



Gavin Newsom, Governor
State of California
Health and Human Services Agency
DEPARTMENT OF MANAGED HEALTH CARE
980 9th Street, Suite 500
Sacramento, CA 95814
Phone: 916-324-8176 | Fax: 916-255-5241
www.HealthHelp.ca.gov

November 17, 2023

Via eFile

Dr. Manmohan Nayyar
Chief Executive Officer
Choice Physicians Network, Inc.
19111 Town Center Drive
Apple Valley, CA 92308

FINAL REPORT OF A ROUTINE EXAMINATION OF CHOICE PHYSICIANS NETWORK, INC.

Dear Dr. Nayyar:

Enclosed is the final report (Final Report) of a routine examination for the quarter ended March 31, 2023, of the fiscal and administrative affairs of Choice Physicians Network, Inc. (Plan). The examination was conducted by the Department of Managed Health Care (Department) pursuant to Section 1382 of the Knox-Keene Health Care Service Plan Act of 1975.¹ The Department issued a preliminary report (Preliminary Report) to the Plan on October 3, 2023. The Department accepted the Plan's electronically filed response on November 9, 2023.

The Final Report includes a description of the compliance efforts included in the Plan's November 9, 2023 response, in accordance with Section 1382(c).

Section 1382(d) states, "If requested in writing by the plan, the director shall append the plan's response to the final report issued pursuant to subdivision (c). The plan may modify its response or statement at any time and provide modified copies to the department for public distribution not later than 10 days from the date of notification from the department that the final report will be made available to the public. The addendum to the response or statement shall also be made available to the public."

Please indicate within 10 days from the date of the Plan's receipt of this letter whether the Plan requests the Department to append its response. If so, please indicate which portions of the Plan's response should be appended, and electronically file copies of those portions excluding information held confidential pursuant to Section 1382(c). If the

¹ References to "Section" are to sections of the Knox-Keene Health Care Service Plan Act of 1975, as codified in California Health and Safety Code section 1340 et seq.

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Plan requests the Department to append a brief statement summarizing the Plan's response or wishes to modify any information provided to the Department in its November 9, 2023 response, please provide an addendum no later than 10 days from the date of the Plan's receipt of this letter. Please file this addendum electronically via the corrective action plan (CAP) system within the Department's eFiling web portal at <https://wpsso.dmhc.ca.gov/secure/login/>, as follows:

- From the main menu, select "eFiling."
- From the eFiling menu, select "Online Forms."
- From the Online Forms menu, select "Details" for "CAP #L23-R-470."
- Go to the "Messages" tab, then:
 - Select "Addendum to Final Report" (note this option will only be available for 10 days after the issuance of the Final Report).
 - Select the deficiency(ies) that are applicable.
 - Create a message for the Department.
 - Attach and upload all documents with the name "Addendum to Final Report."
 - Select "Send Message."

As noted in the attached Final Report, the Plan's November 9, 2023 response did not adequately respond to the deficiency raised in the Preliminary Report issued by the Department on October 3, 2023. The Plan is required to respond to any request for corrective actions contained within the attached Final Report by January 12, 2024. If the Plan fails to fully respond and/or resolve the deficiency addressed in the Final Report, then a referral will be made to the Department's Office of Enforcement for appropriate administrative action.

Please file the Plan's response electronically via the CAP system within the Department's eFiling web portal at <https://wpsso.dmhc.ca.gov/secure/login/>, as follows:

- From the main menu, select "eFiling."
- From the eFiling menu, select "Online Forms."
- From the Online Forms menu, click on the "Details" for "CAP # L23-R-470."
- Go to the "Data Requests" tab, then:
 - Click on the "Details" for each data request that does not have a status of "Complete."
 - Follow the instructions and/or use the form shown to add the requested data (depending on the type of data requested: New Filing, Document Request, Claims Data, or Financial Statement Refile).

The Department will also e-mail the Plan requesting all items that are still outstanding. The e-mail(s) will contain a link to the CAP system for the Plan to file the response electronically.

Questions or problems related to the electronic transmission of any addendum should be directed to the Office of Financial Review administrative support team at 916-255-2345 or by e-mail at ofr_admin@dmhc.ca.gov.

The Department will make the Final Report available to the public in 10 days from the Plan's receipt of this letter. The Final Report will be located at the Department's web site at <http://www.dmhc.ca.gov/LicensingReporting/ViewFinancialExaminationReports.aspx>.

If there are any questions regarding the Final Report, please contact me at 213-620-2057 or by e-mail at Suhag.Patel@dmhc.ca.gov.

Sincerely,

SIGNED BY

Suhag Patel
Corporation Examiner IV, Supervisor
Office of Financial Review
Division of Financial Oversight

cc: Tin Kin Lee, Attorney, Choice Physicians Network, Inc.
Pritika Dutt, CPA, Deputy Director, Office of Financial Review
Ned Gennaoui, Supervising Examiner, Division of Financial Oversight
Sebas Alex, Examiner, Division of Financial Oversight
Neetu Bhangu, Examiner, Division of Financial Oversight
Farisha Buksh, Associate Governmental Program Analyst, Office of Plan Licensing
Chris Wordlaw, Staff Services Manager III, Office of Plan Monitoring
Chad Bartlett, Staff Services Manager II, Help Center

**STATE OF CALIFORNIA
DEPARTMENT OF MANAGED HEALTH CARE**

**OFFICE OF FINANCIAL REVIEW
DIVISION OF FINANCIAL OVERSIGHT**

FINAL REPORT OF A ROUTINE EXAMINATION

**OF
CHOICE PHYSICIANS NETWORK, INC.**

FILE NO. 933 0470

DATE OF FINAL REPORT: NOVEMBER 17, 2023

SUPERVISING EXAMINER: NED GENNAOUI

OVERSIGHT EXAMINER: SUHAG PATEL

EXAMINER-IN-CHARGE: SEBAS ALEX

**FINANCIAL EXAMINERS:
DANIELA CAMARENA
FRANCISCO GARCIA**

BACKGROUND INFORMATION FOR CHOICE PHYSICIANS NETWORK, INC.

Date Plan Licensed:	September 14, 2009
Organizational Structure:	<p>Choice Physicians Network, Inc. (Plan) is a for-profit corporation owned by two shareholders. The Plan contracts with Choice Medical Group, Inc. and Horizon Valley Medical Group, affiliated with the two shareholders of the Plan.</p> <p>The Plan leases office space from RAM Investment Properties, LLC, wholly owned by the two shareholders of the Plan.</p>
Type of Plan:	<p>The Plan is a full-service health care service plan. The Plan has a license restricted to contracting with other Knox-Keene licensed plans for Medicare Advantage enrollees. The Plan is not licensed to enter into plan contracts directly with employer groups or members of the general public.</p>
Provider Network:	<p>The Plan contracts with medical groups, independent physicians, hospitals and ancillary providers for the provision of medical services to its Medicare members. Providers are reimbursed on a capitated per-diem, or fee-for-service basis.</p>
Plan Enrollment:	<p>The Plan reported 15,777 enrollees at March 31, 2023.</p>
Service Area:	<p>The Plan operates in parts of Fresno, Kern, Los Angeles, Madera, Modesto, Orange, Riverside, Sacramento, San Bernardino, San Diego, Tulare, and Yolo Counties.</p>
Date of prior Final Routine Examination Report:	November 23, 2020

FINAL REPORT OF A ROUTINE EXAMINATION OF CHOICE PHYSICIANS NETWORK, INC.

This is the final report (Final Report) for the quarter ended March 31, 2023, of a routine examination of the fiscal and administrative affairs of Choice Physicians Network, Inc. (Plan). The examination was conducted by the Department of Managed Health Care (Department) pursuant to Section 1382 of the Knox-Keene Health Care Service Plan Act of 1975.¹ The Department issued a preliminary report (Preliminary Report) to the Plan on October 3, 2023. The Department accepted the Plan's electronically filed response on November 9, 2023.

This Final Report includes a description of the compliance efforts included in the Plan's November 9, 2023 response to the Preliminary Report, in accordance with Section 1382(c). The Plan's response is noted in italics within this Final Report.

The Department's findings are presented in this Final Report as follows:

- | | |
|-----------|------------------------------------|
| Part I. | Financial Statements |
| Part II. | Calculation of Tangible Net Equity |
| Part III. | Internal Control |

The Plan is required to respond to any request for corrective actions contained herein by January 12, 2024.

¹ References to "Section" are to sections of the Knox-Keene Health Care Service Plan Act of 1975, as codified in California Health and Safety Code section 1340 et seq. References to "Rule" are to regulations promulgated pursuant to the Knox-Keene Health Care Service Plan Act of 1975 contained within title 28 of the California Code of Regulations.

PART I. FINANCIAL STATEMENTS

The Department's examination did not result in any adjustments or reclassifications to the Plan's financial statements for the quarter ended March 31, 2023, as filed with the Department. A copy of the Plan's financial statements can be viewed by selecting "Choice Physicians Network, Inc." on the second drop-down menu of the Department's financial statement database available at <http://wpso.dmh.ca.gov/fe/search/#top>.

No response is required to this Part.

PART II. CALCULATION OF TANGIBLE NET EQUITY (TNE)

Net Worth as reported by the Plan as of quarter ended March 31, 2023	\$18,005,560
Less: Unsecured Affiliate Receivables - Past Due	<u>2,300,000</u>
TNE	\$15,705,560
Required TNE	<u>5,111,661</u>
TNE Excess per Examination	<u>\$10,593,899</u>

The Plan was in compliance with the TNE requirements of Rule 1300.76 as of March 31, 2023.

No response is required to this Part.

PART III. INTERNAL CONTROL

The Auditing Standards – Clarified (AU-C), which is issued by the Auditing Standards Board of the American Institute of Certified Public Accountants, is considered a source of authoritative pronouncements.

AU-C section 315.04 states that internal control is "a process effected by those charged with governance, management, and other personnel that is designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations."

AU-C section 265.11 states, "The auditor should communicate in writing to those charged with governance on a timely basis significant deficiencies and material weaknesses identified during the audit, including those that were remediated during the audit."

STALE-DATED OUTSTANDING CHECKS

The Department's examination disclosed that the Plan failed to follow its own policy and procedures for handling stale-dated outstanding checks, including the escheatment of unclaimed properties to the State of California Controller's Office.

The Department's examination disclosed that the Plan failed to escheat outstanding checks older than three years to the State Controller's Office. According to the Plan's unclaimed property and escheatment policy and California's Unclaimed Property Law, Code of Civil Procedure section 1500 et seq., outstanding checks older than three years should be escheated to the State Controller's Office. At the examination date, the Plan had 14 outstanding checks, totaling \$30,573 in various bank accounts, that were more than three years old. These checks should have been escheated to the State Controller's Office.

The Preliminary Report required the Plan to provide evidence that it has started the escheatment process for all unclaimed properties that were more than three years old, in accordance with applicable unclaimed property laws and regulations. In addition, the Plan was required to implement controls to ensure future compliance and state the management position responsible for ensuring ongoing compliance.

The Plan responded that it identified an existing Plan's policy dated January 1, 2014, which described the process to be followed by the Plan's accounting staff to comply with the requirements of the State of California. The policy will be reviewed by the Vice President of Finance for any requirements that need to be updated based on the State's current rules. The Plan also indicated that the review and updates to the policy will be completed by December 31, 2023.

In addition, the Plan indicated that the updated Policy would follow the State Controller's Office published document, "The five steps to Reporting Unclaimed Property to California."

The Plan indicated that its Vice President of Finance is the management position responsible for ensuring continued compliance.

The Department finds that the Plan's compliance effort is not fully responsive to the corrective action required since the Plan did not complete the required remediation. The Department acknowledges the Plan's timeframe for completing the required CAP by December 31, 2023.

The Plan is required to file with the Department its updated policy based on the review of the Vice President of Finance and indicate the date of approval and implementation of the revised policy. The Plan is required to submit to the Department evidence of remediation by January 12, 2024.