

HIG CAPITAL'S AND WELLPATH'S CORRECTIONAL HEALTHCARE INVESTMENT RISKS

HIG Capital's growing presence in jail, prison, and detention center healthcare



Dental facility at Adelanto ICE Processing Center (Photo: US Immigration and Customs Enforcement)

Over the past several years, private equity firm HIG Capital has built up one of the largest healthcare companies serving jails, prisons, and detention facilities.

HIG Capital has owned Correctional Medical Group Companies (CMGC) since 2013.¹ Through various acquisitions since, HIG Capital expanded CMGC's portfolio beyond California Forensic Medical Group (CFMG) to include Southeast Correctional Medical Group, Midwest Correctional Medical Group, Southwest Correctional Medical Group.²

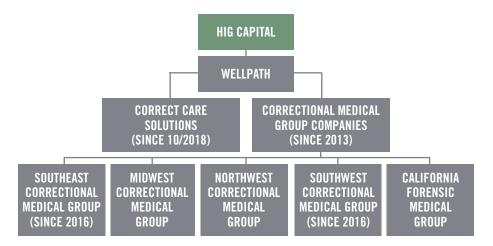
In October 2018, HIG Capital continued this expansion by acquiring Correct Care Solutions (CCS), which was previously owned by three private equity firms: Audax Group, GTCR and Frazier Healthcare Partners.³

Soon thereafter, HIG Capital merged CCS with CMGC and rebranded as Wellpath.⁴ This new entity is a private correctional healthcare service provider to local jails, detention centers, state and federal prisons and state psychiatric hospitals.

Wellpath is expected to become the country's biggest player in the correctional healthcare sector, according to Moody's Investor Service.⁵

KEY POINTS

- Private equity firm HIG Capital utilized very high leverage to expand its correctional healthcare footprint, merging Correct Care Solutions and Correctional Medical Group Companies to create Wellpath.
- HIG Capital's recently acquired Correct Care Solutions' inadequate staffing and poor medical care has come under growing scrutiny at federal immigration detention facilities from the Department of Homeland Security, Department of Justice, the media and members of Congress.
- Correct Care Solutions was sued at least 1,395 times in federal court from 2008 to 2018.
- Jorge Dominicis, Wellpath's CEO, previously had a controversial tenure at Correct Care Solutions and The GEO Group.
- California Forensic Medical Group, now part of HIG's Wellpath, and its clients have agreed to pay out millions of dollars in settlements to families of inmates who have alleged negligence by the company.



HIG UTILIZES HIGH LEVERAGE TO CREATE WELLPATH

According to *Bloomberg*, HIG Capital's 2018 acquisition of Correct Care Solutions was facilitated by \$610 million in loans from Wall Street lenders. Leverage for Wellpath is expected to have increased to about 10.6x EBITDA (a proxy for cash flow) by the end of 2018, according to S&P. Deals that go above 6x leverage are often considered aggressive.

One investor, who asked not to be identified, said he was put off by those financial terms as well as the negative publicity the company has received because of lawsuits. There have been hundreds of suits involving Correct Care or its affiliates in the past five years, according to data compiled by Bloomberg. Complaints against the company include prisoner conditions, medical malpractice and wrongful death.⁷

CORRECT CARE SOLUTIONS DRAWS SCRUTINY AT FEDERAL IMMIGRANT DETENTION FACILITIES, PRISONS

In September 2017, the Office of the Inspector General (OIG) for the US Department of Homeland Security issued a report raising concern about "untimely and inadequate detainee medical care," and 80 detainee medical care grievances filed from November 2017 to April 2018 at the Adelanto Immigration and Customs Enforcement (ICE) Processing Center in California. These grievances include instances of detainees not receiving urgent medical care, not receiving prescribed medications, and not being seen by health providers for persistent conditions for months.8

From May 2018 to July 2018, the Department of Homeland Security's Office of the Inspector General (OIG) visited the Adelanto ICE Processing Center as part of its latest round of unannounced spot inspections. Adelanto ICE Processing Center is run by private prison company GEO Group and is the largest detention facility in California. In February 2016, GEO Group stopped providing its own medical care at Adelanto and handed it over to Correct Care Solutions (prior to HIG Capital's acquisition of CCS in October 2018).

Correct Care Solutions' CEO at the time was Jorge Dominicis, a former executive with GEO Group. Dominicis now serves as Wellpath's CEO (under HIG Capital's ownership). When the switch to Correct Care Solutions took place in 2016, many of the same GEO medical staff stayed on. "Many of the preexisting employees in the medical area were retained...," GEO Group spokesman Pablo Paez confirmed

"We observed medical staff performing limited checks on detainees in disciplinary segregation, which do not effectively ensure detainee well-being. Based on interviews with detainees and medical staff and a review of independent reports, we concluded that detainees do not have timely access to proper medical care. Also, our detainee interviews and review of medical records revealed that detainees are placed on waitlists for months and, sometimes, years to receive basic dental care, resulting in tooth loss and unnecessary extractions in some cases."

Department of Homeland Security Office of the Inspector General (OIG), September 2018





Adelanto ICE Processing Center (Photo: US Immigration and Customs Enforcement)

in an email to Southern California Public Radio, Los Angeles immigration lawyer Veronica Barba said she found this troubling. "There is no improvement in the system if we are just going to keep calling it a different name, but keep the same system in place, and the same people, and the same players in that system," Barba said.¹⁰

Although ICE standards require face-to-face medical assessments of all detainees in segregation at least once daily to ensure their welfare, the OIG investigation found the Adelanto ICE Processing Center medical providers conducting cursory walk-throughs. These practices had not changed by mid-2018 even though they were initially highlighted in an ICE detainee death review in March 2017, confirming the persistence of these issues.

ICE standards expect detention facilities to provide dental care, including checkups and cleanings, after an individual has been in detention for six months. With only two dentists on staff to provide care for 1,940 detainees, no detainees had received a dental cleaning or had their cavities filled in four years. During the OIG's interview with the Adelanto Center's dentist, the dentist dismissed the necessity of fillings if patients commit to brushing and flossing. Floss is only available through detainee commissary accounts, but the dentist suggested detainees could use string from their socks to floss if they were dedicated to dental hygiene. Another HIGowned company, Keefe Group, has managed commissary services at the Adelanto ICE Processing Center.

Adding to the concerns highlighted in the OIG's report, the Project on Government Oversight reported in October 2018 that CCS has been sued at least 1,395 times in federal courts over the past decade. 13

SCRUTINY FROM US SENATORS AND REPRESENTATIVES

In December 2018, US Senator Kamala Harris and 23 members of the California congressional delegation sent a letter to the Acting Director of ICE Ronald D. Vitiello expressing "strong concern about the conditions and oversight of US Immigration and Customs Enforcement (ICE) immigration detention facilities," including the Adelanto Center. To fulfill their prerogative of holding ICE accountable for the agency's operations in California, the legislators requested over 20 documents spanning January 20, 2017 to the end of 2018.

In a November 2018 letter to the CEO of the GEO Group, Senator Elizabeth Warren and ten other United States Senators expressed concern about the poor medical conditions at the Adelanto Center and highlighted a New York Times article that describes detainees staging hunger strikes in protest of their treatment at the Adelanto Center. ¹⁵

"During our interviews, a center dentist stated that he only provides "palliative care" and does not have time to complete cleanings or fillings. The dentist dismissed the necessity of fillings if patients commit to brushing and flossing. Floss is only available through detainee commissary accounts, but the dentist suggested detainees could use string from their socks to floss if they were dedicated to dental hygiene."

Department of Homeland Security Office of the Inspector General (OIG), September 2018



Together, as Senator Warren's letter states, "these reports and the results of the OIG investigations indicate that the perverse profit incentive at the core of the private prison business model has resulted in companies such as the GEO Group [and its subcontractors like CCS] boosting profits by cutting costs on expenditures including food, health care, and sufficient pay and training for guards and prison staff." ¹⁶

INADEQUATE STAFFING

Correct Care Solutions has faced complaints of understaffing or failing to provide adequately trained staff for years.

Correct Care Solutions (CCS) provided healthcare services at Big Spring Correctional Center in Texas, a Bureau of Prisons facility operated by the GEO Group.

In 2014, prior to HIG Capital's acquisition of CCS, Nestor Garay died from a stroke when he received poor medical treatment from the staff member on duty. Big Spring's own mortality review faulted both the licensed vocational nurse (LVN) and the physician's assistant for failing to alert the clinical director when Garay's condition did not improve after initial treatment efforts. The review found that the physician's assistant "did not respond correctly to the initial report from nursing describing new onset of presumed seizure of a previously healthy 41-year-old male." It also found that neither

diagnosis nor treatment was "appropriate and timely." 17

staffed by more highly trained registered nurses.¹⁸

Garay is one of at least 137 men who have died while incarcerated in privately run Bureau of Prisons facilities. According to an investigative report by *The Nation* on Big Springs Correctional Center, medical records that were obtained through a federal open-records lawsuit revealed systemic shortcomings in the medical care provided to detainees. Physicians who reviewed these medical records found evidence that the private contractors and medical subcontractors like CCS have used less trained medical workers such as LVNs, whose licensure requires only one year of training, to fill positions that in the Bureau of Prisons-operated facilities would be

CCS also provides medical care at the Reeves County Detention Complex in Texas, the world's largest for-profit prison, which is operated by the GEO Group. The Reeves County Detention Complex houses 4,000 federal prisoners, mostly undocumented immigrants serving sentences for drug and immigration-related offenses.

In an investigation by the Department of Justice, officials learned that CCS had persistently understaffed the prison, despite a requirement imposed by Bureau of Prisons in December 2010 that contractors maintain staffing levels of at least 85 percent of the contract requirement. ¹⁹ Nonetheless, from 2010 to 2013, CCS failed to meet the 85 percent threshold more than 90 percent of the time. The report also found that the company has a "potential financial incentive" to maintain vacancies rather than fill positions at market rates, based on the Bureau of Prison's accounting methods. ²⁰

"The private contractor providing health services at Reeves, Tennessee-based Correct Care Solutions LLC, also has persistently understaffed the prison, despite a requirement imposed by BOP in December 2010 that contractors maintain staffing

Nonetheless, for three years, Correct Care failed to meet the 85 percent threshold more than 90 percent of the time. The report also found that the company has a "potential financial incentive" to maintain vacancies rather than fill positions at market rates, based on the BOP's accounting methods."

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Texas Observer, Apr 23, 2015.



LITIGATION RISKS AT WELLPATH

HIG Capital's operational troubles at immigration detention facilities partners extend to various county jails as well.

For instance, in 2016 Todd Murphy, a director of business development for CMGC, told *The Guardian* that the main reason counties are choosing to outsource their jail healthcare is not to reduce daily costs, but for the assurance of knowing that a lawsuit brought by the family of a dead arrestee would be brought against the company and not the county. "We provide a full partnership to our county partners," he said. "But the biggest thing we do is indemnify the county against risk and reliability, do everything we can to keep them out of trouble."²¹

Indemnifying clients against risk may not be a major concern if HIG Capital's correctional healthcare consistently provided quality healthcare, but HIG Capital's California Forensic Medical Group (CFMG), now part of Wellpath, and its clients have agreed to pay out millions of dollars in settlements to families of incarcerated people who have alleged negligence in the care the company provided.

THE FOLLOWING HIGHLIGHTS A SUBSET OF THESE CASES:



LARRA ANN GILLIS

In 2018, a federal judge agreed to an \$825,000 settlement against Monterey County and its county jail medical care provider, HIG Capital-owned California Forensic Medical Group, following a wrongful death lawsuit filed by the family of Larra Ann Gillis. The cost of the settlement was split evenly by the County and CFMG.

Wilareal/The Salinas Californian) Gillis, who had struggled with substance abuse, was arrested after the police had received reports of her wandering in and out of traffic screaming, "Please help me! I don't want to die!" While at the jail, Gillis didn't receive anything to eat or drink other than a single cup of water, according to her sons' attorney. She was taken to the hospital after a nurse found Gillis, "laying on her side, covered in feces moaning and unresponsive." She died after spending approximately 28 hours in police custody. Gillis was the sixth person to die at the jail in 2015.



Amanda Sloan (Photo: KSBW)

AMANDA SLOAN

In 2016, Santa Cruz County, CA and its county jail medical provider, California Forensic Medical Group paid a total of \$1 million to settle a federal lawsuit filed by survivors of Amanda Sloan, who committed suicide at the County Jail three years prior. Santa Cruz County paid \$975,000 and CFMG paid \$75,000.

Amanda Sloan committed suicide in July 2013 at the Santa Cruz County Jail. Police deputies had taken her to a local hos-

pital to address injuries sustained during the arrest. There she repeatedly talked of suicide.

The staff tasked with safety checks made several entries in the jail's observation logs, claiming to have visited Sloan's cell five times during the morning of her suicide. However, when the grand jury reviewed the video, the footage revealed staff made only one observation to Sloan's cell over that time, indicating that staff members had falsified visitation logs.



Steve Neuroth (Photo: Neuroth's family/Press Democrat)

STEVEN NEUROTH

In 2018, the brother of a Mendocino County man who died while being restrained at the Mendocino County Jail settled a wrongful death lawsuit for \$5 million. According to the terms of the settlement, Mendocino County and its insurer agreed to pay \$3 million to James Neuroth, the brother of the deceased. HIG-owned California Forensic Medical Group, now part Wellpath, which served as the medical provider at the jail,

agreed to pay \$1.5 million. The City of Willits, CA agreed to pay \$500,000.

Steven Neuroth died after his June 2014 arrest when he was being held face-down on the ground, with his hands handcuffed and ankles shackled, by law enforcement officers in a sobering cell at the Mendocino County Jail as a medical staff member watched. Before the death, the arresting officer from the Willits Police Department is shown in a jail video joking about Neuroth, who was described by his family's lawyer as a schizophrenic man in psychiatric crisis, and laughing about his fear of snakes with a vocational nurse there to evaluate his wellbeing.

"Walk up there and say 'Ah, snakes!' Funniest thing you've ever seen," said Officer Kevin Leef.

"Should've let him get hit by a car," said Jennifer Caudillo, the vocational nurse. The Mendocino County Jail has since ended its contract with CFMG, and now has a contract with Alabama-based NaphCare, according to Sheriff Tom Allman. The change was made because NaphCare has more registered nurses on its staff, who have a higher level of training than most of the staff from the CFMG, Allman said.

"We provide a full partnership to our county partners," he said. "But the biggest thing we do is indemnify the county against risk and reliability, do everything we can to keep them out of trouble."

Todd Murphy, director of business development for HIG Capital's Correctional Medical Group Cos, 2016



Elizabeth Gaunt and her son, Dane Shikman. (Photo: Gaunt's family/Press Democrat)

ELIZABETH GAUNT

In 2018, Lake County agreed pay \$2 million to settle a federal civil rights lawsuit filed by the family of a California social worker who hanged herself at the Lake County Jail. Elizabeth Gaunt died in August 2015, after she tore a blanket into strips and hung herself from a sink in a sobering cell while she was supposed to be under close supervision by jail staff. The case revealed the jail's medical services provider, California Forensic Medical Group, was in violation of state regulations.

Gaunt's son Dane Shikman said his mother's death was preventable and that patrol deputies, correctional officers and medical staff failed to effectively respond to Gaunt's mental health crisis. Shikman also reached a settlement agreement with CFMG for an undisclosed amount of money. CFMG was using lesser-trained vocational nurses to make key medical and mental health care decisions, which violated state law, according Shikman's attorney.

Gaunt was disoriented and confused when deputies found her banging on yard gates about noon on Saturday, Aug. 1, 2015, stating she believed it was 2005, she was in Florida and her name was Carrie Scott. They took her to the jail, where she was placed in a sobering cell. She hanged herself about 26 hours later in the same cell, having never received a mental health evaluation by a doctor.

CONCERNS ABOUT CORRECT CARE SOLUTIONS STAFFING LEVELS AND/OR POOR MEDICAL CARE HAS RESULTED IN:

- Fulton County, GA, terminating its contract with Correct Care Solutions (CCS) after five people died within a span of 75 days in 2017. The county concluded that the only connection between the deaths was the fact that all of the deceased were being treated by CCS and the Morehouse School of Medicine.²²
- A lawsuit filed in May 2018 against Douglas County, Nebraska and Correct Care Solutions alleged that more than a dozen people under the care of CCS were denied medical treatment for serious ailments, including a stroke, a broken hip and lung cancer. According to the lawsuit, the company's contract with the county detention center created "perverse incentives" because CCS "makes more money under the contract when they refuse to provide inmates with necessary medical care."23
- And in August 2018, a video was released as part of a wrongful death lawsuit against CCS that showed a detainee at a Westchester, NY, county jail collapsing on the ground and being wheeled back to his cell in a wheelchair by CCS staff. He died soon after from a heart attack, and a state legislator concluded that "looking at this video, it would take more persuasion to get me to go along with the point of view that we should have CCS or another for-profit entity running the medical department [inside the jail]."24

Inadequate staffing and poor medical care was prevalent in CCS' service provision to prisons and detention centers long before HIG merged it with CMGC in October 2018.

With Jorge Dominicis at the helm of CCS since 2014 and now at the helm of HIG's Wellpath, investors should question if the incentive structures and risk calculus have adequately improved to protect against headline and financial risks.

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