

Arizona faces \$2.8 billion class action lawsuit over alleged negligence in AHCCCS fraud scheme

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In a scathing 232-page legal complaint filed in Maricopa County Superior Court, the State of Arizona and its Medicaid agency, the Arizona Health Care Cost Containment System, stand accused of enabling and funding one of the largest Medicaid fraud scandals in recent U.S. history.

The lawsuit, led by attorneys John B. Brewer and Dane L. Wood of BrewerWood P.L.L.C., and McCoy Leavitt Laskey LLC, alleges that gross negligence by state officials allowed fraudulent addiction treatment providers to exploit vulnerable Native American populations, leading to severe harm and the loss of lives.

The class action lawsuit represents thousands of Native Americans and the estates of deceased victims, who were allegedly harmed in what the plaintiffs call the “sober living

crisis.” The crisis was fueled by fraudulent addiction treatment facilities that offered little to no genuine care while exploiting Medicaid funds. Instead of helping residents recover, the lawsuit claims these facilities exacerbated addiction, displaced individuals, and contributed to wrongful deaths.

According to Brewer and Wood, the state’s failure to address the growing fraud has resulted in damages amounting to \$2.8 billion in Medicaid payments over four years.

“These facilities not only failed to provide the promised addiction treatment but also exacerbated the conditions of the victims, resulting in deaths, drug dependencies, and unthinkable suffering,” the lawsuit alleges. Brewer, representing the plaintiffs, added, “Native Americans deserve better from the state of Arizona. This lawsuit is not just about financial accountability but about justice for those who have suffered unimaginable harm.”

Promises of housing, treatment

The lawsuit describes a calculated scheme in which Native Americans were targeted for their Medicaid benefits through the American Indian Health Program. Unscrupulous providers allegedly lured individuals from reservations and urban areas with promises of housing and treatment but instead funneled them into fraudulent sober living homes and behavioral health facilities. Once admitted, many were kept incapacitated through drugs and alcohol.

“Most of them get new addictions, and most of the sober living (homes) not only encourage it, but they provide alcohol as well,” Brewer explained. “They keep them because they give them a place to live. Oftentimes, they’re decent places to live – swimming pools, amenities – but it’s all about control. They serve them drugs and alcohol to keep them intoxicated and compliant, so they can keep billing Medicaid.”

State officials were aware of the issue as early as January 2020, Wood said, citing internal documents.

“These facilities, supposed to be making people sober, were doing just the opposite—giving them alcohol and drugs to keep them under control and addicted,” he said. “It’s just so inexplicable that the state knew this was happening and kept funding it anyway.”

AHCCCS has taken action recently to address fraud in sober living facilities. According to its website, the agency has suspended more than 300 behavioral health providers since May 2023 based on credible allegations of fraud, much of it tied to sober living

facilities. In December 2023, a grand jury indicted 10 individuals accused of operating unlicensed sober living or transitional homes in the Phoenix area.

These individuals allegedly engaged in patient brokering, directing vulnerable patients – many of them Native Americans enrolled in the AIHP – to fraudulent behavioral health facilities in exchange for kickbacks. Earlier in July 2023, a Mesa woman pleaded guilty to fraud targeting AHCCCS, illustrating the scale of fraudulent operations and the state’s ongoing efforts to crack down on such schemes.

While these enforcement actions indicate AHCCCS’s recent commitment to addressing fraudulent activities, the plaintiffs argue that such measures are too little, too late.

“AHCCCS was funding this fraud to occur because, in other words, if AHCCCS stopped paying, the fraud would’ve gone away,” Wood argued. “If the fraud goes away, then there’s no reason for these people to be harmed. The fraudsters wouldn’t keep going.”

Documents in the lawsuit reveal that AHCCCS officials were alerted to fraudulent practices as far back as July 2019. Whistleblowers provided detailed reports of fraud schemes, including the use of false Medicaid claims, “ghost billing,” and the trafficking of individuals to treatment centers. Medicaid billing for behavioral health services skyrocketed during this period, increasing from \$53.5 million in 2019 to \$668 million by 2022.

Fraud escalates – and state knew

Despite these warnings, the state allegedly continued payments, enabling the fraud to escalate. Brewer recounted a victim’s story to illustrate the exploitation.

“We heard the story of one girl; her family took her kids, and she was brokered into a house with a swimming pool—a big draw for her. But when she got there, they served her drugs and alcohol. It was all about control, a means to an end,” said Brewer.

Another victim’s words captured the stark reality: “We weren’t patients; we were dollar signs.” Wood added, “There was no goal of providing any real treatment. These individuals were treated as chattel—a means for fraudulently billing AHCCCS.”

The lawsuit highlights the devastating toll on Native American communities, which have historically faced systemic inequities and inadequate healthcare access. The plaintiffs allege that the fraud disproportionately harmed Native Americans, leading to addiction relapses, homelessness, and wrongful deaths.

In many cases, victims entered these facilities seeking help but found themselves trapped in a cycle of abuse and exploitation. Some were reportedly trafficked from reservations against their will, while others developed new addictions or suffered overdoses in environments that were supposed to foster sobriety.

Brewer and Wood argue that state officials not only ignored red flags but failed to act decisively even when the extent of the fraud became evident.

“It blows the mind that the state knew this was happening five years ago—which they did. Why did they keep going and keep paying, knowing that these Native Americans were being harmed? That’s at the heart of this action,” Wood said.

Preventing tragedies

The plaintiffs seek damages exceeding \$300,000 per individual and demand systemic changes to Arizona’s Medicaid oversight. The lawsuit invokes Arizona’s Wrongful Death Act and federal Medicaid regulations, alleging that AHCCCS violated its obligation to ensure the safety and well-being of Medicaid recipients.

Brewer and Wood emphasized that the lawsuit is about more than financial compensation—it’s about preventing similar tragedies in the future.

“This lawsuit is about exposing the truth and ensuring that such a travesty is never repeated,” Brewer said.

The plaintiffs have also requested that the case be designated as a “complex civil action,” which would require continuous judicial oversight. This designation reflects the breadth of the allegations, the large number of victims, and the systemic changes needed to address the failures.

Arizona officials, including Gov. Katie Hobbs and Attorney General Kris Mayes, have acknowledged the Medicaid fraud crisis but have yet to provide comprehensive solutions. While AHCCCS has issued statements committing to reforms, the lawsuit casts doubt on these efforts, citing years of systemic failures.

Brewer criticized the state’s inaction and its refusal to take early corrective measures.

“They knew in great detail what was going on, how it was being done, and the injury it caused to Native Americans. Yet, they kept funding it anyway,” he said. Wood added.

The lawsuit also cites Attorney General Mayes' acknowledgment of the victims' dehumanizing treatment.

"Even the Attorney General referred to these individuals as 'chattel,'" Brewer noted.

The plaintiffs hope that the case will not only provide justice for the victims but also serve as a catalyst for systemic change.

"This isn't just a legal battle—it's a moral one," Brewer said. "We owe it to the Native American community to hold the state accountable for its failures and ensure this never happens again."

The state of Arizona has yet to file its formal response to the lawsuit.