



**Government of the District of Columbia
Department of Insurance, Securities and Banking**

**Stephen C. Taylor
Commissioner**

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

**Re: Report on Examination – Trusted Health Plan (District of Columbia) Inc. as of
December 31, 2016**

ORDER

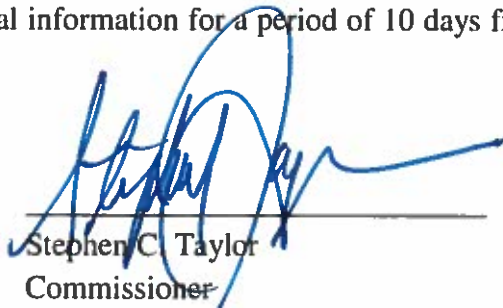
An Examination of **Trusted Health Plan (District of Columbia) Inc.** as of December 31, 2016, has been conducted by the District of Columbia Department of Insurance, Securities and Banking (“the Department”).

It is hereby ordered on this 24th day of April, 2018, 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 Company 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.



Stephen C. Taylor
Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING



REPORT ON EXAMINATION

TRUSTED HEALTH PLAN (DISTRICT OF COLUMBIA), INC.

AS OF

DECEMBER 31, 2016

NAIC COMPANY CODE: 14225

TABLE OF CONTENTS

	<u>Page</u>
SCOPE OF EXAMINATION	1
SUMMARY OF SIGNIFICANT FINDINGS	2
COMPANY HISTORY	2
General	2
Capitalization	3
Dividends to Stockholder	3
MANAGEMENT AND CONTROL	3
Officers	4
Committees	4
Conflict of Interest	5
Corporate Records	5
Pension and Stock Ownership Plans	5
Reorganizations	5
Organizational Chart	6
Transactions and Agreements with Subsidiaries and Affiliates	7
FIDELITY BOND AND OTHER INSURANCE	8
STATUTORY DEPOSIT	9
TERRITORY AND PLAN OF OPERATION	9
REINSURANCE	9
Assumed Reinsurance	9
Ceded Reinsurance	10
ACCOUNTS AND RECORDS	10
FINANCIAL STATEMENTS	10
Admitted Assets, Liabilities, Capital and Surplus	11
Statement of Revenue and Expenses	12
Statement of Changes in Capital and Surplus	13
Comparative Analysis of Changes in Capital and Surplus	14
COMMENTS ON FINANCIAL STATEMENT ITEMS	14
SUMMARY OF RECOMMENDATIONS	15
SUBSEQUENT EVENTS	19
CONCLUSION	20

Trusted Health Plan (District of Columbia), Inc.

Report on Examination

December 31, 2016

Washington, D.C.

February 8, 2018

Honorable Stephen C. Taylor
Commissioner
Department of Insurance, Securities and Banking
Government of the District of Columbia
1050 First Street, NE, Suite 801
Washington, DC 20002

Dear Commissioner Taylor:

In accordance with Section 31-1402 of the District of Columbia Official Code, we have examined the financial condition and activities of

Trusted Health Plan (District of Columbia), Inc.

Hereinafter referred to as the “Company”. The examination was conducted at the administrative office of the Company located at 1100 New Jersey Avenue, Suite 840, Washington, DC 20003, and the following Report on Examination is submitted.

SCOPE OF EXAMINATION

We have performed our full-scope examination of Trusted Health Plan (District of Columbia), Inc. This examination covering the period from March 8, 2012, through December 31, 2016, including any material relevant transactions and/or events occurring subsequent to the examination date, was conducted by examiners representing the District of Columbia Department of Insurance, Securities and Banking (the “Department”).

The two previous examinations of the Company encompassed an organizational exam as of January 31, 2012 and a limited scope exam that covered the period July 1, 2013 to December 31, 2013.

The examination was conducted observing the guidelines and procedures in the *National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook* (“Handbook”) and generally accepted statutory insurance examination standards consistent with the insurance laws and regulations of the Department. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company 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. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

Trusted Health Plan (District of Columbia), Inc.

Report on Examination

Examination as of December 31, 2016

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing the principles used and significant estimates made by management, an evaluation of the overall financial statement presentation, and a determination of management's compliance with the Department's statutes and guidelines, Statutory Accounting Principles, as adopted by the Department and annual statement instructions. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be commented upon separately following the Company's financial statements that are contained in this report.

This examination report includes significant findings of fact, as mentioned in Section 31-1404 of the District of Columbia Official Code, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but were separately communicated to other regulators and/or the Company.

The Company was audited annually for the years 2013 through 2016 by the accounting firm Brown Smith Wallace LLP ("BSW"), and for the year 2012, by Lane-CPA. The Company received an unmodified opinion in each of those years. We placed substantial reliance on the audited financial statements for calendar years 2012 through 2015, and consequently performed only minimal testing for those periods. We concentrated our examination efforts on the year ending December 31, 2016. Certain audit work papers of BSW relating to their audit for the year ended December 31, 2016 were reviewed and relied upon, and we directed examination efforts to the extent practical to those areas not covered by the firm's audit.

SUMMARY OF SIGNIFICANT FINDINGS

The Examination did not disclose any material adverse findings or adjustments that impact the Company's reported capital and surplus.

Previous Examination Findings

The examination included a review to determine the current status of comments and recommendations in the preceding Examination Reports, dated February 16, 2012 and March 13, 2014. The Company had satisfactorily addressed all of those findings.

COMPANY HISTORY

General

The Company was incorporated as a domestic for-profit corporation on May 16, 2011, in the District of Columbia under the name Thrive Health Plans, Inc. The Company became licensed as

Trusted Health Plan (District of Columbia), Inc.

Report on Examination

Examination as of December 31, 2016

a health maintenance organization (“HMO”) in the District of Columbia on March 8, 2012 and commenced business on July 1, 2013. On August 13, 2013, the Company's name was changed to Trusted Health Plan (District of Columbia), Inc. The Company is a wholly owned subsidiary of Trusted Health Plans, Inc. (the “Parent” or “THP”) a Delaware holding company, organized on August 20, 2013.

The Company is a Medicaid HMO and provides health care within a managed care framework for Medicaid recipients in the District of Columbia (“District”) through a contract with the District of Columbia Department of Health Care Finance (the “DHCF”). Effective July 1, 2013, the DHCF contracted with the Company as one of three managed care organizations (MCOs) to provide comprehensive health care services to Medicaid members under the District of Columbia Healthy Families Program (DCHFP) and the DC Health Care Alliance (Alliance) program, a locally-funded program covering certain individuals who are not eligible for Medicaid. The contract requires the Company to provide health care services to the residents of the District who qualify under the Medicaid or Alliance programs operated by the District. The DHCF is responsible for administering the District's Medicaid and Alliance programs, and has primary oversight of the MCO contract to ensure compliance with numerous Federal and District laws, rules and regulations. Furthermore, the contract is also subject to annual reviews by the Center for Medicare and Medicaid Services (CMS), a federal agency that provides 70% of the funding for the program.

Capitalization

The Company's original Articles of Incorporation authorized the Company to issue 100,000 Class A shares with each share having a par value of \$0.01. On March 23, 2016, the Articles of Incorporation were amended and restated to authorize the Company to issue 1,000,000 shares of Class A Stock with each share having a par value of \$10.00 per share. As of December 31, 2016, the number of shares issued and outstanding was 100,000. These shares had an aggregate par value of \$1,000,000 and were all issued to the Parent.

During the calendar years 2013 and 2014, the Company's Parent contributed capital to the Company totaling \$3.75 million and \$1.335 million, respectively.

Dividends to Stockholder

The Company declared and paid dividends to its Parent during the period covered by the examination. The Company paid an ordinary dividend on June 22, 2015 in the amount of \$314,417 and declared an extraordinary dividend on August 1, 2016 in the amount of \$1,840,000 which was paid on December 20, 2016. The extraordinary dividend was approved by the Department on July 15, 2016.

MANAGEMENT AND CONTROL

The Company's Bylaws provide that the responsibility for the control and management of the business and affairs of the Company is vested in the Board of Directors (“BOD”) comprised of

Trusted Health Plan (District of Columbia), Inc.

Report on Examination

Examination as of December 31, 2016

internal management and external independent directors. The Bylaws provide that the officers of the Company shall consist of a president, secretary, treasurer, and such other officers as may from time to time be elected or appointed by the BOD. The BOD shall appoint the officers of the Company upon death, resignation or removal.

The Company's directors and their principal business affiliations as of December 31, 2016, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Thomas M. Duncan ¹ Washington, D.C.	Chief Executive Officer Trusted Health Plan (District of Columbia), Inc.
Eddie L. Hall, Jr. West Bloomfield, MI	Owner/President Royal Oak Ford
Jack Martin Bloomfield Hills, MI	Partner/Chairman Martin, Arrington, Desai & Meyers, P.C.
Thomas A. Scully Alexandria, VA	General Partner Welsh, Carson, Anderson & Stowe
Quint D. Studer Pensacola, FL	Founder/Chairman Studer Group

(1) Chairman

Officers

The Principal Officers of the Company as of December 31, 2016 were as follows:

<u>Name</u>	<u>Title</u>
Thomas M. Duncan	Chief Executive Officer
George Aloth	Compliance Officer
Chikadibie Duru	General Counsel/Secretary
Dr. Margaretia Jackson	Chief Medical Officer
Sherman Scott Pickens	Chief Operations Officer
Douglas MacArthur Redd	Chief Information Officer
Cleveland E. Slade	Chief Financial Officer/Treasurer

Committees

The Company's Bylaws allow for the designation of one or more committees of the Board. As of December 31, 2016, the Company did not have any standing committees, but utilized certain committees of the Parent Company. These committees have responsibility for recommending the selection of independent certified public accountants, reviewing the Company's financial condition, nominating candidates for directors, evaluating the performance of officers of the

Trusted Health Plan (District of Columbia), Inc.

Report on Examination

Examination as of December 31, 2016

Company, and recommending to the BOD the selection and compensation of principal officers. The lack of an Audit Committee and a Nominations Committee is not in compliance with DC Code. For further discussion, see the "Summary of Recommendations" section of this report under the caption "Board Committees".

Conflict of Interest

Directors, officers and responsible employees of the Company responded to conflict of interest questionnaires on one occasion during the exam period. Our review of the responses to the questionnaires completed for the examination period disclosed no conflicts that would adversely affect the Company. However, the Company had not developed a formal conflict of interest disclosure policy. For further discussion, see the "Summary of Recommendations" section of this report under the caption "Conflict of Interest".

Corporate Records

The recorded minutes of the Shareholder(s), Board of Directors (Board) and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board did not clearly and comprehensively document its meetings and approval of Company transactions and events. For further discussion see the "Summary of Recommendations" section of this report under the caption "Corporate Records".

Pension and Stock Ownership Plans

The Company sponsored a 401k plan (The "Plan") for its employees beginning in 2013. Employees were eligible to participate in the Plan if they were at least 18 years of age and had completed three consecutive months of employment at the Company. The Company may make a discretionary matching contribution to the Plan. For the year ending December 31, 2016 the Company contributed \$174,239 to the Plan. At December 31, 2016, the fair value of plan assets was \$699,356.

On October 25, 2016, THP authorized and issued 6,174 of non-voting common shares and 6,175 of common share options. These shares and options are earmarked for THP management as an incentive award and to the Employee Stock Incentive Program.

Reorganizations

The Company is a wholly owned subsidiary of THP. A summary of the Company's holding company structure is presented below. During the period under examination, the following changes occurred to its holding company structure:

- The Company's original Articles of Incorporation authorized the Company to issue 100,000 Class A shares with a par value of \$0.01 per share. As of January 31, 2012, the Company had issued all 100,000 of its authorized shares to Thomas M. Duncan and Dennis S. Ellis, in equal ownership amounts of 50,000 shares each.
- On August 20, 2013, Trusted Health Plans, Inc. (THP), a Delaware corporation, was organized for the purpose of being the holding company for the Company. At the time of

Trusted Health Plan (District of Columbia), Inc.

Report on Examination

Examination as of December 31, 2016

its organization, THP was 35% owned by T.C. Mosby Investments, LLC (“TCM”), 35% by Frost BPO, LLC (“Frost”), and 30% by Key Bloom Development Limited (“KBD”). On September 11, 2013, THP acquired one hundred percent (100%) of the issued and outstanding voting securities of the Company.

- Effective January 26, 2016, TCM and KBD sold their shares in THP to new shareholders. New shareholder investors included Juggernaut Capital Partners III, L.P. (“JCP”), CHA, LLC (“CHA”), Pablo Enterprises, and Tom Scully. The remaining interest was transferred to Frost, which had an interest of 41.5%. The Department approved the ownership changes in a letter dated January 15, 2016, with an effective date of January 26, 2016.
- In December 2016, the Company implemented a stock compensation plan by allocating 10% of THP’s non-voting shares to the THP Employee Stock Incentive Program.

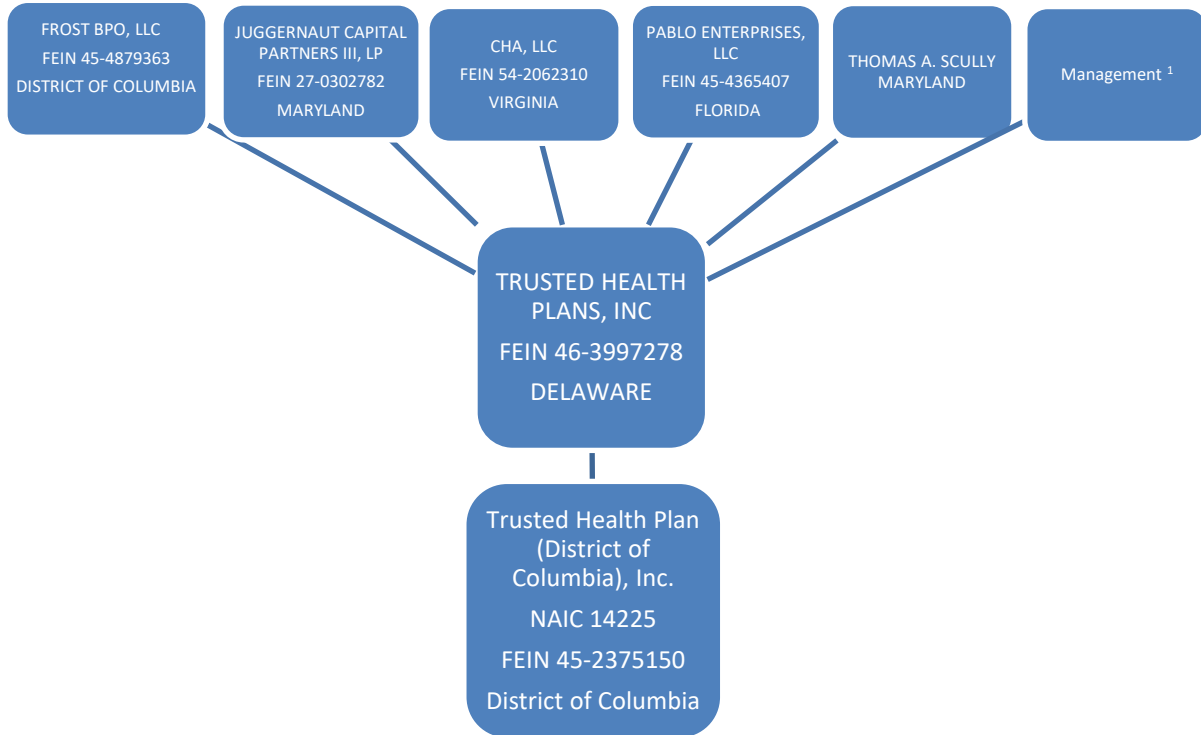
As a result of the aforementioned stock transactions, THP’s ownership as of December 31, 2016 was as follows; Frost held 36%, JCP held 29.7%, CHA held 14%, Pablo Enterprises held 5.8%, Tom Scully held 4.5%, the THP Employee Stock Incentive Program held 5.0%, and management owned 5.0%.

Organizational Chart

As of December 31, 2016, the Company was a member of an insurance holding company system and is subject to the registration requirements of Section 31-705 of the District of Columbia Official Code. The Company did not have any affiliated or subsidiary or related parties other than Trusted Health Plans, Inc., the parent company. An organizational chart as of December 31, 2016, reflecting the holding company system is shown below.

Trusted Health Plan (District of Columbia), Inc.

Report on Examination
Examination as of December 31, 2016



1 Cleveland E. Slade, Chikadibie Duru, Kenny Greene and Robin Barclay collectively own 5% of the total shares issued by THP.

The above Holding Company System structure changed slightly subsequent to the examination period as a result of an acquisition by THP. For further discussion see “Subsequent Events” section of this Report on page 19.

AGREEMENTS AND TRANSACTIONS WITH AFFILIATES

The following is a summary of each of the Intercompany Agreements between the entities within the holding company structure:

Management and Administrative Services Agreement:

The Company is a party to a Management and Administrative Service Agreement with its parent, whereby THP agreed to provide certain management and consulting services to the Company. In exchange for these services, the Company is to pay THP, within thirty (30) days of receiving the invoice from the Parent Company, either a management fee equal to the direct costs plus any indirect costs for services provided by the Parent Company to the Company or a minimum fixed fee to be paid to the Parent Company on a quarterly basis. The Department approved the agreement on April 15, 2015, with an effective date of January 1, 2015.

Trusted Health Plan (District of Columbia), Inc.

Report on Examination

Examination as of December 31, 2016

During the years ended December 31, 2016 and 2015, the Company paid \$2,994,895 and \$678,840, respectively, in fees for services under the agreement. Fees paid by the Company for services increased significantly from 2015 to 2016 for several reasons. First, since the agreement was not approved and executed until April 2015, the Parent Company did not start allocating expenses through the agreement until May 1, 2015. Also, certain management level employees were transferred from the Company to the Parent Company effective January 1, 2016, which resulted in their salaries being passed to the Company in the form of management fees instead of direct payroll expense.

However, during the course of the examination, it was noted that the Company was not paying fees pursuant to the agreement. For further discussion see the “Summary of Recommendations” section of this Report under the caption “Management and Administrative Services Agreements”.

Tax Sharing Agreement:

THP entered into a consolidated tax allocation agreement with the Company and agreed to provide tax consulting services, with a February 2015 effective date and retroactively covering the tax year beginning January 1, 2013, in which the income, expense, gains, losses and credits from the Company is consolidated in the federal income tax return of THP. Tax amounts are allocated to the Company based upon separate return calculations and if requested by the Parent Company, periodic payments will be payable no later than five (5) calendar days after the Company has received a written request for payment from the THP. If there are excess payments over the tax liability, THP shall pay the Company the excess within sixty (60) calendar days. The Department approved the agreement on April 15, 2015.

During the years ended December 31, 2016 and 2015, the Company’s share of allocated tax liabilities under this agreement were \$1,942,922 and \$2,195,222, respectively.

FIDELITY BOND AND OTHER INSURANCE

Pursuant to the Section 31-3405(b) of the District of Columbia Official Code, as of December 31, 2016, the Company, along with its Parent was included as a named insured in the Parent’s blanket fidelity insurance policy. The amount of the fidelity insurance coverage was \$300,000 with a \$10,000 deductible. However, the Company did not maintain fidelity insurance coverage consistency throughout the examination period. See the “Summary of Recommendations” section of this report under the caption “Fidelity Bond Coverage”.

In addition to the coverage provided under the fidelity bond, the Company carries several insurance policies to cover the hazards to which it is exposed including general liability, commercial property, cyber, directors and officers, workers' compensation and employers' liability and executive liability coverage.

Trusted Health Plan (District of Columbia), Inc.

Report on Examination
Examination as of December 31, 2016

STATUTORY DEPOSIT

Pursuant to Section 31-3412(b) of the District of Columbia Official Code, the Company maintained 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. In addition, the Company has established a special deposit with the Commonwealth of Virginia in the amount of \$325,000 as a condition of its licensure as a HMO in the Commonwealth of Virginia.

TERRITORY AND PLAN OF OPERATION

The Company is an HMO that operates exclusively in the District providing a managed care delivery system by arranging and coordinating the delivery of health care services to Medicaid eligible recipients in the District's Medicaid and Alliance programs. During the examination period, all of the Company's premium revenue was generated from contracts with the DHCF, which was originally awarded effective July 1, 2013. The contracts last one base year and four option years and take effect annually on October 1.

Under the HMO contract, the Company is responsible for authorizing payments for services, processing and paying claims to health care providers for services rendered to Medicaid and Alliance members enrolled with the Company. Alliance enrollees are those residents not eligible for the federally funded Medicaid program, but whose income falls below 200% of the federally determined poverty level.

At December 31, 2016, the Company provided healthcare services to approximately 30,400 members enrolled in the Medicaid program and approximately 3,100 members enrolled in the Alliance program. DHCF makes capitation payments to the Company on a per-member-per-month ("PMPM") basis, based on negotiated rates determined to be actuarially sound by an independent actuary contracted with DHCF. The capitation payments by DHCF are insurance premiums paid to a health insurance company for insuring Medicaid and Alliance members. During 2016, the Company's premiums from the DHCF contract were approximately \$147.4 million.

At December 31, 2016, the Company had active insurance licenses in the District, the Commonwealth of Virginia and West Virginia. However, the Company was only conducting business in the District.

REINSURANCE

Assumed Reinsurance

The Company is not a party to any agreements for assumed reinsurance.

Trusted Health Plan (District of Columbia), Inc.

Report on Examination
Examination as of December 31, 2016

Ceded Reinsurance

As of December 31, 2016, the Company had a per risk excess of loss reinsurance agreement with Partner Re America Insurance Company (“Partner Re”). The agreement provides the Company with reinsurance coverage related to its Medicaid membership. The Company maintained similar coverage for all years under examination. For the agreement period July 1, 2016 to July 1, 2017, Partner Re agrees to pay covered expenses incurred over the period for the Medicaid membership, which are incurred from July 1, 2016 to July 1, 2017, paid by January 1, 2018 and submitted by April 1, 2018. The agreement establishes a \$550,000 per Member per period deductible for the Medicaid membership. A reinsurance limit of \$2.0 million per Member per period exists and the premium paid by the Company in exchange for the coverage is \$0.86 PMPM for the Medicaid membership, respectively, with a \$250,000 minimum annual premium under the agreement. The Reinsurer may refund to the Company a portion of the net profit from the Agreement Term beginning July 1, 2016 and ending July 1, 2017 if certain conditions are satisfied.

ACCOUNTS AND RECORDS

The Company’s statutory home and main administrative office is located at 1100 New Jersey Avenue, Suite 840, Washington, D.C. 20003. This also serves as the primary location of the Company’s books and records. This satisfies the requirements of Section 31-3431 of the District of Columbia Official Code, which requires that a domestic health maintenance organization maintain its principal office within the District and shall keep its books, records, and files therein, and shall not remove from the District either its principal office or its books, records, or files without the permission of the Commissioner.

The Company’s general accounting records consisted of an automated general ledger and various subsidiary ledgers maintained by its parent company under a Management Services Agreement, discussed previously. In addition, the Company utilizes third party vendors for certain recordkeeping, statutory accounting and financial reporting functions. Our review of the Company’s accounts and records disclosed several areas that could be improved upon. These conditions are further discussed in the “Summary of Recommendations” section of this Report or in a separate Management Letter to the Company’s Board of Directors.

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2016.

Trusted Health Plan (District of Columbia), Inc.

Report on Examination

Examination as of December 31, 2016

Admitted Assets, Liabilities, Capital and Surplus

December 31, 2016

	Per Company	Examination Adjustments	Per Examination
Admitted Assets			
Bonds	\$28,964,502	\$ -	\$28,964,502
Cash, cash equivalents and short-term investments	14,047,157	-	14,047,157
Subtotal cash and invested assets	\$43,011,659	\$ -	\$43,011,659
Investment income due and accrued	220,760	-	220,760
Uncollected premiums and agents' balances	1,459,975	-	1,459,975
Net deferred tax asset	171,501	-	171,501
Electronic data processing equipment and software	185,566	-	185,566
Total admitted assets	\$45,049,461	\$ -	\$45,049,461
Liabilities			
Claims unpaid	\$ 24,188,697	\$ -	\$ 24,188,697
Unpaid claims adjustment expenses	61,637	-	61,637
General expenses due or accrued	5,357,999	-	5,357,999
Current federal and foreign income tax payable and interest thereon	275,332	-	275,332
Amounts withheld or retained for the account of others	9,701	-	9,701
Amounts due to parent, subsidiaries and affiliates	252,348	-	252,348
Payable for securities	68,588	-	68,588
Total liabilities	\$ 30,214,302	\$ -	\$ 30,214,302
Capital and Surplus			
Common capital stock	\$ 1,000,000	\$ -	\$ 1,000,000
Gross paid in and contributed surplus	5,835,000	-	5,835,000
Unassigned funds (deficit)	8,000,159	-	8,000,159
Total capital and surplus	\$ 14,835,159	\$ -	\$ 14,835,159
Total liabilities, capital and surplus	\$ 45,049,461	\$ -	\$ 45,049,461

Trusted Health Plan (District of Columbia), Inc.

Report on Examination
Examination as of December 31, 2016

Statement of Revenue and Expenses

**(As reported by the Company)
Year Ended December 31, 2016**

Member Months		387,098
Net premium income	\$	147,423,196
Hospital and medical benefits	\$	92,319,324
Other professional services		11,946,809
Prescription drugs		12,047,138
Subtotal hospital and medical expenses	\$	116,313,271
Net reinsurance recoveries		256,497
Total hospital and medical	\$	116,056,774
Claims adjustment expenses		9,129,147
General administrative expenses		16,070,126
Total underwriting deductions	\$	141,256,047
Net underwriting gain	\$	6,167,149
Net investment gain		332,725
Net realized capital gains (losses)		(33,665)
Net income before federal income tax	\$	6,466,209
Federal income tax		2,227,055
Net income	\$	4,239,154

Trusted Health Plan (District of Columbia), Inc.

Report on Examination
Examination as of December 31, 2016

Statement of Changes in Capital and Surplus

Five Years Ended December 31, 2016

Capital and surplus - December 31, 2011	\$ 1,728,465
Net income	(188,212)
Capital and surplus - December 31, 2012	1,540,254
Net income	(223,569)
Change in nonadmitted assets	(1,581,401)
Paid in Capital	8,000
Paid in Surplus	3,742,000
<hr/>	
Capital and surplus - December 31, 2013	\$ 3,485,284
Net income	3,000,611
Change in net deferred income tax	102,046
Change in nonadmitted assets	1,053,554
Transferred to Surplus	(8,000)
Paid in Surplus	1,343,000
Aggregate write-ins for gains or (losses)	(291,944)
<hr/>	
Capital and surplus - December 31, 2014	\$ 8,684,549
Net income	4,328,083
Change in net deferred income tax	216,612
Change in nonadmitted assets	(354,928)
Dividends to stockholder	(314,417)
Aggregate write-ins for gains or (losses)	(277,734)
<hr/>	
Capital and surplus - December 31, 2015	\$ 12,282,162
Net income	4,239,154
Change in net unrealized capital gains (losses)	3,033
Change in net deferred income tax	14,618
Change in nonadmitted assets	13,109
Paid in Capital	999,000
Paid in Surplus	(999,000)
Dividends to stockholder	(1,840,000)
Aggregate write-ins for gains or (losses)	123,082
<hr/>	
Capital and surplus - December 31, 2016	\$ 14,835,159
Examination adjustments	-
<hr/>	
Capital and surplus - December 31, 2016	\$ 14,835,159

Trusted Health Plan (District of Columbia), Inc.

Report on Examination
Examination as of December 31, 2016

Comparative Analysis of Changes in Capital and Surplus

December 31, 2016

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, 2016 - per annual statement				\$ 14,835,159
			Increase (Decrease) In Capital & Surplus	
	Per Company	Per Examination		
Total assets	\$ 45,049,461	\$ 45,049,461	\$ -	
Total liabilities	\$ 30,214,302	\$ 30,214,302	\$ -	-
Capital and surplus, December 31, 2016 - per examination				<u>\$ 14,835,159</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

As a result of the examination, no adverse findings effecting the financial statements, or material changes to the financial statements were identified.

Trusted Health Plan (District of Columbia), Inc.

Report on Examination
Examination as of December 31, 2016

SUMMARY OF RECOMMENDATIONS

Annual Statement

The NAIC's *Annual Statement Instructions and Accounting Practices and Procedures Manual* specify the procedures to be followed in completing the Annual Statement. However, our examination disclosed numerous instances where the Company did not complete its Annual Statement in accordance with the Instructions. For example, we noted the following:

- Although the Company was licensed to write business in Virginia and in West Virginia, it did not properly report its licensure status in Schedule T of the 2016 Annual Statement.
- As of December 31, 2016, the Company maintained a \$323,600 deposit with the Commonwealth of Virginia. However, this deposit was not disclosed in the 2016 Annual Statement in Notes to Financials 5 (H), General Interrogatories #25.2 or in Schedule E Part 3 Special Deposits.
- Interrogatory 18, relating to whether the Company has an established procedure for disclosure to its board of directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees that is in conflict was not answered correctly.
- Interrogatory 28.01 relating to custodial agreements was not answered correctly, as the Company represented that investments held in a brokerage account were instead held in a custodial account that complied with the requirements of the NAIC Financial Condition Examiners Handbook, contrary to the facts.

We recommend that the Company complete its Annual Statements in accordance with the provisions of the NAIC *Annual Statement Instructions and Accounting Practices and Procedures Manual*.

Fidelity Bond Coverage

The Company did not maintain the level of fidelity bond coverage required by the District of Columbia Official Code Section 31-3405(b). This section requires that a health maintenance organization shall maintain in force a fidelity bond or fidelity insurance on such employees and officers, directors, and partners in an amount not less than \$250,000 and not more than \$5,000,000. However, our review disclosed that the Company did not maintain required fidelity bond coverage during the examination period, with the exception of the policy year May 3, 2016 to May 3, 2017, and does not currently hold a fidelity insurance policy.

We recommend that the Company comply with Section 31-3405 of the DC Code as well as DHCF MCO contract's minimum requirements pursuant to Section C.3.1.6 and maintain adequate insurance coverage, including fidelity bond or fidelity insurance throughout the term of the contract.

Trusted Health Plan (District of Columbia), Inc.

Report on Examination

Examination as of December 31, 2016

Board Committees

Section 31-302(d) of the District of Columbia Official Code requires that an insurer required to file an annual audited financial report establish an audit committee. If the insurer is controlled by a controlling person or entity, the audit committee of the controlling entity, in compliance with Section 31-311.01(e), may serve as the audit committee for the subject insurer for purposes of this chapter. Section 31-311.01(e) further requires that prior to exercising the election of designating an audit committee pursuant to this chapter, the ultimate controlling person shall provide written notice to the Mayor. The written notice shall be made timely prior to the issuance of the statutory audit report and include a description of the basis for the election.

In addition, Section 31-706(c)(4) requires that the board of directors of a domestic insurer shall establish 1 or more committees comprised solely of directors who are not officers or employees of the insurer or of any entity controlling, controlled by, or under common control with the insurer, and who are not beneficial owners of a controlling interest in the voting stock of the insurer or any such entity. The committee or committees shall have responsibilities of nominating candidates for director for election by shareholders or policyholders, evaluating the performance of officers deemed to be principal officers of the insurer, and recommending to the board of directors the selection and compensation of the principal officers.

However, our review disclosed that the Company was not in compliance with these provisions. Specifically, our review of the minutes of the Board of Directors meetings disclosed that in the February 26, 2016 meeting, all Board committees previously established were dissolved. In taking this action, the Board indicated that the Audit Committee and the Compensation Committee would be re-established at the holding company level. However, the Company did not provide prior written notice to the Department of its intent to designate the holding company audit committee as the audit committee for the Plan.

We recommend that the Company designate, and/or establish Board Committees as required by the aforementioned Sections of the Code. We further recommend that the Audit Committee perform those functions customarily performed by audit committees. This would include annual meetings with management, the insurer's independent certified public accountants, and the independent actuary.

Conflict of Interest

It was noted that the Company did not have a documented conflict of interest policy and/or documented procedure for the annual disclosure to its Board of Directors and Audit Committee of any material interest or affiliation on the part of its directors, officers or key employees which is in, or likely to, conflict with the official duties of such person.

We recommend that the Company develop and implement a conflict of interest policy for board of directors, officers and key personnel. On an annual basis, the Company should require all officers, directors and employees to provide a certification regarding compliance with the conflict of interest policy.

Trusted Health Plan (District of Columbia), Inc.

Report on Examination
Examination as of December 31, 2016

Management and Administrative Services Agreement

Pursuant to a Management and Administrative Services Agreement executed between the Company and its Parent Company approved by the Department with an effective date of January 1, 2015, the Company shall pay a management fee equal to the direct costs plus any indirect costs for services provided by the Parent Company. The Agreement generally provides that the direct costs are based upon time actually worked by employees, plus reimbursement for expenditures for other services provided to the Company. However, the Company was not paying fees pursuant to the terms of the Agreement. Rather, fees were being allocated to the Company based upon flat rates as a percentage of allocable expenses, contrary to said agreement. We were also advised that in the first quarter of 2017, the Parent Company began adding a markup for overhead and general administrative expenses.

We also noted that interest initially paid by the Parent on a debt that existed at the Parent Company level totaling \$541,636 was passed through in the 2016 management fee charged to the Company. This was discovered by the Company's independent CPA during the 2016 audit, and an adjustment to the Company's books to reverse these interest expenses as well as other adjustments that were necessary as a result of the audit were recorded in the Company's June 30, 2017 statutory financial statements. The net effect of the auditor's adjustments as a result of the 2016 audit was an increase to the Company's surplus totaling \$144,142. The understatement of surplus at December 31, 2016 totaling \$144,142 was not considered material as such, we did not adjust the Company's financial statements.

The Company is required to comply with the terms of the management services agreement approved by the Department. Any revisions to the agreement require the prior approval of the Department. Additionally, any revisions and/or addendums to the agreement must comply with Section 31-706 (fair, reasonable standards) of the Code of the District of Columbia and are required to be submitted to the Department on a timely basis for approval prior to the planned effective date. Furthermore, the Company should discontinue paying for expenses unrelated to services provided to the Company.

Corporate Records

Minutes of meetings of the Shareholders, Board of Directors and Board Committees are important legal documents that serve numerous functions, which include documenting compliance with organizational documents and demonstrating the Board's due diligence in carrying out their responsibilities. However, it was noted that the minutes of Board and Committee meetings were not comprehensive, as they failed to provide an adequate record the proceedings and summaries of discussions that took place during the meetings. For example:

- We noted numerous instances where the minutes did not indicate approval of the prior meeting minutes.
- There were no minutes available for certain committees that were formed, according to the Board minutes.

Trusted Health Plan (District of Columbia), Inc.

Report on Examination

Examination as of December 31, 2016

- There was no evidence in the minutes that the investment policy and guidelines were approved.
- There was no evidence in Committee minutes that several of the committees (e.g., Audit, Risk Management) were performing their responsibilities as stated in their Charters.

We recommend that clear, comprehensive minutes of meeting of the Shareholders, Boards and Committees be prepared.

Additional Comments and Recommendations

In addition to the above Comments and Recommendations, we made a number of other suggestions and recommendations to the Company with regard to record keeping and other procedures relating to its operations. These additional suggestions and recommendations were not deemed significant for purposes of our Report on Examination, and were included in our Management Letter to the Board of Directors of the Company.

Trusted Health Plan (District of Columbia), Inc.

Report on Examination
Examination as of December 31, 2016

SUBSEQUENT EVENTS

During the course of fieldwork and subsequent to the examination date, December 31, 2016, the following significant subsequent events were noted:

- On February 28, 2017, THP acquired Harbor Health Care Inc. in the state of Michigan. Harbor Health Plan, Inc., a Michigan domesticated HMO, was purchased from Vanguard Health Management, Inc. a Delaware corporation which was ultimately owned by Tenet Healthcare Corporation, a Nevada corporation. The purchase was funded by loans from the shareholders for 18 months for \$16.9 million.
- Effective October 1, 2017, DHCF has awarded the Company a new Managed Care Organization contract covering an initial term of 1 year and 4 optional 1-year renewal terms through September 30, 2022.
- The Company declared an extraordinary dividend in the amount of \$3,780,000 for payment on November 1, 2017. The request for the dividend was provided to the Department October 2, 2017, and approved by the Department on November 2, 2017.
- On November 30, 2017, an administrative law judge ruled that the District government mishandled how it awarded contracts to manage care for Medicaid beneficiaries and must reevaluate proposals by the end of January. The judge stated that the District must reevaluate every company that bid for the District's three Medicaid contracts and select the top three bidders. If the Company is not determined to be one of the top three bidders as a result of this reevaluation, its contract could be subject to termination. On January 11, 2018, the District's Contract Appeals Board ("CAB") denied the District's motion to stay its re-score order pending the resolution of its appeal in Superior Court. The CAB did, however, grant DHCF's motion to stay the immediate termination of any contracts that may be necessary after DHCF's re-scoring. The District advised the CAB that it will complete its re-scoring by January 25 and be prepared to report the results of the same to the CAB by February 1. On February 8, 2018, the District reported its reevaluation results to the CAB and requested to ask offerors best and final offer (BAFO) questions. On March 14, 2018, the District filed a list of BAFO questions to ask the Offerors. On March 20th, the CAB issued an order stating the District could only ask a portion of one (1) of the submitted questions and ordered the District to submit the applicable re-evaluation documentation by March 27th. On March 26, 2018, the District filed a Motion for Reconsideration of the Board's March 20th Order.
- The Company is subject to an annual health insurer fee ("HIF") under Section 9010 of the Affordable Care Act ("ACA"). The annual fee is based on the ratio of the amount of the Company's net premium written during the preceding calendar year to the total amount of health insurance for any U.S. health risk that was written during the preceding calendar year. The Company's portion of HIF became payable once it provides health insurance for any U.S. risk for each calendar year beginning on or after January 1 of the year the HIF is due. The Company has written health insurance subject to HIF as of December 31, 2016, and continues to write health insurance subject to the HIF in 2017. However, the Consolidated Appropriations Act of 2016, Title II, § 201, Moratorium on Annual Fee on Health Insurance Providers, suspended collection of the health insurance provider fee for the 2017 calendar year only. Thus, the Company was not required to pay these fees for 2017.

Trusted Health Plan (District of Columbia), Inc.

Report on Examination

Examination as of December 31, 2016

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Trusted Health Plan (District of Columbia), Inc., consistent with the insurance laws of the District of Columbia.

Chapter 34A ("RISK-BASED CAPITAL") of Title 31 of the D.C. Official Code requires the Company to maintain statutory capital and surplus levels as determined in accordance with the applicable risk-based capital formulas. At December 31, 2016, the Company's capital and surplus was \$14,835,159 and the Company was in compliance with the minimum capital and surplus requirement.

In addition to the undersigned, Rick Buchwald, CFE and JJ Pan, CFE, of Baker Tilly, also participated in the examination. The Information Technology review portion of this examination was completed by and under the supervision of Rich Sowalsky, CISA of Baker Tilly. The actuarial portion of this examination was completed under the supervision of Michael Dubin, FCAS, FSA, MAAA, of Baker Tilly.

Respectfully submitted,



Lester C. Schott, CFE
Examiner-In-Charge (EIC)
Baker Tilly Virchow Krause, LLP



Yohaness Negash, CFE
Examination Manager
District of Columbia, Department of
Insurance, Securities and Banking