

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



Thomas E. Hampton  
Commissioner

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

Re: Report on Examination – **Unison Health Plan of the Capital Area, Inc.** as of August, 31, 2007

**ORDER**

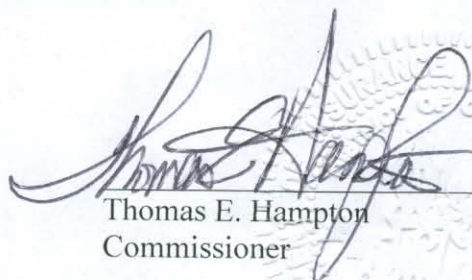
Pursuant to Examination Warrant 2007-3, a Financial Condition Organization Examination of Unison Health Plan of the Capital Area, Inc., as of August 31, 2007 has been conducted by the District of Columbia Department of Insurance, Securities and Banking ("the Department").


It is hereby ordered on this 1<sup>st</sup> day of February, 2008, 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.

  
Thomas E. Hampton  
Commissioner



GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND  
BANKING



REPORT ON EXAMINATION

UNISON HEALTH PLAN OF THE CAPITAL AREA, INC.

AS OF

AUGUST 31, 2007

## TABLE OF CONTENTS

	<u>Pages</u>
Salutation.....	1
Scope of Examination .....	1
History .....	2
General .....	2
Capital Stock .....	2
Management.....	2
Board of Directors .....	2
Officers .....	2
Committees.....	3
Conflicts of Interest.....	3
Corporate Records.....	3
Affiliated Companies .....	3
Organizational Chart .....	5
Intercompany Agreements.....	6
Fidelity Bond and Other Insurance .....	6
Statutory Deposit .....	6
Territory and Plan of Operation .....	6
Reinsurance .....	6
Accounts and Records .....	7
Financial Statements.....	9
Balance Sheet .....	10
Assets .....	10
Liabilities, Capital and Surplus .....	10
Summary of Operations .....	11
Reconciliation of Capital and Surplus .....	12
Analysis of Examination Changes to Surplus .....	13
Notes to Financial Statements .....	14
Comments and Recommendations.....	15
Conclusion.....	16
Signatures .....	17

Washington, D.C.  
August 31, 2007

Honorable Thomas E. Hampton  
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

**UNISON HEALTH PLAN OF THE CAPITAL AREA, INC.**

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

**SCOPE OF EXAMINATION**

This was an organizational examination as of August 31, 2007 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.

## **HISTORY**

### **General:**

The Company was incorporated as Unison Health Plan of the Capital Area, Inc., under the laws of the District of Columbia on May 3, 2007. According to its Articles of Incorporation which were reviewed by the Department, the primary purpose for which the Company was formed is to perform any and all acts necessary to form, own, operate, and manage a health maintenance organization.

### **Capital Stock:**

The Company's Articles of Incorporation authorize the Company to issue 10,000 shares of common capital stock with no par value per share. As of August 31, 2007, the Company had issued 1,000 shares of common capital stock to its parent, Three Rivers Holdings, Inc. in exchange for \$1,000.

### **Management:**

The following persons were serving as the Company's Directors as of August 31, 2007:

<u>Name and Address</u>	<u>Principal Occupation</u>
John Hull Dobbs, Jr. Memphis, TN	President, Dobbs Management Services, LLC
John P. Blank, M.D. Homestead, PA	President and Chief Executive Officer Unison Administrative Services, LLC
Thomas W. Carmichael Treasure Island, FL	Self Employed

### **Officers:**

The following persons were serving as the Company's Officers as of August 31, 2007:

John P. Blank	President and Chief Executive Officer
David Thomas	Secretary

Leslie Gelpi  
William H. Lawson, Jr.  
Michael A. Orians  
John H. Dobbs, Jr.

Treasurer  
Vice President, Assistant Secretary  
Vice President, Assistant Treasurer  
Vice President

Committees:

As a member of a holding company system, the Company is required to comply with District of Columbia Code § 31-706(c)(4) regarding the establishment of independent committees. According to management's assertions, the Company has created an Audit Committee function that is performed by Thomas W. Carmichael, an independent director. The Audit Committee is responsible for monitoring and reviewing: (i) the integrity of the Company's financial reports and other financial information provided by the Company; (ii) compliance with applicable legal and regulatory requirements; (iii) the qualifications and independence of the Company's independent auditing firm; and (iv) performance of the Company's independent auditors and the Company's internal audit function.

Establishment of the Audit Committee is not documented in the Bylaws, nor is the formation of the Audit Committee and election of the Audit Committee member established in the board resolutions. See additional comments regarding committees in the "Comments and Recommendations" section of the report, under the caption "Committees of the Board".

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. The current Directors were named in the Company's Articles of Incorporation, and will serve until the first annual meeting of its stockholders. The Directors' actions and oversight of the operation and affairs of the Company were documented via resolutions. These resolutions were approved by the unanimous written consent of the members of the Board. Based on our review, it appeared that these resolutions documented the Company's significant transactions and events.

**AFFILIATED COMPANIES**

The Company's parent, Three Rivers Holdings, Inc., a Delaware corporation (Holdings), provides multi-state managed care services to government-sponsored health

care programs including Medicaid and Medicare Advantage. Holdings operates in Pennsylvania, Tennessee, South Carolina, Delaware, Ohio, and New Jersey through its health maintenance organization/health insuring corporation subsidiaries. Unison Administrative Services, LLC, owned 100% by Holdings, provides health plan operations outsourcing services to the subsidiaries within the holding company system to carry on their business in return for a service fee.

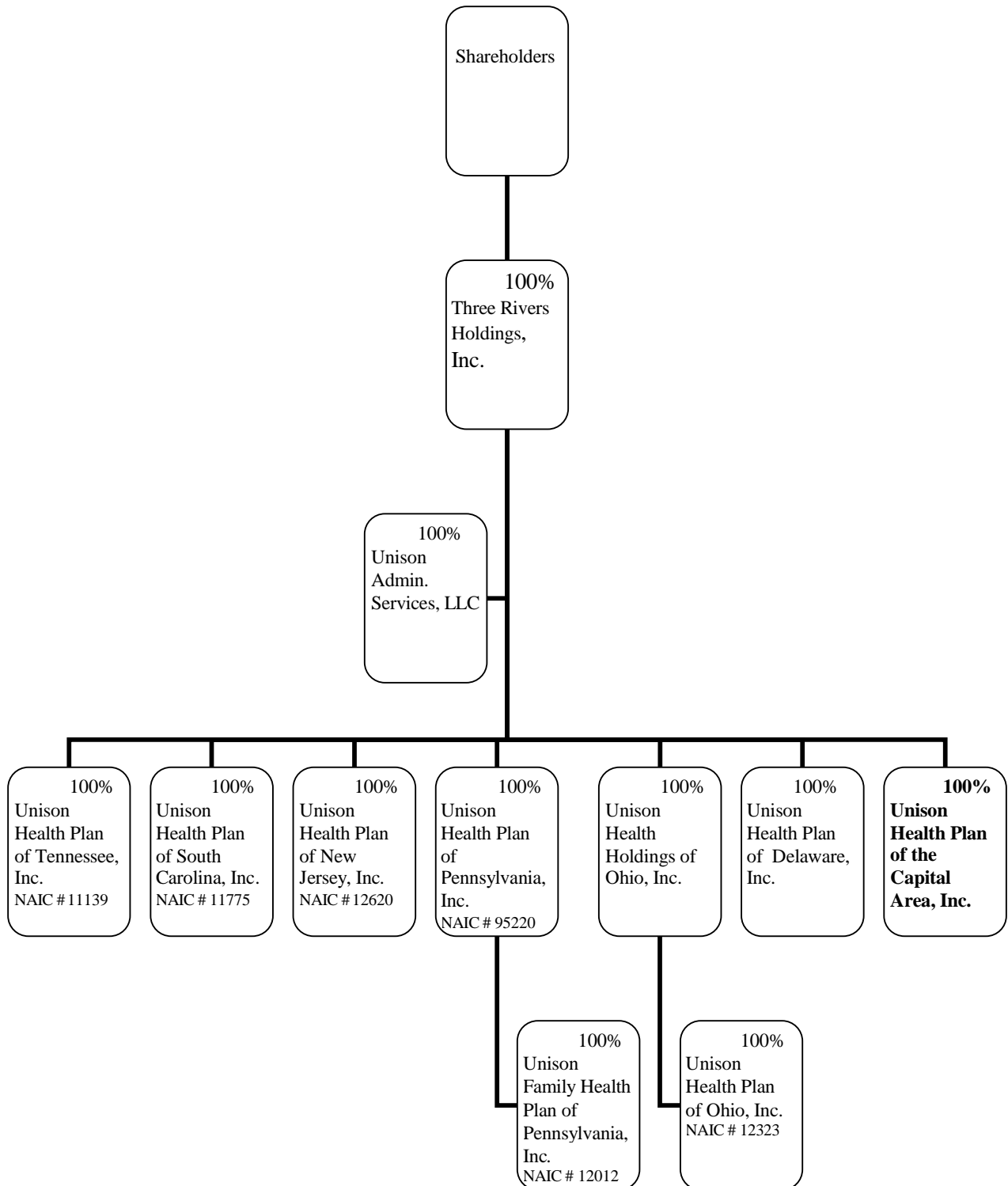
The Company's Uniform Certificate of Authority Application lists five individuals who hold 10% or more of Holdings.

John H. Dobbs	32.25431%
Caroline K. Dobbs	12.98213%
John H. Dobbs Jr.	12.98213%
Juliette Allen	12.98213%
Edward J. Dobbs	12.98213%

Upon licensing, the Company will be part of a holding company system and will be subject to the requirements of Title 31, Chapter 7 ("Holding Companies"), of the District of Columbia Official Code.

Three Rivers Holdings Inc.'s holding company structure as of August 31, 2007, is depicted in the following chart:

## ORGANIZATIONAL CHART





## **INTERCOMPANY AGREEMENTS**

The Company will be a party to a Health Plan Operations Outsourcing Agreement with its affiliate, Unison Administrative Services, LLC (UAS). UAS will provide all of the operational services that the Company needs to operate as an HMO. In return UAS will receive 12% of premium revenue earned by the Company. The contract also provides for certain incentive bonuses of up to 3% of premium revenue. See additional comments regarding intercompany agreements in the “Comments and Recommendations” section of the report, under the caption “Intercompany Agreements”.

The Company will not be a party to a tax allocation agreement in its formative years but will eventually enter into such an agreement with its parent.

To date, all organization costs and services have been borne by the Company’s parent and affiliates.

## **FIDELITY BOND AND OTHER INSURANCE**

On August 21, 2007 an endorsement was made to the parent’s commercial crime policy to add the Company as an insured. The policy limits are \$10,000,000. The fidelity bond coverage exceeded the minimum amount recommended by the National Association of Insurance Commissioners on a consolidated basis.

In addition, the Company was added as an insured on other insurance policies (e.g., commercial liability, errors and omissions, etc.). Based upon our review, the Company’s insurance coverage for these risks appears adequate.

## **STATUTORY DEPOSIT**

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. As of August 31, 2007, the Company did maintain a custodial account pursuant to the District of Columbia Code §31-3412(b). The deposit was confirmed from the records of First Tennessee National Bank.

## **TERRITORY AND PLAN OF OPERATION**

Once licensed, the Company intends on providing a managed care delivery system to the Department of Health, Medical Assistance Administration (MAA) Medicaid eligible population enrolled in the District of Columbia Healthy Families Program (DCHFP) and to its District of Columbia Health Care Safety Net Program (Alliance). With the foregoing in mind, the Company does not employ sales techniques; rather its members shall be enrolled through the DCHFP and Alliance programs.

The Company intends to commence operations consistent with the staffing model employed in other states – an office within the District of Columbia staffed to provide, among other managed care activities: Community Relations, Provider Relations, Quality Improvement and Utilization Management. The Company's staff will include at least the Plan President, Medical Director, Director of Provider relations, community relations staff, managers and administrative staff.

### **REINSURANCE**

#### **ASSUMED**

The Company does not anticipate entering into assumption reinsurance agreements.

#### **CEDED**

The Company has a Letter of Intent from RBS Re, an HMO reinsurance intermediary, to offer reinsurance to the Company. The Company's ceded reinsurance program will mirror that of its affiliate health plans, where the Company will have excess of loss, inpatient hospital coverage with the Company's retention being \$150,000 per member per contract year. The reinsurance limits will be 50% to 90% of eligible hospital services, subject to a maximum of \$2,000,000 per member per contract year.

### **ACCOUNTS AND RECORDS**

The Company's registered home office address is 1015 15<sup>th</sup> Street N.W., Suite 1000, Washington, D.C. 20005. The Company's main administrative office, as well as the primary location of its books and records, is in Pittsburgh, Pennsylvania, at the location of the principal offices of the Company's affiliate, Unison Administrative Services, LLC.

This arrangement does not meet 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. Specifically, Section 31-3431 of the District

of Columbia Official Code 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.

In a October 22 2007, letter to the Commissioner, the Company requested permission to continue to maintain its books and records in Pittsburgh, Pennsylvania, at the location of the principal offices of the Company's affiliate, Unison Administrative Services, LLC, upon licensing as a District of Columbia domestic insurer.

In a letter dated November 6, 2007, permission was granted by the Commissioner for the Company to maintain its books and records in Pittsburgh, Pennsylvania.

All of the Company's accounting, investment, policy and claim records will be maintained at its home office. The recordkeeping system is fully automated and all applications are on a local area network. The Company's primary financial management information system used for general ledger, financial statement, accounts payable, and payroll functions is Microsoft's Great Plains Dynamics software. This software is supplemented with various Excel spreadsheets and tools to manage cash, analyze costs and liability balances and to prepare and support journal entries made to the general ledger system.

The Company will utilize Sungard EFS software for the filing of its quarterly and annual NAIC statements and supplemental filings.

The Company will utilize Trizetto's Facets software for its HMO operations including, but not limited to eligibility, premium billing, utilization management, customer service, and claim processing and payment.

## **FINANCIAL STATEMENTS**

The following financial statements reflect the financial condition of the Company as of August 31, 2007, as determined by this organizational examination (**NOTE 1**):

<b><u>STATEMENT</u></b>	<b><u>PAGE</u></b>
Balance Sheet:	
Assets	10
Liabilities, Surplus and Other Funds	10
Summary of Operations	11
Reconciliation of Capital and Surplus	12
Analysis of Examination Changes to Surplus	13

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

## **STATEMENT OF ASSETS, LIABILITIES, CAPITAL AND SURPLUS**

### **ASSETS**

#### Assets

Bonds	\$ 301,179
Cash	<u>1,192,144</u>
Subtotals, cash and invested assets	<u>1,493,323</u>
Investment income due and accrued	<u>7,313</u>
<b><u>Total Assets</u></b>	<b><u>\$1,500,636</u></b>

### **LIABILITIES, CAPITAL AND SURPLUS**

#### Liabilities

Total Liabilities	\$ <u>0</u>
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#### Capital and Surplus

Common Capital Stock	1,000
Paid-In and Contributed Surplus	1,499,000
Unassigned Surplus	<u>636</u>
Total Capital and Surplus	<u>1,500,636</u>
<b><u>Total Liabilities, Capital and Surplus</u></b>	<b><u>\$1,500,636</u></b>

**SUMMARY OF OPERATIONS**  
**FOR THE ORGANIZATIONAL DATE ENDED AUGUST 31, 2007**

**Income**

Interest Earned	<u>\$636</u>
Total Income	636
Expenses	<u>0</u>
Net Income	<u>\$636</u>

**RECONCILIATION OF CAPITAL AND SURPLUS**  
**ENDED AUGUST 31, 2007**

Beginning Balance at August 1, 2007	\$ <u>-0-</u>
Net Income (Loss)	636
Capital Contributions	<u>1,500,000</u>
Net Change in Capital and Surplus	<u>1,500,636</u>
Capital and Surplus, August 31, 2007	<u>\$1,500,636</u>

### **ANALYSIS OF EXAMINATION CHANGES TO SURPLUS**

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



## **NOTES TO FINANCIAL STATEMENTS**

1. **Net Worth, Deposits 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 of the District of Columbia Official Code 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.

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.

## **COMMENTS AND RECOMMENDATIONS**

### **Committees of the Board:**

District of Columbia Code Section 31-706(c)(4) states that the board of directors of a domestic insurer within an insurance holding company system 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. Management represents that such a committee exists in the form of an Audit Committee. However, the formation, membership, and description of the duties of this committee are not documented in the bylaws or by a resolution of the Board of Directors. **We recommend that the Company take the necessary steps to formally establish this committee within the Bylaws and that such action is appropriately documented and approved by the Board of Directors of the Company.**

### **Intercompany Agreements**

The Company will be a party to a Health Plan Operations Outsourcing Agreement with its affiliate, Unison Administrative Services, LLC (UAS). UAS will provide all of the operational services that the Company needs to operate as an HMO. In return UAS will receive 12% of premium revenue earned by the Company. The contract also provides for certain incentive bonuses of up to 3% of premium revenue. **We recommend that the Company provide to DISB an independent third party cost study report every three years detailing that the outsourcing agreement with UAS is “fair and reasonable” to the Company.**

### **Additional Comments and Recommendations:**

The Company must meet the following additional requirements:

1. Must file Quarterly Financial Statements.
2. Must file reports on D.C. Escheatable Property, as required by Chapter 2 of Title 42 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 file all material holding company system affiliated agreements with the Department for approval.

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

### CONCLUSION

Our organizational examination disclosed that as of August 31, 2007, the Company had:

Admitted Assets	<u>\$ 1,500,636</u>
Liabilities	<u>\$ 0</u>
Common Capital Stock	1,000
Gross Paid In and Contributed Surplus	1,499,000
Unassigned Funds (Surplus)	<u>636</u>
Surplus as regards policyholders	\$ 1,500,636
Total Liabilities and Surplus	<u>\$ 1,500,636</u>

Based on our examination, the accompanying balance sheet properly presents the statutory financial position of the Company at August 31, 2007. 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.

**SIGNATURES**

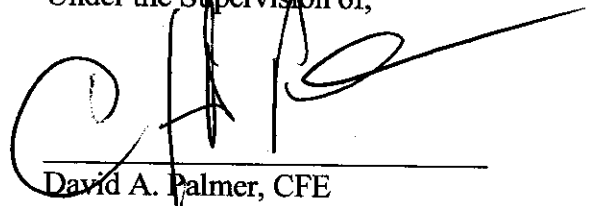
In addition to the undersigned, Samuel A. Merlo of the District of Columbia Department of Insurance, Securities and Banking participated in certain phases of this examination.

Respectfully submitted,



Nathaniel Kevin Brown, CFE  
Examiner-In-Charge  
District of Columbia Department of  
Insurance, Securities and Banking

Under the Supervision of,



David A. Palmer, CFE  
Chief Financial Examiner  
District of Columbia Department of  
Insurance, Securities and Banking

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



**Thomas E. Hampton**  
**Commissioner**

December 21, 2007

Leslie A. Gelpi  
Vice-President Finance  
Unison  
Unison Plaza  
1001 Brinton Road  
Pittsburgh, PA 152221

Dear Ms. Gelpi:

Pursuant to the provisions of Section 31-1404 of the D.C. Official Code, enclosed is a draft copy of the Report on the Organizational Examination of the affairs and financial condition of **Unison Health Plan of The Capital Area, Inc.**, as of August 31, 2007.

Please call our attention to any errors or omissions. In addition, if this Report on Examination contains a section entitled "Comments and Recommendations" that discloses certain areas requiring action, the Company shall submit a statement covering the corrective measures which will be taken. If the Company's position on any of these points is contrary to the Examiner's findings, an explanation should be submitted covering each contested comment and/or recommendation.

If there are no errors or omissions to be brought to our attention, and there are no "Comments and Recommendations" requiring a response, please submit a statement that the Company accepts the Report.

All of your comments concerning these matters must be in writing and shall be furnished to this Department within **thirty (30) days from the date of this letter (January 21, 2008)**.

Sincerely,

David A. Palmer  
Chief Examiner



January 21, 2008

David A. Palmer  
Chief Financial Manager  
D. C. Department of Insurance, Securities and Banking  
810 First Street, NE  
Suite 701  
Washington, DC 20002

RE: Report on Organizational Examination of Unison Health Plan of the Capital Area  
As of August 31, 2007

Dear Mr. Palmer,

Unison Health Plan of the Capital Area, Inc. (Unison) has reviewed the Report on Organizational Examination noting no material errors or omissions. All changes since the last draft were reviewed and are acceptable to Unison. There are minor formatting issues on page 10 and 12 that were previously brought to the attention of the Department of Insurance, Securities and Banking (DISB) that DISB might consider adopting.

Unison's response to the Comments and Recommendations noted by DISB are as follows:

- 1. Committees of the Board: We recommend that the Company take the necessary steps to formally establish this committee within the Bylaws and that such action is appropriately documented and approved by the Board of Directors of the Company.**

As noted during the examination, Unison does have an Audit Committee which fulfills the requirements of District of Columbia Code Section 31-706(c) (4). It was the finding of DISB that the formation, membership, and description of the duties of this committee were not documented in the bylaws or by a resolution of the Board of Directors. Unison will, therefore, takes the necessary steps to formally establish this committee, appropriately document such action and obtain approval by the Board of Directors of Unison.

2. **Intercompany Agreements:** We recommend that the Company provide to DISB an independent third party cost study report every three years detailing that the outsourcing agreement with UAS is "fair and reasonable" to the Company.

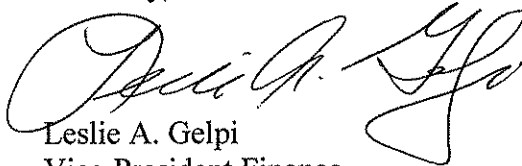
Unison will endeavor to obtain and submit to DISB an independent third party cost study report every three years detailing that the outsourcing agreement with UAS is "fair and reasonable."

3. **Additional Comments and Recommendations**

Unison acknowledges its reporting obligations as delineated in the "Additional Comments and Recommendations" section and will comply with these reporting requirements.

Should DISB have any questions or require any additional information, please contact me.

Sincerely,



Leslie A. Gelpi  
Vice-President Finance

Cc: John Blank, CEO, Unison  
Anthony Como, Legal Counsel, Unison

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



Thomas E. Hampton  
Commissioner

February 1, 2008

Leslie A. Gelpi  
Vice President  
Unison Health Plan of the Capital Area  
1001 Brinton Road  
Pittsburgh, PA 15221-4533

Dear Ms. Gelpi:

We are in receipt of your response, dated January 21, 2008, which addresses the corrective action taken by Unison Health Plan of the Capital Area to comply with the recommendations made in the Report on Examination as of August 31, 2007.

There are two recommendations contained in the Report on Examination. Your January 21, 2008 letter adequately addresses the recommendation in the Report regarding Committees of the Board. With regards to the second recommendation on Inter-company Agreements, it has come to my attention that the Company has chosen a "market basis" for the affiliate Managed Care Operations Outsourcing Agreement. A "market basis" must be supported by an outside "market study". It is my understanding that you are working with the DISB Financial Surveillance Branch in their review of the Insurance Holding Company Act Form D filing for this agreement and that it has not been approved to date. It is important that you continue the process until all compliance issues are resolved.

The adopted Report (which includes a copy of this letter), and the Order evidencing such adoption are enclosed. Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the adopted Report will be held private and confidential for a period of 10 days from the date of the Order evidencing such adoption. After this 10 day period has passed, the Report will be publicly available.


Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the date of the above-mentioned Order, affidavits executed by each Company director stating under oath that he or she has received a copy of the adopted examination Report and related Order shall be filed with this Department. Please send these affidavits to my attention here at the Department.



Lesli A. Gelpi  
Unison Health Plan of the Capital Area, Inc.  
February 1, 2008  
Page 2 of 2

Please contact me at 202-442-7832 or David Palmer at 202-442-7785 if you have any questions.

Sincerely,



Nathaniel Kevin Brown  
Senior Financial Examiner

Enclosures