



OFFICE OF
INSURANCE COMMISSIONER

In the Matter of)	No. 09-93
)	
The Targeted Financial Examination of)	FINDINGS, CONCLUSIONS,
PUGET SOUND HEALTH)	AND ORDER ADOPTING REPORT
PARTNERS, INC.)	OF EXAMINATION
)	

A Registered Health Care Service Contractor.

BACKGROUND

A targeted examination of the financial condition of **PUGET SOUND HEALTH PARTNERS, INC.** (the Company) as of October 31, 2008, was conducted by examiners of the Washington State Office of the Insurance Commissioner (OIC). The Company holds a Washington certificate of registration as a health care service contractor (HCSC). This examination was conducted in compliance with the laws and regulations of the state of Washington and in accordance with the procedures promulgated by the National Association of Insurance Commissioners and the OIC.

The examination report with the findings, instructions, and recommendations was transmitted to PSHP for its comments on June 25, 2009. The Company's response to the report is attached to this order only for the purpose of a more convenient review of the response.

The Commissioner or a designee has considered the report, the relevant portions of the examiners' work papers, and the submissions by the Company.

Subject to the right of the Company to demand a hearing pursuant to Chapters 48.04 and 34.05 RCW, the Commissioner adopts the following findings, conclusions, and order.

FINDINGS

Findings in Examination Report. The Commissioner adopts as findings the findings of the examiners as contained in pages 1 through 13 of the report.

CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the targeted financial examination of **PUGET SOUND HEALTH PARTNERS, INC.**, and to order the Company to take the actions described in the Instructions and Comments and Recommendations sections of the report. The Commissioner acknowledges that the Company may have implemented some of the Instructions and Comments and Recommendations prior to the date of this order. The Instructions and Comments and Recommendations in the report are appropriate responses to the matters found in the examination.

ORDER

The examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final targeted examination report.

The Company is ordered as follows, these being the Instructions and Comments and Recommendations contained in the examination report on pages 1-6.

1. The Company is ordered to comply with RCW 48.43.097 and WAC 284-07-050(2),(6) and (7) in filing its NAIC Annual Statements, NAIC Quarterly Statements, and any interim statutory financial information requested by the OIC in accordance with the AP&P and the NAIC Annual Statement Instructions. Instruction 1, Examination Report, page 2.
2. The Company is ordered to maintain and keep sufficient and timely detailed records and reconciliations in order to assist in complying with RCW 48.43.097. Instruction 2, Examination Report, page 3.
3. The Company is ordered to file an accurate statement of its financial condition, transactions, and affairs in compliance with RCW 48.43.097, which requires the

filing of its financial statements in accordance with the AP&P, and WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P manual; and with SSAP No. 47, Paragraph 5. Instruction 3, Examination Report, page 3.

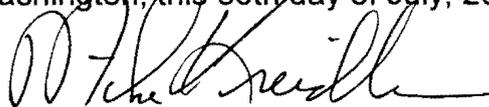
4. The Company is ordered to comply with RCW 48.43.097 by filing a true statement of its financial condition, transactions and affairs and to follow the NAIC Annual Statement Instructions and the AP&P, as required by WAC 284-07-050(2). The Company is also instructed to execute a revised or amended custodial agreement that complies with the FCEH. Instruction 4, Examination Report, page 4.
5. The Company is ordered to comply with RCW 48.13.340 which requires investment activity to be submitted to the BOD for approval. Instruction 5, Examination Report, page 4.
6. The Company is ordered to comply with WAC 284-07-350(2) by explicitly appointing an actuary and ratifying the approval of the actuary's reports in the BOD minutes. Instruction 6, Examination Report, page 4.
7. The Company is ordered to comply with RCW 23B.08.300 and the Company's Bylaws, Section 3.1 by affirmatively and explicitly ratifying a potential officer of the Company. Instruction 6, Examination Report, page 4.
8. The Company is ordered to comply with RCW 23B.08.210 and the Company's Bylaws, Section 3.6 by having the Board of Directors' consent in writing, before or after the taken action, to not have a particular Board meeting, and include this written consent in the BOD minutes. Instruction 6, Examination Report, page 5.
9. The Company is ordered to comply with RCW 23B.16.010 and the Company's Bylaws, Section 3.13 by keeping a record of all actions taken by the Company's Board of Directors without a meeting and/or a record of all actions taken by a committee of the Board of Directors exercising the authority of the Board of Directors, and to timely have the BOD minutes in writing, approved by the BOD, signed by the BOD secretary, and placed in the BOD minutes. Instruction 6, Examination Report, page 5.
10. The Company is ordered to comply with RCW 48.43.097, Chapter 23B RCW, and WAC 284-07-050(2) in accordance with the NAIC Accounting Practices and

Procedures Manual and the NAIC Annual Statement Instructions by keeping full and adequate accounts and records of transactions and affairs. Instruction 6, Examination Report, page 5.

11. The Company is ordered to comply with RCW 48.43.097, SSAP No. 25, SSAP No. 96, in accordance with the Holding Company Act for Health Care Service Contractors (RCW 48.31C.040(2) and RCW 48.31C.050), by timely settlement of its intercompany or related party transactions. Instruction 7, Examination Report, page 6.
12. The Company is ordered to consider documenting and implementing controls and processes in order to provide standards and guidelines for personnel regarding processes and procedures to follow as cited by the external auditor. Also, this situation appears to be at least partially a function of not having enough staff resources, so it is ordered that the Company consider supplementing the existing accounting staff. Comments and Recommendations 1, Examination Report, page 6.
13. It is ordered that PSHP considering following its conflict of interest policy requiring directors, officers, and key management employees to complete annual conflict of interest forms. In order to monitor compliance, it is also ordered that the Company consider obtaining and reviewing conflict of interest declarations from directors, officers, and key management employees and reporting the results to the Company's BOD, as required by the conflict of interest policy. Comments and Recommendations 2, Examination Report, page 6.

IT IS FURTHER ORDERED THAT, the Company file with the Chief Examiner, within 90 days of the date of this order, a detailed report specifying how the Company has addressed each of the requirements of this order.

ENTERED at Olympia, Washington, this 30th day of July, 2009.



MIKE KREIDLER
Insurance Commissioner



RECEIVED

JUL 21 2009

INSURANCE COMMISSIONER
COMPANY SUPERVISION

July 15, 2009

Mr. James T Odiorne, CPA, JD
Deputy Insurance Commissioner,
Company Supervision Division
5000 Capital Boulevard
Tumwater, WA 98501

RE: **Response to Target Financial Examination Report Instructions
Puget Sound Health Partners, Inc as of October 31, 2008**

Dear Mr. Odiorne:

Enclosed is the response to the Draft Instructions for the Targeted Financial Examination report of Puget Sound Health Partners (PSHP) as of October 31, 2008 received June 26, 2009. The company response is inserted below each finding.

1. Financial Statement Errors and Omissions

The results of the examination disclosed several instances in which the Company's NAIC Annual Statement and the OIC Monthly statement did not conform to the NAIC AP&P or the NAIC Annual Statement Instructions. While the Company needs to correct these practices, none of the following items in this instruction were material to the financial statements and no examination adjustments were necessary:

I. December 31, 2007 NAIC Annual Statement:

- A. In Schedule E, Part 3, the Company reported an indemnity deposit of \$0. It should have been reported as \$150,000.

PSHP Response: This will be corrected on future annual statements.

- B. Note 10, of the Notes to Financial Statements did not disclose all agreements with its shareholders Northwest Physicians Network, LLC (NPN), Physicians of

Southwest Washington (PSW) and Highline Medical Services Organization (HMSO), as required under SSAP No. 25, paragraphs 18-19. Not disclosed were Administrative Services Agreements (ASA) with each shareholder and that each shareholder is a Medicare Advantage provider. While these agreements were filed on Form D with the OIC and were approved, they were not properly disclosed in the 2007 NAIC Annual Statement Notes to Financial Statements.

***PSHP Response:* Note 10 on the 2007 Annual Statement only disclosed agreements that were in effect and had financial transactions for the year ending December 31, 2007. PSHP will ensure that all signed agreements, regardless of activity are disclosed, including the nature and status of related parties.**

II. October 31, 2008 monthly filing:

- A. Salaries and benefits payable were included as “General expenses due and accrued” instead of including them as “Amounts withheld or retained for the accounts of others”, in accordance with SSAP No. 67, paragraphs 7 and 8.

***PSHP Response:* This has been corrected.**

- B. Payables to HMSO, NPN, and PSW for marketing and credentialing services were improperly classified as “General expenses due and accrued” instead of “Amounts due to parent, subsidiaries and affiliates”.

***PSHP Response:* This has been corrected.**

- C. In the October 31, 2008 financial statements the Company did not properly account for \$136,942 of uncollected premiums over 90 days past due as a non-admitted asset as required by RCW 48.12.010 and SSAP No.6, paragraph 9. The Company used GAAP accounting for uncollected premiums, as a result, the premiums were not shown as non-admitted and flowed through the income statement instead of being a direct charge to surplus.

***PSHP Response:* This has been corrected.**

- D. Furniture and equipment was appropriately non-admitted, however depreciation related to non-admitted furniture and equipment was also reversed as a GAAP to statutory adjustment. SSAP No. 19, paragraph 2. requires depreciation to flow through the income statement.

***PSHP Response:* This has been corrected.**

2. Reconciliations

Timely and accurate reconciliations are required to report full and adequate accounts and records of PSHP’s assets, obligations, transactions, and affairs. The following

exceptions were noted in our review:

- A. PSHP did not provide an accurate bank reconciliation of its operating account. PSHP provided a printout from the Great Plains accounting system. However, the adjusted bank balance was \$15,857.56 lower than the ledger balance as of October 31, 2008.

***PSHP Response:* For most of 2008, PSHP prepared bank reconciliations using an automated program in the Great Plains accounting system. These reconciliations were reviewed by the new CFO and Controller who joined the organization in October and November 2008 respectively. They concluded that the automated bank reconciliations were inadequate. The Controller prepared a revised October 2008 bank reconciliation that identified differences of \$15,857.56. However, the revised October 2008 bank reconciliation was incomplete at the time of the Exam because all prior month's bank reconciliations going back to January 2008 needed to be redone. The corrected bank reconciliations through October 31, 2008 were completed and all differences identified by February 13, 2009.**

- B. PSHP did not perform timely reconciliations between the financial supporting documents and the general ledger accounts of its premiums received from the members' monthly premium payment and Centers for Medicare and Medicaid Services (CMS) and the total net capitation payment for October 2008. PSHP performed the reconciliation at the request of the examination team in January 2009.

***PSHP Response:* The new CFO and Controller noted that reconciliations were not completed timely when they joined the organization in the fall of 2008. Unfortunately, PSHP did not have time to correct this issue prior to the OIC Examination. Processes and procedures have been put in place and this finding will be remedied in 2009.**

3. Liability Amounts Held Under Uninsured Plans

The Company failed to establish a Low Income Cost Subsidy (LICS) liability and a Reinsurance Payments (RP) liability as "Liability for amounts held under uninsured plans" in its NAIC 2008 Quarterly Statement filing as of September 30, 2008 or its October 31, 2008 monthly financial report to the OIC. The Company incorrectly recorded all amounts received for LICS and RP as premium income instead of a liability as required by SSAP No. 47, Paragraph 5.

The LICS is for low income Medicare patients using the Part D program for prescription drugs. LICS monies received by the Company should have been recorded as a liability and the liability should have been reduced by pharmacy benefits paid to eligible participants. Any unused portion of LICS monies received is required to be remitted back to CMS.

The RP paid by CMS should be treated as a liability for claim payments rather than as revenue to the Company, and the RP claims should not flow through PSHP's income statement. CMS prepays the RP on an estimated basis; RP received by PSHP should have been recorded as a liability and reduced by pharmacy benefits paid for eligible participants. Any unused portion is remitted back to CMS. Thus, "Premium income" was overstated and "Liability for amounts held under uninsured plans" for LICS and PR from CMS was understated. Due to immateriality, no examination reclassification was necessary.

PSHP Response: PSHP has remedied the accounting for LICS and Reinsurance as of December 31, 2008. Because PSHP was in the first year of Medicare Advantage operations, PSHP did not have historical experience, complete current data, and all the accounting information in order to estimate these Liabilities at the time the September and October SAP statements were due. Much of 2008 data became available to PSHP on January 15 to record these amounts. At that same time, PSHP had similar challenges reporting pharmacy rebates and LICS receivables which offset the majority of the LICS and Reinsurance liabilities as of September and October 2008.

4. Custodial Agreement

The Company responded in its 2007 NAIC Annual Statement General Interrogatories 26.01 that its custodial agreement with US Bank complied with the FCEH. However, it did not contain several provisions required by the FCEH.

PSHP Response: PSHP is reviewing the Custodial Agreement and working with US Bank and the Insurance Department to ensure that all provisions comply with Financial Condition Examiner's Handbook. PSHP will file a revised agreement with OIC.

5. Authorization of Investments

The investments bought or sold are not approved by the Board of Directors (BOD). PSHP's investment policy, which had not been approved by the BOD, requires that the Finance Committee or the BOD shall review for ratification all transactions made since prior ratification, as well as a detail list of all current investments on a quarterly basis. PSHP is not in compliance with its investment policy or RCW 48.13.340 which requires all investments be authorized or approved by the BOD.

PSHP Response: The BOD and/or the Finance Committee currently reviews and approves investments quarterly. From inception of the Company to October 31, 2008, all of PSHP investments were in Treasury Obligation mutual funds.

6. Board and Committee Minutes

No issues were disclosed in any of the Company's furnished meeting minutes that would

materially affect the Company's October 31, 2008 statutory financial statements. However, information that should have been included in the respective minutes during the examination period, such as clarifying in the minutes the explicit decisions and ratifications made by the BOD, were missing, incomplete, or not clearly stated.

Specific deficiencies in the PSHP's BOD minutes included the following:

- A. The minutes did not include the approval of the Company's appointed actuary.
- B. Not included in the minutes was information on the decisions of the BOD to hire, elect or confirm officers such as chief executive officer, chief financial officer, and chief medical officer, or the resignation of said officers. (Company Bylaws Section 3.1.3)
- C. Decisions to not have a particular BOD meeting were not evidenced by one or more consents describing the action taken, executed by each director either before or after the action taken, and delivered to the corporation for inclusion in the BOD minutes or filing with the corporate records, in accordance with both RCW 23B.08.210 and the Company's Bylaws Section 3.6.
- D. The minutes for the annual BOD meeting were not identified as the annual meeting as required by PSHP's Bylaws Section 3.3., nor was the approval of PSHP's NAIC 2007 Annual Report filing, audits, and regulatory reports, as required by Bylaws Section 3.1.10. In addition, the minutes did not document approval of contracts with affiliates and timely approval of the BOD minutes.

***PSHP Response:* PSHP has taken steps to improve the process for documenting decisions and actions taken in PSHP Board of Directors and Board Committee meetings.**

7. Intercompany Transaction settlements

PSW, NPN, and HMSO provide administrative services, including credentialing and claims processing to the Company. The agreements for these services indicate that reimbursement of costs for these services require monthly settlement by PSHP, by the 10th day of the month, unless otherwise agreed to in writing. Both SSAP No. 25, paragraph 6, and SSAP No. 96, paragraph 2, require related party transactions to be in the form of a written agreement that provides for timely settlement of amounts owed and a specified due date. Any uncollected receivable over ninety days from the due date must be non-admitted. The agreements comply with this requirement, however monthly settlements were not made in 2008.

***PSHP Response:* There were a number of issues in 2008 that delayed or hindered PSHP from settling certain intercompany balances timely. PSHP has corrected these issues in 2009.**

This exam has been helpful in identifying areas for improvements. We appreciate the OIC's thoughtful comments and recommendations.

Regards,

A handwritten signature in black ink, appearing to read "April Golenor". The signature is fluid and cursive, with a large initial "A" and a long, sweeping tail.

April Golenor
Chief Executive Officer

cc: Zachary Smulski, CFO
Jennifer Rogalla, Compliance and Regulatory Manager