REPORT ON EXAMINATION

OF THE

ALLEGANY-CATTARAUGUS SCHOOLS

MEDICAL HEALTH PLAN

AS OF

JUNE 30, 2010

DATE OF REPORT **SEPTEMBER 12, 2012**

EXAMINER **CHARLES J. MCBURNIE**

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September 12, 2012

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
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 30649, dated January 26, 2011, and attached hereto, I have made an examination into the condition and affairs of Allegany-Cattaraugus Schools Medical Health Plan, as of June 30, 2010, a municipal cooperative health benefit plan licensed pursuant to the provisions of Article 47 of the New York Insurance Law and respectfully submit the following report thereon.

The examination was conducted at the home office of Allegany-Cattaraugus Schools Medical Health Plan located at 1825 Windfall Road, Olean, New York.

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

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

It should be noted that the New York Insurance Department merged with the New York State Banking Department on October 3, 2011 to become the New York State Department of Financial Services.

1. SCOPE OF THE EXAMINATION

The previous examination of the Plan was conducted as of June 30, 2005. This examination of the Plan was a combined financial and market conduct examination and covered the five-year period from July 1, 2005 through June 30, 2010. The financial component of the examination was conducted as a financial examination, as defined in the National Association of Insurance Commissioners ("NAIC") *Financial Condition Examiners Handbook, 2010 Edition* ("the Handbook"). The examination was conducted observing the guidelines and procedures in the Handbook. Where deemed appropriate by the examiner, transactions occurring subsequent to fiscal year June 30, 2010 were also reviewed.

The financial portion of the 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 utilized 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 identify prospective risks that may threaten the future solvency of the Plan. The risk-focused examination approach was included in

the Handbook for the first time in 2007; thus, this was the first such type of examination of the Plan.

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 the NAIC Annual Statement instructions.

Information concerning the Plan's organizational 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 2005 through 2010, by the accounting firm Raymond F. Wager, CPA, P.C. The Plan received an unqualified

opinion in each of those years. Certain audit work papers of Raymond F. Wager, CPA, P.C. were reviewed and relied upon in conjunction with this examination.

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 examination.

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

2. DESCRIPTION OF THE PLAN

The Board of Cooperative Educational Services Sole Supervisory District of Cattaraugus, Allegany, Erie and Wyoming Counties (“BOCES”) and its twenty-one member school districts (“Participants”) formed a Consortium on February 2, 1982. The purpose of the Consortium was to provide for the efficient and economic evaluation, processing, administration and payment of health benefits through self-insurance.

On November 1, 2001, the Plan was issued a certificate of authority by the Superintendent of Insurance under Article 47 of the New York Insurance Law. Pursuant to such certificate of authority and 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, and major medical benefits provided to

covered employees (including retirees) and their dependents under the Plan. Administration for the Plan is provided by BOCES.

The Certificate of Authority also authorized the Plan to conduct the business of a municipal cooperative health benefit plan in the counties of Cattaraugus, Allegany, Erie and Wyoming of this state.

There are currently twenty-one school districts and one BOCES participating in the Plan. The Plan Participants as of December 31, 2010 were as follows:

Allegany-Limestone Central School District
Andover Central School District
Belfast Central School District
Bolivar-Richburg Central School District
Cattaraugus-Allegany Board of Cooperative Educational Services
Cattaraugus-Little Valley Central School District
Cuba-Rushford Central School District
Ellicottville Central School District
Fillmore Central School District
Franklinville Central School District
Friendship Central School District
Genesee Valley Central School District
Hinsdale Central School District
Olean City Central School District
Portville Central School District
Randolph Academy Union Free Central School District
Randolph Central School District
Salamanca City Central School District
Scio Central School District
Wellsville Central School District
West Valley Central School District
Whitesville Central School District

The Plan offers health insurance to the employees, spouses, dependents and retirees of each municipal corporation that are part of the Consortium. Health benefits for covered members are subject to a Plan Document that contains all the terms, provisions and limitations of the health benefit contract and is on file with the Department. The Plan is additionally subject to certain provisions of the General Municipal Law and the Education Law of New York State.

A. Management and Controls

Pursuant to the Municipal Cooperative Agreement, management of the Plan is to be vested in a Board of Directors, comprised of one representative from each participating school district, including BOCES. The Board of Directors of the Plan as of June 30, 2010 was as follows:

Name & Residence	Affiliation
Diane Munro Allegany, New York	Superintendent, Allegany/Limestone Central School District
William Berg Andover, New York	Superintendent, Andover Central School District
Judy May Belfast, New York	Superintendent, Belfast Central School District
Marilyn Capawan Bolivar, New York	Superintendent, Bolivar-Richburg Central School District
Lynda Quick Olean, New York	Superintendent, Cattaraugus/Allegany BOCES
Jon Peterson Cattaraugus, New York	Superintendent, Cattaraugus/Little Valley Central School District
Kevin Shanley Cuba, New York	Superintendent, Cuba/Rushford Central School District
Mark Ward Ellicottville, New York	Superintendent, Ellicottville Central School District
Martin Cox Fillmore, New York	Superintendent, Fillmore Central School District
Michelle Spasiano Franklinville, New York	Superintendent, Franklinville Central School District
Maureen Donahue Friendship, New York	Superintendent, Friendship Central School District
Ralph Wilson Belmont, New York	Superintendent, Genesee Valley Central School District

Name & Residence	Affiliation
Judi McCarthy Hinsdale, New York	Superintendent, Hinsdale Central School District
Colleen Taggerty Olean, New York	Superintendent, Olean Central School District
Thomas Simon Portville, New York	Superintendent, Portville Central School District
Lori DeCarlo Randolph, New York	Superintendent, Randolph Academy Union Central School District
Kimberly Moritz Randolph, New York	Superintendent, Randolph Central School District
Douglas Hay Salamanca, New York	Superintendent, Salamanca Central School District
Tracie Preston Scio, New York	Superintendent, Scio Central School District
Kim Mueller Wellsville, New York	Superintendent, Wellsville Central School District
Hilary Bowen West Valley, New York	Superintendent, West Valley Central School District
Douglas Wyant Whitesville, New York	Superintendent, Whitesville Central School District

According to the Plan's by-laws, the Board of Directors shall meet quarterly and call special meetings at any time upon seventy-two (72) hours written notice. The Board of Directors held regular quarterly meetings during the period under examination. The minutes of all meetings of the board were reviewed. All such meetings were well attended.

Each of the Participants appointed its school district superintendent and also a designee to attend board meetings as a voting representative when the Participant's appointed superintendent was unable to attend such meetings.

Item 2 of the Plan's Municipal Cooperative Agreement states in part:

> "The governing body of the Plan shall be a Board of Directors comprised of the chief executive officer or other designated officer of each Participant…"

In addition, Article I, Item B of the Plan's by-laws states in part:

> "The Board of Directors of the Plan shall be comprised of one representative from each Participant, which shall be the chief executive officer or other designated officer of the Participant…"

It is recommended that the Plan comply with Item 2 of its Municipal Cooperative agreement and Article I, Item B of its by-laws with regard to appointments to the Plan's Board of Directors or amend its Municipal Cooperative Agreement and its by-laws to reflect the current practice of allowing either the Superintendent or Superintendent's designee to attend board meetings.

The Plan subsequently complied with this recommendation.

The minutes of all meetings of the Board of Directors were reviewed. Such meetings were generally well attended, however, it was noted that relative to the board meetings held during the period under examination, one member of the board failed to attend at least one-half of such board meetings.

Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the Plan. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that appropriate decisions may be reached by the board.

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

It was noted that the aforementioned board member's school ceased its participation in the Plan effective January 1, 2011.

Article 1(E) of the Plan's by-laws states:

> "The Chairman of the Board of Directors will be elected annually at the last quarterly meeting of the fiscal year. The Secretary of the Board of Directors will be elected annually at the last quarterly meeting of the fiscal year and will act as Chairman in the absence of the elected Chairman."

A review of the Board of Directors' meeting minutes indicated that the Plan did not elect its Chairman or the Secretary annually at the last scheduled quarterly meeting of the fiscal year in non-compliance with Article 1(E) of its by-laws.

It is recommended that the Board of Directors comply with Article 1(E) of its by-laws and elect the Chairman of the Board and Secretary of the Board annually at the last scheduled quarterly meeting of the fiscal year.

The Plan subsequently complied with this recommendation.

Further review of the Plan's by-laws determined that there were no provisions in its by-laws for the establishment of a position of Vice-Chairperson of the Board of Directors. However, a review of the Board of Directors meeting minutes dated June 10, 2011, revealed that the Plan elected a member of the board to the position of Vice-Chairman of the Board of Directors.

It is recommended that the Plan amend its by-laws and its Municipal Cooperation Agreement to reflect the establishment of the position of Vice-Chairman of the Board of Directors.

The Plan subsequently complied with this recommendation.

A review of the Board of Directors' sign-offs on the prior Report on Examination, determined that two (2) Board Members did not read and sign off on the prior Report on Examination, in accordance with Section 312(b) of the New York Insurance Law.

Section 312(b) of the New York Insurance Law states in part:

> "A copy of the report shall be furnished… to each of its board of directors and each such member shall sign a statement which shall be retained in … confirming that such member has received and read such report."

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It is recommended that the Plan comply with Section 312(b) of the New York Insurance Law and ensure that a complete copy of the Report on Examination, together with all recommendations and statements relating thereto, is furnished to each member of the Board of Directors and that each such member shall sign a statement which shall be retained in the Plan's files confirming that such board member has received and read such Report on Examination.

Section 4705(a) of the New York Insurance Law states in part:

> "The Municipal Cooperation Agreement, under which the municipal cooperative health benefit plan is established and maintained, and any amendment thereto, shall be approved by each participating municipal corporation by majority vote of each such corporation's governing body…"

The Plan failed to provide the examiner with documentation to support that the Municipal Cooperative Agreement and subsequent amendments thereto were approved by each participating municipal corporation by majority of vote of each such corporation's governing body.

It is recommended that the Plan comply with Section 4705(a) of the New York Insurance Law with regard to its Participant's approval of the Plan's municipal cooperation agreement amendment thereto and that a record of such approvals be maintained in its files.

The Plan subsequently complied with this recommendation.

Section 4709(c) of the New York Insurance Law states in part:

> "Conspicuously printed on the first page of the plan document and summary plan description, in at least ten point bold-face type, shall be the following statement:
>
> "This municipal cooperative health benefit plan is not a licensed insurer. It operates under a more limited certificate of authority granted by the superintendent of insurance. Municipal corporations participating in the municipal cooperative health benefit plan are subject to contingent assessment liability."

A review of the amended Plan Document describing the terms and conditions of coverage, which was filed for approval by the Plan with this Department in 2011, revealed that such document did not contain, on the first page, the statement required by Section 4709(c) of the New York Insurance Law.

It is recommended that the Plan comply with Section 4709(c) of the New York Insurance Law by amending its most recent filed Plan Document to contain the required statement.

The principal officers of the Plan as of June 30, 2010 were as follows:

Officer	Title
Judi McCarthy	President
Douglas Wyant	Secretary
Thomas C. Potter	Chief Financial Officer

The Board of Directors has designated Pam Kirkwood as the Attorney-in-Fact who is authorized to receive service on a summons or other legal paper in any action, suit or proceeding arising out of any contract, agreement or transaction involving the Plan.

B Territory and Plan of Operation

The Plan provides health benefits in the counties of Cattaraugus, Allegany, Erie and Wyoming within New York State. The Plan's enrollment as of June 30, 2010 was 3,434. The Plan's enrollment during fiscal years 2006-2010 was as follows:

Year	2006	2007	2008	2009	2010
Enrollment	3,591	3,745	3,602	3,483	3,434
Change		+4.3%	(4.8)%	(4.3)%	(1.4)%

In 2010, the Plan experienced a slight decrease in enrollment due to the loss of one of its school districts.

C. Corporate Governance

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

Article 47 of the New York Insurance Law specifically permits the establishing of municipal cooperative health benefit plans. Such plans are required to be established and maintained under a municipal cooperative agreement pursuant to Section 4705 of the New York Insurance Law. In this regard, the municipal cooperative agreement and any amendment thereto is to be approved by each participating municipal corporative by majority vote of each such cooperative's governing body. It was noted that the Plan's municipal cooperation agreement and addenda to such agreement have been approved by

each Participant. It was also noted that the municipal cooperation agreement and addenda had been filed with the Department.

As part of its corporate governance structure, the Plan's responsibilities include overseeing management's handling of the claims adjudication process relative to outside parties who, pursuant to an agreement with the Plan, perform claims adjudication procedures.

It is recommended that, as prudent business practice, the Plan's Board of Directors obtain annual certifications from its third party claims administrators that claims are being processed in accordance with the Plan Document and applicable Department statutes, rules and regulations.

D. Stop-Loss Coverage

As required by Section 4707 of the New York Insurance Law, the Plan maintains both aggregate stop-loss coverage and specific stop-loss coverage. The issuer of the stop-loss coverage is authorized in the State of New York. The following is a summary of the Plan's stop-loss program as of June 30, 2010:

The Plan purchased stop-loss insurance coverage as required by Section 4707 of the New York Insurance Law. The Plan has a stop-loss policy with H M Life Insurance Co an authorized reinsurer that provides 100% reimbursement after the $250,000 specific attachment point and also has 125% aggregate coverage for the Plan's experience in total.

The $250,000 specific attachment point is below 4% of expected claims as required by under Section 4707 of the Insurance Law.

E. Administrative Services Agreements

As of June 30, 2010 the Plan was a party to the following service agreements.

- Nova Healthcare Administrators, Inc. ("NOVA"), a wholly owned subsidiary of Independent Health Corporation, provides third party claim administrative services which are identified in the Plan's Summary Plan Document. NOVA also establishes utilization management criteria for review of medical and pharmacy authorizations and claims; NOVA acts as the pharmacy administrator for the Plan's Pharmacy Benefits Manager, Express Scripts.

- Effective January 10, 2010, the Plan contracted with Blue Cross Blue Shield of Western New York, ("BCBSWNY") for administrative services only. BCBSWNY prepares and distributes a Plan identification card to each participant. BCBSWNY also maintain appropriate records on each participant for the proper administration for the Plan. The records maintained on the participants include information regarding the coverage of the participant and any covered dependents under any other group health plan other than the Plan.

- Effective July 1, 2009, the Plan contracted with Premier Consulting Associates, LLC ("Premier") As requested by the Plan, Premier prepares bid specifications and solicits proposals from insurance and third party administrative markets, evaluates bids and bidders, including administration, claims payment procedures, customer service, provider networks reserve establishment policies, financial soundness and identifies the most cost beneficial package from among the various service providers. Premier also provides assistance with labor negotiation discussions if requested, involving plan options, premiums, plan analysis/performance, prescription drug programs and attends negotiations on an as-needed basis.

- Effective April 24, 2008, the Plan contracted with Manning & Napier Information Services, LLC, ("MNIS"). MNIS provides the Plan with on-line business application with features that augment or enhance certain current business applications, including the Benefficiency Online Platform and Modules, the Benefficiency Content, and the Benefficiency Materials.

- Effective April 1, 2010, the Plan contracted with Express Scripts, Inc. ("ESI") to provide the following services: maintain a network of participating pharmacies and make available an updated list of participating pharmacies on-line, perform claims processing services for covered drugs dispensed by participating pharmacies and conduct standard concurrent drug utilization review ("DUR") analysis of each prescription submitted for processing on-line by a pharmacy, in order to assist the dispensing pharmacist and prescribing physician in identifying potential drug interactions. ESI also provide prior authorization services as specified and directed by the Plan for designated drugs and processes initial claims for benefits relative to member submitted claims and prior authorization requests consistent with the ERISA claims rules and applicable New York State statutes.

- Effective July 1, 2010, the Plan entered into a Coordination Services Agreement with Cattaraugus-Allegany Board of Cooperative Educational Services ("BOCES"). The BOCES is required to act as coordinator and liaison between and for employers, enrollees, third party administrators, consultants, auditors, actuaries, the Department, the Plan's Board of Directors, Committees, and other parties as appropriate. The BOCES is also required to attend Board of Directors meetings to take minutes, and perform other clerical tasks as may be required in the daily operation of the Plan. Further, the BOCES is required to maintain a database of all Plan enrollees, and perform financial transactions such as accounts receivables, accounts payable, revenues, expenses, receipts, investments, and maintain the Plan's books of account.

F. Conflict of Interest Policy

The Plan did not have a conflict of interest policy in place at the time of the examination.

It is recommended as a good business practice, that the Plan establish a conflict of interest policy and require its board members, officers and key employees sign a conflict of interest disclosure form on an annual basis.

G. Accounts and Records

The Plan, in June 30, 2006 annual statement filing to this Department, made a prior period adjustment in which the Plan adjusted its reported June 30, 2005 net worth by an amount which represented the Plan's exclusion of the revenues, expenditures, assets, liabilities, net worth related to an insured product from the Plan's filings with the Department.

In addition, during the examination period, the Plan, effective January 1, 2010, ceased its retrospective rating arrangement with another insurer and entered into a self insurance arrangement with such insurer. As a result of this change, there were significant changes (increases) to the Plan's balance sheet items compared to the previous year.

It was noted that the Department was not notified of the above changes in reporting in advance of the annual or quarterly filings. There also was no disclosure of such changes made in the notes to the filed annual and quarterly statements.

The result of the aforementioned changes contributed to a considerable amount of subsequent communications between the Plan and the Department in order to resolve and obtain explanations regarding the anomalies which resulted from such changes in reporting within the Plan's filed annual statements for the affected years.

In it recommended that, in the future, the Plan provide at least thirty (30) days advance notice to the Department of any foreseeable significant reporting changes, including prior period adjustments, which may result in significant changes in reporting

amounts compared to prior period reported amounts within its filed annual and quarterly statements.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as determined by this examination, as of June 30, 2010. This statement is the same as the balance sheet reported by the Plan in its filed annual statement:

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Assets	Examination	Plan
Cash and cash equivalents	$16,658,285	$16,658,285
Premiums receivable	1,338,193	1,338,193
Total assets	$17,996,478	$17,996,478
Liabilities		
Accounts payable	$ 441,039	$ 441,039
Claims payable	9,439,930	9,439,930
Unearned premiums	73,222	73,222
Total liabilities	$9,954,191	$9,954,191
Net worth		
Contingency reserves	$ 2,122,525	$ 2,122,525
Retained earnings/Fund Balance	5,919,762	5,919,762
Total net worth	$8,042,287	$8,042,287
Total liabilities and net worth	$17,996,478	$17,996,478

B. Statement of Revenue and Expenses and Net Worth

Net worth increased $ 1,328,593 during the five-year examination period, July 1, 2005 through June 30, 2010, detailed as follows:

Revenues		
Premiums	$104,885,124	
Investment income	982,035	
Fund Balance Assessment	195,505	
Aggregate write-ins for other revenue	1,592,551	
Total revenues		$ 107,655,215
Expenses		
Hospital and medical claims	$ 51,562,236	
Drug claims	49,384,910	
Public Goods Pool	95,361	
Claims subtotal	$101,042,507	
Stop-Loss expenses net of recoveries	371,065	
Net claims incurred	$101,413,572	
Administrative expenses	2,656,600	
Total expenses		104,070,172
Net income		$ 3,585,043

	Gains in Net Worth	Losses in Net Worth	
Net worth, per report on examination, as of June 30, 2005			$6,713,694
Net income	$3,585,043		
Net adjustment in net worth	103,235		
Prior period adjustment in net worth		2,359,685	
Net increase in net worth			1,328,593
Net worth, per report on examination, as of June 30, 2010			$8,042,287

4. PREMIUMS RECEIVABLE

Although no examination change was made relative to this item, during the course of the examination, two premium receivable balances in the amounts of $78,731 and $266,770 due in excess of sixty days from two of the Plan's participants were maintained on the books of the Plan. In June 2010, the delinquent premiums were paid.

Item 6 of the Plan's Municipal Cooperation Agreement states in part:

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

It is noted that, when the delinquent premiums were paid, no interest penalty was applied, or collected, in violation of the Municipal Cooperation Agreement.

Additionally, the minutes of the Board of Directors indicate a discussion was held in regard to the delinquent member's participation. It appears the Board of Directors found good reason for the delay in payment, as required by the Municipal Cooperative Agreement inasmuch as the Board continued the member as a participant in the Plan.

It is recommended that the Plan comply with the requirements of Item 6 of its Municipal Cooperative Agreement and require payment of interest for late payment or file with this Department an amended Municipal Cooperative Agreement, approved by the Plan's participants, which provides for the waiver of required interest if it is the intention of the board, in certain circumstances, to waive interest on delinquent payment of premiums.

The Plan subsequently complied with this recommendation.

5. CLAIMS PAYABLE

The examination liability of $9,439,930 is the same as the amount reported by the Plan as of June 30, 2010.

The Plan's liability for unpaid claims was established in compliance with the requirements of Section 4706(a)(1) of the New York Insurance Law.

The examination analysis of the claims unpaid reserve was conducted in accordance with generally accepted actuarial principles and practices and was based on

statistical information contained in the Plan's internal records and in its filed annual statements as verified during the examination. The examination reserve was based upon actual payments made through a point in time, plus an estimate for claims remaining unpaid at that date.

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:

(A) Claims review
(B) Plan Document – Mandated Benefits
(C) Utilization review
(D) Underwriting and rating

A. Claims Review

Claims attribute review

A review of claims processed by Blue Cross Blue Shield of Western New York, Inc. (BCBSWNY) 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. The review incorporated processing attributes used by BCBSWNY in its own quality analysis of claims processing. The sample size was 50 randomly selected claims.

For purposes of this analysis, a claim is defined by Blue Cross Blue Shield of Western New York, Inc, 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 1 error existed in the sample. This represents an accuracy rate of 98%.

Claims prompt payment review

A review to test for compliance with New York Insurance Law 3224-a, ("Prompt Pay Law"), was performed by using a statistical sampling methodology covering claims submitted to the Plan during the period July 1, 2009 though June 30, 2010.

The review of the Plan's submitted medical and hospital claims data for the period, July 1, 2009 through June 30, 2010 did not reveal any problem areas.

B. Plan Document – Mandated Benefits

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

> "(a) The governing board of the municipal cooperative health benefit plan shall:
>
> (1) file for approval with the superintendent a description of material changes in any information provided in the application for certificate of authority in the form and manner prescribed by the superintendent;"

It was noted the Plan during the examination period did not obtain the necessary approval from the Department relative to the providing of certain mandated benefits. in non-compliance with Section 4709(b) of the New York Insurance Law.

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 that the Plan include all required mandated benefits within its Plan Document and obtain Department approval of such amended Plan Document in compliance with Section 4709(b) of the New York Insurance Law.

Subsequent to the examination, the Plan filed for approval with this Department an amended Plan Document. Such amended Plan /Document is being reviewed by this Department.

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C. Utilization Review (UR)

BCBSWNY has been designated as the Plan's utilization review agent. BCBSWNY subcontracts certain medical necessity claim reviews on behalf of Allegany-Cattaraugus Schools Medical Health Plan, to the National Imaging Association Inc, Health Integrated and Palladian Muscular Skeletal Health. It was determined that neither National Imaging Association Inc, nor Health Integrated have filed utilization review plans with the Department in accordance with New York Insurance Laws 4704(a)(8) and 4901(a).

Section 4704(a)(8) of the New York Insurance Law requires the following in part:

> "the municipal cooperative health benefit plan has 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."

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

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

It is recommended the Plan ensure that all utilization review agents that perform medical necessity reviews for its claimants comply with the filing requirements of Section 4704(a) (8) and Section 4901(a) and (b) of the New York Insurance Law.

D. Rating

The Plan's premium rates are developed by the Plan based on a review of its past claims experience and projections of the Plan's future financial performance. Such premium rates are established and are approved by the Plan's Governing Board prior to plan year and must be community rated.

Section 4705(d)(5)(B) of the New York Insurance Law states in part the following:

> "The governing board shall establish premium equivalent rates for participating municipal corporations on the bases of a community rating methodology filed with and approved by the superintendent…"

It was noted that the Plan's and Department's files did not contain a copy of the Plan's rating methodology.

It is recommended that the Plan file a copy of its current rating methodology with this Department.

In this regard, the Department will provide assistance to the Plan in determining the required content of such rating methodology. The Plan will not be required to file its current rating methodology until after the Plan receives the aforementioned Department assistance.

7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination included eight (8) recommendations detailed as follows (page number refers to the prior report on examination):

ITEM NO.		PAGE NO.
1.	It is recommended that the Plan amend its Municipal Cooperative Agreement and by-laws to reflect the current practice of allowing either the Superintendent or Superintendent designee to attend Board of Directors meetings. *Subsequent to the examination, the Plan complied with this recommendation.*	7
2.	It is recommended that the Plan formalize and cause to be executed by all subject parties third party claims administrative agreement(s) with NOVA and Express Scripts in accordance with Section 4705 (d)(2)(A) of the New York Insurance Law. *The Plan has complied with this recommendation*.	10
3.	It is recommended that The Plan formulate a written administrative services agreement with Allegany-Cattaraugus BOCES that contains provisions relative to services provided, fees charge to Plan for such services and a shared cost allocation basis in accordance with Section 4705 (d) (2) (A) of the New York Insurance Law and Department Regulation 33 (11 NYCRR 91.4) *The Plan has complied with this recommendation.*	11

ITEM NO.		PAGE NO.
4.	It is recommended that Plan obtain stop-loss insurance coverage as required by New York Insurance Law Section 4707 (a) (1) and Section 4707 (a) (2) or formally apply to this Department for a waiver of such stop-loss insurance policy coverage. *The Plan has complied with this recommendation.*	12
5.	It is recommended that the Plan complete NY Schedule F-Claims Payable Analysis by including a reconciliation footnote that reflects the statutory reserve that exceeds the actuarially determined unpaid claims in order to provide a reconciliation of Columns C and D of Section 1 of Schedule F to the claims payable amount reported on line 2 of Report # 1 – Part B: Liabilities and New Worth of its annual statement for both the current and prior year. *The Plan did not comply with this recommendation. The Department is in the process of revising Schedule F. Such revision is expected to eliminate the aforementioned reconciliation issue.*	13
6.	It is recommended that the Plan file with this Department an amended Municipal Cooperative Agreement which provides for the waiver of required interest if it is the intention the board, in certain circumstances, to waive the interest on delinquent payment of premiums. *Subsequent to the examination, the Plan complied with this recommendation.*	18
7.	It is recommended that if it is the intention of the Plan to have Nova adjust claims on its behalf, that Nova and its employees, who perform claim adjusting services on behalf of the Plan, be licensed as independent adjusters in accordance with New York Insurance Law sections 2102 (a)(1) and 2108 (a)93). *The Plan did not comply with this recommendation. This recommendation will be addressed with the Plan's contracted claims adjusters .*	21

ITEM NO.		PAGE NO.
8.	It is recommended the Plan obtain a copy of the census report of covered Plan membership and prepare the necessary reconciliation of premiums by type of health services provided in order to determine that the premiums paid by the participants are accurate to meet the expenditure of the Plan. *The Plan has complied with this recommendation*	22
9	It is recommended the Plan implement substantive management letter comments without necessitating the Independent CPA to repeat meritorious recommendations in subsequent audit years. *The Plan has complied with this recommendation.*	22
10	It is recommended the Plan obtain New York State Insurance Department approval prior to marketing any new products including any amended policy forms or riders relative to mandated benefits in accordance with Section 4709 (b) of the New York Insurance Law. *The Plan did not comply with this recommendation. A similar recommendation is included within this report on examination.* *The Plan, subsequent to this examination. filed for approval with this Department an amended Plan Document for the purpose of complying with this recommendation.*	22
11	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. *The Plan did not comply with this recommendation. A similar recommendation is included within this report on examination*	23

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM	PAGE NO.
A. Management and Controls	
i. It is recommended that the Plan comply with Item 2 of its Municipal Cooperative agreement and Article I, Item B of its by-laws with regard to appointments to the Plan's Board of Directors or amend its Municipal Cooperative Agreement and its by-laws to reflect the current practice of allowing either the Superintendent or Superintendent's designee to attend board meetings. The Plan subsequently complied with this recommendation.	8
ii. It is recommended that board members who are unable or unwilling to consistently attend board meetings resign or be replaced. It was noted that the aforementioned board member's school ceased its participation in the Plan effective January 1, 2011.	9
iii. It is recommended that the Board of Directors comply with Article 1(E) of its by-laws and elect the Chairman of the Board and Secretary of the Board annually at the last scheduled quarterly meeting of the fiscal year. The Plan subsequently complied with this recommendation.	9
iv. It is recommended that the Plan amend its by-laws and its Municipal Cooperation Agreement to reflect the establishment of the position of Vice-Chairman of the Board of Directors. The Plan subsequently complied with this recommendation.	10
v. It is recommended that the Plan comply with Section 312(b) of the New York Insurance Law and ensure that a complete copy of the Report on Examination, together with all recommendations and statements relating thereto, is furnished to each member of the Board of Directors and that each such member shall sign a statement which shall be retained in the Plan's files confirming that such board member has received and read such Report on Examination.	11

ITEM		PAGE NO.
vi.	It is recommended that the Plan comply with Section 4705(a) of the New York Insurance Law with regard to its Participant's approval of the Plan's municipal cooperation agreement amendment thereto and that a record of such approvals be maintained in its files. The Plan subsequently complied with this recommendation.	11
vii.	It is recommended that the Plan comply with Section 4709(c) of the New York Insurance Law by amending its Plan Document to contain the required statement.	12
ix.	It is recommended that, as prudent business practice, the Plan's Board of Directors obtain annual certifications from its third party claims administrators that claims are being processed in accordance with the Plan Document and applicable Department statutes, rules and regulations.	14
B.	<u>Conflict of Interest Policy</u>	
	It is recommended as prudent business practice, that the Plan establish a conflict of interest policy and require its board members, officers and key employees sign a conflict of interest disclosure form on an annual basis.	16
C.	<u>Accounts and Records</u>	17
	In it recommended that, in the future, the Plan provide at least thirty (30) days advance notice to the Department of any foreseeable significant reporting changes, including prior period adjustments, which may result in significant changes in reporting amounts compared to prior period reported amounts within its filed annual and quarterly statements.	

ITEM		PAGE NO.
D.	Premiums Receivable	
	It is recommended that the Plan comply with the requirements of Item 6 of its Municipal Cooperative Agreement and require payment of interest for late payment or file with this Department, an amended Municipal Cooperative Agreement, approved by the Plan's participants, which provides for the waiver of required interest if it is the intention of the board, in certain circumstances, to waive interest on delinquent payment of premiums**.**	22
	The Plan subsequently complied with this recommendation.	
E.	Plan Document – Mandated Benefits	25
	It is recommended that the Plan include all required mandated benefits within its Plan Document and obtain Department approval of such amended Plan Document in compliance with Section 4709(b) of the New York Insurance Law.	
	Subsequent to the examination, the Plan filed for approval with this Department an amended Plan Document. Such amended Plan /Document is being reviewed by this Department.	
F.	Utilization Review	
	. It is recommended the Plan ensure that all utilization review agents that perform medical necessity reviews for its claimants comply with the filing requirements of Section 4704(a)(8) and Section 4901(a) and (b) of the New York Insurance Law.	26
	A similar recommendation was included within the prior report on examination.	
G.	Rating	
	It is recommended that the Plan file a copy of its current rating methodology with this Department.	27
	In this regard, the Department will provide assistance to the Plan in determining the required content of such rating methodology. The Plan will not be required to file its current rating methodology until after the Plan receives the aforementioned Department assistance.	

Appointment No. **30649**

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, **James J. Wrynn**, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

Charles McBurnie

as a proper person to examine into the affairs of the

Allegany-Cattaraugus Schools Medical Health Plan

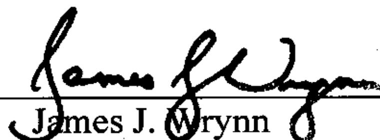
and to make a report to me in writing of the condition of the said

Municipal Cooperative Health Benefit Plan

with such other information as he shall deem requisite.

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

This 26th day of January, 2011



James J. Wrynn
Superintendent of Insurance