

MIKE KREIDLER
DATE: 03/23/2010 10:57 AM



OFFICE OF
INSURANCE COMMISSIONER

In the Matter of)	No. 10-59
)	
The Financial Examination of)	FINDINGS, CONCLUSIONS,
ARCADIAN HEALTH PLAN, INC.)	AND ORDER ADOPTING REPORT
)	OF FINANCIAL EXAMINATION
)	

A Registered Health Care Service Contractor.

BACKGROUND

An examination of the financial condition of **ARCADIAN HEALTH PLAN, INC.** (the Company) as of December 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. 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 the Company for its comments on February 24, 2010. 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.

ARCADIAN HEALTH PLAN, INC.
Order Adopting Examination Report
March 30, 2010

FINDINGS

Findings in Examination Report. The Commissioner adopts as findings the findings of the examiners as contained in pages 1 through 15 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 **ARCADIAN HEALTH PLAN, 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 examination report.

The Company is ordered as follows, these being the Instructions and Comments and Recommendations contained in the examination report on pages 1-3.

1. The Company is ordered to file an accurate statement of its financial condition, transactions, and affairs pursuant to RCW 48.43.097 which requires the filing of its financial statements in accordance with the AP&P; and with WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P. Instruction 1, Examination Report, page 2.
2. The Company is ordered to amend its agreements to include specific due dates for settlement of intercompany balances and intercompany agreements must be in writing as required by SSAP No. 25, Paragraph 6, and to file written agreements with the OIC in compliance with RCW 48.31C.050(2)(d). Instruction 2, Examination Report, page 2.

3. The Company is ordered to file a Form D as outlined in WAC 284-18A-940 for its ASA contract as required by RCW 48.31.C.050(2)(d). Instruction 3, Examination Report, page 3.
4. The Company is ordered to obtain permission from the OIC prior to filing any amendment to a previously filed financial statement pursuant to 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. Instruction 4, Examination Report, page 3.
5. It is ordered that the Company consider following its written requirement of completing annual questionnaires regarding outside activities and presenting these questionnaires to the BOD for consideration and action if deemed necessary. It is also ordered that the Company consider amending the employee handbook and the annual questionnaire regarding outside activities of directors to include officers, and other key management employees, and that the conflict of interest reporting process be noted in the BOD minutes and the results of the process documented. Comments and Recommendations 1, Examination Report, page 3.

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 March, 2010.


MIKE KREIDLER
Insurance Commissioner

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**INSURANCE COMMISSIONER
COMPANY SUPERVISION**

Robert Fahlman
CEO/President/Secretary
Arcadian Health Plan

March 2, 2010

James T Odiorne, CPA, JD
Deputy Insurance Commissioner
State Of Washington
Office of the Insurance Commissioner
P.O Box 40255
Olympia, WA. 98504-0255

Dear Mr. Odiorne, CPA, JD:

Thank you for the draft report. We have one correction and some responses to the Instructions and to the Comments and Recommendations. We have attempted to reach members of the audit team about this error, but have not gotten a response back. There is one error on the report on page 3, item 4, and the last sentence of the first paragraph. The sentence reads, "The Company had incorrectly reported a "Net deferred tax asset" in the amount of \$1,974,811 as "Receivable from parent, subsidiaries, and affiliates." The correct comment should read: "The Company had incorrectly reported "Current federal & foreign income tax payable and interest thereon" in the amount of \$1,22,130 as "payable to parent, subsidiaries, and affiliates."

Since there are no implications or modifications to this error, we have not flagged this in our formal response to the report.

Please see the attachment to this letter entitled Company Responses to Examination Findings for our formal responses to the Instructions and to the Comments and Recommendations.

Sincerely,



Robert Fahlman
CEO/President/Secretary
Arcadian Health Plan

Company Response to Examination Findings**INSTRUCTIONS****1. NAIC Annual Statement Errors and Misclassifications**

The results of the examination disclosed several instances in which the Company's filing of the 2008 NAIC Annual Statement did not conform to the NAIC Accounting Practices and Procedures Manual and the NAIC Annual Statement Instructions.

a. Amounts Withheld for the Accounts of Others

The Company incorrectly included amounts held for the accounts of others such as federal withholding tax, 401k payments, and dependent care payments as "General expenses due or accrued". Amounts held for payments to others should be recorded as "Amounts withheld or retained for the account of others" as required by the 2008 NAIC Annual Statement Instructions and SSAP No. 67, Paragraphs No. 7 and 8. This had no effect on capital and surplus and no reclassification is necessary due to immateriality.

Response: Company's Response: Agreed- . Henceforth, the amounts will be reported on the statutory statements in the "Amounts Withheld or Retained for the Accounts of Others." This change was made in 2009.

b. The Statement of Actuarial Opinion (SAO)

The consulting actuary used the wording "state of domicile" in the SAO, when the wording should have been more specific to name the "state of Washington" as the state of domicile, pursuant to the 2008 NAIC Annual Statement Instructions, Actuarial Opinion, Page 10, Paragraph 8.C.

Response: Agreed- The actuarial opinion should include the language prescribed. The 2009 opinion will clearly state in its SAO opinion paragraph that the reserves and actuarial values meet the requirements of the laws of the state of Washington. This has been discussed with the actuary and they will comply with this language in 2009 and forward.

c. Prescription Drug Administrative Fees

The Company incorrectly included administrative fees for the processing of pharmaceutical claims payable as "Prescription drugs" in the 2008 NAIC Annual Statement. SSAP No. 85, Paragraph 4.b., requires that administrative fees for prescription drugs be reported as "Claim adjustment expenses" on page 4, line 20, and on the Underwriting and Investment Exhibit, Part 3 – Analysis of Expense, on page 14, line 14. This had no effect on capital and surplus and no reclassification is necessary due to immateriality.

Response; Defer. -The administrative cost and fees will now be shown in a separate general ledger account from the prescription drug claim amount and not included in claims in the annual WA filing. Arcadian is now receiving the information from Caremark to record

administrative fees separately and is recording them in the general ledger to a separate account. This finding relates to consistency in financial statement presentation with NAIC regulations and does not require an amendment to the 2008 annual statement and it does not affect the surplus computation. Accordingly, this change has been made in 2009.

d. Aggregate Health Policy Reserves and Liability for Amounts Held Under Uninsured Plans

The Company incorrectly included Medicare reinsurance returns and experience rating adjustments for Medicare as “Aggregate health policy reserves” in the 2008 NAIC Annual Statement. Pursuant to SSAP INT 05-05 and SSAP No. 47, Paragraph 11, these amounts should be reported as “Liability for amounts held under uninsured plans.” This had no effect on capital and surplus and no reclassification is necessary due to immateriality.

Response: Agreed- Arcadian relied on the expertise of their actuary for the original classification of the Rx Reinsurance Payable as a component of the Aggregate Health Policy Reserve. After careful review of the NAIC instructions for line L4 and L20 and per the definition of reserves found in SSAP No. 54, it appears the reclassifying \$3,217,891 is appropriate. Arcadian investigated the appropriate account to which the reclassification should be made and while we do not wholly agree that the Rx Reinsurance Payable is the appropriate account to which the reclassification should be made, we could find no specific guidance. . Since we could find, no guidance that was specifically on point to indicate that this is not the appropriate account, we will agree to the request to reclassify this amount to line L20. No change will be made for 2008, as the reclassification is from one liability account to the other and does not affect AHP surplus. In 2009 and forward, AHP will classify Reinsurance Payable and Budget Neutrality as Amounts Held Under Uninsured Plans (L20) of the Annual Statement.

e. Jurat Page

On the Jurat Page in its 2008 NAIC Annual Statement, the Company incorrectly reported the day the Company commenced business as July 21, 2004, the statutory home office as Oakland, California, and the primary location of books and records as Spokane, Washington. Pursuant to the 2008 NAIC Annual Statement Instructions for the Jurat Page, the day the Company commenced business should be the day the Company first became obligated for any insurance risk (January 1, 2005), the statutory home office is the address identified on the Certificate of Registration in the domiciled state (Spokane, Washington), and the primary location of books and records is the location where examiners may review records during an examination (Oakland, California).

The Company is instructed to file an accurate statement of its financial condition, transactions, and affairs pursuant to RCW 48.43.097 which requires the filing of its financial statements in accordance with the AP&P; and with WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P.

Response: The Company made clerical errors on the Jurat page of the 2008 Annual Statement, incorrectly reverting back to the information included in its first filing. Review procedures have been instituted for the Annual Filing which includes review of the Jurat page.

2. Intercompany Agreements must be Written and include a Due Date

AHP is a participant with affiliated companies in a cost allocation agreement and an administrative services agreement that do not include a settlement due date for inter-company payables and receivables. In-addition, for year 2008 the Company participated in a consolidated federal tax agreement with its affiliates without a written agreement. SSAP 25, Paragraph 6, and SSAP 96 require that transactions between related parties must be written and include a due date for settlement of account balances.

AHP is instructed to amend its intercompany agreements to reflect specific due dates for intercompany balances to comply with the requirements of SSAP No. 25, Paragraph 6, and SSAP No. 96. The Company is also instructed to comply with RCW 48.43.097 which requires the filing of its financial statements in accordance with the AP&P; and with WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P.

Response: Response: Agreed- The Company is in the process of revising the Administrative Service Agreement, Cost Allocation and Shared Services Agreement. The Company has incorporated a settlement date into the amendment to this agreement to comply with SSAP No. 25, paragraph 6, and SSAP No. 96. The Company has instituted a policy guideline and procedure including authorization requirements to insure that all intercompany agreements are written and follow the appropriate regulatory guidelines.

3. Administrative Service Agreement

The Company failed to submit a Form D filing for a change to its Administrative Service Agreement (ASA) between AHP and its parent, Arcadian Management Services, Inc. RCW 48.31C.50(5) requires that if the terms of an ASA change, then additional approval is required. The Company changed the compensation rates in the ASA effective May 7, 2008. The changing of the compensation rates changed the terms of the ASA contract. Prior written notice is required for an ASA under RCW 48.31C.50(2)(d) by filing Form D with the OIC as outlined in WAC 284-18A-940.

The Company is instructed to file a Form D as outlined in WAC 284-18A-940 for its ASA contract as required by RCW 48.31C.50(2)(d) and RCW 48.31C.50(5).

Response: Agreed- The Company did not file a Form D for the Waiver of the Fee Increase Waiver. Henceforth, the company will comply with RCW 48.31C.040(1)(c) and RCW 48.31C.050 by filing Form D or any required Holding Company filing involving any new or modified intercompany agreements. The Company has instituted a policy guideline and procedure including authorization requirements to insure that all intercompany agreements are written and follow the appropriate regulatory guidelines and are duly approved.

4. 2008 NAIC Annual Statement Amendment

The Company discovered a reporting error in the 2008 NAIC Annual Statement, and then filed an amended 2008 NAIC Annual Statement without requesting and obtaining prior approval from the OIC pursuant to SSAP No. 3, Paragraph No. 10. The Company had incorrectly reported a "Net deferred tax asset" in the amount of \$1,974,811 as "Receivables from parent, subsidiaries and affiliates."

The Company is instructed to obtain permission from the OIC prior to filing any amendment to a previously filed financial statement pursuant to 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.

Response: Agreed, in the future changes to any filings will only be done with prior written approval from Washington Office of Insurance Commissioner.

COMMENTS AND RECOMMENDATIONS

1. Conflict of Interest Statements

Arcadian Management Services, Inc. (AMS) has a conflict of interest policy included in its employee handbook that discusses expectations of employee conduct and requires immediate and periodic written disclosure. There is an annual questionnaire regarding outside activities that the BOD is required to complete at the beginning of each fiscal year. AHP is not following the procedure required in the annual questionnaire regarding outside activities. For the current examination period, only one conflict of interest statement was completed out of a total of six BOD members.

It is recommended that the Company follow its written requirement and have the questionnaires completed annually and presented to the BOD for consideration and action if deemed necessary. It is also recommended that the Company amend the employee handbook and the annual questionnaire regarding outside activities of directors to include officers, and other key management employees, and that the conflict of interest reporting process be noted in the BOD minutes and the results of the process documented.

Response: Defer-The Company has a conflict of interest statement and policy in its Revised Employee Handbook. All employees including officers are expected to adhere to the conflict of interest statement in the handbook. An employee acknowledges the receipt and adherence to the conflict of interest statement when they are hired. Since there was a turnover in Human Resources, the original acknowledgements were not able to be located in the time frame requested, although the Company and the individuals believe that the documentation was executed on a complete and timely basis, even though inappropriately filed. When Arcadian determined that the originals could not be located, they had the officers sign replacement acknowledgement statements in July, 2009. Acknowledgements for Ken Zimmerman, Nancy Freeman, Chase Milbrant, and Cheryl Perkins were obtained. Additionally for 2008, the officers were in compliance with the company policy as they did sign non-disclosure agreements which

included conflict of interest provisions. These were provided to Washington Office of Insurance Commissioner.

A handwritten signature in black ink, appearing to be 'R. Fahlman', written over a horizontal line.

Robert Fahlman, CEO/President/Secretary
March 15, 2010