EXHIBIT C

CORPORATE INTEGRITY AGREEMENT
BETWEEN THE
OFFICE OF INSPECTOR GENERAL
OF THE
DEPARTMENT OF HEALTH AND HUMAN SERVICES
AND
PARACELSUS HEALTHCARE CORPORATION

I. PREAMBLE

Paracelsus Healthcare Corporation ("Paracelsus") hereby enters into this Corporate Integrity Agreement ("CIA") with the Office of Inspector General ("OIG") of the United States Department of Health and Human Services ("HHS") to promote compliance by Paracelsus and by all Covered Persons (as these terms are defined herein) with the statutes, regulations and written directives of Medicare, Medicaid and all other Federal health care programs (as defined in 42 U.S.C. § 1320a-7b(f))("Federal health care program requirements"). Contemporaneously with this CIA, Paracelsus is entering into a Settlement Agreement with the United States. The scope of this CIA shall be governed by the following definitions:

1. "PHC": Paracelsus Healthcare Corporation and the successor entity identified in the Paracelsus proposed First Amended Plan of Reorganization under Chapter 11 of the Bankrutpcy Code.

2. "Paracelsus": PHC and any corporation, limited liability company, partnership, or any other legal entity or organization: (a) that is actively doing business; (b) for which there are claims for reimbursement from any federal health care program; and (c) that PHC controls. PHC controls another organization if PHC directly or indirectly: (i) controls the day-to-day operations; (ii) has a controlling ownership interest; or (iii) has a contract to perform the organization's management or billing to a federal or state payor.

3. "Covered Persons": directors, officers, and employees of Paracelsus excluding maintenance employees and part-time or per diem employees not reasonably expected to work more than 160 hours per year. An individual shall become a Covered Person when he or she works more than 160 hours during a calendar year.

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4. "Covered Contractors": (a) physicians with staff privileges at Paracelsus hospitals for longer than 10 days in a calendar year; (b) medical directors at Paracelsus hospitals; (c) independent contractors that provide health care services to federal health care program beneficiaries or recipients at Paracelsus for more than 80 hours during a calendar year or repeatedly throughout the year provide health care items to federal health care program beneficiaries or recipients; (d) third parties that bill or submit reimbursement claims for Paracelsus; and (e) any individual acting on behalf of Paracelsus for more than 80 hours during a calendar year who is responsible for the contracting, provision, marketing, or documentation of items or services reimbursable by Federal health care programs or the preparation of claims, reports, or other requests for reimbursement for such items or services.

II. TERM OF THE CIA

The period of the compliance obligations assumed by Paracelsus under this CIA shall be five (5) years from the effective date of this CIA (unless otherwise specified as set forth below), except to the extent that a specific hospital falls within the ambit of section XI.A, in which case, that hospital is subject to the obligations of this CIA only for the period of time it falls within the definition of Paracelsus (as defined in section I.2). This CIA shall not become effective unless both PHC and the OIG sign it and the Bankruptcy Court in the Chapter 11 proceeding of PHC (In re Paracelsus Healthcare Corporation, Case No. 00-38590-H5-11, filed in the Southern District of Texas (Houston Division)) approves the CIA and the related Settlement Agreement among a relator, the United States, California, PHC, and a subsidiary of PHC. If these conditions are satisfied, the effective date of this CIA shall be the later of: a) the date the Bankruptcy Court enters a final order confirming a Chapter 11 plan providing for treatment of the settlement amounts in the related Settlement Agreement as allowed class 4 claims in accordance with the terms of the settlement agreement and the expiration of time for appeal or affirmance of the order on appeal or review; or b) the date of the Bankruptcy Court's approval of the settlement and this CIA and expiration of the time for appeal or affirmance on appeal or review of such approval.

Sections VII, IX, X and XI shall expire no later than 120 days from the OIG's receipt of: (1) the final annual report; or (2) any additional materials submitted by Paracelsus pursuant to the OIG's request, whichever is later.

III. CORPORATE INTEGRITY OBLIGATIONS

Paracelsus currently operates a Compliance Program. Paracelsus agrees that during the term of this CIA, its Compliance Program will be operated in a manner that meets the requirements of this CIA.

A. Compliance Officer and Committee.

1. *Board of Director's Committee.* PHC currently has an Audit and Compliance Committee of the Board of Directors ("Board Committee"). It shall continue to provide objective oversight, consistent with the fiduciary duties of directors, of Paracelsus': (a) financial reporting and accounting practices, systems of internal controls, reporting, and auditing processes as they relate to the Federal health care programs; (b) Corporate Compliance Program, including the Code of Conduct and the policies and procedures implemented to obtain compliance therewith and with this CIA; and (c) compliance with all applicable Federal health care program requirements. The individuals who serve on the Board Committee shall be available to the Compliance Officer and the Independent Review Organization ("IRO") required under this CIA, to respond to any issues or questions that might arise, during normal business hours. To the extent not already accomplished, the names of the Board Committee members and the Charter of this Committee shall be provided to the OIG within 120 days of the effective date of this CIA. When new members are appointed, or the responsibilities or authorities of the Board Committee are substantially changed, Paracelsus shall notify the OIG, in writing, within 15 days of such a change.

2. *Compliance Officer.* Within 90 days after the effective date of this CIA, PHC shall appoint an individual to serve as its Compliance Officer. The Compliance Officer shall be responsible for developing and implementing policies, procedures, and practices designed to ensure compliance with the requirements set forth in this CIA and with Federal health care program requirements. The Compliance Officer shall have the independence and resources necessary to carry out the duties and responsibilities of this CIA, shall not be subordinate to the General Counsel, shall make periodic (at least quarterly) reports regarding compliance matters relating to Federal health care program requirements and this CIA directly to the Board of Directors of PHC, and shall be authorized to report on such matters to the Board of Directors at any time. The Compliance Officer shall be responsible for monitoring the day-to-day compliance activities on such matters engaged in by Paracelsus as well as for any reporting obligations created under this CIA.

If Paracelsus has a vacancy in its Compliance Officer position, then it shall make good faith efforts to hire a new Compliance Officer in a timely manner and during the interim shall appoint an individual to carry out the duties and responsibilities of the Compliance Officer. Any changes in the identity or position description of the Compliance Officer, or any actions or changes that the Compliance Officer reasonably believes obstructs or impairs the Compliance Officer's ability to perform the duties necessary to meet the obligations in this CIA, must be reported to the OIG, in writing, within 15 days of such a change.

3. *Compliance Committee.* To the extent not already accomplished, within 90 days of the effective date of this CIA, PHC shall appoint a Compliance Committee. The Compliance Committee shall, at a minimum, include the Compliance Officer and any other members of senior management necessary to meet the requirements of this CIA (e.g., senior executives of each major department, such as billing, clinical, human resources, audit, and operations). The Compliance Officer shall chair the Compliance Committee and the Compliance Committee shall support the Compliance Officer in fulfilling his/her responsibilities (e.g., shall assist in the analysis of the organization's risk areas and shall oversee monitoring of internal and external audits and investigations).

Any changes in the composition of the Compliance Committee, or any actions or changes that any member of the Compliance Committee reasonably believes obstructs or impairs the Compliance Committee's ability to perform the duties necessary to meet the obligations of this CIA must be immediately disclosed to the Compliance Committee and then reported to the OIG, in writing, within 15 days of such a change or disclosure.

4. *Hospital Corporate Compliance Facilitators.* Paracelsus shall continue to have an individual at each of its hospitals who serves as a Hospital Corporate Compliance Facilitator. These individuals shall be responsible for: providing leadership and support regarding compliance issues at the operational and facility levels; developing and distributing written compliance-related materials; ensuring the provision of appropriate training and the proper documentation of such training; ensuring the appropriate distribution of internal and external audit reports and monitoring of corrective action related to such reports or other identified compliance-related issues; ensuring proper reporting and responses to compliance-related issues; and monitoring facilities' staff in the execution of their compliance-related functions. These Hospital Corporate Compliance Facilitators shall be responsible for supervising staff at each operational level who will assist the Hospital Corporate Compliance Facilitator in fulfilling his or her compliance functions. Hospital Corporate Compliance Facilitators shall certify annually

that all plans of correction related to identified problems in facilities or Paracelsus operations for which they are responsible have been implemented or explain why they have not yet been implemented and that all legitimate concerns about any possible failure to comply with the company's compliance program or this CIA about which the Hospital Corporate Compliance Facilitator knows, after making reasonable inquiry, have been reported to the Compliance Officer. Such certifications shall be maintained by the Compliance Officer and shall be available to the OIG upon request. False certifications made knowingly[1] by the Hospital Corporate Compliance Facilitator shall be grounds for immediate termination of employment. Proper execution of these duties shall be a major component of performance evaluations. These individuals shall have direct reporting authority to the Compliance Officer for all compliance duties.

If Paracelsus has a vacancy in any of its Hospital Corporate Compliance Facilitator positions, then it shall make good faith efforts to hire a new Hospital Corporate Compliance Facilitator in a timely manner and during the interim shall appoint an individual to carry out the duties and responsibilities of the Hospital Corporate Compliance Facilitator.

B. Written Standards.

1. *Code of Conduct.* Paracelsus shall continue to maintain a Code of Conduct. Within 90 days of the effective date of this CIA, the Code of Conduct shall be reviewed and amended to the extent necessary to meet the requirements of this CIA. To the extent amendments are required, the Code of Conduct shall then be redistributed within this 90 day period. Paracelsus shall make the promotion of, and adherence to, the Code of Conduct an element in evaluating the performance of all employees. The Code of Conduct shall, at a minimum, set forth:

a. Paracelsus' commitment to full compliance with all Federal health care program requirements, including its commitment to prepare and submit accurate claims consistent with such requirements;

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[1]"Knowingly" shall be defined as including reckless disregard or deliberate ignorance of relevant facts.

b. Paracelsus' requirement that all of its Covered Persons shall be expected to comply with all Federal health care program requirements and with Paracelsus' own Policies and Procedures as implemented pursuant to section III.B (including the requirements of this CIA);

c. the requirement that all Paracelsus' Covered Persons shall be expected to report to the Compliance Officer or other individual designated by Paracelsus suspected violations of any Federal health care program requirements or of Paracelsus' own Policies and Procedures;

d. the possible consequences to both Paracelsus and Covered Persons for failure to comply with all Federal health care program requirements and with Paracelsus' own Policies and Procedures or for failure to report such non-compliance; and

e. the right of each individual to use the Disclosure Program described in section III.E, and Paracelsus' commitment to maintain confidentiality, as appropriate, and non-retaliation with respect to disclosures.

Paracelsus shall use reasonable efforts to ensure that, within 90 days of the effective date of the CIA, each Covered Person has certified, in writing, that he or she has received, read, understood, and will abide by Paracelsus' Code of Conduct. Paracelsus shall also use reasonable efforts to ensure that new Covered Persons receive the Code of Conduct with one week and complete the required certification within one month after becoming a Covered Person or within 90 days of the effective date of the CIA, whichever is later. Paracelsus shall impose appropriate discipline, up to and including termination of employment, on a Covered Person that does not provide a timely written certification.

For each of its Covered Contractors, Paracelsus shall: a) require in its contract with the Covered Contractor that the Covered Contractor acknowledges, understands, and will abide by Paracelsus' Compliance Program and Code of Conduct, except that, with respect to those physicians with staff privileges who are Covered Contractors, Paracelsus shall make reasonable efforts to obtain assurances from each physician that he or she acknowledges, understands, and will abide by Paracelsus' Compliance Program and Code of Conduct; and b) for any Covered Contractor with whom Paracelsus has an existing

contract, Paracelsus shall in good faith seek to amend the contract to require the Covered Contractor to acknowledge the Compliance Program and Code of Conduct. Paracelsus shall provide the Code of Conduct to all Covered Contractors.

Paracelsus shall annually review the Code of Conduct to determine if revisions are appropriate and shall make any necessary revisions based on such a review. Any such revised Code of Conduct shall be distributed within 30 days of finalizing such changes. Covered Persons shall certify that they have received, read, understood and will abide by the revised Code of Conduct within 30 days of the distribution of such revisions.

2. *Policies and Procedures*. Within 90 days of the effective date of this CIA, Paracelsus shall implement written Policies and Procedures regarding the operation of Paracelsus' compliance program and its compliance with Federal health care program requirements. At a minimum, the Policies and Procedures shall address:

a. the subjects relating to the Code of Conduct identified in section III.B.1;

b. the prohibitions contained in 42 U.S.C. § 1320a-7b(b) (the anti-kickback statute) and 42 U.S.C. § 1395nn (the "Stark Law");

c. measures to ensure that all contracts are subject to a legal review to ensure they do not violate the anti-kickback statute and the Stark Law;

d. measures to ensure that the contracts reflect the actual arrangements;

e. measures to ensure that individuals in a position to refer patients, items, or services to Paracelsus do not receive remuneration, either directly or indirectly, for referrals;

f. measures to ensure that fair market value analyses are appropriately and accurately completed;

g. measures to ensure that medical directors hired by the hospital are paid at a rate that reflects fair market value and that those directors

keep detailed time sheets that indicate the actual services rendered in exchange for payment as a director;

h. measures to ensure that all physician services are properly identified on cost reports;

i. measures to ensure that all payments to physicians comply with the Federal health care program requirements;

j. measures to ensure that items and services billed to the Medicare and Medicaid programs are medically necessary and are not inappropriate or deficient in any way;

k. measures to ensure that Covered Contractors are appropriately supervised to ensure that they are acting within the parameters of Paracelsus' Policies and Procedures, this CIA, and the Federal health care program requirements.

Within 90 days of the effective date of the CIA, the relevant portions of the Policies and Procedures shall be distributed to all individuals whose job functions are related to those Policies and Procedures. Appropriate and knowledgeable staff should be available to explain the Policies and Procedures.

At least annually (and more frequently if appropriate), Paracelsus shall assess and update as necessary the Policies and Procedures. Within 30 days of the effective date of any revisions, the relevant portions of any such revised Policies and Procedures shall be distributed to all individuals and contractors whose job functions are related to those Policies and Procedures.

C. Training and Education.

1. *General Training.* General training shall consist of two hours of initial training and one additional hour each subsequent year. This training, at a minimum, shall explain Paracelsus':

a. CIA requirements; and

b. Compliance Program (including the Code of Conduct and the Policies and Procedures as they pertain to general compliance issues).

Paracelsus shall use reasonable efforts to ensure that, within 90 days of the effective date of the CIA and annually thereafter, each Covered Person has received the general training. Paracelsus shall also use reasonable efforts to ensure that new Covered Persons receive the general training within 30 days of becoming a Covered Person or within 90 days of the effective date of the CIA, whichever is later, and then annually thereafter. Paracelsus shall impose appropriate discipline, up to and including termination of employment, on a Covered Person who does not attend the training. A Covered Person who within 90 days before the effective date of this CIA receives training under the current Paracelsus compliance program does not need to attend the initial two-hour training session; however, Paracelsus must send either a copy of this CIA or a memorandum describing the relevant terms of this CIA to each such individual and provide in the materials a contact person in the event there are any questions.

Paracelsus shall also use reasonable efforts to ensure that Covered Contractors receive the general training.

2. *Specific Training.* Specific training shall apply to each Covered Person who is involved in preparing or completing medical records, the delivery of patient care items or services, and/or the preparation or submission of claims for reimbursement from any Federal health care program (hereinafter referred to as "Relevant Covered Persons"). The length of the training shall be adequate to fully cover the subjects below. This specific training shall be in addition to the general training required above. This specific training shall include a discussion of:

a. the submission of accurate bills for services rendered to Federal health care program beneficiaries;

b. policies, procedures, and other requirements to ensure that the items and services provided are medically necessary, properly documented, and are not inappropriate or deficient;

c. the personal obligation of each individual involved in the billing process to ensure that such billings are accurate;

d. the legal obligations to adhere to the prohibitions contained in the anti-kickback statute and the Stark Law and all applicable regulations;

e. the Policies and Procedures;

f. applicable reimbursement statutes, regulations, and program requirements and directives;

g. the legal sanctions for improper billings; and

h. examples of proper and improper billing practices.

Persons providing the training must be knowledgeable about the subject area.

Paracelsus shall use reasonable efforts to ensure that, within 90 days of the effective date of the CIA and annually thereafter, each Relevant Covered Person has received the specific training. Paracelsus shall also use reasonable efforts to ensure that new Relevant Covered Persons receive the specific training within 30 days of becoming a Relevant Covered Person or within 90 days of the effective date of the CIA, whichever is later, and then annually thereafter. Paracelsus shall impose appropriate discipline, up to and including termination of employment, on a Relevant Covered Person who does not attend the training. Further, a Paracelsus employee who has completed the specific training shall review a new Relevant Covered Person's work (or a Relevant Covered Person who has refused to undergo the training), to the extent that the work relates to the preparation or completion of medical records, delivery of patient care items or services and/or in the preparation or submission of claims for reimbursement from any Federal health care program, until such time as that Relevant Covered Person completes the applicable training.

Paracelsus shall also use reasonable efforts to ensure that Covered Contractors receive the Specific Training. Further, if a Covered Contractor, who is not a physician with staff privileges, has not taken the specific training, then a Paracelsus employee who has completed the specific training shall supervise that Covered Contractor's work, to the extent that the work relates to the preparation or completion of medical records, delivery of patient care items or services and/or in the preparation or submission of claims for reimbursement from any Federal health care program, until such time as the Covered Contractor completes the applicable training.

3. *Certification.* Each individual who attends training shall certify, in writing, that he or she has received the required training. The certification shall specify the type of training received and the date received. The Compliance Officer (or his or her designee) shall retain the certifications, along with all course materials. These shall be made available to the OIG, upon request.

D. Review Procedures.

1. *General Description.*

a. Retention of Independent Review Organization. Within 90 days of the effective date of this CIA, Paracelsus shall retain an entity (or entities), such as an accounting, auditing or consulting firm (hereinafter "Independent Review Organization" or "IRO"), to perform review engagements to assist Paracelsus in assessing and evaluating its billing and coding practices and its compliance obligations pursuant to this CIA and the Settlement Agreement. Each Independent Review Organization retained by Paracelsus shall have expertise in the billing, coding, reporting and other requirements of the particular section of the health care industry pertaining to this CIA and in the general requirements of the Federal health care program(s) from which Paracelsus seeks reimbursement. Each IRO shall assess, along with Paracelsus, whether it can perform the IRO engagements in a professionally independent fashion taking into account any other business relationships or other engagements that may exist.

b. Types of Engagements. The Independent Review Organization(s) shall conduct two separate engagements. One engagement shall address Paracelsus' billing and coding to the Federal health care programs ("Billing Engagement"). The second engagement shall address Paracelsus' compliance with the obligations assumed under this CIA and the Settlement Agreement ("Compliance Engagement").

c. Frequency of Billing and Compliance Engagements. The Billing Engagement shall be performed annually and shall cover each of the

one-year periods beginning with the effective date of this CIA. The IRO(s) shall perform all components of each annual Billing Engagement. The Compliance Engagement shall be performed by the IRO for the first one-year period after the effective date of this CIA.

d. Retention of Records. The IRO and Paracelsus shall retain and make available to the OIG, upon request, all work papers, supporting documentation, correspondence, and draft reports (those exchanged between the IRO and Paracelsus) related to the engagements.

2. *Billing Engagement.* The Billing Engagement shall be composed of three separate reviews, a "Claims Review," a "Cost Report Review" and a "Systems Review." The Claims Review and Cost Report Review and corresponding Reports are discussed in detail in Appendix A to this CIA, which is incorporated by reference.

a. Claims Review and Cost Report Review. The IRO shall perform a Claims Review and a Cost Report Review to identify any overpayments through an appraisal of Paid Claims and Cost Reports submitted by Paracelsus to the Medicare and Medicaid programs. The Claims Review and Cost Report Review shall be performed in accordance with the procedures set forth in Appendix A to this CIA.

b. Claims Review Report and Cost Report Review Report. The IRO shall prepare reports based upon each Claims Review performed ("Claims Review Report") and Cost Report Review performed ("Cost Report Review Report"). Both Reports shall be created in accordance with the procedures set forth in Appendix A to this CIA.

c. Systems Review. The IRO shall review Paracelsus' billing and coding systems and/or operations and cost report preparation process (the "Systems Review"). The Systems Review shall consist of a thorough review of the following:

i. Paracelsus' billing systems and/or operations relating to claims submitted to all Federal health care programs (including, but not limited to, the operation of the billing

system, safeguards to ensure proper claim submission and billing, and procedures to correct inaccurate billing);

ii. Paracelsus' coding systems and/or operations relating to claims submitted to all Federal health care programs (including, but not limited to, the process by which claims are coded, safeguards to ensure proper coding, and procedures to correct inaccurate coding);

iii. Paracelsus' cost report, cost statement, information statement and payment request preparation process relating to any and all costs submitted to Federal health care programs (including, but not limited to, the steps Paracelsus takes to ensure that the proper information is being recorded on submissions to Federal health care programs and safeguards to ensure that only proper costs and dollar amounts are being submitted for reimbursement to such programs);

iv. Paracelsus' review systems relating to contracts and agreements to ensure that they do not violate the anti-kickback statute or the Stark Law; and

v. Paracelsus' systems to ensure that fair market value analyses are appropriately and accurately completed, including, but not limited to, a random review of the fair market value analyses completed.

d. Systems Review Report. The IRO shall prepare a report based upon each Systems Review performed ("Systems Review Report"). The Systems Review Report shall include the IRO's findings and supporting rationale regarding:

i. the strengths and weaknesses in Paracelsus' billing systems and/or operations;

ii. the strengths and weaknesses in Paracelsus' coding systems and/or operations;

iii. the strengths and weaknesses in Paracelsus' cost report, cost statement, information statement and payment request preparation process relating to any and all costs submitted to Federal health care programs;

iv. the strengths and weaknesses in Paracelsus' system to ensure that all contracts and agreements comply with the prohibitions contained in the anti-kickback statute and the Stark Law and the applicable regulations;

v. the strengths and weaknesses in Paracelsus's system to ensure that fair market value analyses are appropriately and accurately completed; and

vi. any recommendations the IRO may have to improve any of these systems, operations, and processes.

3. *Compliance Engagement.*

a. Compliance Review. The IRO shall conduct a review of Paracelsus' compliance activities ("Compliance Review"). This review shall consist of the following:

i. CIA Obligations Review. The IRO shall assess and evaluate Paracelsus' compliance with the obligations set forth in sections I through VIII of this CIA.

ii. Unallowable Costs Review. The IRO shall determine whether Paracelsus has complied with its obligation not to charge to, or otherwise seek payment from, Federal or State payors for unallowable costs (as defined in the Settlement Agreement) and its obligation to identify to applicable Federal or State payors any unallowable costs included in payments previously sought from the United States, or any State Medicaid program. This unallowable cost analysis shall include, but not be limited to, payments sought in any cost reports, cost statements, information reports, or payment

requests already submitted by Paracelsus. In making this determination, the IRO may need to review cost reports and/or financial statements from the year in which of the Settlement Agreement was executed, as well as from previous years.

b. Compliance Review Report. The IRO shall prepare a report based upon the Compliance Review performed (the "Compliance Review Report"). The Compliance Review Report shall include:

i. the IRO's findings, supporting rationale, and a summary of such findings and rationale regarding Paracelsus' compliance with the terms of sections I through VIII of the CIA, as applicable; and

ii. the IRO's findings and supporting rationale regarding whether Paracelsus has complied with its obligation not to charge to, or otherwise seek payment from, Federal or State payors for unallowable costs (as defined in the Settlement Agreement) and its obligation to identify to applicable Federal or State payors any unallowable costs included in payments previously sought from such payor.

4. *Validation Review.* In the event the OIG has reason to believe that: (a) Paracelsus' Billing or Compliance Engagement fails to conform to the requirements of this CIA; or (b) the findings or Claims Review results are inaccurate, the OIG may, at its sole discretion, conduct its own review to determine whether the Billing and Compliance Engagements comply with the requirements of the CIA and/or the findings or Claims Review results are inaccurate. This Validation Review is subject to section XI.A.

Paracelsus agrees to pay for the reasonable cost of any such review performed by the OIG or any of its designated agents, so long as it is initiated before one year after Paracelsus' final submission (as described in section II) is received by the OIG. Paracelsus will pay reasonable costs pertaining to a hospital subject to section XI.A only for the period of time the hospital fell within the definition of Paracelsus (as defined by section I.2).

Prior to proceeding with such an independent review, the OIG shall notify Paracelsus of its intent to do so and its reasons for believing such a review is necessary, and shall attempt to resolve any issues without proceeding with an independent review. This attempt to resolve issues may include permitting Paracelsus to recommend further work it or the IRO may undertake to address the OIG's concerns. However, it shall remain in the sole discretion of the OIG to proceed with an independent review as described above.

5. *Independence Certification.* Within 120 days from the effective date of this CIA, the IRO shall provide to Paracelsus a certification or sworn affidavit that it has evaluated its professional independence with regard to the Billing and Compliance Engagements and that it has concluded that it is, in fact, independent. Such certification shall be included in Paracelsus' Implementation Report submission (as described below).

E. Disclosure Program.

Paracelsus shall continue to maintain a Disclosure Program, that must include a mechanism (e.g., a toll-free compliance telephone line) to enable individuals to disclose, to the Compliance Officer or some other person who is not in the disclosing individual's chain of command, any identified issues or questions associated with Paracelsus' policies, conduct, practices, or procedures with respect to a Federal health care program, believed by the individual to be a potential violation of criminal, civil or administrative law. Paracelsus shall appropriately publicize the existence of the disclosure mechanism (e.g., via periodic e-mails to employees or by posting the information in prominent common areas).

The Disclosure Program shall emphasize a non-retribution, non-retaliation policy, and shall include a reporting mechanism for anonymous, confidential communications. Upon receipt of a disclosure, the Compliance Officer (or designee) shall gather all relevant information from the disclosing individual. The Compliance Officer (or designee) shall make a preliminary, good faith inquiry into the allegations set forth in every disclosure to ensure that he or she has obtained all of the information necessary to determine whether a further review should be conducted. For any disclosure that is sufficiently specific so that it reasonably: (1) permits a determination of the appropriateness of the alleged improper practice; and (2) provides an opportunity for taking corrective action, Paracelsus shall conduct an internal review of the allegations set forth in such a disclosure and ensure that proper follow-up is conducted.

The Compliance Officer (or his or her designee) shall maintain a disclosure log, which shall include a record and summary of each disclosure received (whether anonymous or not), the status of the respective internal reviews, and any corrective action taken in response to the internal reviews. The disclosure log shall be available to the OIG, upon request.

F. Ineligible Persons.

1. *Definition.* For purposes of this CIA, an "Ineligible Person" shall be any individual or entity who: (a) is currently excluded, debarred or otherwise ineligible to participate in the Federal health care programs or in Federal procurement or non-procurement programs; or (b) has been convicted of a criminal offense that falls within the ambit of 42 U.S.C. § 1320a-7, but has not yet been excluded, debarred or otherwise declared ineligible.

2. *Screening Requirements.* Paracelsus shall not hire as employees, or engage as a Covered Contractor, any Ineligible Person. To prevent hiring or contracting with any Ineligible Person, Paracelsus shall screen all prospective employees and prospective Covered Contractors prior to engaging their services by: (a) requiring applicants to disclose whether they are Ineligible Persons; and (b) reviewing the General Services Administration's List of Parties Excluded from Federal Programs (available through the Internet at http://epls.arnet.gov) and the HHS/OIG List of Excluded Individuals/Entities (available through the Internet at http://www.hhs.gov/oig) (these lists will hereinafter be referred to as the "Exclusion Lists").

3. *Review and Removal Requirement.* Within 90 days of the effective date of this CIA, Paracelsus shall review its list of current employees, contractors, and physicians with staff privileges against the Exclusion Lists. This requirement is met if Paracelsus conducted a review within 90 days prior to the effective date of this CIA. Thereafter, Paracelsus shall review its list of current employees and contractors and physicians with staff privileges against the Exclusion Lists semi-annually. In addition, Paracelsus shall require employees and contractors to disclose immediately any debarment, exclusion or other event that makes the employee an Ineligible Person.

If Paracelsus has notice that an employee, contractor, or physician with staff privileges has become an Ineligible Person, Paracelsus shall remove such person from responsibility for, or involvement with, Paracelsus' 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. Paracelsus shall have satisfied its obligations under section III.F and its obligation to make a reasonable inquiry under section X.A.4 if it takes the steps described in section III.F.2-3, does not discover the person's exclusion or ineligibility, and does not actually know other information demonstrating the person's exclusion or ineligibility.

4. *Pending Charges and Proposed Exclusions.* If Paracelsus has notice that an employee or contractor is charged with a criminal offense related to any Federal health care program, or is proposed for exclusion during his or her employment or contract, Paracelsus shall take all appropriate actions to ensure that the responsibilities of that employee or contractor have not and shall not adversely affect the quality of care rendered to any beneficiary, patient or resident, or the accuracy of any claims submitted to any Federal health care program.

G. Notification of Government Investigation or Legal Proceedings.

Within 30 days of discovery, Paracelsus shall notify the OIG, in writing, of any ongoing investigation or legal proceeding conducted or brought by a governmental entity or its agents involving an allegation that Paracelsus has committed a crime or has engaged in fraudulent activities. This 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. Paracelsus shall also provide written notice to the OIG within 30 days of the resolution of the matter, and shall provide the OIG with a description of the findings and/or results of the proceedings, if any.

H. Reporting.

1. *Overpayments*

a. Definition of Overpayments. For purposes of this CIA, an "overpayment" shall mean the amount of money Paracelsus has received in excess of the amount due and payable under any Federal health care program requirements. Paracelsus may not subtract any underpayments for purposes of determining the amount of relevant "overpayments" for CIA reports.

b. *Reporting of Overpayments*. If, at any time, Paracelsus identifies or learns of any overpayments, Paracelsus shall notify the payor (e.g., Medicare fiscal intermediary or carrier) within 30 days of identification of the 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 underlying problem and the overpayments from recurring. Also, within 30 days of identification of the overpayment, Paracelsus shall repay the overpayment to the appropriate payor to the extent such overpayment has been quantified (submission of corrected bills in conformance with payor policy within 30 days fulfills this requirement). If not yet quantified, within 30 days of identification, Paracelsus shall notify the payor of its efforts to quantify the overpayment amount along with a schedule of when such work is expected to be completed. Notification and repayment to the contractor should be done in accordance with the contractor policies, and for Medicare contractors, must include the information contained on the Overpayment Refund Form, provided as Appendix B to this CIA.

2. *Material Deficiencies.*

a. Definition of Material Deficiency. For purposes of this CIA, a "Material Deficiency" means anything that involves:

(i) a substantial overpayment;

(ii) a matter that a reasonable person would consider a probable violation of criminal, civil, or administrative laws applicable to any Federal health care program for which penalties or exclusion may be authorized; or

(iii) a violation of the obligation to provide items or services of a quality that meets professionally recognized standards of health care where such violation has occurred in one or more instances and presents an imminent danger to the health, safety, or well-being of a Federal health care program

beneficiary or places the beneficiary unnecessarily in high-risk situations.

A Material Deficiency may be the result of an isolated event or a series of occurrences.

b. Reporting of Material Deficiencies. If Paracelsus determines through any means that there is a Material Deficiency, Paracelsus shall notify the OIG, in writing, within 30 days of making the determination that the Material Deficiency exists. The report to the OIG shall include the following information:

(i) If the Material Deficiency results in an overpayment, the report to the OIG shall be made at the same time as the notification to the payor required in section III.H.1, and shall include all of the information on the Overpayment Refund Form, as well as:

(A) the payor's name, address, and contact person to whom the overpayment was sent; and

(B) the date of the check and identification number (or electronic transaction number) on which the overpayment was repaid/refunded;

(ii) a complete description of the Material Deficiency, including the relevant facts, persons involved, and legal and Federal health care program authorities implicated;

(iii) a description of Paracelsus' actions taken to correct the Material Deficiency; and

(iv) any further steps Paracelsus plans to take to address the Material Deficiency and prevent it from recurring.

IV. NEW BUSINESS UNITS OR LOCATIONS

In the event that, after the effective date of this CIA, PHC changes ownership (except for changes associated with the confirmation of the Plan of Reorganization) or locations or purchases or establishes new business units related to the furnishing of items or services that may be reimbursed by Federal health care programs, Paracelsus shall notify the OIG of this fact as soon as possible, but no later than within 30 days of the date of change of location, purchase, or establishment. This notification shall include the location of the new operation(s), phone number, fax number, Medicare provider number(s) (if any), and the corresponding contractor's name and address that has issued each Medicare provider number. All Covered Persons at such locations shall be subject to the applicable requirements in this CIA (e.g., completing certifications and undergoing training), which shall be implemented within 120 days of purchase or establishment of a new business unit.

V. IMPLEMENTATION AND ANNUAL REPORTS

A. Implementation Report. Within 120 days after the effective date of this CIA, Paracelsus shall submit a written report to the OIG summarizing the status of its implementation of the requirements of this CIA. This Implementation Report shall include:

1. the name, address, phone number, position description, and summary of all individuals in positions required in section III.A, and other non-compliance job responsibilities of the Compliance Officer;

2. the Charter for the Board of Directors' Committee as required in section III.A.1;

3. a copy of Paracelsus' Code of Conduct required by section III.B.1 and the reasonable efforts employed by Paracelsus in response to the duties imposed by section III.B.1;

4. a copy of all compliance-related Policies and Procedures required by section III.B.2 and a summary of all other Policies and Procedures required by section III.B.2;

5. a copy of all training materials used for the training required by section III.C, a description of such training, including a description of the targeted audiences, length of sessions, which sessions were mandatory and for whom, percentage of attendance, a schedule of when the training sessions were held, a description of the reasonable efforts employed by Paracelsus to ensure that all Covered Persons and Covered Contractors received the applicable training, and a report of which Covered Contractors did not attend the training and the duties and responsibilities of those Covered Contractors;

6. a certification by the Compliance Officer that:

a. the Policies and Procedures required by section III.B have been developed, are being implemented, and have been distributed to all appropriate Covered Persons and Covered Contractors;

b. all Covered Persons have completed the Code of Conduct certification required by section III.B.1, or, if individuals have not completed such a certification, the disciplinary actions taken as a result; and

c. all Covered Persons have completed the applicable training and executed the certification(s) required by section III.C, or, if Covered Persons have not completed the applicable training, the disciplinary actions taken as a result;

The documentation supporting this certification shall be available to the OIG, upon request;

7. a description of the Disclosure Program required by section III.E;

8. the identity of the IRO(s), a summary/description of all engagements between Paracelsus and the IRO, including, but not limited to, any outside financial audits, compliance program engagements, or reimbursement consulting, and the proposed start and completion dates of the first annual review;

9. a certification from the IRO regarding its professional independence from Paracelsus;

10. a summary of personnel actions (other than hiring) taken pursuant to section III.F;

11. a list of all of the entities Paracelsus has a control interest in (as defined in section I.2), and a certification (by the Compliance Officer or someone from senior management) stating: (a) whether the entity is active or dormant; and (b) whether the entity claims reimbursement from a Federal health care program, the location of these entities (including locations and mailing addresses), the corresponding name under which each location is doing business, the corresponding phone numbers and fax numbers, each location's Medicare provider identification number(s), and the contractor's name and address that issued each provider identification number;

12. to the extent not already furnished to the OIG, or if modified, a description of Paracelsus' corporate structure, including identification of any parent and sister companies, subsidiaries, affiliates, and their respective lines of business; and

13. the certification required by section V.C.

B. Annual Reports. Paracelsus shall submit to the OIG Annual Reports with respect to the status of, and findings regarding, Paracelsus' compliance activities for each of the five one-year periods beginning on the effective date of the CIA. (The one-year period covered by each Annual Report shall be referred to as "the Reporting Period"). The Annual Report requirement is subject to section XI.A., however, these reporting requirements shall apply for the period of time that any hospital falls within the ambit of the definition of Paracelsus (as defined by section I.2),

Each Annual Report shall include:

1. any change in the identity, address, phone number, or position description of individuals in positions required in section III.A, any change in the non-compliance job responsibilities of the Compliance Officer, and any change in any of the obligations or responsibilities of the Compliance

Committee or Board Committee or any change in the Board Committee's Charter;

2. The following certifications:

a. by the Compliance Officer that:

i. all Covered Persons have completed any Code of Conduct certifications required by section III.B.1, or, if individuals have not completed such a certification, the disciplinary actions taken as a result;

ii. all Covered Persons have completed the applicable training and executed the certification(s) required by section III.C, or, if Covered Persons have not completed the applicable training, the disciplinary actions taken as a result;

iii. all Covered Contractors have received the Code of Conduct as required under section III.B.1 and a description of the reasonable efforts to meet the duties required by section III.B.1;

b. by someone from senior management with appropriate qualifications to understand the subject matter, that to the best of his or her knowledge after making diligent inquiry, that: Paracelsus has complied with its obligations under the Settlement Agreement: (i) not to resubmit to any Federal health care program payors any previously denied claims related to the Covered Conduct addressed in the Settlement Agreement, and not to appeal any such denials of claims; (ii) not to charge to or otherwise seek payment from Federal or State payors for unallowable costs (as defined in the Settlement Agreement); and (iii) to identify and adjust any past charges or claims for unallowable costs;

The documentation supporting this certification shall be available to the OIG, upon request.

3. a summary of any significant changes or amendments to the Policies and Procedures required by section III.B and the reasons for such changes (e.g., change in contractor policy) and copies of any compliance-related Policies and Procedures;

4. a copy of all training materials used for the training required by section III.C (to the extent it has not already been provided as part of the Implementation Report), a description of such training conducted during the Reporting Period, including a description of the targeted audiences, length of sessions, which sessions were mandatory and for whom, percentage of attendance, a schedule of when the training sessions were held, a description of the reasonable efforts employed by Paracelsus to ensure that all Covered Persons and Covered Contractors received the applicable training, and a report of which Covered Contractors did not attend the training and the duties and responsibilities of those Covered Contractors;

5. a complete copy of all reports prepared pursuant to the IRO's billing and compliance engagements, including a copy of the methodology used, along with a copy of the IRO's engagement letter;

6. Paracelsus' response and corrective action plan(s) related to any issues raised by the IRO(s);

7. a revised summary/description of all engagements between Paracelsus and the IRO, including, but not limited to, any outside financial audits, compliance program engagements, or reimbursement consulting, if different from what was submitted as part of the Implementation Report;

8. a summary of Material Deficiencies (as defined in section III.H) identified during the Reporting Period and the status of any corrective and preventative action relating to all such Material Deficiencies;

9. a report of the aggregate overpayments that have been returned to the Federal health care programs. Overpayment amounts should be broken down into the following categories: inpatient Medicare, outpatient Medicare, Medicaid (report each applicable state separately) and other Federal health care programs;

10. a summary of the disclosures in the disclosure log required by section III.E that: (a) relate to Federal health care programs; or (b) allege abuse or neglect of patients;

11. a description of any personnel actions (other than hiring) taken by Paracelsus as a result of the obligations in section III.F, and the name, title, and responsibilities of any person that falls within the ambit of section III.F.4, and the actions taken in response to the obligations set forth in that section;

12. a summary describing any ongoing investigation or legal proceeding required to have been reported pursuant to section III.G. The summary shall include a description of the allegation, the identity of the investigating or prosecuting agency, and the status of such investigation or legal proceeding;

13. a description of all changes to the most recently provided list (as updated) of all the entities in which Paracelsus has a control interest (as defined in section I.2), a certification (by the Compliance Officer or someone from senior management) stating: a) whether the entity is active or dormant; and b) whether the entity claims reimbursement from a Federal health care program, the location of these entities (including locations and mailing addresses) as required by V.A.11, the corresponding name under which each location is doing business, the corresponding phone numbers and fax numbers, each Federal health care program provider identification number(s), and the contractor name and address that issued each provider identification number; and

14. the certification required by section V.C.

The first Annual Report shall be received by the OIG no later than 90 days after the end of the first Reporting Period. Subsequent Annual Reports shall be received by the OIG no later than the anniversary date of the due date of the first Annual Report.

C. Certifications. The Implementation Report and Annual Reports shall include a certification by the Compliance Officer that: (1) except as otherwise described in the applicable report, Paracelsus is in compliance with all of the requirements of this CIA, to the best of his or her knowledge; and (2) the Compliance Officer has reviewed the Report

and has made reasonable inquiry regarding its content and believes that the information is accurate and truthful based upon that reasonably inquiry.

D. Designation of Information: Paracelsus shall clearly identify any portions of its submissions that it believes are trade secrets, or information that is commercial or financial and privileged or confidential, and therefore potentially exempt from disclosure under the Freedom of Information Act ("FOIA"), 5 U.S.C. § 552. Paracelsus shall refrain from identifying any information as exempt from disclosure if that information does not meet the criteria for exemption from disclosure under FOIA.

VI. NOTIFICATIONS AND SUBMISSION OF REPORTS

Unless otherwise stated in writing after the effective date of this CIA, all notifications and reports required under this CIA shall be submitted to the following entities:

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
Cohen Building, Room 5527
330 Independence Avenue, SW
Washington, DC 20201
Phone 202.619.2078
Fax 202.205.0604

Paracelsus:

Compliance Officer
Paracelsus Healthcare Corporation
Suite 500
515 West Greens Road
Houston, Texas 77067
Phone 281.774.5100
Fax 281.774.5200

Unless otherwise specified, all notifications and reports required by this CIA may be made by certified mail, overnight mail, hand delivery or other means, provided that there is proof that such notification was received. For purposes of this requirement, internal facsimile confirmation sheets do not constitute proof of receipt.

VII. OIG INSPECTION, AUDIT AND REVIEW RIGHTS

In addition to any other rights the OIG may have by statute, regulation, or contract, the OIG or its duly authorized representative(s) may examine or request copies of Paracelsus' books, records, and other documents and supporting materials and/or conduct on-site reviews of any of Paracelsus' locations for the purpose of verifying and evaluating: (a) Paracelsus' compliance with the terms of this CIA; and (b) Paracelsus' compliance with the requirements of the Federal health care programs in which it participates. The documentation described above shall be made available by Paracelsus to the OIG or its duly authorized representative(s) at all reasonable times for inspection, audit or reproduction. Furthermore, for purposes of this provision, the OIG or its duly authorized representative(s) may interview any of Paracelsus' employees, contractors, or agents who consent to be interviewed at the individual's place of business during normal business hours or at such other place and time as may be mutually agreed upon between the individual and the OIG. Paracelsus agrees to assist the OIG or its duly authorized representative(s) in contacting and arranging interviews with such individuals upon the OIG's request. Paracelsus' employees may elect to be interviewed without a representative of Paracelsus present, but have a right to have a representative present.

Nothing in this CIA shall be construed as a waiver by Paracelsus of its attorney-client or work product, or other applicable privileges; however, the existence of such privileges do not affect or abrograte Paracelsus' obligations to comply with the provisions of this CIA.

VIII. DOCUMENT AND RECORD RETENTION

Paracelsus shall maintain for inspection all documents and records relating to reimbursement from the Federal health care programs, or to compliance with this CIA, for the longer of: (1) six years; (2) 120 days from the OIG's receipt of (a) the final annual report; or (b) any additional materials submitted by Paracelsus pursuant to the OIG's request, whichever is later; or (3) longer if otherwise required by law.

IX. DISCLOSURES

Consistent with HHS's FOIA procedures, set forth in 45 C.F.R. Part 5, the OIG shall make a reasonable effort to notify Paracelsus prior to any release by the OIG of information submitted by Paracelsus pursuant to its obligations under this CIA and identified upon submission by Paracelsus as trade secrets, or information that is commercial or financial and privileged or confidential, under the FOIA rules. With respect to such releases, Paracelsus shall have the rights set forth at 45 C.F.R. § 5.65(d). Paracelsus shall refrain from identifying any information as exempt from release if that information does not meet the criteria for exemption from disclosure under FOIA.

X. BREACH AND DEFAULT PROVISIONS

Paracelsus is expected to fully and timely comply with all of its CIA obligations.

A. Stipulated Penalties for Failure to Comply with Certain Obligations. As a contractual remedy, Paracelsus and the OIG hereby agree 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 and shall end on the last day this CIA is in effect) for each day Paracelsus fails to have in place any of the obligations described in section III:

a. a Compliance Officer;

b. a Compliance Committee;

c. a Board of Director's Committee;

d. Hospital Corporate Compliance Facilitators at each Hospital;

e. a written Code of Conduct;

f. written Policies and Procedures;

g. a requirement that Covered Persons be trained; and

h. a Disclosure Program.

2. A Stipulated Penalty of $2,500 (which shall begin to accrue on the day after the date the obligation became due and shall end 90 days after the last day this CIA is in effect) for each day Paracelsus fails to retain an IRO, as required in section III.D.

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

4. A Stipulated Penalty of $2,000 (which shall begin to accrue on the date the failure to comply began and shall end on the last day this CIA is in effect) for each day Paracelsus employs, contracts with, or grants staff privileges to an Ineligible Person and that person: (i) has responsibility for, or involvement with, Paracelsus' 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 (the Stipulated Penalty described in this paragraph shall not be demanded for any time period during which Paracelsus 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).

5. A Stipulated Penalty of $1,500 for each day Paracelsus fails to grant access to the information or documentation as required in section VII of this CIA. (This Stipulated Penalty shall begin to accrue on the date Paracelsus fails to grant access.)

6. A Stipulated Penalty of $1,000 for each day Paracelsus fails to comply fully and adequately with any obligation of this CIA. In its notice to Paracelsus, the OIG shall state the specific grounds for its determination that Paracelsus has failed to comply fully and adequately with the CIA obligation(s) at issue and steps Paracelsus must take to comply with the CIA. (This Stipulated Penalty shall begin to accrue 10 days after the date that the OIG provides notice to Paracelsus of the failure to comply and end on the last day this CIA is in effect). A Stipulated Penalty as described in this paragraph shall not be demanded for any violation for which the OIG has sought a Stipulated Penalty under paragraphs 1-5 of this section.

B. Timely Written Requests for Extensions. Paracelsus may, in advance of the due date, submit a timely written request for an extension of time to perform any act or file any notification or report required by this CIA. Notwithstanding any other provision in this section, if the OIG grants the timely written request with respect to an act, notification, or report, Stipulated Penalties for failure to perform the act or file the notification or report shall not begin to accrue until one day after Paracelsus fails to meet the revised deadline set by the OIG. Notwithstanding any other provision in this section, if the OIG denies such a timely written request, Stipulated Penalties for failure to perform the act or file the notification or report shall not begin to accrue until three business days after Paracelsus receives the OIG's written denial of such request or the original due date, whichever is later. A "timely written request" is defined as a request in writing received by the OIG at least five business days prior to the date by which any act is due to be performed or any notification or report is due to be filed.

C. Payment of Stipulated Penalties.

1. *Demand Letter.* Upon a finding that Paracelsus has failed to comply with any of the obligations described in section X.A and after determining that Stipulated Penalties are appropriate, the OIG shall notify Paracelsus of: (a) Paracelsus' failure to comply; and (b) the OIG's exercise of its contractual right to demand payment of the Stipulated Penalties (this notification is hereinafter referred to as the "Demand Letter").

2. *Response to Demand Letter.* Within 10 days of the receipt of the Demand Letter, Paracelsus shall either: (a) cure the breach to the OIG's satisfaction and pay the applicable Stipulated Penalties; or (b) request a hearing before an HHS administrative law judge ("ALJ") to dispute the OIG's determination of noncompliance, pursuant to the agreed upon provisions set forth below in section X.E. In the event Paracelsus elects to request an ALJ hearing, the Stipulated Penalties shall continue to accrue until Paracelsus cures, to the OIG's satisfaction, the alleged breach in dispute, except that, with respect to Stipulated Penalties under section X.A.6, the Stipulated Penalties shall continue to accrue until Paracelsus cures, to the OIG's satisfaction, the alleged breach in dispute or until as otherwise ordered by an ALJ. Failure to respond to the Demand Letter in one of these two manners within the allowed time period shall be considered a material breach of this CIA and shall be grounds for exclusion under section X.D.

3. *Form of Payment.* 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 the OIG at the address set forth in section VI.

4. *Independence from Material Breach Determination.* Except as set forth in section X.D.1.c, these provisions for payment of Stipulated Penalties shall not affect or otherwise set a standard for the OIG's decision that Paracelsus has materially breached this CIA, which decision shall be governed by the provisions in section X.D, below.

D. Exclusion for Material Breach of this CIA

1. *Definition of Material Breach.* A material breach of this CIA means:

a. a failure by Paracelsus to report a Material Deficiency, take corrective action and make the appropriate refunds, as required in section III.H;

b. a repeated or flagrant violation of the obligations under this CIA, including, but not limited to, the obligations that are subject to Stipulated Penalties;

c. a failure to respond to a Demand Letter concerning the payment of Stipulated Penalties in accordance with section X.C; or

d. a failure to retain and use an Independent Review Organization in accordance with section III.D.

2. *Notice of Material Breach and Intent to Exclude.* The parties agree that a material breach of this CIA by Paracelsus constitutes an independent basis for Paracelsus' exclusion from participation in the Federal health care programs. Upon a determination by the OIG that Paracelsus has materially breached this CIA and that exclusion should be imposed, the OIG shall notify Paracelsus of: (a) Paracelsus' material breach; and (b) the OIG's intent to exercise its contractual right to impose exclusion (this notification is hereinafter referred to as the "Notice of Material Breach and Intent to Exclude"). The exclusion may be directed at the parent, and/or one or more of its subsidiaries, facilities, or entities depending upon the facts of the breach.

3. *Opportunity to Cure.* Paracelsus shall have 30 days from the date of receipt of the Notice of Material Breach and Intent to Exclude to demonstrate to the OIG's reasonable satisfaction that:

a. Paracelsus is in compliance with the obligations of the CIA cited by the OIG as being the basis for the material breach;

b. the alleged material breach has been cured; or

c. the alleged material breach cannot be cured within the 30-day period, but that: (i) Paracelsus has begun to take action to cure the material breach; (ii) Paracelsus is pursuing such action with due diligence; and (iii) Paracelsus has provided to the OIG a reasonable timetable for curing the material breach.

4. *Exclusion Letter.* If at the conclusion of the 30-day period, Paracelsus fails to satisfy the requirements of section X.D.3, the OIG may exclude Paracelsus from participation in the Federal health care programs. The OIG will notify Paracelsus in writing of its determination to exclude Paracelsus (this letter shall be referred to hereinafter as the "Exclusion Letter"). Subject to the Dispute Resolution provisions in section X.E, below, the exclusion shall go into effect 30 days after the date of the Exclusion Letter. The exclusion shall have national effect and shall also apply to all other Federal procurement and non-procurement programs. Reinstatement to program participation is not automatic. If at the end of the period of exclusion, Paracelsus wishes to apply for reinstatement, Paracelsus must submit a written request for reinstatement in accordance with the provisions at 42 C.F.R. §§ 1001.3001-.3004.

E. Dispute Resolution

1. *Review Rights.* Upon the OIG's delivery to Paracelsus of its Demand Letter or of its Exclusion Letter, and as an agreed-upon contractual remedy for the resolution of disputes arising under this CIA, Paracelsus shall be afforded certain 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 ALJ and, in the event of an appeal, the HHS Departmental Appeals Board ("DAB"), in a manner consistent with the provisions in 42 C.F.R. §§ 1005.2-1005.21. Notwithstanding the

language in 42 C.F.R. § 1005.2(c), the request for a hearing involving Stipulated Penalties shall be made within 10 days of the receipt of the Demand Letter and the request for a hearing involving exclusion shall be made within 25 days of receipt of the Exclusion Letter.

2. *Stipulated Penalties Review.* 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 CIA shall be: (a) whether Paracelsus was in full and timely compliance with the obligations of this CIA for which the OIG demands payment; and (b) the period of noncompliance. Paracelsus shall have the burden of proving its full and timely compliance and the steps taken to cure the noncompliance, if any. If the ALJ agrees with the OIG with regard to a finding of a breach of this CIA and orders Paracelsus to pay Stipulated Penalties, such Stipulated Penalties shall become due and payable 20 days after the ALJ issues such a decision unless Paracelsus requests review of the ALJ decision by the DAB. If the ALJ decision is properly appealed to the DAB and the DAB upholds the determination of the OIG, the Stipulated Penalties shall become due and payable 20 days after the DAB issues its decision.

3. *Exclusion Review.* 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:

a. whether Paracelsus was in material breach of this CIA;

b. whether such breach was continuing on the date of the Exclusion Letter; and

c. whether the alleged material breach could not have been cured within the 30 day period, but that:

(i) Paracelsus had begun to take action to cure the material breach within that period;

(ii) Paracelsus has pursued and is pursuing such action with due diligence; and

(iii) Paracelsus provided to the OIG within that period a reasonable timetable for curing the material breach and Paracelsus has followed the timetable.

For purposes of the exclusion herein, exclusion shall take effect only after an ALJ decision favorable to the OIG, or, if the ALJ rules for the Paracelsus, only after a DAB decision in favor of the OIG. Paracelsus' election of its contractual right to appeal to the DAB shall not abrogate the OIG's authority to exclude Paracelsus upon the issuance of an ALJ's decision in favor of the OIG. If the ALJ sustains the determination of the OIG and determines that exclusion is authorized, such exclusion shall take effect 20 days after the ALJ issues such a decision, notwithstanding that Paracelsus may request review of the ALJ decision by the DAB. If the DAB finds in favor of the OIG after an ALJ decision adverse to the OIG, the exclusion shall take effect 20 days after the DAB decision. Paracelsus agrees to waive its right to any notice of such an exclusion if a decision upholding the exclusion is rendered by the ALJ or DAB.

XI. EFFECTIVE AND BINDING AGREEMENT

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

A. This CIA shall be binding on the successors, assigns, and transferees of Paracelsus, except that, notwithstanding anything to the contrary in this CIA, the application of this CIA to a specific hospital shall terminate on the transfer of the stock or assets of a hospital if the provider agreement does not transfer or if Paracelsus provides the OIG, at least 45 days in advance of the transfer, documentation and information: (1) reasonably establishing that: (a) Paracelsus will retain no direct or indirect interest or involvement in the transferred entity; (b) the transfer is at arms' length for fair market value; and (c) the buyer has an active corporate compliance program in place; and (2) reasonably identifying the individuals at the buyer and the hospital who will have responsibility for supervising and managing the operations of the hospital;

B. This CIA shall become final and binding on the date the final signature is obtained on the CIA;

C. Any modifications to this CIA shall be made with the prior written consent of the parties to this CIA;

D. The OIG shall agree to a suspension of Paracelsus' obligations under the CIA in the event of Paracelsus' cessation of participation in Federal health care programs if the following conditions are met: (1) Paracelsus provides the OIG with 30 days notice of its intention to withdraw from participation in all Federal health care programs; (2) Paracelsus provides the OIG with copies of letters to all applicable carriers and fiscal intermediaries or other entities responsible for the administration of Federal health care programs of its intention to withdraw from participation in the Federal health care programs; and (3) Paracelsus provides the OIG with a certification signed by the Chief Executive Officer (or similarly situated individual) that this is being done in good faith with no intent to re-enter the Federal health care programs in the future. If Paracelsus withdraws from participation in Federal health care programs and is relieved from its CIA obligations by the OIG, Paracelsus agrees to notify the OIG 30 days in advance of Paracelsus' intent to reapply as a participating provider or supplier with the Federal health care programs. Upon receipt of such notification, the OIG will evaluate whether the CIA should be reactivated or modified; however, if Paracelsus has been subject to the CIA for four years and has withdrawn from participation in Federal health care programs for at least one year, the OIG agrees that the CIA will not be reactivated.

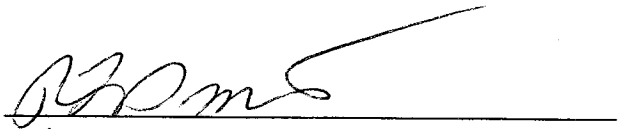
If a hospital ceases operations, then the obligations of this CIA terminate on that date with respect to that affected hospital, provided that the closing of the affected hospital is a bona fide closing with no intent to reopen. Should an affected hospital reopen within the period of this CIA, the obligations shall then continue to be imposed as required herein for the duration of the CIA, unless prior to the closing the affected hospital has already been subject to this CIA for four years and has been closed for at least one year.

E. The undersigned Paracelsus signatories represent and warrant that they are authorized to execute this CIA. The undersigned OIG signatory represents that he is signing this CIA in his official capacity and that he is authorized to execute this CIA.

F. This Agreement may be executed in counterparts, each of which constitutes an original and all of which constitute one and the same agreement. Facsimiles of signatures shall constitute acceptable, binding signatures for purposes of this Agreement.

G. Paracelsus acknowledges and agrees that it has been advised by counsel of its choosing concerning this Agreement and throughout the negotiation of this Agreement.

ON BEHALF OF PARACELSUS



Robert L. Smith
Chief Executive Officer, Secretary, Director

4/17/01
DATE

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

LEWIS MORRIS
Assistant Inspector General for Legal Affairs
Office of Inspector General
U. S. Department of Health and Human Services

DATE

ON BEHALF OF PARACELSUS

Robert L. Smith
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ON BEHALF OF THE OFFICE OF INSPECTOR GENERAL OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES

LEWIS MORRIS
Assistant Inspector General for Legal Affairs
Office of Inspector General
U. S. Department of Health and Human Services

4/16/01
DATE

APPENDIX A -CLAIMS AND COST REPORT REVIEW

A. Claims Review and Report.

1. ***Definitions***. For the purposes of the Claims Review, the following definitions shall be used:

a. Claims Review Sample: A statistically valid, randomly selected, sample of items selected for appraisal in the Claims Review.

b. Item: Any discrete unit that can be sampled (e.g., code, line item, beneficiary, patient encounter, etc.).

c. Overpayment: Consistent with the definition of Overpayment as articulated in section III.H.1.a of the CIA, the amount of money Paracelsus has received in excess of the amount due and payable under any Federal health care program requirements. For the purposes of the Claims Review and all reporting to the OIG under this CIA, Paracelsus shall not subtract or "net out" underpayments when determining the amount of relevant Overpayments.

d. Paid Claim: A code or line item submitted by Paracelsus and for which Paracelsus has received reimbursement from the Medicare or Medicaid program.

e. Population: All Items for which Paracelsus has submitted a code or line item and for which Paracelsus has received reimbursement from the Medicare or Medicaid program (i.e., a Paid Claim) during the 12-month period covered by the Claims Review. To be included in the Population, an Item must have resulted in at least one Paid Claim.

f. Probe Sample: A sample of Items selected through simple random sampling from the Population for the purpose of estimating the mean and standard deviation of Overpayments in the Population. The estimated mean and standard deviation of Overpayments in the Population are to be used to calculate the minimum number of Items that shall be included in the Claims Review Sample in order to achieve the required confidence and precision levels.

g. RAT-STATS: OIG's Office of Audit Services Statistical Sampling Software. RAT-STATS is publicly available to download through the Internet at "www.hhs.gov/oig/oas/ratstat.html".

2. ***Description of Claims Review***. The Claims Review shall consist of an appraisal of a statistically valid sample of Items (the Claims Review Sample) that can be projected to the total Population.

a. Confidence and Precision Requirements. The Claims Review Sample should contain a sufficient number of Items (according to the RAT-STATS calculation) so that if the Overpayments identified in the Claims Review Sample were projected to the Population, the projection would provide a 90% confidence level and a maximum relative precision (i.e., semi-width of the confidence interval) of plus or minus 25% of the point estimate. In other words, if the Claims Review Overpayment results were projected to the Population at a 90% confidence level, the confidence interval (expressed in dollars) should be sufficiently narrow that the upper bound of the confidence interval would not exceed 125% of the midpoint of the confidence interval (the point estimate), and the lower bound of the confidence interval would not be less than 75% of the midpoint of the confidence interval.

b. Use of a Probe Sample to Determine Claims Review Sample Size. To determine how many Items must be included in the Claims Review Sample to meet the 90% confidence level and 25% precision requirements, the mean and the standard deviation of Overpayments in the Population must be estimated. Estimates for each unique Population shall be developed through the use of a single Probe Sample. The Probe Sample shall be used to determine the minimum Claims Review Sample size through one of the two following options:

i. *Probe Sample with a Minimum Size of Thirty Items*. The Probe Sample shall include at least 30 Items, and shall be selected through the use of RAT-STATS' "Random Numbers" function. Once all Paid Claims associated with the Items included in the Probe Sample have been reviewed, the estimated mean and standard deviation of Overpayments in the Population shall be determined. This determination is based on the Overpayment amount received by Paracelsus for each Item in the sample. The "Difference Values

Only" function located under the "Variable Appraisals" component of RAT-STATS shall be used to calculate the estimated mean and standard deviation of Overpayments in the Population. For purposes of estimating the mean and standard deviation of Overpayments in the Population, and entering this information into the "Variable Appraisals", "Difference Values Only" function of RAT-STATS, any underpayment identified for a Paid Claim in the Probe Sample shall be treated as a zero overpayment. If no Overpayments are found in this Probe Sample, then a second Probe Sample, of at least 30 Items, must be selected and reviewed. The estimated mean and standard deviation of Overpayments in the Population (based on the amount of Overpayments received by Paracelsus for each sample Item) shall be determined from this Probe Sample, using RAT-STATS' "Difference Values Only" function located under the "Variable Appraisals" component. If no Overpayments are found in this second Probe Sample, then the Claims Review can be terminated with the results of the second Probe Sample, and the results of the two Probe Samples shall be reported in lieu of the Claims Review when preparing and submitting the Claims Review Report (see section A.3, below); or

ii. *Probe Sample with a Minimum Size of Fifty Items.* The Probe Sample shall include at least 50 Items, and shall be selected through the use of RAT-STATS' "Random Numbers" function. Once all Paid Claims associated with the Items included in the Probe Sample have been reviewed, the estimated mean and standard deviation of Overpayments in the Population shall be determined. This determination is based on the Overpayment amount received by Paracelsus for each Item in the sample. The "Difference Values Only" function located under the "Variable Appraisals" component of RAT-STATS shall be used to calculate the estimated mean and standard deviation of Overpayments in the Population. For purposes of estimating the mean and standard deviation of Overpayments in the Population, and entering this information into the "Variable Appraisals", "Difference Values Only" function of RAT-STATS, any underpayment identified for a Paid Claim in the Probe Sample shall be treated as a zero overpayment. If no Overpayments are found in this 50 Item Probe Sample, then the Claims Review can be terminated with the review of the Probe Sample and the results of the

Probe Sample shall be reported in lieu of the results of the Claims Review when preparing and submitting the Claims Review Report (see section A.3, below).

iii. *Number of Probe Samples.* Each year, there shall be probe samples conducted at 50% of the facilities and entities that fell within the ambit of the definition of Paracelsus in section I.2 of the CIA for at least three months of the previous 12 month review period. Each year, they shall be randomly selected through the use of RATS-STATS. With respect to the hospitals, the first half chosen through RATS-STATS shall focus on inpatient claims and the second half shall focus on outpatient claims. Each facility and entity will be considered a separate universe for purposes of conducting the claims reviews set forth herein.

c. Calculation of Claims Review Sample Size and Selection of the Claims Review Sample. The estimates of the mean and the standard deviation of Overpayments in the Population obtained through the review of the Probe Sample shall be used to estimate the minimum size of the Claims Review Sample. In order to estimate the number of Items that must be included in the Claims Review Sample to meet the 90% confidence level and 25% precision requirements, RAT-STATS' "Sample Size Estimators" (located under the "Utility Programs" file) shall be used. Whereas the Claims Review Sample size is estimated from the results of the probe sample, there is a possibility that examining the number of Items identified by RAT-STATS may not achieve the 90% confidence and 25% precision levels. If the reviewer can demonstrate that the review was properly conducted, but the 90% confidence level and 25% precision interval could not be achieved, the reviewer will not be required to examine additional items.

The Claims Review Sample shall be selected by using RAT-STATS' "Random Numbers" function, and shall be selected from the entire Population, with the Population including those Items reviewed as part of the Probe Sample, so that all Items in the Population have an equal chance of inclusion in the Claims Review Sample.

d. Item Appraisal. For each Item appraised (either as part of the Claims Review Sample or of the Probe Sample), only Paid Claims shall be evaluated. Every Paid Claim in the Claims Review Sample shall be evaluated by the IRO to determine whether the claim submitted was

correctly coded, submitted, and reimbursed. Each appraisal must be sufficient to provide all information required under the Claims Review Report.

e. Paid Claims without Supporting Documentation. For the purpose of appraising Items included in the Claims Review and/or the Probe Sample, any Paid Claim for which Paracelsus cannot produce documentation sufficient to support the Paid Claim shall be considered an error and the total reimbursement received by Paracelsus for such Paid Claim shall be deemed an Overpayment. Replacement sampling for Paid Claims with missing documentation is not permitted.

f. Use of First Samples Drawn. For the purposes of all samples (Probe Sample(s) and Claims Review Sample(s)) discussed in this Appendix, the Paid Claims associated with the Items selected in the first sample (or first sample for each strata, if applicable) shall be used. In other words, it is not permissible to generate a number of random samples and then select one for use as the Probe Sample or Claims Review Sample.

3. Claims Review Report. The following information shall be included in each Claims Review Report:

a. ***Claims Review Methodology***

i. Claims Review Objective: A clear statement of the objective intended to be achieved by the Claims Review.

ii. Sampling Unit: A description of the Item as that term is utilized for the Claims Review. As noted in section A.1.b above, for purposes of this Billing Engagement, the term "Item" may refer to any discrete unit that can be sampled (e.g., claim, line item, beneficiary, patient encounter, etc.).

iii.. Claims Review Population: A description of the Population subject to the Claims Review.

iv. Sampling Frame: A description of the sampling frame, which is the totality of Items from which the Probe and Claims Review Sample have been selected and an explanation of the methodology

used to identify the sampling frame. In most circumstances, the sampling frame will be identical to the Population.

v. Sources of Data: A description of the documentation relied upon by the IRO when performing the Claims Review (e.g., medical records, physician orders, certificates of medical necessity, requisition forms, local medical review policies, HCFA program memoranda, Medicare carrier or intermediary manual or bulletins, other policies, regulations, or directives).

vi. Review Protocol: A narrative description of how the Claims Review was conducted and what was evaluated.

b. ***Statistical Sampling Documentation***

i. The number of Items appraised in the Probe Sample(s) and in the Claims Review Sample.

ii. A copy of the RAT-STATS printout of the random numbers generated by the "Random Numbers" function.

iii. A copy of the RAT-STATS printout of the "Sample Size Estimators" results used to calculate the minimum number of Items for inclusion in the Claims Review Sample.

iv. A copy of the RAT-STATS printout of the "Variable Appraisals", "Difference Vaues Only" function results for the Probe Sample, including a copy of the data file.

v. The Sampling Frame used in the Probe Sample(s) and the Claims Review Sample will be available to the OIG upon request.

c. ***Claims Review Results***

i. Total number and percentage of instances in which the IRO determined that the Paid Claims submitted by Paracelsus ("Claim Submitted") differed from what should have been the correct claim ("Correct Claim"), regardless of the effect on the payment. This shall be categorized by facility or entity.

ii. Total number and percentage of instances in which the Claim Submitted differed from the Correct Claim and in which such difference resulted in an Overpayment to Paracelsus. This shall be categorized by facility or entity.

iii. The total dollar amount of all Paid Claims in the Claims Review Sample and the total dollar amount of Overpayments associated with the Paid Claims identified by the Claims Review. This shall be categorized by facility or entity. (This is the total dollar amount of the Overpayments identified in section A.3.c.ii. above.) The IRO may, in its report to Paracelsus, identify underpayments, but any underpayments identified during the Claims Review shall not be offset or "netted out" of the total dollar amount of Paid Claims or of the Overpayments when reporting these amounts in the Claims Review Report to the OIG.

iv. The level of precision achieved by the Claims Review at a 90% confidence level.

v. A spreadsheet of the Claims Review results that includes the following information for each Paid Claim appraised: Federal health care program billed, beneficiary health insurance claim number, date of service, procedure code submitted, procedure code reimbursed, allowed amount reimbursed by payor, correct procedure code (as determined by the IRO), correct allowed amount (as determined by the IRO), dollar difference between allowed amount reimbursed by payor and the correct allowed amount. (See Attachment 1 to this Appendix.)

d. ***Credentials.*** The names and credentials of the individuals who: (i) designed the statistical sampling procedures and the review methodology utilized for the Claims Review; and (ii) performed the Claims Review.

B. Cost Report Reviews and Report

1. In addition to the Claims Review, the IRO shall conduct a review of all physician services (excluding employees who do not hold directorships) that are claimed on each hospital's cost report to ensure that the costs reflect services actually rendered, are related to patient care, have the required supporting documentation, are for fair market

value, and are in compliance with all applicable Federal health care program requirements. This review shall occur at each hospital that fell within the definition of Paracelsus in section I.2 of the CIA during any part of the previous 12 month period, and the review shall cover the period the hospital met that definition.

2. The IRO shall provide a report on its review of the costs claimed for physician services. The report shall address each of the elements set forth above. The report shall also provide the names and credentials of the individuals who conducted the Cost Report Reviews.

Attachment 1

Claim Review Results

Federal Health Care Program Billed	Bene HIC #	Date of Service	Procedure Code Submitted	Procedure Code Reimbursed	Allowed Amount Reimbursed	Correct Procedure Code (IRO determined)	Correct Allowed Amt (IRO determined)	Dollar Difference between Amt Reimbursed and Correct Allowed Amt

OVERPAYMENT REFUND

TO BE COMPLETED BY MEDICARE CONTRACTOR

Date:_____
Contractor Deposit Control #_____ Date of Deposit: _____
Contractor Contact Name:_____Phone #_____
Contractor Address:_____
Contractor Fax:_____

TO BE COMPLETED BY PROVIDER/PHYSICIAN/SUPPLIER

Please complete and forward to Medicare Contractor. This form, or a similar document containing the following information, should accompany every voluntary refund so that receipt of check is properly recorded and applied.

PROVIDER/PHYSICIAN/SUPPLIERNAME_____
ADDRESS_____
PROVIDER/PHYSICIAN/SUPPLIER #_____CHECK NUMBER#_____
CONTACT PERSON:_____PHONE #_____
AMOUNT OF CHECK $_____ CHECK DATE_____

REFUND INFORMATION

For each Claim, provide the following:
Patient Name_____HIC #_____
Medicare Claim Number_____Claim Amount Refunded $_____
Reason Code for Claim Adjustment:_____ (Select reason code from list below. Use one reason per claim)

(Please list all claim numbers involved. Attach separate sheet, if necessary)

*Note: If Specific Patient/HIC/Claim #/Claim Amount data not available for all claims due to Statistical Sampling, please indicate methodology and formula used to determine amount and reason for overpayment:*_____

For Institutional Facilities Only:
Cost Report Year(s) _____
(If multiple cost report years are involved, provide a breakdown by amount and corresponding cost report year.)

For OIG Reporting Requirements:
Do you have a Corporate Integrity Agreement with OIG? Yes No

Reason Codes:

Billing/Clerical Error
01 - Corrected Date of Service
02 - Duplicate
03 - Corrected CPT Code
04 - Not Our Patient(s)
05 - Modifier Added/Removed
06 - Billed in Error
07 - Corrected CPT Code

MSP/Other Payer Involvement
08 - MSP Group Health Plan Insurance
09 - MSP No Fault Insurance
10 - MSP Liability Insurance
11 - MSP, Workers Comp.(Including Black Lung
12 - Veterans Administration

Miscellaneous
13 - Insufficient Documentation
14 - Patient Enrolled in an HMO
15 - Services Not Rendered
16 - Medical Necessity
17 - Other (Please Specify)
_____