MIKE KREIDLER
STATE INSURANCE COMMISSIONER

STATE OF WASHINGTON

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OFFICE OF
INSURANCE COMMISSIONER

In the Matter of The Financial Examination of **COMMUNITY HEALTH PLAN OF WASHINGTON** A Domestic Health Care Service Contractor.	No. 14-115 FINDINGS, CONCLUSIONS, AND ORDER ADOPTING REPORT OF FINANCIAL EXAMINATION

BACKGROUND

An examination of the financial condition of **COMMUNITY HEALTH PLAN OF WASHINGTON,** (the Company) as of December 31, 2012, 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 May 2, 2014. 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 12 of the report.

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Street Address: 5000 Capitol Blvd. • Tumwater, WA 98501

CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the financial examination of **COMMUNITY HEALTH PLAN OF WASHINGTON** 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 comply with RCW 48.43.097, RCW 48.05.250, and WAC 284-07-050(2) in filing its NAIC Annual Statements in accordance with the NAIC Accounting Practices and Procedures Manual, and the NAIC Annual Statement Instructions. Instruction 1, Examination Report, page 2.

2. The Company is ordered to comply with RCW 48.13.051, and ensure that its written investment policy meets all requirements of this section. Instruction 2, Examination Report, page 2.

3. The Company is ordered to consider strengthening its review processes and monitoring controls over the accuracy of diagnosis codes. Comments and Recommendations 1, Examination Report, page 2.

4. The Company is ordered to consider that the Chief Information Officer report to either the Chief Executive Officer or the Chief Operating Officer. Comments and Recommendations 2, Examination Report, page 3.

5. The Company is ordered to consider increasing its employee dishonesty coverage to the NAIC suggested minimum of $1,500,000. Comments and Recommendations 3, Examination Report, page 3.

6. The Company is ordered to consider performing annual audits of pharmacy rebates and claims to verify the accuracy of pharmacy rebates and claims reported by its pharmacy benefit manager. Comments and Recommendation 4, 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 13th day of June, 2014.

MIKE KREIDLER
Insurance Commissioner

May 19, 2014

William R. Michels
Deputy Insurance Commissioner
Company Supervision Division
5000 Capitol Blvd.
Tumwater, WA 98501

Re: Financial Examination Report of Community Health Plan of Washington (the Company) as of December 31, 2012

Dear Mr. Michels:

We have reviewed the draft report of the financial examination of the Company as of December 31, 2012. Please see our responses to the examination instructions and comments and recommendations from the Office of the Insurance Commissioner (OIC).

INSTRUCTIONS

1. NAIC Annual Statement Errors, Omissions, and Misclassifications

a. Retrospective Premiums - In the 2012 NAIC Annual Statement, page 2, Assets, the Company reported the retrospective premiums on Line 15.1, Uncollected premiums and agents' balances in the course of collection. The 2012 retrospective premiums should have been recorded on Line 15.3, Accrued retrospective premiums.

Management Response: The Company has corrected this line item in the 2013 filing, moving accrued retrospective premium amount from line 15.1 to 15.3.

a. Schedule D – Securities Designation - In Schedule D, Part 1 of the 2012 NAIC Annual Statement, the Company reported designations for two long-term bond securities which do not match the designations in the NAIC database.

Management response: The Company agrees the designation should be 2FE, not 1FE.

b. Claims Unpaid – The Company reported hemophiliac receivables of $33,715 on Line 1, claims unpaid. This amount should have been reported on Line 22, health care and other amounts receivable. Also, the Company did not disclose its risk sharing receivable with Department of Social and Health Services (DSHS) for hemophiliac drugs in Note No. 27 to 2012 NAIC Annual Statement.

Management Response: The hemophiliac amount of $33,715 should have been recorded as a receivable in 2012. It was correctly reported in the 2013 filing as a receivable. There were no hemophiliac receivable amounts for 2010 or 2011.

c. Washington State Health Insurance Pool (WSHIP) Assessment - The Company reported the 2012 Washington State Health Insurance Pool (WSHIP) assessment in the amount of $7,071,648 as a part of the 2012 General administrative expenses. This assessment should have been reported as Hospital/medical benefits per SSAP No. 35R.

Management response: The Company agrees with this finding. WSHIP assessment was correctly reported in the 2013 filing.

2. Written Investment Policy Requirements

The Company's written investment policy omitted the following written guidelines per RCW 48.13.051. RCW 48.13.051(1) requires the delegation and monitoring of policies, procedures, and controls covering all aspects of the investment function. RCW 48.13.051(4) requires that professional standards for the individuals making day-to-day investment decisions to assure that investments are managed in an ethical and capable manner. RCW 48.13.051(7) requires the manner in which the insurer intends to implement RCW 48.13.041 (Prudent Investment).

The Company is instructed to comply with RCW 48.13.051, and ensure that its written investment policy meets all requirements of this section.

Management response: The Company agrees with this finding. The investment policy was corrected in 2013 during the annual review of the investment policy and a final copy of the investment policy was submitted to the OIC on October 18, 2013.

COMMENTS AND RECOMMENDATIONS

1. Diagnosis Codes/Medicare Risk Adjustment Factors

The Company's internal controls over timely and accurate diagnosis codes/conditions related specifically to Medicare patients could be strengthened. The examiners noted that since 2007, when the Company began to service Medicare enrollees, no audits have been performed by the Centers for Medicare and Medicaid Services (CMS). In addition, no internal audit has been performed.

It is recommended that the Company strengthen its review processes and monitoring controls over the accuracy of diagnosis codes.

Management response: CHPW appreciates OIC's review of our processes and the chance to respond to the recommendation. We are, in fact, in the process of strengthening our review and monitoring controls.

2. **Reporting Structure of Vice President of Information Services & Technology**

The Company's Vice President of Information Services & Technology (VP of IS&T) does not report to the Chief Operating Officer (COO). Instead, the VP of IS&T of the Company reports to the Chief Financial Officer (CFO). The current reporting structure of the Company does not conform to the Control Objectives for Information and Related Technology (COBIT) Framework standards, which recommends the CIO report to either the COO or the Chief Executive Officer (CEO).

It is recommended the Vice President of Information Services & Technology report to either the Chief Executive Officer or the Chief Operating Officer.

Management response: CHPW appreciates OIC's review of our reporting structure and the chance to respond to the recommendation. Chief Financial Officers (CFOs) are increasingly becoming top technology investment decision makers in many organizations. The IT department is reporting to the CFO to lead IT initiatives and to facilitate the Company's cost leadership strategy. Our current structure is appropriate and a common practice.

3. **Inadequate Fidelity Bond Coverage**

The Company has a fidelity policy that provides employee dishonesty / employee theft, and depositor's forgery coverage with a limit of $600,000, which is less than the NAIC suggested minimum amount of $1,500,000.

It is recommended the Company increases its employee dishonesty coverage to the NAIC suggested minimum of $1,500,000.

Management response: CHPW appreciates OIC's review of our Fidelity Bond coverage and the chance to respond to the NAIC suggested minimum amount. We are currently working to increase the limit.

4. **Annual Audits Of Pharmacy Rebates and Claims**

The Company has not performed any annual audits of the pharmacy rebate process or the accuracy of pharmacy claims for the years 2011 and 2012. The Company does not currently have an internal process to review and verify the accuracy of the rebate amounts based on member

utilization data. Without the annual audit, the Company does not have any internal process for dispute resolution of pharmacy rebate amounts or the accuracy of pharmacy claims.

It is recommended that the Company perform annual audits of pharmacy rebates and claims to verify the accuracy of pharmacy rebates and claims reported by its pharmacy benefit manager.

Management response: CHPW has recently updated its policy regarding financial audits of its PBM. Beginning with CY2013, we are planning to conduct a financial audit of Express Scripts Inc. (ESI) every two years. This audit will include a verification of the accuracy of pharmacy rebates as well as claims. Per CMS, health plans are asked to do an audit every two years, however, in the past, our rebate audits have apparently not resulted in findings that would justify the cost of an annual audit.

Thank you for the opportunity to respond to the draft report of the financial examination of Community Health Plan of Washington. Please feel free to contact me with any questions you may have. I can be reached at (206) 613-8963.

Sincerely,

Stacy Kessel

Stacy A. Kessel, CPA
Chief Financial Officer
Community Health Plan of Washington