FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO

José B. Carrión III
Chair

Members
Andrew G. Biggs
Carlos M. García
Arthur J. González
José R. González
Ana J. Matosantos
David A. Skeel, Jr.

Natalie A. Jaresko
Executive Director

BY ELECTRONIC MAIL

August 10, 2018

Eduardo J. Rivera Juanatey, Esq.
Director
Office of Legal Affairs
Puerto Rico Department of Correction and Rehabilitation

Re: Extension to Correctional Health contract

Dear Mr. Rivera:

The Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA") vests significant authority in the Financial Oversight and Management Board for Puerto Rico ("Oversight Board"), including the right under Section 104(c)(2) to secure copies of documents from a territorial instrumentality necessary to enable the Oversight Board to carry out its duties. The Oversight Board established the contract review policy (the "Policy") pursuant to Section 204(b)(2) of PROMESA to require prior approval of certain contracts to assure that they "promote market competition" and "are not inconsistent with the approved fiscal plan."

The Policy states that all contracts or series of related contracts, inclusive of any amendments, modifications, or extensions, with an aggregate expected value of $10 million or more must be submitted to the FOMB for its approval before execution.

On July 2, 2018 the FOMB received a letter from the Department of Corrections and Rehabilitation ("DCR") informing the FOMB that contract 2018-000042 for "Comprehensive Management Agreement" with Correctional Health Services Corporation ("CHSC") had been extended through September 30, 2018. The stated value of this extension is $3.0 million; however, the extended contract in aggregate exceeds the Policy's $10 million threshold (the overall annual contract was valued at $15,460,000 upon last extension on October 31, 2017). As a result, DCR did not adhere to the Policy since it submitted the contract extension after it had been executed. Further, the correctional health contract is particularly important if DCR is to meet the requirements of the Fiscal Plan given the savings attributed to this measure outlined in the Fiscal Plan. Accordingly, the contract extension is not deemed approved by the FOMB.

Please be advised that the new contract, scheduled to commence October 1, 2018 with Physician HMO, Inc., must be submitted to the FOMB prior to execution and with sufficient time to review (e.g., two weeks minimum). It should be noted that given that the contract extension is expected to generate $840,000 in

savings, it is the expectation of the FOMB that DCR must generate a further $4,159,731 of healthcare related savings through both procurement and personnel measures.

In addition, the submission from DCR, must answer the following questions:

1. Are "difficult recruitment employees" (as such term used in the original documentation) covered under the new agreement?
2. The Fiscal Plan requires that $3,309,151 savings be generated by the procurement of healthcare for inmates and a further $1,690,579 in personnel savings related to inmate healthcare for FY19. Please outline how you will achieve these savings - inclusive of the extension and new contract and other related contracts
3. The savings for FY20 increase to $13,236,605 for procurement of healthcare services for inmates and $6,762,317 for personnel related to these healthcare services. Can you please provide the pathway to deliver these savings?

The FOMB looks forward to receiving a response on these critical issues for achieving the goals of the Fiscal Plan.

Sincerely,

Jaime A. El Koury
General Counsel

Cc. Aicza Piñeiro, apineiro@chsc-pr.org
Luz Molinelli, Esq.