EXHIBIT I

CORPORATE INTEGRITY AGREEMENT
BETWEEN THE
OFFICE OF INSPECTOR GENERAL OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES
AND
HORIZON WEST, INC.

I. PREAMBLE

Horizon West, Inc. hereby agrees to enter into this Corporate Integrity Agreement (the "CIA") with the Office of Inspector General of the United States Department of Health and Human Services ("OIG") to provide for the establishment of a Corporate Integrity Program ("Program") to ensure compliance with the billing and reimbursement requirements of Medicare, Medicaid and all other Federal health care programs (as defined in 42 U.S.C. § 1320a-7b(f)) by Horizon West Headquarters, Inc. (Horizon West's wholly owned subsidiary and management corporation) and the skilled nursing facilities ("SNFs") managed by Horizon West Headquarters, Inc., and its employees and all third parties with whom it may choose to engage to act as billing or coding or consultants for Horizon West, Inc. ("Horizon West"). In the event that Horizon West, Inc. and/or Horizon West should hereafter acquire a controlling interest in and/or directly manage the provisions of patient care in any healthcare facility subject to any Federal healthcare program, the parties agree that such facilities will become subject to this CIA.

The Program shall be maintained so as to ensure that Horizon West and each of its directors, officers, employees, contractors and agents maintain the business integrity required of a participant in Federal health care programs, and that Horizon West's billings for medical care and related reimbursable expenses are in effective compliance with all statutes, regulations and guidelines applicable to such programs and with the terms of this CIA as set forth below. Horizon West is entering into a settlement agreement with the United States and this CIA is incorporated into that Settlement Agreement by reference.

Prior to the execution of this Agreement, Horizon West voluntarily established a compliance program ("Compliance Plan"), which provides for corporate integrity policies and procedures and which, as represented by Horizon West in this Agreement, is aimed at ensuring that its participation in the Federal health care programs (which includes any requests for payments) is in conformity with the statutes, regulations, and other directives applicable to the Federal health care programs. Therefore, pursuant to this Agreement,

Horizon West hereby agrees to maintain in full operation the Compliance Plan for the term of this Agreement. The Compliance Plan may be modified by Horizon West as appropriate, but at a minimum, shall always comply with integrity obligations enumerated in this Agreement.

II. TERM OF THE CIA

Except as otherwise provided, the period of compliance obligations assumed by Horizon West under this CIA shall be five (5) years from the date of execution of this CIA. The date of execution will be the date of the final signature on the CIA.

III. CORPORATE INTEGRITY OBLIGATIONS

Pursuant to this Agreement, and for the duration of this Agreement, Horizon West will make the following integrity obligations permanent features of its Compliance Plan, which shall be established in accordance with the provisions below:

A. CORPORATE COMPLIANCE OFFICER AND COMMITTEE

Horizon West has represented to OIG that, pursuant to its Compliance Plan, it has created a Compliance Officer position and Facility Compliance Liaison Officer positions and appointed individuals to serve in those capacities. Accordingly, Horizon West shall formally maintain the appointment of individuals to serve as the Compliance Officer and the Facility Compliance Liaison Officers. At a minimum, the Compliance Officer and each Facility Compliance Liaison Officer must continuously be charged with the responsibility for the day-to-day compliance activities in furtherance of the integrity obligations assumed herein, as well as for any reporting obligations established under this Agreement. The Compliance Officer (who also serves as Vice President) must report directly to Chief Executive Officer ("CEO") of Horizon West and shall have unrestricted access to the Board of Directors of Horizon West. The Compliance Officer shall be a member of the management and shall make regular (at least quarterly) reports regarding compliance matters directly to Horizon West's CEO and/or to the Board of Directors of Horizon West. When the identity of the Compliance Officer changes, Horizon West shall notify, in writing, the OIG within 15 days of such change. All other matters affecting the Compliance Officer shall be reported in accordance with Section VI below.

Each of Horizon West's SNFs shall have a Compliance Liaison Officer to serve as a resource for information and inquiries related to any compliance issues as well as the facility's liaison with the Compliance Officer and Compliance Committee. The Compliance Liaison Officer shall be the Administrator of the SNF's or a member of its senior management and shall make daily reports if necessary regarding compliance matters directly to Horizon West's Compliance Officer as appropriate. In addition to a newsletter that is circulated from the Compliance Officer on a quarterly basis, the Compliance Officer will discuss compliance issues with the Compliance Liaison Officers on at least a quarterly basis, and more frequently, if appropriate. The Compliance Liaison Officer will submit an annual written form "Facility Compliance Annual Reporting Questionnaire," to the Compliance Officer regarding the fulfilling of the SNF's compliance obligations for the previous year. When the identity of the Compliance Liaison Officer changes, Horizon West shall notify, in writing, the OIG within 15 days of such change. All other matters affecting the Compliance Liaison Officer shall be reported in accordance with Section VI below.

Horizon West has represented to OIG that, pursuant to its Compliance Plan, it has created a Compliance Committee. Accordingly, Horizon West shall formally maintain a Compliance Committee, which shall be responsible for, at a minimum, compliance with the integrity obligations in this Agreement. Horizon West shall ensure that the Compliance Committee is continuously composed of representatives of multiple disciplines and segments of Horizon West's operations. At a minimum, the Compliance Committee shall include the Compliance Officer, CEO of Horizon West, the Vice President of Horizon West, Corporate Education Coordinator, Controller, Administrative Member and Accounts Receivable Manager. The Compliance Committee will support the Compliance Officer in fulfilling his/her responsibilities. The names and positions of the Compliance Committee members shall be included in the Implementation Report.

B. POLICIES AND PROCEDURES

Horizon West has represented to OIG that, pursuant to its Compliance Plan, it has created written Policies and Procedures regarding the operations of Horizon West's corporate integrity program. Accordingly, Horizon West shall formally maintain the written Policies and Procedures regarding the operation of Horizon West's Program. At a minimum, the Polices and Procedures shall address compliance with all Federal and state health care statutes, regulations, and guidelines, including the requirements of Medicare, Medicaid, and other Federal

health care programs. In addition to other requirements as determined by the Board of Directors, the Policies and Procedures shall specifically address what types of services and items should be billed as ancillary and routine costs. In addition, Horizon West shall formally maintain its written Policies and Procedures that include disciplinary guidelines and methods for employees to make disclosures or otherwise report on compliance issues to Horizon West's management through the Confidential Disclosure Program required by section III(E). Horizon West shall update the Policies and Procedures at least annually and more frequently as appropriate.

Compliance staff or supervisors should be available to explain any and all Policies and Procedures. Horizon West shall distribute any changes to its Policies and Procedures to all employees and third parties with whom Horizon West may choose to engage to act as billing or coding agents or consultants for Horizon West whose positions are impacted by the changes.

Within 90 days of the commencement of the CIA, a summary of Horizon West's Program shall be distributed by Horizon West to all employees and selected third parties with whom Horizon West may engage to act as billing or coding agents or consultants for Horizon West. Each employee shall certify, in writing, that he or she has read, understands, and will abide by Horizon West's Program. New employees shall receive a summary of Horizon West's Program within one week after commencement of their employment. Within 30 days of the beginning of their employment, these individuals shall certify, in writing, that they have read, understand and will abide by Horizon West's Program.

C. TRAINING AND EDUCATION

1. GENERAL TRAINING

Within 90 days after execution of this CIA, Horizon West shall provide at least one (1) hour of training annually to each employee of Horizon West. This general training shall: (1) cover Horizon West's CIA; (2) cover Horizon West's Policies and Procedures as appropriate for the type of employee; (3) reinforce the need for strict compliance with the applicable statutes, regulations, program guidelines, and Horizon West's Policies and Procedures; and (4) advise employees how potential violations of these authorities should be handled and that any failure to comply may result in disciplinary action, up to termination of employment. New employees shall receive the general training described above within 30 days of the

beginning of their employment or within 90 days after the execution of this CIA, whichever is later.

These training materials (including attendance logs) shall be maintained by Horizon West and made available to the OIG upon request.

2. BILLING TRAINING

In addition to the general training described above, each employee who is involved directly or indirectly in the preparation or submission of cost reports for reimbursement to Medicare, Medicaid, or any other Federal health care programs shall receive at least eight (8) hours of training within 90 days after the execution of this agreement in: (i) the submission of accurate bills for services rendered to Medicare and/or Medicaid patients; (ii) the personal obligation of each individual involved in the billing process to ensure that such billings are accurate; (iii) applicable reimbursement rules and statutes; (iv) the legal sanctions for improper billings and; (v) examples of proper and improper billing practices. Persons providing the training must have the requisite expertise and qualifications to conduct the required training.

Affected new employees shall receive this training within 30 days of the beginning of their employment. If a new employee has any responsibility for the assignment of procedure codes prior to completing this coding training, a Horizon West employee who has completed the coding training shall review all of the untrained person's work regarding the assignment of billing codes. Every employee shall receive such specific training each year.

Each employee shall certify, in writing, that he or she has attended the required training. The certification shall specify the type of training received and the date received. The Compliance Officer shall retain the certifications, along with specific course materials. These shall be made available to OIG upon request. Horizon West shall certify that such training has been provided in its Implementation and Annual Reports to OIG, in accordance with section VI.

D. AUDITS AND DISCLOSURES

Horizon West has represented to OIG that, pursuant to its Compliance Plan, it has retained an independent review organization, such as an accounting firm or consulting firm, with expertise in the reimbursement and billing requirements of

the Federal health care programs, to review and audit on an annual basis the billing policies, procedures and practices of Horizon West to verify that Horizon West's submissions for reimbursement comply with all applicable Federal health care program statutes, regulations, program and carrier directives and to identify any and all instances where claims fail to meet these standards. This shall be an annual requirement and shall cover a twelve (12) month period beginning on March 1, 1999. During the duration of this CIA if there are substantial modifications to the Medicare or other Federal health care programs reimbursement system, the OIG may require Horizon West to incorporate new criteria into the Auditing and Disclosure procedures described hereinafter.

The Independent Review Organization will conduct two separate engagements. annually. One will be an analysis of Horizon West's billing to the Federal health care programs to assist Horizon West and OIG in determining compliance with all applicable statutes, regulations, and directives/guidance ("billing engagement"). The second engagement will determine whether Horizon West is in compliance with this CIA ("compliance engagement").

1. BILLING ENGAGEMENT

The billing engagement shall consist of a review of a statistically valid sample of claims that can be projected to the population of claims for the relevant period. The sample size shall be determined through the use of a probe sample. At a minimum, the full sample shall generate an estimate with a ninety (90) percent confidence level and a precision of twenty-five (25) percent (i.e., the upper and lower bounds of the confidence interval shall not exceed 125% and shall not be lower than 75% of the median of the confidence interval, respectively). The probe sample must contain at least thirty (30) sample units and cannot be used as part of the full sample. Both the probe sample and the sample must be selected through random numbers. The Independent Review Organization shall use OIG's Office of Audit Services Statistical Sampling Software, also known as "RAT-STATS," which is available through the Internet at "www.hhs.gov/progorg/oas/ratstat.html".

Each annual billing engagement analysis shall include the following components in its methodology:

a. Billing Engagement Objective: A statement stating clearly the objective intended to be achieved by the billing engagement and the procedure or combination of procedures that will be applied to

achieve the objective.

b. Billing Engagement Population: The identity of the population, which is the group about which information is needed, and an explanation of the methodology used to develop the population and the basis for this determination.

c. Sources of Data: A full description of the source of the information upon which the billing engagement conclusions will be based, including the legal or other standards applied, documents relied upon, payment data, and/or any contractual obligations.

d. Sampling Unit: A definition of the sampling unit, which is any of the designated elements that comprise the population of interest.

e. Sampling Frame: The identity of the sampling frame, which is the totality of the sampling units from which the sample will be selected.

The billing audits shall provide at a minimum:

1. findings regarding Horizon West's billing and coding operation (including, but not limited to, the operation of the billing system, strengths and weaknesses of this system, internal controls, effectiveness of the system);

2. findings regarding whether Horizon West is submitting accurate cost reports for services billed to Medicare, Medicaid, and other Federal health care programs;

3. findings regarding Horizon West's procedures to correct inaccurate billings or codings to the Federal health care programs; and

4. findings regarding the steps Horizon West is taking to bring its operations into compliance or to correct problems identified by the audit.

2. COMPLIANCE ENGAGEMENT

An Independent Review Organization shall also conduct a compliance engagement, that shall provide findings regarding whether Horizon West's program, policies, procedures, and operations comply with the terms of this CIA. This engagement shall include section by section findings regarding the requirements of this CIA.

A complete copy of the Independent Review Organization's billing and compliance engagement shall be included in each of Horizon West's Annual Reports to OIG.

3. Disclosure of Overpayments and Material Deficiencies

If, as a result of these engagements, Horizon West or the Independent Review Organization identifies any billing, coding or other policies, procedures and/or practices that result in an overpayment, Horizon West shall notify the payor (e.g., Medicare fiscal intermediary or carrier) within 30 days of discovering the deficiency or overpayment and take remedial steps within 60 days of discovery (or such additional time as may be agreed to by the payor) to correct the problem, including preventing the deficiency from recurring. The notice to the payor shall include:

a. a statement that the refund is being made pursuant to this CIA;
b. a description of the complete circumstances surrounding the overpayment;
c. the methodology by which the overpayment was determined;
d. the amount of the overpayment; and
e. any claim-specific information used to determine the overpayment (e.g., beneficiary health insurance number, claim number, service date, and payment date);
f. the cost reporting period; and
g. the provider identification number under which the repayment is being made.

If Horizon West determines an overpayment represents a material deficiency, contemporaneous with Horizon West's notification to the payor as provided above, Horizon West shall also notify OIG of:

a. a complete description of the material deficiency;
b. amount of overpayment due to the material deficiency;
c. Horizon West's action(s) to correct and prevent such material deficiency from recurring;
d. the payor's name, address, and contact person where the overpayment was sent;
e. the date of the check and identification number (or electronic transaction number) on which the overpayment was repaid.

For purposes of this CIA, an "overpayment" shall mean the amount of money the provider has received in excess of the amount due and payable under the Federal health care programs' statutes, regulations or program directives, including carrier and intermediary instructions.

For purposes of this CIA, a "material deficiency" shall mean anything that has a significant, adverse financial impact upon the Medicare and/or Medicaid programs, which may be the result of an isolated event or a series of occurrences, and which lacks conformity with Medicare and/or Medicaid billing and/or reimbursement principles or other applicable statutes, and the regulations and written directives issued by the Health Care Financing Administration ("HCFA") and/or its agents, or any other agency charged with administering the health care program implicated and/or its agents. In addition to this reporting requirement focused on occurrences having a "significant, adverse financial impact," if Horizon West learns of any billing deficiency or overpayment related to a Federal health care program, Horizon West shall bring to the payer's attention the billing deficiency or overpayment, however de minimis, make appropriate refunds, and take any steps necessary to prevent the occurrence in the future.

4. VERIFICATION/VALIDATION

In the event that the OIG determines that it is necessary to conduct an independent review to determine whether or the extent to which Horizon West is complying with its obligations under this CIA, Horizon West agrees to pay for the reasonable cost of any such review or engagement by the OIG or any of its designated agents.

E. CONFIDENTIAL DISCLOSURE PROGRAM

Horizon West has represented to OIG that, pursuant to its Compliance Plan, it has created a Confidential Disclosure Program ("CDP"). Horizon West shall formally maintain its CDP. At a minimum, Horizon West's CDP shall enable employees, agents and contractors, if applicable, to disclose to the Compliance Committee and/or Compliance Officer, or some other person who is not in the reporting individual's chain of command, any identified issues or questions associated with the policies, practices or procedures with respect to Medicare, Medicaid, or any other Federal health care program, alleged by the individual to be inappropriate.

Horizon West's CDP shall emphasize a non-retribution, non-retaliation policy, and shall include a reporting mechanism for anonymous, confidential communication. Horizon West's Compliance Officer upon receipt of a complaint shall gather

information in such a way as to elicit all relevant information from individuals reporting alleged misconduct. The Compliance Officer and/or Compliance Committee shall make a preliminary good faith inquiry into the allegations set forth in every disclosure to ensure that it has obtained all of the information necessary to determine whether it should conduct further review. Moreover, Horizon West shall, as part of its CDP, require the internal review of any disclosure that is sufficiently specific so that it: (1) permits a determination of the appropriateness of the practice alleged to be involved; and (2) reasonably permits corrective action to be taken and ensures that proper follow-up is conducted. The Compliance Officer also shall maintain a confidential disclosure log, which shall include a record of each allegation received, status of the investigation of the allegation, and any corrective action taken in response to the investigation.

F. INELIGIBLE PERSONS

Horizon West has represented to OIG that, pursuant to its Compliance Plan, it has implemented a written internal policy whereby Horizon West shall not employ or contract with, with or without pay, any individual or entity that is listed by a federal agency as excluded, suspended, or otherwise ineligible for participation in federal programs (hereinafter "Ineligible Person Policy"). Horizon West shall formally maintain this policy. At a minimum, Horizon West's Ineligible Person Policy shall include the following requirements:

1. DEFINITION

For purposes of this CIA, an "Ineligible Person" shall be any individual or entity who: (i) is currently excluded, suspended, debarred or otherwise ineligible to participate in the Federal health care programs; or (ii) has been convicted of a criminal offense related to the provision of health care items or services and has not been reinstated in the Federal health care programs after a period of exclusion, suspension, debarment, or ineligibility.

2. SCREENING REQUIREMENTS

Horizon West shall not hire or engage as contractors any Ineligible Person. To prevent hiring or contracting with any Ineligible Person, Horizon West shall screen all prospective employees and prospective contractors prior to engaging their services by (i) requiring applicants to disclose whether they are Ineligible Persons, and (ii) reviewing the General Services Administration's List of Parties Excluded from Federal Programs (available

through the Internet at http://www.arnet.gov/epls) and the HHS/OIG Cumulative Sanction Report (available through the Internet at http://www.dhhs.gov/progorg/oig) (these lists and reports will hereinafter be referred to as the "Exclusion Lists").

3. Review and Removal Requirement

Within ninety (90) days of the effective date of this CIA, Horizon West will review its list of current employees and contractors against the Exclusion Lists. Thereafter, Horizon West will review the list once semi-annually. If Horizon West has notice that an employee, agent, or physician has become an Ineligible Person, Horizon West will remove such person from responsibility for, or involvement with, Horizon West's business operations related to the Federal health care programs and shall remove such person from any position for which the person's salary or the items or services rendered, ordered, or prescribed by the person are paid in whole or part, directly or indirectly, by Federal health care programs or otherwise with Federal funds at least until such time as the person is reinstated into participation in the Federal health care programs.

4. Pending Charges and Proposed Exclusions

If Horizon West has notice that an employee or contractor is charged with a criminal offense related to any Federal health care program, or is suspended or proposed for exclusion during his or her employment or contract with Horizon West, within 10 days of receiving such notice Horizon West will remove such individual from responsibility for, or involvement with, Horizon West's business operations related to the Federal health care programs until the resolution of such criminal action, suspension, or proposed exclusion.

G. Notification of Proceedings

Within 30 days of discovery, Horizon West shall notify OIG, in writing, of any ongoing investigation or legal proceeding conducted or brought by a governmental entity or its agents involving an allegation that Horizon West has committed a crime or has engaged in fraudulent activities or any other knowing misconduct related to a Federal or non-Federal health care program. The notification shall include a description of the allegation, the identity of the investigating or prosecuting agency, and the status of such investigation or legal proceeding.

Horizon West shall also provide written notice to OIG within 30 days of the resolution of the matter, and shall provide OIG with a description of the findings and/or results of the proceedings.

IV. NEW LOCATIONS

Within 30 days of acquiring a new location, Horizon West will notify the OIG, in writing, of the addition of any new Horizon West operations, its address, Federal health care program provider number(s), and the corresponding payers (contractor specific) which have issued each provider number.

V. OIG INSPECTION, AUDIT AND REVIEW RIGHTS

In addition to any other rights OIG may have by statute, regulation, contract or pursuant to this CIA, OIG or its duly authorized representative(s) or agents may examine Horizon West's books, records, and other documents and supporting materials for the purpose of verifying and evaluating: (i) Horizon West's compliance with the terms of this CIA; and (ii) Horizon West's compliance with the requirements of the Medicare, Medicaid and other Federal health care programs. The documentation described above shall be made available by Horizon West at all reasonable times for inspection, audit or reproduction. Furthermore, for purposes of this provision, OIG or its duly authorized representative(s) may interview any of Horizon West's employees who consent to be interviewed at the employee's place of business during normal business hours or at such other place and time as may be mutually agreed upon between the employee and OIG. Horizon West agrees to assist OIG in contacting and arranging interviews with such employees upon OIG's request. Horizon West's employees may elect to be interviewed with or without a representative of Horizon West present.

VI. IMPLEMENTATION AND ANNUAL REPORTS

Within 120 days after the execution of this CIA, Horizon West shall submit a written report to the OIG summarizing the status of implementation of the requirements of this CIA. The implementation report shall include:

(1) the name, address, phone number and position description of the Compliance Officer, Compliance Liaison Officers and Compliance Committee, required in III(A);

(2) any revisions or amendments made to Horizon West's Policies and Procedures; a certification that the written Policies and Procedures required by III(B) have been

developed, are being implemented, and that each affected employee has signed the certification attesting they have received, read, understood and will abide by Horizon West's polices and procedures;

(3) a description of the training programs implemented to date pursuant to III(C) and a summary of the activities undertaken in furtherance of the training programs, including schedules and format of the training sessions;

(4) the identity of the independent review organization and the proposed start and and completion date of the first audit;

(5) a summary of personnel actions taken pursuant to section III(F); and

(6) any skilled nursing facilities or other facilities acquired by, established by, or newly managed by Horizon West since the execution of this CIA.

Thereafter, Horizon West shall submit to the OIG an Annual Report, with respect to the status and findings of Horizon West's compliance activities.

The Annual Reports shall include:

(1) any change in the identity or position description of the Compliance Officer, any of the Compliance Liaison Officers, or in the make-up of the compliance committee described in III(A);

(2) pursuant to section III(B), a certification from Horizon West's Compliance Officer that copies of Horizon West's employees and applicable third parties certifications are on file and will be maintained for OIG inspection;

(3) the Compliance Officer's certification that all affected employees have attended training sessions as well as a summary of when the training was performed and the proposed schedule for the next year, pursuant to III(C). The training materials will be available to the OIG upon request;

(4) a complete copy of the report prepared pursuant to the Independent Review Organization's billing and compliance engagement, including a copy of the methodology used;

(5) Horizon West's response/corrective action plan to any issues raised by the Independent Review Organization;

(6) a summary of material deficiencies reported throughout the course of the previous twelve (12) months pursuant to III.D.3;

(7) a report of the aggregate overpayments that have been returned to the Federal health care programs that were discovered as a direct or indirect result of implementing this CIA. Overpayment amounts should be broken down into the following categories: Medicare, Medicaid (report each applicable state separately) and other Federal health care programs;

(8) A copy of the confidential disclosure log required by section III(E);

(9) a complete description of any personnel action (other than hiring) taken by Horizon West as a result of the obligations in section III(F);

(10) a summary describing any ongoing investigation or legal proceeding conducted or brought by a governmental entity involving an allegation that Horizon West has committed a crime or has engaged in fraudulent activities related to federal or nonfederal health care programs, and excluding survey and related forms as described in section III(G). The statement shall include a description of the allegation, the identity of the investigating or prosecuting agency, and the status of such an inquiry, legal proceeding or requests for information;

(11) a listing of all Horizon West's locations (street, city, state, zip), the corresponding name each location is doing business as, each location's Federal health care program provider identification number(s) and the payor (specific contractor) who issued each provider identification number; and

(12) a certification by the Compliance Officer verifying that: (i) Horizon West is in compliance with all of the requirements of this CIA, to the best of his or her knowledge, and (ii) the Compliance Officer has reviewed the Annual Report and has made a reasonable inquiry regarding its content and believes that, upon such inquiry, the information is accurate and truthful.

Horizon West shall submit five (5) Annual Reports. The first Annual Report shall be received by the OIG no later than May 1, 2000. Subsequent Annual Reports shall be submitted no later than the anniversary date of the due date of the first Annual Report.

VII. NOTIFICATIONS AND SUBMISSION OF REPORTS

Unless otherwise stated subsequent to the execution of this CIA, all notifications and reports required under the terms of this CIA shall be submitted to the entities listed below:

OIG:

Civil Recoveries Branch - Compliance Unit
Office of Counsel to the Inspector General
Office of Inspector General
U.S. Department of Health and Human Services
330 Independence Avenue, SW
Cohen Building, Room 5527
Washington, DC 20201
Phone 202.619.2078
Fax 202.205.0604

Horizon West, Inc.:

Horizon West, Inc.
Attention: Susan G. Koontz, Corporate Counsel (Legal Department)
4020 Sierra College Blvd.
Suite 190
Rocklin, CA 95677
Phone 916.624.6230

VIII. DOCUMENT AND RECORD RETENTION

Horizon West shall maintain for inspection documents and records relating to reimbursement from the Federal health care programs or with compliance with this CIA one year longer than the duration of this Agreement or until otherwise required by law to retain such records, whichever is later.

IX. BREACH AND DEFAULT PROVISIONS

Horizon West's compliance with the terms and conditions in this CIA shall constitute an element of Horizon West's present responsibility with regard to participation in federal programs. Full and timely compliance by Horizon West shall be

expected throughout the duration of this CIA with respect to all of the obligations herein agreed to by Horizon West. As stated below in section X of this CIA, any and all modifications to this CIA (including changes to dates on which an obligation is due to be met) shall be requested in writing and agreed to by OIG in writing prior to the date on which the modification is expected to take effect.

A. STIPULATED PENALTIES FOR FAILURE TO COMPLY WITH CERTAIN OBLIGATIONS

As a contractual remedy, Horizon West and OIG hereby agree that failure to comply with certain obligations set forth in this CIA may lead to the imposition of the following monetary penalties (hereinafter referred to as "stipulated penalties") in accordance with the following provisions:

(1) A Stipulated Penalty of $2,500 (which shall begin to accrue on the day after the date the obligation became due) for each day Horizon West fails to have in place any of the following during the entire period beginning 120 days after the execution of this CIA and concluding at the end of the corporate integrity period required by this CIA:

a. a Compliance Officer and Compliance Liaison Officers;
b. a Compliance Committee;
c. written policies and procedures;
d. an education and training program; and
e. a Confidential Disclosure Program.

(2) A Stipulated Penalty of $2,500 (which shall begin to accrue on the day after the date the obligation became due) for each day Horizon West fails meet any of the deadlines to provide the Implementation Report or the Annual Reports.

(3) A Stipulated Penalty of $2,000 (which shall begin to accrue on the date the failure to comply began) for each day Horizon West:

a. hires or enters into a contract with an Ineligible Person after that person has been listed by a federal agency as excluded, debarred, suspended or otherwise ineligible for participation in the Medicare, Medicaid or any other Federal health care program (as defined in 42 U.S.C. § 1320a-7b(f)) (this Stipulated Penalty shall not be demanded for any time period during which Horizon West can demonstrate that it did not discover the person's exclusion or other ineligibility after making a reasonable inquiry (as

described in section III.F) as to the status of the person);

b. employs or contracts with an Ineligible Person and that person: (i) has responsibility for, or involvement with, Horizon West's business operations related to the Federal health care programs or (ii) is in a position for which the person's salary or the items or services rendered, ordered, or prescribed by the person are paid in whole or part, directly or indirectly, by Federal health care programs or otherwise with Federal funds (this Stipulated Penalty shall not be demanded for any time period during which Horizon West can demonstrate that it did not discover the person's exclusion or other ineligibility after making a reasonable inquiry (as described in section III.F) as to the status of the person); or

c. employs or contracts with a person who: (i) has been charged with a criminal offense related to any Federal health care program, or (ii) is suspended or proposed for exclusion, and that person has responsibility for, or involvement with, Horizon West's business operations related to the Federal health care programs (this Stipulated Penalty shall not be demanded for any time period before 10 days after Horizon West received notice of the relevant matter or after the resolution of the matter).

(4) A stipulated penalty of $1,500 (which shall begin to accrue on the date that Horizon West fails to grant reasonable access) for each day Horizon West fails to grant reasonable access to the information or documentation necessary to exercise OIG's inspection, audit and review rights set forth in section V of this Agreement.

(5) A Stipulated Penalty of $1,000 (which shall begin to accrue ten (10) days after the date that OIG provides notice to Horizon West of the failure to comply) for each day Horizon West fails to comply fully and adequately with any obligation of this CIA other than those specifically mentioned in paragraphs (1) through (4) of this section IX.A. In its notice to Horizon West, the OIG shall state the specific grounds for its determination that Horizon West has failed to comply fully and adequately with the CIA obligation(s) at issue.

B. PAYMENT OF STIPULATED PENALTIES

Upon finding that Horizon West has failed to comply with any of the above-enumerated obligations, OIG shall notify Horizon West in writing, and deliver personally or by certified mail notice of: (i) Horizon West's failure to comply; and (ii) OIG's exercise of its contractual right to demand payment of the stipulated penalties payable under this CIA (this notification of the OIG's notice of

noncompliance is hereinafter referred to as the "Demand Letter").

Within ten (10) days of receipt of the Demand Letter, Horizon West shall respond by either: (i) curing the breach to the OIG's satisfaction, paying the applicable stipulated penalties and notifying OIG of its corrective actions; or (ii) sending in writing to the OIG a request for a hearing before an HHS administrative law judge to dispute the OIG's determination of noncompliance, pursuant to the agreed upon provisions set forth in section IX.D of this CIA, which request shall suspend implementation and payment of the stipulated penalties until a decision is reached by the HHS administrative law judge. Failure to respond to the Demand Letter within the ten (10) day period shall be considered a material breach of this CIA and shall be grounds for exclusion under section IX.C below.

If Horizon West submits a timely written request to HHS-OIG for an extension of the relevant time period to perform any act or file any notification or report under this CIA, but such an extension is denied, HHS-OIG agrees that Stipulated Penalties shall not begin to accrue until two (2) business days following Horizon West's receipt of HHS-OIG's written denial of such an extension. A "timely written request" is defined as a request in writing received by HHS-OIG at least five (5) business days prior to the date by which any act is due to be performed or notification or report is due to be filed.

Payment of the stipulated penalties shall be made by certified or cashier's check, payable to "Secretary of the Department of Health and Human Services," and submitted to OCIG at the address set forth in section VII of this CIA.

Except as otherwise noted above, these provisions for payment of stipulated penalties shall not affect or otherwise set a standard for the OIG's determination that Horizon West has materially breached this CIA, which decision shall be made at the OIG's discretion and governed by the provisions in section IX.C of this CIA, below.

C. REMEDIES FOR MATERIAL BREACH OF THIS CIA

If Horizon West engages in conduct that OIG considers to be a material breach, defined below, of this CIA, OIG may seek exclusion of Horizon West from participation in the Medicare, Medicaid and any other Federal health care programs. Upon making its determination, OIG shall notify Horizon West of the alleged material breach by certified mail and of its intent to exclude as a result thereof (this notice shall be referred to hereinafter as the "Notice of Material

Breach and Intent to Exclude Letter"). Horizon West shall have thirty-five (35) days from the date of the letter to:

(1) demonstrate to the OIG's satisfaction that Horizon West is in full compliance with the CIA; or

(2) cure the alleged material breach; or

(3) demonstrate to the OIG's satisfaction that the alleged material breach cannot be cured within the thirty-five (35) day period, but that Horizon West has begun to take action to cure the material breach and that Horizon West will pursue such an action with due diligence. Horizon West shall, at this time, submit a timetable for curing the material breach for the OIG's approval.

If at the conclusion of the thirty-five (35) day period (or other specific period as subsequently agreed by OIG and Horizon West), Horizon West fails to act in accordance with provisions (1), (2) or (3) above, OIG may exclude Horizon West from participation in the Medicare, Medicaid and all other Federal health care programs. OIG will notify Horizon West in writing of its determination to exclude Horizon West (this letter shall be referred to hereinafter as the "Exclusion Letter").

Notwithstanding any provisions in Chapter 42 of the Code of Federal Regulations, the exclusion shall take effect thirty (30) days from the date of the Exclusion Letter unless Horizon West exercises its contractual right to seek review of the OIG's exclusion determination by requesting a hearing before an administrative law judge as provided in section IX.D below. In the event Horizon West requests such a hearing, the exclusion shall not be effective until the issuance of an administrative law judge's decision supporting the OIG's exclusion determination. The exclusion shall have national effect and will also apply to all other Federal procurement and non-procurement programs.

For purposes of this section, a "material breach" shall mean: (i) a failure to report a material deficiency, take corrective action and pay the appropriate refunds, as provided in section III(D) of this CIA; (ii) repeated or flagrant violations of the obligations under this CIA, including, but not limited to, the obligations addressed in section IX.A of this CIA; or (iii) failure to respond to a Demand Letter concerning the payment of stipulated penalties in accordance with section IX.B above.

In connection with the OIG's determination to exclude Horizon West pursuant to this provision, Horizon West shall have the right to dispute the OIG's determination in accordance with the agreed upon provisions set forth in section IX.D of this CIA.

D. DISPUTE RESOLUTION

Upon OIG's delivery to Horizon West of its Demand letter or Exclusion Letter, and as an agreed upon contractual remedy for the resolution of disputes arising under the obligations in this CIA, Horizon West shall be afforded some review rights comparable to the ones that are provided in 42 U.S.C. § 1320a-7(f) and 42 C.F.R. Part 1005 as if they applied to the stipulated penalties or exclusion sought pursuant to this CIA. Specifically, the OIG's determination to demand payment of stipulated penalties or to seek exclusion shall be subject to review by an HHS administrative law judge in a manner consistent with the provisions in 42 C.F.R. §§ 1005.2-1005.21. The administrative law judge's decision, in turn, may be appealed to HHS's Departmental Appeals Board ("DAB") in a manner consistent with the provisions in 42 C.F.R. § 1005.21. Notwithstanding the language in 42 C.F.R. § 1005.2(c), the request for a hearing involving stipulated penalties shall be made within ten (10) days of the date of the Demand Letter and the request for a hearing involving exclusion shall be made within thirty (30) days of the date of the Exclusion Letter.

Notwithstanding any provision of Title 42 of the United States Code or Chapter 42 of the Code of Federal Regulations, the only issues in a proceeding for stipulated penalties under this section shall be: (i) whether, on the date of the Demand Letter, Horizon West was in full and timely compliance with the obligations in this CIA for which OIG demands payment; and (ii) the period of noncompliance. For purposes of paying stipulated penalties under this CIA, and if Horizon West chooses to seek review in lieu of curing the breach and paying the stipulated penalties, as set forth above, the administrative law judge's decision shall give rise to Horizon West's obligation to pay. Thus, payment will be due twenty (20) days from the day the administrative law judge's decision is issued. Horizon West's election of its contractual right to appeal to the DAB shall not excuse its obligation to make payment upon the issuance of the administrative law judge's decision.

Notwithstanding any provision of Title 42 of the United States Code or Chapter 42 of the Code of Federal Regulations, the only issues in a proceeding for exclusion based on a material breach of this CIA shall be: (i) whether Horizon West was in material breach of one or more of its obligations under this CIA; and (ii) whether

the alleged material breach was continuing on the date of the Exclusion Letter. For purposes of the exclusion herein agreed to, in the event of a material breach of this CIA, an administrative law judge's decision finding in favor of the OIG shall be deemed to make the exclusion effective, at which time the OIG may proceed with its exclusion of Horizon West. The administrative law judge's decision may be appealed to the DAB in a manner consistent with the provisions in 42 C.F.R. § 1005.21.

X. PRIVILEGES AND DISCLOSURES

Subject to HHS's Freedom of Information Act ("FOIA") procedures, set forth in 45 C.F.R. Part 5, the OIG shall make a reasonable effort to notify Horizon West prior to any release by OIG of information submitted by Horizon West pursuant to its obligations under this CIA and identified upon submission by Horizon West as trade secrets, commercial or financial information and privileged and confidential under the FOIA rules. Horizon West shall refrain from identifying any information as trade secrets, commercial or financial information and privileged and confidential that does not meet the criteria for exemption from disclosure under FOIA.

XI. EFFECTIVE AND BINDING AGREEMENT

Consistent with the provisions in the Settlement Agreement pursuant to which this CIA is entered, and into which this CIA is incorporated, Horizon West and the OIG agree as follows:

(1) this CIA shall be binding on the successors, assigns and transferees of Horizon West;

(2) this CIA shall become final and binding on the date the final signature is obtained on the Settlement Agreement;

(3) any modifications to this CIA shall be made with the prior written consent of the parties to this CIA; and

(4) the undersigned Horizon West signatory represent and warrant that they are authorized to execute this CIA. The undersigned United States signatory represents that he is signing this CIA in his official capacity and that he is authorized to execute this CIA.

IN WITNESS WHEREOF, the parties hereto affix their signatures:

HORIZON WEST, INC.

2-4-99
Date

Ellen K. Kuykendall
President
Horizon West, Inc.

2/1/99
Date

Donald H. Heller, Esquire
Counsel for Horizon West, Inc.
(916) 325-5300

OFFICE OF INSPECTOR GENERAL OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES

2/10/99
Date

Lewis Morris, Esquire
Assistant Inspector General for Legal Affairs
Office of Counsel to the Inspector General
Office of Inspector General
U. S. Department of Health and Human Services