Edmund G. Brown Jr., Governor
State of California
Health and Human Services Agency
DEPARTMENT OF MANAGED HEALTH CARE
980 9th Street, Suite 500, Sacramento, CA 95814
Telephone: 916-255-2441 | Fax: 916-255-2280

January 30, 2017

Via USPS Delivery and eFile

Bill Gil, Chief Executive Officer
Providence Health Network
5315 Torrance Blvd. # A
Torrance, CA 90503

FINAL REPORT OF ROUTINE EXAMINATION OF PROVIDENCE HEALTH NETWORK.

Dear Mr.Gil:

Enclosed is the Final Report of a routine examination of the fiscal and administrative affairs of Providence Health Network (Plan), conducted by the Department of Managed Health Care (Department), pursuant to Section 1382(a) of the Knox-Keene Health Care Service Plan Act of 1975.[1] The Department issued a Preliminary Report to the Plan on October 14, 2016. The Department accepted the Plan's electronically filed response on December 2, 2016.

This Final Report includes a description of the compliance efforts included in the Plan's December 2, 2016 response, in accordance with Section 1382(c).

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

Please indicate within ten (10) days from the date of the Plan's receipt of this letter 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 excluding information

[1] References throughout this report to "Section" are to sections of the Knox-Keene Health Care Service Plan Act of 1975, as codified in the 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 Chapter 2 of Division 1, Title 28, of the California Code of Regulations, beginning with Section 1300.43.

held confidential pursuant to Section 1382(c). If the Plan requests the Department to append a brief statement summarizing the Plan's response to the Report or wishes to modify any information provided to the Department in its December 2, 2016 response, 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 Corrective Action Plan system (CAP system) within the Online Forms Section of 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 "Online Forms".
- From the Existing Online Forms menu click on the "Details" for the DFO Corrective Action Plan S16-R-497.
- Go to the "Messages" tab
    - Select "Addendum to Final Report" (note this option will only be available for 10 days after the Final Report has been issued)
    - 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"

The Plan is hereby advised that any violations listed in this report may be referred to the Office of Enforcement for appropriate administrative action upon the completion of all remediation addressed in the Final Report.

The Department finds the Plan's compliance efforts are responsive to the deficiencies cited and the corrective actions required. Therefore, no further response is required.

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 View Financial Examination Reports.

If there are any questions regarding this Report, please contact me at (916) 255-2441 or email: Bill.Chang@dmhc.ca.gov.

Sincerely,

Bill Chang, CPA
Supervising Examiner
Office of Financial Review

cc: Javier Ho, CFO, Providence Health Network
Pritika Dutt, Deputy Director, Office of Financial Review
Anna Belmont, Examiner, Division of Financial Oversight
Jessica Tran, Examiner, Division of Financial Oversight
Danielle Cavallini, Attorney, Office of Plan Licensing
Laura Dooley-Beile, Chief, Division of Plan Surveys
Paula Hood, Staff Services Manager I, Help Center

STATE OF CALIFORNIA
DEPARTMENT OF MANAGED HEALTH CARE

DIVISION OF FINANCIAL OVERSIGHT

FINAL REPORT OF ROUTINE EXAMINATION

OF

PROVIDENCE HEALTH NETWORK

FILE NO. 933-0497

DATE OF FINAL REPORT: JANUARY 30, 2017

SUPERVISING EXAMINER: Bill Chang

OVERSIGHT EXAMINER: Steven Alseth

EXAMINER-IN-CHARGE: Anna Belmont

FINANCIAL EXAMINERS: Nina Moua, Eri Fukuda

BACKGROUND INFORMATION FOR PROVIDENCE HEALTH NETWORK

Date Plan Licensed:	November 22, 2013
Organizational Structure:	Providence Health Network (Plan) is a California nonprofit mutual benefit corporation that is wholly owned by PHN Holdings, a California not-for-profit religious corporation. The Plan has various transactions with its affiliates, (1) Providence Health & Services - Southern California for provision of medical services to its members and (2) Facey Medical Foundation Management Services Organization for management services, and (3) Providence Health Plan, the plan's Oregon affiliate, for administrative services.
Type of Plan:	The Plan is licensed as a restricted licensed full-service health care service plan that contracts with other Knox-Keene licensed health plans for enrollment.
Provider Network:	The Plan contracts with certain healthcare providers for the provision of health care services through its contracted provider network and integrated healthcare system. Providers are paid on a capitated, per diem, or structured fee-for-service basis.
Plan Enrollment:	As of March 31, 2016, the Plan reported plan-to-plan enrollment of 13,873 enrollees.
Service Area:	Entirety of Orange County and portions of Los Angeles County.
Date of prior Final Routine Examination Report:	N/A

FINAL REPORT OF A ROUTINE EXAMINATION OF PROVIDENCE HEALTH NETWORK

This is the Final Report of a routine examination of the fiscal and administrative affairs of Providence Health Network (Plan), conducted by the Department of Managed Health Care (Department) pursuant to Section 1382(a) of the Knox-Keene Health Care Service Plan Act of 1975.[1] The Department issued a Preliminary Report to the Plan on October 14, 2016. The Department accepted the Plan's electronically filed response on December 2, 2016.

This Final Report includes a description of the compliance efforts included in the Plan's December 2, 2016 response to the Preliminary Report, in accordance with Section 1382(c). The Plan's response is noted in *italics*.

The Department examined the Plan's financial report filed with the Department for the quarter ended March 31, 2016, as well as other selected accounting records and controls related to the Plan's various fiscal and administrative transactions. The Department's findings are presented in this Report as follows:

Section I.	Financial Report
Section II.	Calculation of Tangible Net Equity
Section III.	Compliance Issues

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, as codified in the 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 Chapter 2 of Division 1, Title 28, of the California Code of Regulations, beginning with Section 1300.43.

SECTION I. FINANCIAL REPORT

The Department's examination did not result in any adjustments or reclassifications to the Plan's financial statements for the quarter ended March 31, 2016, as filed with the Department. A copy of the Plan's financial statements can be viewed at the Department's website by typing the link http://wpso.dmhc.ca.gov/fe/search/#top and selecting Providence Health Network on the second drop down menu.

No response is required to this Section.

SECTION II. CALCULATION OF TANGIBLE NET EQUITY (TNE)

Net Worth as reported by the Plan as of quarter ended March 31, 2016	$ 869,923
Add: Subordinated debt and related interest	2,006,028
Tangible Net Equity	2,875,951
Required TNE	1,180,870
TNE Excess per Examination	$ 1,695,081

The Plan is in compliance with the TNE requirement of Section 1376 and Rule 1300.76 as of March 31, 2016.

No response is required to this Section.

SECTION III. COMPLIANCE ISSUES

A. MATERIAL MODIFICATION

Section 1352 and Rule 1300.52 require health care service plans to file an amemdment within thirty days after any change in the information contained in its application, other than financial or statistical information.

Rule 1300.52.1 requires that the notice of a material modification of its operations or of a plan contract pursuant to Subdivision (b) of Section 1352 of the Act is to be filed as an amendment to the application as provided in Section 1300.52.

Rule 1300.52.4 sets forth the standards applied to material modifications and amendments to a health care service plan's license.

The Department's examination disclosed that the Plan failed to file a material modification prior to its transfer of accounting functions out of State. In 2015, the Plan moved its accounting department to Renton, Washington without getting a prior approval from the Department.

The Plan was required to file an amendment through the electronic filing system (eFile) to notify the Department of the transfer of accounting function. In addition, the Plan was required to provide evidence (eFile number) in its response to this Report that the requested filing was submitted to the Department.

The Plan was also required to state the policies and procedures implemented to ensure that material modifications to the Plan application are filed with the Department, the date of implementation, and the management position(s) responsible for ensuring continued compliance with the Sections and Rules stated above.

PLAN'S RESPONSE

The Plan has submitted a material modification filing. In order to ensure continued compliance and that future material modifications are filed timely, the Plan has developed guidelines in September 2016, in partnership with its legal counsel, on when amendments and material modifications are required. The Plan will follow these criteria along with continued guidance from counsel. Additionally, the Plan will proactively contact the Department if questions arise on the necessity of a material modification. The Director of Operations will be responsible for ensuring continued compliance.

The Department finds that the Plan's compliance effort is responsive to the corrective action required.

B. FIDELITY BOND

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, and provide at least the minimum coverage for the plan, as required by the schedule in this Rule.

The Department's examination disclosed that the Plan's fidelity bond had coverage in the amount of $600,000, which was below the minimum coverage of $2,000,000 required by Rule 1300.76.3 based on the Plan's annual gross income at March 31, 2016.

The Plan was required to provide evidence of fidelity bond coverage for the Plan in the amount of at least $2,000,000, with a deductible amount not in excess of $100,000. In addition, the Plan was required to provide evidence (eFile number) in its response to the Preliminary Report that the requested filing was submitted to the Department.

The Plan was also required to state the policies and procedures implemented to ensure that material modifications to the Plan application were filed with the Department, the date of implementation, and the management position(s) responsible for ensuring continued compliance with the Sections and Rules stated above.

PLAN'S RESPONSE

The Plan submitted evidence of fidelity bond coverage, which provides coverage for employee theft, as well as forgery or alteration, in the form of $2,000,000 each, with a $25,000 per occurrence deductible amount. In order to ensure continued compliance, the Plan will update its calculation of the minimum coverage amount of the fidelity bond upon the annual renewal of the fidelity bond. The Chief Financial Officer will be responsible for ensuring continued compliance.

The Department finds that the Plan's compliance effort is responsive to the corrective action required.

C. RESTRICTED DEPOSIT

Rule 1300.76.1 states that each plan shall deposit with the Director or at the discretion of the Director with any bank authorized to do business in this state and insured by the Federal Deposit Insurance Corporation, or savings and loan association doing business in this state and insured by the Savings Association Insurance Fund, an amount which at all times shall have a value of not less than $300,000.

The Department's examination disclosed that the Plan's restricted deposit assigned to the Department pursuant to Rule 1300.76.1 was being held at a different bank from the bank indicated on the assignment form on file with the Department, dated August 23, 2013.

The Plan was required to submit an original executed assignment form for the current restricted deposit, and a copy of the bank statement for that deposit.

In addition, the Plan was required to submit policies and procedures implemented to ensure compliance with the requirements of Rule 1300.76.1. Furthermore, the Plan was required to state the date these policies and procedures were implemented and the management position(s) responsible for

ensuring continued compliance.

PLAN'S RESPONSE

The Plan stated that it updated the assignment form to include the entire balance of the account, which amounts to $350,000. Board approval was obtained at the meeting held on September 26, 2016. The assignment form was provided to US Bank on October 7, 2016. To ensure continued compliance, as of September 2016, the Plan now reviews the balance of the pledged account on a monthly basis to determine that the entire balance meets or exceeds the minimum required balance of $300,000. The Chief Financial Officer will be responsible for this.

The Department finds that the Plan's compliance effort is not fully responsive to the corrective action required. The Plan has not filed an original assignment form, and the form did not contain a signature from a bank representative the deposit was with. The Plan is required to file an original assignment with a signature from a bank representative within 30 days of this report.