

REPORT ON EXAMINATION

OF THE

CATSKILL AREA SCHOOLS EMPLOYEES BENEFIT PLAN

AS OF

JUNE 30, 2007

DATE OF REPORT

NOVEMBER 4, 2009

EXAMINER

CHARLES J. McBURNIE

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

David A. Paterson
Governor

James J. Wrynn
Superintendent

November 4, 2009

Honorable James J. Wrynn
Superintendent of Insurance
Albany, NY 12257

Sir:

Pursuant to the requirements of the New York Insurance Law and acting in accordance with the instructions contained in Appointment Number 22771, dated September 18, 2008 and annexed hereto, I have made an examination into the condition and affairs of the Catskill Area Schools Employees Benefit Plan, a municipal cooperative health benefit plan licensed pursuant to the provisions of Article 47 of the New York Insurance Law, as of June 30, 2007, and submit the following report thereon.

The examination was conducted at the Plan's home office located at Robinson Terrace, Stamford, New York.

Whenever the designation, the "Plan" appears herein, without qualification, it should be understood to refer to Catskill Area Schools Employees Benefit Plan.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of June 30, 2003. This examination covers the four-year period from July 1, 2003 through June 30, 2007. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a verification of assets and liabilities as of June 30, 2007, in accordance with Statutory Accounting Principles (SAP), as adopted by the New York Insurance Department (Department), a review of income and disbursements deemed necessary to accomplish such verification and utilized, to the extent considered appropriate, work performed by the Plan's independent certified public accountants. A review or audit was also made of the following items as called for in the *Examiners Handbook of the National Association of Insurance Commissioners* (NAIC):

- History of Plan
- Management and controls
- Corporate records
- Fidelity bonds and other insurance
- Officers' and employees' welfare and pension plans
- Territory and plan of operation
- Growth of Plan
- Business in force
- Loss experience
- Accounts and records
- Treatment of policyholders and claimants

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

A review was also made to ascertain what action was taken by the Plan with regard to comments contained in the prior report on examination.

2. **EXECUTIVE SUMMARY**

The results of this examination revealed certain operational deficiencies that directly impacted the Plan's compliance with New York Insurance Laws and Regulations. Significant findings relative to this examination are as follows:

- The Plan did not comply with certain requirements of its municipal cooperative agreement.
- The Plan did not have proper safeguards for checks.
- The Plan's policy forms and riders were not approved for use by the Department prior to or during the examination period.
- The Plan did not adopt a claims procedural manual as required by Circular Letter No. 9 (1999).
- The Plan did not fully comply with the requirements of Article 49 of the New York Insurance Law with regard to its biannual submission of its Utilization Plan to the Superintendent.

The examination findings are described in greater detail in the remainder of this report.

3. DESCRIPTION OF PLAN

Catskill Board of Cooperative Educational Services (CBOCES) and its seventeen (17) original member school districts (participants) formed a Consortium, effective July 1, 1981. The purpose of the Consortium was to provide for the efficient and economic evaluation, processing, administration and payment of health benefits through self-insurance (the Plan). The Plan provides benefits to covered employees and their eligible dependents. On April 1, 2000, the Plan was issued a certificate of authority by the Superintendent of Insurance under Article 47 of the New York Insurance Law. Pursuant to such certificate of authority, the participants have agreed to share the costs and assume the liabilities for medical, surgical, prescription drugs, and hospital benefits provided to covered employees (including retirees) and their dependents.

There were nineteen (18) school districts and one Board of Cooperative Educational Services (BOCES) participating in the Plan as of June 30, 2007 as follows:

Andes Central School District	Margaretville Central School District
Charlotte Valley Central School District	Milford Central School District
Cherry Valley/Springfield Central School District	Morris Central School District
Cooperstown Central School District	Otsego-Northern Catskill –BOCES
Delhi Central School District	Roxbury Central School District
Edmeston Central School District	South Kortright Central School District
Gilboa/Conesville Central School District	Stamford Central School District

Hunter-Tannersville Central School District	Windham-Ashland-Jewett Central School District
Jefferson Central School District	Worcester Central School District
Laurens Central School District	

A. Management and Controls

Pursuant to the municipal cooperative agreement, management of the Plan is to be vested in the governing board (board of trustees or board), comprised of one representative from each participating school district, including BOCES. The governing board of the Plan as of June 30, 2007 was as follows:

<u>Name</u>	<u>Title and Municipality</u>
Benjamin Berliner	Superintendent, South Kortright Central School District
John Bernhardt	Superintendent, Andes Central School District
Jennifer Bolton-Carls	Superintendent, Otsego-Northern Catskill –BOCES
Craig Carr	Superintendent, Roxbury Central School District
Patrick Darfler-Sweeney	Superintendent, Hunter-Tannersville Central School District
Mark Dupra	Superintendent, Charlotte Valley Central School District
Peter Livshin	Superintendent, Milford Central School District
Mary Jo McPhail	Superintendent, Cooperstown Central School District

<u>Name</u>	<u>Title and Municipality</u>
Nicholas Savin	Superintendent, Cherry Valley/Springfield Central School District
John Mulholland	Superintendent, Delhi Central School District
Carl Mumenthey	Superintendent, Jefferson Central School District
John Riedl	Superintendent, Margaretville Central School District
David Rowley	Superintendent, Edmeston Central School District
Gregg Sanik	Superintendent, Stamford Central School District
Edmund Shults	Superintendent, Worcester Central School District
Annamarie Spadafora	Superintendent, Gilboa/Conesville Central School District
Michael Virgil	Superintendent, Morris Central School District
Romona Wenck	Superintendent, Laurens Central School District
John Witkorko	Superintendent, Windham-Ashland-Jewett Central School District

According to the municipal cooperative agreement, the governing board of the Plan is to meet at least once annually, at a site within the geographic area served by the Otsego-Northern Catskill-BOCES. The minutes of all meetings of the board of trustees were reviewed. Such meetings were generally well attended, however, it was noted that of the nineteen meetings held during the period under examination, two members of the board failed to attend at least one-half of those meetings. 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 decisions may be reached by the board.

It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.

Additionally, during the period under examination the Executive Committee held two meetings, however, it should be noted that the Plan was unable to provide the examiners with the minutes taken for these meetings. The Executive Committee plays a vital role in the operations of the Plan and should maintain the minutes of its meetings.

New York Insurance Department Regulation 152 (11 NYCRR 243.2(b)(2)) states:

“(b) Except as otherwise required by law or regulation, an insurer shall maintain:

(8) Any other record for six calendar years from its creation or until after the filing of a report on examination or the conclusion of an investigation in which the record was subject to review.”

It is recommended that the Plan’s Executive Committee maintain minutes of all meetings held in compliance with New York Insurance Department Regulation 152 (11 NYCRR 243.2(b)(2)).

The principal officers of the Plan as of June 30, 2007 were as follows:

<u>Officers</u>	<u>Title</u>
Jennifer Bolton-Carls	Chairperson
Ed Roche	Vice Chairperson
Patricia Wagner	Treasurer
Darleen Callahan	Coordinator of Health and Dental Insurance
Kathy Schmeidel	Secretary

B. Territory and Plan of Operation

The Plan provides health benefits in Otsego, Delaware, Schoharie and Greene counties within New York State. The Plan provides its members with medical and hospital coverage, prescription drug coverage and vision benefits. The Plan had annual written premiums of \$26,303,992 as June 30, 2007. There has not been any significant change in membership during or subsequent to the examination period. The Plan represented the same school districts during the examination period. The Plan's membership as of June 30, 2007 was 2,981.

C. Corporate Governance

Article 5-G of the New York General Municipal Law authorizes municipal corporations to enter into a municipal cooperative agreement for the performance of those functions or activities in which they could engage individually.

Article 47 of the New York Insurance Law specifically permits the establishing of municipal cooperative health benefit plans. Such plans are required pursuant to Section 4705 of the New York Insurance Law to be established and maintained under a municipal cooperative agreement. The municipal cooperative agreement and any amendment thereto shall be approved by each participating municipal corporation by majority vote of each such cooperative's governing body.

A review of the individual municipal cooperative agreements made between the Plan its member school districts revealed that said agreements were not signed, as required, by the President of the Board of Catskill Area Schools Employees Benefit Plan.

It is recommended that the President of the Board of Catskill Area Schools Employees Benefit Plan sign all of the municipal cooperative agreements with each of the Plan's participating school districts.

Section IV of the municipal cooperative agreement states:

“The Governing Board shall designate the Plan's attorney-in-fact to receive service of summons or other legal process in any action, suit or proceeding arising out of any contract, agreement or transaction involving the Plan. The attorney-in-fact shall be appointed at the annual meeting.”

A review of the minutes of the annual meetings for the period under examination revealed that there was no appointment of the Plan's attorney-in-fact at said meetings. The Plan's governing board, subsequent to the examination date, acted to appoint an attorney-in-fact.

It is recommended that the Plan comply with Section IV(A) of its municipal cooperative agreement and appoint an attorney-in-fact at its annual meeting. It is also recommended that the Plan include in the minutes of meetings of its annual meetings the appointment of its Plan's attorney-in-fact.

Section VI(A) of the municipal cooperation agreement states:

“The Board shall be the governing body and shall be composed of the Chief Executive Officer or other designated officer of each of the Plan's participating districts of municipalities, and is to be selected by each participant annually and notification sent to the Chairperson.”

It should be noted that the Plan was unable to provide the examiners with the notification of each participating school district's representative to the Plan's governing board as required by Section VI(A) of the Plan's municipal cooperative agreement.

It is recommended that the Plan obtain the notification of each participating school district's representative to the Plan's governing board as required by Section VI(A) of the Plan's municipal cooperative agreement.

Section VI(I) of the municipal cooperation agreement states:

“All monies (joint funds and reserve funds) paid by the participants to the Chief Fiscal Officer shall be deposited in one or more of the following banks, to wit: National Bank and Trust Company of Norwich, Wilbur National Bank, National Bank of Stamford, and such other banks as the Board may authorize, subject to the provisions of law governing the deposit of municipal funds.”

A review of the bank accounts revealed that two of the banks which the Plan uses as depository banks were not authorized by the board of trustees of the Plan.

It is recommended that the Plan adhere to Section VI(I) of its municipal cooperative agreement and use depository banks that are authorized by its board of trustees.

D. Administrative Services Agreements

The Plan entered into contractual agreements with the following vendors to provide various administrative services to the Plan:

1. Risk Management Service Company, Inc. (RMSCO)

RMSCO is the general manager and Comptroller of the Plan. As the Plan's general manager, RMSCO defines a strategic plan of action for the future of the Plan. RMSCO acts as the claims processor of the Plan's automated claims.

RMSCO ensures accurate and prompt payment of claims, meets with the Plan's board of trustees as deemed necessary to conduct the business of the Plan, provides mandated reports and documentation to regulators and others as required, keeps the Plan's participants informed of benefit issues, assists in the review and revision of plan benefit structure and design, provides a computerized on-line system for developing and maintaining comprehensive employee benefit records, provides third-party claims processing services relative to the payment of claims and provides the Plan with access to its provider network.

2. Medco Health Solutions, Inc. (Medco)

Medco provides a prescription drug plan for eligible covered persons of the Plan. This includes a nationwide network of retail and mail service pharmacies, remote electronic claims adjudication and processing system for adjudicating and processing pharmacy claims. Medco also provides a drug utilization review service of which the cost effectiveness, interaction and resulting therapeutic effect of various drugs are reviewed and monitored electronically. Finally, Medco provides a prescription drug benefit management service for designing and managing prescription drug benefit plans.

3. KBM Management, Inc. (KBM)

KBM provides consulting services to the Plan's trustees as required on matters regarding negotiations with employee groups. KBM also provides actuarial services and assists in obtaining alternative markets for stop-loss coverage as well as reviews and investigates claims which affect stop-loss coverage. Further, KBM assists in the negotiations of administrative agreements of the Plan.

4. D'Arcangelo & CO LLP

D'Arcangelo & CO LLP provides accounting services to the Plan.

5. Corporate Care Management

Corporate Care Management (Corporate Care) provides utilization review services to the Plan and its members in accordance with the Plan's utilization review program. Such services include prospective case identification services (including pre-certification services), case management services, high cost claim reviews and retrospective claim reviews (including reviews of appeals).

E. Stop-Loss Insurance

As required by Section 4707 of the New York Insurance Law, the Plan maintains both specific excess stop-loss coverage and aggregate excess stop-loss coverage. The reinsurers, Utica National and Trust Mark are authorized insurers of New York State. Both agreements contain the insolvency clause prescribed by Section 1308(a)(2)(A)(i) of the New York Insurance Law. The following is a summary of the Plan's reinsurance program as of June 30, 2007:

Specific excess stop-loss coverage

Excess of loss	100% of \$800,000 excess of \$200,000 per member, per contract year.
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Aggregate excess stop-loss coverage

Excess of loss	100% of \$800,000 excess of \$200,000 after 125% of expected benefits have been reached.
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F. Cash and Cash Equivalents

The following is the Plan's procedure when checks for payment of premiums are received:

1. Checks received from the school districts for payment of premiums are forwarded to the payroll clerk, who records the check information on an Excel spreadsheet and then date stamps said checks. It should be noted that this procedure may not be done on the same day said checks are received.
2. The payroll clerk then forwards the checks to the senior account clerk who reconciles these checks to the appropriate school district premium billings. If the checks are not reconciled the same day, these checks remain on the senior account clerk's desk until the next day or until the senior account clerk can reconcile them.
3. The senior account clerk returns the premium checks back to the payroll clerk who deposits the checks into the Plan's bank account.

It should be noted that the Plan does not keep an audit trail which indicates when the checks were received and when the checks pass from one department to another.

It is recommended that the Plan date stamp the checks when received, instead of initially forwarding them to the payroll department.

It is also recommended that the Plan maintains checks received in a secure place.

Further, it is recommended that the Plan maintain an audit trail for checks that pass from one department to another during the period to indicate when such checks are received and ultimately deposited in the Plan's designated bank.

G. Custodial Agreements

The Plan maintains custodial agreements with The Bank of New York and JPMorgan Chase Bank. A review of the agreements found that both agreements did not contain the safeguards recommended by the Department. The missing safeguards were as follows:

1. The bank shall have in force Bankers Blanket Bond Insurance.
2. The bank will, at all times, give the securities held by the bank there under, the same care the bank gives its own property of a similar nature.
3. The bank shall furnish the insurer with a list of such securities showing a complete description of each issue.
4. The bank shall maintain records sufficient to verify information insurers are required to report in the Annual Statement blanks of the Insurance Department of the State of New York.
5. The bank shall furnish the insurer with the appropriate affidavits in the form as may be acceptable to the bank and to the New York Insurance Department in order for the securities referred to in such affidavits to be recognized as admitted assets of the insurer.
6. Access shall be during the Bank's regular hours and specifying those persons who shall be entitled to examine on the Bank's premises securities held by the bank and the bank's records regarding securities held, but only upon furnishing the bank with written instructions to that effect from any specified authorized officer.
7. Written instructions hereunder shall be signed by any two of the authorized officers specified in a separate list for this purpose which will be furnished to

the bank from time to time signed by the treasurer or an assistant and certified under corporate seal by the secretary or an assistant secretary.

8. In connection with any situation involving registration of securities in the name of a nominee bank of a bank custodian, the custodian agreement should empower the bank to take such action.
9. The agreement should have a provision that would give the insurer the opportunity to secure the most recent report on the review of the custodian's system of internal controls, pertaining to custodian record keeping, issued by internal control (and/or), pertaining to custodian record keeping, issued by internal or independent auditors.

It is recommended that the Plan amend its custodian agreements to include the above protective covenants and provisions as set forth in the Department's guidelines.

H. Accounts and Records

The Plan's annual statements during the four-year period under examination did not reflect an accurate reconciliation of its incurred claims account. Such inaccuracy caused the Plan's underwriting and investment exhibit and reconciliation of surplus, for each year under examination, to be incorrectly reported.

The examiner reconstructed the incurred claims, income and expenses of the Plan's annual statements for each year under the examination period.

It is recommended that the Plan maintain and report accurate financial data within its annual statement filed with this Department.

4. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and capital and surplus as determined by this examination with those reported by the Plan as of June 30, 2007. This statement is the same as the balance sheet filed by the Plan in its filed annual statement as of June 30, 2007:

	<u>Examination</u>	<u>Plan</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 2,798,926	\$ 2,798,926
Short-term investments	9,641,817	9,641,817
Pre-paid assets	<u>47,392</u>	<u>47,392</u>
Total assets	\$ <u>12,488,135</u>	\$ <u>12,488,135</u>
<u>Liabilities</u>		
Accounts payable	\$ 3,754	\$ 3,754
Claims unpaid	4,143,315	4,143,315
Unearned premiums	184,129	184,129
Accrued liabilities-flex	121,488	121,488
Due to ONC-BOCES	<u>24,512</u>	<u>24,512</u>
Total liabilities	\$ <u>4,477,198</u>	\$ <u>4,477,198</u>
<u>Capital and Surplus</u>		
Contingency reserves	1,315,985	1,315,985
Retained earnings/fund balance	<u>6,694,952</u>	<u>6,694,952</u>
Total capital and surplus	<u>8,010,937</u>	<u>8,010,937</u>
Total liabilities and capital and surplus	\$ <u>12,488,135</u>	\$ <u>12,488,135</u>

B. Statement of Revenue, Expenses and Capital and Surplus

Capital and surplus increased \$7,119,860 during the four-year examination period, July 1, 2003 through June 30, 2007, detailed as follows:

Revenue

Premiums	\$ 91,706,182	
Investment income	663,302	
Miscellaneous revenue stop-loss claims	<u>725,900</u>	
Total revenue		\$ 93,095,384

Hospital and medical expenses

Hospital and medical	\$ 56,350,604	
Prescription drugs	24,481,517	
Reinsurance expenses net of recoveries	243,265	
Liability insurance	636,347	
Public goods pool	<u>2,401,445</u>	
Total hospital and medical expenses	\$ 84,113,178	

Administrative expenses

Attorney audit fees	43,432	
Claims negotiation/TPA	989,437	
Claims adjustment expenses	616,404	
Miscellaneous consultation fees	195,323	
General expenses	<u>17,750</u>	
Total underwriting expenses		<u>85,975,524</u>
Net income		\$ <u>7,119,860</u>

Changes in Capital and Surplus

Capital and surplus per report on examination, as of June 30, 2003			\$ 891,077
	<u>Gain in Surplus</u>	<u>Losses in Surplus</u>	
Net income	<u>\$7,119,860</u>	<u>\$ 0</u>	
Net increase in capital and surplus			<u>7,119,860</u>
Capital and surplus, per report on examination, as of June 30, 2007			<u>\$ 8,010,937</u>

5. CLAIMS UNPAID

The examination liability of \$4,143,315, for the above captioned account, is the same as the amount reported by the Plan in its filed annual statement as of June 30, 2007.

The Plan's liability for claims unpaid was established in compliance with Section 4706(a)(1) of the New York Insurance Law. The Plan received permission from this Department to reduce the required minimum amount of unpaid claims reserve from 25% of total expenses to 17% of total expenses starting with the quarter ending June 30, 2006.

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 in 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 experience in projecting the ultimate cost of claims incurred on or prior to December 31, 2007.

6. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Plan conducts its business practices and fulfills its contractual obligations to its subscribers and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market conduct examination.

The general review was directed at practices of the Plan in the following major areas:

- A. Claims processing
- B. Complaints and grievances
- C. Utilization review
- D. Policy forms

A. Claims Processing

A review of claims adjudicated by the Plan was performed by using a statistical sampling methodology covering claims processed during the period of July 1, 2006 through June 30, 2007, in order to evaluate the overall accuracy and compliance of the Plan's claims processing environment. The examiner selected a sample of 167 claims for review.

This statistical random sampling process, which was performed using the computer software program, ACL, was devised to test various attributes deemed necessary for successful claims processing activity. The objective to this sampling process was to be able to test and reach conclusions about all predetermined attributes, individually, or on a combined basis. For example, if ten attributes were being tested, conclusions about each attribute individually, or on a collective basis, could be made for each claim in the sample.

The review also incorporated processing attributes used by the Plan's third-party claims administrator, in its own "Quality Analysis" of claims processing.

The review indicated that two claims were processed incorrectly, according to the criteria used by both the Plan and the examiners.

During the examination period, it was noted that the Plan converted its computer system in order to be able to process claims on RMSCO's (its claims TPA) claims

system. The transition to RMSCO was to begin on November 1, 2006; however, the Plan did not start processing any claims on RMSCO's claims system until December 26, 2006. During this period, claims were held up due to processor training and also with regard to other issues within RMSCO's claims system. The Plan went fully live the second week of January 2007, by activating the auto-adjudication feature. Claims were then allowed to process automatically without processor intervention. Due to the inability of the Plan to fully go live before January 2007, the Plan experienced a seven week backlog of paper claims which totaled approximately 8,400 claims.

These claims were processed by Catskill Area Schools Employee Benefit Plan's claim processors. All claims that could be scanned and converted to electronic claim status were sent to RMSCO for handling via RMSCO's auto adjudication claim system. The Plan was able to maintain current claims while the back log was being handled. The backlog was completed by end of February 2007. There were still delays in mailing out the EOBs and checks, due to the manual review of each EOB. As a result, the claims process was delayed during this period.

Having two claims processing systems during the conversion period also resulted in some claims payment duplication. The Plan was able to identify said claims from an audit report and has taken steps to request refunds of such duplicate payments.

It is recommended that the Plan take the necessary steps to incorporate adequate controls and review procedures with regard to its claims adjudication process in order to avoid duplicate payment of claims.

B. Complaints and Grievances

New York Insurance Department Circular Letter No. 11 (1978) states the following:

“As part of its complaint handling function, the company's consumer services department will maintain an ongoing central log to register and monitor all complaint activity.”

It was determined that Catskill Area Schools Employees Benefit Plan did not maintain an ongoing central log as part of its complaint handling function.

It is recommended that the Plan, as a good business practice, maintain a complaint log in a manner consistent with New York Insurance Department Circular Letter No. 11 (1978).

Upon review, it was determined that the Plan did not maintain a file on each grievance and associated appeal. Such file should have included the date the grievance was filed, a copy of the grievance, the date of receipt and a copy of the Plan's acknowledgement of the grievance, the determination made by the Plan, including the date of the determination, and the titles and, in the case of a clinical determination, the credentials of the Plan's personnel who reviewed the grievance.

It is recommended that the Plan, as a good business practice, maintain a complete file relative to all grievances and associated appeals received by the Plan.

C. Policy Forms

Section 4710(a)(1) of the New York Insurance Law states:

“(a) The governing board of the municipal cooperative health benefit plan shall:

(1) file for approval with the superintendent a description of material changes in any information provided in the application for certificate of authority in the form and manner prescribed by the superintendent;”

Catskill Area Schools Employees Benefit Plan failed to submit its new policy forms or revisions of existing policy forms to the superintendent for approval. Although the Plan included such new and revised forms and riders within its filed annual statements for the period under examination, such practice does not constitute compliance with Section 4710(a)(1) of the New York Insurance Law.

When this (incorrect) practice was brought to the Plan's attention, the Plan submitted all of its new and currently used policy forms and riders to the Superintendent for approval.

It is recommended that the Plan comply with Section 4710(a)(1) of the New York Insurance Law and submit all new or revised policy forms to the Superintendent of Insurance for approval.

D. Utilization Review (UR)

Catskill Area Schools Employees Benefit Plan contracted with Corporate Care Management (a third-party administrator) as its utilization review agent. It should be noted that because Corporate Care Management does not have its own utilization review program, it used the utilization review program developed by the Plan, which was originally filed with the New York Insurance Department.

Section 4901(a) of the New York Insurance Law states:

“Every utilization review agent shall biennially report to the superintendent of insurance, in a statement subscribed and affirmed as true under the penalties of perjury, the information required pursuant to subsection (b) of this section.”

The Plan originally filed its utilization review program with the New York Insurance Department as required, however, subsequent to the initial filing, the Plan failed to report on a biennial basis to the Superintendent of Insurance as required by Section 4901(a) of the New York Insurance Law.

It is recommended that the Plan file its utilization review program with the Superintendent of Insurance, as required by Section 4901(a) of the New York Insurance Law.

7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report contained eleven (11) comments and recommendations detailed as follows (page numbers refer to the prior report):

<u>ITEM NO.</u>		<u>PAGE NO.</u>
	<u>Retained Earnings/Fund Balance</u>	
1.	The Plan's Retained Earnings/Fund Balance as reported in the June 30, 2003 filed annual statement was impaired in the amount of \$13,894. In the recently filed March 31, 2004 quarterly statement, the Plan reported its Retained Earnings/Fund Balance at \$612,278. The Plan's Retained Earnings/Fund Balance is no longer impaired as of June 30, 2007.	2, 7, 10
	<u>Accounts and Records</u>	
2.	It is recommended that the Plan's financial activities be separately recorded from those of ONC BOCES. The Plan has complied with this recommendation.	10
	<u>Annual and Quarterly Statement Preparation</u>	
3.	It is recommended that the Plan report its claims on an incurred rather than a paid basis in compliance with the annual and quarterly statement instructions. The Plan has complied with this recommendation.	11
4.	It is recommended that the Plan complete NY Schedule F – Claims Payable Analysis using claims payable reported on line 2 of Report # 1 – Part B: Liabilities and Net Worth for both the current and prior year. The Plan has complied with this recommendation.	11
5.	It is recommended that the Plan refrain from reporting different balances in the prior year column from those amounts reported in the current year column in the prior years' filed annual statements. The Plan has complied with this recommendation.	12

ITEM NO.**PAGE NO.**

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|---|---|-------|
| 6. | It is recommended that all filed annual and quarterly statements be signed by the Plan's President, Secretary, and Chief Financial Officer and that all filed annual and quarterly statements be properly notarized

The Plan has complied with this recommendation. | 12 |
| 7. | It is recommended that the Plan's board of governors comply with the provisions of Section 4710(a)(2) and Section 4710(a)(3) of the New York Insurance Law and review the Plan's annual and quarterly statements prior to their submission to the Superintendent of Insurance.

The Plan has complied with this recommendation. | 13 |
| 8. | It is recommended that the Plan file its quarterly statements on a timely basis.

The Plan has complied with this recommendation. | 14 |
| 9. | It is recommended that the Plan institute adequate staffing in its financial section.

The Plan has complied with this recommendation. | 14 |
| 10. | It is recommended that the responsibilities of the Chief Financial Officer be delineated.

The Plan has complied with this recommendation. | 14 |
| <u>Explanation of Benefits Statements</u> | | |
| 11. | It is recommended that the Company issue EOBs that include all of the requisite information required by Section 3234(a) and (b) of the New York Insurance Law.

The Plan has complied with this recommendation. | 15-17 |

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM.</u>	<u>PAGE NO.</u>
A. <u>Management and Controls</u>	
i. It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	7
ii. It is recommended that the Plan's Executive Committee maintain minutes of all meetings held in compliance with New York Insurance Department Regulation 152 (11 NYCRR 243.2(b)(2)).	7
B. <u>Corporate Governance</u>	
i. It is recommended that the President of the Board of Catskill Area Schools Employees Benefit Plan sign all of the municipal cooperative agreements with each of the Plan's participating school districts.	9
ii. It is recommended that the Plan comply with Section IV(A) of its municipal cooperative agreement and appoint an attorney-in-fact at its annual meeting. It is also recommended that the Plan include in the minutes of meetings of its annual meetings the appointment of its Plan's attorney-in-fact.	10
iii. It is recommended that the Plan obtain the notification of each participating school district's representative to the Plan's governing board as required by Section VI(A) of the Plan's municipal cooperative agreement.	10
iv. It is recommended that the Plan adhere to Section VI(I) of its municipal cooperative agreement and use depository banks that are authorized by its board of trustees.	10
C. <u>Cash and Cash Equivalents</u>	
i. It is recommended that the Plan date stamp the checks when received, instead of initially forwarding them to the payroll department.	13
ii. It is also recommended that the Plan maintains checks received in a secure place.	13

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<ul style="list-style-type: none"> iii. Further, it is recommended that the Plan maintain an audit trail for checks that pass from one department to another during the period when such checks are received and ultimately deposited in the Plan's designated bank. 	14
<p>D. <u>Custodial Agreements</u></p> <p>It is recommended that the Plan amend its custodian agreements to include the above protective covenants and provisions as set forth in the Department's guidelines.</p>	15
<p>E. <u>Accounts and Records</u></p> <p>It is recommended that the Plan maintain and report accurate financial data within its filed annual statement.</p>	15
<p>F. <u>Claims Processing</u></p> <p>It is recommended that the Plan take the necessary steps to incorporate adequate controls and review procedures with regard to its claims adjudication process in order to avoid duplicate payment of claims.</p>	21
<p>G. <u>Complaints and Grievances</u></p> <ul style="list-style-type: none"> i. It is recommended that the Plan maintain, as a good business practice, a complaint log in a manner consistent with New York Insurance Department Circular Letter No. 11 (1978). ii. It is recommended that the Plan, as a good business practice, maintain a complete file relative to all grievances and associated appeals received by the Plan. 	22 23
<p>H. <u>Policy Forms</u></p> <p>It is recommended that the Plan comply with Section 4710(a)(1) of the New York Insurance Law and submit all new or revised policy forms to the Superintendent of Insurance for approval.</p>	24
<p>I. <u>Utilization Review</u></p> <p>It is recommended that the Plan file its utilization review program with the Superintendent of Insurance, as required by Section 4901(a) of the New York Insurance Law.</p>	25

Appointment No. 22771

**STATE OF NEW YORK
INSURANCE DEPARTMENT**

I, **Eric R. Dinallo**, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

Charles McBurnie

as a proper person to examine into the affairs of the
Catskill Area Schools Employees Benefit Plan

and to make a report to me in writing of the said
Municipal Cooperative Health Benefit Plan

with such information as he 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 18th day of September 2008



Eric R. Dinallo
Superintendent of Insurance

