

STATE OF ALABAMA
DEPARTMENT OF INSURANCE

REPORT OF EXAMINATION
of
THE OATH- A HEALTH PLAN FOR ALABAMA, INC.
BIRMINGHAM, ALABAMA

as of
DECEMBER 31, 2001

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EXAMINATION AFFIDAVIT

STATE OF ALABAMA
COUNTY OF JEFFERSON

Rhonda B. Ball being first duly sworn, upon her oath deposes and says:

That she is an examiner appointed by the Commissioner of Insurance for the State of Alabama;

That an examination was made of the affairs and financial condition of The Oath- A Health Plan for Alabama, Inc. for the period of January 1, 2000 through December 31, 2001;

That the following 58 pages constitute the report thereon to the Commissioner of Insurance of the State of Alabama;

And, that the statements, exhibits, and data therein contained are true and correct to the best of her knowledge and belief.

Rhonda B. Ball

Rhonda B. Ball
Examiner-in-charge

Subscribed and sworn to before the undersigned authority this day of August 22, 2002.

Shannon S. Downs

(Signature of Notary Public)

Shannon S. Downs, Notary Public

Printed name

in and for the State of Alabama

My commission expires _____

MY COMMISSION EXPIRES MAY 23, 2005



**GOVERNOR
DON SIEGELMAN**

**STATE OF ALABAMA
DEPARTMENT OF INSURANCE
EXAMINATION DIVISION**

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**COMMISSIONER
D. DAVID PARSONS**

**Chief Examiner
Richard L. Ford**

**State Fire Marshal
John S. Robison**

**General Counsel
Michael A. Bownes**

Birmingham, Alabama
August 22, 2002

Honorable D. David Parsons
Commissioner of Insurance
State of Alabama
Department of Insurance
Post Office Box 303350
Montgomery, Alabama 36130-3350

Dear Commissioner Parsons:

Pursuant to your instructions and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners, an examination has been made of the affairs and condition of

**The Oath- A Health Plan for Alabama, Inc.
Birmingham, Alabama**

as of December 31, 2001, at its home office located at Two Perimeter Park South, Suite 200 West, Birmingham, Alabama, 35243. The report of examination is submitted herewith.

Where the term, Company, appears herein without qualification, it is synonymous with The Oath- A Health Plan for Alabama, Inc.

SCOPE OF EXAMINATION

The examination reported herein covers the period from January 1, 2000, through December 31, 2001, and has been conducted by examiners representing the Alabama Department of Insurance. Events subsequent to December 31, 2001, have been reviewed and are reported herein as deemed appropriate.

The Company has been examined in accordance with the statutory requirements of the State of Alabama for a Health Maintenance Organization, and in accordance with applicable laws of the State of Alabama; Alabama Insurance Departmental regulations, bulletins and directives; and in accordance with the applicable guidelines and procedures of the NAIC; and in accordance with generally accepted examination standards.

The examination included a general review of the Company's operations, administrative practices and compliance with statutes and regulations. Income and disbursement items were tested for selected periods. Assets were verified and valued and all known liabilities were established or estimated as of December 31, 2001, as shown in the financial statements contained herein. However, the discussion of assets and liabilities contained in this report has been confined to those items which resulted in a change to the financial statements, or which indicated a violation of the *Alabama Insurance Code* and the Insurance Department's rules and regulations or other insurance laws or rules, or which were deemed to require comments and/or recommendations.

A signed certificate of representation was obtained during the course of the examination. In this certificate, management attested to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2001. A signed letter of representation was also obtained at the conclusion of the examination, whereby management represented that, through the date of this examination report, complete disclosure was made to the examiners regarding asset and liability valuation, financial position of the Company, and contingent liabilities. The Company amended the standard NAIC letter of representation to disclose all "material" amounts more than \$100,000 instead of the \$5,000 originally requested by the examiners. Commentary of "other than as disclosed by counsel" was added to the Contingent Liabilities section of the representation letter, which stated the following:

- "Other than as disclosed by counsel, the Company is not aware of any material contingent liabilities as of August 19, 2002.

- Other than as disclosed by counsel, the Company has committed no reserves to cover any contingent liabilities.
- Other than as disclosed by counsel, there is no litigation against the Company that is considered material in relation to the statutory financial position of the Company. For purposes of this section, the Company has excluded litigation for which the only amounts sought relate to benefits within the normal terms of coverage under contracts of insurance issued by the Company, and which are otherwise considered in the actuarial determination of the Company's unpaid claim reserves."

Two of the Company's attorneys did not provide confirmations on commitments and contingent liabilities the Company may have been liable for at December 31, 2001. See the "Contingent Liabilities and Pending Litigation" section on page 49. The Company also qualified the following statement by adding "or otherwise known to the ADOI."

"26. The Company is not aware of any events occurring subsequent to the close of the books for the statutory financial statement of December 31, 2001, which may have a material effect on its financial position, other than those disclosed in your Report of Examination or otherwise known to the ADOI."

This addition indicated there were possible subsequent events not disclosed to the examiners subsequent to December 31, 2001, and therefore were not disclosed in this examination report.

The market conduct phase of the examination consisted of a limited review of the Company's territory, plan of operation, policy forms and underwriting practices, advertising and marketing, compliance with agents' licensing requirements, compliance with privacy regulations (Alabama Department of Insurance Regulation Chapter 482-1-122), and the Company's compliance with the prompt pay act found in Section 27-1-17 (a), Code of Alabama 1975, as amended.

This examination report is qualified to the extent that the Company did not provide all requested information to the examiners in accordance with Alabama Department of Insurance Regulation No. 118. The records in question were related to attorney confirmations, see "Contingent Liabilities and Pending Litigation" on page 49; a member contract, see "Note 11 - Premiums received in advance" on page 45; final accounting records for capitation related reserves, see

"Note 6 - Amounts recoverable from reinsurers and Aggregate write-ins for other liabilities" on page 39; and, the detail for the paid in capital, see "Note 16 - Gross paid in and contributed surplus" on page 46.

ORGANIZATION AND HISTORY

The Company began operations on April 1, 1985, as a health maintenance organization, licensed by the state of Alabama. The original name of the Company was "Sunmark Health Plans."

On May 28, 1986, the Company was purchased by Baptist Health Systems, Inc. (BHS), formerly Baptist Medical Centers, and the name was changed to "Samaritan Health Plans." BHS is a non-profit corporation, which later formed a for-profit holding company, BHS Affinity, Inc. (BHSA) and transferred ownership of the Company to BHSA. On February 28, 1988, the name of the Company was changed to "Partners Health Plan of Alabama, Inc." On September 22, 1992, the Company's name was changed to "Health Partners of Alabama, Inc."

On January 1, 1995, the Company merged with Gulf Health Plans HMO, Inc. (GHP) with the Company as the surviving entity. Infirmary Health System, Inc. (IHS), parent of GHP, had its shares in GHP converted into 620 shares of the Company, making it a minority shareholder. As a result of the merger, the Company was owned 89% by BHS and 11% by IHS.

On March 1, 1995, the Company purchased a third party administrator, Gulf Health Plans, Inc. and purchased HPA Administrative Services, Inc. from BHS. Upon the effective date of the purchase, HPA Administrative Services, Inc. was merged into Gulf Health Plans, Inc. with HPA Administrative Services, Inc. as the surviving corporation. It is a wholly owned subsidiary of the Company.

On August 16, 1996, BHSA and IHS formed a holding company, Health Partners Southeast, Inc. (HPSE). BHSA and IHS each contributed their ownership interest in the Company to HPSE. Upon consummation of the transaction, HPSE became 100% owner of the Company, and HPSE was owned 89% by BHS and 11% by IHS.

On September 23, 1996, HPSE purchased PCA Health Plan of Alabama, Inc., PCA Health Plan of Georgia, Inc. and Health Strategies, Inc. The name of PCA Health Plan of Alabama, Inc. was changed to "Merit Health Plan of Alabama,

Inc.” (Merit). PCA Health Plan of Georgia’s name was changed to “HPC Health Plans of Georgia, Inc.” Both of these HMOs were affiliates of the Company. Health Strategies, Inc. is an affiliate of the Company.

On April 28, 1998, an Order to Show Cause concerning the violation of Alabama Department of Insurance Regulation No. 101, Hazardous Financial Condition was issued due to the Company’s losses exceeding 50% of its net worth as stated in the 1997 Annual Statement. As a result, monthly financial statements were sent to the Department. The Order was lifted May 7, 1999, due to the sworn statement by BHS’s Chairman, Mr. Green, that BHS would continue to financially support the Company as long as it was owned by the Hospital. The Commissioner required the Company to maintain a \$3 million stand-by letter of credit in favor of the Alabama Insurance Department as an added precaution against the violation of the aforementioned regulation.

On April 14, 1999, at a Form A hearing, BHS purchased the remaining 11% of HPSE from IHS. The purchase price was an agreement and a guarantee that the full and prompt payment of \$23 million in notes issued by HPSE pursuant to the terms of a fiscal agency agreement dated August 1, 1996 between HPSE and AmSouth Bank of Alabama would be paid in full. As of April 14, 1999, HPSE was a wholly owned subsidiary of BHS.

On September 30, 1999, the Company merged with Merit. The Company remained as the surviving corporation after the merger. The outstanding shares of Merit were cancelled as of September 30, 1999, and HPSE owned 5,000 shares of the Company.

On March 10, 2000, an Order to Show Cause for violating Alabama Department of Insurance Regulation 101, Hazardous Financial Condition, was issued because the Company’s losses exceeded 50% of its net worth as stated in its 1999 Annual Statement. A hearing to suspend the certificate of authority was set for April 11, 2000. On March 31, 2000, a Continuation of the Notice of Hearing was made and granted until such time as a Form A hearing on the acquisition of the Company could be scheduled.

On March 24, 2000, BHS received a letter of intent from Venture Health Partnership Group, LLC (VHPG), a Delaware limited liability company, to purchase all the issued and outstanding shares of capital stock and assets of Health Partners Southeast, Inc. (HPSE).

On June 8, 2000, a Form A hearing was held at the Alabama Department of Insurance, in which the sale was approved by the acting Alabama Insurance Commissioner to be effective on June 1, 2000. At said meeting, a document illustrating the breakdown of payments made and to-be-made by BHS was distributed. BHS made two capital contributions in the amounts of \$5,643,000 and \$18,420,771 prior to closing the sale. Part of the contributions was used to write down the affiliate receivables for BHS, Baptist Medical Centers, Montclair Hospital and Princeton Hospital.

On November 13, 2000, the Company's name was changed to The Oath- A Health Plan for Alabama, Inc.

On March 23, 2001, an Order to Show Cause for violating Alabama Department of Insurance Regulation 101, Hazardous Financial Condition, was issued because the Company's losses exceeded 50% of its net worth as stated in its 2000 Annual Statement. A hearing to suspend the certificate of authority was set for April 18, 2001. On April 18, 2001, a Continuation of the Notice of Hearing was made and no new hearing date was set at that time.

On June 5, 2001, a Notice of Continuation of Hearing was made and a hearing date was rescheduled for July 11, 2001. This hearing was cancelled and another Order to Show Cause was issued on September 4, 2001.

On September 5, 2001, an Order was issued to immediately cease paying any monies out of the Company for any and all consulting fees due to the Company continuing to be in a hazardous financial condition, which was placing the enrollees at risk. Additionally, all administrative expenses, prior to being paid, were to be reviewed by Ms. Denise Azar, Acting Chief, Receivership Division of the Department.

A hearing was set for September 18, 2001, but then was rescheduled for September 20, 2001. At the September 20, 2001 hearing, there was sworn testimony by Company officials that within five days approximately \$1.5 million would be wire transferred into the Company and then disbursed for settlement in the dispute with Baptist Health Systems, Inc. Additional testimony indicated other steps being taken to provide further infusion of capital into the Company, so as to resolve its financial impairment. The Commissioner agreed, at the close of the hearing, to leave the record open in this proceeding until October 11, 2001, for the purpose of receiving additional documentation to evidence the Company's testimony.

On September 24, 2001, it was ORDERED that the record would remain open until October 11, 2001, to permit Company representatives to file additional documentary evidence in support of their position and testimony noted above at the September 20, 2001 hearing. It was also ORDERED that the Company immediately cure its financial impairment and provide evidence to the Department that this had occurred, no later than September 25, 2001. This evidence was to include a September 30, 2001 *pro forma* balance sheet indicating the Company's expected financial condition. The Commissioner also REQUESTED the Company to voluntarily stop the marketing of its products to new groups. It was also ORDERED that until further supporting information was received and reviewed by the Department, the management agreement between the Company and Scheur Management Group (SMG) was hereby DISAPPROVED. No further payments were to be made by the Company to SMG under this agreement until further ordered. The Commissioner ORDERED that the Company immediately provide documentation regarding each consultant employed with the Company under the management agreement to include each consultant's position or job title, time sheets for the consultants' work schedule at the Company, and copies of any documentation evidencing the work product of these consultants.

On October 17, 2001, an ORDER was issued stating that the Company had until November 15, 2001 to file its September 30, 2001 financial statement and submit additional documentary evidence including actuarial studies to support the financial assumptions indicating whether additional funds were needed to remain solvent into the foreseeable future, in which case said additional funds should be infused into the Company no later than November 20, 2001; that beginning November 2001 through and including April 2002, the Company will submit certified monthly financial statements using the format of the National Association of Insurance Commissioners quarterly statement blank (jurat page and first seven pages), to be filed within thirty days of the end of the next month; and, that the Company will continue to be under the oversight of the Department pursuant to the terms of the Agreement to Continue Hearing dated July 11, 2001.

In October 2001, a surplus note was issued by Venture Health Partnership Group, Inc., in order to meet the minimum statutory requirements by the Alabama Department of Insurance.

GROWTH OF THE COMPANY

The following schedule presents financial data, which reflect the growth of the Company for the years indicated:

<u>Year</u>	<u>Premium & Related Revenue</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>
1999*	229,700,117	41,177,521	39,496,799	1,680,722
2000	230,381,594	44,668,005	40,383,203	4,284,802
2001*	211,865,970	28,427,057	29,039,086	- 612,029

*Data for the years 1999 and 2001 were per examinations. Data for 2000 was obtained from the 2000 Annual Statement.

SURPLUS

Sources of Capital and Surplus

The Company's authorized capital stock consisted of 120,000 shares of common stock, of which 5,620 were outstanding. At December 31, 2001, common capital stock consisted of \$112,400 derived from 5,620 shares at a par value of \$20 per share. Paid in surplus consisted of \$88,824,744. A surplus note of \$1.5 million was issued in October 2001. Capital and surplus amounts were offset by an unassigned funds deficit of \$85,399,463 and other surplus accounts of \$(2,338,495), resulting in total capital and surplus in the amount of \$2,699,186, per the Company's 2001 Annual Statement. Examination adjustments reduced the Company's capital and surplus to \$(612,029).

The Company experienced operating losses during the years under examination of \$(19,239,399) during 2000 and \$(1,915,617) during 2001, per the Company's 2000 and 2001 Annual Statements. Examination adjustments increased the Company's 2001 net loss to \$(2,914,821). Surplus contributions were received in the amounts of \$18,569,959 during 2000 and \$14,576 during 2001. See "Note 16- Gross paid in and contributed surplus" on page 46 for problems noted.

Changes in Capital Structure

With regard to the Company's capital stock, there were no changes in the number of shares authorized, issued, or outstanding, or to the par value. The

amount of paid in capital during the examination period increased by \$18,569,959 in 2000 and by \$14,576 in 2001 due to capital contributions. See “Note 16- Gross paid in and contributed surplus” on page 46 for problems noted.

Surplus Notes

The Company requested the review and approval of a \$1.5 million surplus note, payable to Venture Health Partnership Group, LLC, with interest at eight percent annually. The principal was to be payable only out of the unassigned surplus of the Company, in excess of \$1.2 million as shown on the annual statement of the Company and upon acceptance of said statement by the Alabama Commissioner of Insurance; however, no payment of such loan can be made unless approved in advance by the Alabama Commissioner of Insurance. The note was issued as of October 12, 2001, specifically to conform with the requirements of Section 27-27-40, Code of Alabama 1975, as amended, and/or Alabama Department of Insurance Regulation No. 80.

The surplus note was approved by the Alabama Commissioner of Insurance on October 18, 2001.

STATUTORY DEPOSITS

In accordance with the requirements of Section 27-21A-12, Code of Alabama 1975, as amended, the Company maintained the following deposits with the State of Alabama, at December 31, 2001:

	Par <u>Value</u>	Statement <u>Value</u>	Market <u>Value</u>
Regions Bank, CD, 3.68%	\$ 100,000	\$ 100,000	\$ 100,000
Regions Bank, CD, 2.42%	100,000	100,000	100,000
SouthTrust Bank, CD 5.00%	<u>800,000</u>	<u>800,000</u>	<u>800,000</u>
Total	<u>\$1,000,000</u>	<u>\$1,000,000</u>	<u>\$1,000,000</u>

CORPORATE RECORDS

The Alabama Department of Insurance, effective June 1, 2000, permitted Venture Health Partnership Group, LLC to purchase the Company from

Baptist Health Systems, Inc. The Company's Certificate of Incorporation, By-laws and related amendments were inspected and were found to provide for the operation of the Company.

Records of the meetings and actions of the Stockholder, Board of Directors and various committees, since December 31, 1999, were reviewed. The records appeared to be complete and accurately reflect the actions of the respective corporate bodies.

The Articles of Incorporation were amended during the March 7, 2000 joint meeting of the Shareholder and Board of Directors. Article VII was amended in its entirety, and the following was adopted:

“Every shareholder shall be entitled to one vote, in person or by proxy, for each share of stock entitled to vote held by such shareholder. If a quorum is present, the affirmative vote of the majority of all shareholders represented at the meeting and entitled to vote on the subject matter shall be the act of the shareholders, unless the vote of a greater number is required by the laws of Alabama, these By-laws or the Articles of Incorporation.”

Article V of the Company's Articles of Incorporation was amended on July 15, 2000, by the sole shareholder, Health Partners Southeast, Inc., as follows:

1. The affairs and management of the corporation shall be under the control of the board of directors, the members of which shall be selected in accordance with these Articles of Incorporation and the By-laws. The initial board of directors shall consist of three directors.
2. Directors may be removed at any time, with or without cause, upon the affirmative vote of the holders of a majority of the class of stock of the corporation at that time having voting power for the election of such directors.

Article I of the Company's Articles of Incorporation was amended on November 13, 2000, by unanimous written consent of the sole shareholder in lieu of a meeting to change the name of the Company to The OATH- A Health Plan for Alabama, Inc.

Article III of the Company's By-laws was amended on July 5, 2000, by the sole shareholder, Health Partners Southeast, Inc., as follows:

- Section 2: Size of Board. The number of directors is no less than three natural persons.
- Section 3: Election of Board. Directors shall serve for one year and shall serve until a successor is elected. There is no limit on the number of terms served.

There were no other changes to the Company's corporate records during the two-year examination period.

MANAGEMENT AND CONTROL

Stockholder

At December 31, 2001, Venture Health Partnership Group of Alabama, Inc. owned 100% of the common capital stock of the Company.

Board of Directors

According to the Company's Charter and By-laws, the board of directors shall manage its business and dealings. The amendments to the Articles of Incorporation specify that the number of directors should be no less than three natural persons.

Directors serving at December 31, 2001, who were elected on July 5, 2000, with a resolution are as follows:

<u>Director/Address</u>	<u>Principal occupation</u>
Barry Steven Scheur Newton, Massachusetts	Chairman of the Board The Oath – A Health Plan for Alabama
Paula Marie Nordhoff Westport, Massachusetts	Consultant Scheur Management Group, Inc.
Richard Walter Lawley Helena, Alabama	Vice President- Human Resources The Oath – A Health Plan for Alabama

Committees

The following are the committees the Company had in place at December 31, 2001:

- Finance Committee
- Clinical Quality Improvement
- Utilization Management
- Pharmacy and Therapeutic Committee
- Credentialing Committee
- Formal Complaint Committee
- Informal Complaint Committee

The minutes from the complaint, credentialing, pharmacy and therapeutic, and Clinical Quality improvement committees were all reviewed by the Corporate Quality Improvement committee on a monthly basis. This committee in turn provided feedback to the other committees to enact policy and decision implementation.

The Company could not provide evidence that its board of directors selected members for its committees in accordance with Article IV Section 1 of its By-laws.

The following committees were established in accordance with Department of Public Health standards:

Finance Committee

The following were the members at December 31, 2001:

Barry Scheur
Paula Nordhoff
Richard Lawley

Corporate Quality Improvement

The minutes of the last meeting prior to year-end 2001, dated December 11, 2001, identified the following persons as committee members:

<u>Member</u>	<u>Title</u>
Cathy Munn	Director, Quality Improvement
Darryl LeCroy	Director, Claims
Cathy Deya	VP, Provider Services
Dianna Evans	Director, Member Services
Herb Hendricks	MD, Medical Director
Ada Griffies	Director, Health Strategies Operations
Kirk David	VP, Marketing
Richard Lawley	VP, Human Resources
Waleed Al-Homoud	VP, Medical Services
Sandra Lutz	VP, Information Services
John Davis	President
Robin McElfatrick	Chief Operating Officer
Mickey Foster	VP, Regulatory Compliance
Nancy Belle	Corporate Communication
Mark Gordon	VP, Finance

Clinical Quality Improvement

The minutes of the last meeting prior to year-end 2001, dated November 21, 2001, identified the following persons as committee members:

<u>Member</u>	<u>Title</u>
Herb Hendricks	MD, Medical Director-Chairman
C. Michael Buchanan	MD, Internal Medicine
Hugh M. Hood	MD, Internal Medicine
Paul Scalici	MD, Family Medicine
John Farley	MD, Internal Medicine
Richard C. Griffin	MD, OB/GYN
Richard W. Waguespack	MD, ENT
Theodis Buggs	MD, Orthopedics
Greer Geiger	MD, Ophthalmology

Utilization Management

The minutes of the last meeting prior to year-end 2001, dated November 20, 2001, identified the following persons as committee members:

<u>Member</u>	<u>Title</u>
Herb Hendricks	MD, Medical Director-Chairman
C. Michael Buchanan	MD, Internal Medicine

Hugh M. Hood	MD, Internal Medicine
John Farley	MD, Internal Medicine
Paul Scalici	MD, Family Medicine
John Farley	MD, Internal Medicine
Richard C. Griffin	MD, OB/GYN
Richard W. Waguespack	MD, ENT
Theodis Buggs	MD, Orthopedics
Greer Geiger	MD, Ophthalmology

Pharmacy and Therapeutic

The minutes of the last meeting prior to year-end 2001, dated December 4, 2001, identified the following persons as committee members:

<u>Member</u>	<u>Title</u>
Keneth Elmer	MD (Pediatrics)
Marshall Boone	MD (Family Practice)
Anthony Brooklere	Registered Pharmacist
John Gerwin	MD (ENT)
Michael Kendrach	Doctor of Pharmacy
Rian Montgomery	MD (Internal Medicine)
John Morgan	MD (Family Medicine)
Lora Pound	MD (Family Practice)

Credentialing Committee

The minutes of the last meeting prior to year-end 2001, dated December 10, 2001, identified the following persons as committee members:

<u>Member</u>	<u>Title</u>
John Dumas	MD, Internal Medicine
Scott Elledge	MD, Otolaryngology
Jacqueline Stewart	MD, Family Practice
Cathy Munn	Director, Quality Improvement
Bill Howerton	Manager, Provider Services
Cathy Deya	VP, Provider Services
Herb Hendricks	MD, Medical Director
John Upchurch	MD, Family Practice

Officers

Company management represented that the following officers were serving at December 31, 2001; however, it could not provide evidence that these officers were elected annually in accordance with Article V Section 2 of its By-laws except for the Company's President, John D. Davis. The Company also did not have a Vice-Chairman or Treasurer at December 31, 2001, which was required by Article V Section 1 of its By-laws.

<u>Name</u>	<u>Title</u>
Barry S. Scheur	Chairman of the Board
John D. Davis	President
Richard W. Lawley	Secretary
Robin L. McElfatrick	Chief Operating Officer
Herbert E. Hendriks	Medical Director
Kirk David	VP Marketing
Richard W. Lawley	Regional VP Human Resources
Waleed N. Al-Homoud	VP Medical Services
Brasher Miller	Executive Director Gulf Coast Region
William O. Whitt	VP Business Development
Catherine Deya	VP Provider Services
Sandra Lutz	VP Information Services
Mark Gordon	VP Finance
Michaela Foster	VP Compliance and Medicare Operations

Conflict of Interest

The Company could not provide signed 2000 conflict of interest statements for any of its directors or officers. This was in contradiction to the Company's affirmative answer to general interrogatory number 6 in its 2000 Annual Statement, which asked the following:

“Has the HMO an established procedure for annual disclosure to its Board of Directors of any material interest or affiliation on the part of any of its officers, directors or responsible employees which is in, or is likely to conflict with the official duties of such person?”

A review was conducted of the 2001 Company employees, directors and officers' conflict of interest statements. The Company could not provide a conflict of interest statement for one director, Paula Nordhoff. The rest were received and inspected.

For the 2001 conflict of interest statements received, there were no conflicts of interest or improprieties noted, which could potentially have an adverse effect on the operation of the Company.

HOLDING COMPANY AND AFFILIATE MATTERS

Holding Company Registration

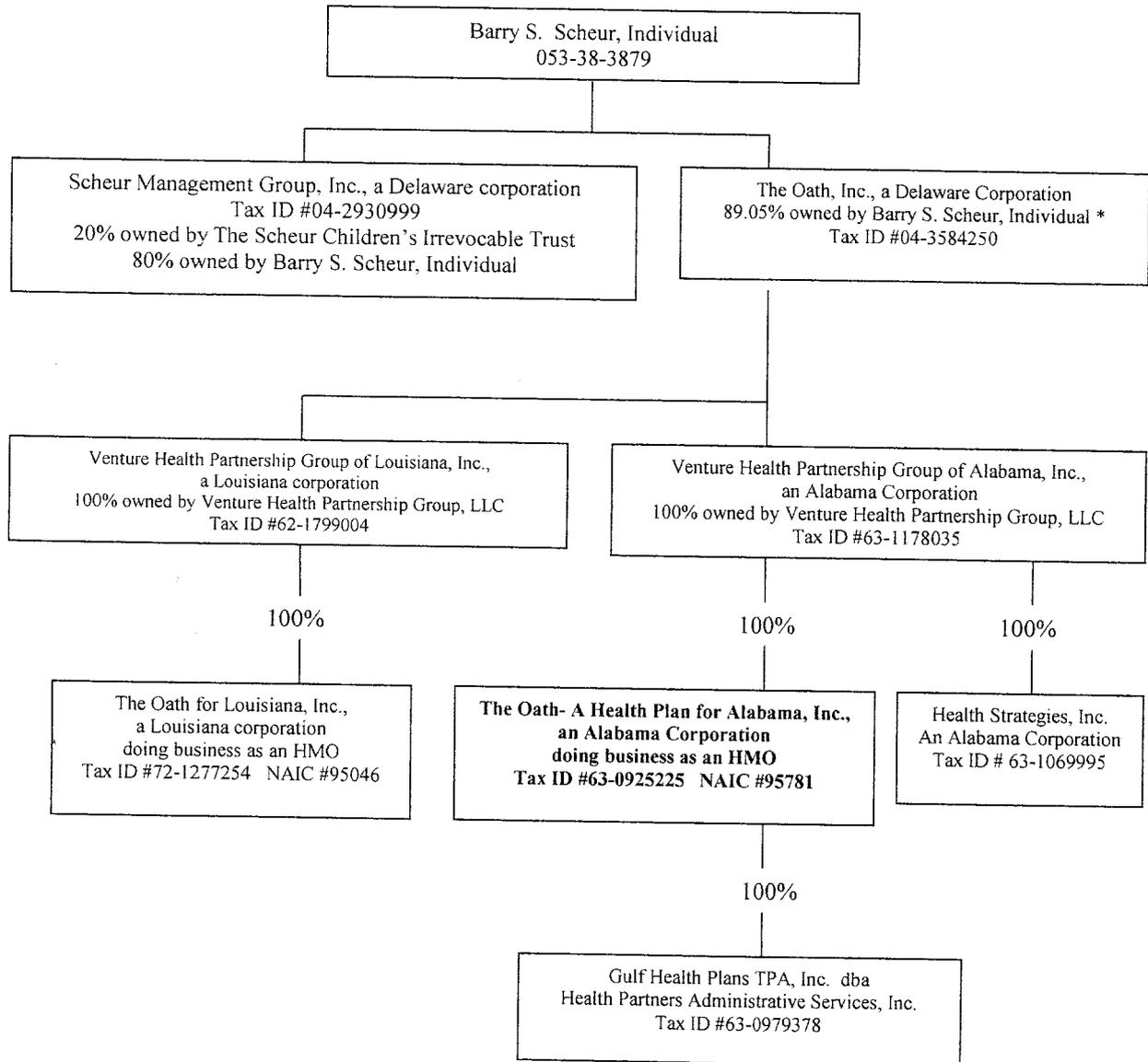
The Company was not subject to the *Alabama Insurance Holding Company Regulatory Act*, as defined in Section 27-29-1, Code of Alabama 1975, as amended, except as expressly required by other statutes and regulations. Generally, HMOs are subject to regulation in regard to changes in control, but are not subject to the continuing holding company reporting requirements that apply to insurance companies.

On March 24, 2000, Baptist Health Systems, Inc. received a letter of intent from Venture Health Partnership Group, LLC (VHPG), a Delaware limited liability company, to purchase all the issued and outstanding shares of capital stock and assets of Health Partners Southeast, Inc. (HPSE). On June 8, 2000, a Form A hearing was held at the Alabama Department of Insurance, in which the sale was approved by the Acting Alabama Insurance Commissioner to be effective on June 1, 2000. On November 13, 2000, the Company's name was changed to The Oath - A Health Plan for Alabama, Inc.

The Company is the sole owner of a non-insurance subsidiary, Health Partners Administrative Services, Inc. (HPAS), which served as a third party administrator for certain self insured health plans during the examination period. At the date of this report, HPAS has very little active business.

Organizational Chart

The following chart presents the identities of and interrelationships among all affiliated persons within the Insurance Holding Company System at December 31, 2001:



* In addition, ownership interests are held by the following persons in the amounts indicated, according to separate vesting schedules: Ruth M. Aaron (1.75%) Robert E. McMillan (1.75%); Paula M. Nordhoff

(1.75%); Robin L. McElfattrick (0.88%); Robert S. Eichler (0.88%); Karen Cook (0.88%); Paul R. Reich, M.D. (0.88%); Nancy Krome Belle (0.88%). Several other employees of Scheur Management Group, Inc. have ownership interests of less than 0.5%.

Management Agreement

The Company entered into a "Management Agreement" with Scheur Management Group, Inc. (SMG) on November 1, 2001 and ending on December 31, 2001. This agreement automatically renews for an additional one-year term, under the same terms and conditions, unless terminated. The agreement may be terminated by either party upon written notice of not less than thirty days. This agreement was approved by the Alabama Department of Insurance in accordance with Alabama Department of Insurance Regulation Number 79, Section 13.

SMG was to provide the following services: "executive management services, expertise, and assistance to direct all the daily activities and business operations of The OATH in all functional areas, including, but not limited to, those services generally provided by a Chief Executive Officer, a President, a Chief Operating Officer, a Human Resources Director and a Public Relations Director. The appropriate representatives of SMG shall report regularly to The OATH's Board of Directors to ensure that the business of The OATH is conducted in a manner which meets performance objectives, results in a timely delivery of benefits and services to enrolled members, implements key financial and operational turnaround measures, and maintains the current level of services and quality assurance measures. In addition, through other SMG consultants and personnel of various expertise, SMG shall assist The OATH's Board of Directors from time to time in strategic planning, acquisitions, technical approaches and solutions, business operations in all functional areas, communication with relevant trade associations, and with all reporting and other compliance requirements imposed by federal, state and local law."

In return for services provided by SMG under the terms of the agreement, the Company agreed to pay a monthly fee not to exceed \$3 per member per month. The fees paid to SMG shall be limited to an amount that when added to all other general administrative expenses of the Company would result in total general administrative expenses being less than or equal to thirteen and one-half percent of that month's total revenue from insured plan premiums.

"On March 1, 2002, The OATH – A Health Plan for Alabama, Inc. (The Oath) began employing various individuals who had previously been employed by The Scheur Management Group, Inc. (Scheur Management), to provided

management services to The Oath.” According to Company management as of August 19, 2002, “There are no SMG consultants working for the Company.” Therefore, the management agreement with SMG was no longer applicable.

EMPLOYEE WELFARE

All individuals who performed administrative and operational functions for the Company were employees of The Oath - A Health Plan for Alabama, Inc. The Company offered the following benefits:

Personal Vacation Days
Holidays
Sick Days
Bereavement Leave
Civic Responsibilities
Family and Medical Leave
Other Medical Leave
Health and Dental Plans
Basic Group Life Insurance
401(k) Plan
Employee Assistance Program
Short and Long Term Disability
Dependent Care Spending Account
Education Benefits

FIDELITY BOND AND OTHER INSURANCE

On June 9, 2000, the Company was a named insured on a financial institution bond insured by Executive Risk Indemnity, Inc. of Dover, Delaware, which met the suggested minimum requirements of the NAIC Financial Examiners Handbook. The bond was issued for one year ending at June 9, 2001. This policy was renewed at June 9, 2001 and the coverage term was until June 9, 2002. The bond provided coverage up to \$5,000,000 for each of the following: employee dishonesty, forgery or alteration, theft / disappearance, robbery of a custodian, and computer fraud. The Company exceeded the minimum requirements for fidelity coverage as defined in Section 27-21A-6(b), Code of Alabama 1975, as amended.

In addition to the aforementioned fidelity bond, the Company also maintained the following coverages to protect the Company against hazards to which it may be exposed:

- Managed Care Organization / Errors and Omissions Liability;
- Policy Directors & Officers and Employment Practices Liability;
- Worker's Compensation Liability;
- Business Auto / Physical Damage Liability;
- Commercial General / Property Liability;
- Garage Liability;
- Motor Carrier Liability;
- Truckers Liability;
- Umbrella Liability;
- Crime Liability.

The coverage and limits carried by the Company were reviewed during the course of the examination and appeared to adequately protect the Company's interests at the examination date.

REINSURANCE

Assumed Reinsurance

The Company did not assume any reinsurance during the examination period.

Ceded Reinsurance

During the course of this examination, the agreement in effect was reviewed with regard to type, limits, and pertinent safeguards. The Company ceded reinsurance under a specific excess liability reinsurance agreement with Centre Insurance Company. The following reinsurance contract was applicable at December 31, 2001.

Terms of Coverage	12 months at January 1, 2001
Limits on Coverage	\$1,000,000 per member per year excess of \$150,000 per member per year.

Minimum & Deposit Premium \$1,600,000 payable 1/12th monthly in advance and adjustable at expiry at an applicable rate per eligible member per month.

Minimum / Deposit Premium & Monthly Rates Aggregate retained option: It was agreed that the Company shall pay the aggregate of claims otherwise recoverable under this policy subject to the minimum and calculated at the monthly rates per eligible and covered member.

The reinsurance contract contained an insolvency clause, which provided for reinsurance payments to a receiver or statutory successor without diminution because of the insolvency of the reinsured.

No reserve credits were taken for reinsurance ceded by the Company during the examination period; however, the examiner noted that Centre Insurance Company owed the Company for 2001 claims. See "Note 6- Amounts recoverable from reinsurers and Aggregate write-ins for other liabilities" on page 39. According to Company's management, there were no maximum benefit limitations the Company would pay on a member in his or her lifetime. The reinsurance contract specified a maximum amount of \$1 million per member per year.

MARKET CONDUCT

The Alabama Department of Public Health (ADPH) regulated most aspects of the Company's relations and dealings with its customers. ADPH conducted a two-year survey of the Company, which was dated February 14, 2002. The survey report issued by ADPH reflected some deficiencies, which were not determined to have an adverse affect on or indicate misstatement of any financial account balances or significant non-compliance with Alabama Department of Insurance statutes or regulations.

Due to the Company's regulation by ADPH, claimant grievance procedures and other market conduct items, generally reviewed by the examiners during financial statutory examinations, were not covered in this examination.

Advertising and Marketing

The Company's marketing plan included emphasizing positive press, success stories and testimonials. The Company's advertising and marketing strategy was based on a grassroots campaign, where the Company's advertising focused on the basics of health care and a good image for the Company. The Company used print, video and audio media for its advertising campaigns.

The Company communicated misleading information to the public in one of its newsletters, the Winter 2002 employer newsletter. The employer newsletter stated:

“We projected quarterly losses through the end of this year, but we exceeded our expectation in the first quarter of this year by showing a profit. Today we are extremely pleased to report that our monthly revenues now stand at over \$16.5 million. That's money in the bank – Alabama banks.”

The Company did not show a profit in the first quarter of 2002. It reported a loss of \$(465,226) in its March 2002 quarterly statement. Section 27-21A-13 (a), Code of Alabama 1975, as amended, stated the following:

“No health maintenance organization, or representative thereof, may cause or knowingly permit the use of advertising which is untrue or misleading, solicitation which is untrue or misleading, or any form or evidence of coverage which is deceptive.”

Complaint handling

The Company did not provide its enrollees, at any point during the complaint appeal process, contact information for the consumer complaint division at the Alabama Department of Insurance. This was not in accordance with the NAIC Market Conduct Examiners Handbook- Complaint Handling, Standard 2, which states:

“ Company should provide the insurance department's complaints telephone number for consumers.”

The Company did, otherwise, have a satisfactory complaint and appeal handling process.

Compliance with Alabama Department of Insurance Regulation No. 122

In accordance with the Alabama Department of Insurance Regulations, Chapter 482-1-122, Article II, Section 5 A:

“...A licensee shall provide a clear and conspicuous notice that accurately reflects its privacy policies and practices...”

Under Section 15 of the aforementioned regulation:

"The requirement for initial notice in Section 5A(2), the opt out in Sections 8 and 11, and service providers and joint marketing in Section 14 do not apply if the licensee discloses nonpublic personal financial information as necessary to effect, administer or enforce a transaction that a consumer requests or authorizes..."

“B. ‘Necessary to effect, administer or enforce a transaction’ means that the disclosure is... (2) Required, or is a usual, appropriate or acceptable method of... (c) To provide a confirmation, statement or other record of the transaction, or information on the status or value of the insurance product or service to the consumer or the consumer’s agent or broker... (e) To underwrite insurance at the consumer’s request or for any of the following purposes as they relate to a consumer’s insurance: account administration, reporting, investigating or preventing fraud or material misrepresentation, processing premium payments, processing insurance claims, administering insurance benefits (including utilization review activities), participating in research projects or as otherwise required or specifically permitted by federal or state law.”

The Company was, however, required under Section 7 C (5) of the aforementioned regulation to supply its customers with simplified notices stating that the Company engages in disclosing some of their information to a third party. These notices should simply state this, in addition to the requirements under Section 7 A (1), A (8), A (9), and B.

Sec. 164.534 of Title 45, Code of Federal Regulations, was amended as follows:

“2. Section 164.534 of Subpart E of 45 Code of Federal Regulation Part 64 is revised to read as follows:

Sec. 164.534 Compliance dates for initial implementation of the privacy standards.

(b) Health plans. A health plan must comply with the applicable requirements of this subpart no later than the following as applicable:

(1) Health plans... April 14, 2003.”

The Company is not required to send privacy notices until April 14, 2003.

Territory

The Company, at December 31, 2001, was authorized to transact business only in the state of Alabama. The certificate of authority from the respective state, which covers the two-year exam period was inspected and determined to be in order. The Company was allowed to market its products in the following counties:

Autauga	Coosa	Lowndes	Pickens
Baldwin	Cullman	Macon	Russell
Bibb	Dallas	Madison	Shelby
Blount	Dekalb	Marion	St. Clair
Bullock	Elmore	Marshall	Talladega
Calhoun	Etowah	Mobile	Tuscaloosa
Chilton	Fayette	Monroe	Walker
Cherokee	Jefferson	Montgomery	Washington
Clarke	Lawrence	Morgan	Winston

Plan of Operation / Compliance with Agents' Licensing Requirements

At December 31, 2001, the Company used various agents/brokers and agencies to sell its products. All agents/brokers were licensed by the Alabama Department of Insurance. Only licensed agents were used to sell its policies across the state of Alabama. The total number of agents the Company had licensed at December 31, 2001 was 263. The agents were paid commissions based on the number of policies they wrote.

Policy Forms and Underwriting Practices

The Company's underwriting manual outlined the products available and the guidelines used to sell the Company's products, which included definitions of

eligible groups, group size, eligible employees, other group eligibility criteria, pre-existing conditions, participation requirements for small groups, and chambers/associations.

The Company submitted numerous policy form and rate filings during the examination period. All were approved as submitted by the Alabama Department of Insurance.

Self Referral Option

At December 2001, the Company was not in compliance with Alabama Department of Insurance Regulation No. 92 Section 15 A 2, which states:

"To receive a Certificate of Authority and approval to offer a Self-Referral Option product a health maintenance organization hereafter applying for its original Certificate of Authority in this state shall possess net worth not less than the greater of 10 percent of the HMO's total liabilities based on the start-up actuarial projection of total liabilities for the first year in business."

The Company was not in compliance because its net worth was lower than 10% of its reported liabilities by \$64,011 at December 31, 2001. The Company agreed that it was not in compliance with the aforementioned regulation and is not actively marketing this product.

Compliance with Prompt Pay Act

During the review of 134 paid claims, there were two claims that were not paid within the time limits set forth in Section 27-1-17, Code of Alabama 1975, as amended. According to Section 27-1-17(a), Code of Alabama 1975, as amended, "Each insurer, health service corporation, and health benefit plan that issues or renews any [individual] policy of accident or health insurance providing benefits for medical or hospital expenses for its insured persons shall pay for services rendered by Alabama health care providers within 45 calendar days upon receipt of a clean written claim or 30 calendar days upon receipt of clean electronic claim..."

ACCOUNTS AND RECORDS

Accounting Records

The Company was audited annually by the independent certified public accounting (CPA) firm of KPMG, LLP, Baton Rouge, Louisiana, which conducted the Company's audits for the two-year period covered by this examination. No management letters were generated by the CPA for the examination period. On May 24, 2002, KPMG, LLP completed its audit on the Company's 2001 financial statements. The audit report disclosed that:

“...the state of Alabama Department of Insurance requires health maintenance organizations, in Regulation No. 101, to ensure that losses, if any, do not exceed 50 percent of statutory earned surplus. Losses for the year ended December 31, 2001, and 2000 exceeded 50 percent of statutory earned surplus. Therefore, the State of Alabama Department of Insurance has asked the plan to show cause why the Department of Insurance should not suspend the Plan's certificate of authority to do business in the State of Alabama. Additionally, the plan has suffered recurring losses that have required significant capital contributions. These matters raise substantial doubt about the ability of the Plan to continue as a going concern. The ability of the Plan to continue as a going concern is dependent on many factors, including achieving profitable operations, maintaining minimum statutory net worth and the impact of potential regulatory action...”

The Company's reserve calculations for 2000 were certified by Thomas M. Skurat, A.S.A, M.A.A.A. of NIIS/Apex Group Holdings, Inc., and the Company's reserve calculations for 2001 were certified by Brett D. Gardner of Global Benefits Solutions, a subsidiary of Integra, Inc.

The Company did not provide or maintain certain detailed records as of year-end. Consequently, the reconciliation of various records caused the examiners' documentation reviews to progress slowly. Also, the Company did not always provide requested information within ten working days, as is required by Section 6 of Alabama Department of Insurance Regulation No. 118.

Some of the requested supporting documentation was not maintained in the Company's principal office, as was required by Section 27-27-29(a), Code of Alabama 1975, as amended. See “Note 11 - Premiums received in advance” on page 45 and “Note 1 - Bonds and Common stocks” on page 33.

During this examination and the prior examination, it was noted that certain general ledger accounts contained bulk accounts for cash rather than having a general ledger account for each individual account. The Company had one general ledger cash account, which contained all depository accounts from multiple banks. It was also noted again that the Company reconciled its individual bank accounts as one - all SouthTrust Bank and Alamerica Bank accounts were reconciled as one rather than reconciling each account separately. See "Note 2 - Cash and short-term investments" on page 34.

The Company's accounting department was mainly responsible for maintaining the accounting records including the general ledger and supporting ledgers. It was also responsible for the accounting of the Company's investments, assets and liabilities, processing claims and accounts payable checks, collecting receivables, and preparing and filing the Company's financial statements.

This examination report is qualified to the extent that the Company did not provide all requested information to the examiners in accordance with Alabama Department of Insurance Regulation No. 118. The records in question were related to attorney confirmations, see "Contingent Liabilities and Pending Litigation" on page 49, a member contract, see "Note 11 - Premiums received in advance" on page 45, final accounting records for capitation related reserves, see "Note 6 - Amounts recoverable from reinsurers and Aggregate write-ins for other liabilities" on page 39, and the detail for the 2000 paid in capital, see "Note 16 - Gross paid in and contributed surplus" on page 46.

FINANCIAL STATEMENTS

Financial statements included in this report, which reflect the financial condition of the Company at December 31, 2001, and its operations for the years under examination, consist of the following:

	<u>Page</u>
Statement of Assets	29
Statement of Liabilities, Capital and Surplus	30
Statement of Revenue and Expenses	31
Statement of Reconciliation of Capital and Surplus	32

**THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS
ARE AN INTEGRAL PART THEREOF.**

THE OATH-A HEALTH PLAN FOR ALABAMA, INC.
STATEMENT OF ASSETS
For the Year Ended December 31, 2001 and 2000

	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Prior Year Net Admitted Assets</u>
ASSETS				
Bonds (Note 1)	\$ 988,606	\$ 308,692	\$ 679,914	\$ 996,243
Common Stocks (Note 1)	1,575,403		1,575,403	1,488,501
Cash (Note 2)	22,076,769	1,438,860	20,637,909	36,243,956
Other long-term invested assets (Note 3)	294,644	294,644	0	259,291
Accident and health premiums due and unpaid (Note 4)	4,257,078	11,687	4,245,391	4,866,819
Health care receivables (Note 5)	736,527	470,999	265,528	
Amounts recoverable from reinsurers (Note 6)	461,878		461,878	
Investment income due and accrued (Note 7)	403,972	53,967	350,005	56,598
Amounts due from parent, subsidiaries and affiliates (Note 8)	465,787	465,787	0	258,544
Amounts receivable relating to uninsured accident and health plans	1,004,013	1,004,013	0	
Furniture and equipment	73,312	73,312	0	
Electronic data processing equipment and software (Note 9)	274,902	63,873	211,029	129,061
Other nonadmitted assets	594,535	594,535	0	0
Aggregate write-ins for other than invested assets	<u>0</u>	<u>0</u>	<u>0</u>	<u>368,992</u>
Total assets	<u>\$33,207,426</u>	<u>\$4,780,369</u>	<u>\$28,427,057</u>	<u>\$44,668,005</u>

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS
IN THIS REPORT ARE AN INTERGRAL PART THEREOF.

THE OATH-A HEALTH PLAN FOR ALABAMA, INC.
STATEMENT OF LIABILITIES, CAPITAL AND SURPLUS
For the Year Ended December 31, 2001 and 2000

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>	<u>Prior Year</u> <u>Total</u>
Liabilities:				
Claims unpaid (<u>Note 10</u>)	\$16,321,156	\$ 3,225,139	\$19,546,295	\$27,731,200
Unpaid Claims adjustment expenses (<u>Note 10</u>)		635,000	635,000	
Premiums received in advance (<u>Note 11</u>)		4,167,247	4,167,247	7,430,586
General expenses due or accrued (<u>Note 12</u>)		1,636,737	1,636,737	2,463,589
Federal and foreign income tax payable and interest thereon (<u>Note 13</u>)		0	0	0
Amounts withheld or retained for the account of others (<u>Note 14</u>)				0
Aggregate write-ins for other liabilities (<u>Note 6</u>)		3,053,804	3,053,804	2,757,828
Rounding	<u>0</u>	<u>3</u>	<u>3</u>	<u>0</u>
Total Liabilities	\$16,321,156	\$12,717,930	\$29,039,086	\$40,383,203
Capital and Surplus:				
Common Capital Stock (<u>Note 15</u>)			\$ 112,400	\$ 112,400
Gross paid in and contributed surplus (<u>Note 16</u>)			88,824,744	88,810,168
Surplus notes			1,500,000	
Aggregate write-ins for other than special surplus funds			(2,338,495)	(1,153,082)
Unassigned funds (surplus) (<u>Note 17</u>)			<u>(88,710,678)</u>	<u>(83,484,684)</u>
Total capital and surplus			\$ (612,029)	\$ 4,284,802
Total liabilities, capital and surplus			<u>\$28,427,057</u>	<u>\$44,668,005</u>

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS
IN THIS REPORT ARE AN INTERGRAL PART THEREOF.

THE OATH-A HEALTH PLAN FOR ALABAMA, INC.
STATEMENT OF REVENUE AND EXPENSES
For the Year Ended December 31, 2001 and 2000

	<u>Uncovered</u>	<u>2001</u>	<u>2000</u>
MEMBER MONTHS	XXX	901,089	1,143,946
Net premium income	XXX	\$211,865,970	\$230,362,662
Aggregate write-ins for other health care related revenues	XXX	<u>0</u>	<u>18,932</u>
Total revenues	XXX	<u>\$211,865,970</u>	<u>\$230,381,594</u>
Medical and Hospital:			
Hospital/medical benefits	\$26,592,417	\$179,858,868	\$199,375,642
Outside referrals	1,441,355	1,441,355	13,193,268
Emergency room and out-of-area	<u>2,854,280</u>	<u>6,050,094</u>	<u>5,184,481</u>
Subtotal	\$30,888,052	\$187,350,317	\$217,753,391
Less:			
Net reinsurance recoveries incurred	<u>0</u>	<u>1,023,128</u>	<u>0</u>
Total medical and hospital	\$30,888,052	\$186,327,189	\$217,753,391
General administration expenses	\$31,640,915	\$ 31,709,420	\$ 33,122,115
Increase in reserves for accident and health contracts	<u>0</u>	<u>966,795</u>	<u>0</u>
Total underwriting deductions	\$62,528,967	\$219,003,404	\$250,875,506
Net underwriting gain or (loss)	XXX	<u>\$ (7,137,434)</u>	<u>\$(20,493,912)</u>
Net investment income earned	XXX	\$ 1,741,302	\$ 1,812,341
Net realized capital gains or (losses)		<u>24,511</u>	<u>0</u>
Net investment gains or (losses)		<u>\$ 1,765,813</u>	<u>\$ 1,812,341</u>
Aggregate write-ins for other income or expenses		\$ 2,392,387	\$ (557,828)
Federal and foreign income taxes incurred		<u>(64,413)</u>	<u>0</u>
Net income (loss)	XXX	<u>\$ (2,914,821)</u>	<u>\$(19,239,399)</u>

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS
IN THIS REPORT ARE AN INTERGRAL PART THEREOF.

THE OATH-A HEALTH PLAN FOR ALABAMA, INC.
STATEMENT OF CHANGES IN CAPITAL AND SURPLUS
For the Years Ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Capital and surplus prior reporting year	\$ 4,284,802	\$ 3,994,700
GAINS AND LOSSES TO CAPITAL & SURPLUS:		
Net income or (loss)	\$(2,914,821)	\$(19,239,399)
Net unrealized capital gains and losses	(2,028,585)	124,101
Change in nonadmitted assets	(1,468,839)	835,441
Change in surplus notes	1,500,000	
Capital changes:		
Paid in		18,569,959
Surplus adjustments:		
Paid in	14,576	
Aggregate write-ins for gains or (losses) in surplus	838	0
Net change in capital and surplus	<u>\$(4,896,831)</u>	<u>\$ 290,102</u>
Capital and surplus end of reporting year	<u>\$ (612,029)</u>	<u>\$ 4,284,802</u>

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS
IN THIS REPORT ARE AN INTERGRAL PART THEREOF.

NOTES TO THE FINANCIAL STATEMENTS

<u>Note 1 – Bonds</u>	<u>\$ 679,914</u>
<u>Common stocks</u>	<u>\$1,575,403</u>

The captioned amount for bonds is \$308,692 less than the \$988,606 reported in the Company's 2001 Annual Statement. The captioned amount for common stocks is the same as was reported in the Company's 2001 Annual Statement.

On its 2001 Schedule D- Part 1, the Company reported a U.S. Treasury Note held by the Bank of New York for which it could not provide an approved custodial agreement required by Alabama Department of Insurance Regulation No. 77, Section 5 A (1), which states:

"An insurance company may, by written agreement with a custodian, and written approval from the Commissioner of Insurance, provide for the custody of its book-entry securities with the custodian..."

Furthermore, Alabama Department of Insurance Regulation No. 77, Section 5 C states:

"Any securities that are not held in compliance with this regulation shall be not admissible assets for financial reporting purposes."

This U.S. Treasury Note with a carrying value of \$308,692 was not admitted at December 31, 2001, in accordance with the aforementioned regulation. Subsequent to the examination date, the Company resolved this noncompliance issue by removing this security from the Bank of New York, and then, liquidated this security. The cash receipt was verified through the review of a wire transfer slip and with the Company's July 2002 bank statement.

The Company's Schedule D-Part 1, Schedule D-Part 3, and Schedule D-Part 4 did not reconcile from the last examination as of December 31, 1999, to the current examination as of December 31, 2001. The difference that could not be reconciled was \$43,106. The Company could not provide an explanation for this variance.

The Company did not maintain investment records to reconcile its investment transactions and keep track of its securities. According to Company management, they relied on investment statements from Amsouth Bank to

record and report securities. The Company does not keep track of its investment transactions with documentation supporting purchases and sales, amortization and market values. According to Section 27-27-29(a), Code of Alabama 1975, as amended:

“Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs...”

The Company's custodial accounts were held under its former name, Health Partners of Alabama, at December 31, 2001.

All of the Company's securities were rated either a 1 or a 2; however, it was noted that the Company did not correctly complete column 12 (NAIC Designation) of its 2001 Schedule D- Part 2- Section 2. It listed all 1s instead of 2s for listed for its common stocks. For two bonds, it reported two 1s instead of the correct NAIC designations of 2 in column 12 of Schedule D- Part 1, which was in conflict with the NAIC Annual Statement Instructions Health and the NAIC SVO Purposes and Procedures Manual. This did not effect the valuation of these investments; therefore, no changes were made to the Company's 2001 financial statements.

Note 2 - Cash and short-term investments **\$20,637,909**

The captioned amount is \$1,438,860 less than the \$22,076,769 reported in the Company's 2001 Annual Statement.

At December 31, 2001, the Company had three repurchase agreements in effect. Two were with SouthTrust Bank, and the third agreement was with Compass Bank, which was not provided. The Company did not maintain copies of these repurchase agreements at its home office, which was not in accordance with Section 27-27-29(a), Code of Alabama 1975, as amended. This statute states:

“Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds of insurance transacted.”

SouthTrust Bank provided the Company with copies of these repurchase agreements. It was noted that one agreement was between SouthTrust Bank

and Health Partners of Alabama, Inc, the Company's former name. The other agreement was between Merit Health Plan of Alabama, Inc., which was merged with the Company on September 30, 1999, and SouthTrust Bank. These agreements should have been amended to include the Company's name, which was changed November 13, 2000. During the review of these agreements, it was noted that the agreements were not appropriately collateralized in accordance with the NAIC Accounting Practices and Procedures Manual-SSAP 45, paragraph 8 a., which requires the following:

"The reporting entity shall receive as collateral transferred securities having a fair value at least equal to 102 percent of the purchase price paid by the reporting entity for the securities. If at anytime the fair value of the collateral is less than 100 percent of the purchase price paid by the reporting entity, the counterparty shall be obligated to provide additional collateral, the fair value of which, together with fair value of all collateral then held in connection with the transaction, at least equals 102 percent of the purchase price."

These repurchase agreements with SouthTrust Bank should be accounted for as a collateralized lending and not as an actual purchase of the collateral that secures the transaction, in accordance with the NAIC Accounting Practices and Procedures Manual-SSAP 45 and Alabama Department of Insurance Regulation No. 97 Section 4, which adopted the NAIC Accounting Practices and Procedures Manual; therefore, these two repurchase accounts with SouthTrust Bank would be subject to the investment limitations set forth under Section 27-41-6, Code of Alabama 1975, as amended, which is as follows:

"(a) An insurer shall not have at any one time any single investment or combination of investments in...or securities of any one person aggregating in cost to the insurer in excess of the greater of 10 percent of such insurer's assets or the total of its capital and surplus, as shown in the latest annual report of the insurer..., less the minimum and capital and surplus required of said insurer..."

The calculations according to the aforementioned statute are as follows:

Total admitted assets at December 31, 2000 = \$44,668,005 x 10%= \$4,466,801.

Total capital and surplus at December 31, 2000 = \$4,284,802- \$1,112,400
(minimum capital and surplus)= \$3,172,402

The Company's investments in SouthTrust Bank exceeded the investment limitation by \$1,091,663, which was calculated as follows:

SouthTrust- Oath	\$3,486,671
SouthTrust- Merit	1,271,794
SouthTrust - CD 368110-33	300,000
SouthTrust - CD 368110-34	300,000
SouthTrust - CD 368110-35	<u>200,000</u>
Total	\$5,558,465

Investment limitation 4,466,801

Over limitation \$1,091,664

The Company's AmSouth Bank- Money Market account exceeded this maximum by \$347,196, which was calculated as follows: \$4,813,997 - \$4,466,801 (per calculation above) = \$347,196.

The total not admitted for exceeding the investment limitation was \$1,438,860 (\$1,091,664 + \$347,196).

Sections 35-12-23 and 35-12-31, Code of Alabama 1975, as amended provides that all of the Company's outstanding and unclaimed property over five years old should be reported to the State's Treasurer in an escheat filing. The Company had numerous outstanding checks over five years old at December 31, 2001, which should have been remitted to the State Treasurer. The Company made no escheat filings during the two years under examination. The Company is in the process of compiling the information to make the correct filing and become compliant. The inclusion of these checks did not cause the Company to overstate its surplus because these were included as a reduction to cash as outstanding checks.

The Company did not report the maturity dates on any of the certificates of deposits listed on its 2001 Schedule E-Part 1, which was required by the NAIC Annual Statement Instructions Health.

The Company's bank statements were held under its former name, Health Partners of Alabama, Inc., and under Merit Health Plan of Alabama, Inc., which was merged with the Company on September 30, 1999.

The Company had one general ledger cash account, which contained all depository accounts from multiple banks. It was also noted that the Company reconciled the individual bank accounts as one (all SouthTrust Bank accounts and its Alamerica Bank account were reconciled as one rather than reconciling each account separately). These two issues were also noted in the last examination report.

Note 3 - Other long term invested assets **\$0**

The captioned amount is \$169,644 less than the \$169,644 reported in the Company's 2001 Annual Statement.

The Company misclassified its investment in its subsidiary as "Other Long Term Invested Assets" instead of common stock. The Company could not provide the stock certificate showing proof of ownership nor did it provide evidence that it had filed a SUB1 form with the NAIC Securities Valuation Office to rate and value this stock. This was not in accordance with the NAIC SVO Purposes and Procedures Manual and Alabama Department of Insurance Regulation No.98 Section 2 (A) and (C) which states:

“All securities owned by the insurer shall be valued in accordance with those standards promulgated by the NAIC Securities and Valuation Office (SVO)...”

“Any security not valued in accordance with this section shall be carried as a non-admitted asset on all financial statements of the insurer until such time as the insurer has complied with subsection A or B or this section.”

Note 4- Accident and health premiums due and unpaid **\$4,245,391**

The captioned amount is \$11,687 less than \$4,257,078 reported in the Company's 2001 Annual Statement.

After a review of the December 31, 2001 accident and health premiums due and unpaid, it was determined that the Company did not nonadmit \$11,687 that was over ninety days in accordance with the NAIC Accounting Practices and Procedures Manual-SSAP No. 6, paragraphs 9 and 11.

The following general ledger accounts comprised the accident and health premiums due and unpaid balance at December 31, 2001:

A/R Premiums Receivable	\$ 5,303,556
Allowance for Retroactivity	-1,000,330
Allowance for Bad Debt	-831,656
Seniors First receivable portion	<u>785,508</u>
Total	<u>\$4,257,078</u>

It was noted that the Company's Amysis aging at December 31, 2001 did not reconcile with the A/R Premiums Receivable. The A/R Premiums Receivable general ledger account was \$161,072 less than the Amysis aging. This was partially attributed to the Company's own self-insured premium of \$146,122, which was not properly applied to the Company's Amysis system.

Note 5 - Health care receivables

\$265,528

The captioned amount is the same as reported in the Company's 2001 Annual Statement.

The Company's Health Care Receivables - Exhibit 4 did not individually list all accounts with balances greater than \$10,000 or those that were 10% of gross health care receivables, which was not in compliance with the NAIC Annual Statement Instructions - Health.

The Company could not provide the detail of its monument receivables at December 31, 2001, which were overpayments to providers. According to Section 27-27-29(a), Code of Alabama 1975, as amended, "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted." There were no changes made to the Company's financial statement due to the Company not admitting the monument receivables.

<u>Note 6- Amounts recoverable from reinsurers</u>	<u>\$461,878</u>
<u>Aggregate write-ins for other liabilities</u>	<u>\$3,053,804</u>

The captioned amounts are \$461,878 more than and \$2,865,441 more than the \$0 and \$188,363, respectively, reported in the Company's 2001 Annual Statement.

The Company's Aggregate write-ins for other liabilities was increased at December 31, 2001 as follows:

Premiums payable to the reinsurer	\$ 365,441
Premium Deficiency Reserve	<u>\$2,500,000</u>
Total	<u>\$2,865,441</u>

The Company's reinsurer, Centre Insurance Company (Centre), owed the Company \$461,878 for 2001 claims, which should have been reported as amounts recoverable from reinsurers at December 31, 2001, in accordance with the NAIC Accounting Practices and Procedures Manual. The Company owed Centre \$365,441 for 2001 premiums, which should have been reported as a liability in the Aggregate write-ins for other liabilities line item at December 31, 2001. These balances were directly confirmed with Centre.

According to the NAIC Accounting Practices and Procedures Manual- SSAP 54, Premium Deficiency Reserves (PDR) are required "When the expected claims payments or incurred costs, claim adjustment expenses and administration costs exceed the premiums to be collected for the remainder of a contract period..." Guidance as to when a PDR should be established by the Company for any valuation date is contained in Actuarial Standards of Practice No. 14 When To Do Cash Flow Testing, for life and health insurance companies, and in the AICPA Audit and Accounting Guide: Health Care Organizations. Essentially such reserves would reasonably be required when it is probable that "...expected future health care costs and maintenance costs under a group of existing contracts will exceed anticipated future premiums..." This language was obtained from the AICPA Audit and Accounting Guide.

The actuarial examiner performed an analysis to determine the need for the Company to hold a Premium Deficiency Reserve (PDR) regarding the Company's commercial medical business. The PDR amount proposed at December 31, 2001 was \$3.8 million. After discussions with the Company, an additional analysis of more high-risk groups, insofar as premium deficiencies were concerned, was performed. In addition to reviewing these high risk groups since January 1, 2002, the actuarial examiner also considered whether anticipated

positive experience under small group commercial cases could be used to offset any deficiency applicable to large cases under the commercial line. After reviewing Actuarial Standards of Practice and the NAIC Health Insurance Reserve Manual, it was determined that small and large group experience could be commingled in determining an appropriate amount of any PDR. As a result, a PDR of \$2.5 million, according to the actuarial examiner, needed to be established in the Aggregate write-ins for other liabilities at December 31, 2001.

The Company included capitation related reserves in the Aggregate write-ins for other liabilities line item. During the course of the examination, the capitation contracts, relating to this liability, had not been closed out. The Company was in the process of performing a final accounting of the exact amounts owed (or due) under these arrangements. The arrangements themselves had been terminated, as planned, as of February 28, 2002. Without the final accounting, a final more exact determination of this liability was not possible, which contributed to the qualification of this examination report. However, the actuarial examiner recommended no change to this liability as of December 31, 2001.

Note 7 - Investment income due and accrued

\$350,005

The captioned amount is \$53,967 less than the \$403,972 reported in the Company's 2001 Annual Statement.

The following details the total decrease to the Company's investment income due and accrued at December 31, 2001:

Bonds	\$ 9,083
Cash	10,799
Short-term investments	<u>33,414</u>
Total	<u>\$53,967</u>

For bonds, the difference between the examiner's recalculated amount of \$10,366 and the Company's reported amount of \$18,325 was \$7,961 (excluding the US Treasury Note held by the Bank of New York). The interest income due and accrued of \$1,793 on the Company's U.S. Treasury Note held by the Bank of New York was not admitted. See "Note 1- Bonds and Common Stocks" on page 33.

The examiners' recalculated investment income due and accrued amount for short-term investments was \$312,825, which was \$33,414 less than the \$346,239 reported in the Company's 2001 Underwriting and Investment Exhibit Part 4.

The examiners' recalculated amount for the investment income due and accrued on the Company's cash (certificates of deposit) was \$29,278, which was \$10,799 less than the \$40,077 reported in the Company's 2001 Underwriting and Investment Exhibit Part 4.

The Underwriting and Investment Exhibit Part 4 total for interest income due and accrued was \$64,718 more than the sum of the interest income due and accrued totals from Schedule D- Part 1, Schedule DA- Part 1, and Schedule E- Part 1.

Note 8- Amounts due from parent, subsidiaries and affiliates \$-0-

The captioned amount is \$365,787 less than the \$365,787 reported in the Company's 2001 Annual Statement.

The following details the Amounts due from parent, subsidiaries and affiliates at December 31, 2001:

Health Strategies, Inc. (HSI)	\$406,183
Not admitted- over ninety days	<u>-100,000</u>
Admitted Health Strategies, Inc.	\$306,183
Venture Health Partnership Group of Alabama, Inc.	44,722
Gulf Health Plans TPA, Inc. (PAS)	17,038
Merit	<u>-2,156</u>
Total	<u>\$365,787</u>

According to Company management, there were no agreements supporting any of the amounts owed to the Company at December 31, 2001. The total amount reflected in the Company's 2001 Annual Statement will not be admitted due to the following reasons:

According to HSI's December 31, 2001 financial statements provided by the Company, HSI was insolvent. In accordance with the NAIC Accounting Practices and Procedures Manual, this receivable did not meet the definition of an asset, which is defined as: a probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events. HSI

had no capability of giving the Company future economic benefit; therefore, the admitted receivable of \$306,183 was not admissible.

The \$44,722 owed from the Company's parent, Venture Health Partnership Group of Alabama, Inc., was not admitted in accordance with Section 27-37-2, Code of Alabama 1975, as amended, which states advances to officers, directors and controlling stockholders shall not be allowed as assets in any determination of the financial condition of an insurer.

The Company did not have an approved written agreement with Gulf Health Plans TPA (dba Health Partners Administrative Services) (PAS); therefore, giving PAS no obligation to reimburse the Company for any monies that were paid on behalf of PAS for taxes (\$374) or any commissions that were received by PAS (\$16,665).

The Company's Schedule Y- Part 1, Organizational Chart, at December 31, 2001 did not contain the ultimate controlling person or entity in accordance with the NAIC Annual Statement Instructions-Health. When the examiners brought this to the Company's attention, the Company prepared a revised organizational chart, which reflected all related parties at December 31, 2001.

The Company paid rent on a building in Georgia, for which it was not listed as a party in the lease agreement. The lease agreement was between HPC Health Plans of Georgia, a former affiliate of the Company and TrizecHahn Office Properties. On February 1, 1999, HPC Health Plans of Georgia subleased the building to Bank of America.

The Company made the lease payments, whereas, the sublease payments were made from Bank of America to the Company's parent, The Oath, Inc., since HPC Health Plans of Georgia was dissolved. The Company should have neither received nor disbursed lease payments on this property according to Section 27-41-36 (a), Code of Alabama 1975, as amended, which states:

"...an insurer shall not invest in nor lend its funds upon the security of any note or other evidence of indebtedness of any director, officer or controlling stockholder of the insurer..."

The Company stopped making these rent payments to TrizecHahn Office Properties in May 2002.

Note 9 – Electronic data processing equipment and software \$211,029

The captioned amount is \$17,341 less than the \$228,370 reported in the Company's 2001 Annual Statement.

The Company was including in its net admitted amount \$17,341 of its nonoperating system software, which was not in accordance with NAIC Accounting Practices and Procedures Manual-SSAP No. 16, paragraph 2.

Note 10- Claims unpaid \$19,546,295
Unpaid claims adjustment expenses \$635,000

The captioned amount for Claims unpaid is \$2,168,205 less than the \$21,714,500 reported in the Company's 2001 Annual Statement. The captioned amount for Unpaid claims adjustment expenses is \$635,000 more than the \$0 reported in the Company's 2001 Annual Statement.

Based on the review of claims paid subsequent to the examination date through March 31, 2002, it was determined by the actuarial examiner that the December 31, 2001 claims unpaid liability should be reduced by \$2,168,205. The major catalyst for this differential was the use of a three month historical incurred claim Per Member Per Month (PMPM) assumption versus a twelve month historical average PMPM assumption. The three month assumption was more indicative of recent claims experience as opposed to the twelve month assumption, which reflected incurred claim PMPM's associated with higher claim groups that had since been terminated by the Company.

The Company did not hold a liability for Unpaid claims adjustment expenses at December 31, 2001, as required by the NAIC Accounting Practices and Procedures Manual- SSAP 45 and Actuarial Standards of Practice (ASOP) 5. The Company indicated that this omission was an oversight. Based on the actuarial examiner's calculations, it was determined that the Unpaid claims adjustment expenses liability should be \$635,000 at December 31, 2001.

During the course of the examination, it was noted that the Company held payment on pre-August 1, 2001 and post-August 1, 2001 Baptist claims that appeared to have been fully processed by the Company's claims system. At December 31, 2001, the Company included these unpaid Baptist claims in its claims unpaid liability. The examiners attempted to determine the number and

amounts owed for these claims; however, before the examiners were able to determine this information, the Company, in January 2002, paid \$776,979 to Baptist in full settlement of these held claims.

It was determined that the Company's claims system, which produced paid claims data for purposes of determining the claim liability of the Company, was not adjusted for reinsurance recoveries. Anticipated recoveries on claims incurred but not reported were therefore not included in the claim liability. To be accurately reflected in the liability calculation, such recoveries should be allocated to the incurrence month of the claim.

The actuarial examiner reviewed the Company's 2001 actuarial reports and reserve opinions with the NAIC Accounting Practices and Procedures Manual-SSAP 54 and ASOP 5. The actuarial certification certified only to the claims unpaid liability presented on line 1, page 3 of the Company's 2001 Annual Statement. Specifically, the opinion indicated that reserve and other liability items were adequate to support the obligations of the Company. Calculations had been performed by the opining actuary that indicated this was not the case and, regardless of whether any premium deficiency reserve was held by the Company (see "Note 6- Amounts recoverable from reinsurers and Aggregate write-ins for other liabilities" on page 39), the opinion was not indicated as being qualified in any way. In addition, the opinion expressed reliance on individuals at the Company regarding the preparation of the underlying records used in determining the items upon which an opinion is rendered; however, no opinion from the individuals involved as to the accuracy and completeness of those records was given. In this situation, the NAIC Annual Statement Instructions- Health required an opinion on the accuracy and completeness of the records be provided by the individual being relied upon and that such be included with the actuarial certification.

No opinion that the preparation of Part 2B of the Underwriting and Investment Exhibit portion of the Company's 2001 Annual Statement was prepared consistent with ASOP 5, Recommendation 8 was provided in the certification. Also, no statement that "Actuarial methods, considerations, and analyses used in forming my opinion conform to the relevant Standards of Practice as promulgated from time to time by the Actuarial Standards Board, which standards form the basis of this statement of opinion." was included in the certification, which was required by the NAIC Annual Statement Instructions- Health.

The actuarial certification did not include the following point as was required by the NAIC Annual Statement Instructions- Health: "In my opinion, the amounts carried in the balance sheet on account of the items identified above: E. Are computed on the basis of assumptions consistent with those used in computing the corresponding items in the annual statement of the preceding year-end."

Note 11 - Premiums received in advance

\$4,167,247

The captioned amount is \$70,787 more than the \$4,096,460 reported in the Company's 2001 Annual Statement.

After a review of December 2001 premiums received, it was determined that the Company did not include premiums totaling \$70,787, due January 1, 2002, in its December 31, 2001 premium received in advance liability but included these advance premiums as earned in the net premium income; therefore, understating this liability, overstating the net premium income, and not complying with the NAIC Accounting Practices and Procedures Manual-SSAP No. 54, paragraph 6.

The examiners selected a sample of forty-seven premium payments, in order to trace to member contracts. The Company did not provide one member contract out of the sample of forty-seven. According to Section 27-27-29(a), Code of Alabama 1975, as amended, "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

Note 12 - General expenses due and accrued

\$1,636,737

The captioned amount is \$68,505 more than the \$1,568,232 reported in the Company's 2001 Annual Statement.

Based on a sample of 2002 disbursements, it was determined that the Company did not set up an adequate accrual for its 2001 expenses. There were disbursements of \$111,113 not found in the Company's December 31, 2001 accrual; however, the Company included a cushion of \$24,007 and overpaid its premium taxes by \$18,601, which lowered the under-accrual to \$68,505.

Note 13- Federal and foreign income tax payable and interest thereon \$0

The captioned amount is \$64,413 less than the \$64,413 reported in the Company's 2001 Annual Statement.

Through discussions with Company management, it was determined that the Company incorrectly included a federal and foreign income tax payable in its 2001 Annual Statement. The Company reported a net loss for 2000 and 2001 and had no federal and foreign income taxes incurred for 2000 or 2001.

Note 14 - Amounts withheld or retained for the account of others \$0

The captioned amount is the same as reported in the Company's 2001 Annual Statement.

The Company did not report an amount for the amounts withheld or retained for the account of others on its 2001 Annual Statement. It was determined that \$34,607 should have been included in this liability; however, this amount was in the general expense due and accrued line item as of December 31, 2001, which was not in accordance with the NAIC Annual Statement Instructions - Health. Due to no effect to the Company's surplus, no changes were made to the financial statements contained in this report.

Note 15 - Common capital stock \$112,400

The captioned amount is the same as reported in the Company's 2001 Annual Statement.

The Company did not maintain a capital stock ledger showing to whom its outstanding stock was issued.

Note 16 - Gross paid in and contributed surplus \$88,824,744

The captioned amount is the same as reported in the Company's 2001 Annual Statement.

The Company could not provide a reconciliation with supporting documentation for the changes in gross paid in and contributed surplus for 1999 to 2000 totaling \$18,569,959. The wire transfer slips provided did not reconcile to the dates and amounts the Company recorded in its general ledger for the changes. According to Section 27-27-29(a), Code of Alabama 1975, as

amended, "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

Note 17 - Unassigned funds (surplus) **\$(88,710,678)**

The unassigned funds (surplus) balance of the Company, as determined by this examination, was \$3,311,215 less than the \$(85,399,463) reported by the Company in its 2001 Annual Statement. The following presents a reconciliation of unassigned funds per the Company's filed Annual Statement to that developed by this examination:

Unassigned funds balance per Company	\$(85,399,463)
<u>Examination increase / (decrease) to assets:</u>	
Bonds (Note 1)	\$ (308,692)
Cash and short-term investments (Note 2)	(1,438,860)
Other long term invested assets (Note 3)	(169,644)
A & H premiums due and unpaid (Note 4)	(11,687)
Amounts recoverable from reinsurers (Note 6)	461,878
Investment income due and accrued (Note 7)	(53,967)
Amounts due for parent, subsidiaries, and affiliates (Note 8)	(365,787)
EDP equipment and software (Note 9)	<u>(17,341)</u>
Total decrease to assets	\$(1,904,100)
<u>Examination (increase)/ decrease to liabilities:</u>	
Claims unpaid (Note 10)	\$ 2,168,205
Unpaid claims adjustment expense (Note 10)	(635,000)
Premium received in advance (Note 11)	(70,787)
General expenses due and accrued (Note 12)	(68,505)
Federal and foreign income tax payable and the interest thereon (Note 13)	64,413
Aggregate write-ins for other liabilities (Note 6)	<u>(2,865,441)</u>
Total increase to liabilities	<u>\$(1,407,115)</u>
Net Increase (Decrease)	<u>\$(3,311,215)</u>
Unassigned fund balance per Examination	<u>\$(88,710,678)</u>

Alabama Department of Insurance Regulation No. 101, Section 3 (1-15) promulgates the standards by which an HMO may be determined to be in hazardous financial condition. At December 31, 2001, the Company was deemed to have been subject to Section 3 (1.), which is as follows:

“Adverse findings reported in financial condition...”

The Company was insolvent, at December 31, 2001, based on the examination findings.

SUBSEQUENT EVENTS

Significant events, which have transpired subsequent to December 31, 2001 and which were not discussed elsewhere in this report, are as follows:

On April 25, 2002, the Company’s actuarial firm, Global Benefits Solution, resigned as the Company’s actuaries.

On June 6, 2002, an order to Show Cause was issued because of the Company’s financial statement as of April 30, 2002, which showed the capital and surplus was impaired by approximately \$614,162. On June 28, 2002, the Order to Show Cause was lifted.

As of December 31, 2001 and July 1, 2002, the Company had a liability that was either not known or not valued at December 31, 2001. The Company was said to have owed Baptist Health System, Inc. approximately four million dollars in medical claims; however, the Company with Baptist Health Systems, Inc. did a subsequent review of more than 2000 claims in arbitration and found that the Company owed approximately \$500,000. The Company had ample funds in its IBNR liability at December 31, 2001, for payment of these claims.

On June 27, 2002, the Company received \$991,556 from Baptist Health System, Inc., which resolved the unsettled self-funded claim discrepancies. The amount was recorded as a receivable for GAAP purposes, but had been classified as non-admitted for statutory accounting due to its age. Consequently, this amount increased the Company’s equity dollar for dollar.

During the course of this examination, the Company was in the process of trying to find a buyer for the Company.

CONTINGENT LIABILITIES AND PENDING LITIGATION

Examination of these items included: a review of the Company's records and files for unrecorded items; obtaining a letter of representation from management (see commentary on the signed letter of representation in the "Scope of Examination" section on page 2); and, obtaining confirmations from outside attorneys representing the Company.

C. David Paragas with Benesch, Friedlander, Coplan & Aronoff, LLP and Tim Fulmer with Gorham & Waldrep, P.C. did not provide confirmations on commitments or contingencies the Company might have been liable for at December 31, 2001. Confirmations received from the Company's other outside attorneys indicated no commitments or contingencies at December 31, 2001.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

A review was conducted during the current examination with regards to the Company's compliance with the recommendations made in the previous examination report. This review indicated that the Company had satisfactorily complied with the prior recommendations, with the exception of the following:

1. During the prior examination, it was recommended that the Company comply with all regulations, statutes, and guidelines regarding investment valuation. During this examination, the Company did not comply with the NAIC SVO Purposes and Procedures Manual regarding investment valuation. See "Note 1-Bonds and Common stocks" on page 33.
2. It was recommended, in the last examination, that the Company comply with Alabama Department of Insurance Regulation No. 79, Section 15 and maintain records in the Company. During this examination, it was determined that all investment records were not maintained at the Company, therefore not complying with Regulation No. 79. See "Note 1-Bonds and Common stocks" on page 33.
3. It was recommended that the Company reconcile each bank account separately rather than have one reconciliation per bank. The examiner noticed after a review of the Company's bank reconciliations that all the accounts held

by the Company at Southtrust Bank and Alamerica Bank were reconciled together. See “Note 2–Cash and short-term investments” on page 34.

4. During the last examination, it was noted that the Company was unable to provide a stock ledger. As the Company was sold in 2000, a new stock ledger should have been initiated, and all stock transactions should have been maintained starting with the sale. See “Note 15- Common Capital Stock” on page 46.

COMMENTS AND RECOMMENDATIONS

Committees – Page 12

It is recommended that the Company’s board of directors select members of its committees in accordance with Article IV Section 1 of its By-laws.

Officers- Page 15

It is recommended that the Company’s board of directors annually elect its officers in accordance with Article V Sections 1 and 2 of its By-laws.

Conflict of Interest – Page 15

It is recommended that the Company maintain signed conflict of interest statements for all of its employees, directors and officers.

Management Agreement – Page 18

It is recommended that the Company terminate its management agreement with Scheur Management Group, Inc. because no consultants were working for the Company at August 19, 2002.

Ceded Reinsurance – Page 20

It is recommended that the Company evaluate its exposure and potential need for additional reinsurance coverage due to issuing policies to its members with no stated maximum benefits.

Advertising and Marketing- Page 22

It is recommended that the Company comply with Section 27-21A-13 (a), Code of Alabama 1975, as amended, by not causing or permitting the use of untrue or misleading advertising or solicitation.

Complaint handling – Page 22

It is recommended that the Company provide its enrollees with contact information for the Alabama Department of Insurance, Consumer Division when complaints are made, in accordance with the NAIC Market Conduct Examiners Handbook- Complaint Handling, Standard 2.

Compliance with Alabama Department of Insurance Regulation No. 122– Page 23

It is recommended that the Company, effective April 14, 2003, comply with the Alabama Department of Insurance Regulation 482-1-122, Article II and provide simplified notices to its customers stating that the Company discloses information to certain nonaffiliated third parties, which is allowed under Section 15 of Alabama Department of Insurance Regulation Chapter 482-1-122.

Self Referral Option – Page 25

It is recommended that the Company continue the practice of not marketing self-referral options, unless compliant with Alabama Department of Insurance Regulation No. 92.

Compliance with Prompt Pay Act – Page 25

It is recommended that the Company pay its claims within the required time limits set forth in Section 27-1-17, Code of Alabama 1975, as amended.

Accounts and Records – Page 26

It is recommended that the Company maintain complete and accurate records in its Alabama home office in accordance with Section 27-27-29(a), Code of Alabama 1975, as amended.

It is recommended that the Company comply with Alabama Department of Insurance Regulation No. 118, by providing responses within ten working days

regarding information requested by personnel representing the Alabama Department of Insurance.

Bonds and Common stock –Page 33

It is recommended that the Company submit all custodial and safekeeping agreements to the Alabama Insurance Commissioner for prior approval or not admit all securities held under these agreements in accordance with Alabama Department of Insurance Regulation No. 77.

It is recommended that the Company correctly complete Schedule D- Part 1, Schedule D- Part 3, and Schedule D- Part 4 in accordance with the NAIC Annual Statement Instructions-Health in its future financial filings.

It is recommended that the Company maintain detailed records to enable it to track its investment transactions and holdings. **It is further recommended** that the Company obtain from its custodian and maintain all documents pertaining to its securities transactions in accordance with Section 27-27-29(a), Code of Alabama 1975, as amended, which states: “Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds of insurance transacted.”

It is recommended that the Company change its name on its custodial accounts to its legal business name.

It is recommended that the Company report the correct NAIC designations of its investments in the appropriate schedules in its future financial statements in accordance with the NAIC Annual Statement Instructions-Health and the NAIC SVO Purposes and Procedures Manual.

Cash and short-term investments – Page 34

It is recommended that the Company maintain executed copies of its repurchase agreements at its home office in accordance with Section 27-27-29(a), Code of Alabama 1975, as amended, which states: “Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds of insurance transacted.”

It is recommended that the Company use its legal business name on all repurchase agreements, for which it is a party thereto.

It is recommended that the Company's repurchase agreements comply with the NAIC Accounting Practices and Procedures Manual- SSAP 45, paragraph 8 regarding proper collateral.

It is recommended that the Company comply with Section 27-41-6, Code of Alabama 1975, as amended, which states: "(a) An insurer shall not have at any one time any single investment or combination of investments in...or securities of any one person aggregating in cost to the insurer in excess of the greater of 10 percent of such insurer's assets or the total of its capital and surplus, as shown in the latest annual report of the insurer..., less the minimum and capital and surplus required of said insurer..."

It is recommended that the Company comply with Sections 35-12-23 and 35-12-31, Code of Alabama 1975, as amended, by remitting all unclaimed property over five years old with the Alabama State Treasurer.

It is recommended that the Company report maturity dates for its certificates of deposit in Schedule E- Part 1 of future financial statements as is required by the NAIC Annual Statement Instructions-Health.

It is recommended that the Company change its name on its bank accounts to its legal business name.

It is recommended that the Company set up general ledger accounts for each individual account for cash. This was also recommended in the prior examination report.

It is recommended that the Company reconcile each bank account separately rather than having one reconciliation per bank. This was also recommended in the prior examination report.

Other long term invested assets- Page 37

It is recommended that the Company correctly classify its investment in its subsidiary as common stock in its future financial filings in accordance with the NAIC Annual Statement Instructions-Health.

It is recommended that the Company provide a stock certificate and file a SUB 1 form with the NAIC SVO to rate and value this stock before including it in its financial statements, in accordance with the NAIC SVO Purposes and Procedures Manual, and with Alabama Department of Insurance Regulation No. 98.

Accident and health premiums due and unpaid – Page 37

It is recommended that the Company nonadmit receivables over ninety days in accordance with the NAIC Accounting Practices and Procedures Manual-SSAP No. 6, paragraphs 9 and 11.

It is recommended that the Company reconcile its Amysis aging for accident and health premiums due and unpaid with its general ledger.

Health care receivables – Page 38

It is recommended that the Company individually list all accounts with balances greater than \$10,000 or those that are 10% of gross health care receivables in accordance with the NAIC Annual Statement Instructions – Health when completing its Health Care Receivables – Exhibit 4 in future financial filings.

It is recommended that the Company maintain complete records of its transactions in accordance with Section 27-27-29(a), Code of Alabama 1975, as amended, which states: “Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds of insurance transacted.”

Amounts recoverable from reinsurers and Aggregate write-ins for other liabilities – Page 39

It is recommended that the Company report all amounts due from the reinsurer as amounts recoverable from reinsurers and all premiums payable to the reinsurer as a liability in its future financial statements in accordance with the NAIC Accounting Practices and Procedures Manual.

It is recommended that the Company comply with the NAIC Accounting Practices and Procedures Manual- SSAP 54, Actuarial Standards of Practice No. 14, and the AICPA Accounting and Audit Guide in order to set-up an appropriate premium deficiency reserve.

It is recommended that the Company complete the final accounting of its capitation contracts, which were terminated as of February 28, 2002, and settle all balances owed.

Investment income due and accrued- Page 40

It is recommended that the Company correctly calculate and report its interest income due and accrued in its future financial filings.

Amounts due from parent, subsidiaries and affiliates- Page 41

It is recommended that the Company enter into management and/or service agreements approved by the Alabama Insurance Commissioner with all affiliated parties with which it does transactions in accordance with Alabama Insurance Department Regulation No. 79 Section 13. **It is further recommended** that the Company nonadmit, in its future financial filings, all intercompany balances, which are not supported by approved management and/or service agreements.

It is recommended that the Company nonadmit, in its future financial filings, all assets that do not meet the definition of an asset as defined in the NAIC Accounting Practices and Procedures Manual.

It is recommended that the Company nonadmit, in its future financial filings, all advances to controlling stockholders in accordance with Section 27-37-2, Code of Alabama 1975, as amended.

It is recommended that the Company comply with the NAIC Annual Statement Instructions- Health when completing its organizational chart for Schedule Y- Part 1 in future financial filings.

It is recommended that the Company not make lease payments on property for which it is not a party on the lease agreement. **It is further recommended** that the Company comply with Section 27-41-36(a), Code of Alabama 1975, as amended, which states: "...an insurer shall not invest in nor lend its funds upon

the security of any note or other evidence of indebtedness of any director, officer or controlling stockholder of the insurer..."

Electronic data processing equipment and software- Page 43

It is recommended that the Company nonadmit all nonoperating system software in accordance with NAIC Accounting Practices and Procedures Manual-SSAP No. 16, paragraph 2.

Claims unpaid and Unpaid claims adjustment expenses- Page 43

It is recommended that the Company set-up a sufficient unpaid claims adjustment expense liability in its future financial statements in accordance with the NAIC Accounting Practices and Procedures Manual- SSAP 45 and Actuarial Standards of Practice (ASOP) 5.

It is recommended that procedures be established to insure that, for purposes of reporting claims by incurral month for developing lag factors, reinsurance recoveries should be allocated to the appropriate month of incurral.

It is recommended that the Company's actuarial opinion include all information required by the NAIC Annual Statement Instructions- Health. **It is further recommended** that Part 2B of the Underwriting and Investment Exhibit be prepared consistent with ASOP 5, Recommendation 8 and that the actuarial opinion include that the preparation of this exhibit was prepared consistent with ASOP 5, Recommendation 8.

Premiums received in advance-Page 45

It is recommended that the Company include all advance premiums in the premiums received in advance liability in its future financial filings in accordance with the NAIC Accounting Practices and Procedures Manual-SSAP No. 54, paragraph 6.

It is recommended that the Company maintain all executed contracts with its members in accordance with Section 27-27-29(a), Code of Alabama 1975, as amended.

General expenses due and accrued- Page 45

It is recommended that the Company establish adequate accruals for incurred and not paid expenses in its future financial statements.

Federal and foreign income tax payable and interest thereon- Page 46

It is recommended that the Company comply with the NAIC Accounting Practices and Procedures Manual and the NAIC Annual Statement Instructions-Health when reporting its federal and foreign income tax payable or recoverable in future financial statements.

Amounts withheld or retained for the account of others- Page 46

It is recommended that the Company correctly classify accruals relating to amounts withheld or retained for the account of others in future financial filings in accordance with the NAIC Annual Statement Instructions - Health.

Common capital stock- Page 46

It is recommended that the Company maintain a stock ledger listing all stock transactions. This was recommended in the prior examination report.

Gross paid in and contributed surplus- Page 46

It is recommended that the Company maintain all supporting documentation for its gross paid in and contributed surplus in accordance with Section 27-27-29(a), Code of Alabama 1975, as amended, which states: "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds of insurance transacted."

Contingent liabilities and pending litigation – Page 49

It is recommended that the Company require its attorneys to provide information when requested by examiners of the Alabama Department of Insurance.

CONCLUSION

The customary examination procedures, as recommended by the National Association of Insurance Commissioners for health maintenance organizations, have been followed in connection with the verification and valuation of assets and the determination of liabilities set forth in this report. Based on examination findings, the Company was insolvent at December 31, 2001.

This examination report is qualified to the extent that the Company did not provide all requested information to the examiners in accordance with Alabama Department of Insurance Regulation No. 118. The records in question were related to attorney confirmations, see "Contingent Liabilities and Pending Litigation" on page 49, a member contract, see "Note 11 - Premiums received in advance" on page 45, final accounting records for capitation related reserves, see "Note 6 - Amounts recoverable from reinsurers and Aggregate write-ins for other liabilities" on page 39, and the detail for the 2000 paid in capital, see "Note 16 - Gross paid in and contributed surplus" on page 46.

In addition to the undersigned, the following persons represented the Alabama Department of Insurance as participants in this examination: Anne M. Ogle, examiner, Shaun Sori, examiner, and John A. MacBain, FSA, MAAA, consulting actuary.

Respectfully submitted,



Rhonda B. Ball
Examiner-in-Charge
Alabama Department of Insurance

Kennedy, Debra

From: Ford, Richard
Sent: Thursday, January 31, 2002 12:25 PM
To: Kennedy, Debra
Cc: 'rhondaball@mindspring.com'
Subject: RE: The Oath

Please prepare letters for the 9/30/01 and the 12/31/01 exam dates. I believe Rhonda was first called in to assist Denise Azar as the HMO's Overseer and that is why no exam letter was prepared.

-----Original Message-----

From: Kennedy, Debra
Sent: Thursday, January 31, 2002 12:07 PM
To: Ford, Richard
Subject: RE: The Oath

I don't know what the reason was, but did not receive an exam call sheet for this exam, so no letters were done.

-----Original Message-----

From: Ford, Richard
Sent: Thursday, January 31, 2002 11:56 AM
To: Kennedy, Debra
Subject: FW: The Oath

Do we have these?

-----Original Message-----

From: Rhonda Ball [SMTP:rhondaball@mindspring.com]
Sent: Thursday, January 31, 2002 9:27 AM
To: Richard Ford
Subject: The Oath

Mr. Ford,

During Jim's review of the examination work at The Oath, I received a coaching note asking about the examination announcement and the actuarial participation letter. Were these letters issued? If so, can you send me copies of both of these letters? My fax number is 205-968-2266.

Thanks,
Rhonda



DON SIEGELMAN
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
TELEPHONE: (334) 269-3550
FACSIMILE: (334) 241-4192
INTERNET: www.aldoi.org

D. DAVID PARSONS
COMMISSIONER
ASSISTANT COMMISSIONER
TREY GRANGER
DEPUTY COMMISSIONER
JAMES R. (JOHNNY) JOHNSON
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
LICENSING MANAGER
JIMMY W. GUNN

January 31, 2002

Mr. John McBain, FSA, MAAA
Actuarial Resources Corporation
2753 State Road 580
Suite 101
Clearwater, FL 33761

Re: Financial Examination of The Oath-A Health Plan for Alabama, Inc. as of
September 30, 2001 and December 31, 2001

Dear Mr. McBain:

This letter is to request and authorize your participation in the examination of the above referenced company for the purpose of computing reserves and making other valuations in your usual manner.

The examination began on or about November 19, 2001. The examination for this company is being conducted in the company's office at Two Perimeter Park South, Suite 200W, Birmingham, AL 35243, and will cover the periods ending September 30, 2001 and December 31, 2001. The expected duration of the examination is approximately three months.

The Examiner-in-Charge is Ms. Rhonda Ball. Please contact her at the company after the beginning date to coordinate the scheduling of your portion of this examination. The company telephone number is (205) 968-1000.

If your schedule does not permit you to accept this assignment, please let me know so that other arrangements can be made.

Thank you for your assistance in this matter.

Sincerely,

Richard L. Ford, CFE
Acting Deputy Commissioner and
Chief Examiner

RLF:dk

cc: Jack M. Brown, CFE
Rhonda Ball
Jill Ellis

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:
Mr. John McBain, FSA MAAA
Actuarial Resources Corporation
2753 State Road 580
Suite 101
Clearwater, FL 33761

R: The oath

2. Article Number (Copy from service label)

7099 3400 0015 2327 6736

PS Form 3811, July 1999

Domestic Return Receipt

102595-00-M-0952

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly) B. Date of Delivery

9/9

C. Signature

X *J. Petersen*

Agent
 Addressee

D. Is delivery address different from item 1? Yes
If YES, enter delivery address below: No

3. Service Type

Certified Mail Express Mail
 Registered Return Receipt for Merchandise
 Insured Mail C.O.D.

4. Restricted Delivery? (Extra Fee) Yes



DON SIEGELMAN
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
TELEPHONE: (334) 269-3550
FACSIMILE: (334) 241-4192
INTERNET: www.aldoi.org

D. DAVID PARSONS
COMMISSIONER
ASSISTANT COMMISSIONER
TREY GRANGER
DEPUTY COMMISSIONER
JAMES R. (JOHNNY) JOHNSON
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
LICENSING MANAGER
JIMMY W. GUNN

January 31, 2002

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Robin L. McElfattrick
President
The Oath-A Health Plan for Alabama, Inc.
Two Perimeter Park South, Suite 200W
Birmingham, AL 35243

Re: Financial Examination As Of September 30, 2001 and December 31, 2001

Dear Ms. McElfattrick:

This letter is to inform you of a financial examination of your company called by the Alabama Department of Insurance and to authorize Rhonda Ball, Examiner, to conduct the examination. This authorization is pursuant to the instructions of Alabama Insurance Commissioner, D. David Parsons, and in compliance with the statutory requirements of the State of Alabama and resolutions adopted by the National Association of Insurance Commissioners.

Your examination commenced on or about November 19, 2001, and is being conducted primarily in your offices. The expected duration of the examination is approximately three months. Preliminary planning of your examination first began in the offices of the Alabama Department of Insurance.

The Alabama Insurance Department has adopted work policies and rules governing work hours, leave and unacceptable conduct including sexual harassment. If you have any question about our examiner's conduct at your offices, please contact me immediately.

Invoices covering examination fees and related expenses will be submitted to the appropriate company official in accordance with standard Departmental policy. Payment of any examination charges so invoiced are due within two business days following presentation of the invoice.

Sincerely,

Richard L. Ford, CFE
Acting Deputy Commissioner and
Chief Examiner

RLF:dk

Enclosures

cc: Jack M. Brown, CFE
Rhonda Ball
Jill Ellis

EQUAL OPPORTUNITY EMPLOYER

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Robin L. McElfatrick
President
The Oath-A Health Plan for Alabama Inc
Two Perimeter Park South #200W
Birmingham, AL 35243

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly) B. Date of Delivery

C. Signature

X

2/19

Agent
 Addressee

D. Is delivery address different from item 1? Yes
If YES, enter delivery address below: No

3. Service Type

Certified Mail Express Mail
 Registered Return Receipt for Merchandise
 Insured Mail C.O.D.

4. Restricted Delivery? (Extra Fee)

Yes

2. Article Number (Copy from service label)

7099 3400 0015 2327 6729

PS Form 3811, July 1999

Domestic Return Receipt

102595-00-M-0952



DON SIEGELMAN
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
TELEPHONE: (334) 269-3550
FACSIMILE: (334) 241-4192
INTERNET: www.aldoi.org

D. DAVID PARSONS
COMMISSIONER
ASSISTANT COMMISSIONER
TREY GRANGER
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JAMES R. (JOHNNY) JOHNSON
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
LICENSING MANAGER
JIMMY W. GUNN

June 18, 2002

H. Richard Walton
KPMG
Bank One Centre-North Tower
Suite 1700
451 Florida Street
Baton Rouge, LA 70801-1705

Re: Request for CPA Workpapers in December 31, 2000 Examination of The Oath-A Health Plan for Alabama, Inc.

Dear Sir:

We received your May 29, 2002, letter regarding the request for inspection of the workpapers prepared in the referenced examination.

The request to inspect the workpapers is made by your client pursuant to Section 13 of Regulation 100. The letter of qualification your firm provided your insurer client should consent and agree to make available for review by the Commissioner, his designee or his appointed agent, the workpapers prepared in your examination. This agreement and consent is required by Section 12 of Regulation 100. Any copies of your firm's workpapers included in the Department's files will remain confidential to the extent provided under Alabama law.

If you have any questions, please advise.

Sincerely,

Jack M. Brown
Assistant Chief Examiner

cc: Richard Ford
Rhonda Ball, Examiner-in-charge



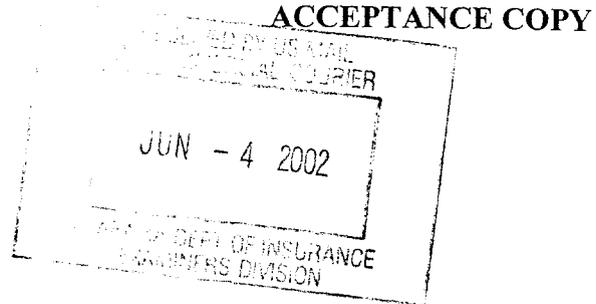
Bank One Centre-North Tower
Suite 1700
451 Florida Street
Baton Rouge, LA 70801-1705

Telephone 225 344 4000
Fax 225 344 9915

May 29, 2002

State of Alabama Department of Insurance
P.O. Box 303351
Montgomery, AL 36104

Ladies and Gentlemen:



Your representatives have requested access to our work papers in connection with our audit of the December 31, 2000, financial statements-statutory basis of The Oath-A Health Plan for Alabama, Inc. It is our understanding that the purpose of your request is to facilitate your regulatory examination.

Our audit of The Oath-A Health Plan for Alabama, Inc. December 31, 2000 financial statements-statutory basis was conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is to form an opinion as to whether the financial statements, which are the responsibility and representations of management, present fairly, in all material respects the admitted assets, liabilities and net work-statutory basis of The Oath-A Health Plan for Alabama, Inc. in conformity with accounting practices prescribed or permitted by the State of Alabama Department of Insurance. Under auditing standards generally accepted in the United States of America, we have the responsibility, within the inherent limitations of the auditing process, to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, the auditor is able to obtain reasonable, but not absolute, assurance that material misstatements are detected. The auditor has no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by errors or fraud, that are not material to the financial statements are detected. In addition, those standards require the independent auditor to plan and perform his or her work with due professional care. Due professional care imposes a responsibility upon each professional within an independent auditor's organization to observe the standards of fieldwork and reporting.

The concept of selective testing of the data being audited, which involves judgment both as to the number of transactions to be audited and as to the areas to be tested, has been generally accepted as a valid and sufficient basis for an auditor to express an opinion on financial statements. Thus, our audit, based on the concept of selective testing, is subject to the inherent risk that material errors or fraud, if they exist, would not be





detected. In addition, an audit does not address the possibility that material errors or fraud may occur in the future. Also, our use of professional judgment and the assessment of materiality for the purpose of our audit means that matters may have existed that would have been assessed differently by you.

The work papers were prepared for the purpose of providing the principal support for our report on The Oath-A Health Plan for Alabama, Inc. December 31, 2000, financial statements-statutory basis and to aid in the conduct and supervision of our audit. The work papers document the procedures performed, the information obtained and the pertinent conclusions reached in the engagement. The audit procedures that we performed were limited to those we considered necessary under auditing standards generally accepted in the United States of America to enable us to formulate and express an opinion on the financial statements-statutory basis taken as a whole. Accordingly, we make no representation as to the sufficiency or appropriateness, for your purposes, of either the information contained in our work papers or our audit procedures. In addition, any notations, comments, and individual conclusions appearing on any of the work papers do not stand alone, and should not be read as an opinion on any individual amounts accounts, balance or transactions.

Our audit of The Oath-A Health Plan for Alabama, Inc. December 31, 2000, financial statements-statutory basis was performed for the purpose stated above and has not been planned or conducted in contemplation of your regulatory examination or for the purpose of assessing The Oath-A Health Plan for Alabama, Inc.'s compliance with laws and regulations. Therefore, items of possible interest to you may not have been specifically addressed. Accordingly, our audit and the work papers prepared in connection therewith, should not supplant other inquiries and procedures that should be undertaken by the State of Alabama Department of Insurance for the purpose of monitoring and regulating the financial affairs of The Oath-A Health Plan for Alabama, Inc. In addition, we have not audited any financial statements of The Oath-A Health Plan for Alabama, Inc since December 31, 2000, nor have we performed any audit procedures since March 21, 2001, the date of our auditor's report, and significant events or circumstance may have occurred since that date.

The work papers constitute and reflect work performed or information obtained by KPMG LLP in its capacity as independent auditor for The Oath-A Health Plan for Alabama, Inc. The documents contain trade secrets and confidential commercial and financial information of our firm and The Oath-A Health Plan for Alabama, Inc. that is privileged and confidential, and we expressly reserve all rights with respect to disclosures to third parties. Accordingly, we request confidential treatment under the Freedom of Information Act or similar laws and regulations when requests are made for the work papers or information contained therein or any documents created by the State



Page 3

State of Alabama Department of Insurance
May 29, 2002

of Alabama Department of Insurance containing information derived therefrom. We further request that written notice be given to our firm before distribution of the information in the work papers (or photocopies thereof) to others, including other governmental agencies, except when such distribution is required by law or regulation.

Any photocopies of our work papers we agree to provide you with will be identified as "Confidential Treatment Requested by KPMG LLP, 451 Florida Street, Suite 1700, North Tower, Baton Rouge, Louisiana 70801, 225-344-4000."

Very truly yours,

KPMG LLP

H. Richard Walton
Partner

HRW:amg

Enclosure

cc: Mark Gordon, The Oath-A Health Plan for Alabama, Inc.
Cheryl Yennie, KPMG LLP

ACKNOWLEDGED BY:

State of Alabama Department of Insurance

Authorized Signature

Title

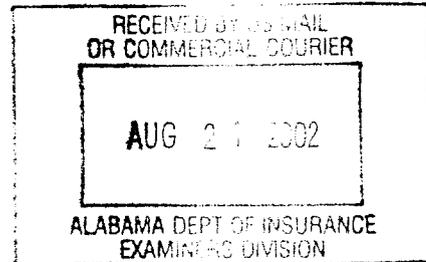
Date

The OATH

August 19, 2002

VIA FACSIMILE & US MAIL

Rhonda B. Ball
Examiner-In-Charge
Alabama Department of Insurance
201 Monroe Street, Suite 1700
Montgomery, Alabama 36130



Dear Mrs. Ball:

We are providing this letter in connection with your examination of the statutory financial statement of **The Oath- A Health Plan for Alabama, Inc.** as of December 31, 2001, and for the year then ended, for the purpose of stating that the statutory statements present fairly the statutory financial position of The Oath- A Health Plan for Alabama, Inc. in conformity with the accounting practices prescribed or permitted by the Alabama Department of Insurance (ADOI) and the *National Association of Insurance Commissioners* (NAIC). We confirm, to the best of our knowledge and belief, the following representations made to you during your examination.

Certain representations in this letter are described as being limited to those matters that are material. Solely for the purpose of preparing this letter, the term "material," when used in this letter, means any item or group of similar items involving potential amounts of more than \$100,000. These amounts are not intended to represent the materiality threshold for financial reporting and disclosure purposes. Notwithstanding this, an item is considered material, regardless of size, if it involves an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.

We are responsible for the fair presentation in the statutory financial statements of financial position, results of operations, and changes in statutory financial position in conformity with the accounting practices prescribed or permitted by the Alabama Department of Insurance and the *National Association of Insurance Commissioners*.

1. We have made available to you all:

Statutory financial records and related data; and

Minutes of meetings of stockholders, directors and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.

Two Perimeter Park South, Suite 200 West
Birmingham, Alabama 35243
tel: 205-968-1000 Toll-free 1-800-888-7647
TheOATHofAlabama.com
(formerly known as Health Partners of Alabama, Inc.)

2. Other than the exceptions noted, there have been no:
 - Fraud or other irregularities involving management or employees who have significant roles in the internal control structure;
 - Fraud or other irregularities involving other employees who have a material effect on the statutory financial statements;
 - Communications (oral or written) from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations in any jurisdiction (including those related to the Medicare and Medicaid antifraud and abuse statutes), deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the financial statements. Exceptions: "Non-compliant" issues as noted in the most recent two Alabama Department of Public Health and Centers for Medicaid & Medicare Services audits, provided to ADOJ as part of this audit.
3. Subject to the agreed upon adjustments resulting from the December 31, 2001 audit by ADOJ, we have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
4. Subject to the agreed upon adjustments resulting from the December 31, 2001 audit by ADOJ, the financial statements are free of material misstatements, including omissions.
5. Subject to the agreed upon adjustments resulting from the December 31, 2001 audit by ADOJ, the following have been properly recorded or disclosed in the statutory financial statements:
 - Any related party transactions and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees.
 - All liabilities, both actual and contingent.
 - Guarantees whether written or oral, under which the Company is contingently liable.
 - Capital Stock repurchase options or agreements on capital stock reserved for options, warrants, conversions, or other requirements.
 - Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.
 - Significant estimates and material concentrations known to management that are required to be disclosed in accordance with SSAP No. 1, *Disclosure of Accounting Policies, Risks & Uncertainties, and Other Disclosures*.

- Agreements to repurchase assets previously sold.
 - We confirm the completeness of the information provided regarding the identification of related parties.
 - There are no violations or possible violations of laws or regulations, such as those related to Medicare and Medicaid antifraud and abuse statutes, including but not limited to the Medicare and Medicaid Anti-Kickback Statute, Limitations on Certain Physical Referrals (the Stark law), and the False Claims Act, in any jurisdiction, whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency other than those disclosed or accrued in the financial statements.
 - Billings to third party payors comply in all material respects with applicable coding guidelines (for example ICD-9-CM and CPT-4) and laws and regulations (including those dealing with Medicare and Medicaid antifraud and abuse), and billings reflect only charges for goods and services that were medically necessary; properly approved by regulatory bodies (for example, the Food and Drug Administration), if required; and properly rendered.
6. Contingent Liabilities:
- Other than as disclosed by counsel, the Company is not aware of any material contingent liabilities as of August 19, 2002.
 - Other than as disclosed by counsel, the Company has committed no reserves to cover any contingent liabilities.
 - Other than as disclosed by counsel, there is no litigation against the Company that is considered material in relation to the statutory financial position of the Company. For purposes of this section, the Company has excluded litigation for which the only amounts sought relate to benefits within the normal terms of coverage under contracts of insurance issued by the Company, and which are otherwise considered in the actuarial determination of the Company's unpaid claim reserves.
7. There are no unasserted claims or assessments that our attorney has advised us are probable of assertion and must be disclosed.
8. Adequate provision has been made for adjustments and losses in collection of receivables.
9. Provision has been made, when material, for estimated retroactive adjustments by third-party payors under reimbursement agreements.

10. Pending changes in the organizational structure, financing arrangements, or other matters that could have a material effect on the financial statements of the entity are properly disclosed.
11. The Company has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged.
12. Investments are stated in accordance with the Valuations of Securities Manual published by the Securities Valuation Office of the National Association of Insurance Commissioners. Other Investments are stated as follows:
 - Bonds – at amortized cost unless the company has a NAIC designation of 6 or does not maintain an Asset Valuation Reserve in which case bonds are recorded at lower of amortized cost or fair market value in accordance with SSAP No. 26.
 - Common stocks - at fair value if unit price is unavailable from the Securities and Valuation Office in accordance with SSAP No. 30.
 - Short-term investments – in same manner as similar long-term investments, with any premium or discount amortized on a straight-line basis through maturity date of the investments.
 - Premiums Receivable - presented net as to commissions and suspense items with balances over 90 days excluded as an admitted asset in our statutory financial statement.
13. Receivables:
 - Adequate consideration has been given to, and appropriate provision made for, estimated adjustments to revenue, such as for denied claims and changes to diagnosis-related group (DRG) assignments.
 - Recorded valuation allowances are necessary, appropriate, and properly supported.
 - All peer review organizations, fiscal intermediary, and third-party payor reports and information have been made available.
14. Costs report filed with third parties:
 - All required Medicare, Medicaid, and similar reports have been properly filed.

- Management is responsible for the accuracy and propriety of all cost records filed.
 - All costs reflected on such reports are appropriate and allowable under applicable reimbursement rules and regulations and are patient-related and properly allocated to applicable payors.
 - The reimbursement methodologies and principles employed are in accordance with applicable rules and regulations
 - Adequate consideration has been given to, and appropriate provision made for, audit adjustments by intermediaries, third-party payors, or other regulatory agencies.
 - All items required to be disclosed, including disputed costs that are being claimed to establish a basis for a subsequent appeal, have been fully disclosed in the cost report.
 - Recorded third-party settlements include differences between filed (and to be filed) cost reports and calculated settlements, which are necessary based on historical experience or new or ambiguous regulations that may be subject to differing interpretations. While management believes the entity is entitled to all amounts claimed on the cost reports, management also believes the amounts of these differences are appropriate.
15. The Company's actuary has certified to the propriety of the basis and amounts at which the loss reserves and all actuarial liabilities are stated at December 31, 2001.
16. The entity's aggregate reserves, account values, and related financial statement items are based on appropriate actuarial assumptions, are prepared in accordance with the accounting practices prescribed or permitted by the Alabama Department of Insurance, are fairly stated in accordance with sound actuarial principles applied on a consistent basis, and should include provision for all actuarial liabilities and related financial statement items that should be established. In connection with this, the related master files and valuation listings and summaries represent materially complete and accurate record of all contracts in force at December 31, 2001.
17. The Company has computed incurred but not reported claims using proper claims experience data and included in the statutory financial statement.
18. Utilization data has been properly determined and included in the statutory financial statement.

19. Covered liabilities are properly stated in the statutory financial statement and are determined as health care services covered through "hold harmless" clauses in the provider contracts which state that providers will not bill enrollees even though the provider has not been paid by the Company.
20. Proper computation of admitted assets excluding goodwill, prepaid expenses, furniture and equipment except certain electronic data processing equipment and medical equipment has been made and is included in the statutory financial statement.
21. There were no material commitments for construction or acquisition of property, plant and equipment, or to acquire other noncurrent assets, such as investments or intangibles.
22. We have complied with all aspects of contractual agreements that would have a material effect on the statutory financial statement in the event of noncompliance.
23. There are no material transactions that have not been properly recorded in the accounting records underlying the statutory financial statements.
24. All informational returns have been filed on a timely basis with the appropriate regulatory bodies.
25. All material reinsurance transactions have been properly disclosed in our statutory financial statements.
26. The Company is not aware of any events occurring subsequent to the close of the books for the statutory financial statement of December 31, 2001, which may have a material effect on its financial position, other than those disclosed in your Report of Examination or otherwise known to the ADOI.
27. The Company is not aware of the employment of or a business relationship with a "prohibited person" as defined in The Violent Crime Control and Law Enforcement Act of 1994: United States Code, Section 1033 (e)(1)(A).

We understand that your examination was made in accordance with auditing standards as established by the Alabama Department of Insurance, and procedures established by the *National Association of Insurance Commissioners*, and accordingly included such tests of the accounting records and such other auditing procedures as were considered necessary under the circumstances.

The Oath- A Health Plan for Alabama, Inc.

Robin L. McElfatrick
Robin L. McElfatrick

08/19/02
Date

Mark D. Gordon
Mark D. Gordon

8/19/02
Date



DON SIEGELMAN
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
TELEPHONE: (334) 269-3550
FACSIMILE: (334) 241-4192
INTERNET: www.aldoi.org

D. DAVID PARSONS
COMMISSIONER
ASSISTANT COMMISSIONER
TREY GRANGER
DEPUTY COMMISSIONER
JAMES R. (JOHNNY) JOHNSON
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
LICENSING MANAGER
JIMMY W. GUNN

August 23, 2002

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Ms. Robin L. McElfatrick
President
The Oath-A Health Plan for Alabama, Inc.
Two Perimeter Park South, Suite 200W
Birmingham, AL 35243

**RE: The Oath-A Health Plan for Alabama, Inc.
Report of Examination as of December 31, 2001**

Dear Ms. McElfatrick:

Enclosed is a copy of the Report of Examination of the above-cited company as of December 31, 2001. In the event that you have any objections to this report, please advise this Department in writing within twenty (20) days, and a hearing will be scheduled, at which time you may present your arguments regarding any objections.

Unless we hear from you within the above-stated time, the report will be filed as a public document. Once filed, no annual or quarterly statements, or other material reflecting the statutory financial condition of the company may be filed with or accepted by this Department if those statements conflict with any basis of calculation to establish the value of any asset, liability, or capital account in the report.

Sincerely,

Richard L. Ford, CFE
Acting Deputy Commissioner and
Chief Examiner

RLF:dk

Enclosure

cc: Jack M. Brown, CFE
Rhonda Ball
Jill Ellis

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Ms. Robin L. McElfatrick
President
The Oath-A Health Plan for Alabama Inc
Two Perimeter Park South Suite 200W
Birmingham, AL 35243

2. Article Number (Copy from service label)

7099 3400 0015 2327 6187

PS Form 3811, July 1999

Domestic Return Receipt

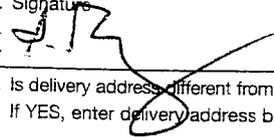
COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly) B. Date of Delivery

8/29/02

C. Signature

X



Agent
 Addressee

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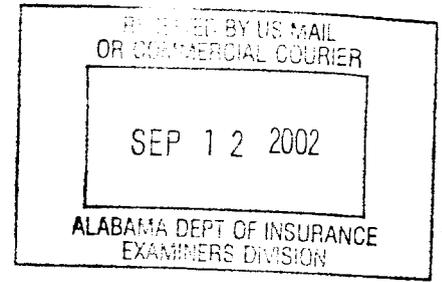
Certified Mail Express Mail
 Registered Return Receipt for Merchandise
 Insured Mail C.O.D.

4. Restricted Delivery? (Extra Fee) Yes

102595-00-M-0952

The OATH

file w/ report



Via Facsimile & Certified Mail

September 10, 2002

Richard L. Ford, CFE
Acting Deputy Commissioner and Chief Examiner
State of Alabama
Department of Insurance
201 Monroe Street, Suite 1700
Post Office Box 303351
Montgomery, Alabama 36130-3351

Dear Mr. Ford:

We are in receipt of the Report of Examination, dated August 23, 2002, for The Oath – A Health Plan for Alabama, Inc., as of December 31, 2001. Based on objections to several findings within the report, we are formally requesting a hearing wherein we may present our arguments.

The following list identifies the audit items to which we object. If you need any additional information or clarification regarding these items, prior to the hearing, please let me know as soon as any need for same is determined.

1. Page 2: DOI's note that "The Company amended the standard NAIC letter of representation to disclose all "material" amounts more than \$100,000 instead of the \$5,000 originally requested by the examiners." DOI's prior audit of the Company defined material as more that \$100,000 versus the \$5,000 that the examiners suggested for this audit. We were not provided with any information as to why the amount was so drastically reduced for this audit and felt it should be consistent with DOI's prior audit.
2. Page 15: Officers, as listed, is incomplete as it does not include Robin L. McElfatrick, who was Chief Operating Officer from April through December, during the audit period.
3. Page 21: We are unsure as to the audit/regulatory issue concerning DOI's note that "According to Company's management, there were no maximum benefit limitations the Company would pay on a member in his or her lifetime. The reinsurance contract specified a maximum amount of \$1 million per member per year. When this point was noted by examiners during the audit, we sought

Two Perimeter Park South, Suite 200 West
Birmingham, Alabama 35234
tel: 205-968-1000 toll-free: 1-800-888-7647
TheOATHofAlabama.com

(Formerly The Oath of Health Partners of Alabama, Inc.)

clarification as to regulatory requirement for our own education and were told that there did not have to be a regulatory requirement.

4. Page 22: The comment that “The Company communicated misleading information to the public in one of its newsletters, the Winter 2002 employer newsletter, is incorrect. We provided clarifying information on more than one occasion during the audit and believe that it was either misconstrued or ignored.
5. Page 22: Regarding Complaint handling, the DOI’s report notes that the “Company should provide the insurance department’s complaints telephone number for consumers.” Please note that we are revising this form but that it was previously approved by the DOI without the required telephone number.
6. Page 25: Regarding the Self Referral Option, please be advised that effective 9/1/02 the only account with this benefit option was converted to an HMO-compliant product.
7. Page 25: Regarding the claims audit to determine compliance with the Prompt Pay Act, we take exception with the finding that two claims (of 134) were not paid within limits. Given a discussion that I personally had with the examiner who audited claims (who expressed confusion about what claims data indicated), and the timing of that portion of the audit (within a few days of concluding the audit off-site), we were given no opportunity to review and rebut/clarify initial audit findings. Perhaps the two claims in question were not “clean claims”. In any event, the standard protocol for a claims audit is for the auditor to provide opportunity for clarification or rebuttal prior to concluding findings. We would like this opportunity.
8. Page 31: The net income (loss) in the Statement of Revenue and Expenses for 2000 is misstated by the DOI. The \$19,239,399 was a loss but is stated as a gain, misstating financial condition by over \$38 million. Parentheses were omitted.
9. Page 34: The reduction of admitted assets of \$1,438,860 in actual cash, thereby rendering the Company insolvent as of December 31, 2001, seems to be in direct conflict with the DOI’s purpose of identifying an accurate and fair account of the Company’s financial status.
10. Pages 34 & 35: The DOI’s report indicates that the repurchase agreements are not appropriately collateralized. Our contention is that the agreements themselves state that they are totally collateralized. We also take issue with the “102%” which is (and was) an unrealistic expectation given the market.
11. Page 37: As DOI was informed, we are in the process of having the “other long term invested assets”, some \$169,644 valued by the NAIC Securities and Valuation Office (SVO). The disallowance of this bone fide asset is also being contested.

12. Page 41: The DOI's informal report made note that the Company subsequently received the amounts due from parent, subsidiaries and affiliates. The final report excluded this notation. We request that this notation be added back as they were collected within sixty (60) days of December 31, 2001.

We look forward to discussing these issues at a hearing to be scheduled by the Department of Insurance. Again, if you need any other information, please let me know as soon as possible before the hearing. My phone number is 205.968.1507.

Sincerely,

A handwritten signature in cursive script that reads "Robin L. McElfatrick". The signature is written in black ink and is positioned above the typed name and title.

Robin L. McElfatrick
President

cc: B. Scheur
T. Fulmer
M. Gordon
E. Bookwalter
D. Parsons



DON SIEGELMAN
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
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(copy) to
Jim Hollaway
Charles Bold
D. DAVID PARSONS
COMMISSIONER
DEPUTY COMMISSIONER
JAMES R. (JOHNNY) JOHNSON
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
LICENSING MANAGER
JIMMY W. GUNN

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

IN THE MATTER OF:)
)
THE OATH, A HEALTH PLAN FOR) CASE NO. C-2002- EB
ALABAMA, INC.)
REPORT OF EXAMINATION)
AS OF DECEMBER 31, 2001)

NOTICE OF HEARING

Notice is hereby given that a hearing in the above matter is set for **10:00 A.M.** on **October 16, 2002**, to be held in the offices of the Alabama Insurance Department, Suite 1700 - RSA Tower, 201 Monroe Street, Montgomery, Alabama.

The procedures to be followed are set out in Regulation No. 65, a copy of which is attached to this notice.

DONE and ORDERED this 12th day of September, 2002.

D. DAVID PARSONS
COMMISSIONER OF INSURANCE

DDP/EB/ds
Enclosure

COPY OF NOTICE FURNISHED TO:

Robin McElfatrick
President
The Oath
Two Perimeter Park South, Suite 200W
Birmingham, Alabama 35243

Tim Fulmer, Esquire
Gorham, Waldrep
2101 6th Avenue North, Suite 700
Birmingham, Alabama 35203

Memo

To: Mr. Richard L. Ford, Chief Examiner

From: Rhonda B. Ball, Examiner *RB*
Jim Hattaway, CFE, Insurance Examinations Supervisor *JH*

Cc: Jack Brown, CFE, Assistant Chief Examiner; Elizabeth Bookwalter,
Associate Counsel; Sheila Travis, CFE, Chief Financial Analyst; Jill Ellis,
Financial Analyst

Date: 9/19/02

Re: The Oath- A Health Plan for Alabama, Inc.'s Examination Report as of
December 31, 2001

This memorandum is in response to Robin McElfatrick's objections to the examination report, dated August 22, 2002. The issues will be addressed in the same order as her objections were listed.

1. Due to the Company's hazardous financial condition, materiality was significantly reduced; however, materiality is strictly subject to the examiners' determination. Company management does not have the option to define materiality for the examination. The disclosure in the report is factual; we provided our letter of representation to the Company and Company management modified the letter.
2. With the exception of John Davis, the Company's board of directors' minutes did not reflect the annual election of the Company's officers. Due to Ms. McElfatrick's representation that she was the Chief Operating Officer as of December 31, 2001, this section of the examination report was revised to include her as an officer. See the attached revision.

3. Through e-mail correspondence, prior to the issuance of the report of examination, with Mark Gordon, Vice President of Finance, Alabama Department of Insurance Regulation No. 101- "Standards for Determining Hazardous Financial Condition" was cited, as follows: "...whether the insurer's reinsurance program provides sufficient protection for the company's remaining surplus after taking into account the insurer's cash flow and the classes of business written as well as the financial condition of the assuming reinsurer..." In addition to Regulation No. 101, the examiners would expect that management would have seen the obvious need to evaluate the Company's potential exposure due to limitations imposed by reinsurance when the Company has no limitations on its policies.
4. Per the Company's Winter 2002 employer newsletter, Barry S. Scheur, Chairman, stated the following: "We projected quarterly losses through the end of this year, but we exceeded our expectations in the first quarter of this year by showing a profit." According to the Company's March 2002 Quarterly Statement (first quarter of 2002), it did not reflect a profit but a loss of \$465,226; therefore, this statement was not true and not in compliance with Section 27-21A-13 (a), Code of Alabama 1975, as amended.
5. If the Company is revising the form, we don't understand what is being contested. Ms. McElfatrick's response indicates that the Company is complying with the recommendation.
6. We don't understand what is being contested here. The information in the examination report was accurate as of December 31, 2001 and August 22, 2002, the date of the examination report.
7. The examiners spoke with Bobby Sanders, Claims Manager, regarding the appropriate person to ask questions regarding claims information, if he was not available. He indicated that Denise Smith would be able to help us. The claims, which were not paid within the timeframe allowed under the Prompt Pay Act, were discussed with Denise Smith, Claims Supervisor, in order to determine the reason for the delay in payment. All but two were determined to have appropriate reasons for delays in payment. Per Ms. Smith, these two claims contained no notes on the Company's claims system and were determined to have a delay in payment due to backlogs. We provided the information to Denise Smith; however, the service numbers for the two claims in question were

0124300500180400 (Willie A. Brown, Sr.) and 0112401500310400 (Willie M. Haynie).

8. Parentheses were mistakenly not included on this net loss figure. See the attached revision.
9. Our only comment on this issue is that our scope of examination is clearly defined in the Report of Examination. We have included a direct excerpt from the report of examination below. While Ms. McElfatrick may believe that non-admitting cash is "...in direct conflict with the DOI's purpose of identifying an accurate and fair account of the Company's financial status," she is failing to recognize that statutory financial statements must comply with statutes.

"The examination included a general review of the Company's operations, administrative practices and compliance with statutes and regulations. Income and disbursement items were tested for selected periods. Assets were verified and valued and all known liabilities were established or estimated as of December 31, 2001, as shown in the financial statements contained herein. However, the discussion of assets and liabilities contained in this report has been confined to those items which resulted in a change to the financial statements, or which indicated a violation of the *Alabama Insurance Code* and the Insurance Department's rules and regulations or other insurance laws or rules, or which were deemed to require comments and/or recommendations."

10. The repurchase agreements with SouthTrust Bank were not in accordance with the NAIC Accounting Practices and Procedures Manual- SSAP 45, paragraph 8 a., which requires the following:

"The reporting entity shall receive as collateral transferred securities having a fair value at least equal to 102 percent of the purchase price paid by the reporting entity for the securities. If at anytime the fair value of the collateral is less than 100 percent of the purchase price paid by the reporting entity, the counterparty shall be obligated to provide additional collateral, the fair value of which, together with fair value of all collateral then held in connection with the transaction, at least equals 102 percent of the purchase price."

While we don't know what the basis is for Ms. McElfatrick's statement that the 102% "...is (and was) an unrealistic expectation given the

market,” the 102% collateralization is a requirement of the NAIC Accounting Practices and Procedures Manual, which has been adopted by Alabama statutes. Once again, the examiners must point out that statutory financial statements must comply with statutes.

11. The Company could not or would not provide the stock certificate showing proof of ownership in its subsidiary nor did it provide evidence that it had filed a SUB1 form with the NAIC Securities Valuation Office to rate and value this stock. This investment was not admitted in accordance with the Alabama Department of Insurance Regulation No.98 Section 2 (A) and (C), which states:

“All securities owned by the insurer shall be valued in accordance with those standards promulgated by the NAIC Securities and Valuation Office (SVO)...”

“Any security not valued in accordance with this section shall be carried as a non-admitted asset on all financial statements of the insurer until such time as the insurer has complied with subsection A or B or this section.”

Ms. McElfattrick’s response again indicates either her disregard or lack of knowledge regarding statutory requirements.

12. In 2002, the Company continued to make advances to its related parties. It was not determined if these advances were made to settle the balances owed to the Company at December 31, 2001; therefore, the examiners deemed it inappropriate to include commentary in the examination report regarding any subsequent settlement of any intercompany balances.

If you need any additional information to prepare for the hearing, please let us know.

THE ENCLOSED AMENDED PAGES (2) HAVE NOT BEEN PROVIDED TO THE COMPANY.

Officers

Company management represented that the following officers were serving at December 31, 2001; however, it could not provide evidence that these officers were elected annually in accordance with Article V Section 2 of its By-laws except for the Company's President, John D. Davis. The Company also did not have a Vice-Chairman or Treasurer at December 31, 2001, which was required by Article V Section 1 of its By-laws.

<u>Name</u>	<u>Title</u>
Barry S. Scheur	Chairman of the Board
John D. Davis	President
Richard W. Lawley	Secretary
Robin L. McElfattrick	Chief Operating Officer
Herbert E. Hendriks	Medical Director
Kirk David	VP Marketing
Richard W. Lawley	Regional VP Human Resources
Waleed N. Al-Homoud	VP Medical Services
Brasher Miller	Executive Director Gulf Coast Region
William O. Whitt	VP Business Development
Catherine Deya	VP Provider Services
Sandra Lutz	VP Information Services
Mark Gordon	VP Finance
Michaela Foster	VP Compliance and Medicare Operations

Conflict of Interest

The Company could not provide signed 2000 conflict of interest statements for any of its directors or officers. This was in contradiction to the Company's affirmative answer to general interrogatory number 6 in its 2000 Annual Statement, which asked the following:

“Has the HMO an established procedure for annual disclosure to its Board of Directors of any material interest or affiliation on the part of any of its officers, directors or responsible employees which is in, or is likely to conflict with the official duties of such person?”

A review was conducted of the 2001 Company employees, directors and officers' conflict of interest statements. The Company could not provide a conflict of interest statement for one director, Paula Nordhoff. The rest were received and inspected.

THE OATH-A HEALTH PLAN FOR ALABAMA, INC.
STATEMENT OF REVENUE AND EXPENSES
For the Year Ended December 31, 2001 and 2000

	<u>Uncovered</u>	<u>2001</u>	<u>2000</u>
MEMBER MONTHS	XXX	901,089	1,143,946
Net premium income	XXX	\$211,865,970	\$230,362,662
Aggregate write-ins for other health care related revenues	XXX	<u>0</u>	<u>18,932</u>
Total revenues	XXX	<u>\$211,865,970</u>	<u>\$230,381,594</u>
Medical and Hospital:			
Hospital/medical benefits	\$26,592,417	\$179,858,868	\$199,375,642
Outside referrals	1,441,355	1,441,355	13,193,268
Emergency room and out-of-area	<u>2,854,280</u>	<u>6,050,094</u>	<u>5,184,481</u>
Subtotal	<u>\$30,888,052</u>	<u>\$187,350,317</u>	<u>\$217,753,391</u>
Less:			
Net reinsurance recoveries incurred	<u>0</u>	1,023,128	<u>0</u>
Total medical and hospital	<u>\$30,888,052</u>	<u>\$186,327,189</u>	<u>\$217,753,391</u>
General administration expenses	\$31,640,915	\$ 31,709,420	\$ 33,122,115
Increase in reserves for accident and health contracts	<u>0</u>	<u>966,795</u>	<u>0</u>
Total underwriting deductions	<u>\$62,528,967</u>	<u>\$219,003,404</u>	<u>\$250,875,506</u>
Net underwriting gain or (loss)	XXX	<u>\$ (7,137,434)</u>	<u>\$(20,493,912)</u>
Net investment income earned	XXX	\$ 1,741,302	\$ 1,812,341
Net realized capital gains or (losses)		<u>24,511</u>	<u>0</u>
Net investment gains or (losses)		<u>\$ 1,765,813</u>	<u>\$ 1,812,341</u>
Aggregate write-ins for other income or expenses		\$ 2,392,387	\$ (557,828)
Federal and foreign income taxes incurred		<u>(64,413)</u>	<u>0</u>
Net income (loss)	XXX	<u>\$ (2,914,821)</u>	<u>\$(19,239,399)</u>

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS
IN THIS REPORT ARE AN INTERGRAL PART THEREOF.



DON SIEGELMAN
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
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JIMMY W. GUNN

September 26, 2002

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Ms. Robin L. McElfatrick
President
The Oath-A Health Plan for Alabama, Inc.
Two Perimeter Park South, Suite 200W
Birmingham, AL 35243

RE: The Oath-A Health Plan for Alabama, Inc.
Report of Examination as of December 31, 2001

Dear Ms. McElfatrick:

Enclosed are the revised pages of The Oath's Report of Examination as of December 31, 2001. These pages will replace report pages 15 and 31.

Sincerely,

Richard L. Ford, CFE, CIE
Acting Deputy Commissioner and
Chief Examiner

RLF:dk

Enclosure

cc: Jack M. Brown, CFE
Rhonda Ball
Jill Ellis

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IN THIS REPORT ARE AN INTERGRAL PART THEREOF.

SENDER: COMPLETE THIS SECTION

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- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Ms. Robin L. McElfrick
President
The Oath-A Health Plan for
Alabama Inc.
Two Perimeter Park South
Suite 200W
Birmingham, AL 35243

2. Article Number (Copy from service label)

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PS Form 3811, July 1999

Domestic Return Receipt

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10/4-02

C. Signature

X *[Handwritten Signature]*

Agent

Addressee

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3. Service Type

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Express Mail

Registered

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Insured Mail

C.O.D.

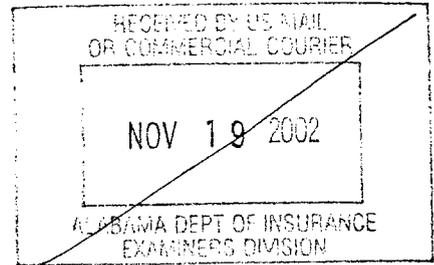
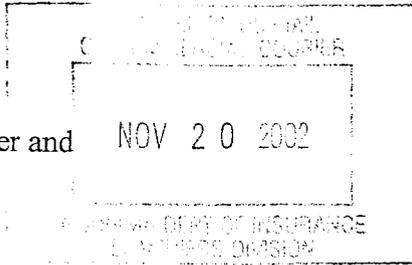
4. Restricted Delivery? (Extra Fee)

Yes

102595-00-M-0952

November 19, 2002

Mr. Richard L. Ford, CFE
Acting Deputy Commissioner and
Chief Examiner
State of Alabama
Department of Insurance
Post Office Box 303351
Montgomery, Alabama 36130-3351



Re: State of Alabama Department of Insurance
Report of Examination of The Oath—A Health Plan for Alabama, Inc.
Birmingham, Alabama
As of December 31, 2001

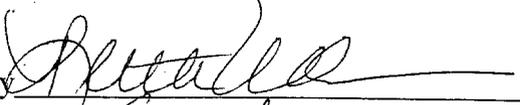
Dear Mr. Ford:

The transaction pursuant to which NewQuest, LLC acquired 100% of the shares of The Oath, as authorized by Order dated November 18, 2002, was concluded on November 19, 2002.

In accordance with the Order dated November 18, 2002, this will confirm that The Oath has removed its objection to the referenced Examination Report and has no objection to that Report becoming final.

THE OATH—A HEALTH PLAN FOR
ALABAMA, INC.

By


Its Secretary

NEWQUEST, LLC

By


Its President



DON SIEGELMAN
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
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D. DAVID PARSONS
COMMISSIONER
DEPUTY COMMISSIONER
JAMES R. (JOHNNY) JOHNSON
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
LICENSING MANAGER
JIMMY W. GUNN

**BEFORE THE INSURANCE COMMISSIONER
OF THE
STATE OF ALABAMA**

IN THE MATTER OF:)
FINANCIAL CONDITION EXAMINATION OF)
THE OATH-A HEALTH PLAN FOR ALABAMA, INC.)
AS OF DECEMBER 31, 2001)

ORDER

ON THE 20th day of November, 2002, the above entitled cause came on for consideration by the Insurance Commissioner, pursuant to Regulation 103. The Insurance Commissioner, having fully considered and reviewed the Examination Report together with any written submissions or written rebuttals and any relevant portions of the examiners' workpapers, finds and states as follows, to-wit:

JURISDICTION

1. That the Insurance Commissioner has jurisdiction of this cause, pursuant to the provisions of the Alabama Insurance Code.
2. That The Oath-A Health Plan For Alabama, Inc. is a domestic insurer licensed as a health maintenance organization in the State of Alabama.

FINDINGS OF FACT

1. That on August 22, 2002, the verified Financial Condition Examination Report of The Oath-A Health Plan For Alabama, Inc. was filed with the Insurance Department.
2. That following receipt of the December 31, 2001 Examination Report, the Company was afforded a reasonable opportunity of not more than twenty (20) days to make a written submission or written rebuttal with respect to any matters contained in the Examination Report.
3. That Regulation 103 provides that within twenty (20) days of the end of the period allowed for the receipt of written submissions or written rebuttals, the Insurance Commissioner shall fully consider and review the report, together with any written submissions or written rebuttals and any relevant portions of the examiners' workpapers and enter an order. The order shall either: (i) adopt the examination report as filed or with modifications or corrections, including an order that the company take actions to cure any violations; (ii) reject the examination report with directions to the examiners to reopen the examination for purposes of obtaining additional data, documentation or information; or (iii) call for an investigatory hearing for purposes of obtaining additional documentation, data, information and testimony.
4. Regulation 103 requires the company to file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders within thirty (30) days of the issuance of the adopted report.

CONCLUSIONS OF LAW

1. That the December 31, 2001 Financial Condition Examination Report of The Oath-A Health Plan For Alabama, Inc. shall be and hereby is Adopted by the Insurance Commissioner, pursuant to Regulation 103.

ORDER

IT IS THEREFORE ORDERED by the Commissioner of Insurance as follows:

1. That the December 31, 2001 Financial Condition Examination Report of The Oath-A Health Plan For Alabama, Inc. is hereby Adopted.
2. That The Oath-A Health Plan For Alabama, Inc. file an affidavit with the Alabama Department of Insurance stating that a copy of the adopted report and related orders were reviewed by the board of directors within thirty (30) days of the issuance of the adopted report.
3. That The Oath-A Health Plan For Alabama, Inc. file an affidavit with the Department of Insurance within thirty (30) days of the issuance of the adopted report that the company filed a copy of the adopted report and related orders with all licensing states and the NAIC. An affidavit form is attached.
4. That The Oath-A Health Plan For Alabama, Inc. shall comply with the recommendations set forth in the Report of Examination, and that failure by The Oath-A Health Plan For Alabama, Inc. to so comply may result in sanctions or administrative action; and further, that The Oath-A Health Plan For Alabama, Inc. shall file with the Department of Insurance within thirty (30) days of the order a statement signed by an appropriate official of the company stating the corrective action taken to comply with the recommendations made in the Report of Examination.

WITNESS My Hand and Official Seal this 20th day of November, 2002.

(SEAL)



D. David Parsons
Insurance Commissioner
201 Monroe Street, Ste 1700
Montgomery, Alabama 36130
(334) 269-3550

CERTIFICATION

I, _____, _____ (office) of
_____ Company, do hereby certify that the Report of Examination of
_____ Company as of _____, _____, was filed with all states in
which _____ Company is licensed, and with the office of the National Association of
Insurance Commissioners.

By: _____

Sworn and subscribed before the undersigned authority on the ____ day of _____, 2002.

Seal

Notary

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Ms. Robin L. McElfattrick
 President
 The Oath-A Health Plan for Alabama Inc.
 Two Perimeter Park South Ste 200W
 Birmingham, AL 35243

30-Day Order

2. Article Number (Copy from service label)

7099 3400 0015 2327 5203

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly)

B. Date of Delivery

11/26/02

C. Signature

X *[Signature]*

 Agent Addressee

D. Is delivery address different from item 1?

 Yes

If YES, enter delivery address below:

 No

3. Service Type

 Certified Mail Express Mail Registered Return Receipt for Merchandise Insured Mail C.O.D.

4. Restricted Delivery? (Extra Fee)

 Yes

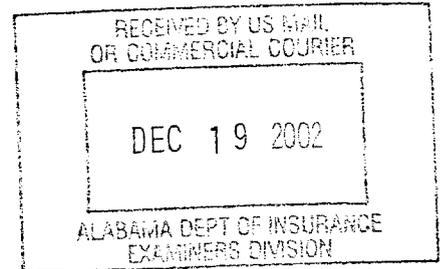


HealthSpring of Alabama, Inc.

A COMMUNITY HEALTH PLAN

December 16, 2002

D. David Parsons
Insurance Commissioner
Alabama Department of Insurance
201 Monroe Street, Suite 1700
Montgomery, Alabama 36130



Dear Commissioner Parsons:

In response to the State of Alabama Department of Insurance Order relating to the Examination Report for The Oath – A Health Plan for Alabama, Inc., please find the following statements addressing corrective actions taken or to be taken on the part of the Company to comply with the recommendations set forth by the Department.

Committees – Page 12

It is recommended that the Company's board of directors select members of its committees in accordance with Article IV Section 1 of its By-laws.

The Company will select members of its committees in accordance with its By-laws.

Officers – Page 15

It is recommended that the Company's board of directors annually elect its officers in accordance with Article V sections 1 and 2 of its By-laws.

The Company will elect its officers in accordance with its By-laws.

Conflict of Interest – Page 15

It is recommended that the Company keep signed conflict of interest statements on all of its employees, directors and officers.

The Company will keep signed conflict of interest statements for all employees, directors and officers.

Management Agreement – Page 18

It is recommended that the Company terminate its management agreement with Scheur Management Group, Inc. because no consultants were working for the Company at August 19, 2002.

The management agreement with Scheur Management Group, Inc. has been terminated.

Two Perimeter Park South, Suite 300 West
Birmingham, Alabama 35243
205-968-1000 • 1-800-888-7647
www.healthspringofalabama.com

Ceded Reinsurance – Page 20

It is recommended that the Company evaluate its exposure and potential need for additional reinsurance coverage due to issuing policies to its members with no stated maximum benefits.

The Company is in the process of evaluating its reinsurance needs and coverage options for the 2003 contract year.

Advertising and Marketing- Page 22

It is recommended that the Company comply with Section 27-21A-13 (a), Code of Alabama 1975, as amended, by not causing or permitting the use of untrue or misleading advertising or solicitation.

The Company will comply with appropriate laws and regulations with regards to its advertising or solicitation.

Complaint handling – Page 22

It is recommended that the Company provide its enrollees contact information for the Alabama Department of Insurance, Consumer division when complaints are made, in accordance with the NAIC Market Conduct Examiners Handbook – Complaint Handling, Standard 2.

The Company will provide its enrollees with contact information for the Alabama Department of Insurance.

Compliance with Alabama Department of Insurance Regulation 122 – Page 23

It is recommended that the Company, effective April 14, 2003, comply with the Alabama Department of Insurance Regulation 482-1-122, Article II and provide simplified notices to its customers stating that the Company discloses information to certain nonaffiliated third parties, which is allowed under Sections 15 of Alabama Department of Insurance Regulation Chapter 482-1-122.

The Company will comply with Alabama Department of Insurance Regulation Chapter 482-1-122 when it becomes effective.

Self Referral Option – Page 25

It is recommended that the Company continue the practice of not marketing self-referral options, unless compliant with Alabama Department of Insurance Regulation 92.

The Company has no Self Referral Option business left, and will not market this product unless compliant with Alabama Department of Insurance Regulation 92.

Compliance with Prompt Pay Act – Page 25

It is recommended that the Company pay its claims within the required time limits set forth in Section 27-1-17, Code of Alabama 1975, as amended.

The Company has procedures in place to insure that claims are paid within the required time limits set forth in Section 27-1-17, Code of Alabama 1975, as amended.

Accounts and Records – Page 26

It is recommended that the Company maintain complete and accurate records in its Alabama home office in accordance with Section 27-27-29(a), Code of Alabama 1975, as amended.

The Company will maintain complete and accurate records in its Alabama home office in accordance with Section 27-27-29(a), Code of Alabama 1975, as amended.

It is recommended that the Company comply with Alabama Department of Insurance Regulation No. 118, by providing responses within ten working days regarding information requested by personnel representing the Alabama Department of Insurance.

The Company will comply with Alabama Department of Insurance Regulation No. 118, by providing responses within ten working days regarding information requested by personnel representing the Alabama Department of Insurance.

Bonds and Common stock –Page 33

It is recommended that the Company submit all custodial and safekeeping agreements to the Alabama Insurance Commissioner for prior approval or not admit all securities held under these agreements in accordance with Alabama Department of Insurance Regulation No 77.

The Company will submit all custodial and safekeeping agreements to the Alabama Insurance Commissioner for prior approval or not admit all securities held under these agreements in accordance with Alabama Department of Insurance Regulation No 77.

It is recommended that the Company correctly complete Schedule D- Part 1, Schedule D- Part 3, and Schedule D- Part 4 in accordance with the NAIC Annual Statement Instructions Health in its future financial filings.

The Company will correctly complete Schedule D- Part 1, Schedule D- Part 3, and Schedule D- Part 4 in accordance with the NAIC Annual Statement Instructions Health in its future financial filings.

It is recommended that the Company maintain detailed records to enable it to track its investment transactions and holdings. It is further recommended that the Company obtain from its custodian and maintain all documents pertaining to its securities transactions in accordance with Section 27-27-29(a), Code of Alabama 1975, as amended, which states: “Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds of insurance transacted.”

The Company will maintain detailed records and obtain all supporting documentation from its custodian(s) to support its securities transactions.

It is recommended that the Company change its name on its custodial accounts to its legal business name.

The Company has or will change its name on its custodial accounts to its legal business name.

It is recommended that the Company report the correct NAIC designations of its investments in the appropriate schedules in its future financial statements in accordance with the NAIC Annual Statement Instructions Health and NAIC SVO Purposes and Procedures Manual.

The Company will report the correct NAIC designations of its investments in the appropriate schedules in its future financial statements.

Cash and short-term investments – Page 34

It is recommended that the Company maintain executed copies of its repurchase agreements at its home office in accordance with Section 27-27-29(a), Code of Alabama 1975, as amended, which states: "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds of insurance transacted."

The Company will maintain executed copies of its repurchase agreements at its home office.

It is recommended that the Company use its legal business name on all repurchase agreements, for which it is a party thereto.

The Company has or will change its name on its repurchase agreements to its legal business name.

It is recommended that the Company's repurchase agreements comply with the NAIC Accounting Practices and Procedures Manual- SSAP 45, Paragraph 8 regarding proper collateral.

The Company is in the process of updating all repurchase agreements to comply with SSAP 45. Since one of our banks will not furnish us with appropriate language, we will be moving those accounts to an institution that will furnish us with repurchase agreements that contain language that complies with SSAP 45. This transfer will not take place until February 1, 2003.

It is recommended that the Company comply with Section 27-41-6, Code of Alabama 1975, as amended, which states: "(a) An insurer shall not have at any one time any single investment or combination of investments in...or securities of any one person aggregating in cost to the insurer in excess of the greater of 10 percent of such insurer's assets or the total of its capital and surplus, as shown in the latest annual report of the insurer..., less the minimum and capital and surplus required of said insurer..."

The Company will comply with Section 27-41-6, Code of Alabama 1975, as amended.

It is recommended that the Company comply with Sections 35-12-23 and 35-12-31, Code of Alabama 1975, as amended, by remitting all unclaimed property over five years old with the Alabama State Treasurer.

The Company is currently in the process of determining all unclaimed property over five years old. The Company will remit all unclaimed property over five years old to the Alabama State Treasurer once the project is completed.

It is recommended that the Company report maturity dates for its certificates of deposit in Schedule E- Part 1 of future financial statements as is required by the NAIC Annual Statement Instructions Health.

The Company will report maturity dates for its certificates of deposit in Schedule E- Part 1 of future financial statements.

It is recommended that the Company change its name on its bank accounts to its legal business name.

The Company has or will change its name on its bank accounts to its legal business name.

It is recommended that the Company set up general ledger accounts for each individual account for cash. This was also recommended in the prior examination report.

The Company will set up general ledger accounts for each individual account for cash starting in January, 2003.

It is recommended that the Company reconcile each bank account separately rather than having one reconciliation per bank. This was also recommended in the prior examination report.

The Company will reconcile each bank account separately starting in January, 2003.

Other long term invested assets- Page 37

It is recommended that the Company correctly classify its investment in its subsidiary as common stock in its future financial filings in accordance with the NAIC Annual Statement Instructions-Health.

The Company will classify its investment in subsidiary in accordance with the NAIC Annual Statement Instructions-Health.

It is recommended that the Company provide a stock certificate and file a SUB 1 form with the NAIC SVO to rate and value this stock before including it in its financial statements, in accordance with the NAIC SVO Purposes and Procedures Manual, and with Alabama Department of Insurance Regulation No. 98.

The Company has filed the appropriate documentation with the NAIC SVO and the investment has been rated and valued.

Accident and health premiums due and unpaid- Page 37

It is recommended that the Company nonadmit receivables over 90 days in accordance with the NAIC Accounting Practices and Procedures Manual-SSAP No. 6, paragraphs 9 and 11.

The Company will nonadmit receivables over 90 days.

It is recommended that the Company comply with Section 27-27-29(a), Code of Alabama 1975, as amended and maintain records at the Company.

The Company will maintain records at the Company.

It is recommended that the Company reconcile its Amysis aging for accident and health premiums due and unpaid with its general ledger.

The Company will reconcile its Amysis aging for accident and health premiums due and unpaid with its general ledger.

Health care receivables- Page 38

It is recommended that the Company individually list all accounts with balances greater than \$10,000 or those that are 10% of gross health care receivables in accordance with the NAIC Annual Statement Instructions - Health when completing its Health Care Receivables - Exhibit 4 in future financial filings.

The Company will individually list all accounts with balances greater than \$10,000 or those that are 10% of gross health care receivables in future financial filings.

It is recommended that the Company maintain complete records of its transactions in accordance with Section 27-27-29(a), Code of Alabama 1975, as amended, which states: "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds of insurance transacted."

The Company will maintain complete records of its transactions.

Amounts recoverable from reinsurers and Aggregate write-ins for other liabilities- Page 39

It is recommended that the Company report all amounts due from the reinsurer as amounts recoverable from reinsurers and all premiums payable to the reinsurer as a liability in its future financial statements in accordance with the NAIC Accounting Practices and Procedures Manual.

The Company will report all amounts due from the reinsurer as amounts recoverable from reinsurers and all premiums payable to the reinsurer as a liability in its future financial statements.

It is recommended that the Company comply with the NAIC Accounting Practices and Procedures Manual- SSAP 54, Actuarial Standards of Practice No. 14, and the AICPA Accounting and Audit Guide in order to set-up an appropriate premium deficiency reserve.

The Company has set up an appropriate premium deficiency reserve.

It is recommended that the Company complete the final accounting of its capitation contracts, which were terminated as of February 28, 2002, and settle all balances owed.

The Company has completed the final accounting of its capitation contracts, which were terminated as of February 28, 2002. Final settlement is expected prior to year-end 2002.

Investment income due and accrued- Page 40

It is recommended that the Company correctly calculate and report its interest income due and accrued in its future financial filings.

The Company will correctly calculate and report its interest income due and accrued in its future financial filings.

Amounts due from parent, subsidiaries and affiliates- Page 41

It is recommended that the Company enter into management and/or service agreements approved by the Alabama Insurance Commissioner with all affiliated parties with which it does transactions in accordance with Alabama Insurance Department Regulation No. 79 Section 13. It is further recommended that the Company nonadmit, in its future financial filings, all intercompany balances, which are not supported by approved management and/or service agreements.

The Company will enter into management and/or service agreements approved by the Alabama Insurance Commissioner with all affiliated parties with which it does transactions. In addition, balances which are not supported by approved management and/or service agreements will be nonadmitted in future financial filings.

It is recommended that the Company nonadmit, in its future financial filings, all assets that do not meet the definition of an asset as defined in the NAIC Accounting Practices and Procedures Manual.

The Company will nonadmit, in its future financial filings, all assets that do not meet the definition of an asset as defined in the NAIC Accounting Practices and Procedures Manual.

It is recommended that the Company nonadmit, in its future financial filings, all advances to controlling stockholders in accordance with Section 27-37-2, Code of Alabama 1975, as amended.

The Company will nonadmit, in its future financial filings, all advances to controlling stockholders.

It is recommended that the Company comply with the NAIC Annual Statement Instructions- Health when completing its organizational chart for Schedule Y- Part 1 in future financial filings.

The Company will comply with the NAIC Annual Statement Instructions- Health when completing its organizational chart for Schedule Y- Part 1 in future financial filings.

It is recommended that the Company not make lease payments on property for which it is not a party on the lease agreement. It is further recommended that the Company comply with Section 27-41-36(a), Code of Alabama 1975, as amended, which states: "...an insurer shall not invest in nor lend its funds upon the security of any note or other evidence of indebtedness of any director, officer or controlling stockholder of the insurer..."

The Company has changed the names on the appropriate lease agreements, and will not make lease payments on property for which it is not a party on the lease agreement in the future.

Electronic data processing equipment and software- Page 43

It is recommended that the Company nonadmit all nonoperating system software in accordance with NAIC Accounting Practices and Procedures Manual-SSAP No. 16, paragraph 2.

The Company will nonadmit all nonoperating system software in future financial filings.

Claims unpaid and Unpaid claims adjustment expenses- Page 43

It is recommended that the Company set-up a sufficient unpaid claims adjustment expense liability in its future financial statements in accordance with the NAIC Accounting Practices and Procedures Manual- SSAP 45 and Actuarial Standards of Practice (ASOP) 5.

The Company has set-up a sufficient unpaid claims adjustment expense liability.

It is recommended that procedures be established to insure that, for purposes of reporting claims by incurral month for developing lag factors, reinsurance recoveries should be allocated to the appropriate month of incurral.

The Company will insure that the actuaries use the appropriate information to develop lag factors.

It is recommended that the Company's actuarial opinion include all information required by the NAIC Annual Statement Instructions- Health. It is further recommended that Part 2B of the Underwriting and Investment Exhibit be prepared consistent with ASOP 5, Recommendation 8 and that the actuarial opinion include that the preparation of this exhibit was prepared consistent with ASOP 5, Recommendation 8.

The Company will insure that the actuarial opinion is prepared in accordance with applicable laws, policies, regulations or instructions.

Premiums received in advance-Page 45

It is recommended that the Company include all advance premiums in the premiums received in advance liability in its future financial filings in accordance with the NAIC Accounting Practices and Procedures Manual-SSAP No. 54, paragraph 6.

The Company will include all advance premiums in the premiums received in advance liability in its future financial filings.

It is recommended that the Company maintain all executed contracts with its members in accordance with Section 27-27-29(a), Code of Alabama 1975, as amended.

The Company will maintain all executed contracts with its members.

General expenses due and accrued- Page 45

It is recommended that the Company establish adequate accruals for incurred and not paid expenses for general expenses due and accrued in its future financial statements.

The Company will establish adequate accruals for incurred and not paid expenses for general expenses due and accrued in its future financial statements.

Federal and foreign income tax payable and interest thereon - Page 46

It is recommended that the Company comply with the NAIC Accounting Practices and Procedures Manual and the NAIC Annual Statement Instructions - Health when reporting its federal and foreign income tax payable or recoverable in future financial statements.

The Company will comply with the NAIC Accounting Practices and Procedures Manual and the NAIC Annual Statement Instructions – Health when reporting its federal and foreign income tax payable or recoverable in future financial statements.

Amounts withheld or retained for the account of others- Page 46

It is recommended that the Company correctly classify accruals relating to amounts withheld or retained for the account of others in future financial filings in accordance with the NAIC Annual Statement Instructions - Health.

The Company will correctly classify accruals relating to amounts withheld or retained for the account of others in future financial filings.

Common capital stock- Page 46

It is recommended that the Company maintain a stock ledger in which to list all stock transactions. This was recommended in the prior examination report.

The Company will maintain a stock ledger in which to list all stock transactions.

Gross paid in and contributed surplus- Page 46

It is recommended that the Company maintain all supporting documentation for its paid in and contributed surplus in accordance with Section 27-27-29(a), Code of Alabama 1975, as amended, which states: "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds of insurance transacted."

The Company will maintain complete records and documentation to support its balances and transactions.

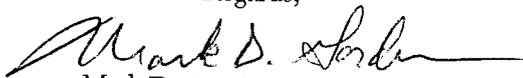
Contingent liabilities and pending litigation – Page 49

It is recommended that the Company require its attorneys to provide information when requested by examiners of the Alabama Department of Insurance.

The Company will require its attorneys to provide information when requested by examiners of the Alabama Department of Insurance.

If you need additional information, or need clarification on any of the above, please contact me at (205) 968-2295 or by email at Gordom@HealthSpringofAlabama.com.

With Best Regards,



Mark D. Gordon
Vice President of Finance

Cc: Michael D. Nadler, President and CEO, HealthSpring of Alabama
Rhonda B. Ball, Examiner-in-charge, Alabama DOI



DON SIEGELMAN
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
TELEPHONE: (334) 269-3550
FACSIMILE: (334) 241-4192
INTERNET: www.aldoi.org

D. DAVID PARSONS
COMMISSIONER
ASSISTANT COMMISSIONER
TREY GRANGER
DEPUTY COMMISSIONER
JAMES R. (JOHNNY) JOHNSON
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
LICENSING MANAGER
JIMMY W. GUNN

January 16, 2003

Mike Madler
President
The Oath-A Health Plan for Alabama, Inc.
Two Perimeter Park South, Suite 200W
Birmingham, AL 35243

Dear Mr. Madler:

I have enclosed a copy of the November 20, 2002 Commissioner's Order relating to the financial examination of The Oath-A Health Plan for Alabama, Inc. as of December 31, 2001.

This Order requires that the company file an affidavit stating that a copy of the adopted report and related orders was reviewed by the board of directors within thirty (30) days of the issuance of the adopted report. The Order further requires that The Oath-A Health Plan for Alabama, Inc. file an affidavit within thirty (30) days of the issuance of the adopted report that the company filed a copy of the adopted report and related orders with all licensing states and the NAIC.

These affidavits have not been received by the Department of Insurance as of this date. You are instructed to file these affidavits in accordance with the Commissioner's Order within ten (10) days of the receipt of this letter to avoid further action being taken by the Department of Insurance.

Sincerely,

Richard L. Ford, CFE
Acting Deputy Commissioner and
Chief Examiner

RLF:dk

Enclosures

cc: Jack Brown, CFE
Rhonda Ball, Examiner-in-Charge
Jill E. Baker, Analyst



DON SIEGELMAN
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
TELEPHONE: (334) 269-3550
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INTERNET: www.aldoi.org

D. DAVID PARSONS
COMMISSIONER
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RICHARD L. FORD
STATE FIRE MARSHAL
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MICHAEL A. BOWNES
LICENSING MANAGER
JIMMY W. GUNN

BEFORE THE INSURANCE COMMISSIONER
OF THE
STATE OF ALABAMA

IN THE MATTER OF:)
FINANCIAL CONDITION EXAMINATION OF)
THE OATH-A HEALTH PLAN FOR ALABAMA, INC.)
AS OF DECEMBER 31, 2001)

ORDER

ON THE 20th day of November, 2002, the above entitled cause came on for consideration by the Insurance Commissioner, pursuant to Regulation 103. The Insurance Commissioner, having fully considered and reviewed the Examination Report together with any written submissions or written rebuttals and any relevant portions of the examiners' workpapers, finds and states as follows, to-wit:

JURISDICTION

1. That the Insurance Commissioner has jurisdiction of this cause, pursuant to the provisions of the Alabama Insurance Code.
2. That The Oath-A Health Plan For Alabama, Inc. is a domestic insurer licensed as a health maintenance organization in the State of Alabama.

FINDINGS OF FACT

1. That on August 22, 2002, the verified Financial Condition Examination Report of The Oath-A Health Plan For Alabama, Inc. was filed with the Insurance Department.
2. That following receipt of the December 31, 2001 Examination Report, the Company was afforded a reasonable opportunity of not more than twenty (20) days to make a written submission or written rebuttal with respect to any matters contained in the Examination Report.
3. That Regulation 103 provides that within twenty (20) days of the end of the period allowed for the receipt of written submissions or written rebuttals, the Insurance Commissioner shall fully consider and review the report, together with any written submissions or written rebuttals and any relevant portions of the examiners' workpapers and enter an order. The order shall either: (i) adopt the examination report as filed or with modifications or corrections, including an order that the company take actions to cure any violations; (ii) reject the examination report with directions to the examiners to reopen the examination for purposes of obtaining additional data, documentation or information; or (iii) call for an investigatory hearing for purposes of obtaining additional documentation, data, information and testimony.
4. Regulation 103 requires the company to file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders within thirty (30) days of the issuance of the adopted report.

CONCLUSIONS OF LAW

1. That the December 31, 2001 Financial Condition Examination Report of The Oath-A Health Plan For Alabama, Inc. shall be and hereby is Adopted by the Insurance Commissioner, pursuant to Regulation 103.

ORDER

IT IS THEREFORE ORDERED by the Commissioner of Insurance as follows:

1. That the December 31, 2001 Financial Condition Examination Report of The Oath-A Health Plan For Alabama, Inc. is hereby Adopted.
2. That The Oath-A Health Plan For Alabama, Inc. file an affidavit with the Alabama Department of Insurance stating that a copy of the adopted report and related orders were reviewed by the board of directors within thirty (30) days of the issuance of the adopted report.
3. That The Oath-A Health Plan For Alabama, Inc. file an affidavit with the Department of Insurance within thirty (30) days of the issuance of the adopted report that the company filed a copy of the adopted report and related orders with all licensing states and the NAIC. An affidavit form is attached.
4. That The Oath-A Health Plan For Alabama, Inc. shall comply with the recommendations set forth in the Report of Examination, and that failure by The Oath-A Health Plan For Alabama, Inc. to so comply may result in sanctions or administrative action; and further, that The Oath-A Health Plan For Alabama, Inc. shall file with the Department of Insurance within thirty (30) days of the order a statement signed by an appropriate official of the company stating the corrective action taken to comply with the recommendations made in the Report of Examination.

WITNESS My Hand and Official Seal this 20th day of November, 2002.

(SEAL)



D. David Parsons
Insurance Commissioner
201 Monroe Street, Ste 1700
Montgomery, Alabama 36130
(334) 269-3550

CERTIFICATION

I _____, _____ (office) of _____ Company, do hereby certify that the Report of Examination of _____ Company as of _____, _____, was filed with all states in which _____ Company is licensed, and with the office of the National Association of Insurance Commissioners.

By: _____

Sworn and subscribed before the undersigned authority on the ____ day of _____, 2002.

Seal

Notary



HealthSpring of Alabama, Inc.

A COMMUNITY HEALTH PLAN

Fax Cover Sheet

To: Richard L. Ford
Department: _____
Company: _____
Phone Number: _____
Fax Number: 334-240-3194
Date: January 21, 2003

From: Alicc Irvin / Michael Nadler
Department: Executive
Company: HealthSpring of Alabama, Inc.
Phone Number: 205-968-1522
Fax Number: 205-968-1060

Comments: _____

Page 1 of 10

Confidentiality Notice

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Two Perimeter Park South, Suite 300 West
 Birmingham, Alabama 35243
 205-968-1000 • 1-800-888-7647



HealthSpring of Alabama, Inc.

A COMMUNITY HEALTH PLAN

December 13, 2002

D. David Parsons, Commissioner of Insurance
State of Alabama Department of Insurance
201 Monroe Street, Suite 1700
Montgomery, Alabama 36130-4116

Dear Commissioner Parsons:

In accordance with your Order dated November 20, 2002, please find the following enclosed items:

- Affidavits from each of the five Directors of HealthSpring of Alabama, Inc. attesting to the fact that they have reviewed the December 31, 2001 Financial Condition Examination Report of The Oath - A Health Plan for Alabama, Inc. and related Orders.
- An Affidavit from me as President of the Health Plan stating that the Board of Directors has reviewed the above referenced items.
- An Affidavit from me as President of the Health Plan attesting to the fact that the report and related Orders have been filed with the State of Alabama and the NAIC.

A separate statement signed by Mark Gordon, HealthSpring's Vice President of Finance, will be filed shortly stating the corrective action taken to comply with the recommendations made in the Report of Examination.

If you have any questions, please do not hesitate to contact me at 205-968-1512.

Sincerely,

Michael D. Nadler
President and Chief Executive Officer

cc: Elizabeth Bookwalter

Enclosures

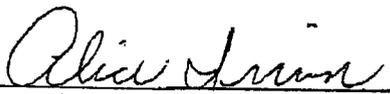
Two Perimeter Park South, Suite 300 West
Birmingham, Alabama 35243
205-968-1000 • 1-800-888-7647
www.healthspringofalabama.com

AFFIDAVIT

I, Herbert A. Fritch, Chairman of HealthSpring of Alabama, Inc. formerly The Oath-A Health Plan for Alabama, Inc. do hereby certify that I received and reviewed a copy of the adopted Report of Examination of HealthSpring of Alabama, Inc., as of December 31, 2001, and related orders within 30 days of the issuance of the Report of Examination

By: 
Herbert A. Fritch

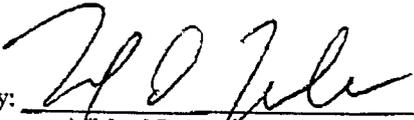
Sworn and subscribed before the undersigned authority on the 17th day of December, 2002.


Notary ~~My~~ Commission Expires January 4, 2005

(SEAL)

AFFIDAVIT

I, Michael D. Nadler, Director of HealthSpring of Alabama, Inc. formerly The Oath-A Health Plan for Alabama, Inc. do hereby certify that I received and reviewed a copy of the adopted Report of Examination of HealthSpring of Alabama, Inc., as of December 31, 2001, and related orders within 30 days of the issuance of the Report of Examination

By: 
Michael D. Nadler

Sworn and subscribed before the undersigned authority on the 17th day of December , 2002.


Notary **My Commission Expires January 4, 2006**

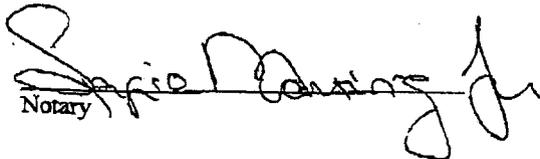
(SEAL)

AFFIDAVIT

I, Jeffrey L. Rothenberger, Director of HealthSpring of Alabama, Inc. formerly The Oath-A Health Plan for Alabama, Inc. do hereby certify that I received and reviewed a copy of the adopted Report of Examination of HealthSpring of Alabama, Inc., as of December 31, 2001, and related orders within 30 days of the issuance of the Report of Examination

By: 
Jeffrey L. Rothenberger

Sworn and subscribed before the undersigned authority on the 17th day of December, 2002.

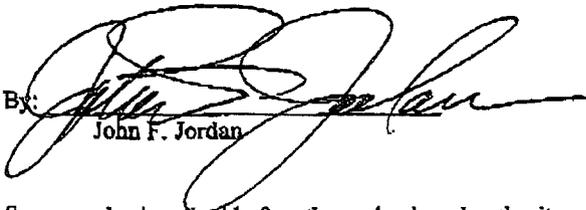

Notary

(SEAL)

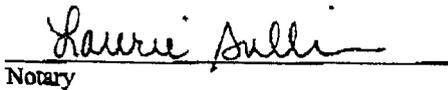


AFFIDAVIT

I, John F. Jordan , Director of HealthSpring of Alabama, Inc. formerly The Oath-A Health Plan for Alabama, Inc. do hereby certify that I received and reviewed a copy of the adopted Report of Examination of HealthSpring of Alabama, Inc., as of December 31, 2001, and related orders within 30 days of the issuance of the Report of Examination

By: 
John F. Jordan

Sworn and subscribed before the undersigned authority on the 11th day of December , 2002.


Notary

(SEAL)

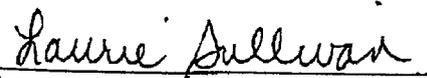
Commission expires 7/26/2003

AFFIDAVIT

I, Steven Adams, Director of HealthSpring of Alabama, Inc. formerly The Oath-A Health Plan for Alabama, Inc. do hereby certify that I received and reviewed a copy of the adopted Report of Examination of HealthSpring of Alabama, Inc., as of December 31, 2001, and related orders within 30 days of the issuance of the Report of Examination

By: 
Steven Adams

Sworn and subscribed before the undersigned authority on the 11th day of December, 2002.

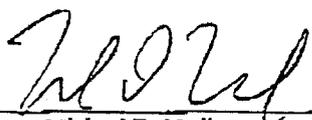

Notary

(SEAL)

Commission expires 7/26/2003

AFFIDAVIT

I, Michael D. Nadler, President and Chief Executive Officer of HealthSpring of Alabama, Inc. formerly The Oath-A Health Plan for Alabama, Inc. do hereby certify that a copy of the adopted Report of Examination of HealthSpring of Alabama, Inc., as of December 31, 2001, and related orders were provided to and reviewed by the Board of Directors of HealthSpring of Alabama, Inc. within 30 days of the issuance of the Report of Examination.

By: 
Michael D. Nadler

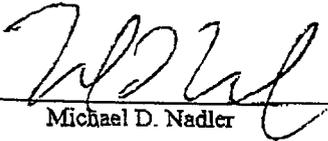
Sworn and subscribed before the undersigned authority on the 17th day of December, 2002.


Notary **My Commission Expires** January 4, 2006

(SEAL)

AFFIDAVIT

I, Michael D. Nadler, President and Chief Executive Officer of HealthSpring of Alabama, Inc. formerly The Oath-A Health Plan for Alabama, Inc. do hereby certify that the Report of Examination of HealthSpring of Alabama, Inc., as of December 31, 2001, was filed with all states in which HealthSpring of Alabama, Inc. is licensed, and with the office of the National Association of Insurance Commissioners.

By: 
Michael D. Nadler

Sworn and subscribed before the undersigned authority on the 17th day of December, 2002.


Notary **My Commission Expires January 4, 2006**

(SEAL)

SENDER: COMPLETE THIS SECTION		COMPLETE THIS SECTION ON DELIVERY	
<ul style="list-style-type: none"> Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired. Print your name and address on the reverse so that we can return the card to you. Attach this card to the back of the mailpiece, or on the front if space permits. 		A. Received by (Please Print Clearly)	B. Date of Delivery
1. Article Addressed to: Ms. Elizabeth Bookwalter State of Alabama Department of Insurance 201 Montoe Street, Suite 1700 Montgomery, AL 36130-4116		C. Signature	
		X RECEIVED BY U.S. MAIL <input type="checkbox"/> Agent AND COMMERCIAL COURIER SERVICE <input type="checkbox"/> Addressee D. Is delivery address different from item 1? <input type="checkbox"/> Yes If YES, enter delivery address below: <input type="checkbox"/> No <div style="text-align: center; border: 1px solid black; padding: 5px;">DEC 17 2002</div> ALABAMA DEPT OF INSURANCE	
		3. Service Type <input checked="" type="checkbox"/> Certified Mail <input type="checkbox"/> Express Mail <input type="checkbox"/> Registered <input type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> Insured Mail <input type="checkbox"/> C.O.D.	
		4. Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes	

7001 2510 0007 9029 4034

PS Form 3811, July 1999 Domestic Return Receipt 102595-00-M-0952

SENDER: COMPLETE THIS SECTION		COMPLETE THIS SECTION ON DELIVERY	
<ul style="list-style-type: none"> Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired. Print your name and address on the reverse so that we can return the card to you. Attach this card to the back of the mailpiece, or on the front if space permits. 		A. Received by (Please Print Clearly)	B. Date of Delivery
1. Article Addressed to: David Parsons Commissioner of Insurance 201 Monroe Street, Suite 1700 Montgomery, AL 36130-4116		C. Signature	
		<input checked="" type="checkbox"/> Certified Mail <input type="checkbox"/> Express Mail <input type="checkbox"/> Registered <input type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> Insured Mail <input type="checkbox"/> C.O.D.	
		4. Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes	

7001 2510 0007 9029 4041

PS Form 3811, July 1999 Domestic Return Receipt 102595-00-M-0952

TRANSACTION REPORT

P. 01

JAN-21-2003 TUE 04:06 PM

FOR: DEPT OF INSURANCE

3342403194

RECEIVE

DATE	START	SENDER	RX TIME	PAGES	TYPE	NOTE	M#	DP
JAN-21	04:04 PM	2059681060	1' 10"	10	RECEIVE	OK		
