



Government of the District of Columbia
Vincent C. Gray, Mayor
Department of Insurance, Securities and Banking



William P. White
Commissioner

**BEFORE THE
INSURANCE COMMISSIONER OF
THE DISTRICT OF COLUMBIA**

Re: Report on Organization Examination – AmeriHealth District of Columbia, Inc., as of February 26, 2013

ORDER

An Organization Examination of AmeriHealth District of Columbia, Inc. as of February 26, 2013 has been conducted by the District of Columbia Department of Insurance, Securities and Banking (“the Department”).

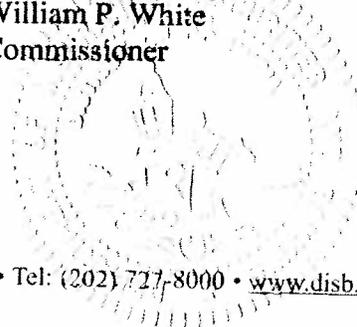
It is hereby ordered on this 25th day of March, 2013, that the attached financial condition examination report be adopted and filed as an official record of this Department.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, this Order is considered a final administrative decision and may be appealed pursuant to Section 31-4332 of the D.C. Official Code.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the issuance of the adopted report, the Association shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related order.

Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the Department will continue to hold the content of the report as private and confidential information for a period of 10 days from the date of this Order.


William P. White
Commissioner



GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND
BANKING



Report on Organization Examination

AmeriHealth District of Columbia, Inc.

As of

February 26, 2013

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AmeriHealth District of Columbia, Inc.
Report on Organization Examination
February 26, 2013

Washington, D.C.
February 28, 2013

Honorable William White,
Commissioner
Department of Insurance, Securities and Banking
Government of the District of Columbia
810 First Street, NE, Suite 701
Washington, D.C. 20002

Dear Sir:

In accordance with Section 31-1402 of the D.C. Official Code, we have examined the financial condition and activities of

AMERIHEALTH DISTRICT OF COLUMBIA, INC.

(hereinafter called the "Company") and the following Report on Examination is submitted.

SCOPE OF EXAMINATION

This was an organization examination as of February 26, 2013 conducted by examiners of the District of Columbia Department of Insurance, Securities and Banking. The Company has made application for an original certificate of authority to establish and operate a health maintenance organization.

Our examination was conducted in accordance with examination policies and standards established by the District of Columbia Department of Insurance, Securities and Banking and procedures recommended by the National Association of Insurance Commissioners and, accordingly, included such tests of the accounting records and such other procedures as we considered necessary in the circumstances.

The purpose of our examination was to determine if the Company meets the minimum financial requirements to qualify for an original certificate of authority to transact business as a health maintenance organization. In this regard, our examination included a review of the Company's business policies and practices, management and corporate matters, a verification and evaluation of assets and a determination of the existence of liabilities. In addition, our examination included tests to provide reasonable assurance that the Company, if licensed, would be in compliance with applicable laws, rules, and regulations. In planning and conducting our examination, we gave consideration to the concepts of materiality and risk, and our examination efforts were directed accordingly.

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HISTORY

General:

The Company was incorporated as AmeriHealth District of Columbia, Inc., under the laws of the District of Columbia on November 30, 2012. The Articles of Incorporation were reviewed by the Department, and the primary purpose for which the Company was formed is to operate a health maintenance organization to arrange for and coordinate the delivery of health care services for Medicaid recipients and Medicare Dual Eligible Special Needs Plan.

The Company is a wholly owned subsidiary of AmeriHealth Mercy Health Plan (“AMHP”). AMHP, a Pennsylvania general partnership, is the parent company of AmeriHealth District of Columbia, Inc. AMHP was formed to develop and operate managed care businesses for Medicaid enrollees outside the Philadelphia metropolitan area. Effective April 10, 1996, AmeriHealth Integrated Case Management, Inc., an indirect wholly owned subsidiary of Independence Blue Cross, and Mercy Health Plan, a subsidiary of Mercy Health System, entered into a partnership agreement to form AMHP. AMHP is a Pennsylvania general partnership that is wholly-owned through subsidiaries by BMH LLC (“BMH”). BMH is owned 61.26% by Independence Blue Cross and 38.74% by Blue Cross Blue Shield of Michigan. AMHP and its affiliates operate in: California, Illinois, Indiana, Kentucky, Louisiana, Missouri, Nebraska, New Jersey, Pennsylvania, Rhode Island, South Carolina, Washington, and West Virginia.

The Company has agreed to purchase certain assets of D.C. Chartered Health Plan Inc. Chartered would seek to have its Medicaid contract with the District transferred to the Company upon court approval of the transaction. The Company would pay \$5 million for assets that include the D.C Medicaid contract with the District, Chartered’s name, other intellectual property and most of its agreements with health-care providers, as well as provide free transition services to Chartered. The District judge must approve the transaction, and the Company must secure a contract with the District before the transaction can be finalized.

Capital Stock:

The Company’s Articles of Incorporation authorize the Company to issue 100 shares of common capital stock with a \$1.00 par value. As of February 26, 2013, the Company has issued 100 of its authorized shares to AmeriHealth Mercy Health Plan.

Management:

The following persons were serving as the Company’s Directors as of February 26, 2013:

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<u>Name and Address</u>	<u>Principal Occupation</u>
Anne Maureen Morrissey Philadelphia, PA	Executive Vice President and Chief Operating Officer AmeriHealth Mercy Health Plan
Dr. Jay Stuart Feldstein Avondale, PA	Regional President, Northern Division AmeriHealth Mercy Health Plan
Steven Harvey Bohner Garnet Valley, PA	Chief Financial Officer and Sr. Vice President, Finance AmeriHealth Mercy Health Plan

Officers:

The following persons were serving as the Company's Officers as of February 26, 2013:

Dr. Jay Stuart Feldstein	President
Robert Howard Gilman	Vice President and Secretary
Steven Harvey Bohner	Vice President and Treasurer
Todd Adam Borow	Assistant Secretary

Committees:

The Company's Bylaws allow for the designation of one or more committees of the Board by resolution adopted by a majority of the directors in office. Committees shall consist of one or more directors of the Company, and shall have and may exercise all of the powers and authority of the board of directors. Pursuant to District of Columbia Code § 31-311.01, the Audit Committee of the Parent will serve as the Audit Committee for the Company. The Audit Committee is comprised of the following:

Alan Krigstein, CFO	Independence Blue Cross
Mark R. Bartlett, CFO	Blue Cross Blue Shield Michigan

Conflicts of Interest:

Directors and Officers of the Company have completed conflict of interest questionnaires. Our review of the questionnaires disclosed no reported conflicts. Furthermore, our examination did not disclose any conflicts of interest that would adversely affect the Company.

Corporate Records:

The Company's Board of Directors has not held any meetings. There are three initial directors. These Directors shall hold office until the expiration of the term for which he or

AmeriHealth District of Columbia, Inc.

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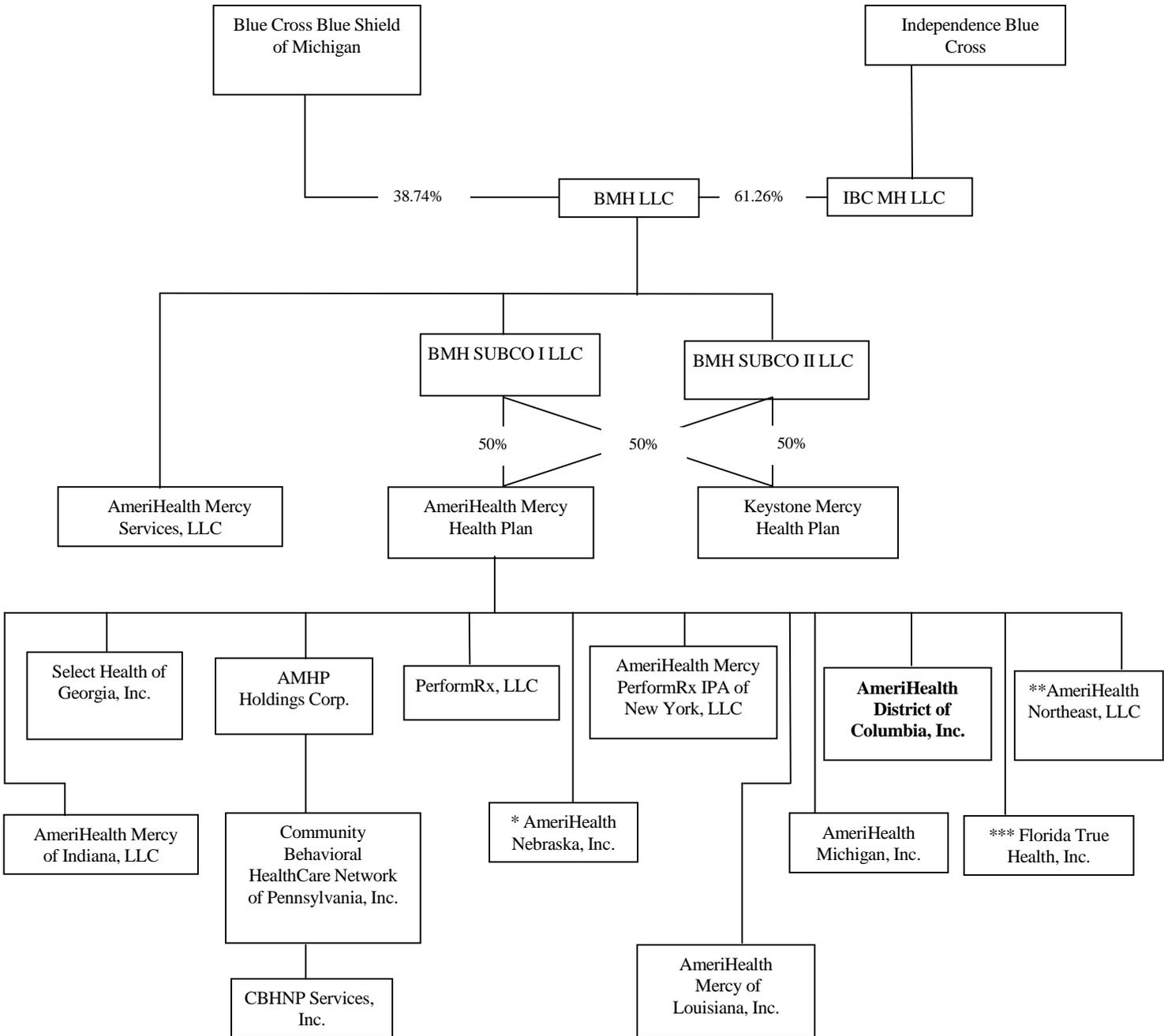
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she was selected and until a successor shall have been elected and qualified or until his or her earlier death, resignation or removal.

AFFILIATED COMPANIES/INTER-COMPANY AGREEMENTS

The Company's is part of a holding company system that includes other Medicaid health plans. The Company has an Administrative Services Agreement with its direct parent, AmeriHealth Mercy Health Plan. The Company desires to secure from AmeriHealth Mercy Health Plan certain administrative services which are needed in connection with the Company's operations. AmeriHealth Mercy Health Plan will provide consulting, legal, data processing, treasury, corporate secretarial, marketing, recordkeeping and reporting, purchasing services, insurance services, human resources, and other support services which are intended to enhance the Company's organizational and administrative capacity, and to augment its operations.

AmeriHealth District of Columbia, Inc.
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AmeriHealth District of Columbia, Inc.
Organizational Chart



* AmeriHealth Nebraska, Inc. – Joint Venture with 30% ownership by Blue Cross Blue Shield of Nebraska.
 ** AmeriHealth Northeast, LLC – Joint Venture with 50% ownership by Hospital Service Association of Northeastern Pennsylvania, d/b/a Blue Cross of Northeastern Pennsylvania.
 *** Florida True Health, Inc. - Joint Venture with 50% ownership by Florida Blue Cross Blue Shield.

NOTE: This chart does not include other Independence Blue Cross or Blue Cross Blue Shield of Michigan subsidiaries and affiliates.

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FIDELITY BOND AND OTHER INSURANCE

The Company is insured under a fidelity crime policy that provides coverage in the amount of \$10,000,000 with a deductible of \$100,000. The proposed policy limits of the crime (fidelity) coverage would satisfy the amount recommended by the National Association of Insurance Commissioners.

In addition, the Company is insured for other risks (e.g workers compensation crime, umbrella, directors and officers, professional liability, commercial general liability, property, and automobile). Based upon our review, the Company's insurance coverage for these risks appear adequate.

<u>Lines</u>	<u>Limits</u>
Workers Compensation	\$ 1,000,000
Crime	10,000,000
Umbrella	25,000,000
Directors and Officers	10,000,000
Professional Liability (E&O)	10,000,000
Fidelity	10,000,000
Commercial General Liability	2,000,000
Property (Includes EDP)	100,000,000
Automobile	1,000,000

STATUTORY DEPOSIT

Pursuant to District of Columbia Code 31-3412(b), the Company is required to maintain a deposit of \$300,000 with the District of Columbia Insurance Commissioner, as trustee, in trust for the subscribers and creditors of the Company, for the purposes of paying the obligations related to the Company in the District of Columbia. The Company must satisfy this requirement prior to commencing business. See the Comments and Recommendations Section of this Report for further discussions.

TERRITORY AND PLAN OF OPERATION

Once licensed, the Company intends to enter into a contract with the Department of Health Care Finance (DHCF) to provide a managed care delivery system to DC Medicaid eligible population enrolled in the District of Columbia Healthy Families Program (DCHFP) and DC Healthcare Alliance Program. In addition to the Company's Medicaid business, the Company will apply to the Center of Medicare and Medicaid Services to implement a Medicare Dual Eligible Special Needs Plan ("SNPs"). Dual Eligible SNPs enroll beneficiaries who are entitled to both Medicare (Title XVIII) and Medical Assistance from a State Plan under Title XIX (Medicaid), and offer the opportunity of enhanced

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benefits by combining those available through Medicare and Medicaid. With the foregoing in mind, the Company does not employ sales techniques; rather its members shall be enrolled through the DCHFP.

The Company's staff will include at least the Plan President, Medical Director, Director of Provider Relations and community relations staff at its home office through an Administrative Services Agreement between AmeriHealth District of Columbia, Inc. and AmeriHealth Mercy Health Plan. AmeriHealth Mercy Health Plan will provide consulting, legal, data processing, treasury, corporate secretarial, marketing, recordkeeping and reporting, purchasing services, insurance services, human resources, and other support services which are intended to enhance the Company's organizational and administrative capacity, and to augment its operations.

REINSURANCE

Once licensed, AmeriHealth District of Columbia, Inc. will consider reinsurance to limit its financial risk for low incidence high cost admission cases, such as high cost transplants and other high cost admissions. The Company will evaluate various deductible thresholds (\$100,000 to \$200,000+) for purposes of securing the most effective cost arrangement. The Company will consider self-insurance of large inpatient hospital claims.

ACCOUNTS AND RECORDS

The Company will utilize the following software applications for medical management: ZeOmega Jiva Care Management for case and disease management, service coordination, preventive health and utilization management; Verisk Sightlines DXCG Risk Solutions to analyze and quantify both financial and clinical risk; and Treo Solutions for identifying Potentially Preventable Readmissions (PPRs). The Company will utilize the following software applications for provider network management: Portico for managing the provider network; Visual Cactus to maintain provider credentialing information; NetworX Pricer which integrates to the claims system to eliminate inconsistencies and errors in pricing of providers' claims; NetworX Modeler to forecast results, negotiate optimized terms, and improve the financial outcome of contracts; and a selected Provider Portal to access all standard transactions. The Company will utilize the following software application for healthcare applications: TriZetto's Facets® application for its claims processing operations. The Company will utilize Argus Integrated Pharmacy Network Systems for its pharmacy benefit management, which is a database-managed system for all claims processing including POS (Point-of-Sale), mail order pharmacy, batch electronic and paper claims files. The Company will utilize Oracle's PeopleSoft software for financial reporting, day-to-day accounting, and quarterly financial statements.

AmeriHealth District of Columbia, Inc.
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FINANCIAL STATEMENTS

The following financial statements reflect the financial condition of the Company as of February 26, 2013 as determined by this organizational examination (**NOTE 1**):

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The accompanying Notes to Financial Statements are an integral part of these Financial Statements.

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STATEMENT OF ASSETS, LIABILITIES, CAPITAL AND SURPLUS

ASSETS

<u>Assets</u>	
Cash	<u>\$1,500,000</u>
<u>Total Assets</u>	<u>\$1,500,000</u>

LIABILITIES, CAPITAL AND SURPLUS

<u>Liabilities</u>	
Total Liabilities	\$ <u>0</u>
 <u>Capital and Surplus</u>	
Common Capital Stock	100
Paid-In and Contributed Surplus	1,499,900
Unassigned Surplus	<u>-0-</u>
Total Capital and Surplus	<u>\$1,500,000</u>
<u>Total Liabilities, Capital and Surplus</u>	<u>\$1,500,000</u>

SUMMARY OF OPERATIONS
FOR THE ORGANIZATIONAL DATE ENDED FEBRUARY 26, 2013

<u>Income</u>	
Interest Earned	<u>\$-0-</u>
Total Income	-0-
 Expenses	
Total Expenses	<u>-0-</u>
Net Income	<u>\$-0-</u>

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RECONCILIATION OF CAPITAL AND SURPLUS
ENDED FEBRUARY 26, 2013

Balance at February 26, 2013	<u>\$1,500,000</u>
Income February 1, 2013 to February 26, 2013	<u>\$ -0-</u>
Operating expenses February 1, 2013 to February 26, 2013	<u>-0-</u>
Capital and Surplus, February 26, 2013	<u>\$1,500,000</u>

ANALYSIS OF EXAMINATION CHANGES TO SURPLUS

There were no changes to the Company's surplus as a result of the examination.

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NOTES TO FINANCIAL STATEMENTS

Net Worth, Feasibility, Quality Assurance Program and Risk-Based Capital Standards:

Chapter 34 (“HEALTH MAINTENANCE ORGANIZATIONS”) of Title 31 (“Insurance and Securities”) of the District of Columbia Official Code requires the Company to have an initial net worth of \$1,500,000.

Chapter 34 of Title 31 requires that the Company provide a description of the proposed quality assurance program, including the formal organizational structure, methods for developing criteria, procedures for comprehensive evaluation of the quality of care rendered to enrollees, and processes to initiate corrective action and reevaluation when deficiencies in provider or organizational performance are identified.

Chapter 34 of Title 31 of the District of Columbia Code requires that the Company submit to the Department a financial feasibility plan which includes detailed enrollment projections, the methodology for determining dues to be charged during the first 12 months of operations, a projection of balance sheets, cash flow statements, income and expense statements anticipated from the start of operation until the Company has had net income for at least 1 year, and a statement as to the sources of working capital as well as any other sources of funding.

In addition, Chapter 38b (“RISK-BASED CAPITAL”) of Title 31 of the District of Columbia Official Code requires the Company to maintain statutory capital and surplus levels as determined in accordance with the applicable risk-based capital formulas.

As of the date of our organizational examination, the Company meets the requirements of the aforementioned provisions of the District of Columbia Official Code.

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COMMENTS AND RECOMMENDATIONS

Statutory Deposits:

District of Columbia Official Code 31-3412(b) requires the Company to deposit with the Commissioner, or any organization or trustee acceptable to the Commissioner, cash, securities, or any combination of these that shall have a value of not less than \$300,000. As of the date of this report the Company was in the process of establishing the required deposit. **The Company is required to take the necessary steps to establish the statutory deposit prior to commencing business.**

Additional Comments and Recommendations:

The Company must meet the following additional conditions and requirements:

1. Must file Quarterly Financial Statements.
2. Must file reports on D.C. Escheatable Property, as required by Chapter 1 of Title 41 of the District of Columbia Related Laws to the Insurance Code.
3. Must prepare an Annual Audited Report in accordance with the statutory accounting practices as required by the District of Columbia Code, § 31-303.
4. Must file an Annual Actuarial Opinion on the Company's reserves.
5. Must provide internal grievance procedures to be utilized for the investigation and resolution of enrollee complaints and grievances in accordance with District of Columbia Code 31-3402(d)(11).
6. Must maintain its principal office, books, records and files within the District in accordance with §31-3431, and shall not remove from the District either its principal office, books, records, or files without the permission of the Commissioner.

The above stated requirements are not all inclusive and the Company will have additional regulatory and compliance requirements, which must also be satisfied.

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CONCLUSION

Our organizational examination disclosed that as of February 26, 2013, the Company had:

Admitted Assets	<u>\$ 1,500,000</u>
Liabilities	<u>\$ 0</u>
Common Capital Stock	100
Gross Paid In and Contributed Surplus	1,499,900
Unassigned Funds (Surplus)	<u>\$ -0-</u>
Surplus as regards policyholders	<u>\$ 1,500,000</u>
Total Liabilities and Surplus	<u>\$ 1,500,000</u>

Based on our examination, the accompanying balance sheet properly presents the statutory financial position of the Company at February 26, 2013. The Company has requested an original certificate of authority to establish and operate a health maintenance organization in accordance with Title 31, Chapter 34 (“Health Maintenance Organizations”) of the District of Columbia Official Code. Based on our examination, the Company meets the minimum net worth requirements of Section 31-3412 of the District of Columbia Official Code and is entitled to the issuance of a certificate of authority to establish and operate a health maintenance organization.

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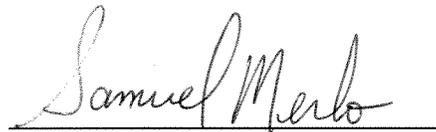
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SIGNATURES

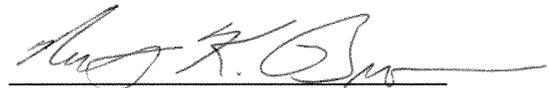
The following undersigned from the District of Columbia Department of Insurance, Securities and Banking participated in certain phases of this examination.

Respectfully submitted,



Samuel Merlo, AFE, CPA
Examiner-In-Charge
District of Columbia Department of
Insurance, Securities and Banking

Under the Supervision of,



Nathaniel Kevin Brown, CFE, CPA
Chief Financial Examiner
District of Columbia Department of
Insurance, Securities and Banking