

STATE OF WASHINGTON

MIKE KREIDLER
WFI INSURANCE COMMISSIONER

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OFFICE OF
INSURANCE COMMISSIONER

In the Matter of)	No. 09-01
)	
The Financial Examination of)	FINDINGS, CONCLUSIONS,
WASHINGTON STATE HEALTH)	AND ORDER ADOPTING REPORT
INSURANCE POOL)	OF EXAMINATION

BACKGROUND

An examination of the financial condition of the **WASHINGTON STATE HEALTH INSURANCE POOL (WSHIP)** as of December 31, 2007, was conducted by examiners of the Washington State Office of the Insurance Commissioner (OIC). WSHIP is a nonprofit unincorporated entity created by Chapter 48.41 RCW. RCW 48.41.070 requires the Insurance Commissioner to perform periodic examinations of WSHIP. 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 WSHIP for its comments on December 1, 2008. WSHIP'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 WSHIP.

Subject to the right of WSHIP 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 10 of the report.



CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the financial examination of the **WASHINGTON STATE HEALTH INSURANCE POOL** and to order WSHIP to take the actions described in the Comments and Recommendations section of the report. The Commissioner acknowledges that WSHIP may have implemented some of the Comments and Recommendations prior to the date of this order. The 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 examination report.

WSHIP is ordered as follows, these being the Comments and Recommendations contained in the examination report on pages 1-2.

1. It is ordered that WSHIP consider recording premiums on the due date. Comments and Recommendations 1, Examination Report, page 1.
2. It is ordered that, if access to the datacenter is required by individuals other than IS personnel, WSHIP consider having individuals sign in, using an entry log, and be escorted by someone from the IS department. Comments and Recommendations 2, Examination Report, page 2.

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

ENTERED at Olympia, Washington, this 8th day of January, 2009.



MIKE KREIDLER
Insurance Commissioner



Kären Larson, Executive Director
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DEC 19 2008
INSURANCE COMMISSIONER
COMPANY SUPERVISION

December 18, 2008

James T. Odiorne, CPA, JD
Deputy Insurance Commissioner
Company Supervision Division
PO Box 40255
5000 Capitol Blvd.
Tumwater, WA 98501.

SENT VIA EMAIL
AND HARD COPY

Re: Financial Examination Report of Washington State Health Insurance Pool
As of December 31, 2007

Dear Mr. Odiorne:

The Washington State Health Insurance Pool (WSHIP) is in receipt of the draft Financial Examination Report as of December 31, 2007, issued on December 1, 2008, and received in our office December 4, 2008. Please find below responses to the report. The report findings are shown in *italics*, followed by WSHIP's requested report changes in underlined text.

Comments and Recommendations

1. Overstatement of Assets and Liabilities, page 5

WSHIP has been incorrectly recording an asset and offsetting liability when billing for premiums before the due date. The recording of an asset and liability for billed premiums is an incorrect accounting procedure in that it overstates total assets and total liabilities.

WSHIP requests that an additional comment be added to the finding (underlined text) to indicate: "The recording of an asset and liability for billed premiums is an incorrect accounting procedure in that it overstates total assets and total liabilities; however, this accounting procedure had no effect on income but only treatment of the balance sheet."

As noted in the report, WSHIP is making appropriate changes to future Annual Financial Reports.

Organizational Funding and Structure, page 6, paragraph 2

In addition to member assessments, there are two other sources of funds that are applied directly to "Unassigned surplus". Excess loss receipts represent funds received from member carriers for better than expected loss experience on certain lines of business, and

are recognized as a contribution to "Unassigned surplus". Grant funds from the Federal Government are usually earmarked to be used in a specific way.

WSHIP suggests that the words "better than expected" be deleted from the second sentence and the words "beyond statutorily defined limits" be inserted after "loss experience".

Growth of WSHIP, page 6

WSHIP's auditor suggests the following corrections (per Annual Financial Statements) to the table at the top of page 7 reflecting the growth of WSHIP:

2004 – Member assessments = \$27,667, 167 (not \$27,914,071)

2004 – Other income = \$46,904

2003 – Member assessments = \$18,732,850 (not \$20,043,167)

2003 – Other income = \$1,310,317₁

₁ Correction of 2002 error; overstatement of Rx IBNR

Management and Control

Third Party Agreement, page 8.

WSHIP contracts with a third party administrator, BMI, located in Great Bend, Kansas, to handle all of its premium billing and collection, claims adjudication and payment, policy administration and accounting functions effective through March 31, 2010.

Pursuant to the agreement, WSHIP is charged a per member per month fee based on the number of active members. Total fees paid to BMI in 2007 and 2006 were \$1,194,503 and \$1,047,072, respectively. Additionally, WSHIP contracts BMI for preferred provider organization services, pharmacy benefits management, and case management services. The agreements and terms are approved by the BOD.

WSHIP requests the deletion of the proprietary fee information included in the above statement "Total fees paid to BMI in 2007 and 2006 were \$1,194,503 and \$1,047,072, respectively". Also, please strike "BMI" from the second to the last sentence.

Thank you for the opportunity to present this response to the draft Financial Report. We respectfully request that the final report be amended as noted in our response.

Sincerely,



Kären J. Larsson
Executive Director

CC: Vernon E. Stoner, Chief Deputy Insurance Commissioner
Patrick H. McNaughton, Chief Examiner