

REPORT ON EXAMINATION

OF THE

HEALTH INSURANCE PLAN OF GREATER NEW YORK

AS OF

DECEMBER 31, 2006

DATE OF REPORT

JULY 26, 2012

EXAMINERS

CATHIE STEWART

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

July 26, 2012

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and acting in accordance with the instructions contained in Appointment No. 22548, dated December 22, 2006, and annexed hereto, an examination has been made into the financial condition and affairs of the Health Insurance Plan of Greater New York, a not-for-profit health service corporation licensed pursuant to Article 43 of the New York Insurance Law, as of December 31, 2006, and the following report thereon is respectfully submitted.

The examination was conducted at the home office of the Health Insurance Plan of Greater New York, located at 55 Water Street, New York, New York.

Wherever the designations the “Plan” or “HIPNY” appear herein, without qualification, they should be understood to refer to the Health Insurance Plan of Greater New York.

Wherever the designation the “Department” appears herein, without qualification, it should be understood to indicate the New York State Department of Insurance. The New York State Department of Insurance merged with the New York State Banking Department on October 3, 2011, to become the New York State Department of Financial Services (“DFS”).

EXECUTIVE SUMMARY

The results of this examination revealed certain operational and internal control deficiencies during the examination period. The most significant findings of this examination include the following:

- As of November 2007, the Board of Directors had eight (8) public representatives and only five (5) subscriber representatives, which was not in compliance with the requirements of Sections 4301(k)(1)(A) and (B) of the New York Insurance Law.
- The examiners noted that the Plan's Audit Committee is comprised of three (3) Board members, none of which have a financial background (i.e., CFO/Controller or CPA) to qualify as being "financially literate" as defined by the Securities and Exchange Commission.
- The Plan failed to retain appropriate supporting documentation in the testing of certain Information Technology ("IT") related internal controls.

The above findings, as well as others, are described in greater detail in the remainder of this Report.

2. SCOPE OF THE EXAMINATION

The Plan was previously examined as of December 31, 2001. This examination of the Plan was a financial examination as defined in the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook, 2007 Edition* (the “Handbook”) and it covers the five-year period January 1, 2002 through December 31, 2006. The examination was conducted observing the guidelines and procedures in the Handbook and, where deemed appropriate by the examiners, transactions occurring subsequent to December 31, 2006, were also reviewed.

Concurrently, an examination into the financial condition and affairs of the Health Insurance Company of New York (“HIPIC”), an affiliated for-profit health insurance company licensed under the provisions of Article 42 of the New York Insurance Law, and the subsidiary of HIP Holdings, Inc., and ultimately HIPNY, was performed. A separate report thereon has been submitted. Additionally, simultaneous examinations were performed on the manner in which HIPNY and HIPIC conduct their business practices and fulfill their contractual obligations to policyholders and claimants. The reports of significant findings of these examinations were issued under separate cover.

This examination was conducted on a risk-focused basis in accordance with the provisions of the Handbook, which provides guidance for the establishment of an examination plan based on the examiners’ assessment of risk in the Plan’s operations and utilizes that evaluation in formulating the nature and extent of the examination. The risk-focused examination approach was included in the Handbook for the first time in 2007; thus, this was the first of such type of examination for the Plan. The examiners planned

and performed the examination to evaluate the Plan's current financial condition, as well as to identify prospective risks that may threaten the future solvency of HIPNY.

The examiners identified key processes, assessed the risks within those processes and assessed the internal control systems and procedures used to mitigate those risks. The examination also included an assessment of the principles used and significant estimates made by management, an evaluation of the overall financial statement presentation, and determined management's compliance with the Department's statutes and guidelines, Statutory Accounting Principles, as adopted by the Department, and annual statement instructions.

Information concerning the Plan's organization structure, business approach and control environment were utilized to develop the examination approach. The examination evaluated the Plan's risks and management activities in accordance with the NAIC's nine branded risk categories.

These categories are as follows:

- Pricing/Underwriting
- Reserving
- Operational
- Strategic
- Credit
- Market
- Liquidity
- Legal
- Reputational

The Plan was audited annually, for the years 2002 through 2006, by the accounting firm of Deloitte & Touche LLP ("D&T"). The Plan received an unqualified opinion in each of those years. Certain audit workpapers of D&T were reviewed and

relied upon in conjunction with this examination. The Plan has an Internal Audit Department and a Separate Internal Control Department, which have been given the task of assessing the internal control structure and eventual compliance with the Sarbanes-Oxley Act of 2002 (“SOX”) for HIPNY and HIPIC. Where applicable, SOX workpapers and reports were reviewed and portions thereof were relied upon for this examination.

The examiners reviewed the corrective actions taken by the Plan with respect to the recommendations concerning financial issues contained in the prior report on examination. The results of the examiners’ review are contained in Item 8 of this Report.

This report on examination is confined to financial statements and comments on those matters which involve departure from laws, regulations or rules, or which require explanation or description.

3. DESCRIPTION OF THE PLAN

HIPNY is a New York State not-for-profit corporation operating under the provisions of Article 43 of the New York Insurance Law. The Plan also operates as a certified Health Maintenance Organization (“HMO”), pursuant to the provisions of Article 44 of the New York Public Health Law. Since February 10, 2005, retroactive to January 1, 1998, HIPNY is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (“IRC”), as described in Section 501(c)(4) of the IRC. Prior to that date, HIPNY was exempt per Section 501(c)(3) of the IRC. As a result of this change in tax status, HIPNY was required to pay federal unemployment taxes.

On November 15, 2006, having received regulatory approval from the New York State Insurance Department, HIPNY and Group Health Incorporated (“GHI”), a not-for-profit health service corporation licensed under the provisions of Article 43 of the New York Insurance Law became affiliated companies. As a result of the transaction EmblemHealth, Inc. (“Emblem”) became the sole member and parent corporation of HIPNY, GHI and their respective subsidiaries. HIPNY and GHI named an equal number of directors to the Emblem Board.

On March 6, 2007, EmblemHealth Services Company, LLC (“EHS”) was formed by a joint venture of HIPNY and GHI, in order to integrate operations of these two entities. On January 1, 2008, items such as vendor agreements and employees were transferred to EHS. HIPNY and GHI receive management and other services from EHS. Also on that date, with the approval of the Department, HIPNY and GHI entered into a written guarantee of all liabilities of EHS.

In April 2007, a change in the New York Insurance Law was enacted to permit not-for-profit insurers such as HIPNY and GHI to convert to for-profit status. On April 16, 2007, EmblemHealth submitted an application to the Department, to convert HIPNY and GHI to for-profit status. The application was approved by the Board of Directors of both HIPNY and GHI.

Under the plan of conversion submitted, EmblemHealth would form a for-profit, publicly traded holding company, which would be the ultimate parent of HIPNY and GHI. The application calls for approximately 20% of the stock of the publicly traded holding company to be sold at the time of conversion, with the proceeds transferred to

New York State. The remaining shares would be held by New York State and sold over time at the State's discretion.

As of the date of this Report, the Department has not yet issued a decision regarding the proposed conversion.

A. Management and Controls

1. Corporate Governance

Corporate governance is provided by the HIPNY's Board of Directors, subject to its By-Laws and to such rules and regulations as the Board may adopt for that purpose and for the conduct of its meetings. This governance is carried out by Plan's management, as well as various management committees. HIPNY has an Internal Audit Department ("IAD") and an Internal Controls Standards and Procedures Department ("ICSP"), which performs testing on behalf of management of the internal control structure. As a non-public company, the Plan is not obligated to comply with SOX directives, and accordingly, is not required to submit an assessment of its internal control structure. However, HIPNY has nonetheless decided to move toward becoming SOX compliant and established a department to achieve this goal.

Effective oversight of inherent business risks should include an internal audit function that comprehensively identifies and assesses key areas of risk. This can be accomplished through a formal risk identification and controls assessment process. The internal audit function should be independent of others within the organization. Key factors and best practices that indicate the internal audit function is independent of management include, among others: (1) the head of internal audit reports directly to the

audit committee on audit matters; (2) compensation for the head of internal audit is determined and approved by the audit committee; (3) the audit committee approves resource increases/decreases to internal audit staff; (4) the internal audit plan and budget is submitted to and approved by the audit committee; and (5) the internal audit function is not responsible for any management or operational functions.

The Senior Vice President (“SVP”) of Corporate Compliance and Internal Audit reports to the Audit Committee and they consider the base salary and compensation package provided to this individual in executive session with no company employees present. The Senior Vice President of Corporate Compliance and Internal Audit is subject to Senior Management’s performance metrics as reviewed by the Compensation Committee of the Board and approved by this committee, which, jointly with the Audit Committee, determines the compensation paid to the Senior Vice President of Corporate Compliance and Internal Audit. From a corporate governance perspective the responsibilities and performance should be measured by the Audit Committee to ensure independence with Senior Management.

The Audit Committee should have members who have the appropriate background to provide oversight to the Plan’s internal audit process.

To maintain independence of the internal audit function, it is recommended that the SVP of Corporate Compliance and Internal Audit continue to report directly to the Audit Committee on audit matters.

2. Board of Directors

In accordance with its By-Laws, the Plan is managed by a Board of Directors consisting of not less than thirteen (13) nor more than thirty (30) Directors. Additional stipulations of the By-laws are that not more than one-fifth of the directors shall be persons licensed to practice medicine or who are trustees, directors or employees of a corporation for hospital purposes and that not more than one-eighth of the directors shall be persons who are employees who serve as officers of the Plan. The following listing, broken out by the classifications set forth in Section 4301(k) of the New York Insurance Law, represents HIPNY's fifteen Board members and their principal business affiliations as of December 31, 2006:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
<u>Subscriber Directors</u>		
John O'Connor Staten Island, NY	Executive Vice President & Chief Marketing Officer, Amalgamated Bank of New York	2003***
David J. Cooper, M.D. Old Westbury, NY	Chief Executive Officer, ProHealth, Inc.	2005
Karen Davis New York, NY	Organizational Consultant, Self-Employed	2002*
Oliver Gray New York, NY	Associate Director, D.C. 37, AFSCME, AFL-CIO	2002
Carl Haynes New Rochelle, NY	President, International Brotherhood of Teamsters/ Local 237	2005**
Carmelo Mallia Long Island City, NY	Former Social Worker, New York City Adoption Services	2001
Suman Reejsinghani, M.D. Roslyn, NY	Physician, Self-Employed	2006

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
<i><u>Officers-Directors</u></i>		
Daniel McGowan Centerport, NY	President and Chief Operating Officer, Health Insurance Plan of Greater New York	1997
Anthony Watson West Orange, NJ	Chairman and Chief Executive Officer, Health Insurance Plan of Greater New York	1990
<i><u>Public Interest Directors</u></i>		
Robert Brokaw Garden City, NY	Human Resources Executive, Self-Employed	2006
Elaine Friedman, Esq. Ardasley, NY	Attorney at Law, Self-Employed	1998****
Morris Lee Cambria Heights, NY	Executive Director, Council for Airport Opportunity	2002*
Yungman Lee, Esq. Forest Hills, NY	Attorney at Law, Herrick, Feinstein LLP	2001
Charles Wang New York, NY	President, Rosen-Wang Global Partners, LLC	2002*
David Weiss, PhD Northport, NY	Professor, Health Professions and Family Studies, Hofstra University	2006

* Previously served on Board of Directors from June 1991 through May 2001.

** Previously served on Board of Directors from June 1992 through May 2002.

*** Previously served on Board of Directors from June 1994 through May 2004.

**** Previously served on Board of Directors from June 1987 through May 1997.

The following changes have been made to the Board of Directors since the examination date: Carl Haynes, Suman Reejasinghani, M.D., Morris Lee and Daniel McGowan left the Board. Daniel McGowan also left EmblemHealth, Inc. and his position as President and Chief Operating Officer. They were replaced on the Board by Gregory Floyd, Paul Gibson, Ronald C. Jones and Margaret Pan-Loo, PhD, respectively,

during the period from 2007 to 2010. Gregory Floyd and Margaret Pan-Loo, PhD are public interest directors. Paul E. Gibson and Ronald C. Jones are subscriber directors. David J. Cooper, M.D. changed from subscriber director to physician director in 2010.

It appears that as of November 2007, the Board of Directors was not in compliance with Sections 4301(k)(1)(A) and (B) of the New York Insurance Law; as there are eight (8) public representatives and only five (5) subscriber representatives.

It is recommended that the composition of the Board of Directors comply with the requirements prescribed by Section 4301(k)(1) of the New York Insurance Law.

Subsequent member changes were made to the Board after that date, and the Board of Directors consisted of seven (7) public representatives and six (6) subscriber representatives; in compliance with Sections 4301(k)(1)(A) and (B) of the New York Insurance Law.

A review was performed of the attendance at the twenty-seven (27) Board of Directors' meetings held during the five-year examination period. The following directors were found to have attended less than 50% of the scheduled Board meetings in the examination period that they were eligible to attend:

<u>Director's Name</u>	<u>No. of Meetings Attended</u>	<u>No. of Meetings Eligible to Attend</u>	<u>Attendance Percentage</u>
Cynthia Chin-Marshall*	1	3	33%
Carl Haynes	12	27	44%
John O'Connor	9	21	43%
Kevin Gallagher*	0	4	0%
Harold (Sonny) Hall*	3	16	19%

*Former members who served on the Board during the examination period.

Attendance of Directors at Board meetings is critical in exercising their duties in a management oversight function. Members of the Board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the Plan. It is essential that Board members attend meetings consistently and set forth their views on relevant matters so that appropriate policy decisions may be reached. Members who fail to attend at least one-half of the regular meetings they are eligible to attend do not fulfill such criteria. Similar conditions were noted during the previous examination, and four (4) of the above five (5) directors were identified as being deficient in attending meetings.

It is again recommended that HIPNY take corrective action by developing a policy to evaluate whether Board members who are unable or unwilling to attend meetings consistently should resign or be replaced. Furthermore, in selecting prospective members, a key criterion should be their willingness and commitment to attend meetings and participate in the Board's responsibility to oversee the operations of the Plan.

3. Committees of the Board of Directors

Standing committees of the Board of Directors include the Executive, Nominating, Audit and Compliance, Compensation, Quality Improvement, and Investment and Finance Committees. In addition to the requirements set forth in the By-Laws of the Board of Directors, each of the committees is also subject to its own charter. Individuals serving on each committee at December 31, 2006 were as follows:

Executive Committee

Anthony Watson - Chairperson
Robert Brokaw
Carl Haynes
John O'Connor
Charles Wang

Nominating Committee

Charles Wang - Chairperson
Elaine Friedman, Esq.
Oliver Gray
Morris Lee
Carmelo Mallia

Audit and Compliance Committee

Yungman Lee, Esq. - Chairperson
 Karen Davis
 David Weiss, PhD

Investment and Finance Committee

John O'Connor - Chairperson
 Suman Reejsinghani, M.D.
 Daniel McGowan
 Anthony Watson

Compensation Committee

Elaine Friedman, Esq. - Chairperson
 Robert Brokaw
 Morris Lee

Quality Improvement Committee

Karen Davis - Chairperson
 David Cooper
 Carmelo Mallia
 Daniel McGowan
 Robert Brokaw

The control environment is influenced significantly by the Plan's Board of Directors and Audit Committee. Factors to be considered are independence from management, experience and stature of members, extent of involvement and scrutiny of activities and appropriateness of its actions. The degree to which challenging questions are raised and pursued with management regarding HIPNY's plans and performance is also an important factor. Finally, interaction of the Board of Directors or Audit Committee with the internal and external auditors is a factor affecting the control environment.

The examiners noted that the Plan's Board of Directors and Audit Committee met only once per quarter during the examination period consistent with its by-laws. During the review of the Plan's Board of Director and Audit Committee minutes the examiner saw no evidence of the Plan's Board of Directors' involvement regarding the price paid, corporate governance and control assessment, integration planning or other issues relating to merger and acquisition activity.

However, the merger and acquisition activity over the examination period was reviewed and approved by special meetings and/or executive sessions of HIPNY's parent company, EmblemHealth, Inc., formerly named HIP Foundation.

The examiners also noted that the Plan's Audit Committee is comprised of three (3) Board members, none of which have a financial background (i.e., CFO/Controller or CPA) to qualify as being "financially literate" as defined by the Securities and Exchange Commission. HIPNY's board relies on the financial expertise of the directors on its parent company, EmblemHealth, and its Audit Committee. Having a financial background would provide the committee with the knowledge/ability to understand the technical aspects of SOX initiatives and GAAP or statutory accounting rules. While SOX rules do not apply to HIPNY as currently structured as a not-for-profit company, certain elements of these regulatory schemes have been adopted by HIPNY as best practices. Financial literacy will become significant as the Plan pursues public company status through its planned IPO. The agenda for each Audit Committee meeting should be developed with input from the SVP of Internal Audit and shared in advance with the Chair of the Audit Committee. The Audit Committee Chair should approve/modify the agenda prior to each meeting.

It is recommended that the Plan ensure that the Audit Committee be comprised of at least one individual with a financial background.

In addition, it is recommended that the Plan's Board of Directors meet more frequently when significant events and/or transactions are occurring. The Board of Director's review and involvement with major acquisitions should be clearly documented

and should provide an independent assessment of the major assumptions made by management.

4. Executive Officers

Officers of the Plan are elected by the Board of Directors at its annual meeting for a term of one year and serve at the discretion of the Board. The executive officers of the Plan at December 31, 2006 were as follows:

<u>Name</u>	<u>Position</u>
Anthony Watson	Chairman and Chief Executive Officer
Daniel McGowan	President and Chief Operating Officer
Dan Dragalin, M.D.	Executive Vice President for Medical Affairs and Corporate Chief Medical Officer
Michael Fullwood, Esq.	Executive Vice President, Chief Financial Officer, General Counsel and Corporate Secretary
Mickey Herbert	Executive Vice President
John Steber	Executive Vice President for Operations and Chief Information Officer
David Abernethy	Senior Vice President for Operations, Public Policy and Regulatory Affairs
Fred Blickman	Senior Vice President for Human Resources
Dominic D'Adamo	Senior Vice President for Finance and Corporate Controller
Philip Gandolfo	Senior Vice President for Melville Operations
Edward Lucy	Senior Vice President for Delivery Systems Management and Strategy
Ronald Maiorana	Senior Vice President for Public Affairs and Operations Advisor for the Chairman

<u>Name</u>	<u>Position</u>
Francis Olsen, D.D.S.	Senior Vice President for Product Management
Valerie Reardon	Senior Vice President for Corporate Compliance and Internal Audit
Vincent Scicchitano	Senior Vice President for Product/Customer Management
DeWitt Smith	Senior Vice President for Marketing and Sales
Leslie Strassberg, F.S.A.	Senior Vice President for Underwriting and Actuarial Services and Chief Actuary
Pedro Villalba	Senior Vice President for Information Technology and Chief Technology Officer
Marc Wolfert	Senior Vice President and Chief Operating Officer for Centralized Laboratory Services
Roslyn Yasser	Senior Vice President for Product/Customer Management

5. Conflict of Interest Policy

A review of the Plan's Conflict of Interest Disclosure Policy was conducted. In its 2002-2006 filed annual statements, the Plan answered affirmatively to the *General Interrogatories* questions that it had an established procedure for disclosures to its Board of Directors concerning conflicts of interest. Newly hired employees at the level of Director and above are required to submit a Conflict of Interest Form as a condition of employment. Annually, officers, directors and all employees at the level of Director and above must complete a Conflict of Interest Form. Individuals are required to disclose any activities or relationships that are, or may be, in conflict to the interests of HIPNY. The Chief Operating Officer reviews all exceptions and determines if such exceptions

represent actual or potential conflicts of interest. Any actual conflicts of interest must be resolved. The signed form is maintained by the Compliance Department.

6. Corporate Records

Articles of Incorporation and By-Laws

The Articles of Incorporation were originally filed on May 16, 1944 and were last amended on November 23, 2005. The By-Laws were last amended and approved by the Board of Directors on March 22, 2006.

Minutes of Meetings of the Board of Directors and Committees

The minutes of the meetings of the Board of Directors and committees were reviewed for the period under examination and subsequent thereto. The minutes reflected the elections of directors and officers, approvals of investment transactions and approvals of other pertinent matters requiring corporate review. In accordance with Section 312 of the New York Insurance Law, the previous examination report was reviewed and discussed by the Board of Directors.

B. Holding Company System

The Plan is a wholly-owned subsidiary of EmblemHealth, Inc., (“Emblem”) whose name was changed from HIP Foundation, Inc. on November 15, 2006. Emblem is a New York not-for-profit charitable organization established to implement, expand and coordinate community outreach, medical research and other community based activities that support the well-being of the diverse population of the New York metropolitan area.

As of November 30, 2001, HIPNY became the sole member of Vytra Health Plans Long Island, Inc., which owns Vytra Health Services, Inc., both not-for-profit insurers. Vytra Health Plans Long Island, Inc. was merged with and into HIPNY, pursuant to approval of the Department, effective as of April 1, 2006. HIPNY also acquired all issued and outstanding shares of Vytra Health Plan Managed Systems, Inc. and contributed this entity to HIP Holdings Inc., the Plan's for-profit subsidiary.

HIPNY owns 100% of the outstanding stock of HIP Holdings, a Delaware holding corporation. HIP Holdings, Inc., owns all of the outstanding stock of HIP Insurance Company ("HIPIC" or the "Company"), HIP Administrators of Florida, Inc. ("HIPA"), HIP Network Services IPA, Inc., ConnectiCare Holding Company, Inc., The PerfectHealth Insurance Company, Inc. and Vytra Health Plan Managed Systems, Inc. ("VMS"). ConnectiCare Holding Company, Inc. and its subsidiaries ("ConnectiCare") were acquired on March 10, 2005. ConnectiCare is a managed care company that provides managed care services to approximately 245,000 members primarily in the State of Connecticut.

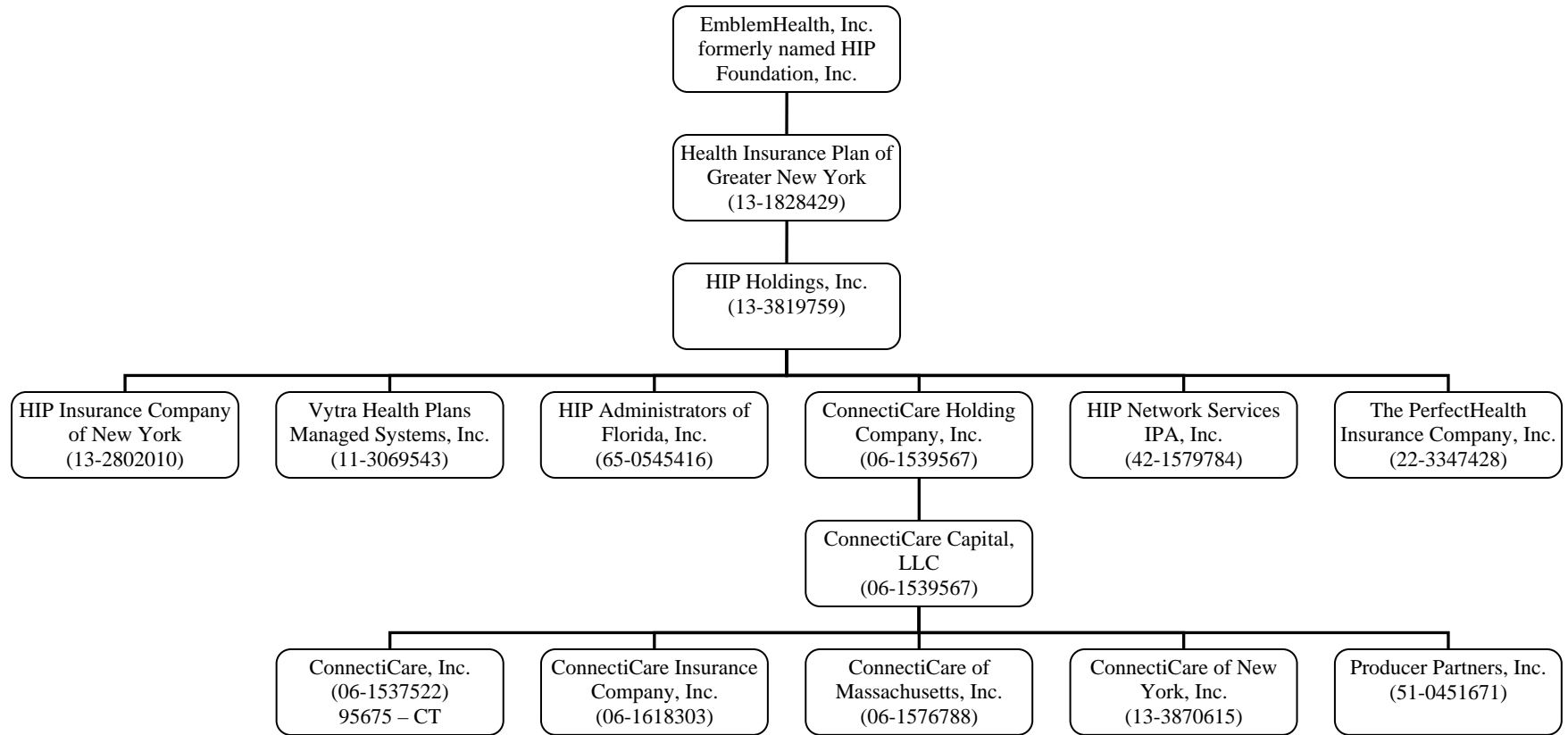
Centralized Laboratory Services, Inc. ("CLS"), the wholly-owned subsidiary of HIPNY, was merged with and into HIPNY, pursuant to approval of the Supreme Court of the State of New York, effective September 30, 2005. CLS was organized in September 1965 as a New York not-for-profit corporation.

On January 1, 2006, HIPNY acquired The PerfectHealth Insurance Company, Inc., a for-profit provider of high deductible health plans and health savings account

products in the New York market. The transaction was accounted for as a statutory purchase, resulting in non-admitted goodwill in the amount of \$4.1 million.

An organizational chart depicting the relationship between the Plan and significant entities in its holding company system as of December 31, 2006 is shown on the following page:

Organizational Chart



Prior to June 2001, inter-company transactions between HIPNY and HIP Insurance Company of New York (“HIPIC”) were entered into without making the requisite filings and obtaining the superintendent’s non-disapproval as required by Section 1505(d) of the New York Insurance Law. On June 25, 2001, HIPNY filed an Administrative Services Agreement between HIPNY and HIPIC with the Department that was non-disapproved on August 22, 2001. The effective date of the agreement is August 31, 2001. Since 1995, HIPIC has underwritten the out-of-network benefits for the Point-of-Service (“POS”) product jointly offered by HIPNY. As HIPIC has no dedicated employees or facilities, all services are provided to HIPIC by HIPNY.

Prior to November 2001, inter-company transactions between HIPNY and HIP Foundation, Inc. were entered into without making the requisite filings and obtaining the superintendent’s non-disapproval, as required by Section 1505(d) of the New York Insurance Law. On November 29, 2001, HIPNY filed an Administrative Services Agreement with the Department that was not disapproved on February 12, 2002. The effective date of the Agreement is June 1, 2002. HIP Foundation, Inc. provides management oversight, philanthropic and integrated wellness services to HIPNY. In return, HIPNY provides HIP Foundation, Inc. with various services, such as, but not limited to: office space, utilities, insurance, accounting, legal, human resources, information technology, health care coverage, and pension benefits.

On January 1, 2003, the Plan entered into a Services Agreement with HIP Network Services, IPA (“HIP IPA”). During the first quarter of 2003, HIPNY assigned certain agreements it had with physicians in its network to HIP IPA for the purpose of managing the delivery of services to HIPNY members.

On January 1, 2002, HIPNY entered into a service agreement with Vytra Health Plans Managed Systems, Inc. (“VMS”). The Plan provides pharmacy benefit management and administrative services to VMS.

On January 1, 2002, HIPNY entered into a service agreement with Vytra Health Plans Long Island, Inc. (“VHLI”). The Plan provides pharmacy benefit management and administrative services to VHLI.

On January 1, 2002, HIPNY entered into a service agreement with Vytra Health Services, Inc. (“VHS”). The Plan provides pharmacy benefit management and administrative services to VHS.

C. Territory and Plan of Operation

HIPNY is a health service corporation licensed under Article 43 of the New York Insurance Law and since 1978, HIPNY has also been operating under the authority of Article 44 of the Public Health Law as a Health Maintenance Organization (“HMO”). The Plan’s total network of independent physicians and other providers, including the networks of its subsidiaries, comprises of approximately 43,000 physicians and other providers in over 72,000 locations in New York, Connecticut and Massachusetts. Additionally, HIPNY contracts with more than 160 hospitals, including major acute care institutions, in New York, Connecticut and Massachusetts to provide services to its members.

The Plan is a diversified model HMO that offers a broad spectrum of group and network-based managed care products including standard HMO, Point-of-Service (“POS”), Preferred Provider Organization (“PPO”) and other hybrid plans, in addition to providing Administrative

Services Only (“ASO”) contracts to groups covering approximately 1.4 million people in New York, Connecticut and Massachusetts. HIPNY and GHI together serve a combined 4 million members. HIPNY and GHI combined rank as the largest health plan in New York State. The Plan’s revenues consist primarily of premiums earned for health insurance relating to services provided to its members by physicians under contract with the Plan. All premiums are written in New York State.

Beginning January 1, 2006, the Plan began serving as a plan sponsor offering Medicare Part D (“Part D”) prescription drug insurance coverage under a contract with the Centers for Medicare & Medicaid Services (“CMS”). Medicare premiums earned on Medicare Advantage contracts are recorded based on established premium rates per member, which are derived from a risk adjustment formula that apportions premiums paid for all members according to their health status. The risk adjustment formulas pay more for members with predictably higher costs. Diagnosis data from inpatient and ambulatory treatment settings are used to calculate the risk adjusted premium payment received by HIPNY. Premiums earned from the Plan’s Medicare Part D prescription drug insurance coverage are recorded based on premium rates multiplied by the number of members, but are subject to risk corridor adjustments whereby variances which exceed certain thresholds from a target amount result in CMS making additional premium payments to HIPNY, or require HIPNY to refund to CMS a portion of previous premiums received. Certain elements of the payments that the Plan receives, including the catastrophic reinsurance subsidy and low-income member cost sharing subsidies, represent cost reimbursements. As such, amounts incurred are not reflected in earned premiums, but are reported as a reduction to cost of benefits provided. For certain of the Plan’s Medicare contracts, the Plan’s ability to participate in the following contract year is contingent on its bid made in the

current contract year being competitive relative to a benchmark set by CMS in the year in which their bid is made.

The Plan negotiates its contracts with independent medical groups and IPA networks on an annual basis.

As of December 31, 2006, the Plan's primary internal business divisions were focused on the following segments: Commercial large and small employer group business, Medicare programs, and New York State sponsored programs, including Medicaid, Child Health Plus ("CHP") and Family Health Plus ("FHP"). CHP and FHP programs are geared toward providing HMO benefits to uninsured children and families who meet certain eligibility requirements.

During the examination period, HIPNY maintained two corporate offices in the Borough of (Manhattan) New York. HIPNY's corporate headquarters was located at 55 Water Street, with the other office at 32 Old Slip, serving as a location for HIPNY's Management Information Services Department.

D. Abandoned Property

Section 1316 of the New York State Abandoned Property Law requires that certain unclaimed insurance proceeds be reported to the State of New York Comptrollers office by April 1st of each year. During the examiners' review of HIPNY's Abandoned Property procedures and filings with the New York State Comptrollers Office, several deficiencies were noted.

Pursuant to the provisions of Article VII and Section 1316 of the New York Abandoned Property Law:

- Insurance companies are required to file a preliminary report with the New York State Comptrollers Office, even where there is no Abandoned Property due. This report is due annually by April 1st.

The Plan did not address the preliminary filing requirement in its operational process and workflow.

- By the close of business on September 10th, the preliminary report including a new Verification and Checklist should be finalized, and payment must be received in the Office of Unclaimed Funds.

It is recommended that the Plan revise its operational process to provide accurate and detailed guidelines to ensure timely processing of its abandoned property, as well as its compliance with the laws and regulations of New York State.

It is also recommended that all of the Plan's operational process documents involving compliance issues be reviewed by the Legal Department to ensure complete and accurate interpretation of the laws and regulations of New York State.

E. Accounts and Records

During the course of the examination, it was noted that the Plan's treatment of certain items was not in accordance with statutory accounting principles or annual statement instructions. A description of such items is as follows:

1. General

The Plan's books and supporting records are processed and maintained on information systems shared with certain of its subsidiaries. The Plan uses an automated general ledger system. Trial balances were traced to the general ledger, adjusting entries and supporting documents as well as to the 2006 annual statement.

2. Information Technology

The Information Technology (“IT”) examination team performed a risk assessment and review of the Information Technology General Controls (“ITGC”) and General Application Controls (“GAC”) for the Plan. The Public Accounting Oversight Board (“PCAOB”) categorizes the ITGC objectives into four categories (i.e., Program Development, Program Changes, Computer Operations, and Access to Programs and Data), while Control Objectives for Information and Related Technology (“COBIT”) defines 34 high-level control objectives, categorized by four domains (i.e., Plan & Organize, Acquire & Implement, Deliver & Support, and Monitor & Evaluate), and includes a total of 318 control objectives.

The IT examination team’s methodology aligns PCAOB and COBIT control objectives with objectives defined in Exhibit C of the NAIC’s *Financial Condition Examiners Handbook*, (the “Handbook”). To test these objectives, the IT examination team developed tools and “dashboard” reports to identify the most significant IT risks facing the Plan. Specifically, the IT examination team performed the following procedures during the examination of the Plan:

- Reviewed all areas of the Information Technology (“IT”) environment. Procedures included performing a review of supporting evidence, and documenting linkage to Exhibit C, to ensure that the Information Technology environment is functioning adequately as intended by management.
- Performed the risk focused IT examination to meet the requirements of the NAIC, identified relevant “COBIT” key inherent risks, and mapped individual sections of Exhibit C to the COBIT framework.
- Completed, with appropriate financial team members, process narratives related to both ITGC and GAC.
- Performed walkthroughs as they relate to the ITGC listed below:
 - IT Governance,
 - Access to Programs and Data,
 - Program Development and Program Change,
 - Computer Operations.
- Assessed the design and operating effectiveness of ITGC and GAC.

The examiners mapped the COBIT risk assessment section to Exhibit C of the Handbook to ensure that all risks, whether Exhibit C or the COBIT standards, were considered by the examiners. The examiners identified the inherent risks, covered by the independent external auditors and/or the Internal Controls Standards and Procedures Department. The examiners compared the inherent risk identified in COBIT/Exhibit C to the work performed by the Plan or the external auditors to determine gaps (i.e., areas requiring further investigation) in coverage. Below are the more significant gaps in risk coverage identified by the examiners:

- The identity of users is authenticated to the system through passwords or other authentication mechanisms. Password use should incorporate policies as to periodic change, confidentiality and format (e.g., “strong” passwords regarding length, alphanumeric content, etc.). The Plan did not maintain documentation to validate the testing that password settings were appropriate and in compliance with corporate standards; therefore, the examiners could not rely on the testing performed. Note that SOX standards require that work be maintained and be re-testable by an independent third party.

The examiners also noted that two critical systems had not been reviewed/tested in 2006, but had been identified as critical by the Plan. However, given the vast number of critical systems identified and the fact that the Plan is not required to be SOX compliant, testing of these applications was moved to 2007. These applications were reviewed by the Plan in early 2007 and found to be adequate.

It is recommended that the Plan retain appropriate supporting documentation in future testing of IT related internal controls.

It is also recommended that all critical systems and applications be tested on an annual basis.

4. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and capital and surplus as determined by this examination and as reported by HIPNY as of December 31, 2006. This statement is the same as the balance sheet filed by HIPNY in its filed annual statement as of December 31, 2006:

	<u>Examination</u>	<u>Plan</u>
<u>Assets</u>		
Bonds	\$ 691,914,563	\$ 691,914,563
Preferred stocks	4,991,477	4,991,477
Common stocks	289,984,553	289,984,553
Property held for the production of income	81,482,988	81,482,988
Cash and short-term investments	315,006,761	315,006,761
Other invested assets	<u>23,317,042</u>	<u>23,317,042</u>
Subtotal, cash and invested assets	1,406,697,384	1,406,697,384
Investment income due and accrued	6,328,777	6,328,777
Uncollected premiums and agents' balances in course of collection	157,477,308	157,477,308
Amounts recoverable from reinsurances	189,996	189,996
Federal income tax recoverable and interest thereon	102,973	102,973
Electronic data processing equipment and software	11,313,420	11,313,420
Furniture and equipment, including health care delivery assets	25,627,365	25,627,365
Receivables from parent, subsidiaries and affiliates	18,113,948	18,113,948
Health care and other amounts receivables	<u>31,114,806</u>	<u>31,114,806</u>
Total assets	\$ <u>1,656,965,977</u>	\$ <u>1,656,965,977</u>

	<u>Examination</u>	<u>Plan</u>
<u>Liabilities</u>		
Claims unpaid	\$ 394,921,130	\$ 394,921,130
Accrued medical incentive pool and bonus amounts	24,437,540	24,437,540
Unpaid claims adjustment expenses	7,220,671	7,220,671
Aggregate health policy reserves	8,092,761	8,092,761
Premiums received in advance	16,375,411	16,375,411
General expenses due and accrued	175,321,665	175,321,665
Amounts withheld or retained for the account of others	47,244,657	47,244,657
Amounts due to parent, subsidiaries and affiliates	2,453,858	2,453,858
Payable for securities	28,776,863	28,776,863
Liability for amounts held under uninsured plans	23,319,656	23,319,656
Aggregate write-ins for other liabilities	<u>4,269,816</u>	<u>4,269,816</u>
Total liabilities	\$ <u>732,434,028</u>	\$ <u>732,434,028</u>
<u>Capital and surplus</u>		
Aggregate write-ins for special surplus funds	356,957,316	356,957,316
Unassigned funds	<u>567,574,633</u>	<u>567,574,633</u>
Total capital and surplus	<u>924,531,949</u>	<u>924,531,949</u>
Total liabilities, capital and surplus	\$ <u>1,656,965,977</u>	\$ <u>1,656,965,977</u>

Note: The Internal Revenue Service has completed its audits of the income tax returns filed on behalf of the Plan through tax year 2000. The examiner is unaware of any potential exposure of the Plan to any tax assessments and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Capital and surplus increased \$732,179,415 during the five-year examination period, January 1, 2002 through December 31, 2006, detailed as follows:

Revenue

Net premium income	\$ 16,314,112,520	
Change in unearned premiums and rate credit	<u>55,289,643</u>	
Total revenue		\$ 16,369,402,163

Expenses

Hospital/medical benefits	\$ 11,925,642,533	
Prescription drugs	960,540,675	
Aggregate write-ins for other medical and hospital	340,072,087	
Incentive pools, withhold adjustments and bonus		
Amounts	<u>82,964,497</u>	
Total medical and hospital expenses	\$ 13,309,219,792	
Claims adjustment expenses	292,851,165	
General administrative expenses	<u>1,745,646,249</u>	
Total underwriting expenses		<u>15,347,717,206</u>
Net underwriting gain		\$ 1,021,684,957
Net investment income		78,253,491
Net realized capital gains		2,842,877
Aggregate write-ins for other expenses		<u>(92,538,330)</u>
Net income before federal income taxes		\$ 1,010,242,995
Federal and foreign income taxes incurred		<u>331,648</u>
Net income		\$ <u>1,009,911,347</u>

Changes in Capital and Surplus

	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Capital and surplus, per report on examination, as of December 31, 2001			\$ 192,352,534
Net income	\$ 1,009,911,347		
Change in net unrealized capital gains		\$ 2,937,443	
Change in non-admitted assets		282,968,409	
Aggregate write-ins for gains or losses in surplus	5,245,431		
Cumulative effect of change in accounting principle	<u>2,928,489</u>	<u> </u>	
Net change in capital and surplus			<u>732,179,415</u>
Capital and surplus, per report on examination, as of December 31, 2006			\$ <u>924,531,949</u>

5. STATUTORY RESERVES

Section 4310(d) of the New York Insurance Law states in part:

“(1) Every such corporation shall maintain a reserve, designated as the statutory reserve fund, which shall from time to time during each calendar year be increased in an amount equal to at least one per centum of the net premium income of such corporation during such whole calendar year, provided however, that...

(2) the statutory reserve fund at the end of any calendar year shall not exceed twelve and one-half per centum of the net premium income of such calendar year...”

Pursuant to Section 4310(d) of the New York Insurance Law, HIPNY is required to maintain a statutory reserve fund that meets the minimum reserve requirements set forth above. For all five years of the examination period, HIPNY’s reported statutory reserves met such minimum reserve requirements.

6. CLAIMS UNPAID

The examination liability of \$394,921,130 for the above captioned account is the same as the amount reported by HIPNY in its 2006 filed annual statement.

The examination analysis of the claims unpaid reserve was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Plan's internal records and its filed annual statements as verified during the examination. The examination reserve was based upon actual payments made through a point in time, plus an estimate for claims remaining unpaid at that date. Such estimate was calculated based on actuarial principles, which utilized the Plan's past experience in projecting the ultimate cost of claims incurred on or prior to December 31, 2006.

7. CASH

Department Regulation No.164 - Security Deposits

The examiners found that the Plan failed to properly report funds held to satisfy the financial security deposit requirements of Section 101.5(b) of Department Regulation No. 164. "Demonstration of Financial Responsibility" as specified in the "2006 Data Requirements for Health Maintenance Organizations":

"Funds held by the reporting HMO, owed to a health care provider pursuant to a risk-sharing arrangement in satisfaction of the financial security deposit requirement of Regulation No. 164, Section 101.5(b), should be reported (on Page NY2) in the appropriate category of invested assets (e.g., cash). The HMO should establish a corresponding liability, which should be reported (on Page NY3) as write-in to Line 21 under the account title "Funds Held Per Regulation No. 164, Section 101.5(b)(3)."

Pursuant to Insurance Department Regulation No. 164 [11 NYCRR 101.5(b)(3)], financial security deposits in the form of funds held must be kept in individual accounts separate from all other funds. If the HMO is holding more than one such security deposit, they must be kept in different accounts, or in different, clearly identifiable sub-accounts of the same master account.

The HMO should itemize the accounts in the NAIC Annual Statement, Schedule E – Part 3 – Special Deposits. The total amount of such deposits in Schedule E – Part 3 should agree with the corresponding liability (on page NY3).”

It is recommended that the Plan properly record the existence of all financial security deposits as statutorily required by Section 101.5(b) of Department Regulation No. 164.

8. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

There were fifty-two (52) comments and recommendations from the prior financial report on examination as of December 31, 2001. They are repeated herein as follows (page numbers refer to the prior report):

<u>ITEM NO.</u>		<u>PAGE NO.</u>
	<u>Management and Controls</u>	
1.	It is recommended that the Plan abide by its By-Laws and maintain the prescribed number of members on its Board of Directors.	5
	<i>The Plan has complied with this recommendation.</i>	
2.	It is recommended that the Plan provide complete and accurate information in its filings with this Department, including filing a complete Jurat page that includes all required disclosures in accordance with Annual Statement Instructions.	8
	<i>The Plan has complied with this recommendation.</i>	
3.	HIP violated Section 4301(k)(1) of the New York Insurance Law by failing to maintain a fully constituted Board that included representation from the member hospitals or licensed medical professionals.	9
	It is recommended that HIP reconstitute its Board of Directors to include members that represent its provider base and that such reconstitution be implemented in accordance with the Board composition limits set forth in Article 4301(k)(1) of the New York Insurance Law.	
	<i>The Plan has complied with this recommendation.</i>	

ITEM NO.**PAGE NO.**Management and Controls (cont'd.)

4. HIP violated Section 4301(k)(1)(D) of the New York Insurance Law by failing to include representation from the member hospitals or licensed medical professionals on its Executive Committee. 10

It is recommended that HIP amend its By-Laws to re-establish the requirement that licensed medical professionals serve on its Executive Committee and that such membership be maintained in the proportion set forth in Section 4301(k)(1)(D) of the New York Insurance Law.

The Plan has complied with this recommendation.

5. It is recommended that the Plan abide by its By-Laws and respective committee charters by maintaining the prescribed number of committee members and holding the requisite number of meetings. 11

The Plan has complied with this recommendation.

6. Mr. Watson's membership on the Nominating Committee through 2001 is a violation of Section 4301(k)(1)(E) of the New York Insurance Law. 11-12

The practice of senior officers participating as members at meetings of the Audit, Nominating and Compensation Committees is inconsistent with the purpose of establishing and maintaining independent committees of the board, as expressed in the provisions of Section 4301(k)(1)(E) of the New York Insurance Law and should be discontinued.

It is recommended that the meetings of the Audit, Nominating and Compensation Committees be conducted exclusively by independent Board members, in accordance with the requirements of Section 4301(k)(1)(E) of the New York Insurance Law, with only committee members voting on matters before the committee. Attendance and participation at meetings by individuals that are not members of the committee, including senior company employees, will be limited to briefing the committee members.

The Plan has complied with this recommendation.

ITEM NO.**PAGE NO.**Management and Controls (cont'd.)

7. It is recommended that HIP take corrective action by developing a policy to evaluate whether Board and committee members who are unable or unwilling to attend meetings consistently should resign or be replaced. 13

The Plan has not complied with this recommendation. A similar recommendation is contained in this Report.

8. It is recommended that, in order for the Plan to make a truly informed decision regarding whether a conflict of interest may exist, the Plan obtain full disclosure from its employees, officers, and directors with respect to their outside business affiliations. 15

The Plan has complied with this recommendation.

9. It is recommended that HIP comply with its Conflict of Interest policy and have its COI forms distributed, completed and reviewed on an annual basis. 15

The Plan has complied with this recommendation.

Holding Company System

10. HIP violated Section 1505(d)(3) of the New York Insurance Law when it entered into transactions with various members of its holding company system that entailed the rendering of services on a regular or systematic basis without giving prior written notice to the superintendent. 20

It is recommended that, prior to entering into transactions involving the rendering of services on a regular or systematic basis with any member of its holding company system, HIP notify the Department of its intention in writing, pursuant to the provisions of Section 1505(d)(3) of the New York Insurance Law

The Plan has complied with this recommendation.

ITEM NO.**PAGE NO.**Holding Company System (cont'd.)

11. It is recommended that HIP amend its Agreement with HIP Foundation to specify all services that are being received and submit the amended Agreement to the Department for non-disapproval pursuant to Section 1505(d)(3) of the New York Insurance Law. 21

The Plan has complied with this recommendation.

12. It is recommended that HIP settle its inter-company balances in accordance with the terms outlined in its administrative agreements. 21

The Plan has complied with this recommendation.

13. Based upon the Department's analysis, HIP did not operate in compliance with Section 1505(d)(3) of the New York Insurance Law during the examination period since it did not notify the superintendent of its intention to receive services rendered by CLS on a regular or systematic basis. 22

It is recommended that HIP immediately file its agreement with CLS with the Department, pursuant to the provisions of Section 1505(d)(3) of the New York Insurance Law, for the Department's review and non-disapproval.

The Plan has complied with this recommendation.

14. In December 2003 HIP entered into a Settlement Agreement with the State of New Jersey. Under the terms of the Agreement, final settlement on behalf of all interested parties represented by HIP is \$29 million. 25

This comment was included in the prior report for informational purposes only. It is not a recommendation.

ITEM NO.**PAGE NO.**Significant Operating Ratios

15. The Plan's expense ratios exceeded the 12.5% limit prescribed by Section 4309(a)(2) of the New York Insurance Law during the years 1999 and 2001. Pursuant to instructions from the Department, HIP submitted a comprehensive Administrative Expense Reduction Plan on July 23, 1999, with subsequent updates submitted thereafter. As of December 31, 2002, HIP's expense ratio was within the 12.5% limit. 28

The Plan has complied with this recommendation.

Investment Activities

16. It is recommended that HIP's management abide by its fiduciary responsibilities and take a more active role in its oversight of the Plan's investment activities, and immediately implement procedures to conduct audits of its investments portfolio on a scheduled basis, at least annually. 30

The Plan has complied with this recommendation.

17. The Plan reported all bond investments held during the years 1999 and 2000 at fair market value, which was inconsistent with statutory accounting principles and accepted Department practices. 30-31

In 2001, pursuant to statutory accounting principles, HIP began reporting its bond investments at amortized cost. However, the Plan derived its amortized cost using the straight-line method of amortization, rather than the scientific interest method prescribed under Codification.

It is recommended that, for future filings with the Department, HIP report its bond investments using the prescribed amortization methodology.

The Plan has complied with this recommendation.

ITEM NO.**PAGE NO.**Investment Activities (cont'd.)

18. Based on the results of this examination, HIP's investment in JPMorgan's Prime Money Market Fund exceeded the prescribed investment limitation set forth in Section 1409(a) of the New York Insurance Law by \$31,852,198. Such excess investment is deemed by this examination to be a non-admitted asset at December 31, 2001. It is recommended that HIP comply with the statutory limitations set forth in Sections 1404(a)(10)(B)(i) and 1409(a) of the New York Insurance Law. 32-33

The Plan has complied with this recommendation.

Bonds/Notes Payable

19. HIP did not comply with the requirements of Section 1204(c) of the New York Insurance Law when HIP issued an additional \$10 million of Senior Notes in its debt offering and when it used a scheduled maturity date that differed from the date set forth in the approved agreement. 35

The Plan did not comply with Section 1204(c) of the New York Insurance Law by amending the terms of the original Notes Purchase Agreement on five occasions without obtaining the superintendent's prior approval. It is recommended that HIP abide by the terms outlined in the superintendent's approval letter when issuing notes subject to the provisions of Section 1204(c) of the New York Insurance Law.

The Plan has complied with this recommendation.

20. It is recommended that HIP file with the Department proposed amendments to previously approved agreements prior to enacting them. 35

The Plan has complied with this recommendation.

ITEM NO.**PAGE NO.**Provider/IPA Arrangements and Risk Sharing

21. HIP failed to comply with the Department of Health's instructions when it entered into transactions with providers under risk transfer agreements that were not filed with and approved by the Insurance Department. 36-38

HIP failed to comply with the provisions of Section 101.4(b) of Regulation No. 164 by not filing Report #10 for its Medical Groups.

Subsequent to the examination date, HIP commenced filing Report #10 for its Medical Groups in 2003.

It is recommended that HIP immediately take the necessary actions, where it has not already done so, to ensure its compliance with Department Regulation No. 164.

The Plan has complied with this recommendation. A different recommendation is contained in this Report related to Regulation No. 164.

Abandoned Property

22. HIP failed to comply with the provisions of Article VII and Section 1316 of the New York Abandoned Property Law by not making requisite filings in a timely manner. 39

It is recommended that the Plan make all its Abandoned Property publications and filings in accordance with the provisions set forth in the Abandoned Property Law.

The Plan has complied with this recommendation.

Accounts and Records

23. It is recommended that HIP take the appropriate steps to ensure that its records are maintained in a manner that supports the information filed in its financial statements, and that more efficient procedures for gathering information are implemented to expedite future examinations. 40

The Plan has complied with this recommendation.

ITEM NO.**PAGE NO.**Accounts and Records (cont'd.)

- | | | |
|-----|---|----|
| 24. | It is recommended that HIP tag all Furniture and Equipment that qualify for depreciation. | 41 |
| | <i>The Plan has complied with this recommendation.</i> | |
| 25. | It is recommended that HIP immediately expense and remove from its books for purposes of statutory filings, the remaining balance of any items comprising its Furniture and Equipment account that cannot be located, are no longer in use, or have exceeded their depreciable life term. | 41 |
| | <i>The Plan has complied with this recommendation.</i> | |
| 26. | It is recommended that HIP take into account each individual purchase of furniture or equipment's actual useful life when assigning the period over which the item will be depreciated. | 41 |
| | <i>The Plan has complied with this recommendation.</i> | |
| 27. | It is recommended that HIP perform audits of its inventory to ensure that the controls in place for recording, valuing and safeguarding its Furniture and Equipment are adequate. | 41 |
| | <i>The Plan has complied with this recommendation.</i> | |
| 28. | It is recommended that HIP review its basis for amortizing goodwill over a forty-year period, and make a determination as to whether utilizing a ten-year amortization period may be more appropriate. | 42 |
| | <i>The Plan has complied with this recommendation.</i> | |
| 29. | It is recommended that HIP immediately expense and remove from its books for purposes of statutory filings, the remaining balance of any items comprising this account that cannot be depreciated in accordance with Section 83.4(u) of Department Regulation No. 172. | 43 |
| | <i>The Plan has complied with this recommendation.</i> | |

ITEM NO.**PAGE NO.**Accounts and Records (cont'd.)

30. It is recommended that HIP establish clear guidelines to ensure that any additional purchase of Medical Group Equipment is depreciated in accordance with Section 83.4(u) of Department Regulation No. 172. 43
- The Plan has complied with this recommendation.*
31. It is recommended that HIP modify its inventory to incorporate an identical "Asset Id#" or other cross-referencing detail from the GE report to allow for better tracking of its Medical Group Equipment. 43
- The Plan has complied with this recommendation.*
32. It is recommended that HIP utilize the principles of Department Regulation No. 30 in the determination of its expense allocations included in the financial statements filed with this Department. 44
- The Plan has complied with this recommendation.*
33. It is recommended that the Plan exercise greater care in the compilation of its data for reporting purposes and comply with the annual statement instructions when preparing its filings with the Department. 44-45
- The Plan has complied with this recommendation.*

Statutory Reserves

34. As a result of this examination, the Plan's 2001 Statutory Reserves, required pursuant to Section 4310(d) of the New York Insurance Law, were determined to be impaired in the amount of \$53,004,971. At December 31, 2002, HIP's financial statements indicated that its required statutory reserves were fully restored. 50-51
- The Plan has complied with this recommendation.*

ITEM NO.**PAGE NO.**Electronic Data Processing Equipment and Software

35. It is recommended that HIP adhere to the annual statement instructions and report all EDP equipment and software on the line specifically set apart for the disclosure of such information. HIP should continue to non-admit any EDP non-operating software. 52

The Plan has complied with this recommendation.

36. It is recommended that HIP establish clear guidelines to ensure that all the items classified as EDP equipment hardware are properly categorized and recorded as admitted assets in accordance with Section 1301(a)(18) of the New York Insurance Law. 53

The Plan has complied with this recommendation.

37. It is recommended that HIP tag all EDP hardware equipment items that qualify for depreciation. 53

The Plan has complied with this recommendation.

38. It is recommended that HIP identify any items listed in its EDP hardware inventory that have either been inappropriately classified or cannot be located and, for purposes of statutory filings, immediately expense any remaining value. 53

The Plan has complied with this recommendation.

39. It is recommended that HIP develop and maintain a subsidiary ledger for this account and perform scheduled reconciliations between the data maintained by HIP's Information Systems Department and the subsidiary ledger maintained by HIP's Finance Department. 53

The Plan has complied with this recommendation.

40. It is recommended that HIP establish clear guidelines for depreciation so that each individual item's actual useful life is determined when assigning the period over which the item is to be depreciated. 53

The Plan has complied with this recommendation.

ITEM NO.**PAGE NO.**Electronic Data Processing Equipment and Software (cont'd.)

41. It is recommended that HIP perform audits of its inventory to ensure that the controls in place for recording, valuing and safeguarding its EDP equipment assets, admitted and nonadmitted, are adequate. 53

The Plan has complied with this recommendation.

Leasehold Improvements

42. It is recommended that HIP establish and maintain a master inventory that contains, at a minimum, pertinent information such as location, original capitalization date, historical cost information, accumulated depreciation and amortized value of each LHI. 55

The Plan has complied with this recommendation.

43. It is recommended that HIP account for each LHI's actual useful life when assigning the period over which the item will be amortized, not to exceed the remaining life of the original lease. 55

The Plan has complied with this recommendation.

44. It is recommended that, when system conversions are made, HIP refrain from combining the remaining balances of all LHI items onto a single asset line by location and then depreciating this combined balance over the remaining life of the respective lease. 56

The Plan has complied with this recommendation.

45. It is recommended that HIP immediately expense for purposes of statutory filings, any items listed in its current LHI inventory for which supporting documentation cannot be produced. 56

The Plan has complied with this recommendation.

ITEM NO.**PAGE NO.**Leasehold Improvements

46. It is recommended that HIP perform regularly scheduled reconciliations of the items contained in its inventory to ensure that items identified as LHI, and amortized accordingly, qualify for such treatment, and that items that fail to qualify, due to changes in their condition or ownership, be expensed. 56

The Plan has complied with this recommendation.

47. It is recommended that HIP utilize matching indices that enable it to track the leasehold improvement projects completed to the Capital Budget Reports presented to the Department. 57

The Plan has complied with this recommendation.

48. It is recommended that HIP refrain from soliciting construction bids or commencing any Leasehold Improvement projects without first obtaining the Department's requisite approval pursuant to the terms set forth in the Facility Agreement. 57

The Plan has complied with this recommendation.

Claims Reserves

49. It is recommended that HIP review its financial reporting procedures to ensure that claims liabilities are properly recorded. 59

The Plan has complied with this recommendation.

50. It is recommended that HIP prepare its annual statements in accordance with the NAIC Annual Statement Instructions for Health Companies. 59

The Plan has complied with this recommendation.

Unpaid Claims Adjustment Expenses

51. It is recommended that HIP review its methodology for determining its Unpaid Claims Adjustment Expenses. 61

The Plan has complied with this recommendation.

ITEM NO.**PAGE NO.****Record Retention**

52. HIP failed to comply with Section 243.3(c) of Department Regulation No. 152 by not maintaining a formal corporate-wide records retention plan. 62-63

Subsequent to the examination period, HIP established a formal Record Retention Policy in 2002.

It is recommended that HIP comply with the provisions set forth in Section 243.2 of Department Regulation No. 152 by maintaining the financial records necessary to verify its financial condition.

The Plan has complied with this recommendation.

9. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management and Controls</u>	
i. The Audit Committee should have members who have the appropriate background to provide oversight to the Plan's internal audit process.	8
ii. To maintain independence of the internal audit function, it is recommended that the SVP of Corporate Compliance and Internal Audit continue to report directly to the Audit Committee on audit matters.	8
iii. It is recommended that the composition of the Board of Directors comply with the requirements prescribed by Section 4301(k)(1) of the New York Insurance Law.	11
iv. It is again recommended that HIPNY take corrective action by developing a policy to evaluate whether Board members who are unable or unwilling to attend meetings consistently should resign or be replaced. Furthermore, in selecting prospective members, a key criterion should be their willingness and commitment to attend meetings and participate in the Board's responsibility to oversee the operations of the Plan.	12
v. It is recommended that the Plan ensure that the Audit Committee be comprised of at least one individual with a financial background.	14
vi. In addition, it is recommended that the Plan's Board of Directors meet more frequently when significant events and/or transactions are occurring. The Board of Director's review and involvement with major acquisitions should be clearly documented and should provide an independent assessment of the major assumptions made by management.	14
B. <u>Abandoned Property</u>	
i. It is recommended that the Plan revise its operational process to provide accurate and detailed guidelines to ensure timely processing of its abandoned property, as well as its compliance with the laws and regulations of New York State.	25

<u>ITEM</u>	<u>PAGE NO.</u>
B. <u>Abandoned Property (cont'd.)</u>	
ii. It is also recommended that all of the Plan's operational process documents involving compliance issues be reviewed by the Legal Department to ensure complete and accurate interpretation of the laws and regulations of New York State.	25
C. <u>Accounts and Records</u>	
i. It is recommended that the Plan retain appropriate supporting documentation in future testing of IT related internal controls.	27
ii. It is also recommended that all critical systems and applications be tested on an annual basis.	27
D. <u>Cash</u>	
It is recommended that the Plan properly record the existence of all financial security deposits as statutorily required by Section 101.5(b) of Department Regulation No.164.	33

Appointment No. 22548

STATE OF NEW YORK INSURANCE DEPARTMENT

I, Howard Mills, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

RSM McGladrey Inc.

as a proper person to examine into the affairs of the

Health Insurance Plan of Greater New York

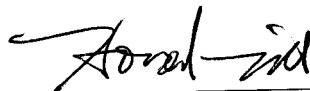
and to make a report to me in writing of the said

Company

with such information as it shall deem requisite.

In Witness Whereof, I have hereunto subscribed by the name and affixed the official Seal of this Department, at the City of New York.

this 22nd day of December 2006



Howard Mills
Superintendent of Insurance

