DEPARTMENT OF Managed Health Care

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State of California
Business, Transportation and Housing Agency

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March 11, 2009

Reza Abbaszadeh, DDS
President
Access Dental Plan
8890 Cal Center Drive
Sacramento, CA 95826

FINAL REPORT OF A ROUTINE EXAMINATION OF ACCESS DENTAL PLAN

Dear Dr. Abbaszadeh:

Enclosed is the Final Report of a routine examination of the fiscal and administrative affairs of Access Dental Plan ("the "Plan"), for the period ending September 30, 2008, conducted on behalf of the Department of Managed Health Care (the Department") by *pmpm® Consulting Group, Inc. ("pmpm®")*, pursuant to Sections 1380 and 1382 of the Knox-Keene Health Care Plan Act of 1975.[1] The Department issued a Preliminary Report to the Plan on January 9, 2009.

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."

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.

[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.

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 responses, please provide the electronically filed documentation no later than ten (10) days from the date of the Plan's receipt of this letter.

Please send a hardcopy of your response directly to the undersigned. In addition, please file the Plan's response, and any addendum, electronically via the Department's eFiling web portal https://wpso.dmhc.ca.gov/secure/login/>. The response, and any addendum, should be filed under filing no. 20080986. From the drop-down menu, select "Plan's Response to Final Report (FE10)" for the required response and then upload your response. For any addendum, the procedures are the same except that "Plan addendum response to Final Report (FE5)" is selected. Questions or problems related to the electronic transmission of the response should be directed to Siniva Pedro at (916) 322-5393 or email at spedro@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.

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

Sincerely,

Original Signed by

Mark Wright
Chief
Division of Financial Oversight
(916) 255-2448

cc: Marcy Gallagher, Chief, Division of Plan Surveys
Crystal Chen, Counsel, Division of Licensing
Jessica Tran, Auditor 1, Division of Financial Oversight
Russ Foster, Examiner, *pmpm® Consulting Group, Inc.*

CALIFORNIA DEPARTMENT OF MANAGED HEALTH CARE

DIVISION OF FINANCIAL OVERSIGHT

FINAL REPORT OF ROUTINE EXAMINATION FOR

ACCESS DENTAL PLAN

FILE NO. 933-0318

DATE OF FINAL REPORT: MARCH 11, 2009

CONDUCTED ON BEHALF OF THE DEPARTMENT BY:

pmpm® Consulting Group, Inc.

BACKGROUND INFORMATION FOR ACCESS DENTAL PLAN

Date Plan Licensed:	December 22, 1993
Organizational Structure:	The Plan was incorporated in California in 1993 to provide dental services to eligible subscribers for the Medi-Cal and Healthy Families programs. The Company is wholly owned by Abbaszadeh Dental Group, Inc.
Type of Plan:	The Plan is a staff model, specialized dental plan.
Provider Network:	Staff model facilities. The Plan operates 15 dental clinics primarily in central and northern California.
Plan Enrollment:	As of December 31, 2008, the Plan had total enrollment of 268,507. Total enrollment was comprised as follows: 4 group (commercial), 139,884 Medi-Cal Risk, and 128,619 Healthy Families enrollees.
Service Area:	Various counties in central and northern California. Also, in Los Angeles County as a Geographic Managed Care Program and the Los Angeles Prepaid Health Plan.
Date of last Routine Financial Examination Final Report	October 28, 2005
Date of Last Medical Survey Final Report	May 25, 2007

FINAL REPORT OF ROUTINE EXAMINATION OF ACCESS DENTAL PLAN

This is the Final Report of routine examination of the fiscal and administrative affairs of Access Dental Plan (the "Plan"), for the period ending September 30, 2008, conducted on behalf of the Department of Managed Health Care (the "Department") by *pmpm® Consulting Group, Inc. ("pmpm®")*, pursuant to Sections 1380 and 1382(a) of the Knox-Keene Health Care Plan Act of 1975.[1] The Department issued a Preliminary Report to the Plan on January 9, 2009.

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

pmpm®'s examination included such detailed examination and testing of the Plan's books and records and supporting information and internal operational reviews of administrative capacity, as it considered necessary to determine the Plan's level of compliance with applicable rules and regulations for the period ending September 30, 2008.

Their findings are presented in this report as follows:

Section I.	Financial Report and Examination Adjustments and Reclassifications
Section II.	Tangible Net Equity
Section III.	Compliance Issues
Section IV.	Internal Control Issues

Pursuant to Section 1382, the Plan is required to submit a response to the Department for any requests for additional corrective action contained in this revised report, within 30 days after receipt of this report. If the Plan intends to have its response to the additional corrective action requirements appended to this report, the response must be received within 10 days from the Plan's receipt of 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

During the examination certain adjusting journal entries were made to properly state balance sheet and income statement account balances as of September 30, 2008. The following supporting schedules are attached to this report:

- Exhibit I - Balance Sheet
- Exhibit II - Income Statement
- Exhibit III - Adjusting and Reclassifying Journal Entries
- Exhibit IV - Calculation of Tangible Net Equity (TNE)
- Exhibit V - Calculation of Working Capital
- Exhibit VI - Calculation of General & Administrative Costs

In the preliminary report, the Plan was required to provide assurance that either the adjusting journal entries in Exhibit III had been posted to its books and records or provide an explanation regarding their disposition.

In the Plan's response to the preliminary report, the Plan stated that the proper adjustments were recorded in its balance sheet and income statements on January 27, 2009 and revised financial statements were submitted to the Department on February 13, 2009.

The Department finds that the Plan's compliance efforts are responsive to the corrective actions required by the Department.

SECTION II. CALCULATION OF TANGIBLE NET EQUITY (TNE)

After consideration of all examination adjustments, the Plan's tangible net equity and working capital was determined to exceed minimum requirements as of September 30, 2008. Therefore, no corrective action is required.

No response is necessary.

SECTION III. COMPLIANCE ISSUES

A. ADMINISTRATIVE COSTS

Rule 1300.78(b), states the administrative cost incurred by a plan, directly, as herein defined, shall be reasonable and necessary, taking into consideration such factors as the Plan's stage of development and other considerations. If the administrative costs of an established plan exceed fifteen percent (15%), or if the administrative costs of a plan in the development phase exceed twenty-five percent (25%), during any period of the revenue obtained by the plan from subscribers and enrollees, or paid to the plan on their behalf, the plan shall demonstrate to the Director, if called upon to do so, that its administrative costs are not excessive administrative costs within the meaning of Section 1378 and are justified under the circumstances and/or that it has instituted procedures to reduce administrative costs which are proving effective. An established plan is a plan, which has been in operation for a period of five years or more. For the purposes of Section 1378 of the Act, money borrowed will be deemed to be money derived from revenue obtained from subscribers and enrollees to the extent that such revenue is exposed to liability for repayment of such borrowings or that repayment is anticipated from such revenues and "money not derived from "such revenues includes only net assets arising independently of the operation of the plan and not traceable on a historical basis to such revenues, whether as net profit or otherwise.

During *pmpm's*® review of administrative costs, it was determined that the Plan's administrative cost percentage was twenty-two percent (22%) of total premium revenue, which is above the fifteen percent (15%) amount for an established plan.

In the preliminary report, the Plan was required to provide reasonable justification for the higher administrative expense percentage or submit a corrective action plan to reduce its administrative costs to required levels.

In the Plan's response to the preliminary report, the Plan stated that there are two factors that contributed to the Plan's administrative cost at twenty-two percent (22%) in 2008. First, the low premiums for the State contracts do not allow the Plan to keep its administrative costs at the required expense percentage and still maintain the quality of care provided by its network. Second, in 2008, the administrative costs included development costs of new software and a new product line. The new software with new automation features will help the Plan maintain and possibly even lower its administrative costs in the future. When these costs are removed from the 2008 administrative expenses, the administrative expense percentage returns to the Plan's normal level of eighteen percent (18%). See table below.

	Actual	Software Development	New Product Dev Costs	Revised
Premium Revenue	28,525,651			28,525,651
General & Administrative Costs:				
Compensation	2,092,875	191,806		1,901,069
Interest Expense				
Occupancy, Depreciation and Amortization	460,415			460,415
Marketing	1,410,557		408,383	1,002,174
Affiliate Admin Services				
Aggregate Write-ins for Other Administration	2,199,052	269,400	46,314	1,883,338
Total G&A as % of Premium Revenue	6,162,899	461,206	454,697	5,246,996
	22%			18%

The average administrative expense percentage for dental plans of comparable size is also eighteen percent (18%) as noted in the table below.

Reporting Period:	9/30/2008	9/30/2008	9/30/2008	9/30/2008	
	Managed Dental Care	Cigna Dental Health	United Concordia Dental Plan	Consumer Health Inc.	
Premium Revenue	14,639,956	29,046,058	27,404,429	26,284,235	
General & Administrative Costs:					
Compensation	1,117,716	1,381,814	1,572,653	1,992,256	
Interest Expense					
Occupancy, Depreciation and Amortization	274,189	781,566	325,426	3,672	
Marketing	432,701	549,769	2,889,040		
Affiliate Admin Services	720,367	(475,344)	2,985,837	871,200	
Aggregate Write-ins for Other Administration	439,310	255,168	476,820	181,052	
Total G&A as % of Premium Revenue	2,984,283	2,492,973	8,249,776	3,048,180	Average
	20%	9%	30%	12%	18%

The Chief Executive Officer is responsible for ensuring ongoing compliance with this corrective action.

The Department finds that the Plan's compliance efforts are responsive to the corrective actions required by the Department.

B. ADMINISTRATIVE SERVICES AGREEMENT – SCOPE OF DELEGATED SERVICES

The Plan has established an Administrative Services Agreement (ASA) with its operating affiliate, Data Telesis (DT), an off-shore (India) corporation. The ASA was approved by the Department in March 2006. This agreement allows the Plan to contract with DT for non discretionary functions such as data entry, credentialing, and certain accounting and IT functions. The contract fee ($10.50 per hour) is based on the hourly rate paid for comparably skilled employees in India. Competitive bids secured from competing companies, indicates that DT's fee is below the rates charged to the Plan by DT.

The absolute dollar value of the fees paid to DT in the past year has increased considerably, but the overall administrative percentage was less than in prior periods. This appears to indicate that some services previously performed by the Plan are now being performed by DT. New services appearing on the September 2008 invoice from DT were not present on the September 2007 invoice.

The ASA does not include a scope of service exhibit and the volume of services and specific areas covered by the agreement appears to have changed between 2007 and 2008. The agreement has not been amended to reflect changes in the agreement.

In the preliminary report, the plan was required to file an amended ASA that corresponds to the current scope of service between the parties and must be updated periodically as the scope of service changes over time.

In the Plan's response to the preliminary report, the Plan states that it believed that its Administrative Service Agreement with Data Telesis (DT) was sufficient to include all the clerical functions currently performed by DT. The Plan will submit an amended Administrative Services Agreement that includes the current scope of service between the parties in the second quarter of 2009.

The Chief Executive Officer is responsible for the submission of this agreement and ensuring ongoing compliance with this corrective action.

The Department finds that the Plan's compliance efforts are responsive to the corrective actions required by the Department.

C. CLAIMS PROCESSING

At the time of the examination, it was determined that the Plan's claims processing procedures routinely included date stamping incoming claims as of the next business day, not the actual day of receipt. This policy has resulted in a 1-3 calendar day delay in the Plan's acknowledgement of receipt of provider claims. Although the Plan has agreed to change its procedure on a going forward basis, it is likely the delay in acknowledging the proper receipt date would have resulted in an incorrect computation of interest (and penalties) due on any late claims incurred in prior periods.

It was also determined during the examination that the Plan's affiliate, Data Telesis (DT), has been routinely providing both date entry and claims adjudication functions. Although the Plan routinely tests the accuracy of adjudicated claims on a random basis (10% samples on a weekly basis), the responsibility for final adjudication and payment of all claims remains with the Plan and cannot be delegated.

A detailed examination of paid claims incurred between October 2007 and September 2008 revealed 51 claims were paid late and no interest or penalties were paid. In addition, it appears that 175 claims were paid, in the amount of $20,000, to ineligible members.

In the preliminary report, the Plan was required to do the following:

- The Plan is instructed to date stamp all incoming claims as of the date the claim is actually received and to review all paid claims for the past two years to determine if any claims (in addition to the 51 claims identified during the examination) were paid late (utilizing the proper receipt date) and, therefore, are subject to additional interest and penalty payments. The Plan is to provide a list of all provider claims for which interest and penalty payments were made with its reply to this report.

- The Plan is instructed to develop and file a new policy and procedure that clearly demonstrates the Plan's sole obligation to review, adjudicate and pay all provider claims on a go-forward basis.

In addition, the Plan was given the recommendation to review all 175 claims that were paid to ineligible members and determine if recovery was indicated. Procedures should be reviewed and enhanced as necessary to ensure such payments do not occur on a going forward basis. In the Plan's response to the preliminary report, the Plan did not state whether any of the recommended actions were taken.

In the Plan's response to the preliminary report, the Plan stated the following:

a) The Plan reviewed the claims for the past two years, using an adjusted received date, due to the date stamp issue. The Plan identified 59 claims were paid late and no interest or penalties were paid. The interest and penalties on these claims were paid on February 20, 2009.

During the audit, the mailroom staff was instructed to stamp the claims with the actual date of receipt. The claims manager is responsible for the ongoing monitoring of this portion of the corrective action.

The Plan's new claim system has been programmed to pay interest at the rate of 15 percent per annum beginning with the first calendar day after the 45 working days from the date of receipt. This function was tested during the implementation process and the setup was again verified on February 20, 2009.

The Chief Financial Officer is responsible for the ongoing monitoring of this corrective action.

b) The Plan has modified its claim processing policy and will implement the new procedures and workflows into the Plan's new claims system, that demonstrate its sole obligation to review, adjudicate and pay all provider claims by the end of the first quarter of 2009. The new procedures and work flow will include a ready for review and adjudication flag. The claims manager or their designated individual at the Plan will continue the work flow from this point forward.

The Chief Executive Officer is responsible for ensuring ongoing compliance with this corrective action.

The Department finds that the Plan's compliance efforts are not responsive to the corrective actions required by the Department. The Plan did not submit a list of all provider claims for which interest and penalties were made as required. The Plan is required to file this list.

D. PROFESSIONAL LIABILITY POLICY

During *pmpm's®* review of insurance policies, it was determined that the Plan only carries professional liability coverage on its Medical Director. The Plan has not purchased corporate professional liability coverage in recent years due to cost consideration. The Plan also believes that its corporate exposure is minimal and the Plan has more than adequate reserves to handle any reasonable contingency.

In the preliminary report, the Plan was given the recommendation to re-evaluate its professional liability exposure and consider purchasing affordable coverage for the Plan's protection. In the Plan's response to the preliminary report, the Plan did not state whether any recommended actions were taken.

E. FIDELITY BOND – CANCELLATION ENDORSEMENT

Rule 1300.76.3 requires each plan to maintain at all times a fidelity bond covering each officer, director, trustee, partner, and employee of the plan, whether or not they are compensated. The fidelity bond shall provide for 30 days notice to the Director prior to cancellation. The fidelity bond shall provide at least the minimum coverage for the plan, as required by the schedule in this Rule.

During *pmpm's*® review of insurance policies, it was determined there was no endorsement providing for the 30 day notice of cancellation to the Director.

In the preliminary report, the Plan was required to provide a copy of its fidelity bond that corrects the above noted deficiency.

In the Plan's response to the preliminary report, the Plan stated that it received the required endorsement, effective January 30, 2009 and included a copy of the endorsement in its response.

The Chief Financial Officer is responsible for the implementation and ongoing monitoring of this corrective action.

The Department finds that the Plan's compliance efforts are responsive to the corrective actions required by the Department.

SECTION IV. INTERNAL CONTROL ISSUES

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

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

SAS 112 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.

pmpm®'s examination disclosed the following weaknesses in internal control:

A. BOND & CD INTEREST RECEIVABLE (Accounts #1220130 and #1220110)

During the examination, *pmpm®* determined an adjustment of $1,135.25 was necessary to reconcile the receivable for Bond and CD Interest earnings with related supporting statements as of September 30, 2008. Although the amount in question was not material, supporting schedules should routinely reconcile to the general ledger control accounts.

In the preliminary report, the Plan was required to reconcile the Bond and Interest Receivable account as of September 30, 2008 and provide assurances that the general ledger control account and related supporting schedules will be reconciled at least quarterly.

In the Plan's response to the preliminary report, the Plan stated that the requested journal entry was entered on January 27, 2009. A copy of the journal entry was included in the response. All investment accounts including the Bond and CD Interest earnings will be reconciled to the supporting schedules on a quarterly basis.

The Chief Financial Officer is responsible for the implementation and ongoing monitoring of this corrective action.

The Department finds that the Plan's compliance efforts are responsive to the corrective actions required by the Department.

B. FIXED ASSETS – COMPUTER SOFTWARE (Account #1500-075)

During the examination, *pmpm®* determined the Plan's fixed asset subsidiary schedule was $60,000 less than the amount showing in the general ledger. The discrepancy was linked to a computer software asset transfer from an affiliate at a value greater than its actual cost.

In the preliminary report, the Plan was required to file supporting documentation that demonstrates the required adjusting journal entry was made to bring the general ledger control account and subsidiary schedule into balance as of September 30, 2008.

In the Plan's response to the preliminary report, the Plan stated that thehe requested journal entry was entered on January 27, 2009. A copy of the journal entry was included in the Plan's response. All fixed asset control accounts will be reconciled to the subsidiary schedules on a quarterly basis.

The Chief Financial Officer is responsible for the implementation and ongoing monitoring of this corrective action.

The Department finds that the Plan's compliance efforts are responsive to the corrective actions required by the Department.

EXHIBIT I

Access Dental Plan
DMHC Annual Examination
Adjusted Balance Sheet
September 30, 2008

	Per Plan		Examination Adjustments			Per Exam
Current Assets:	Dr.	Note	Dr.	Cr.	JE#	Dr.
Cash and Cash Equivalents	$ 9,438,029.40					$ 9,438,029.40
Premiums Receivable - Net	2,472,282.23					2,472,282.23
Interest Receivable	22,424.71		57.97	1,193.22	AJE1	21,289.46
Other Health Care Receivables - Net	21,076.44					21,076.44
Prepaid Expenses	222,588.82					222,588.82
Unsecured Affiliate Receivables - Current	42,429.98		60,000.00		AJE 2	102,429.98
Aggregate Write-Ins for Current Assets	36,890.59					36,890.59
Total Current Assets	**$ 12,255,722.17**					**$ 12,314,586.92**
Other Assets:						
Restricted Assets	$ 50,000.00					$ 50,000.00
Long-Term Investments	$ 2,250,151.14					2,250,151.14
Aggregate Write-Ins for Other Assets	40,333.70					40,333.70
Total Other Assets	**$2,340,484.84**					**$2,340,484.84**
Property and Equipment:						
Furniture and Equipment - Net	$ 103,886.42					$ 103,886.42
Computer Equipment - Net	208,171.55			60,000.00	AJE 2	148,171.55
Leasehold Improvements - Net	30,288.99					30,288.99
Aggregate Write-Ins for Other Equipment	15,787.43					15,787.43
Total Property and Equipment	**$ 358,134.39**					**$ 298,134.39**
Total Assets	**$ 14,954,341.40**					**$ 14,953,206.15**
Current Liabilities:						
Trade Accounts Payable	$ 125,322.41					$ 125,322.41
Capitation Payable	446,025.65					446,025.65
Claims Payable (Reported)	226,000.00					226,000.00
Incurred But Not Reported Claims	202,000.00					202,000.00
Amounts Due To Affiliates - Current	614,539.07					614,539.07
Aggregate Write-Ins for Current Liabilities	654,888.33					654,888.33
Total Current Liabilities	**$ 2,268,775.46**					**$ 2,268,775.46**
Total Liabilities	**$ 2,268,775.46**					**$ 2,268,775.46**
Stockholder's Equity:						
Common Stock	$ 300,000.00					$ 300,000.00
Paid In Surplus	344,757.36					344,757.36
Aggr.W-Ins for Other Net Worth Items	(69,301.22)					(69,301.22)
Retained Earnings/(Deficit)	7,091,523.88					7,091,523.88
Current Year Net Income/(Loss)	5,018,585.92		1,135.25	-		5,017,450.67
Total Net Worth	12,685,565.94					12,684,430.69
Total Liabilities & Stockholder's Equity	**$ 14,954,341.40**		**$ 61,193.22**	**$ 61,193.22**		**$ 14,953,206.15**
			Total Equity			**$ 12,684,430.69**

[redacted]

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