

Report on Examination
of
Molina Healthcare of Florida, Inc.
Doral, Florida
as of
December 31, 2013



**FLORIDA OFFICE OF
INSURANCE REGULATION**

Kevin M. McCarty, Commissioner
Florida Office of Insurance Regulation
Tallahassee, Florida

Dear Sir:

In accordance with Section 641.27, Florida Statutes, and the *Financial Condition Examiners Handbook* of the National Association of Insurance Commissioners, we have completed a financial condition examination of Molina Healthcare of Florida, Inc. as of December 31, 2013. Our report on the examination follows.

Florida Office of Insurance Regulation
November 24, 2014

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SCOPE OF EXAMINATION

We have completed a financial condition examination of Molina Healthcare of Florida, Inc. (the “Company”), a Florida health maintenance organization (HMO). The examination covered the period of March 4, 2008 through December 31, 2013 and took place in Tallahassee, Florida and the Company’s Doral, Florida office. This was the first financial condition examination of the Company by the Office.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. The Handbook required that we plan and perform our examination to evaluate the financial condition and identify prospective risks of the Company. It required that we do so by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. Our examination included assessing the principles used and significant estimates made by management. It also included evaluating overall financial statement presentation and management’s compliance with statutory accounting principles and annual statement instructions when applicable to domestic state regulations. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

SUMMARY OF SIGNIFICANT FINDINGS

The examination resulted in findings that the Company had not establish required policies and procedures necessary to detect and prevent certain prohibited transactions, and that it incurred fees under a management services agreement with its parent that were in excess of those called for in the agreement. Recommendations related to the findings are on page 12 of this report.

COMPANY HISTORY

The Company was incorporated in Florida on May 9, 2007 and licensed by the Office as an HMO on March 4, 2008. It was authorized by the State of Florida to operate as an HMO in accordance with Part I of Chapter 641, Florida Statutes (F.S.).

Dividends and Capital Contributions

The Company received capital contributions of \$23.0 million, \$24.7 million, \$11.0 million and \$4.0 million in years 2008, 2009, 2011 and 2013, respectively. No dividends were distributed during the period examined.

Mergers and Acquisitions

On December 15, 2010, the Company acquired 100% of the voting equity interest in Florida NetPASS, L.L.C. In addition, the Company acquired certain Neighborly Care Network, Inc. assets for \$3.4 million on July 1, 2013. The assets related to the statewide Medicaid managed care long-term program of Neighborly Care Network, Inc.

CORPORATE RECORDS

We reviewed the minutes of the Company's stockholder and board of directors meetings. The Board's approval of Company transactions, including the authorization of its investments as required by Section 641.35(7), F.S., was recorded in the minutes of its meetings.

MANAGEMENT AND CONTROL

The Company was wholly owned by Molina Healthcare, Inc., a multi-state managed care organization headquartered in Long Beach, California. The common stock of Molina Healthcare, Inc. was traded on the New York Stock Exchange. The Company's senior officers and directors were:

Senior Officers

Name	Title
David J. Pollack	President
Maritza E. Borrajero	Vice President
Jeffrey D. Barlow	Secretary

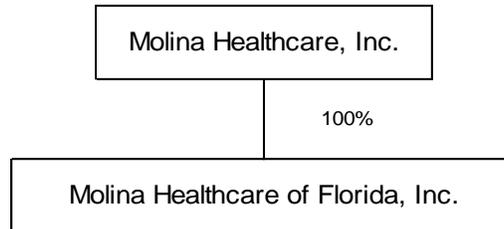
Board of Directors

Name	Location
David J. Pollack	Manchester, New Hampshire
Michelle A. Purrington	Indianapolis, Indiana
Eric E. Sandkuhl	Saint Petersburg, Florida

The Company was a member of an insurance holding company system. Its latest holding company registration statement was filed with the State of Florida as required by Section 628.801, F.S., and Rule 69O-143.046, Florida Administrative Code (F.A.C.), on March 17, 2014.

An abbreviated organizational chart reflecting a holding company system is shown below.

**Molina Healthcare of Florida, Inc.
Abbreviated Organizational Chart
December 31, 2013**



Management Services Agreement

Molina Healthcare, Inc. provided administrative, claims processing and financial support services to the Company pursuant to an agreement that became effective June 1, 2007 and was later amended. The agreement called for fees to be payable to Molina Healthcare, Inc. in amounts not to exceed 5% of the Company's revenues. However, actual fees under the agreement during the period April 8, 2008 through December 31, 2011 exceeded 5% of revenues by \$1.8 million.

Tax Allocation Agreement

The results of the Company's operations were included in the consolidated federal income tax returns of Molina Healthcare, Inc. pursuant to a tax allocation agreement dated April 1, 2008. The income tax liability of the consolidated group was allocated to members on a pro rata basis according to each member's separate tax return liability.

FIDELITY BONDS AND OTHER INSURANCE

The Company maintained general and professional liability insurance at acceptable levels and required its providers to certify and maintain appropriate levels of medical malpractice insurance or its equivalent in accordance with Rule 69O-191.069, F.A.C. The policies provided for written notification to the Office of any reduction, cancellation, non-renewal or termination of required coverage. In addition, the Company was insured by a blanket fidelity bond issued by a licensed Florida carrier as required by Section 641.22(7), F.S., in the amount of \$10 million.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees and did not directly provide employee benefits nor sponsor retirement plans. Employees of Molina Healthcare, Inc. performed functions on behalf of the Company. Molina Healthcare, Inc. provided various benefits to eligible employees of the Company including medical, dental, vision, life and accident insurance, flexible spending accounts, income protection benefits, and a 401(k) savings plan.

TERRITORY AND PLAN OF OPERATION

The Company provided comprehensive health care services to Medicaid members pursuant to a contract with the State of Florida. It held a current health care provider certificate issued by the Florida Agency for Health Care Administration pursuant to Part III of Chapter 641, F.S., valid until January 27, 2016. Pursuant to an agreement with the Centers for Medicare and Medicaid Services, the Company provided health care services to Medicare members in Florida. As an IPA model HMO, the Company had 88,867 members as of December 31, 2013, of which 95% were Medicaid members. It was authorized to operate in the Florida counties of Broward, Dade, Hillsborough, Palm Beach, Pasco, Pinellas and Polk.

COMPANY GROWTH

The Company reported the following for years 2008 through 2013:

(Dollars are in millions.)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Member months	22	385,872	664,466	788,350	849,538	973,451
Year-end enrollment	22	50,090	61,533	68,949	73,352	88,867
Premiums	\$ -	\$ 102.1	\$ 170.2	\$ 203.5	\$ 228.6	\$ 264.9
Total revenues	\$ -	\$ 102.1	\$ 170.2	\$ 203.5	\$ 228.6	\$ 264.9
Underwriting deductions	\$ 3.0	\$ 107.3	\$ 182.7	\$ 217.3	\$ 227.4	\$ 273.4
Net loss	\$ 2.0	\$ 4.4	\$ 9.0	\$ 9.9	\$ -	\$ 5.6
Stockholder dividends	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Paid in surplus received	\$ 23.1	\$ 24.7	\$ (1.0)	\$ 11.0	\$ -	\$ 4.0
Admitted assets	\$ 14.7	\$ 50.3	\$ 47.6	\$ 34.5	\$ 42.7	\$ 53.1
Liabilities	\$ 8.7	\$ 33.0	\$ 37.9	\$ 19.6	\$ 23.6	\$ 35.8
Capital and surplus	\$ 6.1	\$ 17.3	\$ 9.7	\$ 14.8	\$ 19.1	\$ 17.3

REINSURANCE

RGA Reinsurance Company provided the Company with HMO excess of risk reinsurance with 90% coinsurance effective from January 1, 2013. The agreement carried deductibles of \$500,000 for Medicare members, \$1,000,000 for Medicaid members, and \$250,000 for Medicaid incentive risk pool members. The maximum limits of the agreement were \$2,000,000 for Medicare and Medicaid members and \$2,750,000 for Medicaid incentive risk pool members.

ACCOUNTS AND RECORDS

Examiners found that, at December 31, 2013, the Company had not establish policies and procedures necessary to detect and prevent prohibited transactions with individuals and entities identified as terrorists by the U.S. Department of the Treasury, as required by Consent Order No. 94202-08-CO dated March 4, 2008. Subsequently, on October 3, 2014, the Company complied with the requirement.

STATUTORY DEPOSITS

The Company maintained on deposit with the Office an insolvency protection deposit of \$1,040,000 in accordance with Section 641.285, F.S., and a Rehabilitation Administrative Expense Fund deposit of \$10,000, in accordance with Section 641.227, F.S.

Molina Healthcare of Florida, Inc.
Admitted Assets, Liabilities, Capital and Surplus
December 31, 2013

Admitted Assets	As Reported	Examination Adjustments	Per Examination
Bonds	\$ 7,158,925	\$ -	\$ 7,158,925
Cash, cash equivalents and short-term investments	40,898,180	-	40,898,180
	48,057,105	-	48,057,105
Investment income due and accrued	40,540	-	40,540
Uncollected premiums and agents' balances	2,288,974	-	2,288,974
Amounts receivable relating to uninsured plans	211,575	-	211,575
Current federal and foreign income tax recoverable	912,095	-	912,095
Aggregate write-ins for other-than-invested assets	1,571,009	-	1,571,009
Total admitted assets	\$ 53,081,298	\$ -	\$ 53,081,298

Liabilities			
Claims unpaid	\$ 31,092,032	\$ -	\$ 31,092,032
Accrued medical incentive pool and bonuses	515,767	-	515,767
Unpaid claims adjustment expenses	446,130	-	446,130
Aggregate health policy reserves	76,620	-	76,620
Premiums received in advance	20,701	-	20,701
General expenses due or accrued	3,432,399	-	3,432,399
Amounts due to parent, subsidiaries and affiliates	216,549	-	216,549
Total liabilities	35,800,198	-	35,800,198

Capital and Surplus			
Common capital stock	100	-	100
Gross paid in and contributed surplus	64,899,706	-	64,899,706
Unassigned funds (deficit)	(47,618,706)	-	(47,618,706)
Total capital and surplus	17,281,100	-	17,281,100
Total liabilities, capital and surplus	\$ 53,081,298	\$ -	\$ 53,081,298

Molina Healthcare of Florida, Inc.
Statement of Revenue and Expenses
(As Reported By The Company)
Year Ended December 31, 2013

Net premium income	\$ 264,895,150
Hospital and medical benefits	123,919,311
Other professional services	19,460,186
Outside referrals	23,808,421
Emergency room and out-of-area	28,005,872
Prescription drugs	27,614,885
Incentive pool, withhold adjustments and bonuses	1,585,484
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Total hospital and medical	224,394,159
Claims adjustment expenses	8,602,067
General administrative expenses	40,312,309
Increase in reserves	51,620
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Total underwriting deductions	273,360,155
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Net underwriting gain (loss)	(8,465,005)
Net investment gains	86,862
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Income (loss) before federal income tax	(8,378,143)
Federal income tax benefit	2,785,660
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Net income (loss)	\$ (5,592,483)
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Molina Healthcare of Florida, Inc.
Statement of Changes in Capital and Surplus
Six Years Ended December 31, 2013

Capital and surplus - December 31, 2007	\$ 3,127,860
Net income (loss)	(1,997,229)
Change in net deferred income tax	3,389,082
Change in nonadmitted assets	(21,503,756)
Paid in surplus	23,050,000
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Capital and surplus - December 31, 2008	6,065,957
Net income (loss)	(4,421,299)
Change in net deferred income tax	4,659,677
Change in nonadmitted assets	(13,720,093)
Paid in surplus	24,701,318
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Capital and surplus - December 31, 2009	17,285,560
Net income (loss)	(9,008,388)
Change in net deferred income tax	(368,787)
Change in nonadmitted assets	2,789,464
Paid in surplus	(1,000,000)
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Capital and surplus - December 31, 2010	9,697,849
Net income (loss)	(9,905,583)
Change in net deferred income tax	(504,362)
Change in nonadmitted assets	4,560,476
Paid in surplus	11,000,000
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Capital and surplus - December 31, 2011	14,848,380
Net income (loss)	(3,842)
Change in net deferred income tax	(10,330,146)
Change in nonadmitted assets	14,550,304
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Capital and surplus - December 31, 2012	19,064,696
Net income (loss)	(5,592,483)
Change in nonadmitted assets	(191,113)
Paid in capital	100
Paid in surplus	4,000,000
Aggregate write-ins for gains or losses in surplus	(100)
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	17,281,100
Examination adjustments	-
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Capital and surplus - December 31, 2013	\$ 17,281,100
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Molina Healthcare of Florida, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2013

The following is a reconciliation of capital and surplus between that reported by the Company and as determined by the examination.

	<u>As Reported</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Capital & Surplus</u>	
Capital and surplus, December 31, 2013 - as reported				\$ 17,281,100
Total admitted assets	\$ 53,081,298	\$ 53,081,298	\$ -	
Total liabilities	\$ 35,800,198	\$ 35,800,198	\$ -	
Net change in capital and surplus				-
Capital and surplus, December 31, 2013 - per examination				<u>\$ 17,281,100</u>

RECOMMENDATIONS

Management Services Agreement

As reported on page 4, the Company incurred fees under its management services agreement that were in excess of those called for in its agreement with Molina Healthcare, Inc. by \$1.8 million. **We recommend that the Company abide by the terms of the agreement.**

Compliance with Consent Order

As reported on page 7, the Company had not establish policies and procedures necessary to detect and prevent prohibited transactions with individuals and entities identified as terrorists by the U.S. Department of the Treasury, as required by a consent order. **We recommend that the Company comply with its consent order at all times.**

SUBSEQUENT EVENTS

On August 1, 2014, the Company acquired the Medicaid business, with approximately 13,000 members, from Healthy Palm Beaches, Inc., a Florida HMO.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Molina Healthcare of Florida, Inc. consistent with the insurance laws of the State of Florida.

At December 31, 2013, the Company's capital and surplus was \$17,281,100 and the Company was in compliance with the minimum capital and surplus requirement of Section 641.225, F.S.

In addition to the undersigned, Actuarial Group, Inc. and Darlene L. Lenhart-Schaeffer, CFE, CISA, Financial Examiner/Analyst Supervisor, participated in the examination.

Respectfully submitted,

Stephen Feliu, CFE (Fraud),
Financial Examiner/Analyst
Florida Office of Insurance Regulation