

REPORT ON EXAMINATION
OF THE
CATSKILL AREA SCHOOLS EMPLOYEES BENEFIT PLAN
AS OF
JUNE 30, 2011

DATE OF REPORT

OCTOBER 4, 2013

EXAMINER

CHARLES J. McBURNIE

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

October 4, 2013

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and acting in accordance with the instructions contained in Appointment Number 30649 dated January 26, 2011, attached hereto, I have made an examination into the condition and affairs of Catskill Area Schools Employees Benefit Plan, a municipal cooperative health benefit plan licensed pursuant to the provisions of Article 47 of the New York Insurance Law, as of June 30, 2011, and respectfully submit the following report thereon.

The examination was conducted at the home office of Catskill Area Schools Employees Benefit Plan located at 1010 Jump Brook Road, Grand Gorge, New York.

Whenever the designations, "CASEBP" or "the Plan" appear herein, without qualification, they should be understood to refer to Catskill Area Schools Employees Benefit Plan.

Wherever the designation the "Department" appears herein, without qualification, it should be understood to indicate the New York State Department of Financial Services.

1. SCOPE OF THE EXAMINATION

The previous examination was conducted as of June 30, 2007. This examination of the Plan was a combined (financial and market conduct) examination and covered the four-year period from July 1, 2007 through June 30, 2011. The financial component of the examination was conducted as a financial examination, as defined in the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook, 2011 Edition* (the “Handbook”). The examination was conducted observing the guidelines and procedures in the Handbook, and where deemed appropriate by the examiner, transactions occurring subsequent to June 30, 2011 were also reviewed.

The financial portion of the examination was conducted on a risk-focused basis in accordance with the provisions of the Handbook, which provides guidance for the establishment of an examination plan based on the examiner’s assessment of risk in the Plan’s operations and utilized that evaluation in formulating the nature and extent of the examination. The examiner planned and performed the examination to evaluate the Plan’s current financial condition, as well as identify prospective risks that may threaten the future solvency of the Plan. This was the first such risk focus type of examination of the Plan.

The examiner identified key processes, assessed the risks within those processes and assessed the internal control systems and procedures used to mitigate those risks. The examination also included an assessment of the principles used and significant estimates made by management, an evaluation of the overall financial statement

presentation, and determined management's compliance with the Department's statutes and guidelines, Statutory Accounting Principles, as adopted by the Department and annual statement instructions.

Information concerning the Plan's organizational structure, business approach and control environment were utilized to develop the examination approach. The examination evaluated the Plan's risks and management activities in accordance with the NAIC's nine branded risk categories.

These categories are as follows:

- Pricing/Underwriting
- Reserving
- Operational
- Strategic
- Credit
- Market
- Liquidity
- Legal
- Reputational

The Plan was audited annually, for fiscal years 2007 through 2011, by the accounting firm D'Arcangelo & CO LLP. The Plan received an unqualified opinion in each of those years. Certain audit work papers of D'Arcangelo & CO LLP, were reviewed and relied upon in conjunction with this examination. A review was made of the Plan's corporate governance structure, which included the Internal Audit Function.

This report on examination is confined to financial statements and comments on those matters which involve departures from laws, regulations or rules, or which require explanation or description.

A review was also made to ascertain what action was taken by the Plan with regard to comments and recommendations contained in the prior report on examination.

2. DESCRIPTION OF THE PLAN

The Plan provides benefits to covered employees and their eligible dependents. On April 1, 2000, the Plan was issued a certificate of authority by the Superintendent of Insurance under Article 47 of the New York Insurance Law. Pursuant to such certificate of authority, the Participants have agreed to share the costs and assume the liabilities for medical, surgical, prescription drugs, and hospital benefits provided to covered employees (including retirees) and their dependents.

There are currently twenty school districts and one BOCES participating in the Plan. The Plan participants as of June 30, 2011 were as follows:

Andes Central School District
 Charlotte Valley Central School District
 Cherry Valley/Springfield
 Central School District
 Cooperstown Central School District
 Delhi Central School District
 Edmeston Central School District
 Gilboa/Conesville Central School District
 Hunter-Tannersville
 Central School District
 Jefferson Central School District
 Laurens Central School District
 Margaretville Central School District

Milford Central School District
 Morris Central School District
 Otsego-Northern Catskill Board
 of Cooperative Educational Services
 Roxbury Central School District
 Schenevus Central School District
 Sidney Central School District
 South Kortright Central School District
 Stamford Central School District
 Windham-Ashland-Jewett Central School District
 Worcester Central School District

A. Corporate Governance

Pursuant to the Municipal Cooperative Agreement, management of the Plan is to be vested in a Governing Board, comprised of one representative from each participating school district, including BOCES. The Governing Board of the Plan as of June 30, 2011 was as follows:

<u>Name & Residence</u>	<u>Affiliation</u>
Patricia Norton-White Blumville, New York	Superintendent, South Kortright Central School District
Dr. Robert Chakar White Lake, New York	Superintendent, Andes Central School District
Jennifer Bolton-Carls Oneonta, New York	Superintendent, Otsego-Northern Catskill Board of Cooperative Educational Services
Thomas O'Brien Roxbury, New York	Superintendent, Roxbury Central School District
Patrick Darfler-Sweeney Tannersville, New York	Superintendent, Hunter-Tannersville Central School District
Mark Dupra Oneonta, New York	Superintendent, Charlotte Valley Central School District
Peter Livshin Milford, New York	Superintendent, Milford Central School District
Clifton J. Hebert Cooperstown, New York	Superintendent, Cooperstown Central School District
Robert Miller Oneonta, New York	Superintendent, Cherry Valley/Springfield Central School District
Roger Adams Unadilla, New York	Superintendent, Delhi Central School District

<u>Name & Residence</u>	<u>Affiliation</u>
Carl Mummmenthey Jefferson, New York	Superintendent, Jefferson Central School District
Anthony Albanese Scotia, New York	Superintendent, Margaretville Central School District
David Rowley Edmeston, New York	Superintendent, Edmeston Central School District
Tonda Dunbar Stamford, New York	Superintendent Stamford Central School District
Gary Kuch Cooperstown, New York	Superintendent, Worcester Central School District
Ruth Reeve Harpersfield, New York	Superintendent, Gilboa/Conesville Central School District
Matthew Sheldon Morris, New York	Superintendent, Morris Central School District
Romona Wenck Laurens, New York	Superintendent, Laurens Central School District
John Wiktorko Hadley, New York	Superintendent, Windham-Ashland-Jewett Central School District
Lynda Bookhard Schenevus, New York	Superintendent, Schenevus Central School District
Grayson Stevens Sidney, New York	Superintendent, Sidney Central School District

According to its municipal cooperation agreement, the Governing Board of the Plan is to meet at least once annually, at a site within the geographic area served by the Otsego-Northern Catskill-Board of Cooperative Educational Services. The minutes of all meetings of the board of trustees were reviewed. All such meetings were well attended, however, it was noted that of the nineteen meetings held during the period under

examination, two members of the board failed to attend at least one-half of those meetings.

Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the Plan. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that appropriate decisions may be reached by the board.

It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.

A similar recommendation was made in the prior report on examination.

Additionally, during the period under examination, the board of governors established several committees. However, these committees failed to meet during the period under examination.

It is recommended that the committees established by the board of governors either conduct meetings or be disbanded.

The principal officers of the Plan as of June 30, 2011 were as follows:

<u>Officer</u>	<u>Title</u>
Jennifer Bolton-Carls	Chairperson & President
Ed Roche	Vice Chairperson
Patricia Wagner	Chief Financial Officer
Darleen Callahan	Benefits Coordinator
Kathy Schmeidel	Secretary

The board of governors has designated John Lynch as the Attorney-in-Fact who is authorized to receive service of a summons or other legal paper in any action, suite or proceeding arising out of any contract, agreement or transaction involving the Plan.

Municipal Cooperation Agreement

Section 4710(a)(1) of the New York Insurance Law states:

“(a) The governing board of the municipal cooperative health benefit plan shall:

(1) file for approval with the superintendent a description of material changes in any information provided in the application for certificate of authority in the form and manner prescribed by the superintendent.”

Article 5-G of the New York General Municipal Law authorizes municipal corporations to enter into a Municipal Cooperation Agreement for the performance of those functions or activities in which they could engage individually.

Article 47 of the New York Insurance Law specifically permits the establishing of municipal cooperative health benefit plans. Such plans are required pursuant to Section 4705 of the New York Insurance Law to be established and maintained under a

Municipal Cooperation Agreement. The Municipal Cooperation Agreement and any amendment thereto shall be approved by each participating municipal corporation by majority vote of each such cooperation's governing body.

During the examination period, the Plan's Municipal Cooperation Agreement was amended to include a change in home office address and the inclusion of additional school districts within the Plan. A review of the Plan's Municipal Cooperation Agreement determined that the individual municipal participants approved the Plan's amended municipal cooperation agreement.

However, it was determined during the examination that the Plan failed to file for approval its amended Municipal Cooperation Agreement with the Department.

It is recommended that Plan comply with Section 4710(a)(1) of the New York Insurance Law and file for approval with this Department all unapproved amendments to its municipal cooperation agreement.

Subsequent to the examination, the Plan filed for approval its amended Municipal Cooperation Agreement with this Department. At the time of this writing, such amended Municipal Cooperation Agreement is being reviewed by the Department.

By-Laws

During the examination, Plan management provided a document to the examiners, entitled, "Catskill Area Schools Employee Benefit Plan Membership" which was

indicated as being the Plan's by-laws. A review of the Plan's indicated by-laws ("document") revealed that the document was in need of amendment. Such document was implemented on February 21, 1996 and has not been amended since that date. Since such date, amendments have been made to the Plan's Municipal Cooperation Agreement.

Further, the document states that the chairperson will be elected annually at the governing board's April meeting by the governing board, whereas the Plan's municipal cooperation agreement states that a chairperson shall be elected each year at the Plan's annual meeting which takes place in October of each year.

It is recommended that the Plan clearly indicate within the document entitled, "Catskill Area Schools Employee Benefit Plan Membership", that such document contains the Plan's by-laws and update such by-laws where necessary to comply with the provisions outlined within the Plan's Municipal Cooperation Agreement. It is also recommended that the Plan file for approval its updated, revised by-laws with this Department.

Prior Report on Examination

Section 312(b) of the New York Insurance Law states in part,

"(b) A copy of the report shall be furnished by such insurer or other person to each member of its board of directors and each such member shall sign a statement which shall be maintained in the insurer's files confirming that such member has received and read such report..."

The Plan was unable to provide the examiner with documentation that each member of the board of governors had signed a statement confirming that each such board member had received and read the prior report on examination.

It is recommended that the Plan comply with the requirements of Section 312(b) of the New York Insurance Law and maintain within its files each board member's signed statement confirming that such board member had received and read the report on examination issued to the Plan by this Department.

Internal Controls

A review of the Plan's service contract with D'Arcangelo & CO LLP, the Plan's Certified Public Accounting ("CPA") firm, indicates that such CPA firm is not responsible for rendering an opinion on the Plan's internal control systems.

Section 4705(e)(1) of the New York Insurance Law states in part:

“(e) The municipal cooperation agreement shall provide for the following to be prepared and furnished to the governing board... and to the superintendent:

(1) an annual audit, and opinions thereon, by an independent certified public accountant, of the financial condition, accounting procedures and internal control systems of the municipal cooperative health benefit plan;”

Article VII (A) of the Plan's Municipal Cooperation Agreement states in part:

“The following reports are to be prepared and furnished to the Board, to participating school districts and BOCES, to unions which are the exclusive collective bargaining representatives of employees covered by the Plan, and to the Superintendent of the Department of Insurance:

A). annually, not later than one hundred and twenty days after the close of the Plan's fiscal year, a report showing the financial condition and affairs of the Plan, in such form and providing such other information as the Superintendent may prescribe, together with an audit, and opinions thereon, by an independent certified public accountant, of the financial condition, accounting procedures and internal control systems of the Plan ...”

It is recommended that the Plan amend its contract with its CPA firm to include a review and rendering of an opinion of the Plan’s internal control systems on an annual basis, in order to comply with the requirement of Section 4705(e)(1) of the New York Insurance Law.

A review of the Plan’s corporate governance structure revealed that the Plan’s Governing Board did not adopt written procedures that would allow the board to obtain certification, annually, from either an internal auditor or independent CPA that the responsible officers have implemented the procedures adopted by the board.

Also, the board of governors failed to obtain from the Plan’s general counsel, a statement that the Plan’s current claims adjudication procedures, including those set forth in the current claims manual, are in accordance with applicable statutes, rules and regulations.

It is recommended that, as a prudent business practice, the board of governors adopt written procedures that would require the board to obtain annual certification from either the Plan’s internal auditor or independent CPA firm to the effect that the Plan’s responsible officers have implemented procedures adopted by the board. It is also

recommended that the Plan obtain a certification from its general counsel that its current claims adjudication procedures, including those set forth in current claims manuals, are in accordance with applicable statutes, rules and regulations.

B. Territory and Plan of Operation

The Plan provides health benefits in Otsego, Delaware, Schoharie and Greene counties within New York State. The Plan provides its members with medical and hospital coverage, prescription drug coverage and vision benefits. The Plan reported annual written premiums of \$33,042,721 as June 30, 2011. The Plan has increased its membership with the addition of two school districts (Schenevus Central School District and Sidney Central School District) during the examination period. The Plan's membership as of June 30, 2011 was 3,405.

<u>Year</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Premiums Written	26,303,992	27,545,507	28,208,432	29,574,838	33,042,721
Increase/decrease		1,241,515	662,925	1,366,406	3,467,883
Ratio of increase in premiums written between years		4.7%	2.4%	4.8%	11.7%

<u>Year</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Enrollment	2,991	3,036	3,045	3,120	3,405
Increase/decrease		45	9	75	285
Ratio of increase in enrollment between years		1.5%	0.3%	2.5%	9.1%

The Plan, during the examination period, experienced an increase in enrollment due to the addition of two school districts. On February 1, 2009, the Plan approved the enrollment of Schenevus Central School District; two separate enrollments were done for this school district, (teaching staff and non-teaching staff). On July 1, 2010, the Plan approved the enrollment of Sidney Central School District into the Plan.

C. Administrative Service Agreements

Health Benefits Service Agreement

Services provided by EBS-RMSCO to the Plan under this agreement are as follows: monitoring the health care programs administered by the Plan and present cost savings recommendations; provide an annual review of Plan's benefits design; provide possible benefit plan modifications in the areas of cost control, administrative procedures and/or benefits changes. In addition, EBS-RMSCO also provides the Plan with a monthly listing of covered employees for reconciliation purposes under this agreement.

Management Service Agreement

KBM Management, Inc., under this agreement provides the Plan with assistance/advice as needed, including, but not limited to benefit analysis, plan design, cost control measures and economic-medical developments. KBM Management, Inc. also provides consulting services to the Plan's board of governors as required, including, but not limited to, matters regarding negotiations with employee groups, and actuarial services, including annual cost projections for plan modifications, determination of budget requirements, and actuarial opinions.

The Plan renewed its contract with KBM Management, Inc. for the period July 1, 2010 through June 30, 2013.

D. Stop-Loss Coverage

As required by Section 4707 of the New York Insurance Law, the Plan maintained during the examination period, both specific excess stop-loss coverage and aggregate excess stop-loss coverage. The companies which issued the stop-loss coverages during the examination were authorized to do business in New York.

As of June 30, 2011, the Plan maintained stop-loss coverage with an authorized insurer as follows:

Specific excess stop-loss coverage

Excess of loss	100% of \$300,000 excess of \$1,000,000 per member, per contract year.
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Aggregate excess stop-loss coverage

Excess of loss	100% of \$300,000 excess of \$700,000 after 125% of expected benefits have been reached.
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E. Conflict of Interest Policy

A review of the Plan's conflict of interest policy determined that the board of governors did not establish its own conflict of interest policy. Instead, the Plan uses the conflict of interest policy established by Otsego-Northern Catskill-BOCES.

It is recommended, as a prudent business practice, that the board of governors of the Plan establish its own conflict of interest policy to be signed annually by its board members, officers and key employees.

F. Accounts and Records

Premiums Receivable

Article VI Item F of the Plan's Municipal Cooperation Agreement states the following in part:

“... the Participants' monthly premiums are to be forwarded to the Chief Fiscal Officer for deposit in the Plan's joint fund or funds by the 15th of each and every month. During the Plan Year (July 1 – June 30) a late payment charge of 1% of the monthly installment then due shall be charged for any day, except when the 15th falls on a Saturday, Sunday, legal holiday or day observed as a legal holiday by the BOCES. Failure to pay an installment and penalty within thirty days of the due date shall automatically terminate a Participant's membership in the CASEBP unless extended for a good cause by the unanimous vote of the Directors.”

A review of the Plan's annual statement revealed that for years 2009, 2010 and 2011, the Plan reported certain premiums receivable as greater than thirty days outstanding. Further review revealed that upon receipt of the outstanding premiums, the Plan failed to charge the districts the one percent (1%) of the monthly installment then due in non-compliance with its Municipal Cooperation Agreement.

It is recommended that, either the Plan collect the late payment fee or if it is the intent of the board of governors to not charge its participants a late payment fee relative

to overdue monthly installments, the Plan amend its Municipal Cooperation Agreement to delete such late payment fee requirement and submit such amendment to the Department for approval.

Annual and Quarterly Statement Reporting

In a Department letter dated January 10, 2008 to the Plan, CASEBP was advised the Department to revise its total net worth, as reported in its 2007 annual statement filing. However, the examiner noted that the Plan failed to revise its net worth as directed by the Department and agreed upon by CASEBP. Such failure to revise its December 31, 2007 reported net worth resulted in the reporting of an incorrect prior year net worth amount within the Plan's June 30, 2008 annual statement.

It was also noted that the Plan failed to adhere to annual statement instructions properly by reporting certain assets as net amounts against liabilities within its filed September 30, 2011 quarterly statement. Further the Plan failed to include an amount on line 9 (Reinsurance Expense Net of Recoveries) on said quarterly statement, which resulted in corrective adjustment in a subsequent quarter to correct the Plan's year to date reported total of medical and hospital expenses.

It is recommended that the Plan follow the annual statement instructions when preparing and filing its annual and quarterly statements with the Department.

Dividends to Members

The Plan's board approved the payment of \$1M in dividends to its members (participant schools and Otsego-Northern Board of Cooperative Educational Services in 2011 and 2012 (total \$2M dividends paid). It is anticipated that the Plan will be making dividend payment to its members in subsequent years.

In this regard, it would be beneficial to both the Plan and the Department that the Plan notify the Department of proposed payments of dividends at least ninety days prior to the anticipated payment date so that appropriate reserves and required surplus can be verified as being in place subsequent to such dividend payment.

It is recommended that the Plan, in the future, provide notice of its proposed payment of dividends to its members for review with this Department at least ninety (90) days in advance of the proposed payment of dividends.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and net worth as determined by this examination as of June 30, 2011. This statement is the same as the balance sheet reported by the Plan in its filed annual statement:

<u>Assets</u>	<u>Examination</u>	<u>Plan</u>
Cash and cash equivalents	\$19,348,249	\$19,348,249
Short-term investments	3,296,400	3,296,400
Premium receivable	486,194	486,194
Flex receivable	11,889	11,889
Pre-paid flex	<u>67,028</u>	<u>67,028</u>
Total assets	<u>\$23,209,760</u>	<u>\$23,209,760</u>
<u>Liabilities</u>		
Accounts payable	\$ 36,145	\$ 36,145
Claims payable	5,760,646	5,760,646
Unearned premiums	212,508	212,508
Dividend payable to members	<u>1,000,000</u>	<u>1,000,000</u>
Total liabilities	<u>\$7,009,299</u>	<u>\$7,009,299</u>
<u>Capital and Surplus</u>		
Contingency reserves	\$ 1,652,136	\$ 1,652,136
Retained earnings/Fund Balance	<u>14,548,325</u>	<u>14,548,325</u>
Total net worth	<u>\$16,200,461</u>	<u>\$16,200,461</u>
Total liabilities and net worth	<u>\$23,209,760</u>	<u>\$23,209,760</u>

B. Statement of Revenue, Expenses and Net Worth

Net worth increased \$8,189,524 during the four-year examination period, July 1, 2007 through June 30, 2011, detailed as follows:

Revenues

Premiums	\$118,371,498	
Investment income	1,087,468	
Aggregate write-ins for other revenue	<u>4,435,583</u>	
Total revenues		\$ 123,894,549

Expenses

Hospital and medical claims	\$ 76,258,291	
Drug claims	31,667,245	
Aggregate write-ins	<u>476,041</u>	
Claims subtotal	\$108,401,577	
Reinsurance expenses net of recoveries	<u>1,353,062</u>	
Net claims incurred	\$109,754,639	
Administrative expenses	<u>3,310,722</u>	
Total expenses		<u>113,065,361</u>
Net income		\$ <u>10,829,188</u>

Net worth, per report on examination, as of June 30, 2007			\$8,010,937
	<u>Gains</u> <u>In</u> <u>Net Worth</u>	<u>Losses</u> <u>In</u> <u>Net Worth</u>	
Net income	\$10,829,188		
Liability adjustment		\$2,380,197	
Increase in contingency reserves	336,151		
Dividends to members		1,000,000	
Adjustment in net worth *	<u>404,382</u>	<u> </u>	
Net increase in net worth			<u>\$8,189,524</u>
Net worth, per report on examination, as of June 30, 2011			<u>\$16,200,461</u>

Note: * This adjustment represents an incorrect carry-forward of the Plan's reported net worth balance from its filed annual statement as of June 30, 2007 to its filed annual statement as of June 30, 2008.

4. CLAIMS PAYABLE

The examination liability of \$5,760,646, for the above captioned account, is the same as the amount reported by the Plan in its filed annual statement as of June 30, 2011.

The Plan's liability for claims unpaid was established in compliance with Section 4706(a)(1) of the New York Insurance Law. The Plan received approval from this Department to reduce the required minimum amount of unpaid claims reserve from 25% of total expenses to 17% of total expenses starting with the quarter ending June 30, 2006.

The examination analysis of the claims unpaid reserve was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Plan's internal records and in its filed annual

statements as verified during the examination. The examination reserve was based upon actual payments made through a point in time, plus an estimate for claims remaining unpaid at that date. Such estimate was calculated based on actuarial principles, which utilized the Plan's experience in projecting the ultimate cost of claims incurred on or prior to December 31, 2011.

5. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Plan conducts its business practices and fulfills its contractual obligations to subscribers and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market conduct examination.

The general review was directed at practices of the Plan in the following areas:

- (A) Claims processing
- (B) Plan document
- (C) Rating

A. Claims Processing

Claims attribute review

A review of claims adjudicated by the Plan was performed by using a statistical sampling methodology covering claims processed during the period of July 1, 2010

through June 30, 2011, in order to evaluate the overall accuracy and compliance of the Plan's claims processing environment.

A statistical random sampling process was performed using ACL for Windows© ("ACL") an auditing software program. The sampling methodology was devised to test various attributes deemed to be necessary for the successful processing of claims and to reach conclusions about all predetermined attributes, individually or on a combined basis. The review incorporated processing attributes used by the Plan in its own quality analysis of claims processing. The sample size was 50 randomly selected claims.

These claims were processed by Catskill Area Schools Employees Benefit Plan's claim processors, through the use of RMSCO's claims system.

The review indicated that two claims were processed incorrectly, according to the criteria used by both the Plan and the examiners.

Claims prompt payment review

A review to test for compliance with Section 3224-a of the New York Insurance Law (Prompt Pay Law) was performed by using a statistical sampling methodology covering claims submitted to the Plan during the period July 1, 2010 through June 30, 2011.

The review of the Plan's submitted medical and hospital claims data for the period, July 1, 2010 through June 30, 2011 relative to compliance with Section 3224-a of the New York Insurance Law did not reveal any problem areas.

B. Plan Document

Section 4710(a)(1) of the New York Insurance Law states:

“(a) The governing board of the municipal cooperative health benefit plan shall:

(1) file for approval with the superintendent a description of material changes in any information provided in the application for certificate of authority in the form and manner prescribed by the superintendent;”

During the examination period, the Plan made several policy benefits amendments to its Plan Document. It was noted that amendments Nos. 7-10 were not submitted by the Plan to the Superintendent for approval prior to implementation.

Such amendments were subsequently combined into one amendment, No.7, which was approved by the Department in February 2012.

It is recommended that the Plan comply with Section 4710(a)(1) of the New York Insurance Law and submit all new or revised policy forms to the Superintendent of Financial Services for approval prior to implementation.

A similar recommendation was included within the prior report on examination.

C. Rating

The Plan's premium rates are developed by the Plan based on a review of its past claims experience and projections of the Plan's future financial performance. Such premium rates are established and are approved by the Plan's Governing Board prior to plan year and must be community rated.

Section 4705(d)(5)(B) of the New York Insurance Law states in part the following:

“The governing board shall establish premium equivalent rates for participating municipal corporations on the basis of a community rating methodology filed with and approved by the superintendent...”

The Plan's current community rating methodology was noted as not being on file with the Department.

It is recommended that the Plan file its current community rating methodology with the Superintendent of Financial Services.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination included seventeen (17) recommendations detailed as follows (page number refers to the prior report on examination):

<u>ITEM NO.</u>	<u>PAGE NO.</u>
<u>Management and Controls</u>	
1. It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced	7
<i>The Plan did not comply with this recommendation. A similar recommendation is included within this report on examination.</i>	
2. It is recommended that the Plan's Executive Committee maintain minutes of all meetings held in compliance with New York Insurance Department Regulation 152 (11 NYCRR 243.2(b)(2)).	7
<i>The Plan has complied with this recommendation</i>	
<u>Corporate Governance</u>	
3. It is recommended that the President of the Board of Catskill Area Schools Employees Benefit Plan sign all of the municipal cooperative agreements with each of the Plan's participating school districts.	9
<i>The Plan has complied with this recommendation.</i>	
4. It is recommended that the Plan comply with Section IV (A) of its municipal cooperative agreement and appoint an attorney-in-fact at its annual meeting. It is also recommended that the Plan include in the minutes of meetings of its annual meetings the appointment of its Plan's attorney-in-fact.	10
<i>The Plan has complied with these recommendations.</i>	

<u>ITEM NO.</u>		<u>PAGE NO.</u>
5.	It is recommended that the Plan obtain the notification of each participating school district's representative to the Plan's Governing board as required by Section VI (A) of the Plan's municipal cooperative agreement. <i>The Plan has complied with this recommendation.</i>	10
6.	It is recommended that the Plan adhere to Section VI (I) of its municipal cooperative agreement and use depository banks that are authorized by its board of trustees. <i>The Plan has complied with this recommendation.</i>	10
	<u>Internal Controls</u>	
7.	It is recommended that the Plan date stamp the checks when received, instead of initially forwarding them to the payroll department. <i>The Plan has complied with this recommendation.</i>	13
8.	It is also recommended that the Plan maintain checks received in a secure place. <i>The Plan has complied with this recommendation.</i>	13
9.	It is recommended that the Plan maintain an audit trail for checks that pass from one department to another during the period when such checks are received and ultimately deposited in the Plan's designated bank. <i>The Plan has complied with this recommendation.</i>	14
	<u>Custodial Agreements</u>	15
10.	It is recommended that the Plan amend its custodian agreements to include the above protective covenants and provisions as set forth in the Department's guidelines. <i>The Plan's custodial agreements have been established in accordance with the requirements of the New York State Department of Education.</i>	

ITEM NO.**PAGE NO.**Accounts and Records

11. It is recommended that the Plan maintain and report accurate financial data within its filed annual statement. 15

The Plan did not comply with this recommendation. A similar recommendation is included within this report on examination.

Claims Processing

12. It is recommended that the Plan take the necessary steps to incorporate adequate controls and review procedures with regard to its claims adjudication process in order to avoid duplicate payment of claims. 21

The Plan has complied with this recommendation.

Complaints and Grievances

13. It is recommended that the Plan maintain, as a good business practice, a complaint log in a manner consistent with New York Insurance Department Circular letter No. 11 (1978). 22

The Plan has complied with this recommendation.

14. It is recommended that the Plan, as a good business practice, maintain a complete file relative to all grievances and associated appeals received by the Plan. 23

The Plan has complied with this recommendation.

Policy Forms

15. It is recommended that the Plan comply with Section 4710(a)(1) of the New York Insurance Law and submit all new or revised policy forms to the Superintendent of Insurance for approval. 24

The Plan did not fully comply with this recommendation. A similar recommendation is included within this report on examination.

ITEM NO.

PAGE NO.

Utilization Review

- | | | |
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| 16. | It is recommended that the Plan file its utilization review program with the Superintendent of Insurance as required by Section 4901(a) of the New York Insurance Law. | 25 |
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The Plan has complied with this recommendation..

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Corporate Governance</u>	
i. It is recommended that board members who are unable or unwilling to attend meetings consistently resign or be replaced.	7
A similar recommendation was made in the prior report on examination.	
ii. It is recommended that the committees established by the board of governors either conduct meetings or be disbanded.	7
iii. It is recommended that Plan comply with Section 4710(a)(1) of the New York Insurance Law and file for approval with this Department all unapproved amendments to its municipal cooperation agreement.	9
Subsequent to the completion of the examination, the Plan filed for approval its amended Municipal Cooperation Agreement with this Department. At the time of this writing, such amended Municipal Cooperation Agreement is being reviewed by the Department.	
iv. It is recommended that the Plan clearly indicate within the document entitled, “Catskill Area Schools Employee Benefit Plan Membership”, that such document contains the Plan’s by-laws and update such by-laws where necessary to comply with the provisions outlined within the Plan’s Municipal Cooperation Agreement. It is also recommended that the Plan file for approval its updated, revised by-laws with this Department.	10
v. It is recommended that the Plan comply with the requirements of Section 312(b) of the New York Insurance Law and maintain with its files each board member’s signed statement confirming that such board member had received and read the report on examination issued to the Plan by this Department.	11

<u>ITEM</u>	<u>PAGE NO.</u>
B. <u>Internal Controls</u>	
i It is recommended that the Plan amend its contract with its CPA firm to include a review and rendering of an opinion of the Plan's internal control systems on an annual basis, in order to comply with the requirement of Section 4705(e)(1) of the New York Insurance Law.	12
ii It is recommended that, as a prudent business practice, the board of governors adopt written procedures that would require the board to obtain annual certification, from either the Plan's internal auditor or its independent CPA firm to the effect that the Plan's responsible officers have implemented procedures adopted by the board. It is also recommended that the Plan obtain a certification from its general counsel that its current claims adjudication procedures, including those set forth in current claims manuals, are in accordance with applicable statutes, rules and regulations.	12
C. <u>Conflict of Interest Policy</u>	
It is recommended, as a prudent business practice, that the board of governors of the Plan establish its own conflict of interest policy to be signed annually by its board members, officers and key employees.	16
D. <u>Accounts and Records</u>	
i. It is recommended that, either the Plan collect the late payment fee or if it is the intent of the board of governors to not charge its participants a late payment fee relative to overdue monthly installments, the Plan amend its Municipal Cooperation Agreement to delete such late payment fee requirement and submit such amendment to the Department for approval.	16
ii. It is recommended that the Plan follow the annual statement instructions when preparing and filing its annual and quarterly statements with the Department.	17

<u>ITEM</u>	<u>PAGE NO.</u>
iii. It is recommended that the Plan, in the future, provide notice of its proposed payment of dividends to its members for review with this Department at least ninety (90) days in advance of the proposed payment of such dividends.	18
E. <u>Plan Document</u>	
It is recommended that the Plan comply with Section 4710(a)(1) of the New York Insurance Law and submit all new or revised policy forms to the Superintendent of Financial Services for approval prior to implementation.	24
A similar recommendation was included within the prior report on examination.	
F. <u>Rating</u>	
It is recommended that the Plan file its current community rating methodology with the Superintendent of Financial Services.	25

