



OFFICE OF
INSURANCE COMMISSIONER

In the Matter of)	No. 12-207
)	
The Financial Examination of)	FINDINGS, CONCLUSIONS,
SOUNDPATH HEALTH, INC.)	AND ORDER ADOPTING REPORT
Formerly: Puget Sound)	OF FINANCIAL EXAMINATION
Health Partners, Inc.)	

A Registered Health Care Service Contractor.

BACKGROUND

An examination of the financial condition of **SOUNDPATH HEALTH, INC.** (the Company) as of December 31, 2010, 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 June 14, 2012. 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 15 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 **SOUNDPATH HEALTH, 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 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 1-4.

1. The Company is ordered to comply with RCW 48.43.097 by filing its financial statements in accordance with the AP&P and WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P. Instruction 1, Examination Report, page 2.
2. The Company is ordered pursuant to RCW 48.31C.050(2)(d) to properly file all intercompany management agreements, service contracts and cost sharing arrangements before implementation. In addition, the Company is also ordered to comply with RCW 48.43.097 which requires adherence to the AP&P, specifically SSAP No. 70, paragraph 8, which requires intercompany transactions under the terms of administrative service agreements or cost sharing arrangements to be apportioned to the entities incurring the expense as if the expense had been paid solely by the incurring entity. Also, the Company is ordered to comply with RCW 48.31C.050(1), which requires the terms of the agreement to be fair and reasonable. Instruction 2, Examination Report, page 3.
3. The Company is ordered to comply with SSAP No. 61, paragraph 17, by recording the reinsurance arrangement with Canada Life as Deposit Accounting and following the guidance of Deposit Accounting as prescribed in the SSAP No. 61, paragraph 51. Also, the Company is ordered to comply with RCW 48.43.097 by filing its financial statements in accordance with the AP&P, and WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P. Instruction 3, Examination Report, page 3.

4. The Company is ordered to comply with RCW 48.12.080(2) by holding adequate reserves to cover its obligations and to ensure that the underlying data and calculation are accurate. Instruction 4, Examination Report, page 3.
5. The Company is ordered to comply with RCW 48.43.097 by filing its financial statements in accordance with the AP&P, and WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P. Instruction 5, Examination Report, page 3.
6. It is ordered the Company consider adjusting its deferred tax assets with a valuation allowance that reflects and takes into account realistic forecasts. Comments and Recommendations 1, Examination Report, page 4.
7. It is ordered that the Company consider the Director of Information Technology reporting directly to either the Chief Executive Officer or Chief Operating Officer. Comments and Recommendations 2, Examination Report, page 4.
8. It is ordered that the Company consider developing a formal written business continuity plan and a disaster recovery plan, conduct a formal business impact analysis, and annually test the business continuity and disaster recovery plans. Effective January 1, 2011, the Company is required by RCW 48.07.203 and RCW 48.07.205 to create and maintain business continuity and disaster recovery plans. Comments and Recommendations 3, Examination Report, page 4.
9. It is ordered the Company consider increasing its employee dishonesty coverage to the NAIC suggested minimum of \$500,000. Comments and Recommendations 4, Examination Report, page 4.

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 21st day of August, 2012.



MIKE KREIDLER
Insurance Commissioner



June 29, 2012

James T. Odiorne, CPA, JD
Deputy Insurance Commissioner
Company Supervision Division
Washington State Office of the Insurance Commissioner
PO Box 40255
Olympia, WA 98504-0255

RECEIVED
JUN 29 2012
INSURANCE COMMISSIONER
COMPANY SUPERVISION

Via Electronic and U.S. Mail

Dear Mr. Odiorne:

Thank you for forwarding the Draft Financial Examination Report of Puget Sound Health Partners, Inc., as of December 31, 2010. We appreciate the opportunity to review and offer comments on the Draft Report.

We have edited the Company Profile section of the Draft Report to correct and/or clarify some of the facts presented in the Draft Report. We are enclosing a redlined version of the document so that our changes will be easily apparent to you, and request that those changes be reflected in the Final Report.

Further, in the Intercompany Agreements section, we disagree with the statements that the Claims Delegation Agreements with PSW and NPN were not properly filed. It is our understanding that Form D was filed with the OIC and approved per a letter dated December 21, 2007.

As instructed, we have limited our edits to inaccurate or incomplete factual information. However, as you are aware we continue to disagree with certain OIC interpretations, including but not limited to, the characterization that reinsurance does not transfer risk, and the OIC view regarding negotiated rates on intercompany agreements, which will be addressed in the context of our hearing request.

If you have any questions or wish to discuss the changes we have made, please feel free to contact me at any time.

Thank you for your courtesy and assistance.

Sincerely,

A handwritten signature in cursive script that reads "Christine M. Tomcala".

Christine M. Tomcala
Chief Executive Officer, Soundpath Health

Enclosure: Draft report, with edits

COMPANY PROFILE

Company History

The Company was incorporated in the state of Washington on January 18, 2007 as a for-profit company. The Company received its Certificate of Registration on February 9, 2007 as a health care service contractor. The Company offers Medicare Advantage plans through its contract with the Center for Medicare and Medicaid Services (CMS). The Company was formed through equal stock ownership by three local independent physician associations (IPA); Northwest Physicians Network, LLC (NPN), Physicians of Southwest Washington, LLC (PSW) and Highline Medical Services Organization (HMSO). The three IPAs founded PSHP to access the higher premium rates under the Medicare Advantage programs and to keep patients in their network. In 2009, NPN and PSW together acquired all the shares owned by HMSO.

Capitalization

As of December 31, 2010, the Company had 1,200,000 shares of common stocks with a \$10 par value authorized, and 910,000 shares issued and outstanding. The minimum capital requirement of \$3 million pursuant to RCW 48.44.037 was met with \$5.8 million in capital and surplus as of December 31, 2010.

Territory and Plan of Operations

The Company writes Medicare Advantage coverage for parts A, B and D exclusively in Washington State. The Company originally served primarily in King, Pierce, Snohomish, and Thurston Counties, and subsequently, The Company received CMS approval to expand into four additional counties Snohomish (2009), Lewis (2010), and Chelan, Douglas, Grant and Whatcom Counties (2012). PSHP notified the OIG that it plans to expand services to those counties starting January 1, 2012.

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 & Surplus</u>
2010	\$18,835,669	\$13,013,336	\$5,822,333
2009	7,872,785	2,236,820	\$5,635,965
2008	5,237,356	1,832,686	\$3,404,670
2007	4,459,897	620,751	\$3,839,146

<u>Year</u>	<u>Total Revenue</u>	<u>Net Underwriting Gain (Loss)</u>	<u>Net Investment Gain (Loss)</u>	<u>Net Income</u>
2010	\$54,047,471	\$19,811	\$148,407	(\$5,296)
2009	53,350,973	487,190	145,322	633,234
2008	43,482,321	(750,942)	103,975	(646,967)

2007

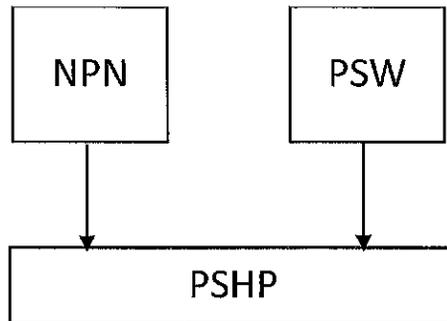
(3,836,349)

216,769

(3,619,579)

Affiliated Companies

~~PSHP~~ The Company is owned by two IPAs, NPN and PSW, each of them own 50 percent of the Company. The following organization chart is taken from ~~PSHP's~~ the Company's filed 2010 NAIC Annual Statement:



Intercompany Agreements

As of December 31, 2010, the Company had the following intercompany agreements in force:

- ~~• Administrative Services Agreements Contractor and Participant Agreement (ASA Founder Agreement) with its founders, NPN and PSW effective March 1, 2007. The ASA Founder agreements provide that that NPN and PSW receive 85 percent-% of the Part C Medicare Advantage premiums and 85% of Part C Member Premium for of their assigned members to provide benefits on a capitated basis. The Founder Agreements have been amended each year to update the plan carve outs related to plan benefits and vendor agreements.~~
- ~~• The ASA agreement with PSW was amended in January 2010 by changing the amount of capitation payment for certain services. The ASA agreement with NPN was amended in January 2011 by changing the amount of capitation payment for certain services.~~
- ~~• The Company has entered into Delegation Agreements with its founders, NPN and PSW, effective March 1, 2007 for various administrative duties for their assigned members. NPN and PSW each have Delegation Agreements for Care Management and Credentialing as well as Claims processing under a separate Claims Delegation Agreement, with PSW effective March 1, 2007. The agreement The Claims Delegation Agreement provided that PSW that they receives 2.5 percent of premiums of for each assigned member for processing claims. These agreements were amended January 1, 2009, the Agreement was amended by changing the fee structure from a percent of premium to a flat fee of \$18.50 per member per month for each assigned member who was assigned to PSW. January 1, 2011, the Agreement was amended and a new sliding scale fee schedule was added to the agreement.~~
- ~~• Claims Delegation, Credentialing and Utilization Management Delegation Agreement with NPN. The agreement provides that NPN receives 2.5 percent of premiums for each assigned member for claims processing, credentialing and utilization management services effective March 1, 2007.~~
- ~~• Administrative Service Agreements (ASA)'s are also in place with the founders. Originally ASA's existed for credentialing and for care management with NPN. The credentialing agreement paid~~

NPN an initial fee of \$27,000 to cover expenses related to software upgrades and \$87,500 annually. The credentialing ASA was terminated effective October 31, 2010. The care management ASA The agreement provides that PSHP the Company agrees to reimburse NPN \$8 per member per month to provide care management services to certain PSHP-members who are not assigned members of NPN providers, effective January 1, 2010. PSW has an ASA for Claims Processing which was originally effective on March 1, 2007, and provided 2.5% of premium per member per month for certain members who were not assigned members of PSW. As a result of subsequent amendments, effective January 2011, PSW was compensated This agreement was amended January 2012 to be compensated on a flat on a per member per month basis, with the rate varying with the number of assigned members.

- basis retroactive to January 2011. Under this agreement the rate varies based on the number of assigned members.

MANAGEMENT AND CONTROL

Board of Directors

Directors of the Company as of December 31, 2010:

Mariella H. Cummings	Chairperson
Leonard B. Alenick, M.D.	
Patricia C. Briggs	
Joseph P. Clabots, M.D.	
Stanley L. K. Flemming, D.O.	
Gary R. Goin, M.D.	
Patrick J. Halpin, M.D.	
Laurence C. Schadt, M.D.	

Officers

Officers as of December 31, 2010:

April D. Golenor	Chief Executive Officer (CEO)
Zachary A. Smulski	Chief Financial Officer (CFO)
Hugh L. Straley	Chief Medical Officer (CMO)
Christine M. Tomcala	Chief Operating Officer (COO)
Leonard B. Alenick	Secretary
Laurence C. Schadt	Treasurer

Conflict of Interest

The Company requires the annual completion of a conflict of interest statement by officers, directors, and key employees. The purpose of the statement is to detect any activities or participation on the part of the BOD and officers that could possibly be interpreted as a conflict of interest. No conflicts were noted in our review.

Fidelity Bond and Other Insurance

The Company has an employee dishonesty coverage as part of its commercial policy with a limit of \$250,000. The aggregate amount of coverage does not meet the recommended guidelines of the NAIC to cover the exposure risk of the Company. (See Comments and Recommendations No. 4.)

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

The Company offers its employees medical, dental and vision coverage; and an opportunity to participate in a 401(k) or Roth IRA plan.

CORPORATE RECORDS

Our review of the minutes of the BOD indicated that the minutes supported the transactions of the Company and the actions taken by its officers. All BOD meetings were conducted with a quorum present. The Articles of Incorporation and the Bylaws were amended and restated on July 28, 2010.

UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

The OIC health actuary reviewed the Company's actuarial report, claims unpaid, and other claim liabilities as of December 31, 2010. The review included examining the Company's reserving philosophy and methodologies to determine the reasonableness of the claim liabilities; verifying that claim liabilities include provisions for all components noted in SSAP No. 55, paragraphs 7 and 8, and SSAP No. 54 paragraphs 12, 13, 18 and 19; reviewing historical paid claims and loss ratios; checking the consistency of the incurred-paid data from the Company's system with the figures reported in the 2010 NAIC Annual Statement; and estimating claims unpaid for the valuation date of December 31, 2010.

The OIC health actuary reviewed the reserves as of December 31, 2010 and concluded that the reserves were in compliance with statutory requirements except for the following item (See Instructions No. 4):

- The amount reserved for the IBNR claims was understated and did not cover the actual amount paid in 2011 for claims incurred in 2010. The Company's loss reserve deficiency amounted to \$157,000, which has been adjusted for the purposes of this examination report. (See Notes to the Financial Statements No. 4.)

REINSURANCE

The Company is a party to the following two reinsurance agreements:

- Stop-loss reinsurance agreement with Physicians Insurance A Mutual Company effective January 1, 2008. Based on our review of the 2010 NAIC Financial Statement, PSHP did not reach the attachment limit of the treaty in 2010. The reinsurance agreement was reviewed and found that it complies with Washington State reinsurance statutes.

- Quota share with The Canada Life Assurance Company effective April 1, 2010 to cede 25 percent of its capitated business. Effective July 1, 2010, the Company increased the quota share percentage to 70 percent. The reinsurance agreement was reviewed and found that it did not comply with Washington State reinsurance statutes due to lack of risk transfer. (See Instructions No. 3.)

STATUTORY DEPOSITS

The Company maintained the following statutory deposit as of December 31, 2010:

State	Type	Book Value	Fair Value
Washington	Cash and Bonds	\$4,512,316	\$4,595,357

ACCOUNTING RECORDS AND INFORMATION SYSTEMS

The Company maintains its accounting records on a Generally Accepted Accounting Principles (GAAP) accrual basis of accounting and adjusts to Statutory Accounting Principles (SAP) basis for NAIC Annual Statement reporting. The Company was audited annually by the certified public accounting firm of Moss Adams, LLP (Moss Adams). 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 or significant weaknesses were noted.

The Company's IT environment was reviewed during the planning and testing phase of the examination, focusing on the following 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 general IT control risks and assess the effectiveness of these controls to determine if appropriate mitigating and internal controls have been implemented to reduce residual risk to appropriate levels. Several control weaknesses were noted during the examination. (See Comments and Recommendations No. 2 and 3.)

SUBSEQUENT EVENTS

- Effective June 1, 2011, the Company's name was changed to Soundpath Health, Inc.; the Articles of Incorporation were amended to reflect the name change.
- CEO, April Golenor, departed the Company in August 2011 and the BOD appointed Christine Tomcala as acting CEO. Ms. Tomcala was subsequently appointed as CEO on December 1, 2011.
- CMO, Dr. Hugh Straley, retired in September 2011 and was replaced by Dr. Ze'ev Young on September 26, 2011.

- Compliance Officer and General Counsel, Mike Jensen, resigned in February 2012 and was replaced by Robin Larmer on April 11, 2012.
- NPN's independent audit opinion issued by Moss Adams as of December 31, 2010 states that there is substantial doubt about the ability of NPN to continue as a going concern.
- ~~As of September-December 2011, the~~The Company withheld a \$1.2 million from capitation payments from NPN in 2011, because of the going concern opinion. The funds are held in a security reserve that covers the Company's potential legal liability in case NPN is unable to pay its claims.
- In late 2011, the OIC issued a going concern opinion with respect to NPN.
- Christine Turner was appointed as a new COO on March 26, 2012.
- CFO, Zachary Smulski left the Company in April 2012.
- In April 2012, the Company ~~discovered~~ recovered that an accounting irregularity resulted in the booking of an additional \$631,500 in expenses for 2011. The corrected data from a former employee during its investigation of accounting irregularities that took place in 2011. The recovered amount significantly increases the Company's surplus by more than 15 percent compared to the reported surplus as of December 31, 2011. Counsel for the Company retained a forensic accountant to investigate the accounting irregularity.
- In April 2012, the Company contracted with a forensic accountant to investigate potential accounting irregularities that occurred in the second half of 2011.
- On April 5, 2012, the OIC called a target financial examination to focus on the 2011 NAIC Annual Statement filing, NAIC Quarterly Statements and OIC Monthly Statement Filings during 2011 and 2012 expense and lease transactions that occurred during 2011 and on some balances reported by the Company on its 2011 NAIC Annual Statement.
- On May 18, 2012, the Company filed a request for hearing based on certain the directives issued by OIC and included in this draft report and on the target financial examination findings in this report and on the target financial examination.

FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS

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