

Report on Examination
of
First Medical Health Plan of Florida, Inc.
Miami, Florida
as of
December 31, 2008

By The
Florida Office of Insurance Regulation

Kevin M. McCarty, Commissioner
Florida Office of Insurance Regulation
200 E. Gaines Street, Room 101
Tallahassee, Florida 32399-0301

Dear Sir:

In accordance with Section 641.27, Florida Statutes, and the *Financial Condition Examiners Handbook* of the National Association of Insurance Commissioners, we have completed a financial condition examination of First Medical Health Plan of Florida, Inc. as of December 31, 2008. Our report on the examination follows.

Florida Office of Insurance Regulation
March 16, 2010

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2008 of First Medical Health Plan of Florida, Inc. (the "Company"), a Florida health maintenance organization (HMO). This was the first financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office").

This examination covered the period of June 29, 2007 through December 31, 2008. We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. The Handbook required that we plan and perform our examination to evaluate the financial condition and identify prospective risks of the Company. It required that we do so by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. Our examination included assessing the principles used and significant estimates made by management. It also included evaluating overall financial statement presentation and management's compliance with statutory accounting principles and annual statement instructions when applicable to domestic state regulations. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

A significant portion of the Company's books and records were located in Guaynabo, Puerto Rico. Its main administrative office was in Miami, Florida, where this examination was conducted.

MATERIAL PROSPECTIVE RISKS

The Company reported net losses for years 2007, 2008 and 2009. As reported on page 16, the contractual arrangement between the Company and the Centers for Medicare & Medicaid Services (CMS) was terminated in December of 2009 and, effective January 1, 2010, the Company had no membership. Consequently, the prospective risk existed that the Company would not generate premium revenues and earnings sufficient to assure its future solvency and long-term success.

COMPANY HISTORY

The Company was incorporated in Florida on December 22, 2006. On June 29, 2007, it received a certificate of authority from the Office to operate as an HMO in accordance with Part I of Chapter 641, Florida Statutes (F.S.). The Company was authorized by CMS to operate as a Medicare Advantage Organization. Its membership enrollment commenced in January of 2008.

Dividends and Capital Contributions

The Company received \$3,000,000 in 2007 from the issuance of common stock, and \$844,997 in 2008 from the issuance of surplus notes. No dividends were distributed by the Company during 2007 or 2008.

CORPORATE RECORDS

The recorded minutes of the shareholder and Board of Directors meetings were reviewed for the period examined. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, F.S.

MANAGEMENT AND CONTROL

The Company was wholly-owned by Eduardo Artau, an individual. It was affiliated through common ownership with the Metropolitan Health Community Services Corporation, d/b/a Metropolitan Hospital, First Medical Health Plan, Inc. (FMPR), an HMO in Puerto Rico, and ten hospitals in Puerto Rico referred to collectively as the Metro Pavia Health System or Metro Health Group.

The Company's senior officers and directors were as shown below.

Senior Officers

<u>Name</u>	<u>Title</u>
Patricia Serrano	President and Chief Executive Officer
Juan L. Dominguez	Vice President of Finance
Eduardo Artau	Vice President and Treasurer
Carmen Feliciano	Secretary
Gustavo Leon, M.D.	Medical Director

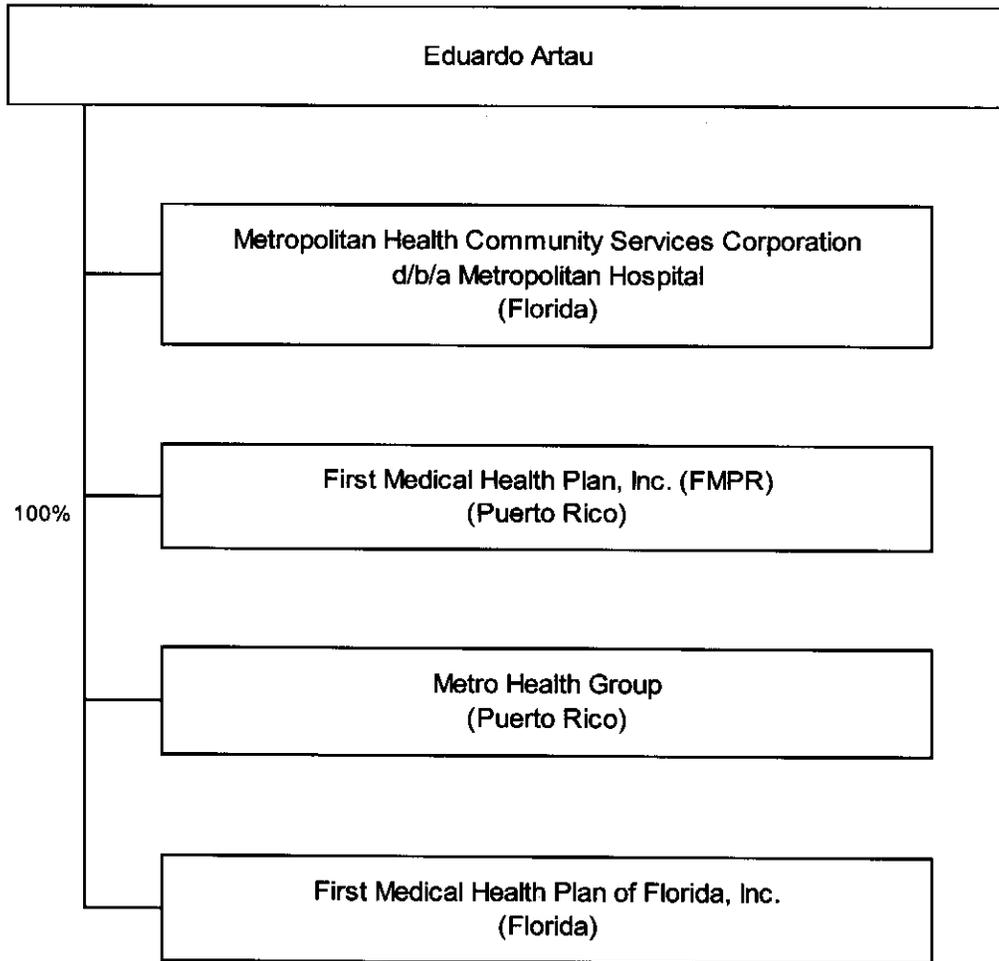
Board of Directors

<u>Name</u>	<u>Location</u>
Eduardo Artau	Guaynabo, Puerto Rico
Carmen Feliciano	Guaynabo, Puerto Rico
Patricia Serrano	Guaynabo, Puerto Rico

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code (F.A.C.). However, it had not filed a holding company registration statement with the State of Florida as required by Section 628.801, F.S., and Rule 69O-143.046, F.A.C.

An abbreviated organizational chart reflecting the holding company system is shown below.

**First Medical Health Plan of Florida, Inc.
Organizational Chart
December 31, 2008**



The Company contracted with FMPR for various administrative and consulting services, and with Metropolitan Hospital for provider services. We found that the agreements did not include provisions that they would be canceled upon issuance of an order by the Office, as required by Section 641.234(3), F.S. However, the required provisions were added to the agreements during the examination.

In its annual statements, FMPR reported net losses of \$10.7 million and \$14.1 million for 2007 and 2008, respectively, and capital and surplus deficits of \$4.9 million and \$10.1 million as of December 31, 2007 and December 31, 2008, respectively.

Metro Health Group reported combined stockholder's equity of \$109.7 million and \$114.1 million as of December 31, 2007 and December 31, 2008, respectively, and combined net income of \$32.9 million and \$23.8 million in 2007 and 2008, respectively.

FIDELITY BONDS AND OTHER INSURANCE

The Company was insured with a blanket fidelity bond in the amount of \$100,000 as required by Section 641.22(7), F.S. It maintained acceptable levels of general and professional liability insurance in the amounts of \$1 million each, which was in compliance with Rule 69O-191.069, F.A.C. As an individual practice association model HMO, the Company required in its provider contracts that its providers certify and maintain appropriate levels of medical malpractice insurance or its equivalent, as required by Rule 69O-191.069, F.A.C.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company provided paid time off to eligible employees. Credit for the benefit accrued monthly and paid time off was available for use by employees to the extent accumulated.

TERRITORY AND PLAN OF OPERATION

The Company held a current health care provider certificate issued by the Florida Agency for Health Care Administration pursuant to Part III of Chapter 641, F.S., valid until June 16, 2011. It was authorized to operate solely in Miami-Dade County, Florida. As an individual practice

association model HMO, the Company provided health care services to 106 members, all of whom were Medicare members.

A review of the Company's provider contracts resulted in a finding that the reviewed agreements did not, as required by Section 641.315(1), F.S., contain provisions that its subscribers were not liable to providers for any services for which the Company was liable as specified in Section 641.3154, F.S.

SURPLUS NOTES

The Company was obligated to Eduardo Artau for five 3.5% surplus notes issued in 2008 in the total amount of \$844,997. The notes were approved by the Company's board of directors and the Office and complied with the provisions of Rule 69O-191.088, F.A.C. In accordance with Section 641.19(19), F.S., the debt was included in the Company's surplus.

REINSURANCE

The Company maintained excess of loss reinsurance with HCC Life Insurance Company, effective February 2, 2008. The reinsurance covered Medicare advantage and dual eligible members. It provided for an attachment point of \$100,000 per member and covered 90% - 95% of eligible expenses up to \$1,000,000 per member per year. During the examination, the Company was informed of a finding that the reinsurance agreement had not been filed with and approved by the Office as required by Rule 69O-191.072, F.A.C. Subsequently, the agreement was filed with the Office and, on October 29, 2009, approved by the Office.

STATUTORY DEPOSITS

The Company maintained on deposit with the Office an insolvency protection deposit of \$1,044,097 including interest, in accordance with Section 641.285, F.S., and a Rehabilitation Administrative Expense Fund deposit of \$10,000 in accordance with Section 641.227, F.S.

First Medical Health Plan of Florida, Inc.
Assets
December 31, 2008

	Per		Per
	Company	Adjustments	Examination
Cash, cash equivalents and short-term investments	\$2,008,961	\$0	\$2,008,961
Electronic data processing equipment and software	18,302	0	18,302
Other accounts receivable	1,261	(800)	461
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Total assets	\$2,028,524	(\$800)	\$2,027,724
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**First Medical Health Plan of Florida, Inc.
Liabilities, Capital and Surplus
December 31, 2008**

Liabilities	Per Company	Adjustments	Per Examination
Claims unpaid	\$276,366	\$22,069	\$298,435
Unpaid claims adjustment expenses	4,700	0	4,700
General expenses due or accrued	242,822	(38,069)	204,753
Amounts due to parent, subsidiaries and affiliates	0	16,000	16,000
Total liabilities	523,888	0	523,888
Capital and Surplus			
Common capital stock	10	0	10
Gross paid in and contributed surplus	2,999,990	0	2,999,990
Surplus notes	844,997	0	844,997
Unassigned funds (deficit)	(2,340,361)	(800)	(2,341,161)
Total capital and surplus	1,504,636	(800)	1,503,836
Total liabilities, capital and surplus	\$2,028,524	(\$800)	\$2,027,724

First Medical Health Plan of Florida, Inc.
Statement of Revenue and Expenses
(As reported by the Company)
For The Year Ended December 31, 2008

Net premium income	\$757,175
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Hospital and medical benefits	453,642
Other professional services	7,575
Emergency room and out-of-area	45,685
Prescription drugs	95,371
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Total hospital and medical	602,273
General administrative expenses	1,220,021
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Total underwriting deductions	1,822,294
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Net underwriting gain (loss)	(1,065,119)
Net investment income	28,268
Aggregate write-ins for other income or expenses	(7,935)
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Net income (loss)	(\$1,044,786)
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**First Medical Health Plan of Florida, Inc.
Statement of Changes in Capital and Surplus
For The Two Years Ended December 31, 2008**

Capital and surplus - December 31, 2006	\$0
Net income (loss)	(1,272,464)
Change in nonadmitted assets	(24,953)
Common stock issued	10
Paid in capital	2,999,990
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Capital and surplus - December 31, 2007	1,702,583
Net income (loss)	(1,044,786)
Change in nonadmitted assets	1,842
Change in surplus notes	844,997
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	1,504,636
Examination adjustments	(800)
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Capital and surplus - December 31, 2008	\$1,503,836
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**First Medical Health Plan of Florida, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2008**

The following is a reconciliation of capital and surplus between that reported by the Company and as determined by the examination.

Capital and surplus, December 31, 2008 - per annual statement			\$1,504,636
	<u>Per Company</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Capital & Surplus</u>
Assets:			
Other accounts receivable	\$1,261	\$461	(\$800)
Liabilities:			
Claims unpaid	\$276,366	\$298,435	(\$22,069)
General expenses due or accrued	\$242,822	\$204,753	\$38,069
Amounts due to parent, subsidiaries and affiliates	\$0	\$16,000	(\$16,000)
Net change in capital and surplus			<u>(800)</u>
Capital and surplus, December 31, 2008 - per examination			\$1,503,836

COMMENTS ON FINANCIAL STATEMENTS

Other Accounts Receivable

\$461

The amount reported by the Company in its 2008 annual statement as 'other accounts receivable' has been reduced by \$800. The reported amount included \$800 due from an affiliated organization. The receivable was not allowable pursuant to Section 641.35(2)(i), F.S.

Claims Unpaid

\$298,435

General Expenses Due or Accrued

\$204,753

Amounts Due to Parent, Subsidiaries and Affiliates

\$16,000

Of the amount reported by the Company in its 2008 annual statement as 'general expenses due or accrued', \$22,069 has been reclassified to 'claims unpaid' and \$16,000 has been reclassified to 'amounts due to parent, subsidiaries and affiliates'. The Company incorrectly reported \$22,069 in pharmaceutical liabilities and \$16,000 owed to an affiliate as 'general expenses due or accrued'.

SUMMARY OF RECOMMENDATIONS

Material Prospective Risk

As reported on page 2, the prospective risk existed that the Company would not generate premium revenues and earnings sufficient to assure its future solvency and long-term success.

We recommend that the Company develop controls, business processes and a strategy to mitigate this risk, and plan for the potential need to secure additional capital.

Holding Company Registration Statement

As reported on page 3, the Company had not filed a holding company registration statement with the State of Florida, as required by Section 628.801, F.S., and Rule 69O-143.046, F.A.C. **We recommend that the Company file the statement immediately.**

Agreements With Affiliates

As reported on page 4, we found that the Company's agreements with FMPR and Metropolitan Hospital did not include provisions that they would be canceled upon issuance of an order by the Office, as required by Section 641.234(3), F.S. However, the required provisions were added to the agreements during the examination. **We recommend that the Company ensure that all of its administrative, provider and management agreements comply with Section 641.234(3), F.S., to the extent applicable.**

Provider Contracts

As reported on page 6, a review of the Company's provider contracts resulted in a finding that the reviewed agreements did not contain provisions that its subscribers were not liable to providers for any services for which the Company was liable as specified in Section 641.3154, F.S., as

required by Section 641.315(1), F.S. **We recommend that the Company add the required provisions to all of its contracts with providers of health care services.**

Reinsurance Agreement

As reported on page 6, the Company was informed during the examination of a finding that the reinsurance agreement had not been filed with and approved by the Office as required by Rule 69O-191.072, F.A.C. Subsequently, the agreement was filed with the Office and, on October 29, 2009, approved by the Office. **We recommend that, in the future, the Company ensure that all of its excess of loss reinsurance agreements are filed with and approved by the Office, as required by Rule 69O-191.072, F.A.C.**

Financial Statement Errors

In its 2008 annual statement, the Company overstated the amount of its other accounts receivable by \$800 and incorrectly classified certain of its liabilities in the total amount of \$38,069, as reported on page 13. **We recommend that, in future statements, the Company accurately report the amount of its assets and liabilities in accordance with Section 641.35, F.S., and the annual statement instructions.**

Capital and Surplus

In several monthly reports filed with the Office in 2009, the Company reported total capital and surplus at amounts less than what was required by Section 641.225, F.S., as reported on page 16. **We recommend that the Company maintain at least the minimum capital and surplus required by Section 641.225, F.S., at all times.**

SUBSEQUENT EVENTS

In its 2009 annual statement, the Company reported a net loss of \$702,854, the receipt of \$776,500 from the proceeds of surplus notes, and total capital and surplus of \$1,549,756. In several monthly reports filed with the Office in 2009, the Company reported total capital and surplus at amounts less than what was required by Section 641.225, F.S.

The Company's marketing plan for 2010 originally included a point-of-service benefit; however, it was subsequently determined that the Company did not meet the requirements of Section 641.31(38), F.S., to offer a point-of-service benefit. As a result, the contractual arrangement between the Company and CMS was terminated in December of 2009. Effective January 1, 2010, the Company had no membership.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of First Medical Health Plan of Florida, Inc. as of December 31, 2008, consistent with the insurance laws of the State of Florida.

The Company's total capital and surplus at December 31, 2008 was determined to be \$1,503,836, which was in compliance with Section 641.225, F.S. Its required minimum capital and surplus was \$1,500,000.

In addition to the undersigned, the following individuals participated in this examination: Stephen Feliu, CFE (Fraud), Financial Examiner/Analyst; Cathy S. Jones, CPA, Financial Examiner/Analyst Supervisor; and Richard Tan, Actuary.

Respectfully submitted,

Robert Y. Meszaros, Financial Specialist
Florida Office of Insurance Regulation