

Report  
of the  
Examination of  
ContinuUs  
Lone Rock, Wisconsin  
As of December 31, 2013

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# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

**Scott Walker**, Governor  
**Theodore K. Nickel**, Commissioner

**Wisconsin.gov**

January 5, 2015

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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:

CONTINUUS  
Lone Rock, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

This is the second examination of ContinuUs (herein referred to as the organization or the district). The current examination covered the period ending December 31, 2013, and included a review of such 2014 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the organization'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
- Growth of the Organization
- Financial Statements
- Accounts and Records
- Information Technology

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

attention was given to the action taken by the organization to satisfy the recommendations and comments made in the previous examination report.

The organization 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**

ContinuUs, formerly known as Southwest Family Care Alliance, 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 organization was formed as a Long-Term Care District on July 1, 2008, to provide long-term care services to individuals who meet functional and financial requirements under Wisconsin's Family Care Program. The name of the organization was changed to that presently used effective on August 1, 2013. The district was created by resolutions adopted by Crawford, Grant, Green, Iowa, Juneau, Lafayette, Richland, and Sauk counties pursuant to s. 46.2895, Wis. Stat. The district is considered a local unit of government, separate and independent from all counties that acted to create the district. The district was granted powers necessary to carry out the purposes of the district under ss. 46.2805 to 46.2895, Wis. Stat., which do not allow the district to issue bonds or levy a tax or assessment. ContinuUs is legally separate and fiscally independent of the counties, local, and state government. The organization is permitted to operate under ch. 648, Wis. Stat.

On July 1, 2008, Richland County transferred its members to ContinuUs.

Subsequently, members were transferred to ContinuUs as follows:

- September 2008: Sauk County
- January 2009: Green County
- July 2009: Crawford, Juneau, and Lafayette Counties
- April 2010: Grant and Iowa Counties

The organization further expanded after submitting a successful bid for the following counties:

- January 2013: Chippewa, Dunn, Eau Claire, Pierce, and St. Croix Counties
- August 2013: Columbia, Dodge, Green Lake, Jefferson, Marquette, Washington, Waukesha, and Waushara Counties

The organization 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<sup>1</sup>, physically disabled<sup>2</sup>, and developmentally disabled<sup>3</sup>. ContinuUs contracts directly with the Wisconsin Department of Health Services (DHS) to provide long-term care benefits to eligible members through its contract with DHS.

ContinuUs 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 five-year term and may be terminated on a 30-day written notice by either party prior to the expiration of any five-year term, or otherwise the contract will automatically renew for additional five-year terms. ContinuUs reserves the right to immediately terminate, or reduce in scope, its obligations under this agreement in the event that sources of funding to ContinuUs derived through state or federal grants or contracts are terminated or reduced.

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 contractual operating procedures. Capitation rates are determined by the contract between ContinuUs and

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<sup>1</sup> 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]

<sup>2</sup> 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]

<sup>3</sup> 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]

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 organization's estimated population by target group. The capitation rate paid by DHS to the organization is actuarially based on the functional level of care a member needs, either Nursing Home (NH) or non-Nursing Home (non-NH) levels of care. 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 different target groups utilize services at different degrees of frequency and/or severity. 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 were originally based on the utilization and expenditures of the original Family Care Program's pilot counties: Fond du Lac, La Crosse, Milwaukee (elderly population), Portage, and Richland; additional counties' experience, including Racine, Kenosha, Marathon, and Wood counties that have been added to the base cohort as data reliability has stabilized. Under the federal regulations governing federal- and state-funded Medicaid programs, rates established by DHS must be "actuarially sound" and be certified by an independent actuary. The actuarial certification applies to the program as a whole, not each individual CMO.

### III. MANAGEMENT AND CONTROL

#### Board of Directors

ContinuUs is governed by a board consisting of 15 members comprised of:

- (a) 8 county appointees representing each of the counties that created the long-term care district;
- (b) 3 at-large appointees, appointed by the board (each at-large appointee shall be a resident of the geographic region ContinuUs serves and shall have medical or business expertise helpful to ContinuUs);
- (c) 4 consumer appointees, appointed by the board, representatives of the consumers ContinuUs serves (no 2 consumer appointees shall reside in the same county).

In addition to the board members, the Chief Executive Officer of ContinuUs, the Human Services Directors, Social Services Directors and/or Unified Board Directors from each of the counties that created the long-term care district serve in an ex-officio, non-voting capacity. The board conducts an annual meeting in June of each year to elect officers, if appropriate, and to receive or elect new board members, that are replacing board members whose terms have expired, to serve a three-year term. The board members currently receive no compensation for the performance of their duties provided. However, the board has adopted a policy relating to the payment of a per diem and/or reimbursement of reasonable business expenses that board members may incur.

Currently the board of directors consists of the following persons:

<b>Name and Residence</b>	<b>Director Type</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Mary Knellwolf Darlington, WI	At-Large	Family Living Educator	June 2016
Jolene Whitehead Monroe, WI	At-Large	Headstart and Childcare Dane County Parent Council, Inc.	December 2017
Daniel Leitch Platteville, WI	At-Large	Associate Professor University of Wisconsin-Platteville	June 2015
Kenneth Cornish Steuben, WI	Consumer	Retired	December 2017
Maryann Bitto Mauston, WI	Consumer	Graphic Designer, Self-Employed	June 2015
Melvin Masters Mineral Point, WI	Consumer	Farmer	June 2016



<b>Name and Residence</b>	<b>Director Type</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Raymond Schmitz Richland Center, WI	Consumer	Semi-retired	June 2016
Joan Fordham Baraboo, WI	Sauk County	Retired	June 2015
Michael Furgal Monroe, WI	Green County	Retired	June 2015
James Griffiths Dodgeville, WI	Iowa County	Retired	June 2015
David Hammer Cuba City, WI	Lafayette County	Retired	June 2016
Beverly Larson Wonewoc, WI	Juneau County	Retired	June 2016
Gary Ranum Boscobel, WI	Grant County	Retired	June 2017
Wade Dull Soldiers Grove, WI	Crawford County	Dairy Farmer	June 2016
Linda Gentes Richland Center, WI	Richland County	Retired	September 2017

#### **Officers of the Organization**

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

<b>Name</b>	<b>Office</b>	<b>2013 Compensation</b>
Joan Fordham	Board Chair	\$ 113
Raymond Schmitz	Vice Chair	338
Beverly Larson	Secretary	0
Teri Buros	Chief Executive Officer	158,572
Terry Turner*	Chief Financial Officer	145,854
Sherrel Walker	Chief Operating Officer	144,287

\* Effective February 4, 2015, Terry Turner is no longer the Chief Financial Officer (CFO). ContinuUs has employed Lucy Runnells as its Interim CFO, effective February 20, 2015, until a permanent replacement is found.

## Committees of the Board

The organization'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

Joan Fordham, Chair  
Kenneth Cornish  
Beverly Larson  
Raymond Schmitz  
Wade Dull

### Personnel Committee

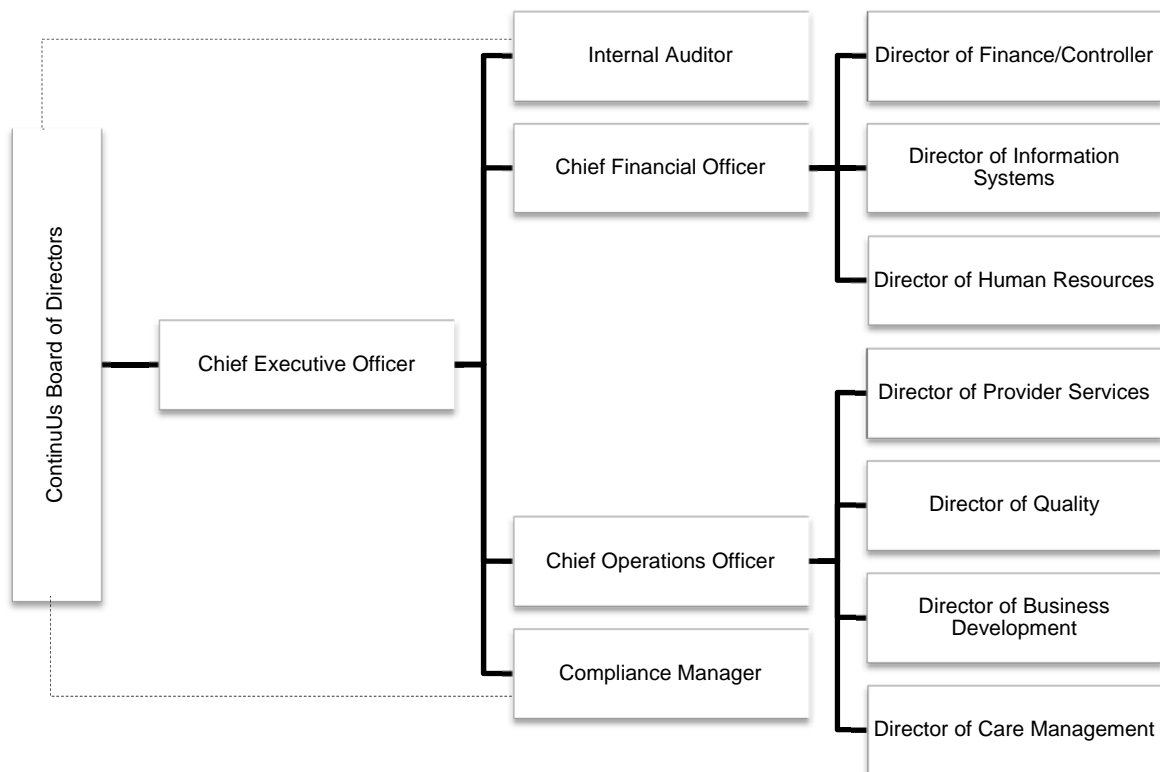
Joan Fordham, Chair  
David Hammer  
Melvin Masters  
Michael Furgal  
Beverly Larson

### Audit Committee

Mary Knellwolf, Chair  
James Griffiths  
Raymond Schmitz  
Joan Fordham, Ex-Officio

The board's Chair and Vice-Chair also serve as the Chair and Vice Chair of the executive committee.

The organization has its own employees. ContinuUs has established four divisions under the Chief Executive Officer. Below is ContinuUs's functional organization chart.



#### **IV. FINANCIAL DATA**

The following financial statements reflect the financial condition of the organization as reported in the December 31, 2013, GAAP-basis financial statements. Also included in this section are schedules that reflect the growth of the organization for the period under examination. Adjustments made as a result of the examination, if any, are noted at the end of this section in the area captioned "Reconciliation of Equity per Examination."

**ContinuUs  
Balance Sheet  
As of December 31, 2013**

**Current Assets**

Cash and cash equivalents, operating		\$26,476,835
Capitation receivable net of allowance		619,331
Cost share receivable net of allowance		82,272
Room and board receivable net of allowance		302,855
Spend down receivable net of allowance		87,209
Prepaid insurance		511,626
Prepaid providers (member service expenses)		55,098
Prepaid expenses – other		79,392
Other current assets		<u>157,456</u>
<i>Total Current Assets</i>		<u>28,372,074</u>

**Long-Term Assets**

Restricted assets:		
Risk reserve funds – FC Permitted MCO	\$ 2,750,201	
Solvency reserve/guaranty funds on deposit permitted MCO	375,000	
Leasehold improvements (cost)	61,302	
Accumulated depreciation – leasehold improvements	(7,410)	
Furniture, equipment, and software (cost)	1,424,493	
Accumulated depreciation – furniture, equipment, and software	<u>(641,434)</u>	
<i>Total Long-Term Assets</i>		<u>3,962,153</u>

**Total Assets**

\$32,334,227

**Current Liabilities**

Capitation payable	\$ 248,614	
Unearned capitation revenue	103,726	
Accrued salaries	524,415	
Accrued taxes and benefits (current)	858,701	
IBNR member services – current year	15,252,221	
IBNR member services – prior year	10,000	
Accounts payable – TPA	1,026,732	
Accounts payable – care management	1,245	
Accounts payable – general	457,042	
Due to other	<u>549,697</u>	
<i>Total Current Liabilities</i>		<u>\$19,032,395</u>

**Total Liabilities**

**Equity**

Beginning equity	8,880,015	
Current year net income	<u>4,421,817</u>	
<i>Total Equity</i>		<u>13,301,832</u>

**Total Liabilities and Equity**

\$32,334,227

**ContinuUs**  
**Profit and Loss Statement**  
**For the Period Ending December 31, 2013**

**Revenues**

MA capitation (net of cost share)	\$166,702,761
Cost share revenue	4,332,978
Room and board revenue	13,930,528
Spend down revenue	885,625
Interest/investment income – operating account	59,785
Risk sharing	(549,993)
Other income/funding	<u>(91,354)</u>
<b>Total Revenue</b>	<b>185,270,331</b>

**Long-Term Care Services (All Programs)**

Adaptive equipment	\$ 4,325,683	
Adult day activities	6,485,580	
Habilitation/health	1,262,673	
Home care	23,576,429	
Home health care	2,333,193	
Institutional (NH/ICF-MR)	20,204,082	
Residential care	68,512,257	
Respite care	685,546	
Transportation	1,833,061	
Vocational	9,175,870	
Room and board – expenses	14,499,743	
Other FC LTC services	<u>44,885</u>	
<i>Total Member Service Expenses</i>		\$152,939,003

**Care Management Expenses**

Care management (internal)	20,570,209	
Care management admin. – allocated	<u>86,317</u>	
<i>Total Care Management Expenses</i>		20,656,526

**Administrative Expenses**

Wages and benefits	4,316,918	
Contracted TPA expense	916,269	
Occupancy	229,347	
Office expenses	279,504	
Legal/accounting/audit	106,368	
Contracted IT development	491,453	
Other professional services	332,122	
Other contracted services	39,371	
Interest expense	282,476	
Depreciation expense	31,262	
Insurance expense	150,946	
Travel/training/conference expense	25,889	
Other administrative expenses	<u>(86,317)</u>	
<i>Total Administrative Expenses</i>		<u>7,115,608</u>

**Total Operating Expenses**

180,711,137

**Income (Loss) from Operations, current year**

4,559,193

**Other (Income) Expenses, ordinary**

Investment income – reserve funds	(5,292)	
Prior year adjustment – IBNR	147,208	
Prior year adjustment – other DHS	<u>(4,540)</u>	
<i>Total Other Expenses</i>		<u>137,376</u>

**Net Income (Loss)**

\$ 4,421,817

**ContinuUs**  
**Statement of Cash Flows**  
**For the Period Ending December 31, 2013**

**Operating Activities**

Net income per GL	\$ 4,421,817
Add: Depreciation	282,476
(Increase) Decrease Accounts receivable, capitation and DHS other	589,226
(Increase) Decrease Accounts receivable general	(325,765)
(Increase) Decrease Prepaid insurance	(149,631)
(Increase) Decrease Prepaid other	(48,915)
(Increase) Decrease Other current assets	(115,262)
Increase (Decrease) IBNR	9,820,511
Increase (Decrease) Accounts payable	1,196,535
Increase (Decrease) Wages/taxes/ben. payable	653,713
Increase (Decrease) Due to other payable	549,697
Increase (Decrease) Unearned revenues	<u>132,985</u>
<i>Net Cash Provided by Operating Activities</i>	<u>17,007,386</u>

**Investing Activities**

Change in property, plant and equipment	\$ 290,990
Change in long-term investments	<u>(1,444,441)</u>
<i>Net Cash Used in Investing Activities</i>	<u>(1,153,452)</u>

Net increase in cash and cash equivalents	15,853,934
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Cash and cash equivalents beginninh of period	<u>10,622,901</u>
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Cash and Cash Equivalents End of Period	<u>\$26,476,835</u>
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### Growth of ContinuUs

Year	Assets	Liabilities	Equity	Capitation Revenue	Member Service Expenses	Net Income	Enrollees
2013	\$32,334,225	\$19,032,400	\$13,301,825	\$185,200,695	\$153,081,672	\$4,421,814	4,778
2012	15,558,969	6,678,958	8,880,011	73,949,488	60,006,657	1,254,249	2,106
2011	14,260,097	6,634,335	7,625,762	66,813,873	54,210,494	2,626,364	1,939

Year	Profit Margin	Member Service Cost Ratio	Care Management Service Cost Ratio	Combined Member Service Cost Ratio	Administrative Expense Ratio	Change In Enrollment
2013	2.4%	82.7%	10.5%	93.1%	4.5%	131.9%
2012	2.7	81.1	10.6	91.8	5.6	9.2
2011	3.9	81.1	10.1	91.2	4.9	13.9

### Per Member Per Month Information

	2013	2012	Percentage Change
<b>Revenues</b>			
Capitation	\$2,929.30	\$2,743.18	6.8%
Other revenue	<u>337.05</u>	<u>282.08</u>	19.5
Total revenue	3,266.34	3,025.26	8.0
<b>Expenses</b>			
Member service costs	2,696.34	2,462.27	9.5
Care management	364.18	321.09	13.4
Administrative	<u>125.45</u>	<u>165.55</u>	(24.2)
Total operating expenses	3,185.97	2,948.91	8.0
Other non-operating expenses	<u>2.42</u>	<u>(5.61)</u>	(143.2)
Net Income (Loss)	<u>\$ 77.96</u>	<u>\$ 51.29</u>	52.0
Member months	56,721	24,455	131.9

ContinuUs generated favorable operating results during the period under examination. During 2013 DHS issued requests for proposals (RFPs) for the opportunity to offer Family Care in other service territories known as geographic service regions (GSR), including ContinuUs' original eight counties. At that time ContinuUs was the smallest CMO in number of members served and lacked 'scalability' to leverage its administrative costs, creating a disparity when compared to other CMOs. ContinuUs chose to respond to RFPs for:

1. Its original eight-county 'core' operation in Crawford, Grant, Green, Iowa, Juneau, Lafayette, Richland, and Sauk counties (GSR 3) in southwest Wisconsin.
2. The Family Care Program member service population in Chippewa, Dunn, Eau Claire, Pierce, and St. Croix counties (GSR 1) in northwest Wisconsin.
3. The Family Care Program member service population in Columbia, Dodge, Green Lake, Jefferson, Marquette, Washington, Waukesha, and Waushara counties (GSR 5) in east/central Wisconsin.

ContinuUs was awarded GSR 3 and GSR 1 on an exclusive basis, and GSR 5 on a competitive basis (meaning DHS introduced "competition" among CMOs within the Family Care Program in this particular GSR). Additionally, within GSR 1, DHS made the decision (outside the RFP process) to end the Partnership Program with the then existing HMO, and ContinuUs gained a portion of those members as well, doubling the expected member population. Due in part to the increased member population, uncertainty over establishing operations in a GSR where the previous CMO had failed financially, and a class-action lawsuit filed by members against multiple CMOs (later dismissed), ContinuUs negotiated a risk-sharing agreement with DHS. ContinuUs received notification of the award of GSR 1 and GSR 5 in mid-October 2012 and immediately prioritized expansion to GSR 1 over GSR 5 as the exclusive award meant ContinuUs had to establish and certify a provider services network, hire and train staff, and establish office locations, all by January 1, 2013, the start-date for serving members.

Operating revenues totaled \$185.3 million in 2013, which represents an increase of \$111.3 million or 150% due to increases in enrollment and capitation rates. Direct service costs as a percentage of operating revenues increased by 1.51%, reflecting the somewhat higher member service costs in the GSR 1 and GSR 5 expansion areas.

Care management costs decreased as a percentage of operating revenue in 2013 by 0.15% versus 2012, despite incurring (1) costs to outfit and equip new offices and staff in the



expansion areas; (2) costs to roll out the “Virtual Office” model wherein care management staff, supplied with a laptop and smartphone for systems connectivity, complete their work remotely without commuting to and from the organization’s office sites; and (3) salary costs to implement the compensation program for staff. Administrative costs as a percentage of operating revenue decreased by 1.05% versus 2012, likely due to cost scalability achieved through the increase in enrollment through geographic expansion.

Net income for 2013 was \$4.4 million and exceeded the business plan by \$2.4 million. The risk-sharing agreement entered into with DHS to mitigate potential losses reduced net income by \$1,363,842. Net income for 2013 was reduced by \$549,993 for the risk-sharing agreement with the remaining \$813,849 being recorded in 2014 after receiving the final calculation from DHS.

#### **Reconciliation of Equity per Examination**

No adjustments were made to equity as a result of the examination. The amount of equity reported by the organization as of December 31, 2013, is accepted.

## V. SUMMARY OF EXAMINATION RESULTS

### Compliance with Prior Examination Report Recommendations

There was one specific recommendation in the previous examination report. The recommendation contained in the last examination report and actions taken by the organization are as follows:

1. Incurred But Not Reported—It is recommended that SFCA review its IBNR policy to ensure that the methodology used in establishing IBNR is sound and meets the minimum requirements of DHS, submit the IBNR policy to DHS for consideration, and then implement the policy.

Action—Compliance

## **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 organization's operations is contained in the examination work papers.

### **Examination Data Requests**

An integral part of a compliance examination is obtaining the organization's detailed financial data within the regulatory deadlines outlined in the request. The examination noted that ContinuUs did not meet OCI specified deadlines to provide electronic data requests used for analyzing and testing the organization's records in the following areas:

- Capitation and Member Obligation Receivables
- Capitation and Unearned Capitation Payables
- Capitation and Member Obligation Revenues
- Capitation and Member Obligation Cash Receipts
- Claim Data

The request for the aforementioned information was made on May 6, 2014, with a due date of July 7, 2014. OCI examiners had a call with ContinuUs staff on May 22, 2014, to answer any questions they may have regarding the requested data to ensure the data received was timely and accurate. In addition, ContinuUs staff confirmed that they would have all information submitted to OCI by the requested due date. On July 7, 2014, OCI received a request from ContinuUs staff for an extension of the due date to July 10, 2014, which was granted. The first data file was not received until July 12, 2014. The final data file was not received until August 13, 2014.

Furthermore, the examination identified that the claims data file provided by ContinuUs contained incorrect payment dates. Since the claims data file did not have the correct payment dates, OCI was unable to perform loss development work with a reasonable amount of accuracy. A new file was not requested from ContinuUs because the incorrect payment date was identified late in examination fieldwork, it took ContinuUs a significant amount of time to provide the initial file, and ContinuUs third quarter 2014 financial statements had already been filed reporting a significant redundancy in prior year IBNR reserves.

OCI also experienced delays in receiving the Examination Planning Questionnaire (EPQ) responses from ContinuUs. The EPQ request was sent to ContinuUs on November 7, 2013, with a due date of February 14, 2014. OCI received a request from ContinuUs on February 12, 2014, asking for an extension to April 30, 2014. OCI granted an extension to April 15, 2014, and ContinuUs did not submit the EPQ until April 25, 2014.

It is recommended that the organization develop and implement a calendar of regulatory deadlines to ensure that requested information is submitted on a timely basis. It is recommended that the organization establish procedures to ensure accurate information is provided in response to regulator requests.

### **Conflict of Interest Statements**

The examination review of potential conflicts of interest determined that ContinuUs did not have conflict of interest statements completed by any of the board of directors and executive-level staff (e.g., Chief Executive Officer, Chief Financial Officer, Chief Operating Officer) for each year covered under this examination period. The Chief Financial Officer indicated that ContinuUs adopted a policy (in 2011) that called for board of directors members to submit executed conflict of interest forms when first selected to the board and then again with all directors at two-year intervals thereafter (making 2013 the first interval). A best practice is that organizations of ContinuUs's size should require annual disclosures of any material interest or affiliation which is in or is likely to conflict with the official duties of its officers, directors, trustees, or responsible employee.

It is recommended that the organization establish and implement procedures requiring annual disclosures of conflict of interest by its board of directors and executive-level staff (e.g., Chief Executive Officer, Chief Financial Officer, Chief Operating Officer) within the organization.

### **Bank Account Reconciliations**

The examination review of the bank account reconciliations identified that ContinuUs did not begin to perform account reconciliations for December 31, 2013, until the beginning of March 2014. January 2014 reconciliations were not performed until the end of March 2014. In

addition, the examination noted that bank reconciliations performed by ContinuUs were improperly dated and did not have a second level of review. The lack of timely reconciliations and their review does not lend itself to proper internal controls and good business practice. Such internal control deficiencies increase the risk that an unauthorized transaction will not be detected in a reasonable period to mitigate losses.

It is recommended that the organization perform bank reconciliations timely and that the reconciliations be properly dated and signed-off on by the preparer and at least one reviewer.

#### **Bank Accounts Authorized Signatory**

The examination review of the active bank account check signers identified as an authorized signer a person who served as the organization's controller from August 2012 to December 2012. The lack of keeping bank signature cards up-to-date does not lend itself to good business practices and poses significant risk to the organization, particularly when the organization is not reconciling bank accounts in a timely manner with a proper second-level review.

It is recommended that the organization immediately update its authorized signers with its bank and develop policies and procedures for updating bank accounts authorized signatory whenever there is a change in the authorized signatory.

#### **Information Technology – SSAE 16, Type 2 Report**

The examination review of the Information Technology (IT) identified that ContinuUs contracts with Milwaukee County Department of Family Care (MCDFC) for its care management and service authorization system, Member Information Documentation and Authorization System (MIDAS) application, via remote hosting. The examination further noted that MCDFC does not have a Statement on Standards for Attestation Engagements (SSAE) 16, Reporting on Controls at a Service Organization, for the controls of the MIDAS system. It is in ContinuUs's interest to assure itself that IT controls over MIDAS are designed to achieve control objectives and are operating effectively.

It is recommended that the organization either 1) obtain an SSAE 16, type 2 report from service providers of remote-hosted applications or 2) obtain by other means the assurance

that IT controls over remote-hosted applications are designed to achieve control objectives and are operating effectively.

### Financial Requirements

The financial requirements for a CMO under s. 648.75, Wis. Stat., and s. Ins 57.04, Wis. Adm. Code, for the period ending December 31, 2013, are as follows:

	Amount Required
1. Working capital	Not less than 3.0% 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 organization's financial requirement calculations as of December 31, 2013, are as follows:

<b>Working Capital</b>	
Current assets	\$28,372,074
Current liabilities	<u>19,032,395</u>
Working capital	9,339,679
Working capital requirement	<u>5,186,602</u>
Excess/(shortage)	<u>\$ 4,153,077</u>
<b>Restricted Reserves</b>	
Current restricted reserves	\$ 2,750,201
Restricted reserve requirement	<u>2,728,867</u>
Excess/(shortage)	<u>\$ 21,334</u>
<b>Solvency Fund</b>	
Current solvency fund	\$ 375,000
Solvency fund requirement	<u>750,000</u>
Excess/(shortage)	<u>\$ (375,000)</u>

ContinuUs did not meet its solvency fund requirement at December 31, 2013. All permitted CMOs did not meet the solvency requirement at the end of 2012 because of the liquidation of all deposits in the solvency fund for the insolvency of CHP-LTS, Inc., to pay for claims run-out and other reasonable expenses. ContinuUs replenished its deposit in the solvency fund on a predetermined schedule, which includes an initial deposit of \$187,500 in June 2013, and quarterly deposits of \$93,750 thereafter to December 2014 in accordance with the

replenishment plan issued by this office. ContinuUs was in compliance with the required replenishment deposits by year-end 2014.

## **VI. CONCLUSION**

ContinuUs, formerly Southwest Family Care Alliance, began operations on July 1, 2008, and is a separate legal entity organized as a Long-Term Care District pursuant to Wisconsin statutes. The organization provides long-term care and support services to eligible members enrolled in the Wisconsin Family Care Program under a contract with the Wisconsin Department of Health Services in 21 counties: Crawford, Grant, Green, Iowa, Juneau, Lafayette, Richland, Sauk; Chippewa, Dunn, Eau Claire, Pierce, St. Croix; Columbia, Dodge, Green Lake, Jefferson, Marquette, Washington, Waukesha, and Waushara.

At December 31, 2013, ContinuUs reported assets of \$32.3 million, liabilities of \$19 million, and equity of \$13.3 million. In 2013, ContinuUs had an operating gain of \$4.4 million on total revenues of \$185.3 million. The favorable operating results in 2013 were achieved by ContinuUs in part through the significant increase in enrollment through geographic expansion.

This examination resulted in six recommendations relating to regulatory data requests, conflict of interest, bank account reconciliations, bank accounts authorized signatory, and information technology.



## VII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 18 - Examination Data Requests—It is recommended that the organization develop and implement a calendar of regulatory deadlines to ensure that requested information is submitted on a timely basis.
2. Page 18 - Examination Data Requests—It is recommended that the organization establish procedures to ensure accurate information is provided in response to regulator requests..
3. Page 18 - Conflict of Interest Statements—It is recommended that the organization establish and implement procedures requiring annual disclosures of conflict of interest by its board of directors and executive-level staff (e.g., Chief Executive Officer, Chief Financial Officer, Chief Operating Officer) within the organization.
4. Page 19 - Bank Account Reconciliations—It is recommended that the organization perform bank reconciliations timely and that the reconciliations be properly dated and signed-off on by the preparer and at least one reviewer.
5. Page 19 - Bank Accounts Authorized Signatory—It is recommended that the organization immediately update its authorized signers with its bank and develop policies and procedures for updating bank accounts authorized signatory whenever there is a change in the authorized signatory.
6. Page 19 - Information Technology – SSAE 16, Type 2 Report—It is recommended that the organization either 1) obtain an SSAE 16, type 2 report from service providers of remote-hosted applications or 2) obtain by other means the assurance that IT controls over remote-hosted applications are designed to achieve control objectives and are operating effectively.

## **VIII. ACKNOWLEDGMENT**

The courtesy and cooperation extended during the course of the examination by the officers and employees of the organization 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:

<b>Name</b>	<b>Title</b>
Raymond Kangogo	Insurance Financial Examiner
Thomas Houston	Insurance Financial Examiner Advanced (IT Specialist)

Respectfully submitted,

Rauf Mirza  
Examiner-in-Charge