

# Medica Health Plans

Qualification Letter



**McGladrey**

**McGladrey & Pullen, LLP**  
Certified Public Accountants



## Qualifications Letter of Independent Auditors

To the Board of Directors  
Medica Health Plans  
Minnetonka, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statutory-basis financial statements of Medica Health Plans for the years ended December 31, 2010 and 2009, and have issued our report thereon dated March 31, 2011. In connection therewith, we advise you as follows:

1. We are independent certified public accountants with respect to Medica Health Plans and conform to the standards of the accounting profession as contained in the Code of Professional Conduct and pronouncements of the American Institute of Certified Public Accountants, and the Rules of Professional Conduct of the Minnesota Board of Public Accountancy.
2. The engagement partner and engagement manager, who are certified public accountants, have 15 years and 10 years, respectively, of experience in public accounting and are experienced in auditing insurance companies. Members of the engagement team, 75 percent of whom have had experience in auditing insurance companies and 75 percent of whom are certified public accountants, were assigned to perform tasks commensurate with their training and experience.
3. We understand that Medica Health Plans intends to file its audited statutory-basis financial statements and our report thereon with the Minnesota Department of Health and other states in which Medica Health Plans is licensed and that the commissioners of those states will be relying on that information in monitoring and regulating the statutory financial condition of Medica Health Plans.

While we understand that an objective of issuing a report on the statutory financial statements is to satisfy regulatory requirements, our audit was not planned to satisfy all objectives or responsibilities of insurance regulators. In this context, Medica Health Plans and the insurance commissioners should understand that the objective of an audit of statutory-basis financial statements in accordance with auditing standards generally accepted in the United States of America is to form an opinion and issue a report on whether the statutory-basis financial statements present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus, results of operations and cash flow in conformity with accounting practices prescribed or permitted by the Minnesota Department of Health. Consequently, under auditing standards generally accepted in the United States of America, we have the responsibility, within the inherent limitations of the auditing process, to plan and perform our audit to obtain reasonable assurance about whether the statutory-basis financial statements are free of material misstatement, whether caused by error or fraud, and to exercise due professional care in the conduct of the audit. The concept of selective testing of the data being audited, which involves judgment both as to the number of transactions to be audited and the areas to be tested, has been generally accepted as a valid and sufficient basis for an auditor to express an opinion on financial statements. Audit procedures that are effective for detecting errors, if they exist, may be ineffective for detecting misstatements resulting from fraud. Because of the characteristics of fraud, a properly planned and performed audit may not detect a material misstatement resulting from fraud. In addition, an audit does not address the possibility that material misstatements caused by error or fraud may occur in the future. Also, our use of professional judgment and the assessment of materiality for the purpose of our audit means that matters may exist that would have been assessed differently by insurance commissioners.

It is the responsibility of the management of Medica Health Plans to adopt sound accounting policies, to maintain an adequate and effective system of accounts, and to establish and maintain internal control that will, among other things, provide reasonable but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting practices prescribed or permitted by the Minnesota Department of Health.

The Commissioner of Health should exercise due diligence to obtain whatever other information may be necessary for the purpose of monitoring and regulating the statutory financial position of insurers and should not rely solely upon the independent auditor's report.

4. We will retain the workpapers prepared in the conduct of our audit until the Minnesota Department of Health has filed a Report of Examination covering 2010, but not longer than seven years. After notification to Medica Health Plans, we will make the workpapers available for review by the Minnesota Department of Health at the offices of the insurer, at our offices, at the Minnesota Department of Health or at any other reasonable place designated by the Commissioner of Health. Furthermore, in the conduct of the aforementioned periodic review by the Minnesota Department of Health, photocopies of pertinent audit workpapers may be made (under the control of the accountant), and such copies may be retained by the Minnesota Department of Health.
5. The engagement partner has served in that capacity with respect to Medica Health Plans since 2010, is licensed by the Minnesota Board of Public Accountancy and is a member in good standing of the American Institute of Certified Public Accountants.
6. To the best of our knowledge and belief, we are in compliance with the requirements of Section 7 of the NAIC's Model Rule (Regulation) Requiring Annual Audited Financial Reports regarding qualifications of independent certified public accountants.

To the Board of Directors  
Medica Health Plans  
Page 3

This letter is intended solely for the information and use of the Board of Directors of Medica Health Plans and the Minnesota Department of Health and other state insurance departments and is not intended to be and should not be used by anyone other than these specified parties.

*McGladrey & Pullen, LLP*

Minneapolis, Minnesota  
March 31, 2011