



Edmund G. Brown Jr., Governor  
State of California  
Health and Human Services Agency

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May 21, 2014

via USPS Delivery and eFile

John Ternan, President  
Aetna Health of California, Inc.  
2850 Shadelands Drive  
Walnut Creek, CA 94598

**FINAL REPORT OF ROUTINE EXAMINATION OF AETNA HEALTH OF CALIFORNIA, INC.**

Dear Mr. Ternan:

Enclosed is the Final Report of a routine examination of the fiscal and administrative affairs of Aetna Health of California, Inc. (Plan), conducted by the Department of Managed Health Care (Department), pursuant to Section 1382(a) of the Knox-Keene Health Care Plan Act of 1975.<sup>1</sup> The Department issued a Preliminary Report to the Plan on March 7, 2014. The Department accepted the Plan's electronically filed response on April 18, 2014.

This Final Report includes a description of the compliance efforts included in the Plan's April 18, 2014 response, 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 provide 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.

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<sup>1</sup> References throughout this Report to "Section" are to sections of the Knox-Keene Health Care Service Plan Act of 1975, as codified in the 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 April 18, 2014 response, 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 Corrective Action Plan system ("CAP system") within the Online Forms Section of the Department's eFiling web portal <https://wpsso.dmhca.ca.gov/secure/login/>, as follows:

- From the main menu, select "eFiling".
- From the eFiling (Home) menu, select "Online Forms".
- From the Existing Online Forms menu click on the "Details" for the DFO Corrective Action Plan S14-R-176
- Go to the "Messages" tab
  - Select "Addendum to Final Report" (note this option will only be available for 10 days after the Final Report has been issued)
  - Select the deficiency(ies) that are applicable
  - Create a message for the Department
  - Attach and Upload all documents with the name "Addendum to Final Report"
  - Click "Send Message"

The Department finds the Plan's compliance efforts are responsive to the deficiencies cited and the corrective actions required. Therefore, no further response is required

**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 [View Department Issued Final Examination Reports](#).**

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

Sincerely,

**ORIGINAL SIGNED BY**

Bill Chang  
Supervising Examiner  
Office of Financial Review  
Division of Financial Oversight

cc: Lesa Paige-Bentley, Compliance Manager - West Region, Aetna Health of California, Inc.  
James Tucker, Acting Deputy Director, Office of Financial Review  
Anna Belmont, Examiner, Division of Financial Oversight  
Barbara Yaklin, Examiner, Division of Financial Oversight  
Sonia Fernandes, Counsel, Division of Licensing  
Laura Dooley-Beile, Chief, Division of Plan Surveys

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

**DIVISION OF FINANCIAL OVERSIGHT**

**FINAL REPORT OF ROUTINE EXAMINATION**

**FOR**

**AETNA HEALTH OF CALIFORNIA, INC.**

**FILE NO. 933-0176**

**DATE OF FINAL REPORT: MAY 21, 2014**

**SUPERVISING EXAMINER: Bill Chang**

**OVERSIGHT EXAMINER: Steven Alseth**

**EXAMINER-IN-CHARGE: Anna Belmont**

**FINANCIAL EXAMINERS: John Yin**

**BACKGROUND INFORMATION FOR  
AETNA HEALTH OF CALIFORNIA, INC.**

Date Plan Licensed:	August 6, 1981
Organizational Structure:	The Plan is a wholly-owned subsidiary of Aetna Health Holdings, LLC which is a wholly-owned subsidiary of Aetna Inc.
Type of Plan:	The Plan is a full service health care service plan providing medical services for commercial, Medicare and Point of Service (POS) beneficiaries. The Plan also has prospective arrangements for mental health, substance abuse, diagnostic laboratory, radiology and diagnostic imaging services, pediatric treatment, physical therapy, hospitalist and prescription drug dispensing.
Provider Network:	The Plan has contracts that provide for all-inclusive per diem and per case hospitalization rates and fixed rates for ambulatory surgery, emergency room services and specialist services. The Plan also has capitated agreements with hospitals, as well as agreements with certain integrated health care delivery systems under which the systems are compensated on a substantially fixed prospective basis for medical services, including primary, specialist and hospital care.
Plan Enrollment:	As of September 30, 2013 the Plan reported 289,050 commercial enrollment, 25,976 Medicare enrollment, 1,293 POS enrollment, 89,134 small group enrollment and 172,620 EAP enrollment.
Service Area:	All major counties within the state of California
Date of last Final Routine Examination Report:	March 23, 2010

## FINAL REPORT OF A ROUTINE EXAMINATION OF AETNA HEALTH OF CALIFORNIA, INC.

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This Final Report includes a description of the compliance efforts included in the Plan's April 18, 2014 response to the Preliminary Report, in accordance with Section 1382(c). The Plan's response is noted in *italics*.

The Department examined the Plan's financial report filed with the Department for the quarter ended September 30, 2013, as well as other selected accounting records and controls related to the Plan's various fiscal and administrative transactions. The Department's findings are presented in this Report as follows:

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

***The Department finds the Plan's compliance efforts are responsive to the deficiencies cited and the corrective actions required. Therefore, no further response is required.***

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<sup>1</sup> References throughout this Report to "Section" are to sections of the Knox-Keene Health Care Service Plan Act of 1975, as codified in the 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**

The Department's examination did not result in any adjustments or reclassifications to the Plan's September 30, 2013 financial statements. 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 Aetna Health of California from 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 September 30, 2013	\$ 173,761,033
Less: Unsecured Affiliate receivable	<u>\$ 1,795,514</u>
Tangible Net Equity	\$ 171,965,519
Required TNE	<u>\$ 36,453,158</u>
TNE Excess per Examination as of quarter ended September 30, 2013	<u>\$ 135,512,361</u>

The Plan is in compliance with the TNE requirement of Section 1376 and Rule 1300.76 as of September 30, 2013.

**No response required to this Section.**

## **SECTION III. COMPLIANCE ISSUES**

### **A. SOLICITOR AGREEMENT**

Rule 1300.67.12(c) requires that a Plan shall maintain written contracts with all solicitor firms that include the following: the solicitor firm shall comply and shall cause its principal persons and employees to comply with all applicable provisions of the Act and the rules thereunder.

Rule 1300.81 requires that the books and records of a solicitor firm shall not be removed from this state without the prior consent of the Director.

Rule 1300.85 requires each solicitor firm to keep and maintain their books of account and other records on a current basis.

Rule 1300.85.1 requires each solicitor firm to preserve books and records for a period of not less than five years, the last two years of which shall be in an easily accessible place.

The Department's examination disclosed that the Aetna Producer Agreement (Solicitor Agreement) does not have provisions requiring solicitors to comply with Rules 1300.81, 1300.85 and 1300.85.1.

The Preliminary Report required the Plan to file, as an amendment with the Department, a revised Aetna Producer Agreement (Solicitor Agreement) that was in compliance with above stated Rules. The Plan was also required to provide evidence in its response that the required amendment was filed with the Department. In addition, the Plan was required to state the management position(s) responsible for overseeing the corrective action implemented and to ensure ongoing compliance with the corrective action.

*The Plan responded that it took the following actions to modify the Agent Producer Agreement (Solicitor Agreement) to add specificity to the solicitor's obligations.*

- 1. The Plan filed Exhibit BB-2 Agent Producer Agreement with the appropriate stated rules and the Exhibit E-1 stating this filing is a result of the recent financial examination for the period ending September 30, 2013 with the Department on April 4, 2014, under Filing No. 20140786.*
- 2. The Plan's affiliate, Aetna Dental of California Inc., also submitted a similar filing under Filing No. 2014783 in connection with its recent financial examination for the period ended December 31, 2012.*
- 3. The Plan represented that the Regulatory Compliance Manager will be responsible for overseeing and ensuring ongoing compliance.*

**The Department finds that the Plan's compliance effort is responsive to the deficiency cited and the corrective action required. No further response is required.**