

STATE OF WASHINGTON  
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION  
OF  
COLUMBIA UNITED PROVIDERS, INC.  
VANCOUVER, WASHINGTON

NAIC CODE 47047  
December 31, 2012

Order No. 14-21  
Columbia United Providers, Inc.  
Exhibit A

**SALUTATION**

Seattle, Washington  
October 29, 2013

The Honorable Mike Kreidler, Commissioner  
Washington State Office of the Insurance Commissioner (OIC)  
Insurance Building-Capitol Campus  
302 Sid Snyder Avenue SW, Suite 200  
Olympia, WA 98504

Dear Commissioner Kreidler:

In accordance with your instructions, and in compliance with the statutory requirements of RCW 48.03.010, an examination was made of the corporate affairs and financial records of

**Columbia United Providers, Inc.**

of

Vancouver, Washington

hereinafter referred to as "CUP," or the "Company" at the location of its home office, 19120 SE 34<sup>th</sup> Street, Suite 201, Vancouver, WA 98683. This report is respectfully submitted showing the financial condition and related corporate matters of CUP as of December 31, 2012.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of Columbia United Providers, Inc., of Vancouver, Washington. This report shows the financial condition and related corporate matters as of December 31, 2012.



Patrick H. McNaughton  
Chief Examiner

2-18-14

Date

**TABLE OF CONTENTS**

<b>SCOPE OF THE EXAMINATION .....</b>	<b>1</b>
<b>INSTRUCTIONS.....</b>	<b>1</b>
<b>COMMENTS AND RECOMMENDATIONS .....</b>	<b>2</b>
<b>COMPANY PROFILE .....</b>	<b>2</b>
Company History .....	2
Capitalization.....	3
Territory and Plan of Operation .....	3
Growth of Company .....	3
Affiliated Companies .....	3
Intercompany Agreements.....	4
<b>MANAGEMENT AND CONTROL.....</b>	<b>4</b>
Ownership .....	4
Board of Directors (BOD).....	4
Officers .....	4
Conflict of Interest.....	4
Fidelity Bond and Other Insurance.....	5
Officers', Employees', and Agents' Welfare and Pension Plans.....	5
<b>CORPORATE RECORDS .....</b>	<b>5</b>
<b>ACTUARIAL REVIEW .....</b>	<b>5</b>
<b>REINSURANCE.....</b>	<b>5</b>
<b>STATUTORY DEPOSITS.....</b>	<b>5</b>
<b>ACCOUNTING RECORDS AND INFORMATION SYSTEMS .....</b>	<b>6</b>
<b>SUBSEQUENT EVENTS .....</b>	<b>6</b>
<b>FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS.....</b>	<b>6</b>
<b>FINANCIAL STATEMENTS.....</b>	<b>6</b>
Assets, Liabilities, Capital and Surplus.....	7
Statement of Revenue and Expenses.....	8
Five Year Reconciliation of Surplus.....	9
<b>NOTES TO THE FINANCIAL STATEMENTS.....</b>	<b>10</b>
<b>ACKNOWLEDGMENT .....</b>	<b>11</b>
<b>AFFIDAVIT .....</b>	<b>12</b>

## SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2008 through December 31, 2012 and comprises a risk focused review of the books and records of the Company. The examination followed statutory requirements contained in the Washington Administrative Code (WAC), the Revised Code of Washington (RCW), and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (FCEH). The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination through the end of fieldwork on October 29, 2013.

Corporate records, external reference materials, and various aspects of the Company's operating procedures and financial records were reviewed and tested during the course of this examination and are commented upon in the following section of this report. In addition, the Company's Certified Public Accountant's (CPA's) work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

This examination was performed in compliance with the 2012 NAIC FCEH which requires the examiner to consider the Company's risk management process, corporate governance structure, and control environment. The examiners utilized the information obtained during the examination to assess CUP's overall potential risks both currently and on an on-going basis, allowing the examiners to focus on the Company's greatest areas of risk, and providing assurance on the Company's financial statements as of the examination date.

## INSTRUCTIONS

The examiners reviewed the Company's filed 2012 NAIC Annual Statement as part of the statutory examination. This review was performed to determine if the Company completed the NAIC Annual Statement in accordance with the NAIC Annual Statement Instructions and to determine if the Company's accounts and records were prepared and maintained in accordance with Title 48 RCW, Title 284 WAC, and the NAIC Statements of Statutory Accounting Principles (SSAP) as outlined in the NAIC Accounting Practices and Procedures Manual (AP&P).

The following summarizes the exceptions noted while performing this review:

### **1. Investment Policy**

The Company's written investment policy is not in compliance with several provisions of RCW 48.13.041 and RCW 48.13.051. For example, RCW 48.13.041 and RCW 48.13.051 require the investment policy to be reviewed and approved by the Board of Directors, at least annually; and that the policy must consider several other provisions as outlined in RCW 48.13.041 and RCW 48.13.051.

**The Company is instructed to revise its investment policy and ensure that the revised policy complies with RCW 48.13.041 and RCW 48.13.051.**

### **2. Holding Company Form A Filing**

The Company's ultimate parent, PeaceHealth, does not have the required Form A filing in place that accurately reflects the current holding company structure as required by RCW 48.31C.030 and WAC 284-18A-350. The Company's parent, Southwest Washington Health Systems, entered into an

affiliation agreement with PeaceHealth, effective January 1, 2011. To date, PeaceHealth has not filed an accurate Form A to reflect the current organizational structure.

**PeaceHealth is instructed to file a Form A for approval that accurately reflects the current holding company structure that is in compliance with the filing requirements contained in RCW 48.31C.030 and WAC 284-18A-350.**

### **COMMENTS AND RECOMMENDATIONS**

#### **1. Fidelity Bond**

The Company has a commercial policy that provides for employee dishonesty coverage with a limit of \$250,000, which is less than the NAIC suggested amount of \$700,000 to \$800,000.

**It is recommended that the Company increase its employee dishonesty coverage to the NAIC suggested minimum.**

#### **2. Succession Planning**

The Company does not have a formal succession plan in place for key personnel.

**It is recommended that the Company develop succession plans for key personnel.**

### **COMPANY PROFILE**

#### **Company History**

The Company was incorporated under the laws of the state of Washington on July 23, 1993, as a registered health care service contractor (HCSC). The Company commenced business on January 1, 1994 under the name Clark United Providers. On January 1, 2001, the Company's name was changed to Columbia United Providers, Inc. Effective January 1, 2011, Southwest Washington Health System (SWHS), entered into an affiliation agreement with PeaceHealth. A pending Form A filed by PeaceHealth does not accurately reflect the current structure of the holding company. (See Instruction No. 2.)

Through June 30, 2012, CUP provided health insurance for enrollees in Washington State health insurance programs, specifically Healthy Options, Basic Health Plan, and Children's Health Insurance Program through a contract with the state of Washington. Following a competitive bid process for the contract period of July 1, 2012 through December 31, 2013, CUP was unsuccessful in renewing its contract with the state.

Effective July 1, 2012, Community Health Plan of Washington (CHPW) and CUP entered into a Full Risk Agreement and Provider Agreement where CHPW paid CUP to assume full risk for healthcare services provided to certain individuals who enroll in these plans. Under this agreement, CUP provided medical, hospital, pharmaceutical, and related medical services to selected members covered by these plans in Clark County.

On March 15, 2013, CUP replaced its Full Risk Agreement with CHPW, with a reinsurance agreement made retroactively effective as of July 1, 2012. Under the current agreement, CUP assumes 100 percent

of the risk for the Healthy Options and Basic Health Medicaid business that CHPW assigns to CUP in Clark County.

**Capitalization**

As of December 31, 2012, the Company had one million shares of common capital stock authorized and 28,985 shares issued and outstanding with a par value of \$1 per share.

**Territory and Plan of Operation**

CUP only conducts business in the state of Washington and has no plans to expand into other states.

**Growth of Company**

The Company’s growth, as reported in its filed NAIC Annual Statements, is illustrated below:

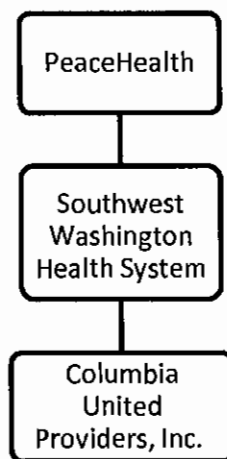
<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital &amp; Surplus</u>		
2012	\$36,110,945	\$11,557,475	\$24,553,470		
2011	34,189,687	11,398,664	22,791,023		
2010	26,961,240	8,202,558	18,758,682		
2009	22,464,897	7,989,320	14,475,577		
2008	20,604,645	9,506,846	11,097,799		

<u>Year</u>	<u>Premium Earned</u>	<u>Net Underwriting Gain (Loss)</u>	<u>Net Investment Gain (Loss)</u>	<u>Net Income</u>
2012	\$108,711,288	\$ 3,423,748	\$78,010	\$2,274,806
2011	136,786,134	6,086,717	124,142	4,136,752
2010	103,333,574	6,230,517	208,485	4,185,350
2009	97,100,868	4,950,190	61,294	3,257,466
2008	84,545,047	3,670,101	571,582	3,500,967

**Affiliated Companies**

The following organization chart is taken from CUP’s filed 2012 NAIC Annual Statement:



**Intercompany Agreements**

Throughout year ended December 31, 2012, CUP had the following intercompany agreements with PeaceHealth affiliated entities:

**Administrative Services Agreement with Southwest Washington Medical Group, P.S. (SWMG):** CUP provides certain managed care administrative services to SWMG.

**Administrative Services Agreement with PeaceHealth Southwest Medical Center (PHSMC):** CUP provides third party administrative services for PHSMC’s employees self insured health plan. Also, PHSMC performs certain administrative support services for CUP’s pharmacy benefits.

**MANAGEMENT AND CONTROL**

**Ownership**

SWHS owns 91.7 percent of CUP common capital stock, and the remaining shares are owned by physician practitioners. The shares are not actively traded, and management does not own any shares.

**Board of Directors (BOD)**

Directors as of December 31, 2012:

- |                        |               |
|------------------------|---------------|
| John D. White          | Chairman      |
| Colleen L. Fox, MD     | Vice Chairman |
| Phillip Baker          |               |
| Gerald L. Coe          |               |
| George J. Dechet, MD   |               |
| Joseph M. Kortum       |               |
| Ronald A. Prill        |               |
| David R. Ruiz, MD      |               |
| Thomas E. Sanchez      |               |
| Donald M. Thompson, MD |               |
| Sally E. Williams, MD  |               |

**Officers**

Officers as of December 31, 2012:

- |                      |                                       |
|----------------------|---------------------------------------|
| Ann K. Wheelock      | Chief Executive Officer and President |
| Phillip Baker        | Treasurer                             |
| George J. Dechet, MD | Secretary                             |
| Janice L. Finley     | Controller                            |

**Conflict of Interest**

The Company has an established procedure for disclosure to its BOD of any affiliation on the part of its officers, directors, and key employees that is in conflict with their official duties. The BOD reviews the conflict of interest statements annually for conflicting situations and takes appropriate action, if necessary. No exceptions were noted in our review.



### **Fidelity Bond and Other Insurance**

The Company is the named insured on various insurance policies including personal property, umbrella liability, management liability, professional liability, and fidelity coverage. However, the Company's fidelity coverage of \$250,000 does not meet the suggested NAIC minimum coverage. (See Comments and Recommendations No. 1.)

### **Officers', Employees', and Agents' Welfare and Pension Plans**

CUP employees are covered by a qualified defined contribution pension plan sponsored by CUP, which was adopted on July 1, 2001.

## **CORPORATE RECORDS**

The Company's Articles of Incorporation, Bylaws, and meeting minutes of the BOD and committees, were reviewed for the period under examination. All BOD meetings were conducted with a quorum present. Investment purchases, transfers, and disposals were ratified by the BOD and noted in the minutes.

## **ACTUARIAL REVIEW**

The reserves carried by the Company for claims unpaid and unpaid claims adjustment expenses were \$9,757,334 and \$381,439, respectively, as of December 31, 2012.

The OIC actuary reviewed the claims unpaid and unpaid claims adjustment expenses reserves of the Company and concluded that the reserves were within a range of reasonable estimates. Therefore, the Company's claims unpaid and unpaid claims adjustment expenses reserves were accepted as reasonable and no adjustments were proposed to the amounts reported in the Company's 2012 NAIC Annual Statement.

## **REINSURANCE**

The Company entered into a coinsurance agreement with CHPW on March 15, 2013. CUP assumed 100 percent of the risk for the Healthy Options and Basic Health Medicaid business that CHPW assigned to CUP in Clark County. The Company also has stop loss contracts with Atlantic Specialty Insurance Company and OneBeacon Insurance Company for hospital services. The maximum benefit for each covered member is one million dollars. The Company has controls in place to monitor its reinsurance program, including the financial condition of the reinsurer.

## **STATUTORY DEPOSITS**

The Company maintained the following statutory deposit as of December 31, 2012:

<u>State</u>	<u>Type</u>	<u>Book Value</u>	<u>Fair Value</u>
Washington	Bond	\$399,930	\$399,930

## **ACCOUNTING RECORDS AND INFORMATION SYSTEMS**

The Company maintains its accounting records on a Statutory Accounting Principles (SAP) basis and is audited annually by the certified public accounting firm of KPMG LLP. The Company received an unqualified opinion for all years under review. The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the planning and testing phase of the examination and no exceptions were noted.

The Company's Information Technology (IT) environment was reviewed during the planning and testing phase of the examination, focusing on the following Control Objectives for Information and related Technology (COBIT) Framework domains:

- Plan and Organize
- Acquire and Implement
- Deliver and Support
- Monitor and Evaluate

The IT system and controls were evaluated to gain an understanding of the IT general control risks and assess the effectiveness of these controls to determine if appropriate mitigating and internal controls have been implemented. Appropriate mitigating and internal controls have been implemented to reduce residual risk to appropriate levels. The Company has an effective Business Continuity Plan and Disaster Recovery Plan, which have been tested on a regular basis and includes the availability of an alternate site.

## **SUBSEQUENT EVENTS**

As of January 1, 2013, the OIC approved a request to change CUP's Certificate of Registration as a HCSC to a Certificate of Authority as a disability insurer. There were no other material events impacting the Company between the examination date and the last day of our field work on October 29, 2013.

## **FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS**

All previous report instructions and recommendations were corrected and satisfactorily addressed.

## **FINANCIAL STATEMENTS**

The following financial statements show the financial condition of CUP as of December 31, 2012:

Assets, Liabilities, Capital and Surplus  
Statement of Revenue and Expenses  
Five Year Reconciliation of Surplus

**Columbia United Providers, Inc.**  
**Assets, Liabilities, Capital and Surplus**  
**December 31, 2012**

	<u>Balance Per Company</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
<b>Assets</b>			
Bonds	\$9,798,833	\$0	\$9,798,833
Common stocks	339,646		339,646
Cash and short-term investments	8,463,734		8,463,734
Other invested assets	12,400,000		12,400,000
<b>Subtotals, cash and invested assets</b>	<b>31,002,213</b>	<b>0</b>	<b>31,002,213</b>
Investment income due and accrued	53,663		53,663
Uncollected premiums and agents' balances in the course of collection	87,550		87,550
Amounts recoverable from reinsurers	215,460		215,460
Amounts receivable relating to uninsured plans	19,625		19,625
Net deferred tax asset	450,218		450,218
Receivables from parent, subsidies and affiliates	234,616		234,616
Health care and other amounts receivable	2,066,456		2,066,456
Aggregate write-ins for other than invested assets	1,981,144		1,981,144
<b>Total Assets</b>	<b>\$36,110,945</b>	<b>\$0</b>	<b>\$36,110,945</b>
<b>Liabilities, Capital and Surplus</b>			
Claims unpaid	\$9,757,334	\$0	\$9,757,334
Unpaid claims adjustment expenses	381,439		381,439
General expenses due or accrued	1,299,818		1,299,818
Current federal and foreign income tax payable and interest thereon	116,847		116,847
Liabilities for amounts held under uninsured plans	2,037		2,037
<b>Total Liabilities</b>	<b>11,557,475</b>	<b>0</b>	<b>11,557,475</b>
Common capital stock	28,985		28,985
Aggregate write-ins for other than special surplus funds	3,000,000		3,000,000
Unassigned funds (surplus)	21,524,485		21,524,485
<b>Total capital and surplus</b>	<b>24,553,470</b>	<b>0</b>	<b>24,553,470</b>
<b>Total Liabilities, Capital and Surplus</b>	<b>\$36,110,945</b>	<b>\$0</b>	<b>\$36,110,945</b>

**Columbia United Providers, Inc.**  
**Statement of Revenue and Expenses**  
**For the Year Ended December 31, 2012**

	Balance Per Company	Examination Adjustments	Balance Per Examination
<b>Member months</b>	<b>623,900</b>		<b>623,900</b>
Net premium income	\$64,161,505	\$0	\$64,161,505
Risk revenue	44,330,689		44,330,689
Aggregate write-ins for other non-health revenues	219,094		219,094
Total revenues	108,711,288	0	108,711,288
<b>Hospital and Medical:</b>			
Hospital/medical benefits	78,924,876	0	78,924,876
Emergency room and out-of-area	6,654,951		6,654,951
Prescription drugs	7,998,232		7,998,232
Subtotal	93,578,059	0	93,578,059
<b>Less:</b>			
Net reinsurance recoveries	215,460		215,460
Total hospital and medical	93,362,599	0	93,362,599
Claims adjustment expenses	2,459,035		2,459,035
General administrative expenses	9,465,906		9,465,906
Total underwriting deductions	105,287,540	0	105,287,540
Net underwriting gain or (loss)	3,423,748	0	3,423,748
Net investment income earned	78,010		78,010
Net investment gains or (losses)	78,010	0	78,010
Aggregate write-ins for other income or expenses	(2,084)		(2,084)
Net income or (loss) after capital gains tax and before all other federal income taxes	3,499,674	0	3,499,674
Federal and foreign income taxes incurred	1,224,868		1,224,868
<b>Net income (loss)</b>	<b>\$2,274,806</b>	<b>\$0</b>	<b>\$2,274,806</b>
<b>CAPITAL AND SURPLUS ACCOUNT</b>			
Capital and surplus prior reporting year	\$22,791,023	\$0	\$22,791,023
Net income (loss)	2,274,806	0	2,274,806
Change in net unrealized capital gains (losses) less capital gains tax	47,750		47,750
Change in net deferred income tax	293,302		293,302
Change in nonadmitted assets	(720,263)		(720,263)
Capital Changes:			
Paid in	(305)		(305)
Aggregate write-ins for gains (losses) in surplus	(132,843)		(132,843)
Net change in capital and surplus	1,762,447	0	1,762,447
<b>Capital and surplus end of reporting period</b>	<b>\$24,553,470</b>	<b>\$0</b>	<b>\$24,553,470</b>

**Columbia United Providers, Inc.**  
**Five Year Reconciliation of Surplus**  
**For the Years Ended December 31,**

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Capital and Surplus, December 31, previous year	<u>\$22,791,023</u>	<u>\$18,867,490</u>	<u>\$14,475,577</u>	<u>\$11,097,799</u>	<u>\$7,594,750</u>
Net income or (loss)	2,274,806	4,136,752	4,185,350	3,257,466	3,500,967
Change in net unrealized capital gains or (losses)	47,750	(52,561)	905	273,720	(183,186)
Changes in net deferred income tax	293,302	7,960	(41,856)	23,539	(620,129)
Prior period adjustment due to CPA audit			108,808		
Change in nonadmitted assets	(720,263)	(131,319)	139,399	(158,847)	816,696
Capital Changes:					
Paid in	(305)	(118)	(7)	(181)	(113)
Aggregate write-ins for gains or (losses) in surplus	<u>(132,843)</u>	<u>(37,181)</u>	<u>(686)</u>	<u>(17,919)</u>	<u>(11,186)</u>
Change in surplus as regards policyholders for the year	<u>1,762,447</u>	<u>3,923,533</u>	<u>4,391,913</u>	<u>3,377,778</u>	<u>3,503,049</u>
Capital and Surplus, December 31, current year	<u>\$24,553,470</u>	<u>\$22,791,023</u>	<u>\$18,867,490</u>	<u>\$14,475,577</u>	<u>\$11,097,799</u>

**NOTES TO THE FINANCIAL STATEMENTS**

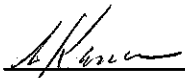
The Company has no special consents, permitted practices, or orders from the state of Washington.

## ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of Columbia United Providers, Inc., and its affiliates during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; John Jacobson, AFE, CISA, AES, Automated Examination Specialist; Scott Fitzpatrick, Actuary; Susan Campbell, CPA, FLMI, CFE, Reinsurance Specialist; Timothy F. Hays, CPA, JD, Investment Specialist; Tarik Subbagh, MSBA, CPA, CFE, Property and Casualty Field Supervising Examiner; James R. Gill, MBA, CPA, Financial Examiner; all from the Washington State Office of the Insurance Commissioner, participated in the examination and in the preparation of this report.

Respectfully submitted,



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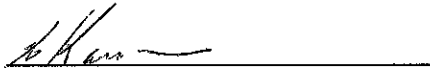
Albert Karau, Jr., CPA, CFE, FLMI  
Examiner-in-Charge  
State of Washington

**AFFIDAVIT**

STATE OF WASHINGTON }  
  } ss  
COUNTY OF KING      }

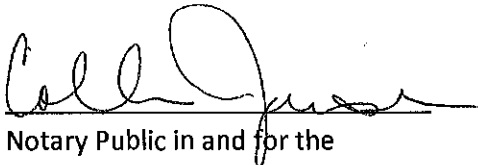
Albert Karau, Jr., being duly sworn, deposes and says that the foregoing report subscribed by him is true to the best of his knowledge and belief.

He attests that the examination of Columbia United Providers, Inc., was performed in a manner consistent with the standards and procedures required or prescribed by the Washington State Office of the Insurance Commissioner and the National Association of Insurance Commissioners.



Albert Karau, Jr., CPA, CFE, FLMI  
Examiner-in-Charge  
State of Washington

Subscribed and sworn to before me this 18th day of February, 2014.

  
Notary Public in and for the  
State of Washington