

**Report on Examination**  
**of**  
**Quality Health Plans, Inc.**

**Tampa, Florida**

**as of**

**June 30, 2010**

**By The**  
**Florida Office of Insurance Regulation**

Kevin M. McCarty, Commissioner  
Florida Office of Insurance Regulation  
200 E. Gaines Street  
Tallahassee, Florida 32399-0305

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 Quality Health Plans, Inc. as of June 30, 2010. Our report on the examination follows.

Florida Office of Insurance Regulation  
December 21, 2010

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## **SCOPE OF EXAMINATION**

We have completed a limited-scope financial condition examination as of June 30, 2010 of Quality Health Plans, Inc. (the "Company"), a Florida health maintenance organization (HMO). Our examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. The purpose of the examination was to determine the extent to which assets reported by the Company as of June 30, 2010 qualified as admitted assets under Section 641.35, Florida Statutes (F.S.).

This report is on a limited-scope examination by the Florida Office of Insurance Regulation (the Office). As such, it is not intended to communicate all matters of importance for an understanding of the Company's financial condition. The purposes of limited-scope examinations are to review specific aspects of financial or operational processes, perform specific procedures with respect to those aspects, and report as to the examiners' findings thereon. By definition, limited-scope examinations are less comprehensive than full-scope examinations and generally focus on areas identified by the Office to be problem areas or potential problem areas.

The examination was conducted in the Company's Tampa, Florida office.

## **BACKGROUND**

The Company was incorporated in Florida on August 27, 2001. On October 11, 2002, it was authorized by the Office to operate as an HMO pursuant to Part 1 of Chapter 641, F.S. The Company was a Medicare Advantage organization and provided health care services to Medicare enrollees as authorized by the U.S. Department of Health and Human Services Centers for Medicare and Medicaid Services (CMS) pursuant to Title 42, Part 422, Code of Federal Regulations.

The last full-scope financial condition examination of the Company by the Office was as of December 31, 2006. That examination resulted in findings that, as of December 31, 2006:

- The Company's deficit was \$4,983,770, which was \$6,483,770 less than the minimum capital and surplus required by Section 641.225, F.S.; and
- The total amount of the Company's cash and eligible securities was \$1,387,413, which was \$112,587 less than the amount required by Section 641.35(9), F.S.

On May 17, 2010, CMS notified the Company of its intent to impose intermediate sanctions as a result of the Company's failure to comply with certain administrative and contract management requirements. Those sanctions included a requirement that the Company suspend enrollment of, and marketing activities to, Medicare beneficiaries, and the imposition of a civil penalty in the amount of \$586,800. The enrollment and marketing sanctions became effective on June 2, 2010 and, as of the date of this report, remained in effect. Subsequently, CMS and the Company entered into a settlement agreement effective December 7, 2010 providing for a reduced penalty of \$509,000 plus interest, payable in three monthly installments.

The Company reported total capital and surplus of \$583,151 as of June 30, 2010 and a net loss of \$5,468,645 for the six months then ended. Its required minimum capital and surplus was \$3,758,019.

## SUMMARY OF FINDINGS AND RECOMMENDATIONS

### Cash Equivalents and Bonds

We reviewed the asset reported by the Company as 'cash, cash equivalents and short-term investments' in the amount of \$10,802,866, including \$5,082,800 reported as 'cash equivalents'. Examination procedures included a review of relevant records and supporting documents and confirmation of securities in order to determine whether the amount reported as cash equivalents qualified as cash equivalents under Section 641.35(1)(a), F.S., and Statement of Statutory Accounting Principles (SSAP) No. 2. We found that the securities consisted of variable rate demand notes with original maturities of more than 3 months which should have been reported as bonds in accordance with SSAP No. 26. Accordingly, we have reclassified the securities to bonds. **We recommend that, in future statements filed with the Office, the Company report the securities as bonds.**

### Uncollected Premiums and Agents' Balances

We reviewed the asset reported by the Company as 'uncollected premiums and agents' balances' in the amount of \$1,205,967. Examination procedures included a review of relevant records, supporting documents, and working papers prepared by the Company's independent auditors. No significant adverse findings resulted.

### Accrued Retrospective Premiums

We reviewed the asset reported by the Company as 'accrued retrospective premiums' in the amount of \$12,707,327. Examination procedures included a review of relevant records and supporting documents and an analysis of collections subsequent to June 30, 2010. No significant adverse findings resulted.

#### Amounts Recoverable From Reinsurers

We reviewed the asset reported by the Company as 'amounts recoverable from reinsurers' in the amount of \$1,302,666. Examination procedures included a review of relevant records, supporting documents, and collections subsequent to June 30, 2010. No significant adverse findings resulted.

#### Funds Held By or Deposited With Reinsured Companies

We reviewed the asset reported by the Company as 'funds held by or deposited with reinsured companies' in the amount of \$5,818,527. Examination procedures included a review of relevant records and supporting documents, confirmations of balances, and an analysis of collections subsequent to June 30, 2010. No significant adverse findings resulted.

#### Net Deferred Tax Asset

We reviewed the asset reported by the Company as 'net deferred tax asset' in the amount of \$1,988,000. Examination procedures included a review of the Company's tax sharing agreement, 2008 and 2009 consolidated income tax returns, and income tax accruals. We found that, while the reported amount was not allowable as a net deferred tax asset, it consisted of a tax sharing receivable and, as such, should have been reported as 'aggregate write-ins for other than invested assets'. As a result, we have reclassified the asset. **We recommend that, in future statements filed with the Office, the Company report any allowable tax sharing receivables as 'aggregate write-ins for other than invested assets'.**

#### Health Care and Other Amounts Receivable

We reviewed the asset reported by the Company as 'health care and other amounts receivable' in the amount of \$4,335,807. Examination procedures included a review of relevant records and supporting documents. Paragraph 20b of SSAP No. 84 provides that risk sharing receivables which have not been collected within 90 days of the billing date are to be nonadmitted. We found that risk sharing receivables in the total amount of \$1,480,277, which had been admitted by the Company, were not collected within 90 days of the billing date. Therefore, they were nonadmitted upon examination. **We recommend that, in future statements filed with the Office, the Company admit risk sharing receivables only to the extent allowable by SSAP No. 84.**

#### Due From Parent, Subsidiaries and Affiliates

We reviewed the account reported by the Company as 'due to parent, subsidiaries and affiliates'. The account, which was reported as a liability in the negative amount of \$2,180, was actually an amount due from an affiliate. Section 641.35(2)(i), F.S., provides that amounts due from an HMO's parent or other affiliate are not allowable as admitted assets. Consequently, \$2,180 was nonadmitted upon examination. **We recommend that, in future statements filed with the Office, the Company nonadmit amounts due from its parent, subsidiaries and affiliates, in accordance with Section 641.35(2)(i), F.S.**

**Quality Health Plans, Inc.**  
**Assets**  
**June 30, 2010**

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ -	\$ 5,082,800	\$ 5,082,800
Cash, cash equivalents and short-term investments	10,802,866	(5,082,800)	5,720,066
	10,802,866	-	10,802,866
Uncollected premiums and agents' balances	1,205,967	-	1,205,967
Accrued retrospective premiums	12,707,327	-	12,707,327
Amounts recoverable from reinsurers	1,302,666	-	1,302,666
Funds held by or deposited with reinsured companies	5,818,527	-	5,818,527
Net deferred tax asset	1,988,000	(1,988,000)	-
Health care and other amounts receivable	4,335,807	(1,480,277)	2,855,530
Aggregate write-ins for other than invested assets	-	1,988,000	1,988,000
<b>Total assets</b>	<b>\$ 38,161,160</b>	<b>\$ (1,480,277)</b>	<b>\$ 36,680,883</b>

**Quality Health Plans, Inc.**  
**Liabilities, Capital and Surplus**  
**June 30, 2010**

<b>Liabilities</b>	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Claims unpaid	\$ 31,049,039	\$ -	\$ 31,049,039
Aggregate health policy reserves	1,229,935	-	1,229,935
General expenses due or accrued	795,491	-	795,491
Ceded reinsurance premiums payable	2,079,129	-	2,079,129
Due to parent, subsidiaries and affiliates	(2,180)	2,180	-
Liability for amounts held under uninsured plans	2,426,595	-	2,426,595
<b>Total liabilities</b>	<b>37,578,009</b>	<b>2,180</b>	<b>37,580,189</b>
<b>Capital and Surplus</b>			
Common capital stock	100	-	100
Gross paid in and contributed surplus	24,824,900	-	24,824,900
Surplus notes	6,039,532	-	6,039,532
Unassigned funds (deficit)	(30,281,381)	(1,482,457)	(31,763,838)
<b>Total capital and surplus (deficit)</b>	<b>583,151</b>	<b>(1,482,457)</b>	<b>(899,306)</b>
<b>Total liabilities, capital and surplus</b>	<b>\$ 38,161,160</b>	<b>\$ (1,480,277)</b>	<b>\$ 36,680,883</b>

**Quality Health Plans, Inc.**  
**Statement of Revenue and Expenses**  
**(As reported by the Company)**  
**For The Six Months Ended June 30, 2010**

Net premium income	\$ 74,792,311
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Hospital and medical benefits	44,742,421
Other professional services	5,251,803
Outside referrals	4,393,707
Emergency room and out-of-area	6,248,392
Prescription drugs	14,534,265
Incentive pool, withhold adjustments and bonus amounts	881,390
	<hr/>
	76,051,978
Net reinsurance recoveries	5,915,051
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Total hospital and medical	70,136,927
Claims adjustment expenses	3,198,856
General administrative expenses	7,691,611
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Total underwriting deductions	81,027,394
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Net underwriting gain (loss)	(6,235,083)
Net investment income	43,438
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Income (loss) before income tax	(6,191,645)
Federal income tax (benefit)	(723,000)
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Net income (loss)	\$ (5,468,645)
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**Quality Health Plans, Inc.**  
**Statement of Changes in Capital and Surplus**  
**For The Six Months Ended June 30, 2010**

Capital and surplus - December 31, 2009	\$ 6,074,402
Net income (loss)	(5,468,645)
Change in nonadmitted assets	(22,605)
Aggregate write-ins for gains or (losses) in surplus	(1)
	583,151
Examination adjustments	(1,482,457)
	583,151
Capital and surplus (deficit) - June 30, 2010	\$ (899,306)

**Quality Health Plans, Inc.**  
**Comparative Analysis of Changes in Capital and Surplus**  
**June 30, 2010**

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

<b>Capital and surplus, June 30, 2010 - per quarterly statement</b>				\$ 583,151
	<u>Per</u>	<u>Per</u>	<u>Increase</u>	
	<u>Company</u>	<u>Examination</u>	<u>(Decrease)</u>	
			<u>In Capital</u>	
			<u>&amp; Surplus</u>	
<b>Assets:</b>				
Bonds	\$ -	\$ 5,082,800	\$ 5,082,800	
Cash, cash equivalents and short-term investments	\$ 10,802,866	\$ 5,720,066	\$ (5,082,800)	
Net deferred tax asset	\$ 1,988,000	\$ -	\$ (1,988,000)	
Health care and other amounts receivable	\$ 4,335,807	\$ 2,855,530	\$ (1,480,277)	
Aggregate write-ins for other than invested assets	\$ -	\$ 1,988,000	\$ 1,988,000	
<b>Liabilities:</b>				
Due to parent, subsidiaries and affiliates	\$ (2,180)	\$ -	\$ (2,180)	
Net change in capital and surplus				<u>(1,482,457)</u>
<b>Capital and surplus (deficit), June 30, 2010 - per examination</b>				<u><u>\$ (899,306)</u></u>

## **SUBSEQUENT EVENTS**

On August 16, 2010, the Company received a contribution to its capital in the amount of \$3.3 million.

On October 22, 2010, the Company increased its insolvency protection deposit by \$1.0 million to a total of \$2.3 million, as requested by the Office on October 7, 2010 pursuant to Section 641.285(3), F.S.

## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been applied to the specific areas described in this report of limited-scope examination of Quality Health Plans, Inc. as of June 30, 2010, consistent with the insurance laws of the State of Florida.

The Company's total capital and surplus at June 30, 2010 was determined to be a deficit of \$899,306, which was not in compliance with Section 641.225, F.S. Its required minimum capital and surplus was \$3,758,019.

In addition to the undersigned, Cathy S. Jones, CPA, Financial Examiner/Analyst Supervisor, participated in this examination.

Respectfully submitted,

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Christine N. Afolabi, CPA  
Financial Specialist  
Florida Office of Insurance Regulation