Edmund G. Brown, Jr., Governor
State of California
Business, Transportation and Housing Agency

320 West 4th Street, Suite 880
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April 1, 2011

via FedEx Delivery and eFile

Dr. Mohender Narula, D.M.D., President
JAIMINI HEALTH, INC.
10604 N. Trademark Parkway, Suite 310
Rancho Cucamonga, CA 91730

FINAL REPORT OF A 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(a) of the Knox-Keene Health Care Plan Act of 1975.[1] The Department issued a Preliminary Report to the Plan January 13, 2011. The Department accepted the Plan's electronically filed responses on January 20, 2011 and February 24, 2011.

The Preliminary Report addressed the Department's significant concerns regarding the Plan's compliance with tangible net equity and financial viability requirements. Due to the seriousness of the deficiencies and the repeat deficiencies noted in the Preliminary Report, the Department made a referral to its Office of Enforcement for appropriate administrative action.

This Final Report includes a description of the compliance efforts included in the Plan's January 20, 2011 and February 24, 2011 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."

[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.

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.

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 January 20, 2011 and February 24, 2011 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://wpso.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. 20101472"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".

As noted in the attached Final Report, the Plan's responses of January 20, 2011 and February 24, 2011 did not fully respond to the deficiencies raised in the Preliminary Report issued by the Department on January 13, 2011. 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.

Please file the Plan's response electronically via the Department's eFiling web portal https://wpso.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. 20101472"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's Response to Final Report (FE10)",; 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 wpso@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

JOAN LARSEN
Supervising Examiner
Office of Health Plan Oversight
Division of Financial Oversight

Cc: Michael Polis, Outside Counsel, Jaimini Health, Inc.
Mahesh Manchandia, CFO, Jaimini Health Inc.
Dennis Balmer, Acting Chief, Division of Financial Oversight
Bill Chang, Supervising Examiner, Division of Financial Oversight
Kim Malme, Senior Examiner, Division of Financial Oversight
Vasiliy Lopuga, Monitoring Examiner, Division of Financial Oversight
Jeff Kral, Associate Health Program Advisor, Division of Licensing
Marcy Gallagher, Chief, Division of Plan Surveys
Debra Denton, Acting Assistant Deputy Director, Office of Enforcement
Carrie Ramage, Staff Counsel, Office of Enforcement

STATE OF CALIFORNIA
DEPARTMENT OF MANAGED HEALTH CARE

DIVISION OF FINANCIAL OVERSIGHT

Jaimini Health, Inc.

FILE NO. 933-0197

DATE OF FINAL REPORT: APRIL 1, 2011

SUPERVISING EXAMINER: JOAN LARSEN

EXAMINER-IN-CHARGE: KIM MALME

FINANCIAL EXAMINER: CANDICE HAW

BACKGROUND INFORMATION FOR JAIMINI HEALTH, INC.

Date Plan Licensed:	July 15, 1983
Organizational Structure:	The Plan is a for-profit corporation owned by Dr. Mohender Narula.
Type of Plan:	The Plan is a specialized health care service plan providing dental services to groups and individuals.
Provider Network:	The Plan enters into contractual agreements with various private dentists to provide services to its members. The Plan pays its general dentists on a capitated basis. The Plan does not offer specialist services, but may provide a $50 specialist consultation fee.
Plan Enrollment:	4,551 enrollees at June 30, 2010
Service Area:	The Plan's service area consists of 42 counties, as follows: Alameda, Butte, Colusa, Contra Costa, El Dorado, Fresno, Glenn, Kern, Kings, Los Angeles, Madera, Mariposa, Merced, Monterey, Napa, Nevada, Orange, Placer, Riverside, Sacramento, San Benito, San Bernardino, San Diego, San Francisco, San Joaquin, San Luis Obispo, San Mateo, Santa Barbara, Santa Clara, Santa Cruz, Shasta, Siskiyou, Solano, Sonoma, Stanislaus, Sutter, Tehema, Tuolumne, Tulare, Ventura, Yolo, and Yuba.
Date of last Final Routine Examination Report:	January 31, 2008

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(a) of the Knox-Keene Health Care Plan Act of 1975.[1] The Department issued a Preliminary Report to the Plan on January 13, 2011. The Department accepted the Plan's electronically filed responses on January 20, 2011 and February 24, 2011.

This Final Report includes a description of the compliance efforts included in the Plan's January 20, 2011 and February 24, 2011 responses, in accordance with Section 1382(c). The Plan's response is noted in *italics*.

We examined the financial report filed with the Department for the quarter ended June 30, 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 Statements
Section II.	Calculation of Tangible Net Equity
Section III.	Financial Viability
Section IV.	Stipulation Compliance
Section V.	Compliance Issues
Section VI.	Internal Control
Section VII.	Nonroutine Examination

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.

[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

A. BALANCE SHEET -- AS OF JUNE 30, 2010

ASSETS Account	Bal. per F/S	AJE or RJE	Exam Adjustments Dr	Exam Adjustments Cr	Bal. per Exam
Cash and Cash Equivalents	249,178	AJE 1	1,341		
		RJE 1	50,806		
		RJE 3	3,374		
		RJE 2		180,000	124,699
Short-Term Investments					
Premiums Receivable - Net					
Interest Receivable	8,328				8,328
Shared Risk Receivables - Net					
Other Health Care Receivables-Net					
Prepaid Expenses	16,681	AJE 3		4,537	
		AJE 4		421	11,723
Secured Affiliate Receivables - Current					
Unsecured Affiliate Receivables - Current					
Aggregate Write-ins for Current Assets					
TOTAL CURRENT ASSETS	**274,187**		**55,521**	**184,958**	**144,750**
Restricted Assets	50,000	RJE 2	180,000		230,000
Long-Term Investments					
Intangible Assets & Goodwill- Net	373,334				373,334
Secured Affiliate Receivables - Long-Term					
Unsecured Affiliate Receivables - Past Due					
Aggregate Write-ins for Other Assets	4,050	AJE 5		4,050	
TOTAL OTHER ASSETS	427,384		180,000	4,050	603,334
Land, Building and Improvements					
Furniture and Equipment - Net	4,090				4,090
Computer Equipment - Net					
Leasehold Improvements - Net					
Construction in Progress					
Software Development Costs					
Aggregate Write-ins for Other Equipment					
TOTAL PROP & EQUIP	4,090				4,090
TOTAL ASSETS	**$705,661**		**$235,521**	**$189,008**	**$752,174**

BALANCE SHEET (Continued) -- AS OF JUNE 30, 2010

LIABILITIES Account	Bal. per F/S	AJE or RJE	Exam Adjustments Dr	Exam Adjustments Cr	Bal. per Exam
Trade Accounts Payable	30,838				30,838
Capitation Payable		RJE 3		3,374	3,374
Claims Payable (Reported)					
Incurred But Not Reported Claims					
POS Claims Payable (Reported)					
POS Incurred But Not Reported Claims					
Other Medical Liability					
Unearned Premiums	137,480	AJE 2	9,930		127,550
Loans & Notes Payable	4,563				4,563
Amounts Due to Affiliates - Current					
Aggregate Write-ins for Current Liabilities	5,728	AJE 6		24,021	
		RJE 1		50,806	80,555
TOTAL CURRENT LIABILITIES	**178,609**		**9,930**	**78,201**	**246,880**
Loans and Notes Payable (Not Subordinated)	8,572				8,572
Loans and Notes Payable (Subordinated)	567,121				567,121
Accrued Subordinated Interest Payable	65,502				65,502
Amounts Due To Affiliates - Long Term					
Aggregate Write-Ins for Other Liabilities					
TOTAL OTHER LIABILITIES	641,195				641,195
TOTAL LIABILITIES	**$819,804**		**$9,930**	**$78,201**	**$888,075**
Common Stock	2,000				2,000
Preferred Stock					
Paid in Surplus	1,573,929				1,573,929
Contributed Capital					
Retained Earnings (Deficit)/Fund Balance	(1,690,072)	AJE 5	4,050		
		AJE 6	24,021		(1,718,143)
Aggregate Write-ins for Other Net Worth Items					
EXAMINATION ADJUSTMENTS (from Income Statement)			**14,260**	**20,573**	6,313
TOTAL NET WORTH	(114,143)		42,331	20,573	(135,901)
TOTAL LIAB & NET WORTH	**$ 705,661**		**$ 52,261**	**$ 98,774**	**$ 752,174**

B. STATEMENT OF INCOME AND EXPENSES FOR THE QUARTER ENDED JUNE 30, 2010

Account	Reported per F/S	AJE or RJE	Exam Adjustments Dr	Exam Adjustments Cr	Examination Balance
Premiums (Commercial)	74,077	AJE 2		9,930	84,007
Capitation					
Co-payments, COB, Subrogation					
Title XVIII - Medicare					
Title XIX - Medicaid					
Fee-For-Service					
Point-Of-Service (POS)					
Interest		AJE 1		1,341	1,341
Risk Pool Revenue					
Aggregate Write-Ins for Other Revenues					
TOTAL REVENUES	74,077			11,271	85,348
Inpatient Services - Capitated					
Inpatient Services - Per Diem					
Inpatient Services - Fee-For-Service/Case Rate					
Primary Professional Services - Capitated	10,492	AJE 3	4,537		15,029
Primary Professional Services - Non-Capitated					
Other Medical Professional Services - Capitated					
Other Medical Professional Services - Non-Capitated					
Non-Contracted Emergency Room and Out-of-Area Expense, not including POS					
POS Out-Of-Network Expense					
Pharmacy Expense - Capitated					
Pharmacy Expense - Fee-for-Service					
Aggregate Write-Ins for Other Medical and Hospital Expenses	27,424	RJE 4		9,302	18,122
TOTAL MED AND HOSP EXPENSES	37,916		4,537	9,302	33,151
Compensation	6,585	RJE 4	9,302		15,887
Interest Expense	386				386
Occupancy, Depreciation and Amortization	13,258				13,258
Management Fees					
Marketing	6,307				6,307
Affiliate Administration Services					
Aggregate Write-Ins for Other Administration	39,120	AJE 4	421		39,541
TOTAL ADMINISTRATION	65,656		9,723		75,379
TOTAL EXPENSES	103,572		14,260	9,302	108,530
INCOME (LOSS)	**(29,495)**		14,260	20,573	**(23,182)**
Extraordinary Item	0				0
Provision for Taxes	0				0
NET INCOME (LOSS)	**$(29,495)**	**	**$14,260**	**$20,573**	**$ (23,182)**

** To Section I-A. Balance Sheet

C. EXPLANATION OF EXAMINATION ADJUSTMENTS

ADJUSTING JOURNAL ENTRIES

AJE No.	ACCOUNT NAME	DR	CR
AJE-1	Cash GL#101046 and GL #101047 Interest Income *To record interest income earned as of June 30, 2010. [Plan properly recorded in July 2010.]*	$1,341	$1,341

AJE No.	ACCOUNT NAME	DR	CR
AJE-2	Unearned Premium Revenue Premium Revenue *To record earned premium revenue for the month of June 2010.*	$9,930	$9,930

AJE No.	ACCOUNT NAME	DR	CR
AJE-3	Primary Professional Services-Capitated Prepaid Expenses *To write down prepaid capitation due to checks not cashed (includes portion for prior period)*	$4,537	$4,537

AJE No.	ACCOUNT NAME	DR	CR
AJE-4	Aggregate Write In – Other Administrative Expense Prepaid Expenses *To properly amortize 2010 CADP membership dues.*	$421	$421

AJE No.	ACCOUNT NAME	DR	CR
AJE-5	Retained Earnings Deposit *To write off unpaid lease deposit incorrectly recorded in 2009.*	$4,050	$4,050

AJE No.	ACCOUNT NAME	DR	CR
AJE-6	Retained Earnings Aggregate Write-ins for Current Liabilities *To correct erroneous 2008 CPA entry for old outstanding checks and recognize as a liability.*	$24,021	$24,021

The Preliminary Report required the Plan to provide assurance to the Department that the above adjusting journal entries were posted to the books and/or provide an explanation regarding their disposition.

The Plan assured the Department in its response that these adjusting journal entries were posted to the books with the exception ofAJE-6 entry (Retained Earnings -Aggregate Write-ins for Current Liabilities). The AJE-6 entry was not posted because the checks referenced in this entry were issued in error or replaced by other checks. The Plan included with its response an Excel spread sheet identifying the checks in question and providing an explanation as to the status of each check as Attachment A.

The Department finds that the Plan's compliance effort is responsive to the corrective action required, but the level of documentation provided is not adequate to fully support the Plan's position as presented in the Plan's response. The Plan is required to provide the following documentation to fully support the Plan's position that these checks were "issued in error or replaced by other check":

1. **copy of voided check or stop payment order for each check "reversed", "not paid", "voided" or replaced with another check, as presented in Attachment A of the Plan's response (e.g., Checks 18203, 20485, 19689, 20607, 18539, 17855, 18890, 18054, 18064, etc.).**

2. **copy of any invoices or other documentation to support plan's explanation in Attachment A for certain payments that did not result in issuance of a replacement check, due to no balance due or vendor overpaid (e.g., Checks 18203, 20485, 19689, 20607, 18879).**

3. **copy of front and back of cancelled check and bank cleared date for each replacement check noted in Attachment A, in order to validate that the vendor received payment (e.g., Checks 19689, 18539, 18879, 18879, etc.).**

4. **copy of bank statements to support electronic payment for checks 18372, 18386, 19515, 11334, and 11400.**

5. **detail for outstanding capitation payments of $2,893: original check number with date of check, provider name and amount paid, as well as copies of subsequently "voided" or "stop payment" documentation, replacement check and date issued, copy of the cancelled check and bank cleared date for each replacement check.**

6. **detail for outstanding commission payments of $1,554: original check number with date of check, provider name and amount paid, as well as copies of subsequently "voided" or "stop payment" documentation, replacement check and date issued, copy of the cancelled check and bank cleared date for each replacement check.**

The Plan is required to provide this additional documentation to support that the vendors/providers/solicitors owed the $24,020 actually received payment for services rendered. The Plan is also required to identify any payments that remain outstanding for these specific payees and confirm that the plan has established a liability for these remaining unclaimed funds, until they are escheated to the State of California.

RECLASSIFYING JOURNAL ENTRIES

RJE No.	ACCOUNT NAME	DR	CR
RJE-1	Cash GL#101040 and GL #101041 Aggregate Write-ins for Current Liabilities *To reclassify old outstanding checks as a liability for escheatment.*	$50,806	$50,806

RJE No.	ACCOUNT NAME	DR	CR
RJE-2	Restricted Assets Cash GL#101046 *To reclassify pledged certificate of deposit to restricted asset.*	$180,000	$180,000

RJE No.	ACCOUNT NAME	DR	CR
RJE-3	Cash GL#101040 Capitation Payable *To reclassify unreleased capitation checks dated June 30, 2010 as a liability.*	$3,374	$3,374

RJE No.	ACCOUNT NAME	DR	CR
RJE-4	Compensation Aggregate Write-Ins for Other Medical and Hospital Expenses *To reclassify portion of Office Manager salary incorrectly reported as Medical and Hospital Expenses to Administration Expenses.*	$9,302	$9,302

The Preliminary Report required the Plan to provide written assurance to the Department that the above reclassifying journal entries were posted to the books and/or provide an explanation regarding their disposition.

The Plan responded that it assures the Department that these reclassifying journal entries were posted to the books with the exception of entry RJE-I. Entry RJE-l required the Plan to reclassify old outstanding checks in the amount of $50,806.00 as a liability for escheatment. However, the Plan stated that instead the amount of $47,323.61 was created for accrued capitation and commissions on August 31 and September 30 of 2010 as noted in JEs 57, 59 and 60. Additionally, following the reclassification of the journal entries, the Plan stated that outstanding checks were re-issued and provided the listing of replacement checks. Furthermore, the Plan stated that checks in the amount of $3,979.56 were issued in error and now voided by the Plan.

The Department finds that the Plan's compliance effort is responsive to the corrective action required, but additional documentation is needed to fully support the Plan's response as requested below:

1. **copy of journal entries (referenced as 57, 59 and 60) and the financial statement date they were recorded, as they were not included in plan's response.**

2. **copy of voided check, or stop payment order, for each original check that was replaced with a new check, as presented in Attachment B of the Plan's response.**

3. **extend Attachment B to include the date the replacement check cleared the bank, as well as provide a copy of the cancelled check for each replacement check in order to validate that the provider/solicitor received payment.**

4. **copy of any voided checks, "stop payment", cancelled check for replacement check and/or other documentation to support plan's explanation for each check listed in Attachment C of the Plan's response.**

The Plan is required to provide this additional documentation to support that the providers/solicitors owed the $47,324 actually received payment for services rendered. The Plan is also required to identify any payments that remain outstanding for the payees identified in Attachment B and C of the Plan's response, and confirm that the plan has established a liability for these remaining unclaimed funds, until they are escheated to the State of California.

SECTION II. CALCULATION OF TANGIBLE NET EQUITY ("TNE")—*Repeat Deficiency*

Examination Net Worth (Deficit) as of Quarter Ended June 30, 2010		$ (135,901)
Add: Subordinated debt and related interest		632,623
Less: Intangible Assets and Goodwill-Net	$ (373,334)	
Restricted Certificate of Deposit	(180,000)	(553,334)
Tangible Net Equity (Deficit)		$ (56,612)
Required TNE as of June 30, 2010		50,000
TNE Excess (Deficit) per Examination as of June 30, 2010		$ (106,612)

As of June 30, 2010, the Plan is in violation of Section 1376 and Rule 1300.76 that requires a plan to maintain TNE at least equal to the specified minimum amounts **at all times**

The Department reviewed the Plan's bank statement provided on September 15, 2010, and determined that the certificate of deposit for $180,000 was pledged as of January 14, 2010 and the funds are not available. The certificate of deposit was initially made on July 14, 2008. As a result of this encumbered cash, the Plan significantly impairs its ability to comply with the required minimum amount of TNE **at all times** for the period ending January 31, 2010 until such date as the pledge is removed. The Plan may also have

impaired compliance with TNE back to July 2008, if the account was encumbered since it was opened.

As a result of this encumbered cash, the Plan incorrectly reported excess TNE in its financial reports filed with the Department for the months ended January 31, 2010 through September 30, 2010 and its quarterly reports for March 31, 2010, June 30, 2010 and September 30, 2010. As of month ended October 31, 2010, the encumbered cash was withdrawn from the Plan and removed from Paid in Surplus. This action resulted in the Plan self-reporting a TNE deficiency of ($95,036) at October 31, 2010, and ($97,228) at November 30, 2010. The Department presents below the quarterly reports and month ended November 30, 2010:

	QE 3/31/10	**QE 6/30/10**	**QE 9/30/10**	**ME 11/30/10**
Net Worth*	$ < 99,650>	$<114,143>	$<119,677>	$<306,517>
Add: Subordinated Debt*	632,623	632,623	632,623	632,623
Less: Intangible Assets*	<373,334>	<373,334>	<373,334>	<373,334>
TNE*	159,639	145,146	139,612	<47,228>
Required TNE*	50,000	50,000	50,000	50,000
TNE Excess <Deficiency>*	109,639	95,146	89,612	**$ <97,228>**
Less: Restricted Certificate of Deposit	<180,000>	<180,000>	<180,000>	
REVISED TNE <DEFICIENCY> PER EXAMINATION	**$ <70,392>**	**$ <84,854>**	**$ <90,388>**	

*** As reported by plan**

The Plan's failure to comply with TNE requirements is a ***repeat deficiency***, as this issue was previously reported in the Department's Final Report of Examination dated July 16, 2003 (for the period ended August 31, 2002).

Due to the seriousness of this repeat violation, a referral was made to the Office of Enforcement for appropriate administrative action.

The Preliminary Report required the Plan to confirm, *within five (5) working days after receipt of this report*, that the TNE deficiency of $106,612 at June 30, 2010 was corrected. All applicable documentation necessary to provide sufficient evidence that the deficiency was corrected must be submitted. The Plan currently files monthly reports pursuant to Rule 1300.84.3(d) and is required to continue to do so.

The Plan was also required to describe the procedures which have been implemented to assure the Department that the Plan will maintain adequate TNE at all times as required by Rule 1300.76. In addition, the Plan was 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.

Although Section 1382 provides for a forty-five working day response for the purpose of confidentiality, due to the significant nature of this noncompliance a timelier response is warranted. The Department required that a response to Section II. must be received within five (5) working days after receipt of the Preliminary Report.

Due to the significant impact on the Plan's TNE compliance had this encumbered cash been properly reported, the Plan was required to refile its financial statements for the quarters ended March 31, 2010, June 30, 2010 (which is to include the examination adjustments and reclassification entries from Section I.), and September 30, 2010. These submissions are to be labeled "revised". The supplemental information that accompanies these reports was to be revised to include the proper calculation of the required TNE with the exclusion of this encumbered cash.

The Plan was also required to demonstrate to the Department the date at which this certificate of deposit first became encumbered and was required to refile its quarterly and annual financial statements back to that date (i.e., back to September 30, 2008, if pledged at July 2008). The Plan was also required to have their independent CPA review and reissue the annual audited reports for 2008 and 2009, as appropriate.

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 confirms that the TNE deficiency of $106,612 noted on June 30, 2010 was corrected. As of November 30, 2010, the TNE deficiency was $97,228. On January 11, 2011, two deposits totaling $100,000 were made into the Plan's account that corrected the TNE deficiency of $97,228. The Plan provided supporting documents relating to the deposits.

Additionally, the Plan represented it implemented procedures that will assure the Department that the Plan will maintain adequate TNE at all times as required by Rule 1300.76. During its quarterly board meetings, the Plan stated that its Chief Financial Officer ("CFO") will review with the board the TNE requirements and confirm that the Plan has TNE at least equal to the specified minimum. The review by the CFO will be noted in all of the board meeting minutes. The CFO's review of the Plan's TNE will ensure ongoing monitoring by the Plan of its TNE. The Plan will continue to prepare monthly financial projections that will be used as a budgeting tool to view variances in key areas related to the Plan's financial variability. The Plan's CFO will also be required to provide an overview of the monthly projections at the quarterly board meetings. The Plan's CFO was made aware of these steps and will report the TNE to the

board starting in February 2011. In addition, the Plan's President will ensure on a monthly basis that the CFO is monitoring the Plan's TNE.

The Plan included a confirmation from Wells Fargo Bank showing that no encumbrances were on the certificate of deposit for the years closing on December 31, 2008 and December 31, 2009. Accordingly, the Plan's CPA will not need to resubmit the annual audited reports for 2008 and 2009.

Finally, the Plan included revised quarterly financial statements for March 31, June 30 and September 30, 2010.

The Department finds that the Plan's compliance effort is responsive to the deficiency cited. The Department acknowledges that the Plan financial statements for the month ended December 31, 2010 reported a TNE deficiency of $97,495. Therefore, the Plan's deposit of $100,000 corrects the TNE deficiency as of November 30, 2010 and December 31, 2010.

However, the Department finds that the Plan's compliance effort to the corrective action required is not complete. The Plan has not filed with the Department the revised financial statements for the quarters ended March 31, June 30, and September 30, 2010. In review of these draft financial statements, it was noted that the Plan is not recognizing capitation payable separately on line item 2 of Report #1—Part B: Liabilities and Net Worth, but is combining capitation payable with commission payable and reporting on line 11. The Plan is to correct this presentation in these quarterly financial statements and is again directed to file them with the Department.

Furthermore, the Plan did not respond to the Department's request to explain why the corrective action outlined in the Department's Final Report of Examination dated July 16, 2003 (for the period ended August 31, 2002) did not prevent recurrence of noncompliance in this area. The Plan is again required to do so in response to this report.

SECTION III. 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 serious concerns regarding the Plan's ability to demonstrate a fiscally sound operation and an adequate provision against the risk of insolvency, as follows:

A. As presented in Section II. of this report, the Plan suffered a TNE deficiency of <$106,612> at June 30, 2010, and a TNE deficiency of <$97,228> at November 30, 2010.

B. The Plan continues to fail to achieve profitable operations or generate positive cash flow from operations; and, its administrative costs continue to be excessive and enrollment continues to stagnate, as presented below:

Period ended	**FYE 12/31/09***	**Q3/31/10***	**Q 6/30/10 per exam**	**Q 9/30/10 ***	**M11/30/10***
Enrollment	4,698	4,573	4,551	4,570	4,551
Total Revenue	$330,060	$78,267	$85,348	$92,603	$34,065
Less: Total Medical Expense	164,486	37,592	33,151	28,598	9401
Less: Total Admin Expense	249,643	66,556	75,379	102,481	34,357
Net Income <loss>	$<84,069>	$<25,881>	$<23,182>	$ <38,476>	$<9,693>
Administrative Cost Ratio	76%	85%	88%	111%	101%
Cash Flow Provided <used> by Operations	$<80,298>	$<34,708>	$<23,182>	$22,660 **	$<10,650>

* **As reported by the Plan.**
** The positive cash flow results from the reclassification of old outstanding checks (See Section I. C, RJE #1)

C. As presented in Section IV. of this report, the Plan failed to comply with the capital contribution requirements of the Stipulated Agreement ("Stipulation") dated July 20, 2006.

D. The Plan failed to pay the providers in accordance with their contract, as follows:

1. The HealthDent capitation payments in the amount of $2,635 for date of service June 2010 were contractually due to be paid by July 20, 2010. These capitation checks were dated June 30, 2010, but the Department noted that 9 checks totaling $1,695 cleared the bank in August 2010 with the remaining checks still outstanding as of August 31, 2010. This indicates that all capitation checks were not released on the check print date of June 30, 2010, or by due date of July 20, 2010.

2. The PrimeCare capitation payments in the amount of $739 for date of service June 2010 were contractually due to be paid by July 20, 2010. These capitation checks were dated June 30, 2010, but the Department noted that all of these checks were still outstanding as of August 31, 2010. This indicates that these capitation checks were not released on the check print date of June 30, 2010, or by due date of July 20, 2010.

3. Certain capitation payments for date of service January, February, March and April 2010, with check dates of January 31, February 28, March 31 and April 30, 2010, did

not clear the bank until June 2010. This implies that these capitation checks were not released on the check print date or within the contract payment period.

4. The Department received a confirmation regarding capitation payment to Plan provider, Charles C. Tran, DDS, for which the provider stated he had not received capitation for date of services of July 2008 through April 2010. He also confirmed that capitation payments for dates of service May to July 2010 were received in October 2010 and date of service for August was received in September 2010.

The Plan's failure to issue timely payments to the providers, as described above, indicate the Plan may not have sufficient funds to pay capitation within the required contract dates. This is a ***repeat deficiency***.

E. Certain commission payments for date of service January, February, March and April 2010 with check dates of January 31, February 28, March 31 and April 30, 2010 did not clear the bank until June 2010. This implies that these commission checks were not released on the check print date.

F. The Plan's quarterly financial report for June 30, 2010 and September 30, 2010 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. The Plan reported that 100% of their trade accounts payable balances are more than 90+ days past due. This is a ***repeat deficiency*.**

G. The Plan's administrative cost ratio as reported at quarter ended June 30, 2010 is 89%. The Plan incorrectly classified earned revenue as deferred [refer to Section I. AJE 2] and the administrative portion of the Office Manager's salary and payroll tax expenses as Medical and Hospital Expenses [refer to Section I. RJE-4] for which the Department made adjusting/reclassifying journal entries. As a result of our examination, the Plan's administrative cost ratio is 88% which is excessive within the meaning of Section 1378. As required by Rule 1300.78, the Plan provided a justification to support the high administrative costs reported to the Department and stated their corrective action currently undertaken to reduce administrative costs and to significantly increase enrollment and revenue. The Plan provided a similar justification in response to the prior examination. However, the Plan failed to demonstrate to the Department that the corrective action has proven effective in reducing administrative costs or increasing enrollment, as the administrative cost ratio continues to climb to 111% at quarter ended September 30, 2010.

H. The Department acknowledges that the Plan's President and sole shareholder filed a Guaranty Agreement, executed on November 8, 2002, with the Department on January 6, 2003. This agreement guarantees that the owner shall contribute capital sufficient to ensure that TNE is maintained at the required level. However, the Department found no evidence of the owner's ability or willingness to provide funding at the levels necessary to

meet the Plan's ongoing cash needs in compliance with this Guaranty and/or the Stipulation.

As noted above, the Plan is not generating the net income or positive cash flows needed to sustain an on-going, financially viable operation. The Plan is not complying with its Guaranty Agreement or the Stipulation. Therefore, the Department has serious concerns regarding the Plan's continued ability to operate.

The Plan's continued failure to comply with the financial viability requirements of Section 1375.1 and Rule 1300.75.1 and administrative cost guidelines of Section 1378 and Rule 1300.78(b) are ***repeat deficiencies***, as they were previously reported in the Department's prior three Final Report of Examinations dated January 31, 2008 (for the period ended June 30, 2007), January 28, 2005 (for the period ended June 30, 2004), and July 16, 2003 (for the period ended August 31, 2002).

Due to the serious concerns regarding financial viability and the fact that it is a three-time repeat deficiency, a referral was made to the Department's Office of Enforcement for appropriate administrative action.

The Preliminary Report required the Plan to provide a detailed Corrective Action Plan ("CAP") that will bring the Plan in compliance with Section 1375.1. The CAP is to include an adequate demonstration of financial viability with specific disclosure as to the steps taken to improve the Plan's cash/liquidity position. This demonstration must include the changes made, the procedures put in place, and the management position responsible for ensuring fiscal soundness and compliance with Section 1375.1, Rules 1300.75.1 and 1300.76 at all times. The Plan's response shall include, but not be limited to, policies and procedures for cash management.

Furthermore, the Plan was required to file financial projections prepared on a monthly basis for one year or until breakeven, whichever is later; and on a quarterly basis for an additional year. These projections must include a balance sheet; statement of income and expense, statement of cash flows prepared in accordance with generally accepted accounting principles. These projections were to include all operational expenses for personnel (including consultants for accounting, marketing, information technology, etc.) and services necessary to effectively conduct plan business. They should also include enrollment, capital funding needs, TNE and administrative cost calculations for each month and quarter presented. These projections should be accompanied by all assumptions which are necessary to support the projections, including a description of the marketing program, member retention, and documentation of all sources of capital funding needed to ensure compliance with the TNE requirements of Rule 1300.76 at all times.

The Plan was required to identify the total cash funding needed to reach breakeven and maintain operating expenses on a current basis. This cash funding was to be contributed

to the Plan within forty-five (45) days after receipt of the Preliminary Report and the Plan was required to provide documentation that the Plan received this funding.

The projections were to begin with the financial statements for the quarter ended June 30, 2010 , as revised for the examination adjustments and reclassification entries noted in Section I. of this report, and should be based upon and agree with these statements.

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

The Plan responded that in order to implement a CAP and to ensure the Department that the Plan is in compliance with Section 1375.1 and Rules 1300.75.1 and 1300.76 of the Knox-Keene Act and Title 28 of the California Regulations respectively, the Plan provided the following documents:

- *Plan's Operating Budget;*
- *Projected Balance Sheet;*
- *Projected TNE; and*
- *Projected Administrative Cost.*

The Plan's operating budget includes total revenue, total expenses and the net income commencing in October, 2010 and ending in December 2011. The Plan's projected balance sheet includes its assets and liabilities and equity from October, 2010 to December 31, 2012. The Plan's projected TNE is presented from October 2010 to December 2012. Finally, the Plan's administrative costs include the revenue from the subscribers and the administrative costs to the Plan. The Plan will use the projections and the operating budget to assist the Plan in maintaining fiscal soundness of its operations. If any variance is noted by the CFO, it will be reported to the Plan's Chief Executive Officer ("CEO"). To further ensure that the Plan is in compliance with its projected data and is operating fiscal1y sound, the Plan's CFO will also report to the Board of Directors regarding the Plan's fiscal compliance with its projected data during the Board meetings.

In addition to the steps outlined above, the Plan will require its CFO and CEO to periodically identify to the Board of Directors the expenses related to dental care costs, employee expenses, supplies and services, borrowing cost expenses, depreciation and amortization, loss on disposal of noncurrent assets, bad and doubtful debts, expenses related to assumed liabilities and extraordinary items.

Finally, the Plan has deposited a total of $145,000.00 in bank accounts for the benefit of the Plan. The Plan's deposit on January 11, 2011 for $100,000 at Citizens Bank, $25,000 on January 26, 2011 for $25,000 at 1ST Bank and $20,000 on February 24, 201.

The Plan represents the responsible officers are CFO Mahesh Manchandia and CEO Mohender Narula, DDS.

The Department finds that the Plan's compliance effort is not fully responsive to the deficiency cited and the corrective action required. The financial projections provided by the Plan are not adequately supported, so the Department is unable to determine if the Plan will be financial viability, as follows:

1. **The Plan's CAP did not disclose the specific steps taken by the Plan to improve their cash/liquidity position; nor did it address the concerns with operations addressed in above paragraphs D. through H. The Plan is again required to provide a CAP that addresses the issues above and includes the operational changes made, the procedures put in place; and, specifically the policies and procedures for cash management.**

2. **The Plan's projected financial statements start with month ended October 31, 2010, but the statement of income and expense does not agree with this monthly report as filed with the Department. The Plan is to revise the projections so that they agree with and are based on the October 31, 2010 monthly financial statement as filed with the Department.** [The Department's Preliminary Report required the Plan to begin the projections with quarter ended June 30, 2010 as revised for the examination adjustments, but the Department accepts bringing the projections more current by use of monthly report for October 31, 2010.]

3. **The Plan's projected statement of income and expense indicates breakeven at October 2011, but the Plan did not provide these projections through December 2012. The Department required the monthly projections through breakeven and then on a quarterly basis for one additional year. The Plan is to provide the projected statement of income and expense through December 2012 to comply with the Department's requirement and to support the projected balance sheet provided through December 2012.**

4. **The Plan's projections do not include statement of cash flows for the period October 2011 to December 2012, as required by the Department's Preliminary Report.**

5. **The Plan's projections did not include any assumptions, as required by the Department's Preliminary Report. The Plan is again required to submit all assumptions necessary to support the projections, including a description of the marketing program, member retention and documentation of all sources of capital funding. The Plan is to also provide support for the donated services that are recorded as equity**

6. **The Department notes from review of historical financial statements from October 2010 to January 2011, the Plan had a net growth in enrollment of 43 lives. The Plan reported total enrollment of 4,611 at January 31, 2011. The Plan projects monthly enrollment of 4,800 at February and 5,000 at March 2011 with continued growth at 300 or more enrollees per month reaching potential enrollment of 8,500 at December 31, 2011. The Plan must provide**

detailed support for these enrollment assumptions, such as letters of interest from employer groups with disclosure of number of employees and potential number of enrollees with interest in joining the Plan.

7. **The Plan is also to provide "per member per month" premium amounts with related dental capitation rates and commission rates to support the Plan's calculation of premium revenue, capitation expense and commission expense. The Plan is also to provide its methodology for developing these charges which should be supported by historical data or actuarial data.**

8. **The Plan's projections include the Department's assessment fee as a "direct" or "medical" cost in the statement of income and expense. This expense is to be shown as an administrative cost, pursuant to Rule 1300.78. However, the Plan did include this expense as "administrative" in its calculation of administrative costs.**

9. **The Plan's projected additional paid in capital of $1,543,929 at January 2011 increased by $150,000 from December 31, 2010 balance of $1,393,929. The Plan provided support of $125,000 deposited in January 2011, not $150,000. The Plan is to provide support for this additional $25,000 deposited in January 2011 and/or revise the projections to correctly reflect the actual deposit of $125,000 in January 2011. A deposit of $20,000 made in February 2011 may be appropriately recognized as additional paid in capital at February 2011.**

The Plan is again required to file financial projections that are revised to agree with the historical financial statements for the month ended October 31, 2010 and revised to demonstrate compliance with the above items 1 to 8 as additional support in the Plan's demonstration of compliance.

The documentation for the deposit of $20,000 made on February 24, 2011 does not indentify the bank. The Plan is to provide a copy of a current bank statement for this account.

The Plan was required to identify the total cash funding needed to reach breakeven and maintain operating expenses on a current basis. This cash funding was to be contributed to the Plan with its response to the Preliminary Report. The Plan's projected statement of income and expense indicates total funding of $49,952 is needed to cover the losses the Plan will incur from February 2011 until it reaches breakeven in September 2011. The Plan did not identify this additional cash funding in its response, nor did it provide documentation that the Plan received this funding. The Plan is again required to do so in its response, based on revised financial projections to be submitted.

Furthermore, the Plan did not respond to the Department's request to explain why the corrective action outlined in the Department's prior examination reports did not

prevent recurrence of noncompliance in this area. The Plan is again required to do so in response to this report.

SECTION IV. VIOLATION OF STIPULATION

As a result of the Department's enforcement action for the Plan's failure to comply with Sections 1375.1 and 1367(g) and Rule 1300.67.3(a)(2) based on findings from the Department's prior examination for the quarter ended June 30, 2004, the Plan and Department entered into a Stipulation on July 20, 2006 and agreed that:

1. Beginning the month of July 2006, Dr. Narula will make a capital contribution in the amount equal to any losses incurred by Jaimini for the prior month on or before the 10th of the following month.

2. On or before the 10th of each month, Dr. Narula will provide an additional capital investment of $5,000.

3. Beginning the month of July 2006 and continuing each month, Dr. Narula will maintain the cash level on a 1:1 ratio with its current liabilities for the month.

4. Beginning August of 2006 and continuing each month, Dr. Narula will provide the Department representative a copy of the bank validated deposit statement, as proof of the monthly capital infusion of $5,000 plus the amount equal to any losses, within 5 business days of the deposit into Jaimini's bank account.

Our examination disclosed the Plan failed to comply with the terms of the Stipulation during the time period of January 1, 2009 to November 30, 2010, as follows:

	Fiscal Year 2009	**Six months ended 6/30/10 ***	**Eleven months ended 11/30/10 ***
Stipulation 1	Not compliant with all months, except for months February, July and December, 2009	Not compliant with all months, except for the month of May 2010	Not compliant with all months, except for the month of May 2010
Stipulation 2	Not compliant for August, September, October and November 2009	Not compliant with all months	Not compliant with all months
Additional funding needed per Stipulation 1 and 2 –see A. below	$18,385	$86,369	$142,379
Stipulation 3-see B. below	Not compliant for August to October 2009	Not compliant with all months	Not compliant with all months
Stipulation 4	Not compliant with all months, except for the month of February 2009	Not compliant with all months	Not compliant with all months

* **As reported by the Plan.**

A. Stipulation 1 and 2

Our examination disclosed the Plan failed to comply with the terms of Stipulation 1 and 2 by providing the total additional funding of $142,379 for the time period of January 1, 2009 to November 30, 2010, as follows:

		Required Contribution					
Month	**Income (Loss)* ($)**	**(A) Capital Contribution (Item 1of the Stipulated Agreement) ($)**	**(B) Additional Capital Investment (Item 2 of the Stipulation Agreement)($)**	**Due Date**	**Actual Date Deposit**	**(C) Actual Contribution by the plan ($) per Deposit Statements**	**(A+B-C) Additional Cash Needed to Satisfy Items 1 and 2 ($)**
Dec-08	($23,699)	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Jan-09	(3,156)	$23,699	5,000	2/10/2009			28,699
Feb-09	(8,534)	3,156	5,000	3/10/2009	2/4/2009	3,500	4,656
Mar-09	(15,257)	8,534	5,000	4/10/2009			13,534
Apr-09	(11,905)	15,257	5,000	5/10/2009			20,257
May-09	(8,030)	11,905	5,000	6/10/2009	5/14/2009	5,000	11,905
Jun-09	(9,659)	8,030	5,000	7/10/2009			13,030
Jul-09	(10,415)	9,659	5,000	8/10/2009	7/10/2009	12,000	2,659
Aug-09	(5,095)	10,415	5,000	9/10/2009			15,415
Sep-09	(3,099)	5,095	5,000	10/10/2009			10,095
Oct-09	(134)	3,099	5,000	11/10/2009			8,099
Nov-09	98	134	5,000	12/10/2009			5,134
Dec-09	(32,938)	(98)	5,000	1/10/2010	12/30/2009	120,000	(115,098)
Subtotal		**98,885**	**60,000**			**140,500**	**18,385**
Jan-10	(10,284)	32,938	5,000	2/10/2010			37,938
Feb-10	(6,676)	10,284	5,000	3/10/2010	2/22/2010	7,000	8,284
Mar-10	(8,921)	6,676	5,000	4/10/2010			11,676
Apr-10	(9,494)	8,921	5,000	5/10/2010			13,921
May-10	(10,056)	9,494	5,000	6/10/2010	5/14/2010	15,000	(506)
Jun-10	(9,945)	10,056	5,000	7/10/2010			15,056
Subtotal		**78,369**	**30,000**			**22,000**	**86,369**
Jul-10	(5,097)	9,945	5,000	8/10/2010			14,945
Aug-10	(5,985)	5,097	5,000	9/10/2010			10,097
Sep-10	(12,567)	5,985	5,000	10/10/2010			10,985
**	(49,384)						
Oct-10	(12,147)	12,567	5,000	11/10/2010			17,567
**		49,384			***	75,000	(25,616)
Nov-10	(9,693)	12,147	5,000	12/10/2010	***	7,500	9,647
Subtotal		**95,125**	**25,000**			**82,500**	**37,625**
Total		**272,379**	**115,000**			**245,000**	**$142,379**

***As reported by the Plan**
** Additional losses reported by Plan due to prior period adjustment made in September 2010 and to record marketing expenses
***Marketing expenses paid personally by CEO, on behalf of Plan, and recorded as capital contribution

B. Stipulation 3

Our examination disclosed the Plan failed to comply with the terms of Stipulation 3 during the time period of January 1, 2009 to November 30, 2010 as follows

Month	Cash & Cash Equivalents ($)*	Less Exam Reclass Entry **	Exam Cash & Cash Equivalents	Total Current Liabilities ($)*	Ratio of Cash to Current Liabilities	Additional Cash Needed to Satisfy Stipulated Agreement 3
Jan-09	203,977			171,678	1: 1.19	
Feb-09	196,224			167,676	1: 1.17	
Mar-09	185,532			170,854	1: 1.09	
Apr-09	203,083			188,769	1: 1.08	
May-09	194,274			181,797	1: 1.07	
Jun-09	192,475			188,278	1: 1.02	
Jul-09	188,135			186,981	1: 1.01	
Aug-09	186,017			188,630	1: 0.99	2,613
Sep-09	181,005			183,323	1: 0.99	2,318
Oct-09	185,061			186,838	1: 0.99	1,777
Nov-09	184,575			183,132	1: 1.01	
Dec-09	282,632			197,059	1: 1.43	
Jan-10	256,524	180,000	76,524	179,788	1: 0.43	103,264
Feb-10	256,225	180,000	76,225	171,888	1: 0.44	95,663
Mar-10	253,830	180,000	73,830	177,588	1: 0.42	103,758
Apr-10	242,729	180,000	62,729	173,740	1: 0.36	111,011
May-10	255,495	180,000	75,495	178,349	1: 0.42	102,854
Jun-10	249,178	180,000	69,178	246,880	1: 0.28	177,702
Jul-10	249,383	180,000	69,383	181,874	1: 0.38	112,491
Aug-10	245,110	180,000	65,110	190,900	1: 0.34	125,790
Sep-10	270,682	180,000	90,682	208,209	1: 0.44	117,527
Oct-10	45,472			164,342	1: 0.28	118,870
Nov-10	34,426			152,544	1: 0.23	118,118

* **As reported by Plan**
** Pledged cash not available as cash or cash equivalent. See Section I and II of this report.

This noncompliance was referred to the Office of Enforcement for appropriate administrative action.

The Preliminary Report required the Plan to make an additional capital contribution in the amount of $142,379 to bring the Plan into compliance with the Stipulation and provide a copy of the bank validated deposit slip. In addition, the Plan was required to

provide a detailed CAP that sets forth the procedures taken to ensure the Plan complies with the specific requirements and timelines of the Stipulation on a monthly basis. The Plan was to state the date these procedures were implemented and the management position responsible to ensure ongoing compliance with the Stipulation.

The Plan responded that it made an additional capital contribution in the amount of $145,000 to bring the Plan in compliance with the Stipulation. The Plan included with its response the bank deposits validating that the deposits were made on behalf of the Plan. The Plan further stated that in addition to the corrective action steps the Plan is taking to ensure the maintenance of fiscal soundness, the Plan will also implement a policy of requiring the Plan's CEO and CFO to confirm in writing that the Plan is in compliance with the Stipulation signed by the Plan and the Department on July 20, 2006. In fact, the Plan represented they will require the CEO and CFO to confirm in writing the following: (a) the amount of contribution made by the Plan; (b) the additional capital of $5,000 was made to the bank; (c) that there is a maintenance of cash level of 1: 1 ratio with its current liabilities for the month; and (d) that a copy of the bank validated deposit statement is provided to the Plan's Legal Compliance officer for filing with the Department. The Plan included with its response a "Contribution Compliance per Stipulation" table that sets forth each stipulation followed by a requirement that the CFO and the CEO provide their initials to confirm that each requirement is completed. The Plan will keep the completed table as part of its records. Furthermore, the Plan's CEO and CFO will review this table during the quarterly Board meetings to further provide a check and balance as to the completion of the requirements set forth in the Stipulation of July 20, 2006.

The Department finds that the Plan's compliance effort is responsive to the deficiency cited and the corrective action required as of November 30, 2010. The Department reviewed the monthly financial reports for December 31, 2010 and January 31, 2011 and finds that the Plan needed to contribute an additional $29,739 by February 10, 2011 to comply with the Stipulation through January 31, 2011. The Plan is required to provide documentation to demonstrate that this additional funding was received by the Plan for compliance with the Stipulation for January 31, 2011. The Plan is required to explain why the corrective action taken has not resulted in the Plan's compliance with the Stipulation as of February 10, 2011 or as of March 10, 2011 for the month ended February 28, 2011.

SECTION V. COMPLIANCE ISSUES

A. MISSTATEMENT IN DOCUMENTS FILED WITH DEPARTMENT

Section 1396 states that "[i]t is unlawful for any person willfully to make any untrue statement of material fact in any application, notice, amendment, report, or other submission filed with the director or willfully to omit to state in any application, notice, or report any material fact which is required to be stated therein."

The Plan completes an Electronic Filing Signature Verification form for authorization for electronic submission of financial statement filings with the Department and the plan representative that signed this form does so under penalty of perjury that the filing is true and correct.

The Department finds that the Plan submitted financial statement filings that present misstatement of material facts, as follows:

1. PLEDGED FUNDS: The Department reviewed the bank statement provided by the Plan dated September 15, 2010, for the certificate of deposit in the amount of $180,000 and found that the bank statement clearly sets forth that these funds are pledged and not available. The account was opened on July 14, 2008, with the most current renewal date of January 14, 2010, and a maturity date of January 14, 2011. Our examination resulted in the reclassification of this certificate of deposit as a restricted asset on the financial statement for the period ended June 30, 2010, and this encumbered cash is not admissible for purposes of calculating TNE and results in a TNE deficiency. [See Sections I. and II. of this report for related comments.]

   Our examination determined that the bank statement provided adequate disclosure of this pledge and the Plan had knowledge of this encumbrance. However, the Plan failed to report the pledged certificate of deposit as a restricted asset in the Plan's financial statements for the months ended January through September 30, 2010, and quarters ended March 31, 2010, June 30, 2010 and September 30, 2010. The Plan also failed to deduct this pledged asset in its calculation of TNE as presented in the Supplemental Information with each financial statement filed with the Department.

2. DONATED SERVICES: The Department's Final Report dated January 31, 2008, disclosed that the Marketing Director was paid directly by the Plan's CEO, on behalf of the Plan, without proper disclosure in the supplemental information to the financial statements. The Department's current subsequent event review noted that the Plan provided footnote disclosure regarding the CEO payment of the Marketing Director and recorded year to date donated capital of $67,500 in the quarterly report for September 30, 2010. These transactions were not disclosed by the Plan in prior financial statements filed with the Department, or disclosed in the board of director's minutes reviewed during our examination. The Plan's footnote disclosure for the September 30, 2010 quarterly financial statements indicated a monthly salary of $7,500 was recorded as Donated Capital and marketing services in the year to date total of $67,500. On November 19, 2010, the Plan submitted supporting documents from December 16, 2009 to September 30, 2010, for the CEO's payment of these marketing services for a total year to date donation of capital of $93,000. The support for this year to date amount included the December 2009 payment was prepaid for the months January 1 to March 31, 2010 at $8,500 per month for the total amount of $25,500. Furthermore, the Plan's annual audited report for December 31, 2009, as filed with the Department, did not report "prepaid salaries", record "donated capital", or provide any footnote disclosure for these donated services. The Plan's failure to disclose these donated services and/or record the related contributed capital in the

monthly, quarterly and annual audited financial statements filed with the Department since January 2008 further supports the submission of misstated financial statements.

The Department did not make an examination adjustment to record contributed/donated capital and the related marketing expenses for the six-month period ended June 30, 2010, due to: (a) the conflicting statement/disclosure regarding the marketing director's monthly salary; and, (b) the months of service for which a payment was made not clearly identified on each payment made by the CEO from February 2010 through September 2010. Such adjustment would not have an impact on the Plan's TNE position as presented in Section II. above, but would increase the Plan's reported expenses and increase their reported net loss.

As a part of the Department's examination process, the Plan's Chief Executive Officer and Chief Financial Officer are required to provide the Department with an executed representation letter. The Plan's CEO and CFO executed the representation letter on October 25, 2010, that they confirm to the best of their knowledge and belief as to the following:

a. They are responsible for the fair representation of the financial statements of June 30, 2010, in conformity with generally accepted accounting principles ("GAAP"). [See paragraph 1 of Plan Representation Letter]. [Refer to Subsection D. below for related comments.]

b. They have no plans or intentions that may materially affect the Plan's operations or the carrying value of classification of assets and liabilities [See paragraph 4. of Plan Representation Letter] [Refer to Section I. above regarding proper classification of pledged asset.]

c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, lines of credit, or similar arrangements have been properly recorded or disclosed in the financial statements. [See paragraph 5.b. of Plan Representation Letter] [Refer to Section II. above regarding pledged asset.]

d. All assets that have been pledged as security on liabilities have been disclosed in the financial statements. [See paragraph 10. of Plan Representation Letter] [Refer to Section II. above regarding pledged asset]

e. There has been no contribution of assets, services or use of facilities other than those disclosed in the financial statements. [See paragraph 13. of Plan Representation Letter] [Refer to discussion under DONATED SERVICES above and quarterly financial statement for September 30, 2010.]

The Department finds that the representations made by the CEO and CFO in the Plan Representation Letter conflict with the information and documentation obtained through our examination, and present misstatement of material facts.

Due to the seriousness of this violation, a referral was made to the Office of Enforcement for appropriate administrative action.

The Department did not require corrective action or a response from the Plan and the Plan did not provide a response.

B. VIOLATION OF UNDERTAKING

The material modification filed on July 16, 2008, by the Plan, was approved by the Department in an Order of Approval (Order No. 20081491) issued on October 27, 2008, for the new "flexible benefit design" product, Pacific Plan 700. The Order was issued subject to and conditioned upon the Plan's full performance to the Department's satisfaction of the Undertakings ("Undertaking") incorporated into the Order of Approval. The Plan executed this Undertaking on October 22, 2008, and it sets forth certain requirements as stated in part below:

- Undertaking 1 requires the Plan to report the date the first Product Cycle begins.

- Undertaking 2 requires the Plan to report the number of grievances submitted by enrollees of Pacific Plan 700 within thirty (30) days after the end of each calendar year after the beginning of the first Product Cycle.

- Undertaking 3 requires the Plan to report specific enrollment data and utilization data within ninety (90) days after the end of the first Product Cycle.

Our examination disclosed that the first date the Plan sold the Pacific Plan 700 was during February 2009. The Department reviewed the filings made by the Plan, during the period November 1, 2008 through December 2, 2010, and determined that the Plan failed to comply with the filing requirements of Undertakings 1, 2 and 3 as noted above. The Plan was required to comply with Undertaking 2 by January 31, 2010 (within thirty (30) days after the end of the calendar year for 2009); and was required to comply with Undertaking 3 on or prior to April 30, 2010.

The Preliminary Report required the Plan to submit the required reporting under Undertaking 1, 2 and 3 in response to this report. The Plan's continued failure to comply with the Undertaking may cause the Department to seek the administrative remedies outlined in Undertaking 5.

The Plan was required to provide written assurance that it will comply with the provision of any Undertaking executed by the Plan and filed with this Department, and that this apparent disregard of the provisions of the Undertaking will not be repeated. In addition, the Plan was required to provide a detailed CAP that states the procedures implemented to bring the Plan into compliance with the Undertaking and ensure continued compliance. The Plan was also to state the date these procedures were implemented and the management position responsible to ensure ongoing compliance with the Undertaking.

The Plan responded as follows:

- *Undertaking I: The first Product Cycle began On July 1,2009;*
- *Undertaking 2: To date, the Plan has no grievances filed by members enrolled in the plan 700; and*
- *Undertaking 3: To date, the Plan has 105 applicants enrolled in its Plan 700. The specific utilization data was included in the Plan's response.*

Additionally, the Plan assured the Department that it will comply with the provisions of any Undertakings (including Undertakings I, 2, and 3 as set forth above), executed by the Plan and filed with the Department. The Plan also assured the Department that the current non-compliance with Undertakings will not be repeated by the Plan.

Furthermore, to ensure that the Plan continues to be in compliance with all of the provisions of the Undertaking, the Plan will reiterate to the Plan's staff the following:

- *Any time the Plan commences the use of a new product, the date the first Product Cycle begins must be provided to the Plan's Legal Compliance officer for reporting to the Department.*

- *When the Plan commences the use of a new product, the staff must track the number of grievances submitted by the enrollee under the new product within thirty (30) days after end of each calendar year after the beginning of the first Product Cycle. This information must be provided to the Plans' Legal Compliance officer for reporting to the Department.*

- *When the Plan commences the use of a new product, the staff must tack specific enrollment data and utilization data within ninety (90) days after the end of the first Product cycle. This information must be report to the Plan's Legal Compliance officer for reporting to the Department.*

The Department finds that the Plan's compliance effort is responsive to the deficiency cited and the corrective action required. However, the Plan needs to file its compliance with this Undertaking as an amendment filing with the Department with reference to efile 20081491.

The Plan's response did not state the date these procedures were implemented nor identify the management position responsible to ensure ongoing compliance with the Undertaking. The Plan is again required to do so in response to this report.

C. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES –*Repeat Deficiency*

Sections 1384 (c) and 1345 (s), and Rules 1300.45 (q), and Rules 1300.84.2(a) and 1300.84.3 (d) include requirements for filing financial statements in accordance with generally accepted accounting principles ("GAAP") and other authoritative pronouncements of the accounting

profession. Rule 1300.45 (q) indicates that the Accounting Principles Board Opinions, Financial Accounting Standards Board Statements ("FASB"), Accounting Research Bulletins and other authoritative pronouncements of the accounting profession should be applied in determining GAAP.

GAAP requires that financial statements be prepared on the accrual basis of accounting for fair presentation of an entity's financial position. The accrual basis of accounting is defined in Statement of Financial Accounting Concepts No. 6.

Our examination disclosed the following:

1. The examination adjustments presented in Section I.C. of this report were mostly the result of the Plan's failure to properly accrue assets and liabilities or its failure to match revenue and expenses in accordance with GAAP. Some examples are described below:

    a. The cash balance reported by the Plan was overstated due to the incorrect reporting of the pledged certificate of deposit as a liquid asset instead of a restricted/noncurrent asset. [Refer to RJE-2 under Section I.C. of this report]

    b. The Plan did not correctly record group premiums during the month of coverage. GAAP requires that revenue be recognized when it is earned. The Plan overstated unearned premium for groups as of the quarter ended June 30, 2010, due to premium revenue for June 2010 and prior date of coverage not recognized as premium revenue. [See AJE-2 under Section I. C. of this report.] In addition, the Plan classifies all premiums received as unearned premiums regardless of the month of coverage and does not record premium receivable for past due group premium payments, as 2 groups were reviewed and found to be thirty (30) and sixty (60) days past due.

    c. The balance reported by the Plan for prepaid expenses was overstated as of the quarter ended June 30, 2010, due to provider capitation checks printed with date of June 30, 2010 or prior, but not released until months later. While GAAP provides that a prepaid expense be recorded for the capitation paid for service dates not yet incurred, the payment must have actually been made and not held by the Plan. [Refer to AJE-3 under Section I.C. and Section III. of this report.]

    d. The balance reported by the Plan for prepaid expenses was overstated for the 1st quarter of California Dental Association annual fees. The Plan failed to properly amortize these expenses over the time period to which the fee relates. [Refer to AJE-4 under Section I.C. of this report]

    e. The Plan overstated its assets by recording a rental deposit for which it was unable to provide evidence that this deposit was actually paid. [Refer to AJE-5 under Section I.C. of this report.]

f. The Plan overstated cash and understated current liabilities for capitation checks dated on June 30, 2010 for the month of coverage of June 30, 2010 that were not released on June 30, 2010. [Refer to RJE-3 under Section I.C. of this report.]

g. Old Outstanding checks**:** The Plan's annual audited report for the year ended December 31, 2008 overstated cash due to adjustment #4 indicated an improper reversal of old outstanding checks as an increase to cash and reduction to expenses. [Refer to AJE-6 under Section I.C. of this report.] The Plan was informed in the Department's previous regulatory examinations that these funds must be recorded as a liability until they are researched and reissued to the payee or escheated to the State Controllers Office, as these funds do not belong to the Plan. In addition, the Plan did not properly classify outstanding checks that are more than 180 days old as a liability in the quarter ended June 30, 2010. [Refer to RJE-1 under Section I.C. of this report.] This is a ***repeat deficiency***.

2. As discussed in Section V. of this report, the Plan failed to properly disclose donated services in the financial statements for the compensation of the Marketing Director paid directly by the Plan's CEO, on behalf of the Plan. In a discussion with the CFO in October 2010, he implied that certain account payables of the Plan and IT services would be paid directly by the CEO on behalf of the Plan. GAAP requires the value of donated services to be disclosed and/or recorded as contributed capital, as appropriate.

The Plan's failure to comply with presentation of its financial statements in accordance with GAAP is a ***repeat deficiency***, as this issue was previously reported in the Department's Final Report of Examination dated July 16, 2003 (for the period ended August 31, 2002).

This repeat deficiency was referred to the Office of Enforcement for appropriate administrative action.

The Preliminary Report required the Plan to provide a CAP that will ensure that the financial statements of the Plan will be prepared in accordance with GAAP. This CAP was to address each deficiency cited above, and include the following:

- Measures implemented that will assure the accurate calculation and the proper financial statement presentation of all financial transactions in accordance with GAAP.

- An accounting manual that provides a complete and detailed description of all controls and procedures to be implemented regarding the recording of all financial transactions and general ledger accounts.

The Plan was required to state the date the CAP was implemented and the management position responsible to ensure continued compliance.

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

The Plan response assured the Department that its financial statements will be prepared in accordance with GAAP. Currently, all of the Plan's accounting records are maintained at the office of the CFO. The CFO will supervise the entry of financial transactions and assure that the transactions are posted to the general ledger. The CFO will also review all bank accounts and related information on a monthly basis. He will ensure that the bank accounts and accounts receivables are reconciled on a monthly basis prior the preparation of the Plan's financial statements.

The Plan further stated that during the quarterly Board meetings, the CFO will present a financial report regarding the financial status of the Plan, including any financial transactions and bank account activities. This will be in addition to the TNE report to the Board of Directors. Additionally, the Plan has an external CPA firm that provides an independent annual financial audit to further assure the Department that the financial statements are presented in accordance with the GAAP. The Plan's CFO is responsible for the continued compliance with the Plan's corrective action plans as they relate to the fiscal administration of the Plan. The Plan stated that all related corrective action plans will be implemented at the Plan's next Board meeting. Also, the Plan included in its response the Plan's Accounting Policies and Procedures.

The Department finds that the Plan's compliance effort is not fully responsive to the deficiency cited and the corrective action required. The Plan's response and/or Accounting Policies and Procedures did not address the issues regarding old outstanding checks and proper disclosure of donated services. The Plan is again required to do so in its response to this report.

The Plan's response stated the CAP will be implemented at the Plan's next board meeting, but did not state when this meeting is to be held. The Plan is required to state the date of implementation in its response to this report.

Furthermore, the Plan did not respond to the Department's request to explain why the corrective action outlined in the Department's prior examination reports did not prevent recurrence of noncompliance in this area. The Plan is again required to do so in response to this report.

The Plan's response indicates that the external CPA that performs the annual financial audit provides further assurance that the financial statements are presented in accordance with GAAP. The Plan is reminded that Rules 1300.84.2 and 1300.84.3 require that the monthly and quarterly financial statements are to be prepared in accordance with GAAP and prepared on a basis consistent with the annual certified financial report filed pursuant to Section 1384(c). These interim statements are prepared by Plan management and must be prepared in accordance with GAAP.

D. ADMINISTRATIVE CAPACITY-*Repeat Deficiency*

Section 1367(g) requires a plan to have the organizational and administrative capacity to provide services to subscribers and enrollees. Rule 1300.67.3(a)(2) and (3) requires the plan to have staffing in fiscal and administrative services sufficient to result in the effective conduct of the plan's business and to have written procedures for the conduct of the business of the plan so as to provide effective controls.

To demonstrate adequate administrative capacity a plan must have an executive staff and support staff sufficient to perform the necessary functions of a health care service plan; and written procedures that provide for effective controls. The responsibility for the day-to-day functions and the oversight of any delegated function must reside with plan executive management.

Our examination disclosed that the Plan did not have the administrative capacity required by Section 1367(g) and Rule 1300.67.3(a)(2). The deficiencies noted throughout this report demonstrate a failure on the part of Plan management to understand its obligations to comply with the financial and compliance requirements placed on the Plan by the Knox-Keene Health Care Service Plan Act of 1975 and the California Code of Regulations.

The following are examples of the Plan's lack of administrative capacity:

1. The Plan does not employ/contract staff with sufficient accounting skills and an adequate knowledge of GAAP to prepare interim financial statements in accordance with GAAP, as required by Section 1345(r). Our examination disclosed deficiencies in the monthly/quarterly financial statements and supporting records. This is evidenced by the number of adjusting journal and reclassification entries presented in Section I. of this report.

2. The Plan substantially overstated its TNE position in its financial statements filing with the Department for at least the months ended January 30, 2010 to September 30, 2010, as well as quarterly reports for March 31, 2010, June 30, 2010 and September 30, 2010. [Reference to Section II. of this report]

3. The Plan's failure to comply with the Stipulation. [Reference to Section IV. of this report]

4. The Plan's failure to comply with Undertakings 1, 2 and 3 of the Order Approved and executed by the Plan in October 2008. [Reference to Section V.B. of this report]

5. Due to the Plan's failure to prepare its financial statements in accordance with GAAP and its failure to properly calculate its TNE position, it must be concluded that the Plan's executive management staff is not performing adequate oversight of the functions performed by the Plan's employed/contracted staff and does not maintain adequate written procedures to provide for effective controls over the Plan's operations.

6. The Board of Directors minutes for the period of April 2009 through August 2010 did not reflect approval and/or review of significant transactions or operational decisions by Board members, as follows:

   a. Appropriate approval and review of operational decisions by the Board – *Repeat Deficiency*, for the following:

      - pledging of certificate of deposit in January 2010 and/or prior period
      - compliance with the Stipulation dated July 20, 2006
      - compliance with the Undertaking dated October 27, 2008

   b. Significant transactions not reported and approved in advance, such as 2009 annual audit report that was filed with Department by April 30, 2010, but not approved by the Board until August 5, 2010– *Repeat Deficiency*

   c. No annual meeting and election of officers– *Repeat Deficiency*

   d. Directors Mina Narula and Stephen Senko were no longer reported as attendees or absentees; and Director Gary Hall was absent for all meetings for December 8, 2009 though August 2010. All officers in attendance and all directors absent should be listed in the minutes. The Plan should have board members that take an active role in the Plan's operations.

   e. No annual approval for authorized check signors **–** *Repeat Deficiency*

The Plan's failure to comply with administrative capacity and adequate Board oversight are ***repeat deficiencies***, as these issue were previously reported in the Department's Final Reports of Examination dated January 31, 2008 (for the period ended June 30, 2007), and July 16, 2003 (for the period ended August 31, 2002).

<u>These repeat deficiencies were referred to the Office of Enforcement for appropriate administrative action.</u>

The Preliminary Report required the Plan to describe the CAP implemented by management to ensure that the Plan's fiscal and administrative services are efficiently managed in compliance with Section 1367(g) and Rule 1300.67.3. Such corrective action was to include the following:

1. demonstration that the Plan has sufficient staffing in fiscal and administrative services and proper written procedures for the effective conduct of the Plan's business. This demonstration is also to support that the CFO devotes adequate time to perform his duties.

2. demonstration that the Plan now has executive management staff, and/or support staff, with sufficient accounting skills and adequate knowledge of GAAP to ensure that all financial statements are prepared in accordance with GAAP.

3. demonstration that members of the Board of Directors are now actively involved in the financial and operational issues of the Plan.

4. written confirmation that all future Board minutes shall address the issues cited above in paragraph 6.

The Plan was also required to state the date corrective actions were implemented, the management position responsible for ensuring the corrective actions taken, and the controls implemented for monitoring continued compliance.

Furthermore, the Plan was required to explain why the Plan did not comply with the CAP provided in response to the Department's previous examination reports.

The Plan responded that their fiscal and administrative staffing is consistent with the appropriate size of the Plan's member base and the magnitude of Plan's revenues. Currently, all financial records will be maintained at the office of the CFO but will be made available to the Department upon request. The CFO will ensure that all financial statements are completed in accordance with GAAP.

The Plan stated that the Board of Directors are actively involved in the financial and operational issues of the Plan, as the CFO and CEO are now required to provide specific reports to the Board of Directors during the quarterly meetings, including reports relating to the Plan's TNE. The Plan also confirmed that the Board meetings will address by approval or review of significant transactions or operational decisions by the Board as follows:

- *Appropriate approval and review of operational decision for pledging of certificate of deposit, compliance with the Stipulation dated July 20, 2006 and compliance with Undertaking provisions;*
- *Significant transactions are approved in advance and reported in advance;*
- *Annual meetings to elect directors who will hire the officers to operate the Plan;*
- *Notation of all directors who are in attendance at the Board Meetings; and*
- *Annual approval for authorized check signors.*

The Department finds that the Plan's compliance effort is not fully responsive to the deficiency cited and the corrective action required.

The Plan's response did not provide any demonstration that the Plan now has adequate staffing in place to ensure future administrative capacity, or that it has adequate staffing with sufficient accounting skills and knowledge of GAAP. The Plan's response, in Section III. Paragraph D., indicates that the CFO "…*will*

***supervise the entry of financial transactions…"* and the Accounting Policies and Procedures make reference to the position of a "Controller" that will perform various functions and provide certain reports to the CFO. At the time of the Department's examination, the Plan did not have a Controller. The Plan is required to explain and/or confirm whether additional financial staff (i.e., Controller) was added to the Plan staff. If so, then provide the title of the new position and the date their employment began with the Plan.**

The Plan's response did not address whether the Plan's CFO is now devoting adequate time to perform his duties. The Plan is again required to do so in response to this report.

The Plan's response, in Section III. Paragraph D. stated "*…all of the Plan's accounting records are maintained at the office of the CFO";* and, the Plan's response above stated that "*…all financial records will be maintained at the office of the CFO but will be made available to the Department upon request."* The Plan is required to make an amendment filing with the Department regarding the removal and change in location of the Plan's accounting/financial records from its administrative offices.

The Department's review of the Fidelity Bond indicates [under the definition of "employee" (paragraph 1.b. on page 4 of 4)] that this bond may not provide coverage for the CFO while having care and custody of property outside the premises of the Plan. The Plan is required to demonstrate in its response that the CFO is covered under the Fidelity Bond, if accounting/financial records are not maintained on the premises of the Plan; or, state the corrective action taken to ensure the CFO is covered under the Fidelity Bond.

The Department noted that the Plan's response to the Preliminary Report dated February 24, 2011 is signed by a representative of Wilke, Fleury, Hoffelt, Gould & Birney, LLP. The Plan's inability to respond to the Preliminary Report without outside assistance is further indication that the Plan does not have adequate administrative capacity to result in the effective conduct of the plan's business. The Plan is required to explain why the response was not signed by the Chief Executive Officer of the Plan.

The Plan's response did not state the date corrective actions were implemented, the management position responsible for ensuring the corrective actions taken, or the controls implemented for monitoring continued compliance. The Plan is again required to do so in its response to this report.

Furthermore, the Plan did not respond to the Department's request to explain why the corrective action outlined in the Department's prior examination reports did not prevent recurrence of noncompliance in this area. The Plan is again required to do so in response to this report.

E. FIDELITY BOND—*Repeat Deficiency*

Rule 1300.76.3 requires each plan to maintain at all times a fidelity bond that provides for thirty (30) days notice to the Director prior to cancellation.

The policy provided to the Department for review did not provide for thirty (30) days notice to the Director prior to cancellation. In addition, the fidelity bond did not have the current address for the Plan listed.
The Plan's failure to comply with the fidelity bond requirements is a repeat deficiency, as this issue was previously reported in the Department's Final Reports of Examination dated January 31, 2008, and January 28, 2005.

The Preliminary Report required the Plan to provide a copy of an updated fidelity bond that corrects the above noted deficiencies. The Plan was also required to state the management position responsible for the corrective action and a description of the controls implemented for monitoring continued compliance.

The Plan was also required to explain why the Plan did not comply with the CAP provided in response to the Department's previous examination reports.

The Plan's response included an updated copy of the fidelity bond that corrects the deficiency noted by the Department, including the current address for the Plan. The Plan represented that its Chief Operating Officer will be responsible for ensuring that the fidelity bond is updated with the correct information.

The Department finds that the Plan's compliance effort is responsive to the deficiency cited. However, the Plan did not respond to the Department's request to explain why the corrective action outlined in the Department's prior examination reports did not prevent recurrence of noncompliance in this area. The Plan is again required to do so in response to this report.

The Plan represented that its Chief Operating Officer is responsible for oversight of the fidelity bond. The Department was not aware that the Plan had a Chief Operating Officer. The Plan is required to state the date this position was filled and submit proper filing to the Department for this addition to Plan management staff.

F. FINANCIAL STATEMENT PRESENTATION—*Repeat Deficiency*

Rules 1300.84.2 and 1300.84.3 sets forth the requirements for the filing of quarterly and monthly financial statements with the Department. These rules also refer to Rule 1300.84.06(b) that sets forth the requirements for the supplemental information that is to accompany the filings made in the Department's report format.

Our examination included a review of the DMHC Reporting Format and supplemental information accompanying the Plan's quarterly filings for June 30, 2010, and noted the following:

1. The supplemental information form is not completed for items A through D. Although the Plan does not meet the requirements for reporting incurred and unreported claims, the Plan should state in item A that it is not applicable. Our examination disclosed that the Plan has transactions with its CEO that result in donated services that are to be disclosed in item C. If item D is not applicable, then the Plan should so state. [The Plan did report donated services in item C for the quarter ended September 30, 2010.] This is a **repeat deficiency**.

2. The Plan did not report Group enrollees on a separate line in Report #4: Enrollment and Utilization Table.

3. The reclassification entries presented in Section I.C. of this report disclose transactions that were not reported on the appropriate line item in the financial reports. This is a **repeat deficiency**.

4. The Plan failed to properly disclose the pledged cash and donated services as presented in Section V.A. of this report.

The Plan's failure to comply with the financial statement presentation requirements is a **repeat deficiency**, as this issue was previously reported in the Department's Final Report of Examination dated January 28, 2005.

The Preliminary Report required the Plan to state the CAP implemented to ensure that the DMHC Reporting Format and supplemental information is properly completed on all future financial statement filings beginning with the monthly report for December 31, 2010, due January 31, 2011. The Department recommends the Plan refer to the "General Information, Definition and Instruction" guide that provides instructions by line item for proper completion of the DMHC Report Forms and supplemental information. The Plan was required to state the date of implementation and the management position responsible for ensuring continued compliance.

The Plan was also required to explain why the Plan did not comply with the CAP provided in response to the Department's previous examination reports.

The Plan responded that it is aware of the prior non-compliance and notes that the non-compliance was unintentional. Currently, the Plan's CFO is aware of the Plan's prior non-compliance and will ensure proper filings of reports with the Department on an ongoing basis in the future. In addition to the general reporting, the CFO will specifically ensure that proper documentation of supplemental information items A through D, proper classification of enrollees, proper classification of compensation and proper recording of pledged assets are included with the filings and are on the appropriate lines of the financial reports. The Plan represented that the CFO reviewed the "General

Information Definition and Instruction" guide that provides instructions by line item for proper completion of the Department's Report Forms and supplemental information.

The Department finds that the Plan's compliance effort is responsive to the deficiency cited, but finds the corrective action was not put in place.

The Department reviewed the Plan's quarterly report for December 31, 2010 and finds that the Plan did not complete the supplemental information form for items A through D and did not report Group enrollees in Report #4: Enrollment and Utilization Table on line 1. The Department also reviewed the Plan's monthly report for January 31, 2011 and finds that the Plan did not report Group enrollees in Report #4: Enrollment and Utilization Table on line 1.

The Plan is again required to explain why the Plan did not comply with the CAP provided in response to the Preliminary Report as described above.

The Plan is also required to file corrected quarterly report for December 31, 2010 and monthly report for January 31, 2011 in response to this report.

G. PROVIDER CONTRACT

Rule 1300.67.8 requires written contracts to be executed between the Plan and each provider of health care services, which regularly furnishes services under the Plan.

The contracts between the Plan and the providers under the HealthDent and PrimeCare products provide that the capitation payments are due and payable on the 20th day of the month following the month in which premiums were collected. However, our examination disclosed that the Plan is not releasing capitation checks timely to demonstrate compliance with these payment arrangements. [Refer to Section III. D. of this report.]

The Preliminary Report required the Plan to provide policy and procedures to demonstrate the steps taken to ensure that capitation payments are paid and released in compliance with the contractual requirements.

The Plan was also required to state the date of implementation and the management position responsible for ensuring continued compliance.

The Plan responded that it took steps to ensure that the capitation payments are paid and released in compliance with the Plan's contractual obligations by establishing a separate bank account for the issuance of capitation and commission checks. This will assist in ensuring that the checks are released in accordance with the contractual requirements. The next capitation payments will be in compliance with the Plan's contractual requirements and the Plan's CFO is responsible for ensuring the continued compliance of this provision.

The Department finds that the Plan's compliance effort is not fully responsive to the deficiency cited and the corrective action required. The Plan's response did not provide policy and procedures that specifically address the steps taken to ensure capitation payments are paid and released in compliance with the contractual requirements. The Plan is again required to do so in its response to this report.

The Plan is also required to explain how establishing a separate bank account for the issuance of capitation and commission checks will ensure they are paid timely.

The Plan is required to state the date that capitation payments were issued in compliance with the contractual requirements, as the Plan's response just stated "…next capitation payments will be in compliance…".

SECTION VI. INTERNAL CONTROL

Sections 1384 and1345 (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. 109 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 regulations."

SAS No. 115 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 organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The Department's examination disclosed that the Plan has the following internal control weaknesses in cash:

1. The Plan does not have a policy for the proper recording of stale dated outstanding checks. The stale dated outstanding checks are to be reclassified as a liability, until researched and reissued to correct payee or escheated to the State Controller's Office.

2. Authorized check signors are not updated, as former Plan employees are still listed on the signature cards.

The Preliminary Report required the Plan to state the policies and procedures implemented to correct the above deficiencies, the date of implementation, and the management position(s) responsible for monitoring continued compliance.

The Plan responded that its CFO reviewed all stale dated outstanding checks and has since reissued and/or voided the old outstanding checks. Additionally, at the next quarterly Board meeting, the Plan will review the individuals who have authority to sign checks and put in writing only the qualified individuals on the Plan's signature cards. The Plan will ensure any former employees listed on the Plan's signature cards are removed.

The Department finds that the Plan's compliance effort is not fully responsive to the deficiency cited and the corrective action required. The Plan's response did not provide policy and procedures that specifically address the proper recording of stale dated outstanding checks and the escheatment process. The Plan is again required to do so in its response to this report.

SECTION VII. NONROUTINE EXAMINATION

The Plan is advised that the Department may conduct a non-routine 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 will be charged to the Plan in accordance with Section 1382(b).

No response required to this Section.