

ANTHEM HEALTH PLANS OF MAINE, INC.

AND ITS SUBSIDIARY

MAINE PARTNERS HEALTH PLAN, INC.

ORGANIZATIONAL EXAMINATION

AS OF

JUNE 30, 2002

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I hereby certify that the attached organizational examination dated December 20, 2002 of ANTHEM HEALTH PLANS OF MAINE, INC. and its subsidiary MAINE PARTNERS HEALTH PLAN, INC., both of South Portland, Maine has been filed in the Bureau of Insurance as a public document.

This report has been reviewed.

Joel S. Thomsen, CPA, CFE
Director of Financial Affairs & Solvency

This day of , 2003

December 20, 2002

Honorable Alessandro Iuppa
Superintendent of Insurance
Maine Bureau of Insurance
34 State House Station
Augusta, Maine 04333

Dear Sir:

Pursuant to provisions of Title 24-A M.R.S.A. § 221 and in conformity with your instructions, an organizational examination has been made of the

ANTHEM HEALTH PLANS OF MAINE, INC.

and its subsidiary

MAINE PARTNERS HEALTH PLAN, INC.

at their home office in South Portland, Maine; hereinafter referred to as the "Company" and "Subsidiary", respectively. The following report is respectfully submitted.

SCOPE OF EXAMINATION

The Company has previously not been subject to examination by the Bureau of Insurance. This examination is limited in scope and is not intended to communicate all matters of importance for an understanding of the Company's financial condition. This examination included a review of corporate records and actions in connection with the Company's acquisition as of June 30, 2000

through completion of field work, December 20, 2002. This examination also included a review of the Company's internal controls regarding the implementation and subsequent utilization of a new claim and premium processing system, Anthem Consolidated East System (ACES). The review of controls regarding premium and claim processing was limited to transactions processed during the second quarter of 2002. As a consequence, the examination did not encompass testing of any systems other than ACES.

DESCRIPTION OF COMPANY

History

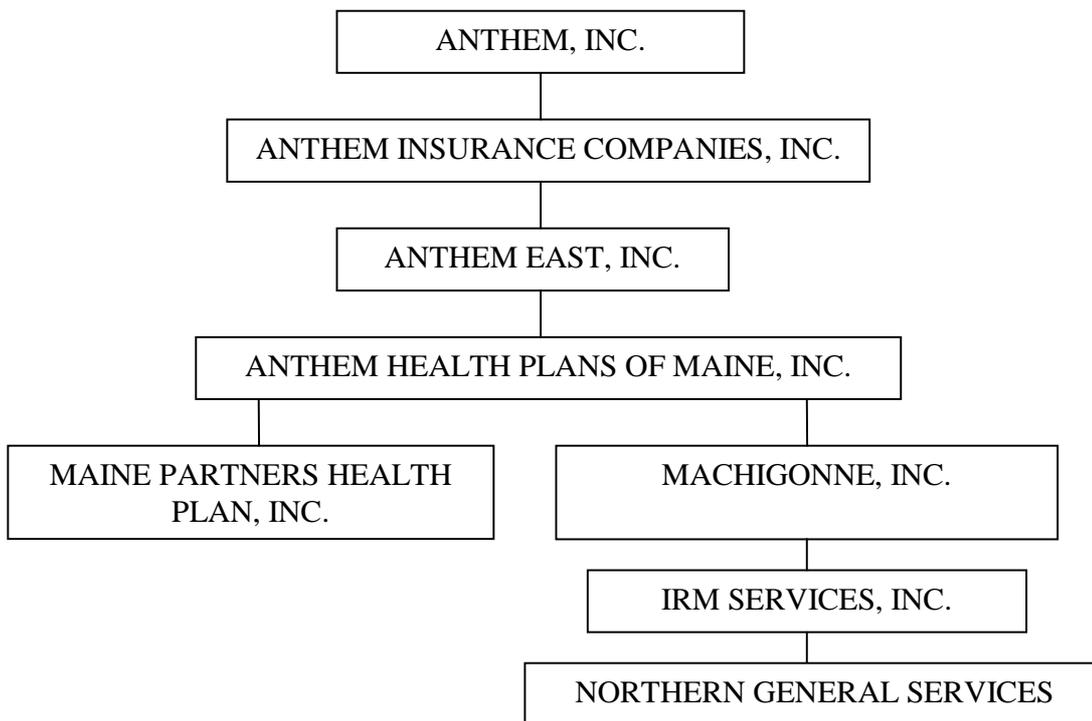
The Company gained control of Associated Hospital Service of Maine on June 5, 2000 as approved in the Decision and Order dated May 25, 2000. The transaction resulted in the Company changing from non-profit under Title 24 M.R.S.A to becoming a for-profit entity under Title 24-A M.R.S.A. As a condition of the transaction, the majority of the Company's assets and business of Associated Hospital Service of Maine transferred to a Liquidating Trust and then to the Company.

The newly formed Company operating as Anthem Blue Cross and Blue Shield is a wholly-owned subsidiary of Anthem East, Inc., who in turn, is a wholly owned holding company of Anthem Insurance Companies, Inc., an Indiana domiciled stock insurance company.

In July 2000, the Company purchased Patriot Mutual Insurance Company's 43 percent share stock ownership in Machigonne, Inc. which thereby increased the Company's ownership of Machigonne to 100 percent. On September 2, 2000, the Company purchased Central Maine Healthcare Corporation's 50 percent stock ownership in Central Maine Partners Health Plan, Inc. (CMPHP) becoming the sole stockholder. In addition, effective January 1, 2001, CMPHP merged with the Company and ceased operations as a for-profit corporation. On February 28, 2002, the Company acquired Maine Medical Center's 50 percent ownership interest in Maine Partners Health

Plan, Inc. becoming the sole stockholder with books and records located at the Company's corporate offices in South Portland, Maine. The Company provides administrative services, regulatory and legal support, marketing, financial planning and administration, information and network management for Maine Partners Health Plan, Inc.

ABBREVIATED ORGANIZATIONAL CHART



Management and Control

The Company is governed by a seven member Board of Directors. The following are the duly elected members of the Board of Directors and the Officers serving at June 30, 2002:

Directors

- Larry C. Glasscock
- Douglas R. Fauth
- Nancy L. Purcell
- David R. Frick
- George D. Martin
- Robert S. Schneider
- Michael L. Smith

Officers

Marjorie W. Dorr, President
Nancy L. Purcell, Secretary
George D. Martin, Treasurer

The Subsidiary is governed by a three member Board of Directors. The following are the duly elected members of the Board of Directors and the Officers serving at June 30, 2002:

Directors

Larry C. Glasscock
David R. Frick
Michael L. Smith

Officers

Larry C. Glasscock, Chairman of the Board
Marjorie W. Dorr, President
Nancy L. Purcell, Secretary
Martin J. Robles, Assistant Secretary and Clerk
George D. Martin, Treasurer
Guy W. Marszalek, Valuation Actuary

Conflict of Interest

Title 24-A M.R.S.A. § 3413 requires that each director and officer of the Company and the Subsidiary complete a conflict of interest statement to disclose any material interest or affiliation which is likely to be in conflict with his/her official duties and responsibilities with the Company and the Subsidiary, as applicable. A review of the conflict of interest statements for the period of the examination revealed the Company demonstrated substantial compliance with the conflict of interest policy.

Corporate Records

The articles of incorporation, bylaws and minutes of the board of directors' meetings held from the period June 30, 2000 to the completion of field work were reviewed for both the Company and the Subsidiary. It was noted that Anthem Insurance Companies, Inc., the Company's parent, approves budgets, investments and director and officer compensation for its subsidiaries, including

the Company and Subsidiary. Review of these records indicates the Company and Subsidiary are operating in accordance with their respective articles and bylaws.

INTERNAL CONTROL REVIEW

The Examiners gathered information and conducted interviews with Company personnel to update the documentation for the following systems.

Data Processing System

As of the examination date of June 30, 2002, the Company was in the process of converting to the Anthem Consolidated East Systems (ACES) for the payment of claims and the billing and collection of premiums. In the course of testing claims and premiums, certain controls surrounding implementation of the ACES were verified. The Company also provided system documentation outlining various system components pertaining specifically to the ACES system.

Underwriting System

The Company began converting the billing of premium from the Group Membership System (GMS) to the Anthem Consolidated East Systems (ACES) Enrollment & Billing (E&B) for certain Non-Group contracts over 65 members in May 2002 and certain Small Group and Large Group contracts in June 2002. The Company's goal is to completely convert to the ACES system in January 2003. The scope of the testing was limited to premiums billed in May and June 2002 utilizing the ACES system for the aforementioned contracts.

During the testing of billed premiums, it was noted the Company could not provide an individual's membership application in support of billed premium which is in violation of Title 24-A M.R.S.A § 3408. (See Comments and Recommendations #1) Also noted during the testing of the receipt of premium was the Company's inability, beginning in April 2002, to reconcile its monthly bank balance to the general ledger cash account due to unidentified items directly related to the ACES

E&B system not producing sufficient detailed reports. (See Comments and Recommendations #2) Subsequent to June 30, 2002, the Company has demonstrated the ability to identify the aforementioned unidentified items and, as of November 2002, is able to reconcile its bank balance to the cash general ledger.

Testing of certain controls for billed and received premium was performed through discussion with Company personnel, observation of certain controls and detail testing of Company provided documents and systems data.

Claim System

The Company began using the ACES system to process Managed Care claims in October 2001 and Claim Care claims in April 2002. Certain controls surrounding the processing of claims via the ACES system were tested for claims processed during the second quarter of 2002. It was noted the Company has developed an internal audit program to measure and ultimately improve the quality performance of claim payments with noted ACES claims processing issues identified to the Company's model office for review and/or action.

Testing of certain controls for paid claims was performed through discussion with Company personnel, observation of certain controls and detail testing of Company provided documents and systems data.

INTER-COMPANY AGREEMENTS

The Company has entered into various management agreements and inter-company service agreements with its parent, and subsidiaries. As noted in the History section, the Company has an inter-company agreement with its Subsidiary to provide administrative services, regulatory and legal support, marketing, financial planning and administration, and information and network management.

The Company and its Subsidiary entered into a tax allocation agreement with Anthem Insurance Companies, Inc. (AICI). The method of allocation is based on separate return calculations.

The inter-company agreements were reviewed for administrative compliance and tested on a limited basis for reasonableness of inter-company transactions in accordance with the applicable agreements.

REINSURANCE

The Company entered into a quota share reinsurance agreement with its parent, AICI, effective July 1, 2000. Under the agreement, the Company cedes certain liabilities to satisfy risk-based capital requirements of Condition 10 of the Decision and Order of the Maine Superintendent of Insurance dated May 25, 2000. In addition, the Company entered into an insolvency reinsurance agreement with its parent, AICI, effective July 1, 2000, to satisfy Condition 11 of the Decision and Order of the Maine Superintendent of Insurance dated May 25, 2000.

The reinsurance agreements were reviewed and discussed with Company personnel and found to be in substantial compliance with the Superintendent's Decision and Order.

COMMENTS AND RECOMMENDATIONS

1. As discussed in the Underwriting section, the Company could not provide a Membership Application. The Company should ensure it has proper controls in place to retain all necessary documents in support of accounting transactions.
2. As discussed in the Underwriting section, the Company, beginning in April 2002, was not able to reconcile monthly bank statements to the general ledger cash account due to unidentified items related to the ACES E&B system. However, it was noted the Company, as of November 2002, is able to reconcile its bank balance to the cash general ledger.

STATE OF MAINE

COUNTY OF KENNEBEC, SS

James C. Williams, CPA, CFE, being duly sworn according to law, deposes and says that in accordance with the authority vested in him by Alessandro Iuppa, Superintendent of Insurance, pursuant to the Insurance Laws of the State of Maine, he has made an organizational examination of the conditions and affairs of

ANTHEM HEALTH PLANS OF MAINE, INC.

and its subsidiary

MAINE PARTNERS HEALTH PLAN, INC.

both of South Portland, Maine as of June 30, 2002, and that the foregoing report of examination, subscribed to by him, is true to the best of his knowledge and belief.

The following examiners from the Bureau of Insurance assisted:

David J. Giacullo, CPA, CFE

M. Bree Morin

Faith Talbot

James C. Williams, CPA, CFE

Subscribed and sworn to before me this day of , 2003

Notary Public

My Commission Expires: