

## **Questions and Answers About the Status of D.C. Chartered Health Plan Inc.**

*Jan. 11, 2013*

The deputy rehabilitator in receivership for the company, the largest Medicaid managed-care organization in the District, answers questions about Chartered's recently completed audit and negotiations for a sale.

*What is the independent audit report?*

Brown Smith and Wallace, LLC (BSW) audited DC Chartered Health Plan, Inc.'s (Chartered) statutory financial statements for the year ended December 31, 2011. This audit is required annually by the Department of Insurance, Securities and Banking (DISB). Completion of the audit report was delayed because Chartered engaged BSW in mid-2012 and the firm had to make extensive efforts to perform sufficient and appropriate audit procedures. The audit is conducted in accordance with generally accepted auditing standards prescribed by DISB and is not a forensic audit. It is intended to obtain reasonable assurance that the company's financial statements are free of material misstatement.

*Does BSW's report offer an unqualified opinion on Chartered's Statutory Statements?*

BSW qualified portions of its audit opinion on Chartered's statutory financial statements.

This was primarily due to an inability to sufficiently audit Chartered's opening balances at January 1, 2011. In addition, some inadequacies in Chartered's accounting records and Chartered's inability to provide sufficient support for certain related party transactions served to limit the auditors' scope and qualify their opinion accordingly.

*Why were certain related party transactions cited by Chartered and the auditors?*

Chartered's accounting records lacked sufficient information to support several transactions with Chartered Family Health Center (CFHC) totaling \$1,027,504. Chartered's management and the auditor were not able to form an opinion regarding the propriety of the transactions because of the inadequacy of the accounting records and insufficiency of supporting documentation for those transactions. Demand has been made to DC Health Systems, Inc. (DCHSI), Chartered's parent holding company, to provide satisfactory documentation for the transactions or repayment of the amounts in question.

*What is the \$2,828,018 federal income tax refund receivable due Chartered?*

This receivable from DCHSI, Chartered's parent company, was non-admitted as an asset due to its age under statutory accounting rules.

Chartered has demanded payment by DCHSI of the \$2,828,018 which is long overdue under the Tax Allocation Agreement between Chartered and DCHSI.

*What is the \$20 million premium receivable recorded as an asset?*

Chartered recorded a retrospective premium net receivable as of 12/31/11 after consulting with independent accountants, actuaries and auditors. The gross retrospective premium amount at 12/31/11 is calculated at \$30 million and a claim for the retrospective premium is currently under appeal at the Contract Appeals Board (CAB) of the District of Columbia.

This claim is primarily driven by HIV pharmacy costs over and above Chartered's contracted rates with the District. The DHCF and CMS have "carved out" HIV pharmacy costs from the contracted rates beginning 1/1/13.

The premium ultimately collected is contingent on the outcome of the appeal at CAB.

*What is the \$14 million loan collateral posted by Chartered noted in the audit report?*

A loan to Chartered's parent company, DCHSI, originated from settlement of a contract dispute with the District in 2008. Chartered pledged investments of approximately \$14 million to serve as collateral for the loan to DCHSI. Under statutory accounting rules, the pledged investments are an asset that can be included in Chartered's financial statements.

In the event that DCHSI defaults or is not able to meet its obligations under the loan, the owner of DCHSI has executed an indemnification agreement which holds Chartered harmless and indemnifies Chartered for any monies Chartered may be obligated to pay from the pledged collateral securing the loan.

In light of the DCHSI shareholder indemnification of Chartered for any amounts paid on the loan from Chartered's pledged collateral, Chartered has requested that the shareholder replace Chartered's assets with other collateral, freeing those currently pledged assets for Chartered's use in its rehabilitation.

*What is the status of Chartered's negotiations with AmeriHealth Mercy?*

Chartered is in the process of negotiating a definitive agreement with AmeriHealth Mercy which would be submitted to the Rehabilitation Court for approval.

*What is the status of the protest of the RFP bid process filed by DCHSI with the Contract Appeals Board?*

Chartered is not a party to that proceeding. The Office of the Attorney General is representing the Office of Contracts and Procurement in the CAB action.