

REPORT ON ORGANIZATION
OF THE
ALLEGANY-CATTARAUGUS SCHOOLS
MEDICAL HEALTH PLAN
AS OF
MARCH 31, 2001

DATE OF REPORT

SEPTEMBER 18, 2001

EXAMINER

BRUCE BOROFSKY

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

September 18, 2001

Honorable Gregory Serio
Superintendent of Insurance
Albany, NY 12257

Sir:

Pursuant to instructions contained in Appointment Number 21763 dated August 6, 2001, and attached hereto, I have made an examination "on organization" of Allegany-Cattaraugus Schools Medical Health Plan and the following report thereon is respectfully submitted.

Whenever the term, the "Plan" appears herein without qualification, it should be understood to refer to Allegany-Cattaraugus Schools Medical Health Plan.

1. ORGANIZATION

The Board of Cooperative Educational Services Sole Supervisory District of Cattaraugus, Allegany, Erie and Wyoming Counties (BOCES) and its twenty-two member school districts (plan members) formed a Consortium, effective February 2, 1982. 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, retirees and their eligible dependents as defined in the plan booklet.

The Plan has applied to the Superintendent for a Certificate of Authority pursuant to Article 47 of the Insurance Law.

Prior to the enactment of Article 47 of the New York Insurance Law, the Plan was governed by the Education law, Article 5G Section 119-0 of the General Municipal Law, and subject to the rules of collective bargaining agreements. The Plan has not registered with the Secretary of State.

There are currently 23 school districts participating in the Plan. The Plan participants are as follows:

| | |
|--------------------------------------|--------------------------------|
| Allegany-Limestone Central SD | Hinsdale Central SD |
| Andover Central SD | Olean City SD |
| Belfast Central SD | Pioneer Central SD |
| Bolivar-Richburg Central SD | Portville Central SD |
| Cattaraugus-Allegany BOCES | Randolph Academy Union Free SD |
| Cattaraugus-Little Valley Central SD | Randolph Central SD |
| Cuba-Rushford Central SD | Salamanca City SD |
| Ellicottville Central SD | Scio Central SD |
| Fillmore Central SD | Wellsville Central SD |
| Franklinville Central SD | West Valley Central SD |

Friendship Central SD
Genesee Valley Central SD

Whitesville Central SD

The principal officers and the governing board of the Cooperative as of March 31, 2001 are as follows:

| <u>Officers</u> | <u>Title</u> |
|------------------|-------------------------|
| Richard Wachter | President |
| Vacant | Secretary |
| Thomas C. Potter | Chief Financial Officer |

Subsequent to the examination, Stephen Bocciohatt was appointed to fill the vacant position of Secretary.

Governing Board

| <u>Name</u> | <u>Municipality</u> |
|-------------------|--------------------------------------|
| Stephen Troskosky | Allegany-Limestone Central SD |
| Thomas Barry | Andover Central SD |
| Daniel McCarthy | Belfast Central SD |
| Robert Mountain | Bolivar-Richburg Central SD |
| Thomas Nickler | Cattaraugus-Allegany BOCES |
| Louis McIntosh | Cattaraugus-Little Valley Central SD |
| Edward Ahrens | Cuba-Rushford Central SD |
| Michael LaFever | Ellicottville Central SD |
| David Hanks | Fillmore Central SD |
| Richard Wachter | Franklinville Central SD |
| Charles Tyo | Friendship Central SD |
| Douglas Larison | Genesee Valley Central SD |
| Dennis Senn | Hinsdale Central SD |
| Ralph Kerr | Olean City SD |
| David Kurzawa | Pioneer Central SD |

| <u>Name</u> | <u>Municipality</u> |
|--------------------|--------------------------------|
| Stephen Day | Portville Central SD |
| John Hogan | Randolph Academy Union Free SD |
| Stephen Bocciolatt | Randolph Central SD |
| Mark Ward | Salamanca City SD |
| Michael McArdle | Scio Central SD |
| Byron Chandler | Wellsville Central SD |
| Charles Rinaldi | West Valley Central SD |
| Charles Cutler | Whitesville Central SD |

The Plan provides health benefits in Cattaraugus, Allegany, Erie and Wyoming Counties.

Mr. Thomas Potter, the Chief Financial Officer, is covered by a fidelity bond with a minimum value of \$1,000,000.

A review of the Board of Director minutes revealed that all meetings were well-attended.

2. SCOPE OF EXAMINATION

The examination was conducted at the Plan's offices located at 1825 Windfall Road, Olean, NY 14760.

The examination comprised a verification of the assets and liabilities of the Plan as of March 31, 2001. A review was also made of the following items:

Plan Documents

Financial Documents

Service Provider Contract

Board of Director meeting minutes

The Plan purchased a hospital (only) insurance policy from Blue Cross and Blue Shield of Western New York. North American Administrators, Inc (NAA) processes the Plan's medical and prescription drug claims. The Plan utilizes no other third party administrators.

Administration for the Plan is provided by Cattaraugus-Allegany BOCES, one of the Plan's members. The expenses for such administration is provided as a percentage of premiums received.

An affidavit, appended hereto, was obtained from the Chairman of the Plan indicating that the transactions noted in this report were bona fide.

3. BALANCE SHEET

The following balance sheet sets forth the Plan's financial condition as of March 31, 2001, as determined by this examination:

| | | |
|---------------------------------|--------------|--------------|
| <u>Assets</u> | | |
| Cash and cash equivalents | \$ 7,619,389 | |
| Premiums receivable | 594,934 | |
| Total assets | \$ 8,214,323 | \$ 8,214,323 |
| <u>Liabilities</u> | | |
| Accounts payable | \$ 500,666 | |
| Claims payable | 5,075,583 | |
| Unearned premiums | 254,209 | |
| Total liabilities | \$ 5,830,458 | |
| <u>Net Worth</u> | | |
| Contingency reserves | \$ 1,015,117 | |
| Retained earnings/Fund balance | 1,368,748 | |
| Total net worth | \$ 2,383,865 | |
| Total liabilities and net worth | | \$ 8,214,323 |

At the examination date, \$6,550,000 of the Plan's cash was held in two accounts as Certificates of Deposit, under the name of a separate corporation, Cattaraugus Allegany BOCES. The institutions involved were Chase Bank and First Tier Bank and Trust. The remainder of the Plan's cash was in a segregated account held by Fleet Bank. Upon the maturity of the certificates of deposit, the relevant funds were transferred to the segregated Fleet account. The maintenance of funds in an account under the name of Cattaraugus Allegany BOCES was a violation of New York Insurance Law §4706(b), which requires that Plan funds be deposited in separate segregated accounts.

As of the report date, one of the Plan's members had a Premium Receivable balance due in excess of ninety days. Subsequent to the examination, during August 2001, the delinquent premiums were paid.

The Municipal Cooperation Agreement states the following:

“A late payment charge equal to 1% of the monthly installment due shall be charged for any payment not received by the 15th day of each month, or the next business day if the 15th falls on a Saturday, Sunday or legal holiday. If payment is not received within thirty (30) days of the due date, a late payment charge equal to five percent (5%) of the monthly installment due shall be charged. If payment is not received within ninety (90) days of the due date, the Participant's membership in the Plan will be automatically terminated unless the Board of Directors finds good cause for the delay...”

It is noted that, when the delinquent premiums were paid, no interest penalty was applied, or collected, in violation of the Municipal Cooperation Agreement. Additionally, the minutes of the Board of Directors do not show that any discussion was held in regard to the termination of the delinquent member's participation.

The Plan does not accurately complete its Quarterly Claims Development Schedule in that it does not maintain an accurate record of amounts paid for claims incurred prior to the beginning of the current fiscal year. Instead, it reduces the total amount it has paid year-to-date for claims by the amount of the previous year's unpaid claims reserve. The difference between the two numbers is recorded as the amount paid for claims incurred during the current fiscal year. When the reserve for unpaid claims has been met, all further dollars are applied to claims incurred during the current year.

This practice makes it difficult to determine the accuracy of the Plan's Unpaid Claims Reserve.

The Plan has applied for a waiver of stop-loss coverage as permitted by §4707(b) of the New York Insurance Law.

It is recommended that the Plan maintain its cash reserves in a segregated account in its own name.

It is recommended that the Plan require the delinquent member to pay late fees accrued as a result of the member's failure to pay premiums on a timely basis.

It is recommended that the Plan consistently charges and collects interest for late premiums, as required by the Municipal Cooperation Agreement.

It is recommended that members whose premiums are overdue greater than ninety days be automatically terminated from the Plan unless the Board of Directors finds good reason for the delay, as required by the Municipal Cooperation Agreement.

It is recommended that the Plan accurately report its Quarterly Claims Development Schedule.

4. CLAIMS SETTLEMENT AND GRIEVANCES

The Plan has contracted with NAA Inc. to process medical and prescription drug claims. Blue Cross & Blue Shield of New Western New York processes hospital claims, which are fully insured.

The Plan receives contributions from its plan members on behalf of the covered employees, retirees and dependents. This contribution is based on employee classification (single or family) multiplied by a predetermined rate per month, such rate being determined by an actuarial consultant. All contributions are deposited into a single cash account at Fleet Bank.

The Plan's agreement with NAA requires the administrator to retain claim records for two years. This is less than the six years required. The Plan is in violation of Section 243.2(b) of Department Regulation 152, which states the following:

"Except as otherwise required by law or regulation, an insurer shall maintain:

- (4) A claim file for six calendar years after all elements of the claim are resolved and the file is closed or until after the filing of the report on examination, in which the claim file was subject to review, whichever is longer. A claim file shall show clearly the inception, handling and disposition of the claim, including the dates that forms and other documents were received.

It is recommended that the Plan change its third party administrator agreement to ensure that claim records are maintained for a minimum of six years.

The Plan has, as yet, received no complaints through the New York State Insurance Department. A procedure has been established in the event that any complaints are submitted.

Grievance and appeal procedures are summarized in the plan booklets that are issued to the plan members.

The Plan was not aware of its potential liability in the event NAA does not comply with New York State Law 3224-a, Standards for prompt, fair and equitable settlement of claims for health care and payments for health care services.

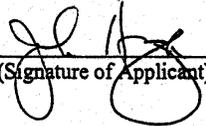
It is recommended that the Plan ensure its third party administrator is in compliance with New York Insurance Law §3224-a Standards for prompt, fair and equitable settlement of claims for health care and payments for health care services.

5. CONCLUSION

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| 1. | It is recommended that the Plan maintain its cash reserves in a segregated account in its own name. | 8 |
| 2. | It is recommended that the Plan require the delinquent member to pay late fees accrued as a result of the member's failure to pay premiums on a timely basis.. | 8 |
| 3. | It is recommended that the Plan consistently charges and collects interest for late premiums, as required by the Municipal Cooperation Agreement. | 8 |
| 4. | It is recommended that Participant's whose premiums are overdue greater than ninety days be automatically terminated from the Plan unless the Board of Directors finds good reason for the delay, as required by the Municipal Cooperation Agreement. | 8 |
| 5. | It is recommended that the Plan accurately report its Quarterly Claims Development Schedule. | 8 |
| 6. | It is recommended that the Plan change its third party administrator agreement to ensure that claim records are maintained for a minimum of six years. | 9 |
| 7. | It is recommended that the Plan ensure its third party administrator is in compliance with New York Insurance Law §3224-a Standards for prompt, fair and equitable settlement of claims for health care and payments for health care services. | 9 |

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I, JOHN HOGAN, being duly sworn, depose and say that I am the Chairman of Allegany-Cattaraugus Schools Medical Health Plan (the Plan) and hereby certify and affirm that all assets of the Plan are held by it free and clear of any lien or encumbrance; that all books, records, financial statements or memoranda of any kind of the Plan which have been, or will be, made available to the representatives of the Superintendent of Insurance are genuine, accurate and correct; and that all corporations which have employees receiving health benefits from or through the Plan are, in fact, members of the Plan, and have through their representatives executed the Plan's municipal cooperation agreement.


 (Signature of Applicant)
JOHN HOGAN, CHAIRMAN
 (Print Name and Title)

Sworn and Subscribed Before me this 18th
 Day of September, 2001.


 (Signature of Notary Public)

My Commission Expires 2002

SUSAN POTTER
 Notary Public, State of New York
 No. 01PO5056894
 Qualified in Allegany County
 Commission Expires March 11, 2002





Appointment No. 21763

**STATE OF NEW YORK
INSURANCE DEPARTMENT**

I, GREGORY V. SERIO, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Bruce Borofsky

as a proper person to examine into the affairs of the

**ALLEGANY-CATTARAUGUS SCHOOLS MEDICAL HEALTH
PLAN**

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

Company

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 6th day of August 2001



Gregory V. Serio
Superintendent of Insurance

