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Health and Human Services Agency

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February 3, 2016

Samuel S. Lee, Chairman of the Board
Prospect Health Plan, Inc.
10780 Santa Monica Blvd., Suite 400
Los Angeles, CA 90025

**FINAL REPORT OF AN ORIENTATION EXAMINATION OF PROSPECT
HEALTH PLAN, INC.**

Dear Mr. Lee:

Enclosed is the Final Report of an orientation examination of the fiscal and administrative affairs of Prospect Health Plan, Inc. (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 December 8, 2015. The Department accepted the Plan's electronically filed response on January 22, 2016.

This Final Report includes a description of the compliance efforts included in the Plan's January 22, 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 held confidential pursuant to Section 1382(c). If the Plan requests the Department to

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.

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 22, 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://wpsso.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 S15-O2-500.
- 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 Department finds the Plan's compliance efforts are responsive to the deficiencies cited and the corrective actions required. Therefore, no further response is required.

Questions or problems related to the electronic transmission of the response should be directed to Susan Levitt at (916) 255-2443 or email at Susan.Levitt@dmhc.ca.gov. You may also email inquiries to wpsso@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 [View Financial Examination Reports](#).

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

Sincerely,

ORIGINAL SIGNED BY

Bill Change, CPA
Supervising Examiner
Office of Financial Review
Division of Financial Oversight

cc: Gil Riojas, Deputy Director, Office of Financial Review
Sang Le, Examiner IV, Supervisor, Division of Financial Oversight
Sully Wong-Guerrero, Examiner, Division of Financial Oversight
Jessica Tran, Examiner, Division of Financial Oversight
John Lai, Attorney, Office of Plan Licensing
Laura Dooley-Beile, Chief, Division of Plan Surveys
Dan Southard, Health Program Manager III, Help Center
Paula Hood, Staff Services Manager I, Help Center

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

DIVISION OF FINANCIAL OVERSIGHT

FINAL REPORT OF AN ORIENTATION EXAMINATION

OF

PROSPECT HEALTH PLAN, INC.

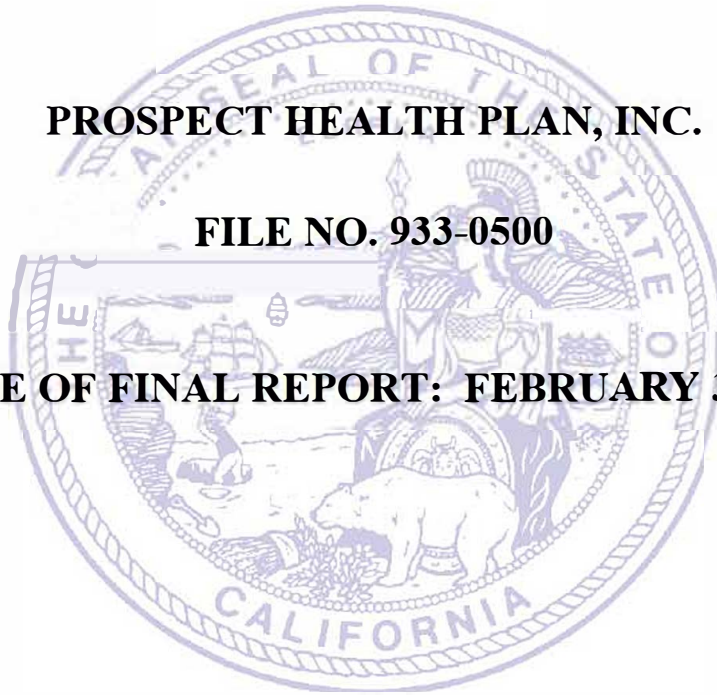
FILE NO. 933-0500

DATE OF FINAL REPORT: FEBRUARY 3, 2016

SUPERVISING EXAMINER: BILL CHANG

OVERSIGHT EXAMINER: SANG LE

EXAMINER-IN-CHARGE: SULLY WONG-GUERRERO



BACKGROUND INFORMATION FOR PROSPECT HEALTH PLAN, INC.

| | |
|---|--|
| Date Plan Licensed: | November 4, 2014. |
| Organizational Structure: | <p>Prospect Health Plan, Inc. (Plan) is a for-profit organization, organized under the laws of the state of Delaware and it is duly qualified to do business in the state of California. The Plan is a wholly owned subsidiary of PHP Holdings, Inc. (PHPH), which in turn is wholly-owned by Prospect Medical Holdings, Inc. (PMH). Both PHPH and PMH are Delaware corporations duly qualified to do business in California. PMH is a comprehensive health care system providing healthcare services through its hospitals, clinics, and physician networks in Southern California and San Antonio, Texas.</p> <p>The Plan is restricted to providing and arranging for health care services to Medicare Advantage members through plan-to-plan contracts with fully-licensed health care service plans, including Health Net and Humana. The Plan intends to expand the scope of its restricted license to provide and arrange for the provision of health care services to Medi-Cal members, as well as to members eligible for both Medi-Cal and Medicare (Dual Eligible).</p> |
| Type of Plan: | Full Healthcare Service Plan. |
| Provider Network: | The Plan contracts with hospitals, participating physician groups, non-affiliated hospitals, and full-time primary care providers. |
| Plan Enrollment: | As of June 30, 2015, the Plan has a total enrollment of 1,038. |
| Service Area: | Los Angeles County. |
| Date of prior Final Routine Examination Report: | None. |

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PROSPECT HEALTH PLAN, INC.**

This is the Final Report of an orientation examination of the fiscal and administrative affairs of Prospect Health Plan, Inc. (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 December 8, 2015. The Department accepted the Plan’s electronically filed response on January 22, 2016.

This Final Report includes a description of the compliance efforts included in the Plan’s January 22, 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 June 30, 2015, 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 Statements |
| Section II. | Calculation of Tangible Net Equity |
| Section III. | Compliance Issues |

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.

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 June 30, 2015 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://wpsso.dmhc.ca.gov/fe/search/#top> and selecting Prospect Health Plan, Inc. on the second drop down menu.

No response was required to this Section.

SECTION II. CALCULATION OF TANGIBLE NET EQUITY (TNE)

| | |
|--|---------------------|
| Net Worth as reported by the Plan as of quarter Ended June 30, 2015 | \$ 2,232,424 |
| Tangible Net Equity | \$ 2,232,424 |
| Required TNE | <u>1,000,000</u> |
| TNE Excess per Examination | <u>\$ 1,232,424</u> |

The Plan was in compliance with the TNE requirement of Section 1376 and Rule 1300.76 as of June 30, 2015.

No response was required to this Section.

SECTION III. COMPLIANCE ISSUE

CHANGES IN OFFICERS AND DIRECTORS

Section 1352(c) and Rule 1300.52.2 set forth the requirements that a plan shall, within five (5) days, give written notice to the director in the form as by rule maybe prescribed, of a change in the officers, directors, partners, controlling shareholders, principle creditors, or person occupying similar position or performing similar functions, of the plan and of a management company of the plan, and of a parent company of the plan or management company. The director may by rule define the positions, duties, and relationships which are referred to in this subdivision.

The Department's examination disclosed that the plan had not filed the following changes in key personnel with the Department within the five (5) day requirement:

Jason Barker was appointed Board Member, effective September 25, 2015. The Department had not received any filings for changes in key personnel with regards to the appointment of the new Board Member.

The Plan was required to electronically file the management changes with the Department through the electronic filing process. The cover page for this filing was to state that it was filed as a result of the recent financial examination. The Plan was required to provide evidence (eFile number) in its response to this report that the requested filing was submitted to the Department.

In addition, the Plan was to provide policies and procedures implemented to ensure that changes in key personnel are filed with the Department within five (5) days. The Plan was also required to state the date of implementation, and the management position(s) responsible for ensuring continued compliance.

Plan responded that it has filed with the Department all exhibits required in connection with Jason Barker's appointment to Plan's Board of Directors. These exhibits were filed in filing numbers 20150529-7 and 20150529-11.

Filing number 20150529, filed on March 3, 2015 was related to a Proposed Material Modification to existing Knox-Keene License. On November 16, 2015, the Plan submitted Exhibit M-2 that included Jason Barker as new Board Member (eFiling number 20150529-7). As requested via a Department's December 3, 2014 Comment Letter, the Plan filed a revised Exhibit F-1-a-iii reflecting the addition of Jason Barker to Plan's Board of Directors. This filing was submitted on January 13, 2016, via eFiling number 20150529-11.

In order to ensure ongoing continued compliance, the Plan indicated that as of January 22, 2016, it has implemented policies and procedures. It also has educated key plan officers and directors to inform Plan's legal counsel in advance of any changes in key personnel to ensure that the required filings are timely made. Plan's legal counsel will ensure continued compliance.

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