Report on Examination

of

WellCare of Florida, Inc.

Tampa, Florida

as of

December 31, 2012

FLORIDA OFFICE OF
INSURANCE REGULATION

Kevin M. McCarty, Commissioner
Florida Office of Insurance Regulation
Tallahassee, Florida

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 WellCare of Florida, Inc. as of December 31, 2012. Our report on the examination follows.

Florida Office of Insurance Regulation
March 27, 2014

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2012 of WellCare of Florida, Inc. (the “Company”), a Florida health maintenance organization (HMO). The examination covered the period of January 1, 2008 through December 31, 2012 and took place primarily in the Company’s Tampa, Florida office. Our examination of the Company was one of seven coordinated financial condition examinations of companies in the WellCare group by the States of Florida, Arizona, Connecticut, Illinois and New Jersey. The exams were coordinated by the Florida Office of Insurance Regulation (the “Office”). The last financial condition examination of the Company by the Office was as of December 31, 2007.

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.

SUMMARY OF SIGNIFICANT FINDINGS

The examination resulted in a finding that there was no record in the minutes of the Company's board of directors meetings of the authorization of its investments. In addition, examiners found that the Company entered into agreements which did not contain required cancellation provisions, and that it failed to report suspected fraudulent insurance acts to the Florida Department of Financial Services Division of Insurance Fraud (DIF). The examination also resulted in findings of internal control deficiencies and errors in reporting. Recommendations related to the findings begin on page 16 of this report.

COMPANY HISTORY

The Company was incorporated in Florida on May 17, 1985 and licensed by the Office as an HMO on February 28, 1986. It was authorized by the State of Florida to operate as an HMO in accordance with Part I of Chapter 641, Florida Statutes (F.S.).

Dividends and Capital Contributions

The Company distributed stockholder dividends in the amounts of $18.9 million, $7.9 million, $25.0 million, $44.6 million and $67.0 million in years 2008 through 2012, respectively. It did not receive capital contributions during the period examined.

Mergers and Acquisitions

On July 1, 2012, the Company merged with one of its affiliates HealthEase of Florida, Inc. (HealthEase). The Company was the surviving entity. Owned by The WellCare Management Group, Inc., HealthEase was a Florida HMO which provided health care benefits to Medicaid and Florida Healthy Kids Corporation (FHKC) participants. The Company stated that the merger was part of its efforts to simplify operations, reduce costs and operate under consistent brand names. In accordance with a May 25, 2012 merger agreement, the Company assumed responsibility for all HealthEase liabilities, and title to all HealthEase real estate and other property was transferred to the Company. No consideration was exchanged as part of the merger transaction and all shares of HealthEase common stock were canceled and retired. The transaction was accounted for as a statutory merger in accordance with Statement of Statutory Accounting Principles (SSAP) No. 68. Accordingly, the respective statutory balance sheets of the two companies were combined as of July 1, 2012 and the Company's 2011 statutory financial statements were restated to reflect the merger as if it had occurred on January 1, 2011.

CORPORATE RECORDS

We reviewed the minutes of the meetings of the Company's stockholder, board of directors, and audit and finance committee. There was no record in the minutes of the meetings of the Company's board of directors or a committee authorized by the Board of the authorization of the Company's investments as required by Section 641.35(7), F.S.

MANAGEMENT AND CONTROL

The Company was affiliated with numerous other entities including WellCare Prescription Insurance, Inc., a Florida life and health insurer which provided stand-alone Medicare Part D prescription drug plans to Medicare-eligible beneficiaries. The Company was wholly owned by The WellCare Management Group, Inc., which was an indirect wholly owned subsidiary of WellCare Health Plans, Inc. (WHP). WHP was a leading provider of managed care services to government-sponsored health care programs, focusing on Medicaid and Medicare. Headquartered in Tampa, Florida, WHP provided a variety of health plans for families, children, and the aged, blind and disabled, as well as prescription drug plans. At December 31, 2012, there were approximately 2.7 million WHP members in the United States. The common stock of WHP traded on the New York Stock Exchange.

The Company's senior officers, directors and members of its audit and finance committee were:

Senior Officers

Name	Title
Alexander R. Cunningham	President & Chief Executive Officer
Thomas L. Tran	Treasurer & Chief Financial Officer
Christina C. Cooper	President, Florida & Hawaii Division
Lisa G. Iglesias	Secretary
Maurice S. Hebert	Assistant Treasurer & Chief Accounting Officer

Board of Directors

Name	Location
Christina C. Cooper	Tampa, Florida
Alexander R. Cunningham	Tampa, Florida
Maurice S. Hebert	Lutz, Florida
Lisa G. Iglesias	Tampa, Florida
Thomas L. Tran	Tampa, Florida

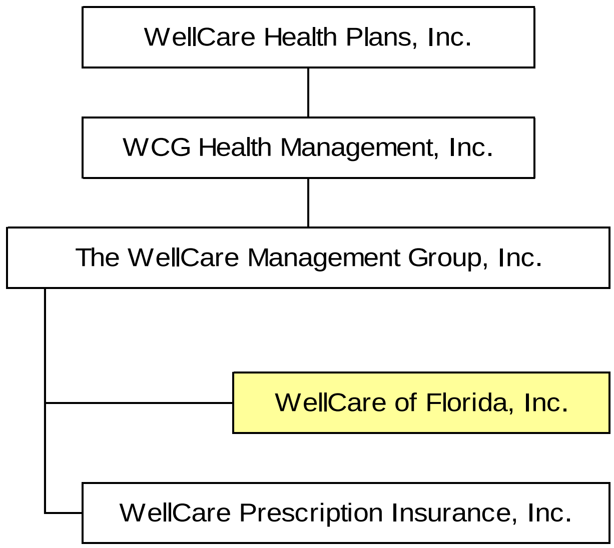
Audit & Finance Committee

Carol J. Burt
Christian P. Michalik
William L. Trubeck
Paul E. Weaver

The Company was a member of an insurance holding company system. 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, Florida Administrative Code (F.A.C.), on April 1, 2014.

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

WellCare of Florida, Inc.
Abbreviated Organizational Chart
December 31, 2012



The following agreements were in effect between the Company and affiliates:

Management Services Agreement

Comprehensive Health Management, Inc. (Comprehensive) provided substantially all of the Company's management and administrative services pursuant to a five-year agreement effective February 1, 2010 in return for fees based on premiums. Fees under the agreement were $128.4 million, $134.1 million, $118.6 million, $156.8 million and $170.6 million in years 2008 through 2012, respectively.

Tax Allocation Agreement

The results of the Company's operations were included in WHP's consolidated federal income tax returns pursuant to a 2002 tax allocation agreement. In accordance with the agreement, federal income taxes of the group were allocated to the Company as if it were filing on a separate return basis with credit given for the tax benefit of any net operating losses, capital losses and tax credits to the extent they reduced the consolidated federal income tax liability. The agreement did not contain a provision that it would be canceled upon issuance of an order by the Office in accordance with Section 641.234(3), F.S.

FIDELITY BONDS AND OTHER INSURANCE

As an individual practice association (IPA) model HMO, the Company maintained an adequate amount of professional liability insurance and required its providers to maintain appropriate levels of medical malpractice insurance or its equivalent in compliance with Florida Statutes, as required by Rule 69O-191.069, F.A.C. The policies provided for the Office to receive written notification of any reduction, cancellation, non-renewal or termination of required coverage. In addition, the Company was a named insured under a WHP fidelity crime policy issued by a licensed Florida carrier which satisfied the requirement of Section 641.22(7), F.S., in the amount of $5 million.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees and did not directly provide employee benefits nor sponsor retirement plans. Employees of Comprehensive performed functions on behalf of the Company. Comprehensive provided various benefits to eligible employees including health, dental, and vision insurance, family medical leave and participation in a 401(k) savings plan.

TERRITORY AND PLAN OF OPERATION

The Company provided coordinated health and pharmacy benefits exclusively to Medicaid, Medicare and FHKC members under contracts with the Florida Agency for Health Care Administration (AHCA), the Florida Department for Elder Affairs, FHKC and the Centers for Medicare & Medicaid Services. It held a current health care provider certificate issued by AHCA pursuant to Part III of Chapter 641, F.S., valid until June 26, 2014. At December 31, 2012 the Company was authorized to operate in all Florida counties. As an IPA model HMO, there were 522,025 members as of December 31, 2012, of which 71% were Medicaid members, 13% were Medicare members, and 16% were FHKC members.

COMPANY GROWTH

The Company reported the following for years 2008 through 2012[1]:

	2008	2009	2010	2011	2012
Member months	6,452,224	6,341,150	5,769,811	5,572,002	5,998,810
Year-end enrollment	553,650	496,609	475,634	467,793	522,025
(In millions)					
Premiums	$1,731.3	$1,768.0	$1,551.5	$1,553.8	$1,696.5
Total revenues	$1,731.3	$1,768.0	$1,551.5	$1,553.8	$1,696.5
Total underwriting deductions	$1,699.4	$1,714.0	$1,513.7	$1,464.0	$1,576.9
Net income	$ 23.6	$ 43.5	$ 28.6	$ 70.1	$ 80.9
Stockholder dividends	$ 40.1	$ 23.4	$ 25.0	$ 91.0	$ 67.0
Paid in surplus received	$ -	$ -	$ -	$ -	$ -
Admitted assets	$ 503.6	$ 449.0	$ 517.5	$ 454.7	$ 392.9
Liabilities	$ 409.4	$ 351.2	$ 406.5	$ 315.0	$ 239.5
Capital and surplus	$ 94.2	$ 97.9	$ 111.0	$ 139.6	$ 153.3

REINSURANCE

The Company entered into a stop loss agreement with Comprehensive Reinsurance, Ltd., an affiliate. The agreement provided for reimbursement to the Company of 100% of eligible claims expenses in excess of $50,000 up to an aggregate of $1,000,000 per covered member per year with a lifetime maximum of $2,000,000. In addition, the Company maintained excess of loss coverage with Westport Insurance Corporation. This agreement provided for reimbursement of 90% of eligible losses in excess of $1,000,000 up to an aggregate annual limit of $2,000,000 per member.

[1] Amounts are those reported by the Company combined with amounts reported by HealthEase.

ACCOUNTS AND RECORDS

We found that the Company had entered into agreements with various providers which did not contain provisions that they would be canceled upon issuance of an order by the Office in accordance with Section 641.234(3), F.S.

We also found that the Company failed to report suspected fraudulent insurance acts to DIF as required by Section 626.9891, F.S., and Rule 69D-2.003, F.A.C.

We noted deficiencies in certain of the Company's internal controls. During our review of claim payments greater than $500,000, we found that one such payment had been made without the approval of the Company's chief executive officer as required by the Company's policy. In addition, during our review of provider payments, we found that the Company overpaid a laboratory testing services provider as a result of the Company's failure to update its claim system with current reimbursement rates. Until 2013, the Company continued to use rates that changed in 2011, resulting in the overpayment. Rather than reporting the overpayment as an asset as required by SSAP No. 84, the Company recorded the overpayment as a reduction in its liability for current unpaid claims.

STATUTORY DEPOSITS

The Company maintained on deposit with the Office an insolvency protection deposit of $4,001,070 in accordance with Section 641.285, F.S., and a Rehabilitation Administrative Expense Fund deposit of $20,000 in accordance with Section 641.227, F.S.

WellCare of Florida, Inc.
Admitted Assets, Liabilities, and Capital and Surplus
December 31, 2012

Admitted Assets	Per Company	Examination Adjustments	Per Examination
Bonds	$ 82,089,323	$ 14,827,524	$ 96,916,847
Cash, cash equivalents and short-term investments	246,829,735	(14,827,524)	232,002,211
	328,919,058	-	328,919,058
Investment income due and accrued	2,414,179	-	2,414,179
Uncollected premiums and agents' balances	32,945,759	-	32,945,759
Amounts recoverable from reinsurers	8,524,079	-	8,524,079
Net deferred tax asset	9,252,761	-	9,252,761
Health care and other amounts receivable	9,820,562	-	9,820,562
Aggregate write-ins for other than invested assets	986,295	-	986,295
Total admitted assets	$ 392,862,693	$ -	$ 392,862,693
Liabilities			
Claims unpaid	$ 192,901,872	$ -	$ 192,901,872
Unpaid claims adjustment expenses	2,032,122	-	2,032,122
Aggregate health policy reserves	3,888,246	-	3,888,246
General expenses due or accrued	14,757,625	-	14,757,625
Current federal and foreign income tax payable	8,153,040	-	8,153,040
Ceded reinsurance premiums payable	8,524,078	-	8,524,078
Remittances and items not allocated	993,760	-	993,760
Amounts due to parent, subsidiaries and affiliates	4,324,839	-	4,324,839
Liability for amounts held under uninsured plans	3,949,827	-	3,949,827
Total liabilities	239,525,409	-	239,525,409
Capital and Surplus			
Common capital stock	52,753	-	52,753
Gross paid in and contributed surplus	21,997,191	-	21,997,191
Unassigned funds	131,287,340	-	131,287,340
Total capital and surplus	153,337,284	-	153,337,284
Total liabilities, capital and surplus	$ 392,862,693	$ -	$ 392,862,693

WellCare of Florida, Inc.
Statement of Revenue and Expenses
(As reported by the Company)
Year Ended December 31, 2012

Net premium income	$ 1,696,499,838
Hospital and medical benefits	1,067,681,327
Other professional services	54,632,483
Emergency room and out-of-area	124,816,351
Prescription drugs	231,451,459
	1,478,581,620
Net reinsurance recoveries	120,133,836
Total hospital and medical	1,358,447,784
Claims adjustment expenses	45,150,706
General administrative expenses	173,253,731
Total underwriting deductions	1,576,852,221
Net underwriting gain	119,647,617
Net investment gains	1,690,221
Income before federal income tax	121,337,838
Federal income tax	40,469,407
Net income	$ 80,868,431

WellCare of Florida, Inc.
Statement of Changes in Capital and Surplus
Five Years Ended December 31, 2012

Capital and surplus - December 31, 2007	$	79,324,100
Net income		7,984,009
Change in net deferred income tax		5,937,855
Change in nonadmitted assets		(6,692,273)
Dividends to stockholders		(18,900,000)
Aggregate write-ins for gains or (losses) in surplus		(16,347,080)
Capital and surplus - December 31, 2008		51,306,611
Net income		36,520,432
Change in net deferred income tax		(812,571)
Change in nonadmitted assets		(7,769,997)
Dividends to stockholders		(7,900,000)
Aggregate write-ins for gains or (losses) in surplus		191,821
Capital and surplus - December 31, 2009		71,536,296
Net income		19,898,696
Change in net deferred income tax		1,788,699
Change in nonadmitted assets		5,419,422
Dividends to stockholders		(25,000,000)
Capital and surplus - December 31, 2010		73,643,113
Net income		36,952,213
Change in net deferred income tax		(11,773,553)
Change in nonadmitted assets		28,504,833
Dividends to stockholders		(44,600,000)
Capital and surplus - December 31, 2011		82,726,606
Increase as a result of merger		56,983,326
		139,709,932
Net income		80,868,431
Change in net deferred income tax		(807,467)
Change in nonadmitted assets		566,388
Dividends to stockholders		(67,000,000)
		153,337,284
Examination adjustments		-
Capital and surplus - December 31, 2012	$	153,337,284

WellCare of Florida, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2012

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, 2012 - per annual statement				$ 153,337,284
	Per Company	**Per Examination**	**Increase (Decrease) In Capital & Surplus**	
Total admitted assets	$ 392,862,693	$ 392,862,693	$ -	
Total liabilities	$ 239,525,409	$ 239,525,409	$ -	
Net change in capital and surplus				-
Capital and surplus, December 31, 2012 - per examination				$ 153,337,284

COMMENTS ON FINANCIAL STATEMENTS

Bonds

The $82,089,323 reported by the Company in its 2012 annual statement as bonds has been increased by $14,827,524 to $96,916,847, and the $246,829,735 reported as 'cash, cash equivalents and short-term investments' has been decreased by $14,827,524 to $232,002,211. We found that the Company had incorrectly reported $5,429,146 as cash equivalents and $9,398,378 as short-term investments rather than as bonds as required by SSAP No. 2 and Section 641.35(1)(a), F.S.

RECOMMENDATIONS

Authorization of Investments

As reported on page 4, there was no record in the minutes of the Board of Directors meetings of the authorization or ratification of the Company's investments. **We recommend that the Company's board of directors, or a committee, department or section of the Company with the duty of supervising investments, authorize or ratify the Company's investments as required by Section 641.35(7), F.S., and that the Board of Directors record or acknowledge the action in the minutes of its meetings.**

Agreements

The Company entered into agreements which did not contain provisions that the agreements would be canceled upon issuance of an order by the Office in accordance with Section 641.234(3), F.S., as reported on pages 7 and 10. **We recommend that the agreements be modified to add the required cancellation clause as required by Section 641.234(3), F.S.**

Reporting of Suspected Fraud

As reported on page 10, the Company failed to report suspected fraudulent insurance acts to DIF as required by Section 626.9891, F.S., and Rule 69D-2.003, F.A.C. **We recommend that the Company report all instances of suspected fraudulent insurance acts to DIF as required.**

Internal Controls and Reporting of Overpayments

As reported on page 10, the Company made a payment for a claim greater than $500,000 without the required approval of the Company's chief executive officer. In addition, the Company overpaid a provider as a result of the Company's failure to update its claim system with current reimbursement rates, and recorded the overpayment as a reduction in its liability for current unpaid claims rather than an asset in accordance with SSAP No. 84. **We recommend that the Company establish internal controls sufficient to prevent future similar errors.**

Bonds

The Company incorrectly reported certain investments as ‘cash, cash equivalents and short-term investments’ rather than as bonds, as reported on page 15. **We recommend that, in future statements, the Company report its bonds in the manner required by SSAP No. 2 and Section 641.35(1)(a), F.S.**

SUBSEQUENT EVENTS

Subsequent to the period examined, the Company announced that Alexander R. Cunningham and Christina C. Cooper had been replaced and Thomas L. Tran would be replaced as officers and directors of the Company.

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. consistent with the insurance laws of the State of Florida.

At December 31, 2012, the Company's capital and surplus was $153,337,284 and the Company was in compliance with the minimum capital and surplus requirement of Section 641.225, F.S.

In addition to the undersigned, the following individuals participated in the examination: Christine N. Afolabi, CPA, Financial Specialist; Rebecca L. Davis, MBA, APIR, CFE (Fraud), Financial Examiner/Analyst; Faisal Harianawalla, Financial Examiner/Analyst; Cathy S. Jones, CPA, CFE, Financial Examiner/Analyst Supervisor; Robert Y. Meszaros, AFE, Financial Specialist; and Richard Tan, Actuary.

Respectfully submitted,

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Darlene L. Lenhart-Schaeffer, CFE, CISA
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation