

December 3, 2015

Ms. Gay Ann Williams
CEO/Plan Administrator
Health Net of Arizona
1230 West Washington Street
Tempe, AZ 85281

Subject: Compliance Action - Notice of Sanction

Dear Ms. Williams:

The Arizona Health Care Cost Containment System (AHCCCS), Division of Health Care Management (DHCM) has determined that Health Net Access (HNA) is in violation of contract YH14-0001 for acute care services. As outlined in Section D, Paragraph 72 (Sanctions) of the Acute Care Contract, AHCCCS is imposing the following regulatory action:

HNA has failed to demonstrate compliance with the contractual requirement that the Administrative Cost Percentage be no more than ten percent (10%). Paragraph 50, page 87 of the contract reads in part as follows:

The Contractor must comply with the AHCCCS established financial viability standards. On a quarterly basis, AHCCCS will review the following ratios with the purpose of monitoring the financial health of the Contractor: current ratio; equity per member; medical expense ratio; and the administrative cost percentage.

Interim quarterly financial statements submitted by HNA reflect an Administrative Cost Percentage of 10.23%, 10.62%, 11.17% and 18.25% for the four quarters ending December 31, 2014, March 31, 2015, June 30, 2015, and September 30, 2015, respectively. On a contract year-to-date basis the Administrative Cost Percentage is 12.49%. In addition, HNA responded to the Notice of Corrective Action Plan, imposed for this same violation, stating the reduction in fees and elimination of additional resources allowing HNA to be in compliance would occur no later than the quarter ending December 31, 2015.

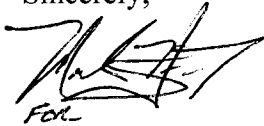
HNA is subject to sanction for failing to keep its Administrative Cost Percentage equal to or less than ten percent (10%) when calculated on a contract year-to-date basis. Accordingly, AHCCCS will impose a monetary sanction in the amount of **\$25,000** for HNA's failure to comply with financial standards as specified in contract. The total sanction amount will be withheld from future capitation payments.

If HNA disagrees with this determination, HNA may file a dispute with the AHCCCS Administration, in accordance with the process outlined in A.A.C. R9-34-401 et. seq. The dispute must be filed in writing and must be received by the AHCCCS Administration, Office of

Administrative Legal Services at 701 E. Jefferson Street, Phoenix, Arizona 85034, no later than sixty (60) days from the date of this letter. The dispute shall specify the legal and factual bases for the dispute as well as the relief requested.

If you have any questions regarding this letter you may contact Shelli Silver, Assistant Director, at 602-417-4647 or Shelli.Silver@azahcccs.gov.

Sincerely,



For
Meggan Harley, CPPO, MSW
Procurement and Contracts Manager

C: Shelli Silver, Assistant Director, DHCM
Cynthia Layne, Finance and Reinsurance Manager, DHCM
Virginia Rountree, Assistant Director, DHCM
Christina Quast, Operations Manager, DHCM
Susan Gilkey, Regulatory, Compliance and Reporting Director, HNA
Trista Loops, Finance Director, HNA