



OFFICE OF  
INSURANCE COMMISSIONER

In the Matter of	)	No. 14-128
	)	
The Financial Examination of	)	FINDINGS, CONCLUSIONS,
<b>WASHINGTON STATE HEALTH</b>	)	AND ORDER ADOPTING REPORT
<b>INSURANCE POOL</b>	)	OF FINANCIAL EXAMINATION
	)	

**BACKGROUND**

An examination of the financial condition of **WASHINGTON STATE HEALTH INSURANCE POOL** (WSHIP) as of December 31, 2012, 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, comments and recommendations (see Exhibit A) was transmitted to WSHIP for its comments on July 10, 2014. WSHIP's response to the report is attached to this order (see Exhibit B) 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 **WASHINGTON STATE HEALTH INSURANCE POOL** and to order WSHIP to take the actions described in the Instructions and Comments and Recommendations sections of the report. The Commissioner acknowledges that WSHIP 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.

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

1. WSHIP is ordered to comply with RCW 48.41.060(1)(d) by establishing actuarial processes that ensure all Incurred But Not Paid (IBNP) claims are either included in the actuarial reserves, or if excluded from actuarial reserves, are adequately communicated to the financial accounting function and accrued in the financial statements. WSHIP is further ordered to establish an actuarial process that uses the paid date in the lag table for all claim types. The actuary should review the data used directly in the actuary's analysis for the purpose of identifying data values that are materially questionable or relationships that are materially inconsistent. Instruction 1, Examination Report, page 2.
2. It is ordered that WSHIP consider properly reporting claim adjustment expenses in its Annual Report and exclude claim adjustment expenses from its lag table and claims database. Comments and Recommendations 1, Examination Report, page 2.
3. It is ordered that the Board of Directors (BOD) of WSHIP consider requiring a financial expert to serve on the Executive Committee at all times. Comments and Recommendations 2, Examination Report, page 2.
4. It is ordered that WSHIP consider enhancing its control over account reconciliations by retaining hardcopy or digital signatures of the preparer and reviewer of the account reconciliations with dates of the preparation and review. Comments and Recommendations 3, Examination Report, page 3.
5. It is ordered that WSHIP consider that controls over general ledger transactions be enhanced by implementing a policy that restricts deleting, reversing, or back

dating of entries to a prior period, and by monitoring these types of transactions. In addition, due to the complexity and volume of transactions that are processed, it is ordered that WSHIP consider using accounting software that contains these controls. Comments and Recommendations 4, Examination Report, page 3.

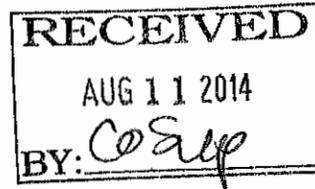
6. It is ordered that WSHIP consider implementing a control to ensure that paid claims per the lag table are reconciled to the general ledger on a monthly basis. Comments and Recommendations 5, Examination Report, page 3.

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 2nd day of October, 2014.

A handwritten signature in black ink, appearing to read "Mike Kreidler". The signature is stylized with a large initial "M" and a long, sweeping underline.

MIKE KREIDLER  
Insurance Commissioner



August 5, 2014

SENT VIA EMAIL  
AND U.S. MAIL

William R. Michels, MBA, CPA, CFE  
Deputy Insurance Commissioner  
Company Supervision Division  
PO Box 40255  
Olympia, WA 98504-0255

RE: Draft Financial Examination Report of Washington State Health Insurance Pool as of  
December 31, 2012

Dear Mr. Michels:

The Washington State Health Insurance Pool (WSHIP) is in receipt of the draft Financial Examination Report, dated July 28, 2014, of Washington State Health Insurance Pool as of December 31, 2012, and received in our office on July 29, 2014. Please find below our responses to these instructions and recommendations, and comments on factual material presented in the draft report.

RESPONSE TO INSTRUCTIONS

The finding and instruction is shown in italics followed by WSHIP's response.

***1. Paid Claims Accounting and Use in the Lag Triangle***

*Prescription claims that had been reported to WSHIP that were Incurred But Not Paid (IBNP) were excluded from the actuarial reserves. The actuary indicated that these should have been accrued by WSHIP outside of the actuarial reserving process. There were no controls in place to ensure that the reported IBNP items the actuary excluded from the actuarial reserves were being communicated to WSHIP, and it was determined that the reported IBNP prescription claims had not been accrued in the financial statements. Because there were no reported IBNP prescription claims at year-end, there was no effect on the financial statements and no examination adjustment was necessary. In addition, the amounts used for the calculation of reserves for pharmacy claims were based on invoice dates and not on paid dates. The use of invoice date versus the paid date caused the data values to be inconsistent with other claim types. The inconsistency did not have a material impact on the December 31, 2012 financial statements and no examination adjustment was necessary.*

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Washington State Health Insurance Pool

Exhibit B

P.O. Box 1088, Stanwood, WA 98292 – p 360 629-6245 – f 360 629-1088

*RCW 48.41.060(1)(d) requires the Board to establish claim reserve formulas and any other actuarial functions appropriate to the operation of the pool.*

*WSHIP is instructed to comply with RCW 48.41.060(1)(d) by establishing actuarial processes that ensure all IBNP claims are either included in the actuarial reserves, or if excluded from actuarial reserves, are adequately communicated to the financial accounting function and accrued in the financial statements. WSHIP is further instructed to establish an actuarial process that uses the paid date in the lag table for all claim types. The actuary should review the data used directly in the actuary's analysis for the purpose of identifying data values that are materially questionable or relationships that are materially inconsistent.*

**Response:** WSHIP will comply with the OIC's instruction above regarding establishing and communicating actuarial reserves.

#### RESPONSES TO RECOMMENDATIONS

The recommendations in the draft report are shown in italics followed by WSHIP's response.

1. *It is recommended that WSHIP properly report claim adjustment expenses in its Annual Report and exclude claim adjustment expenses from its lag table and claims database.*

**Response:** The financial statements properly include an estimate of loss adjustment expenses. WSHIP agrees that the line item in our future Annual Reports will include cost containment expenses.

2. *It is recommended that the BOD of WSHIP require a financial expert to serve on the Executive Committee at all times.*

**Response:** WSHIP agrees with this recommendation. The WSHIP Executive Committee (EC) Charter has been modified by the Board to ensure there is financial expertise in the EC membership.

3. *It is recommended that WSHIP enhance its control over account reconciliations by retaining hardcopy or digital signatures of the preparer and reviewer of the account reconciliations with dates of the preparation and review.*

**Response:** WSHIP agrees with this recommendation, and its financial staff has begun to manually and/or digitally sign the monthly bank reconciliation log for all reviews and approvals.

4. *It is recommended that controls over general ledger transactions be enhanced by implementing a policy that restricts deleting, reversing, or back dating of entries to a*

*prior period, and by monitoring these types of transactions. In addition, due to the complexity and volume of transactions that are processed, it is recommended that WSHIP consider using accounting software that contains these controls.*

**Response:** WSHIP financial staff utilizes peer-reviewed accounting and reporting software. While it does allow for back-dating transactions, the monthly review by management (a detect control) compensates for this. Also, an electronic control requiring a supervisor password to post an entry into any prior period has been implemented as acknowledgement and agreement with the recommendation.

5. *It is recommended that WSHIP implement a control to ensure that paid claims per the lag table are reconciled to the general ledger on a monthly basis.*

**Response:** Paid claims per the lag tables are currently reconciled monthly to paid claims per the general ledger. This process, identified as a detect internal control, is tested by our external auditor as part of their tests of controls.

#### COMMENTS ON FACTUAL MATERIAL

1. The cover page of the report, as well as the Salutation to be sent to the Insurance Commissioner refer to WSHIP in "Bow, Washington." Our current post office box is in Stanwood, Washington.
2. On page 4, "excess loss receipts" are identified as a funding source for WSHIP. This requirement was repealed by the Legislature effective January 1, 2012, and WSHIP no longer receives excess claims loss ratio payments. It is suggested that the statement be modified to reflect the discontinuation of this funding source.
3. The Board of Directors listing as of December 31, 2012 on Page 5 is in error. The correct list of Board members as of 12-31-12 are listed below:

Shaun Koos, Chair  
Andrea Bailey  
Pete Cutler (OIC)  
Jim Grazko  
Jill Harland  
Rob Kuecker  
Lisa Matthews  
Scott Plack  
Mark Rose  
Laura Treadway  
Mike Turner

(Matthew Damon and Dorothy Graham left the Board in May of 2012.)

Mr. William R. Michels, MBA, CPA, CFE

Page 4

August 5, 2014

We had been asked to clarify the company name of the disability carriers' representative. The company name, as listed on the OIC website, is UnitedHealthCare Insurance Company (NAIC #79413). It is listed as licensed to sell both Disability and Life.

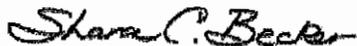
4. The Subsequent Events section on page 7 does not give a completely accurate picture of the impact of the ACA on WSHIP including the elimination of health carriers' ability to deny coverage due to pre-existing conditions that was eliminated on January 1, 2014, not 2013. Also, state-run reinsurance etc. was not pursued as of the fall of 2012. Suggested language to describe subsequent events for WSHIP is:

The Affordable Care Act ("ACA") generally eliminated pre-existing condition restrictions and medical underwriting in the individual market effective January 1, 2014. As a result, use of the Standard Health Questionnaire in the individual market to screen applicants was discontinued and new enrollment in WSHIP's non-Medicare products generally ended at that time. In 2013 the Washington legislature amended the Health Insurance Coverage Access Act to require termination of WSHIP non-Medicare plans as of December 31, 2017. Until then, enrollees who were enrolled in WSHIP non-Medicare plans as of December 31, 2013 can continue WSHIP coverage. WSHIP Medicare plans are not affected by the ACA.

WSHIP has been directed by the legislature to review populations needing coverage through the Pool. Initially a study was completed for the Board of Directors by Leif Associates in 2012. WSHIP is directed to revisit the study and submit recommendations to the governor by November 1, 2015.

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

Sincerely,



Sharon Becker  
Executive Director

cc: James T. Odiorne, Chief Deputy Insurance Commissioner  
Patrick H. McNaughton, Chief Examiner