



OFFICE OF
INSURANCE COMMISSIONER

In the Matter of)	No. 15-155
)	
The Financial Examination of)	FINDINGS, CONCLUSIONS,
KPS HEALTH PLANS)	AND ORDER ADOPTING REPORT
)	OF FINANCIAL EXAMINATION

A Domestic Health Care Service Contractor.

BACKGROUND

An examination of the financial condition of **KPS HEALTH PLANS**, (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 (HCSC). 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 11 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 **KPS HEALTH PLANS**, and to order the Company to take the actions described in the Comments and Recommendations section of the report. The Commissioner acknowledges that the Company may have implemented the Comments and Recommendations prior to the date of this order. The Comments and Recommendations in the report are appropriate responses to the matters found in the examination.

ORDER

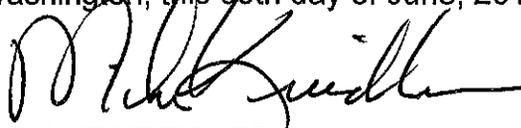
The examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

The Company is ordered as follows, these being the Comments and Recommendations contained in the examination report on pages 1-2.

1. It is ordered that the Audit Committee members consider enhancing their review of action items prior to taking action. Comments and Recommendations 1, Examination Report, page 1.
2. It is ordered that KPS consider enhancing its controls over premium receipts by accurately and timely performing premium reconciliations. Comments and Recommendations 2, Examination Report, page 2.
3. It is ordered that KPS 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 2.

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



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 KPS Health Plans as of December 31, 2013

Dear Mr. Odiorne,

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

1. **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 Comments and Recommendations in the examination report.

COMMENTS AND RECOMMENDATIONS

1. **Adequate Review and Approval of Board Committee Meeting Minutes**
The February 13, 2013 KPS Audit Committee (AC) minutes reflected that a non-member of the committee made a motion that the Audit Committee review and approve its Charter. The minutes reflected that this motion was seconded and passed unanimously. The February 13, 2013 Audit Committee minutes were subsequently reviewed and approved at its June 12, 2013 meeting. Upon inquiry, the Company stated that the February 13, 2013 meeting minutes contained an error with regard to the person who actually made the motion. The Company

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Exhibit B

discovered the error on April 4, 2014, and the AC minutes were amended on July 9, 2014. It is a good governance practice for board committee members to devote sufficient review to action items prior to taking action at meetings.

RESPONSE:

The Company agrees that it is a good governance practice for board committee members to devote sufficient review to action items prior to taking action at meetings. Following the internal discovery of the error in its February 13, 2013 minutes, the KPS Audit Committee took steps to assure that such review is occurring.

2. Premium Reconciliation Controls

The Company's process to reconcile billed premiums to amounts collected contained numerous errors and the control was determined to be ineffective. Out of the sample selected for testing, the following errors were noted:

- a. The reconciliation used the wrong month's invoice, which resulted in an inaccurate identification of a discrepancy;
- b. The reconciliation spreadsheet incorrectly documented that one item was "paid in full" when in fact the invoice was not paid in full. As a result, a formal reconciliation was not performed when it should have been;
- c. The reconciliation spreadsheet contained an incorrect date of payment;
- d. The reconciliation spreadsheet incorrectly identified one item as needing a formal reconciliation, when the payment received was actually for a payment made in advance, and payments made in advance do not require formal reconciliations; and
- e. Several items on the reconciliation spreadsheet were missing invoice information, causing the outstanding balance on the reconciliation spreadsheet to differ from the outstanding balance on the formal reconciliation.

The premium reconciliation is an important control to detect potential errors with premium income, premium receivable, and the billing function.

RESPONSE:

At the time of KPMG's audit in 2013, KPS agreed with findings a – e and appropriately implemented changes to the reconciliation process and the supporting documentation. Formal account reconciliations were found to be accurate and timely during that audit for findings c, d and e; however, information in the reconciliation spreadsheet was not complete. The reconciliation spreadsheet is a tool generated from the new claims/premium system (ikaSystems) report that identifies accounts requiring reconciliation. KPS determined there were reporting differences between the former claims/premium system and the new system which resulted in all group accounts reported on the spreadsheet requiring formal account reconciliation. KPS implemented and documented that change in process. KPS further ensured that missing information in the spreadsheet was updated appropriately prior to the Quality Assurance program check. KPS enhanced its controls over the premium receipt process and started implementing changes in April 2014.

3. Reconciliations of General Ledger Accounts

KPS'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 the

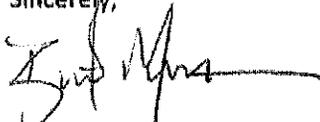
Blackline, a new system used for documenting and tracking the reconciliation process, was the reason for some of the delays.

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.

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 flourish extending to the right.

Bret Myers, Treasurer
KPS Health Plans

By email and fax

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