Report

of the

Examination of

NorthernBridges

Hayward, Wisconsin

As of December 31, 2011

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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July 24, 2012

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:

NORTHERNBRIDGES
Hayward, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

This is the first examination of NorthernBridges (the company or NB). The current examination covered the period ending December 31, 2011, and included a review of such 2012 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
Growth of the Company
Financial Statements
Accounts and Records

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

NorthernBridges 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 formed as a Long-Term Care District on June 2, 2008, to provide long-term care services to individuals who meet functional and financial requirements under Wisconsin's Family Care program. Resolutions adopted by Ashland, Barron, Bayfield, Burnett, Douglas, Iron, Polk, Price, Rusk, Sawyer, and Washburn counties pursuant to s. 46.2895, Wis. Stat., created the District. The District is considered a special purpose 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. NB is legally separate and fiscally independent of the counties, local, and state government. The company is permitted to operate under ch. 648, Wis. Stat.

On May 1, 2009, Barron and Douglas counties transferred its members to NB. Following May, members were transferred to NB as follows:

- June 2009: Burnett, Polk, and Washburn counties
- July 2009: Ashland, Bayfield, and Rusk counties
- August 2009: Iron, Price, and Sawyer counties

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

NB 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 with 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 NB 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

[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'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 (elderly population), Portage, and Richland; plus Racine and Kenosha counties. 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 eighteen members. Four to five directors are elected annually to serve a four-year term. Officers are elected by the board of directors. The board members currently receive no compensation for serving on the board, but receive the following stipends for attending board and committee meetings plus mileage and meal reimbursement:

- $75 per day for board meetings
- Board-related committee meetings
    - $25 for teleconference
    - $50 for meetings lasting three hours or less
    - $75 for meetings lasting greater than three hours
- Stipends cannot exceed $100 in a single day if more than one meeting is attended

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Jane Corty Grantsburg, WI	Office Manager	2016
Michael Hamm Ashland, WI	Retired	2016
Tom Innes Saxon, WI	Retired	2015
Howard Johnson Rice Lake, WI	Retired	2016
Delores Kittleson Washburn, WI	Retired	2013
Robert Kopisch Butternut, WI	Retired	2013
Michael Linton Chetek, WI	CEO, Coalition of WI Aging Groups	2016
Clifford Main Webb Lake, WI	Owner/Operator, C-Store	2014
David Markert Centuria, WI	Retired	2014
Beth Meyers Bayfield, WI	Executive Director, CORE Community Resources	2014

Name and Residence	Principal Occupation	Term Expires
Kenneth Mosentine Barron, WI	Retired	2015
Susan Reinardy Hayward, WI	Retired	2013
Steven Sather Spooner, WI	Retired	2015
Dale Schleeter Hayward, WI	President, Roscoe Butterfield Well & Pump, Inc.	2013
John Sweeney Superior, WI	Retired	2014
Terri Stone Gransburg, WI	Consultant, WI IRIS Program	2015
David Willingham Ladysmith, WI	Retired	2016
Joe Wolf Phillips, WI	Retired	2013

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	2011 Compensation
David Willingham	Chair	$ 3,775
Dale Schleeter	Vice Chair	2,450
Kenneth Mosentine	Secretary	2,200
John McMahon*	CEO	160,847
Rita Mueller*	COO	106,744
Jason Kohl*	CFO	107,806

* Senior managers who run the day-to-day operations of the company.

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
David Willingham, Chair
Robert Kopisch
Kenneth Mosentine
Dale Schleeter
Terri Stone

Financial Management Monitoring Committee
Robert Kopisch, Chair
Jack Sweeney, Vice Chair
Michael Linton
Susan Reinardy
Joe Wolf

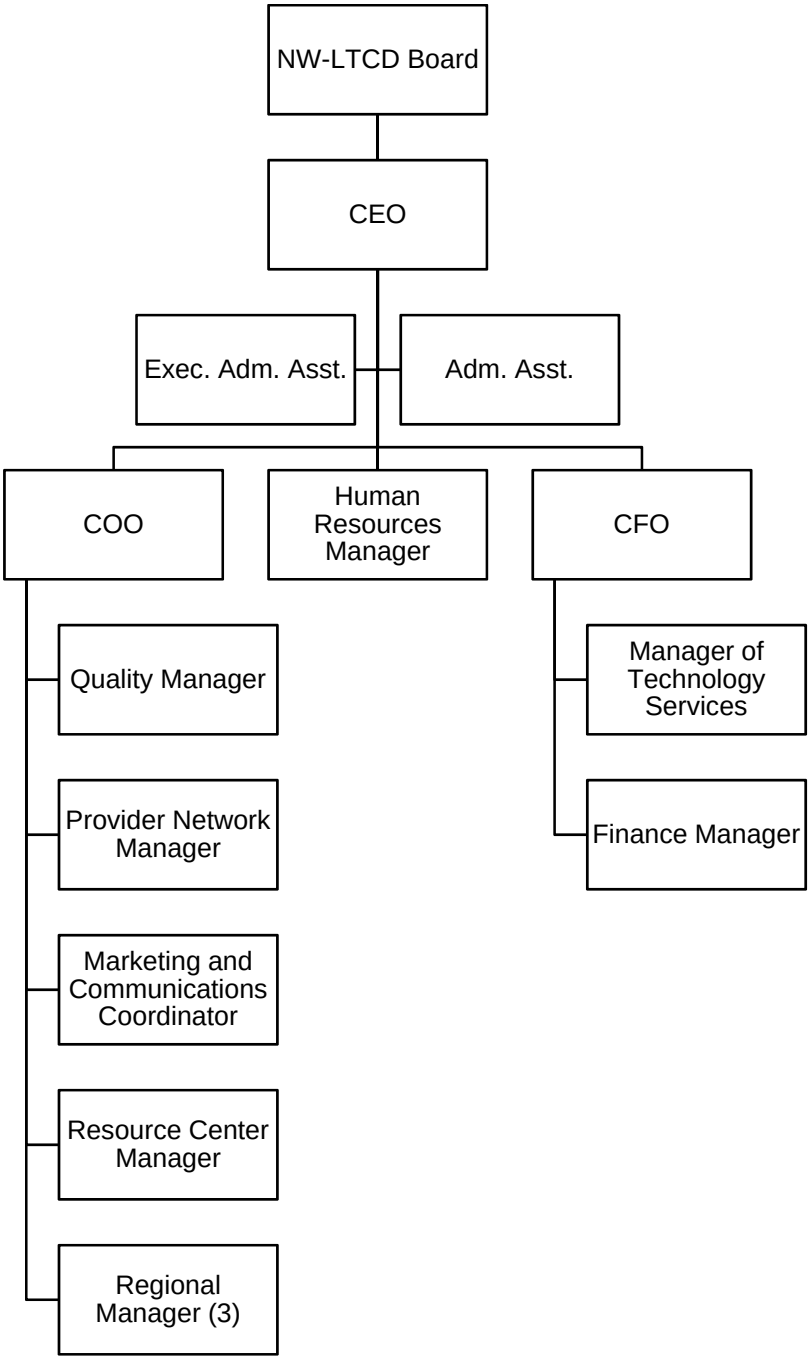
Member Relations Policy Monitoring Committee
Michael Hamm, Chair
Kenneth Mosentine, Vice Chair
Jane Corty
Michael Linton
Beth Meyers
Steven Sather

Quality Management Policy Monitoring Committee
David Markert, Chair
Michael Hamm, Vice Chair
Tom Innes
Howard Johnson
Delores Kittleson
Terri Stone

Conflict of Interest Policy Monitoring Committee
Clifford Main, Chair
Dale Schleeter, Vice Chair
Vacant

The company has its own employees. NB has established three divisions under the Chief Executive Officer. NB's functional organizational chart is on the following page.

NorthernBridges
Functional Organizational Chart



IV. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2011, financial statements. Also included in this section are schedules that reflect the company's growth 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."

NorthernBridges
Balance Sheet
As of December 31, 2011

Current Assets		
Cash and cash equivalents, operating		$3,533,417
Capitation receivable net of allowance		130,812
Other DHS receivables net of allowance		3,221,498
Cost share receivable net of allowance		27,119
Room and board receivable net of allowance		63,826
Spend down receivable net of allowance		2,577
Other short-term receivables net of allowance		30,826
Prepaid insurance		92,710
Prepaid providers		12,240
Prepaid expenses – other		61,222
Total Current Assets		7,176,247
Long-Term Assets		
Restricted assets:		
Risk reserve funds – FC Permitted MCO	$1,700,118	
Solvency reserve/guaranty funds on deposit permitted MCO	750,000	
Leasehold improvements (cost)	73,248	
Accumulated depreciation – leasehold improvements	(40,487)	
Furniture, equipment, and software (cost)	202,756	
Accumulated depreciation – furniture, equipment, and software	(113,538)	
Other long-term assets	47,261	
Total Long-Term Assets		2,619,358
Total Assets		$9,795,605
Current Liabilities		
Capitation payable	$ 360,721	
Accrued salaries	269,177	
Accrued taxes and benefits (current)	470,698	
IBNR member services – current year[4]	6,900,810	
IBNR member services – prior year	94,512	
Accounts payable – care management	9,011	
Accounts payable – general	81,098	
Total Liabilities		$8,186,027
Equity		
Beginning equity	(916,986)	
Current year net income	2,526,564	
Total Equity		1,609,578
Total Liabilities and Equity		$9,795,605

[4] The examination was unable to perform the necessary steps to determine if IBNR was reasonable at December 31, 2011. See "Summary of Current Examination Results" for further discussion.

NorthernBridges
Profit and Loss Statement
For the Period Ending December 31, 2011

Revenues			
MA capitation (net of cost share)			$69,761,872
Cost share revenue			1,036,620
Room and board revenue			5,310,696
Spend down revenue			158,481
Other third-party payer revenues			1,200
Interest/investment income – operating account			37,091
Other current year retro adjustments, DHS			3,137,061
Other income/funding			84,437
Total Revenue			79,527,458
Operating Expenses			
Direct Member Service Expenses			
Long Term Care Services (All Programs)			
Adaptive equipment	$ 923,637		
Adult day activities	2,132,068		
Habilitation/health	806,445		
Home care	8,636,119		
Home health care	4,535,429		
Institutional (NH/ICF-MR)	4,306,222		
Residential care	31,521,423		
Respite care	371,447		
Transportation	940,281		
Vocational	3,787,547		
Room and board – expenses	5,735,179		
Other FC LTC services	877,940		
Total Member Service Expenses		$64,573,737	
Care Management Expenses			
Care management (internal)	9,195,342		
Care management admin – allocated	557,634		
Total Care Management Expenses		9,752,976	
Administrative Expenses			
Stop loss premiums			
Wages and benefits	2,065,439		
Contracted TPA expense	428,535		
Occupancy	131,424		
Office expenses	54,237		
Legal/accounting/audit	61,557		
Contracted IT development	472,020		
Other professional services	430,194		
Depreciation expense	61,395		
Insurance expense	60,026		
Travel/training/conference expense	151,955		
Other administrative expenses	292,910		
Administrative allocation to care management	(557,634)		
Total Administrative Expenses		3,652,058	
Total Operating Expenses			77,978,771
Income (Loss) from Operations, Current Year			1,548,687

Other (Income) Expenses, Ordinary		
Investment income – reserve funds	(1,076)	
Prior year adjustment – IBNR	(949,775)	
Prior year adjustment – other DHS	(26,479)	
Prior year adjustment – other	(312)	
Other non-operating and PDR	(235)	
Total Other Expenses		(977,877)
Net Income (Loss)		$ 2,526,564

NorthernBridges
Statement of Cash Flows
For the Period Ending December 31, 2011

Operating Activities	
Net income per GL	$ 2,526,564
Add: Depreciation	61,395
(Increase) decrease Accounts receivable, capitation and DHS other	(2,065,999)
(Increase) decrease accounts receivable general	59,892
(Increase) decrease prepaid insurance	161,257
(Increase) decrease prepaid other	(8,182)
Increase (decrease) IBNR	53,169
Increase (decrease) accounts payable	(26,691)
Increase (decrease) wages/taxes/ben. payable	126,595
Increase (decrease) unearned revenues	(20,742,763)
Net Cash Provided by Operating Activities	(19,854,763)
Investing Activities	
Change in long-term investments	(1,450,118)
Net increase in cash and cash equivalents	(21,304,881)
Cash and cash equivalents beginning of period	24,838,298
Cash and Cash Equivalents End of Period	$ 3,533,417

Growth of NorthernBridges

Year	Assets[5]	Liabilities	Equity	Capitation Revenue	Member Service Expenses	Net Income (Loss)	Member Months
2011	$ 9,795,605	$ 8,186,027	$1,609,578	$69,761,872	$64,573,737	$2,526,564	24,028
2010	27,858,731	28,775,717	(916,986)	71,949,419	63,021,484	(708,519)	22,005
2009	8,331,932	8,540,400	(208,468)	32,639,240	32,888,806	(603,583)	11,038

Year	Profit Margin	Member Service Cost Ratio	Care Management Service Cost Ratio	Combined Member Service Cost Ratio	Administrative Expense Ratio	Change in Member Months
2011	3.5%	79.5%	13.4%	92.9%	5.0%	9.2%
2010	-1.0	81.7	13.1	94.8	5.0	99.4
2009	-1.6	79.1	16.0	95.1	6.5	

Per Member Per Month Information

	2011	2010	Percentage Change
Revenues			
Capitation	$3,033.92	$3,086.69	-1.7%
Other revenue	275.87	359.83	-23.3
Total revenue	3,309.78	3,446.52	-4.0
Expenses:			
Member service costs	2,687.44	2,863.96	-6.2
Care management	405.90	416.97	-2.7
Administrative	151.99	158.33	-4.0
Total operating expenses	3,245.33	3,439.26	-5.6
Other non-operating expenses (income)	(40.70)	39.46	3.1
Net income (loss)	$ 105.15	$ (32.20)	226.6
Member months	24,028	22,005	9.2

The net losses reported in 2009 and 2010 are the result of the company's costs being higher than its capitation. The higher costs are attributable to being a new organization and significant expansion in 2009. 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

[5] The increase in assets and liabilities in 2010 occurred when DHS prepaid January to April 2011 capitation in December 2010.

provider contracts are re-negotiated, member service costs begin to decline and CMOs generally start to report improved operating results.

The favorable operating results in 2011 resulted from cost saving initiatives being implemented and enhanced funding from DHS. NB also continued to have membership growth in 2011 as individuals were enrolled into Family Care from wait lists that had been created under the county-run Waiver Program until an enrollment cap was enacted on July 1, 2011, at June 30, 2011, enrollment levels across the Family Care Program by CMO region. The enrollment cap was lifted on April 3, 2012.

Subsequent Events

NB's monthly financial statements through July 31, 2012, report a year-to-date net loss of $1,032,154 reducing NB's equity position to $577,421. These results include an estimated acuity adjustment of $445,099 that has not yet been confirmed by DHS. NB has received its preliminary capitation rate for 2013 from DHS, which reduces NB's rate by $64.84 per member per month.

NB has stated that a cost savings initiative has been enacted to reduce residential service rates for some providers effective August 1, 2012, which management purports will result in savings and slow the trend of operating losses.

Reconciliation of Equity per Examination

No adjustments were made to equity as a result of the examination. However, the examination was unable to perform the necessary steps to determine if NB's incurred but not reported (IBNR) was reasonably stated at December 31, 2011. See "Summary of Current Examination Results" for further discussion. The amount of equity reported by the company as of December 31, 2011, is accepted.

V. 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 Plan Changes

All significant changes to NB's business plan require prior notification to the Commissioner's office. Section Ins 57.06, Wis. Adm. Code, states:

> "A care management organization shall file a written report of any proposed substantial change in its business plan. The care management organization shall file the report at least 30 days prior to the effective date of the change…. Substantial changes include changes in articles and bylaws, organization type, geographical service area, provider agreements, provider availability administration, financial projections and guarantees and any other changes that might affect the financial solvency of the organization."

During the review of NB's bylaws, it was noted that NB had amended its bylaws on July 6, 2010, and July 5, 2011. In addition, the examiners noted that NB transitioned to a new third-party administrator (TPA) for claims processing on June 1, 2012, without providing notice to the Commissioner's office. Material changes of this nature should be filed with the Commissioner at least 30 days prior to the effective date. It is recommended that significant changes in the business plan be reported to the Commissioner in writing at least 30 days prior to the effective date of the change in accordance with s. Ins 57.06, Wis. Adm. Code.

Financial Reporting – Loans

The examination identified that NB had received forgivable loans from Sawyer and Washburn counties for $100,000 each. The loans are to be forgiven over a 5-year period as long as certain conditions are met during the period. The Sawyer County loan is to be forgiven if NB maintains its headquarters within Sawyer County and creates 15 additional jobs over a 5-year period; if NB were to cease operations before the end of the 5-year period, the full amount of the loan will be due. The Washburn County loan is to be forgiven over a 5-year period at a rate of $20,000 per year as long as NB maintains a location within Washburn County. NB had not disclosed these loans in the notes to the financial statements as a contingency. It is likely that

both loans will be forgiven as NB has recently completed its third year of operations, but should have disclosed the forgivable loans in the notes to the financial statements to provide the readers of the financial statements with the necessary information to make informed decisions. It is recommended that NB properly disclose the forgivable loans that they received from Sawyer and Washburn counties in the notes to the financial statements.

Crossover Claims

The examination identified that NB's TPA was overpaying claims when Medicare was the first payer (i.e., crossover claims). The claims sample selected by the examiners included three crossover claims and, in each case, the amount paid by NB was incorrect. The examiners noted that it appears the crossover claims were being paid on the basis of the billed amount less what Medicare paid and then any remaining due would be paid up to the NB's authorized amount. Crossover claims should be paid using the lower of the Medicare allowed, Medicaid allowed or NB authorized amount less the payment from Medicare to establish the amount owed by NB. The aggregate of the three claims selected during testing resulted in NB overpaying by $16, which is immaterial to the examination. However, this does put NB and the Family Care Program at financial risk.

The TPA used by NB is part of the Statewide Long-Term Infrastructure Third Party Administration Agreement (i.e., Master Contract) between DHS, NB, and the TPA where it states in Appendix A-Clarification of Requirements, sections 4.2.99 and 4.2.114, that claims shall be calculated based on established rules and rates. The rules include paying the lesser of:

- Medicare allowed amount less any amount paid by other insurance sources and any copayments or spenddown amounts paid by the member.
- Medicaid allowed amount less any amount paid by other insurance sources and any copayments (including Medicare) or spenddown paid by the member.

It is NB's responsibility to ensure that the TPA is acting in accordance to its agreement. NB staff was unaware that overpayments were occurring until it was brought to their attention by the examiners. NB should be performing periodic reviews of claims processed by its TPA to ensure adherence to the Master Contract and that NB is not overpaying for services. NB recently transitioned to a different TPA that also has a Master Contract with DHS, which may reduce the

risk of overpaying crossover claims. It is recommended that NB perform periodic claim processing reviews of its TPA to ensure that claims are processed in accordance to the Master Contract and to ensure that NB is not overpaying for services. In addition, NB shall submit to the Office of the Commissioner of Insurance (OCI) within 60 days after adoption of this report documentation that supports crossover claims are being paid within established rules and rates.

Claims Data Integrity

The examiners were unable to validate the 2011 paid claims data file received for the examination with the total paid claims in the Analysis of Payments for Member Services in the financial statement package. It was determined through inquiry that the system and/or TPA used by NB through May 2012 would change the paid amount if an adjustment had been processed against the claim. This was evidenced when the examiners obtained a second data file from NB and was unable to agree paid amounts between the two data files for a given month or day because adjustments had processed against paid claims between the dates of when the files were generated. The examiners deemed the claims data to be inaccurate and were unable to place reliance on this data. Therefore, this examination did not perform the customary claims development to determine if incurred but not reported (IBNR) at December 31, 2011, was reasonable. Furthermore, the examination had to limit claims testing to verifying that claims were paid in accordance to the provider contracted rate, agreed with the provider invoice, and that the service was authorized.

The changing of the paid amount in the claim history poses a significant risk to NB and the Family Care Program. NB is unable to use historical claims data in establishing IBNR (either as a primary basis or as a reasonableness check). This limits NB to relying solely on authorizations as a method of establishing IBNR, which further exposes NB to Care Manager behavior by either over or under authorizing services. In addition, the change of the paid amount is in violation of the Master Contract section 4.2.96 with the TPA.

NB may have reduced this risk by changing care management systems and TPAs in May and June 2012, respectively. The examiners inquired with NB staff to determine how the new system and TPA handle adjustments after a claim has been paid but the staff was unsure

because there is not sufficient history at the time of the examination. NB staff needs to take steps to understand how claims and adjustments are processed and recorded in the system in order to make any necessary changes in their processes and methodology used in establishing IBNR.

It is recommended that NB work with its TPA for claims processing and the vendor obtained for the new system to determine how claims information is processed and recorded. If the TPA and system change historical information, NB should work with its TPA and system vendor to change the system so that historical information cannot be changed. In addition, NB shall submit to OCI within 60 days after adoption of this report information that supports historical paid amounts do not change after payment has been made.

Internal Controls – Payroll

The examination noted the following internal control deficiencies over the payroll function:

- Prior to the generation of the ACH file, the Staff Accountant reviews the "Calculate Checks Report" against the prior payroll for reasonableness. Once the Staff Accountant's review is completed, he informs the Financial Assistant that it is ok to continue with generating the ACH file for the bank. The authorization provided by the Staff Accountant is verbal and not documented. The review and authorization of payroll is a significant control in the payroll processing function because it is used to mitigate control weaknesses in other parts of the payroll process. The authorization of the payroll by the Staff Accountant should be documented via signoff on the "Confirmation of Payroll & Payroll Liabilities Memo" that is used to document the authorization of the Chief Financial Officer.

- The Financial Assistant enters all employee expenses into the payroll system for reimbursement. Once the Financial Assistant completes the entries, she reviews the batch to ensure that all employee expense reimbursements have been entered correctly. Currently, there is no second-level review/approval of the employee expense batch to verify the accuracy of the batch entry. The lack of a second-level review/approval of employee expense batches puts NB and the Family Care Program at risk for fraud to occur. This risk could be mitigated through the review that is performed by the Staff Accountant, who only has read only access to the payroll system.

- NB board members are compensated for their time at board meetings and reasonable expenses through the payroll system. The generation of payment to board members is done on the same cycle as employee payroll. One of the main differences in the process is that board members receive actual checks versus employees use of direct deposit. The checks are printed by the Financial Assistant and then given to an Administrative Assistant to stamp the authorized signature on the check. The checks are then given back to the Financial

> Assistant for mailing. This weakens the control functions over the board compensation because the same individual is generating and mailing the check. This process could be improved by having someone other than the Financial Assistant mail the check.

It is recommended that NB review the internal controls over the payroll function as it relates to the items mentioned above and then implement procedures to properly mitigate the weaknesses identified.

Other Short-Term Receivables

The examination review of "Other short-term receivables" identified a portion of the receivable ($16,951 or 55%) represents a receivable that NB has established to themselves. The receivable occurs when NB pays a non-contracted provider through its general accounts payable process versus through standard claims processing. NB has a contract requirement to report all provider encounters (i.e., claims) to DHS through what is known as Encounter Reporting. It is common industry practice for CMOs to establish a receivable to themselves and then have the claim processed internally or by the CMO's TPA through the claims system with a disbursement being issued to the CMO. NB follows this same process, but they have not processed non-contracted provider claims through their TPA since January 2011 because of difficulties they were having with the TPA at that time. Recently, NB has obtained a new TPA and is planning to resume the standard process with the new TPA, which is to include a catch-up of all old non-contracted provider transactions that had not been reported in Encounter Reporting. The determination to not process non-contracted provider claims through NB's TPA; which results in the information not being included in Encounter Reporting, does not lend itself to good business practices or compliance with the DHS contract. It is recommended that NB timely report non-contracted provider payments through its claim system and Encounter Reporting in a timely manner. NB shall provide documentation supporting that they have resumed the process of reporting non-contracted provider payments through the claims system and Encounter Reporting within 60 days after the adoption of the report.

Care Management Allocation

The examination's review of the administrative allocation to care management identified that NB is inaccurately allocating cost to the care management classification in the

financial statements. The allocation to care management should not include penalties, bank charges, dues and subscriptions, etc., of the headquartered location. 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 internal care management. NB should contact the DHS Division of Long-Term Care (DLTC) Fiscal Oversight staff for technical assistance in determining the appropriateness of their administrative expense allocation to care management to ensure that care management and administrative expenses are accurately stated and are in line with the Family Care model. It is recommended that NB obtain technical assistance from DHS DLTC Fiscal Oversight staff on determining the appropriate costs to be allocated to internal care management in accordance with the Family Care model.

Disaster Recover/Business Continuity

The examination's review of NB's IT environment determined that NB does not have a formal disaster recovery and business continuity plan in place. NB has not had a disaster recovery and business continuity plan because significant applications are provided under contract service agreements and not located on NB's servers. Even though significant applications are not located on NB's servers, the company should have a plan in place that outlines the steps to take in case a disaster would occur (i.e., who to contact, what order certain processes should occur in, alternative sites, etc.). The disaster recovery and business continuity plan at a minimum should identify what would be done if there were no access to the office building and/or access to the mainframe computer. Furthermore, effective disaster recovery and business continuity plans should be reviewed, tested, and updated at least annually. It is recommended that NB develop and formalize a disaster recovery and business continuity plan. It is further recommended that NB periodically update and test their finalized disaster recovery and business continuity plan as it relates to critical processes on a periodic basis (at least annually).

IT Change Management

The examination determined that NB has not developed a formal process for change management as it relates to IT applications and infrastructure. Policy and procedures for change

management are intended to document an organization's process from initial request of the change to post implementation review. The policy and procedure should provide guidance on the following:

- A standardized log for tracking changes
- Who's authorized to suggest changes to applications on third-party servers
- Who's authorized to make changes on applications on company-owned servers
- Points in the process where signoff is required on the work performed and who is authorized to give proper signoff
- Who tests the changes being made
- Who's is responsible to ensure that approved changes are implemented
- Change mitigation strategies (i.e., back-out/contingency planning)

The lack of an IT Change Management Policy and Procedure puts the company at risk for unwanted changes and/or changes not being implemented as intended. It is recommended that NB develop and implement a policy and procedure for change management of IT applications and infrastructure including changes requested to software leased from third parties.

IT Security

The examination's review of NB's monitoring of network infrastructure identified that NB has a spam filter, anti-virus, anti-malware, and intrusion detection software. The review further identified that NB does not have its monitoring process documented and IT staff are not producing and monitoring reports that show unusual usage and possible intrusions. Furthermore, NB does not have a policy and procedure to address what to do when a security incident happens. The passive oversight to monitoring network infrastructure and applications poses a significant risk to NB and potentially the Family Care Program because it is unclear if NB would be aware or could identify if someone "hacked" its systems. NB should take a more aggressive approach in their monitoring of network infrastructure by developing and implementing a formal process and having a documented procedure for when an incident does occur. The monitoring process should include the generation and review of regular reports, and the policy and procedure to address security incidents, at minimum, should include the following:

- Who is responsible for monitoring reports; including those from third parties
- How a security incident is identified

- Who to inform when such an incident arises
- What steps are needed to remedy any damage created by the incident

NB should also be obtaining regular reports from third parties where NB has licenses to use the third party's system and where member data/information is actually stored. For example, NB's care management system is not on any NB servers, but rather NB has licenses to access/use the third party's system. The third party should be providing NB with regular reports that identify if any security incidents have been attempted or occurred that would put NB's data and information at risk. It is recommended that NB develop and implement a formal process to monitor its IT infrastructure, applications, and data against unwanted intrusions. It is further recommended that NB develop and implement a formal policy and procedure that addresses the steps that should occur when a security incident has taken place.

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, 2011, 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 company's financial requirement calculations as of December 31, 2011, are as follows:

Working Capital	
Current assets	$ 7,176,247
Current liabilities	8,186,027
Working capital	(1,009,780)
Working capital requirement	2,161,567
Excess/(shortage)	$(3,171,347)
Restricted Reserves	
Current restricted reserves	$1,700,118
Restricted reserve requirement	1,720,522
Excess/(shortage)	$ (20,404)
Solvency Fund	
Current solvency fund	$ 750,000
Solvency fund requirement	750,000
Excess/(shortage)	$ 0

The company was not meeting its financial requirements at December 31, 2011.

NorthernBridges has filed a three-year business plan with DHS and this office to show their plan for coming into compliance with the financial requirements.

VI. CONCLUSION

NorthernBridges accepted its first members on May 1, 2009, from Barron and Douglas counties. NB provides long-term care services to an 11-county region in northwest Wisconsin as part of the Wisconsin Family Care Program.

At December 31, 2011, NB reported assets of $9.8 million, liabilities of $8.2 million, and equity of $1.6 million. In 2011, NB had an operating gain of $2.5 million on total revenues of $79.5 million. The favorable operating results in 2011 were achieved through cost saving strategies implemented by NB and enhanced funding provided by DHS. The 2011 favorable operating results did not continue into 2012 as NB has reported a year-to-date net loss of over $1.0 million on July 31, 2012, reducing NB's equity position to $577,421.

The examination resulted in 12 recommendations relating to information technology, financial reporting, and claims processing/data integrity.

VII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 17 - Business Plan Changes—It is recommended that significant changes in the business plan be reported to the Commissioner in writing at least 30 days prior to the effective date of the change in accordance with s. Ins 57.06, Wis. Adm. Code.

2. Page 18 - Financial Reporting – Loans—It is recommended that NB properly disclose the forgivable loans that they received from Sawyer and Washburn counties in the notes to the financial statements.

3. Page 19 - Crossover Claims—It is recommended that NB perform periodic claim processing reviews of its TPA to ensure that claims are processed in accordance to the Master Contract and to ensure that NB is not overpaying for services. In addition, NB shall submit to the Office of the Commissioner of Insurance (OCI) within 60 days after adoption of this report documentation that supports crossover claims are being paid within established rules and rates.

4. Page 20 - Claims Data Integrity—It is recommended that NB work with its TPA for claims processing and the vendor obtained for the new system to determine how claims information is processed and recorded. If the TPA and system change historical information, NB should work with its TPA and system vendor to change the system so that historical information cannot be changed. In addition, NB shall submit to OCI within 60 days after adoption of this report information that supports historical paid amounts do not change after payment has been made.

5. Page 21 - Internal Controls – Payroll—It is recommended that NB review the internal controls over the payroll function as it relates to the items mentioned above and then implement procedures to properly mitigate the weaknesses identified.

6. Page 21 - Other Short-Term Receivables—It is recommended that NB timely report non-contracted provider payments through its claim system and Encounter Reporting in a timely manner. NB shall provide documentation supporting that they have resumed the process of reporting non-contracted provider payments through the claims system and Encounter Reporting within 60 days after the adoption of the report.

7. Page 22 - Care Management Allocation—It is recommended that NB obtain technical assistance from DHS DLTC Fiscal Oversight staff on determining the appropriate costs to be allocated to internal care management in accordance with the Family Care model.

8. Page 22 - Disaster Recovery/Business Continuity—It is recommended that NB develop and formalize a disaster recovery and business continuity plan.

9. Page 22 - Disaster Recovery/Business Continuity—It is further recommended that NB periodically update and test their finalized disaster recovery and business continuity plan as it relates to critical processes on a periodic basis (at least annually).

10. Page 23 - IT Change Management—It is recommended that NB develop and implement a policy and procedure for change management of IT applications

and infrastructure including changes requested to software leased from third parties.

11. Page 24 - IT Security—It is recommended that NB develop and implement a formal process to monitor its IT infrastructure, applications, and data against unwanted intrusions.

12. Page 24 - IT Security—It is further recommended that NB develop and implement a formal policy and procedure that addresses the steps that should occur when a security incident has taken place.

VIII. 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
Rachel Liu	Insurance Financial Examiner
Rauf Mirza	Insurance Financial Examiner

Respectfully submitted,

Amy J. Malm, CFE
Examiner-in-Charge