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Dept. Of Commerce & Insurance
Company Examinations

Report on

Prompt Pay Examination

of the

CARITEN HEALTH PLAN INC.
(NAIC #95754, GROUP CODE #1253)
1420 Centerpoint Blvd.
Knoxville, Tennessee 37932

as of

December 31, 2004

THE DEPARTMENT OF COMMERCE AND INSURANCE
STATE OF TENNESSEE
Nashville, Tennessee

EXHIBIT
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TABLE OF CONTENTS

Salutation	1
Forward	1
Scope of Examination	1
Profile Facts	2
Executive Summary	3
Previous Examination Findings	4
Pertinent Factual Findings	4
Summarization	8
Conclusion	9
Affidavit	10

November 18, 2005

The Honorable Paula A. Flowers
Commissioner of Commerce and Insurance
State of Tennessee
500 James Robertson Parkway, 5th Floor
Nashville, Tennessee 37243

Dear Commissioner Flowers:

Pursuant to your instructions and in accordance with Tennessee insurance laws and regulations, and resolutions adopted by the National Association of Insurance Commissioners ("NAIC"), an examination has been made of the prompt payment of claims of

CARITEN HEALTH PLAN INC.
(NAIC #95754, GROUP CODE #1253)

(hereinafter and generally referred to as "the Company") at its principal offices at 1420 Centerpoint Boulevard, Knoxville, Tennessee 37932. The report thereon is hereby respectfully submitted.

FORWARD

This report is written primarily by test, wherein each test applied during the examination is stated and the results are reported. Exceptions are noted as part of the comments for the applicable test.

SCOPE OF EXAMINATION

This is the initial prompt payment examination of the Company by the Tennessee Department of Commerce and Insurance ("Tennessee Department"). The examination commenced on June 6,

2005 and covers the period January 1, 2004 through December 31, 2004, including relevant subsequent events. The examination was made pursuant to Tenn. Code Ann. § 56-7-109, and conducted by representatives of the Tennessee Department and accordingly included tests of prompt payment of claims.

Testing performed during the review provided a credible basis for the findings and recommendations contained in this report.

PROFILE FACTS

The Company was incorporated on September 13, 1994, as a for-profit corporation under the provisions of the Tennessee General Corporation Act, with the name "PHP Health Plans, Inc." The Company's original place of business was 280 Fort Sanders West Boulevard, Suite 205, Knoxville, Tennessee. The Company was issued a Certificate of Authority to transact the business of insurance in the State of Tennessee on December 31, 1995. The Company commenced business on January 1, 1996.

On November 20, 1996, the Company amended its charter to change the name of the Company to "Cariten Health Plan Inc." The Tennessee Department approved the amendment on November 27, 1996. A new Certificate of Authority was issued to the Company on January 7, 1997.

Effective September 13, 1994, the Company became a wholly-owned subsidiary of PHP Companies, Inc., a Tennessee for-profit corporation.

The Company is authorized to write business as a Health Maintenance Organization as defined in Tenn. Code Ann. § 56-32-202 in 23 counties serving the East Tennessee area. The target market consists of both small employer groups consisting of three to twenty-five employees and large employer groups consisting of twenty-six or more employees. The Company also provides or arranges for the provision of health care services to senior citizens who have both Medicare Part A and Medicare Part B entitlement.

EXECUTIVE SUMMARY

The Tennessee Department conducted a prompt payment of claims examination of Cariten Health Plan Inc.

The Company is licensed to transact business in Tennessee and provides comprehensive health care services to its customers through networks of participating physicians, hospitals and other health care providers primarily in East Tennessee.

The focus of the examination was a review of the Company's prompt payment of claims including compliance with Tennessee laws.

The Company is in compliance with Tenn. Code Ann. § 56-7-109 and Tenn. Code Ann. § 56-32-226.

PREVIOUS EXAMINATION FINDINGS

This is the initial prompt payment examination of the Company. However, the subject matter of this examination was covered under the Financial Examination conducted by the Tennessee Department as of December 31, 2001.

That examination reported that 89.5% of claims were paid in a timely manner in accordance with Tenn. Code Ann. § 56-7-109. This statute requires that 95% of clean claims submitted be paid within 30 days of receipt for paper claims and within 21 days of receipt for electronic claims.

The review of the timeliness of claim payments was hampered because the Company's claims handling system did not save the necessary data to prove compliance. The system did not save the date that additional information was provided to correct a previously submitted claim. Therefore, the results of the examination procedures were based on the original date that the claim was received, not the date the claim was made a "clean" claim.

PERTINENT FACTUAL FINDINGS

The tests of prompt payment of claims were conducted in accordance with Tenn. Code Ann.:

Tenn. Code Ann. § 56-7-109 (a)(A): specifies that:

> "Clean claim" means a claim received by a health insurance entity for adjudication, and which requires no further information, adjustment or alteration by the provider of the services in order to be processed and paid by the health insurer. A claim is clean if it has

no defect or impropriety (including any lack of any required substantiating documentation) or particular circumstance requiring special treatment that prevents timely payment from being made on the claim under this section.

Tenn. Code Ann. § 56-7-109 (a)(4): specifies that:

"Pay" means that the health insurance entity shall either send the provider cash or a cash equivalent in full satisfaction of the allowed portion of the claim, or give the provider a credit against any outstanding balance owed by that provider to the health insurance entity. Payment shall occur on the date when the cash, cash equivalent or notice of credit is mailed or otherwise sent to the provider, and.

Tenn. Code Ann. § 56-7-109 (a)(5): specifies that:

"Submitted" means that the provider either mails or otherwise sends a claim to the health insurance entity. Submission shall occur on the date the claim is mailed or otherwise sent to the health insurance entity.

Tenn. Code Ann. § 56-7-109 (b) specifies that:

Not later than thirty (30) calendar days after the date that a health insurance entity actually receives a claim submitted on paper from a provider, a health insurance entity shall:

i. If the claim is clean, pay the total covered amount of the claim;

ii. Pay the portion of the claim that is clean and not in dispute and notify the provider in writing why the remaining portion of the claim will not be paid; or

iii. Notify the provider in writing of all reasons why the claim is not clean and will not be paid and what substantiating documentation and information is required to adjudicate the claim as clean.

Not later than twenty-one (21) calendar days receiving a claim by electronic submission, a health insurance entity shall:

i. If the claim is clean, pay the total covered amount of the claim;

ii. Pay the portion of the claim that is clean and not in dispute and notify the provider in writing why the remaining portion of the claim will not be paid; or

iii. Notify the provider of the reason why the claim is not clean and will not be paid and what substantiating documentation and information is required to adjudicate the claim.

Tenn. Code Ann. § 56-7-109 (c)(2): specifies that:

If the commissioner finds a health insurance entity has failed during any calendar year to properly process and pay ninety-five percent (95%) of all clean claims received from all providers during that year in accordance with this section, the commissioner may levy an aggregate penalty up to ten thousand dollars ($10,000). If the commissioner finds a health insurance entity has failed during any calendar year to properly process and pay eighty-five percent (85%) of all clean claims received from all providers during that year in accordance with this section, the commissioner may levy an aggregate penalty in an amount of not less than ten thousand dollars ($10,000) nor more than one hundred thousand dollars ($100,000), if reasonable notice in writing is given of the intent to levy the penalty. If the commissioner finds a health insurance entity has failed during any calendar year to properly process and pay sixty percent (60%) of all clean claims received from all providers during that year in accordance with this section, the commissioner may levy an aggregate penalty in an amount of not less than one hundred thousand dollars ($100,000) nor more than two hundred thousand dollars ($200,000)...

Tenn. Code Ann. § 56-32-226 (b) (1): specifies that:

> A health maintenance organization shall ensure that ninety percent (90%) of claims for payment for services delivered to a TennCare enrollee, for which no further written information or substantiation is required in order to make payment, are processed, and if appropriate paid within thirty (30) calendar days of the receipt of such claims. The health maintenance organization shall process, and if appropriate pay, within sixty (60) calendar days ninety-nine point five percent (99.5%) of all provider claims for services delivered to an enrollee in the TennCare program.

In order to test for the prompt payment of claims, a data download of claims data was received from the Company's information technology department. This population of claims data included both paper and electronic claims. The majority of claims received in this data download were electronic claims. For each of the remaining claims, calculations were made to determine the amount of time from the clean date to the date of claim payment. In accordance with the Tennessee Department and NAIC procedures, a sample of 100 claims was then randomly selected to ensure data integrity by verifying that the population data received from the information technology department agreed with the actual claim file. This sample size produced a 95% confidence level. No exceptions were noted.

Tests of prompt payment of claims, in accordance with Tenn. Code § 56-7-109(b) and Tenn. Code Ann. § 56-32-226, yielded the following results:

Total claims	394,081	
Claims marked clean	327,933	
Claims paid in 21 days or less	317,698	
Claims paid in 21-30 days	8,064	
Claims paid in 31-60 days	1,614	
Claims paid in 61-90 days	222	
Claims paid in 91-120 days	129	
Claims paid in 121+ days/unpaid	206	
Claims unpaid/no date in system	2,071	
Claims timely paid	96.9%	**In Compliance**
Claims paid within 60 days	99.8%	**In Compliance**

SUMMARIZATION

Since the last review of the Company's timely payment of claims, the Company has made changes to its claims handling system that now allows the Company to report the clean date of a claim. As a result, the Company is now in compliance with Tenn. Code Ann. § 56-7-109 (b) and Tenn. Code Ann. § 56-32-226 in regards to timely payment of claims.

CONCLUSION

Customary insurance examination practices and procedures, as promulgated by the National Association of Insurance Commissioners and in accordance with Tennessee insurance laws and regulations, have been followed in connection with the prompt payment of claims examination of the Company for the period January 1, 2004, through December 31, 2004.

The courteous cooperation of the officers and employees of the Company extended during the course of the examination is hereby acknowledged.

Respectfully submitted,

Norman Chandler, CPA, CPCU, ARe, AIAF, ARC
Examiner-in-Charge
TaylorChandler, LLC
On behalf of the State of Tennessee
Southeastern Zone, NAIC

T. Britt Taylor, CPA
Insurance Examiner
TaylorChandler, LLC
On behalf of the State of Tennessee
Southeastern Zone, NAIC

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of Cariten Health Plan Inc. dated November 18, 2005, and made as of December 31, 2004, on behalf of "The Department of Commerce and Insurance", State of Tennessee. Deponent further states he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

Norman Chandler, CPA, CPCU, ARe, AIAF
Partner
TaylorChandler, LLC
On behalf of the State of Tennessee
Southeastern Zone, NAIC

Subscribed and sworn to before me
this 11th day of November, 2005
Notary Helen W. Dorsey
County Davidson
State Tennessee
Commission Expires: 03/25/2006