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DEPT OF INSURANCE  
BY 

STATE OF ARIZONA

ARIZONA DEPARTMENT OF INSURANCE

In the Matter of:

**HEALTH NET OF ARIZONA, INC.**  
NAIC #95206

Respondent.

) Docket No. 11A-041-INS  
)  
)

) **CONSENT ORDER**  
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)

On October 14, 2008 the Arizona Department of Insurance ("Department") called a timely claim payment and adjustment practices examination ("Examination") of Health Net of Arizona, Inc., ("HNA" or "Company") covering the time period January 1, 2007 through December 31, 2008 ("Examination Period"). The Examination Period was divided into four six-month periods ("Partial Examination Periods" or "PEPs") as follows:

- PEP 1: January 1, 2007 – June 30, 2007
- PEP 2: July 1, 2007 – December 31, 2007
- PEP 3: January 1, 2008 – June 30, 2008
- PEP 4: July 1, 2008 – December 31, 2008

The Report of the Timely Claim Payment and Adjustment Practices Examination of Health Net of Arizona, Inc., dated August 2, 2010 ("Report"), which is included herein by reference, alleges that HNA violated Arizona Revised Statutes (A.R.S.) §20-3102, A.R.S. §20-2803, A.R.S. §20-142, A.R.S. §20-1057.03, A.R.S. §20-20-1051(5), A.R.S. §36-2239(D) and Arizona Administrative Code (A.A.C.) R20-6-1904(D)(1). The Company wishes to resolve this matter without formal proceedings. Health Net of Arizona, Inc. admits the following Findings of Fact are true and consents to the entry

1 of the following Conclusions of Law solely for the purpose of resolving the allegations  
2 contained in the Report, and consents to the entry of the following Order.  
3

4 **FINDINGS OF FACT**

5 I. Jurisdiction.

6 Health Net of Arizona, Inc. is, and throughout the Examination Period was,  
7 authorized to operate as a health care services organization insurer pursuant to  
8 a Certificate of Authority issued by the Arizona Insurance Director ("Director").

9 II. Timely Payment of Claims.

- 10 A. During the Examination Period, in 1,362 out of 4,664 (29% of) clean claims  
11 HNA paid late, HNA failed to pay interest or paid too little interest.
- 12 B. During the Examination Period, in 3,725 out of 10,326 (36% of) unclean  
13 claims, HNA failed to request additional information before denying claims.
- 14 C. During the Examination Period, in 240 out of a sample of 547 (44% of)  
15 unclean claims, HNA failed to identify by date, one or more of the five (5)  
16 required points in the processing of an unclean claim.
- 17 D. During the Examination Period, in 3,997 out of 30,772 (13% of) clean  
18 claims, HNA delayed the payment without reasonable justification by  
19 either inaccurately denying clean claims or paying clean claims in an  
20 inaccurate amount.
- 21 E. During the Examination Period, in 390 out of 2,705 (14% of) non-  
22 contracted ambulance provider clean claims, HNA failed to pay the  
23 amount required by law.  
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1 III. Pending Unclean Claims; Failure to Comply With An Order Of The Director.

2 During the Examination Period, HNA failed to comply with CAP 1 of the 2003  
3 Consent Order when it denied rather than pend 3,725 out of 10,326 (36% of)  
4 unclean claims. See Findings of Fact II(B) above. Since entering into the 2003  
5 Consent Order on July 14, 2003, HNA continuously has failed to comply with  
6 the Order.

7 IV. Emergency Services.

8 A. During PEPs 1, 2 and 4, in 138 out of 2,136 (6% of) claims, HNA denied  
9 payment for initial medical screening and immediately necessary stabilizing  
10 treatment based upon lack of prior authorization. In the claims the  
11 Department reviewed for PEP 3, the Department did not find a significant  
12 number of claims with this violation.

13 B. During PEPs 1, 2 and 3, in 244 out of 1,976 (12% of) claims, HNA denied  
14 payment for emergency ambulance services based upon lack of prior  
15 authorization. In the claims the Department reviewed for PEP 4, the  
16 Department did not find a significant number of claims with this violation.

17 C. During the Examination Period, in 416 out of 3,246 (13% of) claims for  
18 specialty care emergency services for treatment of an immediately life  
19 threatening medical condition, HNA denied payment based upon lack of  
20 prior authorization.

21 V. Health Care Services Organization Requirements; Basic Health Services;  
22 Chiropractic Care; Emergency Care.

23 A. During PEPs 2 and 4, in 254 out of 4,475 (6% of) self-referred visits, HNA  
24 denied payment for self-referral visits for medically necessary chiropractic  
25 services from a network chiropractic provider within the member's first 12

1 visits in an annual contract period. In the self-referred visits reviewed for  
2 PEPs 1 and 3, the Department did not find a significant number self-referred  
3 visits with this violation.

4 B. During PEP 1, HNA failed in 155 out of 1,887 (8% of) claims to adequately  
5 assure that if a member obtained covered emergency care from a non-  
6 network provider, the member was not liable for any cost that should be  
7 borne by HNA. In the claims reviewed for PEPs 2, 3 and 4, the Department  
8 did not find a significant number of claims with this violation.  
9

#### 10 CONCLUSIONS OF LAW

##### 11 I. Jurisdiction.

12 The Director has the authority to enter and enforce this Order. A.R.S. §20-142.

##### 13 II. Timely Payment Of Claims.

14 A. During the Examination Period, Health Net of Arizona, Inc. violated A.R.S.  
15 §20-3102(A) when the Company paid clean claims late, HNA failed to pay  
16 interest or paid too little interest.

17 B. During the Examination Period, Health Net of Arizona, Inc. violated A.R.S.  
18 §20-3102(B) by failing to request additional information before denying  
19 unclean claims.

20 C. During the Examination Period, Health Net of Arizona, Inc. violated A.R.S.  
21 §20-3102(B) by failing to identify by date, one or more of the five (5)  
22 required points in the processing of an unclean claim as set forth in  
23 Arizona Department of Insurance Regulatory Bulletin 2006-02.  
24  
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1 D. During the Examination Period, Health Net of Arizona, Inc. violated A.R.S.  
2 §20-3102(C) by delaying the payment of clean claims without reasonable  
3 justification by either inaccurately denying clean claims or paying clean  
4 claims in an inaccurate amount.

5 E. During the Examination Period, Health Net of Arizona, Inc. violated A.R.S.  
6 §36-2239(D) by failing to pay non-contracted ambulance provider clean  
7 claims the amount required by law.

8 III. Pending Unclean Claims; Failure To Comply With An Order Of The Director.

9 During the Examination Period, Health Net of Arizona, Inc. violated A.R.S. §20-  
10 142(A)(B) by failing to comply with CAP 1 of the 2003 Consent Order when it  
11 denied rather than pend unclean claims. See Conclusions of Law II(B) above.  
12 Since entering into the 2003 Consent Order on July 14, 2003, HNA  
13 continuously has violated A.R.S. §20-142(A)(B).

14 IV. Emergency Services.

15 A. During PEPs 1, 2 and 4, Health Net of Arizona, Inc. violated A.R.S. §20-  
16 2803(A) by denying payment for initial medical screening and immediately  
17 necessary stabilizing treatment based upon lack of prior authorization.

18 B. During PEPs 1, 2 and 3, Health Net of Arizona, Inc. violated A.R.S. §20-  
19 2803(B) by denying payment on emergency ambulance services based  
20 upon lack of prior authorization.

21 C. During the Examination Period, Health Net of Arizona, Inc. violated A.R.S.  
22 §20-2803(I) by denying payment for specialty care emergency services for  
23 treatment of an immediately life threatening medical condition based upon  
24 lack of prior authorization.

1 V. Health Care Services Organization requirements; Basic Health Services;  
2 Chiropractic Care; Emergency Care.

- 3 A. During PEPs 2 and 4, Health Net of Arizona, Inc. violated A.R.S. §20-  
4 1057.03 by failing to allow a member to self-referral for the first 12 visits in  
5 an annual contract period for medically necessary chiropractic services  
6 from a network chiropractic provider.
- 7 B. During PEP 1, Health Net of Arizona, Inc. violated A.R.S. §20-1051(5) and  
8 A.C.C. R20-6-1904(D)(1) by failing to adequately assure that if a member  
9 obtained covered emergency care from a non-network provider, the  
10 member was not liable for any cost that should be borne by the Company.  
11

12 **ORDER**

13 **IT IS HEREBY ORDERED THAT:**

- 14 1. Timely Payment of Claims. Within 90 days of the filed date of this Order, Health  
15 Net of Arizona, Inc. shall submit to the Arizona Department of Insurance for the  
16 Director's approval a Corrective Action Plan (CAP 1) regarding the Company's  
17 timely payment of claim violations set forth in this Consent Order. CAP 1 shall  
18 provide specific steps that Health Net of Arizona, Inc. has taken or will take by  
19 certain dates to assure that by a specified implementation date, the Company is:
- 20 a. Paying the correct amount of interest on a clean claim that is paid late.
  - 21 b. Identifying by date, at least one or more of the five (5) required points in the  
22 processing of an unclean claim.
  - 23 c. Not delaying the payment of clean claims without reasonable justification by  
24 either inaccurately denying clean claims or paying clean claims in an  
25 inaccurate amount.

1 d. Not delaying the payment of clean claims for emergency services without  
2 reasonable justification when it failed to pay non-contracted ambulance  
3 providers the amount required by law.

4 2. Pending Unclean Claims; Failure To Comply With An Order Of The Director.

5 Within 90 days of the filed date of this Order, Health Net of Arizona, Inc. shall  
6 submit to the Arizona Department of Insurance for the Director's approval a  
7 Corrective Action Plan (CAP 2) regarding the Company requesting additional  
8 information before denying an unclean claim and thereby complying with the 2003  
9 Consent Order. CAP 2 shall provide specific steps HNA has taken or will take by  
10 certain dates to assure that by a specific implementation date, the Company is  
11 pending rather than denying unclean claims.

12 3. Emergency Room Services. Within 90 days of the filed date of this Order, Health  
13 Net of Arizona, Inc. shall submit to the Arizona Department of Insurance for the  
14 Director's approval a Corrective Action Plan (CAP 3) regarding the Company's  
15 violations set forth in this Consent Order for emergency services. CAP 3 shall  
16 provide specific steps Health Net of Arizona, Inc. has taken or will take by certain  
17 dates to assure that by a specified implementation date, the Company is:

- 18 a. Not denying payment for initial medical screening and immediately  
19 necessary stabilizing treatment based upon lack of prior authorization.  
20 b. Not denying payment for emergency ambulance services based upon  
21 lack of prior authorization.  
22 c. Not denying payment for specialty care emergency services for  
23 treatment of an immediately life threatening medical condition based  
24 upon lack of prior authorization.  
25

1 4. Health Care Services Organization Requirements; Basic Health Services;  
2 Chiropractic Care; Emergency Care. Within 90 days of the filed date of this Order,  
3 Health Net of Arizona, Inc. shall submit to the Arizona Department of Insurance for  
4 the Director's approval a Corrective Action Plan (CAP 4) regarding the Company's  
5 basic health services, chiropractic care and emergency care violations set forth in  
6 this Consent Order. CAP 4 shall provide specific steps Health Net of Arizona, Inc.  
7 has taken or will take by certain dates to assure that by a specified implementation  
8 date, the Company is:

- 9 a. Allowing a member to self-referral for the first 12 visits in an annual contract  
10 period for medically necessary chiropractic services from a network  
11 chiropractic provider.
- 12 b. Adequately assuring that if a member obtained covered emergency care  
13 from a non-network provider, the member is not liable for any cost that  
14 should be borne by the Company.

15 5. Progress in Development of CAPs 1, 3 and 4. Until the Director approves CAP 1,  
16 3 and 4, Health Net of Arizona, Inc. shall report to the Director each month about  
17 its progress in developing each of these CAPs. Each such monthly report shall  
18 include a current draft of the CAP. The first monthly CAP development reports for  
19 CAPs 1, 3 and 4 are due to the Director thirty (30) days from the date of this Order.

20 6. Corrective Action Plan Requirements for CAPs 1, 3 and 4. CAPs 1, 3 and 4 shall:  
21 a. Specify any items of CAP 1, CAP 3 or CAP 4 that the Director has either  
22 approved as ready for implementation and for each CAP provide;  
23 i. documentation of the implementation or progress toward  
24 implementation, as applicable,  
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- ii. a plan for post implementation Quality Improvement review and follow-up, and
- iii. the name and contact information for one individual responsible and accountable for ongoing implementation of each CAP or any item of the CAP.

b. Specify any items of CAP 1, CAP 3 or CAP 4 that the Director has not approved as ready for implementation and for each one include:

- i. enough detail to allow the Director to determine whether the CAP will accomplish its purpose,
- ii. testing before final implementation of the CAP or any item of the CAP,
- iii. post implementation Quality Improvement review and follow-up, and
- iv. the name and contact information for one individual responsible and accountable for ongoing implementation of each CAP or any item of the CAP.

c. Provide for Health Net of Arizona, Inc. to report to the Director each month starting thirty days from the date the Director approves the CAP regarding development and implementation of each approved CAP or any item of the CAP, in a form that includes documentation and is approved by the Director. If the CAP or any item of the CAP has been implemented, provide documentation that demonstrates the results of the changes. If the CAP or any item of the CAP is in the process of implementation, provide documentation that demonstrates the progress that has been made toward implementation.

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d. Provide that within ten business days of receiving notice that the Director has approved a CAP or any item of the CAP, Health Net of Arizona, Inc. shall submit to the Director evidence that the Company has communicated the CAP or any item of the CAP to the appropriate personnel and begun implementation. Evidence of communication and implementation includes, without limitation, memorandums, bulletins, e-mails, correspondence, procedure manuals, print screens and training materials.

7. Progress in Development and Corrective Action Plan Requirements for CAP 2.

- a. Until the Director approves CAP 2, HNA shall report to the Director on the first day and the fifteenth day of each month about its progress in developing CAP 2. Each such semi-monthly report shall include a current draft of the CAP. The first semi-monthly development report for CAP 2 is due to the Director fifteen (15) days from the date of this Order.
- b. To be approved by the Director, CAP 2 must include:
- i. enough detail to allow the Director to determine whether the CAP will accomplish its purpose,
  - ii. testing before final implementation of the CAP or any item of the CAP,
  - iii. post implementation Quality Improvement review and follow-up, and
  - iv. the name and contact information for one individual responsible and accountable for ongoing implementation of CAP 2.
- c. CAP 2 shall provide for HNA to report to the Director regarding implementation of CAP 2 on the first and fifteenth day of each month starting on the first day of the first month after the date the Director

1 approves CAP 2. The semi-monthly implementation reports shall be in a  
2 form that includes documentation and approved by the Director.

3 d. CAP 2 shall provide that within ten business days of receiving notice that  
4 the Director has approved a CAP or any item of the CAP, HNA shall submit  
5 to the Director evidence that the Company has communicated the CAP or  
6 any item of the CAP to the appropriate personnel and begun  
7 implementation. Evidence of communication and implementation includes,  
8 without limitation, memorandums, bulletins, e-mails, correspondence,  
9 procedure manuals, print screens and training materials.

10 8. Civil Penalty. Health Net of Arizona, Inc. shall pay a civil penalty of \$287,000.00 to  
11 the Director for deposit in the State General Fund for violations cited above as  
12 Conclusion of Law. Health Net of Arizona, Inc. shall remit this civil penalty to the  
13 Life & Health Division of the Department prior to the Department filing of this Order.

14 9. Report Filed. The Department will file the Report of the Timely Claim Payment and  
15 Adjustment Practices Examination of Health Net of Arizona, Inc. upon the filing of  
16 this order.

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19 DATED at Phoenix, Arizona this 4<sup>th</sup> day of May, 2011.

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22 Christina Urias  
23 Director of Insurance  
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**CONSENT TO ORDER**


1. Health Net of Arizona, Inc. has reviewed the foregoing Order and carefully considered it in conjunction with its other business and regulatory requirements. HNA believes that it is able and prepared to comply fully with the Order, notwithstanding any of its other business and regulatory requirements.
2. Health Net of Arizona, Inc. admits the jurisdiction of the Director of Insurance, State of Arizona, admits the Findings of Fact and consents to the entry of the Conclusions of Law solely for the purposes of resolving the allegations contained in the Report and consents to entry of the Order.
3. Health Net of Arizona, Inc., acknowledges that since entering into the 2003 Consent Order on July 14, 2003, HNA continuously has failed to comply with that Order with regard to pending rather than denying unclean claims, as required by A.R.S. Arizona law. Health Net of Arizona, Inc., further acknowledges that on or after the date of this Order, the Department may construe (a) any failure to comply with the 2003 Consent Order, or (b) any failure to pend rather than deny unclean claims to be an intentional violation of applicable Arizona law.
4. Health Net of Arizona, Inc. is aware of the right to a hearing, at which it may be represented by counsel, present evidence and cross-examine witnesses. Health Net of Arizona, Inc. irrevocably waives the right to such notice and hearing and to any court appeals related to this Order.
5. Health Net of Arizona, Inc. states that no promise of any kind or nature whatsoever was made to it to induce it to enter into this Consent Order, and that it has entered into this Consent Order voluntarily.

- 1 6. Health Net of Arizona, Inc. acknowledges that the acceptance of this Order by the  
2 Director of the Arizona Department of Insurance is solely for the purpose of settling  
3 this matter. This Order does not preclude any other agency or officer of this state  
4 or its subdivisions or any other person from instituting proceedings, whether civil,  
5 criminal, or administrative, as may be appropriate now or in the future and does not  
6 preclude the Department from instituting proceedings as may be appropriate on  
7 other matters now or in the future.
- 8 7. Bret Morris, who holds the office of President of Health Net of Arizona, Inc. is  
9 authorized to enter into this Order for Health Net of Arizona, Inc. and on its behalf.

10  
11  
12 **HEALTH NET OF ARIZONA, INC.**

13 5/2/11

14 \_\_\_\_\_  
Date

13 By   
14 \_\_\_\_\_  
15 Bret Morris  
16 President  
17 Health Net of Arizona, Inc.  
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1 COPY of the foregoing mailed/delivered  
2 this 6th day of May, 2011, to:

3 Gerrie Marks  
4 Deputy Director  
5 Mary Butterfield  
6 Assistant Director  
7 Consumer Affairs Division  
8 Helene I. Tomme  
9 Market Oversight Division  
10 Dean Ehler  
11 Assistant Director  
12 Property & Casualty Division  
13 Steve Ferguson  
14 Assistant Director  
15 Financial Affairs Division  
16 David Lee  
17 Chief Financial Examiner  
18 Financial Affairs Division  
19 Alexandra M. Shafer  
20 Assistant Director  
21 Life and Health Division  
22 Chuck Gregory  
23 Special Agent Supervisor

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22 Tempe, Arizona 85281 - 1245

21 *Curvey Buxton*  
22