy (Joy) Reese are a married  
4 couple. Since 1998 they have done business as JT Educational Consultants (collectively  
5 'JTEC'). The initials 'JT' in the company name stand for "Joy and Tom." Mr. and Mrs.  
6 Reese and JTEC marketed Medicaid claiming 'consulting' services to Washington public  
7 school districts for an annual fee.

8 38. In Mr. and Mrs. Reese's words JTEC purportedly assists "*schools to interpret*  
9 *and adhere to federal regulations and the Medicaid Match Program, train teachers and do the*  
10 *necessary paperwork for claiming.*" Essentially JTEC provides proprietary "training"  
11 information and materials to client school district staff participating in the quarterly Medicaid  
12 administrative time study; it transfers numbers from the time study participant's paper time  
13 study form to the Health Care Authority's Medicaid administrative claiming system; and JTEC  
14 uploads participating staff salary and benefit data provided by the client district into the HCA's  
15 online claiming system.

16 39. JTEC described itself in promotional materials as a "*family owned company*  
17 *made up of retired school superintendents, federal program directors, principals, and private*  
18 *sector professionals.*" In a February 22, 2012, email to federal politicians, Mr. and Mrs. Reese  
19 called themselves "*retired educators who have dedicated their lives to children and programs*  
20 *for their benefit.*" Upon Mr. Reese's retirement, Mr. and Mrs. Reese "*knew we still had more*  
21 *to offer children so we started a company called JTEC ... instead of resting on our laurels.*"

22 40. In the same 2012 email, the couple reported that their Medicaid "consulting"  
23 services "*helped to bring \$180,000,000 to Washington State schools.*" Mr. and Mrs. Reese  
24 claimed that Tom was involved in the MAC program since its "*inception*" in Washington State  
25 and that "[*h*is work has helped to define how school districts understand the purpose of  
26 *Medicaid Match, and claim reimbursement.*" In recent years JTEC took between 6-8% of the

1 total Washington school-based Medicaid administrative claim payout in the form of  
2 “consulting” fees. Applying the mid-point of that range to Mr. and Mrs. Reese’s \$180 million  
3 figure yields a corresponding estimated total JTEC “consulting” fee of \$12.6 million for 1998-  
4 2011.

5 41. From 1998 through 2014, JTEC was a sole proprietorship registered with the  
6 Secretary of State and Department of Revenue (UBI #601874096). Tom and Joy Reese were  
7 the proprietors.

8 42. The Attorney General’s Office served a Civil Investigative Demand for records  
9 on JTEC on or about March 10, 2014, which provided the company with its first notice of a  
10 Medicaid False Claims Act investigation. On April 7, 2014, Mr. and Mrs. Reese registered a  
11 new corporation, JT Educational Consultants, Inc. (UBI #603392591).

12 43. Tom Reese is the President and a Director of JT Educational Consultants, Inc.,  
13 and its’ registered agent. Joy Reese is the Secretary, Treasurer and a Director of the  
14 corporation. The address of the corporation is 1513 Apollo Place, Wenatchee, Washington.

15 44. JTEC hired its first employee, a former part time secretary who Mrs. Reese  
16 knew from the Wenatchee School District, in 2000. Mr. and Mrs. Reese and Ms. Vicki  
17 Brisbine ran JTEC from the Reese residence at 1513 Apollo Place, Wenatchee, Washington,  
18 98801.

19 45. When Mrs. Reese retired from the Wenatchee School District, JTEC opened an  
20 office at 25 N. Wenatchee Avenue, Suite 205. JTEC added another former Wenatchee School  
21 District employee, Ms. Debra Jay, after Ms. Jay left her custodian job. For several years, JTEC  
22 has conducted client time study form data entry and related tasks at the Wenatchee Avenue  
23 office. It has also held occasional consultant meetings, company retreats, and other business  
24 activities at a Bellevue apartment (362 Bellevue Way NE, Apt. N232, Bellevue, Washington).

25 46. In 2009, according to JTEC, it charged Washington public school districts a  
26 total of about \$807,000 for Medicaid “consulting” services. By 2011, the firm’s annual school

1 district billings exceeded \$1,000,000 and in 2013 it collected approximately \$1.25 million for  
2 Medicaid “consulting” services. JTEC’s school district clients included the company’s  
3 consulting fees in the operating cost portion of their Medicaid administrative cost claim and  
4 thus a portion of JTEC’s “consulting” fees were ultimately paid by federal Medicaid funds. In  
5 2013, JTEC collected about 7% of the total school-based MAC payout for Washington State in  
6 the form of Medicaid “consulting” fees.

7 47. JTEC has relatively few business expenses, the largest of which are  
8 compensation packages for Mr. Reese, Mrs. Reese, and consultants Mr. Adolf, and Mr.  
9 Hedgcock. The company pays its entire data entry staff very little compensation, significantly  
10 less than ten percent of total company revenue. JTEC’s remaining revenue after deducting  
11 cash expenses of about \$4,000 per month for the Wenatchee Avenue office rent, office  
12 supplies, insurance, and travel costs flows to Mr. and Mrs. Reese.

13 48. In the JTEC business model, Mr. Reese served as the “lead consultant” to all  
14 JTEC school districts. JTEC contracts with or employs other “consultants” who obtain and  
15 service their own school district business. The “consultants” are JTEC’s sales force. They are  
16 charged with enrolling new school districts in the Medicaid administrative claiming program  
17 and with boosting school district time study claims.

18 49. Joy Reese is identified as a “consultant” in several JTEC company documents  
19 and received compensation exceeding \$100,000 per year from JTEC although she had no  
20 contact with JTEC clients. She participated in “consultant” meetings about the company’s  
21 business strategies and engaged in efforts, including lobbying various elected officials, and  
22 agency staff, to promote the company’s interests. Mrs. Reese rarely visited the company’s  
23 Wenatchee Avenue office.

24 50. JTEC consultants received a percentage of any incremental annual fee revenue  
25 he or she brought to JTEC. That arrangement incentivized the consultant to add new school  
26 districts to JTEC’s client list. Consultants were also paid additional compensation in the form

1 of a flat fee or percentage of contract revenue for servicing Mr. Reese's personal school district  
2 clients.

3 51. Over the last five years virtually all of Mr. Reese's JTEC work time was  
4 devoted to opposing HCA's efforts to reform the time study process in order to preserve  
5 JTEC's data entry and claim consulting business. Mr. Reese appeared at JTEC's Wenatchee  
6 Avenue office about one time each month. Typically he stayed only a short time, generally to  
7 visit with Mr. Adolf. Mr. Reese conducted less than 10 individual client time study training  
8 sessions in 2009 and 2010. He has not conducted a client staff training session since  
9 September 23, 2010 according to JTEC records.

10 52. Prior to learning about the state's Medicaid fraud investigation, Mr. Reese  
11 commingled JTEC and personal bank accounts, expenses, and funds. For many years the  
12 company failed to maintain separate financial and other records normally associated with a  
13 legitimate business. For example the company's business checking account shows frequent  
14 large payments for the Reese's personal expenses, home maintenance and improvement costs,  
15 and to several casinos throughout the Western United States.

16 53. Since 2005 JTEC has had at least four other consultants working under an oral  
17 revenue sharing agreements. Those people were Janine Welty, Randall Hauff, Jack Hedgcock,  
18 and Scott Adolf. Following in the original Joy-Tom model, the consultants use similar  
19 business names, doing business as [First Initial] [Second Initial] and then the word  
20 "consulting" or "consultant."

21 **2. Janine Welty and JW Consulting Services**

22 54. Ms. Janine Welty worked with Mrs. Reese at the Wenatchee School District in  
23 the reading services department. When Ms. Welty retired from the school district, she joined  
24 JTEC as a consultant doing business as JW Consulting Services. Ms. Welty had no known  
25 expertise in Medicaid, Medicaid administrative claiming, or time studies.

1 55. Ms. Welty had a verbal agreement with Mr. Reese to share in the revenue  
2 generated by her assigned clientele and received a percentage of the fees paid by school  
3 districts that she serviced. JTEC staff performed data entry services and time study form  
4 review for her clientele and those costs were deducted from Ms. Welty's revenue share. Ms.  
5 Welty conducted client staff time study training using the fraudulent JTEC training materials  
6 that displayed her JW 'brand.'

7 56. Ms. Welty exited the Medicaid administrative claiming business in 2012.  
8 JTEC's remaining consultants assumed responsibility for her clients upon her departure.

9 **3. Randall D. Hauff and RH Consulting**

10 57. Mr. Reese recruited Mr. Randall D. (Randy) Hauff to join his Medicaid  
11 consulting business in in 2006 and take over some existing school district clients. Mr. Hauff  
12 had a verbal agreement with Mr. Reese to share client revenue generated by Mr. Hauff's  
13 assigned clientele. Mr. Hauff did business as RH Consultants and worked with JTEC from  
14 2006 to 2012. He was trained by Mr. Reese.

15 58. Mr. Hauff was under contract to the Tonasket School Board from August 23,  
16 1999, through June 30, 2009, serving as the District Superintendent. On September 13, 2002,  
17 the Tonasket School District's business manager, Debbie L. Kitterman executed a JTEC  
18 Agreement for Services on behalf of Superintendent Hauff. The Agreement purportedly ran  
19 retroactively from July 1, 2002, to June 30, 2004. The Agreement required the Tonasket  
20 School District to pay JTEC a contingency fee "*of six percent of any and all amounts received*  
21 *for TITLE XIX Reimbursements*" during the effective period. JTEC has billed the Tonasket  
22 School District for Medicaid administrative consulting services since 2002. From 2002 until  
23 his retirement in 2009, Mr. Hauff's signature appeared on District checks made out to JTEC  
24 for payment of Medicaid "consulting" fees.

25 59. Thus, from 2006 through 2009, while Mr. Hauff was under contract to the  
26 Tonasket School Board and serving as District Superintendent, he served simultaneously as the

1 Medicaid administrative claiming consultant for several other school districts including the  
2 Adna, Omak, Onalaska, Pe Ell, Port Angeles, Sedro Wooley, Toledo, Toppenish, and Winlock  
3 school districts. Mr. Hauff collected annual Medicaid administrative claiming consulting fees  
4 from those districts for several years until 2012.

5 60. That business arrangement led to situations in which one JTEC consultant  
6 traveled 120 miles from the company's Wenatchee office to Tonasket to train Tonasket School  
7 District staff, while at virtually the same time, Mr. Hauff, the Tonasket School District  
8 Superintendent, was training Pe Ell School District staff in Pe Ell -- 351 miles from Tonasket.  
9 The underlying purpose of this unusual arrangement was to maximize the total consulting fee  
10 charged to the school districts.

11 61. Mr. Hauff became disillusioned with JTEC after he realized that his  
12 "consulting" job was in fact a sales position. Mr. Adolf began to take Mr. Hauff's school  
13 district clients in 2010. The remaining JTEC consultants assumed all of Mr. Hauff's clients  
14 after he left the MAC consulting business in 2012.

15 **4. Mr. and Mrs. Hedgcock and JH Consulting**

16 62. Defendant Jack Douglas (Jack) Hedgcock owns JH Consulting LLC (UBI  
17 #602574262) and, since 2006, has worked as a Medicaid "consultant" on behalf of JTEC. JH  
18 Consulting has been registered with Washington's Secretary of State as a limited liability  
19 company since January 14, 2006. Mr. Hedgcock is a member of that company and its  
20 registered agent.

21 63. Mr. Hedgcock retired after 29 years as a teacher and principal in Washington  
22 schools and another three years as a principal in California. He met Tom Reese in 1973, when  
23 both worked in the Moses Lake School District in Eastern Washington. Those two defendants  
24 have been friends for four decades.

25 64. Mr. Hedgcock had no training or expertise in Medicaid, the MAC program,  
26 statistics, or time studies before he started working for JTEC. Mr. Hedgcock learned about the

1 Medicaid administrative claiming program solely from his friend Tom Reese and from JTEC  
2 training materials.

3 65. Despite Mr. Hedgcock's evident lack of qualifications, in 2006, Tom Reese  
4 hired him to serve as a JTEC Consultant and assigned him to several Western Washington  
5 school districts. Mr. Hedgcock and Mr. Reese agreed to an informal compensation  
6 arrangement in which Mr. Hedgcock received "50% of the contractual amount of any school  
7 districts that would enroll in the Medicaid program..." as a result of Mr. Hedgcock's efforts.  
8 Mr. Hedgcock was also responsible for a pro rata portion of JTEC's operating expenses, which  
9 are deducted from his gross compensation.

10 66. JTEC pays Mr. Hedgcock \$250 for each time study training session he provides  
11 to Mr. Reese's clients. A typical Hedgcock training session consisted of a 20-30 minute  
12 PowerPoint presentation plus travel and sales time.

13 67. According to JTEC's records Mr. Hedgcock conducted 45 training sessions in  
14 2010. In 2011, after he prepared a series of time study training videos for client staff to view  
15 online, Mr. Hedgcock conducted only 27 time study training sessions at school district  
16 facilities. He completed another 25 onsite training sessions in 2012 and conducted 27 such  
17 sessions in 2013. Mr. Hedgcock rarely, if ever, visited the company's Wenatchee Avenue  
18 office. JTEC data entry staff saw him only at the annual JTEC Christmas party.

19 68. The vast majority of Mr. Hedgcock's JTEC work time was devoted to training  
20 client staff regarding the time study and advising district MAC coordinators about claiming  
21 issues. According to his colleague Mr. Adolf, Mr. Hedgcock "*draw[s] a \$150,000 + annual*  
22 *salary for nothing more than a couple of fall quarter trainings.*"

23 69. JTEC paid JH Consulting LLC, \$46,220 in 2006; \$77,807 in 2007; \$101,848 in  
24 2008; \$109,658 in 2009; \$114,694 in 2010; \$128,605 in 2011; \$152,946 in 2012; and \$150,448  
25 in 2013. JTEC was the sole source of JH Consulting, LLC's revenue for each of those years.

1           70. Defendant Patricia Gale Hedgcock is married to Jack Hedgcock. She has  
2 worked as a para-educator in Washington public schools. According to the couple's joint  
3 federal tax return, beginning in calendar year 2008 and continuing through 2012, Ms.  
4 Hedgcock was paid about \$50,000 per year by JH Consulting LLC for serving as a  
5 "consultant" to the company. According to Mr. Hedgcock, his wife does "*banking and some*  
6 *bookkeeping such as paying bills*" for the company. Her compensation was documented with a  
7 Form 1099 from JH Consulting LLC.

8           **5. Scott and Theresa Adolf**

9           71. Defendant Scott Adolf is a Consultant and the General Manager of JTEC. He  
10 filed a bankruptcy petition in December, 2007, in which he reported starting his JTEC career in  
11 mid-2007. His first title with JTEC was Educational Consultant, although he had no expertise  
12 in education. In early 2010, he identified himself as JTEC's Director of Technology and  
13 Communications and Ad Match Consultant. Mr. Adolf became JTEC's General Manager in  
14 December, 2010, adding "overall operations" and "business development" responsibilities to  
15 his portfolio of company duties. He also supervised data entry employees in the company's  
16 Wenatchee Avenue office.

17           72. Mr. Adolf works closely with Mr. Reese. He reviews and edits virtually every  
18 significant written business communication sent by Mr. Reese. Mr. Reese reviews and  
19 approves virtually every written business communication sent by Mr. Adolf. JTEC has no  
20 written description of Mr. Adolf's job duties, his responsibilities, or his authority. Although  
21 he lacks written authorization to sign contracts on behalf of JTEC, Mr. Adolf does in fact sign  
22 such contracts.

23           73. JTEC paid Mr. Adolf a salary for his General Manager duties and he received  
24 an additional 40% of all school district revenue that he added to the firm's book of business.  
25 He also received an additional 10% of the contract amount of any district he services for Mr.  
26 Reese. Like Mr. Hedgcock, Mr. Adolf has no documentation of his compensation agreement

1 with JTEC. According to Mr. Adolf, his JTEC compensation increased from \$29,900 in 2007  
2 to \$184,000 in 2014.

3 74. From December 12, 1985, through August 14, 2006, Mr. Adolf was employed  
4 as salesman for Apple computer reseller in Yakima. Mr. Adolf met Mr. Reese when the latter  
5 brought a broken computer to Mr. Adolf's then-employer in Yakima. Beginning with that  
6 encounter, Mr. Reese recruited Mr. Adolf to conduct time study training for several JTEC  
7 clients, while Mr. Adolf also continued to work for the computer store.

8 75. Prior to going to work for JTEC, Mr. Adolf had no professional experience in  
9 education, healthcare, statistics, time studies, Medicaid, or Medicaid billing. He has no formal  
10 training in Medicaid, Medicaid billing, healthcare, time studies, statistics, or the MAC  
11 program. Like Mr. Hedgcock, and Mr. Hauff, everything that Mr. Adolf knows about the  
12 MAC program he learned from Mr. Reese.

13 76. Defendant Theresa Adolf married Mr. Adolf in February, 2008. Since 2009,  
14 she has been employed by JTEC as a claims processor. She had no experience in education,  
15 healthcare, statistics, time studies, Medicaid, or Medicaid billing prior to joining JTEC.

16 **G. Other JTEC Employees**

17 77. Other than Ms. Adolf, current JTEC employees who perform data entry are not  
18 named as individual defendants in this case. Those JTEC employees are the Office Manager,  
19 Ms. Vicki Brisbine, and data entry staff, Ms. Linda McLean, and Ms. Lisa Stevens. Past JTEC  
20 data entry personnel include Ms. Debra Jay, Ms. Anne Kirpes, (also identified as a Claim  
21 Auditor by the company); Ms. Pat Butcherite, Ms. Ann Schoenwald, Ms. Stephanie  
22 Schoenwald, and Mr. Carlos Nunez.

23 78. In contrast to the generous revenue-sharing compensation package provided to  
24 the "consultants," JTEC started data entry employees at the minimum wage. The company's  
25 data entry employees earned no additional benefits or bonuses and did not share in company  
26 revenue. For many years, Ms. Debra Jay, who JTEC described as its lead and most

1 knowledgeable claims processor, received a JTEC paycheck totaling only about \$650 per  
2 month. On average, the company paid its entire data entry staff about \$7500 per month in  
3 gross compensation or less than 7% of its' gross monthly revenue.

4 **H. Acts of Agents**

5 79. Unless the context clearly indicates otherwise, whenever in this Complaint it is  
6 alleged that people or entities other than Defendants Tom and Joy Reese or JTEC did any act,  
7 it is meant that such people or entities performed or participated in such act or that such act  
8 was performed on behalf of the Defendants Tom and Joy Reese or JTEC. In each instance, the  
9 individuals acted as agents or employees of Defendants Tom and Joy Reese or JTEC who were  
10 authorized to act on behalf of such Defendants or otherwise acted under the guidance and  
11 direction of such Defendants.

12 **I. JTEC's Knowledge**

13 80. Wherever in this Complaint it is alleged that JTEC had knowledge of a fact or  
14 circumstance, it is meant that Tom Reese or Joy Reese knew that fact or circumstance and/or  
15 that their agents, Ms. Welty, Mr. Hauff, Mr. Hedgcock, or Mr. Adolf, knew that fact or  
16 circumstance.

17 **J. The Washington State Medicaid Fraud Control Unit**

18 81. The State of Washington brings this action in its sovereign capacity by and  
19 through the Attorney General on behalf of the Washington Medicaid program to recover  
20 Medicaid payments that should not have been made, associated civil penalties, pre-judgment  
21 interest, investigation costs, and other appropriate relief. The Medicaid Fraud Control Unit  
22 (MFCU) of the Attorney General's Office investigates and prosecutes fraud or false claims  
23 affecting Washington's Medicaid program pursuant to the Medicaid False Claims Act, RCW  
24 74.66 and other laws.

1 82. At all times material to this action, the State of Washington acted through its  
2 Medicaid Fraud Control Unit (MFCU), or the Health Care Authority (HCA).<sup>2</sup> The Health Care  
3 Authority is located at 628 8<sup>th</sup> Ave SE, Olympia, Thurston County, Washington. The HCA  
4 administered the program and processed the claims submitted by Defendants' clients in  
5 Thurston County.

6 **K. JTEC's Fraudulent Schemes & Practices Caused School Districts to File False**  
7 **Medicaid Statements and Claims**

8 83. JTEC's business strategy involved a multi-phase effort to corrupt the school  
9 Medical administrative claiming program for its own purposes. The company's fraudulent  
10 activities operated on the MAC process described above. (¶¶12-34). As explained in more  
11 detail below, the fraudulent schemes and practices utilized by JTEC consultants included the  
12 misrepresentation of the amount of Medicaid reimbursement reasonably available to school  
13 districts (¶¶86-96), the misrepresentation of the scope of legitimately reimbursable Medicaid  
14 activities (¶¶97-150), and the misrepresentation of the scope and depth of JTEC's time study  
15 form compliance review. (¶¶152-158).

16 84. With these and other schemes Defendants knowingly caused their clients to  
17 violate time study rules by, among other things, causing time study participants to alter their  
18 normal routines on time study days to generate inflated and false Medicaid claims and by  
19 causing time study participants to claim Medicaid reimbursement for activities that were not  
20

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21 <sup>2</sup> In 2011, the Washington state agencies delivering benefits under the Medicaid program were combined.  
22 Powers and duties, as well as other program elements were transferred from the Washington Department of Social  
23 and Health Services ("DSHS") to the Washington Health Care Authority ("HCA"). RCW 74.09.010 and notes  
24 thereto. Predecessor DSHS departments with Medicaid administrative claiming program responsibilities include  
25 the Health and Recovery Services Administration and the Medical Assistance Administration. Presently, both  
26 HCA and DSHS manage Medicaid funding. HCA is the designated Single State Agency. RCW 74.09.530.  
However, there is an interagency agreement between HCA and DSHS that allows DSHS to manage certain  
Medicaid programs and functions. For purposes of this Complaint, the state agencies involved with the  
administration of the Washington Medicaid program at various times are collectively referred to as "HCA."  
References to the "Medicaid program," "Medicaid Administrative Claiming," or "HCA" in this Complaint may  
encompass DSHS depending on the context.

1 legitimately reimbursable. Defendants' conduct was designed to induce and did induce school  
2 districts to participate in the Medicaid administrative claiming program and file false Medicaid  
3 reimbursement claims. The purpose underlying all of Defendants' schemes was to generate fee  
4 income for their fraudulent Medicaid consulting business.

5 **1. Phase 1: JTEC Promised Easy Money**

6 85. In the midst of widespread budget cutbacks following the last national financial  
7 crisis, JTEC enticed financially strapped school districts to enroll in the Medicaid  
8 administrative claiming program by promoting unrealistic claiming targets, minimizing the  
9 school district work effort required to operate a compliant MAC program, and misrepresenting  
10 the scope of the training and compliance services the company would perform on behalf of the  
11 school district.

12 86. JTEC promoted its Medicaid consulting services as "*A Solution to Ever-*  
13 *Shrinking Budgets.*" In company promotional materials JTEC promised to "*show ... how*  
14 *district revenues can be dramatically enhanced, and painful [spending] cuts averted!*"  
15 (Emphasis added.) JTEC's pitch was especially appealing during the difficult budget  
16 environment that school districts faced after 2008.

17 87. JTEC executed a contract with each of its' school district clients, which it called  
18 an "Agreement for Services." Consistent with the company's promotional materials, JTEC's  
19 contract described a comprehensive suite of services. Among other things, JTEC promised to  
20 ensure that client time study participants were adequately trained as required by the Health  
21 Care Authority, ensure that the program operated in an efficient and effective manner, review  
22 all client time study forms, documents, records, and reports for accuracy, develop all  
23 preliminary and final claim reports and documents for submission to the Health Care  
24 Authority, and provide information regarding best practices for program implementation.

25 88. In promotional materials, JTEC mischaracterized the Medicaid administrative  
26 claiming program as an "entitlement" program that paid school districts for medical services

1 that the districts purportedly provided on behalf of the federal government. Mr. Reese told  
2 clients that the program arose from a court case involving the Boston Unified School District  
3 in which the “*Supreme Court forced Congress to enact legislation that reimbursed school*  
4 *districts for their time and effort.*” According to Mr. Reese the case established a right to  
5 payment for “*non-recompensed medical services provided on behalf of the Health and Human*  
6 *Services Department.*”

7 89. Mr. Reese’s entitlement notion was reflected in other JTEC communications.  
8 For example, in a January 14, 2013, email to company clients Mr. Adolf wrote “[y]our state  
9 government is actively setting up a plan to prevent public school districts from accessing  
10 nearly all of the federal Title XIX funds [you] are entitled to. That is nothing less than  
11 criminal.” (Emphasis added)

12 90. To incentivize false time study claiming, JTEC advised its clients to reward  
13 individual participation in the time study by distributing MAC funds back to the schools that  
14 “earned” the funds. JTEC’s email contains numerous messages like this one from the Yakima  
15 School District, sent on October 27, 2011, in response to a message from JTEC containing the  
16 District’s projected Medicaid administrative claim for the spring quarter, “*Thanks Scott. It’s*  
17 *party time – we actually have all of last year claimed before the end of this quarter☺*” A  
18 happy school district client was also more likely to recommend JTEC’s services to other  
19 districts. A new school district client added new revenue for JTEC and the consultant who  
20 made the sale and so on.

21 91. JTEC invented a client claiming target that it called the “*federal predictor*  
22 *formula,*” which had no factual basis to support its application. In reality, “*federal predictor*  
23 *formula,*” was a marketing device created to help client districts visualize “potential” Medicaid  
24 administrative cost reimbursement; akin to a fictitious “sales goal” designed to motivate a  
25 commissioned sales force JTEC told school districts that by participating in the MAC program  
26 they should expect to generate \$350 per year for each Medicaid-eligible student. So, for

1 example, using its' "*federal predictor formula*" JTEC projected that a school district with 1000  
2 Medicaid-eligible students should expect to generate revenue of \$350,000 per year by  
3 participating in the MAC time study. Though they told their client school districts that the  
4 figure was derived from a past version of the Medicaid administrative claiming program, JTEC  
5 and its consultants knew that the "*federal predictor formula*" had no basis in federal law or the  
6 Medicaid program rules. The concocted formula was only a JTEC sales tool designed to  
7 induce school district MAC participation and over claiming.

8 92. None of the communications between JTEC and its clients regarding the  
9 "*federal predictor formula*" refer to actual student needs, actual Medicaid outreach or referral  
10 activities, available district resources, or any other parameter that would naturally vary  
11 between nearly one-hundred JTEC client districts located throughout Washington. Instead  
12 JTEC applied its "*federal predictor formula*" to all clients without any consideration for  
13 whether their clients' students needed that expenditure level or the school district should  
14 deliver the level of Medicaid outreach required to obtain that level of cost reimbursement.<sup>3</sup>

15 93. For example, in an email dated July 27, 2010, Mr. Hedgcock wrote to the  
16 Franklin Pierce School District that

17 *... in the old days DSHS used to set an amount that a district was*  
18 *eligible for. That amount was the number of Medicaid students signed*  
*up for the district times \$350 per student.*

19 Mr. Hedgcock then multiplied the Franklin Pierce School District's 3689 Medicaid  
20 eligible students by \$350 to arrive at a District claiming target of \$1,291,150. Mr. Hedgcock  
21 knew that there was no factual basis for the \$350 per Medicaid-eligible student federal  
22 predictor formula that he conveyed to the school district.

23  
24  
25 <sup>3</sup> Presumably hard-pressed school districts ordinarily prefer that instructional staff devote the  
26 overwhelming bulk of their time to instructional activities and the other primary duties, instead of performing  
Medicaid outreach activities for the state Medicaid agency.

1 94. All JTEC consultants used the fraudulent \$350 per Medicaid-eligible student  
2 target. In a typical sales pitch to the Chehalis School District on April 20, 2011, Mr. Adolf  
3 wrote:

4 *[w]hen the program was first established, government statisticians set*  
5 *the potential maximum annual reimbursement for any district to \$350.00*  
6 *per Medicaid enrolled student. For Chehalis, this would have meant*  
7 *\$369,550.00 (based on current Medicaid enrollment figures). However,*  
8 *some districts were soon demonstrating that this artificial cap was not*  
9 *always sufficient to offset the true staffing costs associated with medical*  
10 *outreach and linkage activities district-wide. The cap was removed in*  
11 *2004. Having said this, JTEC still uses this calculation method to*  
12 *project likely reimbursements for the first year of participation.*

13 95. Mr. Adolf was more explicit about the company's claiming target (and its fee)  
14 in an August 23, 2012, email to the business manager of the Toppenish School District  
15 responding to a District inquiry about JTEC's proposed \$16,500 annual fee, Mr. Adolf wrote:

16 *We look at the claiming potential of each district based on their current*  
17 *student demographics. Presently based on your MER, Toppenish has*  
18 *the potential to generate in excess of \$800,000 annually (using the*  
19 *federal predictor formula of \$350.00 per each Medicaid enrolled student*  
20 *- approx. 2500 total in your case). JTEC strives to base our fee*  
21 *structure in 2-3% rate of that potential. In your case the fee is roughly*  
22 *1.8%.*

23 96. Mr. Reese and Mr. Adolf measured their clients' Medicaid administrative  
24 claiming performance against the \$350 per student target.

## 25 **2. Phase II: JTEC Causes its Clients to Submit False MAC Claims**

26 97. To help clients reach the \$350 per student annual claiming target, JTEC  
calculated the reimbursement value of various artificial activities purportedly related to  
"health" or "medical" issues. Then it advised clients to perform the artificial activities on time  
study days to increase payouts. One of the company's primary schemes for increasing client  
claiming involved the promotion of artificial Medicaid "outreach" and "referral" activity. For  
example, on September 11, 2009, Mr. Hedcock wrote to the Sequim School District with  
revenue-generating ideas for days when a randomly selected time study day occurred during a

1 school's pre-scheduled parent-teacher conference week. Mr. Hedgcock suggested that Sequim  
2 staff have the Apple Health for Kids (Medicaid) flyers on hand because distributing that  
3 brochure to the parent would earn a '1b' tick that was worth \$100 to the District. Mr.  
4 Hedgcock provided a narrative description for such artificial encounters, *i.e.*, "*Provide*  
5 *Medicaid Insurance Information.*" Mr. Hedgcock omitted any reference to the time study  
6 requirement that the activity consume at least 7.5 continuous minutes before it could be  
7 recorded on the form.

8 98. In the same email Mr. Hedgcock wrote that parent-teacher conferences were  
9 also a good time to raise "medical" issues, which would earn the District \$32 for a '9b' tick.  
10 He suggested using the phrase "*Conference: re medical issue*" or "*Parent contact re: medical*  
11 *issue.*" Mr. Hedgcock closed with a note of encouragement, writing:

12 *if staff are prepped with this info. you can make [parent-teacher*  
13 *conference] it a very profitable day. Most districts would kill for this*  
*opportunity.*

14 99. The JTEC consultants referred to this set of artificial activities as the '1b/9b'  
15 pairing. In messages such as the ones described above, Mr. Hedgcock advised his client to  
16 have classroom teachers artificially raise student "medical issues" with parents attending  
17 parent-teacher conferences. Then those same teachers were supposed to distribute Medicaid  
18 brochures during the parent-teacher conference. But, and this is critical, according to Mr.  
19 Hedgcock, his client's teachers should perform those activities only if a randomly selected  
20 Medicaid administrative time study day fortuitously fell on a parent-teacher conference day  
21 For such manipulation of the HCA's time study process, Mr. Hedgcock advised that his school  
22 district client would earn \$132 per Medicaid brochure dispensed.

23 100. Any time study participant following Mr. Hedgcock's advice would have  
24 altered his or her normal routine on a time study day, thereby violating a fundamental rule of  
25 the time study. If on a time study day a participant recorded time for a reimbursable Medicaid  
26 activity that the participant ordinarily would not have performed and the participant signed the

1 time study form; the participant would have falsely certified the form and generated at least  
2 one false Medicaid statement. A school district MAC coordinator who included the false time  
3 study form in the calculation of the district's quarterly time claim would have created a false  
4 preclaim certificate and eventually a false quarterly Medicaid administrative time claim.  
5 Again, because of the sampling and extrapolation process used to estimate total time expended,  
6 the impact of a single false time study form is magnified after it is incorporated into the  
7 district's claim calculation.

8 101. For school early release days, Mr. Hedgcock suggested that teachers convene  
9 meetings to discuss student health concerns or make phone calls to "follow up" on previous  
10 health-related discussions. He sent such messages as recently as February 28, 2014. Mr.  
11 Hedgcock's advice, like many other examples of the advice provided by other JTEC  
12 consultants, was designed to artificially and falsely inflate his clients' quarterly Medicaid  
13 administrative claim. Many JTEC clients followed the consultants' advice and recorded  
14 artificial '1b/9b' activity pairs on time study days in clear violation of the normal routine  
15 requirement.

16 102. A second JTEC scheme designed to promote client claiming involved the  
17 repeated recording of artificial "Medicaid training" sessions. The wisdom and necessity of this  
18 scheme was questioned by Mr. Adolf himself. In a revealing September 30, 2008, email to Mr.  
19 Reese, Mr. Adolf wrote:

20 *Tom – It has come to my attention ... Jack [apparently] continues to*  
21 *train with emphasis placed on ticking Code 8b. Last week during an*  
22 *exercise at the Hood Canal MAM training, he was heard by all in the*  
23 *room (DSHS included) that you can still 'get away' with doing one 8b*  
24 *training per quarter – especially if you call a staff meeting ... We need*  
25 *to discuss during the consultants' meeting on the 10<sup>th</sup> if not before.*  
26 *There is more than enough revenue to be had through 1b/9b paired with*  
*code 10 activity and we should not be in the business of pushing the*  
*envelope anymore. Agreed? (Emphasis added).*

1 103. The consultants' discussion eventually resolved in Mr. Hedgcock's favor. In a  
2 form client "reminder" email drafted on November 8, 2008, Mr. Adolf provided his own '8b'  
3 coding tip:

4 *One activity you should do today is take about 10 minutes<sup>4</sup> to review the*  
5 *"Apple Health for Kids" Insurance Program. If you go to the following*  
6 *[DSHS] website you will find information about the income*  
7 *requirements, coverage, and application process. That activity should*  
8 *be coded as '8b' and described as "Medicaid services training" in the*  
9 *form narrative. You should record the appropriate number of tick marks*  
10 *and time on your form."*

11 With that tip Mr. Adolf encouraged time study participants to invent a self-training  
12 exercise (i.e. website review) that would earn them some tick marks. JTEC wanted client staff  
13 to re-review the website on each time study day in order to record more artificial '8b' time on  
14 their time study forms. Many JTEC clients followed the consultants' advice and as a result  
15 generated time study forms with false '8b' Medicaid training time recorded on them.

16 104. As he knew, Mr. Adolf's '8b' advice was wrong for three reasons. First,  
17 because it encouraged time study participants to violate the normal routine rule. Second,  
18 because reading a brochure not commonly construed as "training." And, third, because paying  
19 for a teacher to read and re-read a Medicaid brochure is neither necessary nor efficient  
20 administration of the state's Medicaid outreach program.

21 105. Several months later, Mr. Hedgcock tried to improve upon his Medicaid  
22 training claiming scheme. Writing to Mr. Reese on August 13, 2010, following an HCA  
23 training session on the '8b' topic, which was held to correct the problems caused by JTEC's  
24 erroneous advice described above, Mr. Hedgcock wrote:

25 *I know we want to proceed with this cautiously but if we could get one*  
26 *8b per quarter it would be some \$\$\$.* *We may want to decide to proceed*  
*with the more for counselors, health nurses, psychs, etc... I think the You*

<sup>4</sup>Or just slightly more than the 7.5 minutes needed to record one tick mark on the time study form, which would be worth 15 minutes of reimbursable time in the district's MAC claim.

1                   *Tube [training video] would be pretty simple and not take long, so it*  
2                   *would not be expensive at all.*

3                   In other words, Mr. Hedgcock proposed to produce an inexpensive video that JTEC  
4 clients could view once per quarter to claim Medicaid training ('8b') time on a time study day.

5                   106. Mr. Hedgcock knew his artificial '8b' training advice was fundamentally wrong  
6 because in response to his request for assistance, on October 20, 2008, Ms. Brisbine sent him  
7 an email with a correct description of reimbursable '8b' activities. Mr. Adolf knew that his  
8 advice was wrong because he criticized his colleague for the same conduct.

9                   107. Though it knew that the Cost Allocation Plan and the Interagency Agreement  
10 required its clients to use the Health Care Authority's official Quick Reference Guide, to  
11 ensure that its clients' time study participants were primed to claim aggressively, JTEC created  
12 its own Quick Start Guide, which it provided to clients in lieu of the official Quick Reference  
13 Guide described in ¶ 16. JTEC recommended that its client districts distribute its Quick Start  
14 Guide to each time study participant before the study day and referred participants to a copy  
15 located on the company's web site.

16                   108. JTEC wanted its clients' staff to use the JTEC Quick Start Guide instead of the  
17 Health Care Authority's Quick Reference Guide because it knew that participants who  
18 followed its misleading guidelines tended to record more reimbursable Medicaid time than  
19 those that adhered to the significantly more restrictive HCA document. JTEC paid to design,  
20 print, and distribute its own version to clients despite knowing that those clients already had  
21 the official Quick Reference Guide, which was supplied by HCA and attached to the  
22 Interagency Agreement.

23                   109. JTEC consultants conducted personal training for time study participants at  
24 schools using misleading power point slides and other materials. The company also offered  
25 various web-based training videos, which it called "JTEC University." For several years,  
26 JTEC made these videos available on its web site, but they were removed from the site soon

1 after JTEC learned of the MFCU investigation. Until then, JTEC consultants used the JTEC  
2 University videos to reduce the required number of onsite client training sessions. As  
3 described in paragraphs 108 through 112, JTEC consultants also recommended that client  
4 participants review the “training” videos on time study days to generate reimbursable Medicaid  
5 time. The videos were full of erroneous coding advice similar to that described throughout  
6 this Complaint. Several thousand school district staff viewed the videos before JTEC pulled  
7 them from its web site.

8 110. In contrast to its focus on time study coding, JTEC devoted virtually no training  
9 effort to real Medicaid outreach or referral. To the contrary, JTEC consultants routinely  
10 dismissed legitimate Medicaid outreach efforts. On October 10, 2008, after he had been  
11 collecting Medicaid consulting fees from public school districts for nearly three years, Mr.  
12 Hedgcock brushed off a client’s request for a simple list of local Medicaid providers, writing:

13 *[u]nfortunately, I don’t think such a list exists... The best method,*  
14 *although very difficult, is to call the most used local providers and just*  
15 *check ... You might check with DSHS, and see if they have such a list.*  
*Sorry I cannot be of more help. Jack*

16 111. In its zeal to maximize school district client claiming JTEC frustrated efforts by  
17 legitimate Medicaid outreach providers. Responding to recurring client inquiries about  
18 whether a school district should allow local non-profit agencies to conduct actual Medicaid  
19 outreach at school district events for student families, JTEC’s three consultants prepared a  
20 form letter, which was sent annually to each JTEC client. Among other things that letter said:

21 *[y]our district participates in the Administrative Match Program and*  
22 *receives reimbursement for these outreach activities and allowing an*  
23 *outside agency to provide a similar outreach activity would decrease*  
24 *your Administrative Match Reimbursement.” [The letter concluded*  
*with] “[i]f you are approached by an outside agency to provide*  
*Administrative Medicaid Outreach activities, just say “NO THANK*  
*YOU.” (Emphasis in original).*

25 112. JTEC’s advice regarding outreach conducted by other agencies had no basis in  
26 program rules. A school district could not claim MAC reimbursement for an activity

1 conducted by another organization at no cost to the school district, but the Medicaid program  
2 pays school districts for legitimate Medicaid outreach costs, whether another entity  
3 supplements district Medicaid outreach efforts or not. JTEC's advice revealed its focus on  
4 maximizing client claiming at the expense of actual Medicaid outreach.

5 113. JTEC consultants used their client staff training sessions to teach time study  
6 participants to increase the amount of time they code to reimbursable activities. For example,  
7 in a July 9, 2009, email Mr. Hedgcock offered to hold a training seminar at a client school, and  
8 suggested that the MAC coordinator invite:

9 *a couple of principals to attend this seminar, too. Perhaps a couple*  
10 *from low performing buildings. As they learn more about the program,*  
11 *pick up strategies and how to work it with staff the result should be*  
*increased revenue for the district and their building.*

12 114. JTEC used its access to Health Care Authority's claiming portal, which it  
13 obtained from its clients, to get advance notice of the randomly selected time study dates so  
14 that it could schedule training sessions for its clients at an optimal time. At the beginning of  
15 each quarter, the Health Care Authority randomly selected dates for each district's time study.  
16 JTEC tracked the dates selected for each of its clients. The company's consultants used their  
17 advance knowledge of these dates to schedule personal training sessions immediately before or  
18 on the day of the time study in order to promote increased claiming by clients. In some cases,  
19 JTEC consultants used their access to the time study dates to provide more than five days  
20 notice of impending time study dates to certain schools.

21 115. JTEC used a computer program to automatically send suggestive email to its  
22 clients before each time study day. Although JTEC knew that the time study rules prohibited  
23 time study participants from altering their normal routine or schedule, the company's emails  
24 included JTEC suggestions for additional reimbursable activities that staff should do on the  
25 upcoming time study day. JTEC sent these automated "reminders" to stimulate additional  
26 client claiming in violation of time study rules. Many, if not most, of the JTEC messages

1 contained erroneous or misleading coding instructions that caused clients to create false time  
2 entries on their time study forms.

3 116. In addition to the automated email reminders, JTEC consultants also sent  
4 numerous personalized reminders of the '1b/9b' scheme (described in paragraphs 103 through  
5 107) to promising clients, for example, on May 29, 2011, Mr. Hedgcock wrote to the Franklin  
6 Pierce school district:

7 *With the end of the school year coming up, I suggest that you remind*  
8 *principals and staff not to let up on the last day or two. Remind them*  
9 *that each day is 20% of the quarter and Day 5 counts the same as Day*  
10 *1. It can be a good time to remind staff that this is a good time to be*  
11 *thinking of kids and parents that they have previously talked about*  
12 *medical concerns but never heard back. They can do a "9b – follow up*  
13 *contact re: medical concern, which may lead to that 1b, recommending*  
14 *medical access."*

15 117. In a May 4, 2009, "reminder" message to the Olympia School District MAC  
16 coordinator, Mr. Hedgcock highlighted a then-current health scare to promote increased  
17 claiming "*[w]ith the Swine Flu rumors, scare, etc., now could be a great time to take*  
18 *advantage of any (reimbursable) activities ... especially since (sic) your next time study day is*  
19 *[May 6]. If staff are discussing symptoms among themselves, discussing students with possible*  
20 *symptoms, talking with parents about anything related to it, all of these activities are*  
21 *considered (9b), "conferencing or meeting: Re: Medical Issues."* (Emphasis added).

22 118. Again such messages encouraged time study participants to violate the time  
23 study rules by altering their normal routine to generate extraordinary, unnecessary  
24 reimbursement activity that bears no relationship to legitimate or necessary school-based  
25 Medicaid outreach or referral. JTEC's messages were intended to induce and did in fact induce  
26 over claiming by client time study participants.

119. The JTEC consultants' bad time study advice was not inconsequential. JTEC  
clients' time study forms are replete with erroneous coding and suspiciously vague narrative  
descriptions that are identical to JTEC's suggestions. Again, any time study participant who

1 followed JTEC advice and artificially generated reimbursable Medicaid activities on a time  
2 study day, created a false Medicaid statement upon signing the time study form and JTEC  
3 caused them to do it.

4 120. JTEC knowingly used trainers, like Mr. Adolf, Mr. Hauff, Ms. Welty, Mr.  
5 Hedgcock, and Mr. Reese, who misrepresented the applicable rules and taught participants  
6 incorrect coding rules and guidelines. That caused JTEC clients to routinely and erroneously  
7 record and approve time study forms containing far too much reimbursable time. Those error-  
8 filled time study forms were false Medicaid statements, which were in turn used in the  
9 presentment of false Medicaid claims. JTEC knew that its instructions were erroneous and  
10 would cause clients to present false Medicaid statements and claims.

11 **3. Case Study: Centralia School District**

12 121. The Centralia School District is one example of the effect of JTEC's fraudulent  
13 time study instruction.

14 122. The District contracted with JTEC in February, 2011, and agreed to pay the  
15 company \$21,000 per year for Medicaid claiming services.

16 123. In March, 2011, the Centralia School District began Medicaid administrative  
17 claiming with JTEC's guidance.

18 124. Mr. Adolph from JTEC trained the District's building coordinators. He  
19 provided each with a copy of the JTEC Quick Start Guide, an Apple Health (Medicaid Health  
20 coverage) brochure, and a copy of the time study sheet. He did not distribute the Health Care  
21 Authority's official time study Quick Reference Guide to the coordinators.

22 125. Mr. Adolf conducted short (15-20 minutes) training sessions at six District  
23 schools between March 1 and March 16, 2011. He conducted one additional time study  
24 training session for building time study coordinators on September 8, 2011. That was all the  
25 time study training anyone in the Centralia School District received from JTEC until Mr. Adolf  
26

1 returned for a special refresher training session at the Centralia Middle School on February 11,  
2 2014.

3 126. From March, 2011, through June, 2013, the District participated in seven  
4 quarterly time studies during which many Centralia School District staff violated fundamental  
5 time study rules and, as a result, routinely recorded too much reimbursable time on their forms.  
6 District participants erroneously coded time in a manner consistent with misrepresentations  
7 contained within JTEC training materials and “reminder” emails. (¶¶ 97 - 105)

8 127. For example, one Middle School physical education instructor reported that she  
9 recorded her time devoted to calling home to check her student’s excuses for avoiding  
10 swimming lessons as “9b - Medical referral” activity based on the notion that the call home  
11 was related to a “medical” issue. The term “Medical Referral” is one of JTEC’s recommended  
12 narratives, although on the face of it, the narrative reveals no connection to a reimbursable  
13 Medicaid administrative activity. In any event, the P.E. teacher’s coding was improper  
14 because it reflected attendance activity that the school was legally required to undertake, which  
15 had no apparent relationship to the Medicaid program or a reimbursable Medicaid  
16 administrative activity.

17 128. A Centralia Middle School history teacher reported that he was too busy to fill  
18 out the time study forms on the day of a time study. So the building secretary helped him  
19 recreate his activities several days or weeks after the time study day. Because he could not  
20 remember his actual activities on the time study day, he and the secretary “reconstructed” his  
21 day based upon a review of his lesson guide. He coded class time devoted to certain societal  
22 issues as “9b Medical referral” activity purportedly because it often led to student discussion  
23 about “health” issues. Part from breaking the rules requiring contemporaneous time recording,  
24 the teacher also coded improperly because the activity bears no apparent relationship to  
25 Medicaid or a referral for Medicaid services and instead constituted routine instructional (*i.e.*,  
26 Code 3) activities. The history teacher told investigators that he thought he was adhering to the

1 training provided by JTEC, but that he could be trained to code his time differently. The  
2 Middle School Principal approved all of the time study forms submitted by P.E. and history  
3 teachers described above.

4 129. The Middle School principal himself reported coding the several hours he spent  
5 investigating campus drug activity to "9b Medical referral" purportedly based on the notion  
6 that he was "gathering information necessary for a medical referral." He asserted that all of his  
7 drug investigation and disciplinary time was reimbursable Medicaid time because school  
8 policy mandated a drug and alcohol assessment of any student caught with illegal drugs.

9 130. This Middle School Principal alone generated and submitted numerous  
10 suspicious time study forms that contained extensive reimbursable activities that he  
11 purportedly could not remember and could not verify with independent documentation. Over  
12 the course of seven academic quarters, from March, 2011, to June, 2013, this Principal  
13 recorded that he devoted approximately 30% of his total paid time to reimbursable Medicaid  
14 administrative activities. As a result, after the all the necessary calculations, the Medicaid  
15 program funded between 15- 20% of the Principal's salary and benefits.

16 131. The Centralia Middle School principal learned about the time study rules from  
17 JTEC. The Middle School principle used his JTEC training to instruct the rest of his building  
18 staff about the time study, including the two teachers discussed previously. The Principal also  
19 sent out email reminders before time study days with suggestions for artificial Medicaid  
20 activities, which were similar to the JTEC reminders.

21 132. These examples from the Centralia School District are a small subset of the  
22 materially false time study forms signed by Centralia School District staff and used to obtain  
23 Medicaid reimbursement that the District was not entitled to receive. The examples selected  
24 are not extraordinary. They are instead representative of the coding performed by other JTEC  
25 clients and approved by the company's data entry staff.

26

1 133. Other Centralia School District staff said that all the activities described in  
2 paragraphs ¶¶126-129 constituted normal educational activities that district staff would  
3 perform whether or not the Medicaid program existed. Obviously, such activities were not  
4 reimbursable Medicaid administrative activities, because among other things, the activities  
5 were not remotely necessary for the efficient operation of the Washington Medicaid program.  
6 JTEC's intentionally misleading training and instruction caused participant misreporting on the  
7 time study form, which was eventually reflected in Centralia's overstated and false MAC  
8 claims. All Centralia School District building coordinators relied solely on JTEC for time  
9 study coding advice.

10 134. The examples of Centralia Middle School claiming described above represent  
11 the sort of client claiming conduct encouraged by JTEC. Presented with an opportunity to  
12 distance itself from the Middle School's claiming activity, JTEC instead explicitly endorsed  
13 the examples described above. Throughout 2012 and 2013, one elementary school principal in  
14 the Centralia School District, Mr. Neal Kirby, criticized the Middle School's unusual Medicaid  
15 administrative claiming practices to the District's then-chief executive Superintendent, Dr.  
16 Steve Bodnar. Mr. Kirby specifically identified the extraordinarily large claims emanating  
17 from the Middle School Principal and other Middle School administrators for Mr. Bodnar.

18 135. Mr. Kirby described the negative consequences of adhering to JTEC's  
19 distribution scheme. He told Dr. Bodnar that distributing MAC dollars to the school that  
20 "earned" those dollars created an incentive for staff to exaggerate their Medicaid  
21 administrative time study claims. He told Dr. Bodnar that the distribution scheme caused  
22 morale problems in his elementary school because his teachers wanted the I-pads and the other  
23 things that teachers in higher claiming schools bought with MAC funds. Mr. Kirby told Dr.  
24 Bodnar that it was fundamentally unfair to distribute money to those schools simply because  
25 they were inclined to play the Medicaid administrative "claiming game" and without  
26 consideration of student needs.

1 136. Dr. Bodnar rejected all of Mr. Kirby's concerns and told him that that the real  
2 problem was that Mr. Kirby's school did not claim enough Medicaid dollars for itself. Dr.  
3 Bodnar told Mr. Kirby to speak with the Middle School principal to get some tips for working  
4 the time study to his advantage.

5 137. Several months after he first sounded the alarm, the Centralia Chronicle  
6 published a story that described some of Mr. Kirby's Medicaid administrative claiming  
7 allegations on June 6, 2013.

8 138. One June 8, 2013, Mr. Adolf from JTEC had a lengthy telephone discussion  
9 with the Centralia Middle School Principal regarding the Middle School's claiming practices,  
10 including some common scenarios. Mr. Adolf later described the call as routine and not  
11 particularly memorable. In a remark revering of the company's attitude toward program  
12 compliance, Mr. Adolf told JTEC data entry staff that the District brought him in to "*help fight*  
13 *fraud allegations*" brought by Mr. Kirby. He reported that he was "*thrilled*" to meet with the  
14 newspaper reporter and would be returning the following week to

15 *defend the district again (sic) HCA questioning by Himsl and company.*  
16 *They will likely bring the state Attorney General's office into it as well.*

17 139. On June 20, 2013, Mr. Adolf and Mr. Reese met with Dr. Bodnar, the Middle  
18 School Principal, and the District's then-Business Manager, to help the District executives  
19 prepare for a meeting with Mr. Kirby and a reporter from the Centralia Chronicle.

20 140. Dr. Bodnar arranged the meeting with Mr. Reese, Mr. Adolph, Mr. Kirby, the  
21 reporter, and other District administrators. Dr. Bodnar hoped that that with the JTEC  
22 consultants' help, he could convince the reporter that Mr. Kirby lacked credibility and there  
23 was no story to cover. At the meeting with the reporter and Mr. Kirby, Mr. Reese and Mr.  
24 Adolph wholeheartedly endorsed the District's conduct of the quarterly time study. They said  
25 that, based on their review, the Centralia School District was following "*best practices.*"  
26

1 141. The Chronicle published another article about Mr. Kirby's allegations on July  
2 25, 2013. In that article, Mr. Adolf was quoted saying that "*he considers the [Centralia]*  
3 *district a best practices environment with a system in place to help ensure the integrity of*  
4 *claims for reimbursement.*"

5 142. As part of its investigation into the Health Care Authority's Medicaid fraud  
6 referral, the Medicaid Fraud Control Unit deposed several Centralia School District  
7 administrators including Dr. Bodnar, the then-Business Manager, and the then-Director of  
8 Student Learning. Soon after those depositions all three men left the Centralia School District  
9 for other jobs. Neal Kirby retired from the school district in June, 2013, and was elected to the  
10 Centralia School Board in November, 2013.

11 143. The Centralia School District signed a settlement agreement with the Medicaid  
12 Fraud Control Unit on July 10, 2014, in which it agreed to pay \$372,000 to settle potential  
13 Medicaid false claim allegations. The Centralia School District has a new acting  
14 Superintendent and no longer contracts with JTEC for Medicaid claiming services.

15 144. JTEC and its consultants received notice in the Centralia example and in many  
16 others instances that their application of fundamental MAC program rules was erroneous and  
17 caused false client Medicaid claiming. Nonetheless, they continued to misrepresent MAC  
18 rules to clients because JTEC required higher client MAC revenue to support the level of fees  
19 JTEC's consultants became accustomed to receiving.

20 **4. Case Study: The Franklin Pierce School District**

21 145. The Franklin Pierce School District's experience provides another example of  
22 the effect JTEC's distribution incentive scheme, annual claiming targets, and suggestions for  
23 artificial outreach/linkage activities had upon client Medicaid administrative claiming. For the  
24 2007-08 school year, the Franklin Pierce School District received \$253,003 for its Medicaid  
25 administrative claim. For the 2008-09 school year, it received \$489,462 for its claim.  
26

1 146. For the 2009-10 school year, the District replaced its MAC coordinator with a  
2 high school principal, Ms. Valinda Jones. Ms. Jones was tasked by the District to “*drive [the*  
3 *MAC program] deeper into the schools and work with principals.*”

4 147. JTEC targeted inexperienced and unsophisticated MAC coordinators, like Ms.  
5 Jones, with promotional efforts because often such people were more receptive to JTEC’s  
6 fraudulent advice. Upon learning of Ms. Jones’ ascendance to district MAC coordinator, Mr.  
7 Hedgcock wrote in a April 24, 2009 email that there was “[s]till lots of \$\$ on the table” and  
8 that he “*would be glad to work with her on strategies.*” Further, Mr. Hedgcock, “*suggest[ed]*  
9 *you have me at your August Admin. meeting, at least for 20 minutes or so to go over any*  
10 *changes that occur for next year and give a little pep talk and suggestions on how to perhaps*  
11 *generate even more.*”

12 148. Mr. Hedgcock’s claiming suggestions for the Franklin Pierce School District,  
13 which included the ‘1b/9b’ pairing and the ‘8b’ training plan, paid off immediately. For the  
14 2009-10 school year, the District received \$1,383,859 for its Medicaid administrative claim or  
15 280% of its claim for the previous year. That figure was remarkably close and only slightly  
16 higher than the \$1.291 million annual target conveyed in Mr. Hedgcock’s July 27, 2010, email.

17 149. Flush with this initial success, Ms. Jones wrote Mr. Hedgcock that she wanted  
18 to increase the District’s claim again by “*at least 10%.*” She almost met her goal. For the  
19 2010-11 school year, the District received \$1,498,758; an 8% increase from the preceding year.  
20 The Franklin Pierce School District received \$1,475,471 in MAC funds for the 2011-12 school  
21 year and \$1,434,137 in 2012-13

22 150. According to the claiming coordinator, Ms. Jones, the District’s increased  
23 claiming was attributable to improved claiming practices that she introduced. The District did  
24 not increase its actual Medicaid outreach or referral activities; it simply learned how to claim  
25 better according to Ms. Jones. Ms. Jones relied upon JTEC for all staff training and time study  
26 coding instruction. The time study forms generated by the Franklin Pierce School District are

1 full of suspicious reimbursable time entries that are consistent with and indicative of JTEC  
2 fraudulent time study instruction described previously.

3 **5. Phase IV: JTEC Frustrates Compliance Monitoring to Avoid Detection**

4 151. The federal government holds states responsible for Medicaid program  
5 spending. The Health Care Authority is required by the terms of its Cost Allocation Plan  
6 (CAP), to monitor school district compliance with Medicaid administrative claiming rules.  
7 According to the CAP, compliance monitoring helps to ensure that an unbiased sample is  
8 acquired during the time study so that an accurate estimate of district-wide reimbursable  
9 Medicaid time for each quarter can be obtained.

10 152. The Health Care Authority selected a small fraction of the participating school  
11 districts for Medicaid administrative claim compliance monitoring each quarter. Typically  
12 compliance monitoring consisted of a school district coordinator questionnaire followed by  
13 interviews of selected staff at a district facility. The questionnaire and interviews were  
14 designed to measure training effectiveness, and participants' knowledge of program rules. The  
15 HCA staff often selected participants with suspiciously high recorded time for interviews in  
16 addition to the MAC coordinator and other school district managers.

17 153. Prior to any HCA review, JTEC conducted an unauthorized review of client  
18 time study forms, which it called an "audit trigger review" to identify entries that might catch  
19 the attention of an auditor. JTEC changed or advised clients to change or remove such forms,  
20 well after the forms were certified, in order to potential audit findings.

21 154. JTEC knew that its erroneous expansive coding instructions, its unauthorized  
22 audit trigger review and data entry processes, and other issues could be revealed by a thorough,  
23 effective compliance monitoring or audit process. Accordingly, JTEC consultants devoted a  
24 significant part of their work time toward frustrating the Health Care Authority's compliance  
25 monitoring efforts.

1 155. JTEC advised client MAC coordinators to avoid the required pre-claim  
2 verification process and certify their claim without significant review because the company  
3 “works hard to check and re-check every time study form” and that it always provides clients  
4 “a high-level of review and internal audit.” According to Mr. Hedgcock, “[w]e take care of  
5 everything so that when you see the report it has been reviewed and in great condition for  
6 submission.” Mr. Hedgcock knew that JTEC did not perform the steps necessary to certify his  
7 client’s claim and his misrepresentation caused his client to falsely certify compliance. Mr.  
8 Hedgcock knew that his clients would rely on his misrepresentation and intended for them to  
9 do so.

10 156. The company also did not want Health Care Authority program compliance  
11 staff looking at its clients’ time study sheets. JTEC instructed its clients to inform the  
12 company immediately after receiving notice that the HCA wanted to review some aspect of the  
13 client’s Medicaid administrative claim. If so, JTEC provided each such client with a list of  
14 questions that the HCA staff had asked during recent site visits to other JTEC clients. It also  
15 provided a list of suggested “answers” known by JTEC to be acceptable to HCA, which its  
16 clients typically adopted verbatim. This client preparation was part of the company’s standard  
17 operating practices.

18 157. JTEC’s efforts helped to temporarily hide discovery of its clients’ poor  
19 knowledge of program rules. For example, after Mr. Adolf provided Ms. Jones, the MAC  
20 coordinator for the Franklin Pierce School District, with “a list of questions they will likely  
21 want to ask staff,” she replied, “I hope they don’t ask teachers these questions. I still don’t  
22 understand parallel coding and have no idea what our MER rate is off the top of my head.  
23 Yikes!”

24 158. The above exchange occurred on May 31, 2013, by which time Ms. Jones had  
25 served as the Franklin Pierce School District’s MAC coordinator for four years. The parallel  
26 coding process was a fundamental requirement of the time study that was used throughout Ms.

1 Jones' tenure as coordinator. During those four years, for each quarterly claim, she certified  
2 that she had completed the verification process and that District's claim was submitted in  
3 accordance with the rules, although by her own contemporaneous admission, she did not  
4 understand at least some fundamental time study rules.

5 **6. Phase V: JTEC Sabotaged Time Study Reform**

6 159. Although it worked hard to hide the inevitable results of its fraudulent schemes  
7 and practices from the Health Care Authority, by 2009 program compliance staff had found  
8 enough suspicious time study forms to pique their interest. HCA program staff believed that  
9 much of the identified compliance issues as well as school district complaints about the  
10 burdensome paper based time study would be addressed if the Medicaid administrative  
11 claiming program moved to a computer-based time study process that eliminated the need for a  
12 paper timekeeping form. The extent to which JTEC opposed that simple and rather obvious  
13 reform revealed much about the true nature of the company's Medicaid "consulting" business.

14 **a. The Computer-based Random Moment Time Study (RMTS)**

15 160. One alternative to Washington's paper based time study was a computer-based  
16 time study system, known as a random moment time study (RMTS), which is used in the MAC  
17 programs of other states. It was developed by statisticians at the University of Massachusetts  
18 and Health Care Authority staff thought it promised several advantages over the existing  
19 paper-based time study process.

20 161. Coding errors are reduced in a RMTS system because time study participants  
21 choose answers to a series of simple questions, which the program uses to code the  
22 participants' time according to prescribed logic. In addition to eliminating a lot of paper, the  
23 RMTS system eliminated the participant judgment required to categorize and describe an  
24 activity on the paper time study form.

25 162. On September 14, 2009, the Health Care Authority announced plans to move to  
26 a new random moment time study system. In a letter to all participating school districts, Alan

1 Himsl, the Section Manager of the Medicaid Outreach Section wrote that in response to many  
2 comments from participating school districts that the current time study process was confusing  
3 and burdensome, the Agency would move to implement a RMTS system.

4 163. According to Mr. Himsl, as the RMTS system was then envisioned,  
5 participating school staff would respond by email with answers to four simple questions. Then  
6 Health Care Authority program staff would review the answers and assign the proper claiming  
7 code. Mr. Himsl explained the advantages of such a system from HCA's perspective but also  
8 indicated that the Agency wanted to establish a workgroup of District representatives to assist  
9 in the development of the new model.

10 **b. The Random Moment Time Study Threatens JTEC**

11 164. Immediately JTEC recognized that the Health Care Authority's proposed  
12 random moment time study system posed an existential threat to its Medicaid "consulting"  
13 business. In a system like RMTS, in which the time study participant directly enters data into  
14 an email or web-based system, there is no need for paper forms. If there is no paper, there is  
15 no demand for JTEC's data transfer services.

16 165. Similarly, in a system where the time study participants answer four simple  
17 questions and leave the coding activity, which involves some judgment, to a specialist or a  
18 computer, there is no need for coding advice from JTEC. JTEC's promotional activities, like  
19 the email tips its sends before each time study day, are unlikely to be effective in a true random  
20 moment system. And in a system that is much simpler for participants to use, there is little  
21 need for JTEC's fraudulent brand of time study training.

22 166. In support of perpetuating the obsolete paper form-based system, on September  
23 24, 2009, Mr. Reese sent a letter to Mr. Himsl at the Health Care Authority reminding Mr.  
24 Himsl that "*the random sampling methodology suggested in your September 14, 2009 letter*  
25 *was available six years ago but was not adopted.*"  
26

1 167. On the same day, he also wrote to the Office of the Superintendent of Public  
2 Instruction (OSPI) asking that Agency to oppose the Health Care Authority's move towards a  
3 random moment time study. In a carefully worded sentence, Mr. Reese told OSPI staff that

4 *all of our clients who have responded to us regarding the proposal*  
5 *indicated that they would have to discontinue their participation in the*  
6 *School Based Administrative Match program if this method is applied to*  
*school districts.*

7 Mr. Reese wrote this letter to OSPI only ten days after Mr. Himsl made his initial  
8 announcement of the Health Care Authority's plans for a new time study system. At that time,  
9 Mr. Reese had no way of knowing what "this method" entailed because, as Mr. Himsl's letter  
10 indicated, the details were yet to be developed. However Mr. Reese was worried because he  
11 already knew that any new system would not involve paper time study forms and that fact  
12 alone threatened JTEC's business.

13 168. In a September 26, 2009, email, Mr. Hedgcock suggested that the company  
14 expand its lobbying efforts:

15 *it would be a good thing to get the legislators involved ... If they knew*  
16 *schools were looking at less \$\$\$\$ , they would check into CMS action.*

17 As the email indicates, like Mr. Reese, Mr. Hedgcock knew that JTEC's clients would  
18 receive less reimbursement in the new sampling system. JTEC knew that would be the result  
19 because it knew that the company's fraudulent training had materially biased the existing paper  
20 time study sample to yield higher client claims. JTEC knew that any paper-less system like the  
21 random moment time study was more robust and less susceptible to company influence.

22 169. As the Health Care Authority carefully moved forward with RMTS  
23 development, JTEC consultants closely monitored the agency's progress. On October 28,  
24 2010, following a conference call between HCA and the school districts, Mr. Adolf provided  
25 an RMTS status report to Mr. Reese, writing

1 *Greetings Great One: I took part in yesterdays [HCA] Webinar and*  
2 *have Jack listening in on today's repeat performance. It was a typical*  
3 *Stooges event... There was more discussion about ... the proposed web-*  
4 *based system. I reiterated concerns about a state-wide sample and the*  
5 *effectiveness of using email to capture moments. I also cautioned that*  
6 *the state would need to demonstrate empirical data that would prove*  
7 *districts would not see a drastic decrease in revenues with such a*  
8 *system.*

9 **c. JTEC Launches its' Opposition Campaign Against RMTS**

10 170. Mr. Adolf's conference call report spurred Mr. Reese to action. He announced  
11 JTEC's lobbying strategy in his response to Mr. Adolf's October 28, 2010, email,

12 *I think little Tommy and Scotty Boy need to start a campaign questioning*  
13 *the advisable (sic) of such a change. We will start planning after*  
14 *Thanksgiving. Joy and I really appreciate you. (Emphasis added).*

15 171. On May 27, 2011, the Health Care Authority and the Office of the  
16 Superintendent for Public Instruction sent a joint letter to school districts informing them that  
17 the Health Care Authority intended to contract with the University of Massachusetts Medical  
18 School to develop a web-based paperless random moment time study and claims calculation  
19 system. The two state agencies described the advantages of moving to the new system. They  
20 indicated their intent to introduce the new RMTS system in the fall of 2012. Finally HCA and  
21 OSPI invited volunteers "*interested in working on the development of specific elements of the*  
22 *new RMTS process to join us in a workgroup.*"

23 172. In June, 2011, long before the workgroup contemplated in the agencies' May  
24 27<sup>th</sup> letter was established, JTEC sent a letter to all client districts. JTEC's letter warned clients  
25 that they should expect an 80%-90% reduction in their Medicaid administrative claim with a  
26 new random moment time study system. It included a JTEC projection of the anticipated  
revenue loss for each school district.

173. JTEC consultants followed that letter with personal phone calls and emails to  
their clientele. In an email to a school district client after describing a 82.71% projected  
revenue reduction, Mr. Hedgcock wrote:

1                    *WOW.... Just the one quarter but shows the significance of keeping the*  
2                    *current program ... Hopefully if all districts get involved the program*  
3                    *can continue as is and not to the RMTS model.*

4                    174. In another June 22, 2011, email to rally client opposition to the RMTS, Mr.  
5                    Hedgcock wrote:

6                    *We are encouraging you to contact Alan Himsl and Martin Mueller as*  
7                    *per our letter to be on the planning committee. Here is some data to*  
8                    *help ... We do not see this as a good model for Washington schools*  
9                    *based on the fact that this model includes only health related staff. It*  
10                    *cuts out administrators and certificated staff, which normally generates*  
11                    *80%-90% of your claim ... It also eliminates Linkage (9b) activities*  
12                    *which normally generate about 80%-90 of the claim... This why we are*  
13                    *encouraging all districts ... to let OSPI and [HCA] know that the*  
14                    *proposed changes are not good for students in Washington. Please*  
15                    *encourage your Supt. and finance director ... to keep the current*  
16                    *program.*

17                    JTEC's projections were based on calculations purportedly made by Mr. Adolf.  
18                    However, there was no basis in fact for JTEC's representation that new random moment time  
19                    study program "cuts out administrators and certificated staff" or that it "eliminates Linkage  
20                    9(b) activities." JTEC knew that there was no basis in fact for these statements. JTEC  
21                    knowingly misrepresented the impact of the new RMTS system to induce client opposition to  
22                    the Health Care Authority's time study reform effort and protect JTEC's fee income.

23                    175. Throughout 2011, the Health Care Authority provided JTEC with accurate  
24                    information regarding development of the random moment time study system.

25                    **d. JTEC Exploits the HCA's RMTS Working Group**

26                    176. The Health Care Authority scheduled the first meeting for the school district  
workgroup that would help develop the random moment time study for October 26, 2011.  
JTEC tried to stack the workgroup with clients sympathetic to the company's interests who  
would slow down the RMTS adoption process. Mr. Adolf sent a note of encouragement to  
cooperative Sumner School District staff on October 11, 2011,

1           Tom, Jack, and I are so very pleased to have you have (sic) as clients  
2           and the stand you are taking to protect the reimbursements Sumner and  
3           other districts are entitled to through Administrative Match. Please let  
          me know what else we can provide you in advance of our October 19<sup>th</sup>  
          and 20<sup>th</sup> teleconference. We are in this together.”

4           177. JTEC held teleconferences on October 19-20 to prepare its clients for the first  
5           Health Care Authority work group meeting on October 26, 2011. On October 22<sup>nd</sup> JTEC sent a  
6           letter to all clients urging them to

7                     *[c]onsider contacting your state legislators and let them know that HCA*  
8                     *should not place unnecessary barriers between your school district and*  
                    *the federal reimbursements you are entitled to claim.*

9           178. JTEC used its client representatives on the Health Care Authority’s workgroup  
10          as stalking horses. On October 28, following the Health Care Authority’s working group  
11          meeting, Mr. Adolf sent a revealing email to the group representative from the Battle Ground  
12          School District, that said

13                     *We will continue to keep up the fight. We have other tools in the war*  
14                     *chest and meetings are being scheduled with influential people. We will*  
15                     *keep you posted! Please continue to attend these so-called ‘workgroup’*  
                    *meetings as well.*

16          179. In a November 17, 2011, email to JTEC staff, Mr. Adolf was pleased to report  
17          that the company’s obstruction efforts led to “*a major victory,*” because the company’s hand-  
18          picked workgroup gummed up the implementation process and,

19                     *HCA now admits there is no practical way to implement the new system*  
20                     *beginning September 1 as districts will not have any training or access*  
21                     *to the RMTS system ... That of course anchors us well into the middle of*  
22                     *the next year and buys us precious time to continue developing our plan*  
                    *to move into the new model alongside our clients .... I am certain you*  
                    *will all hear much song and laughter tomorrow night about victory over*  
                    *Himsl. (Emphasis added).*

23          180. Mr. Adolf revealed the company’s future lobbying plan in the remainder of the  
24          email, noting that the company intended to

25                     *build a foundation of a consortium of districts, along with many other*  
26                     *we serve from around the state, to file a formal class-action dispute with*  
                    *the Governor’s office. The Ad Match Interlocal Agreement contains a*

1           *clause ... and we plan to help districts exercise that right. The next*  
2           *HCA workgroup meeting has been postponed until January 18<sup>th</sup>, buying*  
3           *us precious time to continue our lobbying efforts.*

4           **e.       JTEC Forms a Front Group to Lobby Against RMTS**

5           181.   As part of its campaign to forestall implementation of the random moment time  
6           study, JTEC created a front group called the “Concerned Districts of Puget Sound.” The  
7           organization was run by Mr. Adolf from JTEC’s Wenatchee Ave office and nominally  
8           consisted of JTEC’s most cooperative school district clients. Mr. Adolf candidly told JTEC  
9           data entry staff that the purpose of “Concerned Districts” group was to sign letters to  
10          politicians, which JTEC drafted, that would allow Mr. Adolf misleadingly to *“position[] these*  
11          *letters as coming from consortiums of concerned school districts – not JTEC.”*

12          182.   In early January, 2012, the Health Care Authority acceded to the district  
13          workgroup’s request to pilot the new random moment time study system. Mr. Adolf told JTEC  
14          data entry staff about the consultants’ plan to exploit information gathered by JTEC clients  
15          during the pilot process for the company’s own commercial purpose, stating that district  
16          clients:

17                   *will be encourage[ed] to work closely with JTEC during the exercise ...*  
18                   *so we can stay informed and begin preparation of our own toolbox of*  
19                   *services and software needed to provide ongoing contracted service ... if*  
20                   *they really get this thing off the ground. (Emphasis added).*

21          183.   By January, JTEC had expanded and renamed its front group, which it now  
22          called the “Concerned Districts of Washington State.” The Concerned Districts’ website was  
23          maintained by JTEC’s Mr. Adolf and included the message, “[i]t is widely believed the RMTS  
24          system will significantly impact federal reimbursement to school districts, and likely  
25          disenfranchise (sic) many for participating at all.” On January 6, 2012, JTEC sent a letter  
26          purportedly endorsed by sixty “concerned” districts to the State Superintendent of Public  
                Instruction, asking for help and

1. *encouraging HCA to allow participating districts to continue claiming*  
2. *using the existing Washington State system until such time as the state*  
3. *has completed a side-by-side comparison with the proposed UMASS*  
4. *system.*

5. Disregarding the Health Care Authority's school district random moment time study  
6. workgroup progress and previous communications from the Agency, JTEC misleadingly told  
7. the Superintendent that the Health Care Authority's decision had been made "[w]ithout input  
8. from school districts."

9. 184. Mr. Reese and Mr. Adolf also met with the State Auditor's Office on February  
10. 2, 2012, and asked the Auditor to examine the Health Care Authority's contract with the  
11. University of Massachusetts. In early February the two men contacted representatives of local  
12. public healthcare agencies that were also transitioning to the random moment time study  
13. system, to share insights and information regarding opposition to the RMTS. One of the local  
14. health district representatives told Mr. Adolf that JTEC's fear of client revenue loss, might  
15. prove to be exaggerated, reporting that:

16. *there was virtually no impact on revenue and the RMTS system was*  
17. *much less work than the paper system.* (Emphasis added)

18. JTEC did not pass that potentially reassuring information to its clients because it  
19. conflicted with the company's client scare tactics and its' own interest in defeating time study  
20. reform.

21. 185. On February 21, 2012, Mr. and Mrs. Reese wrote to the President "*pleading for*  
22. *help for the students of the state of Washington*" and reported "*losing faith in Washington state*  
23. *politics*" but, hoping that "*maybe private enterprise does belong in the political arena.*" In the  
24. email, Mr. and Mrs. Reese criticized Mr. Himsl of the Health Care Authority for proposing a  
25. costly new time study system provided by an out-of-state contract. They described Mr. Himsl  
26. as a "*a public employee trying to shove a program down the throats of school districts ... when*  
*these school districts want no part of his subversive, hasty plan.*"

1 186. On February 23, 2012, JTEC sent clients notice of a March 8, 2012, meeting to  
2 address the formation of a "School District Advisory Committee" to be held at the Fife School  
3 District Central Office. In that notice JTEC pleaded with its clients:

4 *Washington State's Health Care Authority (HCA) will only respond to*  
5 *school districts and ESDs concerning significant pending changes to the*  
6 *School-Based Administrative Match program. If you want to change the*  
7 *process and outcome to protect your district's interests, you must*  
8 *become collectively involved NOW.*

9 187. By March 12, 2012, the self-serving RMTS misinformation supplied by JTEC  
10 had so permeated the time study reform effort that the Health Care Authority and OSPI sent a  
11 joint letter to all school districts to help "*clear up some inaccurate information recently*  
12 *disseminated by third parties concerning the new time study.*" That letter listed eight of  
13 JTEC's talking points in opposition to the new time study and refuted each with accurate facts.  
14 Nonetheless, JTEC continued to make the same misrepresentations after it received the  
15 Agencies' March 12, 2012, letter via a client.

16 188. Several members of the Concerned District's leadership group, Mr. Reese, and  
17 Mr. Adolf met with OSPI executive leadership again on March 14, 2012, to urge that Agency's  
18 opposition to the random moment time study. On March 23, 2012, representatives of the Fife  
19 and Franklin Pierce School Districts, Mr. Adolf, and Mr. Reese met with a State  
20 Representative to urge his support for opposition to the Health Care Authority's time study  
21 reform.

22 189. On April 4, 2012, and May 17, 2012, at the behest of Tom and Joy Reese,  
23 another State Representative met with Alan Himsl and Todd Slettvet of the Health Care  
24 Authority to express JTEC's concerns about the random moment time study.

25 190. Throughout 2012 JTEC continued to generate "research" in opposition to the  
26 RMTS and to bombard its clients with opposition talking points and white papers, many of  
which contained misrepresentations of material fact. JTEC provided misinformation and  
misrepresentations to its clients and to the politicians it enlisted in its cause, including

1 numerous letters, reports, analysis, research, and tables manipulated by JTEC to engender  
2 support for its cause. JTEC buried clients serving in “leadership” positions on the various  
3 workgroups and committees with hundreds of emails, seeking current information, providing  
4 updates, and rallying allies to its cause. Throughout the first six months of 2012, Mr. Adolf  
5 and Mr. Reese devoted virtually all of their JTEC work time to lobbying elected officials and  
6 state agencies to oppose the random moment time study.

7 191. To bolster its case against the random moment time study, in May, 2012, JTEC  
8 contracted with two statisticians from the University of Washington. During the initial  
9 contract negotiations, one of the statisticians asked Mr. Reese about potential conflicts of  
10 interest between JTEC business interests and the random moment time study analysis.

11 192. In response to the statistician’s question about a JTEC conflict of interest, Mr.  
12 Reese drafted the following misleading reply that downplayed or ignored the obvious JTEC  
13 conflicts,

14 *[w]e expect that there will be an impact to our business because of the*  
15 *ever changing work requirements for the new program it is difficult to*  
16 *know the final impact. We expect the salary, benefits, work schedule,*  
17 *email data entry will be substantial (sic) greater that what we currently*  
18 *do. The training for the new program will be very extensive just to get*  
19 *participants to understand how to response (sic) to the drop down*  
20 *menus to correctly record the activity they are reporting.*

21 193. When JTEC forwarded its’ email exchange with the statisticians to the  
22 leadership of its client front group (*i.e.*, the Concerned Districts of Washington), it first deleted  
23 the conflict of interest discussion from the email so that part of the discussion was not visible  
24 to its client school districts. JTEC never disclosed the company’s commercial interest in the  
25 preservation of the paper-based time study to its clients or to the HCA.

26 194. JTEC’s efforts to stall implementation of the random moment time study were  
successful again. Following a meeting of the Health Care Authority’s random moment time  
study workgroup on June 20, 2012, the HCA announced that it was too late to implement the  
new claiming system for the 2012-13 school year. Instead, as the JTEC clients requested,

1 HCA agreed to pilot the RMTS system in five school districts in the fall of 2012. The Agency  
2 said that it would implement the RMTS on a state-wide basis at the beginning of the 2013-14  
3 school year.

4 195. JTEC again celebrated success. Mr. Reese sent a note describing the Health  
5 Care Authority's plans to the leadership of the Concerned Districts front group on June 27,  
6 2012. Mr. Adolf replied four minutes later, "*You 'da Man. El Gaucho soon?*  
7 *Congratulations.*"

8 196. One of the Concerned District's "leaders" replied to Mr. Reese and  
9 congratulated JTEC on delaying the RMTS and revealed another benefit of their delay tactic,

10 *That's certainly good news and I agree that there is still critical work to*  
11 *be done. But it's also possible that a new Governor may bring in a new*  
12 *cast of characters at HCA, so the delay is REALLY good news.*

13 197. On August 1, 2012, JTEC convened a meeting of its consultants and the  
14 leadership committee of its front group, the Concerned Districts, at the Educational Service  
15 District 113 office. In advance of that meeting, the company distributed a list of "concerns"  
16 about pilot design. This list was to be the front group's talking points for the upcoming pilot  
17 battle. JTEC continued to demand that, before full implementation, the Health Care Authority  
18 prove that the random moment time study system would generate at least as much revenue as  
19 the existing paper based time study. JTEC knew that HCA could never prove such a thing  
20 because the company had introduced material bias into the current sampling system that JTEC  
21 could not recreate in the computer-based random moment time study. In an August 14, 2012,  
22 email JTEC urged clients to take advantage of the obsolete paper-based system, with the  
23 message that:

24 *"Entire 2012-2013 year available for standard claiming! – Make the Most of it!"*

25 198. The random moment time study pilot started in August, 2012. The districts  
26 selected for the pilot were some of JTEC's clientele including the Franklin Pierce School  
District, the Olympia School District, the Fife School District, and the South Bend School

1 District. Again the JTEC client districts delegated much of the work associated with pilot  
2 implementation to JTEC. Mr. Adolf served as the pilot districts' liaison with the University of  
3 Massachusetts staff. He often made errors, which he subsequently misleadingly attributed to  
4 University of Massachusetts staff in order to portray the random moment time study system as  
5 difficult to use and unreliable to school districts.

6 199. On September 4, 2012, Mr. and Mrs. Reese resumed lobbying state legislators.  
7 They met again with a State Representative and provided him with the talking points  
8 developed at the August 1 meeting of the Concerned Districts leadership. At that meeting, Mr.  
9 Reese falsely represented that he reflected the concerns of his client school districts. In fact,  
10 Mr. Reese was actively working against the interests of many of his client school districts, who  
11 preferred a simpler time study process and an electronic form.

12 200. JTEC convened another meeting of its Concerned District's leadership team on  
13 November 9, 2012 at the Educational Service District 113 office. JTEC presented a draft letter  
14 for its clients' review that called upon the Health Care Authority to terminate the University of  
15 Massachusetts contract for the RMTS system.

16 201. On November 20, 2012, Mr. Adolf sent an email update to all client school  
17 districts informing them that, based on their experience with the pilot, the Fife, Franklin Pierce,  
18 Olympia, and South Bend School Districts did not believe that an RMTS system would work  
19 in Washington schools.

20 202. From November, 2012, through April, 2013, JTEC maintained its frenzied  
21 lobbying pace. It held meetings of its front group, disseminated misleading "analysis" of the  
22 RMTS pilot results, bombarded clients with new "updates," and generally tried to delay full  
23 implementation of the random moment time study for one more year. Some of the  
24 communications from JTEC identified the sender as Mr. Reese or Mr. Adolf, but many of the  
25 communications misleadingly appeared to originate from the Concerned Districts or another  
26 client group. Mr. Reese and Mr. Adolf drafted or edited every communication that appeared to

1 be from someone other than JTEC to ensure that the message was consistent – Washington  
2 must keep the paper based time study system.

3 203. On January 22, 2013, Mr. Adolf reported to JTEC data entry staff that “*after*  
4 *dozens of hours of analysis*” his final “report” revealed that RMTS would cost Washington  
5 schools at least \$12.4 million per year. Mr. Adolf sent his report to the Governor, OSPI, and  
6 the Health Care Authority.

7 204. Finally, on April 17, 2013, the HCA announced that it would discontinue work  
8 with the University of Massachusetts on the random moment time study model. The Health  
9 Care Authority told the participating school districts that it would use the paper based system  
10 for 2013-14.

11 205. JTEC celebrated again. Writing to a friend on May 15, 2014, Theresa Adolf  
12 revealed another company delaying tactic and expressed her confidence in the company’s  
13 future “consulting” business:

14 *work is good, and on that front, things have taken a turn for the better.*  
15 *The program seems to have some longevity finally thanks to Scott’s hard*  
16 *work. He is currently working with a special group of districts who*  
17 *have fought the battle. With Scott throwing intense statistics at the state*  
18 *(which they have no way of accomplishing) they have proven that the*  
*proposed shrinking and possible elimination of the program is not going*  
*to happen... and we seem to be sitting in the catbird seat. A least for a*  
*few more years. Whew. (Emphasis added)*

19 **f. JTEC Sabotages the School District RFP Working Group**

20 206. After announcing the second random moment time study implementation delay,  
21 the Health Care Authority indicated that it would devote its limited remaining resources to  
22 developing an electronic time study form replacement for the paper form within the existing  
23 time study system. The HCA was required to take some immediate action because the  
24 computer system that operated the Health Care Authority’s Medicaid match claiming system  
25 (§26) was functionally obsolete and needed to be replaced even if the HCA’s preferred random  
26 moment time study system was not implemented immediately. The Agency invited the school

1 district working group members to provide input. Eventually the HCA created another  
2 working group of school districts to assist with development of a Request for Proposal (RFP)  
3 to select a vendor to administer the revised time study claiming system.

4 207. Volunteers for the Health Care Authority's RFP working group included Ms.  
5 Jones, the Franklin Pierce School District representative and several other JTEC clients.

6 208. All RFP working group members, including Ms. Jones, signed the required  
7 Conflict of Interest and Confidentiality Statement for RFP/RFQ No. 14-003 Medicaid  
8 Administrative Claiming (MAC) Time Study. In her Statement, Ms. Jones  
9 certified that:

10 *[t]o ensure a fair procurement process and to guard against protest by*  
11 *unsuccessful proposers, I have carefully evaluated my position with*  
12 *regard to possible conflict of interest. I certify that I am not aware of*  
13 *any issue that would reduce my ability to participate on the development*  
14 *team in an unbiased and objective manner, or which would place me in*  
15 *a position of real or apparent conflict of interest between my*  
*responsibilities as a member of the development team and other*  
*interests. In making this certification, I have considered all financial*  
*interests and employment considerations (past, present, or under*  
*consideration).*

16 209. Ms. Jones also promised to maintain the confidentiality of the RFP development  
17 process and the draft RFP:

18 *In anticipation of my participation in the development process used to*  
19 *develop proposals, I certify that I will not disclose any information*  
20 *about the development of this RFP, during the proceedings of the*  
*development process or any subsequent time, to anyone who is not also*  
*authorized access to the information by law or regulation.*

21 210. The Health Care Authority relied on Ms. Jones' Conflict of Interest certificate  
22 and would not have allowed her to participate on the RFP development team had it understood  
23 the true scope of her working relationship with JTEC. The HCA understood that, as the sole  
24 Medicaid administrative claiming consultant in Washington, JTEC was likely to submit a  
25 proposal in response to the RFP and specifically did not want the company to have preferential  
26

1 advance insight into the public procurement process, which would give the company an unfair  
2 advantage over other bidders.

3 211. However, on January 21, 2014, after attending the second of four meetings to  
4 draft the terms of the request for proposal, Ms. Jones wrote to Mr. Reese and Mr. Adolf  
5 sharing confidential RFP information and offered to share even more:

6 *Good morning gentlemen ... [o]ur scoping statement is as follows*  
7 *“Vendor will provide an agile electronic business solution that*  
8 *implements a Center for Medicare and Medicaid Services approved time*  
9 *studies and claiming systems as part of approved Cost Allocation Plans*  
10 *for diverse sets of claiming entities...*  
11 *In the beginning, I had to sign a confidentiality form as this will be a*  
12 *competitive bid. I am not sure how much I can share of our meetings*  
13 *with JTEC as an outside vendor currently serving schools. I would like*  
14 *your guidance on this please. You have provided invaluable leadership*  
15 *and knowledge in our process so far and I would feel a little lost without*  
16 *your in-depth knowledge and history on tis. Finally, I don't trust HCA*  
17 *to say the least and am aware of the fact that bringing the schools to the*  
18 *table is one of saying “we involved you this time”, if it goes sideways*  
19 *again.... I wonder if it is appropriate for JTEC to continue on our behalf*  
20 *as our current vendor. I am hoping the answer is yes. (Emphasis added)*

21 212. On January 22, 2014, Mr. Adolf wrote acknowledging Ms. Jones' duty of  
22 confidentiality but nonetheless encouraging her to share the confidential information with  
23 JTEC. The next day Mr. Reese responded to Ms. Jones with a similar message.

24 213. Ms. Jones met with Mr. Adolf and Mr. Reese at the Franklin Pierce School  
25 District office on January 25, 2014 to discuss the RFP development working group. JTEC  
26 convened a meeting of the Concerned District's leadership group on February 24, 2014.

27 214. Following the February 24<sup>th</sup> meeting, Ms. Jones prepared a rough draft of a  
28 letter to the Health Care Authority opposing the agency's then-current draft request for  
29 proposal. She first sent her draft to Mr. Adolf, Mr. Hedgcock, and Mr. Reese on February 26  
30 and asked them to edit her initial work. Mr. Reese added several arguments against the RFP  
31 that misrepresented the actual facts. He also wrote to Ms. Jones,

32 *I believe you ... should discuss if you are willing to endorse this RFP as*  
33 *it currently exists without satisfactory responses to your questions... I*

1                    *understand there is a timeline but that is someone else (sic) timeline and*  
2                    *as we discussed today it is more important to get it right.*

3                    215. On February 27, 2014, Ms. Jones sent the Health Care Authority a letter  
4 expressing concerns and asking more questions. Ms. Jones asked the HCA if districts could  
5 elect “*for whatever reason*” and “*at their discretion*” to continue to use a paper time study form  
6 to collect participant and supervisor signatures. Even though most school districts, including  
7 her own, preferred a simpler automated time study system, Ms. Jones requested the paper time  
8 study form at the urging of JTEC and solely to advance the company’s financial interests.

9                    216. On April 29, 2014, the Health Care Authority informed Ms. Jones that the RFP  
10 workgroup was disbanded that and the existing paper time study forms would be used for the  
11 2014-15 school year.

12                    217. On September 24, 2014, the Health Care Authority sent Ms. Jones a letter  
13 notifying her that it considered her disclosure of RFP information to JTEC as a violation of her  
14 confidentiality agreement. The HCA asked Ms. Jones to refrain from making any more such  
15 unauthorized disclosures of confidential information.

16                    218. Thus, for at least three academic years, from 2011 through 2014, using  
17 numerous misrepresentations and deceptive tactics, JTEC delayed implementation of the  
18 random moment time study, which enabled the company to collect more than \$3,000,000 in  
19 additional fees for its worthless Medicaid claim “consulting” services.

20                    **III. THE APPLICABLE LAW**

21                    **A. Jurisdiction and Venue**

22                    219. The State of Washington brings this action pursuant to RCW 74.09.210, RCW  
23 Ch. 74.66.040, and the common law. The Court has subject matter jurisdiction to hear the  
24 State’s claims.

25                    220. The Court has personal jurisdiction over the Defendants because they have  
26 caused school district clients to file false Medicaid statements and false Medicaid

1 reimbursement claims and otherwise conducted Medicaid business in Thurston County,  
2 Washington. Defendants' clients included the Olympia, Tumwater, Yelm, Tenino, and North  
3 Thurston School Districts, all of which are located in Thurston County. Defendants visited  
4 these schools to promote their business, for school staff training purposes, and otherwise in the  
5 course of their fraudulent Medicaid "consulting" business. Defendants committed the  
6 violations alleged in this Complaint, in part, in Thurston County.

7 221. Venue is proper in this court pursuant to RCW 4.12.020(1), RCW 4.12.025(1),  
8 and RCW 74.66.110. Defendants transacted business in Thurston County and this is an action  
9 pursuant to the Medicaid False Claims Act and for the recovery of civil penalties imposed by  
10 statute.

11 **B. False and Fraudulent Claims Statutes**

12 **1. The Washington Medicaid Fraud False Claims Act, RCW 74.66**

13 222. The Washington Medicaid Fraud False Claim Act, RCW 74.66.020, took effect  
14 June 7, 2012. It provides that a person or entity is liable to the State for a civil penalty of not  
15 less than five thousand five hundred dollars (\$5500) and not more than eleven thousand dollars  
16 (\$11,000), plus three times the amount of damages which the State sustains because of the act  
17 of that person, if the person

18 [k]nowingly presents, or causes to be presented, a false or fraudulent  
19 claim for payment or approval, [k]nowingly makes, uses, or causes to be  
20 made or used, a false record or statement material to a false or fraudulent  
claim, or [c]onspires to commit one or more of the [these] violations ...

21 223. Other parts of the Medicaid False Claims Act define some key statutory terms.  
22 "Claim" is defined in RCW 74.66.010(1)(a). In RCW 74.66.010(7) (a), "knowing" and  
23 "knowingly" are defined to mean that a person, with respect to information: "[h]as actual  
24 knowledge of the information; [a]cts in deliberate ignorance of the truth or falsity of the  
25 information; or [a]cts in reckless disregard of the truth or falsity of the information." RCW  
26 74.66.010(7) (b) informs that "knowing" and "knowingly" do not require proof of specific

1 intent to defraud. RCW 74.66.010(8) provides that, "material" means having a natural  
2 tendency to influence, or be capable of influencing, the payment or receipt of money or  
3 property.

4 **2. Anti-fraud provisions of the Medicaid Statute, RCW 74.09**

5 224. The anti-fraud provisions of the Washington Medicaid statute prohibit a person  
6 or entity from obtaining or attempting to obtain Medicaid payments for themselves or others in  
7 a greater amount than they are entitled to receive by means of: (a) willful false statement; (b)  
8 by willful misrepresentation, or concealment of any material facts; or (c) other fraudulent  
9 scheme or device, including but not limited to billing for services that were unfurnished, of  
10 lower quality, or a misrepresentation of items billed. RCW 74.09.210(1) (Emphasis added).

11 225. Any person or entity that knowingly violates any of the provisions of RCW  
12 74.09.210(1) "shall be liable for repayment of any excess benefits or payments received, plus  
13 interest in the manner provided in RCW 43.20B.695." In addition, such person or entity is  
14 subject to civil penalties "in an amount not to exceed three times the amount of such excess  
15 benefits or payments." RCW 74.09.210(2).

16 **IV. THE STATE'S CLAIMS AGAINST THE DEFENDANTS**

17 **FIRST CAUSE OF ACTION**

18 **(Violation of Medicaid Fraud False Claims Act – RCW 74.66.020(1) (a) against All  
19 Defendants except Hauff and Welty)**

20 226. The State repeats and re-alleges each allegation in paragraphs 1 through 231 as  
21 though fully set forth herein.

22 227. After June 7, 2012, the effective date of RCW 74.66.020, through the date of  
23 this Complaint and continuing as Defendants knowingly caused their clients to present false or  
24 fraudulent Medicaid administrative cost reimbursement claims to the Health Care Authority for  
25 payment. The State sustained actual and extensive damages because of the Defendants'  
26 conduct described in this paragraph.

1           228. In this case, the time study forms were records or statements material to claim  
2 payment. So too were the quarterly pre-certification forms, the A-19 certificates, and the local  
3 match certificate. Each JTEC client school district submitted numerous false Medicaid records  
4 or statements in support of each of its quarterly Medicaid administrative claims.

5           229. After the effective date of RCW 74.66.020 (June 7, 2012) and continuing,  
6 Defendants knowingly caused their client school districts to make or use false Medicaid  
7 records or statements material to false or fraudulent Medicaid time study claims. The time  
8 study forms included artificial activities and other coding errors in violation of the time study  
9 rules, which materially inflated the clients' quarterly time study claim. The State sustained  
10 actual and extensive damages because of the Defendants' conduct described in this paragraph  
11 and other conduct that invalidated the time study process.

12           230. In addition, Defendants caused their clients to submit claims for operating cost  
13 reimbursement that improperly included payments made by the school districts for Defendants  
14 worthless "consulting" or "training" services.

15           231. The Defendants knowingly conspired to cause the creation and use of false  
16 Medicaid statements and the presentment of false claims as described in the preceding  
17 paragraphs.

18           232. The mitigating factors of RCW 74.66.020(2) do not exist as to any Defendant in  
19 this case.

20           233. Pursuant to RCW 74.66.020(1), Defendants are jointly and severally liable to  
21 the State for a civil penalty of not less than five thousand five hundred dollars and not more  
22 than eleven thousand dollars, plus three times the amount of damages which the State sustained  
23 as a result of each false record or statement material to a false or fraudulent claim and each  
24 false or fraudulent claim that Defendants caused to be presented.





1 insufficient funding to meet client needs, fraud such as that committed by Defendants, results  
2 in less benefits available to care for needy Medicaid clients. Under those circumstances, it  
3 would be inequitable to allow Defendants to retain the value of the Medicaid payments they  
4 received.

5 243. Defendants should be jointly and severally liable to the State for the full value  
6 of the Medicaid payments attributable to Defendants' fraud.

7  
8 **FIFTH CAUSE OF ACTION**

9 **(Civil Conspiracy against Mr. and Mrs. Reese, Mr. and Mrs. Hedgcock, Mr. and  
10 Mrs. Welty, and Mr. and Mrs. Hauff)**

11 244. The State repeats and re-alleges each allegation in paragraphs 1 through 231 as  
12 though fully set forth herein.

13 245. Each of the JTEC consultants (other than Mr. and Mrs. Adolf, who apparently  
14 were employees of the company), conspired with Mr. Reese to violate the anti-fraud provisions  
15 of RCW 74.09.210. Each consultant made an oral agreement with Mr. Reese to engage in  
16 Medicaid administrative claiming consultation and each used unlawful means to accomplish  
17 that agreement.

18 246. Each consultant is jointly and severally liable for the damages caused by JTEC  
19 and Mr. Reese.

20 **SIXTH CAUSE OF ACTION**  
21 **(Conversion against all Defendants)**

22 247. The State repeats and re-alleges each allegation in paragraphs 1 through 231 as  
23 though fully set forth herein.

24 248. Defendants willfully and wrongfully deprived the State of the possession of  
25 Medicaid administrative operating funds through their scheme described above.

26 249. Defendants had no legal right to possess the funds and have refused to return the  
funds to the State. The State has been damaged by Defendants' conduct.

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V. PRAYER FOR RELIEF

256. The State requests that judgment be entered in favor of the State of Washington, and jointly and severally against Defendants as provided by law, including:

1. An amount equal to the damages proved at trial;
2. A treble damages civil penalty;
3. An additional per statement and per claim civil penalty of between \$5500 and \$11,000 for the false statements and claims submitted after the effective date of RCW 74.66;
4. Pre-judgment interest as provided in RCW 74.09.210 and other law;
5. Post-judgment interest as authorized by law;
6. Costs and reasonable attorneys' fees per RCW 74.66.020(3) and other law; and
7. Such temporary or other and further relief as the Court shall deem just and proper.

DATED this 3<sup>rd</sup> day of December, 2014, at Olympia, Washington.

ROBERT W. FERGUSON  
Attorney General

By:

  
\_\_\_\_\_  
STEVE E. DIETRICH, WSBA #21897  
Senior Counsel

**PROOF OF SERVICE**

I certify that I served a copy of the Summons and Complaint for Damages and Civil Penalties for Violations of the Medicaid Reimbursement Claims on all parties or their counsel of record on the date below as follows:

Personal Service

To:

JOHN THOMAS REESE  
SHEILA JOY REESE  
JT EDUCATIONAL CONSULTANTS  
362 BELLEVUE WAY NE #N232  
BELLEVUE, WA 98004-2316

JACK DOUGLAS HEDGCOCK  
PATRICIA GALE HEDGCOCK  
JH EDUCATIONAL CONSULTING, LLC  
15025 222<sup>ND</sup> Dr. SE  
MONROE, WA 98272

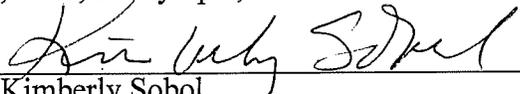
SCOTT ALAN ADOLF  
THERESA RAE ADOLF  
1494 EASTMONT AVE., UNIT 71 EAST  
EAST WENATCHEE, WA 98802-8324

RANDALL D. HAUFF  
JANE DOE HAUFF  
1701 VILLAGE DR.  
LYNDEN, WA 98264-1285

JANINE WELTY  
JOHN DOE WELTY  
2820 FALCON WAY  
EAST WENATCHEE, WA 98802

I certify under penalty of perjury under the laws of the state of Washington that the foregoing is true and correct.

DATED this 4<sup>th</sup> day of December, 2014, at Olympia, WA.

  
\_\_\_\_\_  
Kimberly Sobol  
Legal Assistant