

December 17, 2009

Jim Rubio, Acting CEO
SEABHS
611 W. Union Street
Benson, AZ 85602

Re: Subcontract Agreement #A0506, Right of Assurance

Dear Mr. Rubio,

Over the past year Community Partnership of Southern Arizona (CPSA) has had a number of serious concerns with the contract performance of Southeastern Arizona Behavioral Health Services (SEABHS). CPSA has addressed these concerns with SEABHS staff and attempted corrections through various compliance activities. These concerns now have been heightened by circumstances resulting in the recent employment termination of the SEABHS Chief Executive Officer, state investigations of alleged vehicle fraud and misuse of funds, and accusations of embezzlement by a former SEABHS employee.

These ongoing performance concerns and recent adverse developments at SEABHS have convinced me that CPSA has a good faith reason to believe SEABHS may be unable to perform or continue performing the Subcontract Agreement between CPSA and SEABHS. Based on this good faith reason, CPSA is invoking Standard Term K.4.d., Right to Assurance, of the Subcontract Agreement, which reads as follows:

Right to Assurance: If CPSA in good faith has reason to believe that the Contractor does not intend to, or is unable to perform or continue performing this Subcontract, CPSA may demand in writing that the Contractor give a written assurance of intent or ability to perform. The demand shall be sent to the Contractor by certified mail, return receipt required. Failure by the Contractor to provide written assurance within the number of days specified in the demand may, at CPSA's option, be considered a default by the Contractor.

In accordance with this Subcontract Term, CPSA is requiring SEABHS to develop and submit to CPSA a written assurance of intent and ability to perform. This document must be received by CPSA no later than January 19, 2010, and must address each area of concern addressed below. The document must provide SEABHS' detailed proposal, plan and timeline for correcting each area of concern. The plan may set different timelines and ultimate deadlines for achieving corrections in each area of concern, but must ensure completion of final corrections in all areas by no later than May 3, 2010.

Upon receipt of the document from SEABHS, CPSA will evaluate it for sufficiency, make necessary decisions about its acceptance and decide whether it presents a plan adequate to assure CPSA of SEABHS' ability to perform the subcontract. CPSA will then decide about continuation or termination of the subcontract in part or in whole, and notify SEABHS in writing of those decisions by February 2, 2010.

The following are areas of concern that must be addressed:

- 1) Inability to provide services consistent with funding resulting in withholds for two prior years.

SEABHS must develop and implement a detailed plan to avoid further encounter withhold payments by increasing staff's productivity to meet minimum encounter value against contractual payments.

- 2) Instability of the SEABHS workforce evidenced by significant turnover and vacancies in key positions and inability to timely fill required positions.

- Even though SEABHS had significant advance notice of the timeframes for reaching ADHS/DBHS mandated sufficiency levels, CPSA received a \$13,000.00 sanction in October, 2009 due to SEABHS' inability to meet the requirements of hiring high needs case managers required by the Meet Me Where I Am initiative (MMWIA). While SEABHS currently has met the 18 FTE High Needs Case Manager requirement, CPSA is concerned about SEABHS' ability to meet January and February targets. This month CPSA had to submit a plan to DBHS to ensure that SEABHS would meet targets related to MMWIA. Due to concerns with SEABHS' ability to meet the MMWIA requirements, DBHS will be conducting a site visit to GSA 3 on January 6, 2010. SEABHS must assure CPSA of its ability to implement the plan to achieve the following:

1. SEABHS must maintain current staffing of a minimum of 18 FTE High Needs Case Managers.
2. By January 31, 2010, SEABHS must hire or subcontract for 7 FTE Support and Rehabilitation staff. These staff must dedicate 100% of their time to providing support and rehabilitation services.
3. By February 28, 2010, SEABHS must hire or subcontract for 3.5 FTE Case Managers that dedicate 50% of their time to providing case management and 50% of their time providing support and rehabilitation services.

CPSA will monitor this plan and require monthly reporting from SEABHS on progress in meeting these targets.

- There has been significant turnover of supervisors in SEABHS clinical sites and difficulty attracting qualified staff in the site supervisor position. SEABHS must provide assurance and a plan documenting its ability to provide qualified, stable and effective administrative and clinical supervision for all clinical sites.
- In March 2009, DBHS required CPSA to initiate a Corrective Action Plan (CAP) for insufficiency of child/adolescent Behavioral Health Medical Professionals (BHMPs) based on falling "below standard" in Q2 FY09. While SEABHS has met the standard for the subsequent quarters for child/adolescent BHMPs, it must provide a plan assuring and demonstrating that this sufficiency will be maintained.
- SEABHS has fallen slightly below the standard for Adult BHMP Sufficiency (0.1 FTE and 0.25 FTEs) in Q4 FY09 and Q1 FY10, respectively. While no CAP has been issued for this since the numbers are small and made up by

existing staff, SEABHS must provide a plan for increasing and maintaining Adult BHMP sufficiency.

- SEABHS is now also without a Human Resources Director, which is adversely impacting recruitment. SEABHS must provide assurance and a time-specific plan for recruiting and hiring a permanent, qualified Human Resources Director. SEABHS must also submit a plan specifying how human resources functions will be administered pending hiring of a Human Resources Director.

3) Lack of Network Sufficiency

- Community input to CPSA consistently expresses concerns that SEABHS has not utilized community-based providers for the delivery of support services and may exercise overt practices in excluding community-based providers from the provision of services.

SEABHS must provide assurance and a time-specific plan to improve communication with and include within its provider network qualified, community-based resources needed to achieve network sufficiency.

- SEABHS has not been in compliance with designating a contractually required Network Development Liaison as a single point of contact to address sufficiency issues. SEABHS must designate a qualified staff person with sufficient time and experience to perform the functions of Network Development Liaison.
- SEABHS has been noncompliant with Substance Abuse Prevention and Treatment (SAPT) Block Grant requirements to provide Level II residential facility services for substance using women with dependent children.

SEABHS must provide assurance and a time-specific plan to include within its provider network all services necessary to consistently meet the requirements of the SAPT Block Grant.

4) Financial instability and adverse findings in recent audits

- Recent audits have pointed out inadequate internal controls.

SEABHS must submit a plan to review, revise and implement internal controls, policies and procedures to ensure processes are in place requiring segregation of duties and restricted access to blank checks, petty cash and check deposits. These processes must assure the safeguard of company assets and prevent staff from embezzling company cash and other assets. It is my understanding CPSA Chief Financial Officer, Charlie Andrade, has provided copies of CPSA's accounting policies to Mr. John Motowski, SEABHS Director of Business Operations, for his reference to use in the development and/or updating of SEABHS' accounting policies and procedures.

Additionally, on a monthly basis beginning January 4, 2010, SEABHS must submit a status report to the CPSA CFO on its progress and status on addressing and resolving current year and prior year audit findings.

- In response to recent reports of concerns regarding SEABHS' expenses pertaining to the company-owned vehicle fleet, SEABHS must submit a plan to review current expenses and reduce unnecessary expenses incurred on

company vehicle costs. SEABHS must update its policies and procedures to ensure appropriate use of company vehicles for SEABHS business and personal use by staff driving the vehicles home and back to their assigned SEABHS work sites. SEABHS must appropriately report the monetary value for staff's personal use of a company vehicle on the employee's W-2 in accordance with IRS regulations. These steps are necessary to prevent IRS assessment of penalties for incorrect reporting of staff's personal use of company-owned vehicles and the reporting of company payroll tax obligations.

5) Community Expectations

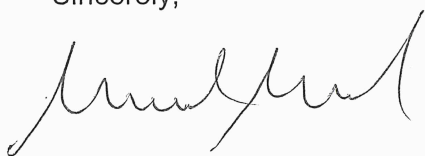
Community input from GSA 3 reinforces community concerns surrounding communication barriers with the SEABHS system and the lack of responsiveness in follow-up. CPSA has received community feedback demonstrating a community perception of SEABHS as a closed and retaliatory system lacking transparency and unwilling to work collaboratively with other community stakeholders.

To counter this negative community perception, SEABHS must not only take all necessary steps to meet contractual requirements in substance, it must also develop and implement a comprehensive Communications Plan to address community concerns and improve community communication. A copy of this Communications Plan must be submitted to CPSA as part of the written assurance due January 19, 2010.

As stated above, in accordance with Subcontract Agreement, Standard Term K.4.d., Right to Assurance, SEABHS must develop and submit to CPSA a written assurance of intent and ability to perform, specifically addressing each of the five areas of concern set out in this correspondence. SEABHS' written assurance and accompanying plan to correct each area of concern must be received by CPSA no later than January 19, 2010.

Please contact Dr. Judy Johnson, Deputy Director/Chief Operating Officer, at 520-318-6901, with any questions regarding this process and the expectations it includes.

Sincerely,



Neal Cash
President/ Chief Executive Officer

- c. Judy Johnson, Deputy Director/Chief Operating Officer, CPSA
Charlie Andrade, Chief Financial Officer/Director of Business Operations, CPSA
Suzanne Hodges, Chief Compliance Officer, CPSA
Eunice Rhodes, Director, Contracts, CPSA