



Arnold Schwarzenegger, Governor  
State of California  
Business, Transportation and Housing  
Agency

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January 28, 2005

**UPS Delivery and via electronic mail**

Mohender Narula, D.M.D., President  
**JAIMINI HEALTH, INC.**  
3350 Shelby Drive, Suite 100  
Ontario, CA 91764

**FINAL REPORT OF ROUTINE EXAMINATION OF JAIMINI HEALTH, INC.**

Dear Dr. Narula:

Enclosed is the Final Report of a routine examination of the fiscal and administrative affairs of JAIMINI HEALTH, INC. (the "Plan"), conducted by the Department of Managed Health Care (the Department"), pursuant to Section 1382(b) of the Knox-Keene Health Care Plan Act of 1975.<sup>1</sup> The Department issued a Preliminary Report to the Plan on November 9, 2004. The Department accepted the Plan's electronically filed response on December 30, 2004.

This Final Report includes a description of the compliance efforts included in the Plan's December 30, 2004 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 provide 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, 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 December 30, 2004 response, please provide the documentation no later than ten (10) days from the date of the Plan's receipt of this letter.

As noted in the attached Final Report, the Plan's December 30, 2004 response did not fully respond to the deficiencies raised in the Preliminary Report issued by the Department on November 9, 2004. Pursuant to Rule 1300.82, the Plan is required to submit a response to the Department for any request for additional corrective action contained within the attached Final Report, within 30 days after receipt of the report. ***If the Plan fails to fully respond and/or resolve the deficiencies addressed in the Final Report, then a referral will be made to the Office of Enforcement for appropriate administrative action for any remaining, unresolved deficiencies.***

**Due to the seriousness of the deficiencies and repeat deficiencies presented in the Preliminary Report, a referral was made to the Department's Office of Enforcement for appropriate administrative action.**

Please email an electronic copy of your response directly to the undersigned at [jlarsen@dmhc.ca.gov](mailto:jlarsen@dmhc.ca.gov), in order to expedite the reporting process. In addition, please file the Plan's response electronically, just as you do for regular licensing filings via the Department's web portal <http://wp.dmhc.ca.gov/efile> under Report/Other, subfolder RUXAM and barcode RX004. Do not file an Execution Page or Exhibit E-1 (Summary of Filing). Please note this process is separate from the electronic financial reporting and is for the response to this report only. Questions or problems related to the electronic transmission of the response should be directed to Angie Rodriguez at (916) 324-9048 or email at [arodriguez@dmhc.ca.gov](mailto:arodriguez@dmhc.ca.gov). You may also email inquiries to [helpfile@dmhc.ca.gov](mailto:helpfile@dmhc.ca.gov).

The Executive Summary to the Department's most recent Medical Survey Report is located at the Department's web site at [www.dmhc.ca.gov](http://www.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.**

If there are any questions regarding this report, please call the undersigned at 213-576-7618.

Sincerely,

Joan Larsen  
Supervising Examiner  
Office of Health Plan Oversight  
Division of Financial Oversight

JL:pb  
Attachment

cc: Eric Kalter, Chief Financial Officer of Jaimini Health, Inc.  
Michael Polis, Counsel for Jaimini Health, Inc.  
Mark E. Wright, Chief, Division of Financial Oversight  
Kelvin Gee, Examiner  
April Alexander, Licensing Counsel

**DEPARTMENT OF MANAGED HEALTH CARE**

**REPORT OF ROUTINE EXAMINATION**

**JAIMINI HEALTH, INC.**

**FILE NO.: 933-0179**

**DATE OF FINAL REPORT: January 28, 2005**

**SUPERVISING EXAMINER: JOAN LARSEN**

**EXAMINER-IN-CHARGE: KELVIN GEE**

**SENIOR EXAMINER: K. KIM MALME**

## **BACKGROUND INFORMATION FOR JAIMINI HEALTH, INC.**

|  |  |
|--|--|
| Date Plan Licensed:                                | August 15, 1983  |
| Organizational Structure:                          | The Plan is a for-profit organization and is wholly owned by Dr. Narula.   |
| Type of Plan:                                      | The Plan is a specialized health care service plan providing dental services to employer groups and individuals.   |
| Provider Network:                                  | The Plan contracts with a network of dentists. The network dentists are reimbursed with a small fixed fee from Plan and high co-payments from members. The Plan is at risk for a \$50 emergency fee. |
| Plan Enrollment:                                   | 8,931 as of June 30, 2004  |
| Service Area:                                      | The Plan provides care in 42 counties that cover all of California's major metropolitan markets including greater Los Angeles, Orange County, Bay Area and San Diego markets.                        |
| Date of Last Public Report of Routine Examination: | July 16, 2003  |

## **FINAL REPORT OF A ROUTINE EXAMINATION OF JAIMINI HEALTH, INC.**

This is the Final Report of a routine examination of the fiscal and administrative affairs of Jaimini Health, Inc. ("the Plan"), conducted by the Department of Managed Health Care (the "Department") pursuant to Section 1382(b) of the Knox-Keene Health Care Plan Act of 1975<sup>1</sup>. The Department issued a Preliminary Report to the Plan on April 28, 2003. The Department received the Plan electronic response on December 30, 2004.

This Final Report includes a description of the compliance efforts included in the Plan's December 30, 2004 response to the Preliminary Report, in accordance with Section 1382(c).

We examined the financial report filed with the Department for the quarter ended June 30, 2004, 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:

|              |                                    |
|--------------|------------------------------------|
| Section I.   | Financial Report                   |
| Section II.  | Calculation of Tangible Net Equity |
| Section III. | Compliance Issues                  |
| Section IV.  | Internal Control                   |

***Pursuant to Rule 1300.82, the Plan is required to submit a response to the Department for any requests for additional corrective action contained within this report, within 30 days after receipt of this report.***

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<sup>1</sup> Reference 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. TANGIBLE NET EQUITY (“TNE”)**

Section 1376 states that each plan shall have and maintain TNE equal to an amount that is calculated based upon requirements set forth in Rule 1300.76. Rule 1300.76(e) states that the required amount of TNE must be maintained at all times. Rule 1300.76(a) also sets forth the method for determining the required amount of TNE that shall be maintained at all times.

The following calculation of TNE compliance is based on the Plan’s financial statement for the quarter ended June 30, 2004:

|   |                        |
|---|------------------------|
| Net Worth as reported by the Plan at June 30, 2004 <sup>2</sup> | \$ <11,385>            |
| Add: Subordinated Debt and Accrued Interest                     | 620,174                |
| Less: Intangible Assets and Goodwill                            | <u>&lt;419,237&gt;</u> |
| TNE Position at June 30, 2004                                   | 190,092                |
| Required TNE per Examination at June 30, 2004                   | <u>&lt;50,000&gt;</u>  |
| <b>TNE EXCESS per Examination at June 30, 2004</b>              | <u>\$ 140,092</u>      |

Although the Plan reported compliance with the TNE requirements at the end of the quarter on June 30, 2004 and at the end of the month on July 31, 2004, the Department determined that the Plan impaired its ability to ensure that the required minimum amount of TNE was maintained at all times, during the time periods of June 3, 2004 to June 28, 2004 and July 6 to July 13, 2004. The Department reviewed the Plan’s bank statements for the month of June 2004 and determined that the Plan failed to ensure its compliance with the TNE requirements at all times, due to a cash withdrawal of \$125,000 on June 3, 2004 that was not returned to the Plan as a deposit of the same amount until June 29, 2004. As a result of this transaction, the Plan significantly reduced its excess TNE and impaired its ability to ensure compliance with the required amount of TNE for the period of time during June 2004 when the \$125,000 was not maintained in the Plan’s bank account. The Department also determined that the Plan made similar transactions during the months of May and July 2004. The Plan withdrew \$125,000 for the period May 6 to 23, 2004 and July 6 to 13, 2004, which significantly reduced its excess TNE and impaired its ability to ensure compliance with the required amount of TNE for these time periods. Furthermore, these transactions were not recorded in the Plan’s books and records. [See Sections II. and IV. of this report for related comments.]

**A referral was made to the Office of Enforcement for appropriate administrative action, due to the Plan’s failure to record the transactions and the resulting impairment on the**

<sup>2</sup> The Plan’s financial statement is available at the Department’s website:  
<http://wpsso.dmhc.ca.gov/fe/search.asp>

**Plan's ability to comply with the TNE requirements, at all times, and with the financial viability requirements.**

***CORRECTIVE ACTION TAKEN DURING EXAMINATION:*** The Department acknowledged receipt of a letter dated September 22, 2004 signed by both the President and CFO of the Plan that represented that they understand and agree to comply with Rule 1300.76 that requires the Plan to maintain TNE at all times. The Plan further represented in this letter that it has discontinued any transactions that may impair its ability to comply with TNE and/or the financial viability requirements; and, all transactions will be recorded to the Plan's books and records, as required by generally accepted accounting principles.

The Preliminary Report required the Plan to describe the procedures implemented to assure the Department that the required amount of TNE will be maintained at all times, as required by Rule 1300.76. In addition, the Plan was required to state the date of implementation of the procedures, the responsible management position, and a description of the monitoring system implemented to ensure ongoing compliance with the corrective action

*The Plan responded that on a monthly basis the Plan's internal accounting department would submit a report to the Plan's CFO highlighting key financial ratios to ensure this compliance. Also, the Plan stated that the internal accounting department will prepare memorandums for the Plan's CFO for any proposed business transactions deemed to be significant in nature. Upon review of these memorandums and reports, if the CFO determines that the Plan is acting in a manner that could jeopardize their compliance with the imposed financial viability requirements, a letter will be submitted by the CFO to the President of the Plan informing him of the matter.*

**The Department finds that the compliance effort, as set forth above, responds to the required action cited by the Department. However, the Plan is required to state the key financial ratios that are to be reviewed on a monthly basis that will ensure compliance with the TNE requirements. The Plan is again required to state the date these procedures were implemented.**

**SECTION II. FINANCIAL VIABILITY-Repeat Deficiency**

Section 1375.1 requires every licensed plan to demonstrate that it has a fiscally sound operation and adequate provision against the risk of insolvency. Rule 1300.75.1 requires that every plan demonstrate fiscal soundness and assumption of full financial risk through its history of operations, projections, provide for the achievement and maintenance of a positive cash flow, including provision for retirement of existing and proposed indebtedness, and adequate working capital, including provision for contingencies.

The Department has concerns regarding the Plan's ability to demonstrate a fiscally sound operation and adequate provision against the risk of insolvency, as follows:

1. As noted above in Section I. of this report, the Plan allowed cash transactions to occur that impaired their ability to comply with the TNE requirements at all times.
2. The Plan failed to maintain adequate working capital for the month of May 2004, in violation of the Stipulation between the Plan and the Department entered into on May 7, 2003. In addition, due to the withdrawal of funds, as described in Section I. of this report, the Plan impaired its ability to maintain positive working capital during specific periods of time within the months of May, June and July 2004. See calculations below:

|                                      | Month Ended<br>5/31/04 <sup>3</sup> | Quarter Ended<br>6/30/04 | Month Ended<br>7/31/04 | Quarter Ended<br>9/30/04 |
|--------------------------------------|-------------------------------------|--------------------------|------------------------|--------------------------|
| Current Assets                       | \$ 494,866                          | 498,007                  | \$411,264              | 396,624                  |
| Less:<br>Current Liabilities         | \$ 553,808                          | 403,550                  | 327,120                | 331,798                  |
| Excess <Deficit><br>Working Capital  | \$ <58,942>                         | 94,457                   | 84,144                 | 64,826                   |
| Current Ratio                        | .89:1                               | 1.2:1                    | 1.3:1                  | 1.1:1                    |
| Less:                                | \$ 125,000                          | 125,000                  | 125,000                |                          |
| Revised <Deficit><br>Working Capital | \$<183,942>                         | <30,543>                 | <40,856>               |                          |
| Revised Current Ratio                | .67:1                               | .92:1                    | .88:1                  |                          |

3. The Plan failed to maintain sufficient cash (not including short-term investments) to cover its current obligations, as presented below. This is a repeat deficiency. In addition, due to the withdrawal of funds, as described in Section I. of this report and in paragraph 2 above, the Plan impaired its available cash for payment of its current liabilities during specific periods of time within the months of May, June and July 2004.

|   | FYE<br>12/31/03 | Quarter Ended<br>3/31/04 | Quarter Ended<br>6/30/04 | Month Ended<br>7/31/04 | Quarter Ended<br>9/30/04 |
|---|-----------------|--------------------------|--------------------------|------------------------|--------------------------|
| Cash  | \$ 48,340       | 167                      | 118,126                  | 121,758                | 122,465                  |
| Less:<br>Other Current<br>Liabilities                           | 457,640         | 657,017                  | 403,550                  | 327,120                | 331,798                  |
| Excess <Deficit><br>Cash Over<br>Current Liabilities            | \$<409,300>     | <656,890>                | <285,424>                | <205,362>              | <209,333>                |
| Less:   |                 |                          | 125,000                  | 125,000                |                          |
| Revised Excess<br><Deficit> Cash<br>Over Current<br>Liabilities |                 |                          | <410,424>                | <330,362>              |                          |

<sup>3</sup> The financial statements referenced in all charts within this Section of this report are as reported by the Plan and filed with the Department.

4. The Plan failed to demonstrate an ability to generate positive cash flow from operations, as presented below:

|   | FYE<br><u>12/31/03</u> | Quarter<br>Ended<br><u>3/31/04</u> | Quarter Ended<br><u>6/30/04</u> | Quarter Ended<br><u>9/30/04</u> |
|---|------------------------|------------------------------------|---------------------------------|---------------------------------|
| Cash Flow Provided<br><Used> in Operating<br>Activities | \$<187,246>            | <11,952>                           | <11,692>                        | <13,155>                        |

5. The Plan failed to achieve profitable operations on a consistent basis, as presented below:

|                         | FYE<br><u>12/31/03</u> | Quarter Ended<br><u>3/31/04</u> | Quarter Ended<br><u>6/30/04</u> | Quarter Ended<br><u>9/30/04</u> |
|-------------------------|------------------------|---------------------------------|---------------------------------|---------------------------------|
| Net<br>Income<br><Loss> | \$ 278,104>            | 35,581                          | <73,214>                        | <119,523>                       |

6. As reported by the Plan, enrollment continues to significantly decrease, as follows:

|           | FYE<br><u>12/31/03</u> | Quarter Ended<br><u>3/31/04</u> | Quarter Ended<br><u>6/30/04</u> | Quarter Ended<br><u>9/30/04</u> |
|-----------|------------------------|---------------------------------|---------------------------------|---------------------------------|
| Enrollees | 9,890                  | 9,469                           | 8,931                           | 8,647                           |

7. The Plan failed to pay commissions in accordance with their contracts. Commission checks for date of service April, 2004 were not issued until June 15, 2004. The checks did not clear the bank until July 14, 2004, which is an indication that the checks may not have been released on date of issuance. The contracts require the solicitors to be paid within 45 days. These payments were due to the providers on May 15, 2004.
8. The Plan failed to pay the providers in accordance with their contract, as follows:
- a. The PrimeCare capitation payments for date of service April 2004 were issued on May 31, 2004, but due on May 15, 2004. In addition, these checks cleared the bank between June 22, 2004 and June 29, 2004, which is an indication that the checks may not have been released on date of issuance.
  - b. The HealthDent capitation payments for date of service April 2004 were issued on June 15 2004, but due on May 15, 2004. In addition, these checks cleared the bank between July 8, 2004 and July 27, 2004, which is an indication that the checks may not have been released on date of issuance.
  - c. Capitation payments for May 2004 date of service were not paid until August 6, 2004, but were due on June 15, 2004.

- d. Capitation payments for June 2004 date of service were due July 15, 2004, but had not been paid as of August 18, 2004.

The Plan's late payments to the providers, as described above, indicate the Plan does not have sufficient funds to pay capitations within the required contract dates. This is a *repeat deficiency*.

9. The Plan's quarterly financial reports for June 30, 2004 and September 30, 2004 include Schedule F that provides an aging schedule of the Plan's Accounts Payable for creditors having balances greater than 5% of total trade accounts payable. These reports state that the majority of the accounts payable balances are more than 90+ days past due. This is a *repeat deficiency*.

As noted above, the Plan is not generating the net income or positive cash flows needed to sustain an ongoing, financially viable operation. Therefore, the Department has serious concerns regarding the Plan's continued ability to operate.

In response to the Department's previous concerns regarding fiscal viability the Plan filed a corrective action plan that provided for the transfer of assets in the form of real estate to the Plan from its sole shareholder. The Department stated, in our previous Final Report, that the infusion of real estate would not improve the Plan's cash position or the financial viability concerns. The Plan's Board recently came to the conclusion that the real property and related debt had a negative impact on the Plan's TNE and working capital. In June 2004, the Plan filed an amendment with the Department to transfer the real property and related debt back to its sole shareholder. The Department approved this amendment on July 26, 2004.

The Plan's failure to comply with the financial viability requirements of Section 1375.1 and Rule 1300.75.1 is a *repeat deficiency*, as it was previously reported in the Department's prior Preliminary Report of Examination Findings dated April 28, 2003 for the period ended August 31, 2002 and in a Confidential Report issued October 1, 1999 for the period ended July 31, 1998.

The Preliminary Report required the Plan to provide a detailed Corrective Action Plan ("CAP") that would bring the Plan into compliance with Section 1375.1. The CAP was to include an adequate demonstration of financial viability with specific disclosure as to the steps taken to improve its cash/liquidity position. This demonstration was to include the changes made, the procedures put in place, and the management position responsible for ensuring fiscal soundness and compliance with Section 1375.1 and Rule 1300.75.1 at all times.

Furthermore, the Preliminary Report required the Plan to file financial projections prepared on a monthly basis for one year or until breakeven, whichever is later, and on a quarterly basis for one additional year after reaching breakeven. The projections were to begin with the historical financial statements for the quarter ended June 30, 2004 and were to be based upon and agree with these statements.

The projections were to include a balance sheet; statement of income and expense, and statement of cash flows prepared in accordance with generally accepted accounting principles. They were also to include detailed enrollment information, capital funding needs, affiliate transactions, TNE and administrative cost calculations for each month and quarter presented. These projections were to be accompanied by all assumptions which are necessary to support the projections, including a description of the marketing program and documentation of all sources of capital funding needed to ensure compliance with the TNE requirements of Rule 1300.76 at all times.

The Preliminary Report required the Plan to identify the cash funding needed to reach breakeven and maintain operating expenses on a current basis.

The Preliminary Report also required the Plan to explain why the corrective action outlined in response to our prior examination report did not prevent recurrence of noncompliance in this area.

*The Plan's response included monthly financial projections for the period beginning December 2004 through November 2007, with the breakeven point being April 2006. The Plan represented that these projections will be used as a budgeting tool to view variances in key area's related to the Plan's financial viability. The Plan stated that these variances will be analyzed each month by the Plan's CFO, and any deficiencies related to the payment of capitation contracts, the payment of commission contracts, the payment of aged payables greater than 60 days, and any significant financial variances in any given month will be communicated in writing to the Plan's President. The Plan further stated that any repeat deficiencies in the above areas that are not corrected within 60 days would be brought up to the Board of Directors at the following meeting.*

*The Plan represented that any cash funding needed to reach breakeven, and maintain operating expenses on a current basis, will be supplied by capital contributions from the President, Mohender Narula, D.M.D., as needed.*

*The Plan stated that the reasons for past violations in this area were due primarily to the hiring of a marketing manager who failed to perform adequately, coupled with the complications incurred from the acquisition of additional land and building in the Palm Desert, California area. The Plan represented that it has replaced the marketing manager and has removed the real estate acquisitions from the Plan's books.*

**The Department finds that the compliance effort, described above, and the financial projections provided within the Plan's response do not fully respond to the required action cited by the Department, as follows:**

- Assumptions necessary to support the projections were not provided.
- The enrollment projections were not accompanied by assumptions based on either statistical or historical data to support the monthly growth in enrollment. The Plan reported actual enrollment of 8,357 at month ended November 30, 2004. However,

the Plan's projections begin with existing enrollment of 8,800 at December 1, 2004 and forecast enrollment of 8,712 at December 31, 2004. Actual enrollment of 8,161 was reported at December 31, 2004. The projections for existing enrollment are based on a beginning enrollment number that is significantly higher than actual enrollment.

- A description of the marketing program was not provided.
- Premium revenue was not provided on a per member per month ("pmpm") basis or supported by assumptions, as well as the related dental capitation and commission expenses were not accompanied by assumptions to support the amounts and/or percentages used in the projections. The methodology for developing the charges for premium, capitation and commissions should be supported by either actuarial or historical data. The projections of premium revenue disclose approximately \$5.50 pmpm for existing business for January-05 (\$47,437/8,625), while the projected revenue for new business is approximately \$19.80 pmpm (\$2,969/150).

**The Plan is required to file revised projections, provide assumptions, and other documentation as necessary to demonstrate compliance with the above bullet points. Revised projections are to begin with, and are to be based on, the historical financial statements for the month ended December 31, 2004.**

The Department acknowledges that the Plan filed a monthly comparison report of actual operations at December 31, 2004 with the projections for December 31, 2004, as filed on December 28, 2004. **The Plan is required to continue to file these monthly comparison reports, based on any revised projections submitted in response to this report. The Plan is also required to compare actual and projected enrollment and provide an explanation of any significant variance in these monthly comparison reports, beginning with the month ended February 28, 2005. These monthly comparison reports are to continue until the Department notifies the Plan to discontinue these filings.**

The Plan's response did not specifically disclose the steps taken to improve its cash/liquidity position to ensure: 1) that capitation and commission payments are released on the date checks are issued, and; 2) that these payments are made in accordance with the timeframes disclosed in the contracts. **The Plan is required to state the corrective action taken to address these two issues.**

### **SECTION III. COMPLIANCE ISSUES**

#### **A. AMENDMENTS TO PLAN APPLICATION/ADVERTISING —*Repeat Deficiency***

Section 1352(a) and Rule 1300.52 require all plans to file an amendment with the director within thirty (30) days after any changes in the information contained in its application, other than financial or statistical information. Section 1352(b) and Rule 1300.52.1 requires all plans to file material changes to the plan's operations as a Notice of Material Modification prior to any changes being implemented. Rule 1300.52.4 sets forth standards for amendment and notices of material modification filings.

Section 1360 states no plan, solicitor firm, or representative shall use or permit the use of any advertising or solicitation which is untrue or misleading, or any form of evidence of coverage which is deceptive

Section 1361 states that no plan shall publish or distribute, or allow to be published or distributed on its behalf, any advertisement not subject to Section 1352.1 unless (1) a true copy thereof has first been filed with the director, at least 30 days prior to any such use, or any shorter period as the director by rule or order may allow, and (2) the director by notice has not found the advertisement, wholly or in part, to be untrue, misleading, deceptive, or otherwise not in compliance with this chapter or the rules there under, and specified the deficiencies, within the 30 days or any shorter time as the director by rule or order may allow. Rule 1300.61 sets forth guidelines for filing of advertising.

Our examination disclosed that the Plan failed to comply with the filing requirements of Section 1352, 1360 and 1361; and Rules 1300.52, 1300.52.1, 1300.52.4, and 1300.61 as follows:

1. Our examination disclosed that the Plan engaged in a marketing alliance with National Vision, Inc. (another Knox-Keene licensee) to display Jaimini Health, Inc. brochures and other descriptive materials at approximately 80 Wal-Mart locations within the State of California (staff model office locations of National Vision, Inc.). The Plan provided a copy of the April 7, 2004 agreement between National Vision, Inc. and Jaimini Health, Inc. that states the two companies are to jointly market each other's health care services and products.

Furthermore, the brochures are printed with the name "National Vision, Inc." at the top of the front cover with "Jaimini Health, Inc." printed at the bottom. The brochures give the impression that National Vision, Inc. offers the dental product.

This agreement, the brochures and other descriptive materials were not filed and approved by the Department, in accordance with the above Sections and Rules.

2. A revised Subordination Agreement dated April 2004 for \$567,121 entered into between the sole shareholder and the Plan was not filed and approved by the Department.

The Plan's failure to comply with the amendment filing requirements of Section 1352 and Rule 1300.52 is a *repeat deficiency*, as it was also reported in our prior Preliminary Report of Examination Findings dated April 28, 2003 for the period ended August 31, 2002.

***CORRECTIVE ACTION TAKEN DURING EXAMINATION:*** The Department received an amendment filing on September 27, 2004 that included the brochure and listing of the addresses of each staff model location of National Vision, Inc. that will display Jaimini Health, Inc. brochures. The Plan also included a confirmation that it is approved to operate in the service areas of these staff model locations.

The Preliminary Report required the Plan to file the joint marketing agreement with National Vision, Inc. and the Subordination Agreement as amendment filings with the Department.

The Preliminary Report also required the Plan to explain why the corrective action outlined in response to the Department's prior examination report did not prevent recurrence of noncompliance in this area.

Furthermore, the Plan was required to state the management position responsible for ensuring continued compliance with the Sections and Rules stated above.

*The Plan's response included a copy of the amendment filing for the "joint marketing agreement" it entered into with National Vision, Inc. The Plan also included a copy of the amendment filing for the Subordination Agreement.*

*With respect to the Subordination Agreement, the Plan stated that it was not aware that a new filing was required as a result of a nominal increase in the amount of the subordinated debt that resulted from accrued interest and additional monies lent by the Plan's sole shareholders. The Plan stated that it now states that the Lender will not be entitled to interest until such time as the Plan has (1) positive retained earnings, (2) consecutive net income, and (3) positive working capital and adequate Tangible Net Equity.*

*With respect to the marketing agreement, the Plan represented that it and National Vision, Inc., agreed in a letter dated April 7, 2004, to merely "display the brochures and other descriptive materials of the other party at its respective locations in the State of California". The Plan believes it is a mischaracterization to refer to the arrangement with National Vision, Inc. as a "joint marketing" arrangement. The Plan stated that its agreement with National Vision, Inc. includes a provision that states that neither entity will "accept funds, make appointments, make referrals or take any other action under this arrangement". The Plan responded that it believes the National Vision, Inc. arrangement is neither a "plan amendment" nor a "material modification" as defined by the Act or Rules. Regardless, the Plan represented that it filed this agreement as part of its response and as an amendment filing with the Department.*

**The Department finds that the compliance effort described above is not fully responsive to the corrective action required. The Plan did not provide an explanation as to why the corrective action outlined in response to the Department's prior examination report did not prevent recurrence of noncompliance in this area. The Plan also did not identify the management position responsible for ensuring continued compliance with the Sections and Rules stated above. The Plan is again required to provide this documentation.**

The Department acknowledges receipt of the amendment filings for both the marketing agreement and Subordinated Debt on December 28, 2004. Both filings are currently under review.

## **B. BOARD OF DIRECTORS OVERSIGHT**

Section 1367 (g) sets forth that a plan shall have the organizational and administrative capacity to provide services to subscribers and enrollees.

Rule 1300.67.3 (a) (3) requires a licensed health care plan to have written procedures for the conduct of the business of the plan.

Our examination disclosed that the Board of Director minutes for the period January 2003 to

July 2004 did not reflect approval and review of operational decisions by Board members, as follows:

1. No annual election of officers.
2. No annual approval or resolution for authorized check signors.
3. No approval of significant investment transactions.
4. The Board held only three (3) meetings during this time period. Meetings are to be held in accordance with the Bylaws. However, the Bylaws are not completed as to frequency of meetings. Good business practice would support meetings on at least a quarterly basis.
5. Bylaws maintained in the Minute Book are not completed as to name of the Plan or as to Articles 1, Section 1; Article 2 Section 4 and 10; Article IV Section 2; and Article V Section 8 and 9.
6. The Secretary or Board members did not execute minutes.

The Preliminary Report required the Plan to provide a written confirmation that all future Board minutes shall address the issues cited above; and, that past and present minutes are now properly executed. The Preliminary Report also required the Plan to file revised Bylaws as an amendment with the Department.

*The Plan responded that, during its exit conference with the Department, it advised the Department that the Plan officers remained the same in 2004, there were no changes in the authorized check signors, and there were no significant investment transactions that were not approved by the Board. The Plan stated that given this information, the Department remained compelled to include this Required Action for the Department's concerns that the Plan's Board of Directors' minutes failed to include: (1) provisions relative to election of officers, (2) resolutions related to authorized check signors, and (3) approval of significant investment transactions. The Plan provided confirmation that all future Board minutes shall address the issues noted, so long as Board approval is required under California law. The Plan included a copy of its amendment filing for the revised Bylaws, in its response. These revisions included the Plan name at Article 1, Section 1, and the omitted information in the other sections of its Bylaws.*

**The Department finds that the compliance effort described above is responsive to the corrective action required.**

The Department acknowledges receipt of the amendment filing for the Bylaws on December 28, 2004. This filing is currently under review.

**C. BOOKS AND RECORDS—*Repeat Deficiency***

Section 1381(a) states that all records, books, and papers of a plan, management company, solicitor, solicitor firm, and any provider or subcontractor providing health care or other services to a plan, management company, solicitor, or solicitor firm shall be open to inspection during normal business hours by the director.

Section 1385 requires that each plan maintain its books of account and other records on a current basis. Rule 1300.85 sets forth that a plan shall retain certain books and records of which one element is to accurately reflect all contracts entered into by the plan.

Rule 1300.85.1 requires that the Plan shall preserve the books of account and other records for at least five years, the last two years of which shall be in an easily accessible place at the offices of the Plan. After two years, the books and records may be warehoused or stored, or microfilmed, subject to their availability to the Director within not more than 5 days after a request.

Our examination disclosed the following deficiencies:

1. The Plan was unable to provide 7 out of 11 solicitor contracts selected for review.
2. The Plan was unable to provide evidence that current rate schedules for capitated providers had been accepted by 2 out of 3 provider contracts selected for review.
3. The Plan was not reconciling subsidiary records for premium revenue and eligibility with the general ledger on a current basis. At the time of our examination, they had not been reconciled since prior to May 2004.

The Plan's failure to comply with the books and records requirements of the above Sections and Rules is a ***repeat deficiency***, as it was also reported in the Department's prior Preliminary Report of Examination Findings dated April 28, 2003 for the period ended August 31, 2002 and the Department's Confidential Report of Examination dated October 1, 1999, for the period ended July 31, 1998.

The Preliminary Report required the Plan to state the corrective actions taken to ensure compliance with the above cited Section and Rules. The Preliminary Report also required the Plan to state the date this corrective action was implemented and identify the management position responsible for ensuring this corrective action was implemented and to monitor for ongoing compliance.

The Preliminary Report required the Plan to confirm that all active solicitor and provider contracts are accounted for and are now located and maintained at the Plan's administrative office.

Furthermore, the Plan was required to explain why the corrective action outlined in response to our prior examination report did not prevent recurrence of noncompliance in this area.

*The Plan represented that it recently hired an employee with significant Knox-Keene experience to correct the deficiencies noted by the Department. The new employee has*

*taken steps to correct the problems by (1) arranging the solicitor contracts alphabetically and to confirm that each monthly commission check mailed is associated with a solicitor contract, and (2) arranging the provider contracts alphabetically and to confirm that each monthly capitation check is associated with a provider contract, including the correct fee schedule.*

*The Plan also represented that its accountant has begun to reconcile the subsidiary records for premium revenue and eligibility with the general ledger on a current basis.*

**The Department finds that the compliance effort, described above, is not fully responsive to the corrective action required. The Plan is required to identify the management position of the new employee that is responsible for ensuring ongoing compliance and state the date this corrective action was implemented. The Plan is again required to explain why the corrective action outlined in response to our prior examination report did not prevent recurrence of noncompliance in this area.**

**D. ADMINISTRATIVE COSTS—Repeat Deficiency**

Rule 1300.78(b) requires that administrative costs incurred by the Plan must be reasonable and necessary. This Rule indicates that if administrative costs of a Plan that has been in operation for five years or more, exceed 15% of subscriber revenue, or if the administrative costs of a plan in the development phase exceed 25%, the plan shall demonstrate to the Director, if called upon to do so, that its administrative costs are not excessive administrative costs within the meaning of Section 1378 and are justified under the circumstances and/or that it has instituted procedures to reduce administrative costs which are proving effective.

|  |                   |
|--|-------------------|
| Revenues from subscribers and enrollees for six months ended June 30, 2004 | \$ 316,661        |
| Administrative Costs for six months ended June 30, 2004                    | \$ 339,910        |
| Less: Other Income for six months ended June 30, 2004                      | <u>128,095</u>    |
| Adjusted Administrative Costs  | <u>\$ 211,815</u> |
| Administrative Cost percentage as of June 30, 2004                         | <u>66.8%</u>      |

Our review of administrative costs was performed for the six months ended June 30, 2004 and resulted in administrative costs exceeding the subscriber revenue, as calculated above. The Plan administrative costs ranged from 30% to 104% as calculated from their historical quarterly reports filed with the Department for the period January 1, 2004 to June 30, 2004.

The Plan's failure to comply with the administrative cost requirements of Section 1378 and Rule 1300.78 is a *repeat deficiency*, as it was also reported in the Department's prior Preliminary Report of Examination Findings dated April 28, 2003 for the period ended

August 31, 2002 and the Department's Confidential Report of Examination dated October 1, 1999, for the period ended July 31, 1998.

The Preliminary Report required the Plan to demonstrate that administrative costs are not excessive within the meaning of Section 1378 and are justified under the circumstances, as well as provide a written statement as to the procedures or specific actions instituted to reduce administrative costs that are proving effective. In addition, the Plan was required to provide the management position responsible for monitoring for continued compliance.

Furthermore, the Preliminary Report required the Plan to explain why the corrective action outlined in response to our prior examination report was not effective.

*The Plan responded that as a California licensed Knox-Keene Plan, it is required to comply with various administrative functions. To that end, it represented that it hired sufficient staff to accomplish tasks required of a health plan. During fiscal year 2003, the Plan stated that it consolidated its operations by relocating from Northern to Southern California. In addition, the Plan stated that it terminated several positions management felt were not absolutely needed to perform Plan functions. The Plan responded that its management continues to pay particular attention to each expenditure it incurs and makes every attempt to forego any unnecessary expenditures. When the opportunity presents, the Plan represented that it will hire marketing personnel who can bolster its enrollment count.*

*The Plan stated that it believes the primary solution to its administrative cost ratio dilemma is to increase its revenue. To that end, it represented that it has retained a seasoned marketing professional to assist the Plan with its marketing efforts and is hopeful that its revenues will increase without any significant additional administrative cost burden.*

*The Plan stated that its CEO is provided with monthly financial statements that provide the administrative cost ratio, which is discussed monthly with the Plan's CFO and staff. The Plan represented that its CEO is responsible for overseeing the Plan's administrative costs and to approve all expenditures of the Plan.*

**The Department finds that the compliance effort described above is not fully responsive to the corrective action required. The Plan did not explain why the corrective action outlined in response to our prior examination report was not effective. The Plan is again required to do so.**

The Department's review of the projections filed with the Plan's response discloses administrative costs of 88% at December 31, 2004 (actual of 99%), with proposed decrease to 79% by November 2005 and a more significant decrease to 63% by November 2006.

#### **E. PROFESSIONAL LIABILITY INSURANCE**

Section 1351 (o) requires evidence of adequate insurance coverage or self-insurance to respond to claims arising out of the furnishing of healthcare services.

During our examination, we reviewed the Plan's Business Liability Policy and found that the evidence of coverage did not specifically include coverage for claims arising out of the furnishing of healthcare services.

The Preliminary Report required the Plan to provide a copy of a new or amended insurance policy that complies with the above Section. The Plan was also required to state the management position responsible for ensuring continued, ongoing compliance.

*The Plan stated that its accountant is responsible to ensure that the Plan has all required insurance policies in place at all times. The Plan represented that it contacted its insurance agent/broker relative to the apparent deficiency noted by the Department during its audit. The Plan's agent submitted the change to the carrier to include the following: "...coverage under this policy includes claims arising out of the furnishing of dental care services." Upon receipt of the corrected policy, the Plan disclosed that it would file it as an amendment with the Department.*

**The Department finds that the compliance effort described above is not responsive to the corrective action required, as it has not filed the required insurance policy. The Plan is required to provide this policy with its response to this report.**

#### **Section IV. INTERNAL CONTROL – Repeat Deficiency**

Section 1384, 1345 (s), and Rule 1300.45(q) include requirements for filing financial statements in accordance with GAAP and other authoritative pronouncements of the accounting profession.

Statement on Auditing Standards (SAS) No. 78 states "Internal control is a process---effected by an entity's board of directors, management, and other personnel---designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulation."

SAS No. 60 requires an auditor to communicate reportable conditions noted during the examination to appropriate personnel. Reportable conditions involve matters coming to the auditor's attention relating to significant deficiencies in the design or operation of the internal control structure, which could adversely affect the organizations ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Our examination disclosed the following weaknesses in the Plan's internal control structure:

1. The bank reconciliations do not indicate who prepared them and do not demonstrate that key management has performed a secondary review.

This is a *repeat deficiency* that was also reported in our prior Preliminary Report of Examination Findings dated April 28, 2003 for the period ended August 31, 2002.

2. As described in Section I of this report, the Department reviewed the Plan's bank statements for the months of May, June and July 2004 and determined that the Plan failed to record transactions for the withdrawal and deposit of \$125,000 during certain time periods in these months to the Plan's books and records (i.e., cash receipts or disbursements journals or general ledger). The Plan withdrew \$125,000 on May 6, 2004, June 3, 2004 and July 6, 2004 and deposited the same amount back on May 23, 2004, June 29, 2004 and July 13, 2004, respectively.

The Plan represented to the Department that the failure to record these cash transactions was due to a lack of communication between the Controller and the Senior Accountant, as well as with the Bank.

***CORRECTIVE ACTION TAKEN DURING EXAMINATION:*** The Department acknowledges receipt of a letter dated September 22, 2004 signed by both the President and CFO of the Plan that represents that all transactions will be recorded to the Plan's books and records as required by generally accepted accounting principles.

**A referral was made to the Office of Enforcement for appropriate administrative action, due to the Plan's failure to record these transactions and the resulting impairment on the Plan's ability to comply with the TNE requirements, at all times, and with the financial viability requirements.**

3. The Plan's recording of Deferred Annual Premium Product 106 (an individual discounted fee-for-service product billed annually to the enrollee) was determined to have numerous posting errors to the enrollee accounts. These posting errors were attributed to the fact that the enrollees were eligible for senior discounted rates, but the Plan billed them at regular rates. The Department determined that the Plan doesn't have a defined method of identifying senior enrollees through its premium billing process. The Plan bills the enrollees at the regular rates, but requests that the enrollee provide their birth date on the payment coupons when remitting their payment. Once payment coupons are returned, the Plan identifies the enrollees as seniors and credits them for the senior rates. As result of our examination, the Plan reviewed all enrollees of Premium Product 106 to identify refunds due back to the senior enrollees.

***CORRECTIVE ACTION TAKEN DURING EXAMINATION:*** The Plan sent out letters in early September 2004 to notify the senior enrollees that their period of coverage was automatically extended or they may contact the Plan for a refund.

The Preliminary Report required the Plan to state the corrective action implemented to correct each weakness identified above, the date corrective action was implemented, the management position responsible for compliance, and the controls implemented for monitoring continued compliance. As part of the corrective action, the Plan was to implement a formal policy for addressing overpayments of premium.

Furthermore, the Preliminary Report required the Plan to explain why the corrective action outlined in response to the Department's prior examination report did not prevent recurrence of noncompliance regarding management review of bank reconciliations.

The Plan responded to each of the weaknesses in the Plan's internal control structure, as cited above:

- 1. The Plan stated that the internal accounting department and the Plan's controller both independently complete the bank reconciliation. The Plan further stated that the results of the independent reviews will be compared to each other and any discrepancies will be addressed. Both of the reconciliations will be kept on file at the Plan's corporate office in Ontario, California.*
- 2. The Plan stated that its controller would review the internally prepared accounting database to ensure that all transactions are not only recorded accurately at month's end, but also on an interim basis. The Plan further stated that any activity that is not recorded on an interim basis would be communicated to the Plan's accounting department for proper recording.*
- 3. The Plan represented that since the issuance of the letters in early September 2004, the Plan has either applied the overpayments to future coverage or issued refunds to these enrollees. The Plan represented that its billing staff is now entering the birth date of enrollees into the billing software so when future bills are generated, the discount will be applied to all senior enrollees. The Plan represented that the Plan's Director of Billing oversees this process.*

**The Department finds that the compliance effort described above is not fully responsive to the corrective action required. The Plan did not state the date corrective action was implemented for each of the areas cited above. Furthermore, the Plan did not explain why the corrective action outlined in response to our prior examination report was not effective to prevent recurrence of noncompliance regarding the review of bank reconciliation by management. The Plan is again required to do so.**

### **NONROUTINE EXAMINATION**

Due to the repeat deficiencies noted within this report, the Plan is advised that the Department may conduct a nonroutine examination, in accordance with Rule 1300.82.1, to verify representations made to the Department by the Plan in response to this Report. The cost of such examination shall be charged to the Plan in accordance with Section 1382(b).

**No response was required to this Section.**