

CORPORATE COMPLIANCE AND ETHICS PROGRAM



MEDICALODGES, INC.

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Updated 04-07-2015 pls

Revised 10-16-2018 pls

Dear Fellow Medicalodges Employee:

Medicalodges, Inc. and its affiliates (“Medicalodges”) are committed to providing quality health care to the patients that we service, including the residents of our facilities. As part of our commitment to quality care and maintenance of the highest ethical and moral standards, Medicalodges is dedicated to complying with all applicable Federal and State laws and ethical practices. To evidence this commitment, Medicalodges has developed and adopted this Compliance and Ethics Program, which is intended to provide a compliance roadmap for Medicalodges, its facilities, ancillary service lines and employees, including directors, officers, employees and agents (“Employees”).

The Board of Directors of Medicalodges, Inc. has endorsed and adopted this Compliance and Ethics Program, as evidence of its commitment to compliance and deterring fraud and abuse. The Compliance and Ethics Program applies equally to all Employees of Medicalodges. If you are a supervisor, you should ensure that Employees under your supervision thoroughly understand and adhere to this Compliance and Ethics Program.

As further outlined in the Compliance and Ethics Program, an Employee who has questions about the Compliance and Ethics Program or who wants to report a suspected or an actual violation of the Compliance and Ethics Program may do so by contacting his or her immediate supervisor, his or her department head, the facility administrator, the Compliance Officer or the Compliance Committee. A Employee may also report such questions or activity to the Compliance Hotline by calling 800.782.0120. Further, if you are a supervisor, department head or facility administrator and someone asks questions or reports suspicious activity to you, you must take immediate action on the report as outlined in this Compliance and Ethics Program and you may not take retaliatory action against the person who made the report or otherwise discourage Employees from making such reports.

If you violate any of the policies and standards set forth in the Compliance and Ethics Program, you place not only Medicalodges at risk for certain civil liability and criminal penalties, but you also place yourself at risk to such liability and/or penalties. Therefore, if you violate the Compliance and Ethics Program, or any of the policies contained in the program, you subject yourself to discipline, including termination.

The employee-owners of Medicalodges are committed to compliance with the legal and regulatory issues that face Medicalodges on a daily basis. I hope that the following assists each and every one of us to provide quality care in a compliant manner to the frail and elderly who are entrusted to our care.

Respectfully,

Corporate Compliance Officer

OVERVIEW OF THE COMPLIANCE AND ETHICS PROGRAM

At Medicalodges, Inc., our mission is “We serve and enhance the lives of others with caring hands.” By serve, we mean: meeting the needs of others with compassion. By caring, we mean: giving personal attention with dignity and respect. By enhance, we mean: enhancing lives by encouraging and enabling personal well-being. By others, we mean: customers, coworkers, families, vendors, community.

Medicalodges, Inc. and its affiliates (individually and collectively, “Medicalodges”) is committed to legal compliance and integrity in all aspects of its operations and its professional and business conduct. Accordingly, Medicalodges is committed to performance with high ethical standards and compliance with all governing laws and regulations in the delivery of health care to its residents. It is the personal responsibility of the directors, officers, employees and agents (from now on stated as “Employees”) of Medicalodges to honor this commitment in accordance with the terms of the Medicalodges Standards of Conduct, and related policies, procedures and standards developed by Medicalodges in connection with the Medicalodges Corporate Compliance and Ethics Program (collectively, the “Compliance and Ethics Program”).

The Compliance and Ethics Program is intended to be structured in accordance with various Compliance and Ethics Program guidance published by the Office of Inspector General of the United States Department of Health and Human Services (the “OIG”). The Compliance and Ethics Program consists of the following elements:

1. The establishment of a written Code of Conduct, which will be referred to as Standards of Conduct, and written policies and procedures governing the decisions and actions of Medicalodges Employees.
2. The appointment of a Corporate Compliance Officer and establishment of a Compliance Committee, who are responsible for directing Medicalodges’ compliance efforts, along with the support and oversight of the Board of Directors of Medicalodges, Inc. (the “Board”) and the Medicalodges Chief Executive Officer.
3. The development and implementation of education and training for all members of Medicalodges Employees, with general compliance information provided to the broad-based employee population as well as focused technical training of those functional areas that may place Medicalodges at a greater degree of compliance exposure.
4. The maintenance of a process to report instances of possible non-compliance, to protect the anonymity of complainants and to protect complainants from retaliation.
5. The establishment of a system to respond to allegations of improper or illegal activities and the enforcement of appropriate disciplinary action against Medicalodges Employees who violate compliance policies, applicable laws or regulations or Federal health program requirements.
6. The use of audits and risk assessments to identify problems and conduct ongoing compliance monitoring.
7. The investigation and remediation of identified systemic problems and the development of appropriate corrective action plans to remediate such problems.

MEDICALODGES STANDARDS OF CONDUCT

The Medicalodges Standards of Conduct, in conjunction with our Core Values, provides the guiding principles for our decisions and actions as Medicalodges Employees. The Standards of Conduct could actually be summed up by four simple words: “DO THE RIGHT THING”. These four words guide and direct our actions in each situation we face at Medicalodges. As employee- owners of Medicalodges, we are all expected to maintain, and will be held accountable to, the highest possible ethical and moral behavior, regardless of whether the situation is addressed by the Standards of Conduct.

1. Service Excellence. Medicalodges is committed to the delivery of excellent service. Medicalodges Employees strive for service excellence by anticipating resident needs, understanding resident expectations and responding appropriately.
2. Respect. Medicalodges is devoted to the principle of respect for human dignity. Medicalodges Employees treat others with fairness and courtesy showing sensitivity to the emotional and psychological needs of residents, families, visitors and other Medicalodges Employees. Medicalodges Employees will, at all times, demonstrate decision-making that does not discriminate against others due to race, creed, color, age, national origin, religion, disability, gender or other class protected by law.
3. Compliance with Law. Medicalodges Employees abide by the intent and spirit of all applicable laws and regulations and will act in such a manner that the full disclosure of all facts related to any activity reflects favorably upon Medicalodges.
4. Accurate and Reliable Information Reporting. Medicalodges Employees prepare and provide accurate and reliable information in financial reports, accounting records, travel expense records, time sheets, quality reports and all other documents and records.
5. Ethical Standards. Medicalodges Employees adhere to the highest ethical standards of conduct in all activities and act in a manner that enhances Medicalodges’ standing as an ethical contributor within the community.
6. Fair and Honest Dealing. Medicalodges and its Employees deal fairly and honestly with clients.
7. Confidentiality of Information. Medicalodges maintains its confidential business information, as well as the confidentiality of proprietary information belonging to other persons or entities doing business with Medicalodges. Medicalodges maintains the privacy and security of its residents’ health information and will use and disclose such information only in accordance with applicable law.

Medicalodges Employees are expected to uphold and embody the principles set forth in the Standards of Conduct and to report violations by following the reporting procedures established by the Compliance and Ethics Program. Officers, managers and supervisors of Medicalodges have a special duty to adhere to the principles set forth in the Standards of Conduct, to support other Medicalodges Employees in their adherence to the Standards of Conduct, to recognize and detect violations of the Standards of Conduct, and to enforce the standards set forth in support of the code.

It is a violation of the Standards of Conduct to take any action in retaliation against anyone who reports, in good faith, suspected violations of the Standards of Conduct, any other aspect of the Compliance and Ethics Program, or other Medicalodges policies and procedures. Alleged violations of the Standards of Conduct, any other aspect of the Compliance and Ethics Program, or other policies and procedures of Medicalodges are investigated by persons designated by procedures established by Medicalodges. Disciplinary action for violations of the Standards of Conduct, any other aspect of the Compliance and

Ethics Program, or other Medicalodges policies and procedures are handled in accordance with Medicalodges' personnel policies. Medicalodges will cooperate with law enforcement authorities in connection with the investigation and prosecution of any member of the Medicalodges Employees who violates a law governing the activities of Medicalodges.

ADMINISTRATIVE STRUCTURE OF THE COMPLIANCE AND ETHICS PROGRAM

The compliance efforts for Medicalodges are managed and overseen by the Compliance Officer and a Compliance Committee, each of which is more fully described below.

A. COMPLIANCE OFFICER

The Compliance Officer is responsible for directing and assuring the active functioning of Medicalodges' compliance efforts. As such, the Compliance Officer oversees, coordinates and monitors the day-to-day compliance activities of Medicalodges. General responsibilities of the Compliance Officer include the following:

1. Supervising prompt implementation of the Compliance and Ethics Program and coordinating all compliance efforts.
2. Ensuring all Employees receive a copy of the Standards of Conduct and Compliance and Ethics Program and, depending on an individual's particular job responsibilities, any other written compliance policies and guidelines that may be relevant.
3. Chairing meetings of the Compliance Committee.
4. Developing and approving compliance education and training materials, and documenting and implementing tracking mechanisms to document attendance at or completion of required training, and overseeing annual Employees attestations regarding commitment to compliance.
5. Coordinating compliance personnel issues with Medicalodges' Human Resources Department to ensure that compliance is an essential part of performance assessment and the processes set forth in this Compliance and Ethics Program relating to the screening of Employees are completed.
6. Developing communications (e-mails, newsletters, etc.) that encourage Employees to report possible improper, illegal or exemplary conduct.
7. Implementing and operating retaliation-free reporting channels, including the Compliance Hotline.
8. Identifying and assessing areas of Medicalodges' operations which present the greatest compliance risk and prioritizing resources to address those areas.
9. Working with the Compliance Committee to identify risk areas warranting compliance audits.
10. Monitoring and evaluating the Compliance and Ethics Program's effectiveness through internal and external audits, overseeing internal or external resources conducting compliance audits, and assessing results and developing any necessary responses.
11. Overseeing and documenting any compliance investigations, and working with counsel as the situation warrants.
12. Reporting on a regular basis to the Medicalodges Chief Executive Officer regarding day-to-day compliance efforts and promptly reporting the results of material or significant investigations, and reporting to the Board on a quarterly basis.

13. Keeping current with laws, regulations and policies applicable to compliance in order to provide the best possible advice and guidance and reviewing regulations, policies and other guidance released by applicable Federal and State agencies to ensure that Medicalodges Compliance and Ethics Program and other relevant policies addresses the items set forth by such guidance.
14. Periodically, but at least annually, with the Compliance Committee, reviewing the Standards of Conduct and Compliance and Ethics Program and revising as necessary.

B. COMPLIANCE COMMITTEE

The Compliance Committee is responsible for supporting the Compliance Officer in implementing, monitoring and assessing the Compliance and Ethics Program. The Compliance Committee consists of individuals representing Medicalodges' significant operating areas, including Facility Operations, Nursing Care, Records and Documentation, Billings and Collections, Human Resources and Central office. The Compliance Committee meets at least quarterly, or more frequently as necessary, and has the following duties and responsibilities:

1. Continually analyze Medicalodges' risk environment, as well as the legal requirements with which it must comply and specific risk areas.
2. Assess and revise existing compliance policies and procedures to assure compliance with the law, regulations and other requirements of government and private payor health plans.
3. Assist the appropriate personnel in designing and coordinating internal and external compliance reviews and monitoring activities.
4. Review the results of investigations and resulting corrective action plans for Medicalodges or specific departments or business units within Medicalodges.
5. Assess and revise policies and programs to promote compliance and encourage reporting of suspected fraud and other violations without fear of retaliation and to ensure proper response to reports of noncompliance.
6. Review Medicalodges compliance training efforts and revise as appropriate.
7. Maintain minutes of Medicalodges' meetings summarizing the items addressed and actions taken at each meeting.
8. Maintain the confidentiality of any sensitive or proprietary information learned by a member through the Compliance Committee process.

COMMUNICATIONS

Medicalodges' commitment to an active compliance effort is communicated to Employees through a variety of channels to encourage communication and the reporting of incidents of potential non-compliance.

A. COMMUNICATIONS TO EMPLOYEES

In addition to formal compliance training, Employees receive frequent reminders of Medicalodges' commitment to compliance, the various avenues for reporting concerns, and Medicalodges' strict policy of non-retaliation for reporting potential compliance issues. Such communications may take the form of

periodic memos from the Compliance Officer, compliance articles in newsletters, e-mails, inserts in paychecks, or website and intranet postings.

B. COMMUNICATIONS FROM EMPLOYEES

Processes are in place to ensure that Employees know about the various communication channels they may use to express compliance concerns. Anyone who suspects improper or illegal activity is expected to report it. In some circumstances, a failure to report such activity may be grounds for discipline.

1. Seeking Clarification of Compliance and Ethics Program

Employees may seek clarification from a supervisor, department head, facility administrator, the Compliance Officer or any member of the Compliance Committee regarding any confusion or questions about the Compliance and Ethics Program. Questions directed to the Compliance Committee and responses are documented and dated, and if appropriate, shared with other Employees so that standards, policies and procedures can be updated and improved to reflect necessary changes or clarifications.

2. How to Report Potential Wrongdoing

Reports of concerns may be made orally or in writing, and should initially be directed to a Employees's supervisor or the facility administrator. If an Employee is not comfortable reporting concerns to such personnel, or if an Employee is not satisfied with the response to his or her inquiries, the concerns should be directed to the Compliance Officer or to a Compliance Committee member. Issues of concern may also be reported anonymously by calling Medicalodges' Compliance Hotline at 800.782.0120.

3. Responsibilities of Supervisors or Administrators

Supervisors and facility administrators respond appropriately and honestly when possible wrongdoing is brought to their attention. It is their responsibility to relay reports of noncompliance to the Compliance Officer. In keeping with the policy allowing anonymous reports, a supervisor or facility administrator may decline to identify the Employee who originally made the report.

4. Communicating Compliance Activities to Management

The Compliance Officer maintains a tracking log of all concerns and complaints received, as well as the results of any investigations conducted and the outcome of the investigation. The Compliance Officer reports at least quarterly to the Board and Medicalodges' senior management regarding compliance efforts. Such reports include a report on all allegations of wrongdoing, the results of any investigations conducted and any subsequent disciplinary or remedial action taken, recent training efforts undertaken and an overview of current auditing and monitoring efforts. It may also include statistical and trending information.

5. Records Retention

Medicalodges document retention policies include provisions to ensure that all records related to reports of wrongdoing are preserved in accordance with State and Federal laws and to assure other requirements to protect confidentiality.

6. Protection of Employees

Every effort is made to maintain, within the limits of the law, the confidentiality of the identity of any Employees who reports possible misconduct. There will be no retaliation or adverse action for anyone who reports a possible violation in good faith.

7. Departing Employees

Departing employees are asked to submit to an exit interview. One of the purposes of the exit interview is to determine if the Employee has knowledge of wrongdoing, unethical behavior or criminal misconduct. The interview may also be used to obtain information about unsafe or unsound business practices.

C. COMPLIANCE HOTLINE

Medicalodges has established a toll-free Compliance Hotline to receive questions about compliance practices and reports of suspected improper or illegal activities. The phone number for the Compliance Hotline is 800.782.0120. Callers may remain anonymous, although callers are encouraged to provide as much information as possible so that reports can be properly investigated. No one who calls with either a question or a report of suspected misconduct will suffer any kind of retaliation or adverse action, as long as the call was made in good faith.

The person answering the telephone will ask the caller if he or she wants to remain anonymous. If so, the call will be assigned a number. The number can be used to call back and obtain information about the status of the question or concern. The person taking the call will document the call and forward it to the Compliance Officer.

All questions and reports to the Compliance Hotline are kept confidential as far as possible. The Compliance Officer will disclose questions and reports on a “need to know” basis, except as required by law. Similarly, if a caller chooses to identify himself or herself, the Compliance Officer will keep the caller’s identity confidential and disclose the caller’s identity on a “need to know” basis, except as required by law. In general, “need to know” means that disclosure will be made only to the extent necessary to allow for a full investigation of reports of suspected misconduct and for the implementation of any appropriate corrective actions or disciplinary sanctions.

RESPONDING TO DETECTED OFFENSES

The Compliance Officer reviews all allegations of potential wrongdoing arising from reports submitted by Employees, hotline reports, informal communications or audits conducted by Medicalodges. An initial assessment is made to determine the need to involve legal counsel to advise or direct the process and to determine the need for legal privilege to protect the process. At the same time, an assessment is made to determine the appropriate resources required to conduct an investigation sufficient with the gravity of the allegation. The Compliance Officer conducts or oversees the initial investigation, along with legal counsel where it is warranted. Medicalodges’ executive management is immediately notified if a serious allegation appears valid. Additional resources may be required to fully investigate a situation and outside resources may be utilized to conduct a full investigation. Records of an investigation contain: (i) documentation of the alleged violation, (ii) a description of the investigative process, (iii) copies of interview notes and key documents, (iv) a log of the witnesses interviewed and the documents reviewed and (v) the results of the investigation.

If the investigation indicates a violation has occurred, appropriate corrective action will be taken. This may include the following: (i) prompt restitution of any overpayments, (ii) notification to the appropriate government agency, where appropriate, (iii) review of current policies and procedures to determine if clarification is needed, (iv) system modification, (v) employees education, (vi) referral to criminal and /or civil law enforcement authorities, and (vii) possible disciplinary action of involved Employees in accordance with Medicalodges’ applicable personnel policies.

EDUCATION AND TRAINING

Compliance training is provided on a regular basis to ensure all Employees are educated as to the purpose, contents and requirements of the Compliance and Ethics Program. The training program consists of two components: general training and supplemental training. The Compliance Officer, working with the Compliance Committee and other Medicalodges personnel as appropriate, develops and continuously updates such training information.

General training covers the material contained in the Standards of Conduct and the Compliance and Ethics Program, as well as other applicable laws, policies and procedures. It reinforces the need for compliance with applicable statutes, regulations, policies and procedures and advises Employees about disciplinary action that may result from failure to comply. General compliance training is provided to all new Employees as a part of new Employee orientation. The training is updated on an annual basis thereafter. All Employees receive a minimum of one hour of compliance training annually.

Supplemental training covers those items that may present a heightened risk of non-compliance, particularly those directly affected by the statutes, regulations, policies, procedures and program guidelines for Medicare, Medicaid and all other Federal health care programs. Likely areas for potential supplemental training include the following:

- Government and private payor reimbursement principles
- General prohibitions on paying or receiving remuneration to induce referrals
- Medication management, use of psychotropic medications and completion of resident comprehensive care plans
- Proper reporting of resident case mix data
- Detection, investigation and reporting of resident mistreatment, abuse (whether physical or verbal) and neglect
- Provision of therapy services to residents
- Duty to report misconduct
- Other areas identified by the Compliance and Ethics Program or by the Compliance Committee as representing high risk areas

Based upon the results of monitoring efforts, the Compliance Officer is authorized and required to take reasonable steps to achieve the effective implementation of the Compliance and Ethics Program. The Compliance and Ethics Program will be revised as necessary to meet its objectives and when changes in applicable laws, regulations or standards dictate.

Attendance and participation in training is a condition of continued employment at Medicalodges. Upon completing Compliance and Ethics Program training, each Employee is required to sign a written acknowledgement confirming his or her acknowledgment of the training and pledge to adhere to the Compliance and Ethics Program and that the individual understands that failure to comply with the Compliance and Ethics Program could result in disciplinary action in accordance with Medicalodges' personnel policies.

AUDITING AND MONITORING COMPLIANCE EFFORTS

Medicalodges actively uses monitoring and auditing functions to assess the effectiveness of its Compliance and Ethics Program. The types of audits and areas to be audited are determined each year by the Compliance Committee. Audits are conducted by using outside resources such as counsel, auditors or other health care experts or through internal personnel or through an internal audit function. Audits may include the review of a statistically valid random sample of cases, Employee interviews, and trend analysis studies. The results of such audits are presented to the Compliance Committee, which assesses the results and recommends any necessary corrective measures. Such corrective measures may include additional auditing, monitoring, new policies, additional training and education. Monitoring efforts are also used to ensure compliance with laws governing referrals between Medicalodges and other providers; coding, claims development and submission; and reimbursement.

While the Compliance Officer and Compliance Committee periodically assess the Medicalodges' risk areas to determine which areas may warrant a compliance audit, certain areas by their nature present significant risk potential. Accordingly, coding and billing audits are conducted at least annually and more frequently where warranted. In certain areas identified by the Compliance Committee, an audit is performed to establish a baseline level of compliance and subsequent audits are performed to assess variations from the baseline or improvement resulting from training and oversight efforts.

At least annually, a review is performed to assess whether the Compliance and Ethics Program's elements have been satisfied, e.g., whether there has been appropriate publication of the Compliance and Ethics Program's standards, training, ongoing education programs and disciplinary actions.

ENFORCEMENT AND DISCIPLINE

Adherence to the Compliance and Ethics Program is required of all Medicalodges' Employees and is a material condition of employment. Any Employee who violates the Compliance and Ethics Program or health care laws or regulations, or program requirements is subject to disciplinary measures in accordance with Medicalodges' personnel policies. The discipline could include termination of employment. Nothing in this Compliance and Ethics Program or Medicalodges' personnel policies is intended to create an employment contract between Medicalodges and any Employee.

IDENTIFICATION OF RISKS; STANDARDS AND POLICIES

A. BILLING AND CLAIMS SUBMISSION

Medicalodges is committed to a process whose outcomes result in coding, billing and reimbursement procedures that comply with all Federal and State laws, regulations, policies and guidelines. Medicalodges intends that all billing claims submitted for payment to government and private third party payors are accurate, represent the services actually provided and describe the conditions under which the resident received the services. Consistent with this policy, Medicalodges takes its best efforts to ensure that the following billing and coding principles are followed:

1. Medicalodges submit claims only for medically necessary items and services ordered by a physician or other practitioner and accurately represent the manner in which items or services were provided.
2. Medicalodges only submits claims to Medicare Part A if a resident meets the eligibility requirements for Part A coverage.
3. Medicalodges will not knowingly engage in duplicate billing (e.g., Medicalodges will not

knowingly bill for the same item or service that a vendor has billed to a Federal health care program), will not knowingly bill for care that is inadequate or substandard, and will not knowingly submit false cost reports.

4. Medicalodges identifies and refunds credit balances.
5. Medicalodges properly reports its resident case-mix data through the provision of accurate and comprehensive information about a resident's medical condition on the Minimum Data Set (or MDS) and through proper determination of the Resource Utilization Group (or RUG) assigned to each resident. Medicalodges provides training to its Employees on the collection and use of case-mix data and conducts internal and external periodic validation of such data to determine its accuracy.
6. Medicalodges will not bill for individual items or services when they either are included in the Medicalodges facility's per diem rate or are otherwise covered by a third party payor's payment rate or are of the type of item or service that must be billed as a unit and may not be unbundled.
7. Medicalodges will not alter documentation or forge a physician signature on documents used to verify services were ordered and/or provided.
8. Medicalodges maintains sufficient documentation to support the diagnosis of a resident, justify treatment to a resident, document the course of treatment and results, and promote continuity of care.
9. Medicalodges ensures that its residents receive medically appropriate physical therapy, occupational therapy and speech therapy services. To assist in fulfilling this commitment, Medicalodges requires therapy contractors to provide complete and contemporaneous documentation of each resident's therapy services; provide regular and periodic reconciliation of the physician's orders and the services actually provided; conduct interviews with the residents and family members to be sure services are delivered; and assess the continued medical necessity for services during care planning meetings with attending physician input. Medicalodges will not (i) improperly utilize therapy services to inflate the severity of RUG classification and obtain additional reimbursement, (ii) overutilize therapy services on a fee-for-service basis to Part B under consolidated billing, or (iii) stint on therapy services provided to patients covered by the Part A prospective payment system payment.
10. Medicalodges is committed to the principle that its residents receive appropriate restorative and clinical care services to allow residents to attain and maintain their highest practicable level of functioning. These services include, among others, care to avoid pressure ulcers, active and passive range of motion, ambulation, fall prevention, incontinence management, bathing, dressing, and grooming activities. Medicalodges will monitor that the restorative and personal care services for which it seeks reimbursement are of an appropriate quality and level and were, in fact, delivered to nursing facility residents by (i) engaging in resident and employees interviews; (ii) performing medical record reviews (to ensure complete and contemporaneous documents of services); (iii) consulting with attending physicians, the medical director, and consultant pharmacists; and (iv) personally observing care delivery.
11. Any employee who submits a claim in violation of this section shall be disciplined accordingly including termination and potential criminal sanctions.

B. QUALITY OF CARE

Medicalodges is committed to providing the care and services necessary for its residents to attain or maintain their highest practicable physical, mental and psychosocial well-being. To achieve this goal, Medicalodges continually measures its performance against comprehensive quality of care standards that incorporate, among other things, the requirements set out at 42 C.F.R. Part 483, and revises its care processes as necessary to address issues identified through the survey and certification processes (e.g., annual State agency surveys, Federal validation surveys or complaint surveys) as well as quality of care risk areas identified by ombudsman and other sources. Additionally, Medicalodges has a system that reviews each resident's outcomes and improves on those outcomes through analysis and modification of the delivery of care. Highlighted below are common risk areas associated with the delivery of quality health care to nursing facility residents, as well as Medicalodges' response to these risk areas.

1. Sufficient Staffing

Medicalodges is committed to providing Staff with appropriate clinical expertise in sufficient numbers to serve its residents in accordance with applicable Federal and State law. Federal law requires sufficient staffing necessary to attain or maintain the highest practicable physical, mental, and psychosocial well-being of residents. Applicable State law may contain similar requirements and may go farther by requiring a nursing facility to meet certain employees-to-resident ratios. To ensure it has competent, sufficient Staff to care for the unique acuity levels of its residents in accordance with Federal and State law, Medicalodges evaluates and assesses its staffing models, and, as part of such an evaluation and assessment, may consider such factors as case-mix, QAPI processes, staff skill levels, staff-to-resident ratios, staff turnover, staffing schedules, disciplinary records, payroll records, timesheets, and adverse event reports, as well as interviews with employees, residents, and residents' family or legal guardians, and will take its best efforts in ensuring that it has sufficient Employees with appropriate clinical expertise to service its residents.

2. Comprehensive Care Plans

In compliance with applicable law, Medicalodges is committed to developing a comprehensive care plan for each of its resident that addresses the medical, nursing, and mental and psychosocial needs for such resident and includes reasonable objectives and timetables. Measures to develop such care plans will include (i) scheduling meetings to accommodate the resident's full interdisciplinary team, (ii) completing all clinical assessments accurately and as quickly as possible, (iii) opening lines of communication between direct care providers and interdisciplinary team members, involving the resident and his or her family members or legal guardian(s), (iv) documenting the length and content of each meeting, and (v) including attending physicians in the development of a resident's care plan.

3. Medication Management

Medicalodges is committed to acquiring, receiving and administering drugs and biologicals to meet the needs of each resident and to complying with all applicable Federal and State law relating to the possession or administration of such drugs and biologicals, including controlled substances. To this end, Medicalodges has processes in place that (i) maintain accurate drug records and accurately and appropriately track medications, including controlled substances; (ii) limits access to such drugs and biologicals, including controlled substances, to Employees who are properly licensed and have express authority to handle them; (iii) expressly prohibit the unauthorized manufacture, distribution, use or possession of controlled substances by Employees; (iv) advance patient safety; (v) minimize adverse drug interactions; (vi) monitor that irregularities in a resident's drug regimen are promptly discovered and addressed; and (vii) provide appropriate regular training to familiarize all Employees involved in the pharmaceutical care of residents with proper medication management. Medicalodges has employed or

contracted with a pharmacist who provides consultation to each Medicalodges' facility on the facility's provision of pharmacy services through review of the drug regimen of each resident at least once a month, reporting any irregularities discovered in such review to the attending physician and the facility's director of nursing, establishing a system of records of receipt and disposition of all controlled drugs, and determining that drug records are in order and that an account of all controlled drugs is maintained and periodically reconciled.

4. Appropriate Use of Psychotropic Medications

Medicalodges monitors and manages the appropriate use of psychotropic medications by its residents and that psychopharmacological practices comply with applicable Federal and State laws, rules and regulations and generally accepted professional standards. Medicalodges process requires that there is an adequate indication for the use of the medication; will carefully monitor, document, and review the use of each resident's psychotropic drugs; will educate care providers regarding appropriate monitoring and documentation practices; and will audit drug regimen reviews and resident care plans to determine if they incorporate an assessment of the need for psychotropic medications for a specific medical condition.

5. Resident Safety

Medicalodges is committed to take measures to provide and maintain an environment where its residents are free from mistreatment, abuse (whether physical or verbal) and neglect, including both Employees-to-resident mistreatment, abuse and neglect and resident-to-resident mistreatment, abuse and neglect. Accordingly, Medicalodges has developed policies and procedures that prohibit and prevent mistreatment, neglect and abuse of residents; that provide for the thorough investigation and confidential reporting of suspected or actual instances of mistreatment, neglect and abuse to appropriate Federal and State authorities, in accordance with applicable Federal and State law; and that provide a set of actions to respond to suspected or actual instances of mistreatment, neglect or abuse. *See Abuse, Neglect and Exploitation Orientation and Personnel Policies Elder Justice Act* for further direction.

C. SCREENING OF EMPLOYEES AND CONTRACTORS

Medicalodges is committed to providing for the safety of its residents through appropriate screening of Employees and contractors. Specifically, Medicalodges takes the following actions with respect to current and prospective Employees and contractors:

1. Medicalodges requires all Employee applicants to certify (e.g., on the employment application) that they have not been convicted of an offense that would preclude employment in a nursing facility and that they are not excluded from participation in the Federal health care programs.
2. Medicalodges verifies educational, license and training qualifications of each of its current and prospective Employees.
3. Medicalodges checks applicable nurse aide registries to ensure that potential hires have met competency evaluation requirements or are otherwise exempted from registration requirements.
4. Medicalodges checks each Employee applicant's criminal record both in the State in which the facility is located and in all States where we have knowledge person has worked or resided to ensure that such applicant has not been convicted of an offense that would preclude employment in a nursing facility.
5. Medicalodges checks the OIG's List of Excluded Individuals/Entities (LEIE), available at

<http://oig.hhs.gov/fraud/exclusions/listofexcluded.html>, and the General Service Administration's Excluded Parties List System, available at <http://sam.gov/>, to ensure that Employee applicants have not been excluded or debarred from participation in the Federal health care programs.

6. Medicalodges requires current Employees to immediately report to Medicalodges if, subsequent to the Employee's employment, he or she is convicted of an offense that would preclude employment in a nursing facility or is excluded from participation in any Federal health care program.
7. As to an Employee who Medicalodges knows has been charged with a criminal offense related to the delivery of health care services or who Medicalodges knows has been proposed for exclusion from participation in the Medicare or Medicaid program during his or her employment, Medicalodges takes all appropriate actions to ensure the responsibilities of such Employee member does not adversely affect the quality of care rendered to any resident or the accuracy of any claim submitted to any Federal health care program.
8. Medicalodges will immediately terminate any current Employee who is convicted of a criminal offense related to health care or excluded or debarred from participation in a government health care program or otherwise ineligible to participate in such program.
9. Medicalodges requires temporary employment agencies to take the steps identified in 1 through 5 above with respect to any temporary employees assigned to a Medicalodges facility.
10. Medicalodges screens all new entities and individuals with which it enters into a contractual relationship against the lists set forth in number 5 above to ensure that such contractors have not been excluded or debarred from participation in the Federal health care programs.

D. RISKS ARISING FROM THE REFERRAL STATUTES

1. Federal Anti-Kickback Statute

The Federal anti-kickback statute prohibits compensation (in any form, whether direct or indirect) made purposefully to induce or reward the referral or generation of Federal health care program business. The anti-kickback statute prohibits offering or paying anything of value for patient referrals. It also prohibits offering or paying of anything of value in return for purchasing, leasing, ordering, or arranging for or recommending the purchase, lease, or order of any item or service reimbursable in whole or in part by a Federal health care program. The statute also covers the solicitation or acceptance of compensation for referrals for, or the generation of, business payable by a Federal health care program. Although liability under the anti-kickback statute ultimately turns on a party's intent, neither a legitimate business purpose for the arrangement nor a fair market value payment, will legitimize a payment if there is also an illegal purpose (i.e., an intent or desire to induce Federal health care program business.).

Violations of the anti-kickback statute are subject to criminal sanctions, civil monetary penalties, and exclusion from the Federal health care programs. Compliance with the anti-kickback statute is a condition of payment under Medicare and other Federal health care programs. As such, liability may arise under other Federal acts and laws regarding the submission of claims for payment under a Federal health care program if the anti-kickback statute violation results in a violation for such other acts or laws.

The anti-kickback statute sets forth a number of payment practices that will not be subject to criminal prosecution, commonly known as the "safe harbors". If an arrangement fits within a safe harbor and all of the elements of the safe harbor are satisfied, the arrangement will not create a risk of criminal penalties and exclusion from the Medicare and Medicaid programs. However, the failure to satisfy every element of a safe harbor does not in itself make an arrangement illegal. Analysis of a payment practice under the anti-

kickback laws and the safe harbors is complex, and depends upon the specific facts and circumstances of each case.

Medicalodges makes and receives referrals of Federal health care program business. Medicalodges may obtain referrals of Federal health care program beneficiaries from a variety of health care sources, including, for example, physicians and other health care professionals, hospitals and hospital discharge planners, hospices, home health agencies, and other nursing facilities. Physicians, pharmacists, and other health care professionals may generate referrals for items and services reimbursed to Medicalodges by Federal health care programs. In addition, when furnishing services to residents, Medicalodges could direct or influence referrals to others for items and services reimbursable by Federal health care programs. For example, Medicalodges could refer patients to, or order items or services from, hospices, durable medical equipment companies, laboratories, diagnostic testing facilities, long-term care pharmacies, hospitals, physicians, other nursing facilities, and physical, occupational, and speech therapists.

Some of the more common transactions and arrangements which implicate the anti-kickback statute include the following:

a. Free goods and services.

The provision of free goods or services to an existing or potential referral source implicates the anti-kickback statute. There is a substantial risk that free goods or services may be used as a vehicle to disguise or confer an unlawful payment for referrals of Federal health care program business. Specifically, the provision of goods or services that have independent value to the recipient or that the recipient would otherwise have to provide at its own expense confers a benefit on the recipient. This benefit may constitute prohibited remuneration under the anti-kickback statute, if one purpose of the remuneration is to generate referrals of Federal health care program business. Examples of suspect free goods and services arrangements that warrant careful scrutiny include: (i) pharmaceutical consultant services, medication management, or supplies offered by a pharmacy; (ii) infection control, chart review, or other services offered by laboratories or other suppliers; (iii) equipment, computers, or software applications that have independent value to the facility; (iv) durable medical equipment or supplies offered by durable medical equipment suppliers for patients covered by the Medicare Part A benefit; (v) a laboratory phlebotomist providing administrative services; (vi) a hospice nurse providing nursing services for non-hospice patients; and (vii) a registered nurse provided by a hospital. Medicalodges will ensure that the remuneration in any arrangement with an existing or potential referral source is based on fair market value terms, that the arrangement is not related in any manner to the volume or value of Federal health care program business and that the arrangement otherwise complies with the anti-kickback statute.

b. Non-physician service contracts.

Medicalodges may enter into arrangements for certain services and supplies to be provided to residents by outside suppliers and providers, such as pharmacies, clinical laboratories, durable medical equipment suppliers, ambulance providers, parenteral and enteral nutrition (PEN) suppliers, diagnostic testing facilities, rehabilitation companies, and physical, occupational, and speech therapists. These relationships need to be examined closely under the anti-kickback statute to ensure that they are not being used to disguise kickbacks from the suppliers and providers to the nursing facility to influence the nursing facility to refer Federal health care program business to the suppliers and providers. To minimize their risk, if possible, Medicalodges will structure these arrangements to meet the conditions of the personal services and management contracts safe harbor. If that is not possible, Medicalodges will periodically review contractor and Employees arrangements to ensure that: (i) there is a legitimate need for the services or supplies; (ii) the services or supplies are actually provided and adequately documented; (iii) the compensation is at fair-market value in an arm's-length transaction; and (iv) the arrangement is not related in any manner to the volume or value of Federal health care program business. Medicalodges will have and maintain contemporaneous documentation of each arrangement that supports its compliance with the anti-

kickback statute.

In addition, Medicalodges has also committed to minimizing the risk of improper pharmaceutical decisions tainted by kickbacks by: (i) monitoring that all prescribing decisions must be based on the best interests of its residents; (ii) monitoring that drug switches will only be made upon authorization of the attending physician, medical director, or other licensed prescriber (except in certain limited circumstances where permitted by State law, e.g., permissible generic substitutions or changes allowed under a collaborative practice agreement between a physician and a pharmacist); (iii) monitoring drug records for patterns that may indicate inappropriate drug switching or steering; and (iv) educating Employees and practitioners involved in prescribing, administering, and managing pharmaceuticals on the legal prohibition against accepting anything of value from a pharmacy or pharmaceutical manufacturer to influence the choice of drug or to switch a resident from one drug to another.

c. Physician services.

Medicalodges may also arrange for physicians to provide medical director, quality assurance, and other services. While such physician oversight and involvement at Medicalodges facilities contributes to the quality of care furnished to Medicalodges' residents, these physicians may also be in a position to generate Federal health care program business for Medicalodges. For instance, these physicians may refer patients for admission or may order items and services that result in an increased RUG classification or that are billable separately by Medicalodges. Medicalodges will closely monitor physician arrangements to ensure that they are not vehicles to pay physicians for referrals. As with other services contracts, to minimize their risk, if possible, Medicalodges will structure these arrangements to meet the conditions of the personal services and management contracts safe harbor. If that is not possible, Medicalodges will periodically review such arrangements to ensure that: (i) there is a legitimate need for the services or supplies (and that Medicalodges has not engaged more physicians than necessary for legitimate business purposes); (ii) the services or supplies are actually provided and adequately documented; (iii) the compensation is at fair-market value in an arm's-length transaction; and (iv) the arrangement is not related in any manner to the volume or value of Federal health care program business. Medicalodges will have and maintain contemporaneous documentation of the arrangement (including, for example, the compensation terms, time logs or other accounts of services rendered, and the basis for determining compensation) that supports its compliance with the anti-kickback statute.

d. Price reduction discount arrangements.

Medicalodges will ensure that all discounts—including any rebates—are properly disclosed and accurately reflected on its cost reports (and in any claims as appropriate) filed with a Federal program in a manner that complies with the discount safe harbor to the anti-kickback statute. In addition, if Medicalodges purchase products through a group purchasing organization (or GPO) to which it belongs, any discounts received from vendors who sell their products under a GPO contract will be properly disclosed and accurately reported on its cost reports.

e. "Swapping" arrangements.

In negotiating arrangements with suppliers and providers, Medicalodges will be careful that there is no link or connection, clear or implied, between discounts offered or solicited for business that Medicalodges pays for and Medicalodges' referral of business billable by the supplier or provider directly to Medicare or another Federal health care program. For example, Medicalodges will not engage in "swapping" arrangements with any provider or supplier (including any clinical laboratory, durable medical equipment supplier, or ambulance provider) by accepting a low price from a supplier or provider on an item or service covered by Medicalodges' Part A per diem payment in exchange for Medicalodges referring to the supplier or provider other Federal health care program business, such as Part B business excluded from

consolidated billing, that the supplier or provider can bill directly to a Federal health care program.

f. Other discount arrangements.

Medicalodges will ensure that any other arrangements involving discounts (e.g., below-cost arrangements, arrangements at prices lower than the prices offered by the supplier or provider to other customers with similar volumes of business, but without Federal health care program referrals, discounts that are coupled with exclusive provider agreements and discounts or other pricing schemes made in conjunction with clear or implied agreements to refer other facility business) comply with the anti-kickback statute.

g. Hospices.

Medicalodges may arrange for the provision of hospice services in its facilities for residents meeting the hospice eligibility criteria and electing the hospice benefit. Medicalodges understands that requesting or accepting compensation from a hospice may subject Medicalodges and the hospice to liability under the anti-kickback statute if the compensation could influence the Medicalodges' decision to do business with the hospice. Some of the practices that are suspect under the anti-kickback statute include:

- A hospice offering free goods or goods at below-fair-market value to induce Medicalodges to refer patients to the hospice.
- A hospice paying room and board payments to Medicalodges in excess of what Medicalodges would have received directly from Medicaid had the patient not been enrolled in hospice. Any additional payment must represent the fair-market value of additional services actually provided to that patient that are not included in the Medicaid daily rate.
- A hospice paying amounts to Medicalodges for additional services that Medicaid considers to be included in its room and board payment to the hospice.
- A hospice paying above fair-market value for additional services that Medicaid does not consider to be included in its room and board payment to the nursing facility.
- A hospice referring its patients to Medicalodges to induce Medicalodges to refer its patients to the hospice.
- A hospice providing free (or below fair-market value) care to nursing facility patients, for whom the nursing facility is receiving Medicare payment under the Medicare Part A benefit, with the expectation that after the patient exhausts the benefit, the patient will receive hospice services from that hospice.
- A hospice providing employees at its expense to Medicalodges.

Where it can, Medicalodges will ensure that any arrangement between Medicalodges and a hospice will meet the conditions of the personal services and management contracts safe harbor. Where that is not possible, Medicalodges will ensure that the arrangement complies with the anti-kickback statute.

h. Reserve bed arrangements.

In the event Medicalodges enters into a reserve bed arrangement with a hospital to receive guaranteed or priority placement for its discharged patients and in the event such arrangement involves the hospital's payment of compensation to Medicalodges to keep certain beds available and open, Medicalodges will ensure that reserve bed payment arrangements are entered only when there is a legitimate need to have the arrangement in place and that payments will not be determined in any manner that reflects the volume or

value of existing or potential referrals of Federal health care program business from Medicalodges to the hospital. Examples of some reserved bed payments that may give rise to an inference the arrangement is connected to referrals include: (i) payments that result in double-dipping by the nursing facility (*e.g.*, sham payments for beds that are actually occupied or for which the facility is otherwise receiving reimbursement); (ii) payments for more beds than the hospital legitimately needs; and (iii) excessive payments (*e.g.*, payments that exceed the nursing facility's actual costs of holding a bed or the actual revenues nursing facility reasonably stands to forfeit by holding a bed given the nursing facility's occupancy rate and patient acuity mix). Medicalodges will take measures to ensure that neither Medicalodges nor its facilities enters into such suspicious reserved bed arrangements.

2. Stark Law

A Federal law known as the "Stark Law" applies to any physician who has, or whose immediate family member has, a "financial relationship" with any entity, and prohibits referrals by that physician to the entity for the provision of certain designated health services reimbursed by Medicare and Medicaid. A financial relationship may be created by ownership, investment or compensation.

The Stark Law applies to designated health services. Nursing facility services, including SNF services covered by the Part A prospective payment system payment, are not designated health services under the Stark Law. However, designated health services include laboratory services, physical therapy services, and occupational therapy services. Nursing facilities that bill Medicare Part B for laboratory services, physical therapy services, occupational therapy services, or other designated health services pursuant to the consolidated billing rules are considered entities that furnish designated health services.

If a financial relationship exists between a physician and an entity that furnishes designated health services, referrals by the physician to the entity are prohibited unless a specific exception is met. Violations of the Stark Law can result in refunding of the prohibited payment, civil monetary penalties, and exclusion from the Medicare program. Violations of the Stark Law can also form the basis for liability under other statutes and laws, which can result in additional sanctions, such as imprisonment and additional monetary fines.

To ensure compliance with the Stark Law, Medicalodges will (i) review particular arrangements it has entered with physicians (including attending physicians who treat residents and physicians who are nursing facility medical directors, or consultants), (ii) enter into appropriate written agreements with physicians, (iii) review their contracting processes to ensure that they obtain and maintain signed agreements covering all time periods for which an arrangement is in place, (iv) have appropriate processes for making and documenting reasonable, consistent, and objective determinations of fair market value and for ensuring that needed items and services are furnished or rendered, and (v) implement systems to track non-monetary compensation provided annually to referring physicians (such as free parking or gifts) and ensure that such compensation does not exceed limits set forth in the Stark Law.

ANTI-SUPPLEMENTATION

Medicalodges is required by law to accept the applicable Medicare or Medicaid payment (including any beneficiary coinsurance or co-payments authorized under those programs), respectively, for covered items and services as the complete payment. For covered items and services, Medicalodges will not charge a Medicare or Medicaid beneficiary, or another person in lieu of the beneficiary, any amount in addition to what is otherwise required to be paid under Medicare or Medicaid (*i.e.*, a cost-sharing amount). For Medicare and Medicaid beneficiaries, Medicalodges will not accept supplemental payments, including, but not limited to, cash and free or discounted items and services, from a hospital or other source merely because Medicalodges considers the Medicare or Medicaid payment to be inadequate.

E. MEDICARE PART D

Residents of Medicalodges who decide to enroll in Part D have the right to choose their Part D plans. Medicalodges: (i) will work with their current pharmacies to assure that they recognize the Part D plans chosen by Medicalodges' Medicare beneficiaries, (ii) will ensure that any information provided to residents about Part D plans is complete and objective, (iii) will not act in a way that would frustrate a beneficiary's freedom of choice in choosing a Part D plan, (iv) will not require, request, coach or steer any resident to select or change a plan for any reason, or knowingly and/or willingly allow the pharmacy servicing any Medicalodges facility to do the same, and (v) will assist residents in obtaining complete and objective information about all of the plans available to them in an effort to help reduce the risk that Medicalodges steers its residents to select or change to a particular plan.

F. PRIVACY AND SECURITY OF HEALTH INFORMATION

Medicalodges is subject to detailed rules that govern the use and disclosure of individuals' health information and standards for individuals' privacy and security rights to understand and control how their health information is used and disclosed. These rules can be found at <http://www.hhs.gov/ocr/hipaa>. Penalties for failing to comply with these rules are significant. Medicalodges has developed privacy procedures to ensure compliance with the privacy and security rules developed under the Health Insurance Portability and Accountability Act of 1996 (or HIPAA) and has instituted training programs to educate all employees of their obligations with respect to these requirements.

G. RESIDENTS' RIGHTS

Medicalodges is committed to ensuring that its residents are able to exercise the rights granted to them under Federal and State law. In addition to residents' rights discussed elsewhere in this Compliance and Ethics Program, Medicalodges will take measures to ensure that physical or chemical restraints are not inappropriately used for Medicalodges' residents, residents are able to participate meaningfully in their care, treatment and daily life-care decisions and that residents' financial affairs are safeguarded (including, without limitation, complying with the requirements set out at 42 C.F.R. 483.10(c), as those requirements may be amended from time-to-time).

H. COMPETITION AND ANTITRUST

Medicalodges is committed to compliance with all Federal and State antitrust laws. The purpose of the antitrust laws is to preserve the competitive free enterprise system. The antitrust laws in the United States are founded on the belief that the public interest is best served by competition, free from improper agreements among competitors on price or service items. The antitrust laws apply to health care services provided by nursing facilities and physicians, and Medicalodges is firmly committed to the philosophy underlying those laws and to compliance with those laws.

The antitrust laws prohibit most agreements to fix prices, divide markets, boycott competitors, exchange information regarding prices and fees and conduct that is found to restrict competition unreasonably. This can include, depending on the facts and circumstances involved, certain attempts to tie or bundle services together, certain exclusion activities, agreements with competitors to boycott or refuse to deal with a particular person or company such as a vendor, supplier or payor, and certain agreements that have the effect of harming a competitor or unlawfully raising prices.

Penalties for antitrust violations include substantial monetary fines and imprisonment. In addition, actions giving rise to antitrust violations may violate other Federal criminal statutes, resulting in additional fines and even longer prison sentences. Antitrust violations also create civil liability. Private individuals or companies may bring actions to enjoin antitrust violations and to recover damages for injuries caused by

violations.

To comply with these laws, Medicalodges instructs its Employees to (i) not initiate any discussion with a competitor that in any way relates to activities that implicate the antitrust laws, (ii) contact the Compliance Officer in the event a competitor begins discussing a prohibited activity, (iii) exercise good judgment and discretion in situations when an Employee is in contact with representatives of competitors (e.g., trade association meetings and professional activity meetings), and (iv) contact the Compliance Officer in the event an Employee has questions that relate to the antitrust laws.

I. ENTERTAINMENT, GIFTS, GRATUITIES AND PROMOTIONAL ITEMS

1. Gifts from Residents or Family Members

Medicalodges Employees are prohibited from soliciting tips, personal gratuities or gifts, whether monetary or non-monetary, from residents and family members. Employees are prohibited from accepting monetary tips or gratuities from residents or family members. If a resident or another individual wishes to present a monetary gift, he/she should be referred to the appropriate business unit office within Medicalodges.

2. Gifts from Parties with an Actual or Potential Business Relationship

Medicalodges recognizes that business dealings may include a shared meal or other similar social occasion, which may be proper business expenses and activities in order to further develop a business relationship. Gifts may only be received by Medicalodges Employees when they are of such limited value that they could not reasonably be perceived by anyone as an attempt to influence the judgment or decisions of the recipient. Gifts may take many forms, such as: entertainment, gratuities or promotional items from suppliers. If Employees receive a gift, of greater than nominal value, it must be reported to the Compliance Officer and turned over to Medicalodges. In addition, the Compliance Officer, in conjunction with the Compliance Committee, may determine that certain gifts, even if of nominal value, may be prohibited (e.g., tickets to entertainment events, trips provided at a vendor's or supplier's expense, education provided outside Medicalodges at the vendor's expense, and any other items or activities which may be construed as an attempt to influence the judgment or decisions of a Employee).

J. GOVERNMENT INVESTIGATIONS

It is Medicalodges' policy to fully comply with the law and cooperate with government auditors and investigators in a reasonable and diligent manner, while preserving the legal rights of Medicalodges, its Employees, clients and residents. Accordingly:

1. If a Medicalodges Employee is approached while on Medicalodges' property by a person who identifies himself or herself as a government investigator, the Employee should contact the Corporate Legal Department which will verify the identity of the agent and take steps to assist the agent.
2. In certain instances, a Medicalodges Employee may be contacted outside the workplace by government investigators or persons presenting themselves as government investigators. The law gives the Employee the right to be represented by legal counsel during any interview with or questioning by a government investigator. Medicalodges does not prohibit Employees from speaking to any government investigator or agent. However, while the decision about granting an interview is up to each Employee, Medicalodges may be able to assist the Employee in scheduling and properly preparing for an interview. Also, when appropriate, Medicalodges may elect to pay the expense of a private lawyer to represent the Employee individually (as permitted by applicable law). If a Medicalodges Employee receives a direct inquiry by a government investigator regarding

Medicalodges' business, whether at home or in the work place, immediately notify the Compliance Officer or the Corporate Legal Department.

3. If a Medicalodges Employee receives a subpoena, search warrant or other related legal instrument concerning Medicalodges (including documents that request that you provide certain documents before a court or hearing officer), the Employee is required to submit the documents to the Compliance Officer or the Corporate Legal Department prior to any action being taken. If the Employee receives any other legal document with respect to which the Employee is unsure as to how to proceed, the Employee should contact the Compliance Officer or the Corporate Legal Department.
4. Medicalodges is committed to taking measures to require its Employees cooperates with and is courteous to all government inspectors and provides them with the information to which they are entitled during an inspection. During a government inspection, Medicalodges will take steps to ensure that its Employees never conceals, destroys or alters any documents or makes false or misleading statements to a government representative. Retaliatory conduct against a Employee who, in compliance with the Compliance and Ethics Program, cooperates with an investigation is strictly prohibited. Any instances of retaliation shall be reported immediately to the Compliance Officer.

K. NONDISCRIMINATION

Medicalodges is committed to ensuring the fair and equitable treatment of its residents.

Medicalodges prohibits discrimination on the basis of race, color, sex, religion, age, national origin, disability, veteran status or any other status protected by law, with respect to provision of services to its residents or their access to treatment, programs or other services. If any Medicalodges Employee feels any resident has been discriminated against or harassed on the basis of one of these categories, the Employee is encouraged to contact the Compliance Officer who will investigate the incident. Medicalodges will also reinforce to its residents that if they feel they have been the subject of such unlawful discrimination or harassment, they are encouraged to notify Medicalodges, who will refer the matter to the appropriate individual for investigation.

Medicalodges is also committed to nondiscrimination with respect to its Employees, as set forth in Medicalodges' personnel policies.

L. MEDICAID FRAUD AND ABUSE

Medicalodges is committed to its role in preventing health care fraud and abuse and complying with applicable state and federal law related to health care fraud and abuse. The Deficit Reduction Act of 2005 requires information about both the federal False Claims Act and other laws, including state laws, dealing with fraud, waste and abuse and whistleblower protections for reporting those issues. To ensure compliance with such laws, Medicalodges has policies and procedures in place to detect and prevent fraud, waste and abuse and also supports the efforts of federal and state authorities in identifying incidents of fraud and abuse. This policy sets forth information concerning Medicalodges existing policies and procedures, including avenues for reporting concerns internally, and an overview of the Federal Civil False Claims and Program Fraud Civil Remedies Acts and applicable state laws.

a. Policies and Procedures

Medicalodges takes health care fraud and abuse very seriously. It is our policy to provide information to all employees, contractors and agents about the federal and state false claims acts, remedies available under

these provisions and how employees and others can use them, and about whistleblower protections available to anyone who claims a violation of the federal or state false claims acts. We also advise our employees, contractors and agents of the steps Medicalodges has in place to detect health care fraud and abuse.

b. Federal and State False Claims Laws

The role of federal and state laws in preventing fraud, waste and abuse: The Centers for Medicare and Medicaid Services (CMS) defines “fraud” as the intentional deception or misrepresentation that an individual knows to be false (or does not believe to be true) and makes, knowing that the deception could result in an unauthorized benefit to himself or another person. CMS defines “abuse” as incidents or practices of providers that are inconsistent with sound medical practice and may result in unnecessary costs, improper payment or payment for services that either fail to meet professionally recognized standards of care or are medically unnecessary.

The federal government and the states of Kansas, Missouri and Oklahoma have enacted criminal and civil laws pertaining to the submission of false or fraudulent claims for payment or approval to the federal and state governments and to private payors. These false claims laws which provide for criminal, civil and administrative penalties provide governmental authorities with broad authority to investigate and prosecute potentially fraudulent activities and also provide anti-retaliation provisions for individuals who make good faith reports of waste, fraud and abuse.

The Federal Civil False Claims and Program Fraud Civil Remedies Acts, applicable state laws and anti-retaliation provisions are summarized in the following sections.

1. Federal Civil False Claims Act

The Civil False Claims Act (31 U.S.C. §3729 *et seq.*) is a statute that imposes civil liability on any person who

Knowingly presents, or causes to be presented, a false or fraudulent claim, record or statement for payment or approval,

Conspires to defraud the government by getting a false or fraudulent claim

allowed or paid, Uses a false record or statement to avoid or decrease an

obligation to pay the government and Other fraudulent acts enumerated in

the statute.

The term “knowingly” as defined in the Civil False Claims Act (FCA) includes a person who has actual knowledge of the information, acts in deliberate ignorance of the truth or falsity of the information, or acts in reckless disregard of the truth or falsity of the information. No proof of specific intent to defraud is required.

The term “claim” includes any request or demand for money or property if the United States’ government provides any portion of the money requested or demanded.

Potential civil liability under the FCA currently includes penalties of between five thousand five hundred (\$5,500.00) and eleven thousand (\$11,000.00) per claim, treble damages and the costs of any civil action brought to recover such penalties or damages.

The attorney general of the United States is required to diligently investigate violations of the FCA and may

bring a civil action against a person. Before filing suit, the attorney general may issue an investigative demand requiring production of documents and written answers and oral testimony.

The FCA also provides for actions by private persons (*qui tam* lawsuits) who can bring a civil action in the name of the government for a violation of the act. Generally, the action may not be brought more than six years after the violation but in no event more than ten (10). When the action is filed, it remains under seal for at least sixty (60) days. The United States' government may choose to intervene in the lawsuit and assume primary responsibility for prosecuting, dismissing or settling the action. If the government chooses not to intervene, the private party who initiated the lawsuit has the right to conduct the action.

In the event the government proceeds with the lawsuit, the *qui tam* plaintiff may receive fifteen to twenty-five percent of the proceeds of the action or settlement. If the *qui tam* plaintiff proceeds with the action without the government, the plaintiff may receive twenty-five to thirty percent of the recovery. In either case, the plaintiff may also receive an amount for reasonable expenses plus reasonable attorneys' fees and costs.

If the civil action is frivolous, clearly vexatious or brought primarily for harassment, the plaintiff may have to pay the defendant its fees and costs. If the plaintiff planned or initiated the violation, the share of the proceeds may be reduced and, if found guilty of a crime associated with the violation, no share will be awarded the plaintiff.

Whistleblower protection: The Civil False Claims Act also provides for protection for employees from retaliation. An employee who is discharged, demoted, suspended, threatened, harassed or discriminated against in terms and conditions of employment because of lawful acts conducted in furtherance of an action under the FCA may bring an action in federal district court seeking reinstatement, two times the amount of back pay plus interest and other enumerated costs, damages and fees.

2. Federal Program Fraud Civil Remedies Act of 1986

The Program Fraud Civil Remedies Act of 1986 ("Administrative Remedies for False Claims and Statements" at 38

U.S.C. § 3801 *et seq.*) is a statute that establishes an administrative remedy against any person who presents or causes to be presented a claim or written statement that the person knows or has reason to know is false, fictitious or fraudulent due to an assertion or omission to certain federal agencies (including the Department of Health and Human Services).

The terms "knows or has reason to know" is defined in the act as a person who has actual knowledge of the information, acts in deliberate ignorance of the truth or falsity of the information, or acts in reckless disregard of the truth or falsity of the information. No proof of specific intent to defraud is required.

The term "claim" includes any request or demand for property or money, e.g., grants, loans, insurance or benefits, when the United States government provides or will reimburse any portion of the money.

The authority, i.e., federal department, may investigate and with the attorney general's approval commence proceedings if the claim is less than one hundred and fifty thousand dollars. A hearing must begin within six years from the submission of the claim. The act allows for civil monetary sanctions to be imposed in administrative hearings, including penalties of five thousand five hundred dollars per claim and an assessment, in lieu of damages, of not more than twice the amount of the original claim.

Examples of a Possible False Claim:

1. Making false statements regarding a claim for payment.

2. Falsifying information in the medical record.
3. Double billing for items or services.
4. Billing for services not performed or items never furnished.

What Should be Done if a Possible False Claim has been made:

1. If an employee discovers an event that is similar to one of the examples of a false claim above, an employee is encouraged to:
 - a. Report it to a Medicalodges Administrator for further investigation. If the employee is not comfortable doing this, then
 - b. The employee should contact their immediate supervisor and/or
 - c. Call the corporate compliance officer at 1-800-782-0120.
2. An employee is not required to report a possible FCA violation to Medicalodges first. A report may be made directly to the Department of Justice or applicable state authorities. However, in many instances Medicalodges believes that the use of its internal reporting process is a better option because it encourages Medicalodges employees to consider first reporting suspected false claims to a Medicalodges Administrator; but the choice is up to the employee.
3. Medicalodges will not retaliate against any employee for informing Medicalodges or the federal or state government of a possible FCA violation.

An employee with questions regarding this policy should contact the corporate compliance officer for Medicalodges at the above number.

Applicable State Medicaid False Claims Laws: Listed below are the Medicaid false claims laws applicable to the three states in which Medicalodges operates facilities.

1. Missouri: Missouri Fraud Act SB 1210, 1244 and 844.
2. Kansas: Kansas Medicaid Fraud Control Act K.S.A. 2005 supp. 21-3844 to 21-3855 inclusive.
3. Oklahoma: Oklahoma Medicaid Fraud Act O.S. -56-1006 and O.S. -56-1003.

Medicalodges, Inc.

Acknowledgement
Form

By signing below, I acknowledge that I have read and understand Medicalodges Corporate Compliance and Ethics Program. I understand and agree that I must comply with the Program and all laws, regulations, policies, procedures and other guidance applicable to the responsibilities of my position.

I acknowledge that Medicalodges maintains a hotline for the purpose of receiving notifications of possible violations of law, regulation and the Medicalodges Corporate Compliance and Ethics Program and Standards of Conduct. I understand that failure to report any concerns regarding possible violations of law, regulations or the Corporate Compliance and Ethics Program may result in disciplinary action, up to and including termination.

Signature

Print Name

Title

Date