

**PROCEEDINGS BEFORE ALLAN L. McVEY  
INSURANCE COMMISSIONER  
OF THE STATE OF WEST VIRGINIA**

**IN RE: CARESOURCE OF WEST VIRGINIA, CO.**

**Administrative Proceeding No.: 18-AP-FINCON-02008**

**AGREED ORDER ADOPTING REPORT OF FINANCIAL  
EXAMINATION AND DIRECTING ACTION**

COMES NOW Allan L. McVey, Insurance Commissioner of the State of West Virginia, and issues this Order which adopts the Report of Financial Examination as of December 31, 2017, of CARESOURCE OF WEST VIRGINIA, CO. (hereinafter referred to as “Company”) based upon the following findings, to wit:

**JURISDICTION**

1. Allan L. McVey is the Insurance Commissioner of the State of West Virginia (hereinafter the “Insurance Commissioner”) and is charged with the duty of administering and enforcing the provisions of Chapter 33 of the West Virginia Code.

2. The Company was incorporated ON January 30, 2015 as a non-profit, non-stock health maintenance organization (“HMO”) in the State of West Virginia in accordance with W. Va. Code § 33-25A. The Company received a Certificate of Authority on April 10, 2015 and commenced operations effective January 1, 2016.

**FINDINGS OF FACT**

1. An examination of the financial condition and operational affairs of the Company for period beginning January 1, 2015, and ending December 31, 2017, was conducted in accordance with West Virginia Code §33-2-9(c) by the Insurance Commissioner.

2. On October 18, 2018, the examiner filed a Report of Financial Examination with the

Insurance Commissioner pursuant to W.Va. Code § 33-2-9(j)(2). A copy of the Report of Financial Examination is attached hereto as Exhibit A and incorporated herein as if set forth in full.

3. On or about October 26, 2018, a true and accurate copy of the Report of Financial Examination was forwarded to the Company via email and certified mail.

4. Pursuant to W.Va. Code § 33-2-9(j)(2), the Company was notified and afforded a period of thirty (30) days after receipt of the Report of Financial Examination within which to make a submission, rebuttal, or objection concerning any matter contained in the report.

5. By letter dated November 16, 2018, the Company indicated that it had reviewed the Report of Financial Examination and concurred with the findings set forth therein. A copy of the Company's letter is attached hereto as Exhibit B.

#### CONCLUSIONS OF LAW

1. W.Va. Code § 33-2-9(j)(2) provides that no later than sixty (60) days following completion of the examination, the examiner in charge shall file with the Insurance Commissioner a verified, written Report of Financial Examination under oath and, upon receipt of the verified report, the Insurance Commissioner shall transmit the Report of Financial Examination to the Company with a notice that shall afford the Company a reasonable opportunity of not more than thirty (30) days to make a written submission or rebuttal.

2. W.Va. Code § 33-2-9(j)(3) provides that within thirty (30) days of the end of the period allowed for the receipt of written submissions or rebuttals the Insurance Commissioner shall fully consider and review the Report of Financial Examination, together with any written submissions or rebuttals and shall enter an ORDER adopting the Report of Financial Examination as filed or with modifications or corrections, enter an ORDER rejecting the Report of Financial Examination with directions to the examiners to reopen the examination or call for an investigatory hearing.

## ORDER

Accordingly, it is therefore AGREED by the Parties and ORDERED as follows:

1. That the Report of Financial Examination of the Company, attached hereto as Exhibit A, is ADOPTED and APPROVED by the Insurance Commissioner.
2. That a copy of this Agreed Order Adopting Report of Financial Examination and Directing Action and the Report of Financial Examination shall be mailed to the Company, via certified mail, return receipt, upon entry by the Insurance Commissioner.
3. That the Company shall file with the Insurance Commissioner, within thirty (30) days of the issuance of this Agreed Order, affidavits executed by each of its directors stating under oath that they have received a copy of the Report of Financial Examination and a copy of this Agreed Order Adopting Report of Financial Examination and Directing Action in accordance with W.Va. Code § 33-2-9(j)(4).
4. That the Company take whatever actions are required to comply with the recommendations set forth in the Report of Financial Examination, if any, and shall demonstrate compliance to the satisfaction of the Insurance Commissioner, if necessary.
5. That the Company waives any right to any notice, administrative hearing or appeal therefrom for the actions taken by the Insurance Commissioner herein this Agreed Order Adopting Report of Financial Examination and Directing Action. The Company reserves its rights to notice, administrative hearing or appeal for any future enforcement actions taken by the Commissioner that might result from this Agreed Order, if any.
6. That this matter be dismissed from the administrative docket of the Insurance Commissioner.

Entered this 6<sup>th</sup> day of December, 2018.

  
Allan L. McVey  
Insurance Commissioner

THE PARTIES DO SO AGREE:

State of West Virginia, Offices of the Insurance Commissioner

By:   
Greg Elam  
Associate General Counsel

Date: 12/9/18

CareSource West Virginia Co.

BY: David W. Goltz  
[Print Name]

Signed: 

Its: Chief Financial Officer

Dated: 12/04/2018



STATE OF WEST VIRGINIA

Offices of the Insurance Commissioner

ALLAN L. McVEY  
Insurance Commissioner

**CERTIFIED MAIL: 7012 2920 0001 7714 2421**

October 26, 2018

Mr. Erhardt H. Preitauer, President  
CareSource West Virginia Co.  
230 N. Main St.  
Dayton, OH 45402

RE: Report of Financial Examination as of December 31, 2017  
NAIC: #15728

Dear Mr. Preitauer:

Please find enclosed a copy of the Report of Examination of CareSource West Virginia Co. This examination was performed in accordance with the provisions of Chapter 33, Article 2, Section 9 of the West Virginia Code of 1931, as amended. The Report reflects the financial affairs and condition of CareSource West Virginia Co., as of December 31, 2017.

You are hereby notified that you have thirty (30) days from receipt of this letter to make written submission or rebuttals with respect to any matter contained in the Report of Examination. If an exception is taken, it must be filed with this Department during the statutory time period. If no exception is taken, please respond accordingly by the end of the thirty (30) day comment period.

Sincerely,

Allan L. McVey  
CPCU, ARM, AAI, AAM, AIS  
Insurance Commissioner

ALM/jot

Enclosure: Copy of Report of Financial Examination



STATE OF WEST VIRGINIA  
OFFICES OF THE INSURANCE COMMISSIONER  
CHARLESTON, WEST VIRGINIA

EXAMINATION REPORT  
OF  
CARESOURCE WEST VIRGINIA CO.

DAYTON, OHIO

NAIC COMPANY CODE: 15728  
NAIC GROUP CODE: 3683

AS OF

DECEMBER 31, 2017



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October 18, 2018

The Honorable Allan L. McVey  
Insurance Commissioner  
State of West Virginia  
Offices of the Insurance Commissioner  
900 Pennsylvania Avenue  
Charleston, West Virginia 25302

Dear Commissioner:

Pursuant to your instructions and the statutory requirements of the State of West Virginia, a comprehensive examination has been made of the affairs and financial condition of:

**CareSource West Virginia Co.**

at the Company's administrative office located at 230 North Main Street, Dayton, Ohio 45402. The following examination report is respectfully submitted.



## SCOPE OF EXAMINATION

We have performed our examination of CareSource West Virginia Co. ("CSWV" or the "Company"). The examination of CSWV was performed as part of a multi-state, full-scope, coordinated examination of CareSource Management Group Co. ("CSMG" or the "Group") as of December 31, 2017, with the State of Ohio serving as the lead state.

The Group is composed, additionally, of the following legal entities: CareSource, CareSource Georgia Co., CareSource Indiana Inc., and CareSource Reinsurance LLC. Concurrent and coordinated financial examinations were conducted for each of the legal entities by the Lead State of Ohio in coordination with the Participating States of Georgia, Indiana, Montana and West Virginia.

To the fullest extent, the efforts, resources, project material and findings were coordinated and made available to all examination participants.

The examination was conducted by representatives of Risk & Regulatory Consulting, LLC on behalf of the West Virginia Offices of the Insurance Commissioner (the "Office") under the authority delegated to them by the Commissioner. The last examination of the Company was completed as of March 27, 2015, by the Office, and was conducted to determine compliance with W. Va. Code §33-25A-1 et seq., for the granting of a Certificate of Authority by the Office. This full-scope examination covers the period of January 1, 2015, through December 31, 2017, including any material transactions and/or events occurring subsequent to the examination date.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook* (the "Handbook") as adopted by the National Association of Insurance Commissioners ("NAIC"), along with specific procedures defined by the Office. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in W. Va. Code §33-2-9 and general information about the insurer and its financial condition. This report of examination is limited to the statutory financial statements of the Company and comments on matters that involve departures from laws, regulations or rules, or which are deemed to require special

explanation or description. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but are separately communicated to other regulators and/or the Company.

For each year during the period under examination, the Certified Public Accounting ("CPA") firm of Ernst & Young LLP of Cincinnati, Ohio, provided an unqualified audit opinion on the Company's year-end financial statements based on statutory accounting principles. Relevant work performed by the CPA firm, during its annual audit of the Company, was reviewed during the examination and incorporated into the examination workpapers.

#### **SUMMARY OF SIGNIFICANT FINDINGS**

No exam findings were noted as a result of the current examination period and review of the subsequent events.

## COMPANY HISTORY

The Company was incorporated on January 30, 2015 as a non-profit, non-stock health maintenance organization ("HMO") in the State of West Virginia in accordance with W. Va. Code §33-25A. CSWV received a Certificate of Authority on April 10, 2015 and commenced operations effective January 1, 2016.

## MANAGEMENT AND CONTROL

### Board of Directors

According to the Company's restated bylaws, the total number of Directors on the Board of Directors shall be up to five (5), and the Directors, acting by majority vote of their number in office at the time, may increase or decrease the number of Directors held for such purpose, except that the number of Directors shall never be less than three (3). The Directors are elected by the CSMG, sole member, Board of Trustees at its annual meeting or such other meeting, as it so determines. Each Director shall hold office for a term of three (3) years, serving no more than three (3) consecutive terms, with the exception of the CSMG Chief Executive Officer.

As of December 31, 2017, the following individuals were serving as Directors:

<u>Name/Address</u>	<u>Principal Occupation</u>
Ellen S. Leffak Dayton, Ohio	Director of Insurance & Risk Management, Retired Dayton Power & Light Co.
J. Thomas Maultsby Dayton, Ohio	President and Chief Executive Officer United Way of Greater Dayton
Pamela B. Morris Dayton, Ohio	President and Chief Executive Officer CareSource Management Group Co.

### Officers

Pursuant to the Company's restated bylaws, the officers of the Board of this Corporation shall be a Chairperson, a Vice Chairperson, a Secretary/Treasurer, and such other officers as the Directors may deem necessary. Based upon the recommendation of the Nominating and Governance Committee, the officers shall be elected by a majority of the whole number of Directors in office.

The following officers were appointed by the Board of Directors and were serving as of December 31, 2017:

<b>Name</b>	<b>Title</b>
Pamela B. Morris	President and Chief Executive Officer
L. Tarlton Thomas III	Chief Operating Officer
David W. Goltz	Chief Financial Officer
Daniel J. McCabe	Chief Administrative Officer

**Committees**

The Company's restated bylaws established five Committees – an Audit, Risk and Compliance Committee, Executive Compensation Committee, Finance Committee, Nominating and Governance Committee, and Quality Committee. The Committees operate at the CSMG Board level, and on behalf of CSMG's subsidiaries, including the Company.

As of December 31, 2017, members serving on the Committees of the CSMG Board were as follows:

**Audit, Risk and Compliance Committee**

Ellen S. Leffak  
 Craig J. Brown  
 Kevin R. Brown  
 William F. Marsteller, D.C.  
 Terence G. Rapoch

**Nominating and Governance Committee**

Kevin R. Brown  
 Michael E. Ervin, M.D.  
 Ellen S. Leffak  
 J. Thomas Maultsby  
 Terence G. Rapoch

**Executive Compensation Committee**

Ellen S. Leffak  
 Kevin R. Brown  
 Douglas A. Fecher  
 Patricia A. Martin  
 J. Thomas Maultsby

**Quality Committee**

Douglas A. Fecher  
 Michael E. Ervin, M.D.  
 David C. Kaelber, M.D.  
 Ellen S. Leffak  
 Pamela B. Morris

**Finance Committee**

Craig J. Brown  
 William F. Marsteller, D.C.  
 David T. Miller  
 John P. Monahan  
 Pamela B. Morris

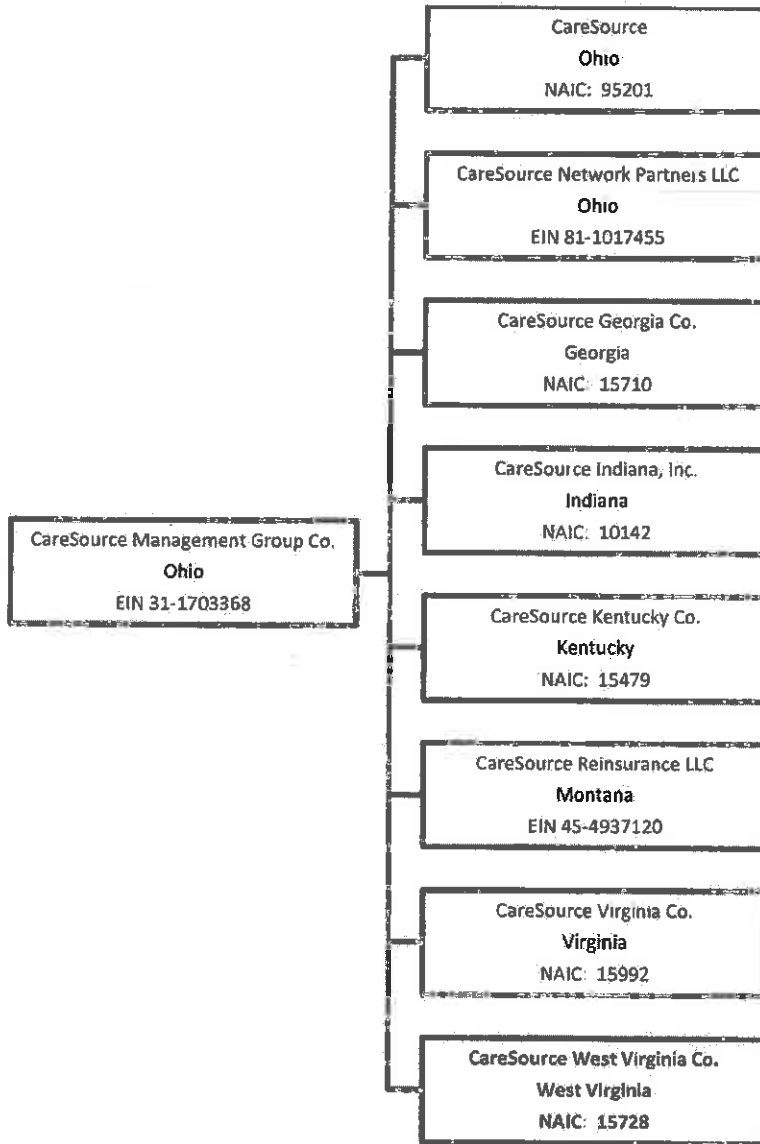
**Conflict of Interest Procedures**

The Company maintains a formal written Confidentiality and Conflicts of Interest Policy and Procedures that apply to all employees, officers, and Board and Committee members. On an annual basis, all members are required to complete annual training on confidentiality and conflicts of interest, and a conflict of interest disclosure statement. A review of the Company's annual

disclosure statements for officers and Directors was performed, with no concerns or issues identified.

Organizational Chart

The following is an abbreviated organizational chart as of December 31, 2017:



Affiliated Agreements

The following summarizes the major affiliated agreements as of December 31, 2017:

**Management Services Agreement** – The Company is party to a Management Services Agreement with CSMG whereby CSMG provides general administrative services to the Company including,

but not limited to, regulatory activity, financial management and reporting, medical management, care management, quality improvement, provider contracting, credentialing and provider servicing, claims administration, enrollment and reconciliation, member and provider call center, member services, IT infrastructure, health data analysis, marketing and communications, pharmacy benefit manager coordination, delegated vendor contracting and management, human resources management and payroll services, and facility administration and program integrity. In exchange for services, the Company pays CSMG a fee of 10 percent of all premium or capitation collected.

**Network Access Agreement** – The Company is a party to a Network Access agreement with CareSource Network Partners LLC (“CSNP”) whereby CSNP makes the CareSource network and its providers available to the Company and its covered members. CSNP enters into contracts with providers who wish to participate in the CareSource provider networks, and the Company is able to access all network providers contracted by CSNP. Services covered under this agreement are provided by CSNP to the Company at no cost. All costs associated with the agreement are billed to the Company through its Management Services Agreement with CSMG.

### TERRITORY AND PLAN OF OPERATION

The Company was approved as a Qualified Health Plan in the State of West Virginia on October 1, 2015. Effective January 1, 2016, the Company began offering CareSource Marketplace coverage to qualified individuals on West Virginia’s Federally Facilitated Marketplace in 10 counties. The Company was approved to expand its service area to an additional 23 counties for plan year 2017. The Company is also eligible to offer Medicaid coverage through its contract with the West Virginia Department of Health and Human Services. However, during the examination period, the Company did not offer any Medicaid products.

The following depicts the Company’s lines of business by percentage of total net premium income for the last year under examination.

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Premium Income	Percentage of Total
<b>December 31, 2017</b>				
Comprehensive (hospital and medical)	\$ 32,203,306	\$ 889,374	\$ 31,313,932	100.0%
Total	<u>\$ 32,203,306</u>	<u>\$ 889,374</u>	<u>\$ 31,313,932</u>	<u>100.0%</u>

### REINSURANCE

Assumed Reinsurance

At December 31, 2017, the Company did not assume any reinsurance.

### Ceded Reinsurance

At December 31, 2017, the Company was party to the following ceded reinsurance agreement:

#### **PartnerRe America Insurance Company**

The Company cedes a portion of its liability on high dollar claims per covered person, in excess of \$250,000, to PartnerRe America Insurance Company ("PartnerRe") through a specific excess loss reinsurance agreement, up to a maximum payable per covered person of \$2,500,000. The Company pays premiums to PartnerRe in an amount of \$13.50 per covered person per month. The Company is reimbursed by PartnerRe for liabilities in an amount equal to covered expenses less the specific deductible, multiplied by a reimbursement percentage of 85 percent. PartnerRe cedes a portion of its risk to the Company's affiliate, CareSource Reinsurance LLC.

### **FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Company with the Office and present the financial condition of the company for the period ending December 31, 2017. There were no adjustments to the amounts reported in the annual statement.

**CareSource West Virginia Co.**  
**Assets**  
**As of December 31, 2017**

	<u>Per Annual Statement</u>	<u>Statutory Examination Adjustments</u>	<u>Per Statutory Examination</u>
Cash	\$ 22,774,616	\$ -	\$ 22,774,616
Subtotals, cash and invested assets	\$ 22,774,616	\$ -	\$ 22,774,616
Uncollected premiums and agents' balances in the course of collection	154,608	-	\$ 154,608
Amounts recoverable from reinsurers	60,423	-	60,423
Health care and other amounts receivable	648,153	-	648,153
<b>Total assets</b>	<u>\$ 23,637,800</u>	<u>\$ -</u>	<u>\$ 23,637,800</u>



**CareSource West Virginia Co.  
Liabilities, Capital and Surplus  
As of December 31, 2017**

	<b>Per Annual Statement</b>	<b>Statutory Examination Adjustments</b>	<b>Per Statutory Examination</b>
Claims unpaid less reinsurance ceded	\$ 4,978,932	\$ -	\$ 4,978,932
Unpaid claims adjustment expenses	171,635	-	171,635
Aggregate health policy reserves	8,072,917	-	8,072,917
Premiums received in advance	1,206,174	-	1,206,174
General expenses due or accrued	77,598	-	77,598
Amounts due to parent, subsidiaries and affiliates	144,821	-	144,821
<b>Total liabilities</b>	<b>\$ 14,652,077</b>	<b>\$ -</b>	<b>\$ 14,652,077</b>
Aggregate write-ins for special surplus funds	133,337	-	133,337
Gross paid in and contributed surplus	9,500,000	-	9,500,000
Unassigned funds (surplus)	(647,614)	-	(647,614)
<b>Total capital and surplus</b>	<b>\$ 8,985,723</b>	<b>\$ -</b>	<b>\$ 8,985,723</b>
<b>Total liabilities, capital and surplus</b>	<b>\$ 23,637,800</b>	<b>\$ -</b>	<b>\$ 23,637,800</b>

**CareSource West Virginia Co.**  
**Statement of Revenue and Expenses**  
**As of December 31, 2017**

	<u>Per Annual Statement</u>	<u>Statutory Examination Adjustments</u>	<u>Per Statutory Examination</u>
Member Months	64,287		64,287
Net premium income	\$ 31,313,932	\$ -	\$ 31,313,932
Total revenues	<u>\$ 31,313,932</u>	<u>\$ -</u>	<u>\$ 31,313,932</u>
<b>Hospital and Medical:</b>			
Hospital/medical benefits	\$ 20,204,526	\$ -	\$ 20,204,526
Emergency room and out-of-area	2,072,321	-	2,072,321
Prescription drugs	4,833,148	-	4,833,148
Subtotal	<u>\$ 27,109,995</u>	<u>\$ -</u>	<u>\$ 27,109,995</u>
<b>Less:</b>			
Net reinsurance recoveries	1,239,963	-	1,239,963
Total hospital and medical	<u>\$ 25,870,032</u>	<u>\$ -</u>	<u>\$ 25,870,032</u>
Claims adjustment expenses, including cost containment expenses	555,312	-	555,312
General administrative expenses	4,476,607	-	4,476,607
Total underwriting deductions	<u>\$ 30,901,952</u>	<u>\$ -</u>	<u>\$ 30,901,952</u>
Net underwriting gain or (loss)	\$ 411,980	\$ -	\$ 411,980
Net investment income earned	38,829	-	38,829
Net investment gains (losses)	<u>\$ 38,829</u>	<u>\$ -</u>	<u>\$ 38,829</u>
Net income or (loss) after capital gains tax and before all other federal income taxes	<u>\$ 450,809</u>	<u>\$ -</u>	<u>\$ 450,809</u>
<b>Net income (loss)</b>	<u><u>\$ 450,809</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 450,809</u></u>

**CareSource West Virginia Co.  
Capital and Surplus Account  
As of December 31, 2017, 2016 and 2015**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Capital and surplus prior reporting year	\$ 3,593,474	\$ 4,156,553	\$ -
Net income or (loss)	450,809	(483,584)	(343,393)
Change in nonadmitted assets	(58,557)	(79,494)	(54)
Surplus adjustments:			
Paid in	5,000,000	-	4,500,000
Net change in capital and surplus	<u>\$ 5,392,251</u>	<u>\$ (563,079)</u>	<u>\$ 4,156,553</u>
Capital and surplus end of reporting year	<u>\$ 8,985,723</u>	<u>\$ 3,593,474</u>	<u>\$ 4,156,553</u>

**CareSource West Virginia Co.**  
**Comparative Analysis of Changes in Surplus**

The following is a reconciliation of surplus between the amount reported by the Company and as determined by examination:

	<u>Per Annual Statement</u>	<u>Per Statutory Examination</u>	<u>Change in Surplus</u>
Capital and surplus at December 31, 2017			<u>\$ 8,985,723</u>
<b>Assets:</b>			
Total admitted assets	\$ 23,637,800	\$ 23,637,800	\$ -
<b>Liabilities:</b>			
Total liabilities	\$ 14,652,077	\$ 14,652,077	<u>\$ -</u>
Capital and surplus at December 31, 2017, per Examination			<u>\$ 8,985,723</u>

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### Reserves

Darrell D. Knapp, FSA, MAAA, a Director with the firm Ernst & Young LLP, the actuary appointed by the Company to provide a Statement of Actuarial Opinion as of December 31, 2017, provided an unqualified opinion that the reserves met the requirements of the insurance laws of West Virginia, were computed in accordance with accepted actuarial standards and principles, and made reasonable provision for all contract obligations of the Company.

### Capital and Surplus

The Company received capital contributions from CSMG of \$5,000,000 and \$4,500,000 in 2017 and 2015, respectively, in order to aid the Company in maintaining appropriate risk-based capital level and meeting its minimum capital and surplus requirements.

## SUMMARY OF FINDINGS, COMMENTS AND RECOMMENDATIONS

As a result of the financial examination, no report findings or recommendations were made.

### Compliance with Previous Directives

No report findings were issued in the organizational examination.

## SUBSEQUENT EVENTS

**Change in Management** – On May 1, 2018, Erhardt Preitauer replaced Pamela Morris as President and Chief Executive Officer of CSMG and its subsidiaries, following her retirement.

## CONCLUSION

In addition to the undersigned, other representatives of Risk & Regulatory Consulting, LLC, all appointed to represent the State of West Virginia, participated in this examination.

Respectfully submitted,



Andy Jennings, CFE  
Examiner-in-Charge  
Risk & Regulatory Consulting, I.J.C  
Representing the State of West Virginia,  
Offices of the Insurance Commissioner



Jamie Taylor, CFE, APIR  
Chief Examiner  
Financial Conditions Division  
West Virginia Offices of the Insurance Commissioner



November 16, 2018

West Virginia Offices of Insurance Commissioner  
PO Box 50540  
Charleston, WV 25305-0540  
Attn: Allan L. McVey, Insurance Commissioner

RE: West Virginia Report of Examination as of December 31, 2017

Dear Mr. McVey:

CareSource management has reviewed the draft examination report from the West Virginia State Auditor's Office and did not identify any exceptions or concerns.

Thank you,

David W. Goltz  
Chief Financial Officer

