

EXHIBIT 13

INTERNAL REVENUE SERVICE
P. O. BOX 2508
CINCINNATI, OH 45201

DEPARTMENT OF THE TREASURY

Date: **AUG 01 2007**

CALIFORNIA PRISON HEALTHCARE
RECEIVERSHIP CORPORATION
C/O JARED GOLDMAN
1731 TECHNOLOGY DR STE 700
SAN JOSE, CA 95110

Employer Identification Number:
20-4748599
DLN:
17053165018017
Contact Person:
DIANE M GENTRY ID# 31361
Contact Telephone Number:
(877) 829-5500

Accounting Period Ending:
June 30
Public Charity Status:
170(b)(1)(A)(vi)
Form 990 Required:
Yes
Effective Date of Exemption:
April 21, 2006
Contribution Deductibility:
Yes

Dear Applicant:

We are pleased to inform you that upon review of your application for tax exempt status we have determined that you are exempt from Federal income tax under section 501(c)(3) of the Internal Revenue Code. Contributions to you are deductible under section 170 of the Code. You are also qualified to receive tax deductible bequests, devises, transfers or gifts under section 2055, 2106 or 2522 of the Code. Because this letter could help resolve any questions regarding your exempt status, you should keep it in your permanent records.

Organizations exempt under section 501(c)(3) of the Code are further classified as either public charities or private foundations. We determined that you are a public charity under the Code section(s) listed in the heading of this letter.

Please see enclosed Information for Exempt Organizations Under Section 501(c)(3) for some helpful information about your responsibilities as an exempt organization.

Sincerely,



Robert Choi
Director, Exempt Organizations
Rulings and Agreements

Enclosures: Information for Organizations Exempt Under Section 501(c)(3)

Letter 947 (DO/CG)

CALIFORNIA PRISON HEALTHCARE

INFORMATION FOR ORGANIZATIONS EXEMPT UNDER SECTION 501(c)(3)

WHERE TO GET FORMS AND HELP

You can obtain forms and instructions by calling toll free 1-800-829-3676, through the Internet Web Site at www.irs.gov, and at local tax assistance centers.

You can obtain additional information about most topics discussed below through our customer service function by calling toll free 1-877-829-5500, or on our Web Site at www.irs.gov/eo. In addition, you should sign up for Exempt Organization's EO Update, a regular e-mail newsletter that highlights new information posted on the charities page of irs.gov. To subscribe, go to www.irs.gov/eo and click on "EO Newsletter."

NOTIFY US ON THESE MATTERS

If you change your name, address, purposes, operations or sources of financial support, please inform our TE/GE EO Determinations Office at the following address: Internal Revenue Service, P.O. Box 2508, Cincinnati, Ohio 45201. If you amend your organizational document or by-laws, or dissolve, provide the EO Determinations Office with a copy of the amended documents. Please use your employer identification number on all returns you file and in all correspondence with the Internal Revenue Service.

FILING REQUIREMENTS

In your exemption letter, we indicated whether you must file Form 990, Return of Organization Exempt From Income Tax. If your exemption letter states that you are not required to file Form 990, you are exempt from these requirements. Otherwise, if your gross receipts are normally more than \$25,000, you must file Form 990 or Form 990-EZ with the Ogden Submission Processing Center, Ogden, UT 84201-0027.

You are eligible to file Form 990-EZ if your gross receipts are normally between \$25,000 and \$100,000, and your total assets are less than \$250,000. You must file the complete Form 990 if your gross receipts are over \$100,000, or your total assets are over \$250,000. The Form 990 instructions show how to compute your "normal" receipts.

Form 990 Schedule A is required for both Form 990 and Form 990-EZ.

Organizations With Gross Receipts of \$25,000 or Less

For tax periods beginning after December 31, 2006, you must file an annual electronic notice if your gross receipts are normally \$25,000 or less. Alternatively, you may file a complete Form 990 Package if we send one to you.

Exception: Section 509(a)(3) supporting organizations must file Form 990 or

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Form 990-EZ even if gross receipts are normally \$25,000 or less. However, supporting organizations of religious groups with gross receipts that are normally \$5,000 or less may file an annual electronic notice instead of Form 990 or Form 990-EZ.

Due Date of Return or Annual Electronic Notice

Your return or annual electronic notice is due by the 15th day of the fifth month after the end of your annual accounting period. There are penalties for failing to file a complete return timely. For additional information on penalties, see the Form 990 instructions or call our toll free number.

Revocation of Tax-Exempt Status

For tax periods beginning after December 31, 2006, your tax-exempt status will be revoked as of the filing due date of the third year if you fail to file for three consecutive years Form 990, Form 990-EZ, or the annual electronic notice.

If your tax-exempt status is revoked because you failed to file for three consecutive years, you must reapply for exemption and pay the appropriate user fee.

UNRELATED BUSINESS INCOME TAX RETURN

If you receive more than \$1,000 annually in gross receipts from a regular trade or business, you may be subject to Unrelated Business Income Tax and required to file Form 990-T, Exempt Organization Business Income Tax Return. There are several exceptions to this tax:

1. Income you receive from the performance of your exempt activity,
2. Income from fundraisers conducted by volunteer workers, or where donated merchandise is sold, and
3. Income from routine investments such as certificates of deposit, savings accounts, or stock dividends.

There are special rules for income derived from real estate or other investments purchased with borrowed funds. This income is called "debt financed" income. For additional information regarding unrelated business income tax, see Publication 598, Tax on Unrelated Business Income of Exempt Organizations, or call our toll free number shown above.

PUBLIC INSPECTION OF APPLICATION, INFORMATION RETURN, AND FORM 990-T

You are required to make your annual information return, Form 990 or Form 990-EZ, available for public inspection for three years after the later of the due date of the return, or the date the return is filed. This rule also applies to any Form 990-T filed after August 17, 2006. You are also required to make available for public inspection your exemption application, any supporting documents, and your exemption letter. You must also provide copies

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of these documents to any individual, upon written or in person request, without charge other than reasonable fees for copying and postage.

You may fulfill this requirement by placing these documents on the Internet. Penalties may be imposed for failure to comply with these requirements. Additional information is available in Publication 557, Tax-Exempt Status for Your Organization, or call our toll free number shown above.

FUNDRAISING

Contributions to you are deductible only to the extent that they are gifts and no consideration is received in return. Depending on the circumstances, ticket purchases and similar payments in conjunction with fundraising events may not qualify as fully deductible contributions.

CONTRIBUTIONS OF \$250 OR MORE

Donors must have written substantiation from the charity for any charitable contribution of \$250 or more. Although it is the donor's responsibility to obtain written substantiation from the charity, you can assist donors by providing a written statement listing any cash contribution or describing any donated property.

This written statement must be provided at the time of the contribution. There is no prescribed format for the written statement. Letters, postcards and electronic (e-mail) or computer-generated forms are acceptable.

The donor is responsible for the valuation of donated property. However, your written statement must provide a sufficient description to support the donor's contribution.

For contributions of cash, a check or other monetary gift made on or after January 1, 2007, a donor cannot claim a tax deduction unless the donor maintains a record of the contribution in the form of either a bank record (such as a cancelled check) or a written communication from the charity (such as a receipt or letter) showing the name of the charity, the date of the contribution, and the amount of the contribution.

For additional information regarding donor substantiation, see Publication 1771, Charitable Contributions - Substantiation and Disclosure Requirements. For information about the valuation of donated property, see Publication 561, Determining the Value of Donated Property.

CONTRIBUTIONS OF MORE THAN \$75 AND CHARITY PROVIDES GOODS OR SERVICES

You must provide a written disclosure statement to donors who receive goods or services from you in exchange for contributions in excess of \$75.

Contribution deductions are allowable to donors only to the extent their contributions exceed the value of the goods or services received in exchange.

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Ticket purchases and similar payments in conjunction with fundraising events may not necessarily qualify as fully deductible contributions, depending on the circumstances. If you conduct fundraising events such as benefit dinners, shows, membership drives, etc., where something of value is received, you are required to provide a written statement informing donors of the fair market value of the specific items or services you provided in exchange for contributions of more than \$75.

You should provide the written disclosure statement in advance of any event, determine the fair market value of any benefit received, determine the amount of the contribution that is deductible, and state this information in your fundraising materials such as solicitations, tickets, and receipts. The amount of the contribution that is deductible is limited to the excess of any money (and the value of any property other than money) contributed by the donor less the value of goods or services provided by the charity. Your disclosure statement should be made, no later than, at the time payment is received. Subject to certain exceptions, your disclosure responsibility applies to any fundraising circumstances where each complete payment, including the contribution portion, exceeds \$75. For additional information, see Publication 1771 and Publication 526, Charitable Contributions.

EXCESS BENEFIT TRANSACTIONS

Excess benefit transactions are governed by section 4958 of the Code. Excess benefit transactions involve situations where a section 501(c)(3) organization provides an unreasonable benefit to a person who is in a position to exercise substantial influence over the organization's affairs. If you believe there may be an excess benefit transaction in which you are involved, you should report the transaction on Form 990 or 990-EZ. For information on how to correct and report this transaction, see the instructions for Form 990 and Form 990-EZ, or call our toll free number shown above.

EMPLOYMENT TAXES

If you have employees, you are subject to income tax withholding and the social security taxes imposed under the Federal Insurance Contribution Act (FICA). You are required to withhold Federal income tax from your employee's wages and you are required to pay FICA on each employee who is paid more than \$100 in wages during a calendar year. To know how much income tax to withhold, you should have a Form W-4, Employee's Withholding Allowance Certificate, on file for each employee. Organizations described in section 501(c)(3) of the Code are not required to pay Federal Unemployment Tax Act (FUTA) tax.

Employment taxes are reported on Form 941, Employer's Quarterly Federal Tax Return. The requirements for withholding, depositing, reporting and paying employment taxes are explained in Circular E, Employer's Tax Guide, (Publication 15), and Employer's Supplemental Tax Guide, (Publication 15-A). These publications explain your tax responsibilities as an employer.

CHURCHES

CALIFORNIA PRISON HEALTHCARE

Churches may employ both ministers and church workers. Employees of churches or church-controlled organizations are subject to income tax withholding, but may be exempt from FICA taxes. Churches are not required to pay FUTA tax. In addition, although ministers are generally common law employees, they are not treated as employees for employment tax purposes. These special employment tax rules for members of the clergy and religious workers are explained in Publication 517, Social Security and Other Information for Members of the Clergy and Religious Workers. Churches should also consult Publications 15 and 15-A. Publication 1828, Tax Guide for Churches and Religious Organizations, also discusses the various benefits and responsibilities of these organizations under Federal tax law.

PUBLIC CHARITY STATUS

Every organization that qualifies for tax-exemption as an organization described in section 501(c)(3) is a private foundation unless it falls into one of the categories specifically excluded from the definition of that term [referred to in section 509(a)(1), (2), (3), or (4)]. In effect, the definition divides these organizations into two classes, namely private foundations and public charities.

The Code section under which you are classified as a public charity is shown in the heading of your exemption letter. This determination is based on the information you provided and the request you made on your Form 1023 application. Please refer to Publication 557 for additional information about public charity status.

GRANTS TO INDIVIDUALS

The following information is provided for organizations that make grants to individuals. If you begin an individual grant program that was not described in your exemption application, please inform us about the program.

Funds you distribute to an individual as a grant must be made on a true charitable basis in furtherance of the purposes for which you are organized. Therefore, you should keep adequate records and case histories that demonstrate that grants to individuals serve your charitable purposes. For example, you should be in a position to substantiate the basis for grants awarded to individuals to relieve poverty or under a scholarship or education loan program. Case histories regarding grants to individuals should show names, addresses, purposes of grants, manner of selection, and relationship (if any) to members, officers, trustees, or donors of funds to you.

For more information on the exclusion of scholarships from income by an individual recipient, see Publication 970, Tax Benefits for Education.

EXHIBIT 14

CALIFORNIA PRISON HEALTH CARE RECEIVERSHIP CORPORATION
Statement of Net Assets and General Fund Balance Sheet
June 30, 2007
(Unaudited)

	General Fund	Adjustments (Note 1)	Statement of Net Assets
Assets			
Current assets:			
Cash	\$ 15,782,056	\$ -	\$ 15,782,056
Prepaid items	125,834	-	125,834
	15,907,890	-	15,907,890
Noncurrent assets:			
Deposits with others	353,220	-	353,220
Capital assets	-	8,719,171	8,719,171
Total assets	\$ 16,261,110	8,719,171	24,980,281
Liabilities			
Liabilities:			
Accounts payable	\$ 2,218,234	-	2,218,234
Accrued salaries and benefits	301,687	-	301,687
Other accrued expenses	596,201	-	596,201
Compensated absences	-	206,797	206,797
Total liabilities	3,116,122	206,797	3,322,919
Fund Balance/Net Assets			
Fund balance:			
Reserved for prepaid items and deposits with others	479,054	(479,054)	-
Unreserved, undesignated	12,665,932	(12,665,932)	-
Total fund balance	13,144,987	(13,144,987)	-
Total liabilities and fund balance	\$ 16,261,109		
Net assets:			
Invested in capital assets, net of related debt		8,719,171	8,719,171
Unrestricted		12,938,190	12,938,190
Total net assets		\$ 21,657,361	\$ 21,657,361

CALIFORNIA PRISON HEALTH CARE RECEIVERSHIP CORPORATION
Statement of Activities and General Fund Revenues, Expenditures and Changes on Fund Balance
For the Period ending June 30, 2007
(Unaudited)

	General Fund	Adjustments (Note 2)	Statement of Activities
Revenues			
Program revenues:			
Operating grants and contributions:			
State of California appropriation to Receivership	\$30,561,555	-	30,561,555
General revenues:			
Investment earnings	\$322,142	-	322,142
Total revenues	<u>\$30,883,698</u>	<u>-</u>	<u>30,883,698</u>
Expenditures/Expenses:			
Prison health care administration and oversight:			
Current:			
Salaries and benefits	\$5,391,178	186,243	5,577,421
Legal and professional services	\$4,768,527	-	4,768,527
Travel	\$337,189	-	337,189
Rents and leases	\$191,675	-	191,675
Insurance	\$53,948	-	53,948
Other	\$487,241	-	487,241
Depreciation	\$0	61,851	61,851
Capital outlay - Fixed Assets	8,766,711	(8,766,711)	-
Total expenditures/expenses	<u>19,996,469</u>	<u>(8,518,617)</u>	<u>11,477,852</u>
Change in fund balance	10,887,229	(10,887,229)	-
Change in net assets	-	8,518,617	19,405,846
Fund balance/net assets - July 1, 2006	<u>2,257,758</u>	<u>(6,243)</u>	<u>2,251,515</u>
Fund balance/net assets - June 30, 2007	<u>\$ 13,144,987</u>	<u>\$ (2,374,855)</u>	<u>\$ 21,657,361</u>

CALIFORNIA PRISON HEALTH CARE RECEIVERSHIP CORPORATION
Notes to Basic Financial Statements
For the Period From July 1, 2006 through June 30, 2007

NOTE 1 – EXPLANATION OF DIFFERENCES BETWEEN THE BALANCE SHEET AND THE STATEMENT OF NET ASSETS

Total fund balances of the Corporation's general fund differ from net assets of governmental activities primarily because of the long-term economic resources focus of the statement of net assets versus the current financial resources focus of the general fund balance sheet. The differences are described below:

Fund balance	\$ 13,144,987
Capital assets used in the governmental activities are not financial resources and, therefore, are not reported in the general fund.	8,719,171
Compensated absences are not due and payable in the current period and, therefore, are not reported in the general fund.	<u>(206,797)</u>
Net assets	\$ <u>21,657,361</u>

NOTE 2 – EXPLANATION OF DIFFERENCES BETWEEN STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE AND THE STATEMENT OF ACTIVITIES

The net change in fund balance for the general fund differs from the change in net assets for governmental activities primarily because of the long-term economic resources focus of the statement of net assets versus the current financial resources focus of the general funds balance sheet. The differences are described below:

Net change in fund balance	\$ 10,887,229
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of capital assets is allocated over their estimated useful lives as depreciation expense.	8,704,860
Compensated absences reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as expenditures in the general fund.	<u>(186,243)</u>
Change in net assets	\$ <u>19,405,846</u>

CALIFORNIA PRISON HEALTH CARE RECEIVERSHIP CORPORATION
Statement of Activities, Budget to Actual
For the Period ending June, 30 2007
(Unaudited)

	Statement of Activities	Budget	Budget Variance Fav. (Unfav)
Revenues			
Program revenues:			
Operating grants and contributions:			
State of California appropriation to Receivership	\$30,531,555	\$30,531,555	\$0
General revenues:			
Investment earnings	\$322,142	-	322,142
Total revenues	\$30,853,697	30,531,555	322,142
Expenditures/Expenses:			
Prison health care administration and oversight:			
Current:			
Salaries and benefits	\$5,577,421	5,243,260	(334,161)
Legal and professional services	\$4,768,527	2,980,000	(1,788,527)
Travel	\$337,189	210,000	(127,189)
Rents and leases	\$191,675	189,166	(2,509)
Insurance	\$53,948	42,924	(11,024)
Other	\$487,241	108,000	(379,241)
Depreciation	\$61,851	-	(61,851)
	-	-	-
Total expenditures/expenses	11,477,852	8,773,350	(2,704,502)
Total Revenue over Expenses	\$ 19,375,845	\$ 21,758,205	\$ (2,382,360)

CALIFORNIA HEALTHCARE RECEIVERSHIP CORPORATION
Discussion and Analysis of Unaudited Financial Statements
For the Period From July 1, 2006 through June 30, 2007

In order to be in compliance with the measurement focus, basis of accounting and financial presentation set forth by the Government Accounting Standards Board (GASB), CPR interim financial statements included on this and future reports of the Receiver will include a Statement of Net Assets and General Fund Balance (Balance Sheet) and a Statement of Activities and General Fund Revenues, Expenditures and Changes in Fund Balance (Revenues and Expenses). This is the presentation that has been recommended by our independent audit firm based on that prescribed by the GASB in their role as the authoritative body for accounting principles; and on CPR's corporate structure and function. In lieu of comparing net asset and operating activities to prior period amounts, operating activities will be compared to budget. In addition, the latest financial information available as of the date of the Receiver's report will be included in the report as an Exhibit and will also include discussion of major issues that have an impact on the financial statements presented and significant differences between actual and budget operating results.

A review of the unaudited statement of activities compared to what was budgeted for the period ended June 30, 2007 shows a total difference of \$2.7 million or 31 % variance over budget. Three line items or activities in the statement account for 93 % of the difference.

Salaries and benefits were 6 % over budget. Most of the variance is related to benefit costs. When the budget was prepared CPR did not yet have a benefit package designed for its then current and future employees. In fact insurance benefits were not finalized and in place until January 07 and pension benefits until March. In addition, there were significant increases in insurance market rates up to that time. These variances should be non recurring since the 2007-08 CPR budget was developed when the benefit package was finalized and most CPR employees were on board.

Subsequent to finalizing the budget for the period, the Receivership entered into a contract with the MAXOR Corporation to provide an assessment and a go forward plan to manage the administration of medications to inmate patients. The proper and safe administration of appropriate medications was identified as a critical component of effective patient care. The cost of the study and on going management of the program by MAXOR comprises most of the budget variance in Professional Services. Professional services were 60 % greater than what was budgeted.

Leadership training for the existing nursing staff and newly recruited nurses was also identified as critical to effective patient care. The Receivers' clinical leadership staff selected a vendor to provide this training on a state wide basis. As with the decision for safe and effective medication administration, the identification and selection of a consultant to provide nurse training was also made subsequent to finalizing the fiscal 2007 budget. Most of the variance in the Other line item is related to this cost. Other expense is substantially over budget because of the training program.

Despite the Receivership's unique status in terms of the 2006 Budget Act, no amount for interest earned on funds deposited was budgeted for the 2007 fiscal year. It was not clear at that time how expenditures for the Receiver's initiatives would be drawn from the appropriation amount.

EXHIBIT 15

**CALIFORNIA
PRISON HEALTH CARE
RECEIVERSHIP CORP.**

Robert Sillen
Receiver

Analysis of CDCR Death Reviews 2006
Public Version

August 20, 2007

Kent Imai, MD

Consultant, California Prison Health Care Receivership

BACKGROUND

The CDCR Death Review Committee (DRC) is a multidisciplinary committee chaired by the Statewide Medical Director and consisting of MDs, RNs, healthcare administrators, and correctional officers. The DRC meets 2-4 times monthly to discuss and analyze each death that occurs in the CDCR. Prior to the multidisciplinary reviews, an MD prepares a written report on each death. A subcommittee with representation from mental health, nursing, and custody reviews deaths from suicide. The main DRC reviews all other deaths.

The majority of the year 2006 death review reports were prepared by CDCR QMAT physicians. A minority of the reports were prepared by the Statewide Medical Director, by the Regional CMOs, or by the UCSD contract review physicians.

Each death review report was based on a reading of the patient's available medical record. The reviewer attempted to assess the patient's entire experience with medical care during his/her period of incarceration. The reports focused specifically on the cause of death and the quality of care provided to the patient. Upon identifying significant departures from the community standard of care and potentially problematic providers, the DRC referred cases to the Professional Practice Executive Committee (PPEC) for further evaluation of the provider's fitness for continued service in CDCR. The PPEC interpretation of community standard considers what a reasonable, similarly credentialed provider would do, given the situation in which the care in question was rendered.

The death reviews were valuable in identifying potentially unsafe practitioners. As one step in its practitioner assessments, PPEC conducted pattern of practice reviews for these individuals. Typically, the reviewer assessed a large sample of patient care interactions (usually 40-60 patient charts, including the index death case and any other deaths involving the clinician) for adherence to a community standard of care. After considering evidence from multiple sources, PPEC took one of several actions:

1. Temporary restriction from practice in the CDCR, pending a complete review of the clinician's pattern of practice.
2. A program of remediation, e.g., taking a course in an area of deficiency, followed by close monitoring
3. Suspension of privileges
4. No adverse action.

Sixty-two CDCR practitioners (56 MDs and DOs and 6 Nurse Practitioners) have had adverse action taken by the PPEC, from June 2005 to July 2007. Of these, 41 were initiated by the death reviews.

PURPOSE

Until now, the Death Review Committee and PPEC have been focused on identifying and sanctioning individual practitioners. There has been little or no emphasis on identifying systemic deficiencies of care and acting on them.

The purpose of this analysis is to categorize each of the 2006 deaths as non-preventable, preventable, or possibly preventable, to summarize the major lapses in care (both individual and systemic) contributing to the patient deaths, and to make recommendations for quality improvement.

LIMITATIONS

There were significant limitations in the ability of the reviewers to conduct meaningful death reviews.

A major limitation was the absence of a well-organized, easily navigated medical record. This same limitation plagues the CDCR providers themselves during care provision. The physician portion of the CDCR medical records includes hand-written progress notes suffering from brevity, poorly documented reasoning, and illegible handwriting. The medical records available to reviewers were often incomplete, making it difficult to determine an accurate chronology of events or to "tease out" critical pieces of clinical information. An important laboratory or x-ray result might be misfiled, or the record might be missing recommendations of consultants or records of emergency room visits and hospitalizations.

There was variation in the quality of the death review reports, in part because of the difficulties in the medical record, and in part because there was no template or form for guiding systematic death review. Some reports were quite brief and superficial. Others went into great detail and reflected great effort at reconstructing events and determining clinical reasoning. There was a spectrum of fault finding. Some reports concentrated only on proximate causes of death and did not address the possibility of an early opportunity to make a diagnosis that might have affected a patient's prognosis. Some

reviewers focused entirely on individual culpability and did not address possible systemic issues of care.

In early 2007 the DRC created a form for reports, leading to greater uniformity. The form prompts reviewers to address nursing issues, systemic issues of care, and preventability of death, in addition to individual practitioner lapses. Only the last 20 of the year 2006 reports used this template.

The majority of deaths did not trigger autopsies. This is usual in the non-CDCR world as well, but it makes complete clinical closure elusive, especially in the cases of sudden cardiac arrest.

There are also inherent limitations in conducting a retrospective, case-based analysis such as this one. There are no established criteria for attribution of “preventability.” Research in this area is primarily epidemiological, comparing actual versus expected deaths in large populations over time. A search of the medical literature revealed no case-based studies for preventable deaths in adult primary care. Such studies would be difficult precisely because creating rigorous criteria for preventability would be difficult. Another limitation of this analysis is that it depends wholly on the judgment of a single reviewer. For example, several of the sudden cardiac arrests were judged to be possibly preventable because of a failure of clinicians to evaluate symptoms of syncope or chest pain in the weeks or months prior to the patient’s death. Another reviewer might have judged these deaths to have been non-preventable, because there is no assurance that a proper evaluation of these red flag symptoms would in fact have prevented the patients’ deaths. Many patients who have complete cardiovascular evaluations, who receive appropriate medications and who have appropriate interventional procedures nevertheless succumb to their disease. And without an autopsy, there is less assurance that the patient had a preventable cardiovascular death. In short, there is no easy methodology that can reliably quantify preventable deaths.

Despite the limitations in the death review process, it has proven useful in identifying many egregious examples of individual errors in judgment and failures to perform commensurate with community standards. This analysis consolidates findings for the year 2006 deaths.

DEFINITIONS

Non-preventable: The health care system and individual providers probably would not have been able to prevent the patient’s death. (Homicides and drug overdoses fall here.)

Preventable: Better medical management or a better system of care would have prevented death.

Possibly preventable: Better medical management or a better system of care might have prevented death.

FINDINGS

Total year 2006 CDCR deaths	426
Suicides (not included in this analysis)	43
Execution (not included)	1
Death Reviews unavailable for this report	1
Death reviews in this analysis	381
Non-preventable deaths	315
Preventable deaths	18
Possibly preventable deaths	48

A. Non-Preventable Deaths

1. Causes of non-preventable death

105	Cancer
53	End-stage liver disease
28	Sudden cardiac arrest
17	AIDS
17	Drug overdose
16	Congestive heart failure
16	Homicide
14	Coronary artery disease (likely higher, because over 2/3 of cases of sudden cardiac arrest are attributable in autopsy studies to CAD)
11	COPD
10	End-stage renal disease
7	Stroke
6	Pneumonia
5	Upper GI hemorrhage
5	Coccidioidomycosis
3	Sepsis
2	Pulmonary embolism
4	1 each of diabetic ketoacidosis, neuroleptic malignant syndrome, encephalitis, and subarachnoid hemorrhage
319	Total (Of the 315 cases, several had more than one major cause of death)

2. Lapses in care in cases of non preventable death

Lapses were noted in over half of the cases of non-preventable death. In many cases, these lapses in care may have contributed to an earlier death or more suffering in patients who had fatal diagnoses such as cancer or end stage liver, heart, or kidney disease.

Cases	Lapses
66	Poor primary clinician management – includes instances of clinical inertia in response to abnormal labs or x-rays, not treating to established guidelines and targets (blood pressure, blood sugar, etc), cursory evaluation of signs and symptoms (weight loss, new dementia, syncope, “can’t walk”, new ascites, chest pain, abdominal pain), delayed referral to a higher level of care, illegible handwriting, poor documentation, and fragmented care
15	Poor management of terminal event, including failure to administer narcan
13	System delays - medical records, delayed access to care, delayed response to 602 appeals, delays in obtaining tests, etc
13	Delays in diagnosis
9	Patient “refusal” of care/evaluation
9	Delays in obtaining specialty referral
6	Poor “handoffs” between clinicians, including coordination between inpatient and ambulatory, or at time of inmate transfers
5	Poor palliative care

B. Preventable Deaths

1. Causes of preventable deaths

6	Asthma
3	Sudden cardiac arrest
2	Congestive heart failure
1	Acute myocardial infarction
1	Duodenal ulcer, perforated
1	Hyperthermia [redacted]
1	Incarcerated hernia
1	Acute pancreatitis
1	Stroke (probable)
1	Testicular cancer
18	Total

2. Lapses in care in cases of preventable death

Asthma – failure of clinicians to follow published guidelines and standards of care in the evaluation and management of asthma, failure of RNs to appropriately triage sick asthmatics to an MD, failure to ensure timely follow-up after treatment of an acute exacerbation, failure to recognize the volatility of symptoms, failure to refer refractory asthma to a pulmonologist, and a botched handoff in which a steroid dependent asthmatic did not receive steroids for two days following transfer from a county prison to a CDCR facility.

Sudden death – failure by MDs and midlevels to adequately evaluate “red flag” symptoms such as exertional chest pain, chest pain associated with dizziness, and recurrent syncope occurring weeks to months prior to death in patients with cardiac risk factors.

Acute myocardial infarction – failure by MD to come in while on call to evaluate a pt with hypotension and tachycardia, failure to correctly interpret new edema and shortness of breath, and an 8 hour delay in access to MD evaluation while experiencing “constant and extreme” chest pain on the day of death.

Congestive heart failure – midlevel practicing beyond scope of practice in unsupervised or poorly supervised situations, botched handoff from acute hospital to CDCR facility, multiple failed appointments because of dialysis, and MD failure to entertain diagnosis of CHF in a patient with new orthopnea, exertional dyspnea and edema.

Perforated duodenal ulcer – failure by MDs and RNs to adequately respond to patient complaint about severe abdominal pain on multiple occasions over five days, resulting in prolonged delay in diagnosis and treatment.

Hyperthermia – unsafe transfer of [redacted] patient from one CDCR facility to another [redacted] resulting in death from hyperthermia.

Incarcerated hernia – five week delay in referral to specialist for a patient with recurrent severe abdominal pain, vomiting and known bilateral inguinal hernias.

Acute pancreatitis – failure of RNs and MDs to properly triage, evaluate and manage a patient who presented nine times over three days with severe “10/10” abdominal pain, resulting in prolonged delay in recognition and treatment.

Stroke – midlevel practicing beyond scope in poorly supervised setting who failed to evaluate a pt who had symptoms of weakness, inability to walk [redacted] and who was repeatedly known to be “down” for more than 48 hours.

Testicular cancer – two year delay in diagnosis of testicular cancer in a [redacted] patient with chronic testicular pain, metastatic at time of eventual diagnosis, botched transfer with inadequate information passed from

facility to facility (lost urology consult), failure of MDs to work up for cancer in a young man with 17 months of testicular pain.

C. Possibly Preventable Deaths

1. Causes of possibly preventable deaths

5	Sudden cardiac arrest
4	Coccidioidomycosis
4	AIDS
3	Acute myocardial infarction
3	Bowel perforation
3	Sepsis
2	Coronary artery disease
2	Congestive heart failure
2	Drug overdose
2	Gastrointestinal hemorrhage
2	Subdural hematoma
2	Colorectal cancer
2	Opiate toxicity
12	1 each of COPD, gastric cancer, cholecystitis in end-stage liver disease, acute renal failure from rhabdomyolysis following trauma, cervical cancer, lung cancer, pneumonia, aortic dissection, drug induced hepatitis, diabetic ketoacidosis, carcinoma of thymus, seizure disorder
48	Total

2. Lapses in care in cases of possibly preventable death -

Cases

Lapses

- | | |
|----|--|
| 30 | Errors by individual physicians, nursing and midlevel staff – includes failure to adequately evaluate clinical “red flag” signs and symptoms, (chest pain, abdominal pain, weight loss, seizures, altered mental status, fever and tachycardia, poorly resolving pneumonia, joint effusion, history of significant trauma), failure to adequately pursue abnormal test results (leucopenia, abnormal blood sugars, abnormal radiology studies), failure to transfer patients to appropriate higher levels of care, inadequate clinical surveillance of known conditions (cervical cancer, immune compromised patients) |
| 11 | Delayed referrals for specialty care or special tests – (cardiology, gastroenterology, vascular surgery, stress tests, etc.) |
| 9 | Delays in access (delayed response to patient requests for care – “7362s”) |
| 7 | Poor provider communication, including failure to act on specialist |

- recommendations and lost medical information when patients undergo interfacility transfers
- 6 Missed abnormal test results (chest x-rays, CT scan, blood sugars, positive stress tests)
 - 5 Fragmentation of care, multiple providers with no individual ownership of a patient's complaint or abnormal finding
 - 3 Poor response to emergency or "man down" situations
 - 2 Surgical or procedural complications (colonoscopy and herniorrhaphy resulting in perforated bowel)

DISCUSSION

A. Lapses in Care

Significant lapses in care were noted in more than half of the death reviews. These can be divided into individual practitioner lapses, systemic lapses, and "no-fault" lapses

1. Individual practitioner errors in judgment or attitude

- Failure to appreciate potentially serious signs and symptoms (exertional chest pain, new onset shortness of breath and dizziness, unexplained tachycardia as harbingers of cardiac events, severe abdominal pain and abdominal distention as signs of acute abdominal catastrophe, increased use of inhalers as prelude to status asthmaticus),
- Failure to tailor the pace of evaluation to the clinical situation (rectal bleeding, testicular pain, indicating rapid workup to detect potentially curable cancers),
- Failure to perform the basic history and physical examination,
- Failure to follow well established guidelines for care (asthma, diabetes mellitus, hypertension, coccidioidomycosis)
- Failure to apply critical thinking or to enlist help in difficult cases
- Superficial or no documentation to indicate thought processes.
- Failure to take individual responsibility for patient outcomes

2. Systemic lapses

- A system that allows delays in triaging and processing patient requests for care resulting in patients with red flag symptoms not being evaluated in a timely manner.
- A system that allows fragmentation of care and clinical inertia, leading to lack of individual practitioner responsibility and accountability for each patient.
- Systemic and pervasive prolonged delays in specialty referrals

- No system for flagging abnormal test results,
- Incomplete medical records
- Poorly managed transfers of care – when patients move from one facility to another, there is increased risk of medical error.
- Practices which place mid level providers in vulnerable clinical situations, poorly supported or unsupported, with little or no mentoring.
- Practice environments (noisy, unkempt, crowded, lacking privacy) and patient characteristics (high rate of dual diagnosis, chronic pain, and manipulation for secondary gain) and other cultural factors which promote practice isolation and discourage collegiality and professionalism.

3. “No-fault” lapses

- Patient “non-adherence” to suggested treatment
- Patient “refusal” of care or evaluation (sometimes masking frustration with the system of care or reflecting poor provider – patient communication)

B. Trends in Preventable Deaths Over Time

There was no clear trend indicating an increase or decrease in the number of preventable deaths over time. Unlike the situation in hospitals, in which quality improvements can lead to aggregate decreases in mortality within the space of a year, improvements in primary care may take longer before yielding mortality decreases.

Month	Deaths	Preventable	Possibly preventable	All preventable and possibly preventable deaths
January	42	0	3	3
February	35	3	4	7
March	46	1	4	5
April	31	1	8	9
May	36	1	4	5
June	39	0	6	6
July	40	2	3	5
August	36	2	1	3
September	25	1	3	4
October	32	3	6	9
November	32	0	3	3
December	29	4	3	7

C. Comment on CDCR Environment of Care

CDCR medical staff has been working in an environment of care characterized by crowded and poorly equipped clinical areas. The medical record systems are outdated and medical information is difficult to retrieve. The dispensing of prescribed drugs is often delayed, and there is an unreliable system for refilling medications for the treatment of chronic medical diseases such as diabetes, hypertension, asthma and coronary heart disease. The drug profile information is unreliable. Practices in many of the prisons focus on episodic care rather than continuity of care and preventive medicine. The environment does not guarantee patient confidentiality, and the culture does not promote patient advocacy.

The patient population has a number of unfavorable characteristics, such as a high incidence of dual diagnosis (serious mental illness coexisting with physical illness), chronic hepatitis, HIV infection, drug and alcohol addiction, and skillful manipulation for secondary gain.

Despite these barriers, it is noteworthy that 167 of the death reports contained no serious lapses in medical care. This is a reassuring indication that there are many conscientious providers and RNs who are doing a good job despite the environment in which they find themselves.

RECOMMENDATIONS

The CDCR must create a culture of patient safety, in which clinicians readily identify mistakes and system vulnerabilities and in which all staff share in the responsibility for optimal patient outcomes. Systems should be reviewed or redesigned to support this end.

To that end, the Death Review Committee should continue in on-going fashion the analyses piloted in this analysis, identifying not only individual performance issues but also the most common systemic lapses in care. The Committee should begin to standardize a list of the lapses and vulnerabilities that contribute to preventable deaths. The Joint Commission provides examples of how to proceed in this area, e.g., in categorizing the causes of sentinel events or specifically the causes of delays in treatment (see the Sentinel Event Alert of June 17, 2002). The Committee should continue its efforts to standardize its methodology for classifying preventable deaths.

These overall recommendations and most of the specific recommendations which follow are contained in Goals B, C, and D of the California Receiver's Plan of Action of May 2007 (POA). Where applicable, relevant POA goals and objectives follow each numbered recommendation below.

1. Continue PPEC evaluation of individual practitioners referred by the Death Review Committee.
2. Develop and circulate a Clinical Newsletter in order to improve communication, educate CDCR providers about important findings of the Death Reviews and to make meaningful clinical suggestions for improving care. (C.8.1, A.8.5.2)
3. Develop a system wide quality initiative focusing on the management of asthma. (B.2.5, B.2.6.1)
4. Develop system-wide quality initiatives on the recognition and management of "red flag" clinical signs, and other subjects, using death review cases as indicators. (C.1.1, C.1.2, C.6.1)
5. Pilot practitioner "daily reports" at each prison for purposes of peer collaboration and discussion of problem cases, mistakes, "near misses," cases of patient non-adherence or refusal of care, local system process redesign, development of collegiality, and shared responsibility for patient care. (C.5, C.6, C.8)
6. Redesign CDCR processes for mid-level credentialing, privileging, supervision and mentoring. (A.8.5)
7. Redesign CDCR systems of care (including scheduling) to promote individual and shared responsibility for patient care outcomes, and to reduce fragmentation of care wherever possible. (B.3)
8. Redesign process of RN triaging of form 7362s to eliminate delays in care. (B.7.1, C)
9. Develop systems for tracking and following up abnormal laboratory and other test results. (B.12.1, B.12.2)
10. Create new templates for managing requests for specialty services in order to meet minimum standards for emergency (24 hour) urgent (7-14 day) and routine (60 day) priorities, and to ensure that consultation results are seen by ordering clinicians within one week of service. (B.3.1.8)
11. Review process for response to emergencies. (B.1)
12. Design and implement system-wide integrated health information systems. (goal D)
13. Redesign the environment of care to promote efficiency, teamwork, professionalism, and respect for patients, creating an ethically-based system of care. (B.3, B.10)
14. Wherever applicable, develop the standard quality metrics to support the foregoing recommendations. (POA, page 47)

EXHIBIT 16

California Prison Healthcare Receivership Corp.
Internal Goods and Services
Expenses by Vendor Summary
April 1, 2006 - August 7, 2007

	Total
Accountemps (temporary accounting services)	21,313.90
Alhambra (water service)	955.84
AT&T (phone and data)	19,177.07
Barney & Barney (insurance brokerage)	5,000.00
Blue Shield of California (employee health care)	172,476.00
Buck Consultants, LLC (human resources consulting)	29,279.10
CBIZ Human Capital Services (human resources consulting)	46,284.02
Cingular Wireless (telephone services)	29,820.70
Deloitte & Touche LLP (internal controls evaluation)	70,000.00
Equity Offices (San Jose office lease)	211,764.97
Futterman & Dupree LLP (legal services)	183,135.23
Group Era (website design and maintenance)	3,655.00
Guardian Life Insurance (employee life insurance)	24,323.43
Hooper, Lundy & Bookman, Inc. (legal services)	15,910.30
IKON (copy machine service and equipment)	6,502.29
Illinois Midwest Ins. Agency (insurance)	17,636.00
Inter Form (office furniture)	105,089.51
Intuit Payroll (payroll services)	2,854.72
Iron Mountain Records Management (records management)	210.00
Kaiser Permanente (employee health care)	39,638.00
Korn/Ferry (executive recruiting)	392,071.00
LexisNexis (online legal research service)	7,673.20
McDonough Holland & Allen (legal services)	48,249.28
Meyer Nave Professional Law Corporation (legal services)	2,479.27
MFS Retirement Services, Inc. (retirement benefits administration)	900.00
Mike English Advertising & Design (business cards and letterhead)	7,111.70
Oakwood Apartments (temporary relocation/housing)	4,940.99
Office Depot (office supplies)	22,267.19
Prismatic Instant (office signage)	610.12
Procopio, Cory, Hargreaves & Savitch LLP (legal services)	1,000.00
Raindance (telephone conferencing services)	1,589.28
Safeco Business Insurance (insurance)	343.00
SCI Stamps.COM (postage)	92.70
Sims & Layton (legal services)	2,015.00
Small Business Benefit Trust (insurance)	19,967.20
Thomson - RIA (online accounting research)	3,295.00
TNCI (long distance telephone service)	872.14
Valley Health Plan Member Services (employee health care)	6,624.00
Vision Service Plan (employee health care)	5,785.95
WebEx Communications (web conferencing)	600.00
Wolfpack Insurance Services (insurance)	1,746.50
ZAG Tech Services (IT service and equipment)	67,334.76
TOTAL	\$ 1,602,594.36

Tuesday, Aug 07, 2007 01:55:10 PM PDT GMT-7 - Accrual Basis

Omitted from this list are travel services (air carriers, hotels & rental cars), food service and incidental office supplies.

EXHIBIT 17



Deloitte & Touche LLP
Suite 400
2868 Prospect Park Drive
Rancho Cordova, CA 95670-6065
USA

Tel: (916) 288-3100
Fax: (916) 288-3131
www.deloitte.com

June 1, 2007

Mr. Robert Sillen
Receiver
California Prison Health Care Receivership
1731 Technology Drive, Suite 700
San Jose, CA 95110

Dear Mr. Sillen:

On behalf of Deloitte & Touche LLP (“Deloitte & Touche”), we are pleased to submit our engagement letter to provide advisory services to assist California Prison Health Care Receivership (“CPR” or the “Company”) in its evaluation and potential creation of its internal controls documentation and to assist in the creation of policy and procedures for key business processes. This engagement letter represents our understanding of the services that we will provide to CPR, and the related project objectives and approach, timing, staffing and fees for those services. We appreciate the time you spent with us clarifying the scope of work, your requirements and look forward to working with you and your associates.

Scope of Services

Based on our discussions with you, we understand that CPR needs to create internal controls documentation over its key business and operational processes, management reports and other key documentation related to its transactions. CPR also wants assistance in the general ledger reconciliations and retention of supporting documentation.

Our Approach

In order to accomplish the above, the Deloitte & Touche Team proposes the following approach to assist CPR with the above objectives:

1. From a control perspective document the current business processes for certain key CPR activities. The processes to be included are:
 - a. General Financial Accounting Controls (i.e., Chart of Accounts)
 - b. Financial Reporting
 - c. Revenue cycle for CPR only
 - d. Annual Budgeting Process for CPR only
 - e. Treasury – Cash and Investments
 - f. Fixed Assets
 - g. Expense and Accounts Payable
 - i. Purchasing Guidelines
 - h. Other Corporate Policies
 - i. Travel and Entertainment Expense
 - ii. Expense Report Procedures
 - iii. Record Retention
2. Identify the key gaps between current existing internal controls and the desired internal control environment. The emphasis of our work in this area is in identifying gaps that have the most significant impact on the timeliness, completeness and accuracy of reporting.

3. Recommend critical internal control policies, procedures, and reports that could be developed to provide timely, accurate and financial reports, including a controller's internal control check-list document and a report documenting the results of the gap-assessment.
4. Based upon recommendations adopted by CPR from task 3 above, develop, if applicable, recommended customized policies, procedures and internal control documentation related to key CPR customized to the CPR environment, including,
 - a. cash control and management;
 - b. fixed asset control, recording and management;
 - c. contracting and procurement control;
 - d. review of hiring process,
 - e. documentation and file maintenance (note that all HR related processes and documents have been developed or are in process by CBIZ);
 - f. payment release and approval hierarchy and matrix;
 - g. payment process and control;
 - h. billing and accounts receivable control; and
 - i. annual budgeting approval control.

Deliverables:

Deloitte & Touche will work with CPR to provide the following deliverables:

- A gap assessment report, that includes a current state evaluation of the internal controls documentation summarizing control issues and providing recommendations for addressing the gaps identified
- A controller's internal control check list
- Recommended policies, procedures and internal control documentation related to the key CPR financial and operational business processes (as described above).

Responsibilities of the Client

CPR's management shall be fully and solely responsible for applying independent business judgment with respect to the services and work product requested from us, to make implementation decisions, if any, and to determine further courses of action with respect to any matters addressed in any advice, recommendations, services, or other work product or deliverables to CPR.

In addition, management has the following responsibilities:

1. For this work, we will rely on the information management provides concerning CPR objectives, strategies, policies, transactions, data, controls and organizational structure. To the extent that such information or other information is not complete or accurate, conclusions different than those reached in our analysis may result.
2. Management has responsibility for legal descriptions or matters including legal or title considerations. Titles to the subject assets, securities, commodities or financial instruments are assumed to be good and marketable unless otherwise stated.
3. We assume that there is full compliance with all applicable Federal, state, and local regulations and laws unless noncompliance is stated, defined, and disclosed to us.
4. CPR agrees that any Deliverables issued or prepared by Deloitte & Touche will not be used by or circulated, quoted, disclosed, or distributed to anybody other than CPR without Deloitte & Touche's prior written consent, except to a member of the Board of Directors of CPR, CPR's

external auditors, the Office of the Inspector General of the State of California or the United States District Court, Northern District of California in the exercise of their statutory or court ordered oversight of CPR. If CPR receives a subpoena or other validly issued administrative or judicial process demanding disclosure of the Deliverables, or is otherwise required to disclose the Deliverables by law, including, but not limited to, disclosures required under the California Public Records Act (Cal. Gov't Code § 6250 et seq.), it shall, to the extent not prohibited, promptly notify Deloitte & Touche of such receipt or requirement and give Deloitte & Touche the opportunity to obtain confidential treatment. After providing such notification, Client shall be entitled to comply with such subpoena or other legal process to the extent required by law. Notwithstanding the foregoing, the Client shall not be prohibited from creating its own materials based on the content of Deliverables, like the recommended policies described above, and using and disclosing such Client-created materials for external purposes.

5. Management accepts the responsibility for any related financial reporting with respect to the transactions encompassed by our work.

Access to Working Papers

The working papers prepared by Deloitte & Touche in connection with this engagement are the property of Deloitte & Touche. Upon request, copies of any or all working papers that Deloitte & Touche considers to be nonproprietary will be provided to management of the Company. All such working papers will be clearly marked by Deloitte and Touche as "draft" and "confidential." Third parties will not be granted access to work papers retained by Deloitte & Touche until the Company provides Deloitte & Touche with a written consent and the third party provides Deloitte & Touche with a written agreement satisfactory to Deloitte & Touche relating to such access. A representative from Deloitte & Touche will also be present during the period that the third party, including external auditors and regulators, is provided access to nonproprietary working papers retained by Deloitte & Touche.

Third parties, including external auditors and regulators, will not be provided with a photocopy of any nonproprietary working papers without the prior written consent of Deloitte & Touche.

Use of Software

Deloitte & Touche may utilize software that is currently owned by or licensed to Deloitte & Touche in connection with the performance of its services. If the Company would like Deloitte & Touche to use other software, such software is to be acquired by and licensed to the Company, with Deloitte & Touche as a sublicensee for use in connection with the performance of its services to the Company. With respect to software that is owned or licensed to Deloitte & Touche, if Company personnel will access or use such software, the Company agrees to become a licensee in accordance with terms established by Deloitte & Touche.

Project Timing

Our team is ready to commence work on or about May 7, 2007. We estimate five to six weeks to complete the above described services and approach. Delays in the start date would also delay the completion date by the same period.

Project Staffing

We have assembled a team with experience transforming the financial business process and implementing Sarbanes Oxley Section 404 in the public sector and for nonprofit organizations. The team members include:

- **Greg Thomas** is a Principal with Deloitte & Touche and leads our Northern Pacific Public Sector initiative for our Enterprise Risk Service practice. He will be the engagement principle and will

be responsible for the quality of all deliverables. Greg has over 20 years of professional experience has assisted numerous clients in the successful adoption of and compliance with Sarbanes Oxley section 404. In this capacity, he has helped clients transform, streamline and harmonize many of their key financial business processes.

- **Tim Stenvick** is an Audit Partner with Deloitte & Touche leading our Northern California Public Sector Practice. He will advise the team on policy issues related to public sector and non-profit financial reporting. Tim has 26 years of professional experience and has served many state government entities, including the California Prison Industry Authority, California Department of Justice, California Student Aid Commission, California Department of Veterans Affairs, California Public Employees Retirement System, and California Housing Finance Agency. Tim is a member of the AICPA and the California Society of Certified Public Accountants. He is treasurer of several not-for-profit organizations.
- **Anthony Benintend** is a Manager with Deloitte Consulting LLP and has over nine years of experience implementing financial transformations projects for various agencies within the Federal Government. He will be the day to day manager and be assigned full-time to the engagement. He offers a unique blend of experience with functional federal financial management and accounting engagements and implementations of financial management systems.
- **Hilary Schuler** is a Senior Consultant with Deloitte & Touche and has 5 years of experience performing and leading business process controls documentation and testing, and Sarbanes-Oxley 404 readiness. She will be assigned full-time to the engagement. Hilary has served clients in the public sector including government contracting and healthcare industries.

Project Pricing

We expected three full-time staff at approximately \$25,000 per week for seven weeks, making the estimated total professional fees for our services \$175,000, which are inclusive of expenses. The total fees ultimately will be based on the total hours incurred and the mix of personnel required. A fee schedule for the personnel committed to this engagement is attached and incorporated herein. Fees for this engagement will be billed as the work progresses and payable upon receipt of our invoices. Invoices shall be accompanied by a summary of activities and the number of hours worked by each team member over the course of the preceding billing period.

These fees are based upon our current understanding of the project requirements, our proposed approach, our estimate of the level of effort required, our roles and responsibilities, and active participation of CPR's management and other personnel, as required and defined in this engagement letter. Based on our experience, issues sometimes arise that require efforts beyond what was initially anticipated. If this should occur, we will discuss it with you prior to performing any additional work.

During the term of this engagement, the Company may request that Deloitte & Touche perform additional services that are not encompassed by this engagement letter. Deloitte & Touche may perform such additional services upon receipt of a separate statement of work referencing to this engagement letter.

Project Assumptions

- The process of documenting current processes and the gaps will be iterative, and will be updated as more is learned, progress is made and time passes. This project will describe and document the business process controls for CPR. The process improvements will be focused on key steps required to improve processes.

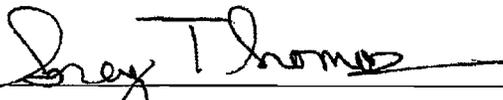
- CPR will provide at least 2 work spaces for our team at CPR's offices in San Jose. Meetings with CPR staff are planned to occur at CPR offices.
- The processes defined above in the scope of services section relate to CPR only and the Department of Corrections are excluded from the scope of services.
- The services will be performed in accordance with the *Statement on Standards for Consulting Services* issued by the American Institute of Certified Public Accountants ("AICPA"). We will provide our observations, advice, and recommendations. However, our services will not constitute an engagement to provide audit, compilation, review, or attestation services as described in the pronouncements on professional standards issued by the AICPA, and, therefore, we will not express an opinion or any other form of assurance with respect to the Company's system of internal control over financial reporting or its compliance with laws, regulations, or other matters.

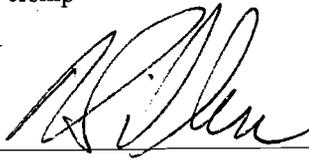
This engagement letter, together with the General Business Terms and Appendices attached hereto, constitute the entire agreement between the Company and Deloitte & Touche with respect to this engagement, supersede all other oral and written representations, understandings or agreements relating to this engagement, and may not be amended except by the mutual written agreement of the Company and Deloitte & Touche.

Please indicate your acceptance of this agreement by signing in the space provided below and returning this engagement letter to us. A duplicate of this engagement letter is provided for your records.

Deloitte & Touche LLP

Accepted and agreed to
By: The California Prison Health Care
Receivership

By: 
Greg Thomas, Principal
Deloitte & Touche LLP

95
By: 
Robert Sillen, Receiver
California Prison Health Care
Receivership

Date: June 1, 2007

Date: 6/22/07



DELOITTE & TOUCHE LLP - GENERAL BUSINESS TERMS

- 1. Services.** It is understood and agreed that the services provided by Deloitte & Touche (as defined in paragraph 12) (the "Services") under the engagement letter to which these terms are attached (the "Engagement Letter") may include advice and recommendations, but all decisions in connection with the implementation of such advice and recommendations shall be the responsibility of, and made by, the Client.
- 2. Payment of Invoices.** Deloitte & Touche's invoices are due upon presentation. Invoices upon which payment is not received within thirty (30) days of the invoice date shall accrue a late charge of the lesser of (a) 1½% per month or (b) the highest rate allowable by law, in each case compounded monthly to the extent allowable by law. Without limiting its rights or remedies, Deloitte & Touche shall have the right to halt or terminate the Services entirely if payment is not received within thirty (30) days of the invoice date. The Client shall be responsible for all taxes imposed on the Services or on the transaction, other than Deloitte & Touche's income taxes imposed on a net basis or by employment withholding, and other than taxes imposed on Deloitte & Touche's property.
- 3. Term.** Unless terminated sooner in accordance with its terms, this engagement shall terminate on the completion of the Services. This engagement may be terminated by either party at any time, with or without cause, by giving written notice to the other party not less than thirty (30) days before the effective date of termination, provided that, in the event of a termination for cause, the breaching party shall have the right to cure the breach within the notice period. Deloitte & Touche may terminate this engagement upon written notice to the Client if it determines that (a) a governmental, regulatory, or professional entity (including, without limitation, the American Institute of Certified Public Accountants, the Public Company Accounting Oversight Board, or the Securities and Exchange Commission), or an entity having the force of law has introduced a new, or modified an existing, law, rule, regulation, interpretation, or decision, the result of which would render Deloitte & Touche's performance of any part of the engagement illegal or otherwise unlawful or in conflict with independence or professional rules; or (b) circumstances change (including, without limitation, changes in ownership of the Client or any of its affiliates) such that Deloitte & Touche's performance of any part of the engagement would be illegal or otherwise unlawful or in conflict with independence or professional rules. Upon termination of the engagement, the Client will compensate Deloitte & Touche under the terms of the Engagement Letter for the Services performed and expenses incurred through the effective date of termination.
- 4. Deliverables.**

 - a) Deloitte & Touche has created, acquired, or otherwise has rights in, and may, in connection with the performance of the Services, employ, provide, modify, create, acquire, or otherwise obtain rights in, works of authorship, materials, information, and other intellectual property (collectively, the "Deloitte & Touche Technology").
 - b) Except as provided below, upon full and final payment to Deloitte & Touche hereunder, the tangible items specified as deliverables or work product in the Engagement Letter (the "Deliverables") shall become the property of the Client. To the extent that any Deloitte & Touche Technology is contained in any of the Deliverables, Deloitte & Touche hereby grants the Client, upon full and final payment to Deloitte & Touche hereunder, a

royalty-free, fully paid-up, worldwide, nonexclusive license to use such Deloitte & Touche Technology in connection with the Deliverables.

c) To the extent that Deloitte & Touche utilizes any of its property (including, without limitation, the Deloitte & Touche Technology or any hardware or software of Deloitte & Touche) in connection with the performance of the Services, such property shall remain the property of Deloitte & Touche and, except for the license expressly granted in the preceding paragraph, the Client shall acquire no right or interest in such property. Notwithstanding anything herein to the contrary, the parties acknowledge and agree that (1) Deloitte & Touche shall own all right, title, and interest, including, without limitation, all rights under all copyright, patent, and other intellectual property laws, in and to the Deloitte & Touche Technology and (2) Deloitte & Touche may employ, modify, disclose, and otherwise exploit the Deloitte & Touche Technology (including, without limitation, providing services or creating programming or materials for other clients). Deloitte & Touche does not agree to any terms that may be construed as precluding or limiting in any way its right to (1) provide consulting or other services of any kind or nature whatsoever to any person or entity as Deloitte & Touche in its sole discretion deems appropriate or (2) develop for itself, or for others, materials that are competitive with or similar to those produced as a result of the Services, irrespective of their similarity to the Deliverables.

d) To the extent any Deloitte & Touche Technology provided to the Client hereunder is a product (to the extent it constitutes merchandise within the meaning of section 471 of the Internal Revenue Code), such Deloitte & Touche Technology is licensed to the Client by Deloitte & Touche as agent for Deloitte & Touche Products Company LLC on the terms and conditions herein. The assignment and license grant in this paragraph 4(d) do not apply to any Deloitte & Touche Technology (including any modifications or enhancements thereto or derivative works based thereon) that is subject to a separate license agreement between the Client and a third party, including without limitation, Deloitte & Touche Products Company LLC.

5. Limitation on Warranties. THIS IS A SERVICES ENGAGEMENT. DELOITTE & TOUCHE WARRANTS THAT IT SHALL PERFORM THE SERVICES IN GOOD FAITH AND WITH DUE PROFESSIONAL CARE. DELOITTE & TOUCHE DISCLAIMS ALL OTHER WARRANTIES, EITHER EXPRESS OR IMPLIED, INCLUDING, WITHOUT LIMITATION, WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE. THE CLIENT'S EXCLUSIVE REMEDY FOR ANY BREACH OF THIS WARRANTY SHALL BE FOR DELOITTE & TOUCHE, UPON RECEIPT OF WRITTEN NOTICE, TO USE DILIGENT EFFORTS TO CURE SUCH BREACH, OR, FAILING ANY CURE IN A REASONABLE PERIOD OF TIME, THE RETURN OF PROFESSIONAL FEES PAID TO DELOITTE & TOUCHE HEREUNDER WITH RESPECT TO THE SERVICES GIVING RISE TO SUCH BREACH.

6. Limitation on Damages and Indemnification.

a) The Client agrees that Deloitte & Touche, its subcontractors, and their respective personnel shall not be liable to the Client for any claims, liabilities, or expenses relating to this engagement ("Claims") for an aggregate amount in excess of the fees paid by the Client to Deloitte & Touche pursuant to this engagement, except to the extent finally judicially determined to have resulted primarily from the bad faith or intentional misconduct of Deloitte & Touche or its subcontractors. In no event shall Deloitte & Touche, its

subcontractors, or their respective personnel be liable for any loss of use, data, goodwill, revenues, or profits (whether or not deemed to constitute a direct Claim), or any consequential, special, indirect, incidental, punitive, or exemplary loss, damage, or expense relating to this engagement.

b) The Client shall indemnify and hold harmless Deloitte & Touche, its subcontractors, and their respective personnel from all Claims arising from the Client's disclosure of the Services or Deliverables to any third party.

c) In circumstances where all or any portion of the provisions of this are finally judicially determined to be unavailable, the aggregate liability of Deloitte & Touche, its subcontractors, and their respective personnel for any Claim shall not exceed an amount that is proportional to the relative fault that Deloitte & Touche's conduct bears to all other conduct giving rise to such Claim.

7. Client Responsibilities. The Client shall cooperate with Deloitte & Touche in the performance by Deloitte & Touche of the Services, including, without limitation, providing Deloitte & Touche with reasonable facilities and timely access to data, information, and personnel of the Client. The Client shall be responsible for the performance of its personnel and agents and for the accuracy and completeness of all data and information provided to Deloitte & Touche for purposes of the performance by Deloitte & Touche of the Services. The Client acknowledges and agrees that Deloitte & Touche's performance is dependent upon the timely and effective satisfaction of the Client's responsibilities hereunder and timely decisions and approvals of the Client in connection with the Services. Deloitte & Touche shall be entitled to rely on all decisions and approvals of the Client. The Client shall be solely responsible for, among other things (a) making all management decisions and performing all management functions, (b) designating a competent management member to oversee the Services, (c) evaluating the adequacy and results of the Services, (d) accepting responsibility for the results of the Services, and (e) establishing and maintaining internal controls, including, without limitation, monitoring ongoing activities.

8. Force Majeure. Except for the payment of money, neither party shall be liable for any delays or nonperformance resulting from circumstances or causes beyond its reasonable control, including, without limitation, acts or omissions or the failure to cooperate by the other party (including, without limitation, entities or individuals under its control, or any of their respective officers, directors, employees, other personnel and agents), acts or omissions or the failure to cooperate by any third party, fire, epidemic or other casualty, act of God, strike or labor dispute, war or other violence, or any law, order, or requirement of any governmental agency or authority.

9. Limitation on Actions. No action, regardless of form, relating to this engagement, may be brought by either party more than one year after the cause of action has accrued, except that an action for nonpayment may be brought by a party not later than one year following the date of the last payment due to the party bringing such action.

10. Independent Contractor. It is understood and agreed that each party hereto is an independent contractor and that neither party is, nor shall be considered to be, the other's agent, distributor, partner, fiduciary, joint venturer, co-owner, or representative. Neither party shall act or represent itself, directly or by implication, in any such capacity or in any manner assume or create any obligation on behalf of, or in the name of, the other.

11. Confidentiality and Internal Use.

a) Except as otherwise specifically provided in the Engagement Letter, the Client agrees that all Services and Deliverables shall be solely for the Client's informational purposes and internal use, and are not intended to be, and should not be, used by any person or entity other than the Client, its external auditor and its regulators. Except as otherwise specifically provided in the Engagement Letter, the Client further agrees that such Services and Deliverables shall not be circulated, quoted, disclosed, or distributed to any person or entity other than the Client and other contractors of the Client to whom the Client may disclose the Deliverables solely for the purpose of such contractors providing services to the Client relating to the subject matter of this engagement, provided that the Client shall ensure that such contractors do not further circulate, quote, disclose, or distribute such Deliverables, or make reference to such Deliverables, to any person or entity other than the Client. Notwithstanding the foregoing, the Client shall not be prohibited from creating its own materials based on the content of such Services and Deliverables and using and disclosing such Client-created materials for external purposes.

b) To the extent that, in connection with this engagement, either party (each, the "receiving party") comes into possession of any trade secrets or other proprietary or confidential information of the other (the "disclosing party"), it will not disclose such information to any third party without the disclosing party's consent. The disclosing party hereby consents to the receiving party disclosing such information (1) to subcontractors, whether located within or outside of the United States, that are providing services in connection with this engagement and that have agreed to be bound by confidentiality obligations similar to those in this paragraph 11(b); (2) as may be required by law, regulation, judicial or administrative process, or in accordance with applicable professional standards or rules, or in connection with litigation pertaining hereto; or (3) to the extent such information (i) shall have otherwise become publicly available (including, without limitation, any information filed with any governmental agency and available to the public) other than as the result of a disclosure in breach hereof, (ii) becomes available to the receiving party on a nonconfidential basis from a source other than the disclosing party that the receiving party believes is not prohibited from disclosing such information to the receiving party by obligation to the disclosing party, (iii) is known by the receiving party prior to its receipt from the disclosing party without any obligation of confidentiality with respect thereto, or (iv) is developed by the receiving party independently of any disclosures made by the disclosing party to the receiving party of such information. In satisfying its obligations under this paragraph 11(b), each party shall maintain the other's trade secrets and proprietary or confidential information in confidence using at least the same degree of care as it employs in maintaining in confidence its own trade secrets and proprietary or confidential information, but in no event less than a reasonable degree of care. Nothing in this paragraph 11(b) shall alter the Client's obligations under paragraph 11(a). Notwithstanding anything to the contrary herein, the Client acknowledges that Deloitte & Touche, in connection with performing the Services, may develop or acquire experience, skills, knowledge, and ideas that are retained in the unaided memory of its personnel. The Client acknowledges and agrees that Deloitte & Touche may use and disclose such experience, skills, knowledge, and ideas.

12. Survival and Interpretation. All paragraphs herein relating to payment of invoices, deliverables, limitation on warranties, limitation on damages and indemnification, limitation on actions, confidentiality and internal use, survival and interpretation, assignment, nonexclusivity, waiver of jury trial, and governing law shall survive the expiration or termination of this engagement. For purposes of these terms, "Deloitte & Touche" shall mean Deloitte & Touche LLP and, for purposes of paragraph 6, shall also mean Deloitte & Touche Products Company LLC, one of its subsidiaries. The Client acknowledges and agrees that no affiliated or related entity of Deloitte & Touche, whether or not acting as a subcontractor, or such entity's personnel shall have any liability hereunder to the Client or any other person and the Client will not bring any action against any such affiliated or related entity or such entity's personnel in connection with this engagement. Without limiting the foregoing, affiliated and related entities of Deloitte & Touche are intended third-party beneficiaries of these terms, including, without limitation, the limitation on liability and indemnification provisions of paragraph 6, and the agreements and undertakings of the Client contained in the Engagement Letter. Any affiliated or related entity of Deloitte & Touche may in its own right enforce such terms, agreements, and undertakings. The provisions of paragraphs 9, 12, 14, and 17 hereof shall apply to the fullest extent of the law, whether in contract, statute, tort (such as negligence), or otherwise, notwithstanding the failure of the essential purpose of any remedy.

13. Assignment and Subcontracting. Except as provided below, neither party may assign, transfer, or delegate any of its rights or obligations hereunder (including, without limitation, interests or Claims) without the prior written consent of the other party. The Client hereby consents to Deloitte & Touche assigning or subcontracting any of Deloitte & Touche's rights or obligations hereunder to (a) any affiliate or related entity, whether located within or outside of the United States, or (b) any entity that acquires all or a substantial part of the assets or business of Deloitte & Touche. Services performed hereunder by Deloitte & Touche's subcontractors shall be invoiced as professional fees on the same basis as Services performed by Deloitte & Touche's personnel, unless otherwise agreed.

14. Dispute Resolution. Any controversy or claim between the parties arising out of or relating to these terms, the Engagement Letter or this engagement (a "Dispute") shall be resolved by mediation or binding arbitration as set forth below.

a) Mediation:

All Disputes shall first be submitted to nonbinding confidential mediation by written notice to the parties, and shall be treated as compromise and settlement negotiations under the standards set forth in the Federal Rules of Evidence and all applicable state counterparts, together with any applicable statutes protecting the confidentiality of mediations or settlement discussions. If the parties cannot agree on a mediator, the International Institute for Conflict Prevention and Resolution ("CPR"), at the written request of a party, shall designate a mediator.

b) Arbitration Procedures:

If a Dispute has not been resolved within 90 days after the effective date of the written notice beginning the mediation process (or such longer period, if the parties so agree in writing), the mediation shall terminate and the Dispute shall be settled by binding arbitration to be held in San Francisco, California. The arbitration shall be conducted in accordance with the CPR Rules for Non-Administered Arbitration that

are in effect at the time of the commencement of the arbitration, except to the extent modified by this paragraph (the "Rules").

The arbitration shall be conducted before a panel of three arbitrators. Each of the parties shall designate one arbitrator in accordance with the "screened" appointment procedure provided in the Rules and the two party-designated arbitrators shall jointly select the third in accordance with the Rules. No arbitrator may serve on the panel unless he or she has agreed in writing to abide by the terms of this paragraph.

Except with respect to the interpretation and enforcement of these arbitration procedures (which shall be governed by the Federal Arbitration Act), the arbitrators shall apply the law set forth in paragraph 17 in connection with the Dispute. The arbitrators shall have no power to award damages inconsistent with these terms or the Engagement Letter, including, without limitation, the limitation on liability and indemnification provisions contained herein. The arbitrators may render a summary disposition relative to all or some of the issues, provided that the responding party has had an adequate opportunity to respond to any such application for such disposition. No discovery shall be permitted in connection with the arbitration, except to the extent that it is expressly authorized by the arbitrators upon a showing of substantial need by the party seeking discovery.

All aspects of the arbitration shall be treated as confidential, as provided in the Rules. Before making any disclosure permitted by the Rules, a party shall give written notice to the other party and afford such party a reasonable opportunity to protect its interests. Further, judgment on the arbitrators' award may be entered in any court having jurisdiction.

c) Costs:

Each party shall bear its own costs in both the mediation and the arbitration; however, the parties shall share the fees and expenses of both the mediators and the arbitrators equally.

15. Nonsolicitation. During the term of this engagement and for a period of one (1) year thereafter, each party agrees that its personnel (in their capacity as such) who had direct and substantive contact in the course of this engagement with personnel of the other party shall not, without the other party's consent, directly or indirectly employ, solicit, engage, or retain the services of such personnel of the other party. In the event a party breaches this provision, the breaching party shall be liable to the aggrieved party for an amount equal to thirty percent (30%) of the annual base compensation of the relevant personnel in his or her new position. Although such payment shall be the aggrieved party's exclusive means of monetary recovery from the breaching party for breach of this provision, the aggrieved party shall be entitled to seek injunctive or other equitable relief. This provision shall not restrict the right of either party to solicit or recruit generally in the media.

16. Entire Agreement, Amendment, and Notices. These terms, and the Engagement Letter, including exhibits, constitute the entire agreement between the parties with respect to this engagement; supersede all other oral and written representations, understandings, or agreements relating to this engagement; and may not be amended except by written agreement signed by the parties. In the event of any conflict, ambiguity, or inconsistency between these terms and the Engagement Letter, these terms shall govern and control. All notices hereunder shall be (a) in writing, (b) delivered to the representatives of the parties at the addresses first set forth above, unless changed by either party by notice to the other party, and (c) effective upon receipt.

17. Governing Law, Jurisdiction and Venue, and Severability. These terms, the Engagement Letter, including exhibits, and all matters relating to this engagement shall be governed by, and construed in accordance with, the laws of the State of California (without giving effect to the choice of law principles thereof). Any action based on or arising out of this engagement or the Services provided or to be provided hereunder shall be brought and maintained exclusively in the United States District Court, Northern District of California. Each of the parties hereby expressly and irrevocably submits to the jurisdiction of such court for the purposes of any such action and expressly and irrevocably waives, to the fullest extent permitted by law, any objection which it may have or hereafter may have to the laying of venue of any such action brought in any such court and any claim that any such action has been brought in an inconvenient forum. If any provision of these terms or the Engagement Letter is found by a court of competent jurisdiction to be unenforceable, such provision shall not affect the other provisions, but such unenforceable provision shall be deemed modified to the extent necessary to render it enforceable, preserving to the fullest extent permissible the intent of the parties set forth herein.

1 **PROOF OF SERVICE**

2 I, KRISTINA HECTOR, declare:

3 I am a resident of the County of Sacramento, California; that I am over the age of
4 eighteen (18) years of age and not a party to the within titled cause of action; that I am employed
as the Inmate Patient Relations Manager in *Plata v. Schwarzenegger*.

5 On September 26, 2007 I served a copy of the attached document described as
6 EXHIBITS TO THE RECEIVER'S SIXTH QUARTERLY REPORT on the parties of record in
said cause by serving a true and correct copy thereof by United States Mail and addressed as
7 follows:

8 ROBIN DEZEMBER
9 Director
10 Division of Correctional Health Care Services
CDCR
P.O. Box 942883
Sacramento, CA 94102

11 CHARLES J. ANTONEN
12 SAMANTHA D. TAMA
13 ROCHELLE EAST
Deputy Attorney General
455 Golden Gate Ave., Suite 11000
San Francisco, CA 94102

14 STEVEN FAMA
15 DON SPECTER
16 ALISON HARDY
Prison Law Office
General Delivery
17 San Quentin, CA 94964-0001

18 PAUL MELLO
19 Hanson Bridgett
425 Market Street, 26th Floor
San Francisco, CA 94105

20 MICHAEL BIEN
21 Rosen, Bien & Galvan
155 Montgomery Street, 8th Floor
22 San Francisco, CA 94104

23 JAY SHULMAN
24 9647 Hilldale Drive
Dallas, TX 75231

25 DR. JOSEPH SCALZO
26 3785 N. 156th Lane
Goodyear, AZ 85395

27 ANDREA LYNN HOCH
28 Legal Affairs Secretary
Office of the Governor
Capitol Building
Sacramento, CA 95814

1 ELISE ROSE
2 Counsel
3 State Personnel Board
4 801 Capitol Mall
5 Sacramento, CA 95814
6
7 J. MICHAEL KEATING, JR.
8 285 Terrace Avenue
9 Riverside, RI 02915
10
11 MATTHEW J. LOPES
12 Pannone, Lopes & Devereaux, LLC
13 1800 Financial Plaza
14 Providence, RI 02903
15
16 BRUCE SLAVIN
17 General Counsel
18 CDCR – Office of the Secretary
19 P.O. Box 942883
20 Sacramento, CA 94283
21
22 KATHLEEN KEESHEN
23 Legal Affairs Division
24 CDCR
25 P.O. Box 942883
26 Sacramento, CA 94283
27
28 RICHARD J. CHIVARO
29 JOHN CHEN
30 State Controller's Office
31 300 Capitol Mall, Suite 518
32 Sacramento, CA 95814
33
34 MOLLY ARNOLD
35 Chief Counsel
36 Department of Finance
37 State Capitol, Room 1145
38 Sacramento, CA 95814
39
40 LAURIE GIBERSON
41 Staff Counsel
42 Department of General Services
43 707 Third Street, 7th Floor, Suite 7-330
44 West Sacramento, CA 95605
45
46 MATTHEW CATE
47 Inspector General
48 Office of the Inspector General
49 P.O. Box 348780
50 Sacramento, CA 95834-8780
51
52 DONNA NEVILLE
53 Senior Staff Counsel
54 Bureau of State Audits
55 555 Capitol Mall, Suite 300
56 Sacramento, CA 95814

1 WARREN C. (CURT) STRACENER
2 PAUL M. STARKEY
Labor Relations Counsel
3 Department of Personnel Administration
Legal Division
4 1515 "S" Street, North Building, Suite 400
Sacramento, CA 95814-7243
5
6 GARY ROBINSON
Executive Director
UAPD
7 1330 Broadway Street, Suite 730
Oakland, CA 94612
8
9 YVONNE WALKER
Vice President for Bargaining
SEIU
10 1108 "O" Street
Sacramento, CA 95814
11
12 PAM MANWILLER
Director of State Programs
AFSME
13 555 Capitol Mall, Suite 1225
Sacramento, CA 95814
14
15 RICHARD TATUM
CSSO State President
CSSO
16 1461 Ullrey Avenue
Escalon, CA 95320
17
18 TIM BEHRENS
President
Association of California State Supervisors
19 1108 "O" Street
Sacramento, CA 95814
20
21 STUART DROWN
Executive Director
Little Hoover Commission
22 925 "L" Street, Suite 805
Sacramento, CA 95814
23
24 PETER MIXON
Chief Counsel
California Public Employees Retirement System
25 400 Q Street, Lincoln Plaza
Sacramento, CA 95814
26
27
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1 I declare under penalty of perjury under the laws of the State of California that the
2 foregoing is true and correct. Executed on September 25, 2007 at Sacramento, California.

3 

4 Kristina Hector
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