



Gavin Newsom, Governor
State of California
Health and Human Services Agency
DEPARTMENT OF MANAGED HEALTH CARE
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November 8, 2022

Via eFile

Mr. Dale Villani
President and Chief Executive Officer
Dignity Health Provider Resources, Inc.
4550 California Avenue, Suite 100
Bakersfield, CA 93309

FINAL REPORT OF A ROUTINE EXAMINATION OF DIGNITY HEALTH PROVIDER RESOURCES, INC.

Dear Mr. Villani:

Enclosed is the final report (Final Report) of a routine examination for the quarter ended March 31, 2022 of the fiscal and administrative affairs, including the claims settlement practices and provider dispute resolution mechanism, of Dignity Health Provider Resources, 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 August 31, 2022. The Department accepted the Plan's electronically filed responses on October 14, 2022 and October 19, 2022 (Responses).

The Final Report includes a description of the compliance efforts included in the Plan's 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 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 Responses. If so, please indicate which portions of the Plan's Responses should be appended, and electronically file copies of

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.

those portions excluding information held confidential pursuant to Section 1382(c). If the Plan requests the Department to append a brief statement summarizing the Plan's Responses or wishes to modify any information provided to the Department in its Responses, 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 S22-R-515."
- 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 Responses did not adequately respond to the deficiencies raised in the Preliminary Report issued by the Department on August 31, 2022. The Plan is required to respond to any request for corrective actions contained within the attached Final Report within 30 days of receipt of the Final 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 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 S22-R-515."
- 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 Vijon Morales at 916-255-2447 or by e-mail at Vijon.Morales@dmhc.ca.gov. You may also e-mail inquiries to wpso@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 916-255-2425 or by e-mail at Anna.Belmont@dmhc.ca.gov.

Sincerely,

SIGNED BY

Anna Belmont
Corporation Examiner IV, Supervisor
Office of Financial Review
Division of Financial Oversight

cc: Cheryl Stempson, CHC, Manager, CRO, Dignity Health Provider Resources, Inc.
Pritika Dutt, CPA, Deputy Director, Office of Financial Review
Jennifer Clark, Supervising Examiner, Division of Financial Oversight
Erica Short, Examiner, Division of Financial Oversight
Ashika Chiu, Examiner, Division of Financial Oversight
Emily Sullivan, Attorney, Office of Plan Licensing
Laura Dooley-Beile, Supervising Health Care Service Plan Analyst, 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

DIGNITY HEALTH PROVIDER RESOURCES, INC.

FILE NO. 933 0515

DATE OF FINAL REPORT: NOVEMBER 8, 2022

SUPERVISING EXAMINER: JENNIFER CLARK

OVERSIGHT EXAMINER: ANNA BELMONT

EXAMINER-IN-CHARGE: ERICA SHORT

FINANCIAL EXAMINERS:

MICHAEL CEN

BENBIN FENG

ERI FUKUDA

NINA MOUA

**BACKGROUND INFORMATION FOR
DIGNITY HEALTH PROVIDER RESOURCES, INC.**

Date Plan Licensed:	August 6, 2015
Organizational Structure:	Dignity Health Provider Resources, Inc. (Plan) is a non-profit public benefit corporation incorporated on January 7, 2015. Its sole shareholder is Dignity Health Provider Resources LLC, a California limited liability company, whose sole member is Dignity Health, a California public benefit corporation.
Type of Plan:	The Plan is licensed as a restricted full service health care service plan that contracts with other Knox-Keene licensed health plans for enrollment.
Provider Network:	The Plan contracts through sub-capitation agreements with health care entities for the provision of certain medical care services to its members.
Plan Enrollment:	As of March 31, 2022, the Plan reported plan-to-plan enrollment of 27,529.
Service Area:	Kern County
Date of Prior Final Routine Examination Report:	March 5, 2020

FINAL REPORT OF A ROUTINE EXAMINATION OF DIGNITY HEALTH PROVIDER RESOURCES, INC.

This is the final report (Final Report) for the quarter ended March 31, 2022 of a routine examination of the fiscal and administrative affairs, including the claims settlement practices and provider dispute resolution mechanism, of Dignity Health Provider Resources, 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 August 31, 2022. The Department accepted the Plan's electronically filed responses on October 14, 2022 and October 19, 2022 (Responses).

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

The Department examined the Plan's financial report filed with the Department for the quarter ended March 31, 2022, 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 Final Report as follows:

- | | |
|-----------|------------------------------------|
| Part I. | Financial Statements |
| Part II. | Calculation of Tangible Net Equity |
| Part III. | Compliance Issues |
| Part IV. | Internal Control |
| Part V. | Violation of Undertaking |

The Plan is required to respond to any request for corrective actions contained herein within 30 days of receipt of this Final Report.

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, 2022, as filed with the Department. A copy of the Plan's financial statements can be viewed by selecting "Dignity Health Provider Resources, 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 and TNE as reported by the Plan as of quarter ended March 31, 2022	\$5,339,100
Required TNE	<u>3,227,329</u>
TNE Excess per Examination	<u>\$2,111,771</u>

The Plan was in compliance with the TNE requirements of Rule 1300.76 as of March 31, 2022.

No response is required to this Part.

PART III. COMPLIANCE ISSUES

A. 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. The fidelity bond must provide at least the prescribed minimum coverage for the plan and may contain a provision for a deductible amount. However, the deductible amount must not be in excess of 10 percent of the required minimum bond coverage and must not to exceed \$100,000. In addition, the fidelity bond shall provide for 30 days' notice to the Director of the Department prior to cancellation.

The Department's examination disclosed that the fidelity bond policy provided did not comply with the aforementioned Rule due to the following:

- The policy did not include the required 30-day cancellation notice.
- The policy was issued to the Plan's parent "CommonSpirit Health" and the Plan was not listed as a covered subsidiary.
- The policy had a deductible of \$2,000,000, which exceeds the maximum allowable deductible of \$100,000.

During the course of the exam, the parent's fidelity bond policy was updated to include the Plan as a covered subsidiary and lower the Plan's deductible amount to \$100,000.

The Preliminary Report required the Plan to file a revised fidelity bond policy that includes the required 30-day cancellation notice.

The Preliminary Report also required the Plan to implement corrective actions to ensure the fidelity bond policy complies with the requirements of Rule 1300.76.3, provide clean and redlined versions of related policies and procedures when applicable, state the date of implementation, and identify the management position(s) responsible for ensuring ongoing compliance.

The Plan responded that it completed the corrective action to address the fidelity bond deficiency. In addition to including the Plan as a covered subsidiary and lowering the deductible, the Plan submitted an endorsement to its fidelity bond that includes the 30-day cancellation notice to the Director in compliance with Rule 1300.76.3.

The Department finds that the Plan's compliance effort is not fully responsive to the corrective action required as the Plan did not identify the management position(s) responsible for ensuring ongoing compliance. The Plan is required to identify the management position(s) responsible for ensuring ongoing compliance.

B. CHANGES IN PLAN PERSONNEL

Section 1352(c) and Rule 1300.52.2 state, in part, that a plan shall, within five days, file an amendment when there are changes in personnel of the plan. Changes in personnel refer to the addition or deletion of a director, trustee, principal officer, general partner, general manager or principal management persons, or persons occupying similar positions, or performing similar functions, or a substantial and material change in the duties of any such person.

The Department's examination disclosed that the Plan did not timely file the key personnel changes indicated in the table below with the Department.

Position Title	Reason	Effective Date	Filing Date	Days Late
Member of the Board of Directors	Resignation	11/05/2021	12/17/2021	37

The Preliminary Report required the Plan to implement corrective actions to ensure changes in key personnel are filed with the Department within five days pursuant to the above Section and Rule, describe the corrective actions taken to the Department, state the date of implementation, and identify the management position(s) responsible for implementation and ensuring ongoing compliance.

The Plan responded that it initiated a corrective action plan to address the changes in plan personnel deficiency. Effective October 1, 2022, the Plan/Board Secretary has assumed responsibility to file an amendment with the Department within five days, when there are changes in plan personnel. Changes in plan personnel refer to the addition or deletion of a director, trustee, principal officer, general partner, general manager or principal management persons, or persons occupying similar positions, or performing similar functions, or a substantial and material change in the duties of any such person.

The Plan's Compliance Manager and workforce will be responsible for monitoring all filings with the Department to ensure ongoing compliance with Section 1352(c) and Rule 1300.52 of the Knox-Keene Act and California Code of Regulations.

The Department finds that the Plan's compliance effort is responsive to the deficiency cited and corrective action required. Therefore, no further response is 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. Cash, investment certificates, accounts, or any combination of these shall be assigned to the Director, upon those terms as the Director may prescribe, until released by the Director.

The Department's examination disclosed that the Plan maintains its restricted deposit in its main operating checking account.

The Preliminary Report required the Plan to establish a separate designated account for the restricted deposit pursuant to Rule 1300.76.1 and provide a new bank statement and corresponding assignment form to the Department.

The Preliminary Report also required the Plan to implement corrective actions to ensure the restricted deposit complies with all requirements of Rule 1300.76.1, provide clean and redlined versions of related policies and procedures when applicable, state the date of implementation, and identify the management position(s) responsible for ensuring ongoing compliance.

The Plan responded that it initiated corrective actions to address the restricted deposit deficiency. Through communications and meetings with Dignity Health Corporate Treasury Services, Banking Officers/Relationship Directors at the banking institution, and Department auditors, the Plan initiated changes to restructure the designated accounts per Rule 1300.76.1.

Bank of America is navigating through their internal compliance approval procedures. Once the procedures and approvals are finalized, the Plan's request to open a

certificate of deposit will be expedited.

The Plan submitted its "Restricted Deposits" policy, dated September 30, 2022, that states the Plan will maintain a separate designated account for the restricted deposit, with an amount which at all times shall have a value of not less than \$300,000. The policy also states that the Finance Department Director will be responsible for ensuring maintenance of a separate designated account for the restricted deposit.

The Department finds that the Plan's compliance effort is not fully responsive to the corrective action required as a separate designated account has not yet been established. The Plan is required to establish a separate designated account for the restricted deposit pursuant to Rule 1300.76.1 and provide a new bank statement and corresponding assignment form to the Department.

PART IV. INTERNAL CONTROL

Section 1384 requires financial statements to be submitted to the Department. Section 1345(s) requires the financial statements be prepared in accordance with GAAP. Rule 1300.45(q) states that authoritative pronouncements should be used to determine GAAP.

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."

The Department's review of the list of authorized signors disclosed that former employees of the Plan were not removed from the list of authorized signors with access to the Plan's bank accounts.

The Preliminary Report required the Plan to provide evidence that it has revised its bank signature cards so that only current officers or employees of the Plan have authorized access to the Plan's bank accounts.

In addition, the Preliminary Report required the Plan to submit the policy and procedures implemented to correct the above deficiency, state the date of implementation, and the management position(s) responsible for ensuring ongoing

compliance.

The Plan responded that through communications and meetings with Dignity Health Corporate Treasury Services, Banking Officers/Relationship Directors at the banking institution, and Dignity Health Management Services, it is updating all banking information and verifying that authorized access is maintained on an ongoing basis.

The Plan initiated corrective actions to address the internal control deficiency. A checklist of Board and Plan leadership members with bank signature privileges will be created and maintained for reverification when any changes to the Plan's Board or executive leadership occurs. The checklist will be reviewed no later than during the first Board meeting following said change.

The Plan submitted its "Internal Control of Bank Signatories" policy, dated October 9, 2022, that states reverification of bank signatures will occur each time there is a Board member or Plan leadership change.

The Department finds that the Plan's compliance effort is not fully responsive to the corrective action required as the Plan did not provide evidence that it revised its bank signature cards so that only the current officers or employees of the Plan have authorized access to the Plan's bank accounts. Additionally, the Plan did not state the management position(s) responsible for ensuring ongoing compliance. The Plan is required to provide revised bank signature cards and state the management position(s) responsible for ensuring ongoing compliance.

PART V. VIOLATION OF UNDERTAKING

The Plan and the Department entered into Undertakings that were approved by the Department on December 17, 2018. The Plan agreed to the acceptance and compliance with these Undertakings, including Undertaking number 7 which states:

"The Plan shall annually submit via eFiling an amendment containing the audited financial statements of Dignity Community Care (DCC) or any future assigned successors. The annual statements shall be submitted 120 days after the Plan's close of the fiscal year pursuant to Section 1384(c)."

Section 1384(c) states that each plan shall submit financial statements prepared as of the close of its fiscal year within 120 days after the close of the fiscal year. The financial statements shall be accompanied by a report, certificate, or opinion of an independent certified public accountant or independent public accountant. The audits shall be conducted in accordance with generally accepted auditing standards and the rules and regulations of the director.

The Department's examination disclosed that the Plan violated Undertaking number 7 by not filing the annual audited financial statement of DCC 120 days after the close of the fiscal year.

During the course of the exam the Plan filed the 2021 annual consolidated financial statement of DCC.

The Preliminary Report required the Plan to implement corrective actions to ensure compliance with the Undertaking number 7 agreed upon on December 17, 2018, state the date of implementation, and the management position(s) responsible for ensuring continued compliance.

The Plan responded that it initiated a corrective action plan to address the violation of Undertaking number 7. Effective October 14, 2022, its Finance Department workforce will review its Administrative and Financial filings calendar at least once a month to identify upcoming filing deadlines.

In addition, the Plan submitted its "Annual Financial Statement Filing" policy, dated October 9, 2022, that states it will annually submit via efilings an amendment containing the audited financial statements of DCC no later than 120 days after the Plan's close of the fiscal year.

The Plan's Financial Department Director is responsible for ensuring compliance with this new requirement. The Compliance Department Manager and workforce will be responsible for oversight of the calendar accuracy and verification of timely filings.

The Department finds that the Plan's compliance effort is responsive to the deficiency cited and corrective action required. Therefore, no further response is required.