



OFFICE OF  
INSURANCE COMMISSIONER

In the Matter of	)	No. 10-15
	)	
The Financial Examination of	)	FINDINGS, CONCLUSIONS,
<b>MOLINA HEALTHCARE OF</b>	)	AND ORDER ADOPTING REPORT
<b>WASHINGTON, INC.</b>	)	OF FINANCIAL EXAMINATION
	)	
A Domestic Health Maintenance		
Organization.		

**BACKGROUND**

An examination of the financial condition of **MOLINA HEALTHCARE OF WASHINGTON, INC.** (the Company) as of December 31, 2008, was conducted by examiners of the Washington State Office of the Insurance Commissioner (OIC). The Company holds a Washington certificate of registration as a stock health maintenance organization. This examination was conducted in compliance with the laws and regulations of the state of Washington and in accordance with the procedures promulgated by the National Association of Insurance Commissioners and the OIC.

The examination report with the findings, instructions, and recommendations was transmitted to the Company for its comments on January 4, 2010. The Company's response to the report is attached to this order only for the purpose of a more convenient review of the response.

The Commissioner or a designee has considered the report, the relevant portions of the examiners' work papers, and the submissions by the Company.

Subject to the right of the Company to demand a hearing pursuant to Chapters 48.04 and 34.05 RCW, the Commissioner adopts the following findings, conclusions, and order.

**FINDINGS**

Findings in Examination Report. The Commissioner adopts as findings the findings of the examiners as contained in pages 1 through 13 of the report.

## CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the financial examination of **MOLINA HEALTHCARE OF WASHINGTON, INC.**, and to order the Company to take the actions described in the Instructions and Comments and Recommendations sections of the report. The Commissioner acknowledges that the Company may have implemented some of the Instructions and Comments and Recommendations prior to the date of this order. The Instructions and Comments and Recommendations in the report are appropriate responses to the matters found in the examination.

## ORDER

The examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

The Company is ordered as follows, these being the Instructions and Comments and Recommendations contained in the examination report on pages 1-5.

1. The Company is ordered to comply with RCW 48.43.097 by filing its financial statements in the form and context approved by the NAIC and WAC 284-07-050(2)(a) which requires adherence to the NAIC Annual Statement Instructions and the AP&P. Instruction 1, Examination Report, page 2.
2. The Company is ordered to have a record of investment transactions approved by the BOD as required by RCW 48.13.340. Instruction 2, Examination Report, page 2.
3. The Company is ordered to comply with RCW 48.43.097 by filing its financial statements in the form and context approved by the NAIC and WAC 284-07-050(2)(a) which requires adherence to the NAIC Annual Statement Instructions and the AP&P. The Company is also ordered to execute a revised or amended custodial agreement that complies with the FCEH. Instruction 3, Examination Report, page 3.

4. The Company is ordered to adhere to RCW 48.31C.050(1)(c) and ensure controls are in place to verify that expenses allocated by the Company are fair and reasonable and allocated consistently within the health carrier holding company system. Instruction 4, Examination Report, page 3.
5. The Company is ordered to comply with RCW 48.43.097 by filing its financial statements in the form and context approved by the NAIC and WAC 284-07-060(2)(a) which requires adherence to the NAIC Annual Statement Instructions and the AP&P. Each carrier shall include with its annual statement a Statement of Actuarial Opinion setting forth the actuary's opinion related to the carrier's reserves and other actuarial items, prepared in accordance with the NAIC Annual Statement Instructions and the AP&P. Instruction 5, Examination Report, page 3.
6. The Company is ordered to comply with RCW 48.43.097 by filing its financial statements in the form and context approved by the NAIC and WAC 284-07-060(2)(a) which requires adherence to the NAIC Annual Statement Instructions and the AP&P. Each carrier shall include with its annual statement a Statement of Actuarial Opinion setting forth the actuary's opinion related to the carrier's reserves and other actuarial items, prepared in accordance with the NAIC Annual Statement Instructions and the AP&P. Instruction 6, Examination Report, page 4.
7. The Company is ordered to comply with RCW 48.43.097 by filing its financial statements in the form and context approved by the NAIC and WAC 284-07-050(2)(a) which requires adherence to the NAIC Annual Statement Instructions and the AP&P. Instruction 7, Examination Report, page 4.
8. It is ordered that the Company consider implementing a formal, written, and approved policy defining the authorized use of wireless technology. It is also ordered that the IS Department consider periodically scanning the Company's premises for rogue wireless access points to prevent unauthorized use. Comments and Recommendations 1, Examination Report, page 5.

9. Based on the FCEH exposure index, it is ordered that the Company consider increasing its fidelity bond coverage to the suggested minimum amount of \$2,500,000. Comments and Recommendations 2, Examination Report, page 5.
10. The Company is ordered to consider establishing a procedure to ensure that the incurred-paid triangles are of sufficient quality to perform the analysis, and paid claims recorded in the incurred-paid triangles are consistent with the paid claims booked in the general ledger. Comments and Recommendations 3, Examination Report, page 5.

IT IS FURTHER ORDERED THAT, the Company file with the Chief Examiner, within 90 days of the date of this order, a detailed report specifying how the Company has addressed each of the requirements of this order.

ENTERED at Olympia, Washington, this 29th day of January, 2010.



MIKE KREIDLER  
Insurance Commissioner

**RECEIVED**



JAN 25 2010

January 22, 2010

**INSURANCE COMMISSIONER  
COMPANY SUPERVISION**

Mr. James T. Odiorne, CPA, JD  
Deputy Insurance Commissioner  
Company Supervision Division  
Office of the Insurance Commissioner  
5000 Capitol Boulevard  
Tumwater, WA 98501

RE: Financial Examination Report of Molina Healthcare of Washington, Inc.  
As of December 31, 2008

Dear Mr. Odiorne,

This letter is in response to your request for comments on the facts presented in the draft Financial Examination Report of Molina Healthcare of Washington, Inc. (the "Company") dated January 4, 2010. We have reviewed the draft report and have no revisions to the facts presented in the report.

The Company has addressed each of the Instructions in the examination report. Below is a summary of the corrective action implemented for each Instruction in the examination report. The numbered sequence of our answers below mirrors the sequence of the Instructions.

**INSTRUCTIONS**

**1. Annual Statement Errors**

- a. The Company disclosed the number of shares of capital stock authorized, issued and outstanding in Note 13 of the Notes to Financial Statements in the Quarterly Statutory Statement filed for the period ended September 30, 2009.
- b. The Company correctly reported the amount due from DSHS as a Health Care Receivable on page 2, line 22 in the Quarterly Statutory Statement filed for the period ended September 30, 2009.
- c. The Company correctly reported the money market funds on Schedule DA in the Quarterly Statutory Statements filed for the periods ended June 30, 2009 and September 30, 2009.

- d. The Company correctly reported bonds as a 1FE on Schedule D in the Quarterly Statutory Statements filed for the period ended September 30, 2009.
- e. The Company reported premiums on Schedule T on a written basis in the Quarterly Statutory Statements filed for the period ended September 30, 2009.
- f. The Company correctly reported healthcare savings expenses as Claims Adjustment Expenses on line 20 of the Statement of Revenue and Expenses in the Quarterly Statutory Statements filed for the periods ended June 30, 2009 and September 30, 2009.
- g. The Company disclosed experience rated refunds in Note 23 of the Notes to Financial Statements in the Quarterly Statutory Statement filed for the period ended September 30, 2009.

## **2. Investment Approval by Board of Directors**

In the third quarter of 2009, the Company began submitting the quarterly investment transactions to the Board of Directors or a Board subcommittee for approval. The approval of the investment transactions is now being documented in the meeting minutes.

## **3. Investment Custodial Agreements**

The Company has been working to amend the U.S. Bank Institutional Trust & Custody agreement to comply with the FCEH and plans to implement the new agreement in the first quarter of 2010.

## **4. Federal Income Tax Estimates**

In 2009, the Company implemented procedures to ensure that the tax allocation is calculated correctly. The Company hired an experienced tax manager in May 2009 who is now responsible for preparing the tax calculation. The calculation is reviewed by the Vice President of Tax. Further, the Company reconciles the tax payable/receivable balance on a quarterly basis and performs a proof of this account on an annual basis.

## **5. Statement of Actuarial Opinion**

The Company's actuary will prepare the 2009 Statement of Actuarial Opinion in accordance with the NAIC requirements and Health Annual Statement Instructions.

## **6. Experience Rating Refund**

In conjunction with the 2009 Statement of Actuarial Opinion, the Company's actuary will review the calculation of the Medicare Part D experience rated refund liability to be reported on Line 4 (Aggregate Health Policy Reserves), Page 3 of the 2009 Annual Statement. The liability will be included in the 2009 Statement of Actuarial Opinion.

## **7. Medicare Part D Accounting**

In the Quarterly Statutory Statement filed for the period ended September 30, 2009, the Company reclassified the Medicare experience rating refunds, Medicare Part D reinsurance and Medicare Part D low income cost sharing subsidy as instructed by the OIC.

## **COMMENTS AND RECOMMENDATIONS**

### **1. Policy Addressing Use of Wireless Technology**

Effective November 2009, the Company implemented a new formal, written and approved wireless security policy that prohibits access to Molina networks via unsecured wireless communication mechanisms. A third party will be assessing the Company's security posture, including the periodic scan of rogue wireless access.

### **2. Fidelity Bond**

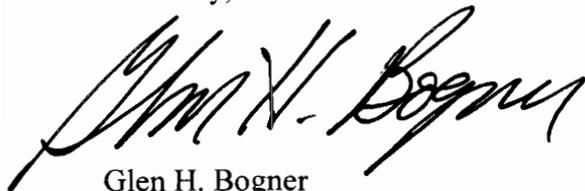
The Company is working with its parent company, Molina Healthcare, Inc., to evaluate the fidelity bond coverage.

### **3. Lag Table Development**

The Company is currently evaluating the lag table development procedures and will implement new procedures to ensure that paid claims, refunds, and voided checks are accurately reported in the lag tables.

If you have any questions, please feel free to contact me at 425-424-1133.

Sincerely,



Glen H. Bogner  
President  
Molina Healthcare of Washington