



OFFICE OF
INSURANCE COMMISSIONER

In the Matter of)	No. 15-153
)	
The Financial Examination of)	FINDINGS, CONCLUSIONS,
GROUP HEALTH COOPERATIVE)	AND ORDER ADOPTING REPORT
)	OF FINANCIAL EXAMINATION

A Registered Health Maintenance Organization.

BACKGROUND

An examination of the financial condition of **GROUP HEALTH COOPERATIVE**, (the Company) as of December 31, 2013, 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 maintenance organization (HMO). 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 (see Exhibit A) was transmitted to the Company for its comments on June 15, 2015. The Company'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 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 19 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 **GROUP HEALTH COOPERATIVE**, 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 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 1-6.

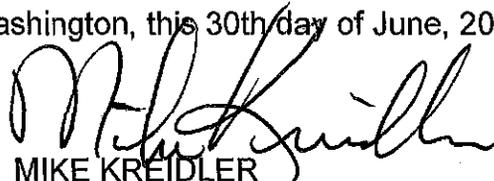
1. The Company is ordered to comply with RCW 48.43.097 and SSAP No. 48(14) by recording the distributions in its joint venture as investment income when declared to the extent that they are not in excess of the undistributed accumulated earnings. Instruction 1, Examination Report, page 2.
2. The Company is ordered to comply with RCW 48.43.097, WAC 284-07-050(2), and SSAP No. 48 by recording its audited U.S.GAAP equity share in the American Excess Insurance Exchange (AEIX) on Page 2, line 8, of the NAIC Annual Statement. Instruction 1, Examination Report, page 2.
3. The Company is ordered to comply with RCW 48.11.130, RCW 48.11.030, and Chapter 48.46 RCW by only offering policies for which its Certificate of Registration permits, and to cease assuming policies of insurance that it is not authorized to write or reinsure. Instruction 2, Examination Report, page 3.
4. The Company is ordered to comply with RCW 48.31C.040(2)(c)(v) and WAC 284-18A-920 by disclosing amendments to intercompany management agreements, service contracts, and cost-sharing arrangements on its Form B filings. Instruction 3, Examination Report, page 3.

5. The Company is ordered to comply with RCW 48.12.010, RCW 48.43.097, WAC 284-07-050(2)(a), and SSAP No. 4 which require the Company to collect its premium receipts in a bank account under its exclusive control and to comply with RCW 48.31C.050(2)(d) which requires that it amend its Administrative Services Agreement (ASA). Instruction 4, Examination Report, page 4.
6. The Company is ordered to comply with RCW 48.43.097 by filing its financial statements in the general form and context approved by the NAIC and WAC 284-07-050(2)(a) which requires adherence to the NAIC Annual Statement Instructions and SSAP No. 43R(25). Instruction 5, Examination Report, page 4.
7. The Company is ordered to comply with RCW 48.43.097 by filing its financial statements in the general form and context approved by the NAIC and WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P. Instruction 6, Examination Report, page 4.
8. It is ordered that the Company consider devoting dedicated resources to fully develop its Enterprise Risk Management (ERM) program into maturity that has a defined risk appetite, identified risk owners, mitigation strategies and on-going monitoring of the risk mitigation strategies. Comments and Recommendations 1, Examination Report, page 5.
9. It is ordered that the Company consider dedicating sufficient resources for ORSA reporting and begin the process to prepare for the filing. Comments and Recommendations 1, Examination Report, page 5.
10. It is ordered that the full Board of Trustees (BOT) consider providing oversight of the Company's ERM program by knowing the extent to which management has established effective ERM in the organization, being aware of and concurring with the Company's risk appetite, reviewing the Company's portfolio view of risk and considering it against the Company's risk appetite, and being apprised of the most significant risks and whether management is responding appropriately. This oversight should be documented in the BOT meeting minutes. In addition, it is ordered that the full BOT consider setting specific expectations of management regarding a due date to complete its first ORSA filing and to develop the ERM program into a mature and effective program. Comments and Recommendations 1, Examination Report, page 6.

11. It is ordered that the Company consider enhancing its controls over the monthly review of risks and exposures by ensuring that the review include a complete population of agreements. Comments and Recommendations 2, Examination Report, page 6.
12. It is ordered that the Company consider enhancing its controls by timely preparing and approving the account reconciliations in accordance with the Company's general ledger and account reconciliation process policy. Comments and Recommendations 3, Examination Report, page 6.
13. It is ordered that GHC consider enhancing its controls over its fixed asset disposals by obtaining proper approval to dispose of fixed assets in accordance with the Disposition and Transfer Authority – Capital Assets Policy and by maintaining the document of the approval. Comments and Recommendations 4, Examination Report, page 6.
14. It is ordered that the Company consider maintaining current process flowcharts so they accurately reflect the Company's key controls. Comments and Recommendations 5, Examination Report, page 6.

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 June, 2015.


MIKE KREIDLER
Insurance Commissioner



Group Health Cooperative
Finance Operations
GHQ E3N
320 Westlake Avenue N, Suite 100
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www.ghc.org

June 26, 2015

Mr. James T. Odiorne, CPA, JD
Chief Deputy Insurance Commissioner
State of Washington
Office of the Insurance Commissioner
5000 Capitol Boulevard
Tumwater, WA 98501

Re: Financial Examination Report of Group Health Cooperative as of December 31, 2013

Dear Mr. Odiorne,

We have received and reviewed the draft of the referenced report of examination for Group Health Cooperative (the "Company") dated June 15, 2015. Please find the following revisions to the facts presented in the report.

1. Instructions 1: This instruction indicates that there are three errors related to the reporting of investment but only two are included. We request that you change the instruction to reflect this.
2. Indemnity Deposit: As noted in Instruction #6, the Book Value and Fair Value of the Indemnity Deposit should be reflected on page 13 as \$167,421.
3. Affiliated Companies: Group Health Options, Inc. had two name changes. It is more accurate to reflect the final name change on November 15, 2002 to its current name. The OIC should also consider removing reference to the name change to align with its affiliates (KPS) examination report.
4. Affiliated Companies: The use of "nearly 50" in the disclosure regarding Columbia Medical Associates, LLC (CMA) is reflective of the total number of health care professionals (i.e. physicians, ARNPs, physician assistants) from various specialties, including primary care, breast surgery, neurosurgery, and endocrinology. CMA has 27 primary care physicians operating at 13 health facilities.
5. Subsequent Events: #5, bullet 4, it indicates in March 2015, the executive vice president and chief legal counsel resigned and was replaced internally. The facts are in April 2015, the executive vice president, corporate services, and chief legal officer assumed a new position as executive vice president and senior advisor to the CEO. A new position of executive vice president and general counsel was created and filled internally in March.

The Company respectfully submits the following responses to the Instructions and Comments and Recommendations in the examination report.

Order No. 15-153
Group Health Cooperative
Exhibit B

INSTRUCTIONS

1. Reporting of Investments

a. **Westlake Terry LLC**

Westlake Terry LLC, a joint real estate venture between GHC and City Investors V LLC (a real estate development company controlled by the Vulcan corporation), was formed on December 16, 2005. In January 2013, Westlake Terry LLC sold the property that it owned at 320 Westlake Avenue North, Seattle, Washington. Through a capital distribution, GHC received its share of the sale proceeds of \$39 million. The amount of the distribution that exceeded the amount GHC contributed to the joint venture was \$35.9 million. The Company erroneously recorded the \$35.9 million that came from the undistributed accumulated earnings as unrealized gains/losses. Per SSAP 48(14), it should have been recorded as net investment income. RCW 48.43.097 requires the Company to file its NAIC Annual Statement in accordance with the AP&P.

RESPONSE:

The Company corrected its reporting in the Financial Statements filed for the period ended March 31, 2014.

b. **American Excess Insurance Exchange (AEIX)**

The Company did not include its equity share in AEIX in the 2013 NAIC Annual Statement as required for statutory accounting. AEIX qualified as a joint venture under SSAP No. 48(2), in which GHC was an investor. Per SSAP No. 48(7), joint ventures in which the entity has a minor ownership interest (less than ten percent) or lacks control shall be reported based on the underlying audited U.S. Generally Accepted Accounting Principles (GAAP) equity of the investee. As GHC owns less than a ten percent stake in AEIX, and it does not have the ability to direct management, its ownership in AEIX is considered to be minor. The NAIC Health Annual Statement Instructions require it to be recorded on Page 2, line 8, as Other invested assets. The yearly premiums that GHC paid should have increased the balance.

RESPONSE:

The Company corrected its reporting in the Financial Statements filed for the period ended March 31, 2014.

2. Assumption of Stop Loss Insurance

In 2012, The Company entered into a Participation Agreement with Companion Captive Insurance Company (the Captive), a corporation organized under the laws of South Carolina and licensed in South Carolina as a sponsored captive insurer. In accordance with the Participation Agreement, the Captive established a protected cell in the name of Group Health Cooperative (the Group Health Protected Cell). The assets and liabilities of the various protected cells established by the Captive are segregated from other protected cells and cannot be accessed by or assigned to participants or creditors of other protected cells. Certain risks that were to be written by unidentified fronting insurers would be ceded to the Captive and assigned to the Group Health Protected Cell. Group Health Cooperative is 100 percent liable for all risks assigned to the Group Health Protected Cell.

Companion Life Insurance Company (Companion Life) is a South Carolina domiciled life insurance company, and an affiliate of the Captive. In 2014, Companion Life issued stop-loss policies to several of Group Health Cooperative's uninsured groups. Companion Life then ceded

the risks on these stop loss policies to the Captive through a separate reinsurance agreement. The Captive assigned these policies to the Group Health Protected Cell, Group Health Cooperative, through the Group Health Protected Cell, assumed the risk for these contracts. The nature of this transaction is reinsurance. Group Health Cooperative has assumed the risk of the stop loss policies from Companion Life by using the Captive and the Group Health Protected Cell as a means to mask the reinsurance transaction.

Group Health Cooperative is registered as a health maintenance organization (HMO) pursuant to Chapter 48.46 RCW. The Certificate of Registration issued to the Company permits it to operate as a HMO and provide comprehensive health care services to enrollees and other persons. The Certificate of Registration does not allow the Company to write or assume insurance risks.

Stop-loss insurance is a form of disability insurance, as defined in RCW 48.11.030. Only domestic insurers that are authorized to write disability insurance are permitted to reinsure disability insurance, per RCW 48.11.130. Group Health Cooperative does not have a Certificate of Authority to write, and therefore reinsure, disability insurance.

RESPONSE:

The Company does not agree that its Participation Agreement with Companion Captive Insurance Company ("the Captive") constitutes reinsurance and that the Company has assumed policies of reinsurance that it is not authorized to write or reinsure.

Under the Participation Agreement, the Company is solely an investor in a protected captive cell. The Company shares in the financial gains and losses of the protected cell, which generally derive from a separate but related arrangement in which the Captive directly assumes stop-loss insurance risk from a third-party fronting insurer. Under this related arrangement, stop-loss insurance risk is formally ceded to the Captive through a reinsurance coverage policy that is regulated by the South Carolina Department of Insurance and subject to South Carolina insurance law. The Participation Agreement, however, is not a reinsurance coverage policy and the Company's acceptance of its underlying investment risk does not constitute an issuance of reinsurance, nor the underwriting or direct assumption of reinsurance risk, which the Company acknowledges would be prohibited without the appropriate authorization that is required by South Carolina insurance law, and by RCW 48.11.130 in those cases where reinsurance coverage is directly issued within the jurisdiction of Washington State.

The Company further notes that by its express terms, the Participation Agreement is governed and must be construed pursuant to the applicable laws of South Carolina. Under South Carolina's insurance laws specifically governing captive arrangements, protected captive cell agreements are not considered to be reinsurance coverage; captive participants such as the Company are not considered to have offered or assumed reinsurance; and captive participants are not required to obtain the regulatory authorization that is required for an entity to offer insurance and assume insurance risk.

Additionally, the National Association of Insurance Commissioners (NAIC) recognizes that protected cell captives receive capital and surplus from "participants" and "sponsors" who are not authorized "insurers", and it is generally supportive of investment solutions, such as captive arrangements, that are appropriately designed and administered to shift insurance risk to the capital markets or to provide alternative forms of business financing. See, Captives and

Special Purpose Vehicles: An NAIC White Paper, NAIC Captive and Special Purpose Vehicle Use Subgroup of the Financial Condition (E) Committee, June 6, 2013.

Finally, the Company timely and appropriately disclosed to the OIC all information pertaining to the Participation Agreement that is required or was requested under Washington State law and regulation. Companion Life Insurance Company issued a total of six (6) stop-loss coverage policies to self-funded employer groups with health coverage administered in part by GHC or GHO.

3. Form B Filings

The Management Service Agreement (MSA) is considered both a provider and an intercompany agreement. The Company submitted the MSA, the First Amendment effective May 13, 2009, the Second Amendment effective December 31, 2009, and the Third Amendment effective January 1, 2012, to the Rates and Forms Division of the OIC as required for provider agreements. It did not file the same information on Forms B and D to the Company Supervision Division of the OIC as required for intercompany agreements. On June 7, 2012, the Company Supervision Division informed the Company that going forward, it needed to file the MSA and its amendments annually on a Form B, and any new agreements or amendments on a Form D. Subsequent to June 7, 2012, the Company failed to disclose the three amendments to the MSA on the 2013 Form B.

RCW 48.31C.040(2)(c)(v) and WAC 284-18A-920 require the Company to disclose intercompany management agreements, service contracts, and cost-sharing arrangements on its Form B filings. Amendments to these types of agreements are also required to be disclosed, as they change the terms of the original agreement.

RESPONSE:

The Company disagrees that it is required under RCW 48.31C.040(2)(c)(v) and WAC 284-18A-920 to submit Form B filings for the referenced amendments to the MSA between GHC and GHO ("MSA"). None of the referenced amendments materially changed the general function and construct of the MSA, and RCW 48.31C.040(4) provides that no information need be disclosed on the Form B registration statement if the information is not material. Notwithstanding the Company's position as described above, the Company agrees to disclose any amendments to intercompany management agreements, service contracts, and cost-sharing arrangements within future Form B filings.

The Company also disagrees that it is required under RCW 48.31C.050(2)(d) and WAC-284-18A-940 to submit Form D filings for the referenced MSA between GHC and GHO and for the subsequent MSA amendments. RCW 48.31C.050(2) excepts from the Form D filing requirement those transactions which are subject to approval by the Commissioner elsewhere within Title 48, RCW. The MSA is a participating provider contract that is subject to filing and approval by the OIC Rates and Forms Division pursuant to RCW 48.44.070. The OIC previously raised this matter with the Company on June 7, 2012. At that time, the OIC instructed the Company to forward copies of the MSA and amendments for the OIC's files, and to file a Form D going forward for any subsequent agreement or amendment. On June 22, 2012, the Company forwarded the requested documents and agreed to comply with the OIC's instruction despite the Company's continuing objection that the duplicative filing: 1) is not required under law or regulation; 2) will create unnecessary, additional administrative burden; and 3) is likely to cause confusion since the Company must reconcile two separate filing processes prior to

executing the underlying contracts. The Company continues to comply with the OIC's previous instruction.

4. Premium Deposits

a. Premium Deposits

GHC collects premium receipts on behalf of Group Health Options, Inc. (GHO) and deposits them in a GHC bank account which is not under the exclusive control of GHO. The premiums are for individual and family policies collected through GHC's lockbox and for groups who write a single check payable to GHC to cover both GHC and GHO policies. Groups remit payments to GHO which include premiums for GHC, and the payments are deposited in GHO's bank account. The intercompany receivable/payable is reconciled at month end. The Company settles the previous month's balance on the 25th of the following month.

Under the current process, both GHC and GHO can retain an affiliate's cash receipts for up to 55 days prior to remitting it. Premiums that are collected on behalf of an affiliate should be directly deposited into the affiliate's bank account. Per RCW 48.12.010, in any determination of the financial condition of any insurer, there shall be allowed as assets only such assets as belong wholly and exclusively to the insurer, which are registered, recorded, or held under the insurer's name, and per SSAP No. 4(2), the Insurer must obtain the benefit and control others' access to the asset.

b. Administrative Services Agreement

The Administrative Services Agreement (ASA) between GHC and GHO that was effective on January 1, 2008, allows premiums to be deposited promptly in a fiduciary bank account established and maintained by GHC at GHO's direction. The ASA should be rewritten or amended to state that GHO premiums should be deposited directly into a bank account under GHO's name.

RESPONSE:

The Company agrees in principle with the instruction but does not believe it is not in compliance with RCW 48.12.010, RCW 48.43.097, WAC 284-07-050(2)(a), and SSAP No. 4. The Company has amended the GHC-GHO Administrative Services Agreement, effective May 1, 2015, to comply with this instruction. The amendment was filed in accordance with RCW 48.31C.050(2)(d).

The Company has already commenced work to improve this premium collection process and it has established a separate GHO lockbox for both individual and family premium and group premium collection. The Company will also broadly and proactively communicate with individual and family members, and employers, the need to send payments to the appropriate lockboxes and to send separate payments when necessary.

5. Annual Statement Error – RMBS/CMBS Bond Designations

Residual Mortgage Backed Securities (RMBS) and Commercial Mortgage Backed Securities (CMBS) that were subject to financial modeling were not reported with the correct NAIC designations. In addition, the Company failed to use the financial modeling process to derive the designation. Several securities were reported with either the "AM" or "FE" designations when they should have been reported with the "FM" designation. This error resulted in some securities being reported as NAIC-2 through NAIC-6 when they should have been reported as NAIC-1 with the "FM" designation. CMBS/ RMBS bonds that are subject to financial modeling

should be reported with the FM symbol and designation number as required by the Purposes and Procedures Manual of the NAIC Securities Valuation Office (SVO), and SSAP No. 43R(25).

RESPONSE:

The Company agrees with the finding. Procedures are being developed that will require the investment accountant to review the holdings for any newly acquired RMBS/CMBS securities each quarter. If there are any newly acquired RMBS/CMBS securities that require modeling, the accountant will initiate steps to have the securities modeled. Once the security has been modeled, then the Company will have its investment reporting vendor obtain the appropriate data on its behalf from the SVO.

6. NAIC Annual Statement Errors and Misclassifications

The results of the examination disclosed instances in which the Company's filing of the NAIC Annual Statement did not conform to the NAIC Accounting Practices and Procedures Manual and the NAIC Annual Statement Instructions. While the Company needs to correct these deficiencies, none of the following items were material to the financial statements and no examination adjustments were necessary.

a. Notes to Financial Statements No. 1

The Company reported in the 2013 Notes to Financial Statements No. 1, one special consent from the OIC and one permitted accounting practice. Neither of these were in place during 2013.

b. Notes to Financial Statements No. 11

1) The 2013 Notes to Financial Statements No. 11, did not disclose as required, the Series 2006 bonds balance of \$1,432,000 as of December 31, 2013.

2) The 2010 NAIC Annual Statement, Notes to Financial Statements No. 11, did not disclose as required, the Series 2010 taxable commercial paper note balance of \$40,976,000 as of December 31, 2010.

c. Schedule E - Part 3 - Special Deposits

GHC reported an incorrect balance on the 2013 Schedule E - Part 3 - Special Deposits. It reported an asset with a book adjusted carrying value of \$2,621,115 and a fair value of \$2,260,050, when it should have reported a book adjusted carrying value and a fair value of \$167,421. This is not in compliance with the NAIC Annual Statement Instructions, which require columns 3 and 4 to include the book adjusted carrying value and fair value of the deposits held by the Company for the benefit of all policyholders. Because Schedule E - Part 3 - Special Deposits is informational only, this error did not affect surplus.

RESPONSE:

The Company corrected its reporting in the Financial Statements filed for the period ended December 31, 2014.

COMMENTS AND RECOMMENDATIONS

1. Enterprise Risk Management (ERM)/ ORSA Preparedness/ Board Oversight
a. ERM Program

GHC began developing its ERM program in 2011 and in 2012, the infrastructure was established and endorsed by the Audit and Compliance Committee (ACC) of the Board of Trustees (BOT). GHC's ERM program is still under development. It does not include a definition of its risk appetite, and BOT meeting minutes do not reflect discussion or approval of a risk appetite statement. A risk appetite statement effectively sets the tone for risk management, and should be aligned with the Company's strategic, operational, compliance, and reporting objectives. The risk appetite statement should be communicated to personnel so that management and the BOT know that the objectives being pursued are within reasonable risk limits and are aligned with its strategy.

Additionally, the ERM documentation does not always identify risk responses, process owners, or monitoring of the mitigation strategy for all risks.

RESPONSE:

The Company agrees that robust, effective ERM processes are important and that the Company will continue to dedicate substantial resources to fully develop its ERM program into maturity. The Company has already implemented some of the improvements recommended by the OIC. Specifically, in 2014 the Company updated its process for documenting and reporting risk mitigation strategies and plans, risk owners, and the mitigation monitoring process. Those elements of the ERM program were reviewed and discussed by the ACC at its November 25, 2014 meeting. The ACC has also implemented its governance-level monitoring of the effectiveness of the mitigation strategies (reviewing the progress of enterprise risk mitigation activity at its March 26, 2015 meeting) and will continue to improve the processes for that monitoring throughout the year and going forward. Additionally, the Enterprise Risk Steering Committee has a work plan to define and document risk appetite for the Company. This effort will add the definition of risk appetite to the other ERM program elements implemented in 2013 and 2014 noted above, and continue to support the evolution of ERM at the Company.

b. Own Risk Solvency Assessment (ORSA) Preparedness

The Company has not started to prepare an ORSA filing. Completing a sufficient ORSA filing for the first time will be a large and extensive project that will require dedicated resources to complete.

RESPONSE:

The Company has already begun to devote resources and will dedicate sufficient resources to the ORSA filing. The executive sponsors of this work are Sally Yates, executive vice president and general counsel (who also serves as the Company's chief risk officer) and Chris Knackstedt, chief financial officer. They have taken steps to outline the general ORSA requirements and initiated work, including assignment of staff, to assure that the Company meets those requirements.

c. BOT Oversight of Enterprise Risks, ERM, and ORSA Preparedness

The BOT and its committees are an important part of enterprise risk management. The ERM framework developed by the Committee of Sponsoring Organizations (COSO) states, in part, that a board should provide oversight with regard to ERM by:

- Knowing the extent to which management has established effective enterprise risk management in the organization.
- Being aware of, and concurring with, the Company's risk appetite statement.
- Reviewing the entity's portfolio view of risk and considering it against the entity's risk appetite.
- Being apprised of the most significant risks and whether management is responding appropriately.

The Company's BOT has delegated the responsibility of overseeing the Enterprise Risks and ERM program to the Audit and Compliance Committee (ACC). The ACC receives ERM updates from management four times per year. The BOT meeting minutes include occasional, brief updates from the ACC, but lack any robust discussions about ERM, top risks, or a risk appetite statement.

Because the contents of the ORSA filing will be largely made up of the ERM program, ensuring that ERM is a mature and effectively functioning program is essential to a sufficient ORSA filing. The BOT meeting minutes do not document expectations for management to develop its ERM program into maturity or to complete preliminary and/or final ORSA filings by any particular deadline.

RESPONSE:

The Company agrees that the board should and does hold management accountable for developing a mature ERM program, as reflected in the board's documentation of a specific governance oversight assignment related to ERM in its charge to the ACC, the ACC's prioritization of ERM in its annual work plans, and regular ACC discussions of ERM. The ACC discusses ERM progress with management three times per year and has considered increasing the frequency of those ERM discussions.

Further, the Company's board routinely addresses strategic and other critical risks as a part of its role in oversight of strategic planning and financial planning functions. Improvement is needed in how existing strategic and financial risk planning and oversight work is communicated, discussed and documented in minutes to reflect the connection within that larger ERM framework. This improvement effort will be included in the Enterprise Risk Steering Committee work plan in 2015. The Company also agrees that it can improve its documentation of other governance expectations of management, including the due date to present the first ORSA finding to the board, and board involvement in ERM activity, including development of the risk appetite statement.

2. Management's Review of Risks and Exposures

The Company's control around management's monthly review of risks and exposures, including contractual arrangements, was not designed and implemented with respect to the completeness of the population of arrangements being reviewed. If the Company does not consider a complete population of arrangements in its monitoring, including those entered into

in prior periods, there is a risk that transactions will not be accounted for correctly. This control weakness resulted in a reporting error. (See Instruction No. 1.b.)

RESPONSE:

The Company continually endeavors to review and monitor its population of risks and exposures.

3. Reconciliations of General Ledger Accounts

GHC's policy requires general ledger accounts to be prepared by the 25th of the following month and then reviewed within two weeks of that date. Several reconciliations that we selected for testing were not performed timely. The Company stated that its transition to Blackline, a new system used for documenting and tracking the reconciliation process, was the reason for some of the delays.

RESPONSE:

The Company agrees with the finding. The transition to Blackline noted above has given the Company reporting functionality allowing us to monitor the reconciliation process. The Blackline system sends automated emails to approvers indicating when reconciliations have not been approved allowing adequate time to complete approvals prior to the policy due date.

4. Approval of Disposals of Fixed Assets

The Company did not properly approve the disposal of several fixed assets that were part of the sale of real estate. The transactions should have been properly authorized in accordance with its Disposition and Transfer Authority - Capital Assets Policy and documented as such.

RESPONSE:

The Company agrees with the finding. Remediation has occurred that included updating desk procedures for staff to follow, which was validated by Internal Audit.

5. Current Flowcharts

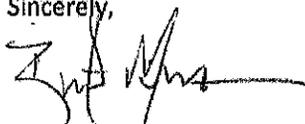
The Company updates its process flowcharts for changes in processes and primary controls on an annual basis. Some of the Company's process flowcharts identified secondary controls. The Company does not confirm the design, operating effectiveness, or existence of secondary controls listed on the process flowcharts. This could cause the flowcharts to identify controls that no longer exist or that are out of date.

RESPONSE:

The Company agrees with the recommendation and will keep the process flowcharts updated with the current primary key controls.

If you have any further questions, please contact me at 206-448-4397.

Sincerely,



Bret Myers, Assistant Treasurer
Group Health Cooperative

By email and fax

Cc: Pat McNaughton, Chief Examiner
Mike Jordan, Assistant Chief Examiner