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January 31, 2011

via FedEx Delivery and eFile

George Halvorson,
Chairman of Board & Chief Executive Officer
KAISER FOUNDATION HEALTH PLAN, INC.
2101 Webster Street, 8th Floor
Oakland, CA 94612

**FINAL REPORT OF THE ROUTINE FINANCIAL EXAMINATION OF KAISER
FOUNDATION HEALTH PLAN, INC.**

Dear Mr. Halvorson:

Enclosed is the Final Report of a routine financial examination of the fiscal and administrative affairs of Kaiser Foundation Health Plan (the "Plan"), conducted by the Department of Managed Health Care (the "Department"), pursuant to Section 1382(a) of the Knox-Keene Health Care Plan Act of 1975.¹ The Department issued a Preliminary Report to the Plan on December 16, 2010. The Department accepted the Plan's electronically filed response on January 14, 2011 (the "response").

This Final Report includes a description of the compliance efforts included in the Plan's responses, in accordance with Section 1382(c).

Section 1382(d) states "If requested in writing by the plan, the director shall append the plan's response to the final report issued pursuant to subdivision (c). The plan may modify its response or statement at any time and electronically file modified copies to the department for public distribution not later than 10 days from the date of notification from the department that the final report will be made available to the public. The addendum to the response or statement shall also be made available to the public."

Please indicate within ten (10) days whether the Plan requests the Department to append its response to the Final Report. If so, please indicate which portions of the Plan's response shall be appended, and electronically file copies of those portions of the Plan's response exclusive of information held confidential pursuant to Section 1382(c), no later than ten (10) days from the date of the Plan's receipt of this letter.

¹ References throughout this report to "Section" are to sections of the Knox-Keene Health Care Service Plan Act of 1975, California Health and Safety Code Section 1340, et seq. References to "Rule" are to the regulations promulgated pursuant to the Knox-Keene Health Care Service Plan Act, found at Title 28, Division 1, Chapter 1, California Code of Regulations, beginning with Section 1300.43.

If the Plan requests the Department to append a brief statement summarizing the Plan's response to the report or wishes to modify any information provided to the Department in its responses, please provide the electronically filed documentation no later than ten (10) days from the date of the Plan's receipt of this letter through the eFiling web portal. Please file this addendum electronically via the Department's eFiling web portal <https://wpsso.dmhc.ca.gov/secure/login/>, as follows:

- From the main menu, select "eFiling".
- From the eFiling (Home) menu, select "File Documents".
- From the File Documents Menu for:
 - 1) File Type; select "Amendment to prior filing";
 - 2) Original Filing, select the "Filing No. 20101173" assigned by the Department; and
 - 3) Click "create filing".
- From the Original Filing Details Menu, click "Upload Amendments"; select # of documents; select document type: ""Plan addendum response to Final Report (FE5)"; then "Select File" and click "Upload".
- Upload all documents then upload a cover letter as Exhibit E-1 that references to your response.
- After upload, then select "Complete Amendment", complete "Execution" and then click "complete filing".

Questions or problems related to the electronic transmission of the above responses should be directed to Rita Ultreras at (916) 322-5393 or email at rultreras@dmhc.ca.gov. You may also email inquiries to wpsso@dmhc.ca.gov.

The Department will make the attached Final Report available to the public in ten (10) days from the Plan's receipt of this letter through the eFiling system. The report will be located at the Department's web site at www.dmhc.ca.gov.

If there are any questions regarding this report, please contact me.

Sincerely,

ORIGINAL SIGNED BY

BILL CHANG
Supervising Examiner
Office of Health Plan Oversight
Division of Financial Oversight

Cc: Daniel Chesir, Director, Survey and PDR, Kaiser Foundation Health Plan, Inc.
Maria Borje-Bonkowski, Director, HPL, Kaiser Foundation Health Plan, Inc.
Maureen McKennan, Assistant Deputy Director, Office of Health Plan Oversight
Michael Cleary, Chief, Division of Financial Oversight
Jamey Matalka, Examiner, Division of Financial Oversight
Sang Le, Examiner IV Supervisor, Division of Financial Oversight
Elizabeth Spring, Counsel, Division of Licensing
Marcy Gallagher, Chief, Division of Plan Surveys

**STATE OF CALIFORNIA
DEPARTMENT OF MANAGED HEALTH CARE**

DIVISION OF FINANCIAL OVERSIGHT

**FINAL REPORT OF
THE ROUTINE FINANCIAL EXAMINATION OF**

KAISER FOUNDATION HEALTH PLAN, INC

FILE NO. 933-0055

DATE OF FINAL REPORT: JANUARY 31, 2011

SUPERVISING EXAMINER: BILL CHANG

EXAMINER-IN-CHARGE: JAMEY MATALKA

FINANCIAL EXAMINERS:

SANG LE

TOM CHAN

NED GENNAOUI

**BACKGROUND INFORMATION FOR KAISER FOUNDATION HEALTH
PLAN, INC.**

Date Plan Licensed:	October 27, 1977
Organizational Structure:	Kaiser Foundation Health Plan, Inc. (“Plan”) is a not-for-profit corporation, licensed as a Knox-Keene health maintenance organization. The Plan is a part of an integrated system, known as Kaiser Permanente. Within this system there are hospitals, medical groups, and other facilities all working together in a unified approach to delivery health care services to its members.
Type of Plan:	The plan offers comprehensive health care services to commercial, Medicare, and Medi-Cal enrollees.
Provider Network:	Integrated care model offering health care services through a network of hospitals and physician practices operating under the Kaiser Permanente name.
Plan Enrollment:	6,713,018 as of March 31, 2010
Service Area:	Major Counties within California
Date of last Final Routine Examination Report:	November 26, 2007

FINAL REPORT OF THE ROUTINE FINANCIAL EXAMINATION OF KAISER FOUNDATION HEALTH PLAN, INC.

This is the Final Report of the routine financial examination of the fiscal and administrative affairs of Kaiser Foundation Health Plan, Inc. (the “Plan”), conducted by the Department of Managed Health Care (the “Department”) pursuant to Section 1382(a) of the Knox-Keene Health Care Plan Act of 1975.¹ The Department issued a Preliminary Report to the Plan on December 16, 2010. The Department accepted the Plan’s electronically filed response on January 14, 2011 (the “response”).

This Final Report includes a description of the compliance efforts included in the Plan’s responses, in accordance with Section 1382(c). The Plan’s response is noted in *italics*.

We performed a routine examination of the financial report filed with the Department for the quarter ended March 31, 2010, as well as other selected accounting records and controls related to the Plan’s various fiscal and administrative transactions. Our findings are presented in this report as follows:

Section I.	Financial Report
Section II.	Calculation of Tangible Net Equity
Section III.	Compliance Issues

¹ References throughout this report to “Section” are to sections of the Knox-Keene Health Care Service Plan Act of 1975, California Health and Safety Code Section 1340, et seq. References to “Rule” are to the regulations promulgated pursuant to the Knox-Keene Health Care Service Plan Act, found at Title 28, Division 1, Chapter 1, California Code of Regulations, beginning with Section 1300.43.

SECTION I. FINANCIAL REPORT

Our examination resulted in no adjustments or reclassifications to the Plan's March 31, 2010 financial statements filed with the Department. A copy of the Plan's financial statements can be viewed at the Department's website by typing the link <http://wps0.dmhc.ca.gov/fe/search.asp> and selecting Kaiser Foundation Health Plan, Inc. on the first drop down menu.

No response required to this Section.

SECTION II. CALCULATION OF TANGIBLE NET EQUITY (TNE)

Net Worth as reported by the Plan as of Quarter Ended March 31, 2010	\$12,832,072,000
Add: Subordinated debt and related interest	0
Less: Intangible Assets and Goodwill-Net	<u>44,308,000</u>
Tangible Net Equity	\$12,787,764,000
Required TNE	<u>1,075,094,960</u>
TNE Excess per Examination Quarter Ended March 31, 2010	<u>\$ 11,712,669,040</u>

The Plan is in compliance with the TNE requirement of Section 1376 and Rule 1300.76 as of March 31, 2010.

No response required to this Section.

SECTION III. COMPLIANCE ISSUES

A. POWERS OF ADMINISTRATION-PLAN INVESTMENTS

Section 1346(a)(11) requires a Plan to invest assets, to meet the requirements of Section 1376, in any obligations set forth in Article 3 (commencing with Section 1170) of, and Article 4 (commencing with Section 1190) of, Chapter 2 Part 2 of Division 1 of the Insurance Code; and all other assets in a prudent manner.

DEFICIENCY

Our examination disclosed that the Plan's investment policy had no reference to and did not incorporate any of the requirements of Section 1346(a)(11) into their investment policies and procedures manual (Kaiser Foundation Health Plan, Inc. and Subsidiaries...Investment Policy).

REQUIRED ACTION

During our examination the Plan revised its policies and procedures to correct the deficiency cited above. The Plan is only required to state the management position responsible for ensuring continued compliance.

Plan Response to Deficiency A: Powers of Administration-Plan Investments

The management position responsible for ensuring continued compliance is the Vice President, Pension & Foundation Investments, Chief Investment Officer.

The Department finds that the compliance effort is responsive to the deficiency cited. No further response is required.

B. CHANGE IN PLAN PERSONNEL

Section 1352(c) provides that a plan shall, within five days, give written notice to the director in the form as by rule may be prescribed, of any change in the officers, directors, partners, controlling shareholders, principal creditors, or persons occupying similar positions or performing similar functions, of the plan and of any management company of the plan, and of any parent company of the plan or management company. The director may by rule define the positions, duties, and relationships, which are referred to in this subdivision.

DEFICIENCY

Our examination disclosed that the Plan failed to file an amendment with the Department, within a timely manner as directed by Section 1352(c), for the change in CFO of Mike Rowe who was hired in June 2010.

REQUIRED ACTION

The Plan is required to submit an amendment filing for change in personnel with the Department within 30 days of the final report. In addition, the Plan is required to state the management position responsible for ensuring continued compliance.

Plan Response to Deficiency B: Change in Plan Personnel

On December 28, 2010, the Plan filed the change in Northern California Chief Financial Officer (NCAL CFO) (See eFile No. 20102508)

The Department finds that the compliance effort is responsive to the deficiency cited. No further response is required.

C. FIDELITY BOND

Rule 1300.76.3(a) requires every plan to maintain at all times a fidelity bond covering each officer, director, trustee, partner, and employee of the plan, whether or not they are compensated. The fidelity bond shall also provide for thirty (30) days notice to the Director of the Department of Managed Health Care prior to cancellation. The fidelity bond shall provide at least the minimum coverage for the plan determined by the coverage schedule included in the Rule 1300.76.3.

DEFICIENCY

Our examination disclosed that the Plan's fidelity bond did not define an employee as required by Rule 1300.76.3(a), for non-compensated directors, trustees, partners, and employees. The language in the policy was limited to only officers.

REQUIRED ACTION

During our examination the Plan provided an amended policy that accurately reflected the requirements of the cited deficiency. The Plan is only required to state the management position responsible for ensuring continued compliance.

Plan Response to Deficiency C: Fidelity Bond

The management position responsible for ensuring continued compliance is the Manager, Risk Finance.

The Department finds that the compliance effort is responsive to the deficiency cited. No further response is required.

D. AMENDMENT FOR CHANGE IN INFORMATION

Section 1352(a) requires a plan, within 30 days after any change in the information contained in its application, other than statistical or financial information, file an amendment thereto in the manner the director may by rule prescribe setting forth the changed information.

