REPORT ON EXAMINATION

OF THE

HEALTH INSURANCE PLAN OF GREATER NEW YORK

AS OF

DECEMBER 31, 2011

DATE OF REPORT	**DECEMBER 31, 2015**
EXAMINER	**JO LO HSIA**

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Andrew M. Cuomo
Governor

Shirin Emami
Acting Superintendent

December 31, 2015

Honorable Shirin Emami
Acting Superintendent of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and acting in accordance with the instructions contained in Appointment No. 30868, dated July 31, 2012, and annexed hereto, an examination has been made into the financial condition and affairs of the Health Insurance Plan of Greater New York, a not-for-profit health service corporation licensed pursuant to Article 43 of the New York Insurance Law, as of December 31, 2011, and the following report thereon is respectfully submitted.

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

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

Wherever the designation "HIPIC" appears herein, without qualification, it should be understood to indicate the HIP Insurance Company of New York, a subsidiary of HIPNY.

Wherever the designation "EmblemHealth" appears herein, without qualification, it should be understood to indicate EmblemHealth, Inc., the ultimate Parent of HIPNY.

Wherever the designation “GHI” appears herein, without qualification, it should be understood to indicate Group Health Incorporated, a subsidiary of HIPNY.

Wherever the designation “GHI HMO” appears herein, without qualification, it should be understood to indicate GHI HMO Select, Inc., a subsidiary of HIPNY.

Wherever the designation the “Department” appears herein, without qualification, it should be understood to indicate the New York State Department of Financial Services.

A separate market conduct examination reviewing the manner in which HIPNY conducts its business practices and fulfill its contractual obligations to policyholders and claimants is currently being conducted as of December 31, 2011. A separate report will be submitted thereon.

A concurrent examination was made of HIPIC, a for-profit health insurance company licensed pursuant to the provisions of Article 42 of the New York Insurance Law, and the subsidiary of HIP Holdings, Inc., and ultimately HIPNY. A separate report thereon has been submitted for HIPIC.

1. EXECUTIVE SUMMARY

The examination revealed several operational deficiencies that occurred during the examination period. The following are the significant findings included within this report on examination:

- As of the report date, EmblemHealth's enterprise risk management function was not fully developed, in accordance with Circular Letter No. 14 (2011).
- The Plan did not comply with the requirements of Section 1505(a) of the New York Insurance Law and Part 109.3(h)(1) of Insurance Regulation No. 30 when it failed to properly allocate certain expenses.
- The Plan did not comply with the requirements of Part 89.5(e)(2) of Insurance Regulation No. 118 when it failed to attach the required statement to its filed audited financial statements for reporting years 2010 and 2011.
- The Plan's Audit Committee did not comply with the requirements of Part 89.5(h) of Insurance Regulation No. 118 when it failed to pre-approve all its non-audit services provided by its CPA and document such in its meeting minutes.

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

2. SCOPE OF THE EXAMINATION

The Plan was previously examined as of December 31, 2006. This examination of the Plan was a financial examination as defined in the National Association of Insurance Commissioners ("NAIC") *Financial Condition Examiners Handbook, 2012 Edition* (the "Handbook") and it covers the five-year period January 1, 2007 through December 31, 2011. The examination was conducted observing the guidelines and procedures in the Handbook and, where deemed appropriate by the examiner, transactions occurring subsequent to December 31, 2011, were also reviewed.

This examination was conducted on a risk-focused basis in accordance with the provisions of the Handbook, which provides guidance for the establishment of an examination plan based on the examiner's assessment of risk in the Plan's operations and utilizes that evaluation in formulating the nature and extent of the examination. The examiner planned and performed the examination to evaluate the Plan's current financial condition, as well as to identify prospective risks that may threaten the future solvency of HIPNY.

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

Information concerning the Plan's organization structure, business approach and control environment were utilized to develop the examination approach. The examination evaluated the

Plan's risks and management activities in accordance with the NAIC's nine branded risk categories.

These categories are as follows:

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

The Plan was audited annually, for the years 2007 through 2011, by the accounting firm of Deloitte & Touche LLP ("D&T"). The Plan received an unqualified opinion in each of those years. Certain audit workpapers of D&T were reviewed and relied upon in conjunction with this examination. EmblemHealth, Parent of both HIPNY and HIPIC, has an Internal Audit Department and a separate Internal Control Department, which have been given the task of assessing the internal control structure and compliance with the Sarbanes-Oxley Act of 2002 ("SOX") for HIPNY and HIPIC. As a non-public company, the Plan is not obligated to comply with SOX directives, and accordingly, is not required to submit an assessment of its internal control structure to the U.S. Securities and Exchange Commissions. However, HIPNY has nonetheless decided to move toward becoming SOX compliant and established a department to achieve this goal. Where applicable, SOX workpapers and reports were reviewed and portions thereof were relied upon for this examination.

The examiner reviewed the corrective actions taken by the Plan with respect to the recommendations concerning financial issues contained in the prior report on examination. The results of the examiner's review are contained in Item 6 of this Report.

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

3. DESCRIPTION OF THE PLAN

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

On November 15, 2006, having received regulatory approval from the Department, HIPNY and GHI, a not-for-profit health service corporation licensed under the provisions of Article 43 of the New York Insurance Law became affiliated companies. As a result of this transaction, EmblemHealth, a New York not-for-profit charitable organization established to implement, expand and coordinate community outreach, medical research and other community based activities that support the well-being of the diverse population of the New York

metropolitan area, became the sole member and parent corporation of HIPNY, GHI and their respective subsidiaries. HIPNY and GHI named an equal number of directors to the EmblemHealth Board.

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

In December 2010, with the approval of the Department, HIPNY replaced EmblemHealth as the sole corporate member of GHI. In 2013, subsequent to the examination period, EmblemHealth filed to restructure the ownership of EmblemHealth Services Company, LLC such that it is wholly owned by HIPNY. Such transaction was approved by the Department.

Pursuant to Section 4301(j) and Section 7317 of the New York Insurance Law (the "Conversion Legislation"), HIPNY and GHI filed a plan of conversion (the "Conversion Plan") on April 16, 2007 seeking the approval of the Department's Superintendent (the "Superintendent") to convert from their not-for-profit status to for-profit status. The Conversion Plan was amended and refiled on December 31, 2007. Pursuant to the plan of conversion, HIPNY and GHI, both not-for-profit entities, would become for-profit entities. The Conversion Plan, at present, however, must first be further amended and re-submitted to the Department. HIPNY and GHI anticipate filing such amended Conversion Plan in the future but at present has no specific or immediate plans to amend and file the Conversion Plan.

A. Management and Controls

1. Corporate Governance

Corporate governance, internal audit department ("IAD"), and model audit rule ("MAR") processes for the Plan are provided by EmblemHealth, Inc., the ultimate parent of the Plan.

Exhibit M of the Handbook (Understanding the Corporate Governance Structure) was utilized by the examiner as guidance for assessing the Plan's Corporate Governance.

Section 1110, – *Organizational Independence* – of The International Standards for the Professional Practice of Internal Auditing, issued by the Institute of Internal Auditors ("IIA") states in part:

> "The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity…
>
> Organizational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:
>
> - Approving the internal audit charter;
> - Approving the risk based internal audit plan;
> - Approving the internal audit budget and resource plan;
> - Receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters;
> - Approving decisions regarding the appointment and removal of the chief audit executive;
> - Approving the remuneration of the chief audit executive... "(***emphasis added***)

It should be noted that the Board of Directors delegated its oversight function of Internal Audit to the Plan's Audit Committee.

The Chief Audit Executive of the Internal Audit Department of the Plan and its Parent, EmblemHealth, Inc. is also EmblemHealth's Senior Vice President ("SVP") of Corporate Compliance and Internal Audit. It was noted that the Chief Audit Executive reported functionally to the Audit Committee, however, it was also noted that the Audit Committees of the Plan and EmblemHealth did not establish a formal evaluation process to measure the performance of this Chief Audit Executive. It was further noted that the Audit Committees did not determine nor approve the compensation package for this individual. Instead, the Compensation Committees of the Plan and EmblemHealth not only determined the salary of the Chief Audit Executive of the Internal Audit Department but also determined and approved the incentive compensation of the Chief Audit Executive of the Internal Audit Department based on the financial performance goals and certain other goals of the Plan and EmblemHealth.

The performance and compensation of the Chief Audit Executive should be determined and measured by the Audit Committee to ensure independence.

It is recommended that the Audit Committees of the Plan and its Parent, EmblemHealth, Inc. adhere to the provisions of Standard 1110 of The IIA International Standards for the Professional Practice of Internal Auditing by formally evaluating the performance of their Chief Audit Executive, and also by approving the annual compensation and salary adjustment of the position.

Section 1100 - *Independence and Objectivity* - of The IIA International Standards for the Professional Practice of Internal Auditing states in part:

> "Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others..."

Section 1110.A1 - *Organizational Independence* - of The IIA International Standards for the Professional Practice of Internal Auditing states:

> "The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results."

The internal audit function serves as an integral control to ensure that the Plan is in compliance with rules, regulations, and best practices. Compliance is an area reviewed by the internal audit staff. The Chief Audit Executive must be free from interference in determining the scope of internal audits, performing audit work plans, and communicating audit findings. The competing interests of overseeing both compliance and internal audit creates an appearance of conflict of interest that can undermine confidence in the internal audit function and impair an individual's ability to objectively perform their duties and responsibilities.

It should be noted that the Senior Vice President of Compliance, Internal Audit & Internal Controls of the Plan and EmblemHealth, oversees both the compliance and the internal audit functions of the Plan, which creates the appearance of a conflict of interest.

It is recommended that the Plan and EmblemHealth ensure the objectivity and independence of their internal audit department by applying the practices prescribed by Sections 1100 and 1110.A1 of the IIA International Standards for the Professional Practice of Internal Auditing, by having separate individuals head their Compliance Department and their Internal Audit Department.

2. Board of Directors

In accordance with its by-laws, the Plan is to be managed by a Board of Directors consisting of not less than seven (7) nor more than twenty-one (21) directors. Additional requirements of the by-laws are that not more than one-fifth of the directors shall be persons licensed to practice medicine in the state of New York or are trustees, directors or employees of a corporation for hospital purposes and that not more than one-eighth of the directors shall be persons who are employees who serve as officers of the Plan. The following listing, displayed by the classifications set forth in Section 4301(k) of the New York Insurance Law, represents HIPNY's twelve directors and their principal business affiliations as of December 31, 2011:

Name and Residence	**Principal Business Affiliation**
	Subscriber Directors
David Cooper, MD Old Westbury, NY	Chief Executive Officer, ProHealth Care Associates
Karen Davis New York, NY	Organizational Consultant, Self-Employed
Paul Gibson Uniondale, NY	Assistant Vice President, Investment Administration Continental Grain Company
Oliver Gray New York, NY	Associate Director, D.C. 37, AFSCME, AFL-CIO
John O'Connor Staten Island, NY	Consultant
	Officers-Directors
Anthony L. Watson West Orange, NJ	Chairman and Chief Executive Officer, Emblem Health, Inc.

Name and Residence	**Principal Business Affiliation**
	Public Interest Directors
Robert Brokaw Garden City, NY	Human Resources Executive, Self-Employed
Gregory Floyd Valley Stream, NY	President, Local 237, IBT
Elaine Friedman, Esq. Ardsley, NY	Attorney, Self-Employed
Margaret Pan-Loo, PhD Flushing, NY	President, Pan Real Estate
Charles Wang New York, NY	Co-chairman, China Aids Fund
David Weiss, PhD Northport, NY	Professor Emeritus, Hofstra University

The minutes of all meetings of the Board of Directors, and committees thereof held during the examination period were reviewed. Board meetings were generally well attended, with all directors attending at least one-half of the meetings they were eligible to attend.

It should be noted that during the examination period, HIPNY's Board of Directors never performed a self-assessment with regard to their legal and fiduciary responsibilities.

It is recommended, as a good business practice, that the Board of Directors of HIPNY conduct periodic self-assessments.

3. Committees of the Board of Directors

Standing committees of the Board of Directors include the Executive, Nominating, Audit and Compliance, Compensation, Quality Improvement, and Investment and Finance

Committees. In addition to the requirements set forth in the by-laws of the Board of Directors, each of the Committees is also subject to its own charter.

During the examination period it was noted that only one Nominating Committee meeting was held. Section III - *Committee Structure and Operations* - of HIPNY's Nominating Committee Charter states in part:

> "…the Committee shall meet as often as it is necessary to fulfill its responsibilities, but no less frequently than once a year."

It is recommended that the Plan's Nominating Committee comply with the provisions of its charter by meeting at least once a year to fulfill its responsibilities.

During the examination period, HIPNY's Audit Committee often met jointly with EmblemHealth, Inc.'s and GHI's Audit Committees. All of these combined meetings were headed by EmblemHealth's Audit Committee.

It should be noted that the responsibilities of HIPNY's, EmblemHealth, Inc.'s, and GHI's, Audit Committees are defined differently in their corresponding charters, although they have similar functions. For the purpose of ensuring uniformity amongst the Audit Committees of HIPNY, EmblemHealth, and GHI, good business practice dictates that the provisions of each company's Audit Committee charter be consistent.

It is recommended, as a good business practice, that the provisions of HIPNY's, EmblemHealth's, and GHI's Audit Committee charters be consistent with one another.

4. Executive Officers

Executive Officers of the Plan are elected by the Board of Directors at its annual meeting for a term of one year, and serve at the discretion of the Board of Directors. The Executive Officers of the Plan at December 31, 2011 were as follows:

Name	**Position**
Anthony L. Watson	Chairman and Chief Executive Officer
Frank J. Branchini	President and Chief Operating Officer
Michael D. Fullwood	Executive Vice President, General Counsel and Chief Financial Officer

On May 31, 2013, subsequent to the examination date, Anthony L. Watson was replaced by Frank J. Branchini as Chairman and Chief Executive Officer. Additionally, Daniel Finke replaced Frank J. Branchini as President and Chief Operating Officer ("COO"). In early 2014, Daniel Finke left the Plan. Michael Fullwood was replaced on March 30, 2012 by Arthur Byrd as the Chief Financial Officer of the Plan. In addition, Nicholas Kambolis replaced Michael Fullwood as the General Counsel on March 30, 2012. Further, Jeffrey Chansler replaced Nicholas Kambolis as the General Counsel in December of 2014. Subsequently, the COO position was subsequently filled by William Lamoreaux; and as of August 3, 2015, the position of President was filled by Karen Ignagni, who also became Chief Executive Officer as of September 1, 2015.

B. Territory and Plan of Operation

HIPNY is a health service corporation licensed under Article 43 of the New York Insurance Law. HIPNY has also been operating under the authority of Article 44 of the Public

Health Law as a health maintenance organization ("HMO") since 1978. The Plan's total network of independent physicians and other providers, including the networks of its subsidiaries, comprises approximately 75,000 physicians. HIPNY is licensed to do business in New York State only.

The Plan is a diversified model HMO that offers a broad spectrum of group and network-based managed care options, including standard HMO and Point-of-Service ("POS") products. All HIPNY's products are marketed under the brand name of EmblemHealth.

As of December 31, 2011, the Plan's primary internal business divisions were focused on the following segments: commercial large and small employer group business, Medicare programs, and New York State sponsored programs, including Medicaid, Child Health Plus ("CHP") and Family Health Plus ("FHP").

Total enrollment declined by 18.14% during the examination period. The following shows the number of members enrolled and corresponding net premiums written at the end of each year of the five-year examination period:

Year	Enrollment	Net Premiums Written
2007	896,675	$ 4,257,396,244
2008	879,322	$ 4,533,587,437
2009	856,840	$ 4,761,799,748
2010	802,244	$ 4,898,783,087
2011	733,985	$ 4,730,569,653

As of December 31, 2011, the total number of members reported by the Plan was 733,985, which represented a decline of 162,690 members over the examination period. Such

decline in membership was primarily due to membership reduction in the Plan's commercial HMO and Point-of-Service (POS) products in 2010 and 2011.

The Plan utilizes an internal sales force as well as independent agents and brokers.

C. Enterprise Risk Management

Insurance Circular Letter No. 14 (2011) states in part:

> "Given the importance of risk management, the Department of Financial Services ("Department") expects every insurer to adopt a formal Enterprise Risk Management ("ERM") function. An effective ERM function should identify, measure, aggregate, and manage risk exposures within predetermined tolerance levels, across all activities of the enterprise of which the insurer is part, or at the company level when the insurer is a stand-alone entity…"

In 2013, subsequent to the examination date, EmblemHealth started to develop its ERM function with the assistance of the certified public accounting firm of Dixon Hughes Goodman, LLP. However, it was noted that as of the report date EmblemHealth's ERM function was still not fully developed.

It is recommended that EmblemHealth continue to develop its ERM function in accordance with the provisions of Insurance Circular Letter No. 14 (2011).

D. Holding Company System

The Plan is a wholly-owned subsidiary of EmblemHealth, Inc., formerly known as *HIP Foundation, Inc*. EmblemHealth is a New York not-for-profit charitable organization established to implement, expand and coordinate community outreach, medical research and other community based activities that support the well-being of the diverse population of the New York metropolitan area.

HIPNY is the sole member of Group Health Incorporated ("GHI"). GHI is a not-for-profit health service corporation operating statewide in New York under the provisions of Article 43 of the New York Insurance Law. GHI is the sole member of GHI Services, LLC. GHI Services, LLC is the sole shareholder of GHI HMO Select, Inc., doing business as GHI HMO. On June 26, 2013, with the approval of the Attorney General and this Department, GHI HMO merged into HIPNY.

HIPNY owns 100% of the outstanding stock of HIP Holdings, a Delaware holding corporation. HIP Holdings, Inc., owns all of the outstanding stock of HIP Insurance Company of New York, HIP Administrators of Florida, Inc. ("HIPA"), HIP Network Services IPA, Inc., ConnectiCare Holding Company, Inc. ("ConnectiCare"), and Vytra Health Plan Managed Systems, Inc. ("VMS"). ConnectiCare is a managed care company that provides managed care services to approximately 245,000 members primarily in the State of Connecticut. On January 24, 2011, ConnectiCare of New York, Inc. was merged with GHI HMO.

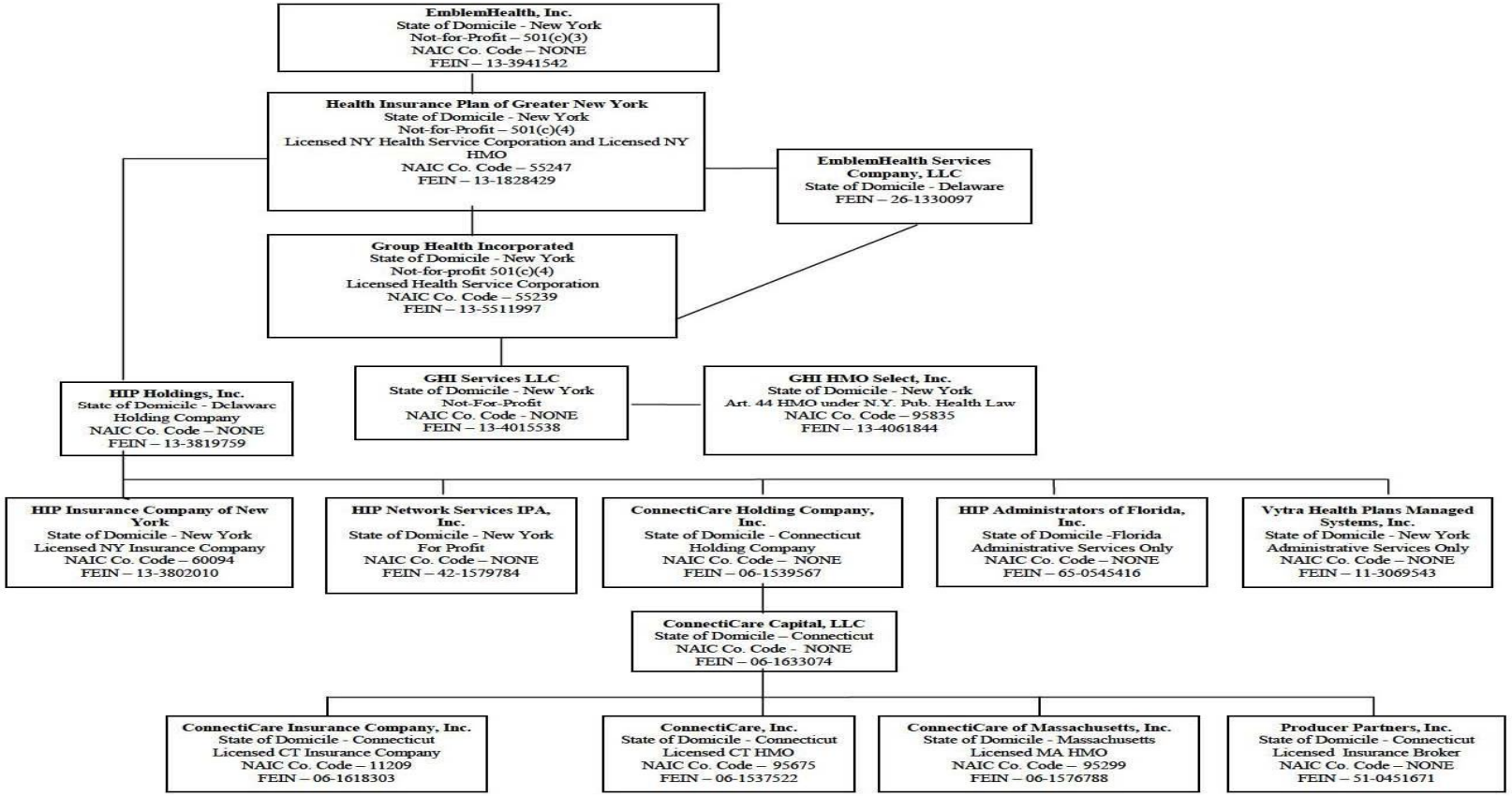
On September 30, 2005, Centralized Laboratory Services, Inc. ("CLS"), a wholly-owned subsidiary of HIPNY, was merged with and into HIPNY, pursuant to approval of the Supreme Court of the State of New York. CLS was organized in September 1965 as a New York not-for-profit corporation. On March 11, 2010, HIPNY ceased operations of CLS, and began the process of closing the CLS facility. HIPNY completed its settlement of CLS related expenses in 2011.

On January 1, 2006, HIPNY acquired The PerfectHealth Insurance Company, Inc., a for-profit provider of high deductible health plans and health savings account products in the New York market. On December 31, 2009, the PerfectHealth Insurance Company formally merged

with Group Health Incorporated. The consideration paid by GHI for the merger was in the form of a New York Insurance Law Section 1307 loan payable to HIP Holdings, Inc. There was no gain or loss recorded on the transaction.

On July 12, 2012 HIPA changed its name to EmblemHealth Administrators, Inc., by filing an amendment to its Certificate of Incorporation with the Florida Secretary of State.

An organizational chart depicting the relationship between the Plan and significant entities in its holding company system as of December 31, 2011 is as follows:



During the period of 2008 to 2011, HIPNY operated under the following administrative service agreements, which it entered into with members of its holding company system on September 18, 2008:

- Intercompany Administrative Services Agreement with EmblemHealth Services Company, LLC (the "EHS Service Agreement")
- Intercompany Administrative Services Agreement with ConnectiCare Capital LLC (the "CCC LLC Service Agreement")
- Intercompany Administrative Services Agreement with HIP Administrators of Florida Inc. (the "HIPA Service Agreement")

The aforementioned intercompany administrative service agreements were made for the purpose of the exchange of services and the use of certain personnel, facilities, equipment, personal property, licenses, and contracts owned or leased by each named party in the agreements.

Under the EHS Service Agreement, EHS provided management services and general administrative services such as accounting and financial services, investing, underwriting, rate and form development and filings, claims processing and other services to HIPNY. The administrative services provided by EHS are reimbursed by HIPNY on a pro-rata basis through intercompany accounts.

Under the CCC LLC Service agreement, ConnectiCare Capital LLC provides administrative services to EmblemHealth's ConnectiCare subsidiaries. Although HIPNY is a signing party of the CCC LLC Service Agreement, it should be noted that there were no direct services exchanged between HIPNY and ConnectiCare Capital LLC during the examination period.

Under the HIPA Service Agreement, HIPA provided claims processing and certain member services for HIPNY's members. At the same time, HIPNY provided certain administrative and management services for HIPA. The services were charged based on rates set forth in the HIPA Agreement.

E. Allocation of Expenses

Section 1505(a) of the New York Insurance Law states:

> "Transactions within a holding company system to which a controlled insurer is a party shall be subject to the following:
> (1) the terms shall be fair and equitable;
> (2) charges or fees for services performed shall be reasonable; and
> (3) expenses incurred and payments received shall be allocated to the insurer on an equitable basis in conformity with customary insurance accounting practices consistently applied."

Part 106.3(h)(1) of Insurance Regulation No. 30 (11 NYCRR 106.3(h)(1) - Allocation of Joint Expenses to Companies - states in part:

> "…(1) The bases of allocation used shall be appropriate and applicable to the expenses to which such bases are applied. All bases shall be limited and subdivided in such manner that the expenses to which the bases are applied have a reasonable relationship to each component of the bases. For example, an allocation basis which includes a particular line of business shall not be applied to expenses incurred for activities which do not include that line."

HIPNY and HIPIC have an intercompany administrative services agreement dated September 18, 2008 with EmblemHealth Services Company, LLC ("EHS"). The cost of the administrative services provided by EHS are determined through its allocation process and reimbursed by HIPNY and HIPIC in accordance with the terms listed in Exhibit 7 of the agreement.

Exhibit 7 of HIPNY and HIPIC's agreement with EHS states in part:

> "The Provider Company will charge the Recipient Company its pro-rata share of certain costs incurred on behalf of itself. All such charges and allocations shall be subject to and consistent with the New York Insurance Department Regulation 30 (11 NYCRR 105 through 109)…"

It should be noted that EHS' allocation methodology is driven by various activities such as marketing, advertising, claim processing, financial reporting, etc. EHS classified its services into cost centers based on the nature of these activities. EHS' allocation process involved four major steps:

(1) Overhead allocation;
(2) Management fee for various contracts;
(3) Inter-unit allocation (aka "entity allocation");
(4) Product allocation (aka "Line of Business allocation").

EHS uses various drivers such as member months, revenue, claims and enrollment for its inter-unit and product line allocations for each cost center. Overhead expenses are allocated by either full-time-equivalent ("FTE") or benefits (salary and FTE) depending on the type of expense.

In conjunction with Department's review of HIPNY's 2013 and 2014 Child Health Plus rate applications, the examiner selected and reviewed the allocation process for one of the cost centers, the "Government Program Sales" cost center.

It was noted that prior to 2011, HIPNY used member months as the driver to allocate the expenses of its "Government Program Sales" cost center on the entity level (aka "inter-unit allocation") as well as on Line of Business level (aka "product allocation"). However, in 2011,

the driver for the product allocation of this cost center was switched to “new sales”, while the driver for the inter-unit allocation of this cost center remained at member months.

Furthermore, the examiner found that the statistical factors used to calculate the percentage allocation of this cost center were based on estimated numbers rather than actual results.

It is recommended that EHS comply with Section 1505(a) of New York Insurance Law and Part 11 NYCRR 106.3(h)(1) of Insurance Regulation No. 30 by ensuring all that drivers used for the allocation of expenses are consistent, appropriate and applicable to the expenses to which such bases are applied for its allocation process.

It is also recommended that EHS use actual results and not estimates to perform the allocation percentages calculation(s).

F. Insurance Regulation No. 118 (11 NYCRR 89) - Model Audit Rule

Part 89.5(e)(2) of Insurance Regulation No. 118 (11 NYCRR 89) states:

> “The company shall attach a statement to its audited annual financial statement, when filed, that the CPA does not function in the role of management, does not audit his or her own work, and does not serve in an advocacy role for the company.”

Part 89.5(h) of Insurance Regulation No. 118 (11 NYCRR 89) states:

> “(h) The company’s audit committee shall pre-approve all auditing services and non-audit services provided to the company by a CPA of the company except that a company need not preapprove non-audit services if:
> (1) the company is a SOX compliant company or a direct or indirect wholly-owned subsidiary of a SOX compliant company; or
> (2)(i) the aggregate amount of all such non-audit services provided to the company constitute five percent or less of the total amount of fees paid by the company to its CPA during the fiscal year in which the nonaudit services are provided;

> (ii) the services were not recognized by the company at the time of the engagement to be non-audit services; and
> (iii) the services are promptly brought to the attention of the audit committee and approved prior to the completion of the audit by the audit committee, or by one or more members of the audit committee who are the members of the board of directors to whom authority to grant such approvals has been delegated by the audit committee."

The Plan failed to attach the statement required by Part 89.5(e)(2) of Insurance Regulation No. 118 (11 NYCRR 89) when it filed its audited financial statements with the Department for reporting years 2010 and 2011.

HIPNY was audited annually, for the years 2007 through 2011, by the accounting firm of Deloitte & Touche LLP ("D&T"). It should be noted that in addition to the auditing services, D&T also provided non-audit services such as tax compliance, services in connection with the conversion and the filing of the S-1 Registration Statement, and services related to Medicare data validation. A review of the Audit Committee's minutes revealed the discussions of these non-audit services during the meetings. However, in some instances, the minutes failed to indicate that these non-audit services were pre-approved by the Audit Committee.

It is recommended that the Plan comply with the requirements of Part 89.5(e)(2) of Insurance Regulation No. 118 (11 NYCRR 89) by attaching the required statement to its filed audited financial statements.

It is also recommended that the Plan's Audit Committee comply with the requirements of Part 89.5(h) of Insurance Regulation No. 118 (11 NYCRR 89) by pre-approving all non-audit services performed by its CPA and documenting such in its meeting minutes.

4. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and capital and surplus as contained in the Plan's 2011 filed annual statement, a condensed summary of operations and a reconciliation of the surplus account for each of the years under review. The examiner's review of a sample of transactions did not reveal any differences which materially affected the Plan's financial condition as presented in its financial statements contained in the December 31, 2011 filed annual statement.

Independent Accountants

The accounting firm of Deloitte & Touche LLP ("D&T") was retained by the Plan to audit the Plan's combined statutory basis statements of financial position as of December 31st of each year in the examination period, and the related statutory-basis statements of operations, surplus and cash flows for the year then ended. The Plan received an unqualified opinion in each of those years.

D&T concluded that the statutory financial statements presented fairly, in all material respects, the financial position of the Plan at the respective audit dates. Balances reported in these audited financial statements were reconciled to the corresponding years' annual statements with no discrepancies noted.

Assets	
Bonds	$ 776,711,293
Preferred stocks	906,610
Common stocks	359,250,093
Properties held for the production of income	85,264,871
Cash, and short-term investment	370,696,283
Other invested assets	48,527,906
Receivables for securities	145,241
Subtotal, cash and invested assets	1,641,502,297
Investment income due and accrued	6,044,492
Uncollected premiums and agents' balances in course of collection	184,790,538
Accrued retrospective premiums	1,796,487
Amounts recoverable from reinsurer	2,353,816
Amounts receivable relating to uninsured plans	6,977,699
Electronic data processing equipment, and software	3,416,941
Furniture and equipment, including health care delivery assets	68,171,612
Receivables from parent, subsidiaries and affiliates	67,306,029
Health care and other amounts receivable	65,904,962
Aggregate write-ins for other than invested assets	914,742
Total assets	$ 2,049,179,615
Liabilities	
Claims unpaid	$ 430,328,013
Accrued medical incentive pool and bonus amount	37,287,252
Unpaid claims adjustment expenses	12,983,282
Aggregate health policy reserves	2,705,611
Premiums received in advance	11,476,568
General expenses due or accrued	103,928,830
Remittances and items not allocated	1,794,058
Amounts due to parent, subsidiaries and affiliates	9,304,338
Liability for amounts held under uninsured plans	2,881,280
Aggregate write-ins for other liabilities	88,977,525
Total liabilities	$ 701,666,757
Capital and Surplus	
Aggregate write-ins for other than special surplus funds	590,373,949
Unassigned funds	757,138,909
Total capital and surplus	$ 1,347,512,858
Total liabilities, capital and surplus	$ 2,049,179,615

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

B. Statement of Revenue and Expenses and Capital and Surplus

Surplus increased $422,980,909 during the five-year examination period, January 1, 2007 through December 31, 2011, detailed as follows:

Revenue		
Net premium income	$ 23,182,136,169	
Change in unearned premium reserve and reserve for rate credit	4,898,842	
Total revenue		$ 23,187,035,011
Expenses		
Hospital/ medical benefits	$ 18,128,140,095	
Prescription drugs	1,557,646,734	
Aggregate write-ins for other hospital and medical expenses	268,379,376	
Incentive pool, withhold adjustments and bonus amounts	120,528,118	
Total hospital and medical expenses	$ 20,074,694,323	
Claims adjustment expenses	545,701,798	
General administrative expenses	2,140,221,605	
Total underwriting deductions		22,760,617,726
Net underwriting gain		$ 426,417,285
Net investment gain		85,416,722
Net loss from agents' or premium balances charged-off		(2,235,805)
Aggregate write-ins for other expenses		(4,422,589)
Net income before federal income taxes		$ 505,175,613
Federal and foreign income taxes incurred		1,742,594
Net income		$ 503,433,019

Changes in Surplus

	Gains in Surplus	Losses in Surplus	
Surplus, per report on examination, as of December 31, 2006			$ 924,531,949
Net income	$ 503,433,019		
Change in net unrealized capital losses		91,437,724	
Change in unrealized foreign exchange capital loss		9,497,040	
Change in net deferred income tax		11,032	
Change in nonadmitted assets	93,850,709		
Cumulative effect of changes in accounting principles	10,000,586		
Aggregate write-ins losses in surplus		83,357,609	
Net change in surplus			422,980,909
Surplus, per report on examination as of December 31, 2011			$ 1,347,512,858

5. STATUTORY RESERVES

Section 4310(d)(2) of the New York Insurance Law states in part:

> "Every such corporation shall maintain a reserve, designated as the statutory reserve fund, which shall from time to time during each calendar year be increased in an amount equal to at least one per centum of the net premium income of such corporation during such whole calendar year, provided however, that…
>
> (2) the statutory reserve fund at the end of any calendar year shall not exceed twelve and one-half per centum of the net premium income of such calendar year..."

Pursuant to Section 4310(d)(2) of the New York Insurance Law, HIPNY is required to maintain a statutory reserve fund that meets the requirements set forth above. For the entire examination period, HIPNY's reported statutory reserves met such minimum reserve requirement.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

There were eleven (11) comments and recommendations from the prior financial report on examination as of December 31, 2006. They are repeated herein as follows (page numbers refer to the prior report):

ITEM NO.		PAGE NO.
	Management and Controls	
1.	The Audit Committee should have members who have the appropriate background to provide oversight to the Plan's internal audit process. *HIPNY has complied with this recommendation*.	8
2.	To maintain independence of the internal audit function, it is recommended that the SVP of Corporate Compliance and Internal Audit continue to report directly to the Audit Committee on audit matters. *HIPNY has complied with this recommendation.*	8
3.	It is recommended that the composition of the Board of Directors comply with the requirements prescribed by Section 4301(k)(1) of the New York Insurance Law. *HIPNY has complied with this recommendation.*	11
4.	It is again recommended that HIPNY take corrective action by developing a policy to evaluate whether Board members who are unable or unwilling to attend meetings consistently should resign or be replaced. Furthermore, in selecting prospective members, a key criterion should be their willingness and commitment to attend meetings and participate in the Board's responsibility to oversee the operations of the Plan. *HIPNY has complied with this recommendation.*	12
5.	It is recommended that the Plan ensure that the Audit Committee be comprised of at least one individual with a financial background. *HIPNY has complied with this recommendation.*	14

ITEM NO.		PAGE NO.
6.	In addition, it is recommended that the Plan's Board of Directors meet more frequently when significant events and/or transactions are occurring. The Board of Director's review and involvement with major acquisitions should be clearly documented and should provide an independent assessment of the major assumptions made by management. *HIPNY has complied with this recommendation.*	14
	Abandoned Property	
7.	It is recommended that the Plan revise its operational process to provide accurate and detailed guidelines to ensure timely processing of its abandoned property, as well as its compliance with the laws and regulations of New York State. *The recommendation is no longer applicable as insurance companies are no longer required to file a primary report with the New York State Comptroller's Office.*	25
8.	It is also recommended that all of the Plan's operational process documents involving compliance issues be reviewed by the Legal Department to ensure complete and accurate interpretation of the laws and regulations of New York State. *HIPNY has complied with this recommendation.*	
9.	Accounts and Records It is recommended that the Plan retain appropriate supporting documentation in future testing of IT related internal controls. *HIPNY has complied with this recommendation.*	25
10.	It is also recommended that all critical systems and applications be tested on an annual basis. *HIPNY has complied with this recommendation*.	27
	Cash	
11.	It is recommended that the Plan properly record the existence of all financial security deposits as statutorily required by Section 101.5(b) of Department Regulation No.164. *HIPNY has complied with this recommendation.*	33

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

Respectfully submitted,

_____/S/_____
JoLo Hsia
Associate Insurance Examiner

STATE OF NEW YORK)
) SS
)
COUNTY OF NEW YORK)

JoLo Hsia, being duly sworn, deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.

_____/S/_____
JoLo Hsia

Subscribed and sworn to before me
this _____ day of_____2015.

APPOINTMENT NO. 30868

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, ***BENJAMIN M. LAWSKY****, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:*

JoLo Hsia

as a proper person to examine the affairs of the

Health Insurance Plan of Greater New York

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

Plan

with such other information as she shall deem requisite.

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

this 31st day of July, 2012

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By: Stephen J. Wiest

Stephen J. Wiest
Deputy Bureau Chief
Health Bureau