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FILED

MAR 17 2016 *KG*

Department of Insurance
State of Idaho

**BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE
STATE OF IDAHO**

In the Matter of:

VERDE SERVICES, INC.,
Third Party Administrator Designated Home
State License No. 449017,

Respondent.

Docket No. 18-3095-15

**STIPULATION AND FINAL
ORDER RESOLVING
VIOLATIONS OF IDAHO
INSURANCE CODE**

The parties herein, namely the Idaho Department of Insurance ("**Department**"), and VERDE SERVICES, INC., Third Party Administrator Designated Home State License No. 449017, do hereby agree and stipulate to the following facts and conclusions of law:

1. That the Director of the Idaho Department of Insurance has jurisdiction over this matter pursuant to title 41, Idaho Code.
2. That VERDE SERVICES, INC. ("**RESPONDENT**"), was granted Third Party Administrator ("**TPA**") License No. 449017 effective March 5, 2007, designated as a home state license, pursuant to the previous version of title 41, chapter 9, Idaho Code, which chapter was

replaced in its entirety in 2010 by the current version of title 41, chapter 9, Idaho Code. RESPONDENT's TPA License No. 449017 is scheduled to expire as of January 1, 2017.

3. That pursuant to Idaho Code § 41-914(1)(a), all licensed TPAs are required to file an annual report for the preceding calendar year with the Department "on or before July 1 of each year, or within such extension of time as the director for good cause may grant." The annual reports must be audited and attested to by an independent certified public accountant.

4. That pursuant to Idaho Code § 41-914(1)(b), the Director of the Department may, for good cause, grant a TPA a hardship exemption which allows the TPA to submit unaudited financial reports accompanied by the posting of a surety bond. The surety bond is posted with the Department in an amount equal to ten percent (10%) of the funds handled by the TPA or twenty thousand dollars (\$20,000), whichever is greater. The bond is held by the Director in trust for the benefit and protection of covered persons.

5. That RESPONDENT failed to submit 2014 audited reports, to request an extension, or to request an exemption prior to the July 1, 2015, deadline.

6. That the Department notified RESPONDENT by certified letter dated July 10, 2015, that RESPONDENT failed to meet the statutory deadline for submitting audited financial reports and that it must submit said reports by no later than July 31 or risk future administrative action and the imposition of an administrative penalty.

7. That on July 27, 2015, RESPONDENT requested an exemption and, subsequently, on July 29, 2015, RESPONDENT submitted unaudited financial reports for the years 2014 and 2013. (On May 27, 2014, RESPONDENT had previously been granted an exemption for the year 2013 and had submitted unaudited annual reports for 2013 and 2012.)

8. That RESPONDENT maintains a surety bond on file with the Department, which increased in amount from \$20,000 to \$100,000 in July of 2012.

9. That RESPONDENT's annual report for 2014 submitted on July 29, 2015 showed a negative net worth of \$91,851, with a net loss of \$71,684. Further, RESPONDENT's annual report for 2013 showed a negative net worth of \$20,167. RESPONDENT's annual report for 2012 showed a minimal positive net worth of \$169.

10. That RESPONDENT's financial reports over the preceding three years, *i.e.*, 2014, 2013, and 2012, illustrated a gradual decline in financial stability such that the Department contended the RESPONDENT is unsound and filed a Verified Complaint and Notice of Right to Hearing on October 20, 2015 (the "Complaint"), alleging the same.

11. That RESPONDENT administers \$8,910 in total funds on behalf of Idaho residents. Of the approximately 202 Idaho residents that RESPONDENT services, 199 are members of the Shoshone Bannock Tribes.

12. That the Director has the authority to suspend or revoke RESPONDENT's TPA license for violations of title 41, Idaho Code, pursuant to Idaho Code § 41-915.

13. That the Director has the authority to impose a general penalty in the amount of \$5,000.00 against RESPONDENT if the Director finds that one or more grounds exist for the suspension or revocation of a TPA license. The penalty may be in lieu of or in addition to suspension or revocation pursuant to Idaho Code §§ 41-117 and 41-915(4).

14. That on December 18, 2015, RESPONDENT filed an Answer to Verified Complaint and Notice of Right to Hearing (the "Answer") admitting that RESPONDENT's annual report for 2014 submitted on July 29, 2015 in conjunction with the 2013 annual report showed a negative equity, but denying that RESPONDENT was financially unsound.

15. That on January 20, 2016, RESPONDENT submitted Restated Financial Statements for the years 2014 and 2013, each ending on December 31st, and including amended

corporate tax returns for the year 2014. In correspondence dated January 20, 2016, RESPONDENT explained:

The changes reflected in these amended statements stem from a major restructuring initiative undertaken by the parent corporation of the network of companies [Verde Services, Inc.] is affiliated with through common ownership.

Specifically, [Verde Services, Inc.]'s restated financials reflect \$200,000 of consulting income that was previously unaccounted for due to the aforementioned delay in the application of accruals. The consulting income arises from services [Verde Services, Inc.] provides to BDR pursuant to the enclosed Consulting Agreement dated July 31, 2014 which continues in effect.

16. That the Department determined that the \$200,000 in consulting income represents approximately forty eight percent (48%) of RESPONDENT's revenue and requested on February 9, 2016, further explanation by way of a management letter regarding how the revenue was overlooked; how it was discovered; and what internal controls were put in place to prevent a similar oversight.

17. That on February 25, 2016, RESPONDENT submitted additional information describing the restructuring initiative and change in ownership involving itself and its parent and sister companies.

18. That by participating in the restructuring initiative and formalizing the consulting agreement, RESPONDENT contends that it has resolved the Department's allegation that RESPONDENT is in an unsound financial condition and that the restated financial documentation reflects an ongoing commitment to maintaining RESPONDENT's "viability and financial stability."

19. That, in lieu of proceeding with a contested enforcement action and in considering the additional information provided, the parties agree that this matter can be brought to a close by a negotiated and stipulated settlement.

20. RESPONDENT and Department therefore agree as follows:

- a. By no later than July 1, 2016, RESPONDENT shall provide the Department with an annual report, including audited financial statements for the preceding 2015 calendar year in accordance with Idaho Code § 41-914(1)(a). The Parties agree that the RESPONDENT shall not request nor receive an exemption pursuant to Idaho Code § 41-914(1)(b) for the 2015 annual report.
- b. RESPONDENT shall provide the Department with quarterly financial statements for RESPONDENT for the first two quarters of 2016, prepared on an accrual basis in accordance with GAAP standards, complete with accounting notes prepared in the form prescribed by the Director for unaudited financial statements in compliance with Idaho Code § 41-914. The quarterly financial statements must not be consolidated with any entity and must be delivered to the Department within no later than thirty (30) days at the end of each quarter commencing with the first quarter of 2016.
- c. Within no later than thirty (30) days from the date of issuance of the Order approving this Stipulation, RESPONDENT shall provide the Department with a complete listing of the names and addresses of all insurers and self-funded plans and all employers and trusts with which RESPONDENT has agreements for the servicing of the 202 Idaho residents that it reports that it services, including the 199 residents that are members of the Shoshone Bannock Tribes; and will provide the subsidiary ledger supporting the balance of the \$8,910 in total funds that RESPONDENT asserts it administers on behalf of these Idaho residents.
- d. RESPONDENT shall pay a penalty of five thousand dollars (\$5,000) as follows: (A) two thousand five hundred dollars (\$2,500) shall be paid within no later than ten (10) days from the date of the Order approving this Stipulation; and (B) two thousand five hundred (\$2,500) shall be suspended, but due upon RESPONDENT's failure to comply with any of the requirements listed in subsections (a) through (d) herein; PROVIDED, however, that upon RESPONDENT's completion of all such requirements said suspended amount shall be waived by the Department.

21. In the event that RESPONDENT fails to comply with any of the provisions of this Stipulation, Department shall notify RESPONDENT within ten (10) days of said failure to comply and RESPONDENT shall thereafter have ten (10) days in which to cure the default. In the event RESPONDENT fails to cure the default within the ten (10) day period, RESPONDENT's TPA License No. 449017 shall be immediately revoked without further hearing.

22. In the event RESPONDENT's shareholder equity (as identified on the audited financial statement provided with its annual report pursuant to paragraph 20.a. above) falls below zero (0), RESPONDENT's TPA License No. 449017 shall be immediately revoked without further hearing.

23. Department and RESPONDENT waive their rights to notice and hearing on the Complaint filed by the Department and the Answer filed by RESPONDENT in this matter at which they may be represented by counsel, present evidence and examine witnesses.

24. Department and RESPONDENT waive their rights to submit the Complaint allegations and the defense of the Complaint allegations for review by a court of competent jurisdiction.

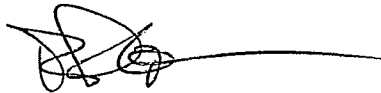
25. The parties agree that the terms of this Stipulation are appropriate and proper under the circumstances referenced herein, and that they have entered into this Stipulation knowingly, voluntarily and with full knowledge of any rights they may be waiving thereby.

26. The parties hereby waive the right to seek reconsideration and judicial review of this Stipulation or the violations of the Idaho Code as alleged in the Complaint herein.

27. The parties acknowledge that they have been represented by counsel in this matter and have had the opportunity to discuss the terms and conditions of this Stipulation with counsel and fully understand said terms and conditions.

AGREED THIS 10th day of MARCH, 2016.

VERDE SERVICES, INC.



By: BRADLEY D. GREEN
Its: President

AGREED THIS 14th day of March, 2016.

IDAHO DEPARTMENT OF INSURANCE



By: HERMOLIVA ABEJAR, CFE

Its: Deputy Chief Examiner, Company Activities

FINAL ORDER

IT IS HEREBY ORDERED,

- a. That the preceding Stipulation is approved and adopted in full as if set forth herein.
- b. That by no later than July 1, 2016, VERDE SERVICES, INC., shall provide the Department with an annual report, including audited financial statements for the preceding 2015 calendar year in accordance with Idaho Code § 41-914(1)(a).
- c. That VERDE SERVICES, INC., shall provide the Department with quarterly financial statements for the first two quarters of 2016, prepared on an accrual basis in accordance with GAAP standards, complete with accounting notes prepared in the form prescribed by the Department for unaudited financial statements in compliance with Idaho Code § 41-914. The quarterly financial statements must not be consolidated with any entity and must be delivered to the Department within no later than thirty (30) days at the end of each quarter commencing with the first quarter of 2016.
- d. That within no later than thirty (30) days from the date of issuance of the Order approving this Stipulation, VERDE SERVICES, INC., shall provide the Department with a complete listing of the names and addresses of all insurers and self-funded plans and all employers and trusts with which VERDE SERVICES, INC., has agreements for the servicing of the 202 Idaho residents that it reports that it services, including the 199 residents that are members of the Shoshone Bannock Tribes; and will provide the subsidiary ledger

supporting the balance of the \$8,910 in total funds that RESPONDENT asserts it administers on behalf of these Idaho residents.

- e. That VERDE SERVICES, INC., shall pay a penalty of five thousand dollars (\$5,000) as follows: an amount of two thousand five hundred dollars (\$2,500) shall be paid to the Department within ten (10) business days following the entry of this Order; and an amount two thousand five hundred dollars (\$2,500) shall be suspended but due to the Department upon VERDE SERVICES, INC.'s failure to comply with any of the requirements listed in Paragraph 20 of the Stipulation; PROVIDED, however, that upon VERDE SERVICES, INC.'s completion of all such requirements said suspended amount shall be waived by the Department.

DATED this 17 day of March, 2016.

STATE OF IDAHO
DEPARTMENT OF INSURANCE


DEAN CAMERON
Director

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 17 day of MARCH, 2016, I caused a true and correct fully-executed copy of the foregoing STIPULATION AND FINAL ORDER RESOLVING VIOLATIONS OF IDAHO INSURANCE CODE to be served on the following by the designated means:

RICHARD C. BOARDMAN
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- ☒ first class mail
- ☐ certified mail
- ☐ hand delivery
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Kelly Grady