COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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J. TYLER McCAULEY
AUDITOR-CONTROLLER

March 30, 2005

TO: Supervisor Gloria Molina, Chair
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **DEPARTMENT OF HEALTH SERVICES - COMMUNITY HEALTH PLAN FISCAL YEAR 2003-2004 FINANCIAL AUDIT**

Attached is a copy of the independent auditor's report on the Department of Health Services' Community Health Plan's (CHP) financial audit for fiscal year (FY) 2003-2004 and the auditor's report on the CHP's internal controls. The audit was performed by Simpson & Simpson, Certified Public Accountants (Simpson).

California law requires the CHP and other managed care plans to submit annual financial statements that have been audited by an independent Certified Public Accountant to the State Department of Managed Health Care. The statements must be accompanied by an opinion on the fairness of the financial statement presentation. Simpson expressed an unqualified opinion on the fairness of the CHP's financial statements for FY 2003-2004. The CHP has submitted the report to the Department of Managed Health Care, as required.

Internal Control Findings

Simpson's report on the CHP's internal controls includes material weaknesses related to the lack of a system to bill out-of-plan claim payments and distribute retroactive adjustments, deficiencies in the patient management system and inability to handle increased growth. Some of these weaknesses have been reported in the past and have continued to exist because they relate to the need for an enhanced computer system.

Simpson's report also includes weaknesses related to the CHP's lack of controls over writing off of uncollectible accounts and lack of monthly account reconciliations. These issues were discussed with CHP management. CHP management's responses are included in the internal control report.

If you have any questions, please call me or your staff can contact Jim Schneiderman at (626) 293-1103.

JTM:JS:yb

Attachments

C: David E. Janssen, Chief Administrative Officer
Thomas L. Garthwaite, M.D., Director and Chief Medical Officer, Department of Health Services
Raymond G. Fortner, County Counsel
Violet Varona-Lukens, Executive Office
Public Information Officer
Audit Committee

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN

Financial Statements for the Years Ended June 30, 2004 and 2003 with Independent Auditor's Report

S&S

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
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INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors of
the County of Los Angeles

We have audited the accompanying balance sheets of the Los Angeles County Department of Health Services Community Health Plan (CHP) as of June 30, 2004 and 2003 and the related statements of income and changes in fund balances, and cash flows for the years then ended. These financial statements are the responsibility of CHP's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CHP as of June 30, 2004 and 2003 and the results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles in the United States of America.

Simpson & Simpson

Los Angeles, California
October 8, 2004

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LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
Balance Sheets
June 30, 2004 and 2003

	2004	2003
ASSETS		
Current assets:		
Cash equivalents	$ 96,881,706	$ 98,460,176
Receivables (Note 3)	28,992,434	26,781,949
Amount due from Los Angeles County (Note 4)	38,035	99,136
Prepaid expenses	1,289,913	1,326,210
Total current assets	127,202,088	126,667,471
Noncurrent assets:		
Long-term investments	303,636	303,636
Total noncurrent assets	303,636	303,636
TOTAL ASSETS	$ 127,505,724	$ 126,971,107
LIABILITIES AND FUND BALANCES		
Current liabilities:		
Accrued capitation	$ 27,529,535	$ 27,884,248
Claims payable (Note 5)	9,907,805	9,915,412
Accounts payable	440,576	203,842
Accrued salaries and related benefits	1,585,974	1,366,232
Amount due to Los Angeles County (Note 6)	16,498,826	24,151,135
Other liability (Note 7)	1,391,300	950,955
Total current liabilities	57,354,016	64,471,824
Fund balances:		
Restricted	3,789,609	3,856,027
Unrestricted	66,362,099	58,643,256
Total fund balance	70,151,708	62,499,283
TOTAL LIAIBILITIES AND FUND BALANCE	$ 127,505,724	$ 126,971,107

The accompanying notes are an integral part of these financial statements.

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
Statements of Income and Changes in Fund Balance
For the Years Ended June 30, 2004 and 2003

	2004	2003
REVENUES		
Capitation premiums	$ 198,597,342	$ 205,239,069
OPERATING EXPENSES		
Cost of health care services:		
Capitation premiums	142,825,738	144,110,943
Medical services	14,757,080	7,216,387
Pharmacy	14,955,625	15,952,551
Medical supplies	1,647,201	1,173,263
Total cost of health care services	174,185,644	168,453,144
General and administrative:		
Salaries and employee benefits	8,969,434	6,291,781
Professional and consulting services	7,506,064	5,842,212
Rent	865,428	1,012,959
Office expense	354,427	318,701
Communications	362,196	265,777
Miscellaneous	61,371	2,108
Total general and administrative expenditures	18,118,920	13,733,538
Total operating expenses	192,304,564	182,186,682
OPERATING INCOME	6,292,778	23,052,387
OTHER REVENUES (EXPENSES)		
Interest income	1,359,647	1,542,057
Interest expense	-	(36,795)
Total other revenues (expenses)	1,359,647	1,505,262
Net income	7,652,425	24,557,649
Fund balance, beginning of year	62,499,283	37,941,634
Fund balance, end of year	$ 70,151,708	$ 62,499,283

The accompanying notes are an integral part of these financial statements.

LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
Statements of Cash Flows
For the Years Ended June 30, 2004 and 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 7,652,425	$ 24,557,649
Adjustments to reconcile change in net assets to net cash Used by operating activities		
Changes in operating assets and liabilities:		
Increase in receivables	(2,210,485)	(2,270,715)
Decrease in amount due from Los Angeles County	61,101	2,870,321
(Increase)/decrease in prepaid expense	36,297	(1,326,210)
Increase/(decrease) in accrued capitation	(354,713)	9,754,422
Increase/(decrease) in claims payable	(7,607)	3,830,304
Increase/(decrease) in accounts payable	236,734	(1,825,391)
Increase/(decrease) accrued salaries and related benefits	219,742	(184,658)
Increase in amount due to Los Angeles County	(7,652,309)	21,940,574
Increase in other liability	440,345	950,955
Net cash generated by operating activities	(9,230,895)	33,739,602
Net increase/(decrease) in cash equivalents	(1,578,470)	58,297,251
Balance, beginning of the year	98,460,176	40,162,925
Balance, end of the year	$ 96,881,706	$ 98,460,176

The accompanying notes are an integral part of these financial statements.

NOTE 1 – ORGANIZATION AND NATURE OF BUSINESS

The Community Health Plan (CHP) is the Medi-Cal health maintenance organization (HMO) owned and operated by the Los Angeles County Department of Health Services (DHS). It is a federally qualified HMO and is licensed as a prepaid full service health care service plan by the State of California Department of Managed Health Care under the Knox-Keene Health Care Service Plan Act of 1975. CHP provides health care services at low or no cost through the State's Medi-Cal Managed Care and Healthy Families Program, the Los Angeles County's Temporary Employees Program and the Personal Assistance Services Council - Service Employees International Union (PASC-SEIU) Homecare Worker Health Care Plan.

Medi-Cal Managed Care

CHP is one of five Plan Partners contracting with L.A. Care Health Plan, the Local Health Initiative for Medi-Cal Managed Care in Los Angeles County. CHP has over 800 primary care physicians, over 600 pharmacies, including the chain of Rite-Aid stores, and more than a thousand specialists in the Medi-Cal provider network. Under the Medi-Cal program there is no cost to the member for covered services and no co-payments.

Healthy Families Program

CHP contracts with the State Managed Risk Medical Insurance Board (MRMIB) to participate as a Healthy Families Program provider. The Healthy Families Program provides comprehensive health, dental and vision coverage to children in families with incomes at or below 250% of the Federal Income Guidelines. Since the program began in 1998, Community Health Plan has been designated the Community Provider Plan for Los Angeles County for the provision of health coverage.

County's Temporary Employees Program

CHP provides managed health care services to certain long-term (continuously employed for one year or more), full-time, temporary employees of the County of Los Angeles. This coverage excludes physicians, relief nurses receiving special cash compensation in lieu of employee benefits, and all student positions receive this coverage. Qualified Temporary County Employees have access to the same provider network as do the members enrolled under the Medi-Cal Managed Care Program.

PASC-SEIU Homecare Worker Health Care Plan

Effective April 1, 2002, the PASC-SEIU Homecare Worker Health Care Plan was implemented to provide health services to eligible In-Home Supportive Services (IHSS) Workers. The plan provides IHSS Workers access to a provider network comprised of Los Angeles County Department of Health Services facilities and contract providers.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As a managed health care organization, CHP derives the majority of its revenues from capitation premiums received for providing prepaid health services and prepares its financial statements in accordance with the AICPA Audit and Accounting Guide for "Health Care Organizations." The following is a summary of significant accounting policies used in the preparation of the accompanying consolidated financial statements. Such policies are in accordance with accounting principles generally accepted in the United States of America and have been consistently applied. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for each reporting period. The significant estimates made in the preparation of CHP's financial statements relate to the assessment of the carrying value of claims payable and contingent liabilities. While management believes that the carrying value of such assets and liabilities is adequate as of June 30, 2004 and 2003, actual results could differ from the estimates upon which the carrying values were based.

Basis of Presentation - Fund Accounting

The accounts of the County are organized on the basis of funds and account groups, each of which is a separate accounting entity. Each fund is accounted for through a separate set of accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. CHP is reported under an enterprise fund of the proprietary fund type of the County of Los Angeles. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost or expenses of providing goods and services to the public on a continuing basis be financed or recovered through user charges. All proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, CHP has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989.

Concentration of Source of Revenues

CHP received approximately 75% and 81% of its premium revenues under service agreements with L.A. Care Health Plan respectively for the fiscal years ended June 30, 2004 and 2003.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash Equivalents

Cash equivalents consist of CHP's equity portion of the Los Angeles County cash and investment pool. Funds received by CHP are deposited into the cash and investment pool for which the County Treasury is the depository. Funds deposited in the pool are similar in nature to demand deposits, (i.e., funds may be deposited and withdrawn at any time without prior notice or penalty). Interest earned on the pooled funds is accrued in a pooled interest apportionment fund and is allocated based on the average daily cash balances of the fund. The average annual interest rates earned on CHP's deposits during fiscal years ended June 30, 2004 and 2003 were approximately 1.36% and 1.56%, respectively. As of June 30, 2004 and 2003, substantially all investments in the County investment pool were U.S. government securities, bankers' acceptances and negotiable certificates of deposit.

Long-Term Investments

Long-term investments consist of restricted investments on deposit with the California Department of Managed Health Care (DMHC). These investments consist of U.S. Treasury securities, and due to their restricted nature, are classified as long-term without regard to contractual maturity. Market values approximate carrying values as of June 30, 2004 and 2003.

Claims Reimbursement Receivable

Claims reimbursement receivable are claims for capitated services paid by CHP that are reimbursable from the contracted medical groups and hospitals. Management believes that uncollectible amounts, if any, will not be material to the financial statements.

Accrued Capitation

CHP pays capitation premiums to the contracted medical groups and hospitals in arrears on a per member per month basis. Accrued capitation consists of capitation payments due the contracted medical groups and hospitals.

Claims Payable

The liability for claims payable includes adjudicated claims, claims pending adjudication and a provision for incurred but not reported claims. The amount payable for the claims pending adjudication is reduced by an allowance for denied claims estimated based on paid/denied ratio of claims closed during the year. The provision for incurred but not reported claims is estimated using a lag study based upon historical data including the period between the date services are rendered and the date claims are received and paid and denied claim activity. The estimate for incurred but not reported claims is made on an accrual basis and adjusted in future periods as required.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Any adjustments to the prior period estimates are included in the current period. Such estimates are subject to the impact of changes in the regulatory environment and economic conditions. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided. While the ultimate amount of claims and losses paid are dependent on future developments, management is of the opinion that the recorded reserves are adequate to cover such costs. These liabilities are reduced by estimated amounts recoverable from contracted health care providers.

Fund Balance

Fund balances are reported as restricted when constraints placed on its use are either: (1) externally imposed by creditors, grantors, contributors or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation. CHP's restricted fund balance consists of the amounts required to satisfy the deposit and tangible net equity requirements of the Department of Managed Health Care as of June 30, 2004 and 2003 (see Note 10).

Premium Revenues

CHP's premium revenues are capitation payments received for plan enrollees on a per member per month basis. Premiums are recognized as revenue in the month in which the members are entitled to service.

Cost of Health Care Services

CHP contracts with various medical groups to provide professional care to its members on a capitated, or fixed per member per month fee basis. Capitation contracts generally include a provision for stop-loss and non-capitated services for which CHP is liable. Additionally, CHP contracts with certain hospitals to provide hospital care to enrolled members on a capitation basis.

The cost of health care services is recognized in the period in which services are provided and includes an estimate of the cost of services which have been incurred but not yet reported. Such costs include capitation payments to contracted medical groups and hospitals for primary care, specialty and hospital services and the cost of non-capitated medical services, pharmacy and medical supplies.

Fair Value of Financial Instruments

The estimated fair value amounts of cash equivalents and long-term investments approximate their carrying amounts in the financial statements and have been determined by CHP using available market information and appropriate valuation methodologies. The carrying amounts of cash equivalents approximate fair value due to the similar in its nature to demand deposits. The fair values of long-term

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

investments are estimated based on quoted market prices and dealer quotes for similar investments.

Income Tax

As an operating division of the County, CHP is exempt from State and Federal income taxes.

NOTE 3 – RECEIVABLES

Receivables are comprised of interest receivable, capitation premiums receivable and claims reimbursement receivable from health care service providers. As of June 30, 2004 and 2003, receivables consisted of the following:

	2004	2003
Capitation premiums receivable	$ 16,184,169	$ 15,802,813
Claims reimbursement receivable	12,542,733	10,642,708
Interest receivable	265,532	336,428
	$ 28,992,434	$ 26,781,949

NOTE 4 – AMOUNT DUE FROM LOS ANGELES COUNTY

Cash disbursements for CHP are made from the general fund of Los Angeles County Department of Health Services (DHS). CHP transfers funds periodically to the general fund from its County cash and investment pool to reimburse the general fund or to fund its projected cash disbursements. The amount due from Los Angeles County consists of the amounts due from the DHS general fund and other County funds. As of June 30, 2004 and 2003, the amount due from Los Angeles County consisted of the following:

	2004	2003
Amount due from other County funds	$ 38,035	$ 99,136
	$ 38,035	$ 99,136

NOTE 5 – CLAIMS PAYABLE

Claims payable are comprised of claims payable or pending adjudication and a liability for claims incurred but not yet received, reduced by management's estimate of the amount that will be denied and the amount that will be recoverable from contracted providers. As of June 30, 2004 and 2003, claims payable consisted of the following:

	2004	2003
Claims payable/pending adjudication	$ 8,189,462	$ 20,425,077
Claims incurred but not received	6,823,303	4,564,692
Claims payable	721,732	802,336
Less: Allowance for denied claims	(5,826,692)	(15,876,693)
	$ 9,907,805	$ 9,915,412

NOTE 6 – AMOUNT DUE TO LOS ANGELES COUNTY

Cash disbursements for CHP are made from the general fund of Los Angeles County Department of Health Services (DHS). CHP transfers funds periodically to the general fund from its County cash and investment pool to reimburse the general fund or to fund its projected cash disbursements. The amount due to Los Angeles County consists of the amount owed to the DHS general fund and the amount due other County funds for services such as telephone, rent and information system support. As of June 30, 2004 and 2003, the amount due to Los Angeles County consisted of the following:

	2004	2003
Amount due to DHS general fund	$ 1,851,644	$ 21,220,552
Amount due to Los Angeles County funds	14,647,182	2,930,583
	$ 16,498,826	$ 24,151,136

NOTE 7 – OTHER LIABILITY

The Medi-Cal capitation rates for the contract year that began October 1, 2002 with L.A. Care decreased 0.8 percent from the previous year. L.A. Care did not adjust its capitation payments to CHP based on the new rates. The liability amounts of $1,391,300 and $950,955 recorded as of June 30, 2004 and 2003 respectively represent the amounts due to L.A. Care for the excess capitation received for the period October 2003 to June 2004 and for the period October 2003 to June 2003 respectively.

NOTE 8 – RETIREMENT PLAN

The County's retirement plan covers CHP employees and provides for monthly pension payments to eligible employees upon retirement. Salaries and employee benefits expense includes a provision for the retirement plan cost, as well as vacation and sick pay, which is estimated based on a percentage of salaries expense. The actual cost of the retirement plan, actuarial present value of accumulated retirement plan benefits, and net assets available for retirement plan benefits are not separately identifiable for CHP.

NOTE 9 – CONTINGENCIES

Universal Care Inc., a health maintenance organization which contracts with CHP for the provision of services to Healthy Family Program subscribers, disputes the amount of capitation that it has received under its contract with the CHP, as well as several aspects of subscriber enrollment and assignment. Universal Care Inc. filed a Demand for Arbitration in September 2001 against CHP. The parties are in the process of discovery. Management estimates the amounts owed to be approximately $2,058,687 and $538,222 as of June 30, 2004 and 2003, and includes the liability as accrued capitation.

The County has agreed to fund CHP losses, if any, and to cover CHP under its self-insured medical malpractice program when medical services are provided at a County facility. In addition, the County has agreed to cover CHP under its self-insured workers' compensation program. These coverages are provided to CHP at no cost.

NOTE 10 – REGULATORY REQUIREMENTS

CHP, as a California licensed health service plan, is regulated by the State of California Department of Managed Health Care (DMHC). Title 28 of the Code of California Regulations requires that CHP maintain certain deposits assigned to the Director of the DMHC and comply with certain minimal capital or tangible net equity requirements. Management believes that as of June 30, 2004 and 2003, CHP met its regulatory requirements.

NOTE 11 – SUBSEQUENT EVENT

In July 2004, CHP recorded an operating transfer-out of $55,900,000 to the Los Angeles County Department of Health Services general fund.

SIMPSON & SIMPSON
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February 28, 2005

To the Board of Supervisors of
the County of Los Angeles

Dear Board Members:

In planning and performing our audit of the financial statements of the Community Health Plan (CHP) for the year ended June 30, 2004 (on which we have issued our report dated October 8, 2004), we considered the internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements of CHP and not to provide assurance on the internal control structure. Such consideration would not disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe Observations #1 to #5 are material weaknesses.

We have noted other matters relating to the internal control structure and certain other accounting, administrative, or operating matters. Our observations and recommendations are presented in Exhibit I. We have not performed any substantive auditing procedures subsequent to October 8, 2004, accordingly, this report is based on our knowledge as of such date and should be read with that understanding.

Sincerely,

Simpson & Simpson

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Observation #1 – Lack of system to bill out-of-plan claim payments for the Healthy Families Program and In-Home Supportive Services (IHSS)

Condition

CHP processes and pays out-of-plan claims on behalf of its capitated health care providers for its Healthy Families and IHSS Programs. CHP is entitled to reimbursements from the providers for the payment of such claims. As of June 30, 2003, CHP recorded a receivable of $1,357,751 due from its capitated health care providers related to such out-of-plan claims. However, CHP does not have a system to track and bill the health care providers for such claim payments and the receivable was written off as bad debt expense in fiscal year 2003-2004. CHP also incurred a total of $1,492,048 out-of-plan claims during the fiscal year 2003-2004 which it also would not be reimbursed from its capitated health care providers due to the lack of system to track and bill the receivables. As a result, CHP has forfeited approximately $2.8 million of medical care services expense reimbursements for the fiscal years 2002-2004.

Recommendation

We recommend that CHP develop a system to track and bill health care providers for out-of-plan claim payments made by CHP the above-mentioned programs.

CHP Response

The CHP agrees with this recommendation. CHP Information Systems and Finance staff will continue to work with a private vendor to develop and implement a system to track and bill non-County health care providers for such claim payments. CHP anticipates bringing the Healthy Family accounts current by June 2005 and will work with LA Care to bring the IHSS accounts current by September 2005. In addition CHP is evaluating the feasibility of amending contract boiler plates to establish capitation withhold arrangements with capitated providers. The withhold will provide a reserve for CHP to pay for services for which the capitated provider is at financial risk, based on historical data, and serve as an incentive to more quickly settle amounts owed CHP by its capitated providers.

Observation #2 – Lack of review and approval procedures for the write-off of uncollectible receivables

Condition

During the year, CHP wrote off a total $8 million of receivables related to the out-of-plan claims that were paid on behalf of its capitated heath care providers. However, CHP does not have formal procedures for the review and authorization of the receivables.

Recommendation

We recommend that CHP develop and implement formal review and approval procedures for bad debts write off in order to prevent erroneous and/or unauthorized write-offs.

Observation #2 – Lack of review and approval procedures for the write-off of uncollectible receivables (Continued)

CHP Response

The CHP agrees with this recommendation. CHP Finance staff will develop and implement procedures by March 2005 that will require verification and approval by the designated principal financial officer for all bad debt write offs.

Observation #3 – Monthly reconciliations not performed

Condition

During our audit, we found the balances of several accounts to be significantly incorrect before our audit adjustments. The problem was due to CHP being short-staffed and as a result, regular reviews and monthly reconciliations of the account balances in CHP's accounting system to the County's accounting system CAPS were not being performed. As a result, interim financial statements used by management may not have been accurate.

Recommendation

We recommend that CHP implement policies and procedures for the monthly reconciliation of transactions between its accounting system and CAPS.

CHP Response

The CHP agrees with this recommendation. CHP Finance staff will perform regular reviews and reconciliations of the account balances in CHP's accounting system to the County's accounting system, CAPS. To facilitate this, CHP Finance is working with a private vendor to automate certain general accounting functions, such as the processing of payment vouchers, to free up staff that will be available to perform the reviews and reconciliations. We anticipate this automation to be completed by March 2005. In addition CHP Information Systems staff is developing a link with the server that contains the daily CAPS updates at Health Services Administration - Fiscal Programs in order to facilitate a mechanism for uploading financial data from CAPS into the CHP QuickBooks (QB) accounting system to ensure reporting consistency. This link is to be completed by February 2005.

Observation #4 – Deficiencies in the accounting system and Patient Management System

CHP's Patient Management System (PMS), the system for tracking claims, does not integrate with CHP's accounting software. Accounting staff generates various claims status reports from PMS and makes monthly summarized accounting journal entries in the accounting system based on the amounts from the reports. However, the PMS system is antiquated and extracting information from the system requires much programming effort. Errors made in the programming of the reports may lead to the recording of inaccurate information into the accounting system.

Observation #4 – Deficiencies in the accounting system and Patient Management System (Continued)

Recommendation

CHP should use a fully integrated software program that meets its needs. Such a system will reduce the risk of human data entry errors, provide a better audit trail for transactions, and allow for better analysis of accounts.

CHP Response

The CHP agrees with the recommendation. CHP converted from MS Money to QB effective January 2004 and recently obtained a multi-user version of QB in December 2004. The CHP is contemplating release of an RFP to replace the Patient Management System (PMS). We expect to migrate from QB to eCAPS in July 2006 and will need to explore the feasibility of linking that information with any subsequently acquired Managed Care Information System (MCIS).

Observation #5 – Ability to handle increased growth

Condition

The infrastructure, personnel, internal controls and current computer systems (administrative capacity) in place at the CHP may not be able to keep up with the projected growth of CHP. Many of the processes of CHP are manually intensive, e.g. calculation of capitation and IBNR. The internal checks and balances necessary for a strong internal control environment are inadequate due to limited staffing arrangements.

Recommendation

CHP needs to automate its manual intensive processes as quickly as possible in order to remain competitive in the managed care market and handle the projected growth of the plan.

CHP Response

The CHP agrees with this recommendation. The CHP is currently reviewing ways to automate some of the manual intensive processes identified in this report. For example, the CHP is working closely with the County Auditor-Controller to automate provider payments. The CHP will continue to look for additional ways to automate routine functions. Also, the CHP is contemplating release of an RFP to replace the PMS. The new system should eliminate many of the manual processes identified in this recommendation.

Observation #6 – Retroactive adjustments not made to contracted providers

Condition

CHP receives retroactive adjustments in capitation for supplemental enrollments and dis-enrollments of members for the previous month. However, CHP has not passed on the retroactive adjustments to the CHP network providers due to inherent limitations in its existing information system. Total liability to the contract providers related to retroactive adjustments amounted to approximately $2.3 and $2.03 million as of June 30, 2004 and June 30, 2003, respectively.

Recommendation

We recommend that CHP develop and implement changes to its existing information system to enable it to pass on the retroactive adjustments to the appropriate network providers.

CHP Response

The CHP agrees with this recommendation. The CHP will develop and implement a system to distribute retroactive adjustments to network providers. CHP Finance is working with Information Systems' staff to determine if alternative methods are available to address this situation on an interim basis, and will identify the unassigned capitation attributed to the retroactive enrollments and dis-enrollments and pay out these funds to the applicable capitated providers. The task of identifying retroactivity entails a detailed analysis of enrollment data for current and prior years, distinguishing the capitation rates applicable at each month of enrollment and examining the possible impact to costs for services for which the capitated providers are at financial risk. The Board of Supervisors granted authority to CHP in December 2004 to pass on retroactive rate increases. However, due to the complexity of the work involved in identifying the retroactivity, we foresee completion of this process by October 2005.