REPORT ON EXAMINATION

OF

EMPIRE HEALTHCHOICE ASSURANCE, INC.

AS OF

DECEMBER 31, 2006

DATE OF REPORT	**JUNE 29, 2009**
EXAMINER	**MATT PERKINS, CFE**

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

David A. Paterson
Governor

Eric R. Dinallo
Superintendent

June 29, 2009

Honorable Eric R. Dinallo
Superintendent of Insurance
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 Number 22489, dated December 22, 2006, attached hereto, I have made an examination into the condition and affairs of Empire HealthChoice Assurance, Inc., an accident and health insurer, licensed pursuant to Article 42 of the New York Insurance Law, as of December 31, 2006 and submit the following report thereon.

The examination was conducted at the Company's office located at 15 MetroTech Center, Brooklyn, New York 11201.

Wherever the designations "EHCA" or "the Company" appear herein, without qualification, they should be understood to mean Empire HealthChoice Assurance, Inc.

A concurrent examination was made of Empire HealthChoice HMO, Inc. (EHC), a subsidiary health maintenance organization, licensed pursuant to the provisions of Article 44 of the New York Public Health Law.

A separate examination into the manner in which the Company and its subsidiary, EHC, conduct their business practices and fulfill their contractual obligations to policyholders and claimants was conducted as of December 31, 2006. A separate report thereon has been submitted.

1. SCOPE OF EXAMINATON

EHCA was previously examined as of December 31, 1999. This examination covers the seven-year period from January 1, 2000 through December 31, 2006. Transactions subsequent to this period were reviewed where deemed appropriate.

The examination was conducted in accordance with the 2007 *NAIC Financial Condition Examiners Handbook* (the Handbook). The Handbook requires that the examiner plan and perform the examination to evaluate the financial condition and identify prospective risks of EHCA by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. The examination also included an assessment of the principles used and significant estimates made by management, as well as an evaluation of the overall financial statement presentation, management's compliance with statutory accounting principles and annual statement instructions, statutes and regulations.

All accounts and activities of the Company were considered in accordance with the NAIC Risk Surveillance approach as defined in the Handbook and the examination was conducted using a risk-focused examination approach. This examination approach was included in the Handbook for the first time in 2007, thus this was the first such type of examination for the Company.

A review or audit was also made of the following items:

History of the Company
Management and controls
Corporate records
Territory and plan of operation
Growth of the Company
Fidelity bonds and other insurance
Pensions and employee benefits
Loss experience
Accounts and records

A review was also made to ascertain what actions were taken by the Company with regard to comments and recommendations made in the prior report on examination.

2. EXECUTIVE SUMMARY

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

- It was determined that EHCA was in violation of Sections 1505(b) and (c) of the New York Insurance Law when it failed to obtain the Superintendent's approval prior to enacting an agreement with its affiliates.

- It was noted that EHCA needs to improve upon its procedures necessary to facilitate examinations.

3. DESCRIPTION OF COMPANY

Effective November 7, 2002, Empire Blue Cross Blue Shield converted from an Insurance Law Article 43 non-profit health services corporation to an Insurance Law Article 42 for-profit accident and health insurer, and changed its name to Empire HealthChoice Assurance, Inc. (EHCA). Simultaneously with the conversion, Empire Blue Cross and Blue Shield merged with its Article 42 subsidiary. EHCA continues to do business as Empire Blue Cross Blue Shield in downstate New York and Empire Blue Cross in upstate New York and is the owner of Empire HealthChoice HMO, Inc. (EHC), a for-profit health maintenance organization (HMO) licensed under Article 44 of the New York Public Health Law. As a result of the conversion, WellChoice, Inc. (WC) was established in addition to its wholly-owned subsidiary, WellChoice Holdings of New York, Inc. (Holdings). EHCA was a wholly-owned subsidiary of Holdings, which in turn was wholly-owned by WC, a for-profit, publicly traded holding company.

On October 18, 2005, Wellpoint, Inc. (WellPoint) an Indiana corporation, and WellPoint Holding Corp., a Delaware corporation and a direct wholly-owned subsidiary of WellPoint, submitted an application for approval of the acquisition of control of WC. The application was submitted pursuant to Section 1506 of the New York Insurance Law and Part 80-1.6 of Department Regulation 52 (11 NYCRR 80). Concurrent with this submission was the request for the approval of the Commissioner of Health pursuant to Part 98-1.9 of the Administrative Rules and Regulations of the Health Department (10 NYCRR 98) for the acquisition of control of EHC, a wholly-owned subsidiary of EHCA. These transactions were approved by the Departments of Insurance and Health, respectively, on December 28, 2005, and WC, the parent of EHCA and EHC, merged with and into WellPoint Holding Corp.

As of the examination date, EHCA also wholly-owned WellChoice Insurance of New Jersey, Inc. (WCINJ). WCINJ was a credit, life and health insurance company licensed in eleven states, however, it was writing business only in New Jersey.

EHC, which is wholly-owned by EHCA, is a health maintenance organization (HMO) licensed pursuant to the provisions of Article 44 of the New York Public Health Law, was, as of the examination date, also licensed to operate in the state of New Jersey as WellChoice HMO of New Jersey.

Subsequent to the exam date, WCINJ was dissolved on October 28, 2008, and WellChoice HMO of New Jersey surrendered its certificate of authority from New Jersey on July 7, 2008.

The Company issued dividends of $75 million and $300 million in 2005 and 2006, respectively. The Company's gross paid-in and contributed surplus totaled $77,982,137 as of December 31, 2006.

A. Management and Controls

The following individuals were members of the board of directors of the Company as of December 31, 2006:

Name and Residence	**Principal Business Affiliation**
Angela Braly Indianapolis, IN	Executive VP, General Counsel and Chief Public Affairs Officer, WellPoint, Inc.
David Colby Lake Sherwood, CA	Executive VP and CFO, WellPoint, Inc.
William A. Corrigan Deer Park, NY	Underwriting, Empire HealthChoice Assurance, Inc.

Name and Residence	Principal Business Affiliation
Christopher Fallon Morristown, NJ	Sales, Empire HealthChoice Assurance, Inc.
Jason Gorevic New York, NY	Senior VP and Chief Marketing and Product Officer, WellPoint, Inc.
William Hartman Slingerlands, NY	Customer Care/Claims, Empire HealthChoice Assurance, Inc.
Gloria M. McCarthy Blauvelt, NY	Senior VP and Chief Marketing and Product Officer, WellPoint, Inc.
Nancy Purcell Carmel, IN	VP and Corporate Secretary, WellPoint, Inc.
Mary E. Soul Newton, NJ	Actuary, Empire HealthChoice Assurance, Inc.
Chrystal Veazey-Watson West Caldwell, NJ	Associate General Counsel, NY Market, WellPoint, Inc.
Mark Wagar New York, NY	President, Chairman and CEO, WellPoint, Inc.
John Whitney, M.D. Rensselaer, NY	Medical Director, Empire HealthChoice Assurance, Inc.

The board of directors' minutes and member attendance were reviewed for the period under examination for EHCA. As a result of the merger with WellPoint, there was some turnover of board members during this period. A review was performed to determine whether members serving on the board attended at least 50% of the meetings they were eligible to attend and that proper recordkeeping was maintained. EHCA maintained a list of board member attendance, through an attendance sheet recorded at each board meeting, however, it was unclear from the review of the minutes as to when a member had been elected, or if and when they resigned or were replaced.

It is recommended that better recordkeeping be prepared in regard to recording changes to the board's members.

Sections 1202(a)(1) and (2) of the New York Insurance Law state in part:

> "(1) …subject to any provision of the corporate charter of a domestic insurance company, the number of directors shall be fixed by the by-laws, or if not so fixed, by action of the directors."
>
> "(2) If not otherwise fixed under this article, the number shall be thirteen…"

EHCA disclosed one (1) board vacancy in its December 31, 2006 annual statement, as well as in correspondence to the Department dated January 17, 2007. However, it was noted by the examiner that because the Company had twelve board members at December 31, 2006 instead of its required thirteen board members, it was not in compliance with Section 1202(a)(2) of the New York Insurance Law.

It is recommended that EHCA complies with Section 1202(a)(2) of the New York Insurance Law by maintaining the required number of board members at all times.

EHCA became compliant with the abovementioned statute on January 31, 2007, when its shareholder elected Carter A. Beck to the Company's board of directors.

The principal officers of the Company as of December 31, 2006 were as follows:

Name	**Position**
Mark L. Wagar	President, Chairman and CEO
David Colby*	Chief Financial Officer
Nancy L. Purcell	Secretary
Robert D. Kretschmer	Treasurer
Chrystal L. Veazey-Watson	Assistant Secretary

*David Colby resigned as Chief Financial Officer in 2007.

B. Territory and Plan of Operation

The Company is a licensee of the Blue Cross and Blue Shield Association (BCBSA) and markets its products under the Blue Cross Blue Shield trade name. The Company has been in operation for over thirty years, and offers traditional indemnity products and a diversified mix of managed care products, including preferred provider organizations (PPOs) and exclusive provider organizations (EPOs), to employers and individuals in the Greater New York City metropolitan region and select upstate counties in New York State. The Company also provides administrative services, such as claims processing, underwriting, provider network access, and medical cost management, to certain customers under self-insured agreements.

As set forth in the certificate of authority, EHCA is permitted to serve the following twenty-eight counties of the State of New York:

New York Region

Bronx	Kings	Dutchess	New York
Nassau	Putnam	Queens	Richmond
Rockland	Suffolk	Westchester	

Albany Region

Albany	Clinton	Columbia	Delaware
Essex	Fulton	Greene	Montgomery
Orange	Rensselaer	Saratoga	Schenectady
Schoharie	Sullivan	Ulster	Warren
Washington			

The following table displays EHCA's assets, capital and surplus, premium income and net income during the period under examination:

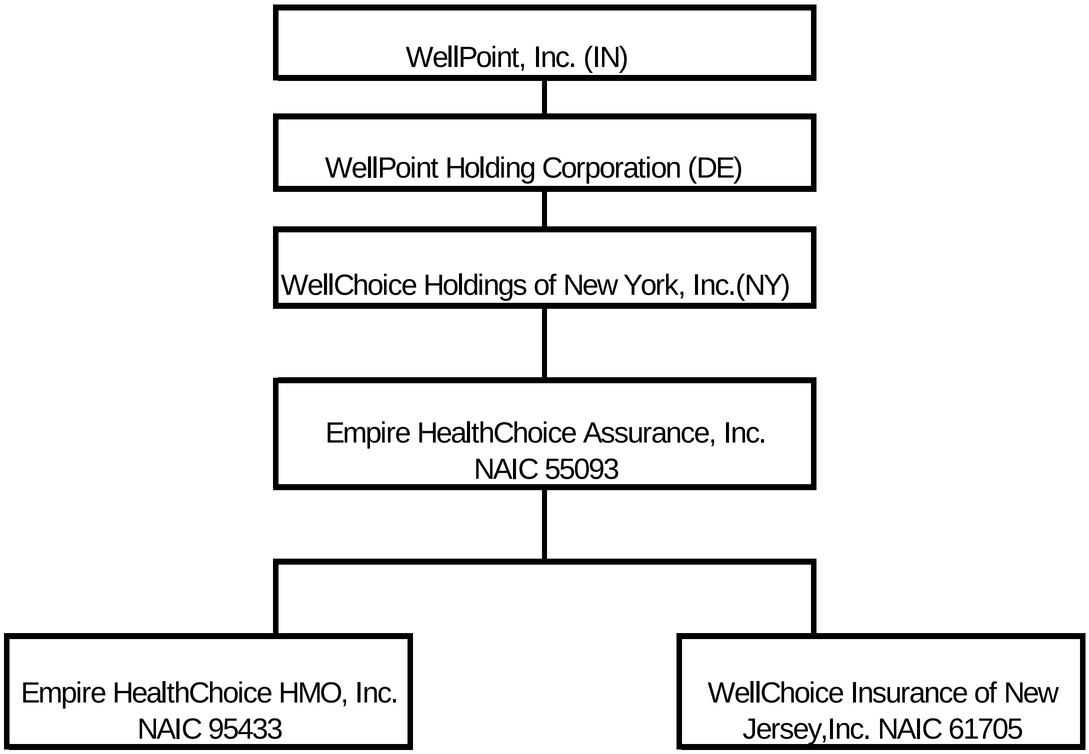
(*in thousands*)				
	Net Admitted Assets	Capital and Surplus	Net Premium Income	Net Income
2006	$2,995,488	$1,322,972	$5,333,605	$322,992
2005	2,301,413	1,005,378	3,674,291	232,050
2004	2,018,555	1,018,351	3,421,849	206,805
2003	1,865,807	932,428	3,379,546	181,555
2002	1,687,487	819,756	3,951,309	248,552
2001	1,906,041	610,779	4,014,992	98,428
2000	1,804,477	532,136	3,747,108	106,676

C. Holding Company System

As of the examination date, EHCA was a wholly-owned subsidiary of WellChoice Holdings of New York, which was a wholly-owned subsidiary of WellPoint Holding Corp. (WHC). WHC is a wholly-owned subsidiary of WellPoint, Inc. (WellPoint), a publicly traded company.

Subsequent to the examination date, on December 31, 2008, WellChoice Holdings of New York, Inc. merged with and became WellPoint Holding Corporation.

The following chart depicts the Company’s holding company system as of December 31, 2006:



Section 1505(d)(3) of the New York Insurance Law states in part:

> “(d) The following transactions between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto, or such shorter period as he may permit, and he has not disapproved it within such period…
>
> (3) rendering of services on a regular or systematic basis.”

In November 2002, EHCA enacted and implemented a services agreement with its affiliates, which received the requisite approval from the Superintendent. In 2005, as a result of the merger with WellPoint, such agreement was amended and, in December 2005, such amendment was likewise approved by the Superintendent. On April 3, 2006, the agreement was again amended and approval was once again sought from the Superintendent.

The approval of this amended agreement was made by the Superintendent on July 3, 2008, subsequent to this examination.

Prior to the most recent amended agreement being approved in 2008, it was implemented by the Company, which action, technically, was not in compliance with Section 1505 of the New York Insurance Law. While such agreement was implemented without formal approval by the Superintendent, personnel from the Department were aware of the implementation of the agreement and due to the complexity and nature of the agreement understood that, to be approved, implementation on a trial basis was necessary to determine whether such agreement was acceptable to the Department and whether certain methodology could be examined and audited by Department examiners.

The Company sent reports to the Department in this regard. Nevertheless, the agreement did not receive formal approval by the Superintendent prior to implementation.

It is recommended that EHCA complies with Section 1505(d)(3) of the New York Insurance Law and refrain from enacting agreements requiring the Superintendent's approval until such approval has been obtained.

During the examination it was noted that EHCA did not prepare certain management reports communicating the type and nature of inter-company allocations that transpired during a given month. Such reports are mandatory if management is to be cognizant of the reasonableness of the charges attached to EHCA. These reports should be of interest to both management and the board of directors.

It should be noted that subsequent to the examination date, such management reports were designed and put in place.

It is recommended that EHCA continues to provide its management with summary reports of inter-company expense allocations and that these reports be used to verify that the expenses allocated to the Company are fair and equitable.

D. Accounts and Records

During the course of the examination, it was noted that the Company's treatment of certain items was not in accordance with Department guidelines. A description of these items is as follows:

1. Under Article 14 of the New York Insurance Law, EHCA has limitations on the types of investments that are permitted. When asked how EHCA ensures that it maintains its investments within the permitted limits, EHCA noted that, "The Company's investment portfolio is reviewed quarterly to ensure compliance with all relevant New York investment limitation guidelines."

While this process may ensure compliance on the date it is tested, it does not ensure compliance is maintained consistently throughout the quarter.

It is recommended that EHCA reviews its investment portfolio more frequently than quarterly, at least monthly, to ensure compliance with all applicable New York investment limitation statutes and internal guidelines.

2. Two of the controls used by EHCA to ensure compliance with Department Regulation 152 (11 NYCRR 243.2) - Standards of Records Retention by Insurance Companies, were insufficient to ensure compliance with the Regulation. EHCA's record retention policy, which was accessed online, included a link to a retention schedule that was not working at the time of the examination. While the policy notes the length of time records are required to be retained, this information was not listed within the schedule. The Company agreed that the link was inactive at the time of the examination, and it was repaired while the examiner was on site. In addition, the word "years" was added to the Company's retention schedule, as suggested by the examiner, to clarify the length of time records are required to be retained.

It is recommended that EHCA continues to ensure compliance with New York Insurance Department Regulation 152 by ensuring that its record retention schedule is available for reference and is clear and complete.

E. Internal Controls

The basis for the newly adopted NAIC Risk Surveillance approach to financial examinations relies on the review of mitigating controls applicable to the inherent risks of the companies being examined. In the case of EHCA, the mitigating controls are housed in "Paisley Risk Navigator" (Risk Navigator). These controls related to the WellPoint Sarbanes-Oxley (SOX) process are mandated and regulated by the SEC. Within Wellpoint's SOX records, the internal controls applicable to EHCA were identified by its management. The examiner only reviewed the controls applicable to the Company. It was noted that during 2006, there were no specific regulations around SOX stipulated by the NAIC. A thorough review of these controls was an important component of the examination process. Although there were no material weaknesses or significant deficiencies in internal controls over financial reporting detected during the examination, there were some issues noted during the review of the Company's internal controls contained in Risk Navigator that warrant attention. These are as follows:

The descriptions of certain primary financial controls were not clear, others were not adequately described, and/or did not appear to be a "control", by the Company's definition, in Risk Navigator. EHCA's management and associates must be able to understand how a control operates in order to effectively implement, monitor and sign-off on its effectiveness. In addition, if the control is not understandable, it would not appear to be effective in mitigating risks.

The following is an example of a primary financial control that appears unclear:

- Control 997 - "Provide Process Testing, by reviewing implementation plans and confirming implementation tasks on select implementations. Audits done quarterly to ensure that all companies are tested annually."

The control is not clear as stated. It is hard to determine exactly what control function is taking place and what risk it is mitigating.

The following is an example of a primary financial control that was not adequately described:

- Control 4216 - “The Accounting Billing Unit representative enters the administrative fee methodology and rate.”

  The control does not specify where or what the fee methodology and rate is being entered into, or for what reason. Therefore the control is not adequately described or is incomplete by its current description.

The following is an example of a primary financial control that does not appear to be a “control” by the Company’s definition in Risk Navigator:

- Control 963 - “Corporate Finance policies are published and maintained on the Company's WorkNet.”

  This item appears to be a statement about a corporate process, rather than meeting the criteria of a control (as defined in Risk Navigator).

Subsequent to the examination date EHCA discontinued its use of Risk Navigator.

It is recommended that EHCA continues to improve and enhance its internal control environment by ensuring that control descriptions are clear, adequately described and meet the criteria of a control.

F. Facilitation of Examination

As previously described in the scope paragraph of this report, the examination was conducted in accordance with the *2007 NAIC Financial Condition Examiners Handbook* (Handbook) as a risk-focused examination. This examination approach differs from the traditional examination in that it places greater emphasis on understanding a company's risks and exposures and methods of mitigating such risks. Specifically, the Handbook requires that the examiner plans and performs the examination to evaluate the financial condition of the company and identify its current and prospective risks by obtaining information regarding corporate governance, identifying and assessing inherent risks within the company, and evaluating system controls and procedures used to mitigate those risks.

This was the first such type of examination for the Company, and as such, certain challenges arose for both EHCA and the Department during the examination process. Further, concurrent with undergoing the examination, EHCA and its affiliated entities were being integrated within WellPoint's corporate structure and underlying organizational and regulatory framework, this integration complicated the transition to the new examination process.

While the Department recognizes certain difficulties encountered by the Company in facilitating the examination, the following was noted:

- Due to the timing of the examination (shortly after the merger with WellPoint, Inc.), a significant number of WellPoint's SOX records deemed applicable to the Company, were not maintained in the state of New York. For example, Sarbanes-Oxley (SOX) scoping and conversion documentation were located in California and SOX risk and control matrices were located in Indiana as they were applicable to the overall WellPoint SOX process for SEC reporting.

In addition, the individuals with a comprehensive and thorough knowledge of the WellPoint SOX process were located in different states, creating logistical issues. This made it difficult to determine the "owner" of various business processes from a separate legal entity perspective and to acquire pertinent and timely explanations and walk-throughs of said process.

- Some examination requests in regard to SOX documentation and the examination planning questionnaire that are key components of the planning phase of the examination were not received in a timely manner.

- Responses to the examiner's requests for the independent certified public accountants' (CPA's) audit workpapers and related internal control test work were not provided in the format or timeframe that the CPAs had agreed to.

It is recommended that EHCA improves its procedures for facilitating examinations. These comments are also directed at the Company's independent certified public accountant in regard to the requirements of Section 307(b) of the New York Insurance Law and Department Regulation 118 (11 NYCRR 89).

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 EHCA as of December 31, 2006. This statement is the same as the balance sheet filed by EHCA in its filed annual statement as of December 31, 2006:

	Examination	Company
Assets		
Bonds	$ 1,537,478,484	$ 1,537,478,484
Preferred stocks	25,677,822	25,677,822
Common stocks	397,068,911	397,068,911
Cash	(131,247,166)	(131,247,166)
Short-term investments	179,785,430	179,785,430
Receivables for securities	225,659	225,659
Aggregate write-ins for invested assets	10,568,912	10,568,912
Investment income due and accrued	13,903,693	13,903,693
Uncollected premiums and in course of collection	120,762,881	120,762,881
Deferred premiums, agent balances and installments booked and not yet due	38,885,083	38,885,083
Accrued retrospective premiums	344,002,787	344,002,787
Amounts receivable relating to uninsured plans	151,572,573	151,572,573
Net deferred tax asset	29,898,694	29,898,694
Receivable from parent, subsidiaries and affiliates	234,119,390	234,119,390
Health care and other amounts receivable	11,250,865	11,250,865
Aggregate write-ins for other than invested assets	31,533,674	31,533,674
Total assets	$ 2,995,487,692	$ 2,995,487,692

	Examination	Company
Liabilities		
Claims unpaid	$ 614,558,749	$ 614,558,749
Claims adjustment expenses	18,600,372	18,600,372
Aggregate health policy reserves	139,709,765	139,709,765
Aggregate health claim reserves	7,213,617	7,213,617
Premiums received in advance	13,888,685	13,888,685
General expenses due or accrued	67,975,571	67,975,571
Federal and foreign income tax payable and interest thereon	25,715,013	25,715,013
Amounts withheld or retained for the account of others	609,223,650	609,223,650
Remittance and items not allocated	19,651,063	19,651,063
Amounts due to parent, subsidiaries and affiliates	73,510,637	73,510,637
Liability for amounts held under uninsured plans	685,079	685,079
Aggregate write-ins for other liabilities	81,783,057	81,783,057
Total liabilities	$ 1,672,515,258	$ 1,672,515,258
Capital and Surplus		
Common capital stock	300,000	300,000
Gross paid-in and contributed surplus	77,982,137	77,982,137
Unassigned funds	1,244,690,297	1,244,690,297
Total capital and surplus	1,322,972,434	1,322,972,434
Total liabilities, capital and surplus	$ 2,995,487,692	$ 2,995,487,692

Note: The Internal Revenue Service has not conducted any audits of the income tax returns filed on behalf of the Company through tax year 2006. The examiner is unaware of any potential exposure of the Company to any tax assessments and no liability has been established herein relative to such contingency.

B. Statement of Revenue, Expenses and Capital and Surplus

Capital and surplus increased $784,635,704 during the seven-year examination period, January 1, 2000 through December 31, 2006, detailed as follows:

Revenue		
Premium income		$ 27,522,701,563
Change in unearned premium reserves		15,538,668
Total revenue		27,538,240,231
Hospital and medical expenses		
Hospital/medical benefits	$ 17,308,732,405	
Other professional services	348,627,446	
Outside referrals	539,651,935	
Emergency room and out-of-area	3,386,117,749	
Prescription drugs	1,907,002,396	
Graduate medical	710,602,556	
Pool recoveries - stop loss	(111,108,503)	
Aggregate write-ins for other hospital and medical	28,500,401	
Total hospital and medical benefits	$ 24,118,126,385	
Administrative expenses		
Claims adjustment expenses	1,014,605,150	
General administrative expenses	1,375,696,196	
Total underwriting expenses		26,508,427,731
Net underwriting gain		$ 1,029,812,500
Net investment gain		651,530,372
Net income before federal and foreign income taxes		$ 1,681,342,872
Federal and foreign income taxes incurred		284,285,282
Net income		$ 1,397,057,590

Changes in Capital and Surplus

	Gains in Surplus	Losses in Surplus	
Capital and surplus per report on examination as of December 31, 1999			$ 538,336,730
Net income	$ 1,397,057,590		
Change in net deferred income tax		$ 152,006,047	
Change in non-admitted assets	217,558,250		
Change in net unrealized capital gains	250,610,306		
Cumulative effect of changes in accounting principles		6,566,532	
Surplus adjustment	12,982,137		
Dividends to stockholders	0	935,000,000	
Net increase in capital and surplus			$ 784,635,704
Capital and surplus per report on examination as of December 31, 2006			$ 1,322,972,434

5. CLAIMS UNPAID

The examination liability of $614,558,749 for the above captioned account is the same as the amount reported by the Company in its filed annual statement as of December 31, 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 Company's internal records and in its filed annual statements as verified by the examiner.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination as of December 31, 1999, contained the following three (3) comments and recommendations (page number refers to the prior report on examination):

ITEM NO.		PAGE NO.
	Holding Company	
1.	It is recommended that Empire HealthChoice Assurance, Inc. continue to comply with the requirements of Article 16 of the New York State Insurance Law. The Company has complied with this recommendation.	10
2.	The management of Empire HealthChoice Assurance, Inc. should be mindful of the maximum limits governing investments in the shares of other insurance companies (including subsidiaries) as set forth in §1408(b) of the NYIL. The Company has complied with this recommendation.	14
3.	It is recommended that Empire HealthChoice Assurance, Inc. continue to comply with the requirements of §1408 of the NYIL regarding additional contributions to the surplus of its insurer and HMO subsidiaries. The Company has complied with this recommendation.	14

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM			PAGE NO.
A.		Management and Controls	
	i.	It is recommended that better recordkeeping be prepared in regard to recording changes to the board's members.	8
	ii.	It is recommended that EHCA complies with Section 1202(a)(2) of the New York Insurance Law by maintaining the required number of board members at all times.	8
B.		Holding Company System	
	i.	It is recommended that EHCA complies with Section 1505(d)(3) of the New York Insurance Law and refrain from enacting agreements requiring the Superintendent's approval until such approval has been obtained.	12
	ii.	It is recommended that EHCA continues to provide its management with summary reports of inter-company expense allocations and that these reports be used to verify that the expenses allocated to the Company are fair and equitable.	13
C.		Accounts and Records	
	i.	It is recommended that EHCA reviews its investment portfolio more frequently than quarterly, at least monthly, to ensure compliance with all applicable New York investment limitation statutes and internal guidelines.	14
	ii.	It is recommended that EHCA continues to ensure compliance with New York Insurance Department Regulation 152 by ensuring that the record retention schedule is available for reference and is clear and complete.	14
D.		Internal Controls	
		It is recommended that EHCA continues to improve and enhance its internal control environment by ensuring that control descriptions are clear, adequately described and meet the criteria of a control.	16

ITEM		**PAGE NO.**
E.	Facilitation of Examination	
	It is recommended that EHCA improves its procedures for facilitating examinations. These comments are also directed at the Company's independent certified public accountant in regard the requirements of Section 307(b) of the New York Insurance Law and Department Regulation 118 (11 NYCRR 89).	18

Appointment No. 22489

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:

INS Regulatory Insurance Services, Inc.

as a proper person to examine into the affairs of the

Empire HealthChoice Assurance Inc.

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