

**Report on Examination**  
**of**  
**WellCare of Florida, Inc.**  
**Tampa, Florida**  
**as of**  
**December 31, 2007**

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

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Tallahassee, Florida

June 18, 2009

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

Dear Sir:

Pursuant to your instructions, in compliance with Section 641.27, Florida Statutes (F.S.), and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2007, of the financial condition and corporate affairs of:

**WellCare of Florida, Inc.  
8735 Henderson Road  
Renaissance Two  
Tampa, Florida 33634**

hereinafter referred to as the "Company." Such report of examination is herewith respectfully submitted.

## SCOPE OF EXAMINATION

This examination covered the period of January 1, 2005 through December 31, 2007. The Company was last examined by the Florida Office of Insurance Regulation (the "Office") as of December 31, 2003.

Planning for the current examination began on November 17, 2008. The fieldwork commenced on December 1, 2008 and concluded on April 6, 2009. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

This was a statutory financial condition examination conducted in accordance with the NAIC *Financial Examiners Handbook, Accounting Practices and Procedures Manual, and Annual Statement Instructions*, with due regard to the requirements of the insurance laws and rules of the State of Florida.

In this examination, emphasis was directed to the quality, value and integrity of the statement assets and the determination of liabilities, as they affect the Company's solvency.

The examination included a review of corporate and other selected records deemed pertinent to the Company's operations and practices. In addition, various ratio results, *Best's Insurance Reports*, the Company's independent audit reports, and certain work papers prepared by the Company's independent certified public accountant (CPA) were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the Company's assets and liabilities as reported by the Company in its 2007 annual statement. Transactions subsequent to December 31, 2007 were reviewed where relevant and deemed significant to the Company's financial condition.

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

#### **STATUS OF ADVERSE FINDING FROM PRIOR EXAMINATION**

The following is a summary of a significant adverse finding contained in the Office's prior examination report as of December 31, 2003 along with resulting action taken by the Company in connection therewith.

##### Holding Company Registration Statement

The report on the prior examination contained a finding that, in July of 2004, WellCare Health Plans, Inc. (WHP) raised approximately \$114.1 million through an initial public offering of capital stock which was not subsequently reported to the Office in an updated holding company registration statement as required by Rule 69O-143.046, Florida Administrative Code (F.A.C.). Resolution: The Company filed a holding company registration statement with the Office on April 21, 2008.

## HISTORY

### GENERAL

The Company was incorporated in Florida on May 17, 1985 and commenced business on March 1, 1986. On August 24, 2004, the Company changed its name from Well Care HMO, Inc. to WellCare of Florida, Inc.

As of the date of this examination, the Company was authorized to transact business as a health maintenance organization (HMO) in accordance with Part I of Chapter 641, F.S.

The Company's articles of incorporation were amended and restated on October 5, 2006. Its bylaws were amended and restated on October 5, 2006 and January 30, 2007.

### CAPITAL STOCK

As of December 31, 2007, the Company's capitalization was as follows:

	<b>Common Stock</b>
Shares authorized	10,000,000
Shares issued and outstanding	5,275,313
Total capital stock	\$52,753
Par value per share	\$0.01

At December 31, 2007, the Company was wholly-owned and controlled by The WellCare Management Group, Inc., which in turn was wholly-owned by WCG Health Management, Inc., a wholly-owned subsidiary of WHP. An abbreviated organizational chart appears on page 9.

## PROFITABILITY

For the period of this examination, the Company reported the following:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Year-end enrollment	317,959	305,237	310,224
<b>In millions:</b>			
Net premiums	\$1,147.4	\$969.1	\$897.0
Total revenues	\$1,147.4	\$969.1	\$897.0
Net income	\$20.8	\$12.1	\$30.1
Total capital and surplus	\$79.3	\$81.9	\$71.1

## DIVIDENDS

The Company did not pay shareholder dividends during the period of this examination.

## MANAGEMENT

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.0701 and 607.0803, F.S. Directors serving as of December 31, 2007 were:

### Directors

<u>Name and Location</u>	<u>Principal Occupation</u>
Paul L. Behrens <sup>1</sup> Tampa, Florida	Chief Financial Officer & Sr. Vice President of WHP
Thaddeus M. Bereday <sup>1</sup> Tampa, Florida	General Counsel & Sr. Vice President of WHP
Gary J. Clarke Tallahassee, Florida	Attorney - Sternstein, Rainer, & Clarke P.A.
Todd S. Farha <sup>1</sup> Tampa, Florida	Chief Executive Officer of WellCare of Florida, Inc.
David K. Smith <sup>2</sup> Tampa, Florida	Vice President, Assistant Secretary, & Assistant Treasurer of WHP

<sup>1</sup> Resigned in January of 2008

<sup>2</sup> Resigned on December 31, 2007

The Company's senior officers as of December 31, 2007, as appointed by its board of directors in accordance with the Company's bylaws, were:

### Senior Officers

<u>Name</u>	<u>Title</u>
Todd S. Farha <sup>1</sup>	President & Chief Executive Officer
Paul L. Behrens <sup>1</sup>	Chief Financial Officer & Treasurer
Thaddeus M. Bereday <sup>1</sup>	Sr. Vice President, General Counsel, & Secretary
David K. Smith <sup>2</sup>	Vice President, Assistant Treasurer, & Assistant Secretary

<sup>1</sup> Resigned in January of 2008

<sup>2</sup> Resigned on December 31, 2007



## **CONFLICT OF INTEREST PROCEDURE**

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with Section 607.0832, F.S. No exceptions were noted during this examination.

## **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.; however, the minutes did not include documentation of the Board's authorization of the Company's investments as required by Section 641.35(7), F.S.

## **INVESTIGATIONS**

The Company's ultimate parent WHP reported that, on October 24, 2007, certain federal and state agencies executed a search warrant at the Company's Tampa, Florida headquarters, and that WHP was working with the U.S. Department of Justice, the Federal Bureau of Investigation, the U.S. Department of Health and Human Services Office of Inspector General, and the Florida Attorney General's Medicaid Fraud Control Unit (MFCU).

The Company reported that the U.S. Securities and Exchange Commission was conducting an informal investigation of WHP, and that WHP was responding to subpoenas issued by the State of Connecticut Attorney General's Office involving transactions between WHP and certain of its affiliates and their potential impact on the costs of Connecticut's Medicaid program.

## **AFFILIATED COMPANIES**

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), F.A.C. Its latest holding company registration statement was filed with the State of Florida, as required by Section 628.801, F.S., and Rule 69O-143.046, F.A.C., on April 21, 2008 and amended on May 14, 2008.

The following agreements were in force between the Company and its affiliates:

### **Management Services Agreement**

Substantially all of the Company's administrative and management services were provided by Comprehensive Health Management, Inc. (CHMI), a Florida third party administrator, pursuant to a May 1, 2000 management agreement. In connection with the agreement, CHMI provided accounting, claims processing, customer service, data processing and provider contracting services to the Company in return for fees based on 9.5% of collected premiums, which fees amounted to \$85,285,000, \$98,050,000 and \$114,684,000 in 2005, 2006 and 2007, respectively.

### **Mental Health Provider Contract**

Harmony Behavioral Health, Inc. provided mental health services to the Company's members pursuant to a January 1, 2006 agreement in return for fees which amount to \$33,040,000 and \$32,477,000 in 2006 and 2007, respectively.

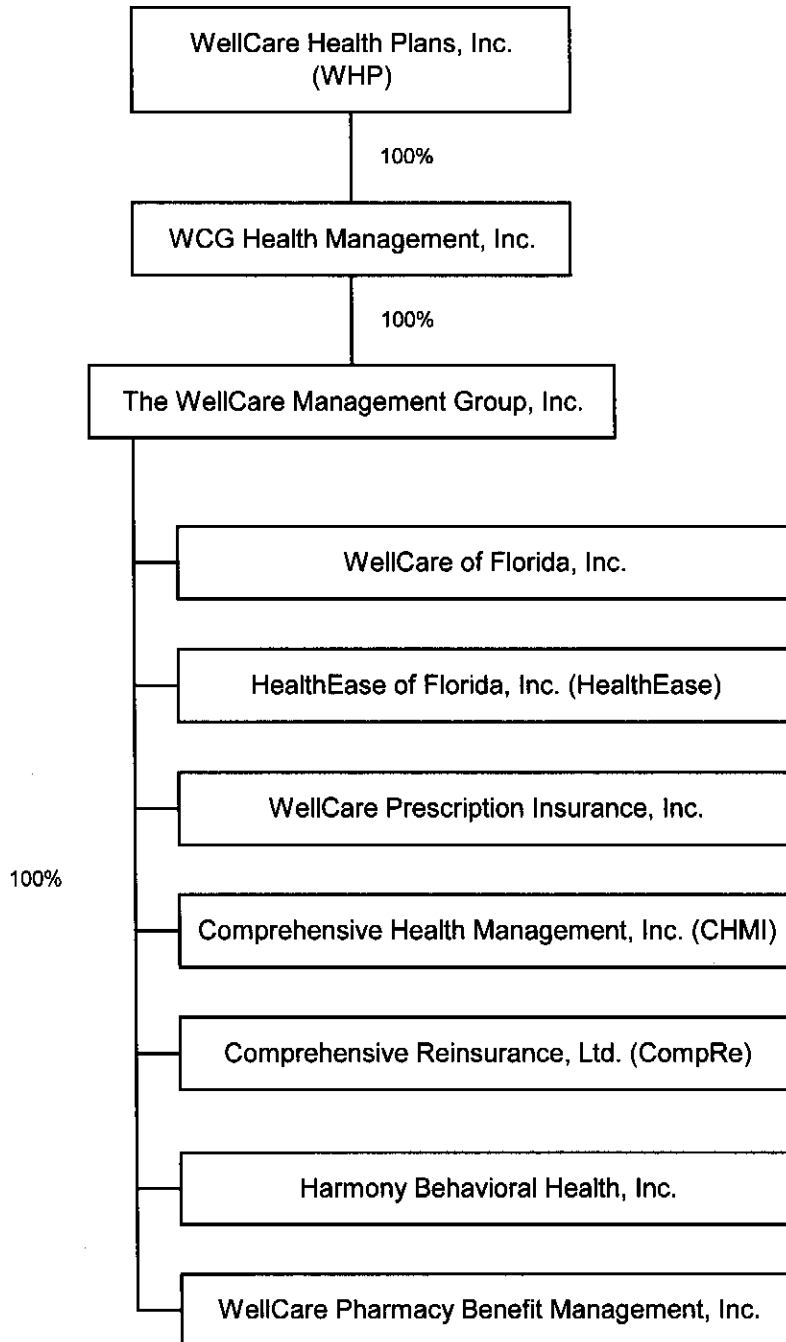
### **Tax Allocation Agreement**

The results of the Company's operations were included in the consolidated federal income tax return of WHP pursuant to an August 1, 2002 tax allocation agreement. Federal income taxes were allocated between the parent and its affiliates based on separate company tax computations with any alternative

minimum tax credit remaining with the parent. The agreement did not include a provision that it shall be canceled upon issuance of an order by the Office, as required by Section 641.234(3), F.S.

An abbreviated organizational chart as of December 31, 2007 reflecting the holding company system is shown on the following page. Schedule Y of the Company's 2007 annual statement provided the names of all related companies in the holding company group.

**WellCare of Florida, Inc.  
Organizational Chart  
December 31, 2007**



## **FIDELITY BOND AND OTHER INSURANCE**

The Company maintained acceptable levels of general liability insurance, in compliance with Rule 69O-191.069, F.A.C., and was insured by a blanket fidelity bond in the amount of \$2.5 million as required by Section 641.22, F.S. As an individual practice association (IPA) model HMO, the Company maintained adequate professional liability insurance. It required in its provider contracts that its providers certify and maintain appropriate levels of medical malpractice insurance or its equivalent in compliance with Rule 69O-191.069, F.A.C.

## **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company did not directly employ anyone nor did it provide pension or other employee benefits.

## **STATUTORY DEPOSITS**

The Company maintained on deposit with the Office an insolvency protection deposit of \$2,001,070 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.

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **TERRITORY AND PLAN OF OPERATION**

The Company was authorized to transact business in Florida as an HMO in accordance with Part I of Chapter 641, F.S. It held a current health care provider certificate issued by the Florida Agency for Health Care Administration (AHCA) pursuant to Part III of Chapter 641, F.S., valid until June 25, 2010.

The Company used a network of general agents and brokers, and operated as an IPA model. It provided health care services to comprehensive, Medicare and Medicaid members. Its total membership at December 31, 2007 was 317,959 of which 56% was Medicaid, 23% was Medicare and 21% was comprehensive.

The Company operated in the Florida counties of Baker, Brevard, Broward, Charlotte, Clay, Collier, DeSoto, Duval, Escambia, Hernando, Hillsborough, Lake, Lee, Manatee, Miami-Dade, Nassau, Okaloosa, Orange, Osceola, Palm Beach, Pasco, Pinellas, Polk, Santa Rosa, Sarasota, Seminole, St. Lucie and Sumter.

### **TREATMENT OF MEMBERS**

The Company established procedures for handling written complaints in accordance with Section 641.511, F.S., and maintained a claims procedure manual that included detailed procedures for handling each type of claim.

## REINSURANCE

On January 1, 2005 the Company entered into a one-year excess loss agreement with Allianz Life Insurance Company of North America which provided for reimbursement of 90% of eligible medical losses in excess of \$250,000 up to a maximum of \$1 million per member per year in exchange for premiums of \$1.03 per member per month.

The Company entered into an excess loss agreement with Employers Reinsurance Corporation, effective January 1, 2006 providing generally for reimbursed of 90% of eligible losses in excess of \$1 million up to an aggregate lifetime limit of \$2 million. Premiums were \$.05 per member per month.

The Company entered into a stop loss agreement with Comprehensive Reinsurance, LTD (CompRe), an unauthorized affiliated reinsurer, effective January 1, 2006, providing for reimbursement of 100% of eligible claims expenses in excess of \$50,000 up to an aggregate of \$1 million per covered member per year. The agreement did not include a provision that it shall be canceled upon issuance of an order by the Office, as required by Section 641.234(3), F.S.

The reinsurance agreements complied with NAIC standards with respect to the standard insolvency and arbitration clauses, transfer of risk, and reporting and settlement information deadlines.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

## ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory-basis financial statements annually for years 2005, 2006 and 2007, pursuant to Section 641.26(1)(c), F.S.

The Company's accounting records were maintained on a computerized system. Its balance sheet accounts were verified with the line items of its annual statement submitted to the Office.

Subsequent to the filing of its 2007 annual statement and prior to the filing of its 2007 statutory-basis financial statements audited by the Company's independent auditor (audited financial statements), the Company made financial adjustments to most of its financial statement accounts as of December 31, 2007 as follows:

	Per Annual Statement	Net Change	Per Audited Financial Statements
Cash, cash equivalents and short-term investments	\$156,805,845	\$1,703,140	\$158,508,985
Uncollected premiums and agents' balances	\$18,656,663	(\$2,244,361)	\$16,412,302
Current federal and foreign income tax recoverable	\$3,826,294	\$8,223,408	\$12,049,702
Net deferred tax asset	\$5,595,130	\$2,012,891	\$7,608,021
Health care and other amounts receivable	\$3,605,925	(\$10,067)	\$3,595,858
Aggregate write-ins for other than invested assets	\$519,747	\$631,923	\$1,151,670
Claims unpaid	\$145,464,868	(\$9,582,728)	\$135,882,140
Unpaid claims adjustment expenses	\$3,413,163	(\$420,964)	\$2,992,199
Premiums received in advance	\$10,222,039	(\$8,484,676)	\$1,737,363
General expenses due or accrued	\$9,692,198	\$1,101,224	\$10,793,422
Amounts due to parent, subsidiaries and affiliates	\$6,709,536	\$4,662,084	\$11,371,620
Liability for retrospective premiums	\$10,457,250	\$30,421,972	\$40,879,222
Other liabilities	\$0	\$10,091,155	\$10,091,155
Unassigned funds	\$62,754,155	(\$17,471,133)	\$45,283,022

The Company's main administrative office was located in Tampa, Florida, where this examination was conducted.



The following agreement was in effect between the Company and a non-affiliate:

Transportation Agreement

The Company contracted with LogisticsCare Solutions, Inc. to provide non-emergency transportation services to its members pursuant to an agreement effective October 22, 2004, in return for fees which amounted to \$659,221 and \$2,892,268 in 2006 and 2007, respectively. The agreement did not include a provision that it shall be canceled upon issuance of an order by the Office, as required by Section 641.234(3), F.S.

## **FINANCIAL STATEMENTS PER EXAMINATION**

The following four pages contain statements of the Company's financial position at December 31, 2007, as determined by this examination, and the results of its operations for the year then ended as reported by the Company. Adjustments made by the Company subsequent to the filing of its 2007 annual statement and adjustments resulting from this examination are summarized on page 22.

**WellCare of Florida, Inc.**  
**Assets**  
**December 31, 2007**

	Per Company	Examination Adjustments	Per Examination
Bonds	\$75,440,000	\$501,070	\$75,941,070
Cash, cash equivalents and short-term investments	156,805,845	(130,352,840)	26,453,005
	<u>232,245,845</u>	<u>(129,851,770)</u>	<u>102,394,075</u>
Investment income due and accrued	283,506	0	283,506
Uncollected premiums and agents' balances	18,656,663	(2,244,361)	16,412,302
Amounts recoverable from reinsurers	23,875,526	(5,662,222)	18,213,304
Current federal and foreign income tax recoverable	3,826,294	8,223,408	12,049,702
Net deferred tax asset	5,595,130	2,012,891	7,608,021
Health care and other amounts receivable	3,605,925	(10,067)	3,595,858
Aggregate write-ins for other than invested assets	519,747	631,923	1,151,670
	<u>\$288,608,636</u>	<u>(\$126,900,198)</u>	<u>\$161,708,438</u>
Total assets	<u>\$288,608,636</u>	<u>(\$126,900,198)</u>	<u>\$161,708,438</u>

**WellCare of Florida, Inc.**  
**Liabilities, Capital and Surplus**  
**December 31, 2007**

<b>Liabilities</b>	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Claims unpaid	\$145,464,868	(\$9,582,728)	\$135,882,140
Unpaid claims adjustment expenses	3,413,163	(420,964)	2,992,199
Premiums received in advance	10,222,039	(8,484,676)	1,737,363
General expenses due or accrued	9,692,198	1,101,224	10,793,422
Ceded reinsurance premiums payable	18,213,304	0	18,213,304
Remittances and items not allocated	700,814	0	700,814
Due to parent, subsidiaries and affiliates	6,709,536	4,662,084	11,371,620
Amounts held under uninsured plans	4,411,365	0	4,411,365
Liability for retrospective premiums	10,457,250	30,421,972	40,879,222
Other liabilities	0	10,091,155	10,091,155
<b>Total liabilities</b>	<u>209,284,537</u>	<u>27,788,067</u>	<u>237,072,604</u>
<b>Capital and Surplus</b>			
Common capital stock	52,753	0	52,753
Gross paid in and contributed surplus	16,517,191	0	16,517,191
Unassigned funds (deficit)	62,754,155	(154,688,265)	(91,934,110)
<b>Total capital and surplus (deficit)</b>	<u>79,324,099</u>	<u>(154,688,265)</u>	<u>(75,364,166)</u>
<b>Total liabilities, capital and surplus</b>	<u>\$288,608,636</u>	<u>(\$126,900,198)</u>	<u>\$161,708,438</u>

**WellCare of Florida, Inc.**  
**Statement of Revenue and Expenses**  
**For The Year Ended December 31, 2007**

Net premium income		\$1,147,386,693
Hospital and medical benefits	\$785,043,352	
Other professional services	55,435,447	
Emergency room and out-of-area	52,153,188	
Prescription drugs	139,024,724	
	<u>1,031,656,711</u>	
Net reinsurance recoveries	67,820,679	
Total hospital and medical	963,836,032	
Claims adjustment expenses	38,887,117	
General administrative expenses	129,662,710	
Total underwriting deductions		<u>1,132,385,859</u>
Net underwriting gain		15,000,834
Net investment income earned		<u>14,360,788</u>
Income before income taxes		29,361,622
Federal income taxes		<u>8,593,809</u>
Net income		<u><u>\$20,767,813</u></u>

**WellCare of Florida, Inc.**  
**Capital and Surplus Account**  
**For The Year Ended December 31, 2007**

Capital and surplus - December 31, 2006	\$81,861,802
Net income	20,767,813
Change in net deferred income tax	7,122,297
Change in nonadmitted assets	(30,428,208)
Aggregate write-ins for gains in surplus	395
	<hr/>
	79,324,099
Examination adjustments	(154,688,265)
	<hr/>
Capital and surplus (deficit) - December 31, 2007	<u><u>(\$75,364,166)</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

As reported on page 13, the Company made financial adjustments to most of its financial statement accounts as of December 31, 2007 subsequent to the filing of its 2007 annual statement and prior to the filing of its audited financial statements, resulting in a net decrease in its unassigned funds of \$17,471,133. Additional findings resulting from this examination are discussed below.

### **Bonds** **\$75,941,070**

In its 2007 annual statement, the Company incorrectly reported certificates of deposit in the amount of \$501,070 as 'cash, cash equivalents and short-term investments' which should have been reported as bonds. As a result, \$501,070 has been reclassified to bonds.

### **Cash, Cash Equivalents and Short-Term Investments** **\$26,453,005**

As reported on page 13, the Company made an adjustment to increase the amount of its 'cash, cash equivalents and short-term investments' by \$1,703,140 subsequent to the filing of its 2007 annual statement and prior to the filing of its audited financial statements. Additionally, in its 2007 annual statement, the Company reported 'cash, cash equivalents and short-term investments' which incorrectly included \$4,315,910 on deposit in an account of WHP, and \$127,239,000 invested in Eurodollars with Wachovia Bank, N.A., Grand Cayman Branch. The WHP cash account and the investment in Eurodollars did not qualify as admitted assets pursuant to Section 641.35, F.S., and have been nonadmitted. The Company represented to the Office that, subsequent to December 31, 2007, it discontinued its practice of making overnight investments in Eurodollars.

**Amounts Recoverable From Reinsurers****\$18,213,304**

Pursuant to Section 641.35(1)(d), F.S., a reinsurance recoverable from a solvent reinsurer is allowable as an admitted asset only to the extent that the reinsurance is authorized under Section 624.610, F.S. In connection with its stop-loss agreement, the Company reported in its 2007 annual statement reinsurance amounts recoverable from CompRe in the amount of \$23,875,526 which reinsurance was not authorized under Section 624.610, F.S. It also reported amounts payable to CompRe in the total amount of \$18,213,304. As a result, the net recoverable of \$5,662,222 has been nonadmitted.

**Claims Unpaid****\$135,882,140**

As reported on page 13, the Company made an adjustment to decrease the amount of its claims unpaid by \$9,582,728 subsequent to the filing of its 2007 annual statement and prior to the filing of its audited financial statements. The Company's appointed actuary rendered an opinion that the amounts carried in the Company's balance sheet as of December 31, 2007 reasonably provided for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements. The Office actuary reviewed work papers provided by the Company and concurred with this opinion. Based on the results of the Office actuary's review and analysis of work papers and data provided by the Company, we concluded that the aggregate liability was not materially misstated.

**Deficit****\$75,364,166**

The \$79,324,099 reported by the Company in its 2007 annual statement as its total capital and surplus has been reduced by \$154,688,265 to a deficit of \$75,364,166 by the Company's adjustments shown on page 13 and by the above examination adjustments. Because its deficit as of December 31, 2007 was 75,364,166, which is \$99,071,426 less than its required minimum amount of capital and surplus of \$23,707,260, the Company was insolvent and in violation of Section 641.225, F.S.



**WellCare of Florida, Inc.**  
**Comparative Analysis of Changes in Capital and Surplus**  
**December 31, 2007**

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, December 31, 2007 - per annual statement</b>			\$79,324,099
	<u>Per Company</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Capital &amp; Surplus</u>
<b>Assets:</b>			
Bonds	\$75,440,000	\$75,941,070	\$501,070
Cash and short-term investments	\$156,805,845	\$26,453,005	(\$130,352,840)
Uncollected premiums	\$18,656,663	\$16,412,302	(\$2,244,361)
Amounts recoverable from reinsurers	\$23,875,526	\$18,213,304	(\$5,662,222)
Current income tax recoverable	\$3,826,294	\$12,049,702	\$8,223,408
Net deferred tax asset	\$5,595,130	\$7,608,021	\$2,012,891
Health care and other amounts receivable	\$3,605,925	\$3,595,858	(\$10,067)
Aggregate write-ins	\$519,747	\$1,151,670	\$631,923
<b>Liabilities:</b>			
Claims unpaid	\$145,464,868	\$135,882,140	\$9,582,728
Unpaid claims adjustment expenses	\$3,413,163	\$2,992,199	\$420,964
Premiums received in advance	\$10,222,039	\$1,737,363	\$8,484,676
General expenses due or accrued	\$9,692,198	\$10,793,422	(\$1,101,224)
Due to parent, subsidiaries and affiliates	\$6,709,536	\$11,371,620	(\$4,662,084)
Liability for retrospective premiums	\$10,457,250	\$40,879,222	(\$30,421,972)
Other liabilities	\$0	\$10,091,155	(\$10,091,155)
Net change in capital and surplus			<u>(154,688,265)</u>
<b>Capital and surplus (deficit), December 31, 2007 - per examination</b>			<u><u>(\$75,364,166)</u></u>

## SUBSEQUENT EVENTS

On January 25, 2008, WHP announced that Todd Farha, Paul L. Behrens and Thaddeus M. Bereday had resigned from their officer and director positions with WHP and its subsidiaries. Gary J. Clarke, Karen W. Mulroe, Heath G. Schiesser, and Thomas L. Tran were subsequently elected to the Board of Directors.

On August 18, 2008, WHP, the Company, and an affiliated HMO HealthEase of Florida, Inc. (HealthEase) entered into an agreement with the U.S. Attorney's Office for the Middle District of Florida (USAO), AHCA and MFCU. The agreement called for the Company and HealthEase to transmit a total of \$35.2 million to USAO, and for a portion of that amount (\$10,700,000) to be held in escrow pending resolution of matters being investigated, as follows:

	Other	Escrowed	Total
WellCare of Florida, Inc.	\$11,310,369	\$4,939,631	\$16,250,000
HealthEase of Florida, Inc.	<u>\$13,189,631</u>	<u>\$5,760,369</u>	<u>\$18,950,000</u>
Total	<u>\$24,500,000</u>	<u>\$10,700,000</u>	<u>\$35,200,000</u>

The \$35.2 million payment consisted of an estimate of the maximum potential amount of Medicaid behavioral health capitation aggregate repayment owed to AHCA, exclusive of any interest, fines or penalties, for the period of December 1, 2002 through December 31, 2006.

The Company reported payment of shareholder dividends in the amount of \$18.9 million in the fourth quarter of 2008.

On December 26, 2008, the Company reported that its statutory-basis financial statements for the years ended December 31, 2004, 2005 and 2006 contained errors related to its compliance with the refund requirements under its contract with AHCA to provide behavioral health care services for its Medicaid members and its "Healthy Kids" contract to provide health benefits for eligible children. The

Company reported that it had included certain ineligible medical expenses in its premium refund calculations which understated the amount of the refunds, and that the correction of the accounting error resulted in a \$24.2 million decrease in previously reported revenues.

On February 19, 2009, the Centers for Medicare & Medicaid Services (CMS) notified WHP of its intent to impose intermediate sanctions for certain contracts including the Company's CMS contracts, consisting of the suspension of enrollment of Medicare beneficiaries and the suspension of all marketing activities to Medicare beneficiaries.

The Company represented to the Office that, subsequent to December 31, 2007, it discontinued its practice of making overnight investments in Eurodollars.

## SUMMARY OF FINDINGS

### COMPLIANCE WITH PREVIOUS DIRECTIVES

The Company has taken the necessary actions to comply with the comments contained in the report on the prior examination as of December 31, 2003.

### CURRENT EXAMINATION COMMENTS AND CORRECTIVE ACTION

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2007.

#### Authorization of Investments

As reported on page 6, the minutes of the Company's board of directors meetings did not include documentation of the Board's authorization of the Company's investments as required by Section 641.35(7), F.S. **We recommend that the Company's board of directors document in the minutes of its meetings its authorization of the Company's investments as required by Section 641.35(7), F.S.**

#### Contract Cancellation Provision

As report on pages 8, 12 and 14, certain of the Company's agreements did not include provisions that they shall be canceled upon issuance of an order by the Office, as required by Section 641.234(3), F.S. **We recommend that the Company comply with Section 641.234(3), F.S.**

#### Accounting Errors

As reported on page 13, subsequent to the filing of its 2007 annual statement and prior to the filing of its audited financial statements, the Company made financial adjustments to most of its financial statement accounts as of December 31, 2007, resulting in a net decrease in its unassigned funds of \$17,471,133. In addition, the Company reported that its statutory-basis financial statements for the

years ended December 31, 2004, 2005 and 2006 contained errors resulting in a \$24.2 million decrease in previously reported revenues. **We recommend that, in future statements filed with the Office, the Company accurately report the amounts of its assets and liabilities.**

#### Bonds

As reported on page 20, the Company incorrectly reported certificates of deposit in the amount of \$501,070 as 'cash, cash equivalents and short-term investments' which should have been reported as bonds. **We recommend that, in future statements filed with the Office, the Company accurately classify its investments.**

#### Cash, Cash Equivalents and Short-Term Investments

As reported on page 20, the Company reported 'cash, cash equivalents and short-term investments' which incorrectly included \$4,315,910 on deposit in an account of WHP, and \$127,239,000 invested in Eurodollars with Wachovia Bank, N.A., Grand Cayman Branch. The WHP cash account and the investment in Eurodollars did not qualify as admitted assets pursuant to Section 641.35, F.S., and have been nonadmitted. **We recommend that, in future statements filed with the Office, the Company report as admitted assets only those assets which qualify as admitted assets pursuant to Section 641.35, F.S.**

#### Amounts Recoverable From Reinsurers

As reported on page 21, the Company reported reinsurance amounts recoverable from CompRe in the amount of \$23,875,526 which reinsurance was not authorized under Section 624.610, F.S. It also reported amounts payable to CompRe in the total amount of \$18,213,304. As a result, the net recoverable of \$5,662,222 was nonadmitted upon examination. **We recommend that, in future statements filed with the Office, the Company report as admitted assets only those assets which qualify as admitted assets pursuant to Section 641.35, F.S.**

Deficit

As reported on page 21, the Company's total capital and surplus after examination adjustments was a deficit of \$75,364,166 which is \$99,071,426 less than its required minimum amount of capital and surplus of \$23,707,260, and the Company was insolvent and in violation of Section 641.225, F.S. **We recommend that the Company maintain at least the minimum amount of capital and surplus required by Section 641.225, F.S., at all times.**

## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **WellCare of Florida, Inc.** as of December 31, 2007, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's total capital and surplus was a deficit of \$75,364,166, which was not in compliance with Section 641.225, F.S. Its required minimum capital and surplus at December 31, 2007 was \$23,707,260.

In addition to the undersigned, the following participated in this examination: Christine N. Afolabi, Financial Specialist; Thomas I. Cook, CISA, Financial Examiner/Analyst; Cathy S. Jones, CPA, Financial Examiner/Analyst Supervisor; Robert Y. Meszaros, Financial Specialist; and Richard Tan, Actuary.

Respectfully submitted,

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Financial Examiner/Analyst  
Florida Office of Insurance Regulation