REPORT ON EXAMINATION

OF THE

CHAUTAUQUA COUNTY SCHOOL DISTRICTS'

MEDICAL HEALTH PLAN

AS OF

JUNE 30, 2006

DATE OF REPORT	**APRIL 26, 2007**
EXAMINER	**BARBARA FINNERTY, ARe**

TABLE OF CONTENTS

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

ELIOT SPITZER
Governor

ERIC DINALLO
Superintendent of Insurance

April 26, 2007

Honorable Eric Dinallo
Superintendent of Insurance
Albany, NY 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 22540 dated September 6, 2006, attached hereto, I have made an examination into the condition and affairs of Chautauqua County School Districts' Medical Health Plan as of June 30, 2006 a not-for-profit municipal cooperative health benefit plan licensed pursuant to the provisions of Article 47 of the New York Insurance Law. The following report is respectfully submitted.

The examination was conducted at the Plan's home office located at 513 West Third Street, Jamestown, New York.

Whenever the designation the "Plan" appears herein without qualification, it should be understood to refer to Chautauqua County School Districts' Medical Health Plan.

1. SCOPE OF EXAMINATION

The previous on-organization examination was conducted as of June 30, 2001. This examination covers the five year period from July 1, 2001 through June 30, 2006. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a complete verification of assets and liabilities as of June 30, 2006, in accordance with Statutory Accounting Principles, as adopted by the New York Insurance 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 accountant. 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:

History of the Plan
Management and control
Corporate records
Fidelity bonds and other insurance
Territory and plan of operation
Growth of Company
Business in force
Loss experience
Accounts and records
Treatment of policyholders and claimants

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

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

2. EXECUTIVE SUMMARY

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

- The Plan did not obtain a waiver from the New York Insurance Department prior to discontinuing its aggregate insurance coverage which is required to be maintained pursuant to Sections 4707(a)(1)&(2) of the New York Insurance Law.

- The Plan did not obtain approval from the New York State Insurance Department ("NYSID") prior to offering its PPO and POS products in accordance with Section 4709(b) of the New York Insurance Law. Subsequently, the Plan received approval relative to its POS product. The Plan is currently in the process of obtaining approval of the PPO product. .

- A network does not exist in all geographic areas for the POS product. This coverage limitation needs to be fully and fairly disclosed to all prospective subscribers offered the POS product. .

3. DESCRIPTION OF THE PLAN

The Chautauqua County School Districts' Medical Health Plan ("CCSDMHP") commenced business on April 1, 1981. The Plan is a Municipal Cooperative Health Benefit Plan licensed under Article 47 of the New York Insurance Law. In accordance

with the Municipal Cooperative Agreement, each of the participants have agreed to share the costs and assume the liabilities for hospital, surgical, prescription drug, chiropractic, dental, vision, and major medical benefits provided under the Plan. Administration for the Plan is provided by a third party administrator, Veracity Benefits by Design.

There are currently eighteen (18) school districts and one BOCES participating in the Plan. The Plan participants are as follows:

Bemus Point Central School
Brocton Central Schools
Falconer Central Schools
Cassadaga Valley Central Schools
Chautauqua Lake Central Schools
Clymer Central Schools
Dunkirk City Schools
Erie-2-Chautauqua-Cattaraugus BOCES
Forestville Central Schools
Fredonia Central Schools
Frewsburg Central Schools
Jamestown City Schools
Panama Central Schools
Pine Valley Central School
Ripley Central Schools
Sherman Central Schools
Silver Creek Central Schools
Southwestern Central Schools
Westfield Central Schools

The Plan provides coverage through self-insurance administered by a third party administrator in accordance with the Summary Plan Description to covered employees, retirees and their eligible dependents as defined in the plan booklet.

As of June 30, 2006, the Plan had entered into the following agreements for services.

- HealthNow New York Inc. d/b/a Blue Cross and Blue Shield of Western New York ("HealthNow") provides third party claim adjudication and claim administration. The claim administration performed by HealthNow includes the preparation and distribution of identification cards, maintenance of appropriate records on each participant to administer the Plan, preparation and distribution of enrollment forms and benefit claim forms, access to HealthNow's network of participating providers.

HealthNow is also responsible for notifying the claimant of denials, the basis for the denial and the claimant's right to appeal the denial. In addition, HealthNow provides utilization review services for the Plan.

- Veracity Benefit Designs, Inc. ("VBD") performs consulting services for the Plan that includes updating the SPD, providing local health care trends, monitoring plan administration to ensure claims are paid in accordance with the cooperative Plan Document. In addition, VBD provides compliance services that include filing Quarterly and Annual statements, corresponding with the NYSID and facilitating audits. VBD, also develops benefit plan announcements, prepares plan packets consisting of plan details and enrollment applications, claim forms, claim filing instructions and contact information. It also provides access to benefit counselors to resolve claim and coverage issues and assist in the grievance and appeal procedure.

- Express Scripts, Inc. ("ESI") and Express Scripts Senior Care, Inc. ("Senior Care") provide pharmacy benefits administration services to the Plan.

  ESI is a pharmacy benefit manager (PBM) and Senior Care is a wholly owned subsidiary of ESI that provides rebate and reporting services to Medicare D plans. ESI provides pharmacy network contracting, claims processing, mail and specialty pharmacy, rebate contracting and formulary management services to the Plan. ESI, also provides first level of review of written request for appeal from members or participating pharmacies that consists of ministerial verification that claim(s) were processed in accordance with the Plan's benefits package member eligibility, benefit verification, location of pharmacies or other member concerns.

- Vision Service Plan, Inc. ("VSP") is a tpa for the group vision care plan offered by the Plan. VSP enrolls eligible enrollees and provide the Plan with vision care brochures that summarize the terms and conditions of the vision plan. In addition, VSP will provide access to its network of member doctors defined as an optometrist or ophthalmologist licensed and otherwise qualified to practice vision care that have contracted with VSP. VSP also furnishes benefit authorization prior to the covered person obtaining plan benefits from a member doctor. Vision services may be received from any licensed optometrist, ophthalmologist, or dispensing optician, whether member doctors or non-member providers. Services received from non-member providers are reimbursed according to a fee schedule less any applicable co-payment. VSP provides utilization review services to the Plan relative to such vision benefits.

- The Guardian Life Insurance Company of America ("Guardian") provides a dental administrative service only ("ASO") contract to the Plan. The

administrative services provided under this contract include assisting in the design of the Plan's dental benefit structure, providing eligibility determinations for program benefits, processing claims, providing access to network providers, and performing utilization review services. In addition, Guardian furnishes the Plan with benefit booklets, enrollment cards, claim forms, and other supplies for the administration of the dental benefit plan.

- Milliman, Inc. ("Milliman") performs general actuarial services for the Plan including the Actuarial Attestation for Medicare Part D.

- Damon & Morey, Attorneys at Law, LLP provide outside General Counsel services to the Plan.

- Bahgat & Laurito-Bahgat, CPAs, P.C. provides financial attestation services to the Plan.

On November 1, 2001, the Plan was issued a Certificate of Authority pursuant to Article 47 of the New York State Insurance Law. The Certificate of Authority authorizes the Plan to conduct the business of a municipal cooperative health benefit plan in Chautauqua County of this state.

A. Management

Pursuant to the Municipal Cooperative Agreement and its by-laws, management of the Plan is vested in the Governing Board comprised of one representative from each participating school district, including BOCES. The governing board of the Plan as of June 30, 2006 was as follows:

Municipal Corporation	**Board Member and Title**
Bemus Point Central School 3980 Dutch Hollow Road, Bemus Point, New York 14712	Albert D'Attilio, Superintendent
Erie 2 – Chautauqua – Cattaraugus BOCES 8685 Erie Road, Angola, New York 14006	Robert Guiffreda, Superintendent

Brockton C.S.D.
138 West Main Street,
Brockton, New York 14716

Jack Skahill,
Superintendent

Cassadaga Valley C.S.D.
P.O. Box 540, Route 60,
Brockton, New York 14716

John Brown,
Superintendent

Chautauqua Lake C.S.D.
100 North Erie Street,
Mayville, New York 14757

Benjamin Spitzer,
Superintendent

Clymer C.S.D.
P.O. Box 580,
East Main Street
Clymer, New York 14724

Ralph Wilson,
Superintendent

Dunkirk City School
District
620 Marauder Drive,
Dunkirk, New York 13139

Carl Militello,
Superintendent

Falconer C.S.D.
2 East Avenue,
Falconer, New York 14733

Jane Fosberg,
Superintendent

Forestville Central Schools
4 Academy Street
Forestville, NY 14062

John O'Connor,
Superintendent

Fredonia Central Schools
East Main Street,
Fredonia, New York 14063

Charles Pegan,
Superintendent

Frewsburg Central Schools
26 Institute Street,
Frewsburg, New York 14738

Stephen Vanstrom,
Superintendent

Jamestown City Schools
200 East 4th Street,
Jamestown, New York 14701

Raymond Fashano,
Superintendent

Panama Central Schools
41 North Street,
Panama, New York 14701

Carol Hay,
Superintendent

Pine Valley Central School 7827 Rt. 83 South Dayton, NY 14138	Vincent J. Vecchiarella, Superintendent
Ripley Central Schools P.O. Box 688, 12 North State Street, Ripley, New York 14775	Dr. John Hamels, Superintendent
Sherman Central Schools P.O. Box 950, 127 Park Street, Sherman, New York 14781	Dr. Howard Ferguson, Superintendent
Silver Creek Central Schools P.O. Box 270, Silver Creek, New York 14136	David Kurzawa, Superintendent
Southwestern Central Schools 600 Hunt Road, W.E. Jamestown, New York 14701	Daniel George, Superintendent
Westfield Central Schools 203 East Main Street Westfield, New York 14787	Laura Chabe, Superintendent

According to the By-Laws, the Governing Board shall meet quarterly and call special meetings at any time upon 72 hours written notice. The governing board scheduled regular quarterly meetings during the period under examination. The minutes of all meetings of the governing board were reviewed. All such meetings were well attended.

The principal officers of the Plan, as of June 30, 2006, were as follows:

Officers	**Title**
Debra McAvoy	Chairperson & President
Brett Agett	Secretary
Charity Mucha	Treasurer

The Chief Financial Officer is covered by a fidelity bond with a minimum value of $2,000,000.

The Board of Governors has designated Virginia C. McEldowney, Esq. as the Plan's Attorney-in-Fact..

B. Territory and Plan of Operation

The Plan provides health benefits in the Chautauqua County within New York State. The Plan's enrollment as of June 30, 2006 was 4,154. The Plan's enrollment increased moderately during fiscal years 2002-2006 as follows:

Year	2002	2003	2004	2005	2006
Enrollment	3,485	3,766	3,769	3,983	4,154
Increase in enrollment ratio		8.06%	0.08%	5.68%	4.29%

C. Reinsurance

At June 30, 2006, the Plan had the following reinsurance program for eligible benefits under terms of the Plan Agreement in effect with an authorized reinsurer.

Type	Limits
Excess of loss one layer	100% of excess of $200,000, unlimited coverage per contract holder

During the examination period, the Plan discontinued its aggregate stop loss reinsurance coverage without obtaining a waiver as required by New York Insurance Law sections 4707(a)(1) & (2).

It is recommended that the Plan submit a request for waiver of maintenance of aggregate stop loss reinsurance coverage to this Department or maintain such aggregate stop loss reinsurance coverage in accordance with Section 4707(a)(1)&(2) of the New York Insurance Law.

4. FINANCIAL STATEMENTS

A. BALANCE SHEET

The following shows the assets, liabilities and net worth as determined by this examination and as reported by the Plan as of June 30, 2006.

Assets	Ledger Assets	Not Admitted Assets	Admitted Assets
Cash and Equivalents	$14,549,953		$14,549,953
Total Assets	$ 14,549,953		$ 14,549,953
Liabilities			
Accounts payable			$0
Claims payable			8,413,029
Unearned premiums			421,696
Total Liabilities			$8,834,725
Net Worth			
Contingency reserves			$ 1,586,409
Retained earnings/Fund balance			4,128,819
Total net worth			$5,715,228
Total liabilities and net worth			$14,549,953

B. Statement of revenues and expenses

Net worth increased $3,068,938 during the period from January 1, 2001 to June 30, 2006, detailed as follows:

Revenues:

Premiums (basic) community rated	$134,238,795
Investment	1,472,910
Total revenues	$135,711,705

Expenses:

Hospital and medical	$82,411,383
Drug	36,516,458
Aggregate Write-ins for Other Expenses	2,341,373
Total Medical and Hospital	$121,269,214

Administration:

Total administrative expenses	$ 11,147,533
Total expenses	$132,416,747
Net income	$ 3,294,958

C. Net Worth

Net worth per Examination On-Organization $2,646,292

	Increases	Decreases	
Net income	$3,294,958		
Increase in Contingency Reserve	677,032		
Aggregate write-ins for change in Retained Earnings		$292,255	
Aggregate write-ins for other net worth item		610,797	
Net decrease in net worth			$3,068,938
Net worth, per examination, As of June 30, 2006			$5,715,230

5. CLAIMS PAYABLE

The examination liability of $8,413,029 is the same as the amount reported by the Plan as of June 30, 2006.

The examination analysis 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.

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 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 areas:

Claims processing
Rating
Policy Forms and Benefits
Complaints, Grievances and Appeals

A. Claims Processing and payment practices

The Plan has contracted with HealthNow NY, Inc. d/b/a Blue Cross and Blue Shield of Western NY ("BCBSWNY") a third party claims administrator. BCBSWNY processes medical claims and administer prescription drug claims not eligible to be paid by the Plan's PBM, Express Scripts.

1. Claim Attribute Sample

A review of claims processed during July 1, 2005 through June 30, 2006 was conducted. The claims review was performed using a statistical sampling methodology covering the claims processed during the aforementioned period, to evaluate the overall accuracy and compliance environment of the Plan's claims processing.

A statistical random sampling process was performed using ACL for Windows© an auditing software program. The sampling methodology was devised to test various attributes deemed to be necessary for the successful processing of claims and to reach conclusions about all predetermined attributes, individually or on a combined basis. Two random samples, a hospital claims sample and medical claims sample, each of 167 paid claims was reviewed.

For purposes of this analysis, claim is defined by BCBSWNY as the total number of items submitted by a single provider within a single claim form that is reviewed and entered into the claim processing system. The basis of the Department's statistical sample of claims is the summary of all lines on a claim into a one line roll-up. During the review of claims processing it was determined that no errors in the attributes selected for review existed in the sample. This represents a billed claim payment and benefit accuracy rate of 100% on paid claims within the hospital claims sample and medical claims sample.

2. Claim payment practices

A review of claim payment practices involved generating two random samples, a claims paid over 45 days sample, and a denied claims sample, each of 167 claims. The review was performed at the Plan's third party claims administrator BCBSWNY. It is the Health Bureaus' position that a clean claim that is not settled within 45 calendar days constitutes a claim that has not been settled within a reasonable and timely manner. Several instances of claim payments exceeding reasonable and timely claim settlement of

45 calendar days constitute a business practice. The claims paid over 45 day sample was limited to the review of 121 claims and uncovered 24 instances regarding timely payment of claims classified as follows:

Rationale for classification	No. of Claims
Benefit payment delayed since it is not the Plan's business practice to pay partially on a claim and request information on the other service lines.	3
Payment error due to benefit matrix (service rule) being in error.	8
Payment applied to deductible in error since PCP listing was not updated.	2
Payment applied to coinsurance in error since a basic service was misclassified as major medical.	1
Payment error since service was erroneously classified as out-of-network.	1
Claim processing error that resulted in timely limits being exceeded	9

It is recommended the Plan process all clean claims and all claim service lines which are not in dispute within 45 days.

The latter recommended business practice revision to the Plan's claims processing procedure is intended to reduce the delay in payment relative to the undisputed portions of claims.

A 30 day denied sample was reviewed to determine if claims were being processed incorrectly, denied wrongfully or denied without the proper notification of the reason for denial being provided to the subscriber or provider. The 30 day denied claims

sample was limited to the review of 91 claims that uncovered 19 instances of improper claims adjudication classified as follows:

Rationale for classification	No. of Claims
Claim processed in error	13
Benefit matrix (payment rate) was incorrect.	4
Payment error since service was improperly classified as out-of-network.	1
Mental health service denied as clinical visit	1

It was noted that the HealthNow, Inc. d/b/a BCBSWNY employees assigned to process claims on the Plan's behalf are not licensed claims adjusters in accordance with Section 2102(a)(1) of the New York Insurance Law. Section 2101(g)(1) of the New York Insurance Law defines an adjuster as follows:

> "(g) In this article "adjuster" means any "independent adjuster"…as defined below:
> (1) the term "independent adjuster" means any person, firm, association or corporation who, or which, for money, commission or any other thing of value, acts in this state on behalf of an insurer in the work of investigating and adjusting claims arising under insurance contracts issued by such insurer as are incidental to such claims and also includes any person who for compensation or anything of value investigates and adjusts claims on behalf of any independent adjuster…"

Section 2102(a)(1) of the New York Insurance Law states in part:

> "(a)(1) No person, firm, association or corporation shall act as an…insurance adjuster in this state without having authority to do so by virtue of a license issued and in force pursuant to the provisions of this chapter."

Section 2108(a)(3) of the New York Insurance Law states in part:

> "(a)(3) No adjusters shall act on behalf of an insurer unless licensed as an independent adjuster…."

It is recommended that, if it is the intention of the Plan to continue to have BCBSWNY adjust claims on the Plan's behalf, that those employees, who perform claim adjusting services on behalf of the Plan, be licensed as independent adjusters in accordance with Sections 2102(a)(1) and 2108(a)(3) of the New York Insurance Law.

B. Rating

The Plan receives contributions from its plan participants on behalf of covered employees, retirees and dependents on a monthly basis. This contribution is based on employee classification (single or family). Contribution rates are based on recommendations made by the Plan's actuarial consultant.

C. Policy Forms / Benefits

During the review of sales practice it was determined the Plan did not obtain approval from the New York State Insurance Department prior to offering the PPO product and POS product as required by section 4709(b) of the New York Insurance Law. Subsequently, the POS product received approval. However, the Plan is currently in the process of obtaining approval of the PPO product. .

Section 4709(b) of the New York Insurance Law states in part,

"…b) the summary plan description shall be subject to regulation as if it were a health insurance subscriber certificate…"

It is recommended the Plan obtain New York State Insurance Department approval prior to offering any new products including any amended policy forms or riders in accordance with Section 4709(b) of the New York Insurance Law.

A provider network does not exist in all geographic areas where the Plan's POS product is marketed. This coverage limitation needs to be fully and fairly disclosed to all prospective subscribers offered the POS product. The SPD can be amended to provide for this disclosure.

It is recommended the Plan amend its Summary Plan Description to disclose the fact that the Plan's provider network does not exist in all geographic areas where the Plan's POS product is marketed.

D. Complaints, Grievances, Utilization Review and Appeals

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.

HealthNow Inc. d/b/a BCBSWNY is deemed to be a utilization review agent of the Plan since it performs utilization review services for the Plan. However, neither the Plan nor any of its' third party administrators filed its utilization review procedures with the Department in accordance with New York Insurance Law section 4704(a)(8) that states as follows:

> "the municipal cooperative health benefit plan …established a fair and equitable process of claims review, dispute resolution and appeal procedures including arbitration of rejected claims…which are satisfactory to the superintendent.

It is recommended the Plan file its utilization review procedures with the New York State Insurance Department in accordance with Section 4704(a)(8) of the New York Insurance Law.

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

7. COMPLIANCE WITH REPORT ON ORGANIZATION

The report on organization included seven recommendations detailed as follows (the page number refers to the report on organization):

ITEM.		PAGE NO.
A.	It is recommended that the Plan amend its stop loss contracts to include the wording prescribed by Section1308(a)(2)(A)(i) of the New York Insurance Law. The Plan has complied with this recommendation.	7
B.	It is recommended that the Plan maintain signed administrative services agreements with its third party administrators relative to its medical & hospital benefits and its vision benefits. The Plan has complied with this recommendation.	8
C.	It is recommended that the Plan maintain its bank reconciliation workpaper(s) within its financial report supporting workpapers The Plan has complied with this recommendation.	10
D.	It is recommended that the Plan, in the future, complete Schedule C of its New York Data Requirements filed annual statement. The Plan has complied with this recommendation.	10

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

Appointment No. ***22540***

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:

Barbara Finnerty

as a proper person to examine into the affairs of the

Chautauqua County School Districts' Medical Health 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 *6th* day of *September* *2006*

Howard Mills
Superintendent of Insurance