**JOINT OVERSIGHT ROUNTABLE ON**

**THE DC CHARTERED HEALTH PLAN, INC. RECEIVERSHIP**

**OF THE**

**COMMITTEE ON PUBLIC SERVICES AND CONSUMER AFFAIRS**

**YVETTE ALEXANDER, CHAIRPERSON**

**AND THE**

**COMMITTEE ON HEALTH**

**DAVID CATANIA, CHAIRPERSON**

**TESTIMONY OF WILLIAM P. WHITE**

**COMMISSIONER OF THE DEPARTMENT OF INSURANCE, SECURITIES AND BANKING**

**ROOM 500**

**WILSON BUILDING**

**1350 PENNSYLVANIA AVENUE, N.W.**

**OCTOBER 25, 2012**

**11:00 A.M.**

Chairwoman Alexander, Chairman Catania, council members and staff:

Thank you for the opportunity to appear and talk to you about the Department of Insurance, Securities and Banking's (DISB) actions last week regarding D.C. Chartered Health Plan Inc.

Last Friday afternoon the Superior Court of the District of Columbia entered an order putting Chartered into receivership and appointed me to take control of the company and, if possible, strengthen its finances through a sale or otherwise.

Finding a qualified buyer and completing a purchase agreement within the timeline to allow Chartered to effectively compete for a new contract will be challenging, but we are going to do our best.

Working closely with DHCF, our primary goal throughout this process was to ensure the company's 110,000 Medicaid and D.C. Alliance enrollees – some of our city's most vulnerable citizens – continue to get health care and that their providers continue to be paid.

That remains our goal now that the company is in receivership. Chartered's Board and the sole shareholder of its parent company, D.C. Healthcare Systems Inc., unanimously consented to receivership and the legal process went smoothly. The company continues to pay hospitals, doctors and other service-providers without interruption. And more importantly, the city's Medicaid and D.C. Alliance enrollees will continue to receive health care. I am overseeing the company with help from a deputy rehabilitator and the company's management.

This is a prime example of how good, firm, sensible regulation works. Let me explain how it went and what exactly we did in supervising the company over the last two years.

In its annual financial statements for 2009, the capital levels reported by the company had reached a level of concern to my department. We increased our financial oversight of the company accordingly. In 2010, Chartered again filed an annual financial statement that showed its capital at a level that concerned us. At the company's request, my department granted Chartered an extension to file its 2011 statement, normally due March 1, 2012. In April, the company reported a $15 million loss for 2011. That weakened the company's finances to the point that I was worried about whether it had sufficient capital to keep operating.

My staff and I started consulting even more closely and often with the board of directors and management to help Chartered improve its financial strength so it could keep providing services to the city's Medicaid and D.C. Alliance enrollees.

Not only were we extremely worried about continuing to provide care to 110,000 Medicaid and D.C. Alliance enrollees; we were also trying to keep the more than 160 Chartered employees in the District from losing their jobs.

We also knew the District was trying to increase the number of competitors in the city's Medicaid market to lower prices and increase quality. There are only three managed-care companies with city Medicaid contracts right now, the others are smaller than Chartered.   And one, MedStar Family Choice, only got a contract this summer. Federal rules require state governments have at least two Medicaid contractors.

Meanwhile problems at Chartered persisted through the summer and into the fall. There were three big ones:

- First, the owner's legal problems hurt the company's ability to keep its Medicaid contract, its only business and sole source of revenue.
- Second, the company's original auditors, KPMG, resigned in May and the company had to hire a new auditor, Brown Smith Wallace. In fact, the audit still continues. We hope a final audit will be available soon.
- Third, several interested buyers couldn't reach a deal with the company that would have infused capital and addressed its financial problems.

There are several significant issues with the audit that are still unresolved, including one the auditors may not be able to resolve; and because of some potential irregularities, it remains unclear how much surplus the auditors will find. I wish I could be more specific, but I can't until the auditor ties up all the loose ends and we have a completely accurate version of the company's books and how they got into this shape.

Recently it became clear from our careful half-year of intensive supervision that the department would have to step in and assume a larger role to ensure health care for Medicaid and Alliance enrollees would continue. I then decided on a rehabilitation of the company under receivership. That means I control the company and have final say over its actions, including supervising the identification and selecting a potential buyer.

A week ago Tuesday, DHCF Director Wayne Turnage and I and our staffs met with Chartered's board and laid out what we proposed to do and how it would benefit everyone if the company did not contest our petition for receivership. As I mentioned, Chartered's board agreed, as did the sole shareholder of Chartered's parent company, Mr. Jeff Thompson, who is no longer in Chartered management after resigning as chairman of the board this spring. We are working closely with the remaining managers, including Maynard G. McAlpin, president and CEO.

At this point we think a sale and change of ownership, if feasible, is the best and safest outcome for everyone. Several interested buyers have approached the company, some of them reported in the local press. I'm not prepared now to say that a sale will occur, who will buy the company or when, because I simply don't know. But I do believe that Chartered is a far more attractive prospect in rehabilitation as it now has a far better chance to get its all-important city Medicaid contract renewed.

I hope you'll bear with me as the auditors finish their report and we get this company into shape to be sold while keeping our Medicaid system – so important to the city's Medicaid and Alliance participants – working without interruption.

Let's be clear: At no time did these possible financial irregularities found by the ongoing audit affect the quality of care or payment to providers. To our knowledge, patients are being seen and medical providers are being paid. Chartered will pay all the costs of the receivership, as is typical with a rehabilitation.

I have hired Daniel L. Watkins, an experienced insurance executive, as special deputy rehabilitator and retained the law firm of Faegre Baker Daniels as counsel. The company will continue to operate as a private company – it will never become a city agency or otherwise change its status as a private corporation.

Several members of the Council have already asked where to direct people interested in purchasing part or all of Chartered. Mr. Watkins, as special deputy rehabilitator, will identify and evaluate potential buyers, and I ask that you direct them to him so he can conduct an orderly, fair, and open process of evaluating the many, well capitalized, experienced companies and people who appear to see value in Chartered as an ongoing concern.

Of course, Mr. Watkins' chief concern is identifying the best suitor to assure minimum disruption for the City's Medicaid and Alliance participants and to protect the jobs of the more than 160 Chartered employees who work hard every day to provide the best possible care and service to the most vulnerable of District residents.

The best outcome here is that the enrollees continue to get their health care, the providers continue to be paid and Chartered be sold to become strong financially again and remain a private company so we can have vibrant competition in the Medicaid market.