



OFFICE OF
INSURANCE COMMISSIONER

In the Matter of)	No. 15-154
)	
The Financial Examination of)	FINDINGS, CONCLUSIONS,
GROUP HEALTH OPTIONS, INC.)	AND ORDER ADOPTING REPORT
)	OF FINANCIAL EXAMINATION

A Registered Health Care Service Contractor.

BACKGROUND

An examination of the financial condition of **GROUP HEALTH OPTIONS, INC.**, (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 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 (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 12 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 OPTIONS, INC.**, 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 1-3.

1. 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 1, Examination Report, page 2.
2. 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 2, Examination Report, page 2.
3. 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. Instruction 3, Examination Report, page 3.
4. It is ordered that the Company consider enhancing compliance with its Audit and Compliance Committee (ACC) Charge by requiring the ACC to review the Charge at least annually and recommend to the Board of Directors (BOD) any amendments. The ACC's review and amendment recommendations should be documented in the committee's meeting minutes. Comments and Recommendations 1, Examination Report, page 3.

5. It is ordered that GHO consider enhancing its controls by timely preparing and approving account reconciliations in accordance with the Company's General Ledger and Account Reconciliation Process policy. Comments and Recommendations 2, Examination Report, page 3.
6. It is ordered that the Company consider maintaining current process flowcharts so they accurately reflect the Company's key controls. Comments and Recommendations 3, 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 30th day of June, 2015.


MIKE KREIDLER
Insurance Commissioner



Group Health Options, Inc.

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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 Options, Inc. as of December 31, 2013

Dear Mr. Odiorne,

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

1. **Company History:** Group Health Options, Inc. had two name changes, one each in December 2000 and November 2002. The report shows December 2002 as the date of the change. Please correct this to say "November 2002".
2. **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.

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

Order No. 15-154
Group Health Options, Inc.
Exhibit B

INSTRUCTIONS

1. 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 existing 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.

2. Premium Deposits

a. Premium Deposits

The Company's parent, Group Health Cooperative (GHC), collects premium receipts on behalf of 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.

3. Annual Statement Error – RMBS/CMBS Bond Designations

Residential 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.

COMMENTS AND RECOMMENDATIONS

1. Annual Review of Audit and Compliance Committee (ACC) Charge

Group Health Options' Audit & Compliance Committee (ACC) Charge, as adopted December 15, 2010, requires the ACC to review its Charge at least annually and recommend to the Board of Directors any amendments. The ACC minutes did not document a review of its Charge during 2013. In addition, during 2011, the ACC minutes documented a unanimous written consent to defer revision of its Charge. There was no written documentation of the ACC's review of its Charge during 2011. The GHO ACC must review its Charge at least annually to be in compliance with its Charge.

RESPONSE:

The Company agrees with the recommendation.

2. Reconciliations of General Ledger Accounts

GHO'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 were 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 recommendation. 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.

3. Current Flowcharts

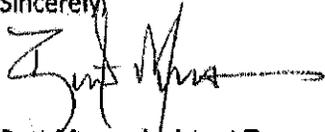
The Company updates its process flowcharts for changes in processes and primary controls on an annual basis. Some of the Company's process flowcharts identified secondary controls. The Company does not confirm the design, operating effectiveness, or existence of secondary controls listed on the process 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,

A handwritten signature in black ink, appearing to read "Bret Myers", with a long horizontal stroke extending to the right.

Bret Myers, Assistant Treasurer
Group Health Options, Inc.

By email and fax

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