



OFFICE OF
INSURANCE COMMISSIONER

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|---------------------------------------|---|---------------------------|
| In the Matter of |) | No. 13-198 |
| |) | |
| The Targeted Financial Examination of |) | FINDINGS, CONCLUSIONS, |
| SOUNDPATH HEALTH, INC. |) | AND ORDER ADOPTING REPORT |
| |) | OF FINANCIAL EXAMINATION |
| |) | |

A Registered Health Care Service Contractor.

BACKGROUND

A targeted examination of the financial condition of **SOUNDPATH HEALTH, INC.** (the Company) as of December 31, 2011, 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 November 20, 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 16 of the report.

CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the targeted financial examination of **SOUNDPATH HEALTH, INC.**, and to order the Company to take the actions described in the Instructions section of the report. The Commissioner acknowledges that the Company may have implemented some of the Instructions prior to the date of this order. The Instructions 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.

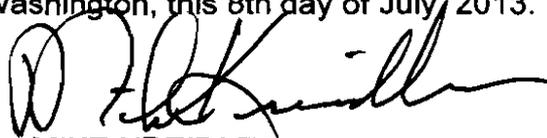
The Company is ordered as follows, these being the Instructions contained in the examination report on pages 3-6.

1. The Company is ordered to comply with SSAP No. 61(17) by recording a quota share reinsurance arrangement following the guidance of Deposit Accounting as prescribed in SSAP No. 61(51). The Company is also 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 3.
2. 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 2, Examination Report, page 4.
3. 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. In addition, the Company is also ordered to comply with RCW 48.44.530 by filing a report with the OIC disclosing material transactions. Instruction 3, Examination Report, page 4.
4. 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 4, Examination Report, page 5.

5. Pursuant to RCW 48.31C.050(2)(d), the Company is ordered to properly file all intercompany management agreements with the OIC before implementation. Instruction 5, Examination Report, page 5.
6. The Company is ordered to execute revised or amended custodial agreements that comply with the FCEH and RCW 48.13.480. The Company is also ordered to comply with RCW 48.43.097 by filing a true statement of its financial condition, transactions and affairs and to follow the NAIC Annual Statement Instructions and the AP&P, as required by WAC 284-07-050(2). Instruction 6, Examination Report, page 6.
7. 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 7, 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 8th day of July 2013.



MIKE KREIDLER
Insurance Commissioner

December 12, 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

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INSURANCE COMMISSIONER
COMPANY SUPERVISION

Via Electronic and U.S. Mail

Dear Mr. Odiorne:

Thank you for forwarding the 2011 Draft Targeted Financial Examination Report by letter dated November 20, 2012. We appreciate the opportunity to review and offer comments on the Draft Report.

We have enclosed notes and comments on the Draft Report which correct and/or clarify some of the facts presented in the Draft Report. We respectfully request that those changes be reflected in the Final Report.

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. That and other items will be addressed in the context of the hearing request that will be submitted by Tim Parker under separate cover.

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

Thank you for your courtesy and assistance.

Sincerely,



Christine M. Tomcala
Chief Executive Officer

Enclosure

OIC Targeted Examination Report

Notes and Comments

1) Summary of Targeted Areas

a) Finding No. 1 – Financial Reporting Accuracy – (Marquette Lease)

- i) 1st Paragraph, page 2 states that “three lease transactions with Marquette in September 2011.” were not recorded timely in the general ledger and not reported properly in the September 30, 2011, NAIC Quarterly Statement. This is incorrect.
 - (1) The first “lease transaction” (Schedule No. 1) was recorded and reported in the Quarterly Statement properly as a sale and leaseback under SSAP 22. The Acceptance Certificate was signed on September 20, 2011, which fixes the start date of the lease and the related obligations. This “lease transaction” was recorded timely and reported properly.
 - (2) The second “lease transaction” (Schedule No. 2) was funded in two disbursements on October 31, 2011, and therefore were not September 2011 transactions. The Acceptance Certificates (2 Partial Acceptance Certificates) were both signed and dated October 28, 2011, which fixes and starts the lease and related obligations. This “lease transaction” was recorded timely and properly NOT recorded in the September 30, 2011, NAIC Quarterly Statement.
 - (3) The third “lease transaction” (Schedule No. 3) was funded on September 23 with an Acceptance Certificate signed and dated September 20, 2011, and was not recorded timely in the general ledger and was not reported in the September 30, 2011 NAIC Quarterly Statement. The Company agrees with the OIC on this “lease transaction” and finding.
 - (4) The fourth “lease transaction” (Schedule No. 4) was funded on November 30 with a Partial Acceptance Certificate signed and dated November 15, 2012, with the “final” Acceptance Certificate dated December 31, 2011, and was recorded in the general ledger in December and was **properly not** reported in the September 30, 2011 NAIC Quarterly Statement.
 - (5) The OIC table on Page 4, Instruction No. 3, identifies two of the four “lease transactions” in September, not three as stated in the report.
- ii) 2nd Paragraph, Page 2 states that the overstatements of commission expense and interest expense were “part of accounting irregularities committed by a former officer of the company.” Pending completion of the OIG investigation this statement should be amended to state “suspected accounting irregularities.” The Company would also request the reference to the source of the error (accounting irregularities) be removed pending conclusion of the investigation by the OIG.
- iii) 3rd Paragraph, Page 2 regarding The Physicians’ Trust (TPT) states that the transactions were recorded “with insufficient documentation.” The documentation was sufficient, but later determined to be fictitious.

- b) Finding No. 2 – agree with finding that reserves were adequate.
- c) Finding No. 3 – Reinsurance Accounting for Quota Share. Same objection as the 2010 Examination report and the Company requests this be included with the hearing on this matter from the 2010 Examination Report.
- d) Finding No. 4 - Off-Balance Sheet Transactions – this finding is related to Finding number 1. The Company’s position regarding the timeliness of recording and reporting of the transactions is described above under the heading “Finding No. 1.” In addition, the OIC suggests that none of the Schedules should be accounted as an operating lease. SSAP 22, however, states that a sale and lease back transaction that does not involve real estate is to be considered an operating lease with no on-balance sheet liability.
- e) Finding No. 5 – The Company will comply with filing requirements in the future

2) Instructions

- a) No. 1 Transfer of risk and quota share reinsurance – The Company disagrees that the agreement does not transfer risk and requests this be added to the hearing on the 2010 Examination report.
- b) No. 2 Accounting irregularities – The Company agrees with the OIC.
- c) No. 3 Leases – The Company disagrees with applying the deposit method of accounting to all four schedules of the Master Lease Agreement. The Company and its auditors believe all of Schedule No. 1 and most of Schedule No. 2 should be reported as sale and lease-back transactions as operating leases as prescribed by SSAP 22. The Company disagrees that the transaction meets the definition of a “Material Transaction” in RCW 48.4.S30 as the assets sold under the agreement were not material to the capital and surplus of the Company as they were all non-admitted assets.
- d) No. 4 Deferred tax assets (DTA) – The Company agrees with the OIC finding and will comply with the Instruction.
- e) No. 5 Non-compliance with Holding Company Regulation – The Company will comply with the Instruction.
- f) No. 6 The Company will comply with the instruction.
- g) No. 7 Annual Statement Errors – The Company will comply with the instruction.