



OFFICE OF  
INSURANCE COMMISSIONER

In the Matter of	)	No. 12-174
	)	
The Financial Examination of	)	FINDINGS, CONCLUSIONS,
<b>ASURIS NORTHWEST HEALTH</b>	)	AND ORDER ADOPTING REPORT
	)	OF FINANCIAL EXAMINATION
	)	

A Registered Health Care Service Contractor.

**BACKGROUND**

An examination of the financial condition of **ASURIS NORTHWEST HEALTH**, (the Company) as of December 31, 2010, 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 June 13, 2012. 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 18 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 **ASURIS NORTHWEST HEALTH**, 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.

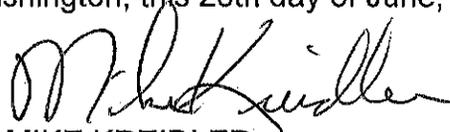
The Company is ordered as follows, these being the Instructions and Comments and Recommendations contained in the examination report on pages 1-5.

1. The Company is ordered to comply with RCW 48.31C.050, RCW 48.43.097 and SSAP No. 96 by executing and filing with the Commissioner a service agreement for Regence Rx services; and with RCW 48.43.097 and SSAP No. 70 by allocating expenses on a fair and reasonable basis and to the entity to which they belong. Instruction 1a, Examination Report, page 2.
2. The Company is ordered to comply with RCW 48.43.097 and WAC 284-07-050(5) by filing its NAIC Annual Statement in accordance with the AP&P. Specifically, the Company should only book a liability if the definition of a liability contained in SSAP No. 5 is met, and it should only record an expense when a transaction has taken place that gives rise to the expense, and that meets the definition of an expense contained within the AP&P. Instruction 1b, Examination Report, page 2.
3. The Company is ordered to comply with RCW 48.31C.050, RCW 48.43.097, and SSAP No. 70 by allocating expenses to the entity to which they belong. Instruction 1c, e, and f, Examination Report, page 3.
4. The Company is ordered to comply with RCW 48.31C.050, RCW 48.43.097 and SSAP No. 70(8) by monitoring reversing entries to ensure that the allocated reversal amount is the same as the original amount charged. Instruction 1d, Examination Report, page 3.

5. The Company is ordered to comply with RCW 48.44.037(4) and RCW 48.12.080(2) by recording an adequate estimate for claims unpaid. Instruction 2a, Examination Report, page 4.
6. The Company is ordered to comply with RCW 48.43.097, WAC 284-07-050(2) and SSAP No. 55(8) by estimating the cost of settling unpaid claims, using past experience adjusted for current trends, and any other factor that would modify past experience. Instruction 2b, Examination Report, page 4.
7. The Company is ordered to comply with RCW 48.43.097 by filing its financial statements in accordance with the AP&P, and WAC 284-07-050(2) which requires adherence to the AP&P, SSAP No. 5. Instruction 3, Examination Report, page 5.
8. The Company is ordered to comply with RCW 48.43.097 by filing 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 5.
9. It is ordered that the Company consider implementing measures to ensure that deferred tax calculations are adequately reviewed. Comments and Recommendations 1, Examination Report, page 5.
10. It is ordered that the Company consider strengthening its controls over the review and approval of initial entity and department general ledger coding for vendor invoices and manual journal entries. Comments and Recommendations 2, Examination Report, page 5.

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 28th day of June, 2012.

  
MIKE KREIDLER  
Insurance Commissioner



528 East Spokane Blvd | Suite 301  
Spokane, WA 99202

June 26, 2012  
James T. Odiorne, CPA, JD  
Deputy Insurance Commissioner  
Company Supervision Division  
PO Box 40255  
Olympia, WA 98504-0255

Re: Asuris Northwest Health- Report of Examination as of December 31, 2010

Dear Mr. Odiorne,

In response to your letter dated June 13, 2012, Asuris Northwest Health would like to provide the following corrections to the draft financial exam report and our responses to the instructions and comments in the final report of examination for Asuris Northwest Health. I appreciate the opportunity to respond and comment on the report.

#### **CORRECTIONS**

1. On page 8 of the draft report please note that Commencement Bay Life Insurance Company (CBL) was incorporated on August 12, 1992 not September 1, 1992.
2. On page 9 of the draft report please note that The Regence Foundation filed its name change to Cambia Health Foundation with the State of Oregon on April 26, 2012 not May 2012.

#### **INSTRUCTIONS AND RESPONSES**

##### **1. Related Party Transactions**

- a. ***Regence RX, Inc. (Regence Rx) Services*** – *Regence BlueCross BlueShield of Oregon (RBS-OR) performs services on behalf of Regence Rx, and RBS-OR allocates the costs of these services to ANH. There is no agreement between the Company and RBS-OR or Regence Rx for these services. RCW 48.31C.050(2) requires management agreements, service contracts, and cost-sharing arrangements to be filed with the Commissioner prior to entering into the transaction. SSAP No. 96 requires all agreements between affiliates to be in writing and RCW 48.43.097 requires adherence to the AP&P.*

*In addition, the examiners identified some Regence Rx expenses that were improperly allocated to ANH. Specifically, consulting expenses to re-brand Regence Rx were allocated to the Company. These types of expenses are not related to a service performed for the Company, and allocating a portion of these expenses is not in accordance with RCW 48.31C.050 and SSAP No. 70 which requires shared expenses to be fair and reasonable and allocated to the entity to which they belong.*

*Regence Rx retained eight percent of pharmacy network access fees collected from pharmacies for ANH pharmacy claims without providing any services to ANH. Regence Rx did not bear the cost of setting up or maintaining the network. In addition, only 92 percent of the network access fee charged to external customers was allocated amongst affiliates (including ANH) even though 100 percent of the expenses associated with this activity were allocated to affiliates (including ANH). This is not in accordance with RCW 48.31C.050 and SSAP No. 70 which require expenses incurred and payment received to be fair and reasonable and allocated to the entity to which they belong.*

***The Company is instructed to comply with RCW 48.31C.050, RCW 48.43.097 and SSAP No. 96 by executing and filing with the Commissioner a service agreement for Regence Rx, Inc. services; and with RCW 48.43.097 and SSAP No. 70 by allocating expenses on a fair and reasonable basis and to the entity to which they belong. (See Comment and Recommendation No. 2.)***

**Company Response:**

The Company agrees with this finding. As a result, Cambia has prepared an inter-company agreement between Regence Rx and the Regence Health Insurance plans (including the Company) for providing pharmacy benefit management services, which was filed on a form D and was subsequently approved by the Washington OIC.

The Company agrees that non-Company related work performed on behalf of Regence Rx should not have been allocated to the Company. As such, the Company will segregate such invoices into a separate department code.

With regards to the revenue and cost sharing between the Company and Regence Rx, though the impact to the Company was beneficial, the Company has included a provision in the new inter-company agreement between Regence Rx and the Regence Health Insurance plans (including the Company) that ensures the Company will not be charged for services provided to or credited for fees paid by external customers.

- b. ***Accrual of Expenses and Liabilities*** – *The Regence Group (TRG), the parent company of Regence BlueShield (RBS), posted \$6 million of expense accruals in its books from April through July of 2010, and no transactions had actually occurred. RBS is a Washington State domestic and parent company of AHN. TRG allocated a share of these expenses as well as the corresponding liabilities to RBS, and RBS then allocated a share to ANH. These accruals were done to record expenses that were expected to occur in later periods, and the entries were reversed in November of 2010. The practice of accruing expenses when an obligation to pay does not exist fails to meet the definition of a liability under SSAP No. 5. In addition, recording an expense for a transaction that has not occurred is not in accordance with Generally Accepted Accounting Principles (GAAP) or commonly recognized accounting practices. RCW 48.43.097 and WAC 284-07.050(5) require financial statements to be in accordance with the AP&P. Due to immateriality, no examination adjustment was necessary.*

***The Company is instructed to comply with RCW 48.43.097 and WAC 284-07-050(5) by filing its NAIC Annual Statement in accordance with the AP&P. Specifically, the Company should only book a liability if the definition of a liability contained in SSAP No. 5 is met, and it should only record an expense when a transaction has taken place that gives rise to the expense, and that meets the definition of expenses contained within the AP&P.***

**Company Response:**

The Company agrees with this finding and discontinued the practice effective with the 2011 interim financial statements prior to identification of this finding by the examiners.

- c. **Legal Fees Not Borne by the Entity to Which They Belong** – The Company’s process of allocating legal expenses did not result in the expense being borne by the entity to which it belonged. A new process was implemented in 2011 to correct the problem. In our test of the new process, we identified legal expenses that were allocated to entities to which the invoice did not relate. RCW 48.31C.050 and SSAP No. 70 require intercompany allocations to be fair and reasonable and require shared expenses to be apportioned to the entities to which they belong. RCW 48.43.097 requires the Company to file its NAIC Annual Statement in accordance with the AP&P. Due to immateriality, no examination adjustment was necessary.

**The Company is instructed to comply with RCW 48.31C.050 and SSAP No. 70 by allocating expenses to the entity to which they belong. (See Comment and Recommendation No. 2.)**

**Company Response:**

The Company agrees with this finding and has implemented an improved process for coding legal invoices.

- d. **Monitor Reversing Entries** – The Company was allocated expenses from its parent, RBS, and from other affiliates. The basis for allocation is a statistic that changes from month-to-month. If a journal entry is manually reversed in a subsequent period, the reversal is allocated. When this happens, the allocation of the reversal uses the current statistic rather than the statistic used when the original entry was recorded. The original allocated amount may not reconcile with the amount reversed. The reversal amount that is eventually allocated to the entity has the potential to be significantly different from the amount originally allocated. RCW 48.31C.050 and SSAP No. 70 require intercompany allocations to be fair and reasonable and require shared expenses to be apportioned to the entities to which they belong. RCW 48.43.097 requires the Company to file its NAIC Annual Statement in accordance with the AP&P. Due to immateriality, no examination adjustment was necessary.

**The Company is instructed to comply with RCW 48.31C.050, RCW 48.43.097 and SSAP No. 70(8) by monitoring reversing entries to ensure that the allocated reversal amount is the same as the original amount charged.**

**Company Response:**

The Company agrees with this finding. The Holding Company currently reviews entity and line of business allocation trends/results on a monthly basis. If material shifts in allocated costs are identified they are researched and adjustments are made where necessary. Statistical accounts are also reviewed on a monthly basis in search of possible inconsistencies and to validate significant changes. The Holding Company is currently developing a process that would ensure that reversing entries are allocated consistent with the way the original entry was allocated.

- e. **Expenses for Kinetix Living Corp. (Kinetix) Services Were Not Allocated to Plan Subsidiaries** –An entry was made at year-end to reclassify the March 2010 through December 2010 Kinetix expenses. This reclassifying entry caused the allocation methodology to stop at RBS, RBS-OR, Regence BlueShield of Idaho, Inc. (RBS-ID), and Regence BlueCross BlueShield of Utah (RBS-UT) (collectively referred to as “plan parents”) and to not allocate to the subsidiaries of the plan parents. For Washington entities, this resulted in RBS being allocated its share plus \$21,363 that should have been allocated to its subsidiary, ANH. RCW 48.31C.050(1) and SSAP No. 70(8) require shared expenses to be allocated to the entities incurring the expense as if the expense had been paid solely by the incurring entity; transactions to be fair and reasonable; and expenses incurred and payment received to be allocated to the health carrier in conformity with customary accounting principles, consistently applied. RCW 48.43.097 requires the Company to file its NAIC Annual Statement in accordance with the AP&P. Due to immateriality, no examination adjustment was necessary.

**The Company is instructed to comply with RCW 41.31C.050(1), RCW 48.43.097 and SSAP No. 70(8) by allocating expenses to the entity to which they belong. (See Comment and Recommendation No. 2.)**

**Company Response:**

The Company agrees with this finding. The Company's accounting policies include controls to ensure the proper coding of manual journal entries; however, in this isolated case, these controls were not properly applied. The Company will continue to ensure that these controls are consistently applied.

- f. **Health Systems International, LLC Invoice Coding Errors** – Network fees were charged to RBS instead of ANH in error. RCW 48.31C.050(1) and SSAP No. 70(8) require shared expenses to be allocated to the entities incurring the expense as if the expense had been paid solely by the incurring entity. RCW 48.43.097 requires the Company to file its NAIC Annual Statement in accordance with the AP&P. SSAP No. 85(4)(a) requires these costs to be recorded as cost containment expenses. For the years 2008 through 2010, the error amounted to \$729,131.

**The Company is instructed to comply with RCW 48.31C.050(1), RCW 48.43.097, and SSAP No. 70(8) by allocating expenses to the entity to which they belong. (See Examination Adjustment No. 3 and Comment and Recommendation No. 2.)**

**Company Response:**

The Company agrees with this finding which was self-reported during the exam. The vendor invoices reflected the incorrect Company name and have since been corrected.

**2. Actuarial Findings**

- a. **Incurred BUT Not Reported (IBNR) Claims** – The Company underestimated its reserve for IBNR claims that are reported on page 3, line 1 "Claims unpaid" of the 2010 NAIC Annual Statement. RCW 48.44.037(4) requires the Company to include an estimated amount to provide for the payment of all claims which have been incurred, whether reported or not. Furthermore, RCW 48.12.080(2) requires the Company to increase its loss reserves to an amount that is needed to make them adequate, when the Company's loss experience indicates that its loss reserves, however estimated, are inadequate.

The IBNR includes estimates for both retrospective and prospective business and these carry additional balance sheet items in page 3, line 4 and page 2, line 15.3, of the 2010 NAIC Annual Statement, which were, also impacted by the IBNR understatement.

The following examination adjustment was required to the Company's 2010 NAIC Annual Statement:

Increase page 3, line 1 "Claims unpaid" by \$2,052,517

Decrease page 3, line 4 "Aggregate health policy reserves" by \$ 138,917

Increase page 2, line 15.3 "Accrued retrospective premiums" by \$387,447

**The net effect is a decrease in surplus of \$1,526,153**

**The Company is instructed to comply with RCW 48.44.037(4) and RCW 48.12.080(2) by recording an adequate estimate for claims unpaid. (See Examination Adjustment No. 1.)**

**Company Response:**

The Company agrees with this finding. However, at the time this estimate was made, it was a reasonable estimate based on the information known and application of Actuarial Standards of practice.

- b. **Unpaid Claims Adjustment Expenses** – The Company’s method for calculating the amounts for unpaid claims adjustment expenses (CAE) did not follow SSAP No. 55 (8), which requires these expenses to be based on estimated ultimate cost of settling claims using past experience adjusted for current trends, and any other factor that would modify past experience. RCW 48.43.097 requires adherence to the AP&P.

The Company’s actual unpaid claim adjustment experience for the last three years, excluding cost containment expenses, was 5.1 percent. The Company’s estimated percentage used was 2.6 percent. The Company should have used a percentage based on historical actual CAE’s of 5.1 percent. An exam adjustment to increase unpaid CAE in the amount of \$573,222 was made to accurately reflect the true cost.

**The Company is instructed to comply with RCW 48.43.097, WAC 284-07-050(2) and SSAP No. 55(8) by estimating the cost of settling unpaid claims, using past experience adjusted for current trends, and any other factor that would modify past experience (See Examination Adjustment No. 2.)**

**Company Response:**

The Company agrees with this finding. Beginning with the 2011 annual statement, the Company used an estimate consistent with past experience adjusted for current trends and other factors.

**3. Unclaimed Property Liability**

The Company incorrectly included \$440,000 of unclaimed property on page 3, line 23 “Aggregate write-ins for other liabilities” on its 2010 NAIC Annual Statement. ANH hired a third party administrator to process its pharmaceutical claims. The third party erroneously gave ANH a list of checks that were determined to be stale but were in fact voided. ANH did not have a reconciliation process in place to detect the mistake. As a result, the Company recorded a liability for unclaimed property that did not exist and does not meet the definition of a liability under SSAP No. 5.

**The Company is instructed to comply with RCW 48.43.097 by filing its financial statements in accordance with the AP&P, and WAC 284-07-050(2) which requires adherence to the AP&P, SSAP No. 5. (See Examination Adjustment No. 4.)**

**Company Response:**

The Company agrees with this finding which was self-reported during the exam. The Company correctly reflected its unclaimed property liability in the 2011 second quarter filing.

4. **NAIC Annual Statement Error - Underwriting and Investment Exhibit (U&I) Part 2D** - The Company included prescription (Rx) rebates payable on the U&I Part 2D, line 1 “Unearned premium reserves” in error. Rx rebates payable should be reported under line 5 of the U&I Part 2D “Aggregate write-ins for other policy reserves” per the NAIC Annual Statement Instructions. There was no effect on page 3 “Liabilities, Capital, and Surplus”, since the entire U&I Part 2D is included in page 3, line 4 “Aggregate health policy reserves.”

**The Company is instructed to comply with RCW 48.43.097 by filing 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.**

**Company Response:**

The Company agrees with this finding. The Company made the requested changes in the 2011 annual statements.

## **COMMENTS AND RECOMMENDATIONS**

### **1. Internal Controls Relating to Net Deferred Taxes**

*The Company had significant internal control deficiencies relating to deferred tax asset calculations, which were caused by a lack of spreadsheet controls and insufficient review of the income tax provision. These control deficiencies caused immaterial errors for ANH. However, they did rise to the level of a material weakness for one affiliate, and failure to correct these deficiencies could cause them to rise to the level of a material weakness for ANH in the future.*

***It is recommended that the Company implement measures to ensure that deferred tax calculations are adequately reviewed.***

#### **Company Response:**

The Company agrees with this recommendation. The Company has developed a remediation plan and is currently in the process of implementing this plan.

### **2. Internal Controls over General Ledger Coding**

*The examiners found instances where the person approving a vendor invoice or manual journal entry also provided the initial general ledger coding. No independent review and approval of this coding was evident. The initial coding must be accurate and supportable to properly allocate intercompany expenses and fees to the entities within the group.*

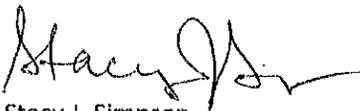
***It is recommended that the Company strengthen its controls over the review and approval of initial entity and department general ledger coding for vendor invoices and manual journal entries. (See Instructions Nos. 1.a, 1.c, 1.e), 1.f.)***

#### **Company Response:**

The Company agrees with this recommendation. The Company's accounting policies include controls to ensure the proper coding of manual journal entries; however the controls were not consistently applied. To strengthen our controls over our general ledger coding, we will (1) ensure compliance with Company policy which requires manual journal entries be reviewed and approved by someone other than the preparer and (2) ensure coding instructions provided by invoice approvers are validated and reviewed for reasonableness and appropriateness.

Please feel free to contact me with any further questions or concerns regarding our responses.

Sincerely,



Stacy J. Simpson  
V.P., Financial Accounting Services