FLORIDA DEPARTMENT OF INSURANCE

TARGET MARKET CONDUCT REPORT

OF

FOUNDATION HEALTH, A FLORIDA HEALTH PLAN, INC.

AS OF

MARCH 1, 2002

DIVISION OF INSURER SERVICES
BUREAU OF MARKET CONDUCT

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I. OVERVIEW AND SUMMARY OF FINDINGS

General

Foundation Health, A Florida Health Plan, Inc., (Company), is a health maintenance organization domiciled in the State of Florida, and licensed to conduct business in this State during the scope of this examination.

The Florida Department of Insurance (Department) performed a target market conduct examination of the Company pursuant to Section 641.27, Florida Statutes, at the Company's office in Hollywood, Florida. The on-site examination began on March 3, 2002 and ended May 10, 2002.

The purpose of the examination was to determine if the Company's practices and procedures relating to one life group underwriting, complaints and grievances, provider contracts and related procedure manuals, comport with Florida Statutes and the Florida Administrative Code.

The examination scope period covered complaints dated and claims received from December 1, 2000 to September, 1, 2001.

Findings

The examination was initiated because of consumer complaints filed against the Company. Consumer complaints involving the timely payment of claims were not included in the examination as the Department was conducting a separate investigation of prompt claim payments during the time of the on-site examination.

After a review of the claim files that were the subject of certain complaints filed with the Division of Consumer Services, it was determined that the Company failed to pay interest on "clean" claims in violation of Section 641.3155(3), Florida Statutes. The Company has since paid $1,664.92 in interest on these re-processed claims as a result of the examination.

Furthermore, after a review of certain complaints filed with the Division of Consumer Services, it was determined that the Company failed to provide proper notice of cancellation to subscribers, as required by Section 641.3108(3), Florida Statutes.

The review of managed care investigations and the review of grievances found no adverse business practices.

The Company was unable to identify applications denied or rejected from the December 2000, open enrollment period for one-life groups. The Company did produce twenty (20) files that were denied or rejected from the August, 2001 open

enrollment period. The files did not contain applications, tax documentation or medical questionnaires on any of the declined applicants. The Company was unable to produce the records necessary to examine their one life group underwriting practices.

The review of the provider contracts and manuals determined that the Company has failed to establish procedures to provide written notice to providers before changing authorization for utilization of health care services. This is a violation of Section 641.315(8), Florida Statutes.

The review of denied claims found instances of the improper denial of claims for pre-existing conditions prior to investigation. This is a violation of Section 641.3903(5)(c) 1 and 4, Florida Statutes.

Furthermore, it was determined by the review of denied claims that the Company failed to pay or deny claims within 120 days after receipt thereof. The regulatory response and remedy for this violation of Section 641.3155(4), Florida Statutes, will be deferred to the completion of an investigation of the timely payment of claims.

Recommendations

Based on the findings detailed in this examination, the Department will issue a Consent Order in which certain corrective measures will be established. The Consent Order will require that the Company establish other corrective measures. A penalty in the amount of nine thousand dollars ($9,000), plus appropriate administrative legal costs, will be levied in response to the violations of law determined during this examination. In response to these findings, and in addition to the aforementioned administrative fines, the Company should take the following corrective actions:

COMPLAINTS AND GRIEVANCES

- Calculate and process interest payments pursuant to Section 641.3155(3), Florida Statutes.
- Provide proper notices of cancellation to subscribers when canceling coverage pursuant to Section 641.3108(3), Florida Statutes.

PROVIDER CONTRACTS/MANUALS

- Establish procedures to provide written-notice to providers before changing authorization for utilization of health care services, pursuant to Section 641.315(8), Florida Statutes.

DENIED CLAIMS

- Ensure that pre-existing condition claims are properly investigated prior to denial, pursuant to Section 641.3903(5)(c) 1 and 4, Florida Statutes.

II. COMPLAINTS REVIEW

A sample of one hundred (100) complaints filed with the Division of Consumer Services were examined.

No violations were found in fifty-five (55) of these consumer complaints.

The Company's position was upheld on thirty-four (34) of the consumer complaint files.

Four (4) of the consumer complaints were Medicare, Medicaid and PPO which were outside of the scope of this examination.

Four (4) complaints were due to failure to include interest in payments of re-processed "clean" claims that had previously been denied in error. This resulted in payment of interest totaling $1,664.92 during the course of this examination. Failure to pay this interest appears to be a violation of Section 641.3155(3), Florida Statutes. See Exhibit I for details.

Three (3) complaints were due to cancellation of coverage without providing proper notice of cancellation to the subscriber. Failure to properly notify a subscriber of a policy cancellation appears to be a violation of Section 641.3108(2), Florida Statutes. See Exhibit I.

III. MANAGED CARE INVESTIGATIONS

Four (4) complaints received by the Bureau of Managed Care Investigations Unit were reviewed.

No adverse business practices were found.

V. ONE-LIFE GROUP UNDERWRITING REVIEW

The Company was asked to provide a report of all the applications that were approved, declined or rejected from the December, 2000, one life group open enrollment period and a report from the August, 2001, open enrollment period. A report of the approved applications for the December, 2000 and the August 2001, one-life group open enrollment was not provided. The Company was unable to identify applications denied or rejected from the December 2000, open enrollment period. The Company did produce twenty (20) files that were denied or rejected from the August, 2001 open enrollment period.

The twenty (20) one-life group applicants not written by Foundation Health during the open enrollment period of August, 2001 were reviewed.

Thirteen (13) were declined by the Company and it is its practice to return the applications to the writing agent. The Company retained only a summary of its actions.

The remaining seven (7) applications were withdrawn by the applicants for various reasons.

The Company was unable to produce the records necessary to examine their one-life group underwriting practices.

While not necessarily required by Florida Statutes, the inability of the Company to produce the above referenced records impedes the Department's ability to examine the Company's business practices with respect to one-life groups. These records should be retained in the future.

VI. PROVIDER CONTRACTS/MANUALS REVIEW

Provider contracts and manuals were reviewed to determine compliance with Section 641.315 and related Florida Statutes.

The review found that procedures have not been established to provide written notice to providers before changing authorization for utilization of health care services. This is a violation of Section 641.315(8), Florida Statutes. See Exhibit II.

VII. DENIED CLAIMS REVIEW

A sample of one hundred (100) denied claims were reviewed.

The scope of this claims examination was from August 1, 2001 to March 1, 2002.

Eighty (80) denied claims had no violations.

Seven (7) denials were for PPO claims and were outside the scope of this examination.

Eleven (11) claims were denied for pre-existing conditions prior to investigation by the Company. This is a violation of Section 641.3903(5)(c) 1 and 4, Florida Statutes. See Exhibit III for details.

Two (2) claims were not paid nor denied within 120 days after receipt by the Company. This is a violation of Section 641.3155(4), Florida Statutes, however, the regulatory response has have been deferred to the conclusion of an investigation of the timely payment of claims. See Exhibit III for details.

VIII. FINDINGS/CORRECTIVE ACTIONS

COMPLAINTS REVIEW

A review of complaints found multiple claims that were not processed as required by Section 641.3155(3), and 641.3108(2), Florida Statutes.

CORRECTIVE ACTION

The Company should prepare an action plan within thirty (30) days from the date of the Consent Order that outlines steps to bring complaint review into compliance with the requirements of Section 641.3155(3), and 641.3108(2), Florida Statutes. This plan should be submitted to the Department for review and approval prior to implementation.

MANAGED CARE INVESTIGATIONS

Four (4) managed care investigations were reviewed. No adverse business practices were found.

CORRECTIVE ACTION

No corrective action required.

GRIEVANCES REVIEW

Seventy-five (75) provider or subscriber grievances were reviewed. No adverse business practices were found.

CORRECTIVE ACTION

No corrective action required.

ONE-LIFE GROUP UNDERWRITING REVIEW

The Company was unable to produce the records necessary to examine their one-life group underwriting practices.

CORRECTIVE ACTION

Records should be retained to such an extent to allow the Department to examine the Company's conduct during the one-life group open enrollment period.

PROVIDER CONTRACTS/MANUALS

A review of provider contracts and manuals found the Company did not have established procedures to provide written notice to providers before changing authorization for utilization of health care services as required by Section 641.315(8), Florida Statutes.

CORRECTIVE ACTION

The Company should prepare an action plan within thirty (30) days from the date of the Consent Order that outlines the steps taken to bring the Company into compliance with the requirements of Section 641.3155(8), Florida Statutes. This plan should be submitted to the Department for review and approval prior to implementation.

DENIED CLAIMS

A review of claims found violations of Section 641.3903(5)(c) 1 and 4, Florida Statutes.

CORRECTIVE ACTION

The Company should prepare an action plan within thirty (30) days from the date of the Consent Order that outlines steps taken to bring claims processing into compliance with the requirements of Section 641.3903(5)(c) 1 and 4, Florida Statutes.

EXHIBITS

SUBJECT	EXHIBIT NUMBER
COMPLAINTS REVIEW	I
PROVIDER CONTRACTS/MANUALS	II
DENIED CLAIMS REVIEW	III