REPORT ON
MARKET CONDUCT EXAMINATION

of

UNITED HEALTHCARE OF NORTH CAROLINA, INC.
UNITED HEALTHCARE INSURANCE COMPANY
Greensboro, North Carolina

BY REPRESENTATIVES OF THE
NORTH CAROLINA DEPARTMENT OF INSURANCE

as of

February 18, 2011
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Honorable Wayne Goodwin
Commissioner of Insurance
Department of Insurance
State of North Carolina
Dobbs Building
430 N. Salisbury Street
Raleigh, North Carolina 27603

Honorable Commissioner:

Pursuant to your instructions and in accordance with the provisions of North Carolina General Statute (NCGS) 58-2-131, a compliance examination has been made of the market conduct activities of

UNITED HEALTHCARE OF NORTH CAROLINA
(NAIC #95103)
NAIC Exam Tracking System Exam Number: NC170-M72

UNITED HEALTHCARE INSURANCE COMPANY
(NAIC #79413)
NAIC Exam Tracking System Exam Number: NC170-M73
Greensboro, North Carolina

hereinafter generally referred to as the Company, at the North Carolina Department of Insurance (Department) office located at 11 S. Boylan Avenue, Raleigh, North Carolina.

A report thereon is respectfully submitted.
FOREWORD

This examination reflects the North Carolina insurance activities of UnitedHealthcare of North Carolina, Inc. (UHCNC) and UnitedHealthcare Insurance Company (UHIC). The examination is, in general, a report by exception. Therefore, much of the material reviewed will not be contained in this written report, as reference to any practices, procedures, or files that manifested no improprieties were omitted.

SCOPE OF EXAMINATION

This compliance examination commenced on March 8, 2010 and covered the period of January 1, 2008 through December 31, 2009 with analyses of certain operations of the Company being conducted through January 31, 2011. This action was taken due to previous examination findings referenced in the Market Conduct Report of March 28, 2005 for UnitedHealthcare of North Carolina, Inc. (UHCNC) and the Market Conduct Report of September 28, 2000 for the UnitedHealthcare Insurance Company (UHIC).

The examination was arranged and conducted by the Department. It was made in accordance with Market Regulation standards established by the Department and procedures established by the National Association of Insurance Commissioners (NAIC) and accordingly included tests of policyholder treatment and underwriting.

It is the Department's practice to cite companies in apparent violation of a statute or rule when the results of a sample show errors/noncompliance at or above the following levels: 0 percent for utilization review determinations, grievances, sales and advertising, producers who were not appointed and/or licensed, the use of contract forms that were neither filed with nor approved by the Department, the listing of a provider/facility in the provider/facility directory prior to being fully credentialed and use of unapproved underwriting methodology and factors; 7.0 percent for claims practices,
provider and facility credentialing and the content of utilization management review notification letters; and 10.0 percent for all other areas reviewed. When errors are detected in a sample, but the error rate is below the applicable threshold for citing an apparent violation, the Department issues a reminder to the company.

Previous Examination Findings

A general examination for UnitedHealthcare of North Carolina, Inc. (HMO) covering the period January 1, 2001 through March 28, 2005 was performed on the Company and a report dated March 28, 2005 was issued. The general examination report identified violations in the areas of general administration, provider relations and delivery system, utilization management, quality management, provider credentialing, policyholder treatment, claims practices, underwriting practices and delegated oversight. The areas of policyholder treatment, utilization management and quality management were reviewed as part of a multi-state examination and therefore, were not a part of this compliance examination.

A compliance examination for UnitedHealthcare Insurance Company covering the period June 30, 1999 through September 28, 2000 was performed on the Company and a report dated September 28, 2000 was issued. The examination report identified violations in the area of delegated oversight.

Specific violations relating to the identified areas are listed within the appropriate section of this report. Deficiencies noted in the previous examination report that did not exceed the Department's error tolerance thresholds were cited as reminders and may not appear as specific violations in this examination report. Any reminders which have not been sufficiently addressed by the Company may be cited again in this examination report and thus may not appear in the "previous findings" as related to that particular section, but were an overall concern in the previous examination.
EXECUTIVE SUMMARY

This market conduct examination revealed concerns with the Company procedures and practices in the following areas:

**UnitedHealthcare of North Carolina, Inc.**

*Provider Relations and Delivery System* – failure to provide executed provider and facility contracts and failure to provide all iterations of provider relations policies and procedures covering the entire examination period when initially requested.

*Provider Credentialing* – the Credentialing Plans failed to include all of the required elements; failure to provide all iterations of credentialing policies and procedures covering the entire examination period; failure to list credentialed providers in the provider directory in a timely manner and failure to provide written notification information for providers rejected from the network.

*Underwriting Practices* – failure to use the correct rate filing for premium calculations; failure to ensure that sold premium rates match the rates approved by the Department, which resulted in overcharges totaling $81.49 to 6 employer groups and failure to document the underwriter’s judgment used to calculate sold premium rates.

**United Healthcare Insurance Company**

*Sales and Marketing* – failure to ensure that producers who sold Medicare Part D policies were properly licensed.

Specific violations related to each area of concern are noted in the appropriate section of this report. All North Carolina General Statutes and rules of the North Carolina Administrative Code cited in this report may be viewed on the North Carolina Department of Insurance Web Site [www.ncdoi.com](http://www.ncdoi.com), by clicking “NCDOI DIVISIONS” then “Legislative Services”.

This examination identified various non-compliant practices, some of which may extend to other jurisdictions. The Company is directed to take immediate corrective action to demonstrate its ability and intention to conduct business in North Carolina according to its insurance laws and regulations. When applicable, corrective action for other jurisdictions should be addressed.
All unacceptable or non-compliant practices may not have been discovered or noted in this report. Failure to identify or criticize improper or non-compliant business practices in North Carolina or in other jurisdictions does not constitute acceptance of such practices. Examination report findings that do not reference specific insurance laws, regulations, or bulletins are presented to improve the Company’s practices and ensure consumer protection.

COMPANY OVERVIEW

UNITED HEALTHCARE OF NORTH CAROLINA, INC.

Corporate Structure

The Company is a wholly owned subsidiary of UnitedHealthcare, Inc. (the Parent Company), which is a wholly owned subsidiary of United HealthCare Services, Inc., which in turn is a wholly owned subsidiary of UnitedHealth Group Incorporated (formerly known as United HealthCare Corporation). UnitedHealth Group Incorporated is the ultimate Parent Company. The Company has an agreement with United HealthCare Services, Inc., a subsidiary of UnitedHealth Group Incorporated, in which certain administrative, consultative and other services are provided to the Company. Following is an excerpt from the current organizational structure:

```
United HealthCare Services, Inc.

  UnitedHealthcare, Inc.

  UnitedHealthcare of North Carolina, Inc.
```

UnitedHealth Group Incorporated indirectly holds greater than 10.0 percent ownership of the Company, a licensed North Carolina HMO. This arrangement qualifies UnitedHealth
Group Incorporated as a holding company pursuant to NCGS 58-19 and UnitedHealthcare of North Carolina, Inc. has registered annually as required by NCGS 58-19-25.

History

The Company, formerly known as Physicians Health Plan, Inc. (PHP), was acquired by United HealthCare Services, Inc. on March 2, 1996 and originally incorporated on March 12, 1985. On May 2, 1985, the Company received a preliminary Certificate of Authority (COA) from the Department to operate as an independent physician association model HMO in 6 counties. The preliminary COA was valid until full licensure was granted on May 21, 1985. On December 20, 1993, Physician’s Health Plan of North Carolina, Inc. received approval to change its name to PHP, Inc. On March 19, 1996, the Department approved the acquisition of PHP, Inc. by United HealthCare Services, Inc. Effective January 1, 1997, PHP, Inc. changed its name to UnitedHealthCare of North Carolina, Inc. Effective August 27, 1999, UnitedHealthCare of North Carolina, Inc. changed its name to UnitedHealthcare of North Carolina, Inc.

By order dated May 16, 2000, the North Carolina Department of Insurance approved the transfer of the Company’s shares from United HealthCare Services, Inc. to UnitedHealthcare, Inc. Effective June 30, 2000, UnitedHealthcare, Inc. became the sole shareholder of the Company.

On October 30, 1986, the Company received approval from the Department to expand its service area to a total of 22 counties, including the upper and lower regions of the Cape Fear Valley area of North Carolina. On March 15, 1993, the Department granted the Company permission to expand into the counties of western North Carolina. An additional 2-phase expansion, which was designed to ultimately cover the entire state of North Carolina, was approved by the Department on June 24, 1994.
On October 23, 1990 and March 6, 1995, the Company received approval from the Department to market point-of-service products for both the large and small group markets. The in-network portion of the benefit is underwritten by the Company and the out-of-network portion is underwritten by United Healthcare Insurance Company.

As of January 1, 1992, the Company was qualified to be a small group carrier, pursuant to Title 11 of the North Carolina Administrative Code (NCAC) Chapter 12, Section 1300.

Service Area

At the time of the examination, the Company was licensed to do business in all 100 counties in North Carolina.

Product Lines

The Company currently offers commercial large group, commercial small group and Medicare products.

Management and Control -- Shareholders

The Company’s bylaws state that an annual meeting of shareholders will be held at the location and date during the year as determined by the Board of Directors. The Chairman of the Board, the President or a majority of the Board of Directors may call special meetings at any time and such meetings will specifically state the purpose or purposes for which the meeting is called. Special meetings may also be called by any shareholder pursuant to the written request of the shareholders of not less than one-third of all the shares entitled to vote at the meeting.
Board of Directors

The Board of Directors, which may exercise all powers of the Company, manages the business and affairs of the Company. According to Company bylaws, the number of directors shall not be less than 3 or more than 10. Directors hold office until the subsequent annual meeting of shareholders held following their election (at which their successors are elected), or until they have resigned or have been removed. Directors need not be residents of the State of North Carolina or shareholders.

Regular and special meetings of the Board may be held either within or outside the State of North Carolina and regular meetings of the Board may be held without notice at such times and places as may be specified by the Board.

The Chairman of the Board and President serving at the time of this examination is Garland Greever Scott III, whose office is located in Greensboro, NC. It is noted that the composition of the Company’s Board of Directors is in compliance with its bylaws.

Officers

The Company’s bylaws provide that the officers of the Company will consist of a Chairman of the Board, President, Secretary, Treasurer, 1 or more Vice Presidents, 1 or more Assistant Secretaries, 1 or more Assistant Treasurers and such other titled officers as may be deemed necessary by the Board. The officers of the Company will be elected by the Board of Directors and will hold office until their death, resignation, retirement, removal, disqualification or until their successors are elected and qualified. Such elections may be held at any regular or special meeting of the Board. The Board may also delegate to the President the authority to appoint additional officers as deemed appropriate for the operation of the Company. It is noted that the composition of the officers of the Company complies with its bylaws.
**Corporate Records**

The minutes of the meetings of the Board of Directors were reviewed as part of this examination. The meetings have been held as outlined in the Company’s bylaws. As required by the Company’s bylaws, the minutes reflect the outcome of all Board and officer elections and the minutes reflect reports from its standing and ad hoc committees.

**UNITEDHEALTHCARE INSURANCE COMPANY**

**History**

UnitedHealthcare Insurance Company ("the Company") was originally incorporated in Illinois as The Travelers Insurance Company of Illinois on March 24, 1972. The name was changed to The MetraHealth Insurance Company during 1994 when it was redomesticated from Illinois to Connecticut (filed with Connecticut Secretary of State on December 27, 1994 following approval by the Connecticut Department of Insurance on November 29, 1994 and the Illinois Department of Insurance on November 22, 1994). On October 2, 1995, 100 percent of The MetraHealth Companies, Inc. was purchased by United HealthCare Corporation (which later became UnitedHealth Group Incorporated). Effective January 1, 1997, The MetraHealth Insurance Company and United Health and Life Insurance Company, a Minnesota insurance company, merged. As a result of the merger, the surviving entity, The MetraHealth Insurance Company, was renamed United HealthCare Insurance Company. On June 30, 2000, UnitedHealth Group (UnitedHealth) contributed all the shares of United HealthCare Insurance Company to its wholly-owned subsidiary United HealthCare Services, Inc., which in turn contributed all the issued and outstanding shares of United HealthCare Insurance Company to its wholly-owned subsidiary, Unimerica, Inc. As a result, the Company became a direct wholly-owned subsidiary of Unimerica, Inc. On March 31, 2004, Unimerica, Inc. was renamed UHIC Holdings, Inc. Effective December 31, 2008, the
Company changed the spelling of its name to UnitedHealthcare Insurance Company. On October 10, 1972, UnitedHealthcare Insurance Company received approval to conduct business in the state of North Carolina.

**Company Operations**

The Company is licensed to write life, accident and health business in the District of Columbia, the Virgin Islands, Puerto Rico, Guam and all states except New York. On June 24, 2005, UnitedHealthcare Insurance Company became licensed in the Commonwealth of the Mariana Islands and in November 2005 it became licensed in American Samoa. The Company offers organized health systems point-of-service plans, preferred provider organizations (PPO) and managed indemnity programs.

**Service Area**

At the time of the examination, the Company was licensed to do business in all 100 counties in North Carolina.

**GENERAL ADMINISTRATION**

**UNITEDHEALTHCARE OF NORTH CAROLINA, INC.**

The Company's general administration activities were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules. **The previous examination revealed the following:**

- The Company was deemed to be in apparent violation of the provisions of 11 NCAC 20.0602 as all required notices regarding change in the composition of officers and board members had not been submitted to the Department within 15 days of each change.

- The Company was deemed to be in apparent violation of the provisions of 11 NCAC 20.0602 as it filed an application to expand its service area in North Carolina in business arrangements involving its Medicare+Choice HMO in October 2002 and did not file notice with the Department within 15 days.

**The current examination revealed the following:**

- The Company submitted all required notices to the Department within the examination period in accordance with the provisions of 11 NCAC 20.0602.
• The Company did not seek to expand its service area/products in North Carolina during the examination period.

**PROVIDER RELATIONS AND DELIVERY SYSTEM**

**UNITEDHEALTHCARE OF NORTH CAROLINA, INC.**

The Company’s provider relations and delivery system activities were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules.

The Network Management Department develops, expands and maintains provider networks; educates participating providers; resolves provider issues and retains provider contracts and other records.

**Provider Contracts**

The previous examination revealed the following:

The Department reviewed a random sample of 100 provider contract files from a total population of 6,037 files and the Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0106, 20.0201 and 20.0203:

• The Company could not provide all or part of 11 contracts (11.0 percent error ratio) and was deemed to be in apparent violation of the provisions of 11 NCAC 19.0106.

• One contract (1.0 percent error ratio) was executed on an unapproved form prior to the examination period but contained an amendment executed during the examination period that was not filed with the Department for approval and was deemed to be in apparent violation of the provisions of 11 NCAC 20.0201.

• In 4 contracts (4.0 percent error ratio) reviewed, the provider was listed in the provider directory prior to contract execution and was deemed to be in apparent violation of the provisions of 11 NCAC 20.0201.

• Three contracts (3.0 percent error ratio) contained a significant modification from the approved form contract, and the Company was deemed to be in apparent violation of the provisions of 11 NCAC 20.0203.

Additionally, the form number on 2 contracts (2.0 percent error ratio) was missing, a technical exception to the provisions of 11 NCAC 20.0201.
The current examination revealed the following:

A random sample of 100 provider contract files from a total of 6,971 was selected to determine adherence to Company guidelines and compliance with North Carolina statutes and regulations. The review of these provider contracts revealed the following:

- In 16 files (16.0 percent error ratio), the Company could not produce the executed contract and the Department was unable to ascertain compliance. Therefore, the Company was again deemed to be in apparent violation of the provisions of 11 NCAC 19.0102, 19.0106 and 20.0202.

Additionally, the Company initially failed to provide to the Department all iterations of its provider relations policies and procedures which cover the entire examination period, a deemed apparent violation of the provisions of 11 NCAC 19.0106. The Company later provided the requested information.

Facility Contracts

The previous examination revealed the following:

The Department reviewed a random sample of facility contract files from a total of 193. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0106, 20.0201, and 20.0203. The review of these results revealed the following:

- Eight contracts (16.0 percent error ratio) were executed on unapproved forms prior to the examination period but contained amendments executed during the examination period that were not filed with the Department for approval prior to their use, a deemed apparent violation of the provisions of 11 NCAC 20.0201.

- The facility was listed in the provider directory either prior to contract execution or after contract termination in 6 contracts (12.0 percent error ratio) reviewed, a deemed apparent violation of the provisions of 11 NCAC 20.0201.

- Four contracts (8.0 percent error ratio) contained a significant modification from the approved form contract, a deemed apparent violation of the provisions of 11 NCAC 20.0203.
• The Company could not provide 9 contracts (18.0 percent error ratio) from the sample, a deemed apparent violation of the provisions of 11 NCAC 19.0106.

**The current examination revealed the following:**

A random sample of 50 facility contract files from a total population of 276 was selected to determine adherence to Company guidelines and compliance with North Carolina statutes and regulations.

• In 6 files (12.0 percent error ratio), the Company could not produce the executed contract and the Department was unable to ascertain compliance. Therefore, the Company was again deemed to be in apparent violation of the provisions of 11 NCAC 19.0102, 19.0106 and 20.0202.

**Provider Network Accessibility and Availability**

**Network Availability Standards**

**The previous examination revealed the following:**

• The Company was deemed to be in apparent violation of the provisions of 11 NCAC 20.0301 as its methodology did not include performance targets that addressed a method to determine when the addition of hospitals and other provider facilities to the network will be necessary based on increases in the membership.

• The Company was deemed to be in apparent violation of the provisions of 11 NCAC 20.0304 as it had not adequately monitored its provider availability standards based on increases in membership during the examination period.

**The current examination revealed the following:**

• The Company has a methodology in place which addresses a method to determine when the addition of hospitals and other provider facilities to the network will be necessary based on increases in membership.

• The Company has adequately monitored its provider availability standards based on increases in membership in accordance with the provisions of 11 NCAC 20.0304.

• It was noted that the Company failed to meet its established appointment wait time standards for routine, urgent and emergency care.

**Network Accessibility Standards**

**The previous examination revealed the following:**
• The Company was deemed to be in apparent violation of the provisions of 11 NCAC 20.0304 as it had not monitored its drive time/distance (proximity of network providers) standards for 2003.

The current examination revealed the following:

• The Company has monitored its drive time/distance (proximity of network providers) throughout the examination period in accordance with the provisions of 11 NCAC 20.0304.

PROVIDER CREDENTIALING

UNITEDHEALTHCARE OF NORTH CAROLINA, INC.

The Company's credentialing activities were reviewed to determine adherence to Company guidelines, and compliance with applicable North Carolina statutes and rules.

The previous examination revealed the following:

The Department noted the following deemed apparent violations from a review of the Company's policies and procedures and form letters addressing credentialing activities:

• The Company's Credentialing plan did not require completion of the initial credentialing process for providers within 60 days of receipt of the application until May 27, 2003, a deemed apparent violation of NCGS 58-3-230 and 11 NCAC 20.0405 from October 1, 2002 through May 27, 2003. Additionally, the Company was deemed to be in apparent violation of the provisions of 11 NCAC 20.0405 effective October 1, 2002 as its credentialing plans and supporting policies and procedures did not address or did not comply with the following:

1. Required process to notify applicants (including required content of notifications) in the credentialing process of pending or closed applications when additional time beyond 60 days is needed to obtain necessary verifications or information;

2. Notifications to applicants (including required content of notifications) within 15 days when applications are incomplete or information/supporting documentation is missing;

3. Subsequent procedures, including required timeframes and notifications when missing or incomplete information is either received or not received by the carrier within 60 days of receipt of the application;

4. Notifications to applicants within 30 days who are not included in the network for reasons that do not require review of the application.
Additionally, the Company was unable to provide all versions of its “Initial Credentialing Procedures for LIPs,” “Recredentialing Procedures for LIPs” and its “Component Assessments – Initial and Recredentialing Procedures” which were effective during the examination period, a deemed apparent violation of the provisions of 11 NCAC 19.0106.

The current examination revealed the following:

The Company was again deemed to be in apparent violation of the provisions of 11 NCAC 20.0405 as its credentialing policies which were utilized throughout the entire examination period do not address the following items:

- The Company’s North Carolina Commercial Regulatory (NCR) addenda found in the 2009-2010 Credentialing Plan did not include all requirements found in 11 NCAC 20.0405 (b)(c)(1) and (3)(e) and did not reference another document which enumerates the requirements. The Company shall inform the applicant in writing of all missing or incomplete information or supporting documents. The written notification shall include the name, address and telephone number of a credentialing staff as a contact person.

- In addition, the Company is again deemed in apparent violation of the provisions of 11 NCAC 20.0405 as its 2007-2008 Credentialing Plan does not address the following items:
  
  1. The policy does not adequately address the termination guidelines of the credentialing process, if by the 60th day after receipt of the application, the Company has not received all of the information or verification it requires.
  
  2. The policy does not indicate that within 15 days after receipt of an incomplete application, the Company will notify the applicant in writing of all missing or incomplete information or supporting documents.
  
  3. The policy does not indicate that if the Company chooses not to include an applicant in its network, for reasons that do not require review of an application, it shall provide written notice to the applicant of that determination within 30 days after receipt of the application.

The Company failed to provide all iterations of its policies and procedures covering the entire examination period, a deemed apparent violation of the provisions of 11 NCAC 19.0102 and 19.0106.

The previous examination revealed the following:
The Department reviewed a random sample of 100 provider credentialing files from a total of 6,037 to ascertain compliance with the provisions of 11 NCAC 20.0404, 20.0405, 20.0406 and 20.0407. The sample was found to contain 1 invalid record, therefore, the valid sample size was reduced to 99 and all calculations reflect the smaller, valid sample. The file sample reflects initial credentialing and any subsequent recredentialing that occurred during the examination period. The following results indicate the level of adherence to the Company’s guidelines and to the provisions of 11 NCAC 20.0406 which require the Company to maintain centralized files on each individual provider making application and to retain on file documentation of compliance with 11 NCAC 20.0404, 20.0405 and 20.0407. The Company was deemed to be in apparent violation of these provisions as the review revealed the following:

- In 4 files (4.0 percent error ratio) reviewed, the Company had not maintained documentation sufficient to evidence that information had been obtained and verified in accordance with regulation, a deemed apparent violation of the provisions of 11 NCAC 20.0404 and 20.0405. One or more of the following issues were identified in these files: malpractice insurance was not verified, board certification was not verified, or a uniform credentialing application was not present. One file (1.0 percent error ratio) contained all information required by regulation and Company policy but the application receipt date was not documented, failing to demonstrate the provider was credentialed within 60 days, a deemed apparent violation of the provisions of 11 NCAC 20.0405. An additional file (1.0 percent error ratio) lacked information required by Company policy as a copy of the malpractice insurance certificate was not obtained.

- In 3 files (3.0 percent error ratio) reviewed, the Company did not complete initial credentialing within 60 days from receipt of the completed application and required supporting documentation, a deemed apparent violation of the provisions of 11 NCAC 20.0405.

- In 36 files (36.0 percent error ratio) reviewed, the Company had not conducted recredentialing activities every 2 years, as required by its policies and procedures. In 13 files (13.0 percent error ratio) reviewed, the Company had not conducted recredentialing activities every 3 years, a deemed apparent violation of the provisions of 11 NCAC 20.0407.

- The Company was unable to provide 6 files (6.0 percent error ratio), a deemed apparent violation of the provisions of 11 NCAC 19.0106 and 20.0409.
The current examination revealed the following: The Department reviewed a random sample of 100 provider credentialing files form a total of 6,971 to ascertain compliance with the provisions of 11 NCAC 20.0404, 20.0405, 20.0406 and 20.0407. The file sample reflects initial credentialing and any subsequent recredentialing that occurred during the examination period. The following results indicate the level of adherence to the Company’s guidelines and to the provisions of 11 NCAC 20.0406 which require the Company to maintain centralized files on each individual provider making an application and to retain on file documentation of compliance with 11 NCAC 20.0403, 20.0405 and 20.0407. The Company was deemed to be in apparent violation of these provisions as the review revealed the following:

- In 2 files (2.0 percent error ratio), the application was processed in excess of the 60-day time frame. The Company was reminded of the provisions of 11 NCAC 20.0405.

- In 11 files (11.0 percent error ratio), the providers were not listed in the provider directory in a timely manner and the Department was unable to ascertain compliance with NCGS 58-3-245. If the Company produces printed directories, an updated listing of its credentialed providers must be listed in its directories.

There were 32 initial provider credentialing files in the sample. The average service time to initially credential providers was 28 calendar days. A chart of the service time follows:

<table>
<thead>
<tr>
<th>Service Days</th>
<th>Number of Files</th>
<th>Percentage of Total</th>
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</thead>
<tbody>
<tr>
<td>1 - 7</td>
<td>4</td>
<td>13.0</td>
</tr>
<tr>
<td>8 - 14</td>
<td>1</td>
<td>3.0</td>
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<tr>
<td>15 - 21</td>
<td>10</td>
<td>31.0</td>
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<tr>
<td>22 - 30</td>
<td>5</td>
<td>16.0</td>
</tr>
<tr>
<td>31 - 60</td>
<td>10</td>
<td>31.0</td>
</tr>
<tr>
<td>Over 60</td>
<td>2</td>
<td>6.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>32</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

The following was not reviewed during the previous examination:
A random sample of 50 rejected provider credentialing files from a total of 175 was reviewed during this examination. The following results indicate the level of adherence to the Company’s guidelines and to the provisions of 11 NCAC 20.0405 which require the Company to provide written notice to the applicant of the determination within the specified time frames. The review of these rejected provider credentialing files revealed the following:

- In 3 files (6.0 percent error ratio), the Company provided written notification in excess of the 30-day or 60-day pended time frame and is reminded of the provisions of 11 NCAC 20.0405 (c)(3) and/or (d).

- In 21 files (42.0 percent error ratio), the Company was unable to provide any written notification information and was deemed in apparent violation of the provisions of 11 NCAC 19.0102, 19.0106 and 20.0409.

The average service time to reject a provider applicant from the network, for reasons that do not require review of the application, was 46 calendar days. In 21 files, the Company was unable to provide any written notification information. Therefore, 29 files were included in the service days calculation. A chart of the service time follows:

<table>
<thead>
<tr>
<th>Service Days</th>
<th>Number of Files</th>
<th>Percentage of Total</th>
</tr>
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<tbody>
<tr>
<td>8 - 14</td>
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<td>31 - 60</td>
<td>18</td>
<td>62.0</td>
</tr>
<tr>
<td>Over 60</td>
<td>3</td>
<td>10.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>29</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

The previous examination revealed the following:

The Department reviewed random samples of facility credentialing files to ascertain compliance with the provisions of 11 NCAC 20.0404, 20.0405, 20.0406 and 20.0407. A random sample of 50 facility credentialing files from a total of 193 was reviewed during this examination. The file sample reflects initial credentialing and any subsequent recredentialing that occurred during the examination period. The following
results indicate the level of adherence to the Company guidelines and to the provisions of 11 NCAC 20.0406 which require the Company to maintain centralized files on each facility and retain on file documentation of compliance with 11 NCAC 20.0404, 20.0405 and 20.0407. The Company was deemed to be in apparent violation of these provisions as the review revealed the following:

- In 5 files (10.0 percent error ratio) reviewed, the Company had not maintained documentation sufficient to evidence that information had been obtained in accordance with regulation and was deemed in apparent violation of the provisions of 11 NCAC 20.0404. One or more of the following issues were identified in these files: evidence of professional liability insurance was not obtained, a valid North Carolina license was not obtained, or Medicare/Medicaid certification was not obtained. Additionally, 5 files (10.0 percent error ratio) lacked information required by Company policy, as site visits were not conducted for the facilities.

- In 2 files (4.0 percent error ratio) reviewed, the Company had not conducted recredentialing activities within 3 years and was deemed in apparent violation of the provisions of 11 NCAC 20.0407.

- The Company was unable to provide 13 files (26.0 percent error ratio) and was deemed in apparent violation of the provisions of 11 NCAC 19.0106 and 20.0409.

The current examination revealed the following:

The Department reviewed random samples of provider credentialing files to ascertain compliance with the provisions of 11 NCAC 20.0404, 20.0405, 20.0406 and 20.0407. A random sample of 50 facility credentialing files from a total of 276 was reviewed. The following results indicate the level of adherence to the Company’s guidelines and to the provisions of 11 NCAC 20.0406 which require the Company to maintain centralized files on each facility and retain on file documentation of compliance with 11 NCAC 20.0404, 20.0405 and 20.0407.

The Company was deemed to be in apparent violation of these provisions as:

- For 1 file (2.0 percent error ratio), the Company did not conduct recredentialing activities every 3 years and the Company was reminded of the provisions of 11 NCAC 20.0407.
There were 20 initial facility credentialing files in the sample. The average service time to initially credential facilities was 30 calendar days. A chart of the service time follows:

<table>
<thead>
<tr>
<th>Service Days</th>
<th>Number of Files</th>
<th>Percentage of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - 7</td>
<td>3</td>
<td>15.0</td>
</tr>
<tr>
<td>8 - 14</td>
<td>2</td>
<td>10.0</td>
</tr>
<tr>
<td>15 - 21</td>
<td>1</td>
<td>5.0</td>
</tr>
<tr>
<td>22 - 30</td>
<td>2</td>
<td>10.0</td>
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<tr>
<td>31 - 60</td>
<td>12</td>
<td>60.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>20</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

CLAIMS PRACTICES

UNITEDHEALTHCARE INSURANCE COMPANY

The following area regarding rescissions and reformations was not reviewed during the previous examination, however due to market surveillance activity by the Department; this additional area was reviewed on the current examination.

The Department reviewed a total population of 1 reformed individual policy file. No irregularities, adverse trends, or unfair trade practices were perceived in this section of the examination and the reformation was conducted in accordance with the Company’s policies and procedures.

MARKETING

UNITEDHEALTHCARE OF NORTH CAROLINA, INC.

The Company’s producer appointment procedures were reviewed to determine adherence to Company guidelines and compliance with North Carolina statutes and rules.

The previous examination revealed the following:

- The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-40 as it did not notify the Department of the appointment of producers within 30 days of their effective date in 33.0 percent of producer appointment files.
• The Company was deemed to be in apparent violation of 11 NCAC 19.0106 as it did not maintain copies of producer contracts in 6.0 percent of producer appointment files.

The current examination revealed the following: A random sample of 50 producer appointment files from a population of 854 was reviewed.

• In 2 files (4.0 percent error ratio), the Company did not initially provide complete producer appointment records to the Department and the Company was reminded of the provisions of 11 NCAC 19.0106(f).

• In 1 file (2.0 percent error ratio), the Company could not demonstrate that it had obtained and/or reviewed the additional, requested information from producer applicants who had responded in the affirmative to a question regarding bankruptcy. Therefore, the Company was reminded of the provisions of 11 NCAC 19.0102 and 19.0106 as well as its own policies and procedures.

• In 2 files (4.0 percent error ratio), the Company did not complete the required background check prior to the appointment and the Company was reminded of the provisions of 11 NCAC 6A.0412. In addition, 1 of these files (2.0 percent error ratio) contained an appointment letter to the producer which included an incorrect effective date. For this same file, the Company could not demonstrate that it had obtained and reviewed the additional, requested information from the applicant who had responded in the affirmative to a question regarding outstanding liens/judgments. Therefore, the Company was reminded of the provisions of 11 NCAC 19.0102 and 19.0106 as well as its own policies and procedures.

UNITED HEALTHCARE INSURANCE COMPANY
Producers Selling Medicare Part D

The following was not reviewed during the previous examination but was included for review during this examination based on consumer complaints received by the Department.

The Company’s licensing procedures for producers selling the Medicare Part D product were reviewed to determine adherence to Company guidelines and compliance with North Carolina statutes and rules. A random sample of 100 producers who sold Medicare Part D policies during the examination period was reviewed from a population of 16,754 sold policies. The sample was found to contain 10 invalid records. Therefore,
the valid sample size was reduced to 90 files and all calculations reflect the smaller, valid sample. **The current examination revealed the following:**

- In 49 files (54.4 percent error ratio), the producer was not properly licensed to sell Medicare Part D policies which require individuals to hold both a Life and Health/Accident and Health or Sickness producer license as well as a Medicare Supplement/Long Term Care producer license. Therefore, the Company was deemed to be in apparent violation of the provisions of NCGS 58-33-26(f).

- In 1 file (1.1 percent error ratio), the Company could not provide the executed producer contract and therefore was reminded of the provisions of 11 NCAC 19.0102 and 19.0106.

**PREMIUM RATE SETTING AND UNDERWRITING**

The Company’s premium rate setting and underwriting activities were reviewed for adherence to Company guidelines and compliance with applicable North Carolina statutes and rules.

**The previous examination revealed the following:**

- The Company was deemed to be in apparent violation of the provisions of NCGS 58-67-50, 11 NCAC 16.0603 and/or 19.0104 for the following issues noted in the 9 large group cases reviewed: use of an unfiled and unapproved rating factor for 2.0 percent of files and no documentation of underwriter’s judgment used to rate cases sold to 2.0 percent of large employer groups.

- The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0104 as it failed to document the underwriter’s judgment used to rate 91.0 percent of small employer groups reviewed.

**The current examination revealed the following:**

Of the total 6,402 employer group underwriting files containing initial and renewal information, a sample group of 100 was reviewed for compliance with rating practices. Included in this sample were 99 small employer groups and 1 large employer group. The review revealed the following deemed apparent violations of statutory and/or regulatory provisions:

- In 1 case (1.0 percent error ratio), the Company used an incorrect rate filing and was again deemed to be in apparent violation of the provisions of NCGS 58-67-50.
In 7 cases (14.0 percent error ratio), the Company sold rates which did not match the approved rate filing and was again deemed to be in apparent violation of the provisions of NCGS 58-67-50. The Company noted that some of the overcharges appeared to be due to a systematic rounding issue. Six of the cases resulted in premium rate overcharges to the employer group and the Company was instructed to remediate the overcharges by issuing refunds to affected employer groups. As a result of the Department’s findings, a total of $81.49 was refunded to the employer groups. The Company provided the requested documentation to the Department which demonstrated that appropriate remediation had occurred.

In 21 cases (42.0 percent error ratio), the Company failed to document the underwriter’s judgment used to calculate the sold rates and was again deemed in apparent violation of the provisions of 11 NCAC 19.0104.

DELEGATED OVERSIGHT

UNITED HEALTHCARE OF NORTH CAROLINA, INC.

The previous examination revealed the following:

- The Company was deemed to be in apparent violation of the provisions of 11 NCAC 20.0601 as it did not file required notice of the deletion of 1 intermediary organization within 30 days after the termination of the contract.

- The Company was deemed to be in apparent violation of the provisions of 11 NCAC 20.0203 and/or 20.0204 as review of the Company’s executed contracts with intermediaries revealed the following: 2 contracts were executed on unapproved forms and 1 contract contained a significant modification from the approved contract form.

- The Company was deemed to be in apparent violation of 11 NCAC 20.0204 as it had not monitored the provider contracts used by its intermediaries to ensure that they comply with and include the provisions of 11 NCAC 20.0202.

- The Company was deemed to be in apparent violation of the provisions of 11 NCAC 20.0304 as certain intermediary organization provider accessibility standards were not monitored during the examination period.

The current examination revealed the following:

- The Company filed all required notices in accordance with the provisions of 11 NCAC 20.0601.

- Review of the Company’s executed contracts with intermediaries found them to be in compliance with the provisions of 11 NCAC 20.0203 and/or 20.0204.

- The Company provided a document entitled “North Carolina Intermediary Oversight Evaluation Report” which indicated reviews were not conducted for certain intermediary functions during various years of the examination period.
In response to the Department’s inquiry on this matter, the Company indicated that this document was a new tool recently implemented and due to a clerical error the necessary updates were not made. Upon request, the Company provided full documentation of all intermediary reviews in question. The Company conducted these reviews to ensure that they comply with and include the provisions of 11 NCAC 20.0202.

- The Company has monitored all intermediary organization provider accessibility standards in accordance with the provisions of 11 NCAC 20.0304.

**UNITEDHEALTHCARE INSURANCE COMPANY**

The previous examination revealed the following:

- The Company did not file a certification of compliance with the Department for its intermediary organization UnitedHealthcare of North Carolina, Inc., and was deemed to be in apparent violation of the provisions of 11 NCAC 20.0204.

- The Company did not receive quarterly credentialing updates from its intermediary during the examination period and was deemed to be in apparent violation of the provisions of 11 NCAC 20.0410.

The current examination revealed the following:

- The Company has filed a certification of compliance with the Department for its intermediary organization United Healthcare of North Carolina, Inc. in accordance with the provisions of 11 NCAC 20.0204

- The Company has received quarterly credentialing updates from its intermediary during the examination period in accordance with the provisions of 11 NCAC 20.0410.

**SUMMARY**

This compliance examination was undertaken to review and update the status of issues referenced in the Market Conduct Report of March 28, 2005 for United Healthcare of North Carolina, Inc. and the Market Conduct Report of September 28, 2000 for the UnitedHealthcare Insurance Company. The current examination revealed the following:
1. Provider Relations and Delivery System

UnitedHealthcare of North Carolina, Inc.

a. The Company was again deemed to be in apparent violation of the provisions of 11 NCAC 19.0102, 19.0106 and 20.0202 as it could not produce 16.0 percent of executed provider contracts.

b. The Company was deemed to be in apparent violation of 11 NCAC 19.0106 as it initially failed to provide all iterations of provider relations policies and procedures covering the entire examination period.

c. The Company was again deemed to be in apparent violation of the provisions of 11 NCAC 19.0102, 19.0106 and 20.0202 as the Company could not produce 12.0 percent of executed facility contracts.

2. Provider Credentialing

UnitedHealthcare of North Carolina, Inc.

a. The Company was again deemed to be in apparent violation of the provisions of 11 NCAC 20.0405 as its Credentialing Plans and/or addenda do not contain the required elements.

b. The Company was deemed to be in apparent violation of 11 NCAC 19.0102 and 19.0106 as it failed to provide all iterations of credentialing policies and procedures which cover the entire examination period.

c. The Company was reminded of the provisions of 11 NCAC 20.0405 as 2.0 percent of credentialing applications was processed in excess of the 60-day time frame.

d. The Company was deemed to be in apparent violation of the provisions of NCGS 58-3-245 as 11.0 percent of providers were not listed in the provider directory in a timely manner and the Department was unable to ascertain statutory compliance.

e. The Company was reminded of the provisions of 11 NCAC 20.0405(c)(3) and/or (d) as in 6.0 percent of rejected provider files the Company provided written notification in excess of the 30-day or 60-day pended time frame.

f. The Company was deemed to be in apparent violation of the provisions of 11 NCAC 19.0102, 19.0106 and 20.0409 as it was unable to provide written notification information for 42.0 percent of rejected provider files.

g. The Company was reminded of the provisions of 11 NCAC 20.0407 as in 2.0 percent of facility credentialing files, the Company had not conducted recredentialing activities every 3 years.
3. Marketing

UnitedHealthcare of North Carolina, Inc.

a. The Company was reminded of the provisions of 11 NCAC 19.0106(f) as in 4.0 percent of producer files, the Company did not initially provide complete producer appointment records to the Department.

b. The Company was reminded of the provisions of 11 NCAC 19.0102 and 19.0106 as well as its own policies and procedures as in 2.0 percent of producer files, the Company could not demonstrate that it had obtained and/or reviewed the additional, requested information from producer applicants who had responded in the affirmative to a question regarding bankruptcy.

c. The Company was reminded of the provisions of 11 NCAC 6A.0412 as in 4.0 percent of producer files, the Company did not complete the required background check prior to the appointment. In addition, 2.0 percent of these files contained an appointment letter to the producer which included an incorrect effective date. For this same file, the Company could not demonstrate that it had obtained and reviewed the additional, requested information from the applicant who had responded in the affirmative to a question regarding outstanding liens/judgments. Therefore, the Company was reminded of the provisions of 11 NCAC 19.0102 and 19.0106 as well as its own policies and procedures.

UnitedHealthcare Insurance Company

d. The Company was deemed to be in apparent violation of the provisions of NCGS 58-33-26(f) as in 54.4 percent of producer files in which a Medicare Part D policy was sold, the producer was not properly licensed to sell Medicare Part D policies.

e. The Company was reminded of the provisions of 11 NCAC 19.0102 and 19.0106 as it could not provide 1.1 percent of executed producer contracts.

4. Premium Rate Setting and Underwriting

UnitedHealthcare of North Carolina, Inc.

a. The Company was again deemed to be in apparent violation of the provisions of NCGS 58-67-50 as in 1.0 percent of cases, the Company used an incorrect rate filing to calculate the premium rates sold to a large employer group.

b. The Company was again deemed to be in apparent violation of NCGS 58-67-50 as in 14.0 percent of cases, the Company sold premium rates which did not match the approved rate filing.
c. The Company was again deemed to be in apparent violation of 11 NCAC 19.0104 as in 42.0 percent of cases, the Company failed to document the underwriter’s judgment used in calculating the sold premium rates.

5. Additional Issues Noted During Examination

UnitedHealthcare of North Carolina, Inc.

a. The Company failed to meet its established appointment wait time standards for routine, urgent and emergency care.

**TABLE OF STATUTES AND RULES**

<table>
<thead>
<tr>
<th>Statute/Rule</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>NCGS 58-2-131</td>
<td>Examinations to be made; authority, scope, scheduling, and conduct of examinations.</td>
</tr>
<tr>
<td>NCGS 58-3-230</td>
<td>Uniform provider credentialing.</td>
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<td>NCGS 58-3-245</td>
<td>Provider directories.</td>
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<tr>
<td>NCGS 58-19-25</td>
<td>Registration of insurers.</td>
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<tr>
<td>NCGS 58-33-26</td>
<td>General license requirements. (Effective July 1, 2002)</td>
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<td>NCGS 58-33-40</td>
<td>Appointment of agents.</td>
</tr>
<tr>
<td>NCGS 58-67-50</td>
<td>Evidence of coverage and premiums for health care services.</td>
</tr>
<tr>
<td>11 NCAC 6A.0412</td>
<td>Appointment of Agent: Responsibility of Company.</td>
</tr>
<tr>
<td>11 NCAC 16.0603</td>
<td>HMO Rate Filing Data Requirements</td>
</tr>
<tr>
<td>11 NCAC 19.0106</td>
<td>Records Required for Examination.</td>
</tr>
<tr>
<td>11 NCAC 20.0201</td>
<td>Written Contracts.</td>
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### Statute/Rule  | Title
---|---
11 NCAC 20.0203 | Changes Requiring Approval.
11 NCAC 20.0204 | Carrier and Intermediary Contracts.
11 NCAC 20.0301 | Provider Availability Standards.
11 NCAC 20.0304 | Monitoring Activities.
11 NCAC 20.0403 | Written Credential Verification Plan.
11 NCAC 20.0404 | Application.
11 NCAC 20.0405 | Verification of Credentials.
11 NCAC 20.0406 | Provider Files.
11 NCAC 20.0407 | Reverification of Provider Credentials.
11 NCAC 20.0409 | Records and Examinations.
11 NCAC 20.0410 | Delegation of Credential Verification Activities.
11 NCAC 20.0601 | Applications for Modifications to Service Areas or Product Lines.
11 NCAC 20.0602 | Written Notice.

### CONCLUSION

An examination has been conducted on the market conduct affairs of United Healthcare of North Carolina, Inc. and United Healthcare Insurance Company for the period January 1, 2008 through December 31, 2009 with analyses of certain operations of the Company being conducted through January 31, 2011. The Company’s response to this report, if any, is available upon request.

This examination was conducted in accordance with the North Carolina Department of Insurance and the National Association of Insurance Commissioners.
Market Regulation Handbook procedures, including analyses of Company operations in the areas of policyholder treatment and underwriting.

In addition to the undersigned, Tanyelle Byrd, MBA, MHA and Scott Grindstaff, MHP, HIA, North Carolina Market Conduct Examiners, participated in this examination and in the preparation of this report.

Respectfully submitted,

Jill H. Dale, PAHM, HIA, MHP
Examiner-In-Charge
Market Regulation Division
State of North Carolina

I have reviewed this examination report and it meets the provisions for such reports prescribed by this Division and the North Carolina Department of Insurance.

Tracy M. Biehn, LPCS, MBA
Deputy Commissioner
Market Regulation Division
State of North Carolina