




JOHN NAIMO  
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

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June 3, 2015

TO: Supervisor Michael D. Antonovich, Mayor  
Supervisor Hilda L. Solis  
Supervisor Mark Ridley-Thomas  
Supervisor Sheila Kuehl  
Supervisor Don Knabe

FROM: John Naimo   
Auditor-Controller

SUBJECT: **L.A. CARE HEALTH PLAN FINANCIAL CONDITION FOLLOW-UP  
REVIEW (Board Agenda March 17, 2015, Item 37)**

We have completed a follow-up review of L.A. Care Health Plan's (L.A. Care or Agency) progress in implementing the recommendations from our March 13, 2015 report on L.A. Care's financial condition. Our original report included three recommendations related to L.A. Care's discretionary administrative expenses. On March 17, 2015, your Board instructed the Auditor-Controller (A-C) to conduct a follow-up review, and report back in 45 days on how L.A. Care is implementing the recommendations from the audit.

**Background**

On January 27, 2015, your Board instructed the A-C to review the financial condition of L.A. Care, as required by the State of California Welfare and Institutions Code Section 14087.9675. Our review resulted in the following recommendations to L.A. Care management:

- Consider establishing more detailed guidelines and dollar limits for discretionary spending on business entertainment and meals.
- Reevaluate their policy that allows Agency funds to be spent on alcoholic beverages served at various events.

- Consider providing the Agency's Board of Governors with periodic reports of discretionary spending relating to business entertainment and meals, including amounts and reasons for the events.

### **Scope and Results of Review**

We reviewed L.A. Care's revised internal policies related to business entertainment and meals, which has been approved by their Board of Governors, and noted that the Agency has implemented our recommendations. Specifically, L.A. Care has updated their policies to reflect the following:

- Business meals and entertainment per person costs cannot exceed U.S. General Services Administration per diem rates, which are currently \$12 for breakfast, \$18 for lunch, and \$36 for dinner. In addition, business meals and entertainment total event costs cannot exceed \$5,000, and must be pre-approved by the Agency's Chief Executive Officer and Chief Financial Officer, or designees. Any event exceeding this limit must be pre-approved by the Board of Governors.
- Prohibited purchases include alcoholic beverages and meals for birthdays, retirements, holiday parties, and routine work lunches.
- All travel related and non-travel related meals and entertainment expenses will be reported to the Board of Governors on a quarterly basis. In addition, budget versus actual variance reports are required to be reviewed monthly by L.A. Care management.

L.A. Care's revised policies indicate that any employee who violates these policies may be subject to disciplinary action up to and including termination. L.A. Care will require all Agency employees to sign and acknowledge receipt of the revised policies.

In our March 13, 2015 report, we reported that L.A. Care's administrative expenses (approximately 4.5% of their total operating expenses) were slightly lower than the 6.5% average administrative expenses of the three most comparable Local Initiatives. Subsequent to the issuance of our report, we learned that L.A. Care partners have additional administrative costs that do not factor into L.A. Care's total administrative costs. As a result, certain adjustments may be necessary to ensure that an accurate comparison of administrative costs can be made between L.A. Care and other Local Initiatives. L.A. Care staff is in the process of analyzing relevant adjustments that would enable us to perform a more accurate comparison. L.A. Care expects to have their analysis available for our review in September. We will report our conclusions to your Board after we perform our review.

**Review of Report**

We discussed our report with L.A. Care management. L.A. Care's attached response indicates agreement with the implementation status of the recommendations.

We thank L.A. Care management and staff for their cooperation and assistance during our review. If you have any questions, please call me, or your staff may contact Robert Smythe at (213) 253-0100.

JN:AB:RS

Attachment

c: Sachi A. Hamai, Interim Chief Executive Officer  
Patrick Ogawa, Acting Executive Officer, Board of Supervisors  
Mitchell H. Katz, M.D., Director, Department of Health Services  
John Baackes, Chief Executive Officer, L.A. Care Health Plan  
Tim Reilly, Chief Financial Officer, L.A. Care Health Plan  
Public Information Office  
Audit Committee



May 21, 2015

John Naimo  
Auditor-Controller  
County of Los Angeles  
500 West Temple Street, Room 525  
Los Angeles, California 90012

**John Baackes**  
Chief Executive Officer

Dear Mr. Naimo:

In reference to the L.A. County Board of Supervisors Meeting on March 17, 2015, Motion Item #37; L.A. Care has incorporated the recommendations set forth in your office's report entitled L.A. Care Health Plan Financial Condition Review and has begun implementing these changes. Please find below a summary of the steps taken to effectuate the recommendations. Supporting documentation is attached to this letter.

- On May 7, the L.A. Care Board of Governors approved Expense Policy AFS-004 and Travel Expense Policy AFS-027 which incorporated the recommendations outlined in the Auditor-Controller report.
- On May 15, a memo was sent to all L.A. Care Health Plan staff via e-mail with notification of the new expense policies, summarizing changes and advising employees that they will be asked in a separate email to acknowledge that they have received and read these policies.
- An acknowledgment e-mail was sent on May 18, requesting staff to acknowledge that they read and understand the policies. We are currently in the process of obtaining acknowledgement from the employees.

Thank you for your recommendations and collaboration in strengthening L.A. Care policies.

Sincerely,

  
John Baackes

Encl.



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**From:** Mitra Madjdi **On Behalf Of** John Baackes  
**Sent:** Friday, May 15, 2015 10:27 AM  
**Subject:** New Expense and Travel Expense Policies – Effective May 8, 2015

Dear L.A. Care,

On January 27, 2015, a report on the financial condition of L.A. Care Health Plan was released by the County of Los Angeles Auditor-Controller. The report did not find any issues with L.A. Care's financial performance. The report did make recommendations regarding policies for certain administrative expenses for meals and entertainment. In response to this review, our Board of Governors has authorized the redrafting of the current **Travel Expense Reimbursement Policy (AFS-004)** into new two policies: **Expense Policy and Travel Expense Policy** (attached). The new Expense Policy will cover all *non-travel* business related expenses, meals, and entertainment. The new Travel Expense Policy will continue to cover all *travel* business related expenses, meals, and entertainment for L.A. Care. Below are highlights of both policies specifically regarding meal expenses:

#### Travel Expense Policy

- Meals while on authorized travel will continue to be reimbursed up to the federal guidelines per diem rates and in accordance with the current travel practices.
- Purchase or reimbursement of alcoholic beverages with L.A. Care funds will be prohibited.

#### Expense Policy

- **Acceptable meal expenses include:** Board of Governors meetings; stakeholder relationship events and outreach; education events; recruitment, on-boarding, or orientation events; "extraordinary circumstances" where work involves urgent, mandatory, or emergency effort on the part of L.A. Care staff; or discretionary staff spending for recognition and retention efforts will be acceptable.
- **Prohibited meal expenses include:** Purchase or reimbursement of alcoholic beverages with L.A. Care funds; non-travel meal expenses or entertainment expenses at meetings with vendors or firms seeking to do business with our organization; routine "working lunches" on-site or off-site; non-travel-related meal expenses or entertainment expenses for birthdays, retirement, or holiday parties; or personal gifts for special occasions, including holiday gifts, flowers, or birthday cakes.
- All meal expenses must first have a project expense budget approved via the new **Project Justification Form** (attached) that can encompass one meal expense or multiple meal expenses over a period of time.
- When estimating project expenses for meals, the federal per diem rates must be used as a guideline for per person limits for breakfast, lunch, or dinner. Most current federal per diem rates can be found at [www.gsa.gov/perdiem](http://www.gsa.gov/perdiem).
- There is a \$5,000 per project expense limit for meals that will require approval from the responsible Officer, CFO, CEO, and/or Board of Governors.
- When a project expense budget is approved and when it is time to purchase meal(s), the responsible Officer must authorize the expenditure via the new **Non-Travel Meals & Entertainment Request Form** (attached) prior to actual purchase. The Procurement Department can help with the actual purchase.



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The Catering Request for Internal Meeting Form will be discontinued. Any catering requests currently in progress will be evaluated on a case-by-case basis up to Friday, May 22nd. All new requests after this date must utilize the new Project Justification Form and Non-Travel Meals & Entertainment Request Form (attached).

Please note that you will be notified via separate email to acknowledge that you have read these policies.

Thank you for your attention and support. If you have any questions, please contact Angela Bergman ([abergman@lacare.org](mailto:abergman@lacare.org)), Joe Miller ([jmiller@lacare.org](mailto:jmiller@lacare.org)), or Rita Alahverdian ([ralahverdian@lacare.org](mailto:ralahverdian@lacare.org)).



John Baackes | [Chief Executive Officer](#)

phone: 213.694.1250 x 4102  
email: [jbaackes@lacare.org](mailto:jbaackes@lacare.org)

Tim Reilly | [Chief Financial Officer](#)  
phone: 213.694.1250 x 4107  
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**From:** HR Administrator  
**Sent:** Monday, May 18, 2015 12:50 PM  
**Subject:** Action Required: HR Documents Assigned

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Please access the Human Resources Employee Self Service ([HR/ESS](#)) to review and acknowledge assigned HR documents which may be found under the "My E-Docs" tab:

By selecting "REVIEW" next to the document, you affirm that you will read the document in its entirety. Furthermore, you will be required to acknowledge the document. To do this, after you have reviewed the document, answer your electronic signature questions to verify your identity and select "Acknowledge Document." By acknowledging the document, you attest your understanding of, and agreement to comply with, the policy/document. Should you have any questions or concerns or need clarification, please contact Human Resources (HQ/7th Floor) for assistance. Thank you.

**THIS IS AN AUTO-GENERATED EMAIL. PLEASE DO NOT REPLY**



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