



Government of the District of Columbia  
Vincent C. Gray, Mayor  
Department of Insurance, Securities and Banking



William P. White  
Commissioner

**BEFORE THE  
INSURANCE COMMISSIONER OF  
THE DISTRICT OF COLUMBIA**

Re: Report on Organization Examination – Molina Healthcare of the District of Columbia, Inc., as of May 31, 2012

**ORDER**

Pursuant to Examination Warrant 2012-1, an Organization Examination of **Molina Healthcare of the District of Columbia, Inc.**, as of May 31, 2012 has been conducted by the District of Columbia Department of Insurance, Securities and Banking (“the Department”).

It is hereby ordered on this 2nd day of July, 2012, that the attached financial condition examination report be adopted and filed as an official record of this Department.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, this Order is considered a final administrative decision and may be appealed pursuant to Section 31-4332 of the D.C. Official Code.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the issuance of the adopted report, the Association shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related order.

Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the Department will continue to hold the content of the report as private and confidential information for a period of 10 days from the date of this Order.

  
William P. White  
Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND  
BANKING



REPORT ON ORGANIZATION EXAMINATION

MOLINA HEALTHCARE OF THE DISTRICT OF COLUMBIA, INC.

AS OF

MAY 31, 2012

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**Molina Healthcare of the District of Columbia, Inc.**  
Report on Organization Examination  
May 31, 2012

Washington, D.C.  
June 19, 2012

Honorable William P. White  
Commissioner  
Department of Insurance, Securities and Banking  
Government of the District of Columbia  
810 First Street, NE, Suite 701  
Washington, D.C. 20002

Dear Sir:

In accordance with Section 31-1402 of the D.C. Official Code, we have examined the financial condition and activities of

**MOLINA HEALTHCARE OF THE DISTRICT OF COLUMBIA, INC.**

(hereinafter called the “Company”) and the following Report on Examination is submitted.

**SCOPE OF EXAMINATION**

This was an organization examination as of May 31, 2012 conducted by examiners of the District of Columbia Department of Insurance, Securities and Banking. The Company has made application for an original certificate of authority to establish and operate a health maintenance organization.

Our examination was conducted in accordance with examination policies and standards established by the District of Columbia Department of Insurance, Securities and Banking and procedures recommended by the National Association of Insurance Commissioners and, accordingly, included such tests of the accounting records and such other procedures as we considered necessary in the circumstances.

The purpose of our examination was to determine if the Company meets the minimum financial requirements to qualify for an original certificate of authority to transact business as a health maintenance organization. In this regard, our examination included a review of the Company’s business policies and practices, management and corporate matters, a verification and evaluation of assets and a determination of the existence of liabilities. In addition, our examination included tests to provide reasonable assurance that the Company, if licensed, would be in compliance with applicable laws, rules, and regulations. In planning and conducting our examination, we gave consideration to the concepts of materiality and risk, and our examination efforts were directed accordingly.

**Molina Healthcare of the District of Columbia, Inc.**  
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**HISTORY**

General:

The Company was incorporated as Molina Healthcare of the District of Columbia, Inc., under the laws of the District of Columbia on March 9, 2012. The Articles of Incorporation were reviewed by the Department, and the primary purpose for which the Company was formed is to operate a health maintenance organization to arrange for and coordinate the delivery of health care services for Medicaid recipients.

Capital Stock:

The Company's Articles of Incorporation authorize the Company to issue 10,000 shares of common capital stock with no par value. As of May 31, 2012, the Company has issued 100 of its authorized shares to Molina Healthcare, Inc.

Management:

The following persons were serving as the Company's Directors as of May 31, 2012:

<u>Name and Address</u>	<u>Principal Occupation</u>
Brian David Smith Virginia Beach, VA	Plan President, Molina Healthcare of the District of Columbia, Inc.
Jean Susan Glossa Fairfax, VA	Medical Director Molina Healthcare of the District of Columbia, Inc.
Jeffrey Don Barlow Sacramento, CA	Sr. Vice President, General Counsel, and Secretary Molina Healthcare, Inc.
Helga Lore Gergens Long Beach, CA	Corporate Controller Molina Healthcare, Inc.
Joseph William White Altadena, CA	Vice President, and Chief Accounting Officer Molina Healthcare, Inc.

Officer:

The following person was serving as the Company's Officers as of May 31, 2012:

Brian David Smith	President and Chief Executive Officer
Joseph William White	Treasurer and Chief Financial Officer
Jeffrey Don Barlow	Secretary
Jean Susan Glossa	Medical Director

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Committees:

The Company's Bylaws allow for the designation of one or more of committees of the Board by resolution passed by a majority of the authorized number of directors of the Board. Committees shall be composed of two or more members of the Board, and shall have such powers of the Board as may be expressly delegated to it by resolution of the Board of Directors as permitted by the Corporation Law.

Conflicts of Interest:

Directors and Officers of the Company have completed conflict of interest questionnaires. Our review of the questionnaires disclosed no reported conflicts. Furthermore, our examination did not disclose any conflicts of interest that would adversely affect the Company.

Corporate Records:

The Company's Board of Directors has not held any meetings. There are five initial directors. These Directors shall hold office until the next annual meeting or any special meeting, or until his/her successor is elected and qualified, or until his/her earlier resignation or removal.

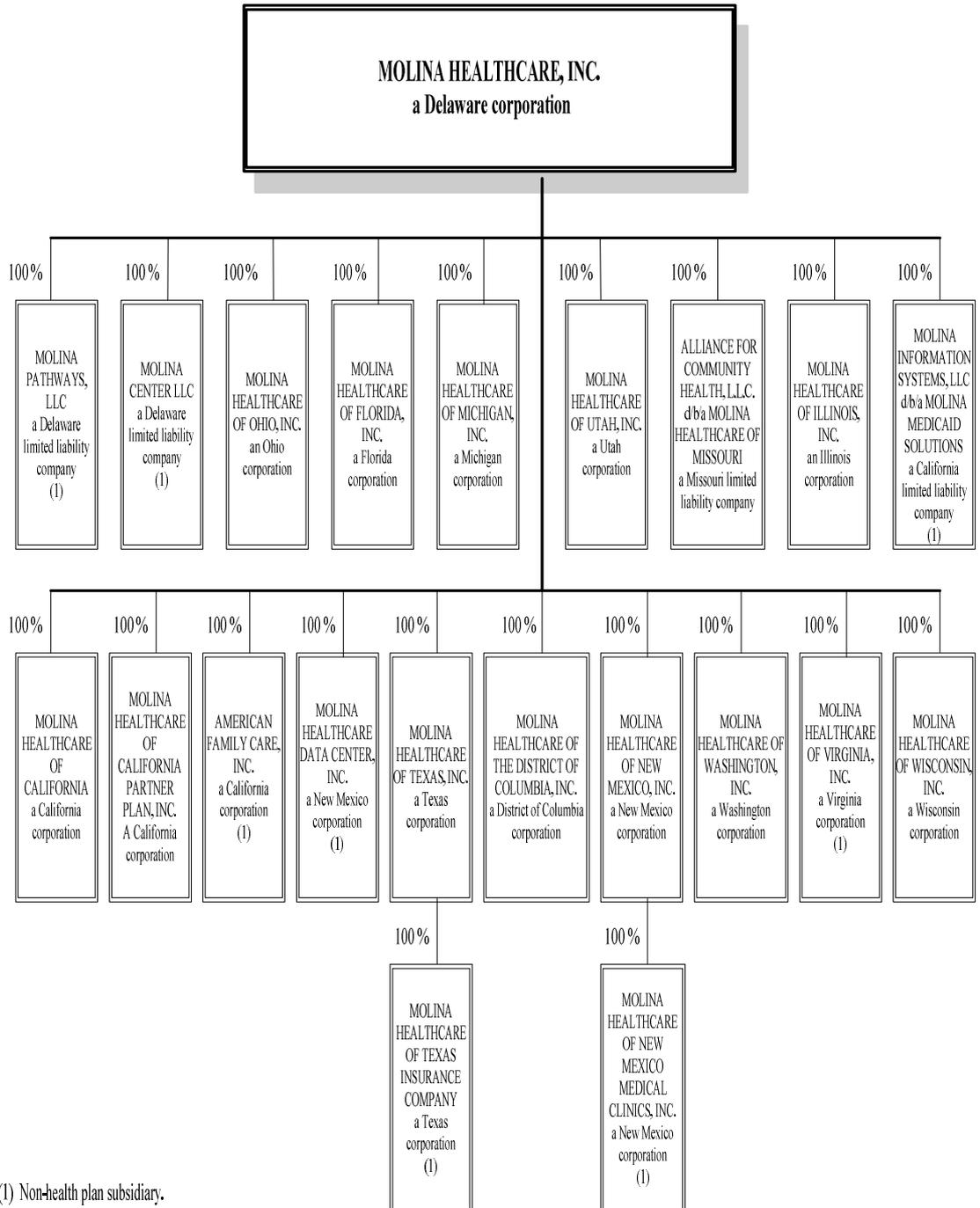
**AFFILIATED COMPANIES/INTER-COMPANY AGREEMENTS**

The Company is part of a holding company system and there are affiliated companies and one inter-company agreement with the Company.

The Company has an Administrative Services Agreement with Molina Healthcare, Inc. The Company desires to secure from Molina Healthcare, Inc. certain consulting, administrative and other support services which are intended to enhance the Company's organizational and administrative capacity, and to augment its operations.

**Molina Healthcare of the District of Columbia, Inc.**  
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**ORGANIZATIONAL CHART**



(1) Non-health plan subsidiary.

**Molina Healthcare of the District of Columbia, Inc.**  
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**FIDELITY BOND AND OTHER INSURANCE**

Upon execution of a signed contract with the District of Columbia to transact business as a health maintenance organization, the Company's insurance intermediary will give the order to bind coverage with an A rated insurer on behalf of the Company for the following lines of coverage and limits:

<u>Lines</u>	<u>Limits</u>
Workers Compensation	\$ 500,000
Crime EPLI & Cyber Liability	10,000,000
Umbrella	5,000,000
Directors and Officers	10,000,000
Professional Liability (E&O)	15,000,000

The proposed policy limits of the crime (fidelity) coverage would satisfy the amount recommended by the National Association of Insurance Commissioners.

**STATUTORY DEPOSIT**

Pursuant to District of Columbia Code 31-3412(b), the Company is required to maintain a deposit of \$300,000 with the District of Columbia Insurance Commissioner, as trustee, in trust for the subscribers and creditors of the Company, for the purposes of paying the obligations related to the Company in the District of Columbia. The Company must satisfy this requirement prior to commencing business. See the Comments and Recommendations Section of this Report for further discussions.

**TERRITORY AND PLAN OF OPERATION**

Once licensed, the Company intends on providing a managed care delivery system to the Department of Healthcare Finance, Medicaid eligible population enrolled in the District of Columbia Healthy Families Program (DCHFP). With the foregoing in mind, the Company does not employ sales techniques; rather its members shall be enrolled through the DCHFP.

The Company's staff will include at least the Plan President, Medical Director, Director of Provider Relations and community relations staff at its home office. Currently, the Company has no staff and will have to recruit for all positions, except Plan President and Medical Director.

**Molina Healthcare of the District of Columbia, Inc.**  
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**REINSURANCE**

Once licensed, the Company will enter into an excess reinsurance agreement with RGA Reinsurance Company. The Company will have in place coinsurance with the reinsurer with 90% for the reinsurer and 10% for the Company. The limits will be \$2,000,000 per member per agreement period and \$2,000,000 per member per lifetime.

**ACCOUNTS AND RECORDS**

The Company intends to purchase and utilize two primary management information systems: QNXT claims processing system software (“QNXT”) and JD Edwards management system. QNXT will be utilized for electronic data interfacing with the District, membership enrollment, member and customer service, referrals and authorizations, pharmacy benefit management, provider contract management, premium billing (when required), and claims adjudication and payment. JD Edwards management system software will be utilized for financial reporting, day-to-day accounting, payroll processing, and quarterly financial statements.

**FINANCIAL STATEMENTS**

The following financial statements reflect the financial condition of the Company as of May 31, 2012, as determined by this organizational examination (**NOTE 1**):

<u>STATEMENT</u>	<u>PAGE</u>
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The accompanying Notes to Financial Statements are an integral part of these Financial Statements.

**Molina Healthcare of the District of Columbia, Inc.**  
Report on Organization Examination  
May 31, 2012

STATEMENT OF ASSETS, LIABILITIES, CAPITAL AND SURPLUS

**ASSETS**

Assets

Cash	\$1,520,258
<b><u>Total Assets</u></b>	<b><u>\$1,520,258</u></b>

**LIABILITIES, CAPITAL AND SURPLUS**

Liabilities

Total Liabilities	\$ <u>0</u>
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Capital and Surplus

Common Capital Stock	100
Paid-In and Contributed Surplus	1,519,900
Unassigned Surplus	<u>258</u>
Total Capital and Surplus	<u>\$1,520,258</u>
<b><u>Total Liabilities, Capital and Surplus</u></b>	<b><u>\$1,520,258</u></b>

**Molina Healthcare of the District of Columbia, Inc.**  
Report on Organization Examination  
May 31, 2012

**SUMMARY OF OPERATIONS**  
**FOR THE ORGANIZATIONAL DATE ENDED MAY 31, 2012**

**Income**

Interest Earned	<u>\$258</u>
Total Income	258
Expenses	
Total Expenses	<u>-0-</u>
Net Income	<u>\$258</u>

**RECONCILIATION OF CAPITAL AND SURPLUS**  
**ENDED MAY 31, 2012**

Balance at May 11, 2012	<u>\$1,520,000</u>
Income May 1, 2012 to May 31, 2012	<u>\$ 258</u>
Operating expenses May 1, 2012 to May 31, 2012	<u>-0-</u>
Capital and Surplus, May 31, 2012	<u>\$1,520,258</u>

**ANALYSIS OF EXAMINATION CHANGES TO SURPLUS**

There were no changes to the Company's surplus as a result of the examination.

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**NOTES TO FINANCIAL STATEMENTS**

Net Worth, Feasibility, Quality Assurance Program and Risk-Based Capital Standards:

Chapter 34 (“HEALTH MAINTENANCE ORGANIZATIONS”) of Title 31 (“Insurance and Securities”) of the District of Columbia Official Code requires the Company to have an initial net worth of \$1,500,000.

Chapter 34 of Title 31 requires that the Company provide a description of the proposed quality assurance program, including the formal organizational structure, methods for developing criteria, procedures for comprehensive evaluation of the quality of care rendered to enrollees, and processes to initiate corrective action and reevaluation when deficiencies in provider or organizational performance are identified.

Chapter 34 of Title 31 of the District of Columbia Code requires that the Company submit to the Department a financial feasibility plan which includes detailed enrollment projections, the methodology for determining dues to be charged during the first 12 months of operations, a projection of balance sheets, cash flow statements, income and expense statements anticipated from the start of operation until the Company has had net income for at least 1 year, and a statement as to the sources of working capital as well as any other sources of funding.

In addition, Chapter 38b (“RISK-BASED CAPITAL”) of Title 31 of the District of Columbia Official Code requires the Company to maintain statutory capital and surplus levels as determined in accordance with the applicable risk-based capital formulas.

As of the date of our organizational examination, the Company meets the requirements of the aforementioned provisions of the District of Columbia Official Code.

**Molina Healthcare of the District of Columbia, Inc.**  
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**COMMENTS AND RECOMMENDATIONS**

Statutory Deposits:

District of Columbia Official Code 31-3412(b) requires the Company to deposit with the Commissioner, or any organization or trustee acceptable to the Commissioner, cash, securities, or any combination of these that shall have a value of not less than \$300,000. As of the date of this report the Company was in the process of establishing the required deposit. **The Company is required to take the necessary steps to establish the statutory deposit prior to commencing business.**

Additional Comments and Recommendations:

The Company must meet the following additional conditions and requirements:

1. Must file Quarterly Financial Statements.
2. Must file reports on D.C. Escheatable Property, as required by Chapter 2 of Title 42 of the District of Columbia Related Laws to the Insurance Code.
3. Must prepare an Annual Audited Report in accordance with the statutory accounting practices as required by the District of Columbia Code, § 31-303.
4. Must file an Annual Actuarial Opinion on the Company's reserves.
5. Must provide internal grievance procedures to be utilized for the investigation and resolution of enrollee complaints and grievances in accordance with District of Columbia Code 31-3402(d)(11).
6. Must maintain its principal office, books, records and files within the District in accordance with §31-3431, and shall not remove from the District either its principal office, books, records, or files without the permission of the Commissioner.

The above stated requirements are not all inclusive and the Company will have additional regulatory and compliance requirements, which must also be satisfied.

**Molina Healthcare of the District of Columbia, Inc.**  
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**CONCLUSION**

Our organizational examination disclosed that as of May 31, 2012, the Company had:

Admitted Assets	<u>\$ 1,520,258</u>
Liabilities	<u>\$ 0</u>
Common Capital Stock	100
Gross Paid In and Contributed Surplus	1,519,900
Unassigned Funds (Surplus)	<u>\$ 258</u>
Surplus as regards policyholders	<u>\$ 1,520,258</u>
Total Liabilities and Surplus	<u>\$ 1,520,258</u>

Based on our examination, the accompanying balance sheet properly presents the statutory financial position of the Company at May 31, 2012. The Company has requested an original certificate of authority to establish and operate a health maintenance organization in accordance with Title 31, Chapter 34 (“Health Maintenance Organizations”) of the District of Columbia Official Code. Based on our examination, the Company meets the minimum net worth requirements of Section 31-3412 of the District of Columbia Official Code and is entitled to the issuance of a certificate of authority to establish and operate a health maintenance organization.

**Molina Healthcare of the District of Columbia, Inc.**  
Report on Organization Examination  
May 31, 2012

**SIGNATURES**

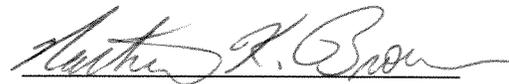
The following undersigned from the District of Columbia Department of Insurance, Securities and Banking participated in certain phases of this examination.

Respectfully submitted,



Samuel Merlo, AFE, CPA  
Examiner-In-Charge  
District of Columbia Department of  
Insurance, Securities and Banking

Under the Supervision of,



Nathaniel Kevin Brown, CFE, CPA  
Chief Financial Examiner  
District of Columbia Department of  
Insurance, Securities and Banking