

Hospital controlled substance diversion case studies: Cautionary tales

Larry K. Houck

Controlled substances are critical to patient care, and hospitals have always been vulnerable to their diversion by trusted employees. However, in a number of recent cases, employees have been able to divert considerable quantities of controlled substances undetected over extended periods of time. These diversions resulted in overdoses and deaths, patient undertreatment, multimillion-dollar civil monetary penalties, and comprehensive remedial settlements. The Drug Enforcement Administration asserted that the involved hospitals' noncompliance with mandatory recordkeeping, reporting, and security requirements enabled the diversion. This article focuses on several of those high-profile cases and discusses how hospitals can prevent and detect similar employee diversion of controlled substances.

(Larry Houck is an attorney with Hyman, Phelps & McNamara, a food and drug law firm, in Washington, DC. A former Drug Enforcement Administration [DEA] Diversion Investigator, Mr. Houck conducted numerous employee diversion investigations in the field and served as a staff coordinator in the Liaison and Policy Section. He currently counsels DEA registrants on employee diversion and other controlled substance regulatory matters.)

Three months ago, the Drug Enforcement Administration (DEA) and the U.S. Attorney's Office for the Eastern District of California announced that Sutter Medical Center, Sacramento, and Sutter Fairfield Surgery Center had agreed to pay \$3.2 million to resolve allegations that they had failed to effectively

guard against theft and diversion of controlled substances [1]. DEA investigated the healthcare systems following the death of a pediatric anesthesiologist.

In addition, in July 2025, the Lehigh Valley Hospital Network in Pennsylvania agreed to pay \$2.75 million to resolve allegations that it had failed to comply

with provisions of the Controlled Substances Act (CSA) designed to prevent controlled substance diversion [2]. The settlement resolved the Lehigh Valley Hospital Network's disclosure that a pharmacy technician used another employee's password on about 40 occasions to access, remove, and divert controlled substances. The pharmacy technician allegedly created fictitious reports to hide the controlled substance discrepancies.

Controlled substances are critical to patient care, but over the past few years, a number of similar incidents have been reported involving large-scale diversion by hospital and healthcare employees. More than 40 registrants, primarily hospitals and pharmacies, have paid significant civil monetary penalties to resolve allegations that failure to comply with their regulatory obligations allowed diversion of controlled substances by their own employees. The CSA and DEA regulations require all registrants, including hospital and healthcare systems, to maintain complete and accurate controlled substance records, conduct biennial inventories, file timely theft and loss reports, and maintain specific secu-

rity controls. Failure to comply with controlled substance responsibilities can result in:

- Increased patient and employee health risks that include undertreatment, overdose, and death
- Multimillion-dollar settlements in amounts that have been rising each year
- Significant long-term costs to comply with onerous settlement agreements
- Unwanted negative national and local publicity
- Erosion of public trust and confidence

As a new DEA Diversion Investigator in 1988, one of my first cases involved a doctor who allegedly diverted pharmaceutical cocaine with tragic consequences. DEA issued an order to show cause and, after holding an administrative hearing, revoked the doctor's registration. Neither DEA nor I contemplated seeking civil penalties from the hospital where the doctor worked for recordkeeping and security violations. Fast-forward to December 2022, when Pikeville Medical Center in Kentucky agreed to pay \$4.4 million to resolve allegations

that its recordkeeping violations enabled a pharmacy technician to divert over 60,000 oxycodone, hydrocodone, and methadone dosage units [3]. And that civil penalty for employee diversion is far from the largest. The amount of cocaine allegedly diverted by the doctor in 1988 was a far cry from the tens of thousands of Schedule II dosage units diverted from Pikeville Medical Center, but a lot has changed over the ensuing years.

DEA continues to focus on controlled substance diversion at hospitals and the deficient recordkeeping, reporting, and security that enable employees to steal significant quantities undetected. The regulated industry, especially hospitals, must establish and maintain comprehensive compliance programs with controls, given the serious direct risk to patients and employees. Hospitals and health-care systems must fulfill their compliance obligations by contemplating what it may require to continue operations if they fail to comply. The case studies here illustrate how rogue employees have been able to divert large quantities of controlled substances and focus on what hospitals can do to protect their patients, em-

ployees, and themselves from similar employee diversion.

University of Michigan Health System

In 2018, DEA began investigating the University of Michigan Health System (UMHS) after a nurse and an anesthesiology resident both overdosed—for the nurse, fatally—on fentanyl at a UMHS facility. DEA alleged that UMHS failed to maintain complete and accurate records and to notify the agency of controlled substance thefts in timely fashion and ultimately concluded that “UMHS’ deficient recordkeeping negatively impacted UMHS’ ability to guard against the theft and diversion of controlled substances” [4].

UMHS agreed to resolve the allegations by paying \$4.3 million and entering into a 3-year memorandum of agreement (MOA). The U.S. Attorney’s Office for the Eastern District of Michigan called it “the nation’s largest settlement of its kind involving allegations of drug diversion at a hospital” [4]. U.S. Attorneys’ Offices would continue to tout how their employee diversion settlements measured against those in other jurisdictions.

McLaren Health Care Corporation

In 2021, DEA investigated the McLaren Health Care Corporation (MHCC), also in Michigan, after becoming aware that an MHCC pharmacy filled controlled telephoned prescriptions by an unregistered substance abuse treatment facility for “office stock” [5]. DEA expanded its investigation to allege that MHCC pharmacies dispensed Schedule II drugs without written prescriptions despite red flags that an MHCC pharmacist-in-charge was diverting the drugs. Those red flags included prescribing patterns, including the same type of drugs in the same quantities from the same prescriber, excessive quantities for highly addictive Schedule II drugs, repeated early refills, and prescription entries in the name of false patients. DEA also alleged that MHCC pharmacies dispensed controlled substances despite obvious red flags that the prescriptions may have been issued without legitimate medical purpose or were unauthorized. Further, the agency alleged that several MHCC facilities failed to notify DEA of known employee controlled substance thefts and that

MHCC had noncompliant legacy policies in place after acquiring healthcare providers.

Eventually, MHCC admitted that their pharmacies lacked written prescriptions for 1,255 Schedule II dispensings over 4 years. MHCC agreed to pay \$7.5 million and entered into a 3-year MOA. The U.S. Attorney for the Eastern District of Michigan noted that “[a]t nearly \$7.8 million, this is the largest civil Controlled Substances Act settlement in American history involving a health care system whose internal practices were so deficient that it allowed the diversion of drugs, including opioids” [5].

Responsible hospital management and compliance teams should review the elements of MHCC’s comprehensive MOA and adopt relevant components into their own controlled substance compliance programs. In particular, MHCC established a multidisciplinary Controlled Substance Oversight Committee (CSOC) consisting of pharmacy directors, nursing leaders, doctors, attorneys, and long-term care facility members. The CSOC created a new systemwide “Controlled Substance and Prevention of Drug Diversion Policy” and

made it available to all employees on the company's intranet; all employees with access to controlled substances were required to be trained on the policy within 1 month. The CSOC met monthly to review and revise the drug diversion policy and plan and educate employees. The CSOC created a quarterly dashboard, tracking controlled substance metrics, and setting and defining minimum controlled substance audits by MHCC subsidiaries.

To implement controlled substance policies, MHCC also created a multidisciplinary Controlled Substance Implementation Team (CSIT), consisting of pharmacists, doctors, nurses, attorneys, human resource employees, hospital administrators, and long-term care facility members. The CSIT met weekly, overseeing gap analyses for any subsidiary. An Education Subgroup created modules that explained the new policy and oversight structure, raised awareness of diversion, and monitored employee education.

The MOA required initial 30-day controlled substance distribution and dispensing audits that included distributions to DEA-registered locations and automated

dispensing machines (ADMs). Dispensing audits accounted for all controlled substance movement to patients, including intermediate steps to ADMs and emergency kits. The MOA then required 6-month accountability audits for the duration of the agreement. For the audits, the MOA stipulated:

- Requirement that an external auditor conduct unannounced audits of five Schedule II through V drugs at pharmacies randomly selected by the auditor
- Completion of quarterly audits and compliance reviews
- Review of and sign-off on the audits by the pharmacist-in-charge
- Reconciliation of any audit discrepancies within 30 days
- Ensuring that security controls and procedures have been put in place to prevent diversion
- Encouraging employees to report suspected illegal handling, use, diversion, and drug impairment through hotline
- Enforcement of substance abuse testing and a new-hire policy that includes back-

ground checks and health assessments (including drug screens)

- Not hiring as employees with access to controlled substances those who have been convicted of a felony related to controlled substances or who had a DEA application or registration denied or revoked or surrendered for cause
- Creation of written progressive discipline policies relating to controlled substances
- Establishment of a database of employees discharged because of diversion or who resigned during investigation of potential diversion
- Disclosure of such information to the extent permitted by law to other health facilities conducting preemployment inquiries
- Notification of appropriate state licensing/regulatory authorities and DEA of licensed employees who were discharged and/or who resigned because of diversion

Sovah Health

Danville Regional Medical Center, doing business as Sovah Health, in Virginia entered into a

\$4.36 million civil settlement and 4-year nonprosecution agreement (NPA) in 2022 because a pharmacy technician and a registered nurse had been able to independently divert significant controlled substance quantities over an extended period of time [6]. Common elements of both individuals' diversion activities were lack of an effective corporate security program and lack of effective monitoring to prevent and detect diversion. The NPA illustrates the extent of potential liability for hospitals and the importance of maintaining controls and oversight over employee activities related to controlled substance dispensing and administering.

Between 2017 and 2019, a Sovah Health pharmacy technician allegedly diverted more than 11,000 Schedule II and 1,900 Schedule III and IV dosage units by indicating in the hospital's computer system that the drugs had moved to a location no longer in use. The technician destroyed required drug movement forms. In addition, a registered nurse admitted to removing fentanyl from vials and hydromorphone from syringes, replacing them with saline solution daily from January to May 2020. Other employees al-

legedly administered the saline to patients even after observing signs of tampering.

The pharmacy technician and the registered nurse each pled guilty and were sentenced to 13 months and 36 months, respectively, in federal prison. The nurse was separately sentenced to 4.5 years imprisonment for committing similar crimes from July to November 2020, when she was later employed by a hospital in North Carolina. This highlights the public health risks when bad employees change employment and take their bad acts on the road.

DEA alleged that Sovah Health failed to conduct a full physical inventory that would have identified the pharmacy technician's exploiting a nonutilized location that was still in the hospital's computer system. DEA also alleged that Sovah Health failed to enforce or audit its internal procedures requiring that all controlled substance transfers be witnessed by two employees, sequentially numbered forms be maintained in a designated binder and, the key-card controlled security cage be locked.

The Sovah Health settlement was described by the U.S. Attorney's Office as "the third-largest

civil penalty ever obtained from a hospital system under the Controlled Substances Act and the largest ever in the Fourth Circuit" [6]. As with the MHCC MOA, the Sovah Health NPA set out elements that hospitals should consider adopting for their own controlled substance compliance programs. The NPA required Sovah Health to:

- Install cameras at each ADM to capture controlled substance placement and removal
- Have management review discrepancies discovered during blind controlled substance counts
- Implement software to monitor ADMs and employees experiencing discrepancies
- Maintain all blind counts and document actions reconciling discrepancies
- Require management to play an active role, ensuring corporate accountability
- Report potential employee thefts, losses, or abuse or diversion to DEA and the Virginia State Police
- Require employees to report their arrests or charges to management

- Establish mandatory random drug testing program for employees with access to controlled substances at least every 6 months
- Report positive drug test results to appropriate licensing authorities
- Enforce a written policy of progressive discipline for employees who violate controlled substance policies and procedures
- Require a full annual physical inventory of controlled substances on hand, including in ADMs and the vault, consistent with DEA inventory requirements
- Reconcile counts (not required by the DEA regulations)
- Report results to DEA within 24 hours after conducting an inventory
- Conduct an accountability audit of at least two Schedule II drugs each quarter and provide results to DEA within 2 days
- Conduct an annual self-evaluation to review compliance with CSA regulations and NPA terms with the pharmacist-in-charge, certifying that they have completed evaluation and

document corrective actions

- Maintain certifications for 2 years, making them available to DEA

Pikeville Medical Center

From January 2016 to September 2018, a pharmacy technician allegedly diverted over 60,000 oxycodone, hydrocodone, and methadone dosage units from the narcotics vault and Pyxis machines of Pikeville Medical Center in Kentucky [3]. The technician's husband allegedly sold the diverted drugs on the street. The technician and her husband each pled guilty to conspiring to distribute Schedule II substances, with the technician ultimately sentenced to 38 months in prison and her husband to 41 months.

In 2022, DEA alleged that Pikeville Medical Center failed to maintain complete and accurate Schedule II inventories and dispensing records, and that the pharmacy technician was able to divert the scheduled drugs for 2.5 years as a result of these failures. To resolve the matter, Pikeville Medical Center agreed to pay almost \$4.4 million and enter into a 3-year MOA that required it to:

- Conduct an inventory of se-

lect controlled substances every 6 months and provide the results to DEA

- Investigate and document any concerns about diversion, employee theft, or significant loss of controlled substances
- Report suspicious controlled substance incidents to DEA quarterly
- Provide mandatory training on federal controlled substance laws and regulations to all employees and contract personnel who have access to controlled substances

Cheshire Medical Center

As a final case example, DEA investigated Cheshire Medical Center (CMC) in New Hampshire after the hospital disclosed in February 2022 that a nurse had stolen 23 bags of fentanyl solution for intravenous use from an ADM. CMC later reported an additional 634 bags of fentanyl intravenous solution were unaccounted for, and an audit by DEA investigators later revealed an additional 17,961 missing dosage units [7]. Sadly, the nurse who allegedly stole the drugs died in March 2022.

DEA alleged recordkeeping

deficiencies that included multiple failures: failure to maintain accurate purchase and dispensing records, failure to regularly review reports for possible diversion, failure to have structures in place to alert CMC of greatly increased monthly controlled substance purchases, and failure to enforce various controlled substance security policies. CMC resolved the matter by agreeing to pay \$2 million, which the U.S. Attorney described as “one of the largest settlements of drug diversion claims against a hospital in the country” [7]. CMC also implemented additional security and recordkeeping measures.

Common Elements

These hospital and healthcare system employee diversion cases have several elements in common. Many of the facilities failed to maintain complete and accurate records or failed to conduct full physical inventories, and deficient recordkeeping contributed to their failure to monitor, detect, and report suspected diversion. They failed to report thefts and/or significant losses to DEA, thus impeding early investigations. A few hospitals failed to adhere to their own internal policies and

procedures. They lacked effective employee oversight and security. In multiple cases, employees diverted fentanyl from vials intended for patients, after which the contents of the tampered vials were administered to patients. Several of these incidents highlight the vulnerability of ADMs.

Takeaways

The lessons learned from these employee diversion cases are:

- Hire and train experienced, adequate staff. Do not cut corners.
- Trusted employees are still capable of bad behavior. Provide adequate oversight of all employees who order and handle controlled substances.
- Maintain and adhere to controlled substance standard operating procedures and policies that are compliant, comprehensive, and current.
- Conduct periodic mock DEA-style controlled substance accountability audits and record, report, and security reviews.
- Deploy advanced technology and software to track and monitor controlled substances

that can identify discrepancies and irregularities.

- Incorporate selected MOA and NPA elements (as outlined in these cases) into your compliance program.
- Invest in compliance early—or pay and invest later.
- Commit to comply with all federal, state, and local controlled substance laws and regulations from the very beginning of operations.
- Accountability, accountability, accountability.
- Noncompliance puts patients', employees', and the public's health at risk.

Conclusion

Controlled substances are a necessary component for hospitals and healthcare systems providing medical care to patients. These recent employee controlled substance diversion cases illustrate the heightened vulnerability of hospitals. The recordkeeping, reporting, and security requirements mandated by the CSA and DEA regulations ensure accountability to prevent internal and external controlled substance diversion and to detect it early if it does occur. Ownership and management must

ensure that their hospitals comply with those requirements. Even trusted employees are capable of bad behavior, and noncompliance carries a hefty price tag.

References

1. U.S. Attorney's Office, Eastern District of California. (2026, March 24). Sutter facilities agree to pay \$3.2 million to resolve alleged controlled substances act violations [Press release]. <https://www.justice.gov/usao-edca/pr/sutter-facilities-agree-pay-32-million-resolve-alleged-controlled-substances-act>
2. U.S. Attorney's Office, Eastern District of Pennsylvania. (2025, July 2). Lehigh Valley Hospital Network agrees to pay \$2.75 million to resolve allegations of drug theft, diversion, and other controlled substances act violations [Press release]. <https://www.justice.gov/usao-edpa/pr/lehigh-valley-hospital-network-agrees-pay-275-million-resolve-allegations-drug-theft>
3. U.S. Attorney's Office, Eastern District of Kentucky. (2022, December 7). Pikeville Medical Center to pay \$4.39 million to resolve alleged controlled substance act violations that allowed drug diversion [Press release]. <https://www.justice.gov/usao-edky/pr/pikeville-medical-center-pay-439-million-resolve-alleged-controlled-substance-act>
4. U.S. Attorney's Office, Eastern District of Michigan. (2018, August 30). Eastern District of Michigan announces record-setting hospital drug diversion civil penalty settlement with the University of Michigan Health System [Press release]. <https://www.justice.gov/usao-edmi/pr/eastern-district-michigan-announces-record-setting-hospital-drug-diversion-civil>
5. U.S. Attorney's Office, Western District of Michigan. (2021, January 19). U.S. Attorneys Andrew Birge And Matthew Schneider announce record-setting drug diversion civil penalty settlement with McLaren Health Care Corporation [Press release]. https://www.justice.gov/usao-wdmi/pr/2021_0119_MHCC
6. U.S. Attorney's Office, Western District of Virginia. (2022, June 8). Sovah Health to pay United States \$4.36 million to settle claims of Controlled Substance Act violations [Press release]. <https://www.justice.gov/usao-wdva/pr/sovah-health-pay-united-states-436-million-settle-claims-controlled-substance-act>
7. U.S. Attorney's Office, District of New Hampshire. (2023, June 21). Cheshire Medical Center to pay \$2 million to settle allegations of Controlled Substances Act violations [Press release]. <https://www.justice.gov/usao-nh/pr/cheshire-medical-center-pay-2-million-settle-allegations-controlled-substances-act>