



OFFICE OF  
INSURANCE COMMISSIONER

|                              |   |                           |
|------------------------------|---|---------------------------|
| In the Matter of             | ) | No. 14-126                |
|                              | ) |                           |
| 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, 2012, was conducted by examiners of the Washington State Office of the Insurance Commissioner (OIC). The Company holds a Washington certificate of registration as a 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 (see Exhibit A) was transmitted to the Company for its comments on June 19, 2014. The Company's response to the report is attached to this order (see Exhibit B) 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 12 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 1-3.

1. The Company is ordered to comply with RCW 48.31C.050, RCW 48.43.097, and SSAP No. 70 by adequately identifying costs and allocating expenses to the entity or entities to which they belong. Instruction 1, Examination Report, page 2.
2. The Company is ordered to comply with RCW 48.31C.050(2) by filing all required management agreements, service contracts, and cost-sharing arrangements with the OIC on a Form D prior to entering into them, and to comply with RCW 48.31C.040(2)(c)(v) and WAC 284-18A-920 by disclosing all required agreements, contracts, dates of the agreements and contracts, and dates of approval of the agreements and contracts on its Form B filings. Instruction 2, Examination Report, page 3.
3. The Company is ordered to consider that the Chief Information Officer (CIO) reports directly to the Chief Operating Officer (COO) or the Chief Executive Officer (CEO) as specified in the COBIT standards. Comments and Recommendations 1, Examination Report, page 2.
4. The Company is ordered to consider placing a dedicated resource in charge of the Enterprise Risk Management Program (ERM) to comply with the Own Risk and Solvency Assessment (ORSA), and that the progress on the risk mitigation is tracked and documented. Comments and Recommendations 2, Examination Report, page 3.

5. It is ordered that Molina Healthcare, Inc., (MHI) consider continuing to develop and maintain a succession plan for its MHI executives, vice presidents, and for the executives of Molina Healthcare of Washington, Inc. (MWA). Comments and Recommendations 3, Examination Report, page 3.

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 30th day of June, 2014.

A handwritten signature in black ink, appearing to read "Mike Kreidler". The signature is fluid and cursive, with the first name "Mike" being more prominent than the last name "Kreidler".

MIKE KREIDLER  
Insurance Commissioner

**Miller, Susan (OIC)**

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**From:** Ashwani Verma [Ashwani.Verma@MolinaHealthCare.Com]  
**Sent:** Thursday, June 26, 2014 3:54 PM  
**To:** Michels, Bill (OIC)  
**Cc:** McNaughton, Pat (OIC); Jansen, Colleen (OIC); Miller, Susan (OIC); Peter Adler  
**Subject:** Molina Response/Comments - Draft exam report  
**Attachments:** Acknowledgement 2005-1 Form D.PDF; Corrections - DRAFT Exam Report.pdf; 20140619\_133440.pdf

To William R. Michels  
Deputy Insurance Commissioner

**Management Comments/Response to DRAFT Financial Examination Report of Molina Healthcare of Washington, Inc. as of December 31, 2012**

Please see below management response/comments on the DRAFT Examination report. Let me know if you have any questions and/or would like to discuss any of these. Thank you for providing the opportunity to review the DRAFT report.

1. Page 2: Related Party Cost Allocation

**Molina Management Response/Comment:** The draft examination report is incorrect where it states: "The Company indicated that it could not quantify what the true amount of expenses allocated to MWA should have been." We do not recall having made such a statement. Furthermore, as noted in the paragraph below, we are able to develop a more refined allocation number for 2012, and such amount is very slightly more than that charged to MWA in 2012. Accordingly, we request that this assertion be removed from the draft examination report.

The Company continues to refine its methods for assigning costs incurred by centralized functions at MHI to the appropriate subsidiary. For example, the Company has instituted new practices in 2014 that will allow for better identification and billing of costs incurred by MHI that benefit a specific subsidiary only. The Company believes that its current procedures for identifying and allocating costs among its various entities are in compliance with RCW 48.31C.050; RCW 48.43.097; and SSAP No. 70.

The Company has recalculated the amount of expense that would have been allocated to MWA had current (2014) allocation methodologies been in place in 2012; and found that the allocation for all of 2012 would have been approximately \$68 Million for MWA compared with the \$66 million actually allocated, a difference of approximately 3%.

2. Page 2: Holding Company Filings

**Molina Management Response/Comment:** Under the Company Profile section of the Draft Letter, the OIC notes that the Company failed to file the 2005-1 and 2009-1 Amendments to the Administrative Services Agreement between the Company and MHI. Please see the attached letter, dated September 19, 2005, acknowledging the OIC's receipt of the Company's 2005-1 Amendment and acknowledging that the Company's "Form D notice is sufficient and the Commissioner does not disapprove of the Amendment to the Services Agreement." As the Company filed and obtained approval for the 2005-1 Amendment, we request that the finding be revised. The Company has been unable to locate documentation of the Form D submission for the 2009-1 Amendment. Therefore, the Company will file a Form D for the 2009-1 Amendment with the OIC promptly to remediate this issue. Further, since 2009 the Company has put a process into place to ensure that any future services agreements or amendments thereto are properly filed with the OIC.

3. Page 3: Corporate Governance

**Molina Management Response/Comment:** Molina believes that the existing reporting structure between its Chief Information Officer (CIO) and its Chief Financial Officer (CFO) is entirely appropriate, and effectively subserves the policy basis of the COBIT Framework standards: namely, that the Company invest sufficiently in information technology (IT) to ensure IT is effective in supporting the Company's business functions and its strategic initiatives.

Further, COBIT's framework makes a general statement that "the reporting line of the CIO should be commensurate with the importance of IT within the enterprise." This is in fact the case with Molina. Molina periodically reviews its reporting structure to address its particular business and personnel needs, and also to maximize the performance of its business. Molina will continue to do so in the future.

4. Page 3: Enterprise Risk Management Program (ERM)

**Molina Management Response/Comment:** As part of its robust risk management process, Molina has established a formal ERM program to help the company in managing its risks in a cohesive and collaborative manner. With effective ERM framework in place, Molina feels very comfortable in meeting the ORSA filing and review timeline. Molina's ERM framework clearly identifies the key risk areas and the respective owners of those risks. Further, Molina has an effective Internal Audit Department which is responsible to provide assurance of ERM processes to the board and senior leadership. As Molina is making great progress towards ORSA compliance, we will certainly evaluate the future need for a Chief Risk Officer or similar role.

5. Page 3: Succession Planning

**Molina Management Response/Comment:** Molina is very mindful of the importance of succession planning, and does not consider its current succession planning practices to be a material risk to the organization. This topic has been frequently discussed internally within the senior leadership and the MHI Board of Directors. As part of its succession planning efforts, the Company has explicitly identified the successors for each of the five key C-Level executives. In addition, there are plans to take the succession planning downstream to the Corporate Vice Presidents and the Health Plans within the next several months.

6. page 4: In our 2012 annual statement, we listed 37 counties, and in the 2013 annual statement we listed 34 counties. Not sure you want to include the 2013 number or the 2012 number here.
7. page 4: The %s for Medicaid (incl. CHIP) and Medicare appears to be computed incorrectly. Please see attached for the correct %s
8. page 5: Regarding "Affiliated Companies," again unsure if you want to disclose the current affiliates, or as of 12/31/12. In either case, this list appears to be incorrect. Please see below for corrections:

AZ, GA, MD and MS are inactive subsidiary corporations, not health plans. VA is an active corporation, but is not a health plan. MO and DC have been dissolved. Additionally, there are many subsidiary entities that are not included in this list (the most significant of which is MMS), so we are not sure what would you like to disclose here. We can certainly provide the additional information but we need to know the "as of" date, and whether you want to include all subs, or just health plans.

9. page 6: Just a typo on Jeff's name. It should be Jeffrey Barlow

Thanks,

**Ashwani Verma**  
Vice President, Internal Audit

Molina Healthcare Inc.  
(562) 506-9206  
[Ashwani.Verma@MolinaHealthcare.com](mailto:Ashwani.Verma@MolinaHealthcare.com)

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**From:** Miller, Susan (OIC) [<mailto:SusanM@OIC.WA.GOV>]  
**Sent:** Thursday, June 19, 2014 1:37 PM  
**To:** Peter Adler  
**Cc:** Michels, Bill (OIC); McNaughton, Pat (OIC); Jansen, Colleen (OIC)  
**Subject:** draft exam report

Good afternoon,  
Please see the attached draft examination report. The hard copy is in the mail to you.  
Please let me know if you have any questions. Thank you.

Susan Miller  
Administrative Assistant to Deputy Insurance Commissioner William R. Michels  
Company Supervision Division  
Washington State Office of the Insurance Commissioner  
360.725.7212 | [SusanM@oic.wa.gov](mailto:SusanM@oic.wa.gov) | [www.insurance.wa.gov](http://www.insurance.wa.gov)  
PO Box 40259, Olympia WA 98504-0259 | FAX: 360.586.2022

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MIKE KREIDLER  
STATE INSURANCE COMMISSIONER

STATE OF WASHINGTON

Phone: (360) 725-7000



OFFICE OF  
INSURANCE COMMISSIONER

Please Reply to: PO Box 40259  
Olympia, WA 98504-0259

September 19, 2005

DALE C AHLKOG  
TREASURER  
MOLINA HEALTHCARE OF WASHINGTON INC  
PO BOX 1469  
BOTHELL WA 98041-1469

Re: 2005-1 Form D filing - Dated May 5, 2005, Add Medicare Advantage product to Services Agreement

Dear Ms. Ahlskog:

We acknowledge the receipt of your June 6, 2005 letter regarding the 2005-1 Form D amendment to expand the Services Agreement between Molina Healthcare of Washington, Inc and Molina Healthcare, Inc to cover services for a Medicare Advantage product. Thank you for also providing a copy of the original Services Agreement on August 17, 2005.

Please be advised that the Form D notice is sufficient and the Commissioner does not disapprove the Amendment of the Services Agreement.

Please send us a fully executed copy of the Amended Services Agreement for our records.

Sincerely,

James T. Odiome, CPA, JD  
Deputy Insurance Commissioner  
Company Supervision Division  
Phone: (360) 725-7214  
Fax: (360) 586-2022

cc: Linda Spaulding

Mailing Address: P.O. Box 40255 • Olympia, WA 98504-0255  
Street Address: 5000 Capitol Blvd. • Tumwater, WA 98501

## COMPANY PROFILE

### **Company History**

The Company was incorporated under the laws of the state of Washington on August 27, 1984, as Americare of the Puget Sound, Inc. On March 11, 1987, it became Foundation Health Plan, Inc., a wholly-owned subsidiary of Foundation Health Corporation. The Company was purchased on April 21, 1989 by Qual-Med, Inc., a Colorado Corporation. In 1990, the name of the Company was changed to Qual-Med Washington Health Plan, Inc. (QMWA). On January 28, 1994, Health Net and QMWA merged to become Health Systems International, Inc. (HSI). On April 1, 1997, HSI and the Foundation Health Corporation merged to become Foundation Health Systems, Inc. (FHS). QMWA was a wholly-owned subsidiary of FHS. In 2000, the Company was purchased by MHI. MHI is domiciled in Delaware with headquarters in Long Beach, California. QMWA's name was changed to Molina Healthcare of Washington, Inc. The Company was registered as a Health Maintenance Organization (HMO) by the OIC effective June 3, 1985.

### **Capitalization**

The Company met the minimum capital requirements of RCW 48.44.037 by having \$113,774,075 net worth (capital and surplus) as of December 31, 2012.

### **Dividends**

The Company paid extraordinary dividends to MHI of \$10.0 million in 2012, \$20.0 million in 2011, \$16.3 million in 2010, and \$37.5 million in 2009. All of the extraordinary dividends were approved by the OIC.

### **Territory and Plan of Operation**

The Company is registered in the state of Washington as a Health Maintenance Organization (HMO). MWA is a wholly-owned subsidiary of MHI, a multi-state managed care organization. The Company arranges for the delivery of comprehensive health care services to persons eligible for Medicaid, Medicare, and other government-sponsored programs for low-income families and individuals in the state of Washington. It contracts with independent physician associations, hospitals, and other providers to provide medical services to its members. MWA provides healthcare coverage for patients in government programs in 34 of 39 counties of Washington State. A significant portion of the Company's customer base is concentrated in King, Pierce, Spokane, and Snohomish counties. In 2012, 92 percent of its business (411,000 members) came from Medicaid which includes the State Children's Health Insurance Plan and eight percent from Medicare (7,000 members).

As of 12/31/13 = 34  
As of 12/31/12 = 37

The Company contracts with the Washington State Health Care Authority (HCA) to provide care for members enrolled through the Managed Medicaid Assistance programs. These programs are also known as Healthy Options (HO), the Washington Medicaid Integration Project (WMIP), and the State Children's Health Insurance Plan (SCHIP). The Company also contracts with HCA to provide care for members enrolled through the Basic Health (BH) and the Basic Health Plus (BH+) programs.

MWA serves Medicare members under its contract with CMS. It provides care for members enrolled in the Medicare Advantage (Molina Advantage) program.

### **Growth of Company**

The following reflects the growth of the Company as reported in its filed NAIC Annual Statements for the four year period under examination:

| Year | Admitted Assets | Liabilities   | Capital & Surplus |
|------|-----------------|---------------|-------------------|
| 2012 | \$294,024,335   | \$180,250,260 | \$113,774,075     |
| 2011 | 157,132,230     | 57,588,531    | 99,543,699        |
| 2010 | 141,114,804     | 48,951,733    | 92,163,071        |
| 2009 | 124,070,212     | 43,079,123    | 80,991,089        |

*These are inactive subs, not health plans*

| Year | Total Revenue   | Net Underwriting Gain (Loss) | Net Investment Gain (Loss) | Net Income   |
|------|-----------------|------------------------------|----------------------------|--------------|
| 2012 | \$1,050,142,258 | \$38,040,973                 | \$1,142,323                | \$19,277,266 |
| 2011 | 834,782,480     | 39,187,553                   | 1,141,786                  | 25,911,224   |
| 2010 | 757,619,525     | 40,036,928                   | 1,112,560                  | 26,628,384   |
| 2009 | 725,042,318     | 31,101,184                   | 2,247,938                  | 22,415,671   |

*Is this as of 12/31/2012 current?*

**Affiliated Companies**

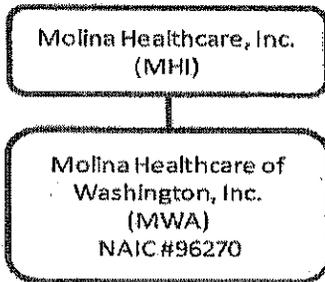
MWA is a wholly-owned subsidiary of MHI, a Delaware Corporation. MHI has 100 percent ownership in several other health plans located in the states of Arizona, California, Florida, Georgia, Illinois, Ohio, Maryland, Michigan, Mississippi, Missouri, New Mexico, Texas, Utah, Virginia, Wisconsin, and the District of Columbia.

*South Carolina not a health plan*

**Organizational Chart**

*2 entities dissolved*

The following is an abbreviated organization chart as of December 31, 2012. It only includes the parent company due to the direct reporting structure with MHI, and because MHI is the only entity with which MWA has intercompany agreements.



**Intercompany Agreements**

As of December 31, 2012, the Company had the following intercompany agreements in force:

**Services Agreement (SA)**

The SA between the Company and MHI became effective on June 1, 2001. In exchange for payments from MWA, MHI provides consultation and assistance services such as claims processing, human resources, information systems, network support, legal, accounting, and financial services. A Business Associate Addendum was added to the SA effective April 24, 2004 to address privacy of information as required by the Health Insurance Portability and Accountability Act of 1996 (HIPAA). An

Addendum to The Business Associate Addendum was added to the SA effective April 30, 2005 to address new security standards for electronic protected health information, as required by HIPAA. The 2005-1 Amendment to Services Agreement was added to the SA effective April 21, 2005, which expanded the services in the SA to include the Medicare program. The 2009-1 Amendment to Services Agreement was added to the SA effective January 1, 2009, which specified that MWA maintains ultimate responsibility for adherence to or otherwise fully complying with all terms and conditions of its contract with CMS. The 2009-1 Amendment to Services Agreement was not properly filed on a Form D with the OIC, and the 2005-1 Amendment to Services Agreement and the 2009-1 Amendment to Services Agreement were not disclosed on the 2009 or 2010 Form B's filed with the OIC. (See Instruction No. 2.)

**Federal Tax Sharing Agreement (FTSA)**

The FTSA between the Company and MHI became effective on January 1, 2004. The parties agreed to file consolidated federal tax returns. MWA's share of tax is computed as if it was filed on a stand-alone basis. The 2011-1 Amendment to Federal Tax Sharing Agreement became effective January 1, 2011. It required the settling of intercompany tax balances within 90 days. The FTSA and amendment were properly filed with the OIC.

**MANAGEMENT AND CONTROL**

**Ownership**

MWA has only one shareholder, MHI, which owns all 100 shares of the no par value stock that is outstanding. There have been no changes of ownership during the years under review.

The Bylaws, effective June 16, 2000, provide for an Executive Committee and other standing committees such as Medical Management and Nominating Committees. The BOD may, by resolution adopted by a majority of the authorized number of directors, designate one or more committees, each consisting of two or more directors. Committees meet regularly, keep written records of their meetings, and make regular reports to the BOD.

**Board of Directors (BOD)**

The following individuals were directors as of December 31, 2012:

Glen Bogner                      Chairman

Mary Sylek

Carl Zapora

**Officers**

The following individuals were officers as of December 31, 2012:

Glen Bogner                      President

Jeffery Barlow                      Secretary

Bela Biro                              Treasurer, Vice President

X  
Jeffrey