REPORT ON EXAMINATION

OF THE

CAYUGA-ONONDAGA AREA

SCHOOL EMPLOYEES' HEALTHCARE PLAN

AS OF

JUNE 30, 2004

DATE OF REPORT **JULY 5, 2006**
EXAMINER **BARBARA FINNERTY**

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

George E. Pataki
Governor

Howard Mills
Superintendent

July 5, 2006

Honorable Howard Mills
Superintendent of Insurance
Albany, NY 12257

Sir:

Pursuant to instructions contained in Appointment Number 22385 dated November 15, 2005 and attached hereto, I have made an examination of the Cayuga-Onondaga Area Schools Employees' Healthcare Plan and respectfully submit the following report thereon.

The examination was conducted at the Plan's home office located at 5980 South Street Road, Auburn, New York.

Whenever the terms, the "Plan" or "COASEHP" appear herein without qualification, they should be understood to refer to the Cayuga-Onondaga Area Schools Employees' Healthcare Plan.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 2000. This examination covers the period from January 1, 2001 through June 30, 2004. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a complete verification of assets and liabilities as of June 30, 2004, in accordance with Statutory Accounting Principles, as adopted by the New York Insurance Department, a review of income and disbursements deemed necessary to accomplish such verification and utilized, to the extent considered appropriate, work performed by the Plan's independent certified public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

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

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

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

2. DESCRIPTION OF THE PLAN

The Cayuga-Onondaga Area School Employees' Healthcare Plan (COASEHP) commenced business on July 1, 1981. The Plan is a Municipal Cooperative Health Benefit Plan licensed under Article 47 of the New York Insurance Law. In accordance with the Municipal Cooperative Agreement, each of the participants, eight school districts and one Board of Cooperative Educational Services (BOCES), have agreed to share the costs and assume the liabilities for hospital, surgical, prescription drug, and major medical benefits provided under the Plan. The Plan provides coverage through self-insurance administered by a third party administrator in accordance with the Summary Plan Description to employees, retirees and eligible dependents of the participants.

There are currently eight school districts and one Board of Cooperative Educational Services (BOCES) participating in the Plan. The Plan participants are as follows:

Cato-Meridian C.S.D.	Skaneateles C.S.D.
Cayuga-Onondaga BOCES	Southern Cayuga C.S.D
Jordan-Elbridge C.S.D	Union Springs C.S.D
Moravia C.S.D.	Weedsport C.S.D
Port Byron C.S.D.	

The Plan was issued a Certificate of Authority pursuant to Article 47 of the New York Insurance Law by the Superintendent of Insurance on August 1, 2001. The Certificate of Authority authorizes the Plan to conduct the business of a municipal cooperative health benefit plan in the counties of Cayuga and Onondaga.

A. Management

Pursuant to the Municipal Cooperative Agreement, management of the Plan is vested in the Governing Board comprised of one representative from each participating

school district including BOCES. The governing board of the Plan as of June 30, 2004 was as follows:

Governing Board:

Name	Municipality
Katherine Huntone	Cato-Meridian C.S.D.
David Boyle	Cayuga-Onondaga BOCES
William Hamilton	Jordan-Elbridge C.S.D.
Patricia Shaw	Moravia C.S.D.
Gary Texido	Port Byron C.S.D.
Dale Bates	Skaneateles C.S.D.
Charles Mellor	Southern Cayuga C.S.D.
William Burke	Union Springs C.S.D.
Arthur Martignetti	Weedsport C.S.D.

According to the Municipal Cooperative Agreement, the Governing Board shall meet annually in the month of July and call special meetings at any time. The governing board scheduled regular bi-monthly meetings during the period under examination. The minutes of all meetings of the governing board were reviewed. All such meetings were well attended. It was noted that although the Plan's board has established specific committees, such committees were not formalized within the Plan's Municipal Cooperative Agreement. It was also noted that the Plan did not maintain minutes of meetings of the committees of the governing board.

It is recommended that, if it is the intent of the Plan, that the Plan eliminate the standing committees and act upon all matters at the board level.

The officers of the Plan as of June 30, 2004 were as follows:

Chairman and CFO: David Boyle

Vice Chairperson: Dale Bates

Treasurer:	Beverly Burns
Secretary:	Evelyn Waterman

The Board of Governors has designated David Boyle as the Attorney-in-Fact and custodian for all Plan reports, records, and statements.

B. Territory and Plan of Operation

The Plan provides health benefits in Cayuga and Onondaga counties within New York State. The Plan's enrollment as of June 30, 2004 was 2,470. The Plan's enrollment was stable for fiscal years 2002-2004 as follows:

Year	2002	2003	2004
Enrollment	2,402	2,474	2,470
Disenrollment Ratio		3%	0%

C. Reinsurance

As required by Section 4707 of the New York Insurance Law, the Plan maintains both aggregate stop-loss coverage as well as specific stop-loss coverage. The reinsurer is authorized in New York. The following is a summary of the Plan's reinsurance program as of June 30, 2004:

Type	Limits
Excess of loss one layer	100% of $800,000 excess of $200,000 per member, per contract year

Aggregate excess of loss	$1,000,000 excess of annual aggregate attachment point ($18,421,690) for the current contract period

The two stop loss agreements in effect at June 30, 2004 did not include the wording prescribed by Section 1308(a)(2)(A)(i) of the New York Insurance Law. The Plan has subsequently amended its reinsurance contracts to incorporate the applicable wording.

D. ACCOUNTS AND RECORDS

A review of the response to the Examination Planning Questionnaire indicated that the Plan does not have a Code of Conduct policy or require annual conflict of interest statement reporting on the part of the Plan's officers, key employees and board of governors for review by the board of governors.

It is recommended that the Plan maintain a Code of Conduct policy and that annual conflict of interest reporting on the part of the Plan's officers, key employees and board of governors be reviewed by the board of governors.

E. INTERNAL CONTROLS

A review of the Plan's service contract with its Certified Public Accounting firm, indicates that such CPA firm is not responsible for rendering an opinion on the Plan's internal control systems. Section 4705(e)(1) of the New York Insurance Law states in part,

"…(e) The municipal cooperation agreement shall provide…to the superintendent:(1) an annual audit, and opinions thereon, by an independent certified public accountant, of the financial condition, accounting procedures and internal control systems of the municipal cooperative health benefit plan;…"

It is recommended the Plan amend its contract with its CPA firm to include an opinion of the Plan's internal control systems in order to comply with Section 4705(e)(1) of the New York Insurance Law.

F. ANNUAL AND QUARTERLY STATEMENT PREPARATION

A review of the annual statements filed during the period under examination revealed the Plan incorrectly completed the aforementioned NY Schedule F – Claims Payable Analysis for all years under examination. The Plan reported amounts in Column C and Column D of NY Schedule F – Claims Payable Analysis, Section 1 based upon actual projected paid claims.

However, these amounts should reconcile to the amounts reported on line 2 of Report # 1 – Part B: Liabilities and Net Worth of the annual statement.

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. Column C and Column D of Section 1 of Schedule F should reconcile to the claims payable amount reported on line 2 of Report # 1 – Part B: Liabilities and Net Worth of its annual statement for both the current and prior year.

3. FINANCIAL STATEMENTS

A. BALANCE SHEET

The following shows the assets, liabilities and net worth as determined by this examination and as reported by the Plan as of June 30, 2004.

Assets	Plan
Cash and cash equivalents	$4,449,117
Total assets	$4,449,117
Liabilities	
Accounts Payable	$ 90,021
Claims Payable	$3,554,860
Total Liabilities	$3,644,881
Net Worth	
Contingency Reserves	$ 720,655
Retained Earnings	83,581
Total Net Worth	$ 804,236
Total Liabilities and Net Worth	$4,449,117

B. Statement of revenues and expenses

Net worth decreased $343,600 during the period from January 1, 2001 to June 30, 2004, detailed as follows:

Revenues:

Premiums (basic) community rated	$43,788,841
Investment	213,990
Aggregate write-ins for other revenue	568,463
Total revenues	$44,571,294

Expenses:

Hospital and medical	$35,449,539
Drug	5,012,040
Subtotal	$40,461,579
Reinsurance expenses net of recoveries	352,634
Total Medical and Hospital	$40,814,213
Revenues less Medical and Hospital	$ 3,757,081

Administration:

Compensation	7,600
Aggregate write-ins for other administrative expense	2,239,568
Total administration	$ 2,247,168
Total expenses	43,061,381
Net income	$ 1,576,353

NET WORTH

Net worth per examination as of December 31, 2000			$1,147,836
	Increases	Decreases	
Net income	$1,576,353		
Increase in Contingency Reserve	147,834		
Aggregate write-ins for changes in retained earnings		$(2,067,787)	
Net increase in net worth			$(343,600)
Net worth, per examination, As of June 30, 2004			$804,236

4. CASH AND CASH EQUIVALENTS

Although no examination change was made relative to this item, a review of the Plan's cash accounts indicated that the Plan reported the portion of its cash balances pertaining to the hospital, medical and drug lines of business. The Plan did not report its cash balances in the amount of $213,977 relative to Administrative Services Only (ASO) dental revenue which was collected on behalf of a third party administrator which was included in the Plan's cash account. Such ASO dental business is not considered part of the Plan's benefits and should be segregated from the Plan's cash account.

It is recommended that the Plan eliminate any cash balances not specific to its Plan document from its books of account and cash account.

5 ACCOUNTS PAYABLE

Although no examination change was made relative to this item, as discussed in Item 4 of this report, the Plan only reported the cash portion pertaining to the hospital, medical and drug lines of business. It did not report its cash balances relative to the revenues collected on behalf of a third party administrator for a dental ASO arrangement. The Dental ASO arrangement does not involve a pooling of risk and is funded individually by each district and is not subject to the Plan document. Therefore, a separate liability for such accounts as of June 30, 2004 should have been established.

When such amounts are appropriately segregated, as per the report recommendation made in the previous section of this report, the accounts payable balances should reflect only amounts attributable to the Plan.

It is recommended that the Plan report its entire accounts payable balance in its Quarterly and Annual Statements to this Department.

6. CLAIMS PAYABLE

The examination liability of $3,554,860 is the same as the amount reported by the Plan as of June 30, 2004.

The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Plan's internal records and in its filed annual statements.

7. 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 processing

(B) Policy Forms and Rating

(C) Sales and advertising

A. Claim processing and payment practices

1. Claim Attribute Sample

A review of claims processed during the July 1, 2003 through June 30, 2004 fiscal year was conducted. The claims review was performed by using a statistical sampling methodology covering the claims processed during the aforementioned period, in order to evaluate the overall accuracy and compliance environment of the Company'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 RMSCO (the Company's third-party claims administrator) in their own "Quality Assurance Form" of claims processing. The sample size was 167 randomly selected claims comprised of 23 denied claims and 144 paid claims.

During the review of claims processing it was determined that, COASEHP directed RMSCO to "lag" (postpone payment of clean claims), certain claims for 20 business days in instances in which all information necessary to adjudicate such claims had been received by the claims administrator,

- .The review indicated that 17 claims were "processed" incorrectly according to the criteria used by the Plan and the New York Insurance Department, including all errors, regardless of relative weight, which the Plan assigns during its Quality Control reviews. Under this criteria, the accuracy rate was found to be 89.8%;

- If the 13 claims that were found to contain errors due to the COASEHP imposed lag were not taken into consideration, the accuracy rate would rise to 97.6%.

2. <u>Payment practices</u>

A population of 5,065 claims that were either paid more than 45 days beyond the date the claim was received or denied more than 30 days beyond the received date was reviewed. A sample of 167 claims was taken from this population. A delay in payment of 129 claims sampled was directly attributable to the 20 business day lag imposed by COASEHP on certain claims referred to in the previous section of the Report. This accounts for 77.25% of the claims being sampled. Therefore, when the error rate is projected upon the population it can be stated with 95% confidence there may have existed between 3,590 and 4,235 claims that did not have a valid reason for the delay in processing.

In light of the above, it is recommended that the Plan commit to settle all clean claims within 30 days.

B. Policy Forms / Benefits

During the review of sales practice it was determined the Plan did not obtain approval from the New York State Insurance Department to market the Tradition Plus Health Plan (also referred to as the Modified Traditional Plan) as required by 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 the Plan obtain New York State Insurance Department approval prior to marketing any new products including any amended policy forms or riders in accordance with Section 4709(b) of the New York Insurance Law.

8. COMPLIANCE WITH REPORT ON ORGANIZATION

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

ITEM		PAGE NO.
A.	It is recommended that the Plan amend its stop loss contracts to include the wording prescribed by Section 1308(a)(2)(A)(i) of the New York Insurance Law	6
	The Plan has complied with this recommendation.	
B.	It is recommended that the Plan report its entire cash balance in its Quarterly and Annual Statements to this Department.	8
	This recommendation has been revised within this Report on Examination to read that the Plan eliminate any cash balances not specific to its Plan document benefits from its cash account.	
C.	It is recommended that the Plan report its entire claims payable balance in its Quarterly and Annual Statements to this Department.	8
	The Plan did not comply with this recommendation. A similar recommendation is included within this Report on Examination.	

9. SUMMARY OF COMMENTS AND RECOMMENDATIONS

F. **Accounts Payable**

It is recommended that the Plan report its entire accounts payable balance in its Quarterly and Annual Statements to this Department. 11

G. **Market Conduct**

It is recommended that the Plan commit to settle clean claims within 30 days. 14

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 in accordance with Section 4709(b) of the New York Insurance Law. 15

Respectfully submitted,

Barbara Finnerty

Barbara Finnerty
Senior Insurance Examiner

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

Barbara Finnerty, being duly sworn, deposes and says that the foregoing submitted report is true to the best of her knowledge and belief.

Barbara Finnerty

Barbara Finnerty

Subscribed and sworn to before me
This 19th day of April, 2006

Charles T. Lovejoy

Charles T. Lovejoy
Notary Public, State of New York
No. 31-4798952
Qualified in New York County
Commission Expires 1-26-10

Appointment No. ***22385***

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, ***Howard Mills,*** Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

Barbara Finnerty

as a proper person to examine into the affairs of the

Cayuga-Onondaga Area School Employees Healthcare Plan

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

Company

with such information as she 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 *15th* day of *November 2005*

Howard Mills
Superintendent of Insurance