Report

of the

Examination of

CHP-LTS, Inc.

Eau Claire, Wisconsin

As of December 31, 2010

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
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September 8, 2011

Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

CHP-LTS, INC.
Eau Claire, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

This is the first examination of CHP-LTS, Inc. (the company or LTS). The current examination covered the period ending December 31, 2010, and included a review of such 2011 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Territory and Plan of Operations
Affiliated Companies
Growth of the Company
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 57.26, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

CHP-LTS, Inc., is described as a care management organization (CMO). A CMO is defined by s. 600.01 (1) (b) 10. a., Wis. Stat., as "long-term care services funded by the family care benefit, as defined in s. 46.2805 (4), that are provided by a care management organization that contracts with the department of health services under s. 46.284 and enrolls only individuals who are eligible under s. 46.286."

The company was incorporated as a non-profit corporation on December 18, 2007, to provide long-term care services to individuals who meet functional and financial requirements under Wisconsin's Family Care Program. LTS was originally capitalized through a capital contribution of $1.2 million from its sole member, Community Health Partnership, Inc. (CHP). LTS is organized under ch. 181, Wis. Stat., and is permitted to operate under ch. 648, Wis. Stat.

On May 1, 2008, Chippewa County transferred its members to LTS. Following May 2008, members were transferred to LTS as follows:

- June 2008: Dunn County
- July 2008: Pierce County
- September 2008: St. Croix County
- November 2008: Eau Claire County

The company derives 100% of its revenue from the Wisconsin Family Care Program. The Family Care Program helps seniors and adults with disabilities to live as independently as possible in their own homes or other community care settings. Members are classified into one of three target groups: frail elders[1], physically disabled[2], and developmentally disabled[3]. The

[1] Frail elder is defined as an individual 65 and older who has a physical disability, or an irreversible dementia, that restricts the individual's ability to perform normal daily tasks or that threatens the capacity of the individual to live independently. [s. DHS 10.13 (25m), Wis. Adm. Code]

[2] Physically disabled is defined as a physical condition, including an anatomical loss or musculoskeletal, neurological, respiratory or cardiovascular impairment, that results from injury, disease or congenital disorder and that significantly interferes with or significantly limits at least one major life activity of a person. [s. DHS 10.13 (40), Wis. Adm. Code]

[3] Developmentally disabled is defined as a disability attributable to brain injury, cerebral palsy, epilepsy, autism, Prader-Willi syndrome, mental retardation, or another neurological condition closely related to mental retardation, that has continued or can be expected to continue indefinitely and constitutes a substantial handicap to the afflicted individual. [s. DHS 10.13 (16), Wis. Adm. Code]

company contracts directly with the Wisconsin Department of Health Services (DHS) to provide long-term care benefits to eligible members through its permit.

LTS provides long-term care services to its members through contractual arrangements with its providers. Providers are reimbursed based on mandated Medicaid rates and other agreed upon rates that are not determined by the Medicaid fee schedule.

The contracts include hold-harmless provisions for the protection of members. The contract(s) have a one-year term and may be terminated by mutual consent or 60 days' prior written notice.

Long-term care services provided through the Family Care Program include:

Home health or personal care
Supportive home care
Nursing home
Assisted living/residential care services
Adult day or respite care
Home delivered meals
Home modifications
Transportation
Physical, speech or occupational therapy
Wheelchairs and other equipment
Adult diapers, gloves, and other medical supplies
Mental health or drug and alcohol treatment
Daily living skills training
Communication aids/interpreter
Employment services

Marketing to individuals is restricted under the Medicaid regulations and operation procedures. Rates are determined by the contract between LTS and DHS for coverage provided under the Wisconsin Medical Assistance Program (Medicaid). Capitation rates are developed annually by the DHS contracted actuarial firm on a regional basis and are adjusted to reflect the company's estimated population by target group. The capitation rate paid by DHS to the company is actuarially based on the functional level of care a member needs: Nursing Home (NH) or non-Nursing Home (non-NH). The NH level of care rate is initially developed for each target group by region and adjusted for trend and administrative allowances prior to determining a final blended NH level of care rate for the CMO since frail elders generally utilize fewer services than the physically and developmentally disabled. The non-NH level of care rate is developed by using a functional status based model that stratifies claims experience based on an individual's level of care. Both the NH and non-NH level of care capitation rates are based on the utilization and expenditures of the original Family Care Program's pilot counties: Fond du Lac, La Crosse, Milwaukee, Portage, and Richland. Under the federal regulations governing the federal- and state-funded Medicaid programs, the rates established by DHS must be "actuarially sound" and be certified by an independent actuary.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of 10 members. The three-year terms of directors are staggered so that one-third of the directors are elected annually. Officers are elected by the board of directors. Members of the company's board of directors may also be members of other boards of directors in the CMO holding group. The board members currently receive no compensation for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Ruth Adix Altoona, WI	Parent	2013
Rick Lambrecht Chippewa Falls, WI	Business President	2013
Peter Nied Menomonie, WI	Bank Vice President	2013
Laura Plummer Eau Claire, WI	Rehabilitation Technologist/Sensory Specialist	2014
Scott Polenz Elva, WI	Hospital CEO	2014
Rick Schemm Eau Claire, WI	Human Resources Director	2012
Debra Svihovec Elk Mound, WI	Vice President, Senior Benefits Consultant	2013
Lynn Thompson Eau Claire, WI	Energy Co-op CEO	2011
John Wesolek Menomonie, WI	University Dean, Retired	2011
Beverly Wickstrom Eau Claire, WI	Attorney	2014

Officers of the Company

The officers elected by the board of directors and serving at the time of this examination are as follows:

Name	Office	2010 Salary
Paul Cook[4]	President and CEO	$186,600
Deborah Svihovec	Chairperson	0
Lynn Thompson	Treasurer	0
Scott Polenz	Vice Chairperson and Secretary	0

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Executive Committee
Deb Svihovec, Chair
Scott Polenz
Lynn Thompson

Finance Committee
Lynn Thompson, Chair
Rick Lambrecht
Peter Nied

Compliance and Quality Committee
Beverly Wickstrom, Chair
Ruth Adix
John Wesolek

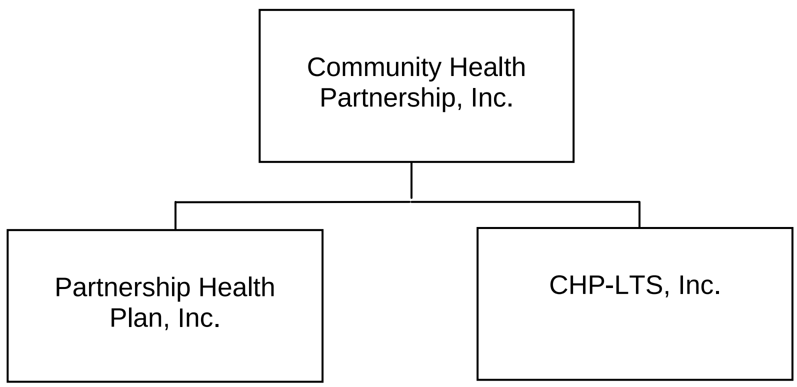
The company has no employees. Necessary staff is provided through an administrative services agreement with Community Health Partnership, Inc. Under the agreement, effective January 1, 2008, CHP agrees to perform all duties necessary to administer the operations of the company (including, but not limited to, negotiating and entering into contracts with health care providers for the purpose of obtaining quality assurance and fee discounts relating to the LTS's business). As compensation for these services, the company agrees to reimburse CHP for the cost of direct services, as well as the allocated portion of indirect services incurred in administering the company's operations. The agreement is in effect as of the effective date and will continue indefinitely until terminated. The company may terminate the agreement upon 30 days' written notice if default of standards of performance continues 30 days after notice of such default.

[4] Employed by Community Health Partnership, Inc.

IV. AFFILIATED COMPANIES

The company is a member of a holding company system. Its ultimate parent is Community Health Partnership, Inc. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of the company follows the organizational chart.

Holding Company Chart
As of December 31, 2010



Community Health Partnership, Inc.

Community Health Partnership, Inc. (CHP) is a not-for-profit corporation organized for the purpose of providing health and long-term care services to elderly in the Wisconsin counties of Chippewa, Dunn, Eau Claire, Pierce, and St. Croix. As of December 31, 2010, CHP's consolidated audited financial statement reported assets of $77.7 million, liabilities of $64.6 million, and net assets of $13.2 million. Operations for 2010 produced net income of $148,801 on revenues of $186.2 million.

Effective January 1, 2008, the company entered into an allocation agreement with CHP. This agreement is discussed in the section of the report captioned "Management and Control."

Partnership Health Plan, Inc.

Partnership Health Plan, Inc. (PHP) is a non-profit mixed model HMO insurer in Wisconsin organized to offer services under the Family Care Partnership Program (FCPP). The FCPP is an integrated Medicare/Medicaid product for dual-eligible enrollees. FCPP's benefits include all Wisconsin Medicaid-covered benefits, all Medicare Advantage benefits, all Medicare Part D benefits, and “necessary long-term care services and support,” including services to assist enrollees with daily living activities. As of December 31, 2010, PHP’s statutory annual statement reported assets of $49.0 million, liabilities of $41.1 million, and capital and surplus of $7.9 million. Operations for 2010 produced net income/loss of $21.9 thousand on revenues of $114.8 million.

V. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2010, financial statements. Also included in this section are schedules that reflect the company’s operating results by target group and the growth of the company for the period under examination. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Equity per Examination."

CHP-LTS, Inc.
Balance Sheet
As of December 31, 2010

Current Assets		
Cash and cash equivalents held by MCO		$18,118,342
Capitation receivable net of allowance		181,164
Other DHS receivables net of allowance		392,867
Cost share receivable net of allowance		11,492
Room and board receivable net of allowance		48,030
Spend down receivable net of allowance		10,460
Other short-term receivables net of allowance		22,423
Total Current Assets		18,784,777
Long-Term Assets		
Restricted assets:		
Risk reserve funds – FC MCO		250,838
Total Assets		$19,035,615
Current Liabilities		
Capitation payable	$ 382,181	
Deferred capitation revenue	14,554,954	
IBNR member services – current year	5,895,280	
IBNR member services – prior year	4,720	
Accounts payable/accrued administrative expense	2,955	
Due to other	4,099,818	
Other current liabilities	169,267	
Total Liabilities		$25,109,174
Equity		
Beginning equity	(5,987,922)	
Current year net income	(85,638)	
Total Equity		(6,073,559)
Total Liabilities and Equity		$19,035,615

CHP-LTS, Inc.
Profit and Loss Statement
For the Period Ending December 31, 2010

Revenues			
MA capitation (net of cost share)			$42,114,853
Cost share revenue			380,317
Room and board revenue			4,044,823
Spend down revenue			119,183
ICF-MR relocation revenues			1,583,964
Risk sharing			10,300,000
Other retro adjustments, DHS			(182,146)
Total Revenue			58,360,993
Operating Expenses			
Direct Member Service Expenses			
Long Term Care Services (All Programs)			
Residential services (community based)	$33,254,335		
Personal care/supportive home care	5,023,596		
Transportation	1,951,989		
Nursing home	1,225,078		
DME	278,800		
Other FC LTC services	7,275,788		
Total LTC Services		$49,009,586	
Other member expenses (outside the benefit package)		204	
Total Member Service Expenses		49,009,789	
Care Management Expenses			
Care management (CMUs/External)	167,873		
Care management (Internal)	5,553,493		
Total Care Management Expenses		5,721,365	
Administrative Expenses			
Contracted TPA expense	424,796		
Office expenses	540		
Legal/accounting/audit	26,712		
Inter-company admin. expense	1,913,426		
Interest expense	2,744		
Other administrative expenses	16,847		
Total Administrative Expenses		2,385,064	
Total Operating Expenses		57,116,219	
Other (Income) Expenses			
Investment income – reserve funds	(189)		
Prior year adjustment – IBNR	(674,834)		
Prior year adjustment – other	1,984,393		
Loss due to uncollected room and board	16,213		
Loss due to uncollected cost share	4,830		
Total Other Expenses		1,330,412	
Total Expenses			58,446,631
Net Income (Loss)			$ (85,638)

CHP-LTS, Inc.
Statement of Cash Flows
For the Period Ending December 31, 2010

Operating Activities	
Net income per GL	$ (85,638)
Add: Gain(loss) on sale of LT assets	(22,423)
(Increase) decrease accounts receivable general	5,005,015
(Increase) decrease prepaid insurance	31,664
Increase (decrease) notes payable (within 1 year)	(1,263,440)
Increase (decrease) IBNR	(709,000)
Increase (decrease) accounts payable	1,769,455
Increase (decrease) unearned revenues	11,942,246
Increase (decrease) other current liabilities	43,920
Net Cash Provided by Operating Activities	16,711,799
Investing Activities	
Change in long-term investments	(114)
Financing Activities	
Loans payable, > 1 year	(166,690)
Net increase in cash and cash equivalents	16,544,995
Cash and Cash Equivalents Beg of Period	1,573,347
Cash and Cash Equivalents End of Period	$18,118,342

Growth of CHP-LTS, Inc.

Year	Assets	Liabilities	Equity	Capitation Revenue	Member Service Expenses	Net Income	Member Months
2010	$19,035,615	$25,109,174	$(6,073,559)	$42,114,853	$49,009,789	$ (85,638)	13,260
2009	7,504,761	13,492,683	(5,987,922)	37,337,234	47,769,310	(4,617,834)	11,122

Year	Profit Margin	Member Service Cost Ratio	Care Management Service Cost Ratio	Combined Member Service Cost Ratio	Administrative Expense Ratio	Change in Member Months
2010	-0.15%	82.62%	10.63%	93.26%	4.43%	19.22%
2009	-9.11	93.76	7.90	101.67	8.22	365.75

Per Member Per Month Information

	2010	2009	Percentage Change
Revenues			
Capitation (includes risk sharing and retro rate adj.)	$4,058.47	$4,185.01	-3.02%
Other revenue	342.70	370.96	-7.62
Total revenue	4,401.17	4,555.97	-3.40
Expenses:			
Member service costs	3,695.96	4,294.89	-13.95
Care management	431.46	330.76	30.45
Administrative	179.86	343.81	-47.69
Total operating expenses	4,307.29	4,969.46	-13.32
Other non-operating expenses	100.33	1.69	5836.69
Net Income (Loss)	$ (6.46)	$ (415.18)	-98.45
Member months	13,260	11,122	19.22

The net loss of $4.6 million in 2009 is the result of the company's costs being significantly higher than its capitation. The higher costs are attributable to expansion in mid-2008 and having a higher proportion of developmentally disabled individuals. During expansion, CMOs generally have higher costs related to expansion as they invest in the required infrastructure and transition members from the higher-cost county-run Waiver Program. As member care plans are reviewed and assessed by care management staff, member services are unbundled to eliminate duplicate services, and as provider contracts are re-negotiated, member service costs begin to decline and CMOs generally begin to report improved operating results. The unfavorable results in 2009 were substantially mitigated by a risk-sharing agreement with DHS. LTS would have had a net loss of $13.8 million in 2009 without a risk-sharing agreement. LTS also had a risk-sharing agreement for 2010 with DHS, which resulted in $10.3 million of additional funding. The company would have had a net loss of $10.4 million without a risk-sharing agreement. During 2010, the company did make progress in reducing its member service costs and overall operating expenses by 13.95% and 13.32%, respectively.

The overall financial position of LTS continues to be unfavorable with an equity position of $(6.1) million at December 31, 2010. The negative equity position has resulted in LTS's continuation of being under corrective action by DHS and OCI to provide closer monitoring of LTS. The company has filed a business plan with DHS and OCI as part of a corrective action plan.

LTS cannot sustain continuing losses. Management will need to enter into discussions with DHS to wind down operations and transition members to a new plan or program if they are unable to bring their cost structure in line with the capitation revenues.

Reconciliation of Equity per Examination

The following schedule is a reconciliation of equity between that reported by the company and as determined by this examination (refer to the "Summary of Examination Results" section of this report for a detailed discussion of this adjustment):

Equity December 31, 2010, per financial statement			$(6,073,559)
Examination adjustments:	**Increase**	**Decrease**	
Capitation receivable[5]	_______	$(17,303)	
Equity December 31, 2010, per examination			$(6,090,862)

[5] To adjust capitation revenue for members that had receivable balances for periods they were not enrolled.

VI. SUMMARY OF EXAMINATION RESULTS

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Business Continuity Plan

The examiners review of the company's business continuity plan identified that the company was unable to provide documentation to support that the plan is updated and tested annually. The business continuity plan should be updated and tested annually for the company's functional units to ensure the plan is sufficient in case of a disaster scenario. It is recommended that the business continuity plan be updated and tested at least annually to ensure that it addresses the company's needs in a disaster scenario.

Authorizations

The examiners' review of LTS's claim processing function identified that the third-party administrator (TPA) used by LTS is unable to determine if claims received are within the authorized dates and for the authorized amounts issued by LTS through an automated process prior to paying the claim. This is primarily the result of LTS's system does not easily capture all information needed in order to perform such a review and the fields available are not consistently used by care management staff when issuing the authorization. In addition, LTS and the TPA do not have systems that can easily download and upload authorizations and LTS does not have its authorizations tied into its provider rate structure. In 2011, LTS has begun to send its TPA authorization information for residential services on a daily basis in a secured excel spreadsheet that the TPA is to use prior to issuing the claim payment. LTS anticipates it will begin providing authorization information for vocational services in mid- to late August 2011. Residential and vocational type services are two of the larger dollar service types under the Family Care benefit package, but the package also includes other services (i.e., transportation, supportive home care, home health care, etc.) that require an authorization. The inability to compare claims received against authorizations prior to payment increases the risk of fraud to the Family Care Program.

The examiners acknowledge that LTS has begun to review paid claims against authorized amounts to mitigate some fraud risk and that LTS is currently providing DHS with regular updates on their progress for using authorizations in paying claims as part of a corrective action plan. LTS should continue its work to ensure that all claims are paid within authorized limits prior to claim payment to further mitigate the risk of fraud in the Family Care Program. It is recommended that the company continue to further develop and complete its process of ensuring claims are paid for authorized dates of service and within authorized amounts to further mitigate the risk of fraud to the Family Care Program.

Incurred But Not Reported

The examiners' review of incurred but not reported (IBNR) determined that the calculation on a monthly and annual basis is described in the Financial Reporting Policy and Procedure for the company. The Financial Reporting Policy and Procedure provides some “high-level” guidance to the calculation, but it does not include a full description of the various methodologies used and a description of the detailed process performed in making the IBNR estimate (i.e., source information, reports, steps within the calculation, etc.). The lack of sufficient guidance implies no one other than the Finance Administrator is able to perform the calculation, which results in a significant risk to LTS in the event the Finance Administrator is unavailable to perform the estimate for a given period. The examiners acknowledge that the IBNR is reviewed by the Administrator that oversees the Provider Network and that the Financial Reporting Policy and Procedure is currently being reviewed by the company for compliance with DHS standards. Once the company has completed its review and made the necessary changes, the policy and procedure should be submitted to DHS for review and comments.

The examiners also determined that the Financial Reporting Policy and Procedure states that an analysis “will” be performed for IBNR based on service authorizations with historical payment experience as a percentage of authorizations. At the time of the examination, the company is unable to perform an analysis based on authorizations because of current system limitations. Therefore, the company should indicate in its policy and procedure that the use of authorizations as a reasonableness check is currently under development and not being performed at this time.

It is recommended that the company create an IBNR Policy and Procedure outside of the Financial Reporting Policy and Procedure that describes the various methodologies used in calculating IBNR and the process used in performing the actual calculation that is currently being used. In addition, the new IBNR and updated Financial Reporting Policies and Procedures should be filed with DHS for their review.

Analysis of Payments

The review of LTS's paid claim data file identified that LTS is including purchased care management as part of IBNR and including it as a claim payment in the Analysis of Payments. The accrual for purchased care management should be reported on the "Accounts Payable – Care Management" line on the financial statements and should not be included in the Analysis of Payments since it is not for long-term care member expenses as identified in the financial statements. It is recommended that LTS report its accrual of purchased care management on the "Accounts Payable – Care Management" line and discontinue reporting this in the Analysis of Payments.

Internal Controls

The examiners review of the capitation receivable at December 31, 2010, identified 12 members with a receivable balance for December 2010 capitation that had disenrolled in November 2010. Through inquiry, it was determined that LTS was aware of the disenrollments during the process of recording December 2010 capitation revenue. For these 12 members, a receivable was established and a corresponding revenue was booked due to an error during revenue processing for a total of $17,303. The cause for the error was an employee missed a step in the process, which did not save the disenrollments for the month. The examiners did note that the error was corrected in January 2011 through the capitation reconciliation process. The error would have been identified earlier in the process if the company were to run an exception report that compares receivable balances to the member listing. The overstating of receivable/revenue is material to the examination; therefore, an adjustment has been made to decrease capitation receivables and equity by $17,303.

The testing of capitation receivables further determined that the detailed receivable balances by member at December 31, 2010, did not correspond with the transaction history provided to the examiners. Based on inquiry with company personnel, it was determined that subsequent to year-end there were some corrections made to the period of the capitation receivable balances. When company personnel went to correct the period they changed the period in the access database table that maintains receivable records versus creating a separate entry to reverse the initial recording of the receivable and then re-entering the receivable for the correct period. This error would have been prevented by not allowing changes to data after the accounting period is closed. It is recommended that the company review and enhance its internal control environment over recording of revenues and receivables. In addition, the company should implement the additional controls identified to eliminate the ability to make changes to data after the close of the accounting period to prevent any over/understatement in the financial statements.

Administrative Services Agreement

The review of the administrative service agreement between LTS and CHP identified that the agreement states that LTS shall pay CHP an amount of expenses associated with or attributable to the business and operations of LTS, as defined by “statutory” accounting principles. LTS is not subject to statutory accounting principles but rather generally accepted accounting principles.

In addition, the agreement states that LTS should pay CHP no later than 10 days after the receipt of the monthly allocation. Currently LTS is approximately 6 months behind in paying CHP because of their current financial position. Therefore, LTS is not in compliance with this provision of the agreement.

It is recommended that LTS and CHP amend their agreement to accurately reflect the correct accounting principles. The agreement should be filed with OCI for non-disapproval in accordance with s. Ins 57.12 (2), Wis. Adm. Code.

Care Management Allocation

The examiners' review of the administrative allocation to care management identified that LTS is inaccurately allocating costs to the care management classification in the financial statements. The allocation to care management should not include those allocated costs of executive-level staff, executive-level support staff, and some organizational development to care management that should have remained an administrative expense. The allocation should only include administrative costs that would be reduced or eliminated if care management services were purchased from a third party. The identified expenses would not be reduced or eliminated by the outsourcing of care management, so there should be no allocation to the company's internal care management department. LTS should contact the DHS Division of Long Term Care (DLTC) Fiscal Oversight staff for technical assistance in determining appropriateness of administrative expense allocations to care management to ensure that care management expenses are accurately stated and are in line with the Family Care model. It is recommended that LTS obtain technical assistance from DHS DLTC Fiscal Oversight staff on determining the appropriate costs to be allocated to the internal care management department in accordance with the Family Care model.

Financial Requirements

The financial requirements for a CMO under contract with the DHS for the period ending December 31, 2010, are as follows:

	Amount Required
1. Working capital	Not less than 2.5% of the budgeted annual capitation payments from DHS
2. Restricted reserves	The required minimum balance is calculated as follows: 8% of the first $5 million annual budgeted capitation 4% of the next $5 million annual budgeted capitation 3% of the next $10 million annual budgeted capitation 2% of the next $30 million annual budgeted capitation 1% of annual budgeted capitation in excess of $50 million
3. Solvency fund	$750,000

The company's financial requirement calculations as of December 31, 2010, are as follows:

Working Capital	
Current assets	$18,784,777
Current liabilities	25,109,174
Working capital	(6,324,397)
Working capital requirement	1,102,817
Excess/(shortage)	$ (7,427,214)
Restricted Reserves	
Current restricted reserves	$ 250,838
Restricted reserve Requirement	1,382,254
Excess/(shortage)	$ (1,131,417)
Solvency Fund	
Current solvency fund	$ 0
Solvency fund Requirement	750,000
Excess/(shortage)	$ (750,000)

The company was not meeting its financial requirements at December 31, 2010. CHP-LTS, Inc., has filed a business plan with DHS and this office to show their plan for coming into compliance with the financial requirements. This plan is currently under review.

VII. CONCLUSION

CHP-LTS, Inc., was incorporated on December 18, 2007, and accepted its first members on May 1, 2008. LTS provides long-term care services to a five-county region in northwestern Wisconsin as part of the Wisconsin Family Care Program.

At December 31, 2010, LTS reported assets of $19.0 million, liabilities of $25.1 million, and equity of $(6.1) million. LTS reported an $85,638 loss on total revenues of $58.4 million. The company is currently under corrective action because of its unfavorable financial position and for not meeting the financial requirements established for CMOs. LTS has filed a business plan with DHS and OCI to show their plan for coming into compliance with the financial requirements.

LTS cannot sustain continuing losses. Management will need to enter into discussions with DHS to wind down operations and transition members to a new plan or program if they are unable to bring their cost structure in line with the capitation revenues.

This examination resulted in seven recommendations and one adjustment to equity. The equity adjustment was related to receivables being overstated by $17,303; therefore, equity per the examination is $(6,090,862).

VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 17 - Business Continuity Plan—It is recommended that the business continuity plan be updated and tested at least annually to ensure that it addresses the company's needs in a disaster scenario.

2. Page 18 - Authorizations—It is recommended that the company continue to further develop and complete its process of ensuring claims are paid for authorized dates of service and within authorized amounts to further mitigate the risk of fraud to the Family Care Program.

3. Page 19 - Incurred But Not Reported—It is recommended that the company create an IBNR Policy and Procedure outside of the Financial Reporting Policy and Procedure that describes the various methodologies used in calculating IBNR and the process used in performing the actual calculation that is currently being used. In addition, the new IBNR and updated Financial Reporting Policies and Procedures should be filed with DHS for their review.

4. Page 19 - Analysis of Payments—It is recommended that LTS report its accrual of purchased care management on the "Accounts Payable – Care Management" line and discontinue reporting this in the Analysis of Payments.

5. Page 20 - Internal Controls—It is recommended that the company review and enhance its internal control environment over recording of revenues and receivables. In addition, the company should implement the additional controls identified to eliminate the ability to make changes to data after the close of the accounting period to prevent any over/understatement in the financial statements.

6. Page 20 - Administrative Services Agreement—It is recommended that LTS and CHP amend their agreement to accurately reflect the correct accounting principles. The agreement should be filed with OCI for non-disapproval in accordance with s. Ins 57.12 (2), Wis. Adm. Code.

7. Page 21 - Care Management Allocation—It is recommended that LTS obtain technical assistance from DHS DLTC Fiscal Oversight staff on determining the appropriate costs to be allocated to the internal care management department in accordance with the Family Care model.

IX. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company is acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Margaret E. Callahan	Insurance Financial Examiner
Stephanie A. Falck	Insurance Financial Examiner
Terry J. Lorenz	Insurance Financial Examiner
Amanda A. Schroeder	Insurance Financial Examiner
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Respectfully submitted,

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Examiner-in-Charge